



# OECD Economic Outlook

May 2024





# OECD ECONOMIC OUTLOOK

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# Editorial

## An unfolding recovery

Cautious optimism has begun to take hold in the global economy, despite modest growth and the persistent shadow of geopolitical risks. Inflation is easing faster than expected, labour markets remain strong with unemployment at or near record lows. Private-sector confidence is improving. Yet the impacts of tighter monetary conditions are being felt, especially in housing and credit markets.

This recovery is unfolding differently across regions. The United States and a number of large emerging markets continue to exhibit strong growth, in contrast to European economies. The mixed macroeconomic landscape is expected to persist, with inflation and interest rates declining at differing paces, and differing needs for fiscal consolidation.

Despite a more balanced risk outlook, substantial concerns remain. High geopolitical tensions, particularly in the Middle East, could disrupt energy and financial markets, causing inflation to spike and growth to falter. Debt-service burdens are already significant, and could rise further as low-yielding debt is rolled over or fixed-term borrowing rates are renegotiated. Expectations that inflation will continue to decline steadily might also prove misplaced.

In the medium and longer term, the fiscal position is worrying. Governments must address mounting debt and rising expenditure demands due to ageing populations, climate change mitigation, and defence needs. Increasing debt-service costs further worsen fiscal sustainability. There is never an attractive time to do this, but conditions enable this rebuilding to begin now. A robust medium-term approach to containing spending, building revenues, and focusing policy efforts on growth-enhancing structural reforms are all needed.

Disappointing growth underscores the case for strengthening global trade and productivity. Trade and industrial policies should aim for resilient global value chains through diversification without undermining the benefits of open trade. At the same time, accelerating decarbonisation requires bold policy measures, such as investing in green and digital infrastructure, enhancing carbon pricing, and promoting technology transfer. The developments in Artificial Intelligence (AI) provide a welcome and much needed opportunity to raise productivity. Ensuring the benefits materialise and are broadly shared requires investments in education and training and strong and internationally consistent competition policy.

2 May 2024



Clare Lombardelli  
OECD Chief Economist



# 1. General assessment of the macroeconomic situation

## Introduction

There are some signs that the global outlook has started to brighten, even though growth remains modest. The impact of tighter monetary conditions continues, especially in housing and credit markets, but global activity is proving relatively resilient, inflation is falling faster than initially projected and private sector confidence is now improving. Supply and demand imbalances in labour markets are easing, with unemployment remaining at or close to record lows, real incomes have begun to turn up as inflation moderates, and trade growth has turned positive. However, developments continue to diverge across countries, with softer outcomes in Europe and most low-income countries, offset by strong growth in the United States and many large emerging-market economies.

Global GDP growth is projected to be 3.1% in 2024, unchanged from 2023, before edging up to 3.2% in 2025 helped by stronger real income growth and lower policy interest rates (Table 1.1). The overall macroeconomic policy mix is nonetheless expected to remain restrictive in most economies, with real interest rates declining only gradually and mild fiscal consolidation in most countries over the next two years. China is an important exception, with low interest rates and significant additional fiscal support now appearing likely in 2024 and 2025. The divergence across economies is expected to persist in the near term but fade as the recovery in Europe becomes more firmly based, and growth moderates in the United States, India and several other emerging-market economies. Annual consumer price inflation in the G20 economies is projected to ease gradually, helped by fading cost pressures, declining to 3.6% in 2025 from 5.9% in 2024. By the end of 2025, inflation is projected to be back on target in most major economies.

The overall risks around the outlook are becoming better balanced, but substantial uncertainty remains. High geopolitical tensions remain a significant near-term adverse risk, particularly if the evolving conflicts in the Middle East were to intensify and disrupt energy and financial markets, pushing up inflation and reducing growth. Further reductions in inflation may also be slower than expected if cost pressures and margins remain elevated, particularly in services. This could result in slower-than-expected reductions in policy interest rates, exposing financial vulnerabilities and potentially generating a sharper slowdown in labour markets. Another key downside risk is that the future impact of higher real interest rates proves stronger than anticipated. Debt-service burdens are already high and could rise further as low-yielding debt is rolled over, or as fixed-term borrowing rates are renegotiated. Some sectors, particularly commercial real estate, remain hard pressed, and corporate bankruptcies and defaults are now above pre-pandemic levels in several countries, posing risks to financial stability. Growth could also disappoint in China, either due to the persistent weakness in property markets or smaller-than-anticipated fiscal support over the next two years, although activity could be stronger than expected if fiscal support is extensive or well-targeted. On the upside, demand growth could prove stronger than expected, especially in advanced economies if households and corporates draw more fully on the savings accumulated during the pandemic. Continued strong labour force growth in many countries might also enable inflation to fall more quickly than anticipated.

Against this backdrop, the key policy priorities are to ensure a durable reduction in inflation, establish a fiscal path that will address rising pressures, and undertake reforms to raise sustainable and inclusive growth in the medium term.

- Monetary policy needs to remain prudent to ensure that underlying inflationary pressures are durably contained. Scope exists to lower nominal policy interest rates this year and next as inflation declines, but the policy stance should remain restrictive in most major economies for some time. With real interest rates currently high, policy interest rates will need to move towards neutral levels as inflation returns to target to ensure that growth does not weaken excessively and inflation does not undershoot. In Japan, a gradual increase in policy interest rates would be appropriate in 2024-25 provided inflation settles at 2%, as projected. Easier global financial conditions enhance policy space in emerging-market economies, but the pace of rate reductions will need to remain cautious to maintain anchored inflation expectations and avoid disruptive capital outflows as yield differentials narrow with the advanced economies.
- Governments face mounting fiscal challenges from rising debt and sizeable additional spending pressures from ageing populations, climate change mitigation and adaptation, defence and the need to finance new reforms. Debt-service costs are also increasing as low-yielding debt matures and is replaced by new issuance. Without action, future debt burdens will rise significantly. Few countries appear likely to achieve a sustained primary budget surplus in the near term, making it challenging to stabilise debt. Stronger efforts to contain spending, enhance revenues, and increase growth would improve debt sustainability and resilience, and preserve the resources needed to support climate and distributional goals.
- The foundations for future output and productivity growth need to be strengthened. Ambitious structural policy reforms are required to improve educational outcomes, enhance skills development and innovation, and reduce the constraints in labour and product markets that impede investment and labour force participation. Strengthening skills, removing obstacles to the entry and expansion of new firms, and well-designed science and technology policies are all essential to help countries strengthen their innovative capacity and to maximise the benefits gained from adopting technologies and ideas developed elsewhere. New general-purpose technologies, such as artificial intelligence, can enhance the productivity of capital.
- In an interconnected world, enhanced multilateral co-operation is needed to help knowledge and innovation spread, strengthen global trade, ensure faster and better co-ordinated progress towards decarbonisation, and help reduce debt burdens in lower-income countries. Trade and industrial policy choices should strive for more resilient global value chains without eroding the potential benefits for efficiency and innovation, or overlooking the income gains from lowering other trade barriers, especially in services and digital sectors. Faster progress towards decarbonisation is also essential. Innovation is one essential pillar of policy efforts, helping to lower the cost of new technologies. Increasing green and digital infrastructure investment, strengthening standards to enable a reduction in emissions, and raising the scope and level of carbon pricing are other key areas for policy action.

**Table 1.1. Global GDP growth is projected to remain steady this year and next**

	Average 2013-2019	2022	2023	2024	2025	2023 Q4	2024 Q4	2025 Q4
		Per cent						
<b>Real GDP growth<sup>1</sup></b>								
World <sup>2</sup>	3.4	3.4	3.1	3.1	3.2	3.3	3.1	3.2
G20 <sup>2</sup>	3.5	3.1	3.4	3.1	3.1	3.6	3.0	3.1
OECD <sup>2</sup>	2.3	3.0	1.7	1.7	1.8	1.7	1.7	1.9
United States	2.5	1.9	2.5	2.6	1.8	3.1	1.8	1.9
Euro area	1.9	3.5	0.5	0.7	1.5	0.0	1.2	1.6
Japan	0.8	1.0	1.9	0.5	1.1	1.3	1.0	1.0
Non-OECD <sup>2</sup>	4.4	3.7	4.4	4.2	4.3	4.7	4.3	4.2
China	6.8	3.0	5.2	4.9	4.5	5.6	4.7	4.5
India <sup>3</sup>	6.8	7.0	7.8	6.6	6.6			
Brazil	-0.4	3.1	2.9	1.9	2.1			
<b>OECD unemployment rate<sup>4</sup></b>	6.5	5.0	4.8	5.0	5.0	4.9	5.1	5.0
<b>Inflation<sup>1</sup></b>								
G20 <sup>2,5</sup>	3.0	7.9	6.3	5.9	3.6	5.3	4.5	3.1
OECD <sup>6</sup>	1.6	9.4	7.1	4.8	3.5	5.7	4.1	3.1
United States <sup>7</sup>	1.3	6.5	3.7	2.4	2.0	2.8	2.5	1.9
Euro area <sup>8</sup>	0.9	8.4	5.4	2.3	2.2	2.7	2.3	2.0
Japan <sup>9</sup>	0.9	2.5	3.3	2.1	2.0	2.9	1.6	2.0
<b>OECD fiscal balance<sup>10</sup></b>	-3.2	-3.3	-4.8	-4.5	-4.1			
<b>World real trade growth<sup>1</sup></b>	3.4	5.3	1.0	2.3	3.3	1.9	2.5	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 115 database.

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

## Recent Developments

### *Global activity has proved surprisingly resilient so far*

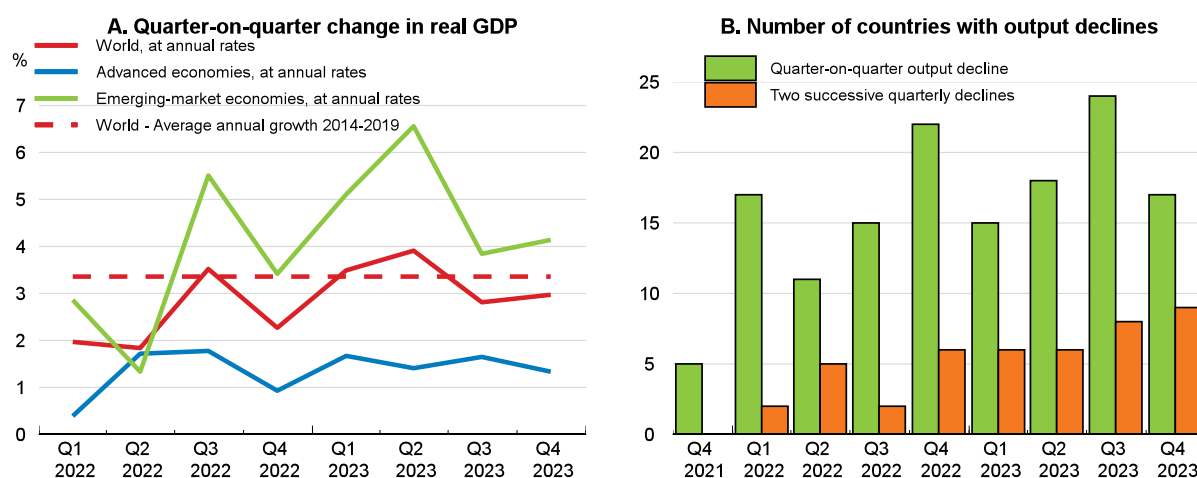
Global growth in 2023 continued at an annual rate of a little over 3% despite the drag exerted by tighter financial conditions and other adverse factors, including the ongoing war in Ukraine and the evolving conflicts in the Middle East (Figure 1.1, Panel A). This was similar to the rate prevailing in the immediate pre-pandemic period and considerably better than projected a year ago.<sup>1</sup> Still, the resilience of the global economy has not been universal. Growth was robust in the United States, driven by strong household consumption and unexpectedly expansionary fiscal policy, and in many large emerging-market economies, but weakened in many other advanced economies, especially in Europe, and in low-income countries as a group. A rising number of economies experienced a technical recession in 2023, with two or more

<sup>1</sup> Global growth in per capita terms in 2023 was slightly above the pre-pandemic pace, reflecting slower global population growth than on average per annum over the 2010s.

consecutive quarterly output declines (Figure 1.1, Panel B). Output declined in 12 OECD economies over the year to the fourth quarter, including Germany and the United Kingdom, and stagnated in the euro area. This weakness in Europe reflects the lingering effects from the large energy price shock in 2022 and the slowdown in credit growth in economies with a relatively high dependence on bank-based financing. Growth was resilient in Japan in 2023, helped by still-accommodative monetary policy and a mildly expansionary fiscal stance, but slowed in the latter half of the year.


Amongst major emerging-market economies, (expenditure-based) GDP growth was buoyant in India, helped by strong public investment, and Indonesia, and surprised on the upside in Brazil, Mexico and Türkiye, despite tighter financial conditions. Growth also strengthened in China in the first quarter of 2024, with policy stimulus measures helping to offset continued weakness in property markets. In contrast, outcomes have remained weaker in several vulnerable countries, amidst restrictive financial conditions and growing signs of adverse effects from climate disruptions. Although the strong El Niño event that began in mid-2023 yielded a string of global temperature records, making 2023 the warmest year in modern history, it did not have much effect on global agricultural output or commodity prices. Regional effects have, however, been large in some cases. Severe drought in Southern Africa has sharply reduced grain harvests and resulted in water shortages and power cuts. This is one factor in the disappointing growth of low-income countries as a group in 2023.

**Figure 1.1. Global growth held up in 2023, but some economies experienced a recession**



Note: In Panel A, the global, advanced economy and emerging-market economy aggregates are derived using moving PPP weights. Panel B count based on 58 advanced and emerging-market economies.

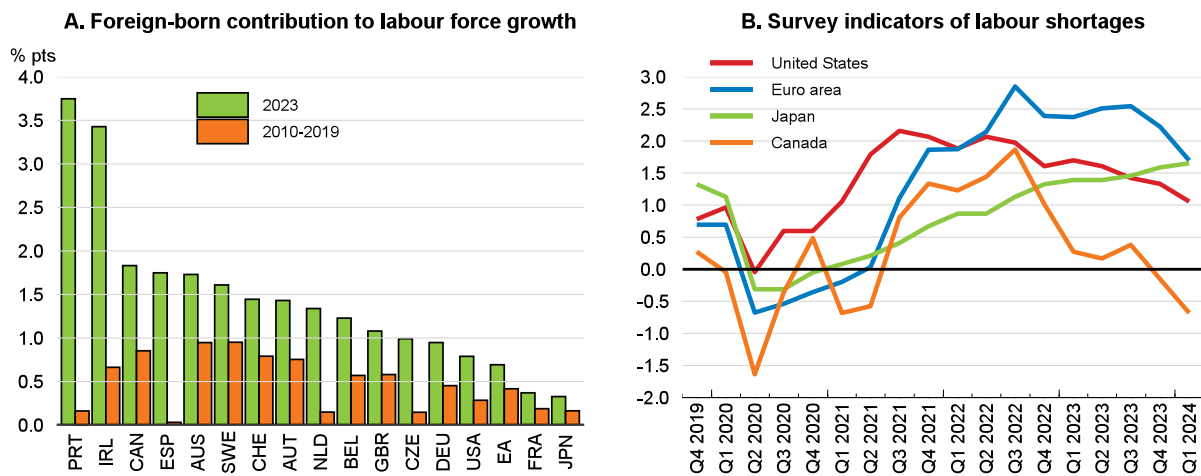
Source: OECD Economic Outlook 115 database; and OECD calculations.

StatLink  <https://stat.link/89tobs>

Positive supply-side developments in many advanced economies have also helped to underpin growth. 2023 was a year of exceptionally large migration inflows in some OECD economies, including the United States, the United Kingdom, Canada, Spain and Australia. This had positive effects on the availability of workers, boosting overall GDP growth (Figure 1.2, Panel A). However, per capita GDP growth rates were much lower, and in some cases negative.<sup>2</sup> Output per worker also declined in 2023 in all of these economies, with the exception of the United States.


<sup>2</sup> Canada, Colombia, the Netherlands, New Zealand, Poland and the United Kingdom all had positive real GDP growth in 2023 but a decline in real GDP per capita.

**Figure 1.2. Strong immigration has boosted the labour force in some countries, and labour shortages have generally eased**



Note: In Panel A, the figure shows the contribution of the growth of the foreign-born labour force to total labour force growth. Annual average contribution for 2010-19. The labour force corresponds to the population aged 15 and over either in or seeking employment. In Panel B, the data are standardised national survey indicators: the percentage of small firms with at least one hard-to-fill job (United States); the inverse of the employment conditions diffusion index in the Tankan survey for all firms in all industries (Japan); the share of firms reporting labour as a factor limiting their production (euro area); and the percentage of firms reporting labour shortages (Canada). For the euro area the answers for services and industries have been aggregated using their respective share in gross output. The standardisation is constructed to yield an average of zero and a standard deviation of 1 over the period 2003-2023. A decline represents an easing in labour shortages.

Source: Australian Bureau of Statistics; Bank of Canada; Bank of Japan; Statistics Canada; Eurostat; European Commission; UK Office of National Statistics; US Bureau of Labor Statistics; US National Federation of Independent Businesses; and OECD calculations.

StatLink  <https://stat.link/h31csk>

Strong labour force growth, and labour participation rates rising to a record high in the OECD as a whole in 2023, have helped supply and demand conditions in labour markets become better balanced, although conditions still remain relatively tight. Employment growth has slowed, the number of vacancies has declined, and total hours worked have eased in some countries, but unemployment rates generally remain close to historical lows. Vacancy-unemployment ratios are also still above pre-pandemic norms in many countries, including the United States, the Netherlands, Norway and Belgium.<sup>3</sup> Survey evidence suggests that firms now have fewer pressing labour shortages (Figure 1.2, Panel B), although earlier difficulties in recruiting workers with suitable skills may encourage companies to retain workers unless demand weakens substantially.

Nominal wage growth is now moderating in most countries as inflation declines, Japan being one exception, with the outcome of the spring wage round pointing to sizeable base pay gains of over 3½ per cent for union employees over the next year. Even so, with productivity growth remaining weak in many countries, the growth of unit labour costs often remains above levels compatible with inflation settling durably at 2%. Over the year to the fourth quarter of 2023, based on the OECD countries with available data, unit labour costs are estimated to have risen by 6.7% in the median economy. By contrast, unit profits

<sup>3</sup> There is a question of whether migration flows have been fully reflected in labour market data. For example, recent estimates from the Congressional Budget Office of net migration to the United States are well above those of the Census Bureau, used by the Bureau of Labor Statistics in its employment reports (Edelberg and Watson, 2024). An inability of surveys to fully capture new additions to the labour force may help to explain why wage growth has tended to moderate even as recorded unemployment rates remain low.

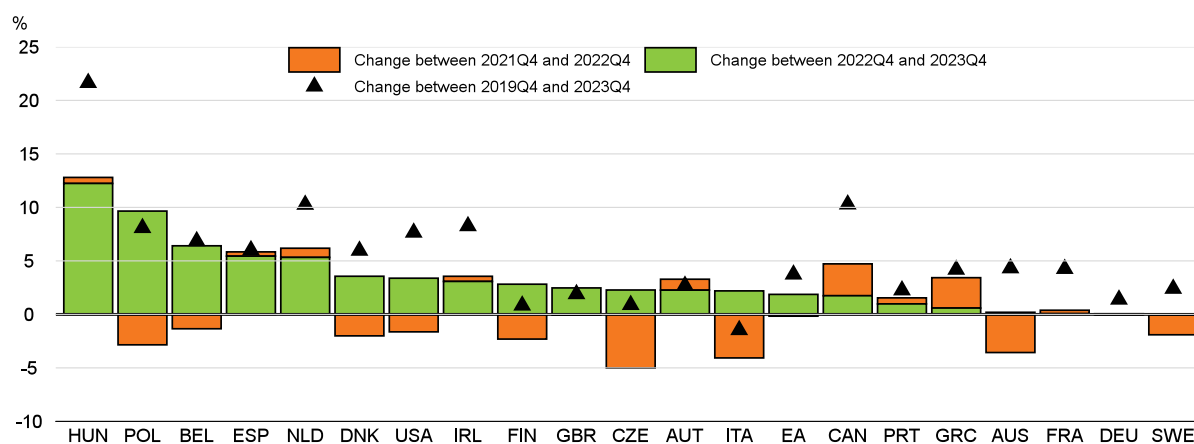


fell by 0.2% in the median OECD economy in the same period. This decline in unit profits comes after the strong rise of 8.8% in unit profits in 2022.

Continuing employment growth, high nominal wage growth and falling inflation have recently generated a recovery in real household disposable incomes in many OECD economies. Nonetheless, the situation varies across countries, with real income stagnation in Australia, France, Germany and Sweden over the year to the fourth quarter of 2023 (Figure 1.3). The gradual revival of real incomes has helped to underpin consumers' expenditure. Even so, private consumption growth in 2023 was modest in all major OECD economies with the exception of the United States, where the stock of excess household savings continued to fall (OECD, 2024a), delivering robust spending growth. Amongst the emerging-market economies, consumer spending growth was also robust in Brazil, Costa Rica, India, Indonesia and Türkiye.


**Figure 1.3. Real income growth has started to recover in many countries**

Growth of real household disposable income



Note: Gross nominal household disposable income deflated by the private consumption deflator. For Austria, Belgium, Czechia, Greece, Ireland, the Netherlands and Poland, data for 2023Q4 are OECD Economic Outlook projections. Countries shown are ones with data available up to at least 2023 Q3.

Source: OECD Economic Outlook 115 database; OECD Quarterly non-Financial Accounts by Institutional Sector database; Eurostat; and OECD calculations.

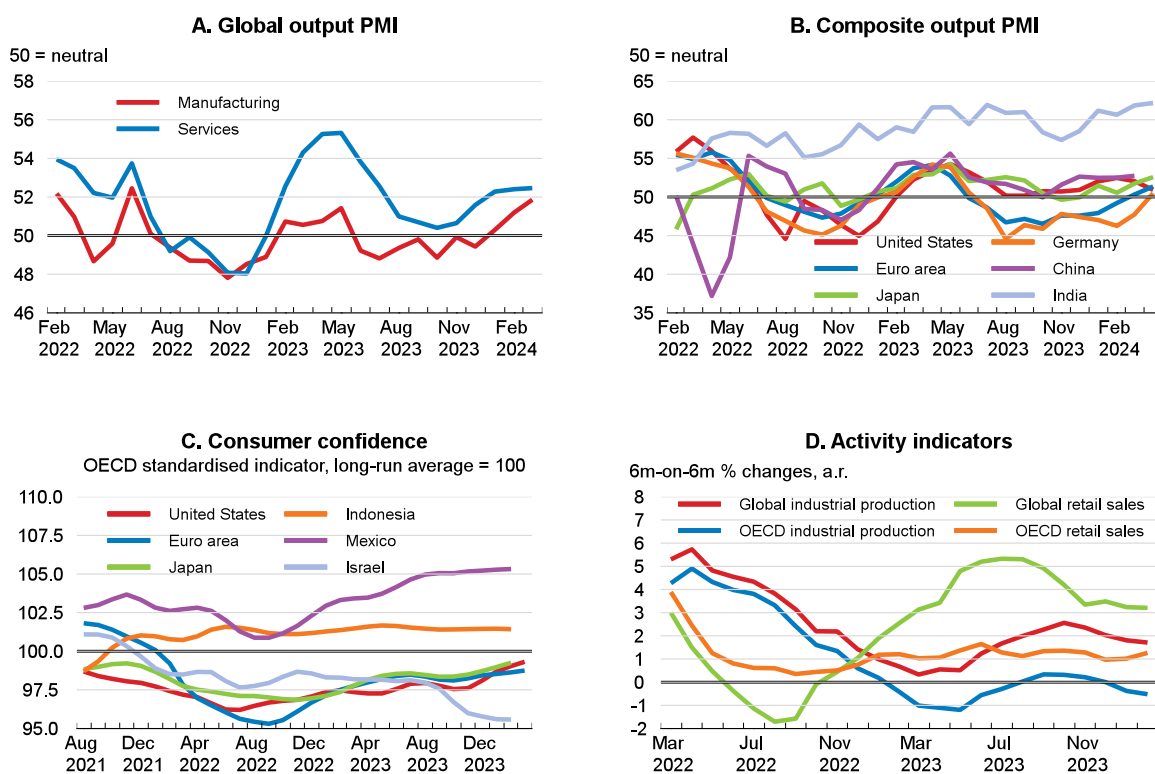
StatLink  <https://stat.link/zf254k>

The rise in interest rates over the past two years has hit activity in the housing market. Between the first quarter of 2022 and the last quarter of 2023, residential investment fell by close to 6½ per cent in the median OECD economy, with even larger declines in some G7 economies, including the United States. The rise in mortgage rates has also been reflected in falling real house prices in many countries, and a drop in nominal prices in a few, including Denmark, Finland, Germany, Korea, New Zealand and Sweden. Even where prices have remained near their peaks, the volume of transactions has often contracted sharply (OECD, 2024a), with many sellers preferring to keep properties off the market rather than accept a lower price. In several European economies, including Türkiye, as well as Korea and China, the volume of transactions has declined by between 20-30% since the start of 2022.

Business investment has generally held up better since interest rates began to increase, but by the second half of last year there were increasing signs of weakness: three-quarters of OECD economies with available data had falling private non-residential fixed investment by the last quarter of 2023. Corporate profit levels continued to be supported by resilient global growth in 2023, but the strong upturn seen in 2022 has at least partially reversed in many countries. Subdued credit growth, rising debt-service payments, and a decline in business dynamism are all factors that could moderate business investment growth for some time.

Recent monthly indicators have been mixed across countries, but collectively suggest that the moderation in global growth around the turn of the year has bottomed out. Business surveys point to improving activity in both manufacturing and services, helped by strong momentum in India and signs of stronger outcomes in China and most major advanced economies (Figure 1.4, Panels A and B). Consumer confidence is improving, but remains subdued relative to long-term norms in most major advanced economies, as well as in China (Figure 1.4, Panel C). There has also been a recent sharp downturn in Israel. But confidence has held up better in many emerging-market economies where growth has remained resilient, including Indonesia and Mexico. High-frequency indicators of consumer spending moderated a little in recent months, though they generally remained resilient. In contrast, industrial production growth generally remained soft outside of China (Figure 1.4, Panel D).

**Figure 1.4. Recent activity indicators point to improved confidence but modest growth momentum**



Note: In Panels A and B, values below 50 indicate that a balance of firms reports a contraction in output. The global and OECD aggregates in Panel D are PPP-weighted measures. The retail sales measure uses monthly household expenditure for the United States, the monthly real consumption activity indicator for Japan, and retail sales volumes in other countries.

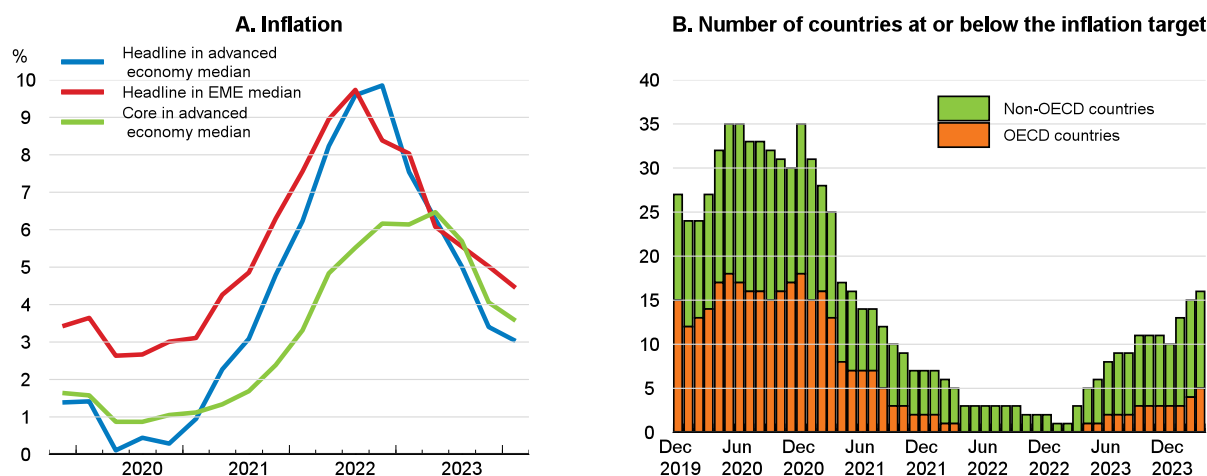
Source: OECD Economic Outlook 115 database; S&P Global; OECD Main Economic Indicators database; Bank of Japan; and OECD calculations.

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## ***Inflation has fallen towards targets, but some pressures persist***

Headline inflation fell rapidly in most economies during 2023 (Figure 1.5, Panel A), helped by generally restrictive monetary policy settings, lower energy prices and continued easing of supply chain pressures. Food price inflation also came down sharply in most countries, as good harvests for key crops such as wheat and corn resulted in prices falling rapidly from highs reached after the start of the war in Ukraine. Average inflation in the median advanced economy fell from 9.9% in the last quarter of 2022 to 3% in the first quarter of 2024. Annual inflation was also generally easing among emerging-market economies except for Argentina and Türkiye, where inflation has risen further into 2024. However, recent month-on-month increases in these countries have begun to moderate. Inflation in China has remained very low, standing at 0.1% in March. Headline inflation is now at or below target in about a third of economies worldwide (Figure 1.5, Panel B).

**Figure 1.5. Inflation pressures continue to ease**



Note: In Panel A, advanced economy median and emerging-market economies (EME) median denote the median inflation rate in the advanced economies and the emerging-market economies respectively. Based on 34 advanced economies and 16 emerging-market economies. Panel B covers 22 OECD economies (the euro area is included but no individual euro area member countries) and 25 non-OECD countries. For central banks targeting a range, the mid-point was used.

Source: OECD Economic Outlook 115 database; OECD Consumer Price database; Eurostat; various Central Banks; and OECD calculations.

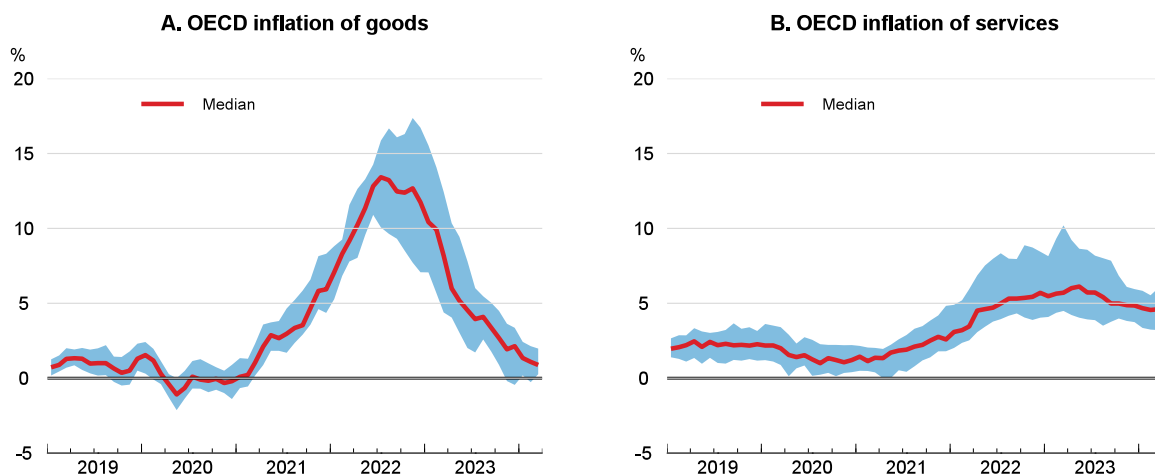
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Measures of underlying inflation, including core inflation (excluding food and energy), trimmed means and median inflation, have also moved down over the past year, but more slowly than headline inflation. Core goods price inflation has generally fallen steadily, but services price inflation has been stickier, remaining well above pre-pandemic averages in most OECD countries (Figure 1.6). In part this reflects the greater weight of unit labour costs in many services, as well as higher unit profits in some sectors. As of March, annual services price inflation remained at 4% in the United States (based on the PCE) and the euro area, and over 6% in several countries in Central and Eastern Europe.

One widely used approach to assess the contributions to inflation from supply and demand factors (Shapiro, 2022; OECD, 2024a) suggests that both supply-driven and demand-driven price changes continued to make positive contributions to inflation up to the fourth quarter of 2023 in a range of advanced economies. However, relative to a year earlier, when annual inflation was higher, the contributions of supply-driven items have fallen by more than the demand-driven contributions (Figure 1.7). These estimates suggest that in most of these economies, the bulk of the disinflation seen over the past year corresponds to an easing of supply-driven inflation. In part, this may reflect the inflation measure being used for the analysis (private consumption deflators in the national accounts) as these include food and energy where supply factors are particularly important. At the same time, analyses of core inflation in the United States (Konczal, 2023) and the euro area (Bańbura et al, 2024) find that disinflation in core prices (excluding food and energy) has also been primarily supply-driven. Such findings do not mean that the tightening of monetary policy since early 2022 has had little effect, not least because softer demand will have contributed to the easing of some supply-side pressures on inflation, but may suggest that the disinflationary effect of squeezed demand has yet to be fully felt.<sup>4</sup>

**Figure 1.6. Goods price inflation is back to normal levels, but services price inflation is still high**

OECD median and inter-quartile range



Note: Based on national consumer price index data for 28 OECD countries. The blue shaded areas show the range between the 1<sup>st</sup> quartile and the 3<sup>rd</sup> quartile.

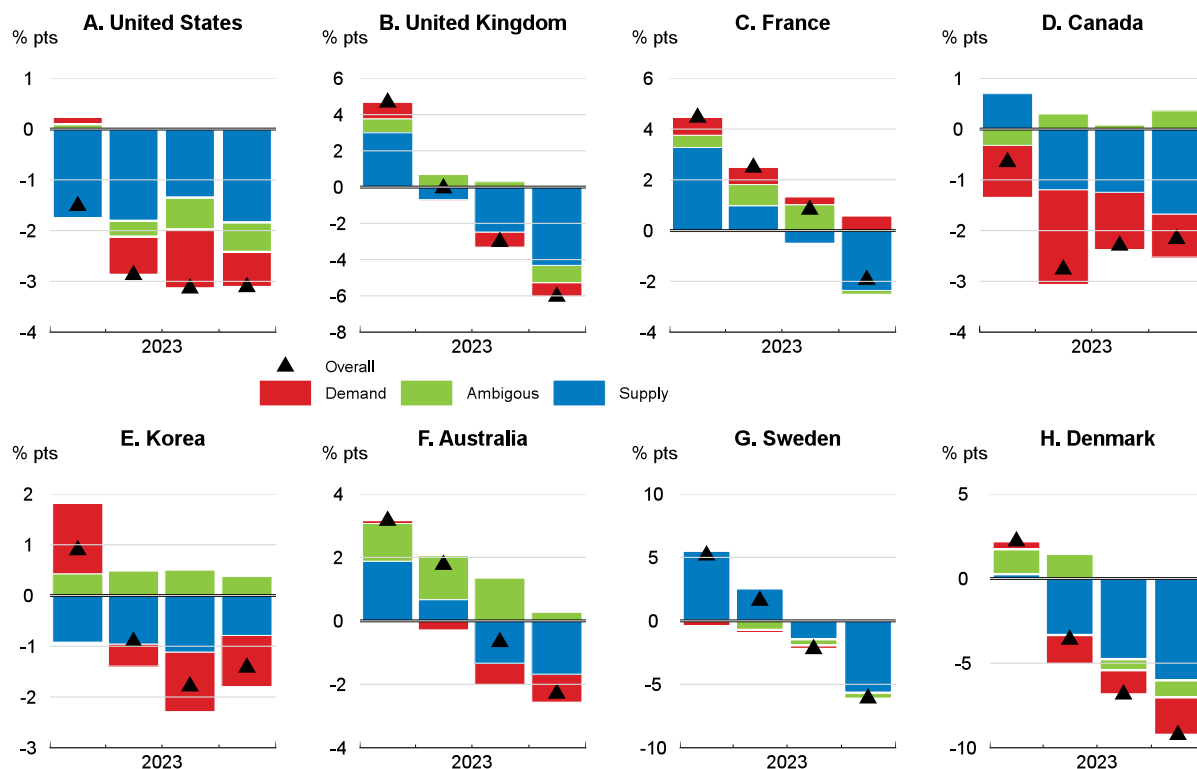
Source: OECD Consumer Prices database; and OECD calculations.

StatLink  <https://stat.link/6mnxrg>

<sup>4</sup> It could also have been that, in the absence of a tightening of monetary policy, the contribution of demand-driven factors would have increased.


**Figure 1.7. Supply factors account for the bulk of disinflation over the past year**

Estimated contribution to year-on-year change in annual consumer price inflation



Note: The chart shows the difference between the estimated contribution of each of the three categories to the annual headline inflation rate in the current quarter and the contribution to the annual inflation rate a year earlier. Based on disaggregated data for prices and expenditure. Shocks to prices and volumes are identified using the residuals from rolling 10-year vector autoregressions for quarter-on-quarter changes in prices and volumes of each item in the price index (the private consumption deflator). Price and volume residuals with the same sign are assumed to reflect demand shocks and residuals with opposite signs to reflect supply shocks. An intermediate range, labelled "ambiguous", is identified when price and/or volume residuals are too small to be considered significant. The contributions of each category to year-on-year inflation are calculated as the sum of the latest four quarterly contributions.

Source: Australian Bureau of Statistics; Bank of Korea; INSEE; Statistics Canada; Statistics Denmark; Statistics Sweden; UK Office of National Statistics; US Bureau of Economic Analysis; and OECD calculations.

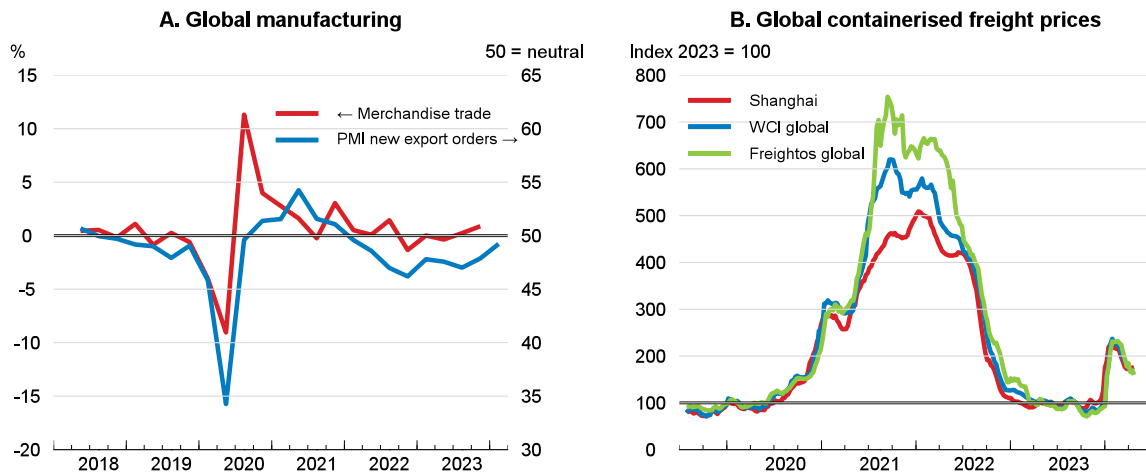
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### **Trade is showing signs of recovery**

Annual world trade volume growth slowed significantly in 2023 to 1%, after the robust increase of 5.3% in 2022. Inventory reductions and the shift in consumption towards less trade-intensive services contributed to the slowdown, especially in the United States and Europe, although a continued recovery in international travel helped support overall services trade. US import volumes declined by 1.7% in 2023, after growth of 8.6% in 2022, exerting a significant drag on export growth in trading partners. China was a notable exception to the global pattern, with reopening helping trade growth to strengthen after a decline in 2022. This cushioned the moderation in external demand for many other emerging-market economies. Strong growth in China, Korea and the United States helped aggregate global trade growth rebound in the fourth quarter of 2023, despite continued weakness in Europe. The upturn was particularly marked in exports, with a significant gap appearing between recorded export and import growth in the latter half of 2023.

Recent high-frequency indicators suggest that the recovery of trade continued in early 2024, although it remains fragile and heavily dependent on the United States and China. In February, the CPB estimate of monthly global merchandise trade volumes was just 0.3% higher than December 2023. Survey measures of global manufacturing export orders have, however, turned up from a low level (Figure 1.8, Panel A), and service export orders have strengthened. Air traffic data signal that the recovery of cross-border travel and strong growth in air freight traffic has persisted, supported by vigorous growth in e-commerce and spillovers from disruptions to maritime traffic in the Red Sea.

**Figure 1.8. Export orders have begun to improve but shipping costs remain elevated**



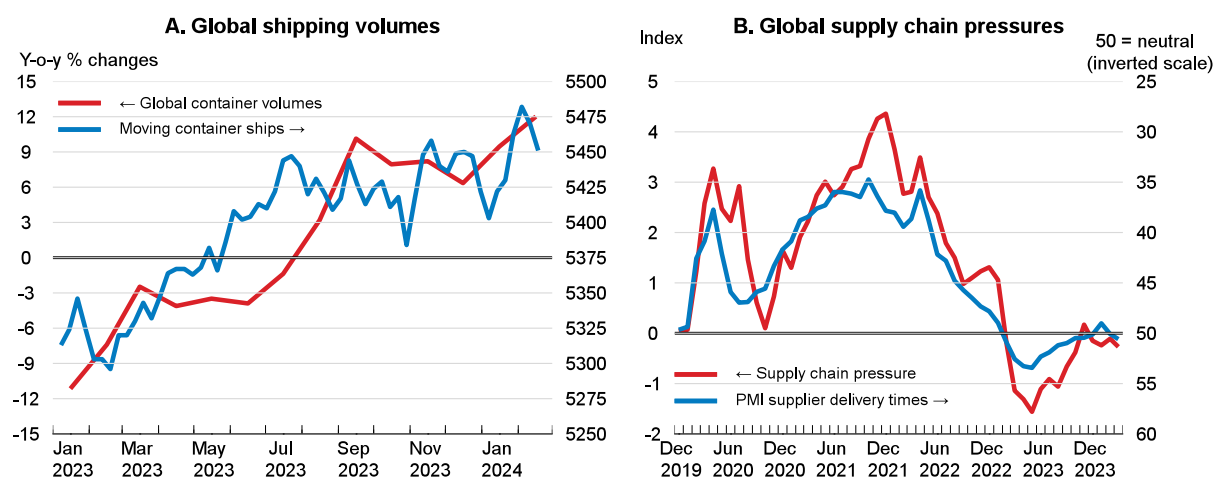
Note: Quarterly trade volume growth, non-annualised. PMI new export orders are a quarterly average of monthly data. Values for new export orders below 50 indicate that a balance of firms reports a contraction. Container prices based on twenty-foot equivalent units. Source: OECD Economic Outlook 115 database; S&P Global; Bloomberg; and OECD calculations.

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Attacks on shipping in the Red Sea have resulted in trade flows being re-routed. Since the attacks began in December 2023, container ship transits through the Suez Canal have fallen, with average daily vessels between January and mid-April about 51% lower than in the last quarter of 2023. Re-routing around the Cape of Good Hope has affected approximately 9% of the world's maritime trade, and around 18% of long-haul ocean vessel volumes, resulting in journey times for affected cargo between North Europe and Asia rising by about 30%. Drought in the Panama Canal has further lengthened journey times as ships are diverted.<sup>5</sup> These developments have pushed up shipping costs. Although prices have eased from their January peaks, shipping costs remain about 60% higher than in 2023 (Figure 1.8, Panel B). The new routes have led to some delays, with an estimated 53% of vessels arriving on time in February, compared to about 65% of vessels in September 2023, but the average length of delays has begun to fall as shipping schedules adjust to the new, longer routes (Sea-Intelligence, 2024). Indicators of supply chain bottlenecks have so far worsened only marginally, remaining below levels seen during 2021-22 (Figure 1.9). Higher shipping costs are expected to slightly lower the pace of disinflation, but pass-through into headline inflation is expected to be limited as moderate global demand growth and the ongoing delivery of new shipping vessels have helped to contain supply constraints so far.

<sup>5</sup> Vessels avoiding the Panama Canal had been directed through the Red Sea over the past year, resulting in higher volumes through the Red Sea prior to the recent attacks.

**Figure 1.9. The impact of shipping attacks on supply chains is so far limited**



Note: Container volumes in millions of twenty-foot equivalents; monthly. Moving container ships based on weekly data, daily average to 14 February 2023. Supplier delivery times are inverted in Panel B since an increase in supplier delivery times tends to be negative for production. Source: Federal Reserve Bank of New York; Kiel Trade Indicator; S&P Global; Xeneta; Bloomberg; and OECD calculations.

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### ***Financial conditions have eased but real interest rates remain elevated***

Global financial conditions have eased modestly in recent months. Equity prices have strengthened, volatility has receded, and indicators of broader financial stress remain contained. Nonetheless, financial conditions remain restrictive, with elevated forward-looking real interest rates (see below) continuing to weigh on activity. With higher lending rates and tighter credit standards, credit growth in most major advanced economies remains negative in real terms, even though there are some signs of stabilisation in recent data.

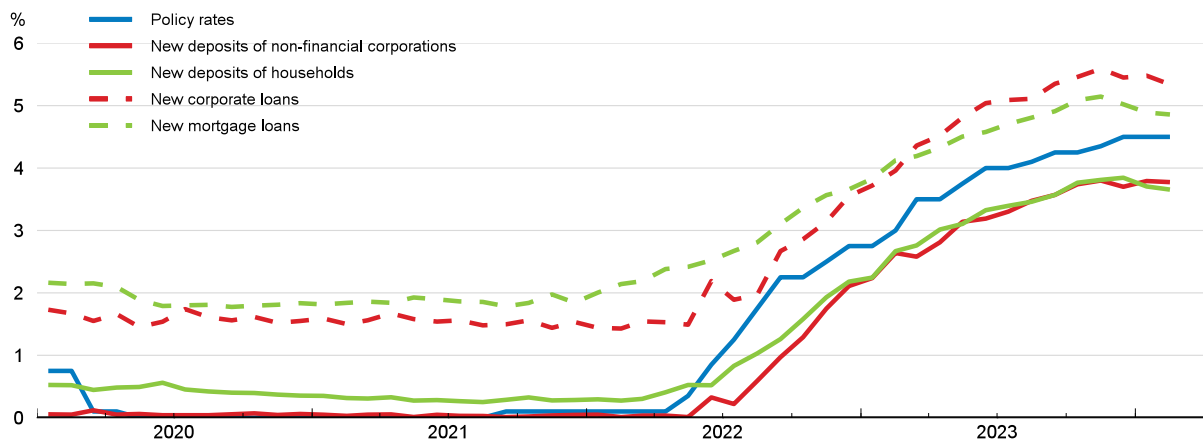
After falling markedly in late 2023, nominal long-term government bond yields have increased since early 2024 in most economies, reflecting upward shifts in market expectations of the future path of policy interest rates in the major advanced economies and higher term premia. Quantitative tightening programmes are also placing some mild upward pressure at the margin (Du et al., 2024). In contrast, corporate bond spreads have moderated, for both investment grade and speculative bonds, despite an ongoing upturn in the number of corporate bankruptcies in some countries. Strong demand for key tech-related equities and resilient risk appetite have boosted equity prices this year, although China is a notable exception. The US dollar has appreciated moderately in nominal effective terms since January and large currency depreciations relative to the US dollar have occurred in high inflation emerging-market countries.<sup>6</sup>

<sup>6</sup> In Argentina, a significant realignment of the official bilateral exchange rate with the US dollar was implemented in December, as part of efforts to restore macroeconomic stability, implying a 54% devaluation of the domestic currency.

There are signs that the transmission of monetary policy tightening to credit conditions may be approaching its end in most advanced economies. Bank lending rates to firms and household mortgages have edged down recently (Figure 1.10), as have household deposit rates, suggesting a completed pass-through of past policy rate increases. The tightening in credit standards has also moderated in many large economies for loans to non-financial corporations and halted in some euro area economies for household mortgages.<sup>7</sup> Supply and demand factors both help to explain the persistence of subdued credit growth in advanced economies, though signs of stabilisation are now appearing (Figure 1.11, Panel A). Credit growth has begun to strengthen in Brazil and Mexico in real terms (Figure 1.11, Panel B), helped by an upturn in credit demand and the earlier end to policy rate increases in these countries.


### Figure 1.10. Bank lending and deposit rates have stopped rising in the advanced economies

Median rates across advanced economies



Note: The advanced economies are Australia, Canada, Denmark, France, Germany, Italy, Japan, New Zealand, Norway, Spain, Sweden, Switzerland, the United Kingdom, and the United States. In the computation of median deposit rates, offer rates are used for New Zealand, Norway, and the United States, and deposits of all sectors (without distinguishing between firms and households) are used for Japan, New Zealand, and the United States.

Source: Bank of Canada; Bank of England; Bank of Japan; Danmarks Nationalbank; European Central Bank; Japan Housing Finance Agency; Reserve Bank of Australia; Reserve Bank of New Zealand; Statistics Norway; Statistics Sweden; Swiss National Bank; US Federal Reserve; and OECD calculations.

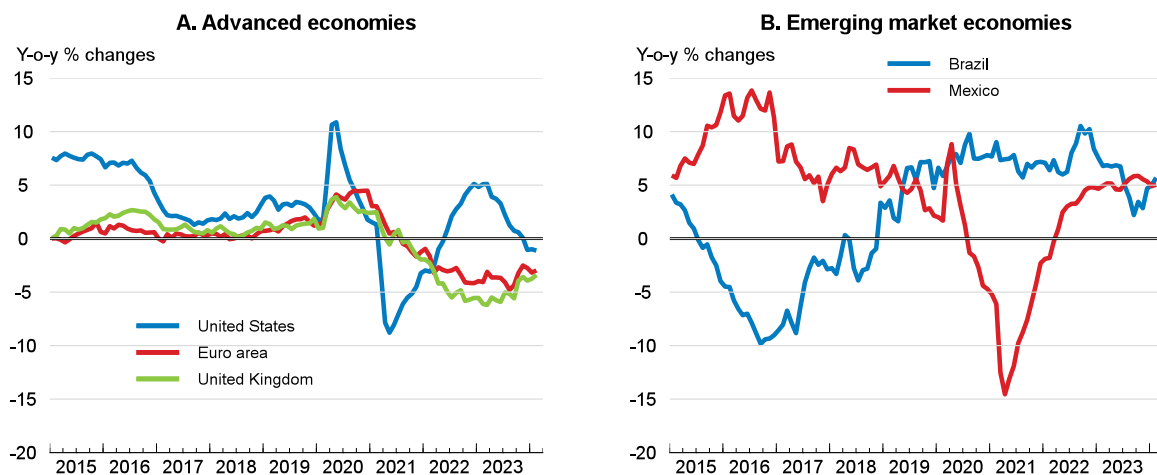
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<sup>7</sup> Bank lending surveys also show that the drop in credit demand by firms and households has moderated in advanced economies.



**Figure 1.11. Recent credit dynamics differ considerably across economies**

Credit outstanding to households and companies



Note: Deflated with national consumer price indices. For the United States, credit outstanding refers to loans plus leases.

Source: Banco Central do Brasil; Banco de México; Bank of England; European Central Bank; US Federal Reserve; and OECD calculations.

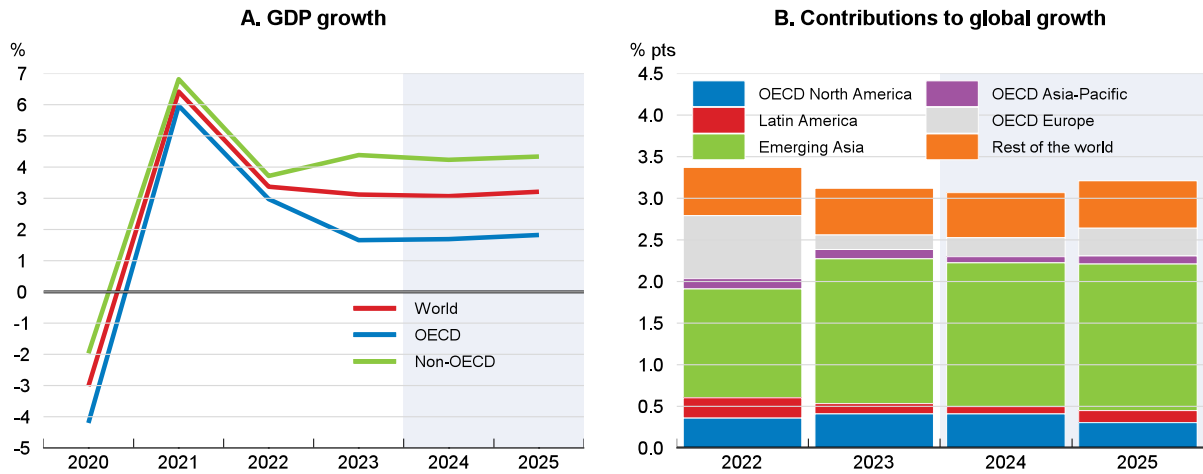
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## Projections

Global growth, which slowed in the second half of 2023, is expected to stabilise and then pick up slightly through 2024-25. In part, this reflects better momentum than previously expected in the United States and some emerging-market economies. More broadly, faster disinflation than projected a few months ago is projected to result in a widespread easing of monetary policy as inflation converges towards central bank targets. This should sustain a recovery in real incomes and boost interest-rate-sensitive expenditures. Stronger policy stimulus in China is also expected to help sustain domestic demand, despite the ongoing weakness in the property sector, with recent announcements signalling additional government bond issuance of around 1¼ per cent of GDP in 2024. In Europe, recent growth has been weak, but the easing of inflation over the past few months should help to underpin an improvement in activity. Global GDP growth is projected to be 3.1% in 2024 and edge up to 3.2% in 2025, after 3.1% in 2023 (Figure 1.12; Table 1.1). This is weaker than seen in the decade before the global financial crisis, but close to currently estimated potential growth rates in both advanced and emerging-market economies.

A projected continued fall in headline and core inflation should enable central banks to begin lowering policy rates this year in many economies, although real rates will remain restrictive (above estimated neutral levels) for some time. At the same time, fiscal policy is projected to be tightened modestly in most OECD countries, leaving the overall macroeconomic policy stance restrictive. Continued fiscal and monetary stimulus is expected in China, but in Brazil, India, and several other large emerging-market economies, policy interest rates are projected to decline with fiscal policy projected to be mildly restrictive in 2024 and 2025.

Figure 1.12. Global growth is projected to remain modest



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 115 database; and OECD calculations.

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

- In the United States, higher borrowing costs and the fading of support from rising asset prices and the rundown of accumulated excess household savings are expected to moderate domestic demand in mid-2024, despite a resilient labour market. Gradual monetary easing is projected to spur a pick-up from late 2024 through 2025. On an annual basis, GDP growth is projected to be 2.6% in 2024 and 1.8% in 2025. The impact of higher interest rates remains more visible in Canada, especially in the housing market. A recovery in real incomes, continued rapid population growth and stronger external demand are projected to help GDP growth improve from 1.0% in 2024 to 1.8% in 2025, with per capita GDP starting to rise in 2025. Inflation is now within sight of central bank objectives in both the United States and Canada. Headline and core inflation are projected to converge on 2% in 2025 in both countries.
- Growth in Japan is projected to recover steadily after the first quarter of 2024, with domestic demand underpinned by stronger real wage growth, continued accommodative monetary policy and temporary tax cuts. GDP is projected to expand by 0.5% in 2024 and 1.1% in 2025. Headline consumer price inflation is expected to moderate before converging to the 2% target as government subsidies end and wage growth gains momentum. Korea's economy is projected to grow by 2.6% in 2024 and by 2.2% in 2025, helped by stronger global demand for semiconductors and a gradual upturn in domestic demand as the monetary policy stance becomes less restrictive. Headline inflation is projected to stay at around 3% in the near term before moderating to target by the end of 2024.

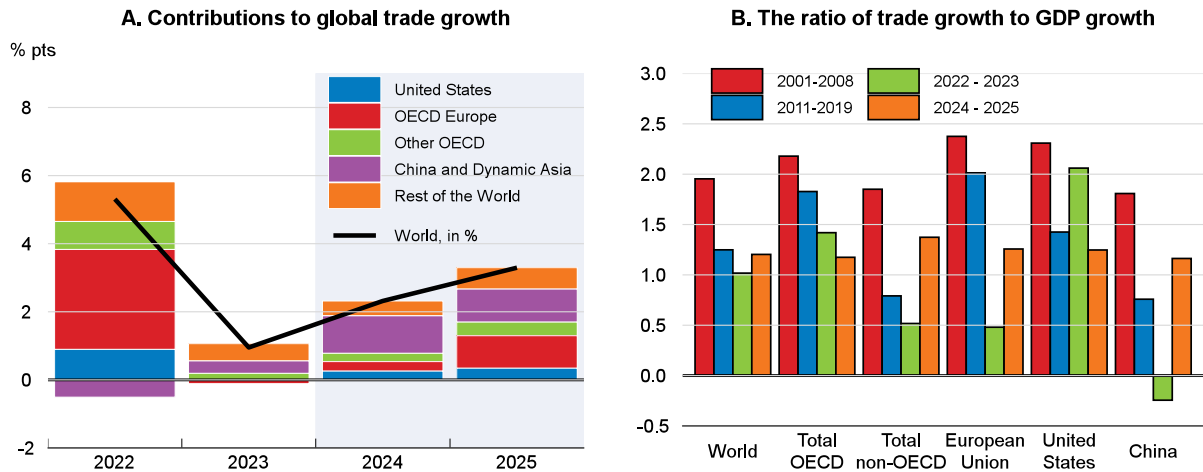
- The euro area and the United Kingdom ended 2023 in recession, but the unwinding of the effects from the large adverse energy price shock of 2022, a recovery in real household incomes, tight labour markets and reductions in policy interest rates are projected to help generate a gradual rebound. The euro area is projected to grow by 0.7% in 2024 and 1.5% in 2025, with several member states expected to benefit from a faster rate of disbursement of the Recovery and Resilience funds. Growth in the United Kingdom is projected to pick up to 0.4% and 1.0% in 2024 and 2025, with the more moderate upturn reflecting a tighter macroeconomic policy mix and somewhat higher inflation in 2024, although, as in the euro area, inflation is projected to converge on target by the end of 2025.
- GDP growth in China is projected to slow only modestly to 4.9% in 2024 and 4.5% in 2025, despite the drag from the ongoing adjustment in the real estate sector. Growth is projected to be buoyed by supportive macroeconomic policies, including a sizeable fiscal stimulus in 2024 and infrastructure investment, and strengthening external demand. Inflation is projected to remain low, averaging 0.3% in 2024 and 1.3% in 2025.
- India and Indonesia are projected to continue to enjoy broadly stable and rapid economic growth in the next two years. Strong investment and improving business confidence in India are projected to sustain real GDP growth of just over 6½ per cent in both FY 2024-25 and FY 2025-26, despite relatively sluggish private consumption growth. The Indonesian economy is projected to continue to grow by a little over 5% this year and next. Household spending is projected to be the key factor driving growth, supported by improved confidence, an expected move to a mildly accommodative fiscal stance, and falling interest rates. In both economies, headline inflation is projected to moderate and approach central bank targets by late 2025 provided food prices escape further disruptions from extreme weather events.
- Despite tight monetary policies, growth has held up relatively well in Brazil and Mexico, aided by resilient labour markets. GDP growth in Mexico is projected to be 2.2% in 2024 and 2.0% in 2025, helped by strong public infrastructure investment this year and the ongoing nearshoring of manufacturing activities. Output in Brazil is projected to expand by 1.9% this year and 2.1% in 2025, driven by household spending and the support for incomes provided by job growth and the higher minimum wage. Monetary policy is expected to remain restrictive in both economies, but to continue to ease gradually as inflation moderates, with inflation declining to central bank targets in the course of next year.

Global trade growth is expected to recover alongside GDP over the next two years, with trade volumes (goods plus services) projected to increase by 2.3% in 2024 and 3.3% in 2025. Continued steady growth in the United States, the stimulus measures being undertaken in China and a trade rebound in the Dynamic Asian economies are key cyclical factors behind the projected trade upturn, particularly in 2024 (Figure 1.13, Panel A). Services trade will continue to recover steadily, including in China. Softer import demand in India is responsible for the slowdown in the contribution from other non-OECD economies to global trade growth in 2024.<sup>8</sup> By 2025, a lower cost of trade finance and a gradual recovery in investment, particularly in Europe, will provide further support for trade. More balanced growth across manufacturing and services should help to raise the trade intensity of GDP growth in 2024-25. By the end of 2025, global trade openness (the ratio of trade to GDP) is expected to be 0.3 percentage points higher than in the final quarter of 2023, with the ratio of global trade growth to global GDP growth approaching pre-2019 levels (Figure 1.13, Panel B).


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<sup>8</sup> El Niño and export bans from India have lowered rice exports, but global cereals production is expected to be positive (FAO, 2024).

**Figure 1.13. Global trade growth is projected to strengthen gradually**



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 world trade growth to GDP growth, both measured in constant 2015 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 average for 2011-2019 excludes 2013. Source: OECD Economic Outlook 115 database; and OECD calculations.

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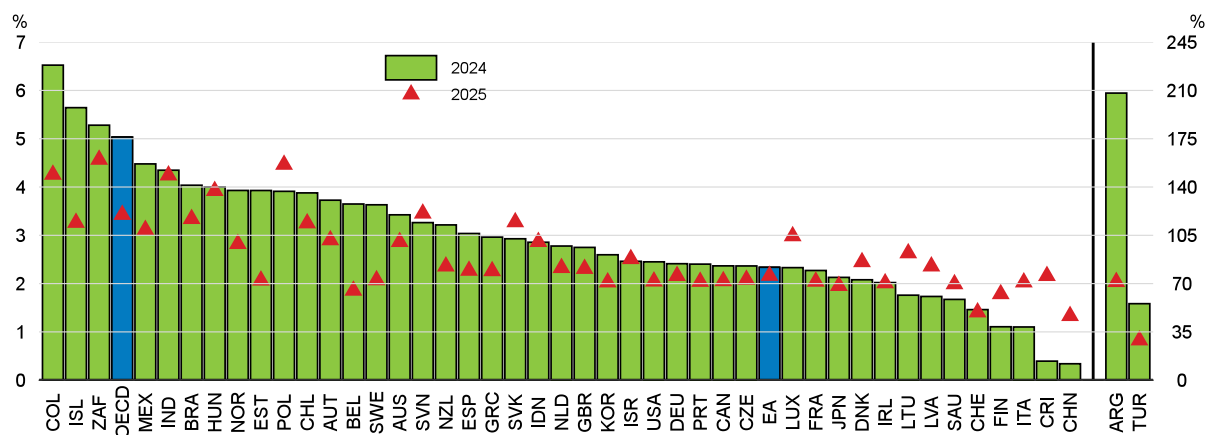
Resilient employment growth and real wage gains will sustain growth in real household incomes and household expenditure in most advanced economies. However, large stocks of excess household savings are generally projected to persist. Labour force growth is expected to moderate slightly, but still be just under 1% in the OECD this year, helped in some countries by continued sizeable migration flows: the labour force is projected to grow by around 2% in Australia, Canada, Ireland and New Zealand. This will support potential output and help to further moderate nominal wage growth.

The OECD-wide average unemployment rate is projected to rise marginally over 2024-25 to 5%, with employment growth expected to slow from about 1¼ per cent in 2023 to around ¾ per cent per annum on average over 2024-25. A projected pick-up in labour productivity growth this year and next, combined with an easing of nominal wage growth as inflation declines, should allow unit labour cost growth to be contained. In the OECD as a whole, unit labour cost growth is projected to moderate from 4½ per cent in 2023 to below 3% in 2024 and just under 2% in 2025. Corporate profit margins are also projected to ease in several countries, helping to lower overall unit cost growth.

Inflation is generally projected to converge on central bank targets by the end of 2025 in most advanced economies, although it may remain above 2½ per cent in some smaller European economies (Figure 1.14). Past declines in commodity prices will help to keep intermediate input cost increases and goods price inflation low this year despite higher shipping costs. The projected easing of unit cost growth will also reduce inflationary pressure, especially in service sectors. Inflation rates among the major emerging-market economies are expected to follow more disparate paths. Very high initial inflation rates in Argentina and Türkiye are expected to come down over 2024-25 but remain in double digits at the end of this period. Inflation is projected to stay very low in China, and to gradually decline towards policy targets in most other economies.

**Figure 1.14. Inflation is projected to decline over the next two years**

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. Source: OECD Economic Outlook 115 database; and OECD calculations.

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## Risks

### ***Geopolitical risks remain elevated***

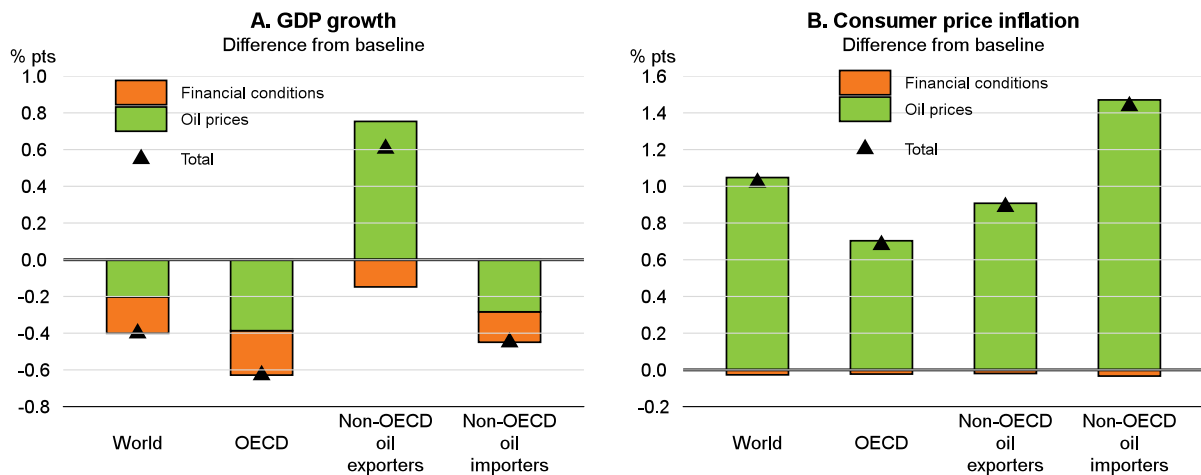
High geopolitical tensions remain a significant near-term adverse risk, particularly if the evolving conflicts in the Middle East were to intensify and disrupt energy and financial markets. For instance, around 30% of the global trade in oil and 20% in liquefied natural gas is transported via the Strait of Hormuz, with no alternative means to bring these volumes to market (IEA, 2024). Conflict is unlikely to halt the flow of energy through the Strait entirely, but even short-lived disruptions to energy trade would have large impacts (IEA, 2024).

An illustrative scenario, using the NiGEM global macroeconomic model, highlights the potential near-term implications of an unexpected surge in oil prices. The scenario considers a rise in oil prices of 25% on average in the first year and 10% in the second year, with an initial spike of 40% in oil prices in the first quarter of the shock. This initial spike would briefly take oil prices back to the peaks seen in the immediate aftermath of Russia's invasion of Ukraine. Global financial conditions are also assumed to tighten, due to risk repricing in the aftermath of the shock, with a 10% decline in global equity prices and higher investment risk premia. Policy interest rates remain endogenous in all economies.

- Global output growth declines by 0.4 percentage points in the first year of the scenario (Figure 1.15, Panel A), with weaker real incomes and tighter financial conditions hitting consumer spending and investment. The advanced economies are relatively hard-hit by the financial shock. In contrast, an improvement in the terms of trade boosts output in the major non-OECD oil-exporting economies.
- Global inflation rises by 1 percentage point in the first year of the shock (Figure 1.15, Panel B), with the largest effects in emerging-market and developing economies that are oil importers. This reflects the relatively high share of energy in the consumer price index in these countries.

**Figure 1.15. A sharp spike in oil prices would raise inflation and hit growth**

First year effects



Note: Simulated impact of an unanticipated first year rise of 25% in oil prices with an initial spike of 40% in the first quarter, an increase of 50 basis points in global investment risk premia and an average decline of 10% in equity prices in all countries. The green bar shows the direct impact from higher oil prices, the orange bar shows the additional impact of higher risk premia and lower equity prices.

Source: OECD calculations using the NiGEM macroeconomic model.

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- Policy interest rates rise by around 50 basis points in many economies to help ensure that inflation expectations remain anchored, with private short-term inflation expectations relatively sensitive to changes in oil prices.
- The automatic budgetary stabilisers are allowed to cushion the impact of the shock, but no additional discretionary fiscal support is assumed to be provided to households to compensate for higher energy costs. Any such support would help to underpin household real incomes but would add further to the already rising debt burdens in many countries.

The impact of an intensification of the evolving conflicts in the Middle East and resultant energy price spikes could be magnified if it pushed up shipping costs substantially further and increased the extent to which these are passed through into import prices. For instance, damage to tankers travelling through the Strait of Hormuz would significantly disrupt the already very tight supply balance of the global tanker market. This would compound shipping cost increases and generate delays in physical oil supply, even if vessels continued to transit the Strait. In addition, if shipping through the Red Sea were placed at further risk, there could be a further rise in the proportion of vessels using the longer Cape of Good Hope route. The use of important sea-to-air hubs in the Middle East that connect Asian and European trade might also be hampered. Such disruptions would weigh further on overall growth and the ability of suppliers to adjust to shocks.

### ***Inflation may prove more persistent than projected***

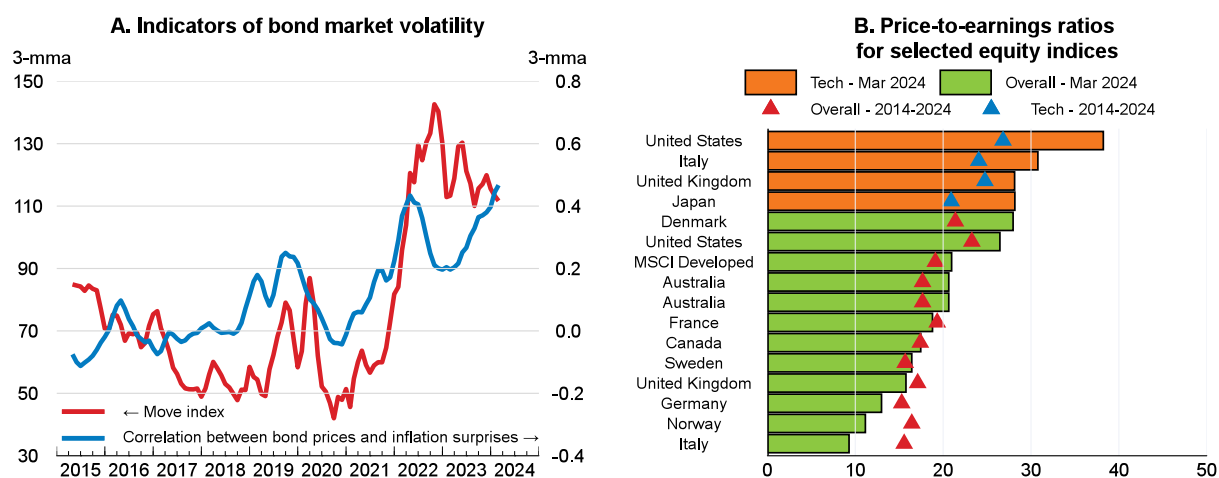
A key related risk is that ongoing disinflation may proceed more slowly than anticipated. In the baseline projections, core and headline inflation both continue to move down over 2024-25. By assumption, there are no surges in energy or food commodity prices, while the growth of unit costs is projected to subside as productivity growth picks up, wage gains moderate and markups ease. In this scenario, the rate of increase of service prices, which are disproportionately influenced by labour costs, comes down steadily to normal (pre-pandemic) levels by 2025. The projected easing of inflation is consistent with inflation expectations remaining anchored around central bank objectives.

However, the “last mile” of central banks’ disinflation efforts could still prove to be slower and more difficult than the progress made to date. In addition to the risks from the evolving conflicts in the Middle East, renewed spikes in energy or food prices could also occur if the OPEC+ countries intensified production cuts or if extreme weather or conflict affected key food supplies. Unit cost growth could also carry on increasing rapidly if the projected upturn in productivity growth does not materialise, if the pace of wage gains remains higher than projected, or if markups rise further. In these cases, there would be a risk that inflation expectations drift upwards, making it more difficult to get inflation back to target. In such a scenario, central banks would have to maintain restrictive policy settings for longer, raising the risks of weakening demand significantly and triggering sharp falls in bond and equity prices.

### **Financial markets remain vulnerable to sudden repricing**

Financial markets have so far proved resilient to the tightening of monetary policy. But vulnerabilities remain, with risks of rapid asset repricing if expectations of future interest rate reductions prove too optimistic. Global interest rates remain volatile, and uncertainty about the future size and timing of policy interest rate changes remains high (Figure 1.16, Panel A; BIS, 2024). If market expectations of forthcoming policy rate cuts prove misplaced, risk and term premia are likely to rise, potentially leading to a sharp correction in bond markets.

**Figure 1.16. Risks of a sharp asset price correction remain high**



Note: In Panel A, the Move index is a yield-curve-weighted index of the normalised implied volatility on 1-month Treasury options which are weighted on the 2-, 5-, 10-, and 30-year contracts. The blue line shows the 12-month rolling correlation between monthly changes in bond prices and Citi indices of inflation surprises (computed as outturns minus expectations). Inflation surprises and bond prices are taken in absolute value. A high correlation suggests that bond prices react strongly to inflation surprises. The sample includes the United States, the United Kingdom and Germany. Panel B: the price-to-earnings ratios are obtained by dividing the market price per share by the earnings per share of all companies listed in a given stock market. A ratio above the 2014-24 average is one indication that the price-to-earnings ratio is high relative to the historical average and therefore that equities are possibly overvalued. The orange and green bars are computed as the average of daily values in March 2024. The 2014-24 average is computed as the average of daily values between March 2014 and March 2024.

Source: LSEG; Citi; and OECD calculations.

Repricing could also occur in other asset classes. Equity price volatility remains low, but equity valuations appear stretched by some metrics, adding to repricing risks if interest rate expectations change or growth disappoints. Equity price-to-earnings ratios are above the average of the past decade in several markets – including the United States – especially in the tech sector, where future returns are particularly uncertain (Figure 1.16, Panel B). Risks remain of a sizeable price correction if downside shocks materialise. The market stress of spring 2023 that affected the banking sector in several countries was a reminder that swings in the prices and liquidity of financial assets can quickly reveal underlying balance sheet vulnerabilities.

### ***The lagged effects from policy tightening could still expose vulnerabilities***

Although they have not yet materialised, risks remain that the lagged effects of past monetary policy actions on growth and employment could be larger than anticipated, leading to an economic slowdown and exposing financial vulnerabilities. The pass-through of past policy rate increases to bank lending rates appears to be broadly completed. However, the transmission to activity has been cushioned so far in some countries by the large savings accumulated during the pandemic by households and corporates, and by the extent to which corporates and households were able to borrow in earlier years when interest rates were exceptionally low.

As more borrowing rates are renegotiated, or as debt matures and is replaced by new loans, the effects of tighter monetary policy could increasingly be felt. Higher interest rates are already being reflected in the interest expenses paid by households, which rose to 4.2% of disposable income in the third quarter of 2023 on average in advanced economies, up from 1.6% in 2019. Risks for households are particularly large in countries where mortgages are primarily offered at variable rates, including Australia, Canada, Finland and Poland, and in countries where rates are fixed for a relatively short period, since a potentially larger share of income will be devoted to meeting interest payments in the coming quarters.<sup>9</sup>

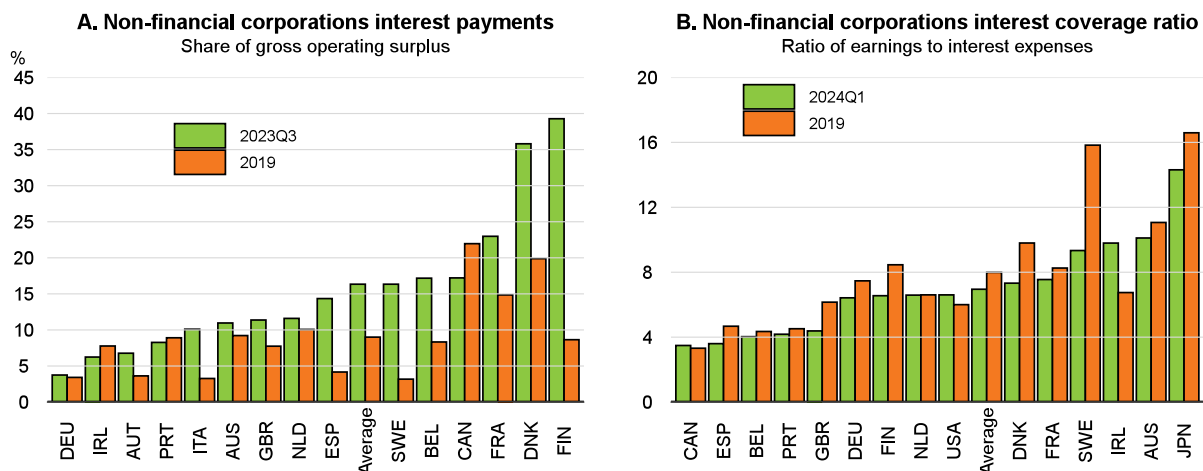
Given high debt and debt-service costs in several countries, corporate balance sheets could come under increasing stress. A majority of corporate bonds are issued with fixed rates, but about 30% of existing corporate debt in advanced economies is due to mature by 2026, with an even higher share in emerging-market economies (OECD 2024b). The quality of corporate debt has also deteriorated over time, with a higher share of debt either now below investment grade or with the lowest investment grade rating. The debt interest expenses of non-financial corporations in advanced economies rose to 15.1% of their operating surplus in the third quarter of 2023 on average, up from 9% in 2019 (Figure 1.17, Panel A). The aggregate interest coverage ratio has also declined (Figure 1.17, Panel B). Moreover, corporate bankruptcies are continuing to rise. This was to be expected given their extremely low post-pandemic level, but in some countries, including Canada, France and the United Kingdom, the number of bankruptcies now exceeds pre-pandemic levels.<sup>10</sup>

<sup>9</sup> In Canada, estimates suggest that, without any income growth, the median Canadian household might need to dedicate an estimated additional 4% of their pre-tax income to mortgage payments by the end of 2027 (teNyenhuis and Su, 2023).

<sup>10</sup> In a scenario in which interest rates remain above 2022 levels in the coming years, an additional 6 to 11 per cent of globally listed companies could be at risk of financial distress (OECD 2024b).



**Figure 1.17. Corporate balance sheets could come under stress**

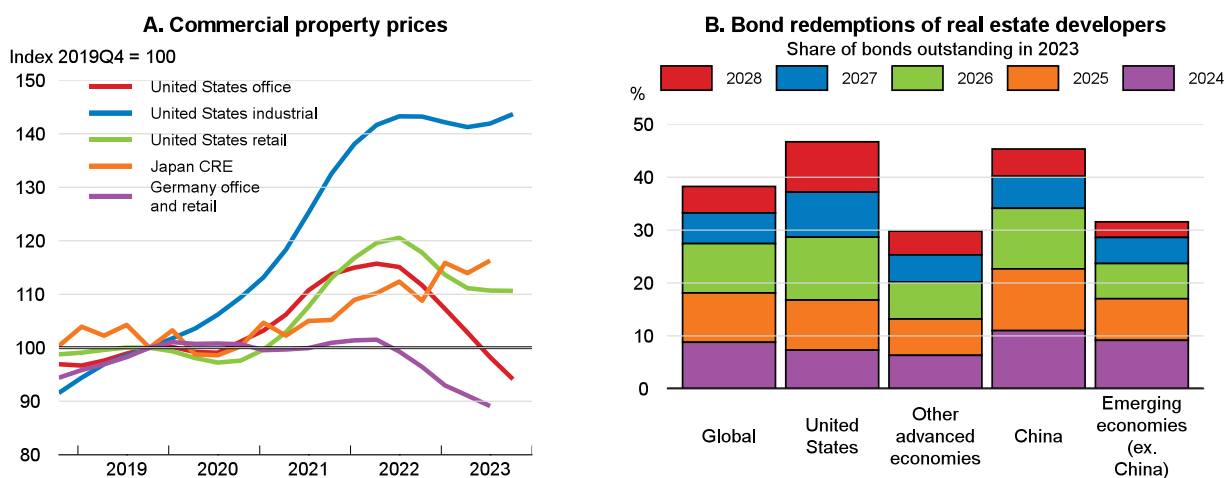


Note: In Panel A, interest expenses are reported as shares of gross operating surplus and mixed income. The interest coverage ratio in Panel B is defined as the ratio of earnings before interest and taxes to interest expenses and is an indicator of the ability to make interest payments using cash flows.  
Source: LSEG; OECD National Accounts; and OECD calculations.

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Rising delinquencies (missed payments) and bankruptcies could lead to severe credit losses for banks and non-bank financial institutions. In some countries, falling prices for residential and commercial real estate (CRE), especially offices (Figure 1.18, Panel A), and associated loan repayment difficulties, are already weighing on the balance sheets of banks, real estate investment trusts and other non-bank investors. Risks of a large correction remain prominent in CRE office markets, where structural changes associated with remote working add to the impact of rising interest rates. Delinquencies of commercial mortgage-backed securities, particularly those collateralised by offices, have risen recently, and about 40% of real estate developers' corporate bonds will mature by 2028 (Figure 1.18, Panel B).

**Figure 1.18. There are rising vulnerabilities in commercial real estate markets**



Note: In Panel A, data for the United States are MSCI transaction-based commercial property price indices that measure the actual price movements for the main types of commercial property using repeat-sales regression methodology. Commercial real estate prices in Germany and Japan are from the Bank for International Settlements. In Panel B, data are calculated based on bonds issued by real estate developers in 36 advanced and 46 emerging-market economies.  
Source: LSEG; Bank for International Settlements; and OECD calculations.

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Banks remain vulnerable to duration risks if higher-than-expected interest rates or renewed deposit outflows lead to sudden price changes and forced asset sales. In turn, this would tighten lending conditions to households and companies. Non-bank financial institutions also continue to face potential stress from liquidity mismatches in their portfolios, with risks of margin and collateral calls that lead to fire sales in the event of large mark-to-market losses on their assets. Losses at non-bank financial institutions could quickly spill over to banks due to large direct and indirect exposures, leading to wider financial stress.<sup>11</sup> Investment funds, which now account for almost 20% of global financial assets, have significant exposures to corporate bond markets, holding about one-quarter of the bonds of non-financial corporations in the United States and about one-third of such bonds in the euro area. Around two-fifths of these corporate bonds are non-investment grade, with relatively high default risks (OECD, 2024b).

***Narrowing policy rate differentials with advanced economies and rising debt are key risks in emerging markets***

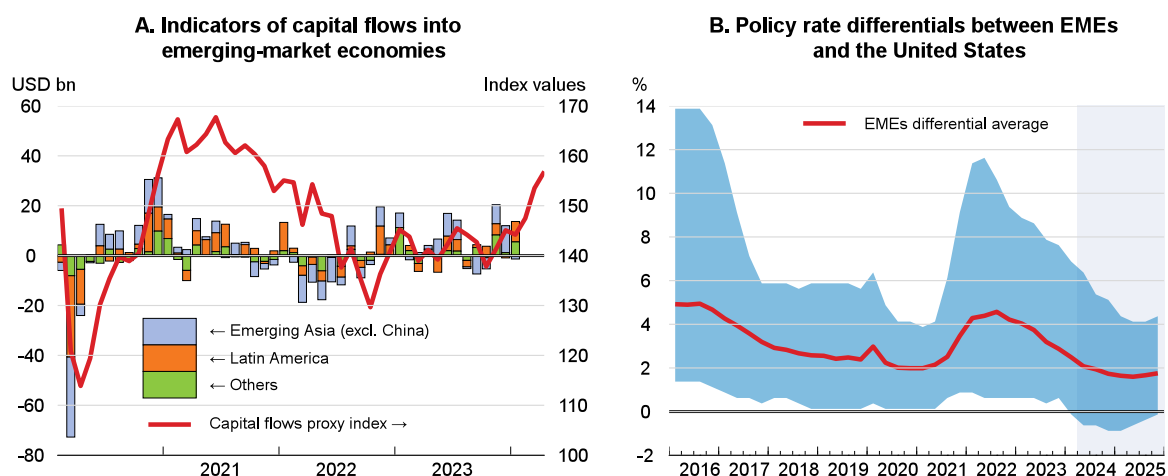
Emerging markets have so far coped well with the high global interest rate environment. GDP growth has surprised to the upside, inflation has declined in most countries, and foreign investors have generally remained in local bond markets. Capital flows to emerging-market economies excluding China have risen over the past year, with net portfolio inflows into equities and especially bonds (Figure 1.19, Panel A). Foreign direct investment (FDI) into many major emerging-market economies, especially Brazil and some other Latin American economies, has also held up relatively well. China is a notable exception, with new FDI inflows slowing sharply, and portfolio inflows reflecting continuing concerns about the property sector. Sovereign spreads remain elevated for countries with below-investment grade rating but are generally low elsewhere by historical standards. Amidst mounting debt-service costs, around one-half of low-income countries and many middle-income countries are either in, or estimated to be at high risk of, debt distress (World Bank, 2024).

Interest rate differentials with respect to advanced economies remain sizeable, encouraging portfolio capital inflows, but policy rate differentials to the United States are projected to continue narrowing in coming quarters (Figure 1.19, Panel B). A risk is that this could prompt capital **outflows and possibly currency depreciations, especially if interest rates in advanced economies stay higher for longer than expected**. Emerging markets with high public debt or high financing costs could also be exposed if debt-service costs rise further, potentially compromising their market access. In many economies with elevated bond spreads, a comparatively low average maturity of government debt exacerbates rollover risks (see below). Several low-income economies with weak credit ratings have seen the cost of borrowing rise sharply over the past year, and now face interest rates more than 500 basis points above US interest rates.

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<sup>11</sup> Non-bank financial institutions have become increasingly important in the global financial system and accounted for around 47% of global financial assets in 2022 (FSB, 2023).

**Figure 1.19. Narrowing interest rate differentials could lead to capital outflows in emerging-market economies**



Note: Panel A shows the gross portfolio inflows data from the OECD Monthly Capital Flow dataset for 20 emerging-market economies grouped by three geographical areas and the Bloomberg proxy index of capital flows. The latter is a monthly composite index, reflecting the performance of commodity, equity, foreign-currency-denominated government bond and currency asset classes. Increasing (decreasing) values of the index indicate capital flows into (out of) emerging-market economies. In Panel B, the red line shows the differential between the average of 11 emerging-market economies and the United States. The blue area shows the range between the highest and the lowest policy rate differential among the 11 emerging-market economies.

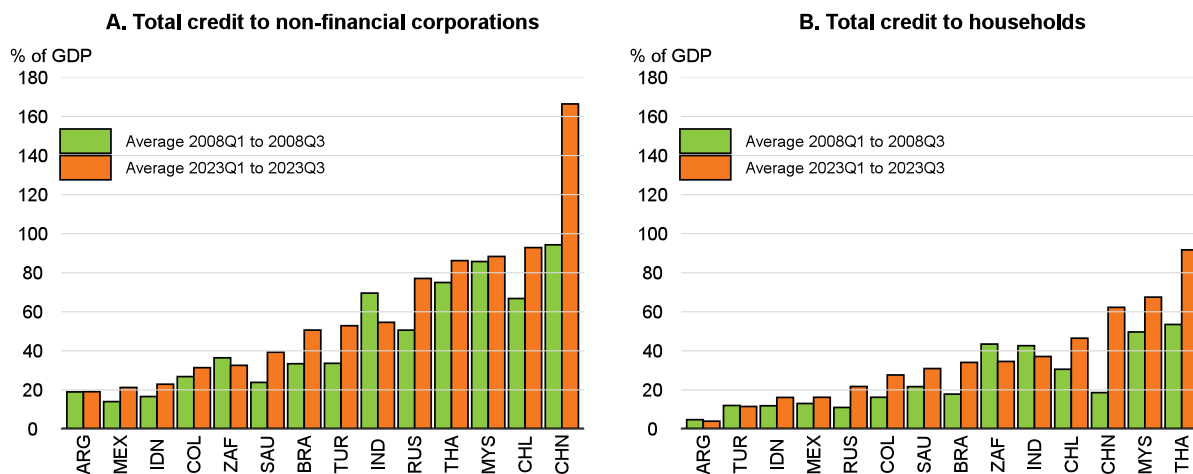
Source: OECD Economic Outlook 115 database; OECD Monthly Capital Flow dataset; Bloomberg; and OECD calculations.

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In emerging-market economies where private sector debt is high and mostly denominated in foreign currency, currency depreciations could also lead to meaningful increases in debt-servicing costs for firms and households. Corporate and household debt has risen sharply in some countries over the past 15 years (Figure 1.20), with a high proportion in foreign currencies, especially in Latin American economies.<sup>12</sup> Chinese corporate bond debt represented almost one-fifth of the outstanding global total in 2023 (OECD 2024b). In Argentina, Indonesia, Mexico and Türkiye, more than half of outstanding corporate debt securities were denominated in foreign currencies in 2023. Over half of emerging-market economies' corporate debt is expected to mature within the next three years, raising rollover risks (OECD 2024b). Household debt is on average lower than corporate debt and of longer maturity, but has also risen quickly in some economies since 2008, including in China, Malaysia and Thailand (Figure 1.20, Panel B).

<sup>12</sup> Corporate debt has surged by 14 per cent of GDP on average since 2008.

**Figure 1.20. Private debt has risen rapidly in several emerging-market economies**



Notes: Total credit includes bank loans and debt securities from all sectors of the economy.

Source: Bank for International Settlements; and OECD calculations.

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### ***Growth outcomes in China are uncertain***

China is a key driver of the expansion of the world economy. Even as China's growth rate has slowed, its increasing weight in the global economy has meant that its contribution to global growth remains very large.<sup>13</sup> Thus, growth outcomes in China are a key risk to projections of global growth: for every 1 percentage point that China's GDP growth falls short of the projection, the direct effect on global growth is approximately 0.2 percentage points, and any indirect effects via tighter financial conditions would add to that (OECD, 2023b).

China is currently projected to maintain higher growth rates in 2024–25 than previously anticipated. Despite the ongoing slump in China's large real estate sector and continued problems with debt, it is expected that monetary and fiscal stimulus will compensate, at least in the near term, keeping the rate of GDP and trade growth high. There are two-way risks around these projections. The fiscal stimulus may not materialise in the amounts announced, or it might only redistribute government debt between central and local levels without raising total public spending much, if at all. In this event, growth in China could prove substantially weaker than projected, particularly in 2025. However, further sizeable additional bond issuance in 2025, beyond that already planned, could keep growth higher than projected. This would entail small but positive spillovers for China's trading partners, although it would also raise China's government debt further, adding to future challenges.

### ***Upside risks***

There are a number of scenarios that could result in stronger-than-expected outcomes over the next two years. A renewed downward move in key commodity prices, in particular energy, would result in faster disinflation than projected. OPEC+ production cuts to date have only halted the decline in oil prices, and a breakdown in cartel discipline, a shift in the stance of swing producer Saudi Arabia, or unexpected growth in non-OPEC+ production (particularly in the United States and Brazil) could weaken oil prices. Moreover,

<sup>13</sup> The contribution was larger in 2023, when the Chinese economy grew by 5.2%, than it was in the 2000s when the growth rate was about twice as high.

if the European Union continues to make the sort of rapid progress in ramping up electricity production via renewables seen during 2022-23, global demand for fossil fuels could be weaker than expected.<sup>14</sup> Relatedly, an earlier-than-expected moderation of geopolitical tensions, notably in the Middle East, would represent a mild positive shock, reducing uncertainty and lowering shipping costs and delays. A faster-than-expected further easing of supply constraints in labour markets from continued strong labour force growth would also aid disinflation.

Demand growth could also prove stronger than expected, especially in advanced economies, if households and corporates were to draw more fully on the savings accumulated during the pandemic. Excess household savings at the end of 2023 are estimated to have been equivalent to 10% or more of disposable income in many economies, including Japan and the euro area (Barnard and Ollivaud, 2024). The projections reflect the assumption that household saving rates are little changed in 2024-25, but if excess savings are drawn down, private consumption growth would be stronger than projected, although this could also slow disinflation.

## Policies

### ***Monetary policy should remain prudent to ensure durable disinflation***

Policy interest rates have remained unchanged in most major advanced economies in recent months. However, rate reductions have occurred in several central European economies and Switzerland, and the negative interest rate policy and yield curve control have been ended in Japan, with the target policy rate range now set around 0 to 0.1%. Forward-looking real interest rates remain higher than pre-pandemic norms, with the notable exception of Japan, where policy remains accommodative despite the recent shift (Figure 1.21). Central bank balance sheet reductions, mainly reflecting declining bond holdings due to quantitative tightening (QT), have continued along well-communicated paths, and have been stepped up in some jurisdictions. The cumulative effects of past tightening have continued to feed through into economic activity, housing and credit markets.

Monetary policy needs to remain prudent to ensure that underlying inflationary pressures are durably contained. Scope exists to start lowering nominal policy rates provided inflation continues to ease, but the policy stance should remain restrictive for some time. The pace and scale of policy rate reductions will be data dependent and may vary across countries depending on economic conditions. A continued narrowing of imbalances in labour markets and declining cost and price pressures in services sectors, where inflation is proving stickier, will be critical factors.

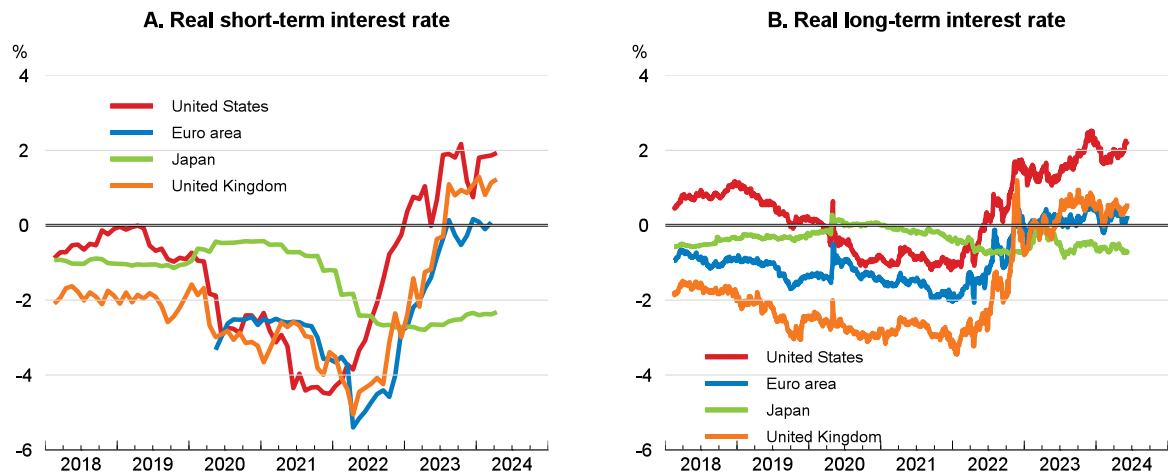
Given the projected outlook for inflation and growth, policy interest rate reductions are expected to start this year in all the major advanced economies other than Japan (Figure 1.22).

- In the United States, reductions in the federal funds rate are projected to begin in the third quarter of 2024, with rates being lowered to 3¾-4% by the end of 2025, when inflation is expected to have converged to 2%. Bond holdings are projected to decline further throughout 2024-25 following a pre-announced path.
- In the euro area, policy rate reductions are also projected to begin in the third quarter of 2024, with the deposit facility rate easing to 2.5% by the end of 2025. The decline in Eurosystem bond holdings is expected to gather speed, with no reinvestment of Asset Purchase Programme redemptions and a gradual phase-out of reinvestment of maturing Pandemic Emergency Purchase Programme securities over the second half of 2024.

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<sup>14</sup> EU gas consumption since 2022 is on track for meeting the union's ambitious REPowerEU targets, which would eliminate the need for LNG imports by 2030. EU consumption of coal for electricity production also fell sharply in 2023.

**Figure 1.21. Forward-looking real interest rates remain elevated in most countries**



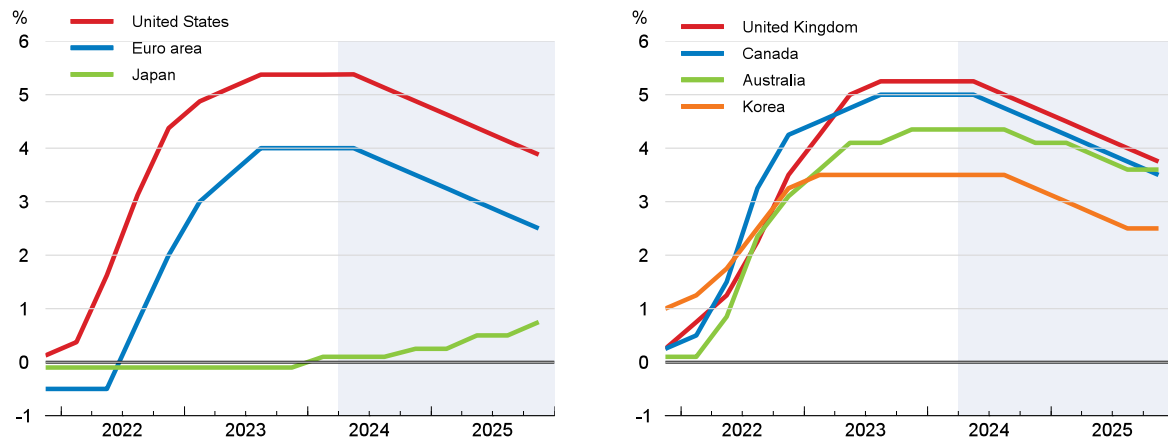
Note: In Panel A, the real short-term interest rates are calculated using nominal one-year government bond yields and one year-ahead inflation expectations by consumers in the United States, the euro area and the United Kingdom, and by corporates participating in the Tankan Survey in Japan. In Panel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

Source: OECD Economic Outlook 115 database; Bank of England; Bank of Japan; Board of Governors of the Federal Reserve System; European Central Bank; University of Michigan; and OECD calculations.

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- In Japan, the policy rate is projected to increase gradually to 0.75% by the end of 2025, as core inflation stabilises around 2% and a positive output gap develops. Nevertheless, the monetary policy stance is expected to remain accommodative, with negative real interest rates persisting throughout 2024-25.
- Reductions in policy rates are projected to begin in the second half of 2024 in Australia, Canada, Korea and the United Kingdom. Central bank bond holdings are assumed to decline further in all these countries other than Korea.

**Figure 1.22. Policy rates are projected to decline this year in most large advanced economies**



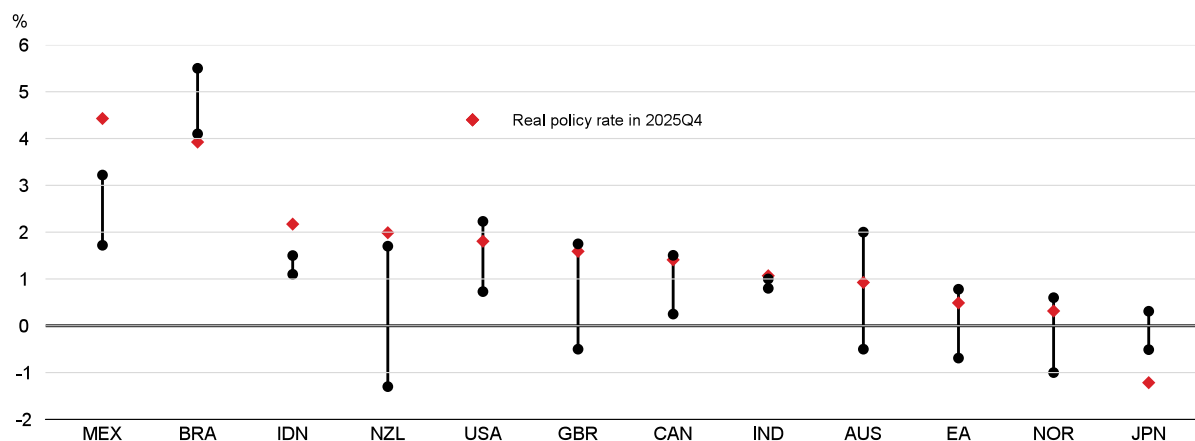
Note: Panel A shows the midpoint of the federal funds target range for the United States and the deposit facility rate for the euro area.

Source: OECD Economic Outlook 115 database; and OECD calculations.

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In the medium term, central banks will aim to bring policy interest rates back towards levels consistent with neutral real rates – the real interest rate at which the policy stance is neither accommodative nor restrictive. However, the neutral real rate is unobserved and hard to gauge, with recent estimates typically varying between -1% and 2% across the advanced economies and reaching higher values for some emerging markets (Figure 1.23). The declining trend in estimated neutral rates over recent decades is not easy to extrapolate. Population ageing and weak potential output growth will keep rates low, but a larger supply of public debt and the possibility of stronger investment demand for the climate transition could place upward pressure on neutral rates. By the end of 2025, real policy rates are generally projected to have converged towards estimated ranges for neutral rates, though often remaining close to the top of those ranges or above them. Even if real rates fall further, nominal policy rates may remain at higher levels than prior to the pandemic if inflation settles at target rather than dropping persistently below target, as in the decade after the global financial crisis.

**Figure 1.23. Real policy rates in most economies are projected to converge towards estimates of neutral levels**



Note: 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, 2023) and the Lubik-Matthes (LM) model estimate (Federal Reserve Bank of Richmond, 2023) for Q4 2023 for the United States; the HLW and LM model estimates for Q3 2023 (Benigno et al., 2024) for the euro area; the HLW model estimate for Q4 2021 (IMF, 2023a) and the DSGE model estimate for 2013-2017 (Okazaki and Sudo, 2018) for Japan; the range of estimates from term structure models based on data up to end-March 2017 (Bank of England, 2018) 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 HLW model estimate for Q4 2021 (IMF, 2023a) for Canada; the range of the estimates for 2022 (Ellis, 2022) for Australia; the range of the estimates on real neutral OCR (Reserve Bank of New Zealand, 2022) for New Zealand; the range of model estimates for 2021 (Meyer et al., 2022) for Norway; the range of estimates for Q1 2023 (Banco Central do Brasil, 2023) for Brazil; the range of long-run average estimates (Carrillo et al., 2018) for Mexico; the range of the LW model estimates for Q4 2021 (Reserve Bank of India, 2022) for India; and the range of the HLW estimate for Q2 2022 and the yield curve model of Basdevant, Björkstén, and Karagedikli for Q4 2022 (IMF, 2023b) for Indonesia. The projected real policy rate in 2025Q4 is calculated using the nominal policy rate deflated by annual core inflation over 2024Q4-2025Q4 (except for India and Indonesia, where headline inflation is used).

Source: OECD Economic Outlook 115 database; and OECD calculations.

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Quantitative tightening has so far proceeded smoothly, with sizeable reductions in bond holdings inducing only a minor tightening in financial conditions and reinforcing the move to a more restrictive policy stance. However, uncertainty remains about its duration and potential impact once policy rates begin to decline. The likely coexistence of QT and policy rate reductions, with potentially opposite impacts on long-term yields and financial conditions more generally, could raise uncertainty in the absence of clear communication. Recent QT announcements are estimated to have increased sovereign bond yields by an estimated 4-8 basis points -- a much smaller effect (in absolute terms) than the estimated past declines in yields resulting from quantitative easing -- with no significant disruptions in the operation of financial markets (Du et al., 2024). However, determining the optimal level of reserves for the conduct of monetary policy, near which QT should slow and then stop, is challenging, not least due to risks of liquidity stress (Lopez-Salido and Vissing-Jorgensen, 2023).

### ***Fiscal policy needs to address mounting pressures to ensure debt sustainability***

The fiscal projections for 2024-25 are conditional on announced government measures and OECD assessments of current plans (Annex 1.A). A mild fiscal tightening is expected in many countries, as governments start to rebuild fiscal buffers. In the median advanced OECD economy, the underlying primary balance is projected to improve by 0.3% of potential GDP in 2024 and 0.4% in 2025.

- In the United States, the fiscal stance is expected to tighten modestly this year, helping to moderate domestic demand. The underlying primary deficit is projected to remain large, but narrow to 3.5% of potential GDP in 2024 (an improvement of 0.5 percentage points).
- In the euro area, the underlying primary deficit is projected to shrink by a cumulative 1½ per cent of potential GDP over 2024-25. This reflects the gradual withdrawal of energy support, as well as fiscal consolidation in large economies such as Germany and France.<sup>15</sup>
- In Japan, the sizeable underlying primary deficit is projected to narrow from an estimated 3.9% of potential GDP in 2023 to 2.3% of GDP in 2025, reflecting the planned phase-out of energy support measures. Higher spending on defence and support for families with children, together with temporary cuts to income and residency taxes, will, however, limit the overall improvement in the budget balance.
- The fiscal stance is projected to tighten over 2024-25 in Canada, Korea and the United Kingdom while remaining broadly neutral in Australia. Among smaller economies, substantial improvements in underlying primary balances of 2½ per cent of potential GDP or more are projected in Hungary and Iceland. In contrast, fiscal expansions exceeding 1½ per cent of potential GDP are expected in Denmark and Portugal over 2024-25.

Despite these measures, the ratio of government debt to GDP is projected to rise further in several OECD economies. Overall OECD gross general government liabilities are projected to be 117% of GDP at the end of 2025, some 42 percentage points higher than before the global financial crisis. High debt and the increase in interest rates will result in the costs of servicing government debt rising further as debt issued at past low rates matures and is replaced by new higher-yielding issuance. In the median advanced economy, the projected increase in the ratio of interest payments to GDP is 0.5 percentage points over the period from 2021 to 2025. However, outcomes will continue to vary widely across countries. Some countries, such as Portugal, have managed to contain growth in interest payments by reducing public debt. In others, the recent rapid growth in the cost of interest payments on inflation-indexed debt will moderate as inflation eases. Upward pressure on debt-service burdens is expected to continue beyond 2025, as in

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<sup>15</sup> In Italy, a change in the accounting treatment of tax credits for home improvements contributes to a substantial improvement in the estimated underlying primary deficit over 2024-25.

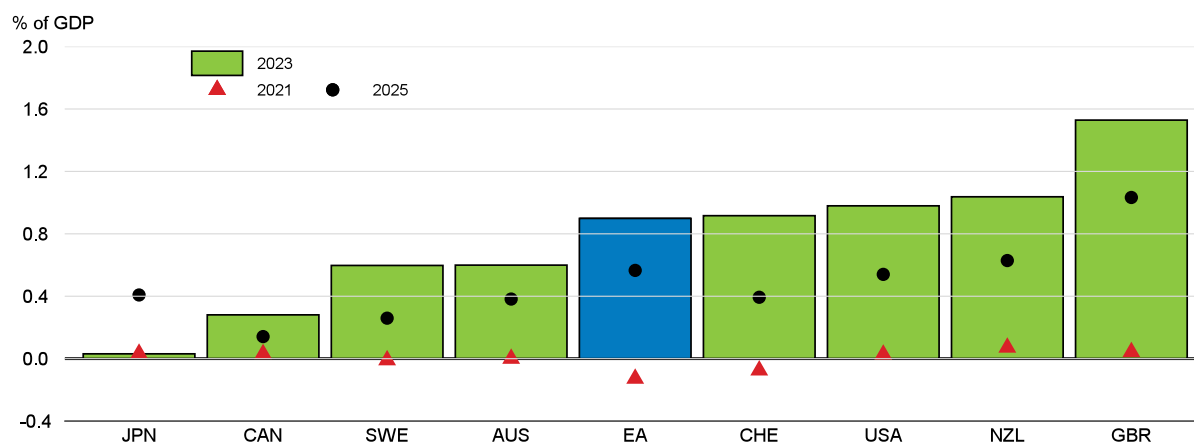


many countries long-term interest rates are projected to exceed average rates of interest paid on the total stock of public debt for some time.

Rising interest rates are also weighing on the public finances through central bank losses. Over the past 15 years, commercial bank reserves held at the central bank, typically remunerated at or close to the policy rate, have increased hugely, largely as a counterpart to quantitative easing. Monetary policy tightening since 2021 has resulted in sharp increases in central bank interest expenses (Figure 1.24), leading to financial losses.<sup>16</sup> Reserves remuneration costs will likely remain elevated for some time, although quantitative tightening and projected reductions in policy rates will help lower their magnitude. While central bank losses are not in general transmitted one-for-one into budget balances, they imply an extended period of reduced or zero central bank remittances and, in some economies, additional indemnification payments by the Treasury.


**Figure 1.24. Payments on reserves by central banks have risen substantially**

Interest payments on central bank reserves



Note: Interest payments are estimated as reserve balances at the end of each month multiplied by the respective contemporaneous interest rates. Account is taken of tiering schemes for reserves remuneration, but the estimates remain stylised and illustrative. They assume unchanged balances and rates for one month and the non-coincidence of calendar months and reserve maintenance periods. For each country, the following close substitutes for reserves are included: reverse repurchase agreement operations (RRP) for the United States, the deposit facility for the euro area and debt certificates for Sweden. The estimation of interest expenses in 2025 is based on the following assumptions: reserves balances, including their close substitutes, decrease at the same rate as bond holdings during 2024 and are kept constant in nominal terms during 2025; bond holdings decrease according to the QT announcements of the respective central banks made up to 24 April 2024 (for Japan and Switzerland, which do not pursue QT, reserves are assumed to remain constant in nominal terms throughout 2024-25); interest rates applied to reserves and their close substitutes change according to the projected changes in policy rates in this Economic Outlook.

Source: OECD Economic Outlook 115 database; Bank of Canada; Bank of England; Bank of Japan; Board of Governors of the Federal Reserve System; European Central Bank; Reserve Bank of Australia; Reserve Bank of New Zealand; Sveriges Riksbank; Swiss National Bank; and OECD calculations.

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<sup>16</sup> In some countries, especially in Europe, the rise in central bank interest expenses relative to GDP since 2021 has exceeded the increase in general government interest payments as a share of GDP.

Fiscal pressures are expected to build in the years ahead. In the absence of any offsetting fiscal policy adjustment, the ratio of net government financial liabilities to GDP in the median G7 country could rise by 70 percentage points by 2040 (OECD, 2023a). Without policy changes, population ageing will make public expenditure on pensions, health and long-term care rise significantly in many advanced economies, accounting for around one-third of the projected increase in debt-to-GDP ratios by 2040. Continued structural budget deficits and higher refinancing costs than in the past are other key sources of possible future debt pressures. The higher outlays on defence planned in many countries and climate change mitigation and adaptation measures will likely further complicate efforts to build fiscal buffers.<sup>17</sup>

Durably lowering public debt-to-GDP ratios has typically required governments to contain spending growth to keep primary budget balances in surplus for several years, often coupled with GDP growth above the interest rate on public debt (OECD, 2023a; Figure 1.25). In many past instances, sustaining declines in primary expenditure relative to GDP entailed spending restraint in politically sensitive areas such as pensions, civil service wages and subsidies, as well as cutting public investment. Reducing public debt-to-GDP ratios through such means may prove more challenging for countries facing mounting spending pressures in the future, particularly if real interest rates fail to return to past low levels relative to GDP growth. In 2025, most OECD economies are still projected to be running primary budget deficits, including the United States, Japan and the euro area as a whole. As inflation returns to target and monetary policy gradually becomes less restrictive, stronger consolidation efforts than those currently planned are called for in many countries if debt ratios are to be put on a downward trajectory.

The country policy recommendations in this Outlook highlight that spending restraint is a key priority to ensure a sustainable trajectory for public debt (Figure 1.26). However, spending restraint should be selective, as expenditure items typically have different impacts on growth and equity, and often there are important trade-offs to consider (Cournède et al, 2014). The most common key areas for action are reforms to pensions and to other social benefits and subsidies.<sup>18</sup> Pension reform can mitigate fiscal costs associated with population ageing. For instance, increasing the statutory retirement age as longevity rises can complement policies aimed at narrowing paths to early retirement and support longer working lives. Ensuring that other social benefits and subsidies are adequately targeted would help to avoid distortions in incentives, and yield budgetary savings, whilst maintaining support for those most in need. Better fiscal frameworks are also a common key recommendation. In several countries, spending reviews could help prioritise spending and improve efficiency in the use of public resources, and should be integrated in budget processes (Tryggvadottir, 2022). Many countries should also improve medium-term budget planning, aided by appropriate fiscal rules.

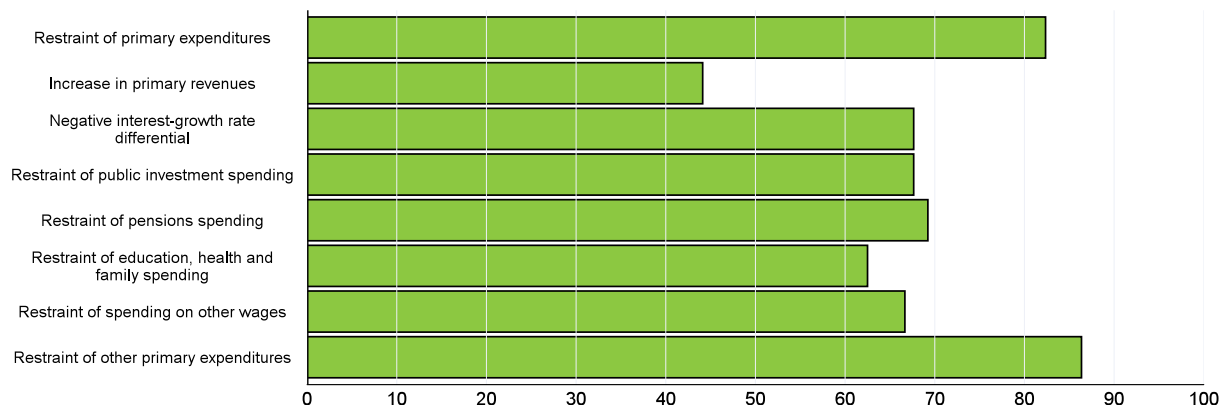
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<sup>17</sup> Since 2022, defence spending has grown faster than GDP in many OECD countries, including in Central and Eastern Europe. Other countries aim to spend more on defence in the years ahead. Among those implementing detailed medium-term plans to that effect, France, Germany and Japan are targeting defence expenditure increases worth respectively 0.4, 0.7 and 1% of GDP (OECD, 2023b).

<sup>18</sup> In contrast, procurement reforms or wage bill containment are seldom found among the key priorities. These measures are nonetheless important in many countries, but the largest payoffs for the sustainability of the public finances or immediate fiscal savings often lie elsewhere.

## Figure 1.25. Past experience suggests that it will be challenging to reduce debt burdens

Per cent of previous debt reduction episodes in OECD economies



Note: The chart shows the percentage of 34 debt reduction episodes in OECD economies between the late 1970s and 2019 that fall into each category. The debt reduction episodes are defined in Annex 1. B. of OECD (2023a). The chart is based on the items identified in Figures 1.B.1; 1.B.2; and 1.B.3 of OECD (2023a). The differential between the implicit interest rate on debt and GDP growth corresponds to the sum of the orange and purple bars in Figure 1.B.1. The average annual change in primary expenditure as a share of GDP over the length of each episode relative to its initial value (red bars in Figure 1.B.2) is decomposed into several expenditure components as defined in the OECD Public Finance Dataset. “Education, health and family” denotes most current spending devoted to education, health care and, within social protection, family and children. “Other wages” includes most wages, as well as intermediate consumption, in functions other than education and health. “Other primary expenditures” includes unemployment benefits, sickness and disability spending, subsidies, non-social transfers and, in some cases, a statistical discrepancy term. In some episodes, not all expenditure components could be identified due to data limitations. For this reason, the total sample of episodes is reduced for: restraint of pensions spending (sample size: 26 episodes), restraint of education, health and family spending (24), restraint of spending on other wages (24), and restraint of other primary expenditures (22).

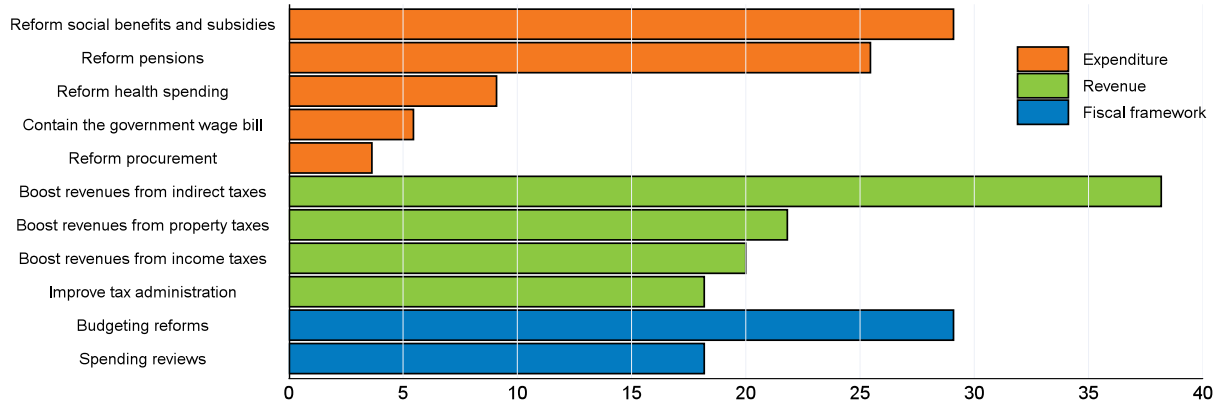
Source: OECD calculations.

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Higher tax revenues should also play a key role in restoring or expanding fiscal space (Figure 1.26). Many countries have scope to raise revenues by eliminating distortive tax expenditures across different tax bases. A widespread key priority is to raise proportionally more revenue from consumption, environmental and property taxes. Such measures would limit the drag on economic growth from the tax system, including in countries where the overall tax burden may need to increase. Several advanced economies also have scope to efficiently shift their tax mixes to rely less heavily on taxing wages, which can discourage employment. To the extent that such reforms lift take-home pay for low-wage earners, they can also help to reduce income inequality (Akgun et al., 2017). Many emerging-market economies should, by contrast, look to boost total government revenues, often by broadening tax bases. In countries where informality is widespread, tax administration upgrades can help to improve compliance, shift activity to the formal economy and expand government revenues. Such revenue-raising measures can also help fund higher spending in priority areas.

## Figure 1.26. Key policy priorities to rebuild fiscal space

Per cent of countries



Note: The figure reports the share of 55 countries for which a given recommendation is made in this Economic Outlook. “Indirect taxes” includes consumption and environmental taxes, such as fuel or carbon taxes. “Income taxes” covers personal and corporate income tax and social security contributions. “Tax administration” reforms include measures to strengthen enforcement and tackle tax evasion. “Budgeting reforms” include measures to improve medium-term budgeting and implement or strengthen numerical fiscal rules. Reforms boosting revenues from one tax category may be offset, at least in part, by parallel reforms that lower revenues from other taxes. This would reduce the total direct effect on budget balances, although efficient tax mix switches can increase national income relative to public debt in the longer term.

Source: OECD Economic Outlook 115 database; and OECD calculations.

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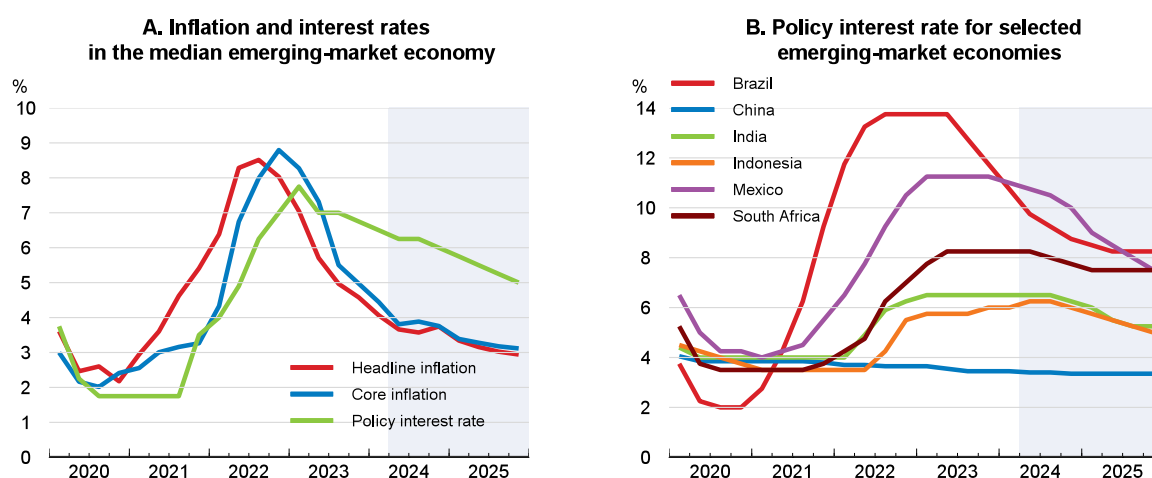
### ***In emerging-market economies, improved monetary policy space should be used prudently and accompanied by fiscal reforms***

Differences in underlying economic developments are being reflected in an increasingly divergent monetary policy stance in the major emerging-market economies. With inflation remaining very low, China has continued to reduce reserve requirement ratios and policy rates to help boost liquidity and support growth. Policy rates are also being lowered from elevated levels in many Latin American countries, including Brazil and Mexico, as inflation has fallen sharply towards target, though the monetary stance remains restrictive. In other economies, including India and South Africa, policy rates remain at their peaks. Russia and Türkiye have recently increased policy rates to curb persistently high inflation, and Indonesia has raised the policy rate to strengthen exchange rate stability.

Policy rate reductions are expected in many countries over the next two years (Figure 1.27), but their pace should remain prudent to ensure that inflation expectations remain well anchored. Easier global financial conditions and the anticipated onset of policy rate reductions in the major advanced economies enhance policy space in emerging markets, but a rapid narrowing of interest rate differentials could reignite capital outflows and currency depreciations (see risk section).

- Nominal policy rate reductions are projected to continue in Brazil as inflation moderates. In Mexico, policy rate cuts are expected to gather pace from the second half of 2024 as headline and core inflation converge to 3%, the midpoint of the target band.
- Modest policy rate reductions are projected to begin in the second half of 2024 in India and Indonesia as inflation eases and rate reductions get underway in the United States. China is expected to maintain an accommodative stance in 2024-25.

**Figure 1.27. Monetary policy will remain restrictive in many emerging-market economies despite policy interest rate reductions**



Note: In Panel A, the emerging-market economies considered are Brazil, Bulgaria, Chile, China, Colombia, Costa Rica, India, Indonesia, Mexico, Peru, Romania, Saudi Arabia and South Africa for headline inflation and the policy rate, and Brazil, Bulgaria, Chile, Colombia, Costa Rica, Mexico, Peru, Romania and South Africa for core inflation.

Source: OECD Economic Outlook 115 database; and OECD calculations.

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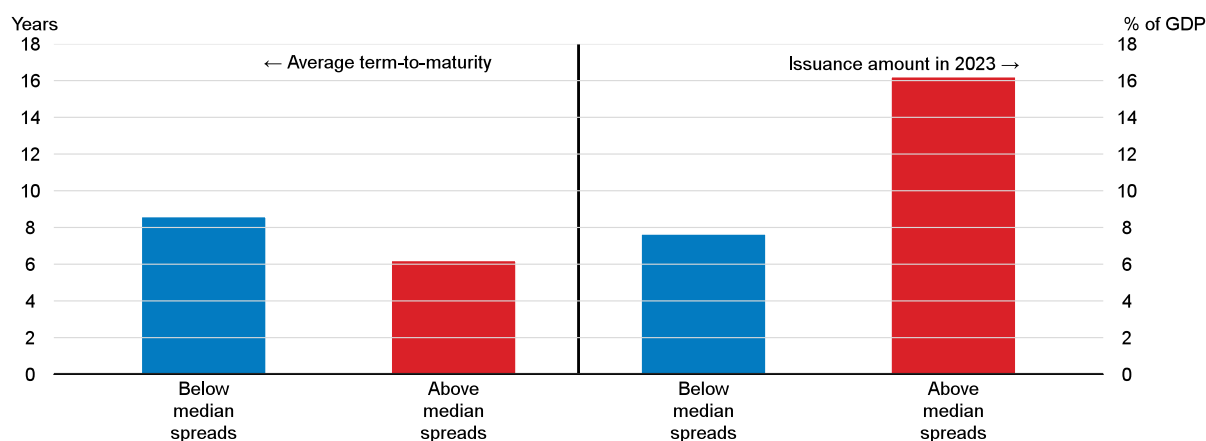
- Policy rate reductions in the second half of 2024 and early 2025 are projected in South Africa as inflation converges durably to the central bank target range.
- In Türkiye, declining but still high inflation is expected to result in the policy rate remaining at 50% in 2024 with reductions starting only during 2025.

Fiscal developments in 2023 were mixed across emerging-market economies. Expansions were implemented in Brazil and South Africa, reflecting a combination of lower revenues and higher social spending. In contrast, consolidations occurred in Colombia, Mexico and India, despite continued strong growth of public capital expenditure in the latter. Policy divergence is expected to persist in 2024, with sizeable near-term fiscal expansions in Colombia, China and Mexico, reflecting new infrastructure projects and social programmes, and a restrictive stance in Brazil, India, South Africa and Türkiye. In 2025, the more expansionary fiscal stance is projected to continue in China, with further issuance of ultra-long government bonds on top of those issued this year, but some consolidation is projected in most other emerging-market economies.

The prospects for fiscal sustainability remain challenging. Sovereign debt is elevated in many emerging-market economies and is expected to rise further in the coming years, and rising interest payments and revenue shortfalls limit the capacity to undertake the investment necessary for sustainable development. In addition, debt sustainability might also be endangered in a number of emerging-market economies facing elevated spreads, especially if debt issuance remains sizeable, as the average maturity of their government debt is comparatively low (Figure 1.28).

Governments need to rebuild fiscal space and reduce debt-service burdens while protecting essential spending for development. In this regard, the modest fiscal consolidations projected in several emerging-market economies in the medium term appear appropriate. At the same time, revenue collection should also be reinforced, and tax evasion curbed, including by improved tax administration, modernised property registries and streamlined corporate tax codes. Stronger efforts to enhance the effectiveness of fiscal rules and debt management and promote spending efficiency (especially on subsidies) would also help. Efforts to introduce or strengthen independent fiscal institutions, in Latin America and elsewhere, could enhance fiscal credibility (Caldera Sánchez et al., 2024), lower financing costs and help limit pro-cyclical policies in commodity-rich countries.

**Figure 1.28. Debt sustainability in some emerging market economies may be jeopardised by high sovereign spreads and low debt maturity**



Note: The figure shows average term to maturity of sovereign debt and 2023 sovereign debt issuance for a sample of 40 emerging and low-income countries. Countries are grouped according to whether EMBI spreads to USD-denominated bonds in March 2024 were above or below the sample median. Average debt to maturity is computed for marketable debt issued over the period 2020-2023 and outstanding as of end-March 2024.

Source: Factset; LSEG; World Bank; and OECD calculations.

### ***More ambition is needed on structural policies to improve growth and advance the climate transition***

Beyond the near term, the prospects for long-term growth and improvements in living standards appear modest. Stronger policy action is required to remove impediments to greater investment and employment, to enhance skills development and to intensify innovation.

- In advanced economies, the trend rate of GDP per capita growth declined after the global financial crisis. There is no reversal of this decline in the advanced economies in the latest OECD long-term baseline projections based on current policy settings (Guillemette and Château, 2023). OECD-wide average annual GDP per capita growth through 2060 is projected to be about 1.7%, in line with the post-2007 average. The slowdown reflects weaker investment growth and a slower pace of increase in total factor productivity. Population ageing will also weigh increasingly on potential output growth.

- While emerging-market and developing economies as a group continue to record faster growth in per capita incomes than advanced economies, the rate of income convergence has slowed in recent decades, and in some cases stopped altogether. Demographic headwinds are becoming increasingly important in a number of major countries, including China. In many countries, improving the operation and regulation of product and labour markets, including through lower barriers to trade and investment, and enhanced economic governance, are key priorities.

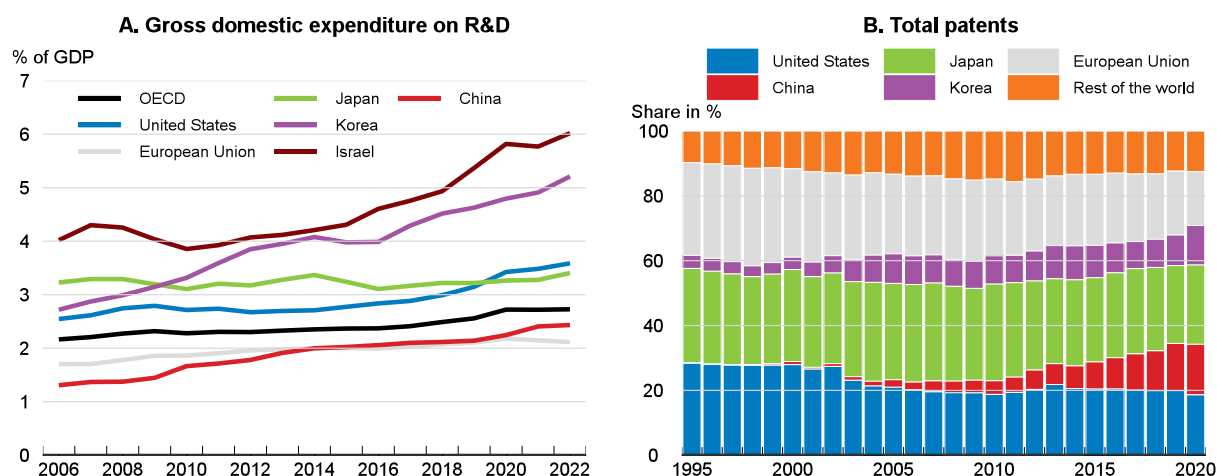
Although the main benefit of reforms should be felt gradually over a number of years, some timely and well-targeted policies could start to alleviate constraints even in the near term. For example, in countries experiencing labour shortages, greater immigration, targeted training and measures to increase labour force participation of women and older workers could boost output and reduce labour cost pressures. In so doing, they could also help to reduce public debt burdens, which surged during the pandemic. Such reforms are among the common priorities identified in *Going for Growth* (OECD, 2023c).

### *Innovation policies have a critical role in strengthening productivity*

Innovation is a key determinant of technological progress and productivity growth, increasingly so in knowledge-based economies. National innovation efforts reflect both domestic research expertise, research and development (R&D) and organisational know-how, and the ability to effectively adopt and adapt ideas and technologies developed in other countries. The latter is especially important for smaller economies, with the majority of R&D and patenting concentrated in a few large economies (Figure 1.29).


While the majority of research efforts are undertaken in the private sector, government policies have an important role to play in fostering innovation, particularly as the societal returns to innovation often exceed the private returns. Well-designed public support for R&D, whether for basic government-funded research, direct grants to businesses or R&D tax incentives, can strengthen innovation, with recent *Going for Growth* reform recommendations often focused on achieving a better balance between the two types of support for businesses and rigorous evaluation of grant programmes. As of 2020, government direct and indirect funding of business R&D was relatively small, at around 0.2% of GDP in the OECD as whole, but varied widely, being close to twice that amount in France, the United Kingdom and Austria, and almost zero in a number of smaller European countries, Chile, Colombia and Mexico (OECD, 2023d).

**Figure 1.29. Innovation efforts have improved over time but are highly concentrated across countries**



Note: Patent data based on IP5 patent families, by nationality of applicant.

Source: OECD Main Science and Technology Indicators database; and OECD calculations.

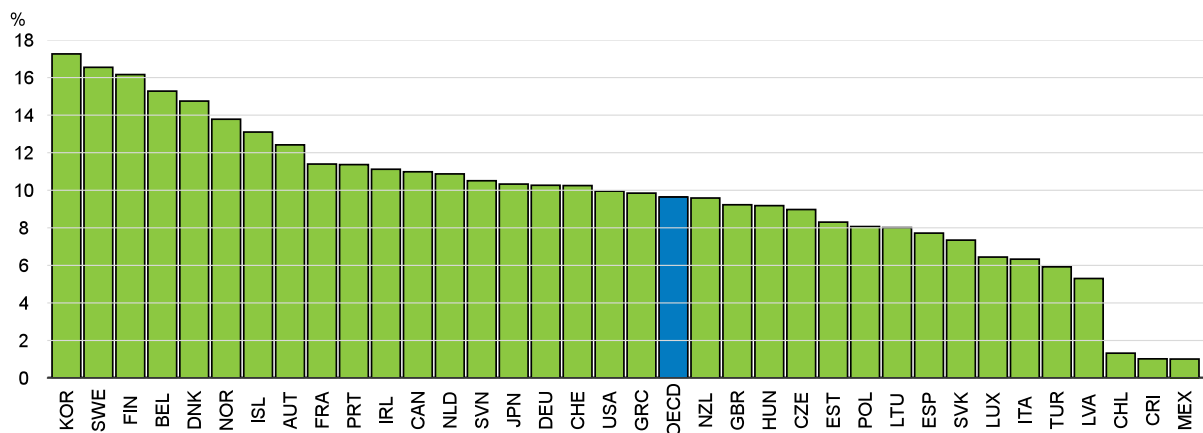
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Product, labour and financial market policies that encourage the entry of new firms and the reallocation of capital and jobs across firms, effective insolvency legislation that does not penalise entrepreneurial efforts, and well-designed science policies are all essential to help countries strengthen their innovative capacity. Training and education policies are also critical to help provide the skills required by companies and to equip people with the ability to effectively use new products and processes, including digital technologies. In this respect, the differences in the share of researchers in total employment across countries (Figure 1.30) may affect the ability to adopt new processes and technologies as well as domestic innovation activities. In many emerging-market economies, a key priority is to strengthen the ability to benefit from innovations elsewhere. To that end, skills linked to higher vocational education and training as well as primary and secondary education are critical.

It is also important to strengthen knowledge transmission through collaboration between firms and researchers at home and abroad, and between research institutes or universities and business. Such linkages also vary widely across countries, pointing to possible areas where reforms could be effective. In the OECD as a whole, around 8% of patents had foreign co-inventors in 2019, but the share was close to 25% in the median OECD economy, and over 40% in Belgium, Costa Rica, Ireland, Luxembourg and Switzerland.

A key unknown is the extent to which the generalised use of artificial intelligence (AI) could trigger an acceleration of innovation and improved trend productivity growth. The share of firms making use of AI has risen rapidly, with one survey suggesting that around one-third of businesses in the United States and the European Union made use of AI in 2023 (EIB, 2024). Most of these are large companies (Figure 1.31). There is evidence suggesting that the positive growth impact of AI could be sizeable for individual firms, but there is as yet no clear evidence of economy-wide effects (Filippucci et al., 2024). The net effect of AI will depend on many factors, including the extent to which new technologies are widely diffused or concentrated in a few leading firms, and the extent to which AI is labour enhancing as opposed to labour replacing. Apart from the implications for innovation and average productivity growth, the broader distributional and societal consequences of the generalised use of AI remain uncertain.

**Figure 1.30. The share of researchers in total employment varies widely across countries**



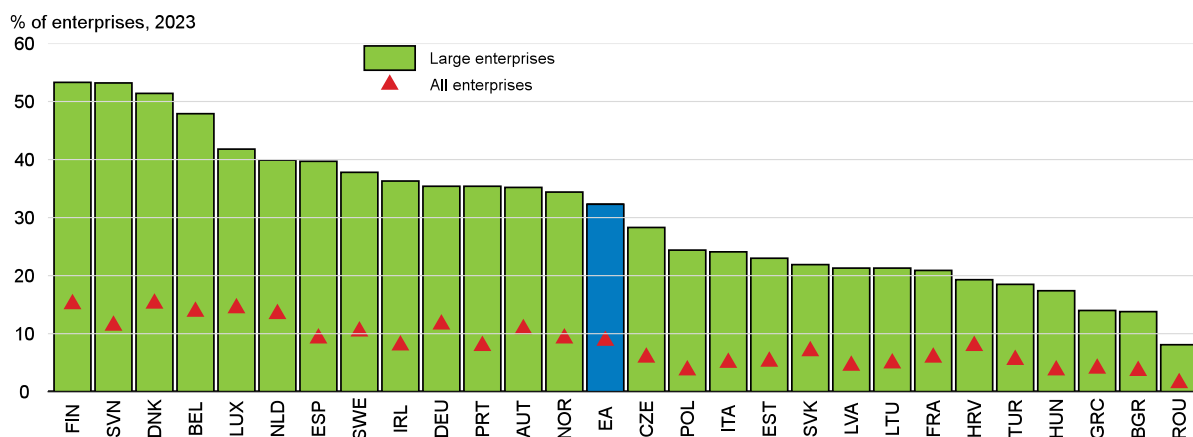
Note: "Researchers" denotes individuals employed in the public or the private sector to create new knowledge, products, processes and methods, as well as to manage the projects concerned.

Source: OECD Main Science and Technology Indicators; and OECD calculations.

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**Figure 1.31. Use of artificial intelligence technologies varies widely across firms**



Note: All enterprises cover enterprises with 10 employees or more. Large enterprises have 250 employees or more. Firms using at least one AI technology in 2023.

Source: Eurostat.

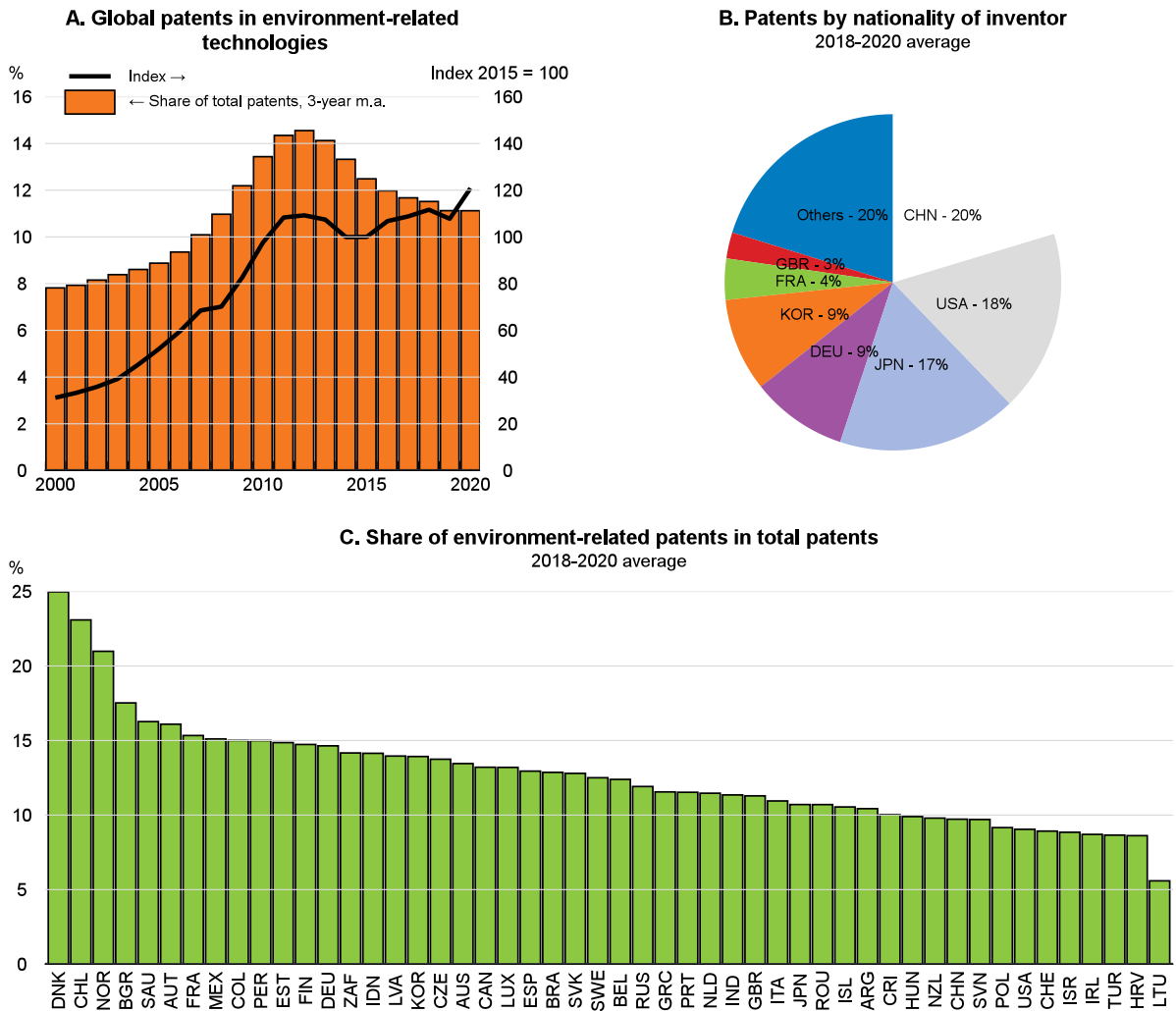
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### *Innovation is also an essential pillar of the green transition*

Innovation is also a key element of the green transition as it can reduce the investment costs of emissions-reduction policies and new technologies. Rapid advances made in renewable energy technologies have helped make renewables increasingly cost-competitive with fossil fuels (OECD, 2023e). One concern in this respect is that the rate of growth of environment-related technology patents has slowed and the share of these patents in total patents has declined (Figure 1.32, Panel A). With just seven countries accounting for the bulk of new patenting in these fields (Figure 1.32, Panel B), and with most countries having a relatively low degree of specialisation in environment-related innovation (Figure 1.32, Panel C), the ability to access technologies developed abroad is crucial. This underlines the importance of open trade and investment regimes in this area, as well as ensuring adequate skills development. Other potential policy options to support innovation include additional funding to help with the scaling up of major low-carbon technology projects at the demonstration phase, and focusing funding on innovative projects providing public goods or offering large, but uncertain, future payoffs (OECD, 2023e).

Innovation can also facilitate the climate transition by accelerating the adoption of digital and low-carbon technologies. Despite some recent improvements, the International Energy Agency estimates that, on the basis of currently stated policies, green investment in 2030 would be barely half of what is required to meet the objective of net zero emissions by 2050 (IEA, 2023). Increasing green and digital infrastructure investment, strengthening standards to enable a reduction in emissions, and raising the scope and level of carbon pricing are all key for mitigating climate change, with priorities varying across countries. With current mitigation policies falling short of what is needed to limit the rise in global temperatures, adaptation policies and strategies are also becoming increasingly urgent to help minimise the economic costs of climate change.

**Figure 1.32. Patenting of new environment-related technologies has slowed and is highly concentrated**



Note: Patents of environment-related technologies filed under the Patent Co-operation Treaty. Data are by the inventor(s) country (countries) of residence.  
 Source: OECD Patent Statistics; and OECD calculations.

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*Trade and industrial policies should ensure that markets are kept open*

Trade, industrial and innovation policy are inherently linked given the nexus between international and domestic competition and the importance of ensuring the unencumbered sharing and circulation of knowledge across countries (Millot and Rawdanowicz, 2023). Rules-based trade enables opportunities for all countries, provides the predictability and certainty needed for the private sector to invest and create jobs, and strengthens competition (OECD, 2023f). National and supranational competition and trade authorities have traditionally played a key role in setting and enforcing rules that ensure a level playing

field among firms, industries and countries. One example is the reform of state aid, which provides a set of objective qualification criteria (OECD, 2021a).<sup>19</sup>

The ongoing adjustment of value chains, weaker commitment to multilateral trading frameworks and trade and geopolitical tensions have resulted in trade, industrial and investment policies becoming more focused on strengthening national security, self-reliance and providing support for domestic companies. Such policies include innovation support, local content requirements, export controls and, increasingly, more stringent foreign investment screening measures.<sup>20</sup> These approaches raise the risks of retaliatory measures and of foregoing the knowledge and products that might otherwise flow across national borders to strengthen domestic innovation and productivity.

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<sup>19</sup> The OECD Guidelines for Recipient Country Investment Policies relating to National Security include the principles of non-discrimination, transparency, predictability, proportionality, and accountability in the application of safeguards for national security (OECD, 2009).

<sup>20</sup> International research cooperation, an avenue to acquire know-how outside of commercial acquisitions, is also being affected as foreign financing of research and the exchange of researchers comes under scrutiny (OECD, 2021b).

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

Fiscal policy settings for 2024-25 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. Unless otherwise announced, the phasing-out of any remaining energy-related support measures is assumed to be completed by end-2024 at the latest.

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 February and March 2024.

The projections assume unchanged exchange rates from those prevailing on 5 April 2024: one US dollar equals JPY 151.3, EUR 0.92 (or equivalently one euro equals USD 1.08) and 7.24 renminbi.

The price of a barrel of Brent crude oil is assumed to remain constant at USD 85 until the end of 2025. The TTF natural gas price is assumed to remain constant at EUR 25 MW/h until the end of 2025. Other commodity prices are assumed to be constant over the projection period at their average levels from March 2024. A technical assumption is made that the current disruptions to shipping in the Red Sea persist through 2024 and 2025.

The cut-off date for information used in the projections is 24 April 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. Developments in individual OECD and selected non-member economies**

# Argentina

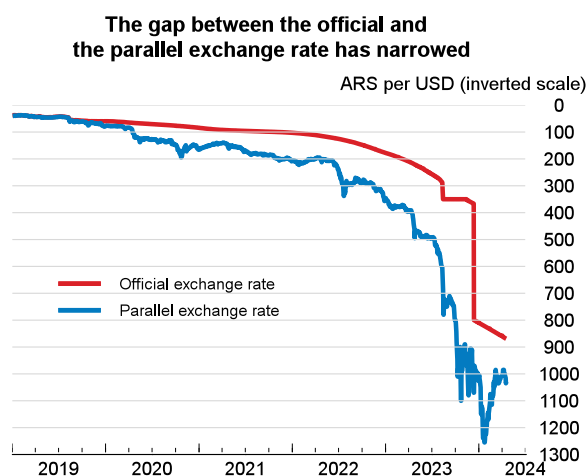
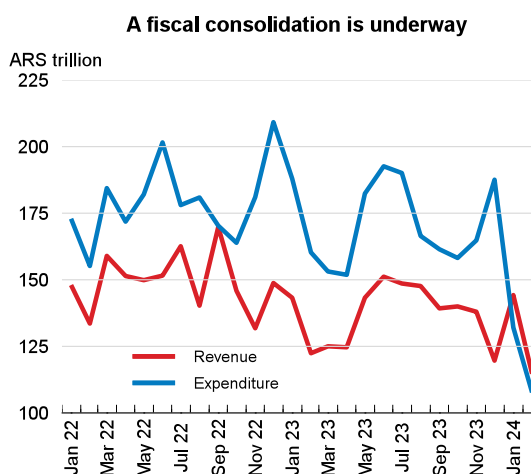
GDP is expected to contract by 3.3% in 2024, before growing by 2.7% in 2025. High inflation, a sizeable but necessary fiscal adjustment, and policy uncertainty will weigh on private consumption and investment for most of 2024. The gradual lifting of import restrictions and currency controls will eventually boost the recovery of domestic demand, particularly in 2025. Pent-up demand resulting from these restrictions will keep imports strong while exports will continue their robust recovery. Inflation is decelerating visibly, even if only gradually so far, but it is eventually projected to decline more sharply.

The announced fiscal consolidation should continue to be implemented. Together with an end to monetary financing and a stronger central bank balance sheet, this will restore macroeconomic stability and allow currency and capital controls to be lifted. Planned reforms to ease regulatory burdens, improve the business environment and open the economy to international trade would raise productivity and long-term growth, helping to curb poverty.


## Activity has contracted sharply

Activity contracted by 1.4% in the fourth quarter of 2023, despite a strong recovery of agricultural output. Industry, construction, retail sales, financial intermediation and utilities were the sectors most affected by fiscal adjustment and the erosion of real incomes that followed the 54% currency devaluation and subsequent inflation peak in December. As a result, GDP contracted 1.6% in 2023. The slowdown continued in January 2024 with a 4.3% contraction compared to the same period in the previous year. Annual inflation reached 288% in March, but monthly changes in prices have started to moderate.

## Argentina



Source: CEIC; OECD Exchange rate database; Central Bank of Argentina; and Ambito.com.

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



## Argentina: Demand, output and prices

	2020	2021	2022	2023	2024	2025
	Current prices ARS billion	Percentage changes, volume (2004 prices)				
<b>Argentina</b>						
<b>GDP at market prices</b>	27 209.8	10.7	5.0	-1.6	-3.3	2.7
Private consumption	17 878.1	10.4	9.7	1.1	-5.9	2.3
Government consumption	4 591.1	6.3	1.9	1.2	-8.4	-0.5
Gross fixed capital formation	3 886.2	33.8	11.1	-1.9	-5.0	4.9
Final domestic demand	26 355.5	13.0	8.6	0.6	-6.1	2.4
Stockbuilding <sup>1</sup>	36.1	-0.3	-1.0	-0.1	-1.0	0.0
Total domestic demand	26 391.6	13.3	7.8	0.4	-7.7	2.0
Exports of goods and services	4 518.3	8.5	5.8	-6.7	10.6	8.6
Imports of goods and services	3 700.1	20.4	17.9	2.2	-10.4	4.9
Net exports <sup>1</sup>	818.2	-1.4	-1.6	-1.4	2.8	0.4
<i>Memorandum items</i>						
GDP deflator	—	53.8	69.5	133.8	207.5	70.8
Consumer price index	—	48.0	72.4	134.5	208.1	71.2
Current account balance (% of GDP)	—	1.2	-0.6	-3.2	0.1	1.1

1. Contributions to changes in real GDP, actual amount in the first column.  
Source: OECD Economic Outlook 115 database.

StatLink  <https://stat.link/2z6rjk>

Regulated prices rose rapidly in early 2024. Price controls have been eased since December to correct relative price distortions, resulting in the adjustment of electricity and public transport tariffs, fuel prices, pre-paid medicines and rents. The current account deficit widened to 4% of GDP at the end of 2023. The net foreign currency reserves of the Central Bank remain slightly negative but have started to improve in 2024. This has so far mostly reflected temporary measures, but exports resulting from the ongoing soybean and maize harvest will bolster currency inflows further.

## Fiscal and monetary policies are tightening

The 2024 primary surplus target of 2% of GDP is consistent with a balanced overall budget. In the short run, consolidation efforts are focusing on cutting the size of the public administration including staff, increasing import taxes, phasing out energy and transport subsidies, cancelling public tenders and reducing discretionary transfers to provinces. This allowed primary budget surpluses in the first quarter of 2024, further supported by the erosion of real spending amid still high inflation and higher import taxes. The benchmark monetary policy rate fell from 133% in early December to 70% in April, resulting in negative real interest rates for most local currency assets. However, real monetary aggregates have been falling since December, suggesting a restrictive monetary policy stance, and the spread between the official and parallel exchange rates has narrowed.

## Restoring macroeconomic stability is essential for the recovery

The challenging domestic environment will weigh on activity for most of 2024. Falling real incomes will hit private consumption and uncertainty about the pace of reforms will hold back private investment. Public consumption and investment are expected to decline amid ambitious fiscal consolidation plans. Exports will recover as weather conditions improve and the real exchange rate becomes more competitive throughout the year. The gradual lifting of import restrictions and currency controls will eventually boost imports. Ongoing adjustment will put the economy on a more solid footing, underpinning a gradual recovery in late 2024 and in 2025. A more favourable business environment will help sustain the recovery of private investment, while lower inflation and gradually increasing real incomes will bolster private consumption.

Tighter fiscal policy and the end of monetary financing will support further declines in inflation. The current account balance will progressively improve as exports recover. Risks around this scenario remain substantial, however. Low foreign reserves, tight currency restrictions, and high inflation provide a volatile backdrop against which sudden currency depreciations and slow disinflation could trigger a prolonged recession. Slow implementation of reforms would delay the recovery.

### **Progress with structural reforms needs to be stepped up**

Additional fiscal measures are needed to reach the announced primary target, while preserving well-targeted benefits for vulnerable households. A credible medium-term fiscal strategy, relying on improvements in public spending efficiency, would sustainably improve macroeconomic stability. Efforts to bolster the central bank's balance sheet should continue, while strengthening its operational independence and governance. Accelerating the pace of monthly devaluations in the crawling peg currency regime may be required to preserve export competitiveness, accumulate foreign reserves, and eventually phase out capital and currency controls. Improving the business environment and strengthening competition, including through increased exposure to foreign markets, could raise productivity and exports and boost job creation and incomes, which in turn would help to reduce high poverty.

# Australia

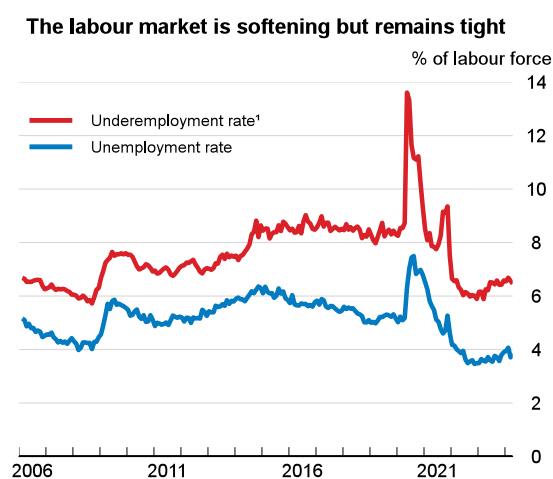
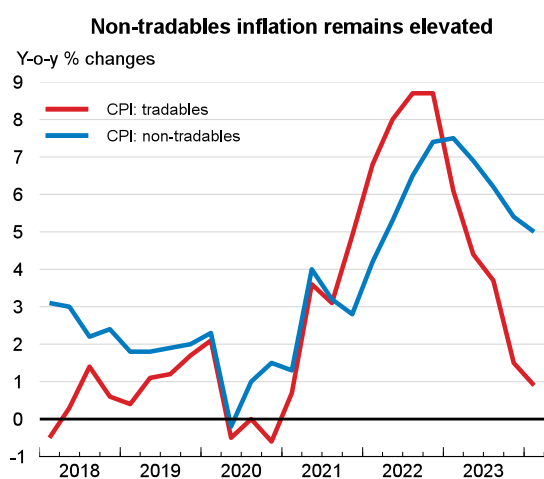
Real GDP growth is projected to slow to 1.5% in 2024 before recovering to 2.2% in 2025. The impact of higher interest rates will continue to damp spending by households and businesses over the coming year. The unemployment rate is projected to rise further, reaching 4.3% in 2025. Price pressures will continue to ease, although inflation of some services components is anticipated to remain elevated throughout 2024. A downside risk to economic growth is that taming stubborn services inflation may require tighter monetary policy than currently assumed.

Monetary policy should remain restrictive in the short term to tame inflation and the fiscal deficit should be narrowed in the coming years. Productivity-enhancing policy measures would boost medium-term economic growth prospects. Policies that help promote competitive markets, such as aligning product standards with other advanced economies, should be complemented by those that improve labour mobility, including eliminating unnecessary occupational licenses or unnecessary non-compete agreements in employment contracts.

## The economy is slowing but the labour market remains tight

Real GDP growth slowed to 0.2% in the fourth quarter of 2023. Consumption remained weak as spending on discretionary items fell by 0.9% in the quarter. Investment in private dwellings and machinery and equipment investment also declined. Tightness in the labour market has abated slightly, with the unemployment rate rising from its low of 3.5% in October 2022 to 3.8% in March 2024. Leading indicators, such as the index of forward orders from the National Australia Bank Business Survey, have eased. Nonetheless, spare capacity remains limited and growth in unit labour costs is still elevated compared with recent history. This is translating into relatively high inflation for labour-intensive items such as some market services. Past easing of global supply bottlenecks and fuel prices have caused inflation of tradable items to fall sharply.

## Australia



1. The underemployment rate counts part-time workers who would prefer to work additional hours and people who usually work full time, but are currently working part-time hours.

Source: Reserve Bank of Australia (RBS); and Australian Bureau of Statistics (ABS).

StatLink  <https://stat.link/as7jt0>

## Australia: Demand, output and prices

	2020	2021	2022	2023	2024	2025
	Current prices AUD billion	Percentage changes, volume (2021/2022 prices)				
<b>Australia</b>						
<b>GDP at market prices</b>	1 979.0	5.5	3.9	2.0	1.5	2.2
Private consumption	1 012.7	5.2	6.7	0.9	0.9	2.3
Government consumption	452.8	5.7	5.0	1.7	2.2	1.9
Gross fixed capital formation	444.1	10.7	2.3	5.4	2.1	1.7
Final domestic demand	1 909.6	6.6	5.3	2.2	1.5	2.1
Stockbuilding <sup>1</sup>	- 2.3	0.8	0.5	-0.9	-0.4	0.0
Total domestic demand	1 907.3	7.5	5.7	1.2	1.1	2.1
Exports of goods and services	436.6	-2.4	2.6	6.9	3.0	4.1
Imports of goods and services	364.8	5.0	12.6	3.2	1.0	3.9
Net exports <sup>1</sup>	71.8	-1.4	-1.7	1.2	0.6	0.2
<i>Memorandum items</i>						
GDP deflator	—	5.7	8.2	3.6	2.9	2.5
Consumer price index	—	2.8	6.6	5.6	3.4	2.9
Core inflation index <sup>2</sup>	—	2.4	5.9	5.8	3.4	2.9
Unemployment rate (% of labour force)	—	5.1	3.7	3.7	4.1	4.3
Household saving ratio, net (% of disposable income)	—	14.7	7.7	3.4	4.5	4.8
General government financial balance (% of GDP)	—	-4.0	-1.4	-0.8	-1.8	-1.7
General government gross debt (% of GDP)	—	62.3	54.9	55.3	57.0	58.6
Current account balance (% of GDP)	—	2.9	1.0	1.2	1.7	1.6

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 115 database.

StatLink  <https://stat.link/vw93rx>

Demand for Australian bulk commodities continued to expand through the end of 2023, despite a slowdown in the Chinese real estate sector. The RBA Index of Commodity Prices showed a 6.1% increase in bulk commodity prices (in Australian dollar terms) between July 2023 and March 2024. International student arrivals are now back to pre-pandemic levels, with strong growth having boosted education exports. Imports fell heavily in the fourth quarter of 2023 with a decline in tourism spending abroad.

## Monetary policy is restrictive but fiscal policy will support the economy in 2024

The Reserve Bank of Australia has kept the cash rate stable at 4.35% since November 2023. The projections assume that the cash rate will be held at this restrictive level until inflation is clearly declining to the target band, with 75 basis points of interest rate cuts assumed between the third quarter of 2024 and the end of 2025. The underlying budget deficit is projected to increase in 2024, as cuts to statutory personal income tax rates and changes to tax brackets come into effect. These measures return the proceeds from bracket creep in previous years to households, arising from a progressive personal taxation system that does not have indexation of tax thresholds. Fiscal policy is assumed to have a slightly expansionary influence on economic activity in 2024 before there is a modest fiscal contraction in 2025. A tightening of visa requirements in 2024, including on international students, is anticipated to weigh on further increases in population growth and education exports.

## Economic growth will increase in 2025

Real GDP growth is projected to slow to 1.5% in 2024 before recovering to 2.2% in 2025. The accumulated impact of higher interest rates and cost of living pressures will continue to damp spending by households and businesses over the coming year. The unemployment rate is projected to rise moderately, reaching

4.3% in 2025, helping to ease wage pressures. Price pressures will ease further, although some services components are expected to continue experiencing strong inflation throughout 2024. A downside risk to economic growth is that stubbornly high market services inflation requires tighter monetary policy than currently assumed. A sharper than expected slowdown in the Chinese economy would also weaken demand for Australian exports. An upside risk to both economic growth and inflation is stronger than anticipated consumption if households delay rebuilding savings as real disposable income recovers.

### **Productivity-enhancing reforms could support the recovery**

Monetary policy should remain restrictive in the short-term to tame inflation and the fiscal deficit should be narrowed in the coming years. With fiscal pressures related to ageing and the climate transition ahead, reforms will be needed to promote medium-term fiscal sustainability. These include tangible measures to slow growth in National Disability Insurance Scheme costs, potentially through better clarity on the eligibility and scope of support packages, as well as improved scheme administration. Productivity-enhancing reforms can set the economy up for a period of sustained economic growth. For instance, greater flexibility in land zoning systems would improve the ability of new businesses to enter and grow in desirable locations and increase competition in the business sector. So too would efforts to further align product standards with other advanced economies. Reducing barriers to labour mobility would support efficient resource allocation, including the elimination of unnecessary occupational licenses or unnecessary non-compete agreements in employment contracts.

# Austria

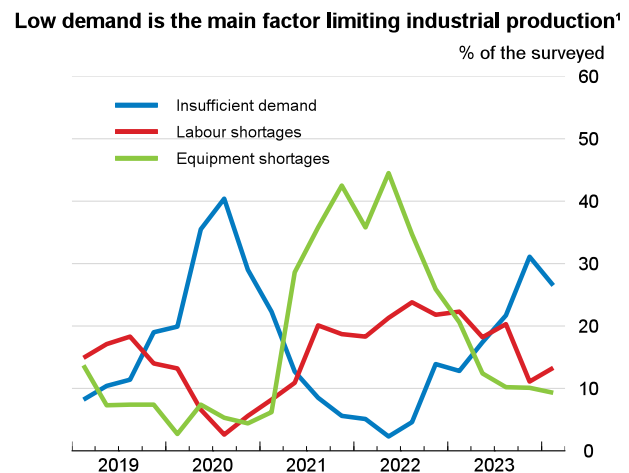
Growth will gradually pick up to 0.2% in 2024 and 1.5% in 2025, following a contraction of 0.7% in 2023. While private consumption will gather strength with rising real wages, investment will remain weak because of high borrowing costs and rising labour costs. Unemployment is set to rise somewhat in 2024. Inflation will decrease steadily but remain above 2%. Further easing of the labour market is possible given extensive labour hoarding, and weak external demand or high cost pass-through could diminish exports.

The fiscal deficit will remain broadly constant over the projection period. The phasing out of crises-related support will be offset by increasing public wages and social benefits, and new discretionary measures. Keeping the public deficit stable in the short term is appropriate while demand is weak, but stronger consolidation is needed over the medium term to contain interest payments and public debt. Easing regulatory burdens on services and activating underrepresented groups in the labour market, including women and older cohorts, would strengthen the economy's resilience.

## Economic activity has reached a trough

The economy contracted in 2023, but high-frequency indicators suggest that activity has bottomed out. High prices weighed on consumption, but wages are catching up. Consumer confidence is picking up. However, tight financial conditions and weak demand are still hampering investment. External demand was subdued, although exports of intermediate goods picked up in the last quarter. Inflation fell to 4.1% in March thanks to lower energy prices but remains among the highest in Europe. The unemployment rate is low, but the labour market has started to ease, especially in manufacturing.

## Austria



1. The surveyed firms respond to the question: What main factors are currently limiting your production?

Source: OECD Economic Outlook 115 database; and EU harmonised business surveys.

## Austria: Demand, output and prices

	2020	2021	2022	2023	2024	2025
	Current prices EUR billion	Percentage changes, volume (2015 prices)				
<b>Austria</b>						
<b>GDP at market prices*</b>	380.4	4.4	4.8	-0.7	0.2	1.5
Private consumption	189.7	4.0	5.8	-0.2	0.9	1.9
Government consumption	80.3	7.7	0.1	-0.4	0.1	0.8
Gross fixed capital formation	95.2	6.0	0.3	-2.2	-0.4	1.2
Final domestic demand	365.3	5.3	3.1	-0.8	0.4	1.5
Stockbuilding <sup>1</sup>	3.1	1.2	-0.3	-0.9	0.0	0.0
Total domestic demand	368.3	6.5	2.7	-1.6	0.5	1.5
Exports of goods and services	195.5	9.4	11.7	0.3	2.6	2.7
Imports of goods and services	183.4	14.0	8.1	-1.4	3.5	2.8
Net exports <sup>1</sup>	12.0	-1.9	2.1	1.0	-0.4	0.0
<i>Memorandum items</i>						
GDP deflator	–	2.1	5.3	7.6	4.3	2.8
Harmonised index of consumer prices	–	2.8	8.6	7.7	3.7	2.9
Harmonised index of core inflation <sup>2</sup>	–	2.3	5.1	7.3	4.3	2.9
Unemployment rate (% of labour force)	–	6.2	4.7	5.1	5.5	5.4
Household saving ratio, net (% of disposable income)	–	11.2	9.2	9.0	8.9	9.0
General government financial balance (% of GDP)	–	-5.8	-3.3	-2.7	-2.8	-2.7
General government gross debt (% of GDP)	–	105.4	83.8	84.5	84.5	84.9
General government debt, Maastricht definition <sup>3</sup> (% of GDP)	–	82.5	78.4	77.7	77.7	78.1
Current account balance (% of GDP)	–	1.6	-0.3	2.7	2.3	2.1

\* 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 115 database.

StatLink  <https://stat.link/lqvm09>

The slowdown in global merchandise trade and weakness of economic activity in Europe, particularly Germany, which is the destination for more than 30% of Austrian exports, have hampered export growth. Still, Austria's volumes of goods exports have performed better than other euro area countries helped by lower relative exposure to China, a specialisation in specific niches of the machinery and vehicle industry, and lower profit margins set by exporters.

## The public deficit will remain high

High interest rates are still passing through into borrowing costs, weighing on investment and activity, particularly in the construction sector. An increase in perceived corporate risk and a fall in collateral values have contributed to a slowdown in bank credit to companies. Demand for housing loans has weakened since the second half of 2022. The public deficit is expected to stabilise at 2.8% of GDP in 2024 and 2.7% in 2025, with a mild tightening of the fiscal stance. Lower crises-related support is offset by new discretionary spending and cost increases due to inflation. On the expenditure side, pandemic-related outlays (0.4% of GDP in 2023) are effectively phased out in 2024. The energy price subsidy for companies will also be withdrawn in 2024, and the electricity price brake for households in 2025. In parallel, social benefits and public labour compensation will increase, reflecting past inflation. Additional discretionary expenditures are expected, including from a new financial equalisation agreement. On the revenue side, tax revenues will benefit from the pick-up in consumption, higher nominal wages and relatively stable employment. Increased carbon pricing will also boost revenues, but the introduction of indexation of tax brackets to inflation and a scheduled reduction in tax rates will constrain income tax revenues. Maintaining

a stable public deficit in the short term while demand is weak is appropriate, but a stronger medium-term plan is needed to reduce the deficit and the debt level as the economy picks up.

### **The economy will recover only slowly**

Output growth will gradually recover to 0.2% in 2024 and 1.5% in 2025, as disinflation continues and interest rates start declining. Private consumption will gain traction in 2024 due mostly to higher real wages, reflecting the pass-through of past inflation into wages. Private investment will remain restrained by tight financial conditions and higher labour costs. The labour market will loosen in 2024, with unemployment projected to increase to 5.5% in 2024. An easing of monetary policy and the global recovery will help bring GDP growth above potential in 2025. Disinflation will be slowed by sticky inflation in core services. Risks to the projections are skewed to the downside. Low levels of hours worked suggest that the extent of labour hoarding is potentially high. Austria is susceptible to a further slowdown in global trade. In addition, the pass-through of domestic costs to export prices may accelerate, damping competitiveness.

### **Structural reforms are needed to make the economy resilient**

Capacity to adapt to future shocks and address structural challenges needs to rise. Easing entry requirements into certain professional services could help revive business dynamism. Expanding high-quality preschool education facilities and further strengthening incentives for more balanced use of parental leave between mothers and fathers would raise employment rates. Labour force participation would also be promoted by shifting taxation from labour to other bases, including carbon and property taxation. These measures, along with the containment of aging-related spending via increased retirement ages and a shift of health services from hospital to primary care, would support the long-run sustainability of public finances.



# Belgium

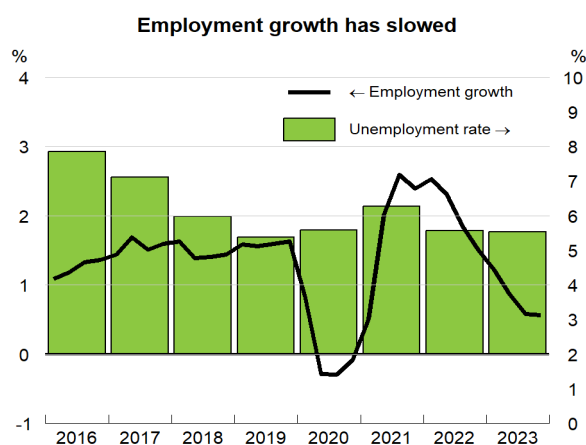
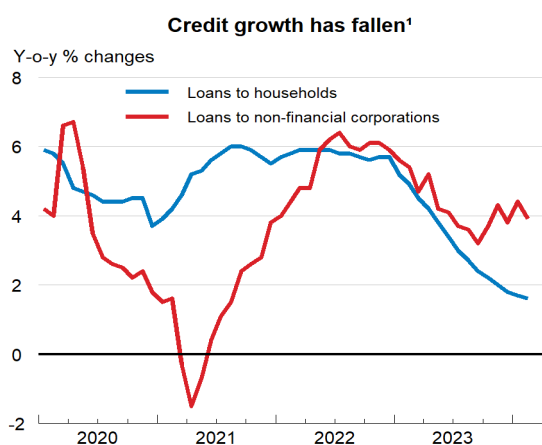
Real GDP is projected to grow by 1.3% in 2024 and 1.4% in 2025. Subdued global trade in 2024 and high interest rates are expected to weigh on investment and net exports. The effect of the automatic indexation of incomes on household consumption will begin to dissipate and employment growth will slow. Investment should recover in 2025 as external demand strengthens and inflation and financing conditions ease, spurring domestic activity. Headline inflation is projected to rise to 3.6% in 2024, before dropping to 1.9% in 2025 as economic slack reduces underlying pressures.

The fiscal deficit is expected to widen in 2024, but mild consolidation is expected in 2025, as the new government tackles the high debt burden and new EU fiscal rules come into effect. A coordinated, medium-term consolidation plan across all federated entities is needed to ensure public finance sustainability. Shifting taxation away from labour towards capital and encouraging greater participation of older workers in lifelong learning would enhance labour supply.

## Economic growth has slowed

GDP growth slowed in 2023 with fourth quarter growth at 0.4%. The automatic indexation of wages and transfers, alongside a robust labour market, has preserved household purchasing power. However, employment growth has slowed, and high borrowing costs and weak confidence are damping domestic activity. Housing investment fell by 2.7% in the fourth quarter of 2023 and industrial production fell in February for the 15th consecutive month. Industrial capacity utilisation is low and export orders are trending down. Consumer confidence is weakening, although it remains slightly above the long-term average. Annual headline inflation has fallen to 3.8% in March, mainly due to lower energy prices, but remains above late-2023 levels. Core inflation remains high, at 3.9% in March, but has continuously declined since March 2023, as raw material prices subside and second-round effects from wage indexation diminish.

## Belgium



1. The credit data cover securitised or otherwise transferred loans in nominal terms (EUR, millions).

Source: OECD Economic Outlook 115 database; and National Bank of Belgium.

StatLink  <https://stat.link/tc6di3>

## Belgium: Demand, output and prices

	2020	2021	2022	2023	2024	2025
	Current prices EUR billion	Percentage changes, volume (2015 prices)				
<b>Belgium</b>						
<b>GDP at market prices</b>	460.7	6.9	3.0	1.5	1.3	1.4
Private consumption	227.5	6.3	3.2	1.4	1.8	1.7
Government consumption	112.4	5.2	4.2	0.4	1.9	0.5
Gross fixed capital formation	110.9	5.0	-0.2	3.3	0.0	2.8
Final domestic demand	450.9	5.7	2.6	1.6	1.4	1.7
Stockbuilding <sup>1</sup>	0.7	0.4	0.4	0.3	0.1	0.0
Total domestic demand	451.5	6.0	3.0	1.9	1.4	1.7
Exports of goods and services	362.3	13.9	4.9	-3.3	-1.4	1.8
Imports of goods and services	353.1	13.0	4.9	-2.8	-1.3	2.1
Net exports <sup>1</sup>	9.2	0.9	0.1	-0.5	-0.2	-0.2
<i>Memorandum items</i>						
GDP deflator	–	3.2	5.9	3.7	2.9	2.3
Harmonised index of consumer prices	–	3.2	10.3	2.3	3.6	1.9
Harmonised index of core inflation <sup>2</sup>	–	1.3	4.0	6.0	3.3	1.8
Unemployment rate (% of labour force)	–	6.3	5.6	5.5	5.8	5.6
Household saving ratio, net (% of disposable income)	–	10.3	5.7	7.1	6.6	6.4
General government financial balance (% of GDP)	–	-5.4	-3.6	-4.5	-4.7	-4.3
General government gross debt (% of GDP)	–	129.2	104.2	105.0	106.7	108.3
General government debt, Maastricht definition <sup>3</sup> (% of GDP)	–	108.0	104.3	105.2	106.9	108.5
Current account balance (% of GDP)	–	1.3	-1.0	-1.0	-0.2	-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 115 database.

StatLink  <https://stat.link/vu5rwy>

Weak global trade led to a fall in exports of 3.3% in 2023, amplified by the deterioration in Belgium's competitive position. Unit labour costs have increased significantly due to the automatic indexation of wages. Retail energy prices have fallen substantially, but electricity transmission tariffs are set to rise on average by 77% over 2024-27, which will impact households. Food prices are also rising faster than in European neighbours, adding persistence to headline inflation.

## Fiscal consolidation will commence in 2025

The fiscal deficit increased in 2023 and will widen again in 2024 under current policies. The debt ratio is on a rising path, and financing conditions will remain tight, although sovereign bond spreads have so far remained relatively stable. Belgium's federal and regional governments have recently made efforts to lengthen the maturity of their public debt. Upcoming elections in June and subsequent coalition negotiations make near-term consolidation unlikely. However, the fiscal stance should turn contractionary from 2025, as the new EU fiscal rules take effect.

## Economic activity will remain resilient

Real GDP is projected to grow by 1.3% in 2024 and 1.4% in 2025. Household consumption will provide support in early 2024 but is expected to slow, as the effect of automatic wage indexation fades and employment growth moderates. Weak global trade and reduced cost competitiveness will continue to bear down on exports, while tight financial conditions will hold back business and housing investment. As inflation and financial conditions ease, domestic activity and investment should recover in 2025. Exports

will also pick up, as external demand improves and labour cost growth moderates. Headline inflation is projected to rise to 3.6% in 2024 on the back of rising energy prices, before falling to 1.9% in 2025 due to wage moderation and remaining economic slack. Key risks to the outlook include a further loss of price competitiveness due to persistent inflation and subsequent wage growth.

### **Putting debt on a sustainable track**

The energy crisis has left Belgium with one of the largest debt-to-GDP ratios in the European Union. Most of this debt is concentrated at the federal level, but an increasing contribution is from the regions and communities. Renewed effort towards more coordinated medium-term consolidation is needed, as age-related costs and the climate transition pose significant spending pressures across all federated entities. Belgium needs to commit to a multi-year downward trajectory for its public debt and deficit as part of new EU fiscal rules. Increasing the use of comprehensive spending reviews would help achieve budgetary savings, which is also needed to create space for public investment in the climate transition. Shifting taxation away from labour towards capital would reduce disincentives to work and help to broaden the tax base. Raising the low participation of older workers in lifelong learning could reduce early labour market exit and enhance productivity.

# Brazil

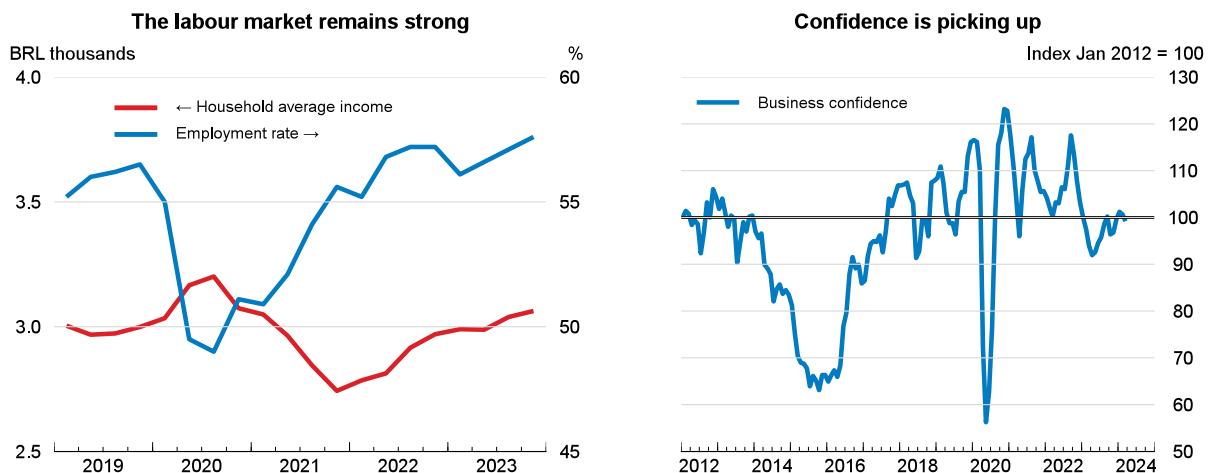
Real GDP is projected to grow by 1.9% in 2024 and 2.1% in 2025. Buoyed by robust employment growth, minimum wage increases and diminishing inflation, household spending is expected to be the main engine of growth, particularly in 2024. Despite recent signs of a rebound, continued external uncertainty will keep private investment subdued throughout 2024. Inflation, which declined continuously throughout 2023, is projected to continue to converge towards the target during 2024 and 2025.

Monetary policy easing is expected to continue throughout 2024 amid declining inflation. Fiscal policy remains supportive but is set to consolidate in 2024 to achieve the primary target required by the new fiscal framework. The recently approved value-added tax reform has the potential to boost firm productivity and potential growth. Additionally, the planned establishment of a national carbon market can play a pivotal role in curbing deforestation, including in the Cerrado savannah, home to 45% of Brazilian agriculture and livestock farming. Better access to early childhood education would facilitate labour market participation for women and reduce gender disparities.


## Economic activity is picking up slowly

The economy experienced a significant deceleration in the second half of 2023 from robust growth earlier in the year. Leading indicators indicate a gradual rebound in the first half of 2024. Retail trade rebounded sharply in January and February, influenced by lower inflation and improvements in credit and job markets. The services sector experienced significant growth in January helped by government payments of judicial orders, but was negatively influenced by the transportation sector in February. Industrial production contracted in January and February and still falls short of pre-pandemic levels. Agricultural production is expected to decline by 2.8% compared to an exceptionally strong 2023 due to excessive rainfall in the South of the country and periods of drought with high temperatures in the North and Centre-West. Despite this, the labour market remains robust, with the unemployment rate at 7.6% in February, down from nearly 15% in mid-2021, while employment and the wage bill are both rising.

### Brazil 1



Source: IBGE; and CEIC.

StatLink  <https://stat.link/rxyqt6>

## Brazil: Demand, output and prices

	2020	2021	2022	2023	2024	2025
	Current prices BRL billion	Percentage changes, volume (2000 prices)				
<b>Brazil</b>						
<b>GDP at market prices</b>	7 609.6	5.1	3.1	2.9	1.9	2.1
Private consumption	4 805.0	3.0	4.1	3.1	2.3	2.2
Government consumption	1 532.2	4.2	2.1	1.7	2.5	1.5
Gross fixed capital formation	1 260.2	13.0	1.0	-2.9	0.7	1.6
Final domestic demand	7 597.4	4.9	3.2	1.8	2.0	2.0
Stockbuilding <sup>1</sup>	- 33.9	2.0	-0.9	-0.8	-0.7	0.0
Total domestic demand	7 563.6	6.8	2.2	0.9	1.4	2.0
Exports of goods and services	1 252.0	5.0	6.2	9.1	4.6	3.5
Imports of goods and services	1 206.0	13.8	0.7	-1.1	1.8	2.5
Net exports <sup>1</sup>	46.0	-1.4	1.0	2.0	0.5	0.2
<b>Memorandum items</b>						
GDP deflator	—	12.7	8.5	4.7	5.4	4.3
Consumer price index	—	8.3	9.3	4.6	4.0	3.3
Private consumption deflator	—	11.8	10.4	4.9	5.0	4.5
General government financial balance (% of GDP)	—	-4.5	-4.5	-8.7	-6.4	-6.1
Current account balance (% of GDP)	—	-2.8	-2.5	-1.3	-1.5	-1.4

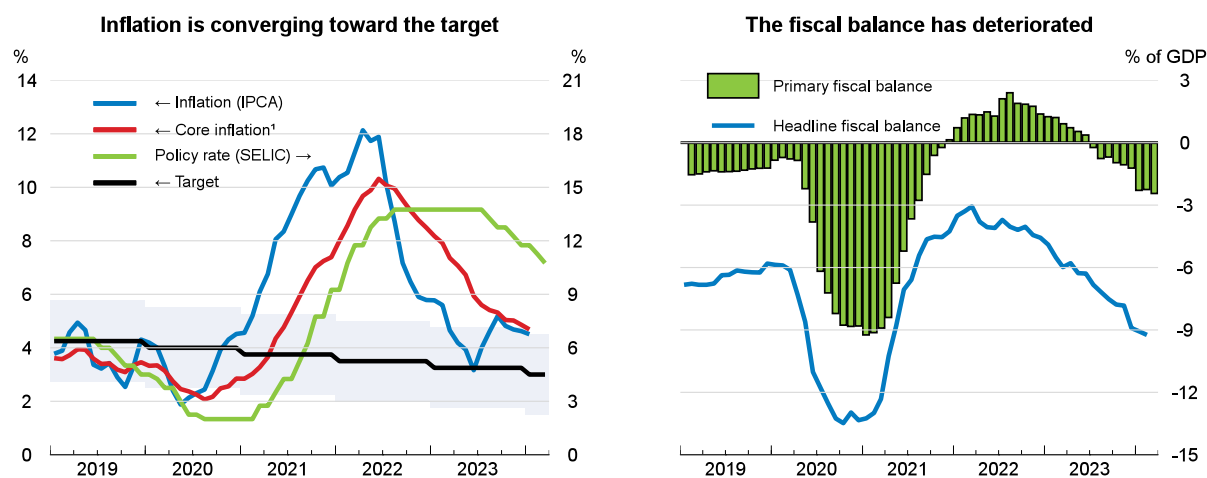
1. Contributions to changes in real GDP, actual amount in the first column.

Source: OECD Economic Outlook 115 database.

StatLink  <https://stat.link/59fj86>

Inflation was 3.9% in March, down from 4.5% in January. Inflation slowed primarily for housing, household furniture and notably for education. Price increases for food, beverages and transport are now slowing, after climate events put pressure on food and beverage prices in the latter part of 2023. The overall trend indicates a likely further decline in inflation over the year. Core inflation is decreasing, reaching 4.3% in March, down from 5.1% in January.

## Brazil 2



1. Core inflation excludes energy and food products. The shaded area corresponds to the inflation tolerance band.

Source: OECD Economic Outlook 115 database; and Banco Central do Brasil.

StatLink  <https://stat.link/9inf6g>

## Fiscal policy is struggling to meet consolidation targets

With inflation continuing to decline, the Central Bank has eased monetary policy, lowering the policy rate from 13.75% in July 2023 to 10.75% in March 2024. As inflation decreases further, additional policy rate cuts are expected, reducing the rate to 8.75% by the end of 2024 and 8.25% by the latter half of 2025. However, the pace of rate cuts may be affected by external developments and fiscal slippages, which could affect the exchange rate and inflation dynamics.

Fiscal policy expanded in 2023, leading to a deterioration in the primary balance from a surplus of 0.5% of GDP in 2022 to a deficit of 2.1% of GDP in 2023. The new fiscal framework mandates a balanced primary budget in 2024. Uncertainty regarding the amount that newly implemented tax measures will raise and spending pressures in health care and education may cast doubt on the ability to meet the fiscal target for 2024. Gross public debt is set to rise slightly, as even a balanced primary budget would fall short of stabilising the debt level at the current 75% of GDP.

## Growth will pick up

Growth will rise to 1.9% in 2024 and 2.1% in 2025, with domestic demand as the main driver. Investment is expected to improve as financial conditions ease and business confidence strengthens. Household consumption is poised to remain robust, supported by an increasing wage bill and stronger job creation. On the supply side, agricultural output is expected to fall short of last year's record harvest amid less favourable weather conditions. Inflation, which averaged 4.6% in 2023, is projected to decrease to 4.0% in 2024 and 3.3% in 2025, converging to the 3% target in 2025. As some of the temporary drivers of inflation have already receded, the pace of disinflation is now expected to slow, with temporary upticks in inflation not ruled out, including due to developments in agriculture that affect food and beverage prices.

Economic risks are tilted to the downside. Geopolitical tensions and slower growth in China, a key trading partner of Brazil, could dampen external demand. A worsening fiscal balance could add to inflationary pressures and delay further reductions in the policy rate, thereby holding back investment and consumption. Conversely, successful implementation of the tax reform could enhance confidence and stimulate economic activity.

## Fiscal consolidation is needed to restore confidence

The key to restoring confidence in the public finances lies in meeting the primary balance target and implementing the new fiscal framework. The unified value-added tax system adopted in December will simplify the taxation of goods and services, reduce tax compliance costs of businesses and contribute to stronger confidence. It will also lower the cost of the consumption basket for low-income households. A broader fiscal policy reform would help to create fiscal space and enhance debt sustainability. On the spending side, reforming automatic spending rules could provide more flexibility for fiscal policy to pursue policy priorities. On the revenue side, the progressivity of income taxes could be strengthened by limiting the deductibility of private health and education expenses and reducing tax loopholes. 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. Similarly, reallocating active labour market spending from employment subsidies to high-quality training in line with labour market needs would enhance labour matching. Access to foreign markets and deeper integration into global value chains could be facilitated by lowering trade barriers. Import tariffs and non-tariff barriers, including widespread local content requirements, could be reduced further. Addressing infrastructure gaps in transport, water and sanitation would improve the competitiveness of Brazilian firms and improve access to basic services for more of the population. Stronger enforcement of environmental protection laws including the Forest Code will be crucial to combat deforestation. Tying subsidised agricultural credit to the use of low-carbon practices could help to combat deforestation and reduce emissions.

# Bulgaria

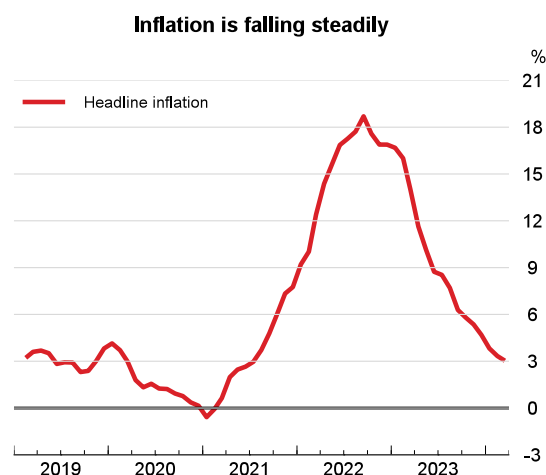
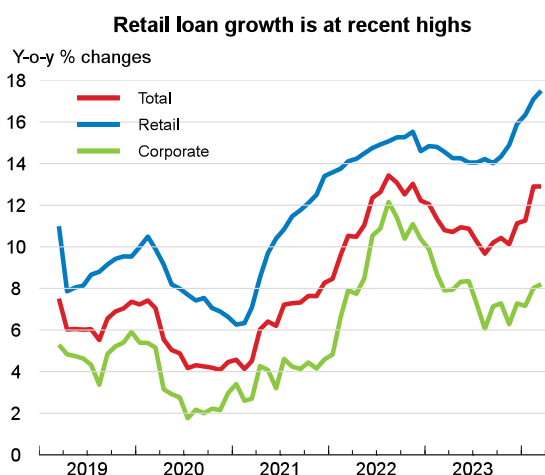
Growth is expected to strengthen to 2.5% in 2024 and 2.9% in 2025, as government investment picks up, along with the rollout of EU funds. Private consumption growth will moderate, but it will remain strong, supported by high wage and credit growth. Improving external conditions and easing constraints on production are expected to lift trade volumes. While headline inflation has been slowing, high wage growth is an obstacle to faster disinflation. Continued political uncertainty places planned reforms and investments at risk.

Interest rates have followed those in the euro area, consistent with the currency board, but transmission to the Bulgarian economy is slow and incomplete, contributing to a household credit boom. Further macroprudential measures should be deployed to slow the pace of loan growth. The fiscal deficit is set to widen substantially with further rises in spending in 2024. A more prudent fiscal policy would therefore be warranted to manage demand and prepare for longer-run challenges. Commitments to fully implement Recovery and Resilience Facility reform measures and a comprehensive green transition roadmap would allow Bulgaria to boost trend growth and green the economy.

## Recent growth has been driven by consumption and investment

Bulgaria grew by 1.8% in 2023, driven by consumption and investment. High wage growth and low interest rates have underpinned the dynamism of domestic consumption. The slow and incomplete transmission of euro area monetary policy tightening, together with high inflation, have led to an acceleration in household credit. Loan growth was particularly strong in the housing sector with annual mortgage loan growth in excess of 20% for three straight months in the first quarter of 2024. Industrial production remains weak. Annual inflation has fallen from 14% in March 2023 to 3% in March 2024.

## Bulgaria



Source: Bulgaria National Bank; and National Statistical Institute.

StatLink  <https://stat.link/y5hpdf>

## Bulgaria: Demand, output and prices

	2020	2021	2022	2023	2024	2025
	Current prices BGN billion	Percentage changes, volume (2015 prices)				
<b>Bulgaria</b>						
<b>GDP at market prices</b>	120.5	7.7	3.9	1.8	2.5	2.9
Private consumption	70.3	8.5	3.8	5.4	3.6	3.5
Government consumption	11.7	4.3	4.4	2.2	5.0	3.8
Gross fixed capital formation	23.0	-8.3	6.5	3.3	3.9	5.6
Final domestic demand	105.0	4.1	4.4	4.6	3.8	4.0
Stockbuilding <sup>1</sup>	13.2	4.8	2.4	-6.4	-0.7	0.0
Total domestic demand	118.2	8.5	6.2	-2.7	2.7	3.6
Exports of goods and services	67.6	11.2	11.6	-1.9	2.3	4.0
Imports of goods and services	65.3	10.7	15.0	-6.3	4.1	5.2
Net exports <sup>1</sup>	2.3	0.4	-1.8	3.0	-1.0	-0.6
<i>Memorandum items</i>						
GDP deflator	–	7.1	16.2	7.5	3.1	2.3
Consumer price index	–	3.3	15.3	9.5	3.0	2.8
Core consumer price index <sup>2</sup>	–	1.4	7.6	8.9	3.2	2.8
Unemployment rate (% of labour force)	–	5.3	4.1	4.3	4.2	4.0
Household saving ratio, net (% of disposable income)	–	4.2	0.6	1.1	4.4	4.1
General government financial balance (% of GDP)	–	-3.9	-2.9	-1.9	-2.9	-3.1
General government gross debt (% of GDP)	–	35.1	32.1	32.3	34.6	37.2
General government debt, Maastricht definition <sup>3</sup> (% of GDP)	–	23.9	22.6	23.1	25.3	28.0
Current account balance (% of GDP)	–	-1.7	-1.4	-0.3	-0.7	-1.2

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

2. Consumer price index excluding food and energy.

3. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.

Source: OECD Economic Outlook 115 database.

StatLink  <https://stat.link/502sew>

Trade volumes have shown signs of recovery in 2024. Export volumes declined in 2023 reflecting both external demand weakness and supply-side constraints in industrial production. These factors also contributed to the decline in import volumes during the same period, which was driven by a sharp decline in imports of raw materials. The switch away from Russian crude, maintenance work in one of Bulgaria's main nuclear power plants and declining energy prices have damped the value of energy exports.

## Fiscal policy is expansionary

Interest rate developments will continue to follow euro area monetary policy, given the currency board regime and planned euro adoption. The deficit is currently at moderate levels but is set to widen significantly. The 2024 budget targets a 12.1% nominal spending increase with the growth in spending reflecting higher social transfers, including an 11% increase in minimum pensions along with a steep rise in public sector salaries. Higher capital spending for municipal infrastructure projects and defence are also envisioned. Reduced VAT rates for bread, flour, and restaurant and catering services remain in place, but these temporary fiscal support measures will be withdrawn by year-end.



## Growth is expected to recover

Growth is set to rebound to 2.5% in 2024 and 2.9% in 2025. Low unemployment and high wage growth will help to support consumption. Receipt of the second tranche of EU funds, totalling EUR 724 million (0.7% of GDP) this year, is expected to boost public and private investment. Exports should recover in line with external developments. Inflation is set to slow to 3% in 2024, driven by declines in global food and energy prices along with announced measures by the government to cover the cost of university tuition and cardiovascular medicines, but core inflation will be sustained by high nominal wage growth. Elevated wage pressures, paired with persistent labour shortages, will make it more difficult to bring inflation in line with that of other eurozone countries, with headline inflation projected to be 2.8% in 2025. Difficulties and delays in the passage of reforms required to release EU funds risk a reduction in fund amount and complementary investments.

## Further macro-prudential policy and a more prudent fiscal policy is warranted

Macroprudential measures, including a tightening of loan-to-value ratios, or measures to withdraw excess liquidity are needed to reduce growing credit risk. Given strong growth in the economy and low interest rates, a more prudent fiscal policy is warranted. Revisions of the current minimum wage indexation mechanism to slow the pace of wage growth, and to reflect industry and regional income differences would help to maintain competitiveness. Further steps to reduce the size of the informal sector can enhance revenue mobilisation and raise productivity. Fiscal resources should be redirected towards activation policies and efforts to enhance workforce skills. A commitment to implement thoroughly the agreed reform milestones of the Recovery and Resilience Facility is needed to unlock and reap the full benefits. An overarching governmental strategy to motivate green transition policies, complementing the ongoing rollout of RRF funds, would help to achieve climate objectives.

# Canada

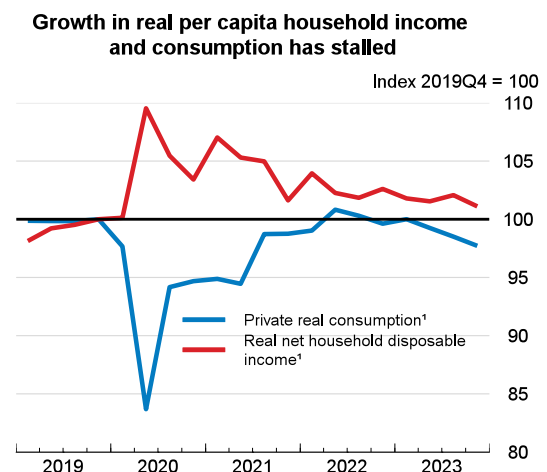
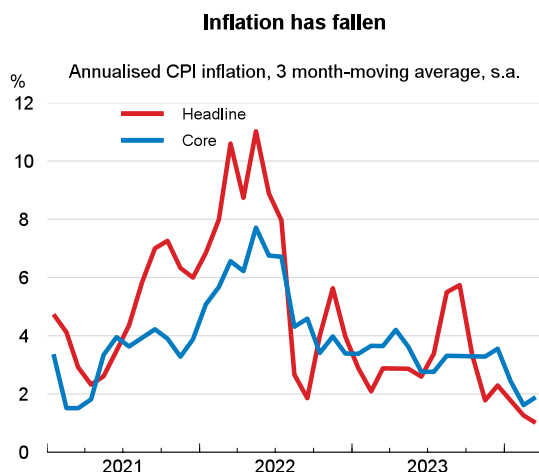
Real GDP growth will pick up from 1% in 2024 to 1.8% in 2025, reflecting strengthening global conditions, the boost to private spending and labour supply from immigration, and monetary policy easing. Growth will nevertheless remain below trend, and price pressures will ease. Price inflation has already declined to the upper boundary of the target band. Developments in the housing market and related debt still require close monitoring.

Monetary policy should remain restrictive but a start to policy rate cuts is expected in the coming months. Growth in government outlays will slow progress in strengthening fiscal buffers. Long-term fiscal sustainability requires tax reforms and close attention to spending efficiency to accommodate emerging spending pressures. Canada's weak productivity performance in recent years underscores the need for a more growth-friendly tax mix, including removal of internal trade barriers, measures to facilitate employment (including through more childcare services) and efficient but effective policy on green transition.

## Growth in economic activity has started to recover

The economy barely grew in the second half of 2023 (real GDP shrank by 0.1% in the third quarter and increased by only 0.2% in the fourth). Business investment was particularly weak, shrinking by 7.7% in the final quarter of 2023. However, monthly industry GDP estimates point to strong growth in January and February, partly reflecting the end of a public-sector workers' strike in Quebec. Household consumption growth has started to pick up, and export volume growth was strong at the end of 2023. Price inflation continues to decline. In March, annual headline consumer price inflation was 2.9%, just within the upper bound of the central bank's target range. Shelter price increases remain elevated, contributing to inflationary pressures. Measures of core inflation are close to 3%. The unemployment rate notched up to 6.1% in March. Employment continues to grow more slowly than the population. The latter is being driven up by large temporary and permanent inflows. In the year to the fourth quarter of 2023, Canada's population increased by 3.2%, the highest rate of growth since the 1950s.

### Canada 1



1. Per capita.

Source: OECD Economic Outlook 115 database; and Statistics Canada.

StatLink  <https://stat.link/49xen3>


## Canada: Demand, output and prices

	2020	2021	2022	2023	2024	2025
	Current prices CAD billion	Percentage changes, volume (2017 prices)				
<b>Canada</b>						
<b>GDP at market prices</b>	2 220.5	5.3	3.8	1.1	1.0	1.8
Private consumption	1 261.8	5.1	5.1	1.7	1.1	1.9
Government consumption	504.1	5.4	3.2	1.5	1.4	1.6
Gross fixed capital formation	514.8	9.3	-2.4	-3.2	-0.2	1.9
Final domestic demand	2 280.7	6.1	2.8	0.5	0.9	1.9
Stockbuilding <sup>1</sup>	- 11.1	0.8	2.3	-1.0	-0.1	0.0
Total domestic demand	2 269.6	6.9	5.2	-0.5	0.7	1.8
Exports of goods and services	654.5	2.7	3.2	5.7	2.1	1.8
Imports of goods and services	703.5	8.1	7.6	1.0	1.0	1.8
Net exports <sup>1</sup>	- 49.1	-1.8	-1.4	1.6	0.4	0.0
<b>Memorandum items</b>						
GDP deflator	—	7.7	7.7	1.6	2.9	2.0
Consumer price index	—	3.4	6.8	3.9	2.4	2.1
Core consumer price index <sup>2</sup>	—	2.4	5.0	3.9	2.6	2.1
Unemployment rate (% of labour force)	—	7.5	5.3	5.4	5.9	5.7
Household saving ratio, net (% of disposable income)	—	10.2	5.2	5.4	5.9	5.3
General government financial balance (% of GDP)	—	-2.9	0.1	-0.6	-0.7	-0.6
General government gross debt (% of GDP)	—	119.0	102.0	103.5	103.9	104.1
Current account balance (% of GDP)	—	0.0	-0.4	-0.6	0.2	0.2

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

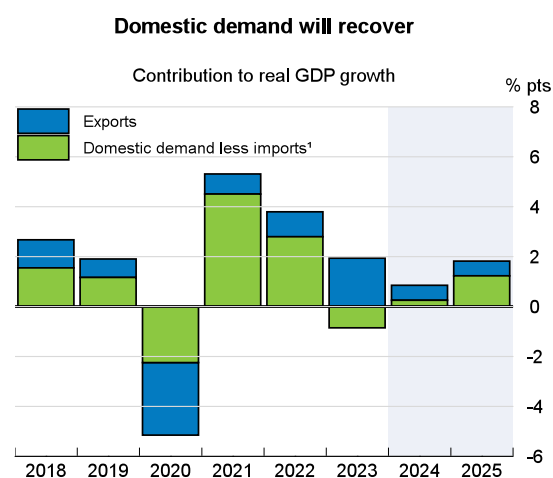
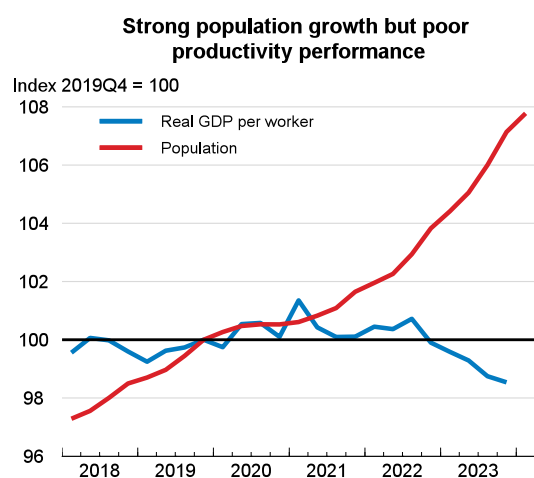
2. Consumer price index excluding food and energy.

Source: OECD Economic Outlook 115 database.

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


Canada's trade developments continue to echo shifts in global conditions. In February, the value of merchandise exports rose by 5.8% (month on month) and imports by 4.6%. However, it is too early to tell whether this reflects the start of a trend improvement in trade growth.

## Canada 2



1. Total consumption and investment (including inventory variations) less total imports of goods and services. National accounts data do not disaggregate imports by expenditure component of GDP and intermediate inputs. In practice, imported value added forms part of consumption, investment and also exported goods and services.

Source: OECD Economic Outlook 115 database; and Statistics Canada.

StatLink  <https://stat.link/83k1gx>

## Less contractionary monetary policy is on the horizon

Contractionary monetary policy has damped demand and is helping anchor inflation expectations. Headline consumer price inflation is now within the target range. Conditional on the more persistent elements of inflation receding, reductions in the policy rate are expected over the course of the year. The projections envisage a total 150 basis-point decline in the benchmark interest rate by the end of 2025. Gradual quantitative tightening is assumed to continue.

Following the unwinding of large deficits in the wake of the pandemic, the general government fiscal balance slipped from a small surplus in 2022 to a minor deficit in 2023. In 2024, the general government fiscal deficit is expected to widen slightly, owing in part to higher spending. The budget balance is expected to improve only modestly over the remainder of the projection period. The federal government continues to follow through on the structural reforms highlighted in its latest annual budget. These include measures supporting the green transition, expanding affordable childcare, accommodating the growing costs associated with population ageing, and improving housing affordability. Increased government outlays are being partially offset by spending efficiency measures and plans for higher taxes, including on capital gains.

## Output growth will strengthen

Real GDP growth is projected at 1% in 2024. Consumption will gather momentum over the year and into 2025 with increases in purchasing power. Continued rapid population growth will help support output growth. Economic growth will strengthen to 1.8% in 2025. Stronger foreign demand will bolster exports and business investment. There will be some further loosening of the labour market in the first half of 2024. Wage growth will moderate, remaining roughly in line with consumer price inflation. Headline inflation is projected to be close to the centre of the central bank's target band by the third quarter of next year with core inflation slightly higher.

The risk profile of the outlook has shifted in recent months. The risk of sustained high inflation has diminished. Higher borrowing costs could have a more profound impact on consumer spending and investment decisions than expected, adding uncertainty to the near-term outlook. Developments in housing debt and related financial stress among households need to be monitored carefully. Meanwhile, high levels of immigration are helping relieve skill shortages and bring upside risks for private consumption, while also increasing strains on housing markets.

## Bolstering productive capacity and achieving climate targets

Canada's absence of sustained labour productivity growth in recent years underscores a need to ensure a policy environment that enables the business sector to become more efficient and to move up value-added chains through increasingly productive activities. Increases in output per worker would in time feed through into higher average wages and household incomes. A stable macroeconomic environment is an important ingredient, including well-anchored inflation and sustainable fiscal balances. Fiscal sustainability requires implementing credible medium-term plans for lowering federal government debt, aided by ongoing measures to improve spending efficiency. Tax reforms should include reconsideration of preferential rates of tax for small businesses, which may affect small firms' productivity growth and distort the allocation of resources across different types of firms. In addition, shifting to a more growth-friendly tax mix by increasing revenues from consumption taxation should be considered. The total revenue share of federal and provincial value-added/goods and services taxation is low in international comparison. Canada's internal trade barriers should remain on the structural reform agenda as these likely have large economic costs. Canada will require strong incentives for abatement to achieve its climate targets. Multiple policies are in place to decarbonise economic activity. Efforts to tighten carbon pricing rules should continue alongside

the scheduled increases in the carbon price floor. The federal government's decision in late 2023 to exempt home heating oil from the carbon tax marks a step away from consistent pricing. Subsidies can spur green technology take-up but should be reined in as cost-effective products emerge. Reform of electricity pricing could encourage energy saving with less need for additional government intervention.

# Chile

Output is projected to grow by 2.3% in 2024 and 2.5% in 2025. A recovery in real wages helped by falling inflation and looser financial conditions will support a recovery in consumption over 2024-25. Business confidence has improved, but stagnant credit will continue to restrain investment growth during 2024. Global demand for minerals will underpin export growth in 2024-2025. Inflation will converge to the 3% target in mid-2025.

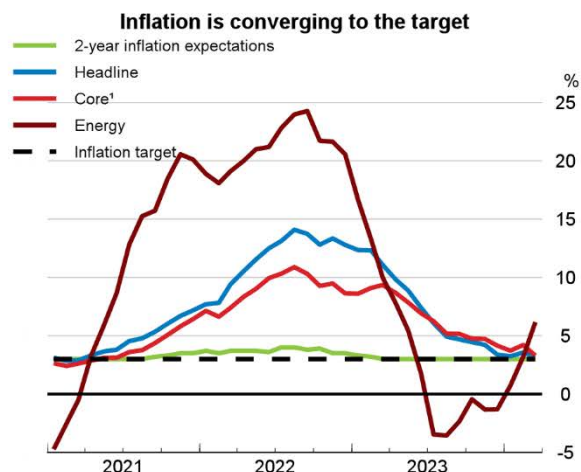
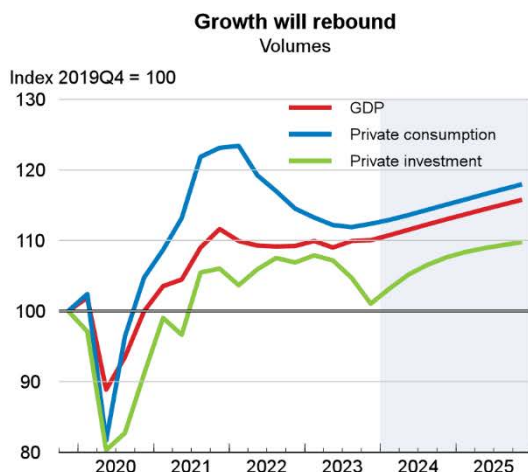
The central bank will lower the policy rate further during 2024 reaching a neutral policy stance by mid-2025. Appropriately, fiscal policy will be less expansionary in 2024 and 2025, and debt will remain at sustainable levels. Chile should continue efforts to streamline regulatory processes to boost competition and entrepreneurship, and make its tax system greener and more progressive to reduce inequalities and spur more inclusive and sustainable growth.

## Activity is picking up

The economy grew in the fourth quarter of 2023 largely due to net exports. Personal services were the main contributor to growth, followed by transport. The monthly activity indicator (IMACEC) rose by 2.8% year-on-year (seasonally adjusted) in February, with increases across all sectors and large contributions from mining and services. Business confidence remains subdued but industrial production and retail sales are up compared with February of last year, and activity and employment rates have grown steadily since August. Headline inflation fell below 4% in March, and inflation expectations are firmly anchored at the target.

Inflationary pressures from commodity prices have subsided. Growth in China has been weaker than expected, contributing to slower electric vehicles sales and to excess inventory for battery makers. This has helped to drive down lithium prices. Copper prices have been increasing recently, and demand from transport electrification and renewable power generation will sustain exports.

## Chile



1. Consumer Price Index excluding energy and food products.

Source: OECD Economic Outlook 115 database; and Central Bank of Chile.

StatLink  <https://stat.link/z68e32>

## Chile: Demand, output and prices

	2020	2021	2022	2023	2024	2025
	Current prices CLP billion	Percentage changes, volume (2018 prices)				
<b>Chile</b>						
<b>GDP at market prices*</b>	200 687.1	11.5	2.1	0.3	2.3	2.5
Private consumption	117 361.4	21.2	1.6	-5.2	1.8	2.5
Government consumption	32 254.3	13.2	7.1	2.2	0.9	1.9
Gross fixed capital formation	45 306.6	15.9	4.1	-0.7	0.2	3.4
Final domestic demand	194 922.3	18.6	3.0	-3.0	1.3	2.6
Stockbuilding <sup>1</sup>	-3 055.8	2.5	-0.5	-1.2	0.7	0.0
Total domestic demand	191 866.5	21.6	2.4	-4.1	2.0	2.7
Exports of goods and services	62 748.9	-1.5	1.0	0.1	2.6	3.2
Imports of goods and services	53 928.3	31.6	2.0	-11.7	1.7	3.7
Net exports <sup>1</sup>	8 820.6	-9.0	-0.4	4.6	0.3	-0.1
<i>Memorandum items</i>						
GDP deflator	—	6.9	7.9	6.6	3.8	3.7
Consumer price index	—	4.5	11.6	7.6	3.9	3.3
Private consumption deflator	—	4.5	11.1	7.4	4.9	3.4
Unemployment rate (% of labour force)	—	8.8	7.9	8.7	8.1	7.6
Central government financial balance (% of GDP)	—	-7.7	1.1	-2.4	-1.9	-1.2
Current account balance (% of GDP)	—	-7.2	-8.5	-3.4	-4.0	-3.9

\* 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 115 database.

StatLink  <https://stat.link/aq3jvd>

## Monetary easing and moderate fiscal deficits are set to continue

As inflation is receding and expectations are firmly anchored at the target, the Central Bank will continue to cut its policy rate, reaching 4.5% by the end of 2024, and a neutral stance by mid-2025. Fiscal policy will be moderately expansionary in 2024, with a central government deficit of 1.9% of GDP, but will tighten in 2025, reaching a deficit of 1.2% of GDP. Expenditure will follow the fiscal rule based on cyclically-adjusted revenues. Support for the population and businesses affected by wildfires in early 2024, of around 0.8 billion USD (0.3% of GDP), will be financed with temporary tax measures. Revenue growth will benefit from strong demand for minerals in the medium term, and rising prices for copper over the forecast period, along with the new copper mining royalty estimated at 0.45% of GDP. However, revenues from mining contracts will be lower in 2024. Debt will remain below the 45% prudent threshold set by the government.

## Growth will resume in 2024 and strengthen in 2025

GDP will grow by 2.3% in 2024 and 2.5% in 2025. Recovering real wages and looser short-run financial conditions will support consumption growth. Subdued business expectations, volatile long-term interest rates, and constricted credit supply will limit investment growth, which will depend mainly on mining and energy. Exports will grow on the back of sustained demand for minerals, while imports will recover along with consumption. Unemployment is expected to decline further in 2024-2025. Inflation will continue to fall and is projected to reach the target by mid-2025. Risks to the outlook remain on the downside. A stronger slowdown in China could reduce demand for minerals, hurting Chile's exports and growth. Climate-change induced extreme events, such as a stronger drought or more widespread wildfires, could hurt crops and mining and damage infrastructure, reducing growth, and requiring fiscal support. Political fragmentation may lead to an impasse in much-needed reforms.

## Cutting red tape and reforming the tax system can spur more inclusive growth

Competition and entrepreneurship are stifled by lengthy and complex regulatory procedures. Reviewing the stock of regulations, moving to “zero-licensing” schemes and digital procedures whenever possible, along with higher spending in research and development, can help increase productivity and growth. Chile’s tax intake as a share of GDP is comparatively low in the OECD. Making the tax system greener and more progressive while also improving tax administration can make room to increase social spending to significantly reduce inequalities, and to fund green projects that support decarbonisation goals.



# China

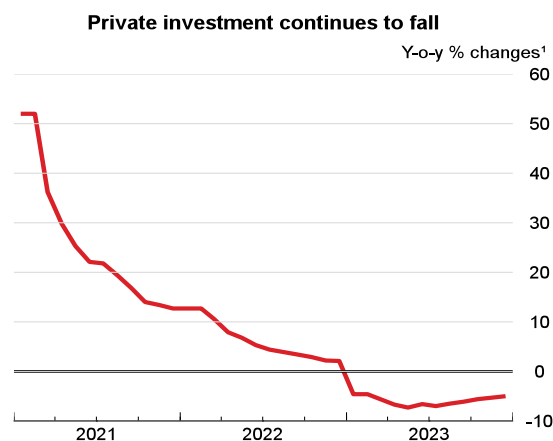
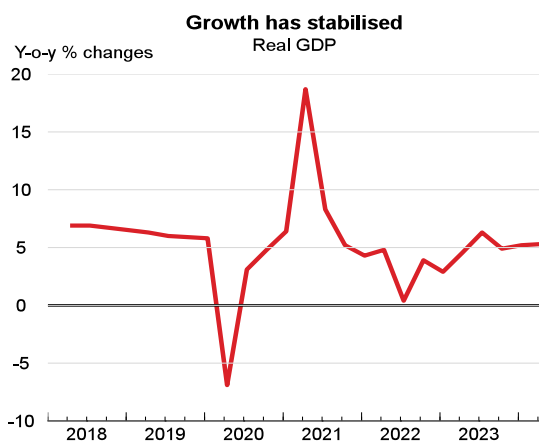
Economic growth will ease to 4.9% in 2024 and 4.5% in 2025. Adjustment in the real estate sector continues with housing starts still falling. However, infrastructure and manufacturing investment are growing at a moderate, but steady, pace. Consumption growth will be stable but damped by high precautionary savings after the pandemic. Debt resolution of local government investment vehicles will gather momentum. Exports will pick up again as global demand recovers, and an increasing number of Chinese goods become competitive in international markets. Consumer price inflation will remain very low and producer prices will continue to fall.

Monetary policy has become more supportive through a series of interest rate and reserve requirement rate cuts, including a recent cut in the benchmark mortgage rate. Scrapping the mortgage rate floor in cities with weak recent house price performance and other measures will help with stabilisation of the property sector. Fiscal policy will become more supportive with the regular issuance of additional ultra-long central bonds for priority projects. An equipment upgrading programme will boost both business investment and household consumption. Creating more favourable conditions for the private sector and a new round of opening to foreign direct investment, including removing all entry barriers to manufacturing, should lift productivity growth.

## Economic growth has firmed

Growth firmed towards the end of 2023 and reached 5.3% in the first quarter of 2024, following a moderate recovery earlier in 2023. The private sector has been suffering from both subdued exports and the ongoing real estate investment correction. Property investment is still declining, weighing on growth, but at a slower pace. Infrastructure investment has been growing at a steady but moderate rate due to financing constraints of local government investment vehicles, and manufacturing investment has been held back by soft export demand. Consumption growth is stable but is being constrained by renewed high precautionary savings. A weak recovery of tourism imports has limited import growth and boosted the current account surplus.

### China 1



1. Year-to-date year-on-year growth.

Source: CEIC.

StatLink  <https://stat.link/ct5edj>

## China: Demand, output and prices

	2020	2021	2022	2023	2024	2025
	Current prices CNY trillion	Percentage changes, volume (2015 prices)				
<b>China</b>						
<b>GDP at market prices</b>	101.4	8.4	3.0	5.2	4.9	4.5
Total domestic demand	98.9	6.8	2.8	6.0	4.5	4.5
Exports of goods and services	18.9	15.7	-3.8	4.1	7.2	4.8
Imports of goods and services	16.4	7.5	-6.5	8.8	5.3	4.5
Net exports <sup>1</sup>	2.5	1.8	0.3	-0.5	0.6	0.3
<i>Memorandum items</i>						
GDP deflator	–	4.6	1.8	-0.5	-0.1	1.6
Consumer price index	–	0.8	1.9	0.3	0.3	1.3
General government financial balance <sup>2</sup> (% of GDP)	–	-6.4	-6.5	-6.7	-7.5	-7.1
Headline government financial balance <sup>3</sup> (% of GDP)	–	-3.0	-2.8	-3.4	-3.6	-3.2
Current account balance (% of GDP)	–	2.0	2.5	1.4	0.9	1.1

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).

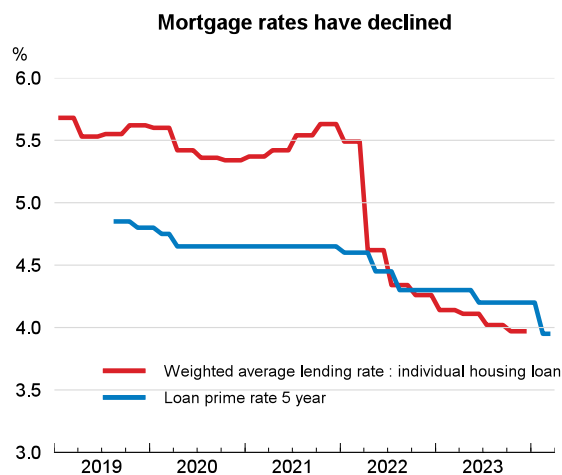
3. The headline fiscal balance is the official balance defined as the difference between revenues and outlays. Revenues include: general budget revenue, revenue from the central stabilisation fund and sub-national budget adjustment. Outlays include: general budget spending, replenishment of the central stabilisation fund and repayment of principal on sub-national debt.

Source: OECD Economic Outlook 115 database.

StatLink  <https://stat.link/4qi238>


CPI inflation was 0.1% year-on-year in March 2024 and has been negative at times during the past year, mostly due to food prices, in particular pork. In addition, productivity improvements, innovation and moving up the value chain are helping to keep prices low, alongside the gradual pace of recovery.

## China 2



1. Year-to-date year-on-year growth.

Source: CEIC.

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

## Monetary and fiscal policy are becoming expansionary

Monetary policy continues to support the recovery and ensure adequate liquidity. The benchmark lending rate and the ratio of reserves to be kept at the central bank have been cut multiple times. The benchmark mortgage rate, which is one of the two components for the mortgage rate, has been cut and the new mortgage rate adjustment mechanism ensures that the other component of the mortgage rate, linked to local housing price developments, also acts to reduce the interest burden. Renegotiation of rates on outstanding loans at a time of very low interest rates is also helping to ease the interest burden and support consumption. Improving access to financing and other support measures for the private sector announced during the Two Sessions (the annual plenary meetings of the legislative body and its consultative group) will support private investment and employment.

Fiscal policy will become more expansionary than previously anticipated in 2024 and 2025 as the central government starts issuing ultra-long maturity bonds (worth 0.8% of GDP) to finance priority projects. Moreover, some of the special local bonds issued last year have not been used and will support projects this year, amounting to some 0.4% of GDP. With the rolling out of debt resolution plans for the most indebted local government investment vehicles, uncertainty will no longer weigh on the overall financing of investment projects. This solves the immediate issue of obtaining financing for projects, but the problem of implicit debt at the local government level needs to be addressed effectively and in a timely manner. Project financing will be better monitored, and funding will be allocated to approved projects only. The newly announced “cash-for-clunkers” programme, aiming at upgrading machinery, equipment and appliances, will support both consumption and investment.

## Growth will continue to slow gradually

Following a moderate rebound, the Chinese economy will return to its gradually slowing path with potential growth falling 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. Infrastructure investment will pick up, helped by expansionary fiscal policy, and a gradual resolution of the debt and financing issues of local government investment vehicles. There are high 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. Recovering foreign demand will lift exports, employment and private sector investment. Tourism imports, the largest single component of imports, may not recover to pre-COVID-19 levels. Further moves up the value chain in industry will increase the competitiveness of Chinese goods and reduce reliance on imported parts and components. The current account will remain in surplus.

Overall, 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 would result in stronger growth, but also in a further build-up of imbalances and sharper adjustment down the road. Delays in addressing implicit local government debt may lead to continued accumulation of such debt and costlier resolution later. Postponing social security reforms may keep uncertainty high and entrench higher precautionary saving behaviour. Fiscal expansion coupled with more stringent measures to raise spending efficiency may lift the impact of the spending and result in higher growth.

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

While looser monetary and fiscal policy will support demand in the short run, a stronger social safety net is needed to rebalance the economy towards consumption and reduce savings. Unemployment insurance coverage should be extended to all, and pensions should provide at least a minimum standard of living to all eligible people. Furthermore, the list of treatments and medicines covered by health insurance should be widened so that health costs do not push people into poverty. A range of structural reforms would lift China's growth potential. A renewed emphasis on creating a single domestic market should bring about a new round of phasing out administrative monopolies and dismantling local protectionist barriers. Improved market access for both private and foreign firms could potentially boost competition and hence also productivity and growth, but smaller firms need further regulatory support to be able to compete with dominant players. Removing entry barriers to foreign capital in manufacturing is a welcome step and should be extended to services.

# Colombia

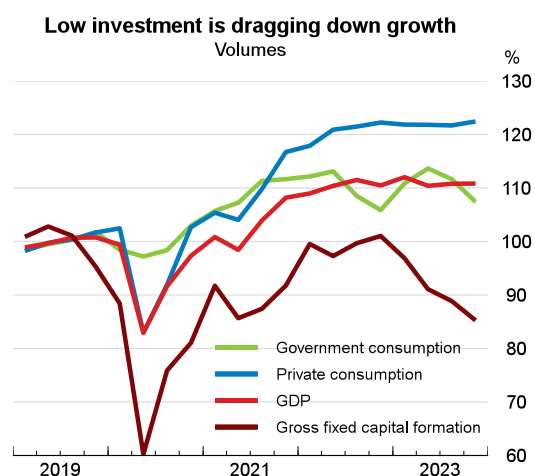
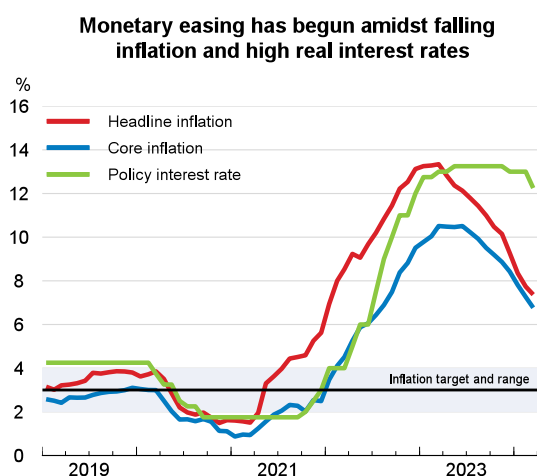
The economy is expected to undergo another year of modest growth, projected at 1.2% in 2024, before picking up to 3.3% in 2025. Total investment is expected to recover partially as financial conditions ease, but uncertainty will continue to put a drag on private investment. Inflation is slowing gradually but remains high and will only fall within the target range in the latter half of 2025.

Given falling inflation and a negative output gap, monetary policy should continue its prudent and data-based easing cycle, ensuring a gradual return of real interest rates towards neutral levels. Fiscal plans foresee an increase of public debt in 2024, with several factors suggesting compliance with the fiscal rule might be a challenge. Adhering to the fiscal rule would ensure convergence to the debt anchor and avoid an increase in financing costs. Clearer incentives for investment would boost growth while supporting the green transition and strengthening productivity.


## Growth has slowed further

GDP grew moderately by 0.6% in 2023, partly due to a necessary normalisation from the rapid pace in earlier years. Consumption is 20% higher than in 2019 and remains resilient. By contrast, investment has plummeted from near 23% of GDP before the pandemic to below 18% in 2023, reflecting policy and regulatory uncertainty in key sectors, administrative changes that slowed the infrastructure and housing projects pipeline, and a high cost of credit. The labour market has mildly deteriorated in recent months. Consumer and business confidence remain weak. Restrictive monetary policy, with policy rates at 12.25% in March, is contributing to disinflation, with headline inflation falling to 7.4% in March.

## Colombia



Source: Central Bank of Colombia; DANE; and OECD Economic Outlook 115 database.

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

## Colombia: Demand, output and prices

	2020	2021	2022	2023	2024	2025
	Current prices COP trillion	Percentage changes, volume (2015 prices)				
<b>Colombia</b>						
<b>GDP at market prices</b>	998.5	10.8	7.3	0.6	1.2	3.3
Private consumption	706.2	14.7	10.7	1.1	1.2	1.6
Government consumption	171.3	9.8	0.8	0.9	2.5	4.0
Gross fixed capital formation	183.3	16.7	11.5	-8.9	-7.4	12.1
Final domestic demand	1 060.8	14.4	9.4	-0.7	0.0	3.5
Stockbuilding <sup>1</sup>	7.6	-0.9	0.8	-3.2	0.6	0.0
Total domestic demand	1 068.5	13.4	10.2	-3.8	0.4	4.1
Exports of goods and services	135.0	14.6	12.3	3.1	3.2	3.1
Imports of goods and services	205.0	26.7	23.6	-14.7	1.3	6.7
Net exports <sup>1</sup>	-70.0	-3.5	-3.6	4.7	0.3	-0.9
<i>Memorandum items</i>						
GDP deflator	—	7.8	14.9	6.3	5.5	4.7
Consumer price index	—	3.5	10.2	11.7	6.5	4.3
Core inflation index <sup>2</sup>	—	1.8	6.4	9.8	6.1	4.3
Unemployment rate (% of labour force)	—	13.8	11.2	10.2	11.1	10.8
Current account balance (% of GDP)	—	-5.7	-6.1	-2.7	-2.9	-2.6

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

2. Consumer price index excluding primary food, utilities and fuels.

Source: OECD Economic Outlook 115 database.

StatLink  <https://stat.link/s8ke4i>

Lower oil prices have led to a moderation of export and fiscal revenues. The welcome and necessary phasing out of petrol subsidies in 2023 temporarily slowed disinflation but removed distortions and future fiscal contingency risks. The current account deficit halved in 2023, increasing resilience to external shocks. Droughts caused by El Niño have resulted in low reservoir levels, increasing risks of electricity shortage. By contrast, El Niño's expected positive impact on food prices has not materialised so far.

## Policy rates will gradually relax, but fiscal risks loom

The Central Bank started its easing cycle in December 2023, cutting the policy rate by a total of 100 basis points since. Policy rate cuts are projected to continue through 2025, with real rates returning to a neutral stance from mid-2025. The authorities plan an increase in the headline fiscal deficit from 4.2% of GDP in 2023 to 5.3% in 2024, driving up public net debt from 53% to 57% of GDP, within the boundaries of the fiscal rule. Risks of non-compliance with the fiscal rule are high even though the government is strongly committed to it. The autonomous fiscal council warns that treating one-off revenues as permanent would result in non-compliance with the fiscal rule, which is based on a structural primary deficit target. Additionally, there are risks of revenue shortfalls from uncertain tax litigation and tax administration measures, which might require unplanned spending adjustments.

## Economic growth will remain weak

Growth is projected to remain modest in 2024 and strengthen in 2025. Private consumption will remain solid, supported by disinflation, monetary policy easing and significant remittances. Investment will rebound from the second half of 2024 as financial conditions gradually ease but will remain subdued. Exports will grow moderately, given subdued external demand and past declines in oil prices. Inflation will continue to fall and is projected to converge to the 2-4% target range by the second half of 2025. Risks around the outlook are substantial including greater uncertainty and prolonged tight global financial

conditions, which might lead to a resumption of exchange rate volatility and higher risk premia. Earlier resolution of policy uncertainty regarding implementation and the funding needs of social reforms, establishing regulatory certainty about the energy transition, and a faster-than-expected implementation of the ongoing reindustrialisation policy could boost investment more than anticipated.

### **Revitalising investment would support growth and the green transition**

Maintaining fiscal consolidation and adhering to fiscal rules is needed to prevent rising debt levels and address investor concerns about fiscal sustainability. Revitalising investment is essential not only for short-term growth but also for enhancing Colombia's growth potential, and is needed for accelerating income convergence to advanced countries and reducing poverty. The success of the government's ambitious plans to boost productivity and usher in the green transition rests on the ability to crowd in private investment. A continued demonstrated commitment to the traditionally strong macroeconomic framework, including compliance with the fiscal rule, would reduce policy uncertainty and support the investment recovery. Lowering the cost of business formality, improving public infrastructure, improving access to finance and streamlining the fiscal transfer systems could boost growth in the medium term.

# Costa Rica

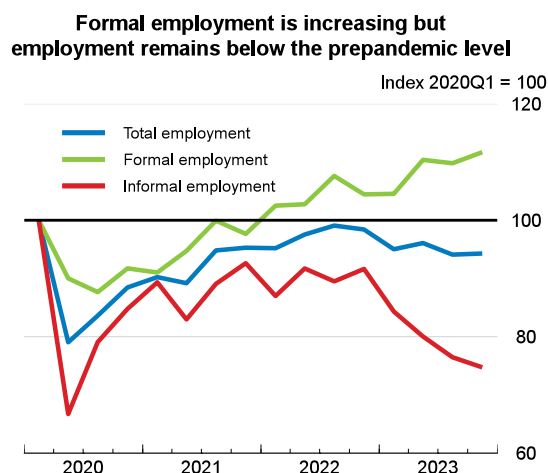
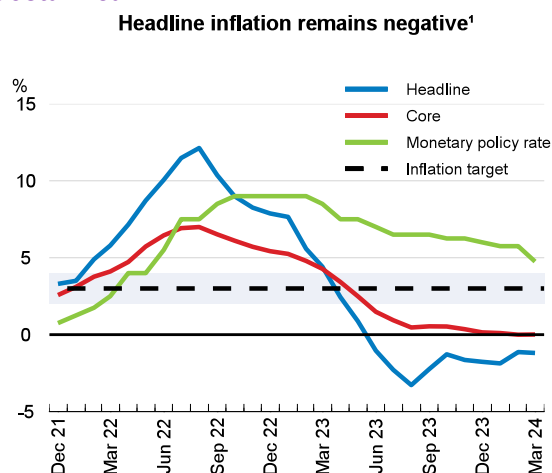
GDP will grow by 3.6% in 2024 and 3.9% in 2025. Monetary policy easing, credit supply expansion and increases in households' income will support domestic demand. Export growth is expected to moderate in 2024 and edge up in 2025 as global conditions improve. Headline inflation is expected to rise to 0.4% (year-on-year) in 2024 and 2.2% in 2025.

The fiscal stance is projected to remain restrictive as the fiscal rule constrains public expenditure growth. Monetary policy will continue to ease gradually as headline inflation remains below the target range. Boosting competition, improving education quality, expanding the coverage of early education and care for children below four years and enhancing the supply of vocational training and sciences graduates would support higher female labour participation, growth and equity.

## Growth has strengthened amid negative inflation

Strong net exports and household consumption boosted GDP growth in the second half of 2023. Domestic demand was supported by robust credit growth (6.7%, year-on-year) and real wage increases (6.5%), especially in the private sectors. The average real wage remains below pre-pandemic levels. Economic activity remains solid and broad-based, with the Monthly Index of Economic Activity increasing by 3.6% (year-on-year) in February 2024 driven by both traditional (retail, construction, transport) and special regime sectors (manufacturing). Annual headline inflation turned negative in 2023, and was -1.2% in March 2024, due to the reversal of external price shocks, a strong appreciation with respect to the dollar and contained domestic inflationary pressures. Core inflation remains low, at 0% (year-on-year) in March.

## Costa Rica



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.



## Costa Rica: Demand, output and prices

	2020	2021	2022	2023	2024	2025
	Current prices CRC trillion	Percentage changes, volume (2017 prices)				
<b>Costa Rica</b>						
<b>GDP at market prices</b>	36.5	7.9	4.6	5.1	3.6	3.9
Private consumption	22.8	8.3	3.4	5.4	3.5	3.6
Government consumption	6.5	1.7	2.4	0.1	0.2	0.5
Gross fixed capital formation	5.9	7.8	1.5	8.6	5.0	7.8
Final domestic demand	35.2	7.0	2.9	5.1	3.2	3.8
Stockbuilding <sup>1</sup>	0.0	1.5	-0.9	-1.8	0.5	0.0
Total domestic demand	35.2	8.6	2.0	3.2	3.4	3.7
Exports of goods and services	11.6	15.9	13.2	10.5	5.3	6.1
Imports of goods and services	10.3	19.2	6.0	5.6	5.3	6.0
Net exports <sup>1</sup>	1.3	-0.3	2.6	2.1	0.4	0.5
<i>Memorandum items</i>						
GDP deflator	–	2.4	6.3	-0.1	0.5	2.4
Consumer price index	–	1.7	8.3	0.5	0.4	2.2
Core inflation index <sup>2</sup>	–	0.9	4.2	1.0	0.7	2.2
Unemployment rate (% of labour force)	–	16.4	12.2	8.9	7.2	7.0
Current account balance (% of GDP)	–	-3.2	-3.2	-1.0	-1.0	-1.6

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 115 database.

StatLink  <https://stat.link/4x85dq>

Costa Rica receives large foreign direct investments (4.5% of GDP in 2023) that are supporting a sharp increase in formal employment, although overall employment still remains below the pre-pandemic level. Due to the improved economic and fiscal outlook the main rating agencies have recently raised Costa Rica's sovereign credit rating. The country risk, measured by the Emerging Market Bond Index spread, is close to its lowest level in the last 10 years (2.2%).

## Monetary policy easing will continue amid prudent fiscal policy

Monetary policy easing will continue in 2024 and 2025 as inflation remains below the 3% target. The policy rate is projected to reach 4.0% by the end of 2025. The central government primary surplus is set to remain positive (1.9% of GDP in 2024 and 2.1% in 2025), as the fiscal rule constrains current expenditure growth. The central government budget deficit is projected to reach 3.1% of GDP in 2024 and 2.5% in 2025. Debt servicing costs will remain large (5% of GDP in 2024 and 4.6% in 2025). Public debt is expected to continue falling and to reach 59.4% of GDP by the end of 2025. The fiscal costs of population aging (pensions and health) are estimated to increase by around 0.3% of GDP per year until 2030.

## Growth will remain robust

Growth is projected to slow to 3.6% in 2024, due to weaker domestic demand and export growth, and edge up to 3.9% in 2025, as global and domestic economic conditions improve. Private consumption will moderate in 2024 as disposable income is expected to grow less strongly than in 2023. Private investment will remain solid, supported by large foreign direct investment inflows, but public investment will remain muted due to the lack of fiscal space. Net exports will moderate in 2024 and improve in 2025, along with economic conditions of the main trading partners. Recent growth in housing and consumption credit, especially in foreign currency (around 32.8% of the credit stock is in dollars), may increase the vulnerability

of the financial sector, including to sharp fluctuations of the exchange rate. Increasing geopolitical tensions might weigh on global demand and trade. On the upside, renewed efforts to deepen trade integration might strengthen net exports.

### **Persevere with reforms in competition and education to boost growth and equity**

Continuing to implement the fiscal rule is critical for debt sustainability. Improved public spending efficiency, based on spending reviews, may free additional resources to address social spending and infrastructure needs. Providing the national competition authority with adequate resources, reducing the stock of regulations and conducting regulatory impact assessments, and introducing online one-stop mechanisms covering all licenses and permits would help boost competition in key markets, facilitate entry and lower prices for households and costs for firms. Increasing female labour market participation by expanding the coverage of early education and care for children below four years, and improving the quality and efficiency of education by providing support to students with learning gaps, would support higher growth and equity. 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, continue to increase forest coverage, augment waste recycling and composting, and improve the sewer system.

# Croatia

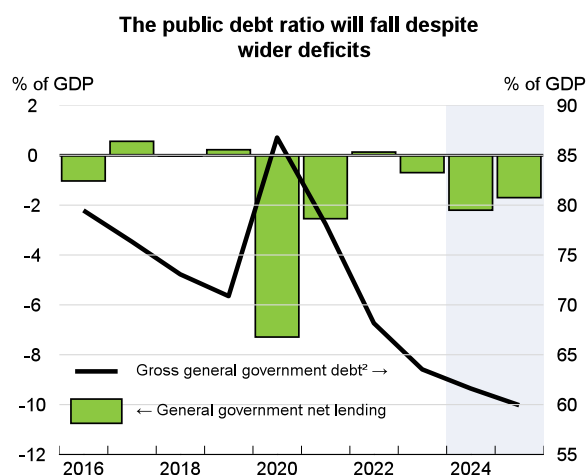
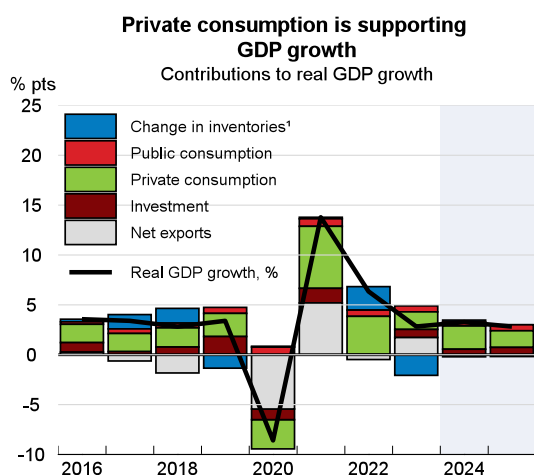
GDP will grow by 3.3% in 2024 as higher wages, increased employment and ongoing disinflation boost households' real incomes and raise domestic demand. In 2025, growth will remain robust, at 2.8%, supported by spending of EU funds and the ongoing benefits of Croatia's integration in the euro and Schengen areas.

Tight euro area monetary conditions are slowing private investment. The budget deficit will widen in 2024, contributing to demand pressures. In 2025, the deficit should decline modestly, through slower spending growth and higher revenues. Public debt is expected to fall below 60% of GDP by late 2025. Containing further public wage growth and ending poorly-targeted price caps, energy and home loan subsidies as planned would help growth to remain sustainable, improve the economy's efficiency and build fiscal buffers for future shocks.

## Private consumption and public investment have maintained robust growth

Output growth has been buoyed by robust consumer spending and increased public investment fuelled by EU funds. Construction activity in late 2023 was 10% higher than a year earlier. These trends offset slower growth of private investment and government consumption. Household disposable incomes have risen strongly over 2023, owing to strong wage growth and rising employment. Both private and public sector wages have grown strongly reflecting the tight labour market, public sector pay reforms and a 20% increase in the minimum wage at the start of 2024. These trends continued into the first months of 2024, lifting consumer and business sentiment indicators to their highest levels since the COVID-19 crisis.

### Croatia



1. Includes the statistical discrepancies.

2. Maastricht definition.

Source: OECD Economic Outlook 115 database.

## Croatia: Demand, output and prices


	2020	2021	2022	2023	2024	2025
	Current prices HRK billion	Percentage changes, volume (2015 prices)				
<b>Croatia</b>						
<b>GDP at market prices</b>	50.6	13.8	6.3	2.8	3.3	2.8
Private consumption	29.7	10.6	6.7	3.0	4.0	2.9
Government consumption	12.7	3.0	2.7	2.8	1.9	2.7
Gross fixed capital formation	11.2	6.6	0.1	4.2	2.8	3.9
Final domestic demand	53.6	8.1	4.4	3.2	3.3	3.0
Stockbuilding <sup>1</sup>	0.5	0.2	2.4	-2.1	-0.5	0.0
Total domestic demand	54.1	11.2	6.7	1.8	2.8	3.0
Exports of goods and services	20.9	32.7	27.0	-2.9	0.8	2.9
Imports of goods and services	24.5	17.3	26.5	-5.3	1.1	3.1
Net exports <sup>1</sup>	-3.5	5.2	-0.5	1.7	-0.2	-0.2
<i>Memorandum items</i>						
GDP deflator	–	1.5	9.5	8.5	3.5	3.0
Harmonised index of consumer prices	–	2.7	10.7	8.4	3.5	2.5
Harmonised index of core inflation <sup>2</sup>	–	1.3	7.6	8.8	3.9	2.6
Unemployment rate (% of labour force)	–	7.6	7.0	6.1	5.8	5.5
Household saving ratio, net (% of disposable income)	–	3.7	2.0	2.9	11.4	10.5
General government financial balance (% of GDP)	–	-2.5	0.1	-0.7	-2.2	-1.7
General government gross debt (% of GDP)	–	98.1	88.7	83.4	81.5	79.8
General government debt, Maastricht definition <sup>3</sup> (% of GDP)	–	78.1	68.2	63.5	61.6	59.9
Current account balance (% of GDP)	–	1.0	-2.8	1.1	1.6	1.1

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

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

3. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.

Source: OECD Economic Outlook 115 database.

StatLink  <https://stat.link/hnvtp2>

Softer external demand lowered exports of goods and services last year, but stabilised around the turn of 2024. Tourist stays during the summer peak of the 2023 season declined from the records reached a year earlier but were higher than usual later in the year and in February 2024. Weaker goods exports hit domestic manufacturing output. Improved regional energy supply, lower energy demand with the mild winter, and good food harvests are limiting price growth of these goods. Consumer energy prices in March 2024 were 4.3% lower than their recent peaks, while food prices were little changed compared with mid-2023. Annual consumer price inflation moderated to 4.9% in March 2024, compared with 10.5% a year earlier. Core inflation remains higher, at 5.4% in the year to March 2024, as rising wages and tourism demand continued to buoy services prices.

## Fiscal policy will be expansionary in the near term

The budget deficit is expected to widen substantially to near 2¼ per cent of GDP in 2024. Expenditure will rise due to increases in public-sector pay and pensions, and higher public and defence investment, while cuts in household income tax and social contribution rates will reduce revenue growth. Croatia has gained access to NextGenerationEU loans to further raise public investment. In 2025, the budget deficit is expected to decline to about 1¾ per cent of GDP as spending growth moderates and the growing economy supports revenues. Despite the wider deficits, public debt is expected to fall from 64% of GDP in 2023 to below 60% of GDP by the end of 2025, consistent with the European Stability and Growth Pact. Credit conditions have tightened, reflecting higher interest rates. This has slowed credit growth, especially for businesses, contributing to slower private investment growth. Lending to households has been more

robust, with both 'general-purpose' cash loans and housing lending rising. Higher housing lending reflects rising house prices amid tight supply, the development of the home loan market in Croatia, and the effects of a home loan subsidy programme in 2023.

### **Growth is expected to remain robust**

In 2024, annual growth will be bolstered by carry-over effects from the robust performance in the second half of 2023. Strong wage growth and the tight labour market, combined with moderate price growth, will further raise households' real disposable income, supporting private consumption. Government investment will be fuelled by EU funds. Improving external conditions will raise export volumes. However, robust domestic demand will lead import growth to outpace export growth. The moderation in inflation is likely to slow and inflation will remain above the euro area average. Energy and food prices are expected to stabilise while services inflation will remain firm, buoyed by recent strong wage growth and tourism demand. Strong rates of growth in private and public wages, if not matched by higher productivity, risk leading inflation to be higher than expected, weakening external competitiveness. If reforms slow or do not improve the business environment, private investment may not recover from its recent slowdown and productivity growth may stall.

### **Fiscal and structural reforms are needed to foster investment and growth**

Ending poorly-targeted energy price caps and home loan support as planned, and ensuring that future public sector wage rises match performance improvements would improve the sustainability of growth and help build fiscal buffers for future challenges. Fully implementing reforms to improve the regulatory environment, enhance the effectiveness of the judicial system and integrate higher skilled immigrant workers would encourage private investment and bolster productivity, and would help address the challenges from the green transition and the ageing population.

# Czechia

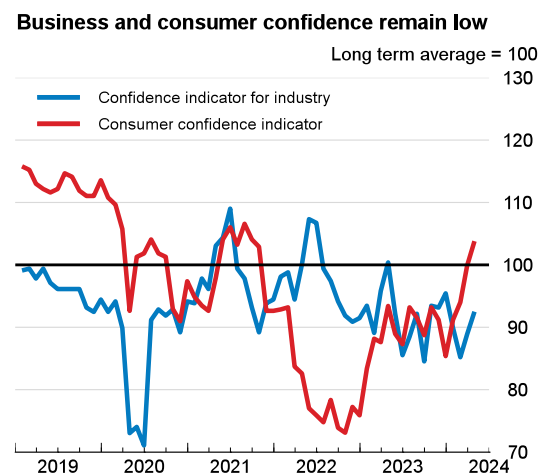
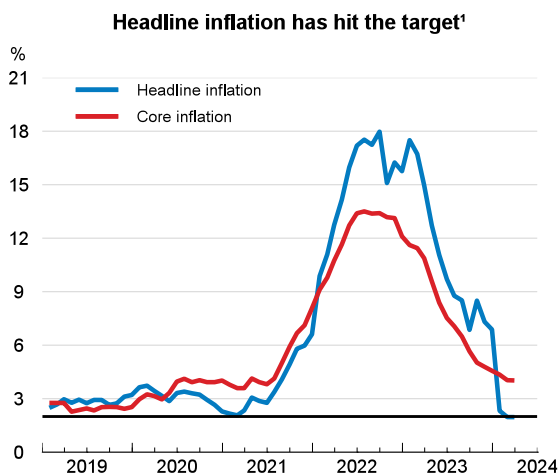
GDP is projected to grow by 1.1% in 2024 and 2.4% in 2025. Lower inflation will boost real incomes and consumption growth. The recovery of global demand will support export growth. Investment will be bolstered by easing financial conditions and faster absorption of EU recovery and resilience funds. Risks to the projections are related to geopolitical tensions and their effects on energy prices, as well as supply chain disruptions, which would lead to higher inflation and lower growth.

Monetary policy needs to remain cautious until inflation stabilises at the target. The approved fiscal consolidation will help the disinflation process and rebuild fiscal buffers in the short-term. Reforms are needed to ensure fiscal sustainability in the face of ageing pressures and to support sustainable growth. This requires reforming pensions, revising the tax system, raising the labour force participation of underutilised groups, such as mothers of young children, and enhancing workers' skills to help adaptability to structural changes.

## Inflation is slowing and economic growth is subdued

GDP grew by 0.4% (quarter-on-quarter) in the last quarter of 2023, driven by export and investment growth. High-frequency indicators point to positive but weak growth in early 2024. Business confidence has rebounded, but remains subdued, and consumer confidence continues to improve, almost reaching pre-pandemic levels in April 2024. Headline consumer price inflation hit the 2% target in the first quarter of 2024. Core inflation (excluding food and energy prices), at 4% in March, is declining more slowly. The labour market has eased slightly but remains tight. Nominal wage growth eased to 6.3% in the last quarter of 2023 and unemployment has risen moderately over the past year, reaching 2.7% in February.

### Czechia



1. The inflation target is 2 per cent, and represented by the black line.  
Source: OECD Prices database; and Czech Statistical Office.

## Czechia: Demand, output and prices


	2020	2021	2022	2023	2024	2025
	Current prices CZK billion	Percentage changes, volume (2015 prices)				
<b>Czechia</b>						
<b>GDP at market prices</b>	5 710.8	3.5	2.4	-0.2	1.1	2.4
Private consumption	2 588.7	4.1	-0.6	-3.1	1.9	3.0
Government consumption	1 242.6	1.4	0.3	3.5	2.3	0.8
Gross fixed capital formation	1 516.4	0.7	3.1	4.2	3.0	2.5
Final domestic demand	5 347.7	2.5	0.6	0.4	2.3	2.4
Stockbuilding <sup>1</sup>	- 22.1	4.8	0.9	-3.3	-2.4	0.0
Total domestic demand	5 325.5	7.7	1.5	-2.9	-0.2	2.3
Exports of goods and services	3 995.1	6.8	7.2	3.1	2.4	3.1
Imports of goods and services	3 609.8	13.2	6.3	-0.4	0.8	3.1
Net exports <sup>1</sup>	385.2	-3.6	0.9	2.7	1.2	0.1
<i>Memorandum items</i>						
GDP deflator	—	3.3	8.6	8.6	2.5	2.1
Consumer price index	—	3.8	15.1	10.7	2.4	2.1
Core inflation index <sup>2</sup>	—	5.0	12.2	7.7	3.8	2.2
Unemployment rate (% of labour force)	—	2.7	2.2	2.6	2.9	2.8
Household saving ratio, net (% of disposable income)	—	14.8	11.7	12.7	12.6	11.3
General government financial balance (% of GDP)	—	-5.1	-3.2	-3.7	-2.3	-1.9
General government gross debt (% of GDP)	—	48.3	47.7	50.3	52.0	53.1
General government debt, Maastricht definition <sup>3</sup> (% of GDP)	—	42.0	44.2	43.9	45.6	46.7
Current account balance (% of GDP)	—	-2.8	-4.9	0.4	0.6	0.8

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

2. Consumer price index excluding food and energy.

3. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.

Source: OECD Economic Outlook 115 database.

StatLink  <https://stat.link/qxp0ck>

Supply chain bottlenecks have abated, supporting exports in the automotive industry at the end of 2023 and lowering inventories. Financial conditions are easing but remain tight. Interest rates on new private loans have fallen moderately and loan growth has stabilised, albeit at a subdued rate compared to early 2022. The narrowing of the interest rate differential with the euro area contributed to the depreciation of the koruna.

## Monetary policy is easing while fiscal consolidation is under way

The Czech National Bank (CNB) started to ease monetary policy in December 2023. The key policy rate has been cut three times to 5.75% in March, from 7% (since June 2022). The CNB also lowered the countercyclical capital buffer rate from 2% to 1.75%, effective from April 2024. The projections assume continued monetary easing in 2024 and 2025, with the policy rate reaching 2.75% by the end of 2025. Energy support measures have been phased out in early 2024, and the government announced consolidation measures for 2024 and 2025 of around 1.4% and 0.5% of GDP, respectively. The measures include reductions in subsidies, increases in corporate income and real estate taxes, and the reintroduction of the sickness insurance paid by the employee (currently only paid by the employer).

## **Economic growth will resume in 2024 and pick up in 2025**

As inflation abates, a recovery in real household incomes will support a pick-up in consumer demand. Investment will be bolstered by easing financial conditions and the use of EU recovery and resilience funds. Exports will grow in line with foreign demand. Headline inflation is expected to stabilise around the 2% target for the remainder of 2024 and 2025. Core inflation will decline more slowly due to persistent services inflation and the effects of nominal wage increases. 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. Strong wage increases could hamper the competitiveness of the export-oriented business sector. A strong depreciation of the koruna would lead to higher inflation and force the central bank to slow monetary easing.

## **Reforms are needed to ensure fiscal sustainability and support growth**

The planned fiscal consolidation will help rebuild fiscal buffers and aid the disinflation process, but reforms are needed to ensure fiscal sustainability in the long term. The recently legislated changes to tighten early retirement and lower pension indexation will help to contain ageing-related spending increases. This should be accompanied by the planned reform to link the retirement age to life expectancy. There is scope to further shift the tax burden away from social security contributions towards real estate, consumption and environmental taxes, to reduce distortions, make growth more sustainable and raise revenues. Increasing labour force participation of underutilised groups, such as mothers of young children, including by expanding the supply of childcare facilities and reducing the maximum duration of parental leave, would help to address chronic labour shortages and boost growth. Reforms in the education system and active labour market policies, such as improving vocational training and targeted reskilling programmes, would help workers adapt to the evolving demand for skills during the digital and green transition, fostering productivity growth.



# Denmark

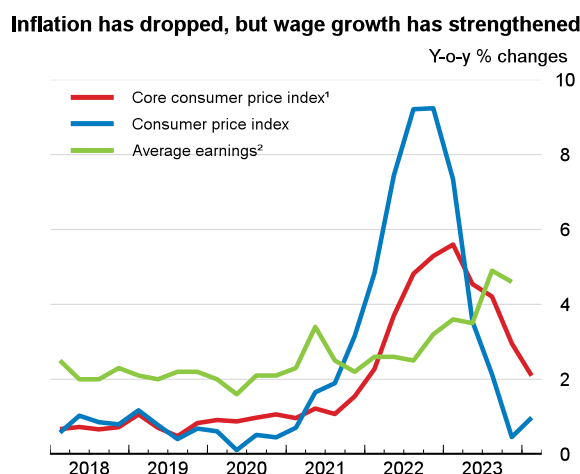
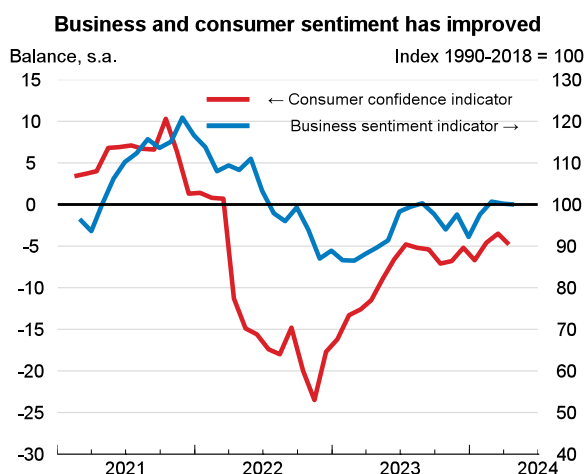
Economic growth is projected to remain robust at 2.3% in 2024 before slowing to 1.5% in 2025. Improving global trade will sustain non-pharmaceutical exports, while growth in the key pharmaceutical sector is set to moderate. Wage rises and ongoing disinflation will increase household purchasing power. Business investment will recover gradually as credit conditions improve and interest rates decrease. The main risks to the outlook relate to performance in the main exporting sectors and stronger than expected effects from rising labour costs on inflation and price competitiveness.

Policy rates are set to start easing in the latter half of 2024 in line with euro area monetary policy. The fiscal stance is mildly expansionary but appropriate given slow growth in the domestic economy. Addressing skills shortages can help mitigate labour market tightness and related inflationary pressures. Reforms are needed to remove financial barriers to work and facilitate international recruitment.

## Economic growth has been strong, but domestic demand has been weak

GDP growth was strong in the final quarter of 2023 (2.6% q-o-q), mainly driven by the pharmaceutical sector and business services. Improved business sentiment and industrial production suggest other sectors have been recovering. Rising consumer confidence and weak inflation have sustained household spending. Headline and core inflation have dropped due to falling energy and food prices reaching 0.9% and 1.7% respectively in March. House prices have been recovering, and transactions in the main cities accelerated before the introduction of a new property tax system in January 2024. Employment has continued to rise, and register-based data suggest that unemployment has remained below its pre-pandemic level, despite a modest increase over the past year. Wage growth has strengthened since mid-2023, broadly in line with signals from wage negotiations.

## Denmark



1. Consumer price index excluding food and energy.

2. Corporations and organisations standardised index of average earnings.

Source: Eurostat, European Commission Business and consumer surveys; Statistics Denmark; and OECD Economic Outlook 115 database.

## Denmark: Demand, output and prices

	2020	2021	2022	2023	2024	2025
	Current prices DKK billion	Percentage changes, volume (2010 prices)				
<b>Denmark</b>						
<b>GDP at market prices</b>	2 320.9	6.8	2.7	1.9	2.3	1.5
Private consumption	1 073.9	5.5	-1.4	1.1	2.2	1.0
Government consumption	574.2	4.6	-2.8	0.0	1.0	1.2
Gross fixed capital formation	514.3	6.6	3.2	-5.0	-5.0	0.4
Final domestic demand	2 162.4	5.5	-0.6	-0.7	0.2	0.9
Stockbuilding <sup>1</sup>	8.2	1.8	0.4	-1.8	-0.5	0.0
Total domestic demand	2 170.6	7.4	-0.2	-2.7	-0.4	0.9
Exports of goods and services	1 279.2	7.7	10.8	13.4	10.3	3.0
Imports of goods and services	1 128.9	8.8	6.5	8.6	7.9	2.4
Net exports <sup>1</sup>	150.3	-0.1	3.0	4.3	2.4	0.7
<i>Memorandum items</i>						
GDP deflator	–	2.9	8.1	-3.5	1.5	2.6
Consumer price index	–	1.9	7.7	3.3	2.1	2.4
Core inflation index <sup>2</sup>	–	1.2	4.0	4.3	2.1	2.4
Unemployment rate (% of labour force)	–	5.1	4.5	4.9	5.3	5.2
Household saving ratio, net (% of disposable income)	–	2.5	6.8	6.5	5.9	6.0
General government financial balance (% of GDP)	–	4.1	3.3	3.1	2.5	1.9
General government gross debt (% of GDP)	–	49.2	34.9	34.0	32.7	33.8
General government debt, Maastricht definition <sup>3</sup> (% of GDP)	–	36.0	29.8	29.3	28.0	29.1
Current account balance (% of GDP)	–	9.1	13.4	10.9	11.1	11.2

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

2. Consumer price index excluding food and energy.

3. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.

Source: OECD Economic Outlook 115 database.

StatLink  <https://stat.link/8ngjv0>

The current account surplus reached 12.6% of GDP at the end of 2023, boosted by soaring sales of anti-obesity medicines in global markets. While demand is expected to keep increasing, constraints on expanding production capacity may temporarily curtail growth prospects in this sector and slow export growth. Rising freight rates following disruptions in the Red Sea will lift revenues from maritime transport, but oversupply of container vessels will increase competition and put downward pressure on prices from mid-2024. The reopening of the Tyra gas field is projected to raise exports by around 0.2% of GDP in 2024 at current gas prices.

## Monetary and fiscal policies will support economic activity

Policy rates will gradually fall from 3.6% in mid-2024 to 2.1% at the end of 2025 in line with the peg to the euro and euro-area monetary policy. Monetary policy pass-through and easing of financial conditions will be gradual due to heightened impairment risks. The fiscal stance is projected to be mildly expansionary in 2024 and 2025. A normalisation of tax revenues from corporate income, which were exceptionally high over the past three years, and rising spending on defence will reduce the government surplus. Wage growth in the public sector following collective agreements in 2023 and 2024, the refund of overpaid housing taxes in 2024 and cuts in personal income tax starting from 2025 will support household purchasing power. Fiscal space will remain large with public debt projected to be 29% of GDP in 2025.

## **GDP growth will stabilise and inflation moderate**

GDP growth is expected to reach 2.3% in 2024, before decelerating to 1.5% in 2025. Strong activity at the end 2023 provides a “carry-over” effect that will boost annual growth in 2024. Growth of pharmaceutical sales is projected to slow, but recovering foreign demand in other sectors will support exports and business investment. Employment will drop moderately as employers adjust to rising labour costs and past productivity losses. Excess savings, wage growth and fiscal measures will support private consumption and housing investment. Inflation is expected to increase temporarily as the negative contribution from energy prices wanes and labour costs translate into prices but should be around 2¼ per cent by the end of 2025. Risks to the projections include stronger activity in the pharmaceutical sector. With the labour market remaining tight, wage growth may exceed expectations, potentially leading to more lays off and a loss of price competitiveness, undermining the export recovery.

## **Addressing labour shortages to reduce risks and boost economic potential**

Risks of persistently high inflation have receded, allowing for a gradual easing of monetary policy. The current fiscal stance is justified as domestic demand remains weak, but it should become more neutral if capacity pressures in the economy emerge. Policies contributing to reducing labour shortages can help to mitigate increases in wage costs. Further targeted cuts in labour income taxation would bolster work incentives and support labour supply. Relaxing migration policies and reducing the administrative burden for international recruitment can ease recruitment difficulties. Reducing gender gaps in STEM fields and modernising vocational education would help employers to find skills needed to adapt to the digital and green transitions. Public support to green investment should be prioritised to complement plans to strengthen carbon pricing, including in agriculture.

# Estonia

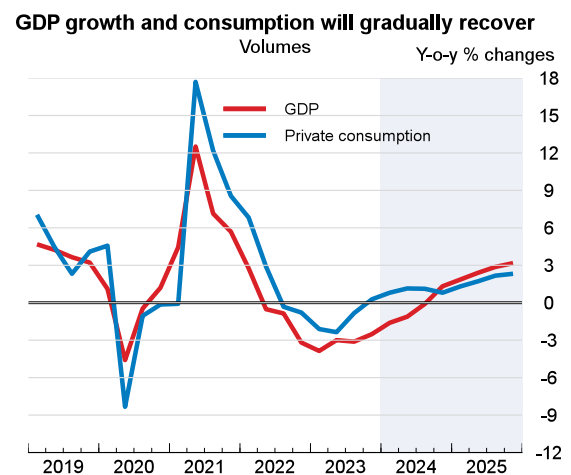
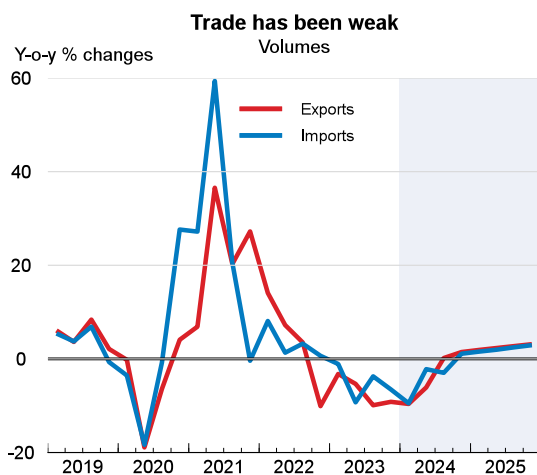
Following a significant downturn, with a further GDP decline of 0.4% this year, growth will pick up to 2.6% in 2025, reflecting a strengthening of trade, higher public investment and lower interest rates. Inflation will continue to moderate, reaching 3.9% in 2024 and 2.1% in 2025. Significant risks stem from developments in export markets, in particular in the Nordic countries, and geopolitical tensions, as well as from stronger than anticipated wage growth that could keep core inflation elevated.

Fiscal policy needs to strike a balance between rebuilding fiscal buffers and supporting economic activity. A consolidation strategy is under way this year, but further measures for next year are yet to be approved. To accommodate emerging spending pressures, consolidation will require additional tax reforms and close attention to spending efficiency. Strengthening productivity growth necessitates upskilling and further progress is needed for the energy transition.

## Economic activity has remained weak

The Estonian economy contracted by 3% in 2023. The weakness was particularly marked in exports, reflecting developments in key export markets, but consumption and investment also declined. The unemployment rate rose in the second half of last year, partly impacted by inclusion of Ukraine migrants, and was 7.7% in February. Inflation continues to decline and stood at 4.1% in March, following a two-percentage point increase in the VAT rate, higher excise duties and an increase in the minimum wage at the beginning of the year. Core inflation fell to 4.9% in the same month. Household consumption started to grow in the fourth quarter of the year but may have been boosted by anticipation of the VAT increase. Short-term indicators point to subdued activity at the beginning of this year. Industrial production, exports and retail sales have remained weak, although some business and consumer confidence indicators appear to have bottomed out.

## Estonia



Source: OECD Economic Outlook 115 database.

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## Estonia: Demand, output and prices

	2020	2021	2022	2023	2024	2025
	Current prices EUR billion	Percentage changes, volume (2015 prices)				
<b>Estonia</b>						
<b>GDP at market prices</b>	27.4	7.4	-0.5	-3.1	-0.4	2.6
Private consumption	13.6	9.3	2.1	-1.3	1.0	1.9
Government consumption	5.7	3.8	0.1	0.8	1.5	2.4
Gross fixed capital formation	7.9	11.3	-4.9	-3.7	3.7	3.0
Final domestic demand	27.3	9.9	-0.4	-1.3	2.1	2.3
Stockbuilding <sup>1</sup>	0.2	1.7	1.2	-1.5	-1.2	0.0
Total domestic demand	27.5	10.3	0.4	-2.8	0.8	2.4
Exports of goods and services	19.0	22.1	3.0	-6.9	-3.7	2.5
Imports of goods and services	19.1	23.5	3.3	-5.2	-3.5	2.2
Net exports <sup>1</sup>	-0.1	-1.0	-0.2	-1.4	-0.2	0.2
<i>Memorandum items</i>						
GDP deflator	–	5.7	16.2	8.1	3.5	2.6
Harmonised index of consumer prices	–	4.5	19.4	9.1	3.9	2.1
Harmonised index of core inflation <sup>2</sup>	–	2.8	10.3	8.7	4.3	2.1
Unemployment rate (% of labour force)	–	6.2	5.6	6.4	7.0	6.8
Household saving ratio, net (% of disposable income)	–	3.6	-4.7	-0.9	0.9	1.7
General government financial balance (% of GDP)	–	-2.5	-1.0	-3.4	-3.2	-3.7
General government gross debt (% of GDP)	–	24.6	25.5	28.6	32.3	36.4
General government debt, Maastricht definition <sup>3</sup> (% of GDP)	–	17.8	18.5	19.6	23.2	27.3
Current account balance (% of GDP)	–	-3.1	-3.6	-2.5	-2.1	-2.4

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

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

3. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.

Source: OECD Economic Outlook 115 database.

StatLink  <https://stat.link/m9wsn7>

Trade continues to be affected by weak economic performance in the region, in particular a slowdown in Nordic housing markets and an adjustment to the loss of markets to the east. Both exports and imports declined last year, notably in manufacturing and construction, although exports of services improved towards the end of the year. The tightening of euro area monetary policy has passed rapidly into domestic financial conditions. Nevertheless, the share of non-performing loans and bankruptcies remains low.

## Fiscal policy needs to balance rebuilding of buffers with stabilisation of the economy

Fiscal policy is focused on rebuilding buffers with the general government deficit above 3% this year and next and mounting spending pressures. A consolidation is under way with value added tax and excise taxes having increased this year. Next year, the headline rates of both corporate and personal income tax will increase by two percentage points and a car tax is being introduced. A gradual phase in of a land valuation update will also lead to higher revenues from the land tax. However, a widening of the basic allowance for the personal income tax will largely offset these revenue gains and the authorities plan to take additional measures. Public investment remains strong underpinned by substantial inflows of funds from the EU Cohesion programmes and the Recovery and Resilience Facility.

## Economic growth will gather momentum in 2025

Real GDP is projected to contract by 0.4% in 2024, reflecting continued weak demand at the beginning of the year. Growth will strengthen to 2.6% in 2025, supported by higher incomes, stronger foreign demand and higher public and business investment. Easing financial conditions and lower inflationary pressures will be key drivers underpinning this recovery. The labour market is projected to weaken slightly with the unemployment rate peaking this year and wage growth moderating. Headline inflation is expected to fall to 2.1% in 2025. Risks are tilted to the downside, including a weaker recovery in key export markets or negative geopolitical developments, while stronger than anticipated wage growth could add to the persistence of core inflation.

## Reforms are needed to underpin productivity growth

Conditional on inflation pressures remaining low, fiscal policy should let the automatic stabilisers work this year, while focusing on narrowing the deficit in the medium term and managing longer-term fiscal pressures. Spending on defence, social benefits, healthcare and interest payments has increased, opening up a structural budget deficit. Alongside the planned spending reviews, Estonia should review the tax system to explore avenues for increasing revenues in the medium term, such as applying a higher tax rate for higher incomes and raising property taxes further. At the same time, to underpin continued productivity growth, efforts to boost skills, support innovation in firms and increase competition in professional services need to be strengthened. Improving childcare availability and extending the ‘father quota’ of parental leave could help to make the most of women’s potential in the labour market. Meeting climate objectives requires upgrading the electricity grid, expanding public transport and more consistent carbon pricing.

# Euro area

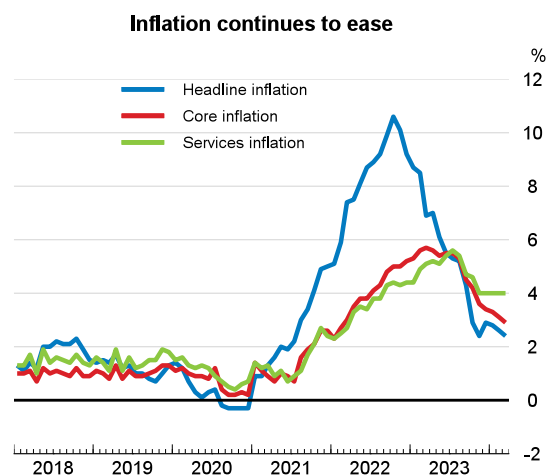
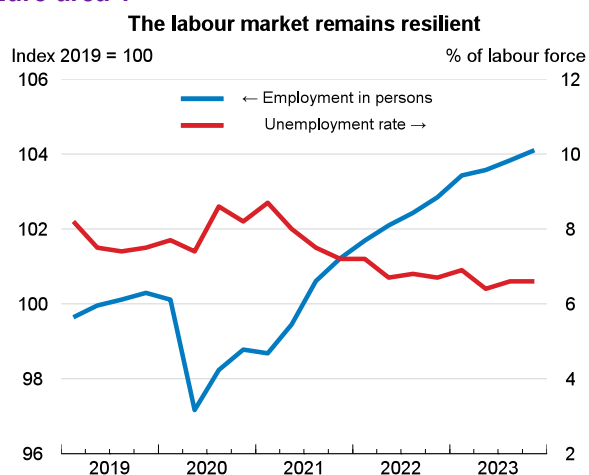
GDP growth is projected to remain weak, at 0.7% in 2024, and pick up to 1.5% in 2025 as domestic demand recovers. Private consumption will be supported by wage increases in tight labour markets and increasing real incomes as inflation recedes. Investment will benefit from a gradual easing of credit conditions and ongoing disbursement of the Recovery and Resilience Facility funds. Wage growth is projected to ease over the projection period, as employment bottlenecks in services moderate, helping core inflation to reach 2% by mid-2025.

Fiscal policy will tighten in 2024 and 2025 as energy support measures are gradually withdrawn. Prudent fiscal policy is needed to rebuild fiscal space and complement the gradual relaxation of the monetary policy stance as inflation returns to target. Fiscally prudent policy under the new European fiscal rules will centre on debt sustainability and multiannual expenditure plans.

## The economy remains resilient amid elevated geopolitical uncertainty

GDP remained flat in the last quarter of 2023, mainly reflecting subdued household consumption and weak export growth. Elevated geopolitical tensions continue to contribute to uncertainty. Forward-looking indicators of sentiment and confidence remain at levels consistent with mild output declines, despite improvements in the composite PMI in March and April, primarily in services. Headline inflation continued to moderate from 2.6% in February to 2.4% in March. Similarly, core inflation decreased from 3.1% in February to 2.9% in March. However, underlying inflation remains sticky with services prices rising by 4% in annual terms, adding to the underlying pressures. However, market-based inflation expectations have eased at all horizons and stabilised at the 2% target from 2025 onwards. At the same time, the labour market has remained tight, with employment expectations among businesses above the long-term average. The euro area seasonally adjusted unemployment rate stood at 6.5% in February, stable compared with January, with labour shortages reflected in continuing robust wage growth in many countries.

### Euro area 1



Source: OECD Quarterly National Accounts database; Eurostat Unemployment rates by sex, age, citizenship database; and Eurostat Harmonised index of consumer prices (HICP) database.

StatLink  <https://stat.link/h8d9aw>

## Euro area: Demand, output and prices

	2020	2021	2022	2023	2024	2025
	Current prices EUR billion	Percentage changes, volume (2015 prices)				
<b>Euro area</b>						
<b>GDP at market prices</b>	11 421.1	5.8	3.5	0.5	0.7	1.5
Private consumption	5 899.6	4.4	4.2	0.5	1.1	1.6
Government consumption	2 559.1	4.2	1.6	0.7	1.1	0.7
Gross fixed capital formation	2 511.1	3.4	2.6	1.4	-0.3	1.6
Final domestic demand	10 969.9	4.1	3.2	0.8	0.8	1.4
Stockbuilding <sup>1</sup>	41.0	0.6	0.4	-0.5	-0.2	0.0
Total domestic demand	11 010.9	4.7	3.6	0.3	0.6	1.4
Net exports <sup>1</sup>	410.2	1.3	0.0	0.2	0.1	0.1
<b>Memorandum items</b>						
GDP deflator	—	2.3	4.7	6.0	2.9	2.0
Harmonised index of consumer prices	—	2.6	8.4	5.4	2.3	2.2
Harmonised index of core inflation <sup>2</sup>	—	1.4	4.0	4.9	2.6	2.1
Unemployment rate (% of labour force)	—	7.7	6.7	6.5	6.6	6.4
Household saving ratio, net (% of disposable income)	—	11.6	7.3	7.8	8.4	8.2
General government financial balance (% of GDP)	—	-5.3	-3.7	-3.5	-2.9	-2.3
General government gross debt (% of GDP)	—	115.2	96.0	96.2	97.0	97.4
General government debt, Maastricht definition <sup>3</sup> (% of GDP)	—	96.8	92.7	90.2	91.1	91.5
Current account balance (% of GDP)	—	4.1	1.4	3.1	2.9	3.0

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.

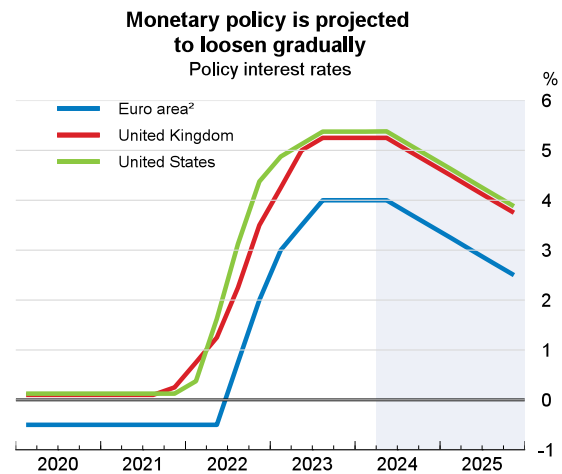
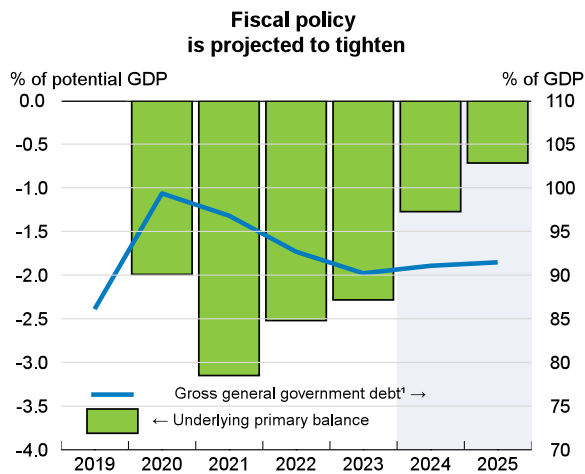
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.

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 115 database.

StatLink  <https://stat.link/912pw8>

## Euro area 2



1. Maastricht definition.

2. The policy interest rate shown for the euro area is the deposit facility rate (DFR).

Source: OECD Economic Outlook 115 database.

StatLink  <https://stat.link/h8z3po>



There was a trade surplus in February 2024, supported by steadily improving economic activity outside the euro area. While services trade recovered, merchandise trade continued to be affected by tight financial conditions and elevated geopolitical tensions. However, the economic fallout in the euro area from Russia's war of aggression against Ukraine has moderated. Energy commodity prices have decreased, with a reduction in demand for natural gas and a strong increase in new installed capacity in renewables in the power sector. At the same time, output in the most energy-intensive industries has continued to decline, weighing on growth. Financial conditions have eased although euro area credit standards remain tight and demand for loans has declined, reflecting high interest rates, subdued consumer confidence and weaker housing markets. Moreover, business bankruptcies have risen towards or above pre-pandemic levels in some countries. EU countries have accorded temporary protection to more than 4 million Ukrainian refugees until March 2025 and the EU has started to disburse funds from the Ukraine Facility, which will provide EUR 50 billion (0.5% of euro area GDP) until 2027 in grants and loans for reconstruction and modernisation.

### Macroeconomic policy will remain restrictive

Although fiscal positions differ significantly across countries, the aggregate euro area fiscal stance is projected to remain restrictive in 2024 and, to a lesser extent, in 2025, with cumulative tightening amounting to 1½% of GDP. Fiscal support to cushion the impact of high energy costs is projected to be gradually withdrawn during 2024. New EU fiscal rules will provide incentives for structural reforms, while introducing safeguards to ensure medium-term fiscal sustainability. At the same time, the war in Ukraine has led to an ongoing increase in military spending and the Next Generation EU (NGEU) programme has triggered investments to ensure energy security and accelerate the green transition, amounting to about 1% of euro area GDP per year. This spending, given supply-side constraints in many countries, needs to be delivered effectively.

The ECB has kept a restrictive monetary policy stance, with the deposit facility rate at 4%. The policy rate is projected to stay at this level until the third quarter of 2024. The deposit facility rate is then projected to gradually decline to 2.5% at the end of 2025, with policy remaining restrictive for some time to durably reduce underlying inflation pressures. A period of below-trend growth will help lower resource pressures, including from buoyant labour markets and the short-term inflationary effects of additional public expenditure associated with the NGEU programme. Public investment is estimated to increase by as much as 2.5% of GDP by the end of the NGEU programme in 2026, crowding in private investment possibly amounting to 5% of GDP over time.

### Growth will strengthen in 2025 as domestic demand picks up

Growth is projected to rebound gradually, amid easing financial conditions, supported by benign energy and commodity prices, and reduced uncertainty. The labour market will remain tight, with historically low unemployment supporting strong wage growth. Real wage growth and resilient employment will support a rebound in consumption, as disinflation continues over the projection period. Investment will be supported by more benign financing conditions and additional spending under the NGEU programme. Headline inflation is projected to moderate further, to 2.3% in 2024 and 2.2% in 2025, as cost pressures moderate. Core inflation is also projected to decline, returning to the ECB inflation target by the middle of 2025.

The risks to the projections are to the downside. An aggravation of geopolitical tensions, such as an escalation of conflict in the Middle East, could weigh on external demand. Higher transport costs resulting from Red Sea shipping disruptions could add to inflationary pressures. Financial stability risks remain elevated in the euro area, as the number of bankruptcies increases, and high interest rates could trigger losses from non-performing loans and real estate exposures. Moreover, policy interest rates may need to stay high for longer than expected, weighing on the recovery. On the upside, a stronger decline in elevated household saving rates would strengthen private consumption. In addition, a durable reduction of geopolitical uncertainty could hasten disinflation and, together with a stronger recovery in China, could help lift external demand.

### **Macroeconomic policies should remain prudent**

The investment needs associated with improvements in energy security and ongoing decarbonisation policies are substantial. At the same time, prudent fiscal policy is needed to support the monetary policy stance and continue rebuilding fiscal space. Effective disbursement of the Next Generation EU funds will help expand productive capacity in the medium term but requires careful design and monitoring at the EU level. To avoid harmful subsidy races and ensure a level playing field, state-aid rules should not be relaxed further, and existing EU budgetary resources should be re-directed towards support for green R&D, innovation and early-stage support coordinated at the EU level. The monetary policy stance should not be relaxed prematurely and be complemented, as needed, by macroprudential policy measures and the use of targeted instruments to address potential vulnerabilities in the financial sector.

# Finland

The Finnish economy contracted by 1% in 2023, with weakness carrying over into a further year-average 0.4% decline in 2024. However, a slow recovery is under way, and growth is projected to reach 1.9% in 2025. Elevated interest rates will continue to weigh on private consumption and residential investment in the short term. Inflation is falling quickly, due to lower commodity prices and weak demand, and will drop further in 2024. This will support real income growth and private consumption. Exports are set to pick up gradually with a recovery in external demand. Unemployment will rise in 2024, reflecting weak labour demand, especially in construction, but edge down in 2025.

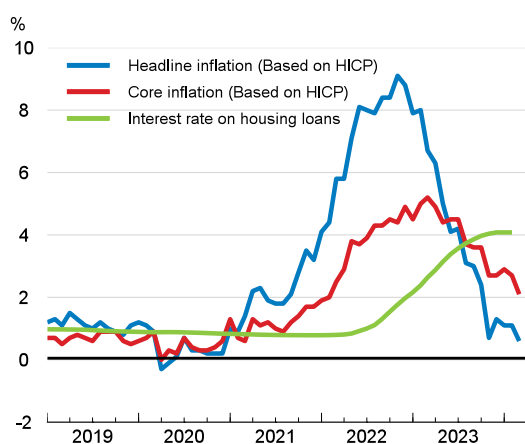
Steady fiscal consolidation is essential, given rising public debt. Proactive immigration policies and strengthening R&D investment would help attract skilled workers and enhance innovation amidst decreasing fertility rates and stagnant productivity growth. Investment in low GHG emissions energy sources and better management of Finland's vast forests remain crucial for achieving the carbon neutrality target by 2035.

## High interest rates continue to weigh on private consumption

The economy contracted in the second half of 2023 due to weak private consumption, housing investment, and services exports. Tighter financial conditions, including elevated mortgage interest rates, continue to depress private demand. Nominal house prices were down by 4.5% in late 2023 from a year earlier and by 11.2% from their peak in mid-2022, further weakening the incentive to build. Headline and core inflation continued to fall, helping to improve consumer purchasing power, with real wages in late 2023 up by 1% over a year earlier. Weak activity has pushed the unemployment rate up from 7% in the first half of 2023 to 8% in the first quarter of 2024.

## Finland

**Inflation declines but market interest rates remain high**



**Consumer and business confidence are subdued**



Source: European Central Bank; Bank of Finland; and European Commission.

StatLink  <https://stat.link/s0w9n1>

## Finland: Demand, output and prices

Finland	2020	2021	2022	2023	2024	2025
	Current prices EUR billion	Percentage changes, volume (2015 prices)				
<b>GDP at market prices</b>	238.0	2.8	1.3	-1.0	-0.4	1.9
Private consumption	121.8	3.2	1.8	0.4	0.6	2.2
Government consumption	57.7	3.9	-1.0	4.5	-0.1	1.0
Gross fixed capital formation	57.2	1.0	2.5	-4.2	-0.2	3.1
Final domestic demand	236.7	2.8	1.3	0.3	0.2	2.1
Stockbuilding <sup>1,2</sup>	1.1	0.0	1.9	-3.3	-2.1	0.0
Total domestic demand	237.9	3.0	3.2	-3.0	-1.7	2.1
Exports of goods and services	85.2	6.2	3.6	-1.7	-1.2	2.7
Imports of goods and services	85.0	6.1	8.4	-7.1	-1.5	3.4
Net exports <sup>1</sup>	0.2	0.0	-1.9	2.6	0.1	-0.3
<i>Memorandum items</i>						
GDP deflator	–	2.4	5.4	4.8	1.5	1.7
Harmonised index of consumer prices	–	2.1	7.2	4.3	1.1	1.8
Harmonised index of core inflation <sup>3</sup>	–	1.2	3.6	4.1	2.0	1.7
Unemployment rate (% of labour force)	–	7.6	6.8	7.2	8.0	7.7
Household saving ratio, net (% of disposable income)	–	2.6	-1.6	-0.8	1.2	-0.4
General government financial balance (% of GDP)	–	-2.8	-0.4	-2.7	-4.3	-3.4
General government gross debt (% of GDP)	–	85.3	81.1	83.7	86.7	87.9
General government debt, Maastricht definition <sup>4</sup> (% of GDP)	–	72.6	73.5	75.8	78.8	80.0
Current account balance (% of GDP)	–	-0.1	-2.5	-1.2	-1.3	-1.5

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 115 database.

StatLink  <https://stat.link/07x93j>

Rising shipping costs from the conflict in the Middle East have had only a limited impact so far in Finland. Russia's ongoing war of aggression against Ukraine is straining the economy by undermining confidence, increasing import costs and affecting foreign tourism, though foreign tourist arrivals picked up in January 2024. In November 2023, Finland closed all passenger crossings at the border with Russia due to Russia's facilitation of undocumented migrant flows.

## Fiscal policy remains expansionary in 2024, but will tighten in 2025

Higher interest rates continue to shape domestic financial conditions, given the high share of mortgages with variable or adjustable rates and high household debt, at around 150% of disposable income. The fiscal deficit expanded in 2023 and is expected to widen further in 2024, mainly due to increased security and defence spending, and reduced unemployment insurance contributions, despite the package of cost-cutting reforms to social welfare coming into effect from April 2024. The government announced a medium-term fiscal plan to raise tax revenues notably by increasing the standard VAT rate by 1½ percentage points to 25.5% by 2025, and to further reduce social security benefits. The fiscal stance is projected to ease by about 1% of GDP in 2024 but is set to tighten by ½ per cent of GDP in 2025. Achieving the government's objective of lowering the overall fiscal deficit to 1% of GDP by 2027 – from a projected deficit of around 4% of GDP this year – remains challenging and hinges on the successful implementation of the planned fiscal consolidation.

## Growth is expected to pick up but downside risks remain

Tighter credit conditions, elevated unemployment and lower house prices are expected to restrain activity in early 2024. However, the projected easing of financial conditions and improved real income growth should lead to a pick-up in private consumption and investment in late 2024. Increased domestic demand will boost imports, but export growth is projected to resume as external markets recover. The unemployment rate is expected to average 8% in 2024, primarily due to the sluggish construction sector, but to fall as labour demand recovers in 2025. Headline inflation is expected to decline further in 2024, partly due to lower commodity prices, but will gradually rebound as domestic demand recovers. The expected increase of the standard VAT rate will also provide a temporary further increase in inflation in early 2025. Core inflation, excluding food and energy, is expected to remain above headline inflation, before converging towards it in 2025. Risks to the outlook are skewed to the downside. High interest rates may depress the economy for longer than expected. Given its border with Russia, Finland is relatively vulnerable to an escalation of tensions in the region. This would raise uncertainty and undermine confidence.

## Reviving productivity is crucial for sustainable growth

Productivity growth has stagnated, and a shortage of skilled workers and declining fertility rates add to longer-term challenges. Policy action is needed to attract and integrate highly skilled foreign labour, increase R&D investment, and strengthen tertiary education participation thus boosting sustainable productivity growth. Fostering employment growth and raising participation of women and the elderly are also important. This should include monitoring, and further adjusting as necessary, reforms already introduced to achieve these goals. Steady fiscal consolidation is a priority to build a fiscal buffer for future shocks and allow increased spending for a sustainable and inclusive recovery. The government needs to regularly review tax expenditures to identify potential efficiency gains and increase targeting of welfare support, while also considering faster normalisation of reduced VAT rates. Enhanced investments in low greenhouse gas emission energy sources, such as wind and nuclear, and improved management of Finland's extensive forests, are critical to achieve the 2035 carbon neutrality goal.

# France

GDP growth is expected to soften to 0.7% in 2024, before rebounding to 1.3% in 2025. Tighter financing conditions will continue to weigh on domestic demand in 2024, while the boost from two major public support programmes will taper off. However, disinflation will bolster household purchasing power and consumption. A moderate improvement in external demand will allow export growth to strengthen gradually. Following the recent slowdown in activity, employment growth will ease and unemployment will rise. Headline inflation is expected to recede to 2.3% in 2024 and 2.0% in 2025.

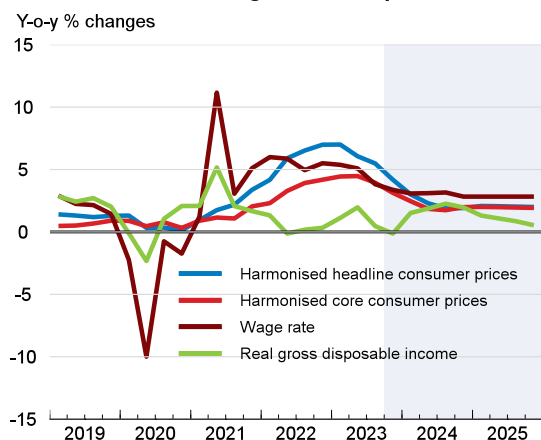
Most of the fiscal support implemented in the context of the inflationary shock has been removed. However, despite recently announced spending cuts of 0.7% of GDP in 2024, the budget deficit is expected to decrease only slowly and to remain at 4.4% of GDP in 2025. Further fiscal consolidation will be needed to reduce public debt, which is projected at 115.6% of GDP in 2025. Improving education from an early age will be key to raising potential growth, achieving greater equity and further reducing gender imbalances. Efforts to promote green alternatives to fossil fuels, housing renovation and energy savings should be strengthened.

## Activity stalled in the second half of 2023

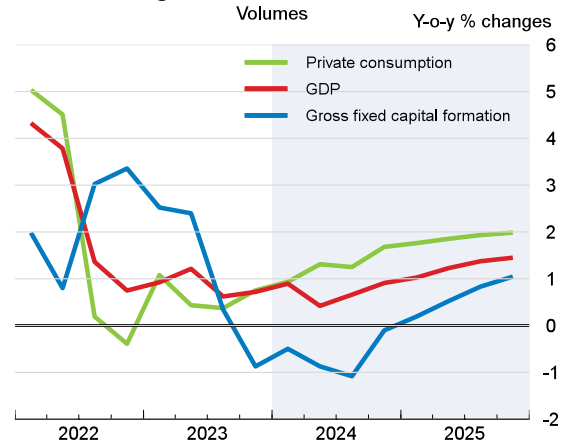
GDP was broadly stable in the second half of 2023. Investment declined following a tightening of financial conditions. Exports were stable in a context of weak external demand. A decline in inflation and strong wage growth supported purchasing power improvements in the fourth quarter of 2023, but household consumption stagnated amid rising household savings. Inflation eased further in early 2024, with headline and core readings falling to 2.4% and 2.2%, respectively, in March 2024. Business survey indicators generally point to ongoing weakness in growth in early 2024. Following the slowdown in activity, employment lost momentum, and the unemployment rate increased slightly to 7.4% in February 2024.

## France 1


**Disinflation will strengthen real disposable incomes**



**GDP growth will remain moderate**



Source: OECD Economic Outlook 115 database.

StatLink  <https://stat.link/jshf47>

## France: Demand, output and prices

	2020	2021	2022	2023	2024	2025
	Current prices EUR billion	Percentage changes, volume (2014 prices)				
<b>France</b>						
<b>GDP at market prices</b>	2 316.9	6.4	2.5	0.9	0.7	1.3
Private consumption	1 232.7	5.1	2.3	0.7	1.3	1.9
Government consumption	575.7	6.5	2.6	0.5	0.1	0.4
Gross fixed capital formation	539.0	10.2	2.3	1.1	-0.6	0.6
Final domestic demand	2 347.4	6.6	2.3	0.7	0.6	1.3
Stockbuilding <sup>1</sup>	18.2	-0.6	0.7	-0.4	-0.5	0.0
Total domestic demand	2 365.6	6.0	3.1	0.3	0.0	1.3
Exports of goods and services	633.3	10.7	7.4	1.5	1.4	1.8
Imports of goods and services	682.0	9.2	8.8	-0.1	-0.6	1.7
Net exports <sup>1</sup>	- 48.7	0.2	-0.6	0.5	0.7	0.0
<b>Memorandum items</b>						
GDP deflator	—	1.4	2.9	5.5	2.4	1.9
Harmonised index of consumer prices	—	2.1	5.9	5.7	2.3	2.0
Harmonised index of core inflation <sup>2</sup>	—	1.3	3.4	4.0	2.0	2.0
Unemployment rate <sup>3</sup> (% of labour force)	—	7.9	7.3	7.3	7.7	7.8
Household saving ratio, gross (% of disposable income)	—	18.6	17.2	17.3	17.8	17.0
General government financial balance (% of GDP)	—	-6.6	-4.8	-5.5	-5.2	-4.4
General government gross debt (% of GDP)	—	137.2	116.1	117.1	120.1	122.1
General government debt, Maastricht definition <sup>4</sup> (% of GDP)	—	113.1	112.0	110.5	113.6	115.6
Current account balance (% of GDP)	—	0.4	-2.0	-1.2	-1.0	-1.0

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

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

3. National unemployment rate, includes overseas departments.

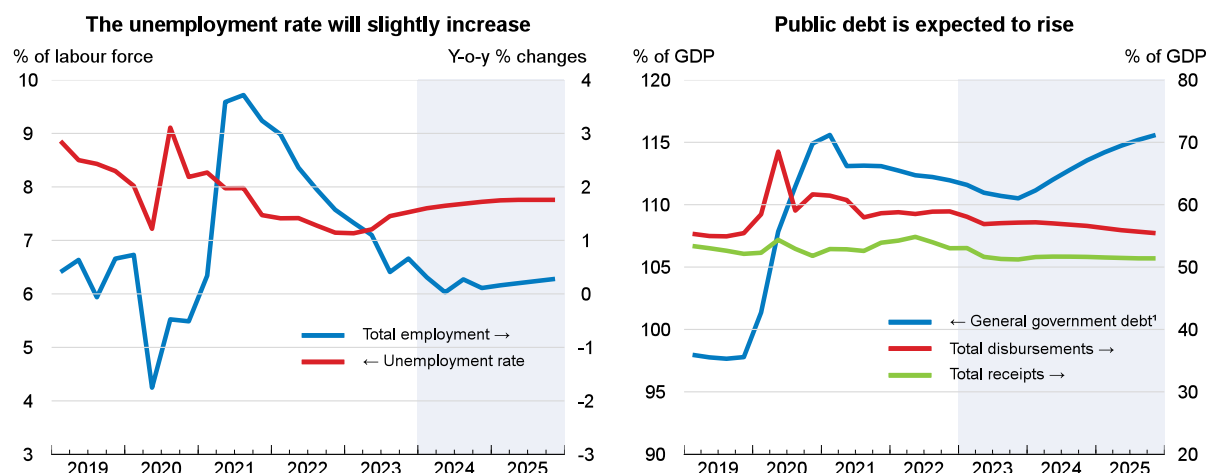
4. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.

Source: OECD Economic Outlook 115 database.

StatLink  <https://stat.link/yuk50t>


Broadly stable commodity prices will allow inflation to continue to fall. Well-filled order books in aeronautics and the continuing easing of supply bottlenecks point to a gradual recovery in exports of transport equipment, which were still 17% below their end-2019 level at the end of 2023.

## France 2



1. Maastricht definition.

Source: OECD Economic Outlook 115 database.

StatLink  <https://stat.link/uw7kml>



## Government support is weakening

Higher interest rates weigh on credit growth, which has slowed for businesses and households. Growth in housing loans fell from 4.9% year-on-year in February 2023 to 0.5% in February 2024, while consumer and corporate lending has also slowed significantly. This may start to reverse as financial conditions ease as of mid-2024. Government support for investment from the France Relance and France 2030 plans will still be sizeable in 2024 and 2025, but less than in 2023.

Most of the support measures implemented in the context of the energy price shock have been removed. In early 2024, the Government announced a spending cut of EUR 10 billion (0.4% of GDP), resulting from a cut in operating expenses across all ministries, and to a lesser extent from reductions in public development aid, housing renovation subsidies and cost savings in public agencies. In April, additional savings of EUR 10 billion have been announced, the details of which remain to be defined. No new spending cuts have been announced for 2025, but fiscal consolidation is expected to continue. Thus, the fiscal stance is expected to be tightened by 0.6% of GDP in 2024 and 0.9% in 2025. However, the budget deficit is expected to remain significant at 4.4% of GDP in 2025.

## A moderate recovery is expected in 2025 after a slowdown in 2024

In 2024, GDP growth is expected to slow to 0.7% from 0.9% in 2023. Tight financial conditions will weigh on investment and consumption, while weak external demand will limit export growth. Public consumption and investment are expected to slow due to fiscal restraint. By contrast, private consumption is expected to gain momentum amid falling inflation, with this continuing in 2025. Lower interest rates as of mid-2024 and an improvement in demand prospects will allow a moderate recovery in private investment. Exports are also expected to rise but the contribution of foreign trade to growth is projected to be neutral. Overall, GDP is expected to grow by 1.3% in 2025. The unemployment rate is projected to increase slightly in 2024 and 2025, amid weak growth.

Downside risks to activity are mainly external. A resurgence of geopolitical tensions could undermine the expected export recovery. By contrast, the recovery in transport equipment exports, which remain well below their pre-pandemic level, could be stronger than projected. In addition, the household savings ratio remains significantly above its pre-pandemic levels and could decrease faster than expected, boosting consumption, but potentially also inflation. The ongoing slowdown in the housing market could become more pronounced, even if shorter than expected. Housing investment fell by 8.1% between mid-2022 and the fourth quarter of 2023 and house prices have decreased by 3.4% from their peak at the end of 2022.

## Further fiscal consolidation will be needed

With public debt close to 111% of GDP at the end of 2023, a medium-term fiscal plan is needed to underpin fiscal consolidation. The additional spending cut in 2024 is welcome, but further consolidation efforts will be needed to reduce debt more decisively, including by reining in the wage bill of public administrations, and by streamlining social, healthcare and tax expenditures. Spending on public pensions, health and long-term care is expected to rise by about 4% of GDP by 2040 due to population ageing. The pension reform implemented in 2023 will help to address this issue but may well be insufficient to balance the accounts of the pension system. Fiscal sustainability would be facilitated by an increase in potential growth, driven by ambitious structural reforms. Lifting productivity growth hinges on a wider diffusion of digital technologies, lower regulatory barriers and stronger innovation. Potential growth could also be boosted through reforms to make the education system more effective and inclusive from an early age, and by promoting innovative practices in teaching to meet the different needs of pupils. Policies to promote renewable alternatives to fossil fuels, housing renovation and energy savings have been put in place in recent years and should be reinforced.



# Germany

The economy is projected to grow by 0.2% in 2024 and 1.1% in 2025. Continued disinflation and rising wages will support real incomes and private consumption. Private investment will gradually pick up, helped by the relocation of supply chains, digitalisation and renewable energy expansion. It will be supported by high corporate savings and slowly declining interest rates. However, policy uncertainty related to the financing of planned fiscal incentives for green investments will continue to weigh on investor confidence. Exports will slowly recover as global demand strengthens.

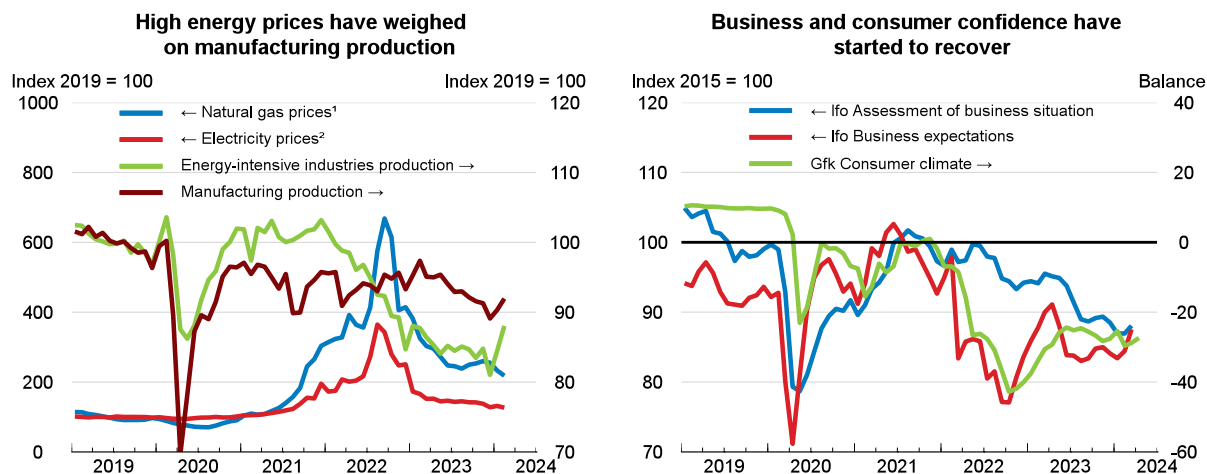
Increasing public spending efficiency, reducing environmentally harmful tax expenditures and enhancing tax enforcement would create fiscal space to address a large infrastructure backlog and support green investments. This should be combined with introducing more flexibility in the national fiscal rules. Continuing to reduce the administrative burden, digitalise the public administration and improve infrastructure implementation capacity, particularly at the municipal level, is also essential to raise public and private investment. Skilled labour shortages should 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.

## Private consumption has started to recover but investment has weakened

GDP declined by 0.3% in the fourth quarter of 2023. Strong nominal wage gains and declining inflation boosted household purchasing power and private consumption. High interest rates and increased policy uncertainty about the financing of planned investment incentives for the green transition have weighed on business and residential investment. Industrial production was 4.9% lower in February than a year earlier but increased compared to January 2024, with energy-intensive production rising by 4.2% on the month, helped by falling energy prices. Business confidence started to recover in February and March. Producer prices were 2.9% lower in March than a year earlier. Despite an increase in carbon prices for transport and heating, and the phase-out of energy price support measures in January, energy prices have continued to fall, leading to a decline in headline inflation to 2.3% in March. Core inflation is still high at 3.2%, mainly due to services price inflation and also the phase-out of VAT reductions for hospitality sectors in January 2024. Tax-exempt inflation compensation premiums and wage bargaining outcomes led to a strong rise in nominal wages by 5.3% in the fourth quarter of 2023. The unemployment rate was stable at 3.2% in February, with vacancies remaining high.

Export values have proved relatively resilient in recent months despite the negative impact of tight financial conditions on global demand for investment goods and rising global tensions. However, the value of total exports in January and February was still 2.1% below the same period one year earlier. Exports to non-EU countries decreased in March by 0.8% compared to February. The large export order backlog will continue to provide some support for exports, particularly in the automobile industry, ahead of a recovery in global demand.

## Germany 1



1. Prices of natural gas sold to industry.
  2. Electricity prices, when delivered to special contract customers.
- Source: Federal Statistical Office; ifo business surveys; and GfK.

StatLink <https://stat.link/kci5q7>

## Germany: Demand, output and prices

	2020	2021	2022	2023	2024	2025
<b>Germany</b>	Current prices EUR billion	Percentage changes, volume (2015 prices)				
<b>GDP at market prices</b>	3 396.7	3.1	1.9	-0.1	0.2	1.1
Private consumption	1 706.6	1.5	3.9	-0.6	1.0	1.2
Government consumption	749.6	3.1	1.6	-1.5	1.0	0.6
Gross fixed capital formation	730.4	-0.3	0.2	-0.2	-1.8	1.5
Final domestic demand	3 186.6	1.5	2.5	-0.7	0.3	1.1
Stockbuilding <sup>1</sup>	14.5	0.9	0.7	-0.1	-0.2	0.0
Total domestic demand	3 201.2	2.5	3.4	-0.7	0.1	1.1
Exports of goods and services	1 473.3	9.5	3.4	-1.7	-0.6	2.7
Imports of goods and services	1 277.7	8.8	6.8	-3.0	-0.8	2.8
Net exports <sup>1</sup>	195.6	0.8	-1.2	0.6	0.1	0.1
<b>Memorandum items</b>						
GDP without working day adjustments	3403.7	3.2	1.8	-0.3	0.2	1.0
GDP deflator	—	3.0	5.3	6.6	3.5	1.7
Harmonised index of consumer prices	—	3.2	8.7	6.0	2.4	2.2
Harmonised index of core inflation <sup>2</sup>	—	2.2	3.9	5.1	2.8	2.2
Unemployment rate (% of labour force)	—	3.6	3.1	3.0	3.1	3.0
Household saving ratio, net (% of disposable income)	—	14.9	11.1	11.4	11.3	11.2
General government financial balance (% of GDP)	—	-3.6	-2.5	-2.1	-1.5	-0.9
General government gross debt (% of GDP)	—	79.3	65.5	65.3	65.8	65.9
General government debt, Maastricht definition <sup>3</sup> (% of GDP)	—	69.2	66.2	63.6	64.2	64.3
Current account balance (% of GDP)	—	7.8	4.4	6.7	6.4	6.4

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

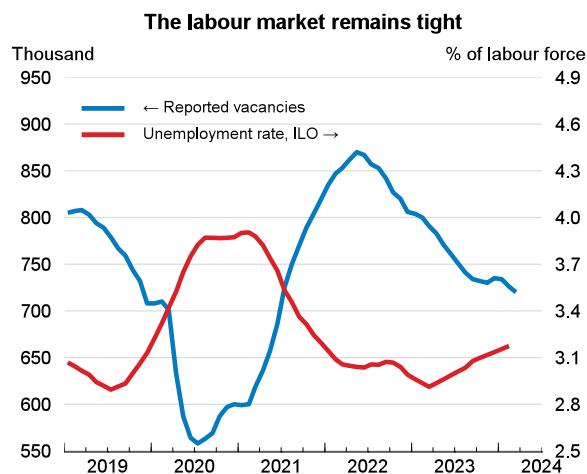
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.

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 115 database.

StatLink <https://stat.link/kxz78d>

## Germany 2



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

StatLink  <https://stat.link/to7ka6>

## Fiscal policy will be restrictive

The fiscal stance will tighten in 2024-25 by around 1.6% of GDP over the two years. This 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 by EUR 60 billion and the closure of the energy support fund. This will significantly reduce spending on public investments and fiscal incentives for private investments for the green transition. The closing of the energy support fund has led to the phasing out of energy price support measures in January and the cancellation of planned grid charge reductions.

The Supreme Court ruling greatly increased uncertainty about future spending from the Climate and Transformation Fund, including plans to extend subsidies to reduce energy costs for businesses until 2030. To ensure that the 2023 budget complied with the ruling, the national debt brake had to be suspended for 2023, following previous suspensions in 2020-21 due to the pandemic and in 2022 due to the energy crisis. The 2024 budget had to be revised to comply with the ruling, with spending cuts in several areas, including reductions in tax expenditures on diesel used by agricultural producers. Medium-term uncertainty for investors remains high as several projects related to the Climate and Transformation Fund were planned for 2025-26, and the revised 2024 budget does not address the financing issues for these projects in the coming years.

## The economy will slowly recover due to rising private consumption

GDP growth will gradually improve driven by a recovery of private consumption, as households' purchasing power rises amid high nominal wage increases and receding inflation. The gradual easing of tight financial conditions from the second half of 2024 will allow business and residential investment to pick up, although uncertainty about fiscal support for green investments and measures to reduce energy costs for firms will continue to weigh on business investment. However, previously accumulated large corporate cash buffers and the investment needs due to supply chains realignment, digitalisation and green transformation will partly offset these negative effects. Export growth will strengthen in 2025, as key export markets recover due to the projected easing of global financial conditions. With restrictive fiscal policy, headline inflation

will converge to 2% by the end of 2025, but core inflation will prove sticky, reflecting the impact of wage gains amidst skilled labour shortages.

A prolonged period of policy uncertainty related to the financing of support measures for firms and workers during the green transition could hamper consumer and investor confidence and hold back business investment and private consumption growth. An escalation of tensions in the Middle East could 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.

### **Advancing the green and digital transitions requires more investment**

To expand renewable energy supply and raise energy security, it is crucial to continue shortening the time needed for complex planning and approval procedures for infrastructure investments at the municipal and Länder 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 investments. Shifting the tax burden away from labour towards capital income and wealth, for example by reducing generous 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 result in 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 workers and help to stabilise pension spending amidst rising fiscal pressures due to ageing. Implementing plans for a centralised and transparent e-procurement platform for tenders from 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

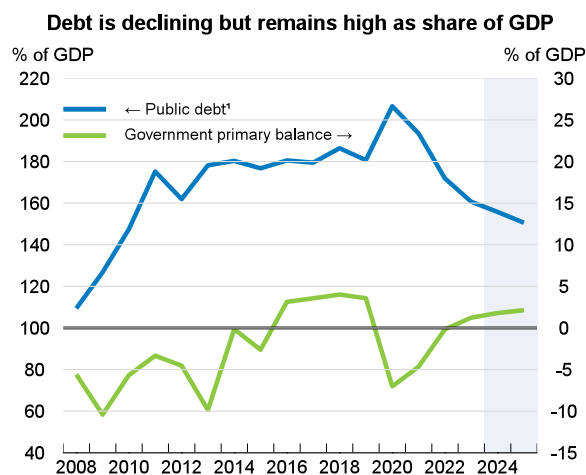
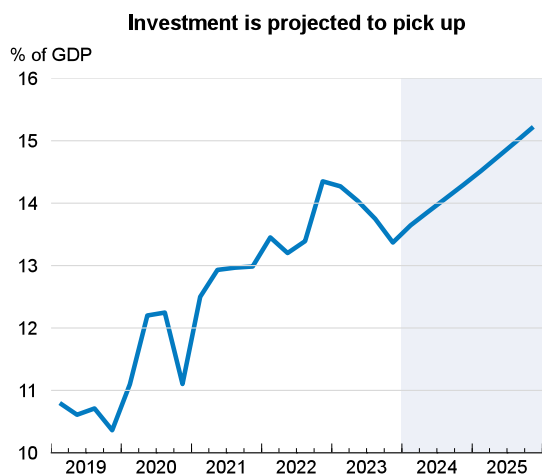
Growth will remain at 2.0% in 2024 before picking up to 2.5% in 2025. Rising employment and real wages will strengthen consumption. The disbursement of EU Recovery and Resilience funds will support investment despite tight financial conditions. Inflation will continue to fall, but at a slower pace, returning close to target by the end of 2025.

In light of high public debt, the projected decline of the budget deficit over the next two years is appropriate. However, spending needs are large, including due to low investment during the decade-long economic crisis, population ageing and the costs of addressing climate change. Boosting Greece's low productivity would help create more fiscal space and raise living standards at the same time. This entails further progress in removing obstacles to invest, notably by strengthening the efficiency of the judicial system and improving regulations, and shifting public expenditures towards investment.

## The economy remains resilient

Real GDP growth stalled during the second half of 2023 as floods in September 2023 temporarily disrupted transport links and affected especially agricultural production. Business expectations have improved and continue to point towards an expansion. Headline inflation has declined to 3.4% in March 2024, despite higher food prices. Employment growth has slowed, but the employment rate and labour shortages remain historically high. Annual wage growth picked up to 5.5% in the fourth quarter of 2023, with the minimum wage increasing by 9.4% in April 2023 and increasing again by 6.4% in April 2024.

## Greece



1. Gross public debt, Maastricht definition.  
Source: OECD Economic Outlook 115 database.

StatLink  <https://stat.link/One29b>

## Greece: Demand, output and prices

	2020	2021	2022	2023	2024	2025
	Current prices EUR billion	Percentage changes, volume (2015 prices)				
<b>Greece</b>						
<b>GDP at market prices</b>	165.3	8.3	5.7	2.0	2.0	2.5
Private consumption	115.5	7.8	7.7	1.6	1.7	0.9
Government consumption	37.6	3.7	2.4	1.6	1.4	0.7
Gross fixed capital formation	19.3	19.6	11.9	3.9	2.8	9.1
Final domestic demand	172.4	8.3	7.1	1.9	1.8	2.0
Stockbuilding <sup>1,2</sup>	5.5	-0.9	-1.1	-0.8	1.5	0.0
Total domestic demand	177.9	7.3	6.0	0.9	3.3	1.9
Exports of goods and services	52.9	21.9	5.8	2.8	1.3	2.9
Imports of goods and services	65.5	16.1	7.1	1.4	3.4	1.6
Net exports <sup>1</sup>	-12.6	0.7	-1.1	0.6	-1.1	0.4
<i>Memorandum items</i>						
GDP deflator	—	2.1	7.3	4.9	2.4	2.0
Harmonised index of consumer prices	—	0.6	9.3	4.2	3.0	2.3
Harmonised index of core inflation <sup>3</sup>	—	-1.1	4.6	5.3	2.9	2.3
Unemployment rate (% of labour force)	—	14.7	12.4	11.1	9.8	9.7
General government financial balance <sup>4</sup> (% of GDP)	—	-6.9	-2.5	-1.6	-0.6	-0.4
General government gross debt (% of GDP)	—	225.8	192.8	183.4	178.5	173.3
General government debt, Maastricht definition <sup>5</sup> (% of GDP)	—	193.6	171.9	160.7	155.8	150.6
Current account balance <sup>6</sup> (% of GDP)	—	-6.6	-10.1	-6.7	-6.0	-4.0

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

2. Including statistical discrepancy.

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

4. National Accounts basis. Data also include Eurosystem profits on Greek government bonds remitted back to Greece, and the estimated government support to financial institutions and privatisation proceeds.

5. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.

6. On settlement basis.

Source: OECD Economic Outlook 115 database.

StatLink  <https://stat.link/3eymbk>

Borrowing costs for businesses have increased due to higher market interest rates. New business lending slowed in January 2024 but remained high compared to pre-pandemic levels. However, borrowing costs for the government have decreased due to lower risk premia, as Greek government bonds have regained investment grade. Interest rates on 10-year government bonds fell by 100 basis points and spreads to German bonds halved in the year to March 2024. Energy prices declined by 18% in the year to March 2024, although food prices continued to increase by 9.7%. Tourism has grown strongly, with travel receipts rising by 41.5% over the year to December 2023, mostly reflecting higher traveller inflows.

### The debt-to-GDP ratio will continue to decline

The primary surplus stood at 1.2% of GDP for 2023 and is projected to reach 1.8% in 2024 and 2.1% in 2025. A growing economy and further progress in combatting tax evasion will bolster revenues. Emergency energy measures, which amounted to 1% of GDP in 2023, are planned to be phased out in 2024. Additional spending measures for 2024 amounting to 0.4% of GDP include a public sector wage reform, discounts for taxpayers with children, and increases in the minimum guaranteed income. Government expenditure financed by the EU Recovery and Resilience Funds, amounting to 1.7% of GDP in 2024 and 2.3% of GDP in 2025, will support real investment growth of about 9% by 2025 if undertaken effectively. Public debt is expected to fall from 161% of GDP in 2023 to 151% by 2025.

## Growth will pick up

Growth is projected to continue at 2.0% in 2024 before picking up to 2.5% in 2025. Consumption growth will pick up in 2024 as real wage increases, employment gains, and strong tourism inflows support incomes and spending. Continuous improvements in bank health and the disbursement of Recovery and Resilience Funds will support investment growth. Inflationary pressures from growing wages will continue into early 2025, but headline and core inflation are projected to decline gradually, reaching 2.1% year-on-year in last quarter of 2025. Delays in disbursing Recovery and Resilience Funds could weaken investment, while weaker euro area growth would lower tourism demand. Excessively high wage growth – exceeding productivity gains – would undermine previous competitiveness gains, denting export prospects.

## Boosting productivity and fiscal consolidation are key challenges

Fiscal consolidation remains a priority as the high debt level exposes Greece to market risks. Sustained strong economic growth will be required to achieve debt reductions in the face of high spending needs. Productivity remains one third below the OECD average. Making the judicial system more efficient, reducing remaining regulatory burdens in retail and professional services, and providing more and better-quality training to adults could boost productivity-enhancing private investment. A large part of the public investment needed to support growth will have to be financed from the budget after the Recovery and Resilience Funds end in 2026, notably by containing the wage bill, reducing the fragmentation of public procurement, pursuing further digitalisation and simplification of public services and broadening the number of taxpayers.

# Hungary

GDP is projected to grow by 2.1% in 2024 and 2.8% in 2025, after a decline of 0.9% in 2023. Lower inflation and interest rates are expected to support private consumption and investment. In addition to risks related to international trade and global commodity prices, the main uncertainties for the Hungarian economy concern the pace of fiscal consolidation and the outcome of the negotiations about the delivery of EU funds.

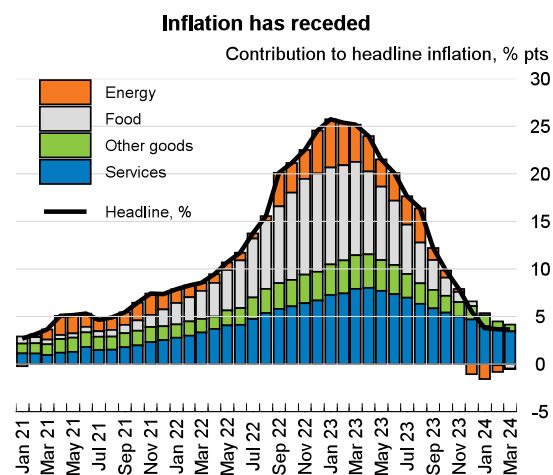
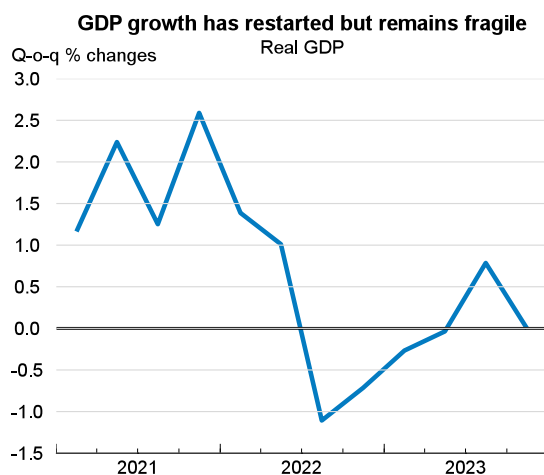
Further fiscal consolidation is needed to rebuild fiscal space and strengthen public debt sustainability. Reforming the public pension system will be key to contain the projected increase in ageing-related costs. Productivity growth could be bolstered by strengthening competition in the energy, transport, professional services and telecommunication sectors. This, and a wider diffusion of digital skills, would accelerate the digitalisation of firms.

## Growth has gained momentum but remains fragile

After a decline from mid-2022 until mid-2023, output rose in the third quarter of 2023 but stalled in the fourth quarter. Inflation has declined from over 25% in January 2023 to 3.6% in March 2024, allowing real wage and private consumption growth to resume in the second half of 2023. While business confidence remains low, especially in the construction and retail sectors, consumer confidence is slowly improving. The labour market is holding up well, with only a limited increase in unemployment from 3.5% to 4.4% since June 2022, while employment increased slightly.

Hungary is currently attracting significant foreign direct investment in the manufacturing sector, mainly in relation to electric mobility, and this will eventually boost export capacity. Nevertheless, exports are currently held back by the slow growth in EU trading partners, which account for 80% of Hungarian exports.

## Hungary



Source: OECD National Accounts database; OECD Consumer Prices database; and OECD calculations.

StatLink  <https://stat.link/5o16hr>



## Hungary: Demand, output and prices


	2020	2021	2022	2023	2024	2025
	Current prices HUF billion	Percentage changes, volume (2015 prices)				
<b>Hungary</b>						
<b>GDP at market prices</b>	48 444.5	7.1	4.6	-0.9	2.1	2.8
Private consumption	23 967.6	4.6	7.1	-2.0	5.0	3.1
Government consumption	10 347.2	1.8	2.9	1.2	1.7	1.8
Gross fixed capital formation	12 845.5	5.7	1.4	-7.4	0.2	4.2
Final domestic demand	47 160.3	4.2	4.5	-2.9	3.0	3.1
Stockbuilding <sup>1</sup>	350.4	2.0	-0.3	-3.0	-0.5	0.0
Total domestic demand	47 510.7	6.3	3.9	-5.2	2.5	3.1
Exports of goods and services	38 113.7	8.3	11.4	0.9	-0.3	4.4
Imports of goods and services	37 180.0	7.3	10.8	-4.3	-0.6	5.1
Net exports <sup>1</sup>	933.8	0.9	0.5	4.9	0.2	-0.2
<i>Memorandum items</i>						
GDP deflator	—	6.4	14.2	14.7	7.1	3.8
Consumer price index	—	5.1	14.6	17.1	4.0	3.9
Core inflation index <sup>2</sup>	—	4.5	10.2	13.8	5.5	3.6
Unemployment rate (% of labour force)	—	4.0	3.6	4.1	4.6	4.2
Household saving ratio, net (% of disposable income)	—	13.1	8.5	10.6	12.8	12.0
General government financial balance (% of GDP)	—	-7.2	-6.2	-6.7	-4.5	-3.7
General government gross debt (% of GDP)	—	88.8	77.5	82.3	82.4	82.8
General government debt, Maastricht definition <sup>3</sup> (% of GDP)	—	76.7	74.1	73.5	74.1	74.5
Current account balance (% of GDP)	—	-4.3	-8.5	0.2	0.8	0.5

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

2. Consumer price index excluding food and energy.

3. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.

Source: OECD Economic Outlook 115 database.

StatLink  <https://stat.link/7w1sqj>

## Monetary policy is easing gradually and fiscal consolidation is under way

The central bank started to lower its effective policy rate in the spring of 2023. Considering the uncertainty around exchange rate developments and the need to fight remaining inflationary pressures, as reflected by inflation excluding food and energy prices at 6.3% in March 2024, further monetary easing is expected to proceed in a gradual manner. The monetary policy rate is projected to decline to 6-7% by mid-2024 and to stabilise at 5% in 2025. Fiscal consolidation is under way. While the headline deficit increased marginally to 6.7% of GDP in 2023, the structural primary deficit declined by 2.8 percentage points of GDP. A consolidation of similar magnitude is expected for 2024, driven by lower spending on energy subsidies due to lower energy prices, and a rebound in VAT receipts along with increasing private consumption. Hardly any improvement in the structural primary balance is expected for 2025. The projected decline in the headline deficit, from 4.5% of GDP in 2024 to 3.7% in 2025, is mainly related to the improving growth outlook. Significant risks surround this projection, as fiscal objectives were substantially and repeatedly revised downwards in the last months, and the design of the energy price support scheme to households exposes public finances to fluctuations in global energy prices.

## Economic growth is expected to rebound from 2024

Growth is projected to strengthen gradually in 2024 and 2025. Disinflation is supporting a rebound in real wages and private consumption. Further monetary easing will underpin investment, despite uncertainty about the international environment related to international trade, energy prices, exchange rate

developments and the release of EU funds. Government consumption growth is expected to resume, but will be constrained by the need to reduce the fiscal deficit. Due to slow growth in main trading partners including Germany, exports are expected to pick up only gradually, but the availability of new manufacturing capacity may boost exports from end 2024 onwards. Beyond uncertainty about external demand and energy prices, the main risk to the economic outlook in Hungary is the timing of the release of EU funds which are conditional on rule-of-law reforms. Failing to reach an agreement on the complete delivery of those funds may curb investor confidence, increase the cost of capital, and put renewed pressure on the exchange rate. On the other hand, a full release of the EU funds would contribute to boost public investment.

### **Structural reforms are needed for stronger and more sustainable growth**

Reforming public pensions would limit the increase in ageing-related costs, which is projected to exceed 5 percentage points of GDP by 2070 under the current legislation. Reducing the budget deficit as planned will provide space to finance the green transition and any remaining ageing-related costs once pensions have been reformed. Restructuring energy support by moving from price caps to targeted cash transfers for vulnerable households would increase incentives for energy savings and improvements to the energy efficiency of dwellings, reduce the exposure of the public finances to fluctuations in energy prices, and lower Hungary's dependence on energy imports. 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.

# Iceland

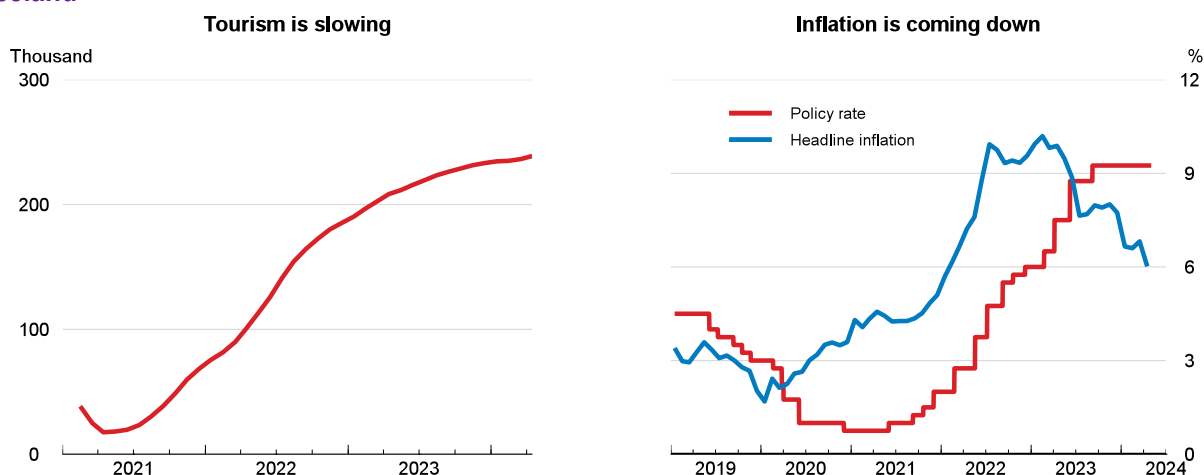
Economic growth will decline to 1.9% in 2024 as exports slow but rebound to 2.8% in 2025. Private consumption will remain lacklustre in the near term, reflecting subdued real wages, but will pick up in 2025 as disposable income strengthens. Business investment will remain weak in 2024 as confidence is fragile but will regain momentum in 2025 as financial conditions ease. Housing investment will resume after three years of contraction. Foreign tourism will hardly grow due to capacity constraints. The unemployment rate will edge up to near 4%.

The central bank has left the policy rate unchanged at 9.25% since August 2023. Consumer price inflation is still high at close to 7%, and inflation is projected to remain above the target of 2.5% in 2024 and 2025, warranting continued central bank vigilance. Fiscal policy was contractionary in 2023 and is set to tighten further despite additional disaster-related spending, to help reduce inflationary pressures and maintain fiscal space. Lower barriers to business entry, notably for foreigners, and less red tape in the professions could help spur underlying growth and diversify the economy.

## The economy is slowing


Economic growth is slowing as foreign tourism is declining due to capacity constraints. Tourism is also being affected by closures of tourist sites such as the Blue Lagoon because of volcanic activity. Consumption is held back by low confidence and subdued, albeit rising real wages. Business investment remains weak as financial conditions continue to tighten. Housing investment is picking up. The unemployment rate is rising gradually but remains below 3.5% and the labour market remains tight with persisting labour shortages in some sectors. Eruptions continue to threaten the Reykjanes peninsula, damaging houses and infrastructure and requiring emergency measures such as building protective dams.

## Iceland



1. Passengers who go through security at Keflavik Airport. 12-months moving average.

Source: Statistics Iceland; and Central Bank of Iceland.

StatLink  <https://stat.link/oth5k4>

## Iceland: Demand, output and prices

	2020	2021	2022	2023	2024	2025
	Current prices ISK billion	Percentage changes, volume (2015 prices)				
<b>Iceland</b>						
<b>GDP at market prices</b>	2 929.2	5.1	8.9	4.1	1.9	2.8
Private consumption	1 522.0	6.9	8.3	0.5	0.9	2.7
Government consumption	822.2	2.3	2.3	2.2	2.0	1.5
Gross fixed capital formation	621.5	14.1	15.1	-0.6	2.1	3.6
Final domestic demand	2 965.7	7.1	8.2	0.7	1.5	2.6
Stockbuilding <sup>1</sup>	3.2	-0.1	-0.1	0.6	0.2	0.0
Total domestic demand	2 968.9	7.0	8.1	1.4	1.7	2.6
Exports of goods and services	975.7	14.6	22.3	4.8	1.7	3.4
Imports of goods and services	1 015.4	19.9	20.0	-1.4	1.1	2.9
Net exports <sup>1</sup>	- 39.7	-2.0	0.5	2.9	0.3	0.2
<i>Memorandum items</i>						
GDP deflator	—	6.4	8.9	5.9	3.1	3.3
Consumer price index	—	4.4	8.3	8.7	5.6	3.3
Core inflation index <sup>2</sup>	—	4.4	7.8	8.4	5.1	3.2
Unemployment rate (% of labour force)	—	6.0	3.7	3.3	3.6	3.9
General government financial balance (% of GDP)	—	-8.3	-3.9	-2.0	-0.4	0.3
General government gross debt <sup>3</sup>	—	77.0	77.5	77.4	76.8	75.2
Current account balance (% of GDP)	—	-2.9	-1.8	0.7	1.0	1.1

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 115 database.

StatLink  <https://stat.link/xahfy3>

## Monetary policy tightening has peaked, and fiscal policy remains contractionary

The central bank raised the key interest rate to 9.25% in August 2023 and has left it unchanged since. It is assumed to decline gradually starting in late 2024. Headline consumer price inflation has fallen from a peak of around 10% in February 2023 to below 7% but remains way above the target of 2.5%. Core inflation has also fallen but remains broad-based. Fiscal policy was contractionary in 2023 and will be tightened further by around 1.0% of GDP per year in 2024 and 2025 following planned tax reforms and cuts in discretionary spending. The overall budget is projected to be in small surplus in 2025. This is welcome to help reduce inflationary pressures and to build up fiscal space. The public debt-to-GDP ratio according to the national accounts is projected to decline slightly.

## The economy will slow further in 2024 but rebound in 2025

Economic growth is expected to drop to 1.9% in 2024 and to rebound to 2.8% in 2025. Private consumption will remain muted as real wage growth remains weak, but it will pick up in 2025 following stronger pay rises. Foreign tourism will slow further as important tourist sites remain closed due to volcanic activity. Subdued growth in major origin countries will also weigh on tourism. Low confidence will affect business investment, which will however recover in 2025 as financial conditions ease. After contracting for three consecutive years, housing investment will pick up as interest rates decline and pent-up demand is worked off. The unemployment rate will edge up to 3.9% in 2025. Inflation will fall in the wake of still tight macroeconomic policy but is projected to remain above target until late in 2025. It could exceed expectations if wages rise faster than agreed in wage settlements or if import prices, notably for oil, start rising again. The volcanic eruptions on the Reykjanes peninsula could intensify, damaging more

infrastructure and requiring additional measures that weigh on public spending. Tourism could also suffer from weaker-than-expected demand in major origin countries. A sharp fall in house prices could expose financial vulnerabilities.

### **Improvements in the business climate and continued fiscal consolidation would help sustain growth**

Iceland's business climate as measured by the OECD's product market regulation indicators remains rather unfriendly. Foreign access to some sectors is more restricted than in almost any OECD country, hampering sound competition. Considerable administrative burdens for new companies, and an extensive licensing and permit system, protect incumbents and hinder innovative start-ups, slowing economic diversification. To help lift productivity, create more jobs, and diversify the economy, the government should speed up structural reform and foster an open and competition-friendly business climate. Furthermore, the general-government financial balance should be kept close to zero to ensure that the debt-to-GDP ratio remains on a declining path.

# India

GDP growth is projected at 7.8% in FY 2023-24 and around 6½ per cent in each of the following two fiscal years. Domestic demand will be driven by gross capital formation, particularly in the public sector, with private consumption growth remaining sluggish. Exports will continue to grow, especially of services such as information technology and consulting where India will continue to increase its global market share, supported by foreign investment. Headline inflation will decline gradually, although uncertainty about food inflation remains elevated.

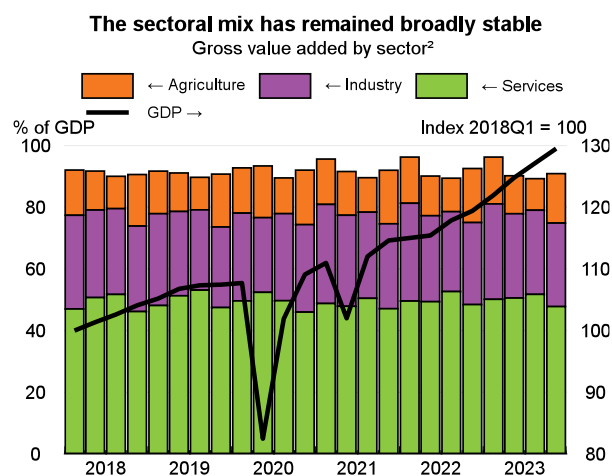
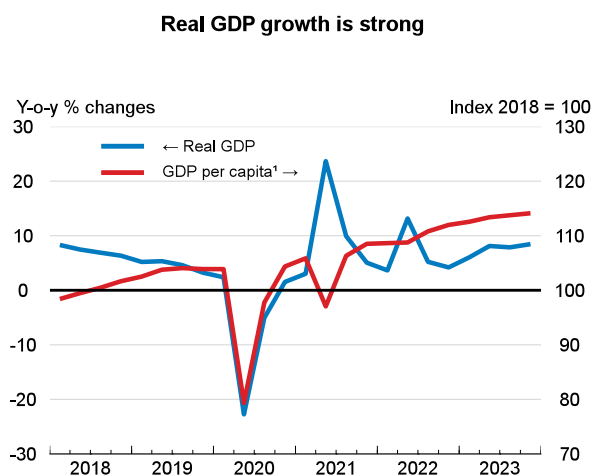
Monetary policy easing is projected to start in the second half of the year once lower inflation is maintained. The 2024 Interim Union Budget aims for consolidation, setting a fiscal deficit target at 5.1% of GDP for FY 2024-25. Fiscal support should remain targeted towards vulnerable households. Rising debt limits fiscal space and increases the need to tackle structural problems in order to make growth fairer and more sustainable. Returns from reforms could be significant in agriculture, which accounts for the largest share of employment and, due to low productivity and still widespread poverty, absorbs considerable public subsidies.

## Public investment has boosted aggregate demand

Growth was stronger than expected in the second half of FY 2023-24, driven by strong public investment in transport and energy infrastructure, as well as exports of services. Private real estate demand is also strong. On the other hand, private consumption has been less vigorous, confirming the preliminary findings from a new household consumption expenditure survey. Some high-frequency indicators, including on E-way bills, toll collections, and new vehicle and scooter sales are suggesting increasing activity. Other indicators, such as digital payment transactions and cement output, remain relatively flat. In urban areas, conditions on the labour market have become more favourable for job seekers, but in rural areas demand for work under the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) has lost steam, although it remains at high levels. The tighter monetary policy stance and tight liquidity have helped to anchor inflation expectations, despite recurrent supply-side shocks. Headline inflation eased to 4.9% in March 2024, helped by lower import price growth and softer input prices, and core inflation stood at 3.2%. The stock exchange has reached new highs recently, with related capital gains supporting discretionary consumption. The growth of bank credit to industry slowed to 7.8% in January 2024.

Global near-term developments pose obstacles to higher growth. The terms-of-trade tailwinds of recent years will fade, while the Middle East conflict and the threats to Red Sea shipping lanes add risk to India's trade, contributing to a decline in diesel exports to Europe. Foreign capital flows to Indian stock markets are continuing, including into small- and medium-cap companies. There are signs of growing integration of India into global production networks through trade in intermediary inputs and business services. However, expectations of a major shift to India by global corporations keen to diversify their supply chains away from China, prominently in electronic goods, have yet to materialise.


## India 1



1. Real GDP per capita is based on GDP in constant prices (2015 PPP, USD). Quarterly population data are calculated by interpolating annual data. OECD estimates of population data in 2023.

2. Share of gross value added at basic prices (at 2011-12 constant prices).

Source: OECD Economic Outlook 115 database; OECD Population database; and Ministry of Statistics and Programme Implementation.

StatLink  <https://stat.link/zc78na>

## India: Demand, output and prices

	2020	2021	2022	2023	2024	2025
<b>India</b>	Current prices INR trillion	Percentage changes, volume (2011/2012 prices)				
<b>GDP at market prices</b>	198.5	9.7	7.0	7.8	6.6	6.6
Private consumption	121.3	11.7	6.8	3.2	5.1	4.6
Government consumption	23.1	0.0	9.0	3.8	4.5	5.3
Gross fixed capital formation	54.2	17.5	6.6	9.8	8.7	10.6
Final domestic demand	198.6	11.9	7.0	5.2	6.1	6.5
Stockbuilding <sup>1,2</sup>	0.7	1.0	0.2	0.0	0.0	0.0
Total domestic demand	199.3	8.5	6.4	10.2	5.6	6.7
Exports of goods and services	37.1	29.6	13.4	1.4	2.7	2.0
Imports of goods and services	37.9	22.1	10.6	11.5	-0.8	2.8
Net exports <sup>1</sup>	-0.8	1.0	0.5	-2.5	0.8	-0.2
<i>Memorandum items</i>						
GDP deflator	—	8.4	6.7	1.3	3.7	3.7
Consumer price index	—	5.5	6.7	5.3	4.3	4.2
Wholesale price index <sup>3</sup>	—	13.0	9.4	-0.4	3.7	3.7
General government financial balance <sup>4</sup> (% of GDP)	—	-9.5	-9.6	-8.8	-7.9	-7.4
Current account balance (% of GDP)	—	-1.2	-2.0	-0.8	-0.5	-0.9

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.

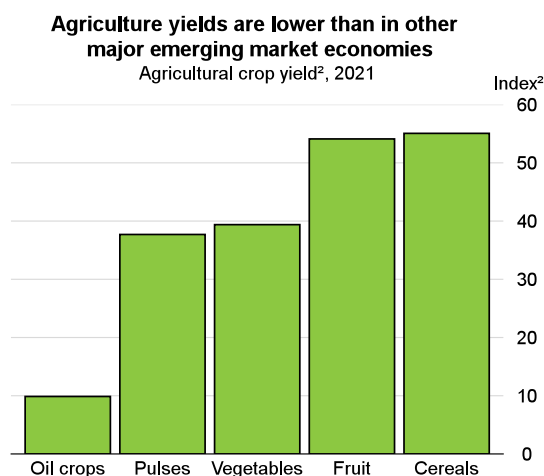
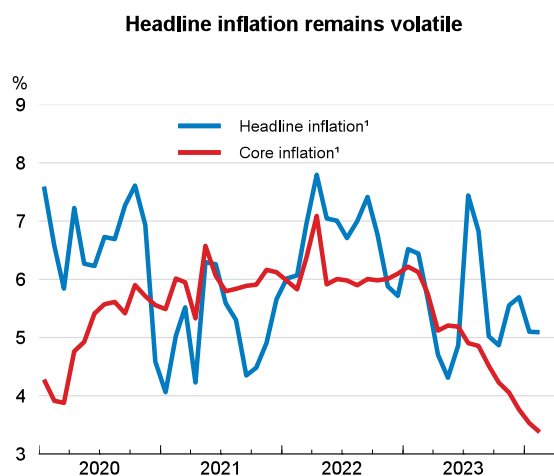
3. WPI, all commodities index.

4. Gross fiscal balance for central and state governments.

Source: OECD Economic Outlook 115 database.

StatLink  <https://stat.link/jgqut6>

## India 2



1. OECD seasonal adjustment based on monthly consumer price index and core CPI (index 2012 = 100) from the Ministry of Statistics and Programme Implementation (MOSPI).

2. Yield is measured as the quantity produced per unit area of land used to grow it (tonnes per hectare). The index is calculated for each crop based on the best performing country's yield among emerging G20 countries (Argentina, Brazil, China, India, Indonesia, Mexico, Russia, South Africa and Türkiye), which is set at 100.

Source: CEIC; Our World In Data (2024); and OECD calculations.

StatLink  <https://stat.link/rd8f29>

## Monetary policy will start loosening and fiscal consolidation remains a priority

The Reserve Bank of India (RBI) remains committed to the objective of achieving the medium-term target for CPI inflation of 4% within a band of +/- 2%, while supporting growth. Assuming a normal monsoon season and no other supply shocks that may de-anchor inflation expectations, a first cut of the policy rate is projected in late 2024, with cumulative cuts of up to 125 basis points implemented before March 2026. The RBI will only switch the stance to neutral during 2025.

The FY 2024-25 budget is projected to meet the Interim Budget's ambitious Union deficit target of 5.1% of GDP, mostly through continuing improvement in tax collection (at largely unchanged rates) and, to a lesser extent, lower outlays for defence and transportation. A full-year budget will be presented after the April-June general election, providing a detailed statement of the new government's strategy. Reducing government indebtedness will require a combination of increased revenues, improved spending efficiency and stronger fiscal rules. Renewed consideration should be given to divestiture of government assets, including of public banks and utilities.

## A moderate slowdown is expected

In FY 2024-25, India's GDP growth will slow to 6.6%. Fiscal consolidation, while necessary, will weigh on public investment, and be offset only partially by stronger private investment as business confidence improves. Household consumption (in particular, consumers' discretionary demand) is not expected to accelerate, amid disappointing job creation, lukewarm rural performance, and still tight financial conditions. Stronger external demand will bring an improvement in export growth. GDP growth will remain in line with the 20-year average in FY 2025-26.



Risks are balanced. On the downside, they include new supply chain disruptions generated by geopolitical turmoil, food inflation stickiness due to extreme weather episodes, and negative spillovers from fluctuations in global financial markets. On the upside, growth may be faster than projected if ongoing disinflation strengthens consumers' purchasing power, boosting household consumption, business investment and job creation.

### **Fiscal consolidation should be accompanied by reforms, including in agriculture**

India needs to achieve a higher level of real GDP growth to address the country's multiple development challenges, especially job creation. Fiscal consolidation is appropriate in the current context given the high level of public debt, which holds back private investment. Fiscal consolidation requires a prioritisation of expenditures on infrastructure, including schools and hospitals, climate risk mitigation and digitalisation. Removing market distortions is another key requirement to facilitate resource allocation and foster stronger, more sustainable and inclusive growth, including in agriculture. The sector employs 44% the workforce and accounts for 56% of non-energy CO<sub>2</sub> emissions, but only for around 15% of GDP. Agricultural yields are sub-par and incomes low. Moreover, fertiliser and food subsidies represent a fifth of the overall government budget. To ensure further progress, unpredictable export restraints and tax surcharges should be avoided, subsidies for fertilisers and pesticides reduced, and minimum price supports rationalised (accompanied by a shift to direct payments for non-staple crops). In addition, requirements to sell produce in mandis (state-regulated wholesale markets) should be relaxed. Such bold actions must be accompanied by pro-active communication, open dialogue with stakeholders and regulatory safeguards.

# Indonesia

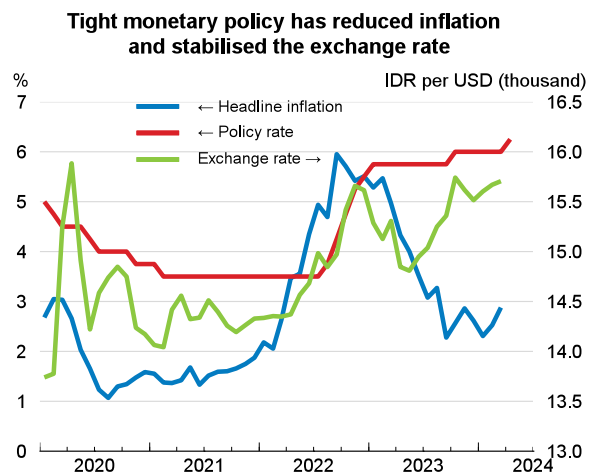
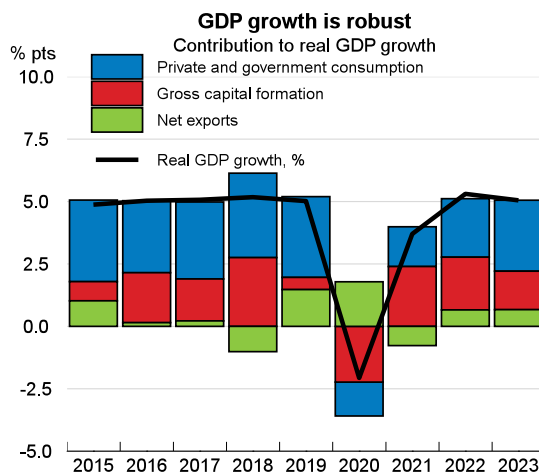
GDP growth is projected to be 5.1% in 2024 and 5.2% in 2025. Domestic demand remains driven by private consumption and gross capital formation growth will strengthen in 2024 and 2025. Headline inflation is expected to fall slightly below 3% in 2024 and remain unchanged in 2025, within the central bank's revised target corridor (1.5-3.5%). Heightened global uncertainty and lower commodity prices have reduced nominal merchandise exports. Although the current account deficit is growing, international reserves are expected to be broadly stable.

Following an unexpected policy rate rise in April, prompted by currency weakening, monetary policy easing is projected to start in late 2024, as disinflation continues. With a new administration taking office in October 2024 committed to additional social spending, fiscal policy is projected to be mildly expansionary, although complying with the 3% of GDP constitutional deficit limit. Longer-term fiscal sustainability would be helped by further tax-base broadening and improved tax compliance and efforts to ensure efficient government spending, including through tightly focused support for vulnerable households. Supporting the transition to net-zero and enhancing energy security should remain priority goals.

## Domestic demand remains strong

Investment grew modestly in the second half of 2023, and public consumption fell, but private consumption growth remained steady. The net trade contribution also increased, reflecting strong exports. However, these favourable developments and the improvement in the terms of trade will not persist. The price of commodity exports has fallen by roughly a half over 2023. Except for agriculture, which is stagnating, GDP growth in every sector has been robust. Indicators of tourist arrivals and spending are near their pre-pandemic record levels. Industrial production rose by 4.0% in the second half of 2023 relative to the first half. Businesses and consumers remain confident. Unemployment fell to 5.3% in the third quarter of 2023. Annual inflation has increased to 2.9% in March 2024, from 2.3% in January. Annual core inflation stood at 1.8% in March 2024. However, food prices have increased again. The Indonesian Rupiah depreciated moderately against the US dollar between January and mid-April 2024, although it remained stable against other Asian currencies.

## Indonesia 1



Source: OECD Economic Outlook 115 database; OECD Monthly Financial Statistics; CEIC; and Bank for International Settlements.

## Indonesia: Demand, output and prices

	2020	2021	2022	2023	2024	2025
	Current prices IDR trillion	Percentage changes, volume (2010 prices)				
<b>Indonesia</b>						
<b>GDP at market prices</b>	15 443.4	3.7	5.3	5.0	5.1	5.2
Private consumption	9 101.4	2.0	5.0	4.9	5.2	5.1
Government consumption	1 491.2	4.3	-4.5	2.9	5.0	6.8
Gross fixed capital formation	4 897.0	3.8	3.9	4.4	6.8	7.6
Final domestic demand	15 489.6	2.8	3.8	4.6	5.7	6.1
Stockbuilding <sup>1</sup>	- 307.3	1.5	1.0	0.1	-0.4	0.0
Total domestic demand	15 182.3	4.3	4.7	4.6	5.1	5.9
Exports of goods and services	2 676.5	18.0	16.2	1.3	4.2	3.4
Imports of goods and services	2 415.5	24.9	15.0	-1.6	4.2	6.6
Net exports <sup>1</sup>	261.0	-0.4	0.8	0.7	0.2	-0.5
<i>Memorandum items</i>						
GDP deflator	—	6.0	9.6	1.5	1.2	2.6
Consumer price index	—	1.6	4.2	3.7	2.9	2.9
Private consumption deflator	—	1.7	4.8	4.3	3.3	3.2
General government financial balance (% of GDP)	—	-4.3	-2.2	-1.7	-2.4	-2.7
Current account balance (% of GDP)	—	0.3	1.0	-0.1	0.0	-0.7

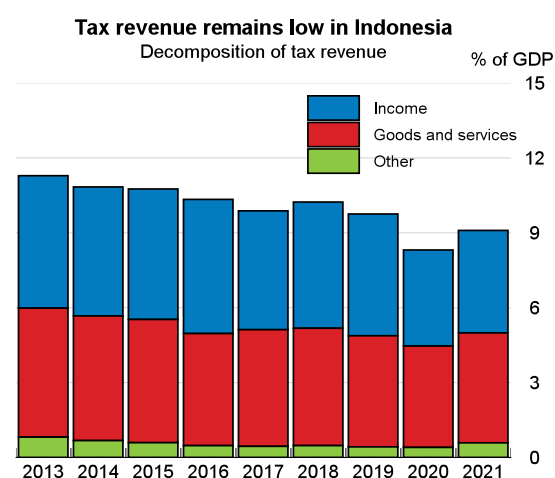
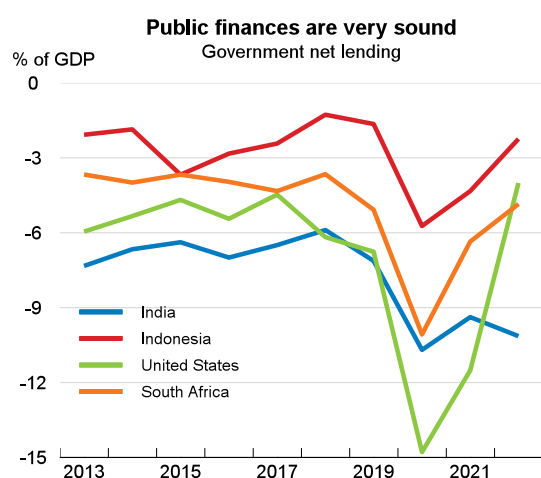
1. Contributions to changes in real GDP, actual amount in the first column.

Source: OECD Economic Outlook 115 database.


StatLink  <https://stat.link/mev5kf>

Fertiliser prices peaked in mid-2022 following the onset of Russia's war of aggression against Ukraine but have decreased significantly since then. El Niño effects contributed to a local crop decline of about 20% and an increase in rice prices in the second half of 2023. The price of Indonesia's commodity exports (principally comprising coal, palm oil and metals) has dropped after boosting the trade balance in 2023. The bilateral trade balance with China – Indonesia's main trading partner – in 2023 was positive for the first time since 2011.

## Indonesia 2



Source: OECD Economic Outlook 115 database; and World Bank, World Development Indicators (WDI).

StatLink  <https://stat.link/Ino752>

## The policy mix will gradually become more accommodative

With the surge in domestic inflation, and policy tightening in other countries, Bank Indonesia raised its policy rate from 3.5% to 5.75% between August 2022 and January 2023. The intervention proved effective, helping to bring down inflation and support the Rupiah. The policy rate was raised further in October 2023 amidst rising global uncertainty, and to 6.25% in late April 2024 amidst growing pressures on the Rupiah. The mid-range of the central bank's CPI inflation target has been reduced from 3% to 2.5% (with a  $\pm 1\%$  corridor), effective from 2024. Bank Indonesia is expected to make the first rate cut in the last quarter of 2024, provided lower inflation is maintained and US policy interest rate cuts reduce pressure on the exchange rate. The switch to a more accommodative monetary policy is likely to be cautious and gradual, the policy rate reaching 5.0% by the end of 2025.

After providing fiscal support of 6.5% of GDP during the pandemic, the government has embarked on fiscal consolidation since 2022, and the deficit dropped to 1.7% of GDP in 2023. Extending the school lunch programme, as proposed by the newly elected President, combined with the funding of other electoral proposals, will make the fiscal stance mildly accommodative in 2024 and 2025. The fiscal support will increase the deficit in 2024, likely above the 2024 budget target of 2.3% of GDP, but below the constitutional 3% deficit limit. Over the medium term, further government investment (notably to complete the transfer of the capital city to Nusantara) will add to government spending.

## Domestic demand will drive growth

Improved business and consumer confidence and higher government spending will support domestic demand and output growth in 2024 and 2025, along with lower interest rates in 2025. The trade surplus is expected to turn into a moderate deficit in 2024 and 2025, partly due to lower export prices. Strong domestic demand and a resilient labour market are projected to put some pressure on core and headline inflation. Nonetheless, headline inflation is expected to be slightly below 3% in 2024 and 2025.

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 hit exports. However, low trade ties with Europe (accounting for around 10% of exports), make the country somewhat less affected by disruptions in the Red Sea than other Asian economies. Domestic political or financial risks remain limited as the upcoming government is likely to follow broadly the policies of its predecessor, and the financial system is healthy.

## Reforms are needed to sustain growth and prosperity

According to its long-term strategic plans, Indonesia aims to become a high-income country by the centenary Independence anniversary in 2045. The strategy includes industrial and trade policies, including export restrictions, that support the development of downstream industries so that key local commodities are processed domestically instead of exported in raw form. This is notably the case for nickel ore, with Indonesia the world's largest producer, which is a key input for electric batteries and vehicles. These policies are subject to considerable implementation risks and have raised tensions with trading partners. Efforts to foster productivity and competitiveness more broadly are needed, including by removing distortions and increasing clarity in business regulation and finance. Further improvement in the governance of state-owned enterprises is required, including through more independent oversight. Significant steps have been taken to improve social safety nets in the past decade, with compulsory social insurance since 2015 and unemployment benefits since 2021, but coverage remains largely limited to workers in large and medium firms. Further reducing duality between larger and smaller firms, and between the formal and informal economy, would enhance inclusiveness, reduce gender gaps, strengthen resilience and help to prepare for population ageing. Expanding the formal economy and the reach of social insurance

would also reduce the need for ad-hoc poverty assistance and energy subsidies. The latter should be more targeted and more automatic. A further shift away from the informal economy would help broaden the tax base, improve tax compliance and provide fiscal space to invest in physical infrastructures (including decarbonised transports and energy) and human capital (health, education, skills, research).

# Ireland

After having surged by 9.6% in 2022, real GDP shrunk by 3.3% in 2023, driven by rebalancing in pharmaceuticals and other export-oriented multinational-dominated sectors. As inflationary pressures and financial conditions ease, GDP will rise by 0.9% this year and 2.9% in 2025. Modified domestic demand, controlling for the major statistical distortions arising from the activities of multinationals, expanded by 0.6% in 2023, as weak domestic investment largely offset solid consumer spending, and is projected to increase by 2.4% in 2025, helped by a resilient labour market.

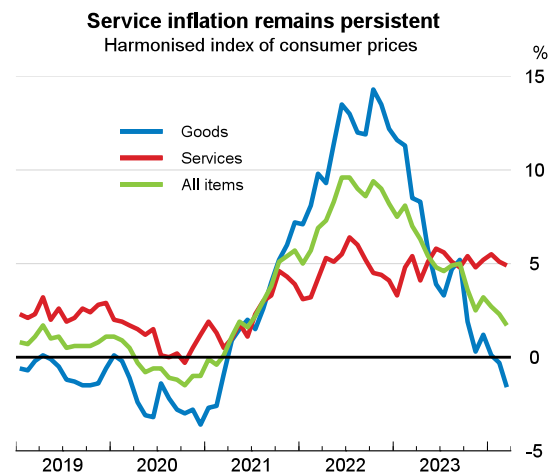
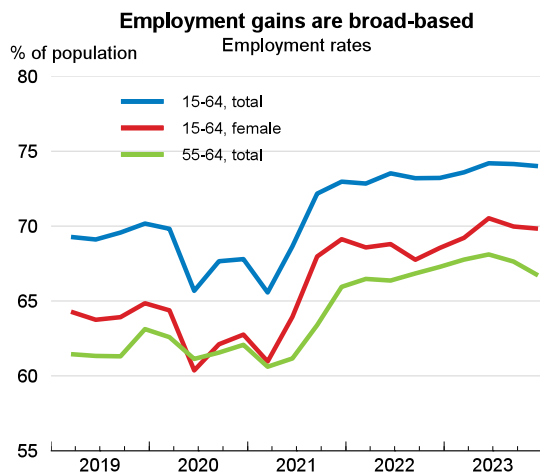
The government's decision to save part of windfall corporate tax gains in two new savings funds earmarked to address long-term fiscal challenges is welcome. However, the large investments agreed in the National Development Plan to close housing and infrastructure gaps may run into capacity constraints – especially shortages of skilled labour – in the medium term. Hence, effective prioritisation and sequencing of investment projects will be key.

## The labour market is buoyant

Employment grew by 3.4% in 2023, with female and senior workers' participation and employment rates reaching record highs, and the unemployment rate stood at 4.3% in March 2024. Despite strong job creation, high price levels and borrowing costs, combined with somewhat subdued wage growth, caused household consumption to flatline, and domestic business investment to weaken further in the final quarter of 2023. Modified domestic demand grew by 0.6% last year, down from 9.7% in 2022.

Geopolitical fragmentation, weak global demand – which also reduced the scope for contract manufacturing – combined with the rebalancing in pharmaceuticals and other multinational-dominated sectors, weighed on export growth in 2023, pushing annual real GDP down by 3.3%. This was the first contraction since 2012. Driven by falling energy prices, harmonised headline consumer price inflation slowed to 1.7% in March. Harmonised core inflation was 2.8%, with services price inflation still around 5%.

## Ireland



Source: Eurostat.

StatLink  <https://stat.link/n3y1v4>

## Ireland: Demand, output and prices

	2020	2021	2022	2023	2024	2025
	Current prices EUR billion	Percentage changes, volume (2021 prices)				
<b>Ireland</b>						
<b>GDP at market prices</b>	375.4	14.7	9.6	-3.3	0.9	2.9
Private consumption	94.1	8.3	9.6	3.2	1.4	2.7
Government consumption	48.1	6.5	4.5	2.0	1.3	0.8
Gross fixed capital formation	157.8	-39.8	5.4	2.9	0.9	1.9
Final domestic demand	300.0	-17.4	7.7	2.9	1.4	2.0
Stockbuilding <sup>1</sup>	4.2	0.4	1.0	1.0	0.1	0.0
Total domestic demand	304.2	-17.4	7.6	3.8	1.4	1.9
Exports of goods and services	496.9	14.9	14.2	-4.9	1.5	3.4
Imports of goods and services	425.6	-7.2	16.2	0.5	2.1	3.0
Net exports <sup>1</sup>	71.3	27.9	3.8	-7.2	-0.1	1.6
<i>Memorandum items</i>						
Modified final domestic demand <sup>2</sup> , volume	–	7.0	9.7	0.6	1.3	2.4
GDP deflator	–	0.6	6.6	3.0	2.4	2.2
Harmonised index of consumer prices	–	2.4	8.1	5.2	2.0	2.0
Harmonised index of core inflation <sup>3</sup>	–	1.7	4.6	4.4	2.5	2.0
Unemployment rate (% of labour force)	–	6.2	4.4	4.3	4.4	4.4
Household saving ratio, net (% of disposable income)	–	15.7	7.7	4.9	4.6	5.2
General government financial balance <sup>4</sup> (% of GDP)	–	-1.5	1.7	1.7	1.6	1.9
General government gross debt (% of GDP)	–	64.5	46.4	46.7	44.3	41.3
General government debt, Maastricht definition <sup>5</sup> (% of GDP)	–	54.5	44.4	43.8	41.4	38.4
Current account balance (% of GDP)	–	13.7	10.8	9.9	10.1	11.5

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 115 database.

StatLink  <https://stat.link/i92stu>

## Tax revenues remain robust

Resilient receipts from personal income taxes, on the back of a tight labour market, and corporate taxes, will ensure a fiscal surplus over the projection period. General government debt is set to decline to 38% of GDP (68% of GNI\*) by 2025, though will remain relatively high in per capita terms. The 2024 budget package, worth 2.8% of 2023 GDP (5.0% of GNI\*), included some tax cuts and weakly-targeted income support, plus higher permanent spending on welfare payments, public services and infrastructure. While helping to reduce inequality, these higher expenditures will result in a new breach of the 5% spending growth rule. Data for early 2024 suggest public outlays, especially for health, are already above budget projections. The end of reduced energy VAT rates, combined with the planned annual increase in the carbon tax, will partly offset the deflationary impact of falling energy prices in late 2024. No additional income support measures are assumed in 2025. Overall, the fiscal stance is projected to tighten mildly over 2024 and 2025.

## Risks to growth are considerable

The tight labour market will underpin household consumption, as skills shortages, combined with the end of cost-of-living public support schemes, will exert upward pressure on wages. Moreover, lower inflation will allow stronger real income growth, especially in 2025. Interest rate reductions from mid-2024 will enhance SME incentives to invest. Tighter capacity constraints, or renewed pressures on energy and food prices, though, may keep inflation higher than foreseen, weighing on consumption. Higher-than-expected wage growth could lower business investment, due to more compressed profit margins. Further geopolitical fragmentation could delay the recovery in exports. On the upside, a faster drop in services prices would further ease SME operational costs and boost consumer confidence.

## Sustainable public finances are needed to deliver on long-term reforms

Despite an expected budget surplus in 2023, fiscal policy is exposed to potentially large revenue fluctuations, with 25% of tax revenues accounted for by corporate tax receipts, half of which are estimated to be transient. The government's resolve to limit the risks to vital future spending – on ageing, housing, and the green and digital transitions – by allocating part of any windfall tax gains to two long-term savings funds is welcome, although legislation outlining the specifics of their governance and functioning is yet to be approved by Parliament. Giving legislative status to the rule anchoring permanent public spending growth at 5% could increase its effectiveness. Rapid approval and implementation of the Planning Bill, aimed at shortening permitting times and limiting the scope for frequent and lengthy judicial reviews, together with improved staffing of local planning authorities, would support investment in housing and renewable energy generation. To attract private capital, public policies in areas like housing, health, and climate, should preserve firms' incentives to invest by ensuring stable policy parameters over time. Greater SME access to R&D tax credits and grants can boost productivity growth, while enhanced supply of quality apprenticeships and lifelong learning opportunities can help address shortages in construction and green skills.



# Israel

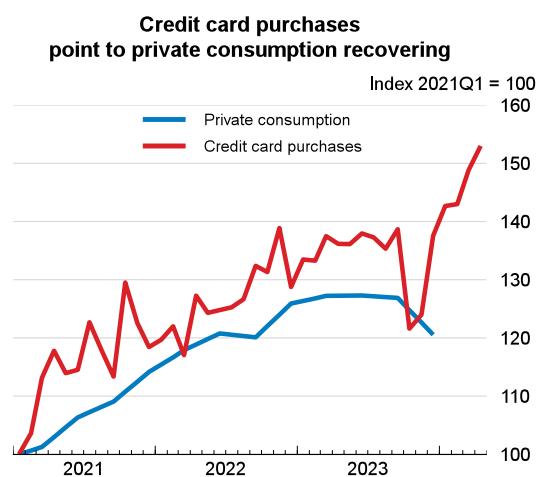
The terrorist attacks and the subsequent war have hit Israel's economy, which is projected to grow by 1.9% in 2024 before picking up by 4.6% in 2025. Private consumption rebounded quickly and is set to remain an engine of growth, together with government consumption related to the war. Investment and especially construction, which declined sharply late in 2023, are projected to recover only in part, remaining below their October 2023 levels, as influxes of foreign workers do not fully compensate the suspension of Palestinians' work permits. Inflation is projected to remain at 2½ per cent in 2024-2025, as the impact of the 2025 VAT increase offsets ongoing disinflation.

Disinflation will allow policy interest rates to be cut in 2024. Nevertheless, greater sovereign risk and the rise in government spending call for prudent monetary and fiscal policy. Permanently higher military expenditure needs to be funded by a combination of revenue-generating measures and spending restraint, whilst preserving programmes that underpin future growth such as education and research. The planned value-added-tax rate increase in 2025 should be supplemented with a streamlining of exemptions.


## The attacks and subsequent war have wide-ranging economic consequences

The attacks on Israel of 7 October 2023 and the subsequent war have deeply impacted the Israeli economy. Schools and many services closed for three weeks. The suspension of work permits for Palestinians and the departure of many foreign workers halved the number of non-Israeli workers from 6.7% of employment before October 2023 to 3.5% at the end of 2023. Homebuilding consequently declined by 53% in the fourth quarter compared with the previous quarter, and overall investment shrank by 26%. Foreign labour shortages are also weighing on farming. The enlistment of 287,000 reservists (6.6% of employment) weighed on activity across the economy including in the high-tech sector. Government consumption however soared by 17% in the fourth quarter of 2023 due to military operations. Credit card purchases, which expanded strongly in December 2023 and the first quarter of 2024, point to a rapid recovery in private consumption.

### Israel 1



Source: Bank of Israel; OECD Economic Outlook 113 database; OECD Economic Outlook 115 database; and OECD calculations.

StatLink  <https://stat.link/80u3e5>

## Israel: Demand, output and prices

	2020	2021	2022	2023	2024	2025
	Current prices NIS billion	Percentage changes, volume (2015 prices)				
<b>Israel</b>						
<b>GDP at market prices</b>	1 417.3	9.3	6.4	1.8	1.9	4.6
Private consumption	686.7	11.4	7.5	-0.7	4.0	2.5
Government consumption	330.5	5.2	0.0	7.9	14.7	2.7
Gross fixed capital formation	317.8	13.5	10.4	-1.6	-12.4	12.7
Final domestic demand	1 334.9	10.4	6.5	1.0	2.6	4.8
Stockbuilding <sup>1</sup>	24.5	0.5	0.9	-0.7	-0.5	0.0
Total domestic demand	1 359.5	10.7	7.3	0.3	2.1	4.8
Exports of goods and services	391.4	14.8	8.5	-0.6	-0.1	3.0
Imports of goods and services	333.6	21.2	12.1	-6.6	-1.7	3.4
Net exports <sup>1</sup>	57.9	-0.9	-0.6	1.7	0.4	0.0
<b>Memorandum items</b>						
GDP deflator	—	2.1	4.8	4.1	2.8	2.3
Consumer price index	—	1.5	4.4	4.2	2.5	2.5
Core inflation index <sup>2</sup>	—	1.3	4.0	4.2	2.0	2.5
Unemployment rate (% of labour force)	—	5.0	3.8	3.4	3.9	3.9
General government financial balance (% of GDP)	—	-3.4	0.4	-4.1	-6.6	-5.5
General government gross debt (% of GDP)	—	67.8	60.4	62.3	66.4	67.7
Current account balance (% of GDP)	—	3.9	3.9	5.1	4.4	4.3

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

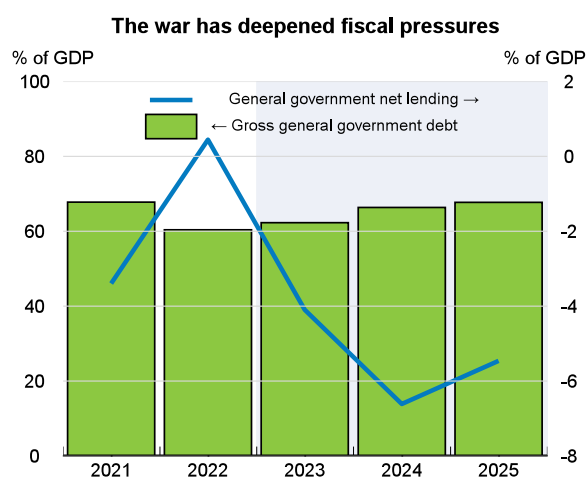
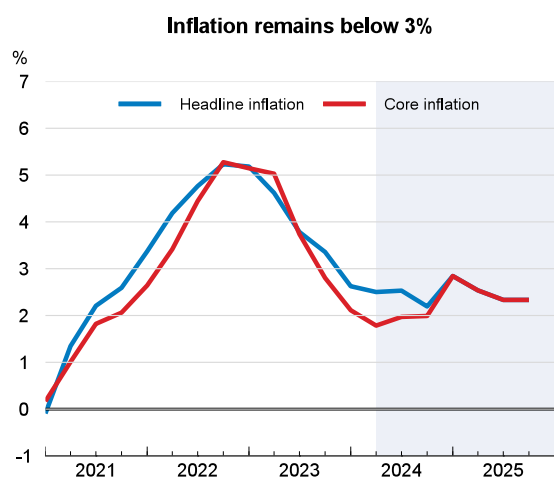
2. Consumer price index excluding food and energy.

Source: OECD Economic Outlook 115 database.

StatLink  <https://stat.link/61y2lq>

Trade was also severely disrupted, with exports and imports both shrinking in the last quarter of 2023. Following resumption of industrial activity after the October production shutdowns, goods exports rebounded in early 2024. Service exports have been more sluggish especially foreign tourism, which has been mostly halted. The 2023 fall in global food and energy prices contributed to the disinflation process prompted by policy interest rate increases from 0.1% until April 2022 to 4.75% in May 2023. The annual consumer price inflation rate was 2.7% in March 2024, down from 5.0% in March 2023.

## Israel 2



Source: OECD Economic Outlook 115 database.

StatLink  <https://stat.link/zc2t58>

## Economic policy is responding to the war

Fiscal policy is being reviewed to adapt to new requirements. The very large amount of war and associated expenditure has contributed to the move from a budget surplus of 0.4% of GDP in 2022 to a deficit of 4.1% of GDP in 2023. This deterioration, together with greater perceived country risk, led credit rating agency Moody's to downgrade Israel's sovereign rating in February. Israel's sovereign credit default swap rate has remained half a percentage point above its pre-October 2023 levels since November 2023. A key part of the authorities' response has been to find new sources of revenue including by increasing the VAT rate from 17 to 18% in 2025. There is also restraint in non-military spending, one example being cuts in convalescence pay in 2025. Looking beyond the immediate cost of the war, military spending is set to rise permanently by at least half a per cent of GDP.

Headline and core disinflation together with a stable currency opened the way for the central bank to start an easing cycle. The Bank of Israel cut its main policy rate from 4¾ to 4½ per cent in January 2024. Easing inflationary pressures are anticipated to allow the central bank to implement three further 25 basis point cuts to bring its key rate to 3¾ per cent by the end of 2024 and in 2025.

## Consumption is driving the recovery

Output is set to expand over 2024-2025 under the impetus of strong government and private consumption and a partial recovery of investment. Construction is projected to recover only partly from the depths at the end of 2023, holding back investment and imports, as foreign workers replace only some of the Palestinians whose work permits have been suspended. Homebuilding is anticipated to account for about 4% of GDP by end 2025 against 7% in the third quarter of 2023. Labour shortages are also set to weigh on farming activity. Foreign tourists are assumed to start returning to Israel towards the end of 2025. Prices are projected to keep mildly decelerating, as the economy operates slightly below full capacity and lower global energy and food prices pass through the economy, even if the VAT increase is going to push up headline prices.

Risks are high. The opening of a northern front in the current conflict would halt consumption and further disrupt economic activity, generating a slump similar to the one observed in late 2023 and considerably exacerbate budget pressures. Furthermore, failure to attract enough foreign workers could result in the construction and investment recovery being weaker than projected. On the other hand, construction and overall investment could expand considerably more than projected if influxes of foreign workers are large enough to compensate the shortages that followed the suspension of Palestinian work permits, or if this suspension is reversed. A peaceful resolution of the conflict would also boost growth, including through the resumption of foreign tourism and stronger investment, while easing budgetary pressures through lower military expenditure and a reduced sovereign risk premium.

## Fiscal adjustment and monetary stability are needed to keep the economy on track

The large government spending shock created after the attacks and the subsequent war can only in part be absorbed through higher debt. Permanently higher military spending calls for new tax revenue and spending restraint. In this regard, the choice of raising the general VAT rate in 2025 is welcome, as the current rate of 17% is relatively low by OECD standards and VAT is a form of taxation that implies comparatively limited economic distortions. This measure should be accompanied by efforts to remove VAT exemptions, starting with the one applicable to certain online purchases. Increasing residential property tax rates would also bring revenue whilst creating a more level playing field for municipalities between commercial and housing development. Expenditure restraint would best preserve future

prosperity by using spending reviews to identify programmes to cut, scale back or reform. Examples to consider for cuts include subsidies that weaken incentives to join the labour market. Spending restraint however ought to leave sufficient funding for areas, such as education, that are particularly important to a country with strong demographic growth and an economy whose dynamism depends on the knowledge-fuelled high-tech sector. Whilst disinflation leaves space for some monetary easing, monetary policy must remain prudent to maintain favourable funding conditions for the government and the economy.

# Italy

GDP is expected to grow by 0.7% in 2024 and 1.2% in 2025. High inflation over the past two years has eroded real incomes, financial conditions remain tight, and most of the exceptional fiscal support related to the COVID-19 and energy crises has been withdrawn, weighing on private consumption and investment. The projected pick-up in real wage growth and the increase in public investment related to New Generation EU (NGEU) funds will only partly offset these headwinds. Risks are broadly balanced. The main downside risk is that the scaling back of the so-called “Superbonus” building tax credit triggers a larger-than-expected contraction in housing investment. On the upside, a significant pick-up in public investment related to the National Recovery and Resilience Plan (NRRP) could boost growth.

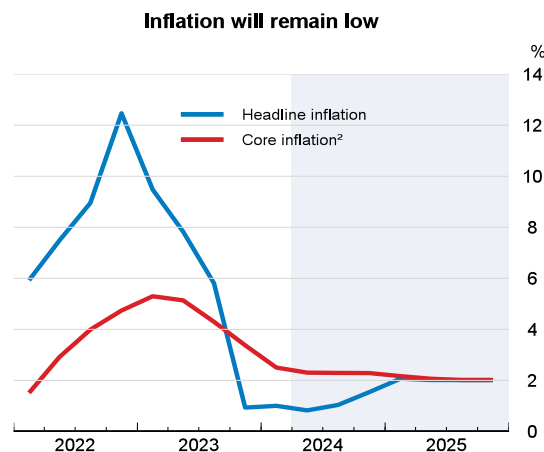
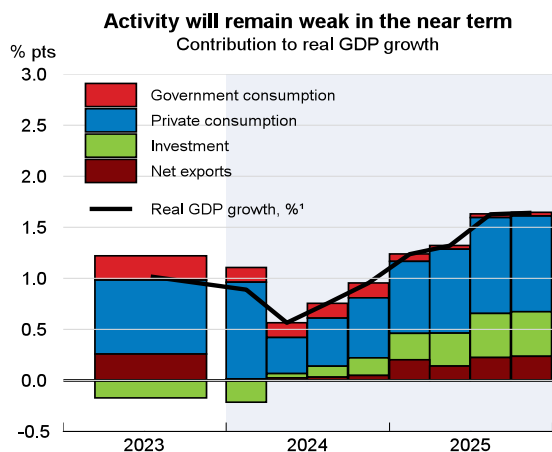
Temporary tax cuts and higher NRRP spending broadly offset reduced fiscal support to households and businesses, resulting in a neutral fiscal stance in 2024 and a moderate fiscal tightening in 2025. This is broadly appropriate to put the public finances on a more prudent path, while avoiding a further weakening of activity amidst tight monetary policy and high borrowing costs. The speedy implementation of ongoing structural reforms in the areas of competition, civil justice and public administration and the ramp-up of NRRP-related public investment will be key to sustain activity in the short term, and to raise potential growth in the medium term.

## Activity remains weak


Real GDP grew by 0.2% in the fourth quarter of 2023, supported by strong housing investment before the scaling back of the “Superbonus” tax credit at the end of the year, whereas private consumption contracted. Recent high frequency indicators point to modest growth in the near term. While consumer confidence has improved over the past few months, manufacturing output, retail sales and business sentiment remain weak. Despite the slowdown in growth over 2023, the unemployment rate remains historically low and collectively negotiated wage growth has picked-up to around 3%, which should support household incomes and private consumption over the next quarters.

Declines in international energy prices over 2023 have been transmitted rapidly into consumer price inflation, which declined from more than 12% in November 2022 to 1.2% in March 2024. The stabilisation of energy prices over the past months suggests that inflation will mainly be driven by domestic factors in the near term. The tightening of global financial conditions has so far had limited negative spillovers on the health of the Italian banking sector, which has benefited from increased profitability due to higher net interest margins.

## Italy 1



1. Quarter-on-quarter annualized rates for the for the forecast period.
  2. Harmonised consumer price index excluding food and energy.
- Source: OECD Economic Outlook 115 database; and OECD calculations.

StatLink  <https://stat.link/8mvrk0>

## Italy: Demand, output and prices


	2020	2021	2022	2023	2024	2025
<b>Italy</b>	Current prices EUR billion	Percentage changes, volume (2015 prices)				
<b>GDP at market prices</b>	1 659.6	8.3	4.1	1.0	0.7	1.2
Private consumption	963.9	5.5	4.9	1.2	0.0	1.2
Government consumption	343.5	1.4	1.0	1.2	0.9	0.5
Gross fixed capital formation	297.9	20.3	8.9	4.9	2.0	1.2
Final domestic demand	1 605.3	7.3	5.0	2.0	0.6	1.1
Stockbuilding¹	- 4.4	1.0	-0.1	-1.2	-0.6	0.0
Total domestic demand	1 600.9	8.5	4.8	0.7	0.0	1.1
Exports of goods and services	485.4	14.1	11.0	0.5	2.1	3.0
Imports of goods and services	426.7	15.6	13.5	-0.2	0.2	2.8
Net exports¹	58.8	0.1	-0.5	0.3	0.7	0.1
<b>Memorandum items</b>						
GDP deflator	—	1.3	3.6	5.3	2.0	2.3
Harmonised index of consumer prices	—	1.9	8.7	5.9	1.1	2.0
Harmonised index of core inflation²	—	0.8	3.3	4.5	2.3	2.1
Unemployment rate (% of labour force)	—	9.5	8.1	7.6	7.4	7.3
Household saving ratio, net (% of disposable income)	—	7.9	1.6	0.3	2.9	3.5
General government financial balance (% of GDP)	—	-8.7	-8.6	-7.4	-4.4	-3.8
General government gross debt (% of GDP)	—	172.8	147.7	151.2	153.2	154.1
General government debt, Maastricht definition³ (% of GDP)	—	147.3	140.5	137.1	139.1	140.0
Current account balance (% of GDP)	—	2.4	-1.6	0.5	0.8	1.0

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

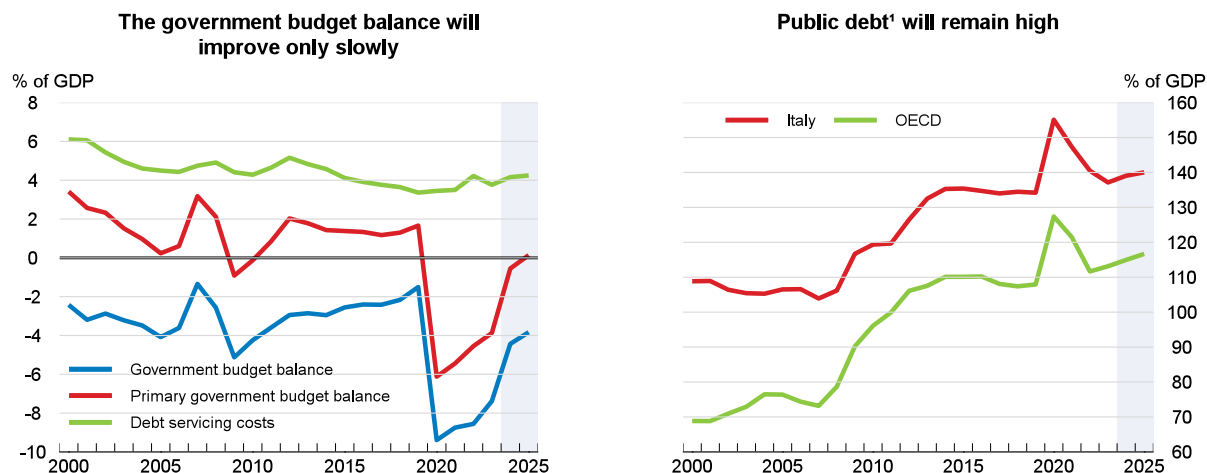
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.

3. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.


Source: OECD Economic Outlook 115 database.

StatLink  <https://stat.link/6byr0k>

## Italy 2



1. General government gross debt on a Maastricht basis for Italy; and general government financial liabilities for OECD.  
Source: OECD Economic Outlook 115 database.

StatLink  <https://stat.link/v05fme>

## High borrowing costs are weighing on activity

Borrowing costs for households and businesses have increased significantly in the wake of euro area monetary policy tightening, with interest rates on loans to non-financial corporations reaching about 5.3% in February. Lending standards remain tight, despite some easing over the past months, and lending growth remains negative. High interest rates have also raised debt servicing costs for the government, despite the recent decline of the risk premium on Italian government securities, with government interest payments expected to reach about 4% of GDP in 2024-25.

The stance of fiscal policy will be broadly neutral in 2024, with a modest tightening foreseen for 2025. Recent changes to Eurostat national accounting rules imply that accrual expenditure on building tax credits, including the “Superbonus”, will decline by about 3% of GDP in 2024, explaining a major part of the improvement in the fiscal balance. Despite the large improvement in the fiscal balance, fiscal policy will not tighten in 2024. The projected phase-out of energy policy support measures – which will amount to about 1% of GDP – will broadly be 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. In 2025, the income tax cuts introduced in 2024 and the targeted social security contribution cuts that were introduced in 2022 and expanded in 2023 are scheduled to expire under current legislation, implying a mild fiscal tightening and an improvement in the underlying primary fiscal balance of about ¼ per cent of GDP.

## Inflation will remain low as growth picks up only modestly

Real GDP is projected to grow by 0.7% in 2024 and 1.2% in 2025. Tight financial conditions, the erosion of real incomes due to modest wage growth amid high inflation, and the phase-out of exceptional fiscal support related to the energy crisis will weigh on private consumption and investment. In 2024, these headwinds are offset only partly by temporary income and social security tax cuts and the expected pick-up

in public investment related to Next Generation EU funds. Core inflation is expected to come down gradually over 2024 on the back of increasing unemployment and moderate nominal wage growth. In 2025, the support to real household incomes from recovering real wages, the projected rise in public investment and the strengthening of exports due to recovering demand from Italy's main trading partners will drive a mild pick-up in activity, despite the modest tightening of fiscal policy.

Risks to growth are broadly balanced. The main downside risk is that the scaling back of the "Superbonus" building tax credit triggers a larger-than-expected contraction in housing investment, which has been a key source of growth over 2021-23. On the upside, the acceleration in public investment related to the National Recovery and Resilience Plan (NRRP) could boost growth in 2024 and 2025. The full utilisation of NGEU funds implies that public spending needs to be ramped up from about 1% of GDP in 2023 to about 2½ per cent of GDP on average over 2024-26.

### **Putting the debt ratio on a more prudent path requires fiscal adjustment and structural reforms**

The government deficit will narrow but remain above 3% until 2025, the public debt ratio is high and there are substantial spending pressures from investment needs and ageing costs. A large and sustained fiscal adjustment will be required over several years to meet future spending pressures, while putting the debt ratio on a more prudent path and complying with the new EU fiscal rules. The adjustment should include decisive action to tackle tax evasion, limiting the growth of pension spending and conducting ambitious spending reviews. The full implementation of the public investment and structural reform plans in the NRRP could durably lift Italy's GDP, which would have the added benefit of putting further downward pressure on the debt-to-GDP ratio. Progress with structural reforms has been substantial, but spending of NGEU funds is behind the original schedule, which mainly reflects delays in the implementation of public investment projects. The revised NRRP that was approved by the European institutions in 2023 may help with speeding up implementation, including by focusing on projects for which implementation by 2026 remains viable. The priority should now be on strengthening the implementation capacity of the public administration, especially at the regional and municipal levels.



# Japan

Real GDP growth is projected to moderate to 0.5% in 2024 before strengthening to 1.1% in 2025, as domestic demand rebounds. Private consumption will be supported by wage growth and fiscal measures. Government subsidies for green and digital investment and high corporate profits will boost business investment, despite potential supply constraints. Headline inflation is projected to moderate as imported energy and food prices stabilise, before rising as wage growth gains momentum.

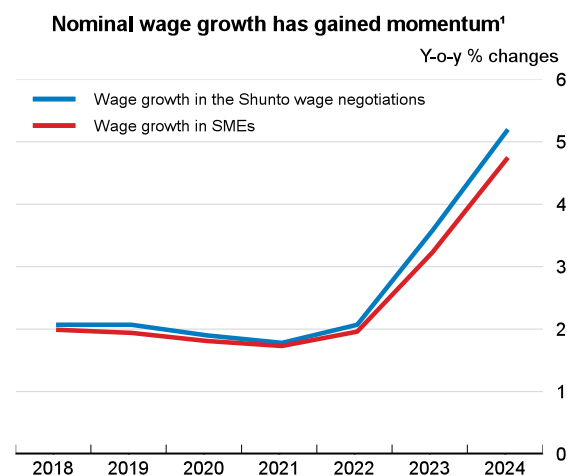
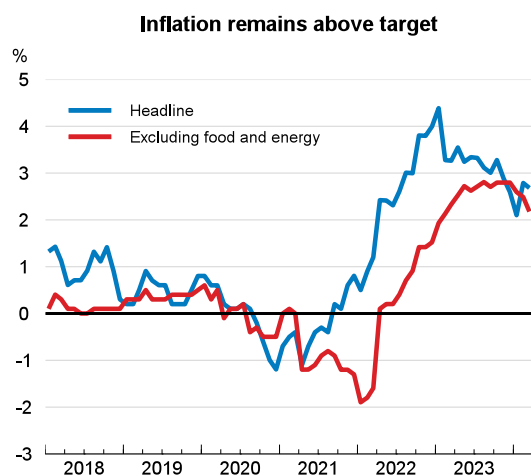
Rebuilding fiscal buffers and ensuring debt sustainability should be prioritised, given increasing debt service risks associated with a possible rise in long-term interest rates. Announcing concrete revenue and expenditure measures to enable a medium-term fiscal consolidation path would boost the credibility and sustainability of fiscal policy. The recent decision to terminate negative interest rate policy is appropriate given OECD projections of sustained inflation around the 2% target and robust wage growth. The Bank of Japan should continue to gradually raise the short-term policy interest rate. Reforming the traditional labour model of lifetime employment and seniority-based wages would boost employment, especially of older and female workers, and help address demographic headwinds.

## Domestic demand is weak, but there are emerging signs of recovery

Following robust growth in the first half of 2023, real GDP contracted by 0.8% in the third quarter and grew by 0.1% in the fourth quarter as high inflation weighed on private consumption. However, high-frequency indicators of consumption showed signs of improvement in early 2024, reflecting inflation and wage developments and rising expectations. Headline consumer price inflation has moderated with decreasing energy prices and slowing food price inflation but remains above target at 2.7% in March. Corporate near-term and three-year-ahead inflation expectations have remained above 2% since the first half of 2022. Nominal wages have been trending up and are expected to gain momentum. The tentative outcomes of the *Shunto* wage negotiations for FY 2024 are stronger than last year, with 5.2% average headline wage growth and 3.6% base pay growth for all firms under the Japanese Trade Union Confederation as of 18 April.


Industrial production and exports experienced a temporary drop in early 2024 due to supply constraints related to fraud in the vehicle industry. However, business investment is picking up, supported by high corporate profits, and business surveys point to robust future investment plans. Exports of goods have been stagnant, partly due to weaker demand from Asia and the euro area. The total number of inbound tourists has surpassed pre-pandemic levels, but the number of Chinese tourists has remained low.

## Japan 1



1. As of 18 April. The horizontal axis shows fiscal years.

Source: Ministry of Internal Affairs and Communications; Japanese Trade Union Confederation.

StatLink  <https://stat.link/sdfma3>

## Japan: Demand, output and prices

	2020	2021	2022	2023	2024	2025
<b>Japan</b>						
	Current prices YEN trillion	Percentage changes, volume (2015 prices)				
<b>GDP at market prices</b>	539.8	2.6	1.0	1.9	0.5	1.1
Private consumption	291.8	0.8	2.2	0.6	-0.1	1.0
Government consumption	113.2	3.4	1.7	0.9	-0.2	0.5
Gross fixed capital formation	137.6	-0.1	-1.4	2.1	2.2	2.1
Final domestic demand	542.6	1.1	1.2	1.0	0.5	1.2
Stockbuilding <sup>1</sup>	-1.3	0.4	0.3	-0.2	-0.3	0.0
Total domestic demand	541.3	1.5	1.5	0.9	0.1	1.2
Exports of goods and services	83.8	11.9	5.3	3.0	2.3	2.5
Imports of goods and services	85.3	5.1	7.9	-1.3	0.7	2.9
Net exports <sup>1</sup>	-1.5	1.0	-0.5	1.0	0.3	-0.1
<i>Memorandum items</i>						
GDP deflator	—	-0.2	0.3	3.8	2.1	1.9
Consumer price index	—	-0.3	2.5	3.3	2.1	2.0
Core consumer price index <sup>2</sup>	—	-0.7	0.3	2.7	1.8	2.0
Unemployment rate (% of labour force)	—	2.8	2.6	2.6	2.5	2.4
Household saving ratio, net (% of disposable income)	—	7.3	4.0	2.8	3.3	2.4
General government financial balance (% of GDP)	—	-6.2	-4.2	-3.9	-3.0	-2.2
General government gross debt (% of GDP)	—	241.1	240.5	238.8	239.2	238.0
Current account balance (% of GDP)	—	3.9	1.8	3.6	4.0	3.5

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

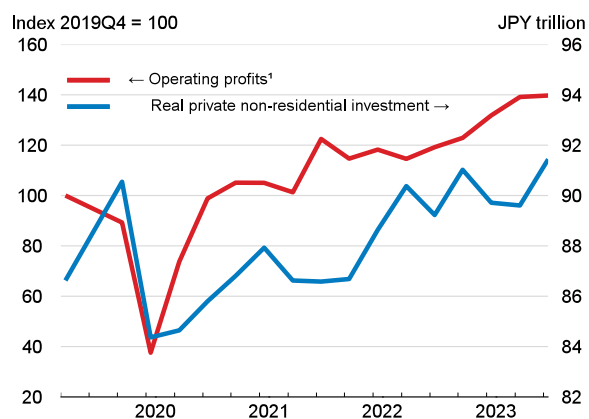
2. Consumer price index excluding food and energy.

Source: OECD Economic Outlook 115 database.

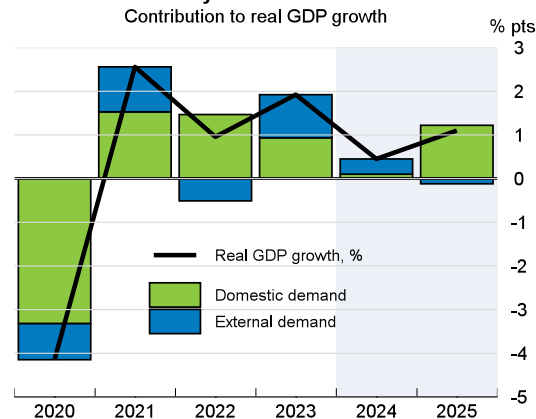
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## Japan 2

### Business investment is picking up



### Real GDP is projected to rebound in 2025, driven by domestic demand



1. Seasonally adjusted data for non-financial corporations.

Source: Ministry of Finance; Cabinet Office; OECD Economic Outlook 115 database; and OECD calculations.

StatLink  <https://stat.link/z01hsm>

## Macroeconomic support is projected to gradually decrease

The fiscal stance is projected to tighten in 2024-25 with the end of pandemic-related measures and energy subsidies. However, measures in the November 2023 economic package, such as cash handouts to low-income households disbursed in December and temporary cuts to income and residential taxes to come into effect in June, will support private consumption. The cost of these measures, at around JPY 5 trillion (0.9% of GDP), is projected to keep the fiscal deficit high, at 3% of GDP in 2024. Subsidies for gas and electricity will be phased-out by the end of May. The government announced new extensions for the subsidy for gasoline prices, which the OECD projections assume will remain in place until the end of 2024, albeit gradually declining over time. The government increased the defence budget (plan) by JPY 1.4 trillion and 1.1 trillion in FY 2023 and FY 2024, respectively, and the OECD projections assume a further increase of JPY 1.0 trillion in FY 2025. The budget for child-related policies will also be raised by around JPY 3.6 trillion by FY 2028. The gross public debt-to-GDP ratio is projected to edge down but to remain high at 238% in 2025.

On 19 March, the Bank of Japan announced the end of yield curve control and an exit from its negative interest rate policy and stated that it will guide the uncollateralised overnight interest rate to be around 0% to 0.1%, by applying a 0.1% interest rate to excess reserve balances. Purchases of exchange traded funds and Japanese real estate investment trusts are also terminated. However, Japanese Government Bond purchases will continue at broadly the same pace to help avoid an abrupt change in bond market conditions and may be increased if long-term interest rates rise rapidly. Close monitoring to confirm that wage growth will be robust enough to sustain inflation at target and support private consumption will be key. OECD projections of sustained inflation around 2%, increasing wage growth and a positive output gap imply further increases in the short-term policy rate are warranted, with the policy rate assumed to rise to 0.75% by the end of 2025. Any policy shifts should be gradual and well-communicated in order to anchor market expectations.

## Growth will moderate in 2024, before picking up in 2025

GDP growth is projected to moderate to 0.5% in 2024 before improving to 1.1% in 2025, as domestic demand rebounds. Private consumption will be supported by rising wages and the temporary tax cuts. Government subsidies and high corporate profits will boost business investment, while public investment is projected to remain robust. The contribution of net exports to growth is projected to decline over the next two years. The labour market will remain tight, contributing to higher wage growth in 2024-25. Headline consumer price inflation is projected to moderate before converging to the 2% target as government subsidies end and wage growth gains momentum.

Weaker-than-expected global growth, including in China, further supply chain disruptions due to geopolitical tensions and renewed price pressures on food and energy would lower growth. Continued low real household income growth could exert a drag on domestic demand. 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, with large negative global spillovers. On the upside, growth could be stronger in the event of a faster-than-expected rebound in consumption, especially of services, on the back of additional recovery of inbound tourism, wealth effects from the well-performing stock market and stronger-than-expected wage growth.

## Structural and fiscal reforms are needed for resilient and sustainable growth

Rising age-related spending pressures and additional planned spending on the green and digital transformation, defence and child-related policies would weigh on the fiscal balance and public debt without timely offsetting revenue measures. Record-high gross government debt, at about 240% of GDP in recent years, calls for a detailed credible medium-term fiscal consolidation strategy, with measures on both the revenue and expenditure sides. Increasing health and long-term care spending efficiency, gradually raising the consumption tax rate, complemented with well-targeted cash transfers to low-income households, and improving the fiscal framework by restricting the use of supplementary budgets are key. Limiting demographic headwinds requires multipronged reform. Enforcing the “equal pay for equal work” provision in the Work Style reform and further increasing the mandatory retirement age would help ensure fair treatment regardless of employment status and reduce irregular employment. Reforming the traditional labour model of lifetime employment and seniority-based wages would encourage labour mobility and boost employment of women and older persons. Implementing a comprehensive strategy to integrate migrants, including by preventing discrimination against them and improving their access to education and housing, would also help cope with population decline. Additional productivity-enhancing reforms to improve the innovation framework and greater incentives for productive start-ups would not only help address ageing pressures but also boost potential growth. Diversifying energy sources, increasing the share of renewables and enhancing the electricity grid would improve energy security and facilitate the green transition.

# Korea

GDP growth is projected to strengthen from 1.3% in 2023 to 2.6% in 2024 and 2.2% in 2025. Elevated debt servicing burdens and still-above-target inflation will continue to weigh on private consumption and investment in the short term, but domestic demand should recover in 2024. Exports will keep improving with robust semiconductor demand. Inflation will reach the target by the end of 2024, despite current food price pressures and rising energy prices. Employment is set to continue expanding, while unemployment will stabilise at a low level.

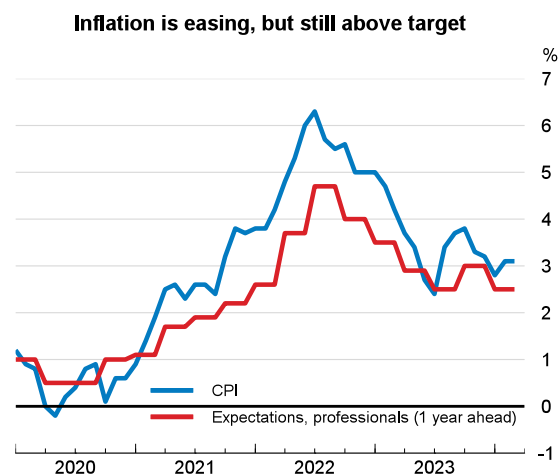
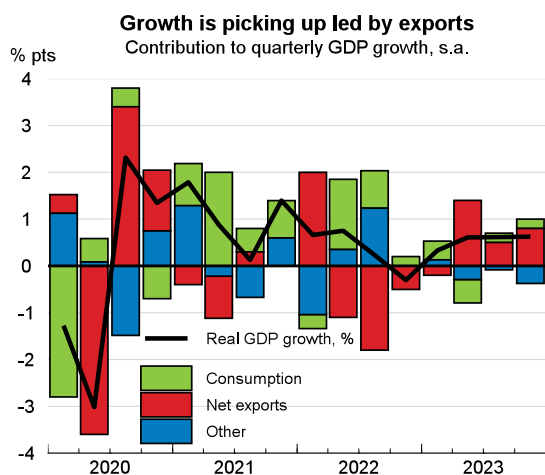
The monetary policy stance is appropriate, with easing expected from late 2024. Fiscal consolidation ought to proceed gradually by implementing the proposed fiscal rule. Boosting competition in the domestic market would help increase SME productivity. Further strengthening family policies and reducing labour market duality could increase fertility and female employment, while lengthening working lives. Allowing more immigrants to enter the country could offset some of the negative impacts of rapid ageing.

## Growth is rebounding from a soft patch

Real GDP grew by 0.6% in the fourth quarter of 2023, mainly driven by exports. Private consumption was feeble and investment, notably in construction, contracted due to high interest rates, weak real wage growth and the sluggish housing market. Headline consumer price inflation decreased to 2.8% in January before edging up to 3.1% in March on account of increasing agricultural product prices. Core inflation moderated to 2.4% in March. The labour market is performing well, with historically high employment and low unemployment.

Stronger global demand for computer chips remains a major driver of Korea's growth. Customs exports continued to rise in March with robust semiconductor demand. The Red Sea crisis is not directly causing a reduction in trade volumes, but increased shipping rates add to trade costs, notably with the European Union.

## Korea



Source: OECD national accounts database; and Bank of Korea.

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

## Korea: Demand, output and prices

	2020	2021	2022	2023	2024	2025
	Current prices KRW trillion	Percentage changes, volume (2015 prices)				
<b>Korea</b>						
<b>GDP at market prices</b>	1 940.7	4.3	2.6	1.3	2.6	2.2
Private consumption	900.3	3.6	4.1	1.8	1.6	2.4
Government consumption	350.1	5.5	4.0	1.3	1.2	1.4
Gross fixed capital formation	607.5	3.2	-0.5	1.2	0.4	1.9
Final domestic demand	1 857.9	3.8	2.6	1.5	1.1	2.0
Stockbuilding <sup>1</sup>	11.3	-0.1	0.1	-0.1	-0.4	0.0
Total domestic demand	1 869.2	3.7	2.6	1.4	0.7	2.1
Exports of goods and services	705.6	11.1	3.4	2.9	5.5	2.4
Imports of goods and services	634.1	10.1	3.5	3.1	1.2	2.2
Net exports <sup>1</sup>	71.5	0.7	0.1	-0.1	1.9	0.2
<i>Memorandum items</i>						
GDP deflator	–	2.8	1.3	2.1	3.3	2.6
Consumer price index	–	2.5	5.1	3.6	2.6	2.0
Core inflation index <sup>2</sup>	–	1.4	3.6	3.4	2.2	2.0
Unemployment rate (% of labour force)	–	3.6	2.9	2.7	2.9	2.9
Household saving ratio, net (% of disposable income)	–	12.6	10.8	11.2	10.8	10.1
General government financial balance (% of GDP)	–	-0.3	-1.8	-1.8	-1.6	-1.2
General government gross debt (% of GDP)	–	50.9	53.6	55.1	57.0	58.7
Current account balance (% of GDP)	–	4.7	1.4	2.1	3.5	3.7

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 115 database.

StatLink  <https://stat.link/8p5olj>

## Monetary and fiscal restraint continue

The Bank of Korea has maintained the policy rate at 3.5% since January 2023. The policy rate is assumed to remain at the current level until late 2024, when inflation approaches the 2% target, before being cut gradually to 2.5% by mid-2025. The fiscal stance in 2024 is mildly contractionary due to an expected rebound in tax revenue after a massive shortfall in 2023 and contained growth in discretionary expenditure. A temporary fuel tax cut implemented in 2021 is likely to be extended further in the short term, but the OECD projections rest on the assumption that it will be phased out by 2025 as inflation stabilises. Continued gradual fiscal tightening is assumed for 2025, consistent with the government's consolidation plan.

## Growth is projected to strengthen

Real GDP growth is projected to rise to 2.6% in 2024 and 2.2% in 2025. Rebounding global demand, notably for semiconductors, will push up exports in 2024. Private consumption and investment are expected to rebound from late 2024, as interest rates start to decline. Headline inflation is projected to stay at around 3% in the short term with increased energy and food prices before gradually moderating to target by the end of 2024. Faster-than-expected deleveraging in household and project financing loans could dampen private consumption and construction investment. Heightened geopolitical tensions could threaten Korean supply chains and push up inflation. If inflation falls faster than forecast and interest rates are cut more decisively, private consumption and investment may surprise on the upside.

## Structural challenges require policy action

Rapid population ageing requires structural reform and fiscal consolidation. The proposed fiscal rule, which caps the managed budget deficit at 3% of GDP, should be implemented together with reforms to lengthen working lives, increase immigration and boost youth employment. Pension reforms need to provide adequate retirement income but also ensure financial sustainability. Policies should also focus on reconciling career and family to raise fertility and female employment, including increasing the take-up of parental leave and enabling more flexible working arrangements. Reducing the stringency of product market regulation and streamlining public support to SMEs would help to lower productivity gaps between large and small firms and reduce labour market dualism. To further reduce greenhouse gas emissions, Korea's emission trading scheme should be aligned with climate targets and electricity market reform should move in the direction of more competition and more market-based pricing to end-users. A temporary fuel tax cut, which has been extended several times since 2022, should be phased out, with vulnerable groups supported directly in more targeted ways.

# Latvia

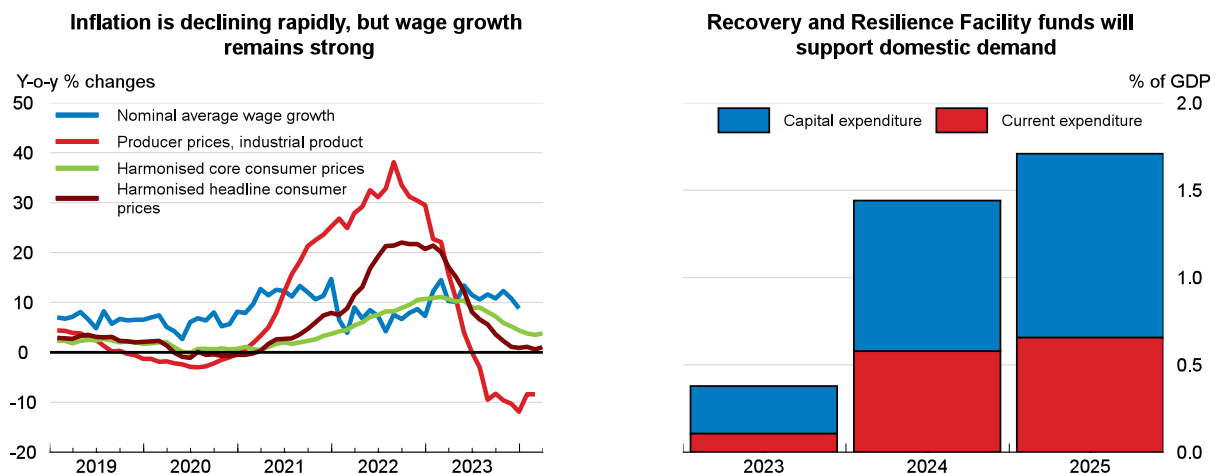
Real GDP is projected to grow by 1.8% in 2024 and 2.9% in 2025. Rapidly falling headline inflation and rising nominal wages will boost real incomes and consumption. Public investment will accelerate due to the absorption of EU funds, while lower interest rates will support business and residential investment. Exports will pick up as key export markets recover. Core inflation will remain high due to strong wage growth related to labour shortages and rising minimum and public sector wages. Rising geopolitical risks could adversely affect risk premiums and derail growth.

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

## Rising real wages are supporting private consumption

GDP grew by 0.3% in the fourth quarter of 2023, with a strong 11.6% annual increase in gross average monthly wages and falling inflation bolstering private consumption. The absorption of EU funds has supported investment. However, industrial production has been volatile in recent months and was 0.9% lower in February than a year earlier. Annual inflation fell sharply to 1% in March due to declining energy and food prices, but core inflation remains high at 3.8%. The labour market remains tight, with the unemployment rate at 6.8% in March and the vacancy rate at 2.5% in the fourth quarter of 2023, only 0.5 percentage points below its pre-pandemic level.

## 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 115 database; and OECD calculations.

StatLink  <https://stat.link/9oe1tb>



## Latvia: Demand, output and prices

	2020	2021	2022	2023	2024	2025
	Current prices EUR billion	Percentage changes, volume (2015 prices)				
<b>Latvia</b>						
<b>GDP at market prices</b>	30.1	6.7	3.0	-0.3	1.8	2.9
Private consumption	17.2	7.3	7.2	-1.3	2.3	3.3
Government consumption	6.1	3.5	2.8	7.0	3.2	0.7
Gross fixed capital formation	6.8	7.2	0.6	8.2	4.9	3.5
Final domestic demand	30.0	6.4	4.8	2.3	3.1	2.8
Stockbuilding <sup>1</sup>	-0.3	4.1	-0.9	-0.4	-0.9	0.0
Total domestic demand	29.7	10.3	3.7	1.8	2.3	2.9
Exports of goods and services	18.3	9.0	10.3	-5.9	-0.2	3.1
Imports of goods and services	17.9	15.1	11.1	-2.8	0.5	3.0
Net exports <sup>1</sup>	0.4	-3.5	-0.9	-2.1	-0.5	-0.1
<i>Memorandum items</i>						
GDP deflator	–	3.8	11.8	5.4	1.9	2.3
Harmonised index of consumer prices	–	3.2	17.2	9.1	1.7	2.4
Harmonised index of core inflation <sup>2</sup>	–	1.9	7.6	8.4	2.9	2.3
Unemployment rate (% of labour force)	–	7.6	6.8	6.5	6.7	6.6
Household saving ratio, net (% of disposable income)	–	1.9	-7.2	-3.9	-1.5	-0.8
General government financial balance (% of GDP)	–	-7.2	-4.6	-2.2	-2.9	-2.5
General government gross debt (% of GDP)	–	60.1	52.4	54.5	56.8	58.3
General government debt, Maastricht definition <sup>3</sup> (% of GDP)	–	44.4	41.8	43.6	45.8	47.3
Current account balance (% of GDP)	–	-3.9	-4.8	-4.0	-4.4	-4.3

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 115 database.

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

Rising geopolitical tensions contributed to a sharp rise in quarterly import prices in the fourth quarter of 2023. In February, merchandise import values increased by 7.8% month-on-month, while export values fell by 9.4%. The number of bankruptcies continues to decline due to the strong energy price support provided in the past, other than in sectors heavily affected by the sanctions against Russia and Belarus. Tighter financial conditions have led to a steady decline in annual house price growth in recent months.

## Fiscal policy will remain expansionary

The fiscal stance will ease in 2024 and remain broadly neutral in 2025. According to the 2024 budget, spending for health and education will increase by 0.9% and 0.4% of GDP, respectively, and internal security and defence spending will be raised by 0.5% of GDP. Higher interest payments of 0.5% of GDP by 2025 add to spending pressures. Tax revenue increases of 0.5% of GDP by 2026 will offset part of the increased spending, including a tax on undistributed profits of credit institutions, a gradual increase in reduced VAT rates on fruits and vegetables, and increases in excise tax rates on tobacco and alcoholic beverages. EU Recovery and Resilience Facility grants will finance investment and training measures for small businesses, with average yearly spending of about 1.6% of GDP in 2024-25. The easing of monetary policy from the second half of 2024 will support firm borrowing, although these effects could be dampened by weak competition in the financial sector.

## The recovery will be driven by domestic demand

Real GDP growth will recover to 1.8% in 2024 and rise to 2.9% in 2025. Falling inflation and high wage growth will raise household purchasing power and private consumption over the next two years. Rising unit labour costs and weak export demand will restrain export growth. Business and residential investment activity will pick up as financing conditions gradually ease. Significant inflows of EU funds will boost public infrastructure investment and spending on digitalisation and skills upgrading programmes for small businesses. Wage growth will remain strong due to skills shortages and planned increases in public sector and minimum wages, leading to sticky core inflation. Intensified regional geopolitical risks could significantly increase risk premiums and hamper foreign direct investment flows. On the upside, stronger-than-expected growth in the rest of the euro area would boost exports.

## Stronger investment is required to support inclusive and sustainable growth

Limited access to finance coupled with high informality, skilled labour shortages and weak competition hamper business dynamism, innovation and investment. To reduce high credit costs, it is key to reduce switching costs for bank customers and strengthen competition enforcement. Listing large state-owned enterprises could help to deepen capital markets and improve access to non-bank finance. High informality should be tackled by lowering labour taxes for low-wage earners, improving tax enforcement and continuing to fight corruption. Improving the design and delivery of training and encouraging more women to enter occupations with high labour shortages would help to address skills shortages. Strengthening the powers of the Competition Council to enforce competitive neutrality of state-owned enterprises and challenge regulations that restrict competition would foster business dynamism and innovation. Reducing tax expenditures for fossil fuels would incentivise innovation and investment in green technologies. To address rising spending pressures in defence, health and old age poverty and stabilise public debt, it is key to raise spending efficiency, reallocate spending and increase tax revenue from income and property taxes.

# Lithuania

After a mild contraction in 2023, growth is projected to rebound to 1.7% in 2024 and 3.1% in 2025. Investment will be a key driver of growth, supported by the roll-out of EU funds. Consumption will be buoyed by strong real wage growth amid falling inflation, while unemployment is projected to decline slowly. Exports will recover gradually from a sharp slowdown as external demand from trading partners gathers pace.

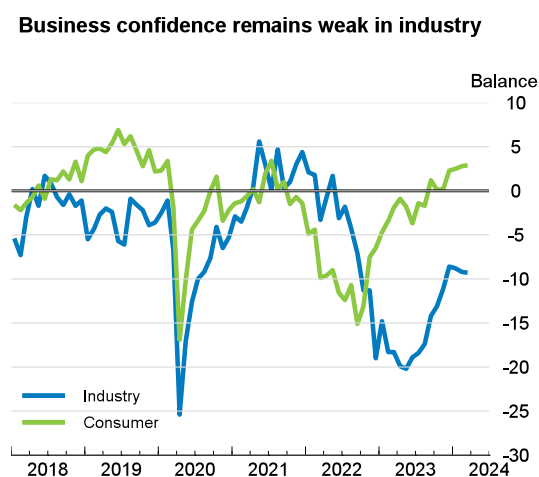
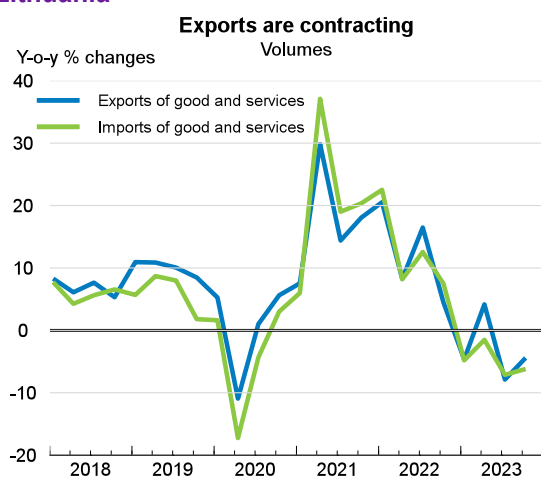
Future pressures on debt sustainability will come from an ageing population and a shrinking labour force. Financing future pension and healthcare costs will require additional fiscal resources. Increasing tax progressivity would also help to reduce income inequality. Boosting productivity and growth will require stronger investments in research and development. A stronger commitment to digital skills development and life-long education would allow more workers to engage with the fastest growing sectors of the economy. Reaching emission targets will require stronger price signals and more targeted support, such as subsidies for technology adoption, especially in hard-to-abate sectors like transport and industry.

## Declining exports are weighing on economic activity

GDP growth stalled in the second half of 2023, and declined by 0.3% in 2023 as a whole, driven by declining exports. Only investment, fuelled by EU funds, supported economic activity. Business confidence is slowly rebounding, especially in industry but remains at a low level. While the unemployment rate increased from 6.3% at the end of 2022 to 7.4% in February 2024, it remains below its average over the last decade. After peaking at 22.5% in September 2022, inflation declined steadily to 0.4% in March 2024. After a decline in 2022, real wage growth rose in 2023, contributing to a strong increase in consumer confidence through 2023.

Russia's war of aggression against Ukraine continues to impact the economy. Additional expenditure related to the war has come primarily from temporary measures related to the assistance of displaced people from Ukraine and increased defence spending. Up to February 2024, over 75,000 Ukrainian refugees have registered for temporary protection. Low growth in European trading partners has hit demand for consumer goods and contributed to the contraction in exports in 2023.

## Lithuania



Source: OECD Economic Outlook 115 database; and European Commission business and consumer surveys.

StatLink  <https://stat.link/0x6deh>

## Lithuania: Demand, output and prices

	2020	2021	2022	2023	2024	2025
<b>Lithuania</b>	Current prices EUR billion	Percentage changes, volume (2015 prices)				
<b>GDP at market prices</b>	49.9	6.3	2.4	-0.3	1.7	3.1
Private consumption	28.7	8.1	2.0	-1.0	2.9	3.2
Government consumption	9.2	1.2	0.4	0.2	0.7	1.9
Gross fixed capital formation	10.7	9.4	3.6	10.6	6.7	3.2
Final domestic demand	48.6	7.1	2.1	1.7	3.4	3.0
Stockbuilding <sup>1</sup>	-3.4	-0.4	0.0	-3.5	-0.1	0.0
Total domestic demand	45.2	7.6	2.8	-1.1	3.4	3.1
Exports of goods and services	36.5	17.0	12.2	-3.3	-0.3	3.4
Imports of goods and services	31.8	19.9	12.4	-4.9	1.7	3.4
Net exports <sup>1</sup>	4.6	-0.3	0.4	1.5	-1.5	0.0
<i>Memorandum items</i>						
GDP deflator	–	6.5	16.6	7.1	2.2	2.5
Harmonised index of consumer prices	–	4.6	18.9	8.7	1.8	2.6
Harmonised index of core inflation <sup>2</sup>	–	3.4	10.5	9.6	3.3	2.4
Unemployment rate (% of labour force)	–	7.1	5.9	6.8	6.8	6.0
Household saving ratio, net (% of disposable income)	–	7.6	1.2	4.8	9.9	11.0
General government financial balance (% of GDP)	–	-1.1	-0.6	-0.8	-2.8	-2.3
General government gross debt (% of GDP)	–	50.4	37.9	39.5	41.9	43.6
General government debt, Maastricht definition <sup>3</sup> (% of GDP)	–	43.4	38.1	38.3	40.8	42.4
Current account balance (% of GDP)	–	1.3	-5.4	1.9	3.2	3.0

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

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

3. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.

Source: OECD Economic Outlook 115 database.

StatLink  <https://stat.link/ljpi71>

## Energy price falls will ease fiscal pressures

The government will implement a countercyclical fiscal policy in response to the war in Ukraine with an increase in the deficit in 2024 to 2.8% of GDP. This temporary increase comes on the back of a much lower than expected deficit in 2023 of 0.8% of GDP, due to lower than expected energy prices. The deficit is then projected to decrease to 2.3% of GDP in 2025. Temporary measures include support for Ukrainian refugees, payment of financial obligations to the IMF on behalf of Ukraine, as well as contributions as part of the G7 Joint Declaration of Support for Ukraine. The 2024 budget no longer contains an allocation for energy price support measures. Investment will be driven by the implementation of projects financed by EU Funds and the Recovery and Resilience plan. Defence spending will be maintained at 2.5% of GDP. A mild tightening of the fiscal stance is projected in 2025. The pass-through of monetary policy to financing costs has increased the interest rate on mortgages by 1.2 percentage points in the year to January 2024.

## Growth is expected to rebound

GDP growth is expected to recover in 2024 and 2025, driven by a rebound in private consumption, strong wage growth, a continued decline in inflation and a pick-up in exports as demand from European trading partners recovers. Inflation has eased due to a stabilisation in external price pressures, principally from oil and food. While investment is expected to moderate after the exceptional growth in 2023, it will continue to support GDP growth in 2024 and 2025. Nevertheless, investment may be negatively impacted if EU

Recovery and Resilience Funds (RRF) disbursements are lower than expected. Part of the RRF funding for Lithuania depends on the adoption of a real-estate taxation reform for which a political consensus has yet to emerge, and there is also uncertainty regarding the share of RRF funding that will be linked to the adoption of this reform. Moreover, strong wage growth combined with labour shortages may negatively impact the exporting sector. Heightened geopolitical tensions could also curb export prospects and raise import prices.

### **Reforms are required to secure stronger and more sustainable growth**

Fiscal policy is prudently managed but facing spending pressures related to population ageing. Since old-age poverty is high and life expectancy for men reaching retirement age is low, there is limited scope to cut pensions or further increase the retirement age. Additional resources will be needed to finance future pension and healthcare costs. Encouraging more people to work in the formal economy, reducing the large VAT gap, and increasing immovable property taxation would help to achieve this objective. There is also room to increase the progressivity of the tax system to limit income inequality. Strengthening productivity is the key to enhancing growth. Currently the take-up of R&D tax incentives for businesses is low, despite generous provisions. A shift to support through a combination of tax incentives and direct support could improve engagement and innovation. A timely roll-out of digital skills programmes in schools and universities would enable more workers to enter high-productivity sectors. Current climate change mitigation policies rely primarily on a range of costly subsidies, for electric cars and renewable energy, with carbon prices still broadly below the levels needed to reduce the carbon intensity of economic activity. Reaching emission targets will require enhancing price signals, and targeted support for innovation and technology adoption, especially in hard-to-abate sectors like transport and industry.

# Luxembourg

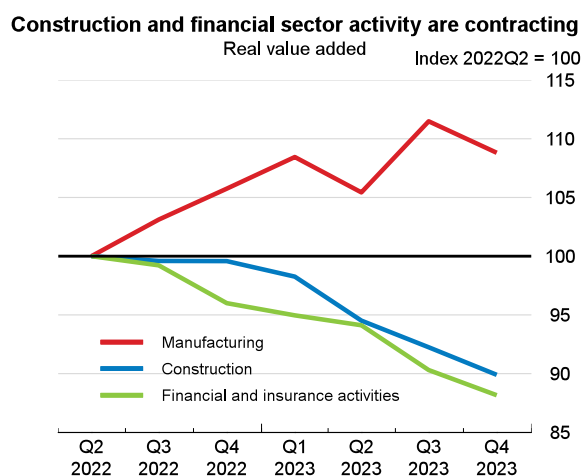
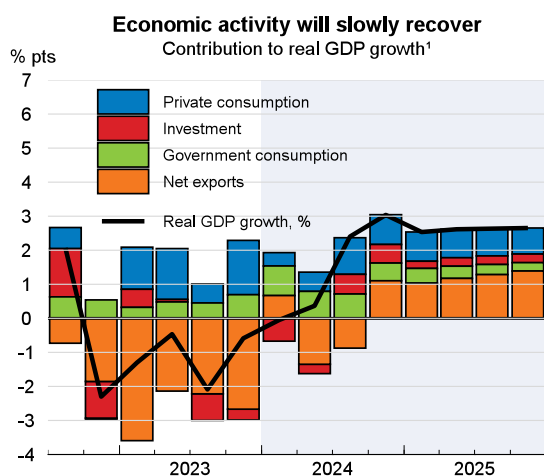
Real GDP is projected to grow by 1.4% in 2024 and 2.6% in 2025. The main driver of growth will be private consumption, as rising nominal wages and receding inflation support households' real disposable income. Exports are expected to strengthen on the back of growing demand from euro area trading partners, whereas investment is projected to remain weak in 2024, mainly due to the downturn in construction. Risks are moderately to the downside. A larger-than-expected and more persistent downturn in the housing market could lead to a weaker recovery in activity, while an earlier-than-expected easing of global financial conditions could boost activity, especially in the financial sector.

The stance of fiscal policy in 2024 will be mildly restrictive. The partial phase-out of energy policy support more than offsets the reduction in personal income taxes from the adjustment of tax brackets to inflation. To maintain low public debt, energy policy support should be fully unwound in 2025. In the medium term, the authorities should address long-term fiscal pressures stemming from the pension system and reduce work disincentives due to the joint taxation of couples.

## Economic activity has continued to contract


Real GDP in the fourth quarter of 2023 was almost 3% lower than at the end of 2021, as tighter financial conditions have weakened financial sector activity and housing investment. By contrast, household consumption has been robust, as three rounds of wage indexation and fiscal measures to tackle the energy crisis have supported household incomes. After deteriorating since early 2022, consumer and business sentiment ticked up modestly since the end of 2023, especially in industry, retail and non-financial services. Manufacturing production and construction activity remain weak but appear to have bottomed out.

## Luxembourg



1. Year-on-year percentage changes.

Source: OECD Economic Outlook 115 database; and OECD National accounts database.

StatLink  <https://stat.link/27eapt>

## Luxembourg: Demand, output and prices

	2020	2021	2022	2023	2024	2025
	Current prices EUR billion	Percentage changes, volume (2015 prices)				
<b>Luxembourg</b>						
<b>GDP at market prices</b>	64.5	7.2	1.4	-1.1	1.4	2.6
Private consumption	19.5	11.3	2.3	4.0	2.3	2.6
Government consumption	11.9	5.4	2.9	2.8	3.9	1.7
Gross fixed capital formation	10.8	15.9	-7.3	-0.9	-3.6	1.4
Final domestic demand	42.2	11.3	-0.1	2.3	1.2	2.0
Stockbuilding <sup>1</sup>	0.4	0.2	-0.5	0.0	0.7	0.0
Total domestic demand	42.6	12.5	-0.3	2.4	2.2	2.0
Exports of goods and services	131.0	10.3	-0.6	-1.4	0.7	2.5
Imports of goods and services	109.0	12.4	-1.9	-0.1	0.9	2.2
Net exports <sup>1</sup>	21.9	-0.1	2.1	-2.6	-0.1	1.2
<i>Memorandum items</i>						
GDP deflator	–	4.6	6.1	3.5	3.4	3.2
Harmonised index of consumer prices	–	3.5	8.2	2.9	2.3	3.0
Harmonised index of core inflation <sup>2</sup>	–	1.5	4.2	3.9	2.7	2.9
Unemployment rate (% of labour force)	–	5.7	4.8	5.2	5.7	5.9
Household saving ratio, net (% of disposable income)	–	12.2	11.6	13.3	12.8	12.4
General government financial balance (% of GDP)	–	0.5	-0.3	-1.2	-1.2	-1.1
General government gross debt (% of GDP)	–	31.4	29.4	30.7	32.1	32.6
General government debt, Maastricht definition <sup>3</sup> (% of GDP)	–	24.5	24.7	25.6	27.0	27.4
Current account balance (% of GDP)	–	7.9	7.6	6.7	6.2	5.8

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 115 database.

StatLink  <https://stat.link/uzgjjy8>

Exports declined over 2022-23, as activity in key euro area trade partners slowed and tighter global financial conditions negatively affected demand for financial services. Inflation has eased after the peak reached in 2022, as commodity and energy prices have fallen, and was 3.2% in March.

## Fiscal policy will be mildly restrictive

Fiscal support to tackle the energy crisis has partially been withdrawn, but most measures, including price support measures, remain in place until the end of 2024. Reduced public expenditure on energy policy support more than offsets a reduction in personal income taxes stemming from the adjustment of tax brackets to inflation, resulting in a mildly tighter fiscal stance in 2024. In 2025, further scaling back of energy policy support will broadly be offset by the projected increase in public investment. The headline government budget deficit will be around 1% of GDP in both 2024 and 2025. While the fiscal stance appears broadly appropriate, energy policy support, especially price support measures, should be fully unwound in 2025.

## Activity will recover over 2024-25

Growth is projected to strengthen gradually over 2024-25. As financial conditions ease, the performance of the financial sector will improve, and exports will be supported as economic activity in the euro area picks up. Private consumption is projected to grow robustly as disposable income is bolstered by two

further rounds of wage indexation in 2024 and 2025. The projected decline in borrowing costs will benefit investment, but the construction sector is expected to recover only gradually. Inflationary pressures will slowly dissipate as the unemployment rate increases, but headline inflation will pick up in 2025 as energy price support comes to an end. Risks are moderately to the downside, with a larger-than-expected and more persistent downturn in the housing market as the main downside risk. A stronger recovery in the euro area and a faster easing of global financial conditions are key upside risks.

### **Restoring growth and maintaining low public debt are key challenges**

In the medium term, the authorities face the dual challenge of restoring growth and maintaining low public debt. At below 30% of GDP, public debt is low in international perspective, but maintaining fiscal buffers is key to be able to respond to negative shocks to which a small open economy such as Luxembourg might be particularly exposed. A key issue will be to strengthen productivity growth, including by providing labour-market relevant adult learning opportunities, attracting and retaining foreign talent, and revising public support to research and development. Labour market participation could be boosted by enhancing active labour market policies and revising the system of joint taxation of couples, which reduces work incentives for second earners. Reform measures, such as limiting early retirement and linking the legal retirement age to life expectancy, will be needed to address the deficit in the public pension scheme that is projected to emerge in 2027 and that will rapidly increase over subsequent decades.



# Malaysia

GDP is projected to grow by 3.9% in 2024 and 4.8% in 2025. After a weak patch in late 2023, private consumption is expected to be robust due to continued improvements in the labour market, lower inflation, and government cash transfers. Investment is projected to continue to grow steadily, supported by multi-year infrastructure projects. International tourist arrivals have returned to the pre-pandemic level, which will continue to sustain exports. However, weaker external demand for goods, could reduce export prospects.

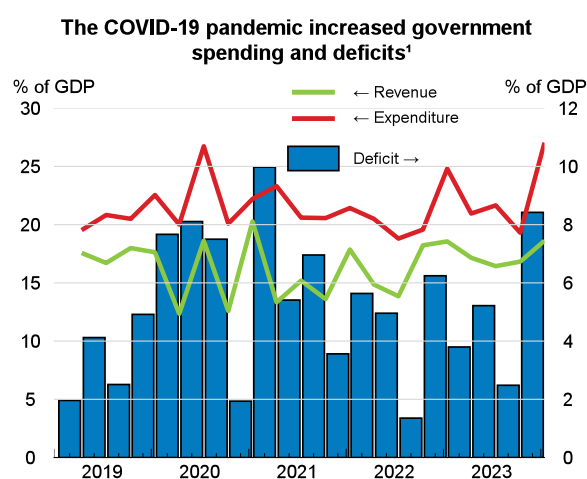
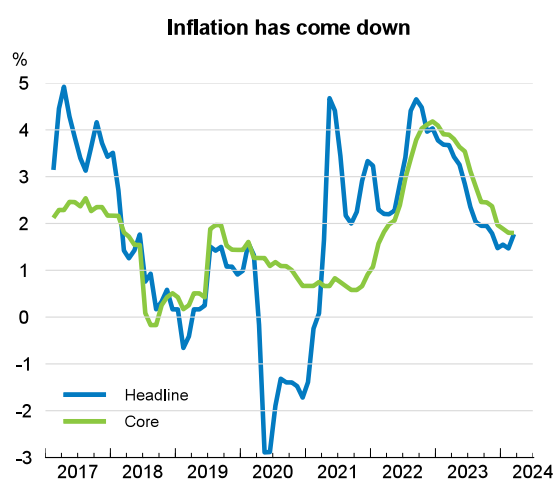
Government debt has increased rapidly and fiscal consolidation will be required to rebuild fiscal space, including by mobilising more tax revenues and phasing out subsidies for fuel and electricity, while strengthening support to vulnerable groups. The neutral monetary policy stance should continue as inflation is projected to remain modest. 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.

## Economic activity has moderated

Real GDP fell by 2.1% in the fourth quarter of 2023 on a seasonally adjusted quarter-on-quarter basis, mainly driven by a strong decline in private consumption. This reduced annual GDP growth to 3.7%, significantly short of market expectations. Headline inflation continued to moderate from 4.7% in August 2022 to 1.8% in February 2024, and core inflation also declined to 1.8%. The unemployment rate returned to its pre-pandemic level of 3.3% in January 2024. Monthly short-term indicators, such as the leading indicator of the Department of Statistics, and industrial production suggest that growth has been gaining momentum in early 2024.

Exports, which are equivalent to three-quarters of Malaysia's GDP, fell by 7.9% in volume terms in 2023 amid weakening global demand. Imports dropped by a similar order. The current account surplus was maintained, but declined to 1.2% of GDP.

## Malaysia



<sup>1</sup> Federal government.

Source: Department of Statistics Malaysia; and Bank Negara Malaysia.


## Malaysia: Demand, output and prices

	2020	2021	2022	2023	2024	2025
	Current prices MYR billion	Percentage changes, volume (2015 prices)				
<b>Malaysia</b>						
<b>GDP at market prices</b>	1 418.5	3.3	8.7	3.7	3.9	4.8
Private consumption	865.5	1.9	11.2	4.7	3.9	5.1
Government consumption	183.9	6.4	4.5	3.9	5.1	3.7
Gross fixed capital formation	296.7	-0.8	6.8	5.5	5.1	5.0
Final domestic demand	1 346.0	1.9	9.2	4.8	4.3	4.9
Stockbuilding <sup>1</sup>	- 17.8	1.7	0.2	-0.1	0.3	0.0
Total domestic demand	1 328.2	3.8	9.3	4.5	4.6	4.8
Exports of goods and services	873.5	18.5	14.5	-7.9	4.4	5.1
Imports of goods and services	783.2	21.2	15.9	-7.6	5.5	5.0
Net exports <sup>1</sup>	90.3	-0.3	-0.1	-0.6	-0.4	0.2
<i>Memorandum items</i>						
GDP deflator	—	5.7	6.4	-1.9	3.7	3.5
Consumer price index	—	2.5	3.4	2.5	2.8	2.7
Core inflation index <sup>2</sup>	—	0.7	3.0	3.0	2.7	2.7
Current account balance (% of GDP)	—	3.9	3.1	1.2	0.9	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 115 database.

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

## Monetary policy is neutral while fiscal consolidation is underway

The central bank has maintained its Overnight Policy Rate at 3.0% since May 2023, which is close to its average during the 2010s. With inflation close to long-term averages, the current neutral stance is expected to be maintained. Temporary inflationary pressures from the planned withdrawal of energy subsidies will not require a monetary policy reaction, but authorities should remain vigilant to potential second-round effects, which constitute an upside risk to inflation. Additional risks relate to future wage pressures and the recent depreciation of the Malaysian ringgit, which reached its lowest level relative to the USD since 1998 in February. The headline fiscal deficit declined to 5.0% of GDP in 2023 but is still high compared with pre-pandemic levels. Current fiscal plans target a modest consolidation to cut the deficit to 4.3% of GDP in 2024, including by reducing energy subsidies, which disproportionately benefit the better off and run counter to climate change mitigation objectives. Replacing these with targeted benefits as planned can raise spending efficiency and reduce inequalities. Further consolidation efforts will be required to reduce the budget deficit to the 3% ceiling in the medium term, as set by the 2023 Public Finance and Fiscal Responsibility Act, and for government debt, which stood at 64% of GDP at the end of 2023, to return to the planned 60% ceiling.

## The economy will strengthen gradually

Real GDP growth is projected to rise to nearly 5% by 2025, matching the rate achieved during the five years before the COVID-19 pandemic. Continued employment gains are likely to support private consumption, while the projected pick-up in global trade will boost exports. However, with electrical and electronic products accounting for 33% of its exports, Malaysia is vulnerable to increased geopolitical tensions that could disrupt supply chains and trade patterns. Swings in commodity prices also pose a risk as commodities, notably palm oil, crude oil and natural rubber, account for around one-fifth of exports. The relatively modest pace planned for fiscal consolidation leaves the public finances vulnerable to economic shocks and spending pressures.

## **Making economic growth more equitable and sustainable**

With tax revenues amounting to only 11% of GDP, Malaysia needs to mobilise new sources of public revenues to keep government debt below the debt ceiling and finance an improved social safety net. Re-introducing the Goods and Services Tax, which was repealed in 2018, would be an efficient source of additional revenue. On the spending side, further reducing energy subsidies, which encourage wasteful energy consumption and increase greenhouse gas emissions, would help Malaysia achieve its target of carbon neutrality by 2050. Boosting the performance of small and medium enterprises requires public support to introduce digital tools in small companies and training for their employees. Increasing female labour force participation, which was only 52.7% in 2022, is a priority. Investing more in public childcare facilities, providing subsidies to private facilities, and enforcing the implementation of the recently legislated 14-week minimum maternity leave entitlement would promote female employment, boost potential output and decrease gender gaps.

# Mexico

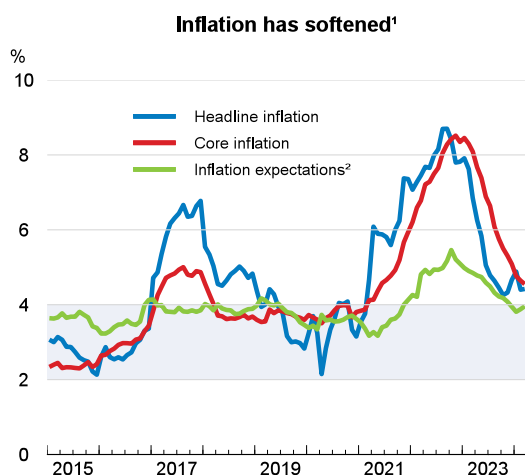
The economy is projected to expand by 2.2% in 2024 and 2.0% in 2025. Consumption will be supported by a strong labour market. Investment will be backed by public infrastructure projects in 2024 and by the gradual nearshoring of manufacturing activities to Mexico. Exports will support growth in 2025, after losing some dynamism in 2024 due to the slowdown in United States. Inflation will continue to gradually edge down to 3.1% in 2025.

Monetary policy should gradually ease but remain restrictive to ensure that inflation decreases durably towards its target. Adopting a multi-year fiscal plan would help to maintain fiscal prudence and create fiscal space to increase productivity-enhancing spending. A comprehensive early childhood education and care system and expanding elderly formal care service would facilitate the participation of women in the labour market.

## Domestic demand is resilient

Short-term indicators show consumption remaining robust, particularly in services. Industrial output has recovered after some weakness at end 2023. Non-residential construction has remained strong and manufacturing has rebounded, but activity in mining and utility industries continues to decline. Industrial parks in states close to the border with the United States are nearly at full capacity, and warehouse rental prices and construction of additional industrial spaces are increasing. Headline inflation has declined, reaching 4.4% (year-on-year) in March, with core inflation at 4.6%. Inflationary pressures remain particularly strong in services, reaching 5.4% in March.

## Mexico



1. The shaded area represents the central bank's inflation target range.

2. Private sector inflation expectations for the next 12 months.

Source: Bank of Mexico; and OECD Short-term Labour statistics.

## Mexico: Demand, output and prices

	2020	2021	2022	2023	2024	2025
	Current prices MXN billion	Percentage changes, volume (2018 prices)				
<b>Mexico</b>						
<b>GDP at market prices</b>	24 081.8	5.7	3.9	3.2	2.2	2.0
Private consumption	15 920.6	8.1	5.2	4.3	2.9	2.5
Government consumption	2 937.8	-0.5	1.2	2.1	6.2	1.4
Gross fixed capital formation	4 835.1	9.7	7.7	19.5	5.6	3.2
Final domestic demand	23 693.5	7.4	5.3	7.3	3.8	2.5
Stockbuilding <sup>1</sup>	- 1.0	0.2	-0.1	0.0	0.0	0.0
Total domestic demand	23 692.5	7.6	5.2	7.0	3.7	2.5
Exports of goods and services	9 450.5	7.2	8.7	-6.9	-0.7	4.4
Imports of goods and services	9 061.2	15.0	8.3	5.7	2.5	5.6
Net exports <sup>1</sup>	389.3	-3.0	0.0	-5.5	-1.4	-0.9
<i>Memorandum items</i>						
GDP deflator	—	4.5	6.4	4.5	4.3	2.6
Consumer price index	—	5.7	7.9	5.5	4.5	3.1
Core inflation index <sup>2</sup>	—	4.7	7.6	6.7	4.3	3.1
Unemployment rate <sup>3</sup> (% of labour force)	—	4.1	3.3	2.8	2.9	3.0
Current account balance (% of GDP)	—	-0.5	-1.4	-0.3	-0.2	-0.3

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.

Source: OECD Economic Outlook 115 database.

StatLink  <https://stat.link/b1gvlz>

The labour market is strong, with unemployment historically low (2.5% in February). Formal job creation continues to increase, albeit at a slower pace than in 2023, and the informality rate, at 55%, has slightly fallen. There is no information about job vacancies in Mexico, but recent assessments suggest that the labour market is tight, and firms report difficulties finding and retaining workers with the appropriate skills. Female labour market participation has increased but it remains significantly lower than in regional peers and other OECD countries. Domestic and care responsibilities fall disproportionately on Mexican women, hampering their prospects to complete education or be in the labour force.

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

The central bank has started to decrease interest rates, leaving the rate at 11.0%. With headline inflation still above the upper band of the target range and services inflation proving particularly persistent, monetary policy should remain restrictive, and further cuts in interest rates should be gradual and depending on data outturns. The policy rate is assumed to be gradually reduced to 7.50% by the end of 2025. The public sector targets a fiscal deficit of 5% in 2024, as budget allocations for social spending, mainly universal non-contributory pensions, and flagship infrastructure projects in the South have significantly increased, and borrowing costs have risen. The public deficit is planned to fall to 2.5% in 2025, mainly due to a reduction in public investment, partly linked with the end of some of the infrastructure projects in the south. This implies some tightening of the fiscal stance in 2025. The net public debt-to-GDP ratio is expected to remain at around 50% of GDP at the end of 2025.

## Growth will moderate

The economy is projected to expand by 2.2% this year and 2.0% in 2025. Private consumption will be a key growth driver, supported by low unemployment and increasing real household incomes. Private investment will gradually benefit from the relocation of manufacturing activity to Mexico. Exports will continue to benefit from deep integration in manufacturing value chains. Annual headline and core inflation will continue to gradually slow and are projected to return to the 3% target by the third quarter of 2025. However, the inflation outlook remains very uncertain. Inflation may be more persistent than anticipated, particularly in services. Episodes of global financial turmoil may trigger greater risk aversion and increase foreign exchange market volatility and financing costs. On the upside, manufacturing may rebound more strongly if production in industrial parks under construction starts earlier than anticipated.

## Boosting productivity and fighting and adapting to climate change are priorities

Efficiency gains in public spending, by making a more systematic use of cost-benefit analysis and means testing, and increasing tax revenues, by broadening the personal income tax base, fostering immovable property tax collection and continuing to fight tax evasion, would help to finance additional spending in areas such as education, digital infrastructure or the fight against climate change. Adopting regulations that promote private sector investment in renewables would help to convert Mexico's large renewables potential into a competitive advantage. Improving water management, by reducing operational risks and costs and promoting environmental sustainability, would make Mexico an even more appealing destination for nearshoring.

# Netherlands

Growth is projected to improve from 0.7% in 2024 to 1.3% in 2025, supported by private consumption as purchasing power increases. Annual headline inflation is set to fall from 2.8% in 2024 to 2.3% in 2025. Core inflation will slow to 2.3% in 2025, as some upside pressures from a tight labour market persist. Wages will rise by 5.2% in 2024 before slowing to 3.8% in 2025. Unemployment is expected to increase marginally from 3.7% in 2024 to 4% by the end of 2025.

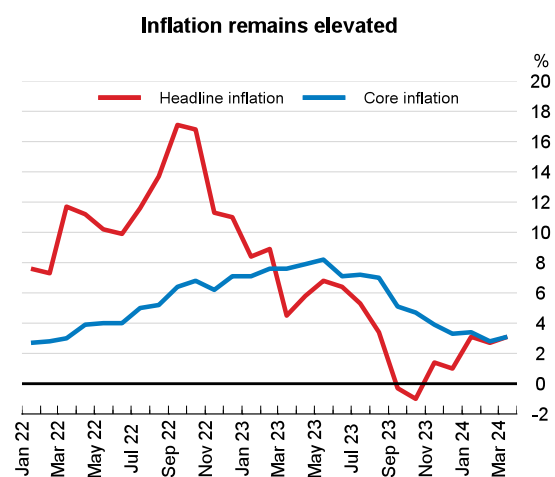
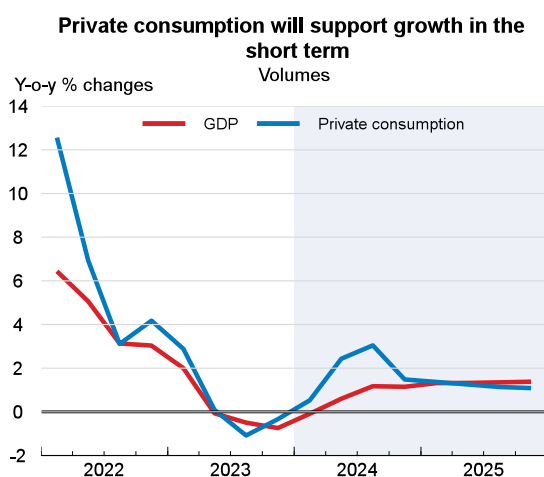
The fiscal stance is projected to be broadly neutral over the projection period. Following underinvestment in budgeted funds in 2023, government expenditure on debt interest, climate policy, social and health care and defence is set to increase. While prudent fiscal policy is still required, the government should continue to tackle structural challenges, focusing on investment in the green transition and reducing labour shortages.

## The economy shows moderate signs of improvement


After three quarters of contraction, output picked up by 0.3% in the fourth quarter of 2023. Following a gradual decline, headline inflation has picked up slightly in the first quarter of 2024, reaching 3.1% in March. Core inflation remains persistent at 3.1% in March as a tight labour market continues to exert upward pressure. Collective labour agreement wage rates rose by 6.5% in March compared to a year earlier and vacancies per unemployed person remain well above pre-pandemic levels. Consumer confidence improved in early 2024, but business sentiment remains subdued amidst persisting labour shortages. The number of bankruptcies has been rising since May 2022, but is only slowly catching up with its pre-pandemic level.

The Dutch economy is sensitive to global trade developments and depressed global trade growth has weighed on exports and output. The trade balance has been affected particularly by reduced demand from key EU trading partners.

## Netherlands



Source: OECD Economic Outlook 115 database; and Statistics Netherlands (CBS).

StatLink  <https://stat.link/yjk1fi>

## Netherlands: Demand, output and prices

	2020	2021	2022	2023	2024	2025
	Current prices EUR billion	Percentage changes, volume (2015 prices)				
<b>Netherlands</b>						
<b>GDP at market prices</b>	796.0	6.2	4.4	0.2	0.7	1.3
Private consumption	335.6	4.4	6.5	0.4	1.9	1.2
Government consumption	207.4	5.0	1.6	3.6	2.7	1.0
Gross fixed capital formation	173.1	2.9	1.8	1.9	-3.3	0.4
Final domestic demand	716.0	4.2	4.0	1.6	0.9	1.0
Stockbuilding <sup>1</sup>	0.3	0.4	-0.2	-0.6	0.0	0.0
Total domestic demand	716.4	4.6	3.8	1.0	0.9	1.0
Exports of goods and services	622.1	8.0	4.7	-1.4	-0.6	2.3
Imports of goods and services	542.4	6.2	4.0	-0.7	-0.3	1.9
Net exports <sup>1</sup>	79.6	2.0	1.0	-0.7	-0.3	0.5
<i>Memorandum items</i>						
GDP deflator	–	2.9	5.6	7.8	3.5	1.9
Harmonised index of consumer prices	–	2.8	11.6	4.1	2.8	2.3
Harmonised index of core inflation <sup>2</sup>	–	1.8	4.8	6.4	2.7	2.3
Unemployment rate (% of labour force)	–	4.2	3.5	3.5	3.7	3.9
Household saving ratio, net <sup>3</sup> (% of disposable income)	–	17.0	12.7	12.7	10.2	9.9
General government financial balance (% of GDP)	–	-2.2	-0.1	-0.3	-1.0	-0.5
General government gross debt (% of GDP)	–	65.7	54.3	51.3	51.4	51.1
General government debt, Maastricht definition <sup>4</sup> (% of GDP)	–	51.7	50.1	46.4	46.5	46.3
Current account balance (% of GDP)	–	12.1	9.3	10.1	9.8	9.8

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. 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 115 database.

StatLink  <https://stat.link/o9kxrp>

## Fiscal policy is set to be broadly neutral

The fiscal deficit is set to widen in 2024 before gradually improving in 2025. Following public underinvestment due to staff shortages in 2023, government spending on infrastructure, nitrogen and climate policy, and defence is set to increase. Higher interest expenditure resulting from monetary tightening will further weigh on public finances. Since the beginning of 2024, increased benefits and selected tax credits for low-income households have been introduced, largely funded by a below inflation increase in the income tax threshold for the top income tax band, and increased excise duties on alcohol and tobacco. The Netherlands is governed by a caretaker government and in the absence of a clear budget plan, the forecast assumes moderate fiscal consolidation for 2025, supported by an increase in revenues from higher wages and a rate increase in the first tax bracket. Overall, the debt ratio is expected to be broadly stable at around 46% of GDP in 2024 and 2025.

## The economy is set to return to moderate growth

GDP is set to grow by 0.7% in 2024 and 1.3% in 2025. Private consumption will be a key driver, boosted by rising real incomes. Annual headline inflation is set to slow to 2.8% in 2024 and 2.3% in 2025 helped by lower energy prices and core inflation slowing to 2.3% in 2025 as businesses have now passed on higher energy costs. Wage growth is projected to moderate from 5.2% in 2024 to 3.8% in 2025 and



unemployment is expected to increase from 3.7% in 2024 to 3.9% in 2025, as the rate of bankruptcies continues to normalise. Investment will recover only slowly supported by gradually declining interest rates. External demand is expected to slowly improve as economic growth in key EU trading partners recovers. 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 purchasing power and household consumption. On the upside, higher income households could also support growth by spending a greater share of their excess savings.

### **Policy efforts are needed to tackle a tight labour market**

The Netherlands is in a comfortable fiscal position, but spending pressures are looming in the medium term from an ageing population and investment needs for advancing the green transition. To increase the share of renewables in the energy mix, the government should support green technology, particularly at early stages of development, and lower the administrative burden for firms in accessing funds. The incoming government should also address long-standing structural challenges, focussing on easing labour market pressures. Simplifying the tax system and removing distortions towards certain types of investment and labour supply could strengthen government revenues and ease tensions in the labour market. Moving to a system with fewer allowances and tax credits could offer greater transparency for the net benefits from an additional hour worked and thereby increase working hours. Continuing to align tax rates and social security contributions between contract types for workers doing similar jobs could ease the transition into regular employment and thereby increase productivity through better upskilling opportunities.

# New Zealand

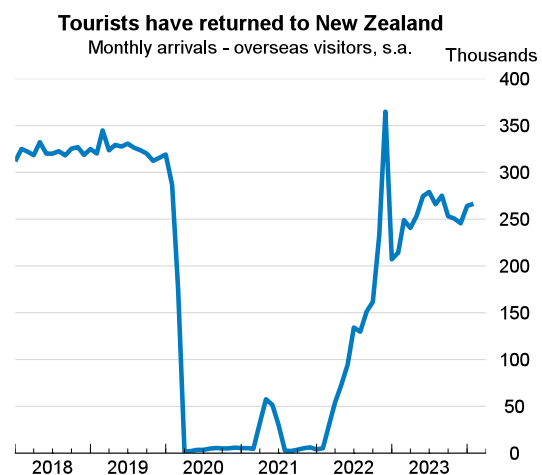
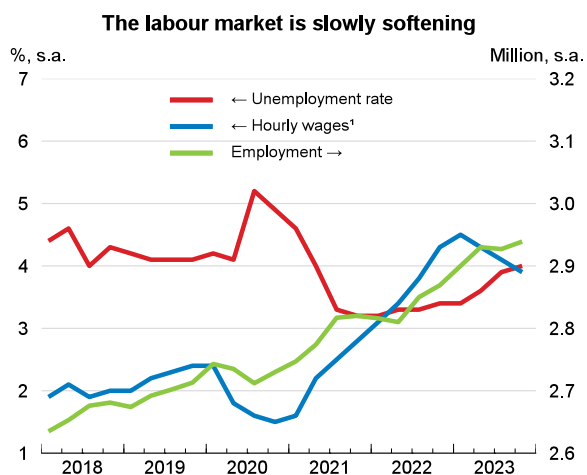
Economic rebalancing is set to continue. GDP growth is projected at 0.8% in 2024 before picking up to 1.9% in 2025 as disinflation helps to restore modest real household income and consumption growth. Rising house prices and rents should eventually stimulate housing construction, while higher growth in demand from trading partners, and further recovery in tourist arrivals will boost exports. Labour demand is softening. In line with weaker growth and ebbing labour market tensions, headline consumer price inflation is projected to fall to 3.2% in 2024 and 2.4% in 2025.

The government should gradually tighten fiscal policy. This would contribute to the rebalancing of the economy and reduce the burden on monetary policy, allowing interest rates to fall sooner than otherwise. The official cash rate should remain at 5.5% until there is clear evidence that inflation will fall to the middle of the target range of 1-3%. Reforms to raise competition and improve achievement and equity in school education are needed to boost productivity.

## Growth has slowed

The tightening of monetary policy, declining household real incomes, and the cooling of global growth and trade has slowed growth to a crawl. This is being tempered by rapidly rising net inward migration to over 126 000 (2.4% of the population) in 2023. Ensuing strong population growth is supporting consumption and GDP, but GDP per capita fell by 3.1% in the year to December 2023. Imbalances are partly cyclical and are unwinding. Vacancies are declining, job creation has slowed, and the unemployment rate rose to 4% in late 2023. With slowing imports plus a pickup in international tourist arrivals, the current account deficit shrank from a recent peak of 8.8% to 6.9% of GDP in 2023Q4.

## New Zealand



1. Year-on-year percentage changes of the salary and ordinary time hourly wages in the private sector.

Source: Statistics New Zealand.

StatLink  <https://stat.link/z8s4d1>

## New Zealand: Demand, output and prices

	2020	2021	2022	2023	2024	2025
	Current prices NZD billion	Percentage changes, volume (2009/2010 prices)				
<b>New Zealand</b>						
<b>GDP at market prices</b>	323.5	5.9	2.2	0.6	0.8	1.9
Private consumption	183.2	7.4	3.3	0.3	0.2	1.9
Government consumption	65.3	7.8	4.9	-1.1	0.1	0.3
Gross fixed capital formation	73.4	12.0	3.4	-1.1	-5.5	1.2
Final domestic demand	322.0	8.5	3.6	-0.3	-1.2	1.4
Stockbuilding <sup>1</sup>	-1.8	1.4	-0.3	-1.3	-0.4	0.0
Total domestic demand	320.1	9.9	3.3	-1.5	-1.5	1.4
Exports of goods and services	77.5	-2.7	-0.2	10.0	4.2	3.3
Imports of goods and services	74.1	14.8	4.6	-0.3	-3.5	1.4
Net exports <sup>1</sup>	3.3	-4.0	-1.2	2.5	2.0	0.4
<i>Memorandum items</i>						
GDP deflator	—	3.0	5.6	5.7	2.2	2.4
Consumer price index	—	3.9	7.2	5.7	3.2	2.4
Core inflation index <sup>2</sup>	—	3.7	6.0	5.6	3.6	2.4
Unemployment rate (% of labour force)	—	3.8	3.3	3.7	4.7	4.8
Household saving ratio, net (% of disposable income)	—	2.7	-2.7	-4.5	-4.0	-4.9
General government financial balance (% of GDP)	—	-4.1	-3.2	-3.2	-3.7	-3.4
General government gross debt (% of GDP)	—	48.5	52.6	55.9	59.2	61.8
Current account balance (% of GDP)	—	-5.7	-8.5	-6.9	-5.8	-5.3

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 115 database.

StatLink  <https://stat.link/a9f37o>

With activity slowing, headline consumer price inflation fell from a peak of 7.3% to 4.0% in the first quarter of 2024. Core inflation has also declined, to around 4.2%, helped by fading labour market tensions and cost pressures. Annual wage growth eased to 3.9% at the end of 2023. Global developments, including lower energy prices and a reduction in supply-chain bottlenecks have reduced petrol and electronic goods prices. However, high population growth due to immigration, although helping to ease labour shortages, has also boosted demand for housing, contributing to an annual increase of 5.1% in rents for new tenancies in March 2024.

## Macroeconomic policy should remain restrictive

Rising public spending in the five years to 2023, including the generosity of welfare payments, along with weaker than expected revenue, has created a structural deficit. The projections assume gradual fiscal consolidation with an improvement in the underlying primary balance of 0.4% of GDP in 2024 and 0.3% in 2025. The government is planning to cut income taxes in the 2024 Budget. This is assumed to be fully funded by other revenue-raising measures or expenditure cuts. Despite weak growth, inflation remains above target, and is expected to decline only slowly, due in part to sticky services price inflation, limiting the scope to lower the official cash rate in the near-term. It is assumed that the Reserve Bank will keep the cash rate constant at 5.5% until the end of 2024 and then reduce it to 4.25% during 2025.

## Improving purchasing power will underpin a growth turnaround

Gradual rebalancing is expected to continue in 2024 with growth of only 0.8%. Slow growth, easing labour shortages and wage deceleration should ensure a durable decline in inflation to a bit over 2% by late 2025. The fall in inflation will boost household purchasing power, contributing to growth of 1.9% in 2025. A recent turnaround in prices for New Zealand's main commodities, with an annual increase in prices of around 5% in 2024Q1, along with the ongoing recovery in tourism, which was back to around 76% of pre-Covid levels in the year to February 2024, should provide an additional boost to incomes and shrink the current account deficit further. The recovery in tourism from China has been slower but appears to have picked up recently. However, the still large deficit leaves New Zealand vulnerable to a negative change in investor sentiment and a depreciation of the exchange rate, which would be inflationary. A credible, steady fiscal consolidation plan is important to mitigate this risk. Delaying tax cuts would make this easier to achieve. Continued high net inward migration would worsen rental housing shortages and keep rent growth and inflation higher.

## Policy must continue to foster rebalancing while boosting productivity

Restrictive macroeconomic policy, including sticking to new fiscal expenditure limits, to promote rebalancing needs to be accompanied by more effort to boost weak productivity growth. Further reforms to boost competition would incentivise greater investment and R&D, fostering innovation and productivity growth. Longer-term productivity improvements are also threatened by declining student achievement in schools and inequity in results. A reprioritisation of education spending towards more central support to teachers and principals is needed to address this.

# Norway

Mainland GDP is projected to increase by 0.5% in 2024, with an acceleration to 1.6% in 2025 as domestic demand strengthens. High inflation and monetary policy tightening have dampened activity, with stagnation in most non-oil sectors and a sharp decline in construction, whereas oil and gas extraction has remained buoyant. Inflation is set to decline only slowly, held up by exchange rate depreciation and cost pressures, given the still tight labour market and weak productivity growth.

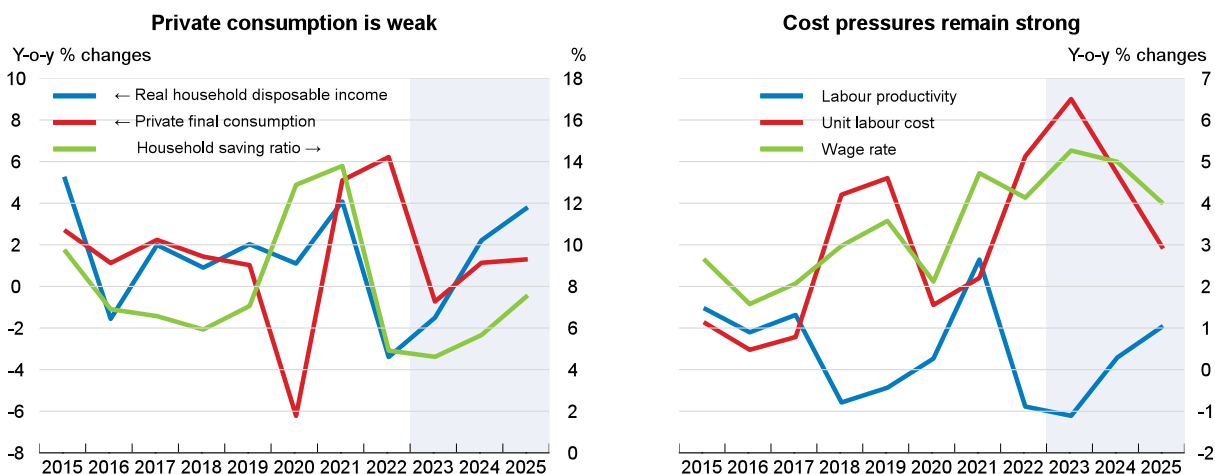
Monetary policy needs to remain restrictive for some time to ensure that inflation approaches the target. The fiscal stance should not add inflationary pressures. It should turn increasingly restrictive in the medium term, making space to cope with spending pressures from population ageing. Structural reforms that limit early retirement, as well as sickness and disability benefits, are key for inclusive growth and fiscal sustainability.

## Domestic demand remains weak

Mainland GDP grew by 0.7% in 2023, after 3.7% in 2022. Although slowing, both headline and core inflation remain high, standing at 3.9% and 4.5% respectively in March 2024. High inflation and interest payments have weighed on private consumption, which contracted by 0.7% in 2023, with savings built up during the pandemic providing limited support. Non-oil business investment slowed and housing investment contracted, owing to higher interest rates. Oil investment surged and is expected to remain strong in the near term given the number of submitted projects. As the labour market remained tight, wages increased strongly but were outpaced by inflation in 2023. Unit labour costs have risen strongly partly due to weak productivity growth, sustaining cost pressures.

The fall in global energy prices in 2023 reduced the terms of trade and petroleum revenues. Nonetheless, the latter remained very high by historical standards, contributing to a very large budget surplus. Norwegian exports continue to benefit from strong energy demand from trading partners to replace Russian gas supply. The recent decline in global gas prices is projected to pull down petroleum revenues in 2024. The depreciation of the Norwegian krone exerts upward pressure on prices and heightened geopolitical tensions in the Middle East have raised shipping costs.

## Norway



Source: OECD Economic Outlook 115 database.

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

## Norway: Demand, output and prices

	2020	2021	2022	2023	2024	2025
	Current prices NOK billion	Percentage changes, volume (2021 prices)				
<b>Norway</b>						
<b>Mainland GDP at market prices<sup>1</sup></b>	3 067.3	4.5	3.7	0.7	0.5	1.6
<b>Total GDP at market prices</b>	3 461.6	3.9	3.0	0.5	0.8	1.8
Private consumption	1 504.0	5.1	6.2	-0.7	1.1	1.3
Government consumption	904.7	3.6	1.1	3.6	1.4	1.5
Gross fixed capital formation	949.7	0.7	5.2	0.3	1.7	2.8
Final domestic demand	3 358.3	3.5	4.6	0.7	1.4	1.8
Stockbuilding <sup>2</sup>	135.5	-0.8	0.8	-0.4	-1.7	0.0
Total domestic demand	3 493.9	2.5	5.4	0.1	-0.6	1.8
Exports of goods and services	1 115.0	6.1	4.5	1.4	3.3	3.5
Imports of goods and services	1 147.3	1.8	12.5	0.7	0.1	4.0
Net exports <sup>2</sup>	- 32.3	1.4	-1.6	0.6	1.5	0.2
<i>Memorandum items</i>						
GDP deflator	–	20.2	28.2	-10.6	-1.2	2.7
Consumer price index	–	3.5	5.8	5.5	3.9	2.8
Core inflation index <sup>3</sup>	–	1.7	3.6	5.8	4.2	2.9
Unemployment rate (% of labour force)	–	4.4	3.2	3.6	3.7	3.7
Household saving ratio, net (% of disposable income)	–	13.8	4.9	4.6	5.7	7.6
General government financial balance (% of GDP)	–	10.3	25.6	16.3	11.3	11.5
General government gross debt (% of GDP)	–	47.9	42.3	50.6	..	..
Current account balance (% of GDP)	–	13.2	30.3	17.5	12.3	12.1

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 115 database.

StatLink  <https://stat.link/lwb7po>

## Inflation is set to decline and monetary policy will become less restrictive

The non-oil structural budget deficit will remain large in 2024, at 10.3% of mainland GDP according to government estimates. This deficit increased substantially in 2020 and has not declined much since then. Nonetheless, the non-oil structural budget deficit will remain below the fiscal rule level of 3% of the value of the oil fund, which has considerably increased over the past years. The fiscal space created by the transfers from the oil fund is expected to decline in the medium term, which calls for rationalising inefficient expenditures. This will also help to safeguard some fiscal space, as the government plans to significantly ramp up military spending. As inflation remains well above the central bank's 2% target, the OECD projections assume that the policy rate will remain at 4.5% until autumn 2024 and will be gradually reduced to 3.25% towards the end of 2025.

## Mainland GDP growth will recover gradually

Mainland GDP growth is projected to be weak in 2024 before picking up to 1.6% in 2025. Inflation will gradually moderate but still remain close to 3% on average in 2025. While firms' profitability remains high, real wages are expected to increase, which should push up private consumption. Lower interest rates will support both housing and non-oil business investment in 2025. As growth in Norway's trading partners recovers, non-oil exports will regain momentum. Household debt service costs could remain higher than projected, which could dampen household consumption and endanger financial stability given very high

household indebtedness. Global energy prices may rise substantially, which would boost Norway's petroleum revenues as well as energy-related services exports.

### **Making growth more inclusive and ensuring fiscal sustainability**

Reforms to increase work incentives would not only increase labour force participation, alleviating wage pressures, but also help ensure fiscal sustainability. Income taxation, which remains high in international comparison, should be lowered notably for low-income earners. Spending on disability pension and sickness benefits as a share of GDP is by far the highest across OECD countries, which tends to weaken labour market attachment and encourage early retirement. Sick-leave compensation should be lowered and employers' participation in funding should be extended. Eligibility rules for disability benefits need to be applied more strictly, and treatment and rehabilitation requirements should be strengthened. With pension expenditure as a share of GDP expected to rise by around 1.2 percentage points in the coming 15 years, Parliament's recent decision to raise the statutory pension age is welcome.

# Peru

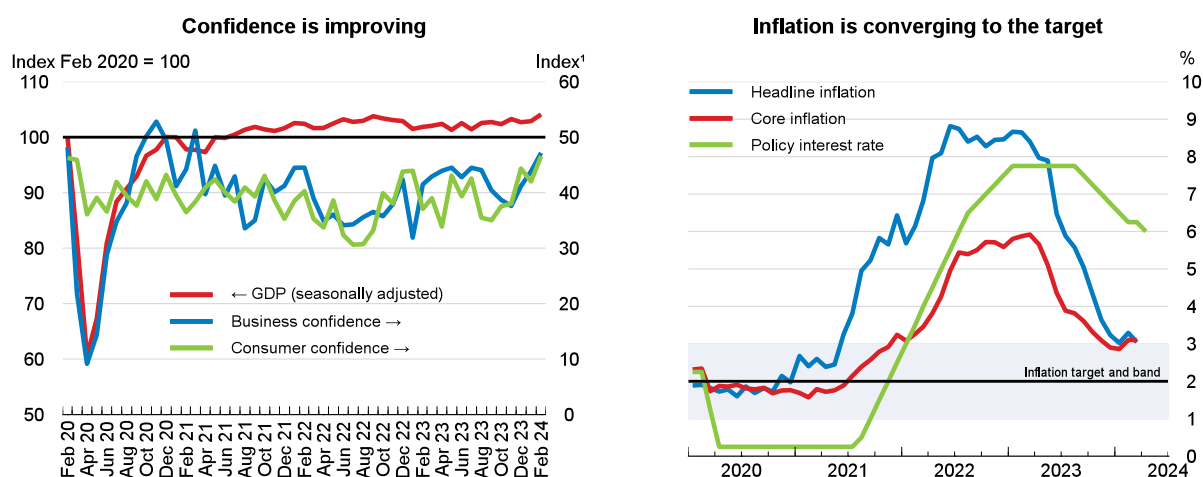
GDP will pick up to 2.3% in 2024 and 2.8% in 2025, supported by more favourable financial conditions and reduced inflation that will bolster domestic demand. Central government efforts to expand infrastructure, coupled with a faster execution of public investment projects by subnational governments, will support investment. A gradual employment recovery will stimulate private consumption. Exports are expected to be sustained by a rebound in tourism, fishing, and agricultural production as the impact of El Niño dissipates. Inflation will slow further, converging gradually to the midpoint of the target range of 2% by the end of 2024.

Monetary policy is expected to continue easing, as inflation and inflation expectations return to the target. The planned gradual reduction of the fiscal deficit over the next years, in compliance with the fiscal rules, should be implemented to maintain low public debt and safeguard the credibility of the robust fiscal framework. Enhancing spending efficiency and implementing a tax reform to boost public revenues are needed to address critical infrastructure and social needs.

## Economic activity is gradually recovering


GDP contracted by 0.5% in 2023 due to social protests and the El Niño weather phenomenon which deducted around 2 percentage points from growth. Activity rebounded, by 2.2% at an annualised rate, in the fourth quarter (seasonally adjusted compared to the previous quarter) propelled by increased investment and higher government consumption linked to economic recovery and emergency initiatives related to El Niño. Business and consumer confidence are improving but remain weak. Short-term indicators signal further recovery, as evidenced by a 1.2% monthly rise in economic activity in February, and continued dynamism in cement consumption and mining production.

## Peru



1. Business confidence refers to the 3-month ahead of own sector expectations. For confidence indexes, values higher than 50 represent an optimistic view, whereas values lower than or equal to 50 represent a pessimistic view.

Source: Central Reserve Bank of Peru; INEI; and Apoyo Consultoría.

StatLink  <https://stat.link/b6ckxv>




## Peru: Demand, output and prices

	2020	2021	2022	2023	2024	2025
	Current prices PEN billion	Percentage changes, volume (2007 prices)				
<b>Peru</b>						
<b>GDP at market prices</b>	703.9	13.2	2.7	-0.5	2.3	2.8
Private consumption	452.9	12.4	3.5	0.2	1.7	2.8
Government consumption	110.5	5.5	0.0	3.0	4.0	1.5
Gross fixed capital formation	139.1	33.7	0.7	-5.8	3.8	2.7
Final domestic demand	702.5	15.4	2.3	-0.8	2.5	2.6
Stockbuilding <sup>1</sup>	- 10.6	0.3	0.3	-1.5	0.4	0.0
Total domestic demand	691.9	16.2	2.6	-2.3	2.9	2.7
Exports of goods and services	161.3	14.2	4.5	5.0	2.1	3.6
Imports of goods and services	149.3	25.4	3.9	-1.8	4.5	3.1
Net exports <sup>1</sup>	12.0	-3.0	0.0	1.8	-0.7	0.1
<i>Memorandum items</i>						
GDP deflator	—	10.1	4.8	6.6	3.1	2.2
Consumer price index	—	4.0	7.9	6.3	2.8	2.1
Core inflation index <sup>2</sup>	—	2.2	4.7	4.4	2.9	2.1
Unemployment rate (% of labour force)	—	6.2	4.7	5.4	5.4	4.7
Current account balance (% of GDP)	—	-2.3	-4.0	0.6	0.4	0.6

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 115 database.

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

Headline inflation has decreased and remains at the upper limit of the target range, with headline inflation at 3% in March after experiencing a slight uptick in February. Core inflation also experienced a slight uptick but has otherwise declined since March 2023, reflecting slowing inflation of both goods and services, with services displaying greater persistence. Wage increases have been limited, leading to real wages being 5% lower in December 2023 than in 2019. Inflation expectations have declined and are within the inflation target range set by the Central Bank. Risks stemming from global uncertainty and volatile financial conditions are mitigated by ample currency reserves and low public debt.

## Adhering to fiscal rules is required to prevent public debt increases

Peru missed its fiscal target in 2023, with a budget deficit of 2.8% of GDP compared to the targeted deficit of 2.4% of GDP, due mainly to revenue shortfalls from the economic slowdown and higher-than-expected public spending related to El Niño. Achieving the 2% of GDP deficit target for 2024 poses challenges due to the authorities' optimistic growth projections and various spending pressures. In March, the fiscal deficit of the non-financial public sector reached 3% of GDP, significantly deviating from the fiscal rule. Petroperú, the oil state-owned enterprise, could require further financial support, despite recent government efforts to expedite the firm's restructuring and improve corporate governance. Complying with the fiscal deficit target would enhance policy credibility and help stabilize the public debt-to-GDP ratio slightly below the 30% rule. The Central Bank began to cut policy rates in September 2023, reducing the rate by 175 basis points since then. In March, driven by the temporary inflation uptick, it kept the policy rate steady but reduced reserve requirements in domestic currency. Rate cuts resumed in April. The policy rate is expected to ease further to 3.75% in the first quarter of 2025 as headline inflation returns to target, and remain stable throughout the year.

## **GDP growth will rebound amid looming risks**

Growth is projected to rebound in 2024 and strengthen in 2025, with declining inflation and improved financial condition, creating a more favourable environment for the continued recovery of consumer and business confidence. Public investment will be bolstered by the accelerated implementation of infrastructure projects. A gradual employment recovery, in line with economic activity, will also support private consumption. Exports are expected to benefit from improved performance in agriculture, fishing, and tourism, along with mining investments, raising economic dynamism. Inflation will converge to the 2% target by the end of 2024. However, there are significant domestic and external risks. A slower than anticipated recovery in China, Peru's main trading partner, and lower copper prices would have a detrimental effect on exports, fiscal revenues, and investment prospects. Persistent political uncertainty and renewed flare-ups in social unrest remain key risks. Unpredictable, but frequent, climate hazards pose risks of economic setbacks and inflation spikes.

## **Fostering fiscal sustainability through efficient spending and tax reform**

To maintain fiscal sustainability and address growing social and infrastructure needs, better spending efficiency and increased tax revenues are needed. Higher spending efficiency requires improvements in public procurement practices and enhancing subnational government capacities for project implementation. Measures to boost tax revenues include strengthening tax administration, reducing tax expenditures and updating the cadastre. Implementing a carbon tax can spur green energy adoption and incentivise investment in sustainable initiatives, fostering resilience and economic growth. Promoting labour and business formalisation through lower non-wage labour costs, skill-upgrading opportunities, simplified tax regimes for small firms, and robust enforcement of tax and labour laws can reduce inequalities and enhance productivity and tax revenues.

# Poland

Real GDP growth is expected to recover to 2.9% this year with rising real wages and fiscal policy supporting consumption growth, despite weaker investment growth. Headline inflation has been falling, but will rise to 4.8% by the end of 2024 due to a withdrawal of food and energy support measures before declining to 3.5% in 2025. In 2025, real GDP will grow by 3.4% as EU funds lead to a pickup in investment and inward foreign direct investment (FDI) remains strong, although consumption growth will still be tempered by inflation and a further withdrawal of fiscal support. Slower than anticipated fiscal consolidation and higher investment could pose upside risks to inflation, while an escalation of the war in Ukraine could disrupt the economy.

Monetary policy should remain restrictive and, given the risk of persistent inflation and the uncertainty in the outlook, ease only slowly. Gradual fiscal consolidation as part of a medium-term strategy is needed to avoid overheating and improve long-term fiscal sustainability. In the medium term, enhancing lifelong learning programmes could alleviate skills shortages and help support greener growth.

## The economy is slowly beginning to recover

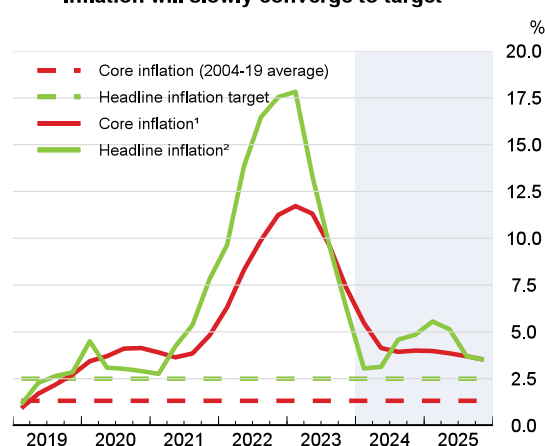
The economy began recovering in the second half of 2023. Despite some volatility, private consumption was higher by the end of the year supported by falling inflation, easing financial conditions and robust wage growth. Investment growth remained strong, driven by FDI inflows and EU funds. Consumer confidence has continued increasing and business confidence and retail sales have risen this year. Wage growth continued to grow strongly in February and the unemployment rate is around 3%. Headline inflation fell sharply to 2% in March due to slowing food inflation and lower energy prices, while core inflation declined more slowly to 4.6%.

## Poland

**A rebound in consumption growth will drive the recovery**



**Inflation will slowly converge to target**



1. Consumer price index excluding food and energy.

2. The inflation target is 2.5% with a symmetric +/-1 percentage point range for deviations in the medium term.

Source: OECD Economic Outlook 115 database; and OECD calculations.

## Poland: Demand, output and prices


	2020	2021	2022	2023	2024	2025
	Current prices PLN billion	Percentage changes, volume (2015 prices)				
<b>Poland</b>						
<b>GDP at market prices</b>	2 335.5	6.9	5.9	0.1	2.9	3.4
Private consumption	1 321.6	6.2	5.4	-0.9	2.3	3.8
Government consumption	442.6	5.1	1.0	2.6	3.2	3.4
Gross fixed capital formation	435.1	0.2	3.4	11.6	6.4	4.5
Final domestic demand	2 199.3	4.8	4.2	2.0	3.3	3.8
Stockbuilding <sup>1</sup>	2.1	3.1	1.6	-5.0	-1.2	0.0
Total domestic demand	2 201.4	8.9	5.9	-3.1	2.0	3.8
Exports of goods and services	1 239.3	12.3	7.4	3.4	1.0	4.0
Imports of goods and services	1 105.2	16.1	6.9	-1.9	-0.2	5.0
Net exports <sup>1</sup>	134.2	-1.1	0.6	3.3	0.7	-0.2
<i>Memorandum items</i>						
GDP deflator	–	5.4	10.3	11.0	4.5	3.8
Consumer price index	–	5.1	14.4	11.5	3.9	4.5
Core inflation index <sup>2</sup>	–	4.1	9.0	9.9	4.4	3.8
Unemployment rate (% of labour force)	–	3.4	2.9	2.8	3.6	3.8
Household saving ratio, net (% of disposable income)	–	2.0	-2.9	2.2	5.7	4.1
General government financial balance (% of GDP)	–	-1.8	-3.4	-5.1	-4.3	-3.5
General government debt, Maastricht definition <sup>3</sup> (% of GDP)	–	53.6	49.2	49.6	51.4	52.4
Current account balance (% of GDP)	–	-1.3	-2.4	1.6	2.5	2.5

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

2. Consumer price index excluding food and energy.

3. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.

Source: OECD Economic Outlook 115 database.

StatLink  <https://stat.link/enz74x>

Net trade contributed to growth in 2023. Export volumes grew in the second half of the year, helped by stabilising demand in the euro area. Import volumes rose to a smaller extent due to further reductions in inventories and the continued ban on Ukrainian grain imports. Easing supply chain disruptions and a stronger exchange rate are passing through to producer prices, reducing goods price inflation. Services price inflation remains elevated as the mitigating effects of Ukrainian migration on wage growth have diminished and the labour market remains tight.

## Monetary policy remains restrictive amid considerable fiscal support

The National Bank of Poland has kept interest rates unchanged at 5.75% since October 2023 on account of significant underlying inflationary pressure and uncertainty around the outlook. Fiscal policy support remains considerable. Social benefits have been expanded, the reintroduction of VAT on food was delayed until April and energy support measures were extended until the autumn. Public sector salaries and the national minimum wage will increase by around 20% in 2024. Fiscal policy is expected to tighten in the second half of the year, helped by the withdrawal of energy and food support measures, although the deficit will remain significant.

## The economy should continue to recover but inflation will slow gradually

The reintroduction of VAT on food and higher regulated energy prices will push headline inflation to 4.8% by the end of 2024 before it falls to 3.5% by the end of 2025. Core inflation is likely to decline gradually given the resilience in labour markets. Private consumption should grow, boosted by higher incomes and

gradually decreasing interest rates, but will be tempered by inflation and the desire to rebuild savings. After a slowdown in investment growth in 2024, the disbursement of new EU funds should lead to a strong pick up in investment activity in 2025. GDP is projected to grow by 2.9% in 2024 and 3.4% in 2025, but the outlook remains uncertain. Prolonged fiscal support and faster-than-expected absorption of EU RRP funds could lead to stronger growth and higher inflation in 2025. An escalation of the war in Ukraine could lead to disruption, higher uncertainty and currency depreciation, pushing inflation up and growth down.

### **Fiscal consolidation is needed to ensure sustainable public finances**

Given the uncertainty around the inflation outlook and the risk of persistent inflation, monetary policy should remain restrictive and further easing should be gradual until inflation durably returns to target. Gradual fiscal consolidation is needed to put the public finances on a more sustainable path and to help reduce inflation. The new government should develop a credible medium-term fiscal consolidation strategy and establish an independent fiscal council. To reduce spending, energy support measures should be fully withdrawn by the end of 2025 while social benefits should become more targeted. Reducing skills shortages through better adult training could boost growth and facilitate the green transition. Enhancing lifelong learning programmes, particularly through flexible and modular training, could improve managerial skills and digital skills among older adults, the unemployed and low-skilled.

# Portugal

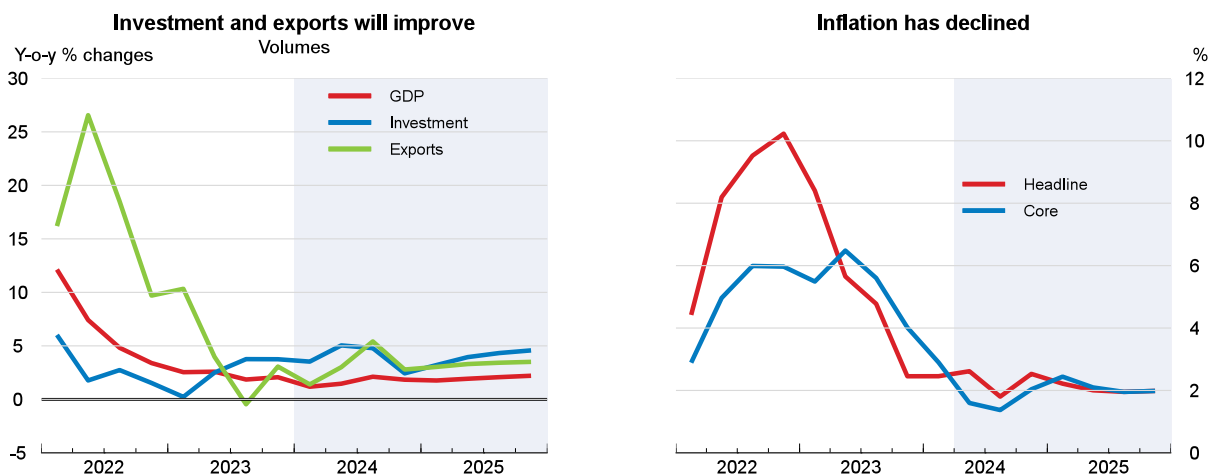
Real GDP growth is projected to ease to 1.6% in 2024 and rebound to 2.0% in 2025. A tight labour market and falling inflation are supporting real wage growth and private consumption, and the implementation of the Recovery and Resilience Plan (RRP) will boost investment. Modest global growth and high uncertainty are holding back exports and investment, but this will fade as external demand strengthens. With stable energy prices and slowing labour demand, inflation will continue to moderate to 2.4% in 2024 and 2.0% in 2025.

Fiscal policy will become less restrictive. The implementation of the RRP, personal income tax cuts and increasing social benefits will support activity and compensate the phasing out of support measures to smooth the inflationary shock in 2024. Timely implementation of the RRP would strengthen green infrastructure, skill acquisition and healthcare capacity and support sustainable growth, as would additional measures to improve career guidance in education and reduce barriers in services sectors. Public debt will decline further below 93% of GDP in 2025. More efficient spending and a strengthened fiscal framework would help to address mounting spending pressures from an ageing population and strong investment needs in the long term.

## Growth has been resilient

The effects of elevated inflation, tighter financial conditions and weak growth in Portugal's main trading partners slowed economic activity in 2023. GDP broadly stagnated over the second and third quarter of 2023, before rebounding in the fourth quarter, driven by investment, exports and household consumption. Employment remains at a historically high level, and growth in the tourism sector and increasing RRP spending continue to support activity. Consumer price inflation eased to 2.6% in the year to March, and real wage growth and household confidence have recovered steadily. Industrial and services production and retail sales have increased in early 2024.

## Portugal



Source: OECD Economic Outlook 115 database.

StatLink  <https://stat.link/im45ur>

## Portugal: Demand, output and prices

Portugal	2020	2021	2022	2023	2024	2025
	Current prices EUR billion	Percentage changes, volume (2016 prices)				
<b>GDP at market prices</b>	200.5	5.7	6.8	2.3	1.6	2.0
Private consumption	128.4	4.7	5.6	1.7	1.5	1.8
Government consumption	38.0	4.5	1.4	1.0	1.7	1.4
Gross fixed capital formation	38.5	8.1	3.0	2.5	3.9	4.0
Final domestic demand	205.0	5.3	4.3	1.7	2.0	2.1
Stockbuilding <sup>1</sup>	- 0.2	0.6	0.1	-0.3	0.2	0.0
Total domestic demand	204.8	5.9	4.4	1.4	2.1	2.1
Exports of goods and services	74.3	12.3	17.4	4.1	3.1	3.3
Imports of goods and services	78.6	12.2	11.1	2.2	4.2	3.6
Net exports <sup>1</sup>	- 4.3	-0.2	2.3	0.9	-0.5	-0.1
<i>Memorandum items</i>						
GDP deflator	—	1.9	5.0	7.1	2.7	2.2
Harmonised index of consumer prices	—	0.9	8.1	5.3	2.4	2.0
Harmonised index of core inflation <sup>2</sup>	—	0.2	5.0	5.4	2.1	2.1
Unemployment rate (% of labour force)	—	6.7	6.1	6.5	6.3	6.2
Household saving ratio, net (% of disposable income)	—	0.4	-4.9	-5.0	-3.1	-3.4
General government financial balance <sup>3</sup> (% of GDP)	—	-2.9	-0.3	1.2	0.3	0.3
General government gross debt (% of GDP)	—	142.9	115.2	105.8	102.4	99.2
General government debt, Maastricht definition <sup>4</sup> (% of GDP)	—	124.5	112.4	99.1	95.7	92.5
Current account balance (% of GDP)	—	-0.8	-1.1	1.4	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. 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 115 database.

StatLink  <https://stat.link/z196hp>

Exports recovered in the fourth quarter of 2023 and goods exports and expected export orders continued to increase in early 2024. Energy and food prices remain high, but energy prices have declined and food price inflation slowed to 0.3% in the year to March. However, the past increase in interest rates has sharply raised mortgage payments and business costs, and a contraction in loans to households and firms is weighing on consumption and investment.

## Public investment, tax cuts and higher social benefits will support growth

Fiscal policy is set to ease in 2024, with the budget balance projected to decline from 1.2% of GDP in 2023 to 0.3% in 2024. Spending from RRP grants is expected to increase from 0.6% of GDP in 2023 to 1.3% in 2024 and 1.8% in 2025, boosting public consumption and investment. By contrast, most measures to cushion the inflation shock will be phased out in 2024. These include the temporary cut of VAT on essential food products, the freeze in the carbon tax, as well as electricity, gas and fuel price subsidies. Yet, activity will be supported by further increases in public wages and the indexation of pension benefits, new targeted social transfers, the reduction in the personal income tax, as well as prolonged mortgage and rent subsidies, and new business tax incentives to raise investment. At the same time, the minimum wage rose by 7.9% in 2024, and a further 4.3% rise is expected in 2025, likely raising household income. However, the rise in labour costs could hold back low-wage employment and the foreseen large public investments and permanent personal income tax cuts could add to inflationary pressures. High interest rates will continue to weigh on activity.

## Growth will progressively strengthen

GDP is projected to grow by 1.6% in 2024 and 2.0% in 2025. The projected recovery in activity across trading partners will support exports. Despite strong wage developments, consumption growth will remain moderate as employment growth eases and consumer prices and debt-servicing costs remain elevated. Tax cuts and increasing social transfers and public wages will provide some support to household incomes, but also slow the decline in inflation. Headline consumer price inflation will moderate from 5.3% in 2023 to 2.4% in 2024 and 2.0% in 2025 as energy and food prices stabilise and services price pressures diminish. The phasing out of energy and inflation support and high nominal GDP growth will help maintain budgetary surpluses and reduce public debt below 93% of GDP in 2025 (Maastricht definition). Higher-than-expected employment or wage growth would support consumption but also fuel inflation. By contrast, if RRP spending were implemented more slowly than projected, both growth and inflation would be lower.

## Policies to support stronger and more sustainable growth

Despite a steady decline, public debt relative to GDP remains high. Strong growth, more efficient spending and a strengthened fiscal framework are needed to face mounting fiscal pressures from population ageing and investment needs in the long term. Continuing the roll-out of new accounting standards, developing performance budgeting and reducing tax expenditures would improve the structure and efficiency of public expenditures. Gradually strengthening carbon pricing and aligning prices across sectors and fuels while protecting vulnerable groups will help reach ambitious climate goals. Measures and investments under the RRP have a strong potential to support growth through more effective public sector management, green infrastructure and further skill acquisition. Ensuring the complete implementation of the RRP, strengthening information and counselling on educational and training programmes to guide students and workers, and lowering entry barriers in services and retail sectors will maximise the benefits.



# Romania

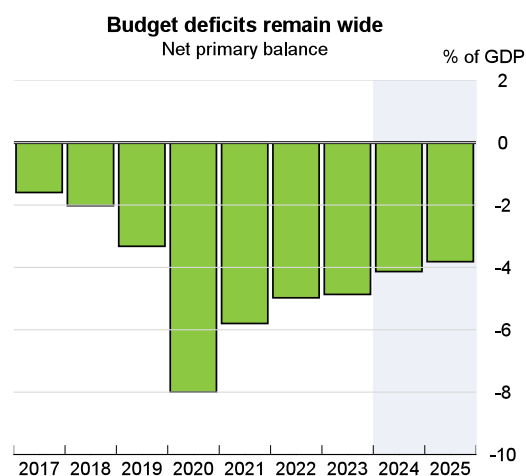
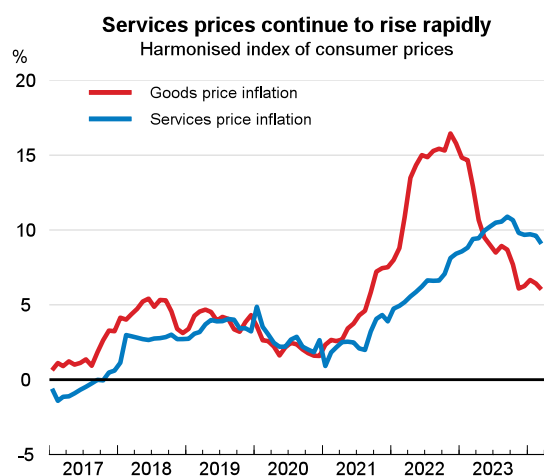
Real GDP is projected to grow by 2.8% in 2024 and 3.1% in 2025, below potential. Slow job creation will keep the unemployment rate above pre-COVID levels. Higher real incomes will boost private consumption. Export volumes are expected to recover on improving conditions in Europe. Ongoing infrastructure projects will support activity but growth contributions from investment should moderate. With demand increasing more gradually than the economy's supply capacity, inflation is expected to return to the target band by the end of 2025. Persistent labour cost pressure could, however, cause inflation to remain higher for longer.

The central bank will need to leave interest rates high until early 2025 to keep demand at sustainable levels. Faster fiscal consolidation would support restrictive monetary policy. Tax revenues must rise to fund new spending priorities while stabilising the public debt burden. Continued governance reforms would encourage business investment. To keep Romania's climate goals in sight, electricity grid upgrades are needed to accommodate more renewable energy generation.

## Inflation is easing amid moderate growth

Output increased more than expected in 2023 (up 3% in the year to the fourth quarter). Recovering agricultural production and high levels of construction supported activity. In contrast, structural weakness persisted in manufacturing and growth in consumer services was also weak. A bounce in retail trade volumes in early 2024 may signal a developing recovery in household consumption. However, housing market activity remains subdued. Interest rates on new loans to businesses have stabilised at levels significantly higher than a few years ago, with limited real growth in loans to firms in 2023. Earlier declines in job vacancies have translated to weak employment growth in recent months. The unemployment rate is little changed from levels late last year (5.6% in February), while wage growth remains high, in part reflecting large increases in minimum wages and public sector pay. Value added tax increases in early 2024 contributed to broader price pressures, which are particularly pronounced in services. Headline consumer price inflation was 6.6% in March, well below recent peaks but still above target. Excluding food, energy and regulated prices, consumer prices were 7.1% higher than a year earlier.

## Romania



Source: Eurostat; and OECD Economic Outlook 115 database.

StatLink  <https://stat.link/aisrv0>

## Romania: Demand, output and prices


	2020	2021	2022	2023	2024	2025
	Current prices RON billion	Percentage changes, volume (2020 prices)				
<b>Romania</b>						
<b>GDP at market prices</b>	1 066.8	5.7	4.1	2.0	2.8	3.1
Private consumption	651.9	7.2	5.8	2.8	3.6	3.0
Government consumption	199.1	1.8	-3.3	6.0	3.4	1.5
Gross fixed capital formation	251.0	2.9	5.9	14.4	9.7	4.4
Final domestic demand	1 102.0	5.1	4.3	6.1	5.1	3.1
Stockbuilding <sup>1</sup>	10.7	1.9	0.3	-4.5	-1.8	0.0
Total domestic demand	1 112.7	6.8	4.5	2.0	3.5	3.2
Exports of goods and services	393.4	12.6	9.7	-1.4	1.4	3.1
Imports of goods and services	439.3	14.8	9.5	-1.4	3.1	3.4
Net exports <sup>1</sup>	- 45.9	-1.5	-0.5	0.1	-0.8	-0.3
<i>Memorandum items</i>						
GDP deflator	–	5.4	13.2	12.3	8.2	4.1
Consumer price index	–	5.0	13.8	10.4	5.8	3.9
Core consumer price index <sup>2</sup>	–	4.5	10.1	12.4	5.9	3.7
Unemployment rate (% of labour force)	–	5.6	5.6	5.6	5.6	5.6
General government financial balance (% of GDP)	–	-7.2	-6.3	-6.6	-6.2	-6.2
General government gross debt (% of GDP)	–	57.3	51.8	58.2	61.3	65.1
General government debt, Maastricht definition <sup>3</sup> (% of GDP)	–	48.5	47.5	48.8	51.9	55.8
Current account balance (% of GDP)	–	-7.2	-9.2	-7.0	-7.8	-7.7

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

2. Consumer price index excluding food and energy.

3. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.

Source: OECD Economic Outlook 115 database.

StatLink  <https://stat.link/8qr3y5>

Regional tensions amid Russia's ongoing war of aggression against Ukraine add uncertainty to the outlook. Recent slow growth in Romania's export values reflects subdued conditions in Europe. A recovery in imports has also contributed to the expansion of the country's wide current account deficit. In March, Romania joined the Schengen Area with the lifting of air and sea border controls with other members. An expected boost to trade and travel should increase with future elimination of land border controls. Government caps on energy prices and food product markups continue to mitigate price volatility.

### Fiscal policy is slowly tightening

The National Bank of Romania's policy interest rate remains at 7%, unchanged since January 2023. Strong growth in wages and services prices shows that tight monetary policy remains important and should continue through 2024. Gradual policy easing should be possible from mid-2025 provided inflation is nearing the target band. The projections assume a cumulative 75 basis-point reduction in the policy rate by the end of 2025. Curbs on government consumption and tax increases should contribute to modest fiscal tightening over the projection period. The budget deficit is projected to narrow to 6.2% of GDP and remain near that level in 2025 as costs associated with pension reforms increase. Public debt and interest payments will continue to grow more rapidly than GDP.

## Below-trend output growth is set to continue

Real GDP is projected to grow by 2.8% in 2024 and 3.1% in 2025. Below-trend output growth will limit employment increases, keeping the jobless rate near recent levels. Real income boosts from reduced cost pressures and higher pensions will support private consumption. Exports are expected to strengthen as growth in Europe recovers. Construction activity will remain solid, yet growth contributions from investment will decline as major projects near completion. With demand growing more slowly than the economy's productive capacity, inflation is expected to fall within the target band by late 2025. However, if wage pressures persist, or fiscal consolidation disappoints, inflation could remain higher for longer.

## Tax reform and sound governance would help sustain income convergence

Higher revenues are needed to fund government spending and limit public debt accumulation. The immediate priorities are to strengthen tax enforcement, close personal income tax loopholes, and further restrict eligibility to the microenterprise tax regime. As inflation moderates, reforms to broaden the value added tax base should continue. Sustaining rapid growth in productivity will require strong competition and a stable policy environment. Newly tightened governance rules for state-owned enterprises must be fully implemented. Recourse to emergency ordinances should be further limited, with policy design supported by impact assessment and consultation with stakeholders. Lifting workforce participation will require policies to encourage more women to work, including better childcare access. Shifting away from fossil fuels will require faster deployment of renewables, supported by power grid upgrades.

# Slovak Republic

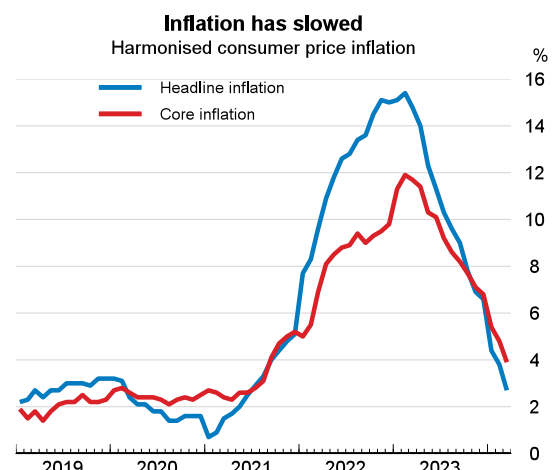
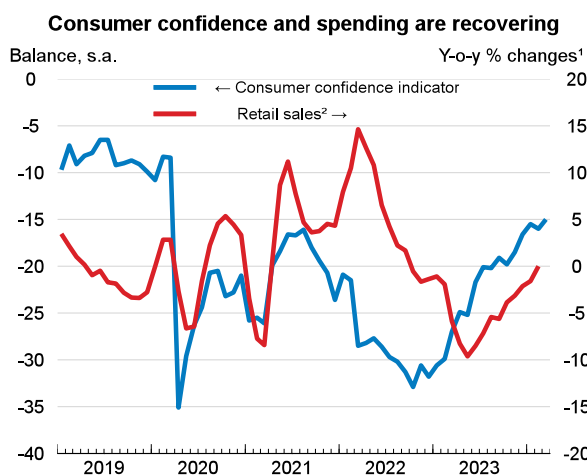
GDP growth is projected to pick up to 2.1% in 2024 and 2.7% in 2025. Falling inflation will lead to higher real wage and consumption growth. The easing of financial conditions, higher absorption of EU Recovery and Resilience funds and the expected recovery in foreign demand will support investment and export growth. Risks are related to a resurgence of global energy prices and supply chain disruptions.

Ambitious fiscal consolidation is needed to rebuild fiscal buffers, support the disinflation process and prepare for rapid population ageing. Enhancing the efficiency of public spending and further reforms to the pension system and family benefits can help improve fiscal sustainability. A shift of tax revenues away from labour towards property and environmental taxes, and measures to improve the absorption of EU funds can boost growth.

## Inflation has slowed and economic activity remains subdued

GDP grew by 0.5% (quarter-on-quarter) in the last quarter of 2023, driven by strong investment growth related to the drawing of EU structural funds. Private consumption continued to contract and exports weakened. Consumer sentiment and retail sales have improved over recent months but remain weak. Harmonised consumer price inflation has fallen significantly to 2.7% in March, as food price inflation slowed markedly, and energy price support measures were extended into 2024. However, underlying inflationary pressures remain elevated, with harmonised core inflation at 3.9% in March. The labour market is resilient, with the unemployment rate around pre-pandemic levels. Real wage growth turned positive in the last quarter of 2023 and strengthened in early 2024.

## Slovak Republic



1. 3-month moving average.

2. Volume terms.

Source: OECD Main Economic Indicators database; Statistical Office of the Slovak Republic; and Eurostat Harmonised index of consumer prices (HICP) database.

StatLink  <https://stat.link/p6q85k>

## Slovak Republic: Demand, output and prices

	2020	2021	2022	2023	2024	2025
	Current prices EUR billion	Percentage changes, volume (2015 prices)				
<b>Slovak Republic</b>						
<b>GDP at market prices</b>	93.4	4.8	1.9	1.6	2.1	2.7
Private consumption	53.7	2.7	6.2	-3.0	0.4	2.9
Government consumption	19.6	4.2	-4.5	-0.6	1.5	1.0
Gross fixed capital formation	18.2	3.5	5.7	10.6	5.2	3.4
Final domestic demand	91.5	3.2	3.7	0.1	1.6	2.6
Stockbuilding <sup>1</sup>	0.0	2.4	-0.7	-4.9	2.7	0.0
Total domestic demand	91.4	5.9	2.9	-4.2	4.4	2.6
Exports of goods and services	79.3	10.4	3.2	-1.0	2.3	3.1
Imports of goods and services	77.3	11.6	4.5	-6.9	4.7	2.9
Net exports <sup>1</sup>	2.0	-0.8	-1.2	6.3	-2.2	0.1
<i>Memorandum items</i>						
GDP deflator	–	2.4	7.5	10.1	5.6	2.9
Harmonised index of consumer prices	–	2.8	12.1	11.0	2.9	3.3
Harmonised index of core inflation <sup>2</sup>	–	3.3	8.2	9.5	3.9	2.9
Unemployment rate (% of labour force)	–	6.8	6.1	5.8	5.9	5.8
Household saving ratio, net (% of disposable income)	–	4.2	-2.5	1.6	3.5	3.0
General government financial balance (% of GDP)	–	-5.2	-1.7	-4.9	-5.8	-5.2
General government gross debt (% of GDP)	–	79.6	65.3	63.4	65.8	67.7
General government debt, Maastricht definition <sup>3</sup> (% of GDP)	–	61.1	57.7	56.0	58.4	60.4
Current account balance (% of GDP)	–	-4.0	-7.3	-1.6	-3.3	-3.0

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

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

3. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.

Source: OECD Economic Outlook 115 database.

StatLink  <https://stat.link/v7grt5>

Car production and new orders slowed in late 2023 and early 2024, on account of weaker foreign demand and some renewed supply chain disruptions. With interest rates remaining high, loan growth to the private sector continued to slow. House prices stabilised in late 2023, at about 10% below their peak in the third quarter of 2022.

### The fiscal stance will remain expansionary in the near term

The budget for 2024 targets a general government deficit of 6% of GDP. The budget includes consolidation measures summing to around 1.5% of GDP but also introduces additional expenditures. The consolidation measures are largely focused on the revenue side and include higher taxation of tobacco and alcohol, higher social security contributions for health insurance and higher taxation of banking profits. At the same time, the budget also includes extra spending for the increase of the 13<sup>th</sup> pension, tax benefits for mortgage payments and the extension of untargeted energy support measures. Overall, the fiscal stance remains expansionary in 2024, partly due to the assumed higher drawing of EU Recovery and Resilience funds. The government targets a reduction of the budget deficit to 5% of GDP in 2025, but consolidation measures to achieve these targets have not been specified. The projections assume moderate structural consolidation of about 0.5 percentage points of GDP in 2025.

## Growth is set to pick up

Lower inflation will lead to an increase in real wages, which will drive a recovery in private consumption and some further rebuilding of households' savings. The gradual easing of financial conditions and usage of EU Recovery and Resilience funds will support investment in 2024 and 2025. Exports are projected to grow broadly in line with the expected recovery in foreign demand. Underlying inflation will continue to ease, albeit at a slower pace due to the effects of wage increases and indexation of benefits to past inflation. Headline inflation will edge up in 2025 due to the assumed phasing out of energy support measures. A prolonged war in Ukraine or an escalation of the conflict in the Middle East could lead to the resurgence of global energy prices and lower foreign demand. Renewed supply chain disruptions in the automotive sector or a slow recovery of demand in Europe (especially Germany) would particularly weigh on growth. Lower than assumed fiscal consolidation could add to inflationary pressures.

## Ambitious fiscal consolidation is needed

The pandemic and energy crises led to a marked deterioration of public finances, with the public debt-to-GDP ratio around 10 percentage points higher in 2022 (57.7% of GDP) compared to 2019. A medium-term fiscal consolidation strategy is needed with a focus on improving the efficiency of public spending, including by better drawing on spending reviews, and addressing the challenges of rapid population ageing. Pension reforms should mitigate spending pressures and prolong working lives – including by tightening pathways to early retirement. Increasing employment of women with young children would mitigate the impact of a shrinking work force while also reducing the gender wage gap. This requires enhanced access to affordable and high-quality childcare, more flexible working arrangements, and shortening long parental leave. Targeted training to strengthen project preparation and implementation capacity can help improve the efficiency of public investment spending and maximise the impact of substantial inflows of EU funds. Tax reforms that shift the burden away from labour towards property and environmental taxes could support growth.

# Slovenia

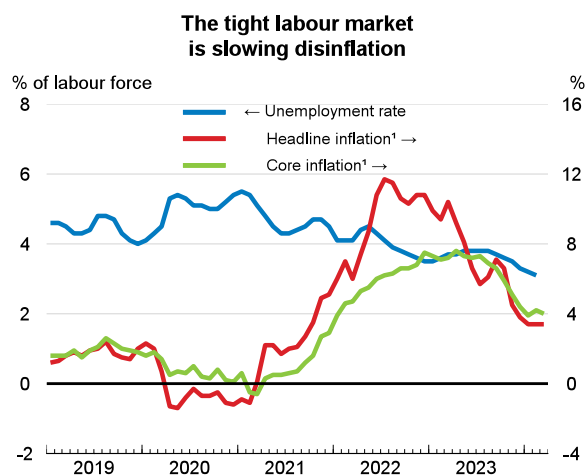
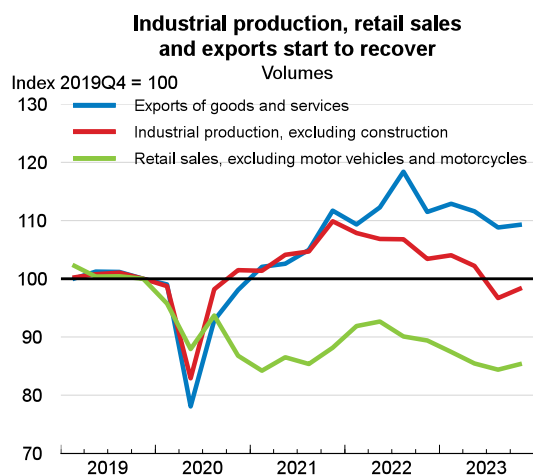
GDP growth is projected to pick up to 2.3% in 2024 and 2.7% in 2025, with a recovery in domestic and external demand. Private consumption will be supported by a tight labour market and increasing real incomes as inflationary pressures slowly recede. Government spending on reconstruction following the devastating floods in 2023 as well as the inflow of EU funds will sustain investment growth.

Fiscal policy will be expansionary in 2024 due to higher reconstruction spending, before tightening in 2025. Structural measures include a gradual increase in spending on long-term care, reflecting spending pressures from ageing, reaching 1% of GDP in 2026. Further reforms are needed in the pension and health-care system to ensure fiscal sustainability in the medium- to longer term.

## The economy remains resilient

Economic activity expanded more than expected in the last quarter of 2023, driven by investment and government spending following the devastating floods in summer 2023. The economic expansion continued in February 2024, with industrial production rising by 3.3% month-on-month. In contrast, non-food retail trade turnover (without automotive fuels) decreased by 0.3% month-on-month in February. The labour market remains tight with an unemployment rate of 3.1% in February. The tight labour market is reflected in strong wage growth. In the fourth quarter of 2023, labour costs per hour worked grew by 12.1% year-on-year. Wage pressures contributed to high core inflation of 4% in March 2024. Headline inflation declined from its peak of 11.7% in July 2022 to 3.4% in March 2024, reflecting lower growth of energy and food prices.

## Slovenia



1. Harmonised consumer price inflation.

Source: Statistics Slovenia; OECD Economic Outlook 115 database; OECD Main Economic Indicators database; Eurostat Harmonised index of consumer prices (HICP) database; and OECD calculations.

## Slovenia: Demand, output and prices


	2020	2021	2022	2023	2024	2025
	Current prices EUR billion	Percentage changes, volume (2010 prices)				
<b>Slovenia</b>						
<b>GDP at market prices</b>	47.0	8.2	2.5	1.6	2.3	2.7
Private consumption	23.7	10.3	3.6	1.3	1.6	2.3
Government consumption	9.7	6.1	-0.5	2.4	3.9	1.7
Gross fixed capital formation	8.9	12.6	3.5	9.5	4.0	3.9
Final domestic demand	42.3	9.8	2.7	3.4	2.6	2.5
Stockbuilding <sup>1</sup>	0.5	0.4	1.0	-4.4	0.0	0.0
Total domestic demand	42.8	10.1	3.7	-1.2	8.1	9.1
Exports of goods and services	36.6	14.5	7.2	-2.0	1.7	4.9
Imports of goods and services	32.4	17.8	9.0	-5.1	2.2	4.9
Net exports <sup>1</sup>	4.2	-1.0	-1.0	2.8	-0.3	0.4
<i>Memorandum items</i>						
GDP deflator	–	2.7	6.5	8.9	5.7	3.4
Harmonised index of consumer prices	–	2.0	9.3	7.2	3.3	3.5
Harmonised index of core inflation <sup>2</sup>	–	0.9	5.9	6.7	3.6	3.5
Unemployment rate (% of labour force)	–	4.8	4.0	3.7	3.7	3.5
Household saving ratio, net (% of disposable income)	–	10.2	6.4	8.4	9.4	8.9
General government financial balance (% of GDP)	–	-4.6	-3.0	-2.5	-3.1	-2.6
General government gross debt (% of GDP)	–	95.1	74.3	73.2	73.6	73.2
General government debt, Maastricht definition <sup>3</sup> (% of GDP)	–	74.4	72.5	69.2	69.7	69.2
Current account balance (% of GDP)	–	3.3	-1.0	4.4	5.2	5.5

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 115 database.

StatLink  <https://stat.link/f29qmh>

Exports have strengthened on the back of improving external demand. In January 2024, year-on-year real export growth turned positive after being negative in 2023. Euro area monetary policy tightening is being transmitted into tighter financial conditions with impacts on residential and business investment. Credit growth remains weak, although it has reversed its previous downward trend: Loans to the non-banking sector grew by 0.6% year-on-year in February.

## Fiscal policy will be expansionary in 2024

The fiscal policy stance was tightened in 2023 with the fiscal deficit moderating to 2.5% of GDP, reflecting a lower-than-expected implementation of post-flood reconstruction spending and lower spending on energy support measures. The government extended the cap on gas prices for households and small business until spring 2024, albeit at a lower level, reflecting lower market prices and the cap on electricity prices until the end of 2024. The government also announced flood recovery support of 2% of GDP in 2024 and 0.8% of GDP in 2025. In addition, structural measures include an increase in spending on long-term care by 0.2% of GDP in 2025 and 1% of GDP in 2026 due to reforms that will introduce payments for institutional long-term care for the elderly. This will be funded by a 2 percentage points increase in the social security contribution rate. As a result, fiscal policy is projected to turn expansionary in 2024 before tightening in 2025. With core inflation above the euro area level, a less restrictive ECB monetary policy stance may call for continued fiscal tightening in Slovenia.



## Growth is set to strengthen

Growth is projected to rise to 2.3% in 2024 on the back of recovering domestic and external demand. Private consumption will be supported by rising real incomes as inflation slowly recedes, although disinflation will be hampered by the expansionary fiscal stance. Government spending on post-flood reconstruction and the inflow of EU funds will sustain investment growth. The labour market will remain tight, with historically low unemployment contributing to strong wage growth. Wage pressures will slow disinflation, despite the fall in energy prices. Growth will pick up to 2.7% in 2025 as inflation pressures abate and external demand improves. Downside risks include stronger than expected wage growth, which could keep inflationary pressures elevated for longer. Higher labour costs could further weaken competitiveness with negative effects on export activity. In addition, skill shortages could slow the post-flood reconstruction, lowering investment activity. On the upside, stronger immigration could reduce labour shortages and help lower wage pressures.

## Fiscal consolidation and structural reforms would enable more sustainable growth

Continued fiscal consolidation is needed to restore fiscal buffers and make space for post-flood reconstruction spending without slowing the disinflation process. In the medium term, further reforms are needed in the pension and health-care system to address ageing-related cost pressures. This entails measures to improve the labour force participation of older workers and extend working lives, 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. Such efforts should be implemented alongside structural reforms to raise potential growth. This includes a growth-friendly tax reform to lower the labour tax burden, financed by higher consumption, environmental and recurrent immovable property taxation. In addition, tax and benefit system reforms should aim to remove disincentives for second earners and single parents, often women, to move from part-time to full-time employment.

# South Africa

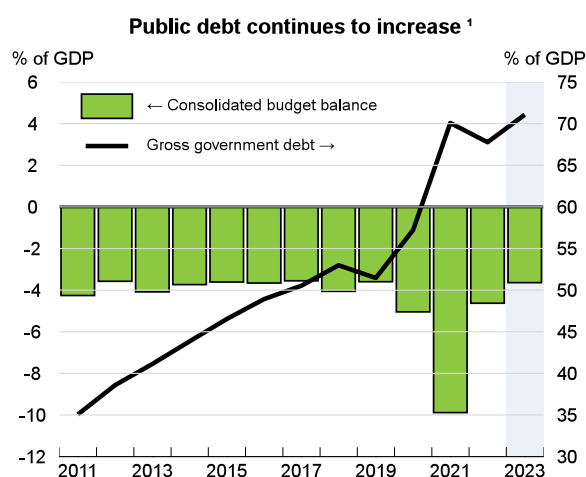
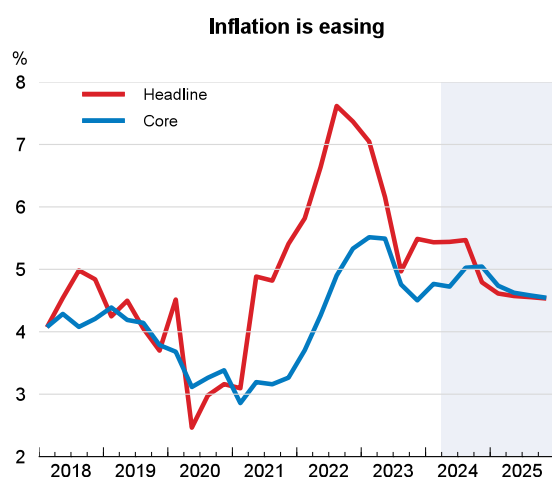
Real GDP will increase by 1% in 2024 and 1.4% in 2025. Supply constraints will diminish through fewer power outages and rail freight and port bottlenecks. Lower lending rates will support a modest rise in investment. Declining energy and food prices will drive a further reduction in inflation. Increasing purchasing power, real wages and employment will support a gradual increase in consumption growth. Parliamentary elections scheduled for late May may have heightened uncertainty.

Conditional on a further decline in consumer price inflation, monetary policy can be eased gradually over 2024 and 2025, which would support growth. The planned fiscal consolidation is welcome but insufficient to prevent a further increase in the public debt burden. Stronger potential growth and fiscal sustainability would benefit from an increased use of public-private partnerships for infrastructure investment and further reforms to state-owned enterprises, especially with regard to energy availability and logistics bottlenecks.

## Economic activity remains constrained

Economic growth slowed to 0.6% in 2023. Power shortages and port and rail freight bottlenecks limited domestic activity and exports, though with some easing in recent months. Export prices continued to decline in 2023. The manufacturing purchasing managers' index has signalled a contraction in recent months. Investment is subdued and business confidence remains below its historical average. Household consumption stagnated over the second half of 2023. Employment increased by over 6% in 2023, but the unemployment rate remains elevated. Annual headline consumer price inflation reached 5.3% in March. Core inflation, at 4.9% in March, has declined more slowly.

## South Africa



1. Data refers to fiscal years.

Source: OECD Economic Outlook 115 database; and National Treasury.

StatLink  <https://stat.link/jfge0c>


## South Africa: Demand, output and prices

	2020	2021	2022	2023	2024	2025
	Current prices ZAR billion	Percentage changes, volume (2015 prices)				
<b>South Africa</b>						
<b>GDP at market prices</b>	5 568.0	4.7	1.9	0.6	1.0	1.4
Private consumption	3 481.1	5.8	2.5	0.7	0.8	1.3
Government consumption	1 145.6	0.5	1.0	2.1	-0.6	-0.2
Gross fixed capital formation	768.8	0.6	4.8	4.2	1.4	4.2
Final domestic demand	5 395.5	4.0	2.5	1.5	0.6	1.4
Stockbuilding <sup>1</sup>	- 70.8	0.7	1.2	-0.7	-0.2	0.0
Total domestic demand	5 324.8	4.8	3.9	0.8	0.4	1.4
Exports of goods and services	1 532.7	9.1	7.4	3.5	3.3	3.6
Imports of goods and services	1 289.5	9.6	14.9	4.1	1.2	3.4
Net exports <sup>1</sup>	243.2	-0.1	-2.0	-0.2	0.6	0.0
<i>Memorandum items</i>						
GDP deflator	–	6.5	4.8	4.5	3.4	4.5
Consumer price index	–	4.6	6.9	5.9	5.3	4.6
Core inflation index <sup>2</sup>	–	3.1	4.6	5.1	4.9	4.6
General government financial balance (% of GDP)	–	-6.4	-4.8	-7.2	-5.2	-6.0
Current account balance (% of GDP)	–	3.7	-0.5	-1.6	-2.3	-2.6

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

2. Consumer price index excluding food and energy.

Source: OECD Economic Outlook 115 database.

StatLink  <https://stat.link/eq7g05>

The current account deficit widened to 1.6% of GDP in 2023, amid declines in the terms of trade, a weak domestic currency and constrained exports due to electricity shortages and freight bottlenecks. Electricity shortages, which peaked at 287 days in 2023 due to insufficient maintenance and development of new capacity, are weighing on the currency as well as domestic activity. Elevated debt levels and low growth are pushing up the risk premium demanded by foreign investors, adding to government debt-servicing costs.

### Debt levels remain elevated and risks around fiscal consolidation are high

The fiscal deficit is projected to ease further in 2024, helped by a consolidation in expenditure and a boost to revenue through freezing income tax thresholds and increasing excise taxes. Fiscal consolidation should narrow the elevated sovereign bond spread. However, consolidation will be insufficient to prevent further increases in public debt, despite a transfer from the central bank to government accounts (via the Gold and Financial Contingency Reserve Account) over the next two fiscal years estimated at around 1.7% of GDP. Consolidation is being limited by ongoing debt relief for state electricity operator, Eskom, estimated at around 2.3% of GDP in the next two fiscal years, and further transfers risk compromising efforts to reduce debt. As inflation approaches the mid-point of the target range, the central bank is expected to start easing the policy rate from 8.25% in the second half of 2024 to around 7.5% in 2025.

## Easing power shortages allow for a modest recovery

As power shortages and bottlenecks in freight rail and in ports ease, growth will increase gradually to 1% in 2024 and 1.4% in 2025. Monetary policy easing will support investment. Declining inflation, increasing real incomes, and employment growth will gradually increase household consumption growth. A pension-system reform, expected to take effect in late 2024 will enable more people to access a portion of their pension contributions and support household consumption. Export growth will increase gradually as transport bottlenecks are reduced. However, the current account deficit will continue to widen, reflecting lower commodity export prices. As food and energy price inflation continues to ease, and reduced power shortages and logistics bottlenecks lower operating costs, inflation is projected to moderate from 5.9% in 2023 to 4.6% in 2025. Delayed progress in reforms to state-owned enterprises, especially those that are reducing key supply constraints, pose a risk to the recovery. Economic policy uncertainty may ease following national elections planned for late May, supporting activity.

## Accelerating fiscal consolidation would boost investor confidence

Elevated public debt is limiting fiscal space for growth-enhancing measures, social spending and carbon mitigation and adaptation policies, whilst increasing financial risks. Maintaining a strategy of fiscal consolidation would help to bring debt back on a sustainable path, including through improving the efficiency of public services, reducing the size of the government's wage bill, and reforming state-owned enterprises (SOEs), alongside increasing government revenues. Improving the performance of SOEs and establishing an effective governance framework that ensures transparency and accountability would reduce the risks that SOEs pose to debt sustainability, improve their effectiveness and support competition. Continuing reforms to increase electricity availability would increasingly reduce outages whilst supporting the uptake in renewable energy production and strengthening energy security. Reducing regulatory policies would reduce the cost of doing business and support the entry and growth of SMEs.

# Spain

GDP growth is projected at 1.8% in 2024 and 2% in 2025. Private consumption will underpin growth supported by a resilient labour market and real income gains, with inflation projected to fall to 3.0% in 2024 and 2.3% in 2025. Investment will remain weak in 2024, increasing in 2025 due to continuing implementation of the Recovery, Transformation and Resilience Plan (RTRP). Foreign trade will remain subdued. Downside risks include further escalation of geopolitical tensions that worsen demand from Spain's main trading partners and a slow implementation of the RTRP.

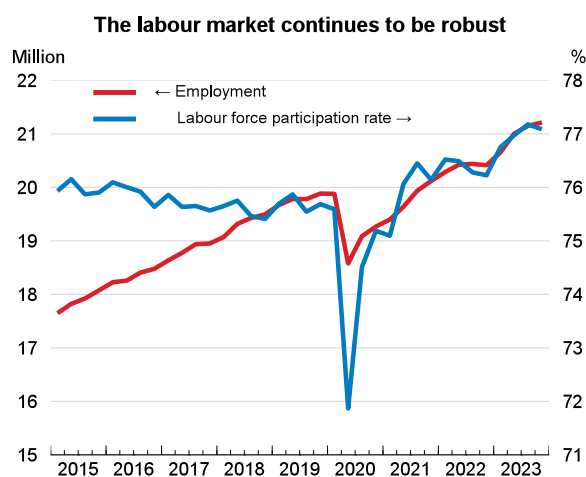
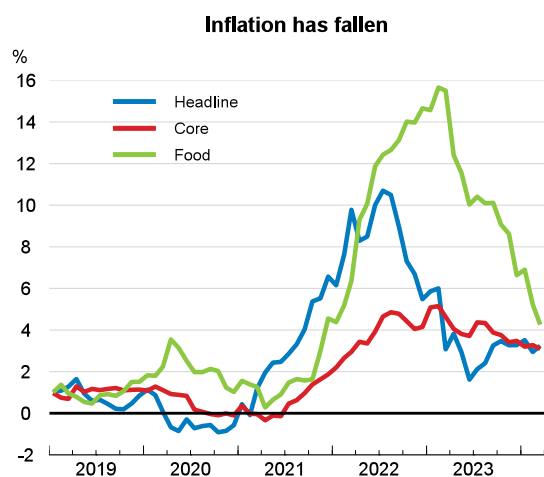
The fiscal deficit is falling, but strengthening the planned fiscal consolidation in 2024 and 2025 is required to keep debt on a downward path and create space for ageing-related and growth-enhancing spending. Population ageing, sluggish productivity growth and low investment weigh on Spain's growth potential. Boosting growth and productivity requires greater innovation, improving skills, and enhancing education outcomes along with ensuring an effective implementation of the RTRP.

## Economic growth remains robust


GDP rose by 0.6% (non-annualised) in the fourth quarter of 2023, driven by domestic demand with a notable contribution from government consumption and stockbuilding. Business confidence has recovered since November, and the PMI and social security registrations continued expanding in early 2024. Employment rose by 2.6% over the year to March 2024, while the unemployment rate decreased to 11.5% in February. Consumer confidence remains low. Headline inflation was 3.3% in March 2024, largely reflecting a rebound in prices for utilities due to an increase in VAT on electricity. Core inflation was 3.1% in March 2024.

Export volumes picked up in the last quarter of 2023, after falling in the previous two quarters. Throughout 2023, the trade deficit narrowed on the back of higher non-energy export values and lower energy imports.

## Spain



Source: Instituto Nacional de Estadística; Eurostat; and OECD Economic Outlook 115 database.

StatLink  <https://stat.link/89qalb>

## Spain: Demand, output and prices


	2020	2021	2022	2023	2024	2025
	Current prices EUR billion	Percentage changes, volume (2015 prices)				
<b>Spain</b>						
<b>GDP at market prices</b>	1 119.0	6.4	5.8	2.5	1.8	2.0
Private consumption	627.5	7.1	4.7	1.8	2.0	2.1
Government consumption	246.3	3.4	-0.2	3.8	2.3	0.9
Gross fixed capital formation	228.5	2.8	2.4	0.8	0.7	3.0
Final domestic demand	1 102.4	5.3	3.2	2.0	1.8	2.1
Stockbuilding <sup>1</sup>	0.5	1.4	-0.2	-0.3	0.2	0.0
Total domestic demand	1 102.9	6.7	3.0	1.7	2.0	2.0
Exports of goods and services	344.4	13.5	15.2	2.3	1.0	2.5
Imports of goods and services	328.3	14.9	7.0	0.3	1.7	2.6
Net exports <sup>1</sup>	16.1	-0.2	2.9	0.8	-0.2	0.0
<i>Memorandum items</i>						
GDP deflator	–	2.7	4.1	5.9	3.4	2.0
Harmonised index of consumer prices	–	3.0	8.3	3.4	3.0	2.3
Harmonised index of core inflation <sup>2</sup>	–	0.6	3.8	4.1	2.9	2.2
Unemployment rate (% of labour force)	–	14.8	12.9	12.1	11.7	11.3
Household saving ratio, net (% of disposable income)	–	9.7	2.9	7.6	8.5	8.1
General government financial balance (% of GDP)	–	-6.7	-4.7	-3.6	-3.3	-2.6
General government gross debt (% of GDP)	–	140.9	116.1	114.1	113.6	113.2
General government debt, Maastricht definition <sup>3</sup> (% of GDP)	–	116.8	111.6	107.7	107.1	106.7
Current account balance (% of GDP)	–	0.8	0.6	2.6	0.2	0.1

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

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

3. 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 115 database.

StatLink  <https://stat.link/v5eajq>

## Fiscal policy will be less supportive

The government deficit is projected to decline to 3.3% in 2024 and 2.6% in 2025, with projected consolidation of around 0.3% of GDP over the two years. The government rolled over the 2023 budget for the rest of this year, and partially extended into 2024 the measures to cushion the surge in inflation, slowing fiscal consolidation in 2024. Cuts in gas and electricity taxes and VAT for essential food products were extended into the first and second quarter of 2024, respectively. Public transport subsidies will continue until end-2024. The projection assumes that the measures to address the surge in inflation will end in 2024. The pass-through of monetary policy to financing costs continues to weigh on private sector credit demand. Housing credit to households and credit to firms decreased by 3.0% and 4.3%, respectively, over the year to February 2024.

## Growth is projected to moderate

GDP is projected to grow by 1.8% in 2024, before picking up to 2.0% in 2025. Consumption will be supported by a solid labour market and real income gains. Investment will remain weak in 2024 amid the lagged impact of higher interest rates, but increase in 2025 underpinned by RTRP implementation. Export growth will remain subdued in 2024, improving from 2025 as growth in EU trading partners strengthens. Inflation is projected to fall to 3.0% in 2024 and 2.3% in 2025. The unemployment rate will continue to decline, albeit at a slower pace than in previous years, owing to the expected moderation of job creation and the projected growth of the labour force. Downside risks include a further escalation of geopolitical

tensions that could lift energy prices and inflation and worsen demand from Spain's main trading partners. A slower implementation of the RTRP could restrain growth. On the upside, a faster-than-expected improvement in the international environment would support activity.

### **Stronger fiscal adjustment is needed to put the debt ratio on a downward path**

The public debt-to-GDP ratio is high, and spending is heavily tilted towards pensions, to the detriment of growth-enhancing items, and ageing-related spending is set to increase. Stronger and sustained fiscal consolidation will be required in the medium term to keep debt on a downward path, comply with proposed EU fiscal rules and create space for future spending priorities. In the short run, to contain fiscal costs, policies to mitigate the impact of the energy price shock should shift to targeted income support for the most vulnerable. To make space for future spending pressures, fiscal consolidation should rely on mobilising additional revenues by gradually broadening the value added tax base and raising environment-related taxes and enhancing spending efficiency. To boost sustainable growth, it is necessary to increase productivity by enhancing innovation, improving skills, and bolstering education outcomes. A revamp of active labour market policies is needed to improve labour matching efficiency and address skill mismatches. Effective implementation of the RTRP would also increase growth prospects.

# Sweden

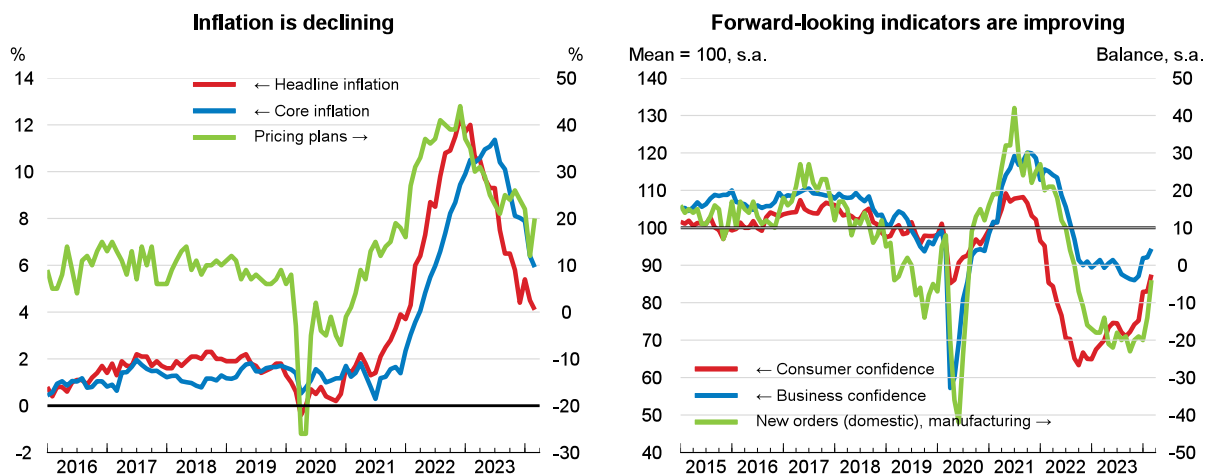
After stalling in 2023, growth is projected to pick up to 0.6% in 2024 and 2.6% in 2025. Inflation is expected to converge rapidly to target. Economic activity is set to remain subdued in the near term, but private consumption will gradually pick up throughout 2024 and 2025 buoyed by real income growth, lower debt servicing costs, and an improving labour market. A gradual easing of credit conditions, lower construction costs and higher external demand will support private investments.

As inflation declines, policy rates should be lowered to reduce the risk of inflation undershooting the target and unnecessarily suppressing demand. The gradual shift over the projection period to a slightly restrictive fiscal stance will also contribute to disinflation. Against the backdrop of an ageing population, underutilised labour resources, including low-skilled individuals, the elderly and the foreign-born, should be mobilised. Tax reform, such as aligning property taxes with market values and gradually eliminating mortgage interest deductions, would enhance both tax efficiency and equity.

## Growth remains subdued

The economy stagnated in 2023, with growth in the first quarter followed by three consecutive quarters of contraction. Recent indicators, including monthly GDP, industrial production, and retail sales, suggest the economy was still weak in early 2024. Elevated interest rates and weak real wage growth continue to weigh on private consumption. Construction activity remains lacklustre against the backdrop of high construction costs and a subdued housing market, despite some indications of housing prices stabilising. The labour market continues to deteriorate, with rising new unemployment registrations and declining employment. However, forward-looking indicators, including business and consumer sentiment indicators and new orders, have edged up amid falling inflation. Headline and core inflation are both declining, helped by lower energy and commodity prices. Company pricing plans point to continued disinflation. Inflation expectations remain low and stable and are close to the 2% target at the five-year horizon.

## Sweden



Source: Statistics Sweden; OECD Economic Outlook 115 database; and National Institute of Economic Research.

StatLink  <https://stat.link/zsn7fh>



## Sweden: Demand, output and prices

	2020	2021	2022	2023	2024	2025
	Current prices SEK billion	Percentage changes, volume (2022 prices)				
<b>Sweden</b>						
<b>GDP at market prices</b>	5 034.9	5.9	2.7	0.0	0.6	2.6
Private consumption	2 215.2	6.2	2.4	-2.5	1.3	2.9
Government consumption	1 331.4	2.9	0.0	1.8	0.9	0.7
Gross fixed capital formation	1 266.3	6.8	6.2	-1.2	-0.9	3.9
Final domestic demand	4 813.0	5.5	2.8	-1.0	0.6	2.6
Stockbuilding <sup>1</sup>	- 1.5	0.4	1.1	-1.3	-0.4	0.0
Total domestic demand	4 811.5	5.9	3.9	-2.3	0.2	2.6
Exports of goods and services	2 205.7	10.8	6.6	3.7	2.6	3.3
Imports of goods and services	1 982.3	11.3	9.7	-0.6	2.0	3.3
Net exports <sup>1</sup>	223.4	0.3	-1.0	2.2	0.4	0.2
<i>Memorandum items</i>						
GDP deflator	–	2.6	6.0	5.6	3.1	2.1
Consumer price index <sup>2</sup>	–	2.2	8.4	8.5	3.6	2.1
Core inflation index <sup>3</sup>	–	1.3	5.8	10.0	4.1	2.1
Consumer price index with fixed interest rates	–	2.4	7.7	6.0	2.3	1.8
Unemployment rate (% of labour force)	–	8.9	7.5	7.7	8.3	8.2
Household saving ratio, net (% of disposable income)	–	15.5	13.0	14.4	16.0	15.9
General government financial balance (% of GDP)	–	0.0	1.2	-0.6	-1.1	-0.4
General government debt, Maastricht definition <sup>4</sup> (% of GDP)	–	36.8	33.2	31.2	31.8	31.7
Current account balance (% of GDP)	–	7.1	5.4	6.8	7.2	7.1

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 115 database.

StatLink  <https://stat.link/heign3>

Sluggish demand in key trading partners, notably euro area countries, is constraining export growth. Attacks on shipping in the Red Sea have impacted manufacturers by disrupting the supply of certain inputs in early 2024, leading to production and delivery delays in some sectors, notably furniture and forestry. Tight global financial conditions, together with the weak housing market, have kept risks to financial stability high.

## Macroeconomic policies are restrictive

The Riksbank held its policy rate unchanged at 4% in March, the third consecutive pause since November in 2023. Monetary easing is expected from the second quarter of this year, with policy rates declining by 175 basis points up to the end of 2025. The fiscal stance for 2024 remains broadly neutral. The 2024 budget features new measures amounting to approximately SEK 56 billion (0.9% of GDP), including cuts in petrol and diesel taxes, tax cuts for pensioners, increased defence spending, targeted grants to local governments for healthcare and education services, and augmented investment in transport infrastructure. These initiatives are set to be primarily financed through cost-saving measures, including more efficient use of central government resources and delayed indexation of the state income tax threshold. The fiscal stance in 2025 is assumed to be contractionary, with tightening of the government primary balance by around 0.5% of potential GDP.

## Activity is set to pick up amid disinflation

The economy is projected to grow by 0.6% in 2024 and 2.6% in 2025. In the near term, economic activity will be held back by tight financial conditions. CPIF inflation, the inflation measure targeted by the Riksbank, is projected to revert to target around summer this year. Private consumption is expected to gain momentum gradually, fuelled by real wage growth and lower interest burdens. Improved credit conditions and heightened external demand will bolster private investment. A risk is that private consumption and housing investments could fall short of current forecasts if real estate prices decline more than expected. This is compounded by the highly leveraged commercial real estate sector. Escalations of the conflict in the Middle East could lead to renewed supply chain disruptions, affecting the export-oriented Swedish economy. Faster-than-expected disinflation could result in faster interest rate reductions, potentially accelerating the pace of economic recovery.

## Paving the way for more inclusive and sustainable growth

The gradual adoption of a somewhat restrictive fiscal approach is appropriate for the moment to help keep disinflation on track and prepare for the spending pressures ahead. Population ageing calls for mobilising underutilised labour resources, notably the low-skilled, the elderly, and the foreign-born. Shifting taxation further away from labour towards recurrent taxes on immovable property would enhance work incentives and the balance of the tax mix. Policies in this direction include aligning property taxes with market values and gradually phasing out mortgage interest deductions. Strengthening active labour market policies through tailored training and reskilling initiatives would help alleviate persistently high long-term unemployment. Relaxing strict rent controls and streamlining land-use planning and zoning regulations would stimulate housing supply and enhance labour mobility. Petrol and diesel tax cuts should be reconsidered to support the green transition and help achieve climate goals.

# Switzerland

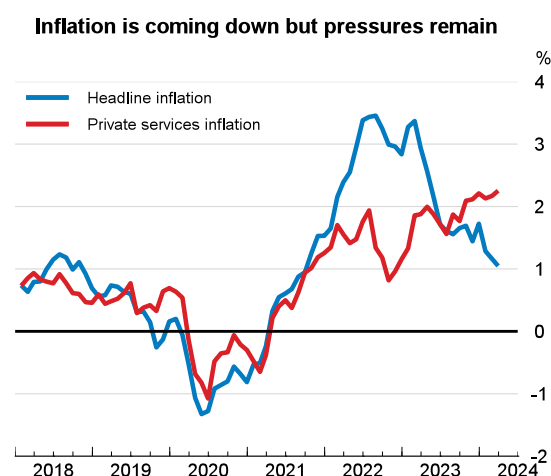
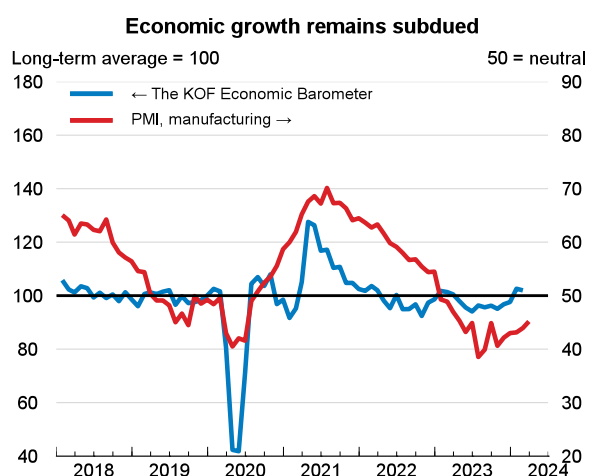
Growth is projected to be 1.1% in 2024 and pick up to 1.4% in 2025. Weaker global trade and tight monetary conditions will weigh on private investment and exports. Inflation will increase temporarily towards the end of 2024, pushed by rent and electricity price increases, yet remain within the Swiss National Bank's price stability range of 0-2%. Further weakening of foreign demand, supply disruptions or a sharp house price correction are key downside risks to activity.

Monetary policy should stay tight to ensure that inflation remains durably within the target range. A broadly neutral fiscal stance is appropriate. Structural reform is needed to tackle population ageing and challenges related to the green transition. Labour shortages can be alleviated by increasing labour market participation, notably of mothers and older workers, and through immigration. Faster emission reductions and further electrification would improve environmental sustainability and increase energy security.


## Real GDP growth remains moderate

Economic activity was subdued in the beginning of 2024. Weak foreign demand, an erosion of domestic purchasing power due to inflation and tightened financial conditions weighed on growth. The Purchasing Manager Index in manufacturing and the KOF Economic Barometer point to modest momentum in the economy. Consumer confidence remains low, damping retail trade. Capacity utilisation has fallen, and manufacturing production stalled. Sluggish demand in trading partners hampers growth in exports, and muted prospects lower business investment. The labour market has been robust, notwithstanding some recent weakening. Headline inflation has been within the 0-2% target since June 2023, and longer-term inflation expectations remain within target. Yet, private services price inflation remains above 2%.

## Switzerland



Source: KOF Swiss Economic Institute; Swiss Association for Material Management and Purchasing; and Federal Statistical Office.

StatLink  <https://stat.link/75yxgn>

## Switzerland: Demand, output and prices

	2020	2021	2022	2023	2024	2025
	Current prices CHF billion	Percentage changes, volume (2015 prices)				
<b>Switzerland</b>						
<b>GDP at market prices<sup>1</sup></b>	695.8	5.4	2.7	0.8	1.1	1.4
Private consumption	361.3	1.8	4.2	2.1	1.2	1.5
Government consumption	84.5	3.3	-0.8	-0.5	0.9	0.9
Gross fixed capital formation	187.9	2.8	1.2	-2.0	-2.8	0.9
Final domestic demand	633.7	2.3	2.6	0.6	0.0	1.3
Stockbuilding <sup>2</sup>	18.4	-2.1	-0.6	0.5	-1.3	0.0
Total domestic demand	652.1	0.0	1.8	1.0	-1.5	1.3
Exports of goods and services	445.9	13.6	6.3	2.7	2.7	3.0
Imports of goods and services	402.2	5.6	6.0	3.7	-0.5	3.2
Net exports <sup>2</sup>	43.7	5.4	0.9	-0.2	2.3	0.3
<i>Memorandum items</i>						
GDP deflator	–	1.2	2.5	1.0	1.6	1.6
Consumer price index	–	0.6	2.8	2.1	1.5	1.4
Core inflation index <sup>3</sup>	–	0.3	1.7	1.8	1.3	1.4
Unemployment rate (% of labour force)	–	5.1	4.3	4.0	4.4	4.4
Household saving ratio, net (% of disposable income)	–	20.5	19.3	19.4	19.3	18.4
General government financial balance (% of GDP)	–	-0.3	1.2	0.5	0.3	0.4
General government gross debt (% of GDP)	–	41.5	37.7	37.2	37.0	36.8
Current account balance (% of GDP)	–	6.9	9.4	7.6	10.0	11.6

1. Not adjusted for sporting-events.

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 115 database.

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

Goods export volumes have been muted. The strength of the Swiss franc has lowered import prices and helped temper domestic inflation. Despite the strength of the currency, tourism inflows have continued and are now very close to pre-pandemic levels, supporting activity in the accommodation and hospitality sectors.

## Monetary policy should remain tight

The SNB's key policy rate was lowered to 1.5% in March from 1.75%. Nevertheless, the interest rate is still 225 basis points higher than in June 2022. The policy rate is assumed to stay at this level until the second half of 2024. As prospects for inflation improve, interest rates are poised to be cut by a cumulative 75 basis points to 0.75% by the end of 2025. The general government registered another surplus in 2023, at 0.5% of GDP, despite weakening GDP growth, while the federal government ran a structural deficit for the second year in a row. To comply with the debt-brake rule, federal contributions for supplementary childcare, railway infrastructure and social security will be reduced. A broadly neutral fiscal stance is warranted, while automatic stabilisers should continue to operate freely to mitigate the effect of lower growth. General government debt is projected to decline slightly to 36.8% of GDP by 2025.

## GDP will grow modestly

Real GDP growth is projected to remain below potential in 2024, reflecting the impact of tighter monetary policy on global and domestic demand. The economy is projected to grow by 1.1% in 2024 and 1.4% in 2025. Past rent increases and higher electricity prices in the domestic retail market will push up headline

inflation temporarily in the second half of 2024, before moderating again in early 2025. The unemployment rate will increase slightly. Uncertainty surrounding the outlook is high. Risks in relation to international supply disruptions remain and could raise prices and dampen activity, thereby slowing the economy. High household indebtedness and the possibility of repricing of real estate also pose risks to the financial sector. On the other hand, favourable resolution of geopolitical tensions would result in higher trade, revived confidence and higher growth.

### **Structural reforms are needed to sustain living standards**

The green transition, defence needs and population ageing raise fiscal pressures. Reforms that ensure the effective retirement age increases in line with life expectancy are needed to counter rising costs. Systematic spending reviews can also provide fiscal savings. Increasing and broadening value-added taxes and raising taxes on immovable property would strengthen tax revenues. Economic growth would be boosted by higher labour market participation. Longer working lives, immigration and lower barriers for mothers to work full time would help in this regard. Stronger incentives and speedier approval processes for renewables can help accelerate emission reductions, notably in the transportation and building sectors, and facilitate further electrification of the economy, making growth more sustainable.

# Thailand

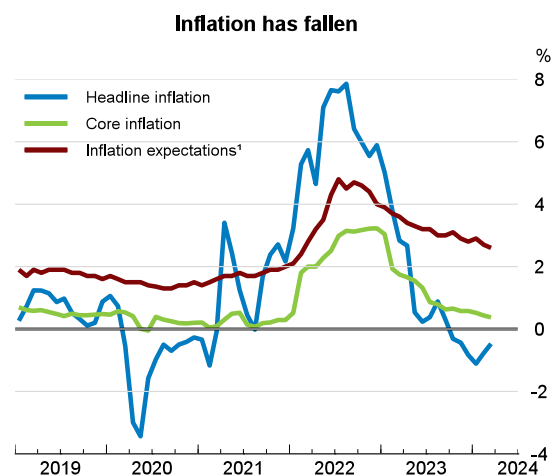
GDP is projected to grow by 2.7% in 2024 and 3.3% in 2025. Despite having lost some momentum in late 2023, private consumption, buoyed by fiscal measures, a strong labour market and declining inflation, is expected to remain robust, while investment will recover after a weak patch during 2023. A continued revival of international tourism is underpinning the steady recovery. However, weaker external demand for goods, particularly in key trading partners, could add to weakening competitiveness and reduce growth prospects.

Public debt increased rapidly during the pandemic and fiscal consolidation will be required, including by avoiding energy subsidies and broad temporary support measures while focusing on improvements in targeted, permanent support to vulnerable groups. Monetary policy should continue its neutral stance in light of solid near-term growth and upside risks to inflation. Competition remains limited across several sectors, holding back innovation and productivity. Improvements in education, training and active labour market policies would help youths and women better integrate into the labour market and boost the economy's growth potential.

## Activity is rebounding after a short contraction

Growth slowed to 1.9% in 2023, with a mild contraction of 0.6% quarter-on-quarter in the last quarter of the year amid declining investment and a marked contraction in the construction sector. The disbursement of public spending slowed amid a two-quarter delay in the approval of the budget, with negative repercussions for public investment and growth both in late 2023 and early 2024. Manufacturing production has been on a longstanding decline, but this decline is flattening out as private consumption gathers momentum. Consumer confidence is improving, temporarily boosted by personal income tax incentives in the first weeks of 2024.

## Thailand



1. One-year-ahead inflation expectations.

Source: CEIC; Bureau of Trade and Economic Indices; and Bank of Thailand.

StatLink  <https://stat.link/1mu2yo>

## Thailand: Demand, output and prices

	2020	2021	2022	2023	2024	2025
<b>Thailand</b>	Current prices THB billion	Percentage changes, volume (2002 prices)				
<b>GDP at market prices</b>	15 654	1.6	2.5	1.9	2.7	3.3
Private consumption	8 302	0.5	6.2	7.1	4.6	3.4
Government consumption	2 790	3.7	0.3	-4.6	1.8	2.5
Gross fixed capital formation	3 635	3.0	2.3	1.2	2.1	3.2
Exports of goods and services	8 064	11.3	6.1	2.1	2.4	3.5
Imports of goods and services	7 232	17.6	3.6	-2.3	2.6	3.3
<i>Memorandum items</i>						
Consumer price index	–	1.2	6.1	1.2	0.3	2.0
Current account balance (% of GDP)	–	-2.0	-3.2	1.4	1.3	1.9

Source: OECD Economic Outlook 115 database.

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Exports of both goods and services are gaining momentum after a soft patch in the second half of 2023. Goods exports have rebounded strongly, especially in agriculture and manufacturing, including electronics, in line with cyclical developments observed in other Asian electronics exporters. Tourism arrivals were up 59% in February relative to a year before, supported by the lifting of visa requirements for Chinese travellers. Current tourist inflows amount to 93% of pre-pandemic levels, suggesting room for a further rise in tourism.

## Monetary policy should remain neutral, while fiscal policy has been expansionary

The monetary policy rate was last raised in September 2023 to 2.5%, reflecting only mild inflation and a more cautious approach than in other countries in Southeast Asia. As the economy is recovering strongly in the first half of 2024, this broadly neutral policy stance seems appropriate and is expected to be maintained in the near term. In light of the sharp declines in inflation to -0.5% year-on-year in March, below the 1%-3% target range, the current rate now seems high in real terms, but the case for possible monetary easing should be carefully weighed against inflationary risks from expansionary fiscal policy, higher freight costs related to geopolitical tensions, and currency developments. Fiscal policy has been expansionary, and announced one-off handouts with only weak targeting are expected to reinforce the expansionary stance. In the short run, however, there is a risk of further delays in the disbursement of the 2024 budget, which could lead to lower capital outlays.

## Near-term growth prospects are strong

Annual GDP growth is expected to pick up to 2.7% in 2024. This reflects solid growth momentum on a quarterly basis and year-on-year growth exceeding 4% at the end of 2024, albeit somewhat masked by the statistical effects of the soft patch in late 2023. Annual growth is projected to reach 3.3% in 2025. Private consumption will be the main driver of growth, while a rebound in external demand is projected to bolster exports, allowing a small positive contribution of net exports to growth in 2025. High household debt, exceeding 90% of GDP, could limit future private consumption and weaken growth outcomes, as could further setbacks in the disbursement of public funds, including for investment.

## Boosting productivity will be key to ensure sustainable growth

Rising public debt and solid growth call for fiscal consolidation. Mounting social demands, an ageing population and the green transition will add to spending pressures, suggesting a need for mobilising additional tax revenues, including by broadening tax bases. The efficiency of public spending could be enhanced by focusing on well-targeted support to vulnerable groups rather than broad one-off handouts or energy subsidies. Structural impediments will continue to weigh on the economy's growth potential, and boosting productivity growth will be key. Competition remains limited, requiring regulatory reforms to reduce entry barriers, especially for small and medium enterprises. These could boost both foreign and domestic investment. Stepping up education and active labour market policies, in particular for young people and women, and introducing more effective carbon pricing while promoting energy efficiency and renewable energies would help achieve a more inclusive and sustainable recovery.



# Türkiye

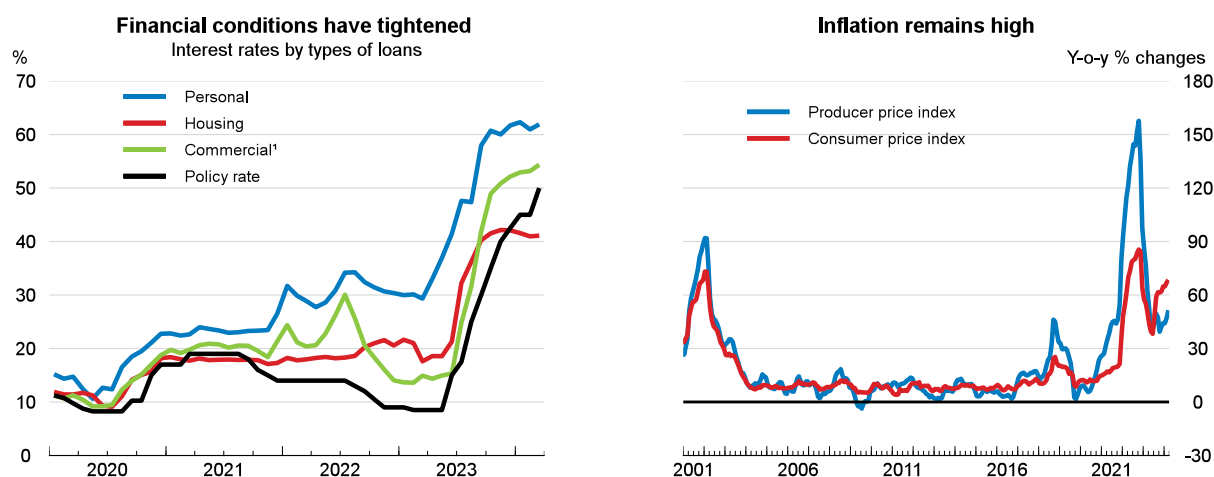
Real GDP growth is projected to slow from 4.5% in 2023 to 3.4% in 2024 and 3.2% in 2025. Tighter financial conditions and the adverse impact of inflation on purchasing power will subdue household consumption. Investment activity is expected to remain strong partly due to the ongoing reconstruction following the 2023 earthquake. Exports will gradually strengthen reflecting an improved external environment. Inflation peaked at the beginning of this year but will remain elevated over 2024 and 2025.

Fiscal policy is expected to be contractionary following the significant deficit increase in 2023 that was driven partly by earthquake-related expenditures. Monetary policy has rightly become restrictive, and the key interest rate has climbed by a cumulative 41.5 percentage points since May 2023. However, if inflation remains high, further monetary and fiscal tightening may be necessary. Structural reforms can support the efforts to stabilise macroeconomic conditions and raise long-term growth potential. Notably, labour-market reform would help increase high-quality formal job creation.

## Despite tighter financial conditions, inflation remains high


Growth remained strong in the last quarter of 2023, driven by robust private consumption. The contribution of net exports to GDP has also been recovering gradually. Despite tighter financial conditions, short-term indicators indicate still solid domestic demand growth at the beginning of 2024. Consumer goods production and retail sales increased at the beginning of the year and activity in the construction sector remained dynamic due to rebuilding and repair in the 2023 earthquake zone. However, inflation remains stubbornly high. Annual consumer price inflation reached 68.5% in March and although inflation expectations have decreased in recent months, they remain well above the inflation target of 5%.

## Türkiye



1. Commercial loans excludes overdraft accounts and credit cards.

Source: CBRT; and OECD Main Economic Indicators database.

StatLink  <https://stat.link/iwo8a2>

## Türkiye: Demand, output and prices

	2020	2021	2022	2023	2024	2025
	Current prices TRY billion	Percentage changes, volume (2009 prices)				
<b>Türkiye</b>						
<b>GDP at market prices</b>	5 048.6	11.4	5.5	4.5	3.4	3.2
Private consumption	2 866.0	16.0	18.5	12.7	3.9	1.7
Government consumption	757.0	3.2	4.3	5.2	1.9	2.0
Gross fixed capital formation	1 389.5	7.2	1.3	8.9	4.8	4.1
Final domestic demand	5 012.4	11.5	11.3	10.7	3.8	2.5
Stockbuilding <sup>1</sup>	192.8	-6.3	-5.4	0.0	-1.0	0.0
Total domestic demand	5 205.2	4.0	5.0	10.0	2.9	2.6
Exports of goods and services	1 470.2	25.1	9.9	-2.7	2.3	3.7
Imports of goods and services	1 626.8	1.7	8.6	11.7	1.1	1.4
Net exports <sup>1</sup>	- 156.6	6.8	0.5	-6.0	0.4	0.6
<i>Memorandum items</i>						
GDP deflator	—	29.0	96.0	67.5	49.4	30.1
Potential GDP, volume	—	4.6	4.2	4.3	4.3	4.2
Consumer price index <sup>2</sup>	—	19.6	72.3	53.9	55.5	28.9
Core inflation index <sup>3</sup>	—	18.3	57.3	58.5	57.5	28.7
Unemployment rate (% of labour force)	—	12.0	10.5	9.4	9.3	10.0
Current account balance (% of GDP)	—	-0.9	-5.4	-3.7	-2.7	-2.0

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

2. Based on yearly averages.

3. The consumer price index excluding food, energy, alcoholic beverages and gold.

Source: OECD Economic Outlook 115 database.

StatLink  <https://stat.link/mo52ng>

The earthquake and weak foreign demand contributed to a decline in exports in 2023. Robust growth in the tourism sector helped to partly offset the large goods deficit. A record 50 million tourists visited Türkiye in 2023, despite the rise in Middle East tensions since October. Short-term indicators point to improving demand conditions among Türkiye's main trading partners and exports have already strengthened at the beginning of 2024.

## Monetary and fiscal policy will remain tight

The Central Bank has been tightening monetary policy to restore price stability. With the policy interest rate lifted from 8.5% in June 2023 to the current level of 50%. The monthly maximum interest rate on cash advances from credit cards and overdraft accounts has also been raised. The Central Bank has also taken steps to reduce excess lira liquidity, including lira deposit buying auctions. Nevertheless, further monetary policy tightening may be required if inflation expectations remain unanchored. The projections assume the policy rate will remain at 50% until well into 2025. The government announced fiscal policy tightening as part of a multi-pronged effort to put Türkiye's economy back on a sustainable path. In January, the tax on petrol was tripled, the standard VAT rate raised from 18% to 20%, and the lower VAT rate for essential items raised by 2 percentage points. The government announced that more measures will follow to reduce the deficit further.

## Growth will moderate

Economic growth will ease to 3.4% in 2024 and 3.2% in 2025 as tighter monetary and fiscal policies weigh on consumption. The unemployment rate is projected to start rising, reaching 10% by mid-2025. Total investment will remain strong as earthquake-related reconstruction continues, and as an improved

external environment helps restore export growth. The main risk for the projection is spiralling inflation, which could be triggered by untimely policy relaxation or elevated concerns about the credibility and independence of the central bank. Moreover, higher costs arising from further disruptions to transportation and trade could have sizable negative effects on the economy. In contrast, growth could be boosted further by a stronger influx of foreign investment due to credible improvements in fiscal, financial and monetary policy.

### **Introducing structural reforms would support macroeconomic stabilisation**

Monetary policy conditions should remain tight and fiscal prudence is needed until inflation is firmly on a path to target. Fiscal sustainability requires structural reforms to improve spending efficiency and broaden tax revenues. Statutory rates for the personal income tax, social contributions and VAT are broadly in line with OECD averages. However, tax bases remain narrow, partly reflecting a relatively small number of taxpayers. Due to exemptions and discounts, a large share of total tax revenues is waived. Reducing these concessions would help broaden the tax base and increase revenues. VAT revenues are particularly low compared to their potential. Wider structural reforms are needed to support macroeconomic stabilisation and raise long-term potential growth. Notably, comprehensive labour-market reforms, including more flexible labour market regulation and well-designed activation policies, would help increase the creation of high-quality formal jobs. The economy will also need to become more resilient to climate change and energy shocks through adaptation policies, a greening of the energy mix and improvements in energy efficiency.

# United Kingdom

GDP growth is projected to remain sluggish at 0.4% in 2024 before improving to 1.0% in 2025, reflecting the waning drag from past monetary tightening. Stronger real wage growth will support a modest pick-up in private consumption. Headline inflation is expected to continue moderating towards target as energy and food prices have eased substantially, but persistent services price pressures will keep core inflation elevated at 3.3% in 2024 and 2.5% in 2025. Unemployment will continue increasing and reach 4.7% in 2025 as the labour market cools, although the actual degree of slack remains uncertain.

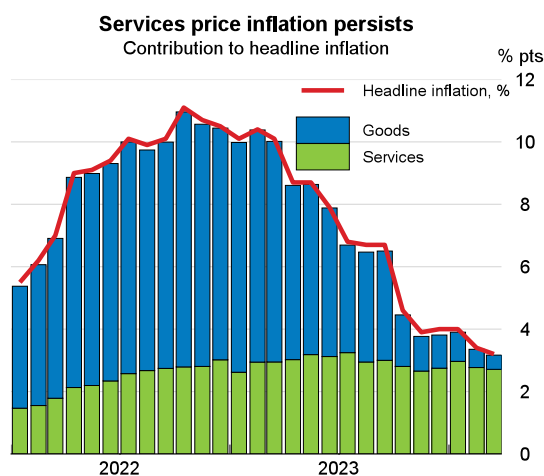
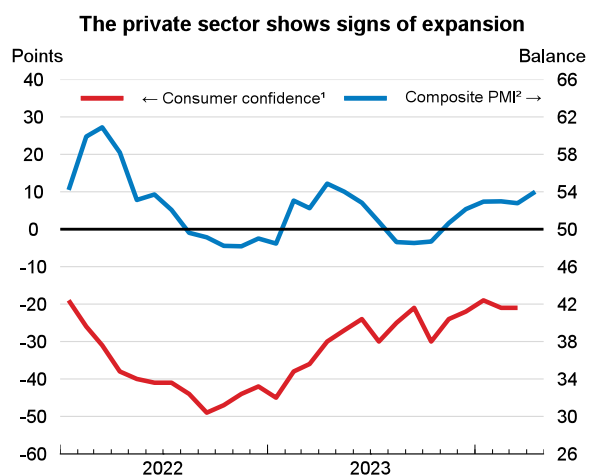
The fiscal and monetary policy mix is adequately restrictive and should remain so until inflation returns durably to target. Fiscal policy should remain prudent and focus on productivity-enhancing public investment when the monetary stance normalises. Reforming property taxation can help rebuild fiscal buffers and promote both efficiency and progressivity. Further advancing supply-side reforms while avoiding policy churn is essential to increase potential growth, especially by continuing to address economic inactivity and stagnant investment.

## Momentum is improving

Monthly GDP grew by 0.1% in February after a 0.3% rebound in January, foreshadowing a moderate pick-up in the first quarter of 2024 following the shallow technical recession in the second half of 2023. Retail sales volumes show signs of stabilisation after a three-year long decline, with a modest increase of 0.8% in March compared to the same month last year, while consumer confidence remains on an upward, albeit unsteady, trend from historically depressed levels. Mortgage lending has started to recover as mortgage rates have eased slightly in recent months, edging up towards pre-pandemic levels with over 60 000 new approvals for house purchase in February. Business sentiment is also improving, pointing to private sector expansion since November. Lending to businesses has nearly stabilised since January after contracting for 12 months in a row.

Lower wholesale, energy and imported food inflation have tamed headline price pressures, with annual consumer price inflation at 3.2% in March. The 12% cut in the Ofgem energy price cap in April 2024 will further lower inflation. The labour market is cooling, with the stock of vacancies in the three months to March about 30% lower than its recent peak and close to pre-pandemic levels. Yet, wage-driven underlying price pressures persist, with services price inflation at 6.0% in March. Annual nominal wage growth remains robust despite a marked slowdown since the summer of 2023, with an increase of 6.0% in the three months to February.

## United Kingdom 1



1. GfK Consumer Confidence Barometer; values above 0 indicate optimism.
  2. S&P Global Composite Purchasing Manager Index; values above 50 indicate expansion.
- Source: Bloomberg; S&P Global; Office for National Statistics; and OECD calculations.

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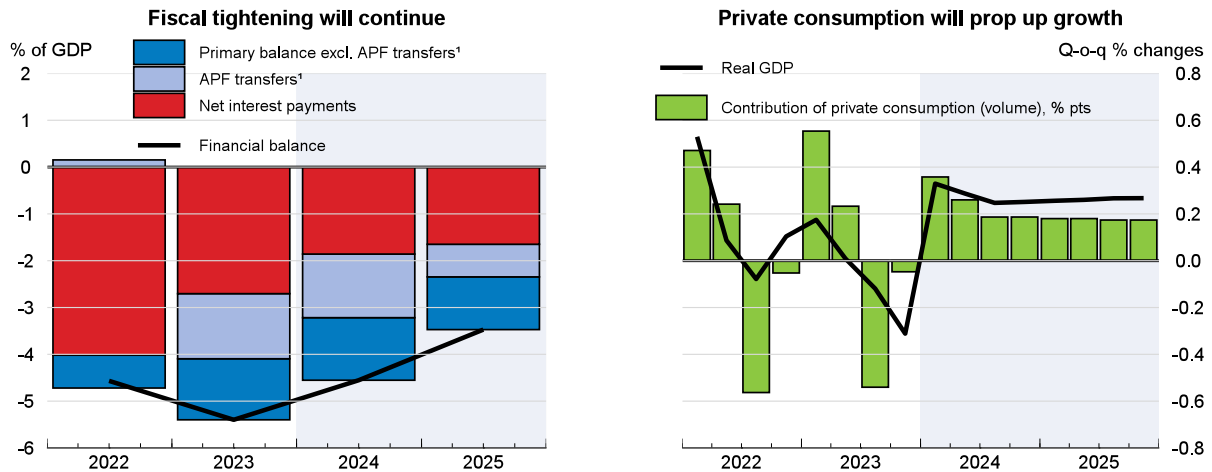
## United Kingdom: Demand, output and prices

	2020	2021	2022	2023	2024	2025
	Current prices GBP billion	Percentage changes, volume (2019 prices)				
<b>United Kingdom</b>						
<b>GDP at market prices</b>	2 104.3	8.7	4.3	0.1	0.4	1.0
Private consumption	1 246.1	7.5	5.0	0.3	0.7	1.2
Government consumption	475.6	14.9	2.3	0.5	1.6	0.4
Gross fixed capital formation	367.5	7.4	8.0	2.2	-1.6	-0.2
Final domestic demand	2 089.2	9.1	4.9	0.7	0.5	0.8
Stockbuilding <sup>1</sup>	2.3	0.1	-0.3	-0.6	-0.2	0.0
Total domestic demand	2 091.5	9.1	4.6	0.1	0.3	0.8
Exports of goods and services	624.8	4.9	9.0	-0.5	0.6	1.9
Imports of goods and services	612.0	6.1	14.6	-1.5	0.0	1.1
Net exports <sup>1</sup>	12.8	-0.3	-1.7	0.4	0.2	0.2
<b>Memorandum items</b>						
GDP deflator	—	-0.1	5.1	7.1	2.6	1.9
Harmonised index of consumer prices	—	2.6	9.1	7.3	2.7	2.3
Harmonised index of core inflation <sup>2</sup>	—	2.4	5.9	6.2	3.3	2.5
Unemployment rate (% of labour force)	—	4.6	3.9	4.0	4.5	4.7
Household saving ratio, gross (% of disposable income)	—	12.5	8.1	8.4	8.5	8.9
General government financial balance (% of GDP)	—	-7.9	-4.6	-5.4	-4.6	-3.5
General government gross debt (% of GDP)	—	105.3	100.4	101.4	103.9	105.4
Current account balance (% of GDP)	—	-0.5	-3.1	-3.3	-1.6	-0.7


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.
- Source: OECD Economic Outlook 115 database.

StatLink  <https://stat.link/eiqj1v>

## United Kingdom 2



1. Transfers to and from the Bank of England under the Asset Purchase Facility indemnification arrangement.  
Source: OECD Economic Outlook 115 database; Office for Budget Responsibility; and OECD calculations.

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

### A shift in the macroeconomic policy mix is expected

Monetary policy is assumed to start easing from the third quarter of 2024, with Bank Rate gradually lowered from its current peak of 5.25% to 3.75% by the end of 2025, as inflation continues converging towards target. The Bank of England is also expected to proceed with the unwinding of the stock of assets held for monetary policy 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 2024 renewed for another year.

Fiscal policy will remain restrictive, with assumed consolidation of about 1.3% of potential GDP between 2023 and 2025, in line with the government's self-imposed fiscal target of decreasing public debt within a five-year horizon. Tax receipts keep rising towards historic highs of about 37% of GDP, as the cumulated 4 percentage points cut in the rate of national insurance contributions since 2023 only partially offsets the ongoing fiscal drag from frozen personal income tax thresholds, and the permanent full-expensing investment allowance less than fully compensates the increase in the statutory corporate tax rate. Yet the measures are expected to increase potential output by providing stronger work and investment incentives and, together with supply-side initiatives such as the childcare expansion, could help to lower fiscal pressures in the longer run. However, public expenditure is expected to be 2.9% of GDP higher by fiscal year 2028/29 than before the pandemic. This is despite a consolidation-driven fall in real departmental spending per person, as welfare spending is set to increase by more than 1% of GDP, mainly due to the pension triple lock and rising caseloads for health-related benefits.

### Growth will improve as the effect of past monetary tightening wanes

GDP is projected to grow by 0.4% in 2024 and 1.0% in 2025. Robust real wage growth will support activity in the first half of 2024, attenuating the strongly negative carry-over from the output decline in the second half of 2023. Monetary easing will then sustain the pick-up in private expenditure, including a modest increase in household investment as mortgage volumes start recovering. However, sticky services price inflation and fiscal drag will continue to weigh on consumers' purchasing power, soft external demand will

constrain trade growth, and policy uncertainty will impede business investment. Unemployment is expected to continue rising, reaching 4.7% in 2025 as the labour market cools. The government deficit will improve from 4.6% of GDP in 2024 to 3.5% of GDP in 2025, owing to continued consolidation and despite the fiscal cost of the Asset Purchase Facility, but public debt is set to remain above 100% of GDP in 2025.

Uncertainty about the degree of slack in the labour market is a key risk to the outlook: overestimating the actual availability of labour resources and a faster reduction in Bank Rate would boost GDP but possibly entrench wage inflation, while underestimating actual availability would entail high interest rates for longer, slowing the economy. The limited fiscal space to confront possible shocks remains a downside risk, given exposure to potential further surges in wholesale energy prices if geopolitical tensions worsen. A rundown of excess household savings would boost growth but could limit the pace of disinflation.

### **Fiscal policy should remain prudent and focus on the supply side**

Persevering with consolidation to rebuild fiscal buffers is a priority, given limited fiscal space, and necessitates detailed and credible plans on departmental allocation of fiscal efforts based on spending reviews. Reforming property taxation can contribute to the consolidation, and promote both progressivity, by re-evaluating council tax bands based on updated property values, and efficiency, by scrapping stamp duties. Fiscal prudence is required as inflation remains above target, and spending is to be directed towards supply-enhancing investment, including infrastructure, the National Health Service, and adult skills. Proceeding with the childcare reform will help tackle economic inactivity, but requires contingent planning to address potential bottlenecks, in particular likely staff shortages.

# United States

Real GDP is projected to grow by 2.6% in 2024 and 1.8% in 2025. Growth was strong in 2023 and is expected to continue at a fairly robust pace through 2024. The fiscal deficit will remain large but tighten modestly. Core PCE inflation declined during 2023 and continues to ease year-on-year, though at a modest pace. Monetary policy easing is expected to begin in the second half of 2024. Downside risks to the growth forecast include delays in the anticipated policy rate cuts and the imposition of additional trade restrictions. Upside risks include stronger-than-expected labour market growth, helping to boost household spending.

Large budget deficits are expected for the foreseeable future, while fiscal pressures from ageing are rising. A gradual but significant fiscal adjustment is needed over the medium term. There is space for tax reform and increased spending efficiency, particularly in health, to help put public finances on a sustainable path. Further efforts to improve skills among young people, including education for people from disadvantaged groups, would help to boost productivity. For monetary policy, lowering the policy rate in the second half of 2024 would be appropriate if core inflation eases as anticipated.

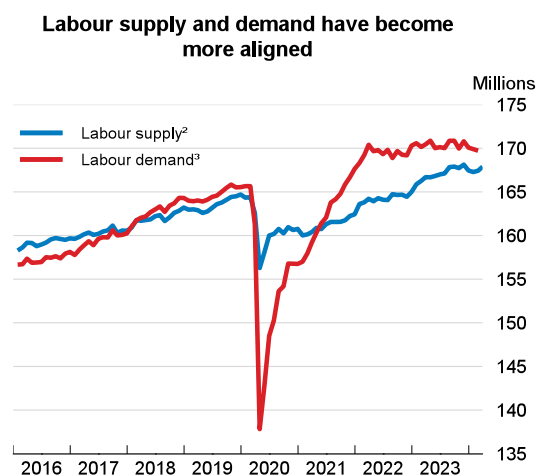
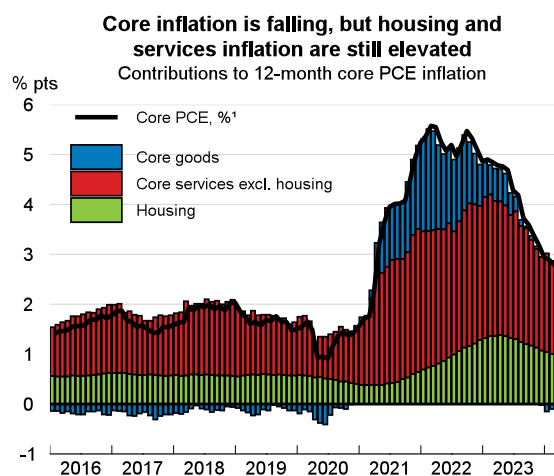
## Growth held strong in 2023 as inflation fell

The pace of GDP growth was faster than expected in 2023, reflecting both strong household and government consumption growth, and stronger-than-expected capital formation. Estimates of consumer spending thus far in the first quarter of 2024 point to continued momentum. Core inflation steadily moderated after peaking in 2022 and was near 2% in the second half of 2023, though it has increased at an annualised rate above 3% in the first quarter of 2024. Core goods inflation has declined to near zero, after a period where supply shortages and shifts in consumer demand pushed core goods inflation up. The services and housing components have eased at a more modest pace and continue to keep core inflation above pre-pandemic levels and target. Wage growth continues to slow, while the labour market continues to re-balance after a period where demand outstripped supply. Overall, there is little evidence that wages are feeding inflation. Housing inflation has continued to moderate and current market rents data indicate a potential slower pace of rent growth in coming quarters.

International developments were supportive in the second half of 2023 and net exports contributed positively to GDP growth even as the dollar effective exchange rate remained elevated. Petroleum exports rose to record levels in 2023 and the United States was a net petroleum exporter. However, bilateral trade with China fell in 2023, with imports from China declining by 20% over the prior year, and exports to China declining by just under 5%.



## United States 1



1. Personal Consumption Expenditures price index excluding food and energy.

2. Labour supply is total number of employed and unemployed people.

3. Labour demand is total number of employed persons plus total number of job openings.

Source: Bureau of Economic Analysis (BEA); Federal Reserve Bank of San Francisco (FRBSF); and US. Bureau of Labor Statistics (Current Population Survey and Job Openings and Labor Turnover Survey).

StatLink  <https://stat.link/9mp26v>

## United States: Demand, output and prices

	2020	2021	2022	2023	2024	2025
<b>United States</b>	Current prices USD billion	Percentage changes, volume (2017 prices)				
<b>GDP at market prices</b>	21 322.9	5.8	1.9	2.5	2.6	1.8
Private consumption	14 206.2	8.4	2.5	2.2	2.5	1.8
Government consumption	3 178.3	0.3	-0.9	2.7	1.2	0.5
Gross fixed capital formation	4 602.4	5.3	0.9	2.1	3.4	3.2
Final domestic demand	21 986.9	6.6	1.7	2.3	2.5	1.9
Stockbuilding <sup>1</sup>	- 37.6	0.3	0.6	-0.3	0.1	0.0
Total domestic demand	21 949.3	6.9	2.3	1.9	2.5	1.9
Exports of goods and services	2 150.1	6.3	7.0	2.6	2.3	2.6
Imports of goods and services	2 776.5	14.5	8.6	-1.7	2.2	3.2
Net exports <sup>1</sup>	- 626.4	-1.2	-0.5	0.6	-0.1	-0.2
<b>Memorandum items</b>						
GDP deflator	—	4.6	7.0	3.6	2.3	2.0
Personal consumption expenditures deflator	—	4.2	6.5	3.7	2.4	2.0
Core personal consumption expenditures deflator <sup>2</sup>	—	3.6	5.2	4.1	2.6	2.1
Unemployment rate (% of labour force)	—	5.4	3.6	3.6	3.9	4.0
Household saving ratio, net (% of disposable income)	—	11.7	3.4	4.7	4.0	4.5
General government financial balance (% of GDP)	—	-11.5	-4.0	-8.0	-7.6	-7.7
General government gross debt (% of GDP)	—	124.8	119.9	122.5	125.4	129.4
Current account balance (% of GDP)	—	-3.5	-3.8	-3.0	-3.0	-3.1

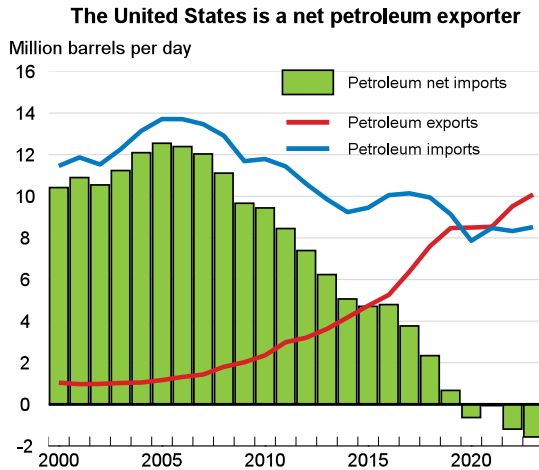
1. Contributions to changes in real GDP, actual amount in the first column.

2. Deflator for private consumption excluding food and energy.

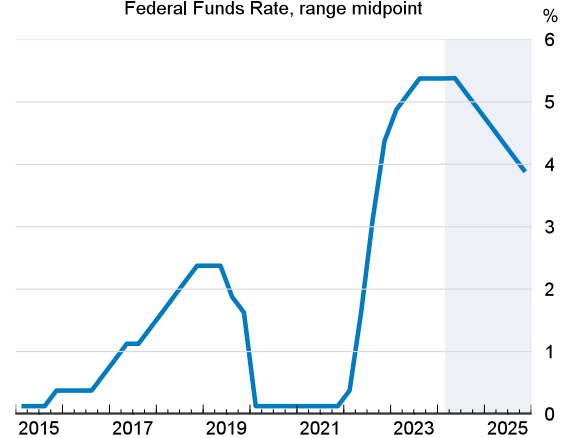
Source: OECD Economic Outlook 115 database.

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

## United States 2



**Monetary policy is expected to ease in 2024 and 2025**  
Federal Funds Rate, range midpoint



Source: U.S. Energy Information Administration (EIA); and OECD Economic Outlook 115 database.

StatLink  <https://stat.link/av26w4>

### Monetary policy should ease in 2024, while the budget deficit will remain large

The Federal Funds Rate is currently in the 5¼-5½ per cent range, which is the expected peak of the tightening cycle that began in 2022. Policy rate cuts should begin in the second half of 2024, after inflation has fallen closer to the 2% target. The Federal Funds Rate is projected to fall to around 3¾ to 4 per cent by the end of 2025.

The budget deficit is expected to remain large with a modest tightening in fiscal policy in 2024 after an unexpected fiscal expansion in 2023. Though extraordinary supports for households and businesses have mostly been unwound, the fiscal deficit is elevated as the United States enters a period where spending on mandatory social programmes is rising due to population ageing, while the tax base has narrowed over the past decade. Government net lending as a share of GDP is projected to be 7.6% in 2024 and gross debt will increase to 125% of GDP in 2024 and rise further in 2025.

### Growth will moderate in 2024 before returning to potential in 2025

Real GDP will continue to grow in 2024 and into 2025, though at a slower pace than in the second half of 2023. Growth will be supported by consumer spending, continued strength in the labour market, and eventually by monetary policy easing. The unemployment rate will remain at low levels by historical standards. Core inflation will continue to decline in the second half of 2024 as housing inflation eases.

The outlook could surprise on the downside if core inflation remains elevated, delaying any potential monetary policy easing. Volatility in bond markets may also be an impediment to growth, as could imposing additional trade restrictions. However, the outlook could surprise on the upside if the labour market outperforms expectations, providing additional support to household incomes.

## Efforts to narrow the deficit should be prioritised

Large budget deficits and higher debt increase fiscal risks. 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 sustainable levels. The scheduled expiration of some provisions of the Tax Cuts and Jobs Act (TCJA) in 2025 may help achieve this. There is scope to broaden the tax base and raise revenue in a more effective way, while there is scope to increase the efficiency of pension spending and reduce very high health costs. Adopting a solid medium-term focused framework to improve the sustainability of public finances could help manage these pressures and create space for policies to achieve the climate transition. The Inflation Reduction Act provided resources to assist in the climate transition, but further improvements in interagency coordination and streamlining of permitting processes are necessary to connect new clean energy sources to the power grid. Further efforts improve skills among young people, including education for people from disadvantaged groups, would help to boost productivity.

# Viet Nam

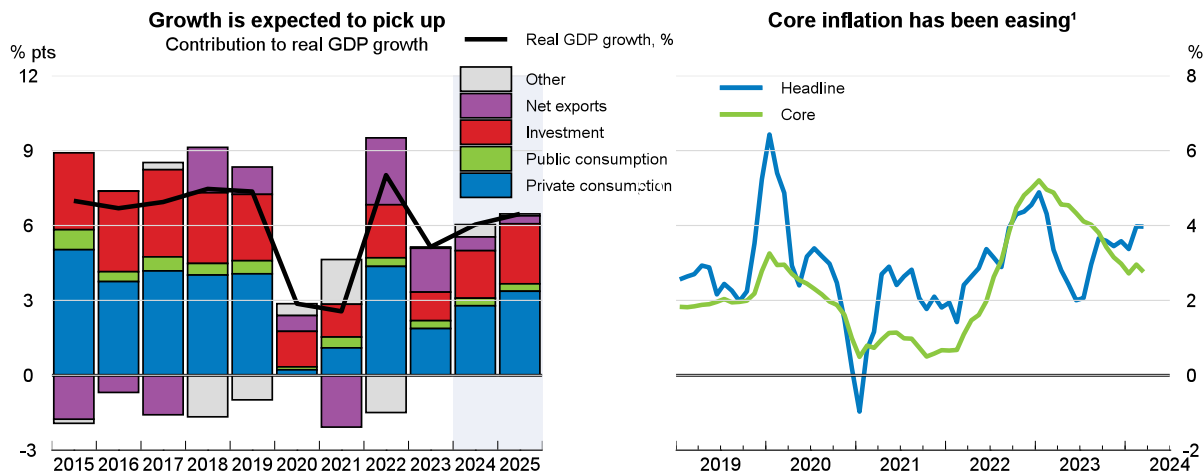
Real GDP growth is projected to strengthen to 6.0% in 2024 and 6.5% in 2025. Improving global demand and continued increases in tourist numbers will support export growth, although events in the Red Sea are raising logistics costs and may weigh on the recovery in exports. Substantial public investment plans and increasing real household incomes will support an increase in domestic demand. As activity accelerates, headline consumer price inflation will reach 3.9% in 2024 and 3.2% in 2025.

Expansionary monetary and fiscal policies will support domestic demand. The risk of potential delays in disbursements of public investment could be addressed by simplifying public investment procedures and regulations. Improvements in the macroeconomic policy framework, a more comprehensive social protection system and financial reforms could improve resilience to shocks and support the smooth implementation of reforms. An accelerated rollout of renewable energy sources in the power sector could make growth more sustainable.

## Growth is picking up

GDP growth increased to 5.7% in the first quarter of 2024 compared to its level one year earlier. Investment is being supported by strong government investment and in the first quarter of 2024 increased by 4.7% compared to one year earlier. Short-term indicators, such as the manufacturing PMI, have been broadly stable in early 2024. Annual growth in manufacturing production reached 5.9% in the first quarter of 2024. Sentiment appears to have stabilised following signs of domestic financial distress, particularly in the real estate sector. Year-on-year headline inflation has increased since June 2023, reaching 4% in March, as food and transport inflation rose.

## Viet Nam



1. Core inflation excludes food and foodstuff; energy and such items managed by the state as healthcare and education.

Source: CEIC; General Statistics Office of Vietnam; and OECD calculations.

## Viet Nam: Demand, output and prices


	2020	2021	2022	2023	2024	2025
	Current prices VND trillion	Percentage changes, volume (2010 prices)				
<b>Viet Nam</b>						
<b>GDP at market prices</b>	8 044.4	2.6	8.0	5.1	6.0	6.5
Private consumption	4 502.2	2.0	7.8	3.3	5.1	6.2
Government consumption	762.5	4.7	3.6	3.5	3.4	3.4
Gross fixed capital formation	2 435.7	3.7	6.0	3.3	5.6	7.1
Final domestic demand	7 700.4	2.8	6.8	3.3	5.1	6.2
Stockbuilding <sup>1</sup>	- 99.8	1.8	-1.5	0.1	0.5	0.1
Total domestic demand <sup>2</sup>	7 600.6	4.6	5.2	3.4	5.5	6.2
Exports of goods and services	6 788.0	14.0	4.0	-4.0	6.4	7.7
Imports of goods and services	6 344.1	15.6	1.8	-5.4	6.0	7.5
Net exports <sup>1</sup>	443.8	-2.1	2.7	1.8	0.5	0.3
<i>Memorandum items</i>						
GDP deflator	—	2.8	3.9	2.2	3.4	3.2
Consumer price index	—	1.7	3.2	3.3	3.9	3.2
Current account balance (% of GDP)	—	-1.2	-0.3	5.8	2.3	2.4

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 115 database.

StatLink  <https://stat.link/cgjq5a>

Increasing external demand supported a recovery in the trade balance over 2023. Goods exports increased in 2024 from their early-2023 lows, rising faster than imports. Continued increases in international visitors are supporting services exports, as visitor numbers approach their pre-pandemic levels.

## Fiscal and monetary policy will support activity

The central bank has maintained an accommodative monetary policy stance since lowering the refinancing rate from 6% to 4.5% and the discount rate from 4.5% to 3% over 2023. Inflation, at 4% in March, is currently at the lower bound of the central bank's target range of 4%-4.5%. Maintaining the current stance seems appropriate as growth returns towards potential. Fiscal policy can continue to support the rebound in 2024 against the background of low public debt at 35.3% of GDP in 2022, which is mainly denominated in local currency. The government is providing support to households and firms through a temporary reduction in the VAT rate from 10% to 8% until mid-2024, and temporary tax cuts and deferrals, including cuts in environmental taxes and car registration fees. Capital expenditure will remain high as the disbursement of public investment funds, which increased over 2023, is set to accelerate.

## Growth will strengthen

The economy is projected to gradually recover from domestic and external headwinds, growing by 6% in 2024 and 6.5% in 2025, helped by policy support and recovering external demand. As activity strengthens, inflation will reach 3.9% in 2024, but remain below the central bank target. Fiscal support, accommodative monetary policy and reduced financial distress will help consumption and private investment to strengthen. Nevertheless, high levels of private debt, at around 165% of GDP in 2022, will continue to weigh on growth and a renewed deterioration in financial conditions could limit improvements in sentiment and activity. Substantial government investment will support activity, and a faster-than-projected increase would further boost growth. Exports are projected to increase as global economic activity strengthens. However, rising

logistics costs due to events in the Red Sea, continued weakness in external demand or a more persistent slowdown in trade due to geopolitical tensions could weigh on the export recovery. A renewed period of financial distress could affect financial institutions, some of which have significant exposure to the highly indebted real estate sector.

### **Well-designed macroeconomic and structural policies would help enhance economic resilience and growth**

Public investment will support activity, although simplifying public investment procedures and regulations would accelerate the disbursement of funds. The government will face growing spending needs to facilitate the green and digital transitions and provide social protection to a rapidly ageing population. Developing a concrete medium-term fiscal consolidation plan to expand the tax base, improve spending efficiency and increase the transparency of debt management would improve fiscal sustainability against rising spending needs. Additional financial market reforms, including facilitating credit allocation by banks to more productive sectors and strengthening market-based solutions for non-performing loans, would enhance macroeconomic resilience. Further improvements in the business climate, including lower regulatory barriers on businesses, more investment in human capital, and stronger efforts to combat corruption would help to nurture high value-added sectors. Reducing administrative burdens would also encourage household businesses to formalise and expand. A clear and predictable long-term climate strategy would help guide all economic sectors to a low carbon path and attract more funding.

# OECD Economic Outlook

There are signs that the global outlook has begun to brighten. Activity remains more resilient than expected, although with considerable divergence across economies, inflation is falling steadily and unemployment remains low. Global growth is projected to remain unchanged in 2024 and strengthen modestly in 2025, with inflation returning to target in most countries by the end of 2025. Risks around the outlook are becoming better balanced, but substantial uncertainty remains. High geopolitical tensions, particularly in the Middle East, could disrupt energy and financial markets, causing inflation to spike and growth to falter. Elevated debt service burdens could rise further as low-yielding debt is rolled over, exposing financial vulnerabilities. Inflation might prove more persistent than anticipated but could also fade faster if strong labour force growth continues. The key policy priorities are to ensure a durable reduction in inflation, establish a fiscal path that will address rising pressures, and undertake reforms to raise sustainable and inclusive growth in the medium term.

This issue includes an assessment of the global economic situation, 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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