

Stablecoins on the rise: A risk for financial stability?

Category: Digitalisation,Uncategorized
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By Caroline Roulet, OECD Economics Department.

Stablecoins are a type of crypto-asset designed to maintain a stable value by anchoring to a reference asset (often US Treasury bills). They offer convertibility on demand at par, and fee-free, immediate and pseudonymous transactions, making them an attractive means of payment, especially across borders. The market value of stablecoins has risen rapidly, with two issuers that mainly rely on USD-denominated collateral accounting for almost 90% of the global market capitalisation (Figure 1). Stablecoins are still only a small part of financial markets, but as they expand and become more intertwined with traditional finance they pose non-negligible risks to financial stability and important challenges for financial regulation and monetary policy.

As discussed in the latest OECD Economic Outlook the total value of payments using stablecoins surpassed that of major traditional digital payment providers in 2024-25 (Figure 2, Panel A). Currently, stablecoins are mainly used to settle trades in other crypto-assets, and now account for around 80% of all trades on crypto-asset platforms (ECB, 2025), although usage for other payments by corporates and households has

begun to rise.

Though less risky than crypto-assets as a whole, some stablecoins have experienced significant price volatility, particularly those that are not fiat-collateralised (i.e. not fully backed by assets denominated in currency terms, such as US Treasury bills or bank deposits). Fiat-collateralised stablecoins have been much more stable, but still often deviate from par in secondary markets (Aldasoro et al, 2025). In contrast to the majority of bank deposits, stablecoins are typically uninsured. Variation in the value of their backing assets (and subsequent deviations of stablecoins' market value from their original face value) can therefore prompt holders to request redemptions, with ensuing risks of liquidity shortages and fire sales of collateral.

The expansion of stablecoins raises financial stability risks. One concern is the potential effects on the pricing and operation of segments of critical funding markets, such as sovereign debt markets (Aldasoro et al., 2025), as stablecoin issuers are now major holders of US Treasury bills (Figure 2, Panel B). Investor inflows into stablecoins and asset sales to meet redemptions could thus affect short-term bond yields and hence monetary policy transmission. Stablecoin issuers' generation of additional income through reverse repos (lending securities to traditional financial intermediaries who then pledge them as collateral) may also add to potential strains on repo market liquidity at times of stress.

Figure 2. Stablecoin transactions are expanding and holdings of US Treasury bills are sizeable

Note: In Panel A, Visa and Mastercard payments primarily reflect settlements for goods and services, while stablecoins have been primarily used so far to settle trades in other crypto-assets. Payments data (Gross Dollar Volume, GVD) for

Mastercard in 2025 is available through Q3, with Q4 estimated using the average GDV from the first three quarters. Panel B reports holdings of US T-bills by selected domestic and foreign holders and major stablecoins issuers (Tether and USD Coin) as of 2025 Q3.

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

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

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

Many countries have begun to develop tailored regulations relating to stablecoins, and crypto-assets more generally. Prominent recent examples include the GENIUS Act in the United States (Guiding and Establishing National Innovation for U.S. Stablecoins Act, enacted in July 2025) and the MiCA (Markets in Crypto-Assets) Regulation in the European Union, which became effective from December 2024. However, regulatory

approaches differ across countries and significant gaps and inconsistencies remain (FSB, 2025). The limited oversight of cross-border transactions is a key challenge, potentially hampering responses to systemic risks and encouraging regulatory arbitrage. The rapid growth of the stablecoin market, and the impact stablecoin usage may have on other asset markets, highlights the need for enhanced international cooperation to ensure effective regulation, supervision, and oversight of stablecoins in all jurisdictions.

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Powering competitiveness:

Europe's path to energy security and growth

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by Ruben Maximiano and Wouter Meester, OECD Economics Department.

Europe's competitiveness is increasingly linked to the availability of secure, affordable and reliable electricity. As electrification accelerates across industry, transport, heating and digital services, including AI data centres, power has become a strategic input to growth, investment and innovation, a point also underscored by the 2024 Draghi report. However, as outlined in a recent OECD report *Diagnostic Tool for Reducing Regulatory Barriers to Solar, Wind and Pumped Hydro Storage in the EU*, five key types of regulatory barriers slow the deployment of these technologies in Europe. This results in significant opportunity costs, especially in the European Union, where high import dependence exposes firms and households to price volatility, supply shock and higher prices.

The 2021–22 energy crisis laid bare this vulnerability: the EU's energy import bill surged from EUR 137 billion in 2020 to nearly EUR 549 billion in 2022. Even after prices eased, the 2023 import bill remained well above historical levels.

Why the electricity system is changing and why rules matter

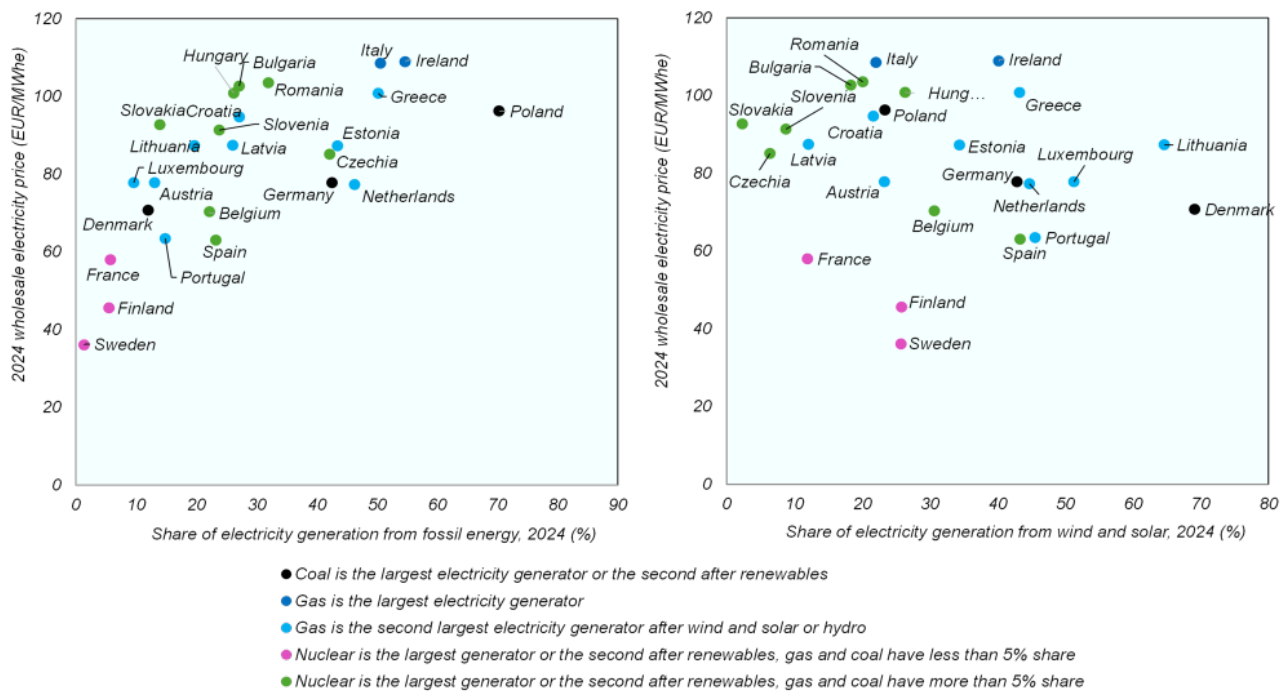
At the same time, Europe's power system is being reshaped by

technologies with fundamentally different system characteristics, including variable renewables, storage, demand-side response and digital controls. These resources increase the need for flexibility, real-time coordination across grids and more granular planning, particularly as new electricity-intensive loads, such as data centres, concentrate demand in specific locations. This transformation exposes the limits of regulatory frameworks designed for a centralised, thermal-based system. Ensuring the EU's energy security, including by delivering its new energy mix, depends on fit-for-purpose regulation as much as on physical infrastructure.

Competitiveness increasingly depends on affordable, “always-on” electricity

In addressing its energy security, Europe has already made important progress. Since Russia's invasion of Ukraine, renewable energy has expanded substantially, helping to cushion price shocks (see Figure 1). Evidence suggests that EU countries with higher shares of wind and solar in their electricity mix tend to exhibit lower wholesale prices on average (Figure 2), reflecting the declining technology costs and the downward pressure renewables place on marginal pricing. Moreover, recent system-level modelling by WindEurope shows that, even once the additional cost of grids, storage and backup capacity are taken into account, a renewables-led pathway is the lowest-cost option for Europe's power system.

Figure 2. Relationship between the average wholesale electricity prices and the share of electricity generation from wind and solar in EU Member States, 2024



Source: OECD calculations based on Ember Yearly and Hourly Electricity Data

Yet the next wave of electrification will put (even greater) pressure on the EU's electricity system. For example, in the EU, demand from data centres could rise from around 96 TWh in 2024 to about 236 TWh by 2035, increasing their share of total electricity use from 1.5% to nearly 6%.

Energy system upgrades require regulatory upgrades – and a tool to help deliver them

This increasing electrification, with more decentralised generation, new flexibility technologies and large, concentrated loads such as data centres, requires regulatory frameworks that are aligned with these new system characteristics.

In this context, regulation increasingly functions like infrastructure itself: it must be planned ahead of need, operate reliably, and remain aligned with system needs. Outdated or fragmented rules quickly become binding constraints on investment, adding years to project timelines and raising costs. As such, modernising and simplifying

regulatory frameworks have become a strategic lever of energy security and competitiveness.

Recent EU legislation, including the Renewable Energy Directive III, provides an important foundation. Implementation at national level, however, will determine whether projects proceed from pipeline to operation.

Across EU Member States, five recurring regulatory barriers consistently slow deployment and undermine system efficiency:

First, unclear or restrictive legal frameworks create uncertainty and deter market entry, particularly for newer solutions. Where rights and permitted uses have been clarified – such as enabling dual land use for both agriculture and PV solar in France and Italy – deployment has accelerated; where ambiguity persists, projects stall.

Second, insufficient remuneration for new system services limits investment, for instance in flexibility. Many frameworks still do not reward services such as inertia or fast frequency response on a standalone basis, despite their growing importance for system stability. Ireland's recent market reforms to remunerate these ancillary services illustrate how rule changes can unlock these services.

Third, infrequent and inefficient spatial planning and permitting remain a major drag on investment. Complex, sequential procedures involving multiple authorities often result in long timelines distorting siting decisions and raising financing costs. Where procedures have been simplified, impacts have been immediate and significant: reform to grid-permitting rules in Germany have enabled the Federal Network Agency (BNetzA) to approve roughly four times more transmission-line kilometres in 2024–25 than in previous years (see figure 3).

Fourth, outdated grid-connection rules create artificial bottlenecks. First-come, first-served queues allow speculative

projects to hold capacity delaying viable investments. Sweden's readiness-based connection rules show how prioritisation can improve outcomes without new infrastructure.

Finally, grid-investment frameworks still contain structural disincentives that limit system optimisation. Regulation often favours capital-intensive network expansion while constraining anticipatory investment, flexibility procurement, and digital solutions. In some Member States, system operators cannot recover the costs for non-wire alternatives, even when these are faster and cheaper than traditional reinforcement.

These barriers can add years to project timelines and increase financing costs. They affect not only renewable developers but also energy-intensive industries, such as AI infrastructure and advanced manufacturing, that require stable, low-cost electricity to remain competitive.

To address these barriers systematically, the OECD has developed the *Diagnostic Tool for Reducing Regulatory Barriers to Solar, Wind and Pumped Hydro Storage in the EU* for the European Commission. The Tool helps policymakers at national and sub-national levels identify where rules are misaligned with system needs, prioritise reforms, and coordinate implementation – providing a practical roadmap for accelerating electrification while strengthening both energy security and competitiveness.

With clear rules, coordinated planning and tools such as the OECD Diagnostic Tool, the EU can move from energy dependence toward electric resilience – strengthening both economic competitiveness and energy security.

***We will be launching the Diagnostic Tool on 29th January. You may register here.**

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Time for a regulatory reset? Clearing the path for productivity and dynamism

Category: Uncategorized

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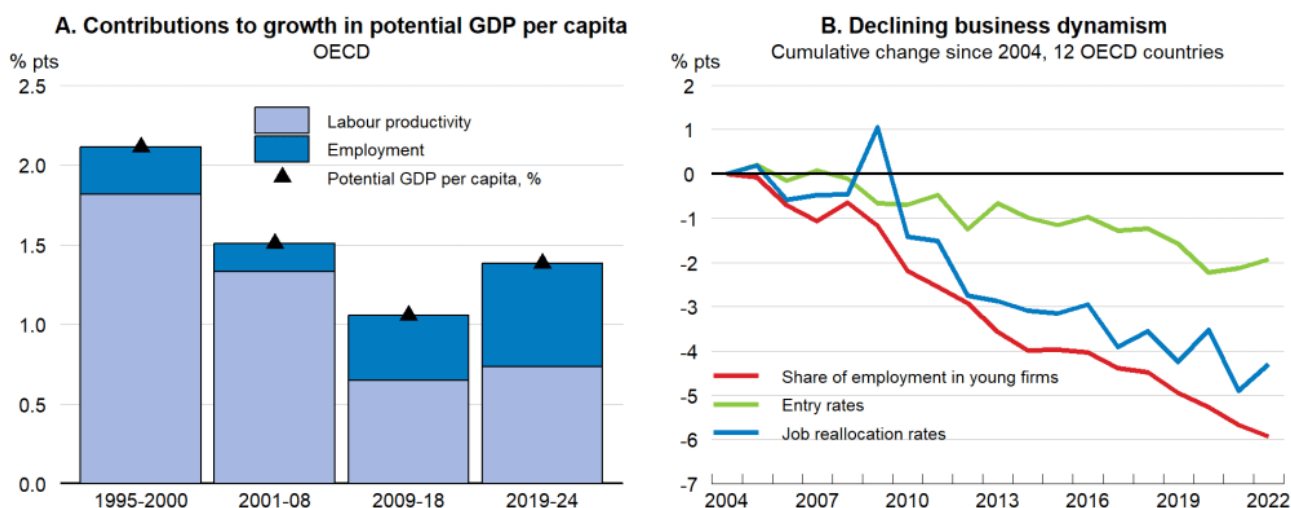


By Dan Andrews, Joana Duran-Franch and Sébastien Turban, OECD Economics Department.

Over recent years, governments across the OECD have expressed concerns that “red tape” is hampering economic activity. Concerns that have been supported by the recent OECD Simplifying for Success survey, in which business organisations report that regulatory requirements and compliance now stand as the most significant challenge for firms, ahead of difficulties in finding workers with the right skills, tax pressures, or geopolitical instability. And crucially, firms perceive that the regulatory burden is mounting over time.

The latest OECD Economic Outlook, in its thematic chapter *Time for a Regulatory Reset?* (OECD, 2025a), confirms that this is more than a feeling – and that it matters for growth. Labour productivity growth has slowed across most OECD countries since the late 1990s, due to weak business investment (OECD, 2025b) and diminished economic dynamism, which reflects the declining likelihood of new firms to enter and scale-up, workers to change jobs and scarce resources to be reallocated towards more productive firms (Figure 1). Some of this is due to benign forces such as ageing populations or the rise of firm-specific human capital in an intangible-driven economy. But growing regulatory frictions are also part of the story.

Figure 1. Productivity and economic dynamism have slowed down in the last 20 years



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

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

While regulation is essential, the way we regulate matters for growth and dynamism

Regulations are indispensable for correcting market failures, protecting health and safety, safeguarding the environment and addressing distributional concerns. The question is whether these objectives can be met with fewer distortions and lower compliance costs – freeing up talent and capital for innovation and growth. And there is good reason to believe they can.

The growing regulatory environment has absorbed scarce labour resources

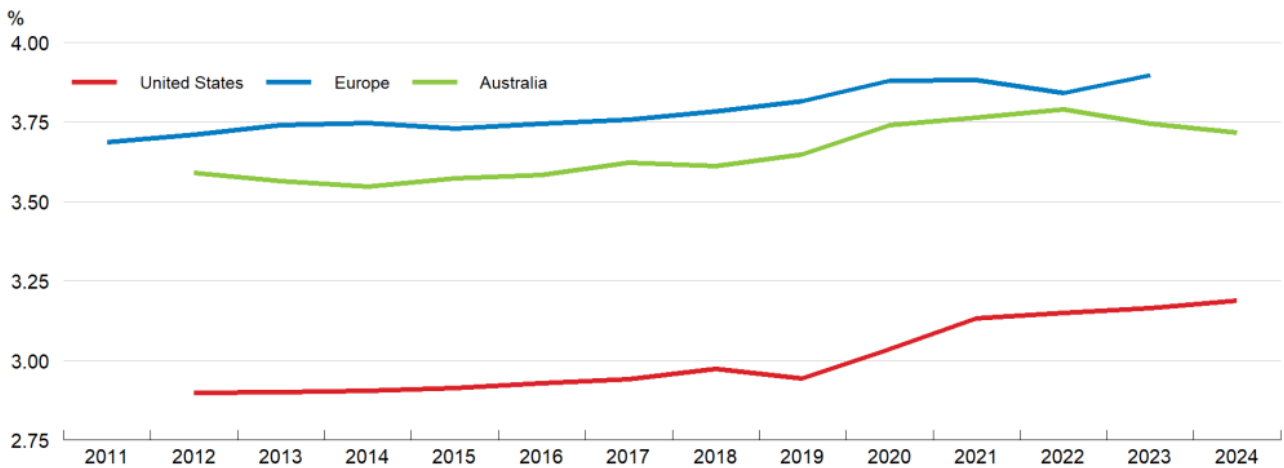
A central contribution of the chapter is to develop a new task-based measure of the real resources used to comply with regulation, as in Trebbi and Zhang (2022) and Trebbi, Zhang and Simkovic (2023). The idea is simple: most jobs include some tasks that are linked to regulation compliance – completing forms, reporting, audits, inspections, ensuring legal or standards compliance, and so on. By identifying these tasks across occupations, we estimate the share of wages and employment devoted to regulatory compliance in OECD countries for which data are available.

These new measures show that resources devoted to regulatory compliance are significant and growing (Figure 2): In Europe, regulatory tasks accounted for an average of 3.9% of total

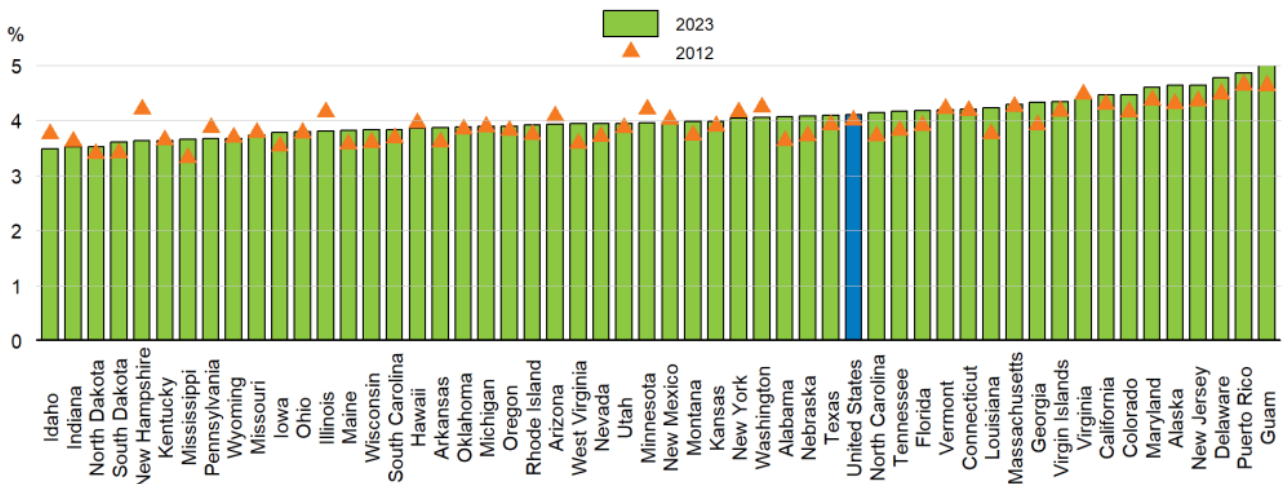
employment in 2023, up from 3.7% in 2011. This share is higher than in Australia – where the increase has also been smaller over the same period – and notably higher than in the United States, where regulatory tasks account for 3.2% of total employment. In 2024, an estimated 4.2% of the US wage bill was spent on regulation-related tasks (up from 4.0% in 2012), equivalent to around USD 521 billion or 1.8% of GDP. But there is considerable variation across US states, ranging from 3.5% in Idaho to closer to 5% in some states such as New Jersey.

Figure 2. The share of employment devoted to regulatory tasks has risen in selected OECD countries

A. Share of employment



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



Note: In Panel A, the index represents the employment-weighted sum of occupations' regulation task intensity scores in the three regions. "Europe" refers to the average score of EU countries except Bulgaria, Malta, and Slovenia, and includes the United Kingdom (data available up to 2019), Iceland, Norway, and Switzerland. In Panel B, the index represents a similar, wage-weighted sum. The US unweighted average is in blue. The values for the District of Columbia are not displayed, for readability: the numbers were 7.8% in 2012 and 7.5% in 2023.

Source: Andrews, Turban and Tyros (forthcoming).

When more rules mean less dynamism

Using variation within US states over time, we find that higher regulatory compliance costs are linked to workers producing less per hour and to new businesses making up a smaller share of employment. In detail, long-difference regressions for US states over 2012–2023 show that the average increase in compliance costs is associated with roughly 0.5% lower labour productivity and a 0.4 percentage point drop in the employment share of young firms. The estimates also suggest the effects build up gradually over time. These results are consistent with a growing body of evidence linking regulatory accumulation to slower GDP and productivity growth in the United States, Europe and Australia (Coffey, McLaughlin and Peretto, 2020; Dawson and Seater, 2013; McLaughlin and Wong, 2024; Pellegrino and Zheng, 2023).

Calling for a regulatory reset: Smarter rules for stronger growth

Against this backdrop, the chapter outlines a plan for a "regulatory reset". While the specific recommendations vary by country – as highlighted by Chapter 3 of the Economic Outlook and explained in a recent blogpost – a clear common message emerges: this is not about deregulating across the board, but

about regulating in a smarter, more dynamic way. The chapter identifies five priorities that governments can act on today:

1. **Simplify and manage regulations systematically.** Use non-regulatory tools where appropriate and make regulatory governance more agile and evidence-based. A key step includes managing the stock of regulations through systematic reviews, which currently occur in fewer than one-third of OECD countries (OECD, 2020; OECD, 2025d). Increasing legal certainty and predictability is necessary too: frequent changes, complex drafting, and inconsistent enforcement remain among the top complaints from businesses in the OECD Simplifying for Success surveys.
2. **Make product and labour market regulations more dynamism-friendly.** Pro-competitive product market regulation remains a powerful lever for growth, especially in services. Recent OECD evidence suggests that the slowdown in deregulation in network sectors – like energy, transport, and communications – explains up to one-sixth of the post-2005 productivity slowdown. At the same time, easing product market regulations in retail trade and professional services could boost labour productivity significantly. That said, not all regulation harms dynamism and targeted rules can actually enhance it, for example, by addressing the excessive use of non-compete clauses or tightening safeguards against excessive lobbying.
3. **Redesign housing regulation to promote affordability and mobility.** Restrictive planning and rental regulations can depress residential construction, push up rents and house prices over time, and reduce labour mobility by locking in tenants. The chapter argues for simpler, more flexible land-use and spatial planning, with fewer barriers to densification and better co-ordination across levels of government, and a gradual phasing-out

of strict rent controls.

4. **Regulatory frameworks should harness the productivity benefits of digitalisation and AI.** Large-scale AI adoption relies on tangible infrastructure and intangible assets, both shaped by regulation – from data protection and consumer rules to competition and trade policy. The key regulatory challenge is striking the right balance: protecting data without stifling innovation, avoiding fragmented or overlapping rules that raise uncertainty and compliance costs, and ensuring competition and openness in AI markets.
5. **Confront regulatory barriers to energy abundance.** As electrification accelerates and AI and data centres push up power demand, renewables have become some of the cheapest sources of new generation. Yet regulatory barriers are slowing investment and deployment (OECD, 2025c). Where these bottlenecks have been tackled – for example through emergency permitting reforms in parts of Europe – renewable deployment has accelerated markedly. The chapter argues for modernising energy regulation to align with decentralised, flexible systems and to make permitting, grid access and remuneration more transparent and predictable.

The bottom line: done well, a regulatory reset can revive economic dynamism and unlock productivity growth, while still delivering on societies' environmental, social and safety objectives. We should not always regulate less, but we must regulate better.

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Uncertainty: A persistent drag on trade

Category: Uncategorized

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By Catherine MacLeod and Elena Rusticelli, OECD Economics Department.

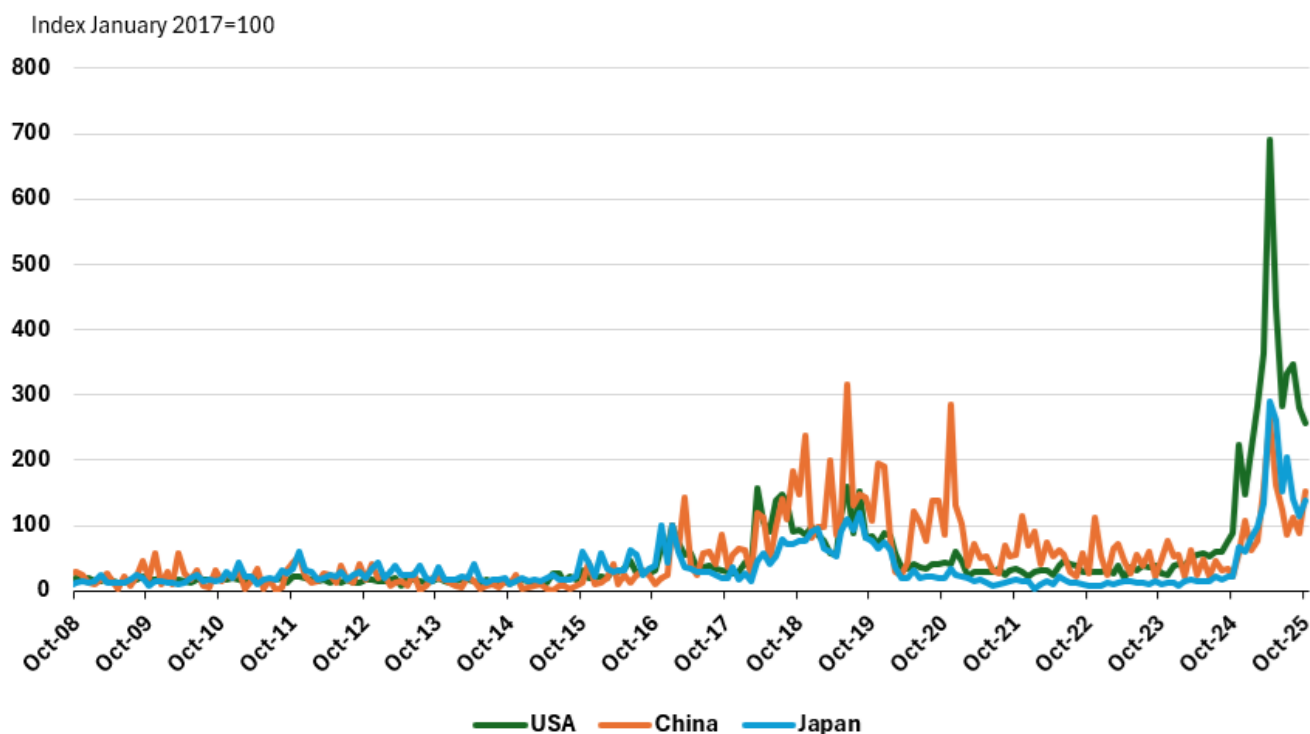
Global trade growth has been surprisingly robust in 2025, boosted by strong demand in new AI-related investment and intense front-loading of activity ahead of new tariff increases, as shown in the latest OECD Economic Outlook. However, at the same time, trade policy uncertainty has risen and without concerted efforts to mitigate it, trade growth may be much lower than otherwise over the next three years.

Uncertainty about trade policy has risen markedly recently, with a peak in April following the announced increase in US bilateral tariffs on all its trading partners that month. Although uncertainty has subsequently drifted lower, it still remains elevated by past standards in many countries (Figure 1).

It is likely that trade policy uncertainty will decrease international trade. Prolonged economic uncertainty is already known to discourage long-term investment (OECD, 2025b) and cause households to delay consumption. Several studies have shown a sizeable decrease in international trade in the nine to 12 months period following a trade policy uncertainty episode (Caldara et al., 2019; Sampognaro, 2025). Nonetheless, in the very short term, uncertainty could provide an incentive for firms to increase imports immediately before anticipated, though unpredictable, costly policy changes. This was a factor behind the 38% annualised rise in US imports in the first quarter of 2025 (OECD, 2025a).

Figure 1. Uncertainty around trade policy remains globally high

Trade policy uncertainty indices



Note: All series shown until October 2025.

Source: Caldara, et al. (2019); Arbatli, et al. (2022); Davis, et al. (2019).

Persistent uncertainty will lower trade

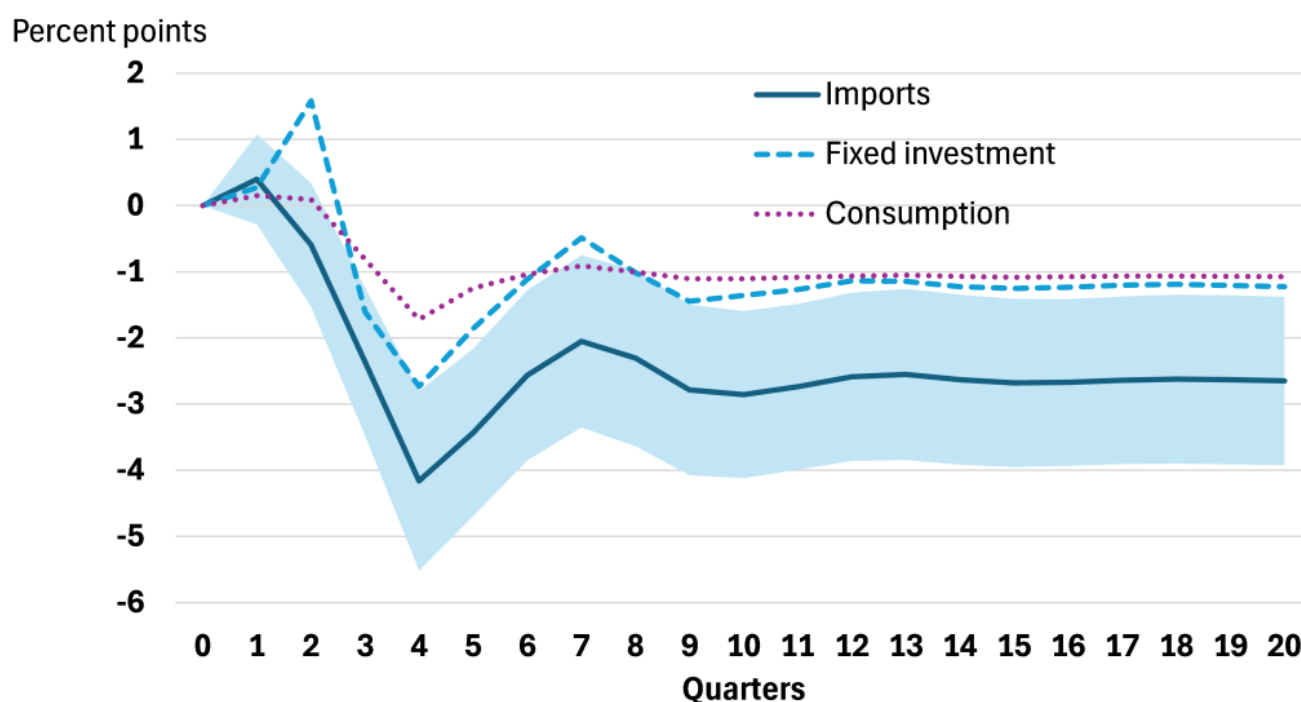
To explore these effects, the impact of trade policy uncertainty on global trade volumes was estimated using a panel vector autoregression (VAR) model with quarterly data for 56 countries – 33 developed economies and 23 emerging market economies – over the period 2017-2025. The model includes the newspaper-based global trade policy uncertainty index of Caldara et al. (2019).

The results from a trade uncertainty shock are shown in Figure 2. Initially, there is a small rise in imports, which is consistent with possible front-loading. A similar pattern is apparent in investment, which again may stem from a wish to bring forward large, planned expenditures ahead of future trade policy changes. However, over time trade policy uncertainty shocks are associated with lower trade, as well as

lower consumption and investment. The downside impact of a trade policy uncertainty shock is estimated to peak after one year, with merchandise import growth being reduced by 4.2 percentage points.

Figure 2. Trade uncertainty is accompanied by short-term front-loading effects

Impact of uncertainty on real imports, investment and consumption growth



Note: The figure compares the estimated cumulative impact of a one standard deviation increase in the trade policy uncertainty index on the quarterly growth rate of merchandise import volumes, investment, and household plus government consumption volumes computed across 33 advanced countries and 23 emerging market economies. The shaded area depicts the 90% confidence band around the estimates. The dynamic panel VAR model is estimated using a generalised method of moments approach over 2017Q1-2025Q2 and it includes four lags of all variables.

Source: OECD Economic Outlook 118 database; OECD calculations.

Given the wide range of estimates from existing studies of the

impacts of trade policy uncertainty, a number of checks were conducted to assess the robustness of these findings. First, the findings are robust even if data from 2024 and 2025 are excluded. Second, a related model using nominal bilateral trade amongst the G20 countries also yielded broadly similar results, albeit with larger negative effects on trade, consistent with the literature (Nana et al., 2025). Finally, the results were found to be robust to using an alternative text-based measure of uncertainty, based on analyst reports, with similar, although not identical, patterns, and without front-loading effects.

Import tariff announcements amplify uncertainty damage

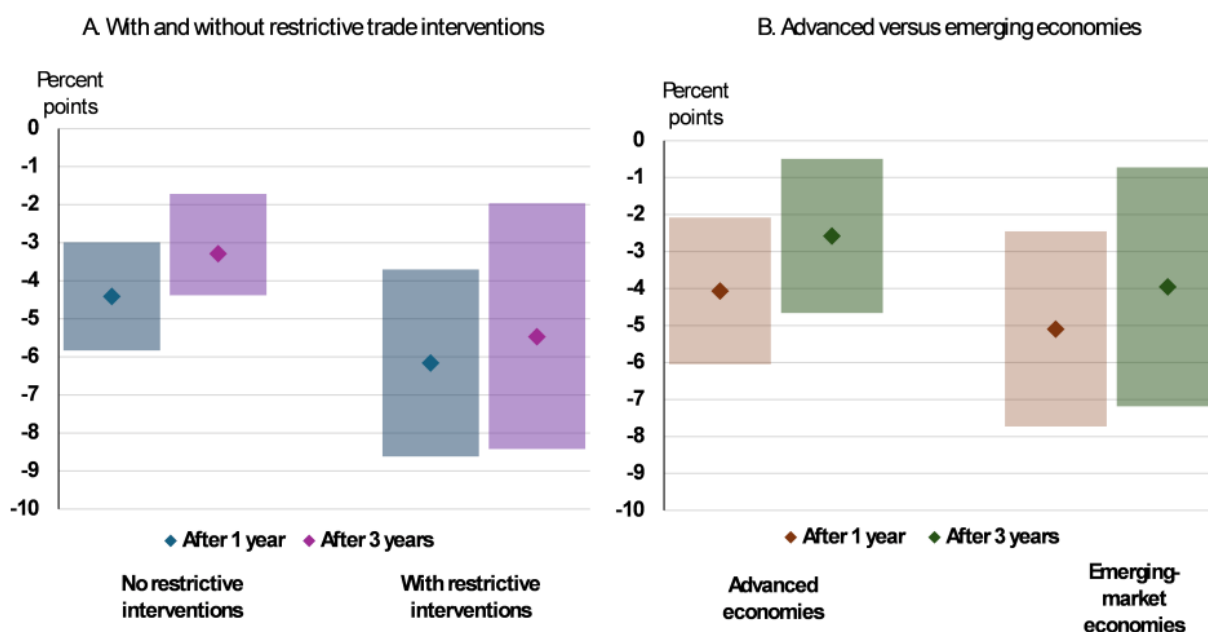
Announcements of policy changes – even if they are restrictive – could mitigate uncertainty by making policy clear and reducing speculation, or they could add to the trade inhibiting effects of uncertainty by increasing the expected probability of negative trade policy outcomes and expected losses (Handley and Limão, 2022). To test this, we added the number of products affected by an import tariff at the date of announcement as a separate variable in the model. Global merchandise import growth is found to be reduced by an additional one and a half percentage points after 1 year following an uncertainty shock and by two percentage points after 3 years (Figure 3, Panel A).

Finally, there is some evidence that emerging market economies have a higher sensitivity to trade policy uncertainty than advanced economies (Figure 3, Panel B). One possible factor behind this is that several countries in the emerging markets sample are manufacturing hubs, with a sizeable share of imports (foreign value added) in their manufactured exports. Trade in such economies is likely to be particularly sensitive to uncertainty (Nana et al., 2025).

Rules-based trade policies would help address uncertainty shocks

The harmful effects of trade policy uncertainty are occurring against a backdrop of elevated policy uncertainty more generally. This negative impact is likely to have been exacerbated this year by the large number of products and countries potentially exposed to trade policy changes. As stressed in the latest OECD Economic Outlook enhanced international cooperation to bolster and ensure rules-based, fair, trade policies would minimise trade-related uncertainty and likely support trade and investment.

Figure 3. Trade uncertainty has heterogeneous effects across countries and products



Note: Panel A compares the estimated cumulative impact of a one standard deviation increase in the trade policy uncertainty index on the quarterly growth rate of merchandise import volume with and without accounting for harmful trade policy interventions proxied by the number of imported products affected by a tariff at announcement date. Panel B compares the estimated impact on merchandise import volumes separately for advanced countries and emerging-market

economies. Real investment and consumption have been replaced by the industrial production index to enable the inclusion of China in the country sample. The shaded area depicts the 90% confidence band around the estimates.

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

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Harnessing the Wisdom of Crowds to Assess Recession Risks in OECD Countries

Category: Uncategorized

written by oecdecoscope | January 20, 2026



by Thomas Chalaux, Dave Turner and Steven Cassimon, OECD Economics Department.

Macroeconomic forecasters have struggled to reliably pinpoint the precise timing of business cycle turning points and future recessions. Recognising this inherent difficulty, a growing body of work has shifted focus to probabilistic models, aiming to assess the *risk* of a future downturn rather than attempting exact prediction.

Researchers from major institutions, including the IMF, ECB, and the Bank of England, have lauded Random Forests (RF), or closely related methods, as the most consistently effective machine-learning method for identifying crisis episodes, often deemed superior to traditional probit/logit modelling [Bluwstein et al. (2020), Hellwig (2021), IMF (2021), Jarmulska (2020)]. However, the OECD Working Paper, *“Harnessing the wisdom of crowds to assess recession risks in*

OECD countries" (Chaloux et al, 2025), challenges this prevailing view, demonstrating that a customised algorithm based on enhanced probit modelling can match, and in some key areas surpass, the performance of Random Forests when predicting recession episodes across 20 OECD countries.

The key to this revitalisation of probit modelling lies in embracing the concept of ensemble forecasting, the "wisdom of crowds."

The Doombot Algorithm and the Power of Averaging

The working paper introduces the latest version of a highly customised algorithm known as Doombot. While Random Forests achieve superior performance by averaging predictions across many decision trees, the newest Doombot algorithm mimics this strategy by averaging predictions from many well-fitting probit equations. This feature, termed the "wisdom of crowds," boosts the algorithm's out-of-sample predictive capability. The benefit of averaging is widely acknowledged in the broader forecasting literature, where simple averages often outperform more complex aggregation schemes.

Doombot's design features substantial customisation. It employs a "brute force" method to test a large number of combinations of explanatory variables. To ensure the resulting predictions are credible and comprehensible to external audiences, the algorithm retains only well-fitting equations with statistically significant variables and imposes sign restrictions to maintain a coherent and consistent economic narrative across countries and forecast horizons.

An advantage highlighted in the paper is that Doombot is built on country-specific models. This contrasts with Random Forests, which performs best when pooling countries to estimate a single common model. The authors argue that country-specific models inherently produce more intuitively appealing properties, enhancing credibility when communicating

with stakeholders.

The Predictive “Horse Race”

The OECD research compared the out-of-sample performance of five methods: Probit employing the “Wisdom of Crowds” [hereafter “Probit (WoC)”], the single-equation Probit, Random Forests estimated for individual countries (IRF), Pooled Random Forests (PRF), and LASSO.

The results show that Probit (WoC) successfully matches the performance of Random Forest methods in rolling out-of-sample quarterly predictions over a two-year horizon, including the turbulent period of the Global Financial Crisis (GFC) (Figure 1). All methods show a much better performance in predicting a recession in the next 4 quarters compared to the subsequent 4 quarters (comparing panels A and B of Figure 1). However, the application of the “Wisdom of Crowds” feature clearly improved the performance of the probit model compared to its single-equation predecessor at all horizons.

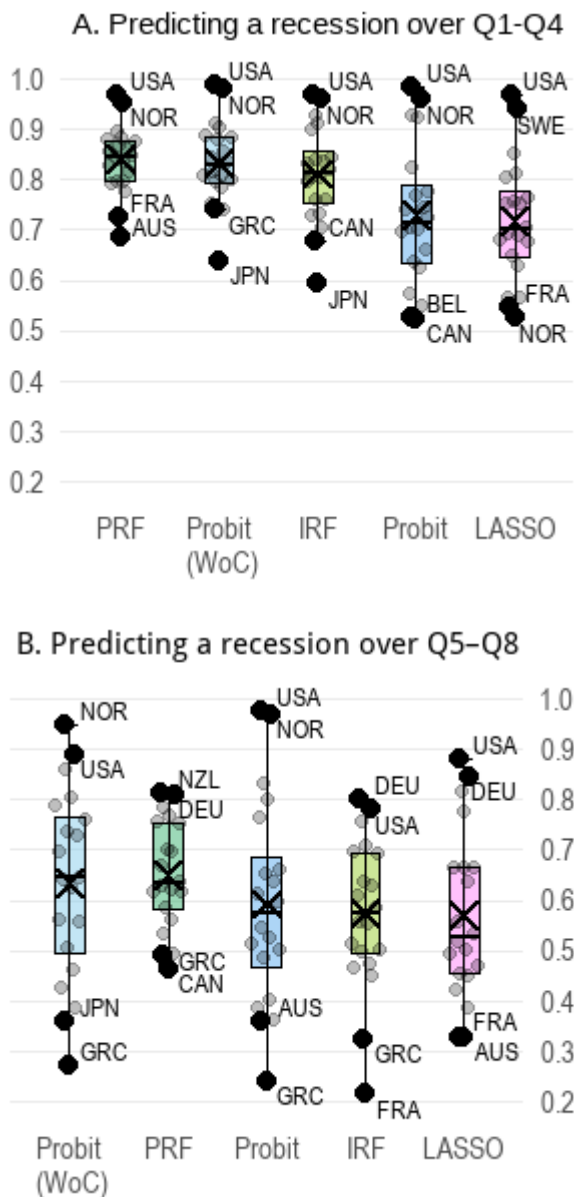
Disadvantages of Pooling

While pooling Random Forests (PRF) shows a superior performance to estimation of Random Forests using individual country models (IRF) on some conventional metrics like the median Area-Under-the-Curve score (AUC), the study highlights some disadvantages associated with pooling country data:

- 1. Low Probability Ceiling:** PRF rarely generates high recession probabilities that exceed 50%. This makes it difficult to ascertain when a recession is “*more likely than not*”. When tested using a higher F-score threshold of 50% rather than a low threshold of 15%, PRF dropped from a top performer to the last ranked method (Figure 2), demonstrating its poor ability to distinguish highly elevated risk cases.
- 2. High Correlation:** PRF predictions are typically highly

correlated across countries. This approach may struggle to identify isolated recession risks for single countries or specific groups, such as the concentrated recession risk among European countries observed in 2022 and 2023. The more country-specific Probit (WoC) model successfully picked up a significantly higher differential risk for European countries during this period.

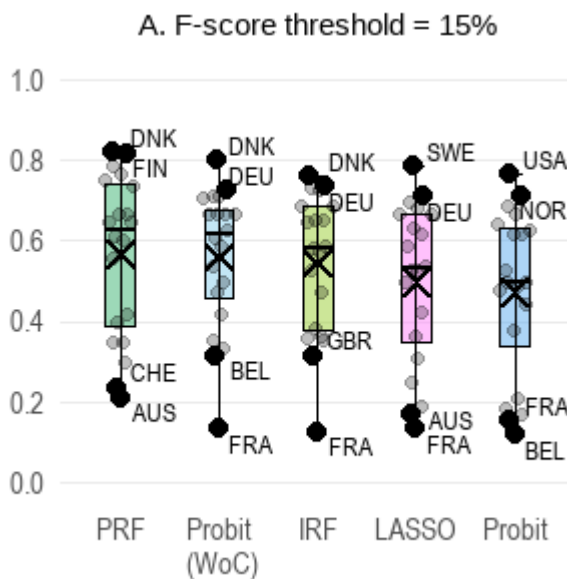
Figure 1. Distribution of out-of-sample AUC scores across 20 countries for 5 methods



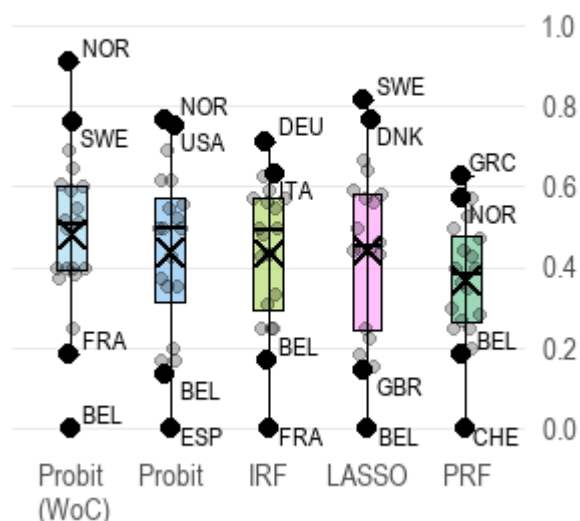
Note: The box and whiskers chart summarise the distribution of

Area-Under-the-Curve (AUC) scores in the out-of-sample tests for 20 OECD countries: the box shows the interquartile range, the horizontal line is the median; the cross is the average; and the whiskers are the extreme scores. The AUC score is a common measure of evaluating machine-learning models because it shows the accuracy of a model in predicting a binary outcome over different probability thresholds as to whether the occurrence of an event (here a recession) has been predicted or not. The AUC score ranges from 0 to 1, with a higher value indicating better performance. An AUC of 0.5 means the model is no better than chance at distinguishing recession from non-recession quarters, indicating it is essentially uninformative. The ordering of the methods on the x-axis reflects the ranking of their median country scores.

Figure 2. Distribution of F-scores across 20 countries with various thresholds over Q1-Q8



B. F-score threshold = 50%



Note: The box and whiskers chart summarise the distribution of F-scores in the out-of-sample tests for 20 OECD countries: the box shows the interquartile range, the horizontal line is the median; the cross is the average; and the whiskers are the extreme scores. The threshold for the F-score test (15% in panel A, 50% in panel B) reflects the threshold at which a probability prediction is classified as a recession or non-recession. The ordering of the methods on the x-axis reflects the ranking of their median country scores.

What Drives a Recession? Variables and Horizons

The robustness of this research comes from applying the same framework across 20 countries and eight consecutive quarterly horizons. This broad application confirms that the importance of explanatory variables shifts dramatically depending on the forecast horizon (Figure 3).

- **Shorter Horizons (Q1-Q2):** Predictors for the immediate quarters are dominated by activity variables such as capacity utilisation, unemployment, and industrial production.
- **Longer Horizons:** For horizons further out, financial cycle variables dominate, particularly credit and house prices.

- **Other Factors:** Interest rates and inflation variables also make significant contributions. Consistent with previous OECD work, international or global indicators are found to be strong predictors of recession risks.

The Real-Time Data Innovation

Another important feature of this paper is the rigorous use of real-time data for GDP in out-of-sample exercises. This means the estimation uses the precise vintage of data that would have been available *at the point in time* the predictions were made, rather than the most recent, often-revised data vintage (quasi-real time data).

The distinction is important because revisions to GDP data can be substantial. The study found that while using the latest vintage of data generally results in a slight aggregate performance gain, it can influence (and likely improve) forecast performance just when it matters most, such as on the eve of the GFC. For example, using the latest data vintage for June 2008 forecasts suggested an additional seven countries had already experienced negative GDP growth in Q1 2008 compared to the data available at the time. This change alone increased the predicted overall recession probability for those seven countries by 15 to 30 percentage points (Figure 4).

Concluding Insights

The findings of this working paper challenge the recent consensus regarding machine-learning superiority in crisis prediction. By harnessing the “wisdom of crowds”, averaging predictions from many well-fitting probit equations, the customized Probit (WoC) algorithm achieves out-of-sample performance comparable to Random Forests.

The country-specific nature of Doombot, combined with its ability to generate high probability predictions (exceeding

50%), offers practical advantages over pooled methods. Furthermore, the detailed, multi-horizon analysis confirms the critical role of financial cycle variables (credit and house prices) in predicting medium- to long-term recession risks, offering granular detail that can inform policy and forecasting. The use of real-time data adds another layer of rigour, ensuring that forecast evaluations reflect the information environment actually available to policymakers at the time.

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Regulating smarter: OECD Economic Outlook recommendations on regulatory policy reforms

Category: Uncategorized

written by oecdecoscope | January 20, 2026



By Young-Hyun Shin, Nivetha Sivakumar and Ben Westmore, OECD Economics Department.

Regulatory policy is critical in shaping the incentives and ability for businesses to innovate and expand and supporting workers to move to the parts of the economy where their skills are needed the most. Assessing regulatory policy settings is thus important in identifying the reasons for the slowdown in labour productivity growth (Figure 1) and business dynamism in OECD economies over the past two decades, as discussed in a special chapter in the December OECD Economic Outlook. This is reinforced by new OECD estimates that highlight that the resources devoted to servicing regulatory compliance have been rising in the United States, the euro area and Australia (Andrews, Turban and Tyros, forthcoming).

But what aspects of regulatory policy need to be addressed? Regulatory environments are multi-faceted and reform

priorities will vary across economies. Chapter 3 of the recent OECD Economic Outlook contains country-specific regulatory policy reform priorities. These can be aggregated to give a snapshot by reform category (Figure 2) and highlight two broad types of policy priorities: firstly, the need to reassess the existing stock of regulations and make changes to the methods used to design and implement regulations and, secondly, reducing regulatory impediments in particular markets, especially product markets.

There are also some notable differences between the reform recommendations for advanced and emerging-market economies. For instance, lowering regulatory barriers to firm entry in services sectors, as well as measures that reduce the stringency of housing regulations, are most relevant in advanced economies, while lowering regulatory barriers to foreign direct investment are judged to be particularly necessary in emerging markets (Figure 3).

Delving into the identified country-specific reform recommendations in more detail:

- The need for reforms to **simplify regulatory processes** is widely recommended, including for most OECD countries. Efforts to streamline regulatory processes for business registration are judged to be necessary in many countries, including in Argentina, Brazil, Bulgaria, China, Colombia, Estonia, Hungary, Iceland, Ireland, Israel, Japan, Mexico, Norway, Poland, Peru, Romania, the Slovak Republic and Slovenia. In addition, harmonising regulations across levels of government would simplify the regulatory framework in Australia, Germany, India and Switzerland.
- **Institutional arrangements for regulatory design and oversight** need to be improved in several countries, including through more rigorous use of evaluations of regulations in the euro area, China, Czechia and

Denmark. In China, greater consumer protection is also needed along with better institutional oversight of regulations. Initiatives to improve regulatory enforcement are also recommended in some other emerging-market economies, including Argentina and Thailand.

- **Lowering regulatory barriers to product market entry** is commonly needed. This is particularly the case in services sectors, such as in France where there are high barriers to entry for architects and accountants and stringent practice controls for lawyers and real estate agents. Reforms that reduce restrictions on entry to professional services would also be beneficial for growth in Austria, Belgium, Brazil, Czechia, Estonia, Ireland, Israel, Luxembourg and the Slovak Republic. There is also scope for rationalising such barriers in network sectors in some countries, including in Canada, Korea, Lithuania and the United States. **Regulatory barriers to inward foreign direct investments** could also be eased, including in Costa Rica, Iceland, Indonesia, Korea, Thailand and Viet Nam.
- To help facilitate firm exit and improve business dynamism, **improved insolvency regulations** are recommended for several European economies, including Belgium, Hungary, Iceland, the Netherlands and Romania, as well as in South Africa and Türkiye.
- **Reforms to housing regulations** are identified as a priority for several advanced economies, such as changes to spatial planning policies in Australia, the United Kingdom and the United States. However, such policies are not identified as a key priority for emerging-market economies.
- **Reducing regulatory barriers to trade**, such as those arising from strict local content requirements in Brazil, unwarranted technical requirements on imports in Argentina and slow customs procedures in India, are essential to improving productivity growth. Implementing trade facilitation measures is also highlighted as a

priority in other economies, including Iceland and Switzerland.

The summary highlights that smarter regulatory policy, such as reforms that simplify existing regulatory procedures and adjust regulatory design systems and enforcement, are the priority for future growth prospects. While reducing regulatory stringency is also relevant, deregulation should not be the sole focus of policymakers. Indeed, the importance of having regulations in place that effectively target market failures and social objectives, such as safety, environmental and equity concerns, should not be overlooked. Reforms should aim for regulations that serve their objectives and are administered in the most efficient way possible. In the context of an uncertain macroeconomic environment, such an approach can promote the resilience and adaptability of economies to future shocks and long-term economic growth.

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**Romper el círculo vicioso
entre productividad e**

informalidad en América Latina: Reflexiones de la Conferencia Ministerial 2025 en Lima

Category: Uncategorized

written by oecdecoscope | January 20, 2026



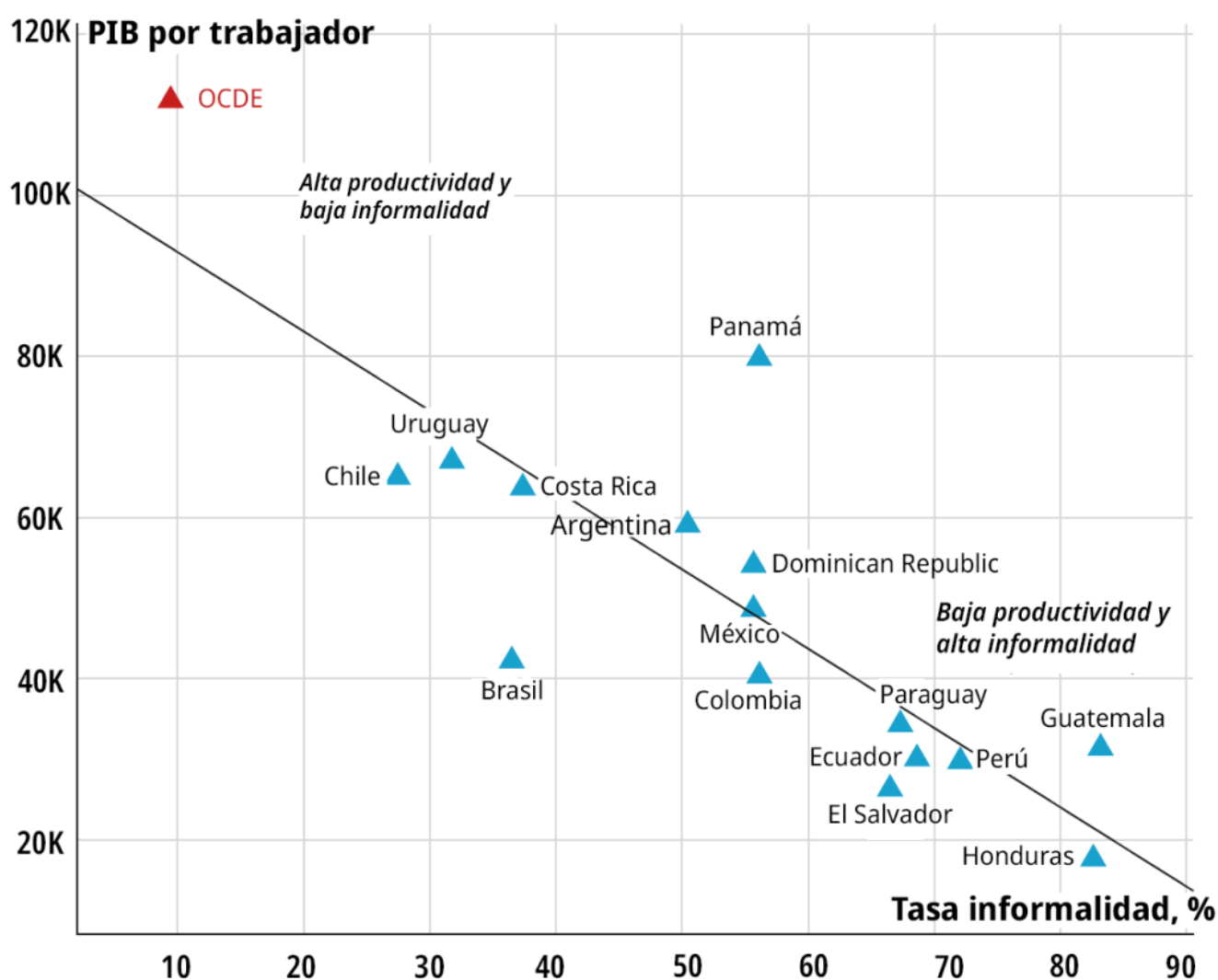
Por Paula Garda, Jens Arnold, Luca Marcolin, Departamento de Economía de la OCDE

Disponible en inglés

Alrededor la mitad de los trabajadores en América Latina se encuentra en empleos informales, una realidad que mantiene la productividad estancada y las desigualdades elevadas. Estos fueron los temas centrales de la Conferencia Ministerial sobre Productividad e Informalidad celebrada el 30 de octubre de 2025 en Lima, Perú. Ministros, altas autoridades públicas, académicos y representantes de organismos internacionales se reunieron en la conferencia ministerial *“Hacia Economías Más Productivas: Enfrentando la Informalidad en América Latina”*, coorganizada por el Ministerio de Economía y Finanzas de Perú, el Foro Global de Productividad y el Departamento de Economía de la OCDE y el Banco Interamericano de Desarrollo. El evento reunió a más de cien participantes para intercambiar experiencias y extraer lecciones sobre qué políticas han funcionado, cuáles no, y cómo rediseñar las reglas del juego para un crecimiento más productivo e inclusivo.

La reunión abordó una pregunta central: ¿cómo puede América Latina romper el círculo vicioso de baja productividad y alta informalidad? La figura siguiente ilustra claramente esta relación, mostrando que los países con mayores tasas de informalidad suelen ser aquellos con menor productividad laboral. Este blog resume los mensajes clave que surgieron del debate para contribuir a convertir la reflexión en decisiones de política pública.

Donde la informalidad es alta, la productividad es baja



Notas: PIB por trabajador (PPP, USD). Informalidad del empleo refiere trabajo que no está cubierto por la regulación laboral, la protección social ni los beneficios laborales, ya sea realizado en empresas formales, empresas informales o en los hogares.

Fuente: ILO & WDI • Creado con Datawrapper

La estructura empresarial de la región refuerza la informalidad

Las discusiones resaltaron que el desafío de productividad en América Latina no se relaciona tanto con *qué* produce la región, sino con *cómo* se produce. La estructura empresarial está fuertemente sesgada hacia las microempresas: alrededor del 60% de los trabajadores se emplea en firmas con menos de 10 empleados, frente a menos del 20% en los países de la OCDE. En América Latina, el autoempleo representa más de un tercio del empleo total, más del doble que el promedio de la OCDE. La mitad de los puestos de trabajo siguen siendo informales.

Este predominio de unidades pequeñas y de baja productividad refleja desafíos estructurales y también debilidades de política – bajo capital humano, escasa innovación, débil difusión tecnológica, limitado acceso al crédito y regulaciones laborales y empresariales mal alineadas. Estos factores alimentan y se alimentan de la informalidad, atrapando a las economías en un ciclo de baja productividad y alta desigualdad.

Abordar estas debilidades requiere una estrategia integral. A largo plazo, mejorar la calidad de la educación y el aprendizaje a lo largo de la vida es fundamental para fortalecer habilidades transversales y específicas. Las políticas de innovación deben apoyar la adopción tecnológica, la digitalización y la transferencia de conocimiento entre empresas. El acceso al financiamiento también debe ampliarse para permitir que las empresas crezcan e inviertan. A corto plazo, es necesario reducir las barreras que perpetúan la informalidad, como sistemas de seguridad social basados en contribuciones, salarios mínimos altos en relación con la productividad y, en algunos casos, regulaciones laborales rígidas. Las políticas que generan incentivos para que las empresas permanezcan pequeñas e informales, como regímenes tributarios o regulatorios diferenciados según el tamaño,

deben usarse con extrema cautela.

La informalidad como síntoma de políticas disfuncionales

La informalidad es menos una causa que una consecuencia de políticas mal alineadas. Incluso en contextos de estabilidad macroeconómica, crecimiento y apertura externa, la productividad puede estancarse cuando los incentivos protegen a empresas pequeñas y de baja productividad en lugar de permitir que las más dinámicas crezcan. La experiencia de México ilustra este fenómeno: a pesar de un crecimiento sostenido y éxito exportador, la productividad agregada permaneció estancada, ya que muchas firmas poco productivas permanecieron en el mercado, y aquellas que salieron fueron reemplazadas por otras igual de poco productivas.

Regímenes tributarios y laborales simplificados dirigidos a empresas pequeñas –como monotributos u otros esquemas similares– pueden inducir a más firmas a formalizarse, pero a menudo desincentivan su crecimiento. En su lugar, los objetivos de productividad e inclusión deben avanzar conjuntamente. Para generar condiciones equitativas, el acceso a la protección social básica debe desvincularse de la situación laboral y financiarse preferentemente mediante ingresos tributarios generales en lugar de contribuciones sobre la nómina. Este cambio reduciría la diferencia de costos entre generar empleos formales e informales, permitiría a las empresas competir en igualdad de condiciones y facilitaría la movilidad laboral sin pérdida de protección.

Proteger a los trabajadores y promover la productividad pueden ir de la mano

Un nuevo libro de la OCDE, *Ampliar la protección social y combatir la informalidad en América Latina*, muestra que los sistemas de protección social pueden diseñarse para promover

tanto la inclusión como la productividad. La clave es garantizar acceso a protección básica independientemente de la participación en el mercado laboral formal, financiada principalmente con ingresos tributarios generales y complementada con esquemas contributivos progresivos. Estos sistemas reducen los costos laborales no salariales –especialmente para trabajadores de bajos ingresos– y disminuyen el costo adicional de la formalización, al tiempo que apoyan el crecimiento de las empresas y la asignación eficiente de recursos. Una protección social universal, portable y fiscalmente sostenible puede así fomentar la creación de empleo formal, mejorar la equidad y fortalecer la resiliencia. El costo fiscal estimado (1–4% del PIB, según el país) es manejable y probablemente pequeño en relación con los beneficios potenciales.

El libro incluye capítulos específicos para Argentina, Brasil, Chile, Colombia, Costa Rica, México y Perú, con recomendaciones y estimaciones de costo fiscal adaptadas a cada país.

Gobernanza y confianza: el motor invisible de la informalidad

Los países con menor informalidad suelen exhibir también mejor gobernanza, mayor confianza y menor captura del Estado. No es casualidad que los países más productivos sean también los más transparentes y previsibles. La erosión de la confianza en el Estado –su incapacidad para proveer bienes públicos de calidad como educación, justicia e infraestructura– debilita la legitimidad y empuja a millones hacia la informalidad. Las agendas de productividad deben integrar una dimensión de gobernanza para fomentar la inversión y el crecimiento sostenido.

Lecciones de las experiencias nacionales

La conferencia también permitió destacar esfuerzos de reforma

en varios países:

- **Brasil** está implementando una ambiciosa reforma tributaria que reemplazará cinco impuestos al consumo por un sistema dual de IVA con reglas armonizadas, una base más amplia y menores costos de cumplimiento. Se espera que la reforma mejore la competitividad y la productividad al eliminar distorsiones que obstaculizan el crecimiento y la inversión de las empresas.
- **Chile** subrayó que la informalidad se redujo durante periodos de fuerte crecimiento y consolidación de instituciones de apoyo productivo. La Comisión Nacional de Productividad está analizando cómo sostener estos avances en un contexto de menor dinamismo económico.
- **Costa Rica** está avanzando hacia convertirse en un verdadero aliado de las pequeñas empresas. Su estrategia combina simplificación regulatoria con servicios de apoyo empresarial – facilitando la formalización, el acceso al financiamiento y el fortalecimiento de capacidades de gestión en micro y pequeñas empresas.
- **Perú** enfatizó la necesidad de una estrategia integral. El Plan Nacional de Competitividad y Productividad 2024–2030 busca corregir la fragmentación institucional mediante la modernización de los servicios públicos, la inversión en capital humano, la expansión del acceso al crédito y el impulso a la innovación. Además, se están llevando adelante esfuerzos para generar un shock de simplificación regulatoria con el fin de reducir cargas administrativas y facilitar la formalización y el crecimiento empresarial.

Conciliar productividad y objetivos sociales

El mensaje desde Lima es claro: abordar la informalidad no es solo deseable, es indispensable para impulsar la productividad y un crecimiento más inclusivo. Promover la productividad y

asegurar la protección social son objetivos que pueden reforzarse mutuamente. Una mejor educación y formación, sistemas tributarios que incentiven el crecimiento empresarial, instituciones laborales que faciliten la movilidad y esquemas de protección social de carácter universal pueden elevar la productividad al favorecer la reasignación de recursos, estimular la inversión en capacidades y reducir las distorsiones que mantienen a las empresas pequeñas y poco productivas.

Las reformas incrementales en la dirección correcta son importantes, pero no bastarán para romper el círculo vicioso de informalidad y baja productividad. Lograr un crecimiento sostenido e inclusivo requerirá reformas profundas y coordinadas que alineen los sistemas tributario, laboral, educativo y de protección social, y que reconstruyan la confianza necesaria para que esas reformas perduren.

Para más información:

OECD (2025), *Ampliar la protección social y combatir la informalidad en América Latina*, OECD Publishing, Paris, <https://doi.org/10.1787/b03f2e18-es>.

Foro Global de Productividad de la OCDE

Página web LAC del Departamento de Economía de la OCDE

Breaking the vicious cycle between productivity and

informality in Latin America: Insights from the 2025 Ministerial Conference in Lima

Category: Uncategorized

written by oecdecoscope | January 20, 2026



By Paula Garda, Jens Arnold, Luca Marcolin, OECD Economics Department

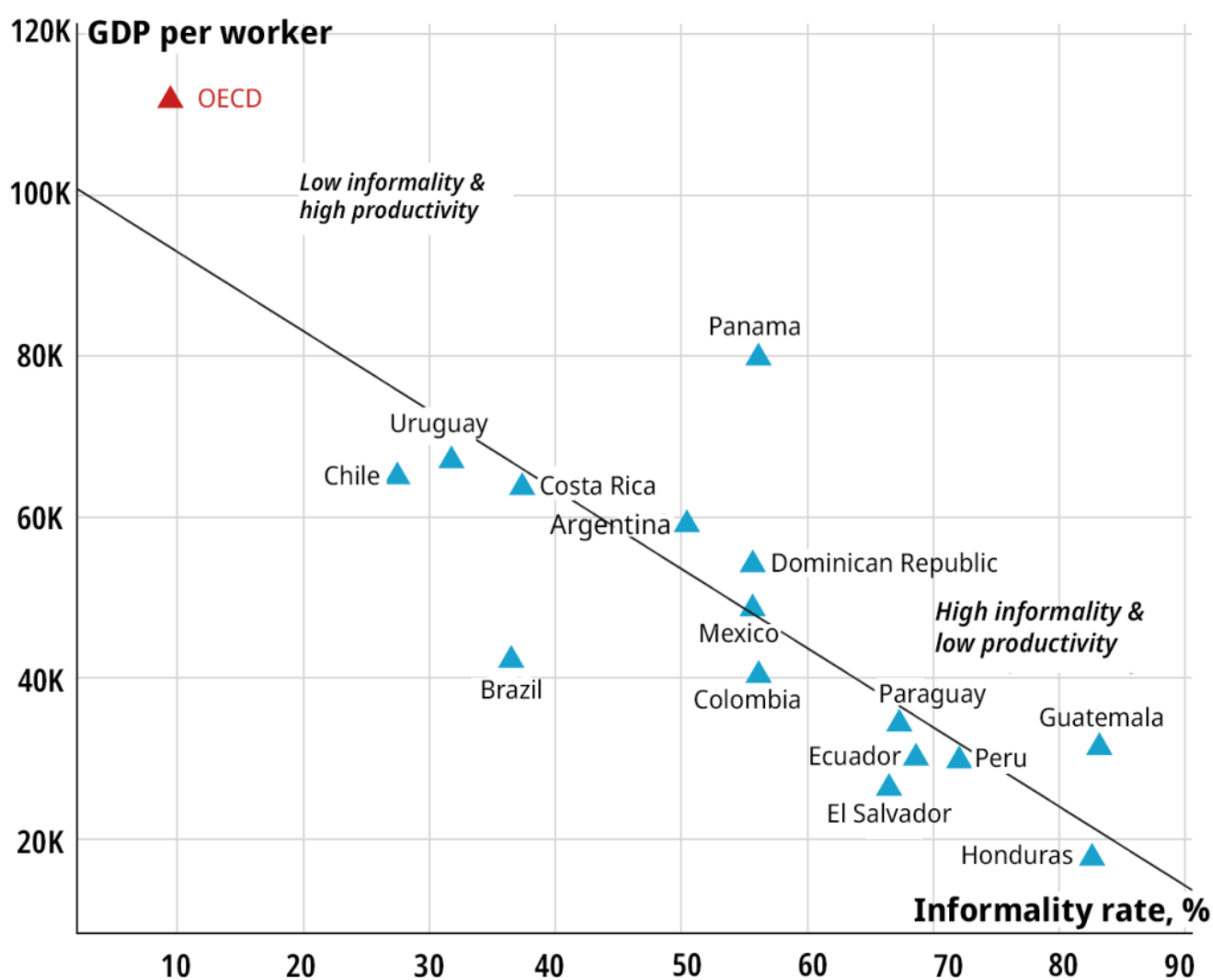
Available in Spanish

Around half of all workers in Latin America are in informal jobs – a reality that keeps productivity stagnant and inequality high. These were the central themes of the 2025 Ministerial Conference on Productivity and Informality held on 30 October 2025 in Lima, Peru. Ministers, senior policymakers, academics, and representatives from international organisations met for the ministerial conference “Towards Productive Economies: Confronting Informality in Latin America”, co-organised by Peru’s Ministry of Economy and Finance, the OECD Economics Department and Global Forum on Productivity and the Inter-American Development Bank. The event brought together over a hundred participants to exchange experiences and lessons about which policies have worked, which have not, and how to redesign the rules of the game for more productive and inclusive growth.

The meeting tackled a central question: how can Latin America

break the vicious cycle of low productivity and high informality? The figure below captures this relationship vividly, showing that countries with higher informality rates tend to be those with lower labour productivity. This blog summarises the main messages that emerged from the discussions to help turn reflection into policy action.

Where informality is high, productivity is low



Notes: GDP per worker (PPP, USD). Informal employment refers to work that is not covered by labour regulation, social protection, or employment benefits, whether carried out in formal firms, informal firms, or households.

Chart: OECD • Source: ILo & WDI • Created with Datawrapper

The region's firm structure reinforces informality

Discussions highlighted that Latin America's productivity

challenge is not so much related to what the region produces, but more to how production is organised. The region's firm structure is strikingly skewed towards microenterprises: around 60% of workers are employed in firms with fewer than 10 employees, compared with less than 20% in OECD economies. In Latin America, self-employment accounts for more than a third of total employment, more than double the OECD average. Half of all jobs remain informal.

This dominance of tiny, low-productivity units reflects structural challenges but also policy weaknesses – low human capital, limited innovation, weak technological diffusion, scarce access to credit, and poorly aligned labour and business regulations. These factors both stem from and reinforce informality, trapping economies in a cycle of low productivity and high inequality.

Addressing these weaknesses requires a comprehensive strategy: In the longer run, improving education quality and lifelong learning is key to strengthen transversal and job-specific skills, while innovation policies should support technology adoption, digitalisation, and knowledge transfer across firms. Access to finance must also be expanded so that firms can invest and scale up. In the shorter term, barriers that reinforce informality – such as contribution-based social security systems, high minimum wages relative to productivity and in some cases stringent labour regulations – should be addressed. Policies that create incentives for firms to remain informal and small, including size-dependent special tax or regulatory regimes, should be used with extreme caution.

Informality as a symptom of policy incoherence

Informality is less a cause than a consequence of poorly aligned policies. Even in contexts of macroeconomic stability, strong growth, and open markets, productivity can stagnate when incentives protect small, low-productivity firms instead of enabling dynamic ones to expand. Mexico's experience

illustrates this paradox: despite sustained growth and export success, aggregate productivity flatlined as many low-productivity firms stayed in the market, and those inefficient firms that exited were replaced by others that were just as unproductive.

Simplified tax and labour regimes targeted to small enterprises – such as monotributos or related schemes – may induce more firms to join the formal sector, but often discourage them from growing. Instead, social and productivity objectives must advance together. To create a level playing field, access to core social protection should be clearly separated from labour market status and financed preferably through general tax revenues rather than payroll-based contributions. Such a shift would align the cost of creating formal and informal jobs, allowing firms to compete on equal terms and enabling workers to move safely between jobs without losing protection.

Protecting workers and boosting productivity can go hand in hand

A new OECD report, *Expanding Social Protection and Addressing Informality in Latin America*, shows that social protection systems can be designed to promote both inclusion and productivity. The key is to provide access to basic protection irrespective of formal labour-market participation, financed mainly through general tax revenues, and complemented by progressive contributory schemes. Such systems can lower non-wage labour costs—especially for low-income workers— and reduce the extra cost of formalisation, while supporting firm growth and efficient resource allocation. Universal, portable, and fiscally sustainable protection can thus foster formal job creation, improve equity, and strengthen resilience. The estimated fiscal cost of such reforms (1–4% of GDP, depending on the country) is manageable and likely small relative to potential gains in inclusion, productivity, and resilience. The new OECD report also includes country chapters for

Argentina, Brazil, Chile, Colombia, Costa Rica, Mexico, and Peru, providing tailored policy recommendations and fiscal assessments to guide reform implementation.

Strong governance and trust: hidden driver of informality

Countries with lower informality often also display stronger governance, higher trust, and less evidence of state capture. It is no coincidence that the most productive countries are also the most transparent and predictable. The erosion of trust in the state – its inability to deliver quality public goods such as education, justice, and infrastructure – undermines legitimacy and pushes millions into informality. Productivity agendas should integrate a governance dimension to foster business investment and sustained growth.

Lessons from country experiences: what has worked and what hasn't

The Lima conference was also an opportunity to highlight the reform efforts of selected countries in the region, as there are no one-size-fits-all solutions.

- **Brazil** is implementing an ambitious tax reform, replacing five complex consumption taxes with a dual VAT system that will harmonise rules, broaden the base, and reduce compliance costs. This reform is expected to boost competitiveness and productivity by removing distortions that penalise firm growth and investment.
- **Chile** highlighted that informality fell when growth was strong and business support institutions were consolidated. The National Productivity Commission is studying how to sustain the reduction of informality in a context of weaker growth.
- **Costa Rica** focused on becoming a true “ally of small firms.” Its strategy combines regulatory simplification with active business support – helping micro and small

enterprises formalise, access financing, and strengthen managerial skills.

- **Peru** stressed the need for a comprehensive approach across policy areas. The National Competitiveness and Productivity Plan 2024–2030 aims to address institutional policy fragmentation by modernising public services, investing in human capital, expanding credit access, and promoting innovation. Recent efforts also aim at generating a deregulatory shock to simplify administrative procedures and reduce the regulatory burden on firms, with the goal of facilitating formalisation and business growth.

Bridging productivity and social objectives

The message from Lima is clear: tackling informality is not just a good idea, it's essential to foster productivity and more inclusive growth. Promoting productivity and ensuring social protection can be mutually reinforcing objectives.

Better education and training, tax systems that encourage firm growth, labour institutions that foster labour mobility, and social protection schemes that are universal can enhance productivity by supporting reallocation of both labour and capital, encouraging investment in skills, and reducing distortions that keep firms small and unproductive.

Incremental reforms in the right direction matter, but they will not be enough to break the vicious circle of informality and low productivity. Achieving sustained and inclusive growth will require deep, coordinated reforms that align tax, labour, education and social protection systems – and rebuild the trust needed to make them last.

FOR MORE INFORMATION

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The fiscal impact of population ageing: How can we afford getting older?

Category: Ageing, Uncategorized

written by oecdecoscope | January 20, 2026



By Vassiliki Koutsogeorgopoulou and Hermes Morgavi, OECD.

Populations are ageing in most countries, including emerging economies. The share of population aged 65 years and over has more than doubled between 1960 and 2022 across OECD countries on average, to around 18%, and is projected to reach 30% by 2060. To illustrate the magnitude of the demographic transition, the share of population aged 80 and over will rise even more dramatically, by almost two and half times between 2022 and 2060 (Figure 1).

Note: OECD refers to the simple average among the OECD countries, G20 emerging economies include Argentina, Brazil, China, India, Indonesia, Russia, Saudi Arabia, and South Africa. Other OECD partner countries include Bulgaria, Croatia, Romania, Peru, Morocco, Tunisia, and Egypt. The highlighted area refers to the projection period, starting in 2024. Projections are based on the “medium variant” population

projections from the United Nations.

Source: United Nations World Population Prospects: The 2024 Revision.

Living longer and ageing in better health are major accomplishments, boosting people's potential to remain active and work at a later age, participate in society and live independently for longer (Scott, 2021). However, life expectancy has increased in OECD countries in tandem with steadily declining fertility rates – currently well below replacement levels in most OECD economies (OECD, 2023). The old-age dependency ratio (defined as the number of people aged 65+ per 100 people of working age, 20-64 years old) in the OECD area has more than doubled between 1960 and 2022, as the population aged 65 and over grew at an annualised rate of 2.2% during the period, while the working-age population by merely 0.9% (United Nations World Population Prospects: The 2024 Revision).

From a fiscal perspective, population ageing can have profound consequences for the public finances, according to a recent OECD paper (Koutsogeorgopoulou and Morgavi, 2025). This is because, as previous studies have also shown (Rouzet et al., 2019; Guillemette and Turner, 2021; Guillemette and Château, 2023), age-related government spending, notably on pensions, healthcare and long-term care, exerts substantial pressure on public finances. Defined-benefit, pay-as-you-go pension systems are particularly vulnerable, as contribution rates struggle to keep up with growing retirement cohorts and longer benefit durations. While public spending on long-term care as share of GDP is generally low, it has been rising more rapidly than pension and health care expenditure over the past decades and will continue to do so, especially as the share of population 80 years and over is increasing rapidly (OECD Health database). According to OECD Long-Term Model, in the absence of corrective policy action, fiscal pressure would increase in the average OECD country by nearly $6\frac{1}{4}$ percentage points of GDP between 2024 and 2060, with ageing accounting for more than 40% (Figure 2).

Policies can help economies to adapt to population ageing, harnessing the benefits of longevity, and address the mounting fiscal pressures stemming from ageing, thereby safeguarding public finance sustainability. While the scope of demographic change varies across countries, a comprehensive policy approach is indispensable. The strategy needs to encompass measures to promote healthy ageing, including through disease prevention policies, fiscal reforms to manage the rise in age-related spending, and structural reforms to boost labour force participation of older workers and other under-represented groups.

Indicative of the large fiscal gains of comprehensive reforms, changes in retirement policies that reduce early exit pathways and link retirement ages to two-thirds of projected increases in life expectancy, in combination with labour market reforms, would lower the fiscal pressure in 2060 by around 4 percentage points of GDP for the average country, compared to a baseline no-policy change scenario, based on OECD Long-Term Model (Source: Update of (Guillemette and Château, 2023) based on OECD Economic Outlook No. 115 May 2024 database).

Policy efforts to address the fiscal implications of ageing can be complemented by measures to boost fertility and immigration. While today's fertility rates would only raise the share of workers in the population in around two decades, ensuring continuity of support over the child's early life course by avoiding "spending dips" is essential (OECD, 2024). Immigration can help ageing countries to address labour shortages in the short- or medium-term, though is unlikely to fully offset population ageing (André, Gal and Schief, 2024). Addressing integration challenges and enabling immigrants to reach their potential are essential.

** This blog is based on the paper by Koutsogeorgopoulou, V. and H. Morgavi (2025), "Ageing populations, their fiscal implications and policy responses", OECD Economics Department Working Papers, No. 1844. The paper was prepared as part the work programme of the OECD Crete Centre on*

Population Dynamics. The Centre, established in 2023 in partnership with the Greek Government, is dedicated to advancing policy-oriented research and advisory work on demographic issues and their impact on economic prosperity:

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A balancing act: Reforms to

tackle the Dutch housing crunch

Category: Uncategorized

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To ensure affordability, the government should rebalance tax incentives, reform the rent control system, and make it easier to build.

By Daniela Glocker and Nicolas Gonne, OECD Economics Department

The Dutch housing market is under pressure. Young families trying to buy their first home face high housing prices, while long waiting lists for accessing the limited supply of social and other non-market housing leave many tenants burdened by high rents in the private market. Despite past government's ambitious goals to build 100 000 new homes each year, affordable housing options remain elusive for too many, as discussed in the latest OECD Economic Survey of the Netherlands.

Three issues stand out: a tax system that is biased towards homeownership, rent controls that squeeze the private rental sector, and persistent barriers that hold back the supply of new housing. Addressing these will be key to creating a more affordable housing market.

Tax breaks for home ownership fuel demand – and prices

For decades, generous tax incentives have made buying a home in the Netherlands more attractive than renting (Figure 1). Homeowners can deduct mortgage interest payments from taxable income, face low taxation of the imputed rental value of their property, and first-time buyers benefit from transfer tax exemptions. These perks boost demand and push up prices. While the mortgage interest deduction has been trimmed in recent years, it remains large by OECD standards. Meanwhile, other investments like rental housing or financial assets face higher effective tax rates.

This imbalance widens wealth gaps between owners and renters. Households who can buy benefit from lower real housing costs over time, while renters face rising rents and fewer pathways to build wealth. In 2022, the median mortgage cost as a share of income was far lower than the rent burden for many tenants, especially those on lower incomes.

A gradual rebalancing is needed. Reducing the mortgage interest deduction further, aligning the taxation of owner-occupied housing with other assets, and capping tax breaks for high-value homes could help. This would have the added benefit of easing fiscal pressures and maintaining strong public finances. Doing so gradually would reduce the risk of housing market correction, while freeing up resources for more targeted rental support.

Bottlenecks weigh on housing supply

Even as demand remains high, the supply of new housing struggles to keep up (Figure 2). Regulatory bottlenecks, long permitting times, limited land availability, and rising construction costs all contribute to a sluggish response, compounding the detrimental effects of persistent labour

shortages on increasing the housing stock.

While past governments aimed to build 100 000 new homes each year, actual delivery often fell short. Complex planning procedures are a major obstacle, including due to strict zoning rules and environmental constraints. Measures to curb nitrogen emissions add further delays and push up costs.

This means too few homes are built, especially affordable, smaller dwellings for low- to middle-income households. Local governments often face conflicting incentives: they bear the costs of new infrastructure and services for growing communities but may see limited benefit from higher property values or new residents.

Some promising steps are underway. “Parallel planning” – allowing different permitting steps to happen at the same time – could shorten approval times. The last government agreed to provide financial bonuses for municipalities that deliver enough new homes, which will help align local and national goals.

But more is needed. Local authorities should have better tools and clearer incentives to make land available and unlock sites for housing. For example, well-designed land value capture instruments can help communities share in the benefits of rising land prices and reinvest in infrastructure and services.

Rent controls squeeze the private rental market

While tax breaks make buying an attractive option, strict rent controls make renting out on the private market less so. The Netherlands has a large non-market rental sector, mostly run by housing association, but the private rental market is small and shrinking.

Rent controls aim to keep housing affordable for low- and

middle-income households. But frequent policy changes and tighter rules have made private investors wary. The 2024 Affordable Rent Act expanded rent regulation into the mid-priced segment. While this protects some tenants, it also reduces the incentive for private landlords to build or maintain rental homes. Many private landlords have started selling their properties to occupant-owners, further shrinking private rental supply.

A balanced approach is needed. Excessively tight rent controls should be relaxed to leave room for investment. Adjusting how rent caps are set, ensuring they reflect rising costs, and allowing modest rent increases for new builds could help. More predictable, stable rules would also reduce uncertainty for investors.

At the same time, strengthening the role of housing associations is vital. These organisations provide affordable homes for millions but face rising costs and tight financial rules. Updating funding and regulation to ensure they can maintain and expand supply is crucial.

A more balanced housing market for the future

Housing is central to people's well-being and the economy's resilience. A housing market that locks out new buyers and limits where people can afford to live weakens growth and deepens social divides.

The Netherlands has the tools to break this cycle. By steadily rebalancing tax incentives, reforming the rent control system, and adjusting permitting and related processes to make it easier and faster to build new homes, policymakers can deliver more affordable housing for everyone.

For more facts, figures and policy recommendations from our 2025 Economic Survey of the Netherlands, please visit the [Netherlands economic snapshot page](#).

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