Measuring the macroeconomic cost of climate change from the ground up

Category: Uncategorized
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New OECD analysis combines granular local climate damages with a global spatial model to estimate how heat, floods, shifting crop yields and sea-level rise affect future aggregate economic activity, taking into account key trade, migration and production networks.

By Diogo Baptista, Hélia Costa and Filiz Unsal, OECD Economics Department

Climate change affects economies through local and granular channels. Workers are exposed to heat, firms are hit by floods, farms face changing growing conditions, and coastal areas lose land to rising seas. Yet the economic consequences are not confined to the places directly affected. Through trade, migration and production networks, local climate damages can reshape economic outcomes across regions, countries, and ultimately the global economy.

In a new OECD working paper (Baptista et al., 2026), we develop the Climate and Adaptation Spatial General Equilibrium Model (OECD-CASGEM) to connect these local damages to country specific macroeconomic outcomes. The model aggregates climate impacts across 927 regions in 186 countries while accounting for trade, migration and production linkages within and across countries. This allows us to quantify how local climate shocks propagate through the global economy, shaping both aggregate losses and their distribution across regions.

Quantifying the GDP impacts of climate change from local damages, using detailed micro-level estimates, granular data, and frontier methods, can help policy makers identify where losses are likely to be largest, which channels matter most, and what trade-offs different policy choices may involve.

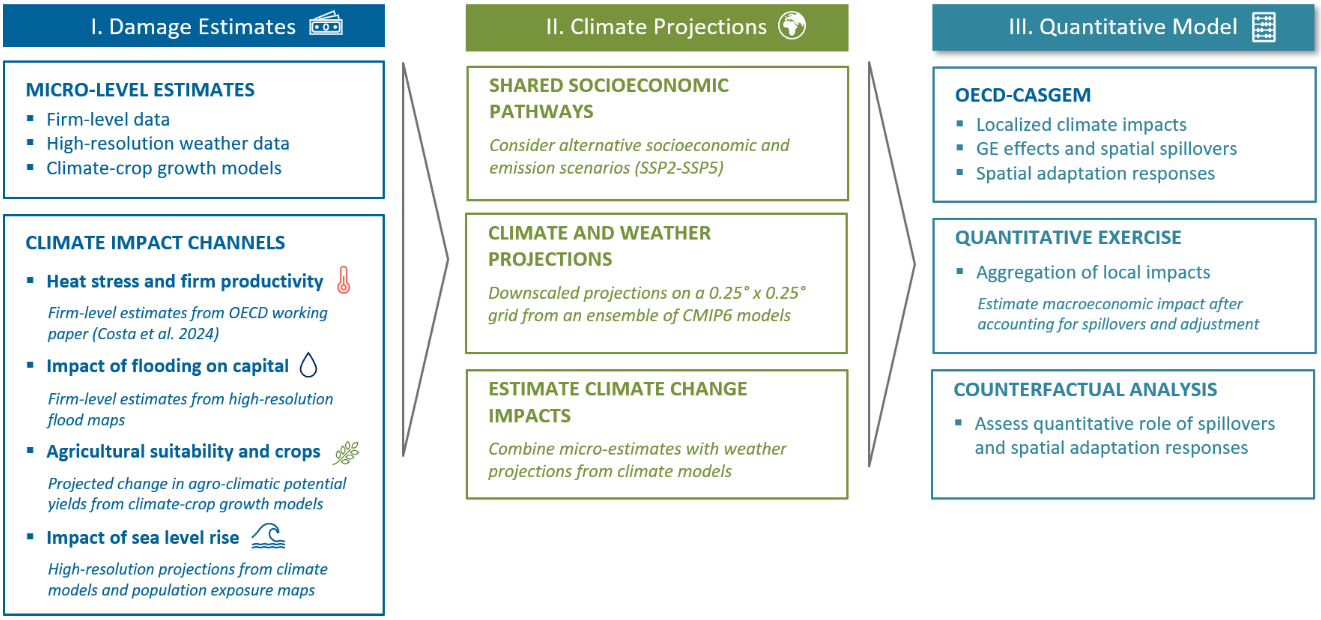
Why is this approach needed?

Climate damages are often estimated using aggregate relationships between temperature and GDP (e.g., Bilal and Kanzig, 2025). This provides useful evidence on the overall scale of the problem, but it can obscure critical channels through which climate change affects the economy and the way these effects differ across places.

OECD-CASGEM takes a more granular, bottom-up approach. It starts from local climate damages and then aggregates them through the lens of a global spatial model. (Figure 1). This spatial structure matters because climate impacts depend not only on where hazards occur, but also on how regions are connected to one another. A flood that damages firms in one region can raise costs for firms elsewhere that rely on their inputs. Heat stress in one sector can affect other sectors through lower output, delayed deliveries or higher prices. Trade and migration linkages can also transmit local shocks across regions and countries, while allowing households and firms to adjust over time.

The project combines evidence on four major climate hazards: heat stress, flooding, changing agro-climatic conditions and sea-level rise. These hazards affect economic activity through different channels. Heat stress reduces productivity. Floods damage firms’ capital. Changing crop conditions affect agricultural productivity. Sea-level rise reduces the supply of land available for housing and production.

Figure 1. Quantifying the cost of climate risks: a micro-based, bottom-up approach



Note (hover to read the text)
Source: Baptista et al. (2026).

From local impacts to country-specific GDP losses

The results point to sizeable GDP losses in the future for most countries. Under a current-policy scenario, global GDP per capita is projected to be around 3% lower by 2050 and 6.3% lower by 2100 than in a world where climate conditions remain fixed at historical levels. Under a high-emissions scenario, losses rise to around 6% by 2050 and 18% by 2100.

OECD economies face smaller average losses, but the impacts remain material. GDP per capita is projected to be around 1.7% lower by 2050 and 3.1% lower by 2100 under a current-policy scenario. Under a high-emissions scenario, the losses rise to about 2.6% by 2050 and 9% by 2100 (Figure 2). Spatial linkages also shape these losses, with for example input-output linkages amplifying local shocks as disruptions in one region or sector affect firms elsewhere through production networks.

These averages hide large differences across and within countries. Warmer and lower-latitude regions tend to face larger losses, especially through heat stress and weaker agricultural productivity. In the OECD, losses are projected to be above average in parts of Southern Europe, the United States, Australia and Chile, while cooler regions tend to face smaller impacts. This region- and country-specific perspective is central for policy, as the scale and composition of climate damages differ markedly across economies.

How will economies adjust?

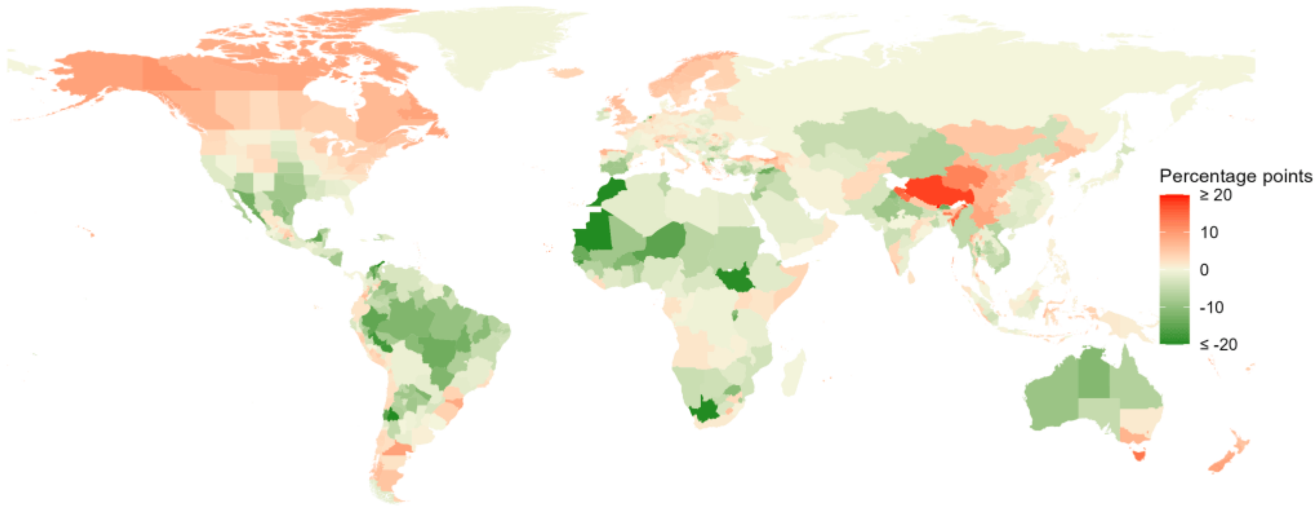
Climate change will also reshape economic geography. As some places become less productive or more costly, workers and firms have incentives to move towards less affected regions and sectors. Trade patterns can also adjust, as firms and households source more goods from places where climate damages are smaller.

These adjustments to existing patterns in response to climate change have the potential to reduce global losses. Under a high-emissions scenario, allowing trade and labour mobility to reshape relative to current levels lowers global GDP per capita losses in 2100 by around 8%. It also impacts the distribution of losses, reducing the dispersion of climate impacts across regions and acting as a form of loss-sharing.

But adjustment is not costless. Regions receiving new workers face pressure on housing and local prices. Regions losing workers may see weaker local demand and lower wages. Trade shifts also reduce demand for goods produced in the most climate-exposed places.

Figure 3. The ability to adjust to climate change reshapes losses

Additional percentage point loss in GDP per capita in 2100 due to adjustment via labour mobility and trade



Note (hover to read the text)
Source: Baptista et al. (2026).

What does this mean for policy?

Mitigation remains the first line of defence. Lower emissions reduce the scale of future damages and limit the risk of extreme outcomes. But adaptation is also essential. Investments in climate-resilient transport, energy, water and flood-protection systems can reduce both direct climate damages and their propagation through supply chains.

Policies that support private adaptation, including better climate-risk information, insurance coverage and access to finance, can strengthen resilience. More broadly, adaptation planning should consider how climate shocks and resilience investments affect interconnected regions, sectors and countries regions through trade, migration and production networks.

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What do card data reveal about the impact of energy and food shocks on European consumers' "everyday spending"?

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Energy and food shocks have impacted consumer spending in recent years. A new dataset of aggregated and anonymised monthly payment card spending for 12 European countries shows how these shocks led to weak growth of "everyday spending" by consumers with shifts across spending categories and important regional differences.

By Juergen Amann (OECD Centre for Entrepreneurship, SMEs, Regions and Cities), Sebastian Barnes and David Haugh (OECD Economics Department) and Luis Monteiro and Sidharth Goel (Mastercard Economics Institute)

The invasion of Ukraine in 2022 and the recent tensions in the Middle East show how quickly energy and food shocks can ripple across Europe, slowing real consumption growth across households and regions.

Drawing on a new dataset of aggregated and anonymised monthly payment card spending from 2018 to 2024, covering 12 European countries and nine expenditure categories, this blog highlights two key findings about how European households have responded to past global crise.

The analysis focuses on “everyday spending”, the subset of expenditure categories that is well captured by card payments and most closely reflects households’ day-to-day spending decisions. Everyday spending categories include goods and services that are frequently purchased, highly visible, and salient to consumers, such as food, fuel, clothing, and restaurant meals. This measure captures around 35% of the national accounts final consumption expenditure of households.

Using card data to capture everyday spending

The huge volume of payment card transactions made each day by consumers offers the promise of timelier and more granular insights into consumer behaviour alongside the quarterly national accounts. Card transactions data have been used to nowcast consumer spending (Bodas et al., 2019), notably since the COVID-19 pandemic when several national statistical offices also turned to card data. The higher frequency nature of payment card data can also help to identify different types of shocks, including monetary policy shocks (Grigoli and

Sandri, 2022).

The new monthly cross-country dataset is constructed over 2018–2024 using aggregated and anonymised transaction data from the Mastercard network for 12 EU countries and their TL2 regions (Amann et al., 2026). First, transaction data are organised into a panel dataset to track spending over time. Second, transactions are allocated to regions and spending categories using data on the location of the payment terminal and vendor. Third, the data are seasonally adjusted, given the high seasonality of monthly spending. Fourth, Eurostat annual data are used to adjust for changes in card use relative to cash and other factors that might otherwise distort the relationship between measured card transactions and consumer spending in the economy. While it is difficult to validate the data directly due to the limited frequency of corresponding official statistics, several exercises at national and regional level, such as comparing disaggregated retail sales statistics and the card-based data, show a close correspondence between the card data and published statistics.

Price shocks impacted consumers' everyday spending

Everyday spending recovered rapidly after the pandemic but then stagnated when the energy and food price shocks and subsequent monetary policy tightening hit. The surge in everyday spending in late 2021 as restrictions eased was supported by many households having accumulated large savings, pent-up consumer demand and high prices due to supply constraints (Figure 1).

These swings partly reflect the underlying composition of everyday spending, which places greater weight on discretionary expenditure categories such as energy, food and clothing than the national accounts measures, which include non-discretionary spending categories with more stable pricing, such as rents.

Spending on automotive fuel soared in the first months of 2022 as prices increased, but then reverted to previous levels as fuel prices eased (Figure 2). Food spending followed a similar dynamic, rising alongside nominal wages and consumer prices. The energy and food price shocks of early 2022, and higher debt repayments resulting from rising interest rates, also added pressure on discretionary everyday spending categories. Indeed, following these shocks, real everyday spending generally remained below its pre-pandemic trend across countries, particularly in those economies that experienced more protracted downturns where consumer income growth was weak, and only began to recover around 2024.

Within discretionary expenditure, restaurant spending is a notable exception. This is consistent with wider evidence that consumers redirected part of their spending towards experiences and services following the pandemic (Robinson, 2021; Mastercard Economics Institute, 2024). Month-to-month spending data show a rapid response of consumers to the rise in incomes associated with economy-wide pay increases and tax changes.

The impact on spending has varied across regions

The slowdown in spending growth appears more pronounced in European regions with relatively low-income levels(Figure 3). Regions where per capita GDP was below the national average in 2018 recorded lower levels of household spending growth in the post-pandemic period compared with pre-pandemic benchmarks. The relative gaps in expenditure have been most pronounced in discretionary categories such as appliances and furniture, recreation, and automotive fuels.

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How can Hungary address fiscal challenges and support inclusive growth?

Category: Uncategorized
written by oecdecoscope | September 4, 2026

Population ageing and climate change will strain Hungary's public finances. The 2026 Economic Survey of Hungary sets out recommendations to rebuild fiscal space and lift growth. The budget and medium-term fiscal plan that the new government is preparing will provide key opportunities to start addressing these challenges.

by Pierre-Alain Pionnier and Michaël Sicsic, OECD Economics Department

Fiscal pressures are rising

The fiscal deficit has systematically been close or above 5% of GDP since 2020 and is expected to reach 6.7% of GDP in 2026. Looking ahead, Hungary will face one of the largest increases in pension expenditure in the EU over the next decades, and climate-related costs are also rising. Without offsetting measures, the debt-to-GDP ratio, at 74.6% of GDP in 2025, would reach 180% by 2050.

Financing ageing- and climate-related expenditure will require additional fiscal space of around 8% of GDP by 2070 to ensure public debt sustainability (Figure 1, Panel A).

Balanced reforms are needed to safeguard public finances. Those advocated in the 2026 Economic Survey of Hungary (OECD, 2026) would keep public debt below 80% of GDP in the long term. Around 40% of the adjustment would come from reforming pensions and raising public spending efficiency, and the rest from higher tax revenues, either due to higher or broader taxes, or to the indirect effect of structural reforms, mainly through higher employment (Figure 1, Panel B).

Early action and the appropriate sequencing of reforms are essential. Several measures could be implemented in the near term without weighing on growth, such as:

- Securing access to EU funds, which the new government is actively working on;
- Reducing inefficient tax expenditures;
- Raising recurrent property and inheritance taxes;
- Streamlining subsidies, especially those related to fossil-fuels and housing.

Increasing tax revenues with an efficient and fair tax system

Multiple levers can be actioned to reduce inefficient tax expenditures. The 2026 PIT exemption for mothers that was decided by the previous government will cost 0.6% of GDP, yet international evidence suggests that expanding early childcare supply and aligning family leave entitlements with international practices, for both men and women, would support fertility and female employment more efficiently. While Hungary has the highest standard VAT rate in the OECD, reduced rates and exemptions narrow fiscal revenues and mainly benefit richer households. Phasing out reduced rates on non-essential goods and providing targeted cash transfers instead would make the tax system more efficient.

Recurrent taxes on immovable property are among the least harmful to economic activity, but they are underused in Hungary (Figure 2). Introducing a minimum local tax would strengthen municipal revenues for climate adaptation and affordable housing investment. Nevertheless, the tax base should also better reflect the market value of properties. To secure political acceptability, this reform should be gradual and protect low-income homeowners, e.g. with appropriate thresholds and the possibility to defer tax payments until a property is sold.

Further tax reforms can support growth and equity. The labour tax wedge for low-income earners is well above the OECD average due to the flat PIT rate in Hungary. Introducing PIT progressivity would strengthen labour market participation, increase the responsiveness of tax revenues to economic activity, and benefit 90% of taxpayers (Sicsic, 2026). Together with a better alignment of capital and labour taxation, this reform would raise tax revenues by 0.5% of GDP. Making the inheritance tax progressive and extending it to direct relatives would further raise tax revenues and strengthen equality of opportunities, in a country where income mobility is low.

Reforming pensions and improving spending efficiency

As Hungary’s pay-as-you-go pension system provides relatively generous benefits, and a special scheme allows half of women to retire early, the Survey recommends reforming pensions by:

- Linking the statutory retirement age and women’s eligibility for early retirement to life expectancy, while ensuring that the time spent in retirement continues to increase.
- Capping the 13th and 14th months of pension benefits that

have been granted since 2022.

These measures would reduce pension spending by 2% of GDP by 2070 and raise social contributions by 1% of GDP through higher employment.

There is also room to raise spending efficiency by scaling back insufficiently targeted housing subsidies, and restructuring household energy support by moving from price caps to targeted cash transfers for vulnerable households. This would increase incentives for saving energy and renovating dwellings, reduce the exposure of public finances to fluctuations in global energy prices, and lower dependence on energy imports. In the longer term, relying on cost-benefit analysis in public procurement more systematically, improving the targeting of social transfers, and conducting regular spending reviews would further improve spending efficiency.

Supporting economic growth

Securing fiscal sustainability finally requires raising Hungary’s potential GDP. Some of the fiscal reforms advocated above will contribute to this objective, in addition to their direct impact on government revenues. For example, increasing PIT progressivity is expected to raise potential GDP by 1% in 2050 by attracting more low-income workers into the labour force. Encouraging female employment by rethinking family-leave entitlements and expanding early childcare supply, scaling up infrastructure investment, refocusing business investment support towards SMEs and R&D, and raising educational attainment would further lift economic output, with a total estimated gain of 8% of GDP by 2050.

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Strengthening public finances as a pillar of prosperity in the Slovak Republic

Category: Slovakia,Uncategorized
written by oecdecoscope | September 4, 2026

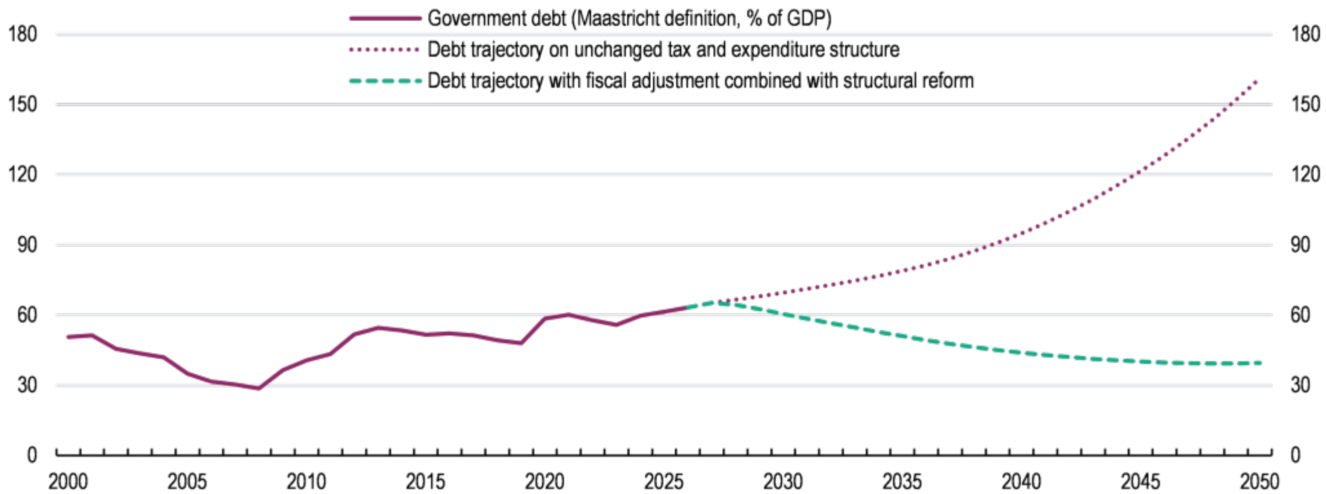
> *The Slovak Republic's public debt is on track to rise from 61% of GDP in 2025 to over 100% of GDP by 2040 without further action. Consolidation should rely mainly on expenditure control and a strengthened fiscal framework. Crucially, fiscal adjustment should be combined with structural reforms that raise employment: doing so halves the fiscal consolidation required to reduce debt while boosting growth.*

by Boris Cournède, OECD Economics Department

Fiscal adjustment is required to put public debt on a stable trajectory in the Slovak Republic, as noted in the **2026 OECD Economic Survey of the Slovak Republic** (OECD, 2026a). From a recorded 4.5% of GDP in 2025 and an anticipated 4.3% in 2026, the general government deficit needs to narrow substantially to curb public debt. Rapid ageing implies increases in public expenditure on pensions, health and long-term care. Defence commitments are adding to spending needs. On unchanged tax and spending structures and without new structural reforms, public debt is set to rise from 61% of GDP at the end of 2025 to above 100% of GDP in 2040 (Figure 1).

Figure 1. Combining fiscal consolidation with structural reforms can stabilise public debt

General government debt, ratio to GDP, %



Notes: In the scenario with an unchanged tax and expenditure structure, the primary balance evolves because of changes in (1) spending on public pensions, and health and long-term care, taken from the EU Ageing Report 2024, and (2) the employment-to-population ratio. GDP follows the central scenario of the OECD Economic Outlook long-term baseline. The scenario combining fiscal adjustment with structural reform includes a 2.4 percentage points of GDP improvement in the primary balance and the illustrative reform estimates presented in Box 1.1 of the Survey. Interest rates are derived endogenously in each scenario.

Source: 2026 OECD Economic Survey of the Slovak Republic.

The greater part of fiscal adjustment in 2024-2026 has relied on collecting more revenue. Between 2024 and 2026, the ratio of government revenue to GDP rose by 1.6 percentage points while spending excluding interest rose by 0.4 percentage points according to OECD Economic Outlook estimates (OECD, 2026b). The small increase in the ratio of government spending to GDP does not however imply an absence of spending-side restraint. It means that the trend increase in spending has been larger than the impact of measures to curb expenditure.

With taxes and social security contributions that are already above the OECD average as a ratio to GDP, the Slovak Republic needs to rely more on expenditure control. A starting point is to end natural gas subsidies: in addition to budgetary gains of at least 0.3% of GDP, their removal would sharpen incentives to save energy and reduce carbon dioxide emissions. Savings could also come from strengthening the evaluation of reimbursed drugs and promoting the use of generic and biosimilar drugs. Furthermore, means-testing the thirteenth pension would also help reduce spending. The OECD Economic Survey of the Slovak Republic 2026 lays out additional avenues for expenditure control.

Looking beyond medium-term adjustment, strengthening the fiscal framework is a way of entrenching sound fiscal policy for the long term. The Slovak Republic has a record of establishing ambitious budgetary institutions with its constitutional debt brake introduced in 2011 and its Council for Budget Responsibility (CBR) established in 2012. The CBR is widely regarded as independent, non-partisan and with strong analytical skills. The fiscal framework can be enhanced by:

- Designing multi-year fiscal consolidation plans based on a well delineated baseline with adjustment measures to be deployed if outturns deviate from the baseline. This would improve on current consolidation packages, which are vulnerable to implementation and economic risk.
- Reforming the debt brake by giving it a longer horizon

and reducing exemption periods and clauses. In its current design, the debt brake is calling for unrealistic trajectories when the deficit is large: it would have implied aiming at a balanced budget in 2026 from a 4.5% deficit in 2025. Simultaneously giving it a long horizon while reducing exemptions would make it more credible.

Sound public finances rest on more than pure fiscal adjustment: they also gain a lot from structural reforms that address the effects of demographic change. The population aged 15-64 is set to shrink by 30% over 2025-2065, implying a sharp rise in the ratio of older to working-age people (Figure 2).

Long-term debt simulations underline the worth of debt stabilisation strategies that combine fiscal consolidation with reforms that boost employment. If fiscal adjustment were to be implemented alone, the primary balance would need to improve by as much as 5.1 percentage points of GDP from its projected 2027 level to bring the debt-GDP ratio to 40% by 2040. The required adjustment to reduce debt to 40% of GDP by 2040 can narrow to 2.4 percentage points of GDP with progress in the employment of women, older workers and Roma people:

- The employment gap between men and women is non-negligible at 8 percentage points, even if below the OECD average. Parental leave for mothers is among the longest in the OECD, and the supply of early childcare is relatively limited. In this environment, most mothers take care of their young children at home. The length of parental leave entitlement should be reduced, and on-going efforts to expand childcare should intensify.
- Many OECD countries have achieved much greater employment of women and men above 55 than is currently the case in Slovakia. A 2024 reform tightened conditions and increased penalties for early retirement but early

retirement pathways should be curtailed.

- Employment in the Roma community is well below the rest of society. An important factor is high dropout rates throughout the education system. Efforts should be continued to expand early childhood education for students from socially disadvantaged backgrounds and to expand the network of second-chance education.

Fiscal sustainability is about prosperity rather than austerity. While some budgetary adjustments are necessary, the foundation of sound public finances lies in combining a flexible but ambitious fiscal framework with long-term growth-oriented policies.

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Keeping cool: adapting France to a hotter climate and increasing climate-related risks

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written by oecdecoscope | September 4, 2026

The recent, and recurrent, heatwaves across France and Europe are a reminder that climate change is already affecting people's health, businesses' productivity and the country's infrastructure. Strengthening prevention will be essential to limit losses, but adaptation must go hand in hand with faster emissions reductions.

by Nikki Kergozou, OECD Economics Department

For several weeks now, large parts of France are experiencing recurrent and intense heatwaves. Temperatures have exceeded 40°C in some areas, schools have closed, transport services have been disrupted and wildfires have broken out. For many households and businesses, climate change have ceased to be an abstract future threat and have become an immediate reality.

These heatwaves are part of a broader trend. Average temperatures in France have risen steadily over recent decades (Figure 1) and are expected to continue increasing. France's third National Adaptation Plan now uses a reference trajectory of around +4°C warming in metropolitan France by the end of the century. Preparing for a significantly hotter climate is therefore no longer optional; it is an economic necessity.

The economic costs are substantial and are set to rise

The impacts of rising temperatures extend far beyond discomfort during summer. Extreme heat increases mortality and puts pressure on healthcare systems. It also affects economic activity. OECD evidence shows that higher temperatures lower firm productivity, especially among smaller and less productive firms (Costa et al., 2024).

Climate-related risks, including droughts or floods, also affect infrastructure, housing and natural resources. Hotter and drier conditions can disrupt electricity supply, constrain the operation of nuclear power plants and damage rail networks. During heatwaves, train cancellations increase, limiting mobility around the country. Another growing challenge is the shrinking and swelling of clay soils, which weakens building foundations. Around 60% of detached houses in France are estimated to be located in areas with medium or high exposure to this risk. Some extreme events could be particularly costly. For example, flooding in the Seine Basin similar to the 1910 flood could cause EUR 3-30 billion in direct damages alone (OECD, 2018).

The economic costs can be substantial. Average annual insured damages for climate-related risks are expected to increase by 47-85% between 2023 to 2050 solely due to risk (CCR, 2023). This would cost more than EUR 3 billion per year on average. Preventing damage before it occurs will often be more effective, and less costly, than repairing it afterwards. It would also help limit the consequences on financial stability.

France has already taken important steps. The third National Adaptation Plan includes 200 actions to strengthen resilience, improve information and support better anticipation. The next challenge is full implementation.

Reinforcing local adaptation policies

Adaptation is inherently local. A dense urban neighbourhood, a coastal municipality, a mountain community and an agricultural region face different risks and require different responses, mostly at the local level. Local authorities are therefore on the front line. However, this is where France faces an important challenge. Limited technical capacity at the local level and fragmented responsibilities across levels of government are limiting local government’s ability to design and implement adaptation strategies.

The 2026 OECD Economic Survey of France recommends strengthening local adaptation capacity. Municipalities and inter-municipal bodies should have adequate resources to identify local risks and prioritise cost-effective preventive measures. Pooling expertise and cooperating across inter-municipal structures could help smaller or more remote communities access specialised skills. More broadly, reducing territorial fragmentation would improve the efficiency of local climate policies.

Public funding will also need to increase. Existing instruments, including the EUR 300 million Barnier Fund, and the EUR 850 million Green Fund, support adaptation efforts. However, resources are limited and have fallen in 2025 and 2026. As information improves and technologies evolve, adaptation policies will need to remain flexible, targeted and include fiscal buffers.

Incentivising private action

Households and firms also have an important role to play in strengthening resilience and limiting pressures on public budgets. Better information, including detailed risk maps, can help them understand their exposure and take preventive action. Insurance arrangements could also give greater weight to prevention when establishing surcharges or compensation payments for policyholders.

Financial constraints also need to be addressed. Targeted support to low-income households and access to low-interest loans can ensure that preventive investments are affordable. More research is also needed in low-ranked fields and where cost-effective solutions remain limited, such as swelling and shrinking of clay soils.

France’s Natural Catastrophe regime, known as *CatNat*, is an important feature of climate adaption policies in France. The state guaranteed reinsurer, which can reinsure up to 50% of insurance policies, supports broad and affordable coverage against natural disasters, an important solidarity mechanism. However, as climate risks intensify, costs will rise, which might require the state's guarantee to be called upon more frequently. To mitigate this risk, revising insurance surcharges would better encourage households and firms to invest in prevention and support the regime's long-term sustainability.

Meeting mitigation and adaptation goals

Adaptation, however, is not a substitute for mitigation. Every additional degree of warming increases risks, raises adaptation costs and leaves some damages impossible to avoid. France also needs to step up mitigation policies to stay on track with its ambitious targets. To meet its 2030 climate goals, emissions will need to fall by 5% per year between 2025 and 2030, compared with a decline of only 2% in 2024.

The recent heatwave offered a glimpse of what a hotter France may increasingly look like. The policy lesson is clear: invest in prevention, strengthen local capacity, while also accelerating efforts to limit future climate change.

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Dalla resilienza alla crescita sostenuta: come l’Italia può fare leva sul PNRR per affrontare le sfide future

Category: Uncategorized
written by oecdecoscope | September 4, 2026

L’economia italiana ha dimostrato una notevole resilienza di fronte ai principali shock esterni di questo decennio, ma i redditi sono cresciuti meno che in altri Paesi dell’OCSE e nuove e significative sfide si profilano all’orizzonte. L’Indagine Economica OCSE sull’Italia 2026 delinea le priorità per affrontarle, rafforzare le finanze pubbliche e aumentare la produttività e i redditi.

Tim Bulman and Emilia Soldani, OECD Economics Department

English version

L’ultima edizione dell’**OECD Economic Outlook**, pubblicata nel giugno 2026, prevede per l’Italia una crescita del PIL dello **0,5% nel 2026**, in linea con quella del 2025 ma più lenta rispetto agli anni successivi alla pandemia. All’inizio dell’anno il ritmo dell’economia stava migliorando, ma il conflitto in Medio Oriente ha causato un aumento dell’inflazione e dell’incertezza e rallentato la spesa. Il conflitto in Medio Oriente costituisce il terzo grande shock esterno imprevisto che ha colpito l’economia italiana in questo decennio, dopo la pandemia di COVID-19 e l’impennata dei prezzi dell’energia provocata dall’invasione su larga scala dell’Ucraina da parte della Russia.

L’economia italiana ha mostrato nel complesso una buona capacità di resistenza a questi shock, grazie anche alle misure di sostegno pubblico, guidate dal **Piano Nazionale di Ripresa e Resilienza (PNRR)**, che hanno contribuito a mantenere una crescita moderata. Tuttavia, a ogni nuovo shock, il divario tra i redditi degli italiani e quelli della maggior parte degli altri Paesi OCSE si è ampliato. Allo stesso tempo, le generose misure di sostegno pubblico hanno ulteriormente accresciuto un debito pubblico già elevato, trasferendone il peso sulle generazioni presenti e future.

Sebbene non sia possibile prevedere quali shock riserverà il futuro, alcune grandi sfide sono già chiaramente all’orizzonte:

i. L’invecchiamento della popolazione ridurrà il numero di lavoratori, determinando un mercato del lavoro più rigido, una crescita economica più debole e un aumento della spesa pensionistica e della domanda di servizi pubblici, come quelli assistenziali.
ii. La mitigazione e l’adattamento ai cambiamenti climatici ridurranno nel tempo in modo significativo le entrate pubbliche, anche attraverso un calo del gettito delle accise sui carburanti, mentre aumenteranno i costi

legati alle calamità naturali.

iii. L’aumento della spesa per la difesa sarà necessario per garantire la sicurezza e rispettare gli impegni assunti con i partner internazionali dell’Italia.

iv. La crescente concorrenza delle economie emergenti e lo sviluppo di nuove tecnologie stanno creando nuove sfide, ma anche opportunità, per le imprese italiane.

Negli ultimi anni l’Italia ha portato avanti un ampio programma di riforme strutturali, investimenti e consolidamento fiscale graduale, orientato dal PNRR e dal Piano Strutturale di Bilancio di Medio Termine. I benefici di tali interventi sono già visibili e includono il migliore accesso a servizi pubblici, istruzione e formazione, procedimenti giudiziari più rapidi, infrastrutture di trasporto più efficienti, il rinnovamento della forza lavoro nella pubblica amministrazione e la riduzione del premio per il rischio richiesto agli operatori che finanziano l’economia italiana.

L’**Indagine Economica OCSE sull’Italia 2026** sottolinea l’importanza di mantenere questo slancio riformatore per rafforzare le prospettive del Paese di fronte alle sfide dei prossimi decenni.

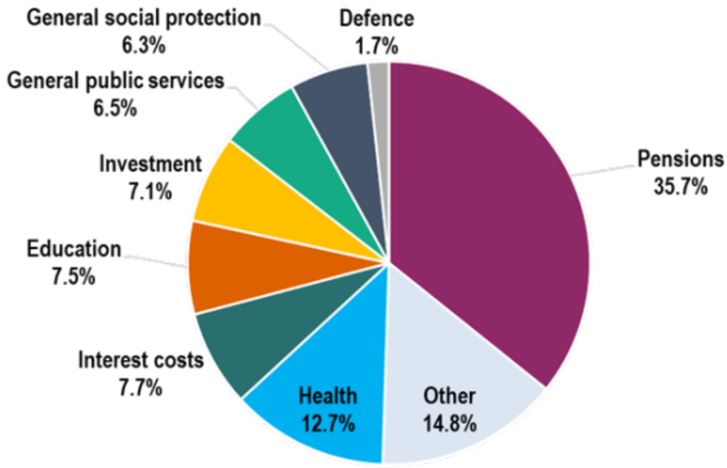
Mantenere il consolidamento fiscale contribuirà a ridurre la vulnerabilità dell’economia agli shock e a liberare risorse da destinare agli investimenti per la crescita e il benessere. Il disavanzo pubblico italiano rimane elevato, superiore al 3% del PIL nel 2025. Con un debito pubblico pari a oltre il 137% del PIL, l’Italia probabilmente chiuderà il 2026 con il rapporto debito/PIL più elevato dell’area euro. Il Piano Strutturale di bilancio di medio termine (MTFSP) delinea un percorso più prudente, prevedendo un incremento della spesa pubblica primaria netta nominale (al netto degli interessi, dei costi legati alla disoccupazione ciclica e di alcune misure straordinarie e con le adeguate correzioni per gli interventi discrezionali sulle entrate) pari all’1,5% annuo, compatibile con una graduale riduzione del deficit.

Raggiungere questi obiettivi richiederà uno sforzo significativo. Nei prossimi anni emergeranno ulteriori pressioni sulla spesa pubblica derivanti, tra altre cose, dall’aumento dei costi pensionistici, della difesa e delle misure legate al clima. Pensioni e interessi sul debito rappresentano già una quota significativa della spesa pubblica complessiva (Figura 1), ma le possibilità di contenerne l’aumento sono limitate. Ridurre la crescita della spesa pensionistica – ad esempio mantenendo il collegamento tra aspettativa di vita ed età pensionabile, evitando nuove forme di pensionamento anticipato e individuando modalità per limitare le pensioni più elevate – contribuirebbe a preservare le risorse destinate a settori che favoriscono crescita e benessere, come l’istruzione e le infrastrutture.

Sul versante delle entrate, una riduzione delle lacune nella riscossione fiscale, mantendendo i limiti all’utilizzo del contante ed evitando ulteriori agevolazioni fiscali, e un maggiore contributo della tassazione immobiliare potrebbero consentire di alleggerire il carico fiscale sul lavoro, soprattutto per i lavoratori a basso reddito.

Figura 1. Nel medio period ridurre la spesa pensionistica creerebbe spazio per una spesa più favorevole alla crescita

Spesa pubblica per funzione, % del totale, 2024



Nota: li interessi passivi e gli investimenti sono stati esclusi da tutte le categorie di spesa.
Fonte: National Accounts, OCSE.

Aumentare la partecipazione al mercato del lavoro a tutte le età aiuterebbe a mantenere gli standard di vita e rafforzare la resilienza dell’economia in un contesto di invecchiamento della popolazione che ridurrà la quota di cittadini in età lavorativa. La quota di giovani che non sono inseriti in percorsi di formazione, istruzione o occupazione è tra le più elevate dell’OCSE, e molti altri giovani emigrano. Un recente articolo del blog Ecoscope discute le priorità per garantire che il loro percorso educativo prepari adeguatamente i giovani al mercato del lavoro e rendere il mercato stesso piu` allettante.

Nel frattempo, in Italia la quota di donne occupate è inferiore rispetto alla maggior parte degli altri Paesi dell’OCSE, nonostante gli importanti progressi compiuti nell’ultimo decennio. Ridurre gli ostacoli all’occupazione femminile può contribuire a migliorare la situazione. Gli investimenti del Piano Nazionale di Ripresa e Resilienza (PNRR) nelle strutture per l’infanzia in tutto il Paese possono ampliare l’accesso ai servizi di cura. Anche la promozione di modalità di lavoro flessibili e di incentivi efficaci affinché gli uomini usufruiscano del congedo parentale può essere d’aiuto. Riforme mirate del sistema fiscale e dei trasferimenti sociali possono inoltre rafforzare gli incentivi al lavoro per il secondo percettore di reddito all'interno della famiglia.

Supportare le imprese a rapida crescita e alto potenziale contribuirebbe a riportare i redditi italiani più vicini a quelli delle economie OCSE più avanzate. La produttività delle grandi imprese italiane è generalmente paragonabile a quella delle loro omologhe internazionali. Tuttavia, la produttività media delle piccole imprese è relativamente bassa e queste rappresentano una quota più elevata dell'economia italiana (Figura 2). Gli ostacoli alla crescita di queste imprese possono essere ridotti tramite:

- La semplificazione e la maggiore stabilità del quadro normativo e fiscale, inclusi gli strumenti di sostegno pubblico alle imprese
- La semplificazione degli adempimenti amministrativi e fiscali e il proseguimento degli interventi per ridurre i ritardi del sistema giudiziario
- Il rafforzamento del sostegno pubblico diretto alla ricerca e sviluppo (R&S)
- Il potenziamento della concorrenza, anche attraverso la riduzione delle barriere all'ingresso nei servizi professionali
- Il miglioramento delle competenze e delle pratiche manageriali, nonché la riduzione degli incentivi fiscali e normativi che possono scoraggiare l'espansione delle imprese

Figura 2. L'elevata quota di piccole imprese frena la produttività

Nota: industria, costruzioni e servizi di mercato (esclusi pubblica amministrazione e difesa, previdenza sociale obbligatoria e attività delle organizzazioni associative). Entrambi i pannelli si basano su dati del 2023, ad eccezione dell'occupazione nel Pannello A, che si riferisce al 2024.

Fonte: Eurostat (sbs_sc_ovw).

Accelerare la transizione verso le energie rinnovabili e l’elettrificazione contribuirà a ridurre gli elevati costi energetici in Italia. A causa dell’elevata quota di combustibili fossili importati nel mix energetico nazionale, i costi dell’energia sono superiori a quelli della maggior parte dei Paesi comparabili. Tali costi sono aumentati dopo l’invasione dell’Ucraina da parte della Russia e sono cresciuti nuovamente in seguito al conflitto in Medio Oriente. Questo penalizza sia la competitività internazionale delle imprese italiane sia il reddito reale delle famiglie.

La trasformazione del sistema energetico verso fonti rinnovabili meno costose richiede ingenti investimenti nella produzione, nella distribuzione e nell’elettrificazione dei consumi energetici. Sono già stati compiuti progressi significativi: ad esempio, l’Italia è tra i Paesi leader nell’elettrificazione della produzione dell’acciaio. Le riforme dei mercati energetici, finalizzate ad esempio a favorire lo stoccaggio di energia elettrica a lungo termine e la stabilizzazione della rete, stanno attirando numerosi investimenti privati. La semplificazione delle procedure autorizzative sta inoltre contribuendo a ridurre la complessità del sistema multilivello di governance e dei processi di autorizzazione. Tuttavia, occorre moltiplicare questi sforzi per raggiungere la scala necessaria a ridurre i prezzi e a proteggere in modo duraturo utenti e imprese italiane da futuri shock energetici.

Mantenere lo slancio delle riforme e rafforzare le finanze pubbliche sarà determinante per riuscire a ridurre il divario dell’Italia in termini di reddito e benessere rispetto agli altri Paesi avanzati dell’OCSE, affrontando le sfide dei prossimi anni. Le basi per una crescita più robusta sono già presenti: una base industriale diversificata, solide competenze tecniche, progressi sempre più rapidi nelle energie rinnovabili, un elevato livello di ricchezza delle famiglie e l’accesso a consistenti risorse di sostegno dell’Unione europea.

Trasformare questi punti di forza in miglioramenti duraturi della crescita economica e del tenore di vita richiederà un programma di riforme coerente, ambizioso, coordinato e mirato. I recenti progressi dell’Italia, accelerati dal Piano Nazionale di Ripresa e Resilienza (PNRR), dimostrano che questo obiettivo è raggiungibile. Con le politiche giuste, l’Italia può passare da una semplice capacità di resistere agli shock ad un percorso di crescita più dinamico, inclusivo e sostenibile.

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From resilience to long-term growth: How Italy can build on the NRRP to navigate the

coming challenges

Category: Uncategorized
written by oecdecoscope | September 4, 2026

Italy's economy has been resilient to this decade's major external shocks but incomes are lagging behind OECD peers, and significant new challenges loom. The 2026 OECD Economic Survey of Italy outlines priorities to meet these, strengthen the public finances and raise productivity and incomes.

by Tim Bulman and Emilia Soldani, OECD Economics Department

Versione italiana

The latest OECD Economic Outlook, released in June 2026, projects output in Italy to grow by 0.5% in 2026, similar to growth in 2025 but slower than during the years after the pandemic. At the start of the year the economy's momentum was improving, but this was set back by the Middle East conflict, which brought rising inflation and uncertainty and slowed spending. The Middle East conflict is the third large, unexpected external shock to Italy's economy this decade, following the COVID-19 pandemic and the energy price surge caused by Russia's full-scale invasion of Ukraine.

Italy's economy has been broadly resilient to these shocks, with public support measures, led by the National Recovery and Resilience Plan (NRRP), helping to maintain modest growth. Still, with each shock, the gap between the incomes of

Italians and those of most other OECD countries has widened. At the same time, generous government support measures have further inflated already-high public debt on current and future generations.

While we cannot know what shocks the future will bring, we know some of the looming challenges:

1. Population ageing will reduce the number of workers, creating a tight labour market, lower growth and growing pension costs and demand for public services such as long-term care.
2. Mitigating and adapting to climate change will reduce government revenues significantly over time, including lower fuel excise, while increasing the costs from natural disasters.
3. Higher defence spending is required to maintain security and to meet commitments to Italy’s partners.
4. Heightened competition from emerging economies and developing technologies is creating new challenges, as well as opportunities, for Italian business.

In recent years, Italy has pursued substantial structural reforms, investments and progressive fiscal consolidation, directed by the National Recovery and Resilience Plan and the Medium-Term Fiscal-Structural-Plan. The benefits of pursing these plans are already evident, from improved access to public services and education and training, faster court proceedings, better transport infrastructure and a rejuvenating public workforce, through to a lower interest premium charged on Italian borrowers.

The 2026 OECD Economic Survey of Italy emphasises the importance of pursuing this reform momentum to buttress Italy’s prospects amidst the challenges of the coming decades.

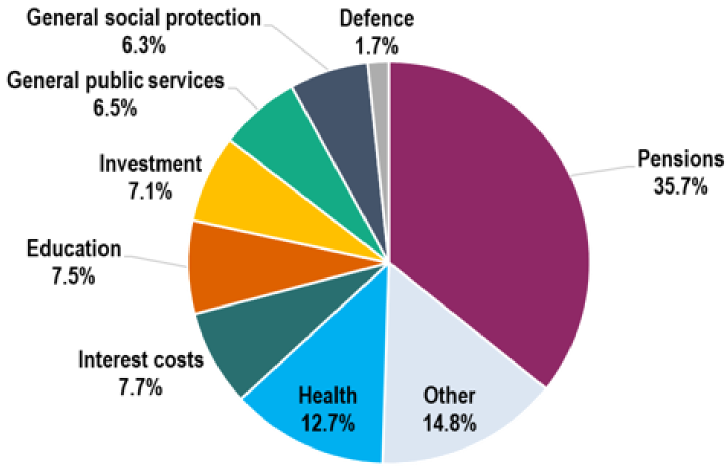
Sustaining the fiscal consolidation will reduce the economy’s exposure to shocks and free resources to invest in growth and well-being. Italy’s budget deficit remains large, at above 3.0% of GDP in 2025. The public debt ratio, at more than 137% of GDP, is likely to end 2026 the highest in the euro area. The Medium-Term Fiscal-Structural Plan lays out a more prudent path. It envisages net nominal public expenditure (net of interest payments, cyclical unemployment costs, and certain one-offs and adjusted for discretionary revenue measures) rising by 1.5% annually, implying a declining budget deficit.

Achieving this will require significant efforts. The coming years will bring new expenditures pressures from rising pension costs, defence and climate-related needs, among others. Old age pensions and interest payments make up a high share of overall spending (Figure 1), but options to contain this spending are limited. Containing pension spending, for example by maintaining the link between life expectancy and retirement age, avoiding new early retirement window and identifying ways to reduce high pensions will help protect spending on areas that support growth and well-being, notably education and infrastructure.

On the revenue side, addressing gaps in tax collections, by maintaining the limits on cash transactions and by avoiding further tax concessions, and increasing the contributions from property taxes can finance a lower tax burden on workers, especially those at lower wage rates.

Figure 1. Reducing high pension costs over the medium term would create space for growth-enhancing spending

Public expenditure by function, % of total, 2024



Note: Interests costs and investment have been deducted from all spending categories.
Source: OECD National accounts.

Enabling all working-age Italians to contribute to the workforce will help maintain living standards and improve the economy's resilience as ageing reduces the number of working-age Italians. The share of youth out of training, education or employment is among the highest across the OECD, and many other young people emigrate. A previous Ecoscope blog discusses priorities for ensuring their education readies them for the job market, and that jobs in Italy are attractive.

Meanwhile, a lower share of women in Italy work than in most other OECD countries, despite important progress over the past decade. Reducing the barriers to working can help. The National Recovery and Resilience Plan's investment in childcare facilities across Italy is expanding access. Encouraging flexible working arrangements and effective incentives for men to take up parental leave can help. Careful reforms to taxes and benefits can help avoid discouraging second earners.

Fostering more fast-growing high-productivity firms would help incomes catch back up with the leading OECD economies. The productivity of Italy's large firms compares well with their peers. But productivity in small firms is generally relatively low and they make up a larger share of Italy's economy (Figure 2). These firm's growth can be fostered through:

- Streamlining and bringing stability to the regulatory and fiscal environment, including the public support measures provided to firms.
- Making it simpler to comply with administrative and tax compliance procedures, and continuing to address delays in the judicial system.
- Scaling up direct public support to R&D.
- Strengthening competition, including reducing the barriers to entering professional services.
- Improving managerial skills and practices, and reducing tax and regulatory incentives for firms to stay small.

Figure 2. The large share of smaller firms weight on productivity

Note: Industry, construction and market services (except public administration and defence; compulsory social security; activities of membership organisations). Both panels based on 2023 data, except employment in Panel A, which is 2024.
Source: Eurostat (sbs_sc_ovw).

Accelerating the transition to renewable energies and electrification will reduce Italy's high energy costs. Energy costs are higher than most of its peers because of the high share of imported fossil fuels in the energy mix. They surged following Russia's invasion of Ukraine and rose again with the Middle East conflict. These weigh on Italian businesses' global competitiveness, and on households' real incomes.

Shifting the energy system to lower-cost renewables requires large investments in generation, distribution and in electrifying energy use. Significant progress is being made – for example, Italy is among the leaders in the electrification of steel production. Reforms to energy markets, for example to provide long-term electricity storage and to stabilise the network, are attracting many private investors. The streamlining of permitting processes is helping overcome the complexity of Italy's multi-layered governance and permitting arrangements. These efforts need to accelerate to achieve the scale required to reduce prices and durably protect Italy’s energy users from future energy shocks.

Maintaining the reform momentum and strengthening the public finances will be key to whether Italy’s incomes and well-being will close the gap with other advanced OECD countries through the challenges of the coming years. The foundations for stronger growth are already in place: a diversified industrial base, strong technical know-how, accelerating progress in renewable energy, high household wealth and access to substantial EU support.

Turning these assets into sustained improvements in growth and in living standards will require a steady, ambitious, coordinated and focused set of reforms. Italy’s recent progress, accelerated by the National Recovery and Resilience Plan, shows how this can be achieved. With the right policies, Italy can move from resilience to shocks to a more dynamic, inclusive and sustainable growth path.

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United Kingdom: Rebuilding fiscal space amid rising spending pressures

Category: Uncategorized,United Kingdom
written by oecdecoscope | September 4, 2026

Rising spending demands from population ageing, healthcare, the climate transition and defence are placing growing pressure on the UK's public finances. Rebuilding fiscal space will require a combination of fiscal discipline and structural reforms that strengthen growth and support fiscal sustainability.

Nicolas Gonne and Daniela Glocker, OECD Economics Department

Fiscal pressures are rising despite a more stable economy

The UK economy has shown resilience in the face of successive shocks. Inflation has fallen markedly from its peak, real incomes are recovering and activity has stabilised. Yet growth remains modest and fiscal pressures are mounting. Renewed geopolitical tensions, higher energy prices and persistent global uncertainty continue to weigh on growth prospects, while weak productivity growth remains a longstanding constraint on living standards (Figure 1).

Stronger growth is essential not only for raising living standards but also for supporting the public finances. Public debt exceeds 100% of GDP, interest payments remain elevated and long-term spending pressures are set to increase. Recognising these challenges, the government's Growth Mission seeks to tackle long-standing barriers to productivity through reforms to investment, planning, infrastructure, skills and labour supply. As demands on public resources grow, strengthening the economy's underlying growth potential has become more important than ever.

Rebuilding fiscal space through more efficient taxation and spending

However, higher GDP growth alone will not be enough to rebuild fiscal space. Fiscal discipline and reform need to go hand in hand. Restoring fiscal buffers requires maintaining sound public finances while strengthening the economy's growth potential.

On the spending side, rebuilding fiscal space will require careful prioritisation. With taxes already at historically high levels, fiscal consolidation will need to rely primarily on expenditure measures. However, this should not come at the expense of productive public investment, which remains essential for long-term growth. Rather than relying on across-the-board spending cuts, efforts to improve efficiency should be targeted to areas where there is genuine scope for productivity gains, taking account of past efficiency savings and changes in departmental responsibilities. As spending pressures rise, ensuring that public resources deliver value for money will become increasingly important.

Recent experience with energy support measures illustrates the importance of policy design. Across many OECD countries, broad-based support measures helped cushion the 2022-2023 energy shock, but often came at a high fiscal cost and were not always well targeted. The United Kingdom has since shifted towards more targeted measures that better protect vulnerable households while containing fiscal costs. This approach helps preserve fiscal space and strengthens the capacity to respond to future shocks.

There is also scope to improve the efficiency of the tax system. Tax expenditures, including exemptions, reliefs and preferential treatments, are relatively large (Figure 2) and can narrow the tax base while creating economic distortions. While many pursue legitimate policy objectives and can play an important role in supporting households, businesses or specific activities, they are often subject to less regular scrutiny than direct spending programmes despite carrying similar fiscal costs. A systematic review of these provisions, combined with continued efforts to strengthen tax administration and compliance, could help ensure that they remain well targeted and deliver value for money. Where tax expenditures no longer achieve their intended objectives, reforming or phasing them out could broaden the tax base, reduce distortions and support fiscal sustainability.

From stabilisation to sustainability

The UK economy has regained stability after a series of shocks. The next challenge is to rebuild fiscal space to cope with rising pressures from ageing, healthcare, the climate transition and defence spending.

This will require more than fiscal discipline alone. The 2026 OECD Economic Survey of the United Kingdom argues that fiscal and structural reforms need to go hand in hand. Reforms that strengthen productivity, investment and labour supply can support growth and broaden the tax base, while better targeting of spending and tax provisions can improve fiscal sustainability. Together, these reforms can help rebuild fiscal space, strengthen the resilience of the public finances and ensure that the UK is better prepared for future economic and fiscal challenges.

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Steering the next phase of the Slovak Republic's economic convergence

Category: Uncategorized
written by oecdecoscope | September 4, 2026

Slovakia's successful export-driven growth model is under pressure from global shifts, technological change, and a weakening productivity trend. Sustaining convergence will require structural reforms to improve the business climate, boost innovation, and address skills gaps.

By Erik Frohm, OECD Economics Department

For much of the past two decades, EU accession and large inflows of foreign direct investment have helped turn Slovakia into a major manufacturing hub deeply connected to European and global value chains. Strong export performance has supported job creation, rising incomes and steady convergence toward OECD living standards.

That model is now being tested. Geopolitical tensions are reshaping global supply chains, the net-zero transition is transforming energy systems, while digitalisation and artificial intelligence are changing the nature of work and productivity. At home, the automotive industry – long the backbone of Slovakia's export-led growth – faces a structural shift as electrification, new technologies, and intensifying competition alter how production is organised and where value is created.

With productivity growth weakening, the investment climate becoming less favourable, and skills shortages increasingly constraining expansion, Slovakia faces a decisive question: how to turn a successful past growth model into a stronger one for the future.

The **2026 OECD Economic Survey of the Slovak Republic** outlines the key policy reforms needed to reach these goals. This demands renewed attention to structural reforms that better adapt the economy to structural change, boost business dynamism, and sustain economic convergence with more advanced OECD economies:

- **Improving the business climate** requires improving public integrity, removing entry barriers and reforming taxes. Increasing the independence of the judiciary, including by introducing sufficient guarantees of impartiality in relation to the dismissal of members of the judicial council would reduce risk of corruption. Reducing the time, procedures and required capital for starting a limited liability company and harmonising uneven capital tax rates, as well as removing of the financial transaction tax (FTT) would help spur growth and investment.
- **Incentivising business R&D expenditure,** which is lagging

behind peer and OECD averages (Figure 2), including among SMEs, could foster innovation, support knowledge spillovers and diversify the sources of growth. Accelerating the absorption of EU funds through better project planning and execution would help scale up investments that meet well-defined priorities.

- **Continuing to improve the education system**, facilitating life-long learning, and increasing the use of active labour market policies that focus more on re-training and upskilling, as well as facilitating skilled immigration – including the return of Slovaks living abroad – would reduce pressing labour and skills shortages and make the economy more adaptable to structural change.

The government has recently approved a package of 49 draft measures aimed at improving the business environment. They include steps to reduce administrative burdens, raise support for innovation and investment, and ease labour-market bottlenecks through faster recognition of foreign qualifications. This indicates welcome policy advances in areas highlighted in the 2026 Survey, but the impact will depend on timely implementation. Future measures should further address barriers to investment and business dynamism, including the financial transaction tax and broader tax reform. Reforms in these areas would make the Slovak economy more dynamic, with more diversified sources of growth. Increasing the adoption of digital technologies and developing skills would allow companies to better draw on the gains from scientific advances, including AI, and position the country to become a key manufacturing location for the net-zero transition.

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Unwinding global imbalances

Category: Uncategorized
written by oecdecoscope | September 4, 2026

Current account imbalances are back at the centre of global policy debates, as persistent surpluses and deficits interact with trade tensions and external vulnerabilities. This blog shows that imbalances mainly reflect differences in saving behaviour, and that reducing them will require tailored domestic reforms in both deficit and surplus economies.

By Erik Frohm, John Hooley, Fatih Ozturk, Łukasz Rawdanowicz and Nivetha Sivakumar, OECD Economics Department

Global imbalances have widened and remain persistent

Current account balances are at the forefront of global discussions, including this year's G20 and G7 meetings. Renewed attention reflects persistent external positions across major economies, increasing trade tensions and widening net international investment positions (NIIPs).

A current account balance records an economy's transactions with the rest of the world in goods, services, income and transfers. A surplus means an economy saves more than it invests domestically; a deficit means it invests more than it saves and draws on net foreign financing. Current account balances are therefore shaped by the saving and investment decisions of households, firms and governments. Persistent current account positions can be problematic when they reflect policy distortions or unsustainable saving-investment patterns, especially if deficit economies become vulnerable to shifts in foreign financing or larger external balance sheets amplify risks.

Current account positions narrowed after the global financial crisis but have edged up again since the COVID-19 pandemic. Their broad composition has changed little over three decades. The United States has run persistent deficits, while China and many EU Member countries have generally recorded surpluses (Figure 1). NIIPs have widened alongside these developments, with recent movements driven more by valuation effects and nominal GDP growth than by current account flows.

Saving behaviour explains much of the divide

The saving-investment perspective helps explain why current account positions persist. The main difference between surplus and deficit economies lies in saving rather than investment (Figure 2). Surplus countries have consistently recorded higher saving rates than deficit countries. Sectoral patterns reinforce this picture: deficit economies tend to have lower government and household net saving than surplus economies. Since the pandemic, many economies have also seen higher private-sector net saving and lower public-sector net saving, partly reflecting the legacy of extraordinary fiscal support.

Trade and industrial policies can affect specific sectors or products, but they do not fully explain overall current account positions. Evidence that industrial policy can durably improve current account balances is limited, partly because comparable data on government support is scant. In general, industrial policy is unlikely to shift current accounts unless other distortions also prevent adjustment, such as limits on consumption or capital flows (IMF, 2026; Cesa-Bianchi et al., 2026).

Current account adjustments are asymmetric

Past episodes of current account adjustment provide guidance on how today’s imbalances may narrow (Frohm et al., 2026). New analysis identifies 70 large and durable current account adjustment episodes across 51 countries between 1980 and 2024. More than three-quarters involved narrowing rather than widening imbalances.

Deficit narrowing is typically associated with stronger export growth, some import compression, real exchange rate depreciation and higher private saving-investment balances, especially among non-financial corporations. It also tends to occur alongside tighter fiscal and monetary conditions and a temporary weakening in output gaps.

Surplus narrowing is more often associated with higher imports and stronger domestic demand, with lower net lending across households, firms and government (see Figure 3). These episodes are accompanied by real exchange rate appreciation, higher inflation, fiscal loosening and lower long-term real interest rates, without clear evidence of a large loss of export competitiveness.

Initial conditions also matter. Larger initial imbalances, especially deficits, are associated with a higher probability of subsequent narrowing, consistent with some mean reversion despite high persistence. By contrast, NIIPs and banking crises do not help predict the onset of adjustment episodes in the sample of countries analysed.

Reforms with domestic objectives would also narrow external imbalances

There is no precise threshold at which current account positions become excessive or at which they raise the risk of disorderly adjustment. Empirical benchmarks are useful, but measurement challenges, modelling uncertainty and hard-to-observe policy distortions limit their precision.

Reforms grounded in domestic economic and social objectives can also help narrow external balances. In deficit economies, fiscal consolidation can support adjustment where public deficits are large. In surplus economies, stronger social safety nets, deeper financial markets and structural reforms that support productivity growth and domestic investment can reduce excess saving. Actions by the economies contributing most to global current account imbalances would be particularly impactful. In China, expanding social protection and improving access to public services could reduce precautionary saving and support consumption. In the United States, narrowing the large structural fiscal deficit would address an unsustainable fiscal trajectory. In Europe, mobilising high saving towards productive domestic investment requires stronger capital markets, fewer barriers to firm growth and high-quality public investment where fiscal space allows.

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