Boosting EU productivity through a stronger Single Market

Category: Euro Area,European Union
written by oecdecoscope | July 3, 2025



By Martin Borowiecki and Federico Giovannelli, Economics Department

Strengthening productivity remains a key challenge

Productivity has grown more slowly in the EU than in the United States. Since 2000, labour productivity growth in the EU has been on average half a percentage point lower each year than in the United States (Figure 1, panel A).

Productivity developments have been particularly weak in the largest EU economies. In contrast, some Northern as well as Central and Eastern European countries recorded stronger productivity growth. Nevertheless, productivity levels in Central and Eastern Europe remain relatively low (Figure 1, panel B).

The productivity growth difference compared to the United States is mainly due to the services sector (Figure 2). In particular, productivity growth in the information and communication sector, as well as in professional services, has been weaker in the EU. These are two sectors that make strong use of digital technologies. This reflects industry structure as well as the greater ability of U.S. companies to develop

and utilise digital technologies. In contrast, the EU has made significantly less use of the benefits of digital technologies (van Ark, O'Mahony and Timmer, 2008; Schivardi and Schmitz, 2019).

Overall, investment as a share of GDP is relatively high in the EU, which is due to high residential investment. In contrast, productivity-enhancing investments (excluding residential investment) – as shown in Figure 3 (panel A) – have grown less dynamically than in the United States since the early 2000s. In particular, after the financial crisis, investment rates between the EU and the United States began to diverge significantly.

The divergence in investment spending is mainly due to lower expenditures on intellectual property, particularly on research and development (R&D) as well as information technologies (Figure 3, panel B). This affects all sectors but is especially pronounced in information and communication technology. It reflects the higher R&D spending of U.S. high-tech companies as well as their larger size. In contrast, business R&D spending in the EU tends to be concentrated in medium-tech sectors such as the automotive industry. The lower level of innovation activity in the EU, along with the specialisation in medium-technology sectors, has contributed to the EU falling behind the United States, and increasingly China, in cutting-edge technologies such as artificial intelligence (Filippucci, Gal and Schief, 2024; Fuest et al., 2024).

One factor behind the weak innovation activity in Europe is weak business dynamism and the low level of investment in young innovative companies. Firm entry and exit rates have been declining in both the manufacturing and services sectors (Figure 4). Promoting the growth of successful companies and the market entry of new firms is crucial to fully unlock the potential of the private sector and to boost innovation and productivity growth.

The Single Market is key for productivity

A more integrated Single Market will be key to boost productivity. Market integration is particularly low in the services sector (Figure 5). A fragmented Single Market puts European companies at a disadvantage, as firms in larger markets can achieve economies of scale more easily and tend to be more productive and innovative.

In its latest ***Economic Survey of the EU and euro area***, the OECD provides policy recommendations to boost productivity (OECD, 2025).

First, a more integrated Single Market with fewer regulatory barriers for businesses would strengthen productivity. Well-designed EU regulations can reduce compliance costs for companies in the Single Market compared to the inefficiencies of fragmented national rules. However, in practice, a growing EU regulatory burden is slowing down business dynamism. Subjecting EU regulatory proposals to rigorous cost-benefit analysis would help reduce the EU regulatory burden, including documentation requirements and reporting obligations for businesses. In addition, a common EU corporate law ("28th regime") would help innovative firms scale, strengthen dynamism, and set minimum standards for registration and bankruptcy.

Another challenge is the still relatively low labour mobility within the EU. Cross-border labour mobility is hindered by limited mutual recognition of qualifications. To this end, mutual recognition of qualifications should be improved, and all unjustified and disproportionate restrictions on professional services removed.

Third, a deepening of European capital markets would also help to promote productivity growth. Capital markets in the EU remain underdeveloped. The fact that the high savings rates in the EU do not translate into productive investments is partly

due to the insufficient risk appetite of the predominantly bank-based financial system. In particular, young and innovative companies suffer from the lack of alternatives to bank loans. Strengthening competition in savings and investment products could help deepen the pool of long-term capital available for investment. This could be paired with a stronger uptake of privately funded pensions to strengthen the institutional investor base.

Fourth, while the EU's science base is strong, a major weakness lies in the translation of science into breakthrough innovation. However, EU-level public R&D spending is limited. This makes it all the more important that EU public R&D expenditures are consistently targeted at addressing this innovation deficit. This calls for rigorous evaluations of R&D programmes based on clear key performance indicators, closing underperforming programmes, and shifting funding to well-performing programmes.

Finally, unilateral national industrial policies pose risks to the Single Market. The EU announced to make the state aid framework simpler and more flexible to support investment in strategic sectors until 2030. Such an approach to industrial policy raises risks for the Single Market as countries with more fiscal space may provide excessive support. To protect the level playing field within the Single Market, state aid rules should not be relaxed.

For more information about the latest OECD Economic Survey of the European Union and euro area, please visit the ***economic snapshot page****.*

References

Filippucci, F., P. Gal and M. Schief (2024), "Miracle or Myth? Assessing the macroeconomic productivity gains from Artificial Intelligence", *OECD Artificial Intelligence Papers*, No. 29, OECD Publishing, Paris, https://doi.org/10.1787/b524a072-en.

Fuest, C. et al. (2024), EU-Innovation Policy: How to Escape the Middle Technology Trap?, *Policy Report of the IEP/TSE/EconPol-CESifo European Policy Analysis Group*.

OECD (2025), *OECD Economic Surveys: European Union and Euro Area 2025*, OECD Publishing, Paris, https://doi.org/10.1787/5ec8dcc2-en.

Schivardi, F. and T. Schmitz (2019), "The IT Revolution and Southern Europe's Two Lost Decades", *Journal of the European Economic Association*, Vol. 18/5, pp. 2441-2486.

van Ark, B., M. O'Mahony and M. Timmer (2008), "The Productivity Gap between Europe and the United States: Trends and Causes", *Journal of Economic Perspectives*, Vol. 22/1, pp. 25-44.

Accelerating the EU's green transition

Category: Digitalisation,Euro Area,European Union
written by oecdecoscope | July 3, 2025



By Martin Borowiecki, Economics Department

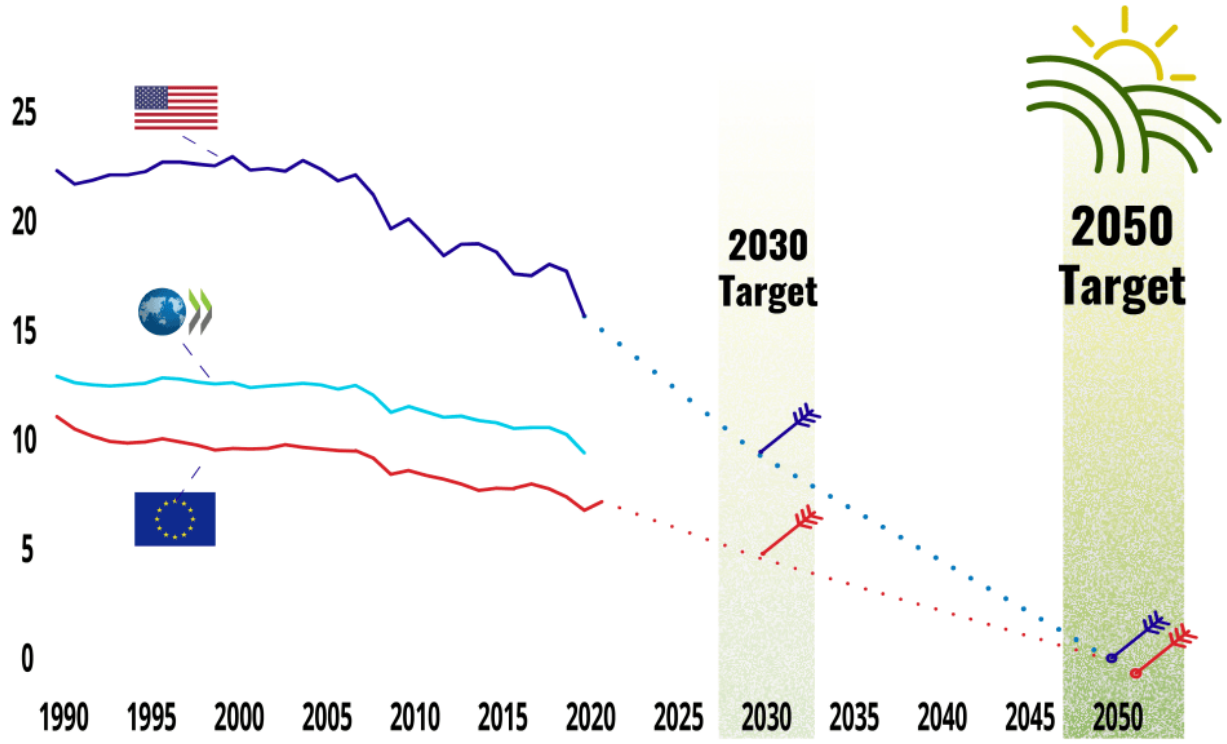
The EU's Green Deal aims at achieving net zero emissions by 2050. Reaching this target will require a tripling of the rate of emission reductions relative to 1990 and 2020 (Figure 1).

More action is needed across all sectors, but particularly in sectors not covered by emission trading, notably agriculture and transport. Reducing emissions in these sectors will rely on regulatory measures and a gradual alignment and raising of carbon prices. Also, more ambitious climate action will entail transition costs. The OECD Economic Survey of the European Union and euro area highlights four main challenges to reduce emissions more cost-effectively and equitably.

Figure 1. Reductions in greenhouse gas emissions need to accelerate

Greenhouses gases emissions

Tonnes of CO2 equivalent per capita



Note: Greenhouse gas (GHG) emissions include those from the land use/land use change and forestry sector (LULUCF). Data on the EU's GHG emissions for 2021 are taken from the European Environment Agency (2022).

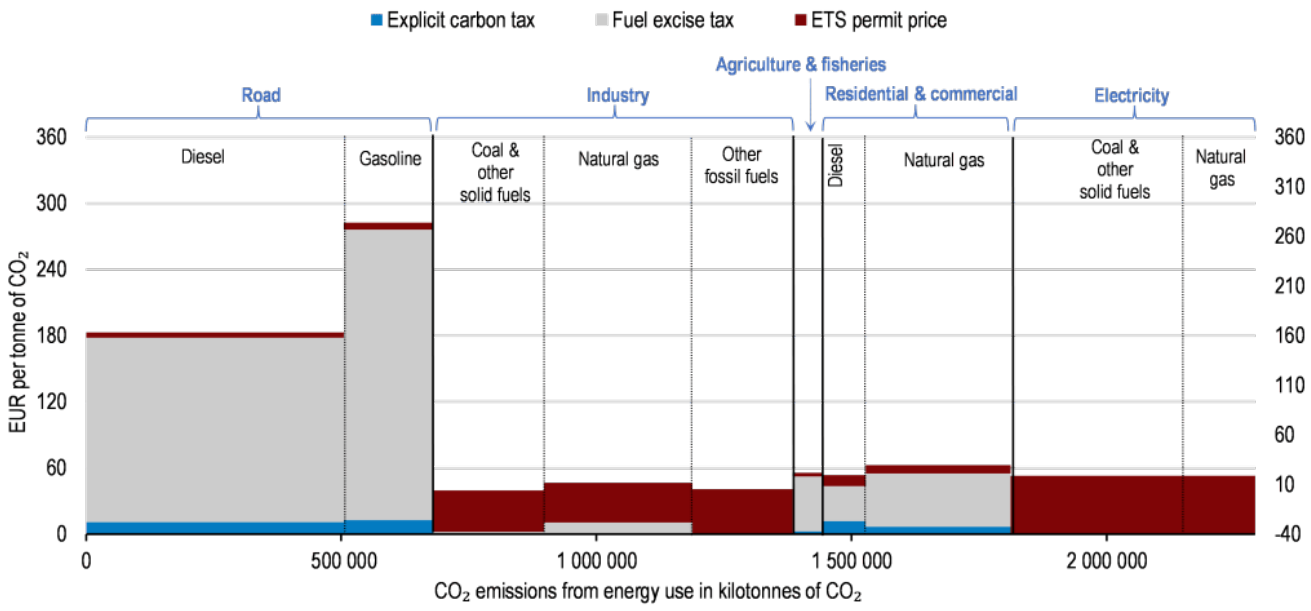
Source: Eurostat; OECD Environment database; OECD Population database; European Environment Agency; and OECD calculations.

Towards more efficient mitigation policies

First, climate change mitigation policy is currently based on a combination of regulations and carbon prices that vary across sectors (Figure 2). The EU's Emission Trading System (ETS) sets an EU-wide carbon price, but only for energy generation and energy-intensive industry. Other sectors are not covered by the EU-wide carbon price. The uneven coverage of the ETS across sectors imposes heterogeneous abatement incentives across activities, leading to higher costs of achieving climate targets. Moreover, industry continues to receive most emission allowances free of charge. The consequence is that polluters do not necessarily pay the cost of pollution. Addressing the challenge of reducing greenhouse gas emissions requires a gradual alignment and raising of carbon prices together with adopting and implementing standards and regulations.

Figure 2. Carbon pricing differs across sectors and energy uses

Effective energy tax rates across sectors, 2021



Note: Data refers to EU member countries that are also members

of the OECD (22 countries). Effective carbon rates (ECRs) have been averaged by sector and energy category. Year of coverage is 2021, taxes as of 1st April 2021. ETS coverage estimates are based on OECD, with adjustments to account for recent coverage changes. Instrument coverage: specific fuel excise taxes, explicit carbon taxes, ETS (Emission Trading System) permit price includes German National ETS besides EU-ETS. No fossil fuel subsidies or other GHG are accounted for. The ETS permit price is the price of tradable emission permits in mandatory emissions trading and cap-and-trade systems representing the opportunity cost of emitting an extra unit of CO_2 equivalent, regardless of the permit allocation method.

Source: OECD (2022), Pricing Greenhouse Gas Emissions: Turning Climate Targets into Climate Action, OECD Series on Carbon Pricing and Energy Taxation, OECD Publishing, Paris, https://doi.org/10.1787/e9778969-en.

To make polluters pay, the OECD recommends to continue expanding the ETS, including to agriculture. In addition, bringing forward the phase-out of free emission allowances would align effective costs of polluting in the ETS.

Ramp up mitigation in agriculture and transportation

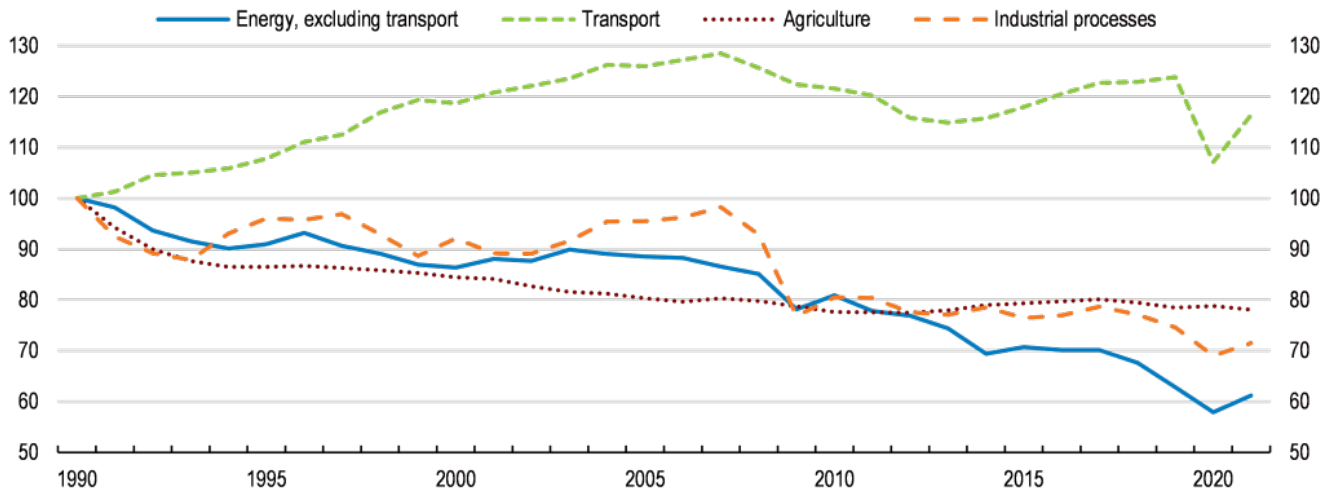
Second, agriculture and transport have contributed little to emissions reduction during the last decade (Figure 3). Reducing emissions in these sectors calls for phasing out environmentally harmful subsidies. In agriculture, direct payments to farmers keep livestock numbers high and promote the agricultural use of drained peatlands, despite their negative impact on the climate. In transportation, more stringent EU vehicle emission standards and an extension of the ETS carbon price to transportation fuels from 2027 will help reduce emissions. However, reduced tax rates and tax exemptions for environmentally harmful fossil fuels, including

aviation and maritime fuels, continue to undermine decarbonisation efforts.

Figure 3. Agriculture and transport have contributed little to emissions reduction

GHG emissions by source sector

index 1990 = 100



Note: Excluding land-use, land-use change and forestry (LULUCF).

Source: OECD Environment Statistics database.

To reduce emissions in agriculture, support for the agricultural use of drained peatlands should be removed, and direct payments for high livestock numbers gradually withdrawn. Withdrawing coupled payments may lead to higher meat prices, which may have an impact on food affordability for low-income households. Hence, withdrawing direct payments should be done gradually. To reduce emissions in transport, minimum tax rates for transportation fuels should be based on energy content and environmental performance, and the tax base broadened by phasing-out exemptions and reduced rates.

Accelerate the energy transition

Third, more integrated wholesale electricity markets are key for the energy transition and achieving energy security. For instance, countries with excess supply of wind and solar can export electricity to meet demand in other countries where supply is short. However, insufficient investment in cross-border electricity grids hampers such integration. Moreover, retail electricity prices are regulated for affordability reasons, often to below-cost levels. Low regulated prices discourage investment in much-needed clean technologies and reduce energy saving incentives.

An important element of the energy transition is affordable and secure clean energy, which requires more integrated electricity markets. To this end, the OECD recommends to increase investment in cross-border grid connections. In addition, the EU should ensure EU countries phase out regulated retail electricity prices to recover costs in the energy sector and encourage investment in clean energy. To help low-income households, government could use well-targeted affordability measures.

Limit the reallocation costs from the green transition

Finally, the green transition will also involve transition costs, including those arising from the reallocation of workers across sectors or regions. EU funding aims to help most affected regions manage the employment effects of the green transition. However, funding for mobility and training could be better tailored to local labour market needs. As regions develop their “Just Transition Plans”, greater efforts are needed to identify and address the drivers of low training and job-to-job transitions.

Concentrating future EU funding on mobility support and training, and making it conditional on labour market outcomes would help to alleviate the socio-economic impacts of the green transition.

References

OECD (2023), *OECD Economic Surveys: European Union and euro area 2023*, OECD Publishing, Paris

---

What is driving the spike in inflation dispersion in the euro area and how should policy react?

Category: Euro Area,Inflation
written by oecdecoscope | July 3, 2025



Inflation dispersion has surged and could raise further, complicating macroeconomic policy. This requires reforms to make the euro area more resilient.

For a more resilient and cohesive Europe

Category: Euro Area,European Union
written by oecdecoscope | July 3, 2025



By Filippo Gori and Álvaro Pina, OECD Economics Department

The COVID-19 pandemic precipitated Europe into a recession of unprecedented nature and magnitude. Owing to a rapid and effective policy response to the crisis, the recovery in Europe is now firming up, but there is no room for complacency. To achieve stronger growth than before the pandemic and weather well future shocks, the EU needs to enhance both its economic resilience and its territorial cohesion. To achieve this, the 2021 OECD Economic Surveys of the European Union and the Euro Area focus on two closely related aspects: (i) improving cyclical convergence among member states and (ii) spurring convergence in living standards across EU regions.

Increasing cyclical convergence in the euro area

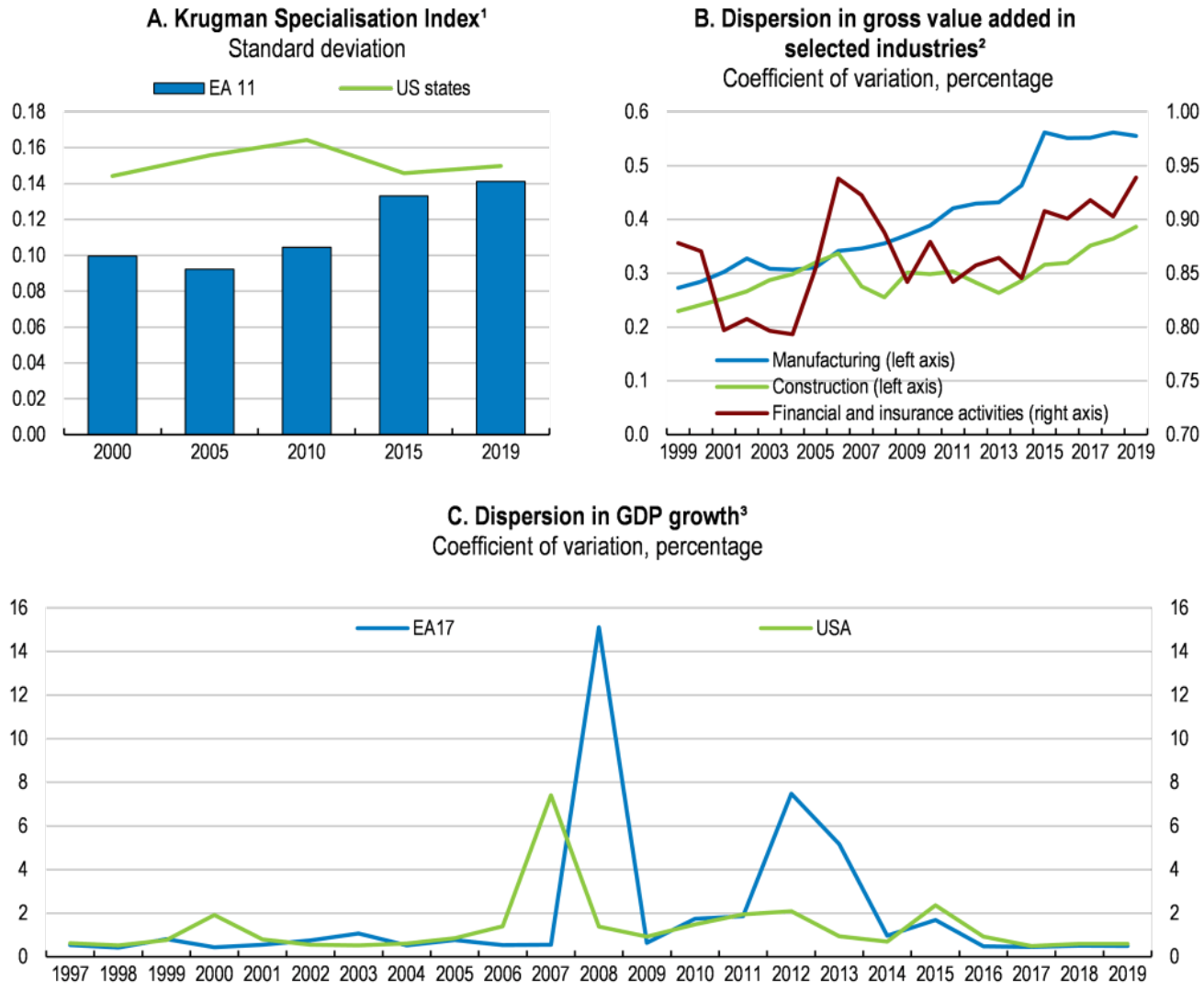
In the aftermath of the global financial crisis, large differences in business cycles across euro area countries developed into diverging economic paths for hardest hit economies. Today, the COVID-19 pandemic is again affecting euro area economies differently and posing risks of diverging economic trajectories. Europe needs to ensure that no country is left behind during the recovery.

Cyclical divergence in the euro area has deep roots, including

heterogeneous national economic structures that enhance the likelihood of asymmetric shocks. In the years following the introduction of the euro, the removal of trade and investment barriers led to spatial agglomeration of economic activities according to national or regional competitive advantages (Fontagné and Freudenberg, 1999; Mongelli et. al, 2016). Heightened competition and agglomeration economies favoured sectoral concentration, resulting in greater divergence in the productive structure of individual countries (Figure 1. B). Though industrial heterogeneity among euro area countries is still milder than across the United States (Figure 1.A), the dispersion in GDP growth among euro area members has tended to be higher than across US states, peaking during downturns (Figure 1. C).

This suggests that industrial polarisation alone cannot explain the relatively high cyclical divergence in the euro area. Much of this divergence is instead explained by policy and institutional frameworks.

Figure 1. Differences in industrial structures among euro area members have been rising



1. The Krugman Specialisation Index (KSI) is a widely-used specialisation measure.
2. Gross value added by NACE activities, EA17.
3. Coefficient of variation for annual GDP growth across 50 US States and EA17 countries. EA17 include all other euro area members that are also part of the OECD.

Source: OECD (2020), OECD Economic Outlook: Statistics and Projections (database); Eurostat

To reduce cyclical divergence in the currency union, the 2021 OECD Economic Survey of the Euro Area suggests policy reforms in three directions:

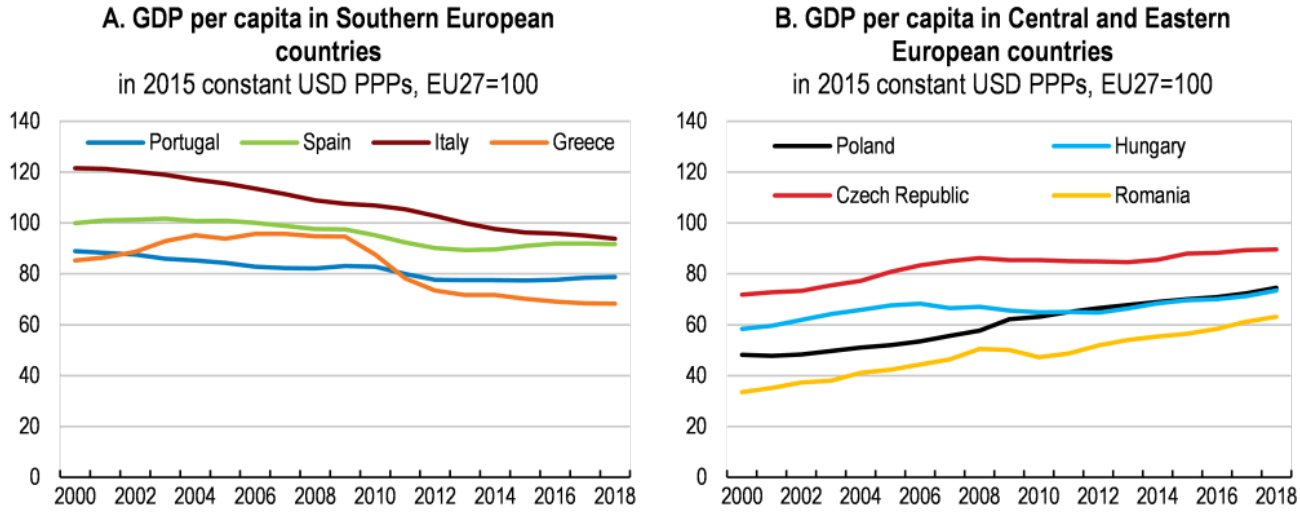
- *More resilient labour markets*. In this regard, euro area countries should strengthen policies that preserve viable jobs during major downturns, such as job retention schemes (JRS), and ease workers' transition to new jobs through skilling and activation.

- *A more effective single market for capital and stronger banks*. In the current context, this requires supporting European banks to deal with a possible new wave of non-performing loans (NPLs) by designing better insolvency and loan foreclosure procedures, improving regulatory policies, and developing secondary markets for distressed assets. To strengthen European banks it is also necessary to complete the banking union, notably by setting up a common deposit insurance scheme.
- *The introduction of common fiscal capacity*: Fiscal integration remains one of the most important missing features of the euro area. The euro area should consider setting up a common fiscal stabilisation capacity through an unemployment re-insurance scheme.

Enhancing the convergence between regions

Over the decades, the European Union gained the reputation of a "convergence machine" (Gill and Raiser, 2012), helping its poorest member states narrow the gap to their richer partners. Since the turn of the century, however, the convergence machine has become less well oiled. Central and Eastern European countries have been converging, but Southern Europe has lost ground (Figure 2). In addition, within countries, remote rural regions have fallen further behind large cities, and especially capitals. Growing territorial inequalities threaten social cohesion and weaken growth potential in Europe as a whole.

Figure 2. Southern and Eastern European countries have had a contrasting growth performance



Source: OECD (2020), OECD calculations based on data from the OECD Regional Statistics (database).

Why has convergence faltered? Part of the explanation lies in global trends, such as digitalisation, which has mainly benefitted large cities, and stronger competition from emerging economies, which has hurt some industrial regions. Indeed, a growing spatial concentration of manufacturing – Figure 1.B – has also taken place at regional level. But European-specific factors have also played against convergence. Incomplete financial integration and procyclical fiscal policies have led to the expansion of low-productivity non-tradable sectors, such as construction, in the run-up to the global financial crisis, and to abrupt adjustment and divergence in its aftermath. This cyclical divergence, discussed above, has particularly affected Southern Europe. Furthermore, growth and innovation in the EU as whole, including in many wealthy regions, has often been modest, limiting the ability to generate spillovers across the Union.

How can poor regions prosper? The above reforms to reduce cyclical divergence will help. In addition, the 2021 OECD Economic Survey of the European Union suggests policy recommendations in two main directions:

- Place-based policies, tailoring different sectoral policy interventions to region-specific circumstances, can help upgrading the productive specialisation of lagging regions. Cross-regional cooperation in

innovation and transport can play an essential role on this count, by for instance fostering capacity building in poorer regions and helping them gain better access to markets and a shorter travel time to thriving large cities.

- The European Union should also use more effectively Cohesion Policy and the Common Agricultural Policy (CAP) to support regional convergence. A stronger focus on innovation is needed: more cohesion funds should be devoted to R&D projects, and the CAP needs to promote generational renewal in agriculture. At the same time, these policies should not end up propping up inefficient firms or activities, which may happen, for instance, due to weak competition in public procurement.

References

Fontagné, L., and Freudenberg, M. (1999), "Endogenous symmetry of shocks in a monetary union", *Open economies review*, Vol. 10 Issues 3, p.p. 263-287.

Gill, I. S. and M. Raiser (2012), Golden growth: restoring the lustre of the European economic model: Overview (English). Europe and Central Asia Studies Washington, D.C.: World Bank Group. http://documents.worldbank.org/curated/en/723961468032339818/Overview

Mongelli, F. P., Reinhold, E., and Papadopoulos, G. (2016) "What's so Special About Specialisation in the Euro Area?" ECB Occasional Paper, No. 168, European Central Bank, Frankfurt.

OECD (2021), *OECD Economic Surveys: Euro Area 2021*, OECD Publishing, Paris. https://doi.org/10.1787/214e9f0a-en

OECD (2021), *OECD Economic Surveys: European Union 2021*, OECD Publishing, Paris. https://doi.org/10.1787/a77ab220-en

Europe must act now to prepare the aftermath of the pandemic crisis

Category: COVID-19,Euro Area,European Union,Uncategorized
written by oecdecoscope | July 3, 2025



by Laurence Boone, OECD Chief Economist and Alvaro S. Pereira, Director, Economics Department Country Studies Branch, OECD

We are currently facing extraordinary challenges posed by the Covid-19 pandemic, due to which necessary health measures are shutting down part of our economies and precipitating a recession of unprecedented nature and magnitude.

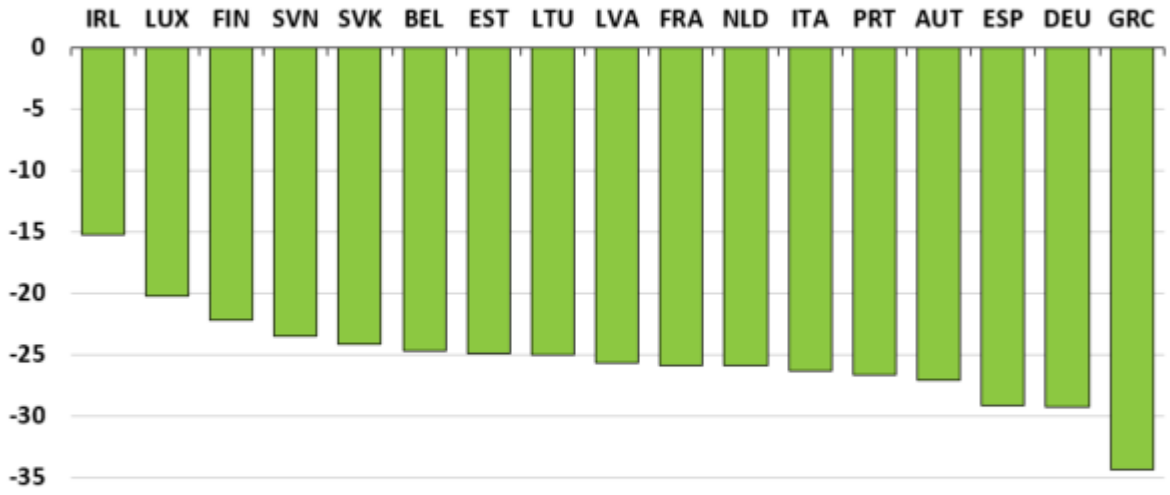
In the immediate response to the crisis, governments increased health spending, but also introduced large fiscal support (e.g. short-time working weeks, extended unemployment schemes, tax and social security deferments, new credit lines, among others, see **OECD Policy tracker**) in an attempt to mitigate the social and economic impact of the pandemic. In addition, in Europe, the ECB launched a large program of asset purchases and a set of other unprecedented measures, and the European Commission temporarily shut down budget rules and exceptionally lifted state aid rules.

Still, given the magnitude of the crisis that we are facing, these measures and packages, albeit important and

unprecedented, will not be enough for most European countries to address a post-pandemic world where debt levels will be much higher and the job losses tremendous. According to **OECD estimates**, the widespread shutdowns needed to contain the spread of the coronavirus and save lives will cause an estimated initial direct output decline of around 25% in many economies (Figure 1).This is equivalent to a contraction of about 2 percentage points of annual GDP per month of confinement. Thus, the 2020 output fall will far exceed that of 2009.

Figure 1 The potential initial impact of partial or complete shutdowns on activity in euro area countries[1]

In percent of GDP at constant prices[2]



1. Euro area countries that are also members of the OECD (17 countries).
2. The sectoral data are on an ISIC rev. 4 basis in all countries. The sectors included are manufacturing of transport equipment (ISIC V29-30), construction (VF), wholesale and retail trade (VG), air transport (V51), accommodation and food services (VI), real estate services excluding imputed rent (VL-V68A), professional service activities (VM), arts, entertainment and recreation (VR), and other service activities (VS). The latter two are grouped together as other personal services in the figure. Full shutdowns are assumed in transport manufacturing and other personal services; declines of one-half are assumed for output in construction and professional service activities; and declines of three-quarters are assumed in all the other output categories directly affected by shutdowns. Real estate services excluding imputed rent are assumed to be 40 per cent of total real estate services in countries in which separate data are not available.

Sources: OECD Annual National Accounts; OECD Trade in Value-Added database; and OECD calculations.

When the confinement is gradually withdrawn, European policymakers will have to do more to speed up the recovery and avoid massive unemployment and firm bankruptcies. The challenge will be significant: many euro area countries will have debt ratios above – and sometimes much above – 100% of GDP, and economic fundamentals will have been hurt. History shows that countries that invest in the recovery, rather than tighten too much too fast, not only accelerate the recovery,

but are also able to bring debt down faster. Too rapid fiscal tightening in some countries in 2010/2011 weakened the euro area and left it with long-term scars, including an incomplete restructuring of the banking and corporate sectors, higher structural unemployment, low investment and low inflation, and a failure to revive structural reforms agendas.

There is an important positive element in the current crisis: by committing to "do everything necessary within its mandate", the ECB has responded forcefully and much faster than in the previous crisis, contributing to and buying precious time for policymakers to work out a sustainable response to this symmetric shock.

Europe is building up a multi-pronged response to the crisis and the ensuing recovery, but some debate remains regarding the financial instruments that must be used for this purpose. The EIB is proposing substantial support to firms, and the Commission is proposing to support the unemployed, which seems to have met consensus. But the bulk of Europe's fiscal response to address the "war effort"-like recovery remains largely individual or national. Unlike in the recent financial crisis, this exogenous shock is shared across countries. The debate is made more complex by some perceptions that the uneven situation across countries is due to different levels of responsibility at the national level, especially regarding fiscal policy. It may be fair to say that much of the debt legacy prior to the crisis is indeed individual countries' responsibility. But this is not the case for the health and economic efforts resulting from the Covid-19 pandemic. Both **the widespread pandemic and the close integration of EU countries argue for a financial response that should be large and shared** . Such a response should be clearly differentiated from the stock of debt prior to the Covid-19 crisis.

It is imperative to bridge the gap between the existing options in the debate for a forceful response. Two options could provide the EU with the necessary fire power to address

this crisis: a new financial instrument featuring joint issuance, and the European Stability Mechanism (ESM). We start with the latter.

The ESM was created by euro area members to mobilise funding and provide financial assistance to countries threatened by or experiencing severe financing problems. Its use involves a rigorous analysis of public debt sustainability and strict policy conditionality, because these difficulties were perceived as resulting from past policies having led to poor economic performance. Obviously, these criteria do not apply in the current crisis. In particular, the strong conditionality attached to financial assistance seems totally inadequate when the crisis arises from a pandemic or a natural disaster. Some are suggesting light conditionality. However, this approach may not be acceptable to those countries that believe that strict conditionality is an explicit requirement for accessing its resources. In addition, the 410 billion euros in unused lending capacity (3.4% of 2019 euro area GDP) seems modest when compared to the needs of the euro area as a whole. In addition, the ESM currently relies on short-term credit facilities having an initial maturity of one year, and renewable twice, each time for six months. Therefore, ESM credit lines provide only limited relief against medium-term rollover risks, which makes it more of a bridge facility to overcome temporary fiscal distress pending a medium to long-term solution.

For all these reasons, as it currently stands, the ESM is ill suited to provide widespread fiscal support to euro area countries to counteract the economic fallout of the pandemic. **If the ESM is to play a significant role in the challenges posed by the current crisis, its firepower will have to be substantially upgraded, the conditionality requirements will have to be significantly watered down and replaced by an allocation usage condition** (namely, fund all pandemic-related spending).

An alternative is the creation of European financial instruments that mutualise a large part of the fiscal costs and financing of the crisis. More specifically, **the launch of one-off, ad-hoc European debt instruments should help finance fiscal needs at a relatively low cost for all euro area members and for the euro area as a whole**. This would have the advantage of not adding directly to the national debt numbers, provided such a feature is part of the original design. This approach demands that several conditions are met:

- Ensuring the one-off, temporary nature of the fund: the credibility of the one-off nature of the instrument would be enhanced by dedicating a targeted tax flow to its payment over a very long period, such as, for example, the model of the German solidarity tax after reunification. Long maturities should help ensure that repayments will be spread over generations and not hamper the recovery efforts.
- The spending would cover only Covid-related expenditures, to address health risks and the associated recovery from the exceptional shutdown. The instrument would be governed by the European Commission, and overseen by the European Parliamentt.
- The supra-national nature of the bonds would allow the ECB to purchase up to 50% of the issuance, while anchoring the fiscal commitment of euro area countries to the recovery .
- Such instrument would increase the fiscal space in countries more sensitive to borrowing costs and accelerate the recovery for all.

The crisis faced by Europe is extraordinary and requires extraordinary responses. It is also a unique opportunity for Europe, and in particular the EMU, to consolidate its economic and financial architecture, and to promote Europe as the engine of “shared prosperity”. A significantly reinforced and revamped ESM or a new financial instrument based on joint

issuance, as described above, would be possible vehicles to translate words into action. The ECB has bought European policymakers some precious time that they now have to use to devise a common approach.

Right here, right now: The quest for a more balanced policy mix

Category: Economic outlook,Euro Area,fiscal policy,monetary policy
written by oecdecoscope | July 3, 2025
Laurence Boone, Chief Economist, OECD and **Marco Buti**, Director General, DG Economic and Financial Affairs, European Commission

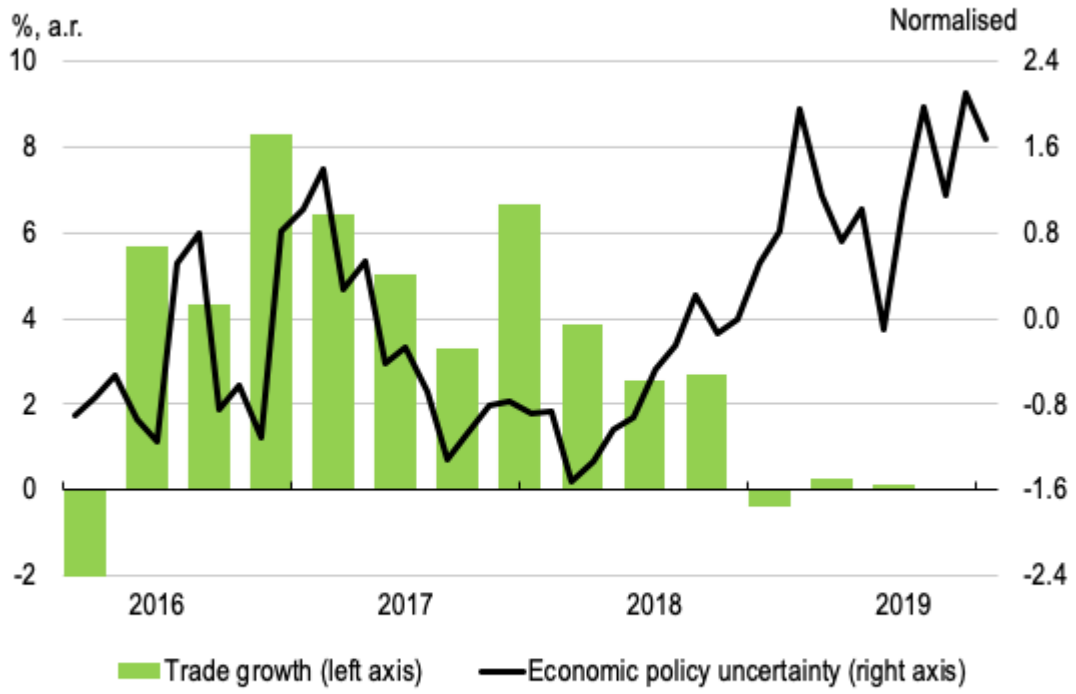
After years of solid growth, worldwide economic activity has slowed down sharply in 2019 while global trade has stalled. Policymakers have the difficult task of addressing the immediate policy challenges to support economic growth while also preparing our economies for the future. This column argues that while monetary policy is widely recognised as facing increasing constraints, fiscal policy and structural reforms need to play a stronger role. In particular, fiscal policy could become more supportive, notably in the euro area. Undertaking the right type of public investment now – in infrastructure, education or to mitigate climate change – would both stimulate our economies and contribute to making them stronger and more sustainable.

Over the past few years, economies in the OECD and in particular in the EU had been growing at cruising speed, after

having seemingly shrugged off the remains of the global financial crisis. The US is experiencing its longest bout of uninterrupted positive GDP growth on record. Similarly, despite lower growth performance, the EU has been growing for 25 quarters and its unemployment rate is now at its lowest since 2000.

Yet, worldwide growth has been decelerating sharply in 2019, dragged by a global trade and investment slump along with, in Europe and most notably in Germany, a steep drop in manufacturing activity. Recent indicators suggest that growth could weaken further (IMF 2019). Rising uncertainty has been driving this slowdown, as a result of increasing economic tensions between China and the US, geopolitical developments in the Middle East (with the associated risk of a sharp rise in oil prices), and the political deadlock over Brexit. The materialisation of these risks could put the world economy on a collision course. Even if they remain only looming threats, high and increasingly entrenched uncertainty is sufficient to put a brake on investment and growth.

Figure 1 Global trade growth and policy uncertainty



Note: Global uncertainty index normalised to 0 over the period

Source: www.policyuncertainty.com and OECD Economic Outlook database.

The impact of these tensions is exacerbated by a number of structural developments, in particular in Europe. The drop in potential growth, evident since the 2000s, has prompted concerns of 'secular stagnation' affecting the US and Europe. An important driver could be the slow diffusion of technologies: as Anzoategui et al (2019) argue, much of the slowdown in productivity after the recession can be attributed to lower technology adoption. In addition, demographic change is taking a toll on growth potential while the appetite for reforms has slowed.

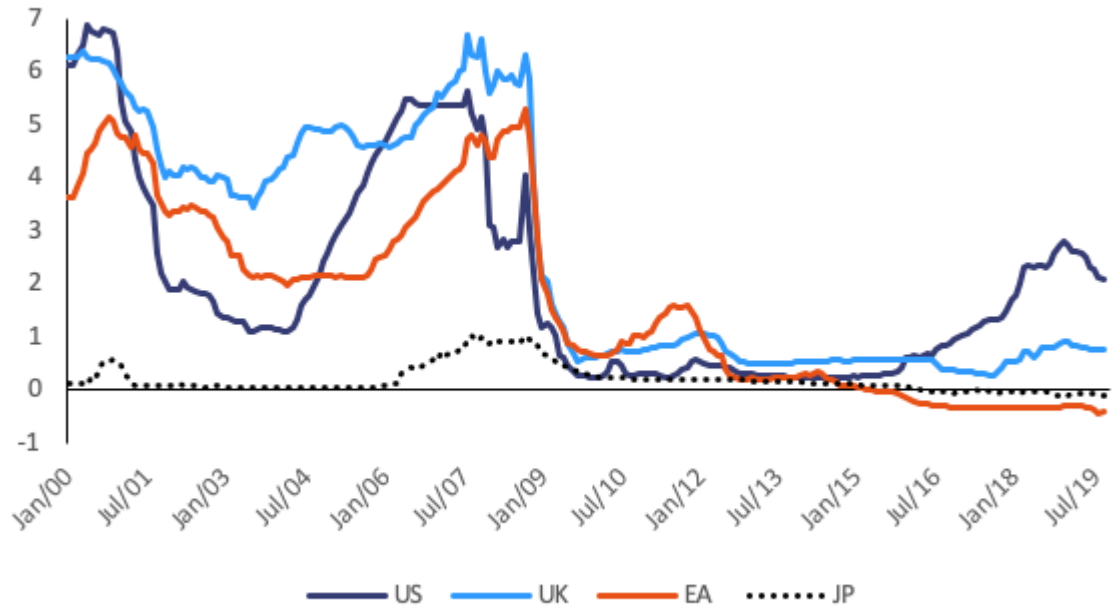
A better policy set-up is needed to lift economies back to growth

The conjunction of cyclical and structural impediments to growth calls for a review of the customary economic policy response to a deteriorating economic climate. Current inflation and policy rates, which are expected to remain at their low levels, suggest that ever more accommodative

monetary policy will not be enough to revive GDP growth. At the same time, nominal GDP growth rates being above interest rates paid on public debt for most countries, and set to remain there for long, increase the space for public investment.

Since the outset of the financial crisis, monetary policy has remained exceptionally accommodative, bringing interest rates close to zero (see Figure 2). In particular, the Fed continues to take expansionary measures, while the Bank of Japan maintains an extraordinary degree of monetary accommodation. Zooming in on the euro area, the ECB announced a fresh stimulus package in September as it cut the deposit rate further by 10 basis points and relaunched its quantitative easing (QE) programme, together with expanded forward guidance. However, monetary policy faces increasing constraints.

Figure 2 Three-month interbank interest rates (%)



Source: Bloomberg

The other policy instruments in the toolbox – both fiscal and structural – thus need to help. Together with the structural reforms needed to lift productivity durably, public investment could be put to use to halt the ongoing slowdown and prepare

the ground for stronger and more sustainable economies. In fact, the same factors that constrain monetary policy are a bonanza for fiscal policy, which jointly with structural reforms can lift growth in a sustainable way.

Fiscal interventions are more powerful when inflationary pressures are low and monetary policy is likely to accommodate fiscal expansions as long as inflation remains below target. The euro area as a whole has fiscal room to manoeuvre, even though the situation differs markedly across countries. But while the slowdown is becoming entrenched, under current plans, fiscal levers are not being activated: on average in the euro area, the fiscal stance is expected to be broadly neutral in the next two years.

At the same time, the appetite for reforms with potential to lift growth and employment in the longer term – such as easing barriers to entrepreneurship, improving and expanding training, and supporting R&D and technology adoption – has waned, as shown by the implementation of the Going for Growth recommendations (OECD 2019a) or EU country-specific recommendations. Yet, such reforms are needed to reverse the slowdown in productivity that started even before the crisis but was exacerbated by the hysteresis effects of the Great Recession on investment and skills. Structural reforms are also needed to make growth more environmentally sustainable, by aligning policies and regulation with the goal of transition to a low-carbon economy (OECD 2015).

In addition, reforms are easier to implement when accompanied by a supportive policy mix, while in times of faltering demand, structural reforms alone may weigh on inflation and already weak demand (Eggertsson et al. 2014). In effect, reforms introduced when the economy is weak have a better chance of succeeding when undertaken together with supportive macroeconomic policies and renewed public investment, and when they put more weight on measures that also boost demand in the short term, such as strengthening job search assistance and

training and improving the tax structure (Caldera Sanchez et al. 2016). Simulations on the euro area run by the OECD for its Economic Outlook illustrate how combining a temporary public investment push with productivity-enhancing reforms can help bring forward the long-term benefits of reforms (OECD 2019b,c).

There is a strong case for a more supportive fiscal policy in the euro area

In the euro area, the inadequacy of a policy mix relying exceedingly on the monetary policy pillar is becoming particularly obvious, as notably emphasised by the institution itself (Draghi 2019). Meanwhile, the 'reflationary' efforts conducted by the ECB are meeting increasing resistance both within and outside the institution.

Consequently, the usual arguments for relying mainly on automatic budgetary stabilisers and monetary policy when dealing with adverse shocks to the euro area may have to be reconsidered. In particular, modelling work done by the European Commission (In't Veld 2019) shows that when monetary policy is constrained by the zero-rate floor, fiscal stimulus has a stronger impact on growth in the short term and a more benign effect on the debt ratio in the long term.

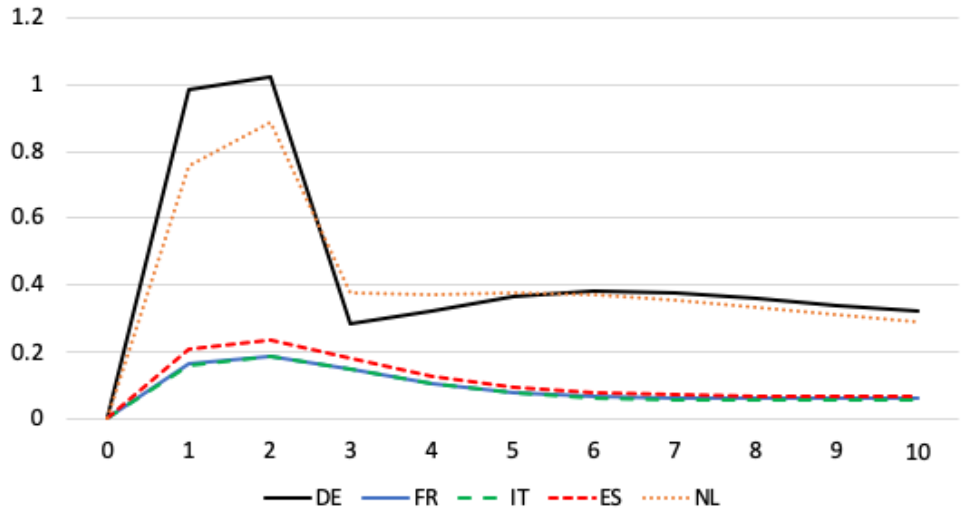
While the benefits of a more supportive fiscal policy already appear sizeable at the current juncture, depending on how events unfold, the failure to act could result in snowballing negative effects going much beyond those captured in the usual simulations. In particular, the lack of action may increase the risk of the economy moving to inferior equilibria where deteriorating expectations of growth, employment and price developments, as well as private sector balance sheet effects, may further add to the current downward spiral. In these circumstances, the costs of too little stimulus in a worsening economy are likely to outweigh the costs of too much stimulus

should a more favourable scenario materialise. The large compounded downward risks call for a risk-based approach to fiscal policy, with more pre-emptive rather than reactive policy action.

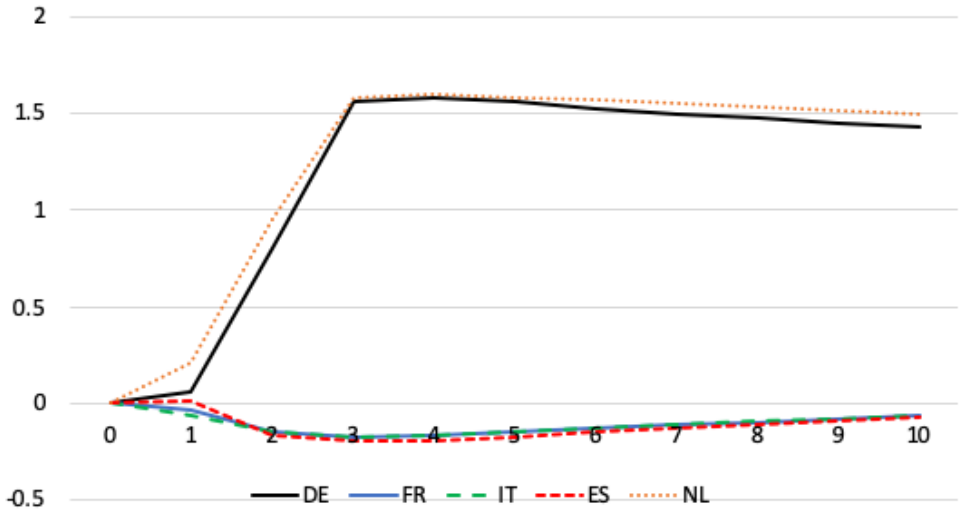
In absence of a common euro area budget, the current situation offers an opportunity for a truly coordinated approach to a supportive but differentiated fiscal stance in the 2020 budget plans. A more active role for fiscal policy in the policy mix would require differentiation between Member States with fiscal space and Member States with high debt, taking into account the divergent sustainability challenges. Furthermore, it is also important to improve the quality and composition of public finances, in particular boosting investment to ease the climate transition, and step up structural reforms.

Figure 3 Effects of differentiated fiscal expansion: Germany and the Netherlands

a) GDP



b) Debt-GDP ratio



Note: GDP effects as percentage difference and debt-GDP ratios as percentage-point difference from baseline for a 1% of GDP increase in public investment for two years in DE and NL. Default assumptions for debt profile: r^g =0 (i^g=2, π=2, g=1.7).

Source: In't Veld (2019)

Illustrative simulations with the Commission's QUEST model suggest that an increase in public investment of 1% of GDP for two years in Member States with fiscal space, with monetary policy at the zero lower bound, leads to GDP increases of around 1% during that period in the concerned Member States and slightly less for more open economies (Figure 3). In the medium run, even after the stimulus has been removed, output remains above the baseline due to productivity gains from higher investment. Spillovers to other euro area Member States

are modest at around 0.1-0.2% of GDP. The resulting effects of a temporary fiscal stimulus on debt to GDP ratios are benign, thanks to higher growth. In the Member States with fiscal space, the debt-to-GDP ratio would increase around by 1½ percentage points in the short run, fading out in the long run. A more persistent expansion in public investment in surplus countries, which would correct past cutbacks, would give a bigger boost to the euro area economy, with larger spillovers to other countries and still a manageable increase in debt ratios compared to the baseline scenario (In't Veld 2016). Where interest rates are negative, as is presently the case for most countries, the debt dynamics are even more favourable.

High fiscal multipliers and benign effects on debt developments rely on the nature of the fiscal impulse. Investment spending, which supports the economy's productive capacity and is time-limited in nature, has a stronger impact. A differentiated investment stimulus in line with the spirit of the EU fiscal framework would be most effective.

Now is the time to invest in stronger and more sustainable economies for the future

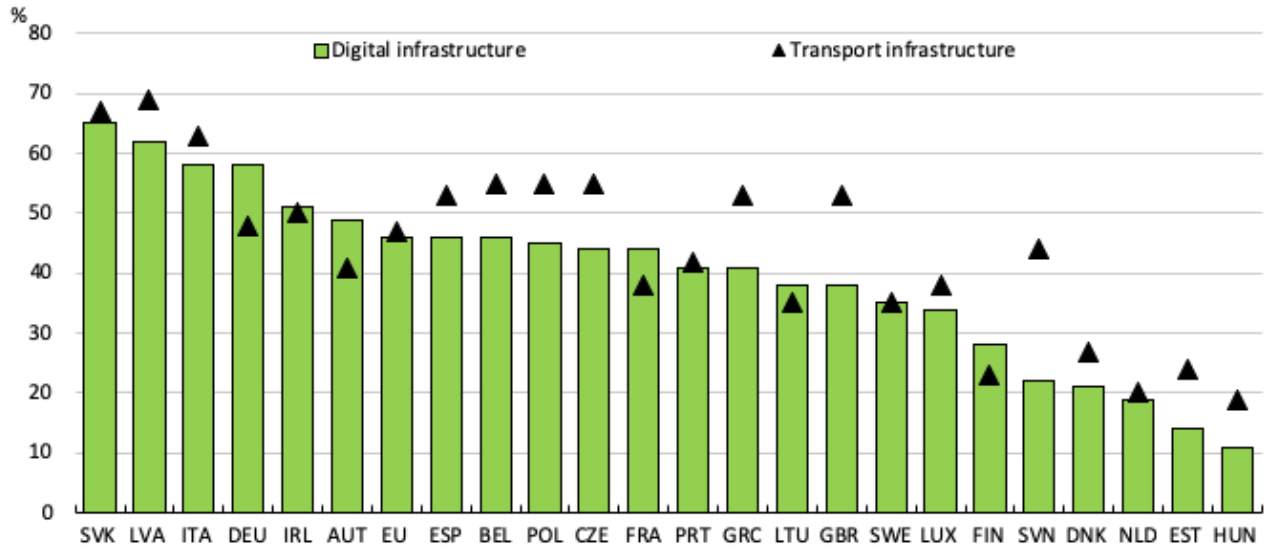
The case for a more active use of fiscal policy is not only rooted in the critical role it must play to drag weak economies out of the risk zone. The current situation also offers an opportunity not to be missed to address deep economic challenges and invest in the future. The low interest rates at which governments are borrowing, even at long maturities, mean that many of them can more easily undertake investments to raise long-term growth, sustainability and wellbeing without putting strain on public finances.

In the aftermath of the global financial crisis, governments often resorted to cuts in public investment to achieve fiscal consolidation in a way deemed less painful than raising taxes

or cutting social spending or the public sector wage bill. Throughout the post-crisis period, this shortfall in public investment has not been made up for. A decade of infrastructures that were not built or were not properly maintained has been taking its toll on productivity and growth potential. It risks turning into persistently missed chances to better connect people, firms and regions to opportunities.

Some countries, such as Germany, are in dire need of stronger investment. Across the EU, almost half of firms are held back in their investment decisions by the inadequacy of transport infrastructure, and the same number by the lack of access to digital infrastructure (Figure 4). High-speed networks are the backbone of a knowledge economy and a pre-condition for firms to innovate and thrive in the near future. Bridging the rural digital divide is also key to reduce regional disparities and improve social cohesion. Further investment in health, education and skills would also support a more durable and more inclusive growth.

Figure 4 Firms reporting that infrastructure is an obstacle to their investments (%)



Source: European Investment Bank Investment Survey, 2018.

At the same time, the need to invest in greening our economies is becoming ever more pressing, as delaying action will entail steeply rising costs of climate change mitigation (IPCC 2018).

The growing scale and reach of climate-motivated demonstrations and civil disobedience actions in recent months have given a political urgency to the issue. The energy transition will require more investments – and different investments than under the current trajectory – to decarbonise entire sectors starting with energy, industry and transport. In the EU, President-elect van der Leyen has announced a "Green Deal" to accelerate the transition towards achieving carbon neutrality by 2050 (van der Leyen 2019). Such an initiative could mobilise public and private resources to lift innovation and investment in low-carbon technologies and build more sustainable economies.

Authors' note: The authors are writing in their personal capacity and their opinions should not be attributed to the OECD or the European Commission. They would like to thank Dorothée Rouzet (OECD), Sven Langedijk and Nicolas Philiponnet (both European Commission) for their support and assistance on this column.

This post was previously released on 18 October 2019 on the VOX CEPR Policy Portal

References

Anzoategui D, D Comin, M Gertler and J Martinez (2019), "Endogenous Technology Adoption and R&D as Sources of Business Cycle Persistence," *American Economic Journal: Macroeconomics* 11(3): 67-110.

Caldera Sánchez, A, A de Serres and N Yashiro (2016), "Reforming in a difficult macroeconomic context: A review of the issues and recent literature", OECD Economics Department Working Paper No. 1297.

Draghi M (2019), Hearing at the Committee on Economic and Monetary Affairs of the European Parliament, Brussels, 23 September.

Eggertsson G, A Ferrero and A Raffo (2014), “Can structural reforms help Europe?”, *Journal of Monetary Economics* 61: 2-22.

European Investment Bank (2018), EIB Investment Survey.

IMF (2019), *World Economic Outlook 2019: Global Manufacturing Downturn, Rising Trade Barriers*, October.

In’t Veld, J. (2016), “Public Investment Stimulus in Surplus Countries and their Euro Area Spillovers”, Economic Brief N°16, European Economy.

In’t Veld, J. (2019), “Productive spending and public debt in a low interest rate environment”, mimeo.

IPCC (2018), *Global Warming of 1.5 ºC*.

OECD (2015), *Aligning Policies for a Low-carbon Economy*, OECD Publishing.

OECD (2019a), *Economic Policy Reforms 2019: Going for Growth*, OECD Publishing.

OECD (2019b), *OECD Economic Outlook*, Volume 2019 Issue 1, OECD Publishing.

OECD (2019c), *OECD Economic Outlook*, Interim Report September 2019, OECD Publishing.

Von der Leyen, U (2019), “A Union that strive for more – Political guidelines for the next European Commission 2019-2024”, European Commission.82

Do negative interest rates in the euro area hurt bank profitability?

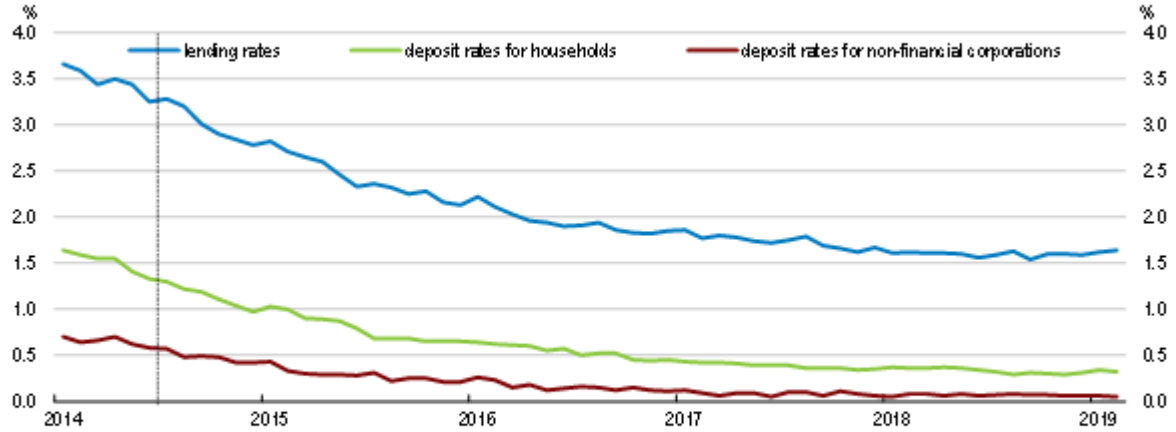
Category: Euro Area
written by oecdecoscope | July 3, 2025
Jan Stráský and Hyunjeong Hwang, OECD Economics Department

The recent decision of the European Central Bank (ECB) in September 2019 to lower the deposit rate from -0.4% to -0.5% triggered another round of criticisms in some countries about the negative impact of negative interest rates on banks' profits. This debate happened despite the fact that the ECB has introduced a two-tier system, which exempts part of the reserves held by the commercial banks from the negative deposit rate, highlighting the sensitivity of the issue. How damaging are actually negative interest rates to banks profits? We try to gauge this question in our recent paper Negative interest rates in the euro area: does it hurt banks?

The interaction between negative interest rates and banks' profit is complex

When policy interest rates turn negative, banks may protect their interest margins by not reducing lending rates in step with policy rates and by not reducing their deposit rates for corporate and individual depositors below zero, thus limiting depositors' incentive to switch to another bank or to cash. Indeed, the deposit rates in the euro area compressed by less than lending rates and remain well above zero (Figure 1). The deteriorating profitability, in particular over prolonged periods, could lower banks' ability to create capital from their profits and hence the ability to withstand risk and supply credit.

Figure 1. Lending rates and deposit rates of the euro area banks



Note: Lending rates mean MFI interest rates on new euro-denominated loans to non-financial corporations for loans between EUR 250,000 and EUR 1 million over three months and up to one year initial rate fixation. Deposit rates mean MFI interest rates on new euro-dominated deposits from euro area residents with an agreed maturity of up to one year. The vertical line denotes the time when the euro area policy rate turned negative.
Source: European Central Bank.

However, negative and declining policy interest rates bring additional loosening of monetary policy improving macroeconomic outlook and raising demand through revised consumers' and investors' plans. The resulting Increase in bank lending helps lift bank profitability. The overall effect is likely to differ from bank to bank, depending on their business model, their source of funding and other characteristics, such as the existing stock of non-performing loans and the state of demand for loans in bank's home market. As monetary policy rates decline more and more below zero, monetary policy could eventually reach a "reversal rate" where negative effects on bank profitability outweigh improvements from accommodative monetary policy on macroeconomic outlook and increased bank lending (Brunnermaier and Koby, 2019).

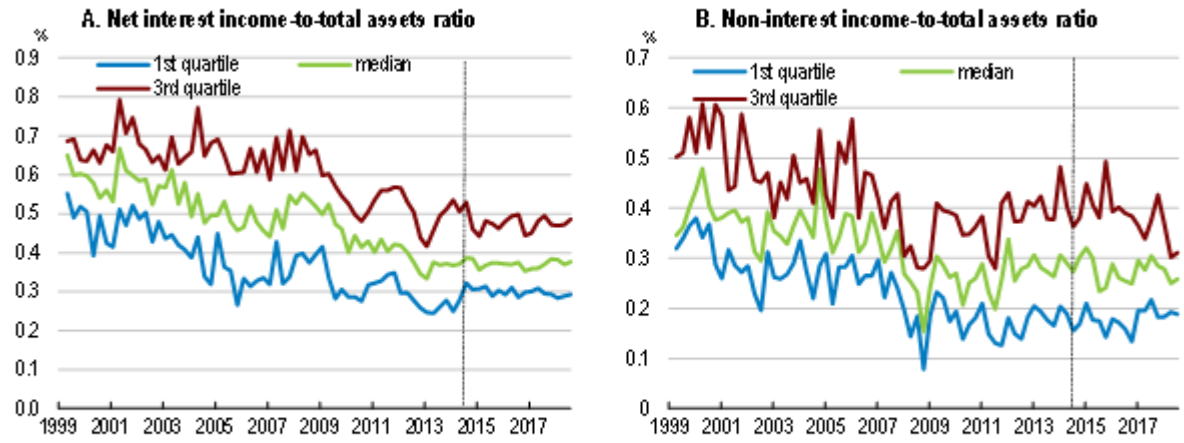
Estimated effects of negative rates on profitability do not indicate a significant impact

Since the various effects of negative interest rates on bank profitability are going in opposite directions, the overall effect has to be determined empirically. To do so, we use quarterly data on bank groups directly supervised by the ECB extracted from quarterly accounts reported in Bloomberg. As the data cover the period from 1999 to 2018, our study contributes to the literature by analysing separately, for the

first time to our knowledge, the period of negative interbank interest rates in the euro area that started in 2015.

While the banks seem able to preserve their net interest margins in the period of negative interest rates (Figure 2, panel A), the ability of the best performing banks to generate non-interest income seems to have deteriorated in comparison to other banks (Figure 2, panel B). However, since our data covers the period when negative interest rates were in place together with large-scale asset purchases, the econometric analysis combines the effects of all monetary policy measures.

Figure 2. Main components of bank profitability



Note: The vertical line denotes the time when the euro area policy rate turned negative.
Source: OECD calculations using Bloomberg data.

The econometric analysis confirms the effect of the interest rate level on bank profitability, suggesting that decreasing interest rates lead to decreasing bank profitability, and in some specifications also suggests an additional negative effect on profitability associated with the period of negative interest rates. However, the negative effects of bank profits are not robust and tend to disappear when we control for the link between policy interest rates and expected macroeconomic conditions, such as expected real GDP growth and CPI inflation. In line with some other studies, we also find weak evidence of possible negative effects from keeping rates low for an extended period of time. However, this finding is valid only for the rate of return on total assets and not for other measures of bank profitability, such as net interest income or

the provisioning needs.

Although we do not find consistent evidence of negative effects on bank profitability from the negative interest rate policy, possible negative effects may be associated with keeping rates low for an extended period of time. Measures preserving profitability at the bank level, such as cost cutting and mobilisation of the sources of non-interest income seem a prudent policy in this context.

References:

Brunnemeier, M. K. and Y. Koby (2019), "The reversal interest rate", unpublished manuscript, https://scholar.princeton.edu/sites/default/files/markus/files/25b_reversalrate.pdf

Stráský, J. and H. Hwang (2019), "Negative interest rates in the euro area: does it hurt banks?", OECD Economics Department Working Paper
no. 1574, https://doi.org/10.1787/d3227540-en

Global growth is weakening: coordinating on fiscal and structural policies can revive euro area growth

Category: Economic outlook,Euro Area,Forecast,Uncategorized
written by oecdecoscope | July 3, 2025
by Laurence Boone, OECD Chief Economist

The

global expansion is continuing to lose steam, and faster than anticipated a few months ago. Growth in Europe has been particularly disappointing, as trade growth both within the EU and with external partners has stalled. Business and consumer confidence has plummeted in advanced economies as trade tensions persist, high levels of policy uncertainty in Europe linger, and the pace of China's slowdown continues to raise concerns.

Global growth is projected to ease further from 3.6% in 2018 to 3.3% in 2019 and 3.4% in 2020 in our latest Interim Economic Outlook. It has been revised downwards in almost all G20 economies, with particularly large revisions in the euro area in both 2019 and 2020, driven by weakness in Germany and Italy, but also in the UK, Canada and Turkey. And the manufacturing sector seems to take a hit across the G20 on the back of trade tensions.

OECD Interim Economic Outlook Projections

Year-on-year, %. Arrows indicate the direction of revisions since November 2018.

	2018	2019	2020		2018	2019	2020
World	3.6	3.3 ↓	3.4 ↓	G20	3.8	3.5 ↓	3.7
Australia	2.9	2.7 ↓	2.5 ↓	Argentina	-2.5	-1.5 ↑	2.3
Canada	1.8	1.5 ↓	2.0 ↑	Brazil	1.1	1.9 ↓	2.4
Euro area	1.8	1.0 ↓	1.2 ↓	China	6.6	6.2 ↓	6.0
Germany	1.4	0.7 ↓	1.1 ↓	India[1]	7.0	7.2 ↓	7.3 ↓
France	1.5	1.3 ↓	1.3 ↓	Indonesia	5.2	5.2	5.1
Italy	0.8	-0.2 ↓	0.5 ↓	Mexico	2.1	2.0 ↓	2.3 ↓
Japan	0.7	0.8 ↓	0.7	Russia	2.3	1.4 ↓	1.5 ↓
Korea	2.7	2.6 ↓	2.6 ↓	Saudi Arabia	2.0	2.1 ↓	2.0 ↓
United Kingdom	1.4	0.8 ↓	0.9 ↓	South Africa	0.8	1.7 ↑	2.0 ↑
United States	2.9	2.6 ↓	2.2 ↑	Turkey	2.9	-1.8 ↓	3.2 ↑

Note: Difference in percentage points based on rounded figures. Dark red for downward revisions of 0.6 percentage points and more. Dark green and dark orange for, respectively, upward and downward revisions of 0.3 percentage points and more but less than 0.6 percentage points. Light green and light orange for, respectively, upward and downward revisions of less than 0.3 percentage points. The European Union is a full member of the G20, but the G20 aggregate only includes countries that are also members in their own right.
1. Fiscal years starting in April.

Some

factors are supporting growth, including easier financial conditions, with
major central banks having signalled a pause in monetary policy normalisation.
Also labour markets remain resilient for now, and wage growth is slowly picking
up, supporting household incomes and spending. However, worryingly, downside
risks continue to build up and growth could be much weaker if these risks were
to materialise.

Three major sources of risks are our main concerns.

First,
the continued uncertainty about trade policies remains a significant drag to
global investment, jobs and, ultimately, living standards. Even if the United
States and China conclude a trade agreement soon, we cannot exclude that other
measures will be implemented later in 2019, or that new restrictions will be
put in place in specific trade-sensitive sectors, such as cars. If the US imposed
tariffs on European cars, this would hit the European economies particularly
hard. Motor vehicle exports represent around 10% of total EU merchandise
exports to the United States and there are significant supply-chain linkages
within Europe that would spread the impact widely across countries and firms.

Second,
there is considerable uncertainty about the extent of China’s slowdown. The government has
put in place sizeable monetary and fiscal stimulus, including

tax cuts and infrastructure investment. However, the jury is still out regarding the effectiveness of these fiscal measures. Meanwhile, corporate sector indebtedness is at very high level, posing risks to financial stability.

China has significantly contributed to global growth for the past two decades, so that any sharper deceleration than expected would cascade to the rest of the world. Countries in East Asia, commodity exporters and Japan would be particularly hard hit by a sharp slowdown in Chinese demand growth. Reduced demand in China would also affect global confidence adding significantly to these costs, particularly in the advanced economies. Overall, taking direct trade and confidence effects into account, our simulations suggest that a decline of 2 percentage points in the growth rate of demand in China for two years would lower global GDP growth by over 0.5 percentage point in the first year already.

Third, in Europe further weakness coming from China, Germany, Italy or the United Kingdom could quickly spread to other European economies, given the importance of trade linkages across the EU: EU countries trade more between themselves than with the rest of the world, and very often goods or services are produced across several countries. In the euro area, where most credit to

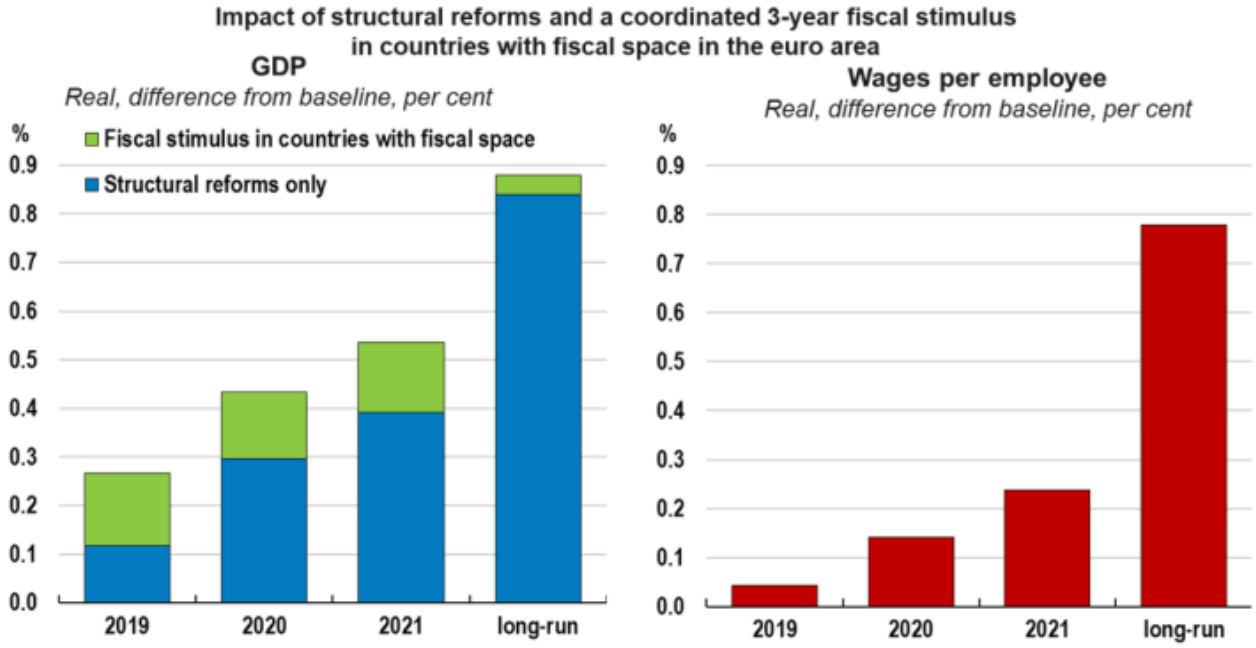
firms is distributed through banks, the weakness could be aggravated if sovereign yield increased, raising banks funding costs and in turn reducing credit supply, dampening investment and consumption, and ultimately jobs. Brexit is also an immediate downside risk. We have already seen a clear dent in the growth rate of investment in the UK since the Brexit referendum. And the costs of a no-deal would be significant. According to our estimates, it could amount to 2% of GDP for the United Kingdom by 2020 already.

One final risk is that a sharper-than-expected slowdown in global growth could trigger corporate bonds downgrades or even defaults. The outstanding stock of corporate bonds at the end of 2018 was twice that in 2008 in real terms (at USD 13 trillion), the quality of outstanding debt has continued to decline, and there are signs that corporate earnings growth has begun to slow. Significant bond repayments are also due in emerging-market economies in the next three years, especially in China.

In this environment, governments must intensify multilateral dialogue on trade, and in the euro area coordinate all levers of policy to avoid a sharper downturn.

Monetary policy normalisation has been on pause in the main advanced economies, and rightly so given rising uncertainty,

weaker growth prospects and contained inflation. But monetary policy can and should not act alone.



Note: The level of technical progress is gradually raised by 1% by the fifth year in all countries, and countries with fiscal space also increase government investment by 0.5% of GDP for three years. Euro area monetary policy is assumed to be set in a way that takes into account the eventual long-run improvement in output. Countries with fiscal space here include Germany, the Netherlands, Austria, Finland, Ireland, Slovak Republic, Slovenia, Estonia, Latvia, and Lithuania.
Source: OECD calculations.

Taking advantage of accommodative monetary conditions, euro area governments should coordinate fiscal and structural policies to revive growth both in the short and medium term. A moderate fiscal stimulus in countries that have fiscal space, targeted at public investment, would lift growth during the time it takes for structural reforms to deliver their full effect. On the structural front, there is ample scope for reforms to encourage innovation and business dynamism in Europe by streamlining permits and licenses, improving the transparency of regulation and reducing barriers to entry in network industries, professional services and retail sector. The co-ordinated fiscal and structural policy action would also benefit workers and give a necessary boost to wages. But more importantly, the coordinated action could lift confidence in governments' capacity to reap the full benefits of the euro area. Euro area governments would show, that by acting together they can lift growth and improve the lives of all.

This would demonstrate that Europe is stronger than its individual member states.

La Croissance est à son pic, la négociation d'un atterrissage en douceur s'annonce délicate

Category: Economic outlook,Euro Area,European Union,Posts in French,Uncategorized
written by oecdecoscope | July 3, 2025
Laurence Boone, Chef économiste de l'OCDE



L'économie mondiale traverse des zones de turbulences. La croissance du PIB mondial est élevée, mais a probablement atteint son pic. Dans de nombreux pays, le chômage est bien en dessous de ses niveaux d'avant-crise, les tensions sur l'emploi augmentent et l'inflation demeure modérée. Mais les échanges et l'investissement marquent le pas, sur fond de hausse de certains droits de douane. De nombreuses économies émergentes sont confrontées à des sorties de capitaux et ont vu s'affaiblir leur monnaie. L'économie mondiale paraît prête pour un atterrissage en douceur, avec une croissance du PIB mondial qui devrait passer de 3.7 % en 2018 à 3.5 % en 2019-20. Mais les risques s'accumulent et les gouvernements et banques centrales devront naviguer prudemment pour préserver des rythmes de croissance du PIB certes plus modestes, mais durables.

Négocier un atterrissage en douceur a toujours été délicat, mais l'exercice est particulièrement difficile aujourd'hui. Avec des banques centrales qui réduisent progressivement, et à juste titre, leurs injections de liquidités, les marchés ont commencé à revoir les prix des risques, la volatilité fait son retour, le prix de certains actifs baisse. Les flux de capitaux, qui ont contribué à l'expansion des économies de marché émergentes, s'inversent progressivement. Les tensions commerciales génèrent de l'incertitude et risquent de perturber les chaînes de valeur mondiales et l'investissement, plus spécialement dans les régions aux liens étroits avec les États-Unis et la Chine. Des incertitudes politiques et géopolitiques montent également en Europe et au Moyen-Orient.

Une accumulation de risques pourrait créer les conditions d'un atterrissage plus brutal que prévu. La recrudescence des tensions commerciales pourrait peser sur la croissance des échanges et du PIB, et générer encore plus d'incertitude pour l'investissement des entreprises. Le durcissement des conditions financières pourrait accélérer les sorties de capitaux en provenance des économies émergentes et faire reculer encore la demande. Un net ralentissement de l'activité en Chine frapperait non seulement les économies émergentes, mais aussi les économies avancées, si ce choc entraînait un repli des cours des actions et une augmentation des primes de risque dans le monde.

Les tensions politiques autres que commerciales augmentent aussi. Au Moyen-Orient et au Venezuela, les difficultés géopolitiques et politiques ont accru la volatilité des cours du pétrole. En Europe, les négociations autour du Brexit suscitent des inquiétudes. Dans certains pays de la zone euro, l'exposition des banques à la dette souveraine pourrait peser sur la croissance du crédit si les primes de risque devaient encore augmenter, ce qui ralentirait la consommation, l'investissement, la croissance et l'emploi.

Dans ce contexte, nous invitons instamment les responsables

politiques à rétablir la confiance dans les institutions internationales et dans le dialogue entre tous les pays. Notamment pour apporter une solution coopérative aux discussions sur les échanges commerciaux. L'adoption de mesures concrètes au niveau du G20 serait aussi un signal positif, démontrant que les pays peuvent agir de manière coordonnée et concertée si la croissance devait ralentir plus nettement que prévu.

La coopération est d'autant plus nécessaire que les marges de manœuvre de politique économique sont limitées. Dans certains pays, les taux sont très bas et la politique monétaire est encore très accommodante, alors que les ratios dette privée/PIB et dette publique/PIB se situent à des niveaux historiquement élevés. Le soutien budgétaire diminue, à juste titre, mais si la croissance devait ralentir plus brutalement, les pouvoirs publics devraient profiter de la faiblesse des taux d'intérêt pour s'engager dans une relance budgétaire coordonnée. Dans cette édition des *Perspectives économiques*, nous présentons des simulations qui montrent qu'une relance budgétaire coordonnée *au niveau mondial* serait un moyen efficace de réagir rapidement à un ralentissement plus marqué que prévu.

La fragilité de l'environnement rend d'autant plus important l'achèvement de l'Union monétaire européenne, comme suggéré dans la dernière *Étude économique de la zone euro* réalisée par l'OCDE. Il est urgent que l'Europe mène à son terme l'union bancaire. L'absence de progrès dans ce domaine n'incite pas les banques à réduire la part, toujours importante, d'obligations souveraines domestiques dans leur bilan, ce qui nourrit la perception du risque de redénomination. Progresser sur la mise en œuvre d'une capacité budgétaire commune aiderait aussi à accroître la confiance dans l'aptitude de la zone euro à réagir aux chocs, et à inscrire la croissance dans la durée.

Enfin, la reprise mondiale depuis la crise financière n'a pas

produit d'améliorations tangibles du niveau de vie pour un grand nombre de citoyens. Si la pauvreté absolue a fortement reculé dans un certain nombre d'économies émergentes, la crise a montré que les écarts de bien-être entre la partie de la population mobile et hautement qualifiée et la part, plus nombreuse, de personnes moins mobiles et souvent moins qualifiées, se sont creusés depuis plusieurs décennies dans de nombreuses économies avancées. Les écarts de revenu se perpétuent d'une génération à l'autre : trop souvent les perspectives d'avenir de chaque individu dépendent de l'endroit où il est né, où il a été scolarisé et où il a commencé à rechercher un emploi. Ces inégalités, l'absence de mobilité intergénérationnelle, menacent la croissance et alimentent le rejet de la mondialisation, qui a pourtant été vecteur de prospérité de nombreuses régions du monde.

Le ralentissement des gains de productivité dans de nombreuses économies bride la hausse des salaires réels mais même dans les entreprises très productives, la progression des salaires a été modeste. L'innovation technologique, qui tire vers le bas le prix relatif des investissements, renforce le pouvoir de marché des entreprises très productives. En même temps, la baisse du prix relatif des investissements peut entraîner une substitution du capital au travail, en particulier pour les emplois faiblement qualifiés et répétitifs, pour toutes les entreprises. Avec la diffusion du numérique, le fossé entre les emplois hautement qualifiés peu répétitifs et les emplois faiblement qualifiés répétitifs se creuse. Conjuguées à une redistribution moins poussée, ces tendances risquent d'aggraver les inégalités.

Les pouvoirs publics peuvent faire davantage pour favoriser l'augmentation de la productivité et des salaires. Renforcer la concurrence sur les marchés des produits permettrait de favoriser la croissance de nouvelles entreprises, d'encourager une diffusion plus large des nouvelles technologies, et de contribuer ainsi à une hausse des gains de productivité, mais

aussi de mieux répercuter les gains de productivité sur les salaires. Renforcer les compétences est également essentiel parce qu'une main-d'œuvre qualifiée est moins facile à remplacer par de nouvelles technologies. Des politiques actives du marché du travail et des politiques de formation axées sur les compétences sont aussi clés pour aider ceux qui courent le risque d'être exclus du marché du travail.

Certaines décisions des pouvoirs publics renforcent les vents contraires qui soufflent sur nos économies. Aujourd'hui plus que jamais, nous avons besoin de meilleures politiques, qui reposent sur la coopération, la confiance et l'ouverture, pour pouvoir créer des emplois, pérenniser la croissance et relever les niveaux de vie.

Éditorial extrait des Perspectives Économique de l'OCDE, Novembre 2018

References

OECD (2018), *Perspectives économiques de l'OCDE,* OECD Publishing, Paris.

Growth has peaked: Challenges in engineering a soft landing

Category: Economic outlook,Euro Area,European Union,Uncategorized
written by oecdecoscope | July 3, 2025
by Laurence Boone, OECD Chief Economist



The global economy is navigating rough seas. Global GDP growth is strong but has peaked. In many countries unemployment is well below pre-crisis levels, labour shortages are biting and inflation remains tepid. Yet, global trade and investment have been slowing on the back of increases in bilateral tariffs while many emerging market economies are experiencing capital outflows and a weakening of their currencies. The global economy looks set for a soft landing, with global GDP growth projected to slow from 3.7% in 2018 to 3.5% in 2019-20. However, downside risks abound and policy makers will have to steer their economies carefully towards sustainable, albeit slower, GDP growth.

Engineering soft landings has always been a delicate exercise and is especially challenging today. As central banks progressively, and appropriately, reduce their liquidity support, markets have started repricing risks as reflected by the return of volatility and the decline of some asset prices. Capital flows, which had fuelled the expansion of emerging market economies, have been reversing towards advanced economies and especially the United States. Trade tensions have heightened uncertainty for businesses and risk disrupting global value chains and investment, especially in regions tightly linked to the United States and China. Political and geopolitical uncertainty has increased in Europe and the Middle East.

An accumulation of risks could create the conditions for a harder-than-expected landing. First, further trade tensions would take a toll on trade and GDP growth, generating even more uncertainty for business plans and investment. Second, tightening financial conditions could accelerate capital outflows from emerging market economies and depress demand further. Third, a sharp slowdown in China would hit emerging market economies, but also advanced economies if the demand

shock in China triggered a significant decline in global equity prices and higher global risk premia.

Political tensions other than trade have also grown. In the Middle East and Venezuela, geopolitical and political challenges have translated into more volatile oil prices. In Europe, Brexit is an important source of political uncertainty. It is imperative that the European Union and the United Kingdom manage to strike a deal that maintains the closest possible relationship between the parties. In some euro area countries, the exposure of banks to their government debt could weigh on credit growth if risk premia were to increase further, with dampening effects on consumption, investment, GDP growth, and ultimately jobs.

Against this backdrop, we urge policymakers to restore confidence in international dialogue and institutions. This would help strengthen trade discussions in order to tackle critical new issues and to address concerns with the rules and processes of the existing trading system. Concrete action at the G20 level will send a positive signal and help demonstrate that countries can act in a coordinated and cooperative fashion should growth slow more sharply than envisaged.

It is all the more important to cooperate now that policymakers have limited margins for manoeuvre in case of an abrupt slowdown. In some countries, monetary policy is still very accommodative, while public and private debt-to-GDP ratios are historically high. Fiscal stimulus will be scaled back, which is appropriate. But in the event of a downturn, governments should leverage low interest rates to coordinate a fiscal stimulus. In this Economic Outlook, we report simulations showing that a coordinated fiscal stimulus at the global level would be an effective means of quickly responding to a sharper-than-expected global slowdown.

The fragile environment heightens the importance of completing European Monetary Union, as suggested in the latest OECD

Economic Survey of the Euro Area. It is urgent for Europe to complete the banking union. The lack of progress has led to higher domestic sovereign debt holdings by banks in some countries, magnifying hazards and maintaining the redenomination risk that undermines confidence. Progress towards establishing a common fiscal capacity would help maintain confidence in the ability of the euro area to react to shocks and sustain growth.

The global recovery since the financial crisis has not led to tangible improvements in the standards of living of many people. While absolute poverty has plummeted in a number of emerging market economies, the crisis exposed decades of widening well-being gaps between the higher-skilled mobile part of the population and a larger number of less mobile, often less-skilled people in many advanced economies. Income gaps pass from one generation to the next: one's future prospects are framed by where one is born, educated and starts looking for a job. These entrenched inequalities threaten growth, intergenerational mobility, and fuel discontent with the integrated global economy, which has brought prosperity across large parts of the world.

The general slowdown in productivity growth in many economies constrains real wage growth. But even in highly productive firms, wage growth has been more sluggish than expected, a result in part of technology driving down investment prices. This can prompt substitution of labour by capital, particularly for low-skilled, high-routine jobs. As digitalisation deepens, the divide between high-skill, low-routine jobs and low-skill, highroutine work risks widening. In addition, slower business dynamics preserve firms which are less productive and accordingly are less able to increase wages.Together with declining redistribution, this trend risks fuelling inequalities.

Governments can do more to foster higher productivity and wages. Strengthening product market competition would not only

favour wider diffusion of new technologies, thereby raising productivity growth, but also help transfer productivity gains to wages. Investment in skills can help workers seize the gains from technological progress as higher-skilled labour is less easily replaced by new technologies. Effective active labour market and skills training policies can help those at risk of being excluded from the labour market.

Certain policy decisions are exacerbating many of the headwinds faced by our economies. Better policies, built on greater trust and openness, are needed now more than ever in order to create jobs, sustain growth and raise living standards.

Editorial from the November 2018 edition of the Economic Outlook

References:

OECD (2018), *OECD Economic Outlook, Volume 2018 Issue 2: Preliminary version*, OECD Publishing, Paris, https://doi.org/10.1787/eco_outlook-v2018-2-en.