Reducing public debt: When growth meets sound fiscal policy

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By Álvaro Pina, Mauricio Hitschfeld and Takashi Miyahara, OECD.

Across the OECD, public debt reached 112% of GDP at the end of 2024, almost 40 percentage points higher than in 2007, before the global financial crisis (OECD, 2025). In the absence of offsetting fiscal policy adjustment, mounting spending pressures from ageing, defence and climate change will make debt ratios rise further. To help address these challenges, countries can draw on the lessons from past episodes of large and sustained reductions in debt-to-GDP.

In a recent paper (Pina, Hitschfeld and Miyahara, 2025), we have analysed 34 such episodes since the late 1970s, with 25 different OECD countries having experienced at least one episode. Favourable cyclical conditions have been the main driver of declining debt-to-GDP ratios, both through denominator effects and through their positive impact on budget balances. Discretionary fiscal consolidation efforts, mostly on the expenditure side, have been a more modest driver during debt reduction episodes, but have often helped to prepare the ground in the run-up to episodes. Overall expenditure restraint appears to have been accompanied by

growth-friendly shifts in the composition of public spending.

Growth has helped to achieve and sustain primary surpluses

Debt reduction episodes are defined as ones that persist for a minimum of five years and bring down the gross debt-to-GDP ratio by at least 10 percentage points. All episodes start immediately after a debt ratio peak and end when the debt ratio bottoms out. The analysis considered 33 OECD advanced economies over 1976-2019, though data availability is limited for some countries.

Average GDP growth was 3.7% in years belonging to debt reduction episodes, against only 2.3% in the rest of the sample. Stronger economic growth has thus been a potent driver of debt-to-GDP ratio reduction by making the denominator grow faster, but also by enhancing tax revenues and reducing outlays on certain social transfers, such as unemployment benefits. In about 80% of the episodes the primary balance (excluding net debt interest payments) has improved relative to the year when the debt ratio peaks. Figure 1 decomposes this improvement into three parts, respectively due to:

- changes in cyclical conditions
- changes in budget one-offs (large and non-recurrent fiscal operations)
- deliberate fiscal policy action (measured by changes in the underlying primary balance – the primary balance adjusted for cyclical conditions and for one-offs – as a share of potential GDP)

Better cyclical conditions clearly outweigh the other two components, featuring in 29 of the 30 episodes shown and making the largest contribution to the primary balance improvement (1.4 percentage points on average).

In good times, policy has rebuilt fiscal buffers and reformed

the composition of the public finances

The contribution from improved underlying primary balances has been more modest, at only 0.4% of potential GDP on average (Figure 1). Nonetheless, fiscal consolidation efforts have often prepared the ground in the run-up to debt reduction episodes. When comparing average underlying primary balances during episodes with those in the preceding years (up to five years instead of just the previous year as in Figure 1), the improvement reaches 1.8% of potential GDP.

Debt reduction episodes have also seen important changes in the composition of spending and revenue. Consolidation has been expenditure-based, but spending items generally regarded as growth-friendly, such as health, education or investment (Cournède et al., 2014; Fournier and Johansson, 2016), have been relatively spared (Figure 2, bars). This no longer holds for investment if consolidation efforts in run-up years are included (Figure 2, diamonds), but nonetheless investment cuts in episodes and their run-ups have been, on average, considerably smaller than in other consolidation years that failed to deliver sustained debt reduction. Other spending categories have been more heavily constrained, including pensions, with the upward trend observed in recent decades halted during debt reduction episodes. Total underlying primary revenues as a share of potential GDP have on average declined slightly, with a sizeable shift from labour taxation to corporate income taxes.

Figure 2. Fiscal consolidation in debt reduction episodes has been expenditure-based and changed public finance composition
Changes in ratios to potential GDP, percentage points, average across episodes

Note (hover to read the text)
Source: OECD Economic Outlook 98 database; OECD Economic Outlook 115 database; AMECO database, European Commission's Directorate General for Economic and Financial Affairs; and authors' calculations.

Future reductions in the debt-to-GDP ratio may be harder to achieve, as governments face multiple spending pressures and growth is now more subdued than in many earlier episodes. New circumstances call for new approaches to fiscal adjustment, where a larger contribution from revenue increases will likely be required. Nonetheless, governments can draw lessons from past episodes in which countries have achieved large and sustained reductions in their debt ratios and changed the composition of public expenditure. A key policy insight is that governments should take advantage of good times to rebuild fiscal buffers and bring down debt ratios. It has also been possible to make significant savings in particular spending items such as subsidies and certain transfers, including pensions. Such savings need to be accompanied by improvements to the overall targeting and design of spending programmes to maintain support for those who need it most.

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Monetary policy and productivity: Unpacking multifaceted links

Category: Uncategorized
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By Guido Franco and Filiz Unsal, OECD.

Over the past decades, productivity growth has experienced a significant slowdown across most advanced economies. Existing studies point to a range of structural explanations contributing to this deceleration (André and Gal, 2024), but the recent swift tightening and subsequent easing of the monetary policy stance in many jurisdictions have also renewed interest in understanding whether, and through which mechanisms, monetary policy shifts can influence productivity dynamics.

Our new paper (Franco and Unsal, 2025) provides a comprehensive analysis of the impacts of monetary policy shocks on productivity through both (i) *within firm productivity*, via modified incentives and capabilities to

innovate, adopt new technologies, and invest in capital and labour; and ii) variations in the *reallocation of resources across firms* with different productivity levels, via the heterogeneous transmission across sectors and firms. The analysis relies on the use of the local projection methodology and a large firm-level dataset, covering both manufacturing and services industries across 24 countries over the 1995-2019 period, matched to a newly published database on monetary policy shocks across countries (Choi, Willems and Yoo, 2024). This setting allows us to overcome the potential endogeneity arising from firms' expectation of changes in policy rates.

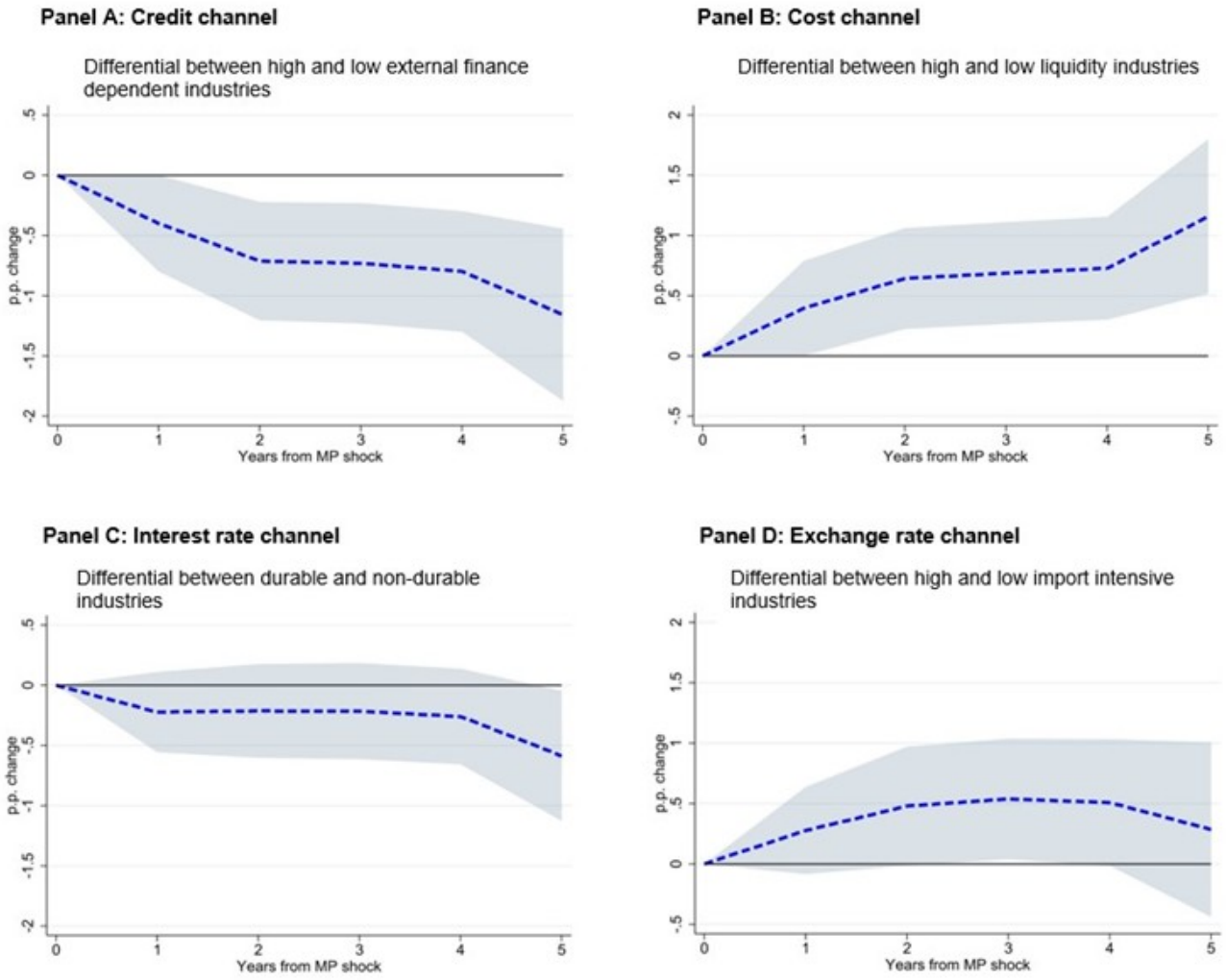
Within firm productivity effects

We find that, on average, firm-level productivity growth reacts significantly to changes in the monetary policy stance. A 25 basis points tightening (easing) monetary policy shock implies a cumulative decrease (increase) in productivity growth of 0.7 p.p. over a 5-year time span. Evaluating separately easing and tightening episodes, the former are found to entail slightly larger effects, but the estimates are not far from symmetry. Exploiting the differential effects across sectors and types of firms (Figure 1), we find that the credit and cost channels of the monetary transmission appear to play a relevant role in determining the dynamics of productivity after a monetary policy shock, while the interest-sensitive demand and the exchange rate channels seem to have a more limited and delayed impact.[1]

These effects are amplified or mitigated depending on the country-specific framework conditions and the counter-cyclical response of the policy to the state of the economy. Firms' productivity is more sensitive to monetary policy shifts in countries with low financial development, in line with the relevance of the credit and cost channels of the monetary transmission. For instance, a developed financial system could allow firms to seek external capital from a variety of sources, attenuating the consequences of a tightening shock.

Moreover, firm-level productivity losses (gains) associated with monetary tightening (easing) are only observed when the economy is in a downturn, hinting that a “leaning against the wind” approach to monetary policy appears favourable not only for providing macroeconomic stability but also from a productivity perspective.

Figure 1. The credit and cost channels of monetary policy transmission appear the most relevant in determining productivity dynamics after monetary policy shocks.



Note: In each panel, the graph simulates the impact of a 25 basis points monetary policy shock. The dashed line reports the size of the effect, while the shaded area displays the 90% confidence intervals. Positive (negative) shocks stand for tightening (easing) shocks. Estimates on the interest-sensitive demand channel (Panel C) refer to industrial sectors

only.
Source: OECD calculations based on Authors' calculations based on Orbis, Choi et al. (2024), Demmou and Franco (2021), Durante et al. (2022) and OECD data.

Reallocation effects

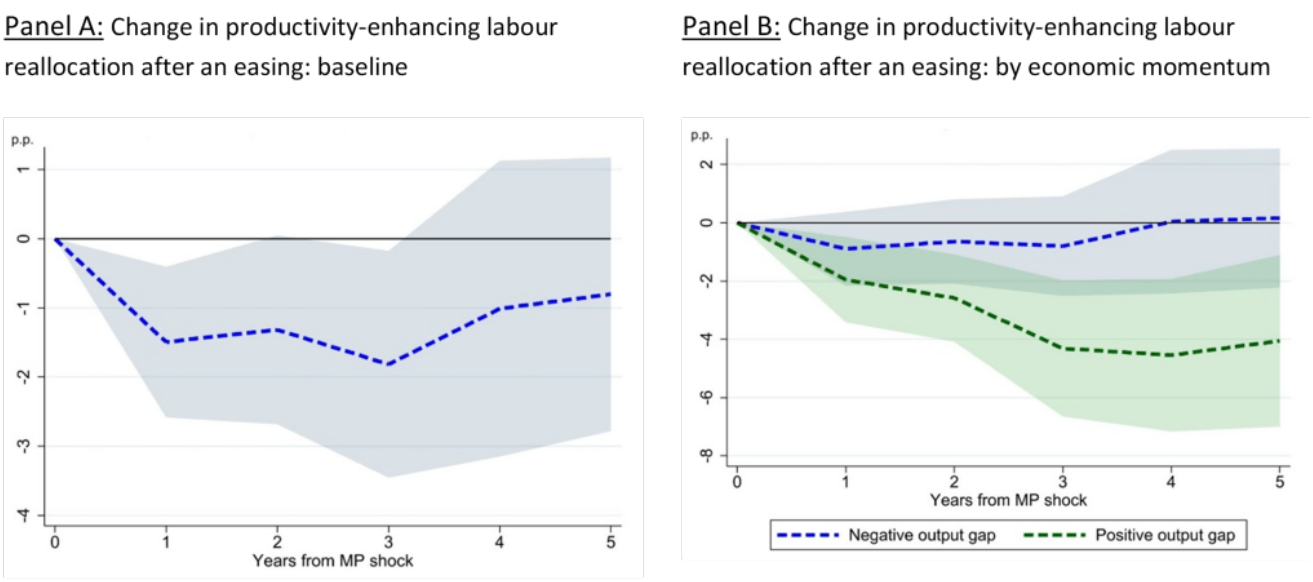
Changes in the monetary policy stance also affect the efficiency with which resources are allocated across firms. Easing episodes are associated with lower productivity-enhancing reallocation, as well as a higher share of labour and capital sunk in zombie firms. The estimated impacts are not extensive but could imply up to a 7% reduction in the efficiency of resources reallocation over 3-years in the aftermath of a monetary easing episode (Figure 2, Panel A).

Critically, the impact is heterogeneous across countries, as it is the case with respect to within-firm productivity effects. Low barriers to competition and a deep and efficient financial system are essential to offset the misallocation effects that may follow a monetary easing episode, for instance by reducing the risk of credit flowing towards zombie firms and ensuring an effective allocation of the credit inflows arising from the relaxation of lending standards. Importantly, a monetary easing reduces the extent of productivity-enhancing reallocation only when it is pro-cyclical: increased misallocation of resources with easing shocks disappears during economic downturns, as the monetary easing may partially compensate for intensified frictions that productive firms may face when the economy is contracting (Figure 2, Panel B).

There is no significant evidence, instead, of the potentially cleansing effects of tightening episodes. Similarly, monetary policy shocks do not alter the productivity-enhancing nature of business dynamism through the extensive margin, as our estimates show that the strength of the (inverse) relationship between firm exit and productivity is unaffected. Still, when

turning to business dynamism more broadly and using sector-level data, we find that the entry and exit margins adjust in opposite directions: a tightening (easing) implies higher (lower) bankruptcies and lower (higher) 1-year survival rate of newly born enterprises.

Figure 2. Monetary easing reduces the productivity-enhancing reallocation of labour, prevalently when it is pro-cyclical.



Note: Productivity-enhancing labour reallocation is measured as the strength of the relationship between firms lagged productivity and employment growth, and hence as the differential employment growth of higher productivity firms compared to lower productivity ones. The graphs simulate the impact of a 25 basis points monetary policy easing surprise.
Source: OECD calculations based on Orbis, Choi et al. (2024) and OECD data.

Conclusion

Productivity dynamics are significantly influenced by monetary policy shocks, but the impacts may depend on the transmission channels involved, country-specific framework conditions and cyclical alignment of the monetary policy responses.

Specifically, a monetary easing boosts firm-level productivity in the medium-term, mainly through investment, but also tends

to slow down the productivity-enhancing nature of labour and capital reallocation across firms. On the other hand, tightening episodes are detrimental for firm-level productivity and neutral from a misallocation perspective. The productivity benefits are larger and the losses smaller when sound policies are implemented. Developing a deep and stable financial system, ensuring competitive product markets, while avoiding pro-cyclical changes in the monetary policy stance, helps leverage the advantages and minimise the productivity damages associated with policy rates shifts.

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[1] The credit channel relates to the sensitivity of the external financing premium to changes in policy rates. The interest rate channel is the driven by the impact of changes in interest rates on the interest-sensitive component of demand. The exchange rate channel concerns the negative impact that a tightening (easing) could have on exporting (importing) industries through the appreciation (depreciation) of the domestic currency. The cost channel is instead related to firms' need to pay factors of production before receiving sale revenues, and thus to borrow some working capital; a change in the cost of borrowing would then be alike to a change in inputs prices.

Generando espacio fiscal para un crecimiento sólido, sostenible y ampliamente compartido en el Perú

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Por Aida Caldera-Sánchez, Paula Garda y Michael Koelle, OCDE.

Disponible en inglés

El Perú tiene la oportunidad de combinar un mayor crecimiento económico con finanzas públicas sostenibles. Durante las dos últimas décadas, Perú fue una de las economías de más rápido crecimiento en América Latina, apoyada en un robusto macro macroeconómico que incluye reglas fiscales, una política monetaria creíble y una supervisión financiera robusta. Una gestión fiscal prudente permitió elevar los niveles de vida y atraer inversión, y ayudó a afrontar diversos choques externos y domésticos. Sin embargo, el crecimiento se ha desacelerado desde el fin del boom de las materias primas, lastrado por la debilidad de la inversión privada y una productividad estancada. Al mismo tiempo, en los últimos años los déficits fiscales han superado las metas de la regla fiscal, con medidas que aumentan el gasto sin un claro financiamiento y otras medidas que erosionan la base tributaria. Si estas tendencias se mantienen, existe el riesgo de debilitar el sólido marco macroeconómico que hasta ahora ha sustentado la resiliencia de la economía peruana.

Como proyecta el recientemente publicado Estudio Económico de la OCDE sobre el Perú, el crecimiento se moderará a 2,8% en 2025 y 2,6% en 2026, en un contexto de incertidumbre global y doméstica, y tasas de crecimiento cercanas a la capacidad de crecimiento de largo plazo de la economía. Esto hace que la sostenibilidad fiscal sea aún más urgente, ya que, con un menor crecimiento, estabilizar la deuda se vuelve más difícil. Adicionalmente, las proyecciones de la OCDE muestran déficits fiscales por encima de los límites de la regla fiscal en los próximos años, requiriendo un ajuste adicional de alrededor de 0,4% del PIB. Sin un mayor esfuerzo de movilización de ingresos y un control más estricto del gasto, cumplir las reglas fiscales seguirá siendo un desafío incluso en el mediano plazo.

Por qué importa el espacio fiscal

Para aumentar la capacidad de crecimiento de largo plazo, el Perú necesita espacio fiscal para invertir en educación,

protección social, infraestructura y adaptación al cambio climático. Sin reformas para financiar gasto público ya comprometido, la deuda aumentará de forma sostenida incluso desde un punto de partida bajo (línea roja de la Figura 1). En cambio, una mayor eficiencia en el gasto, una reforma tributaria integral (línea naranja) y una ambiciosa agenda de reformas pro-crecimiento (línea verde) para elevar la productividad, reducir la informalidad y fortalecer las instituciones mantendrían la deuda en una trayectoria sostenible. En conjunto, estas reformas le darían al Perú los medios para acelerar la convergencia de su ingreso per cápita a los países de la OCDE y elevar los niveles de vida.

Cumplimiento de la regla fiscal

La prioridad inmediata es reducir el déficit fiscal para que vuelva a estar dentro de los límites de la regla. Esto es fundamental para mantener la confianza de los inversionistas, conservar bajos los costos de financiamiento y preservar la capacidad del gobierno para responder a choques futuros. Cumplir con la regla fiscal puede lograrse controlando el gasto corriente –en especial la planilla, que tiende a aumentar en años electorales– eliminando gradualmente el subsidio al diésel bajo el Fondo de Estabilización de Precios de los Combustibles (FEPC) y limitando la proliferación de gastos tributarios. El apoyo financiero a Petroperú, la empresa estatal de petróleo, debe acompañarse de un plan creíble para restaurar su viabilidad, incluyendo la alineación con los estándares de gobernanza de las empresas estatales de la OCDE.

Gastar mejor

Lograr que el gasto e inversión públicos sean más eficientes debe ser una prioridad. El gobierno peruano ya invierte más que muchos países de la OCDE y de la región, pero la calidad de la infraestructura sigue siendo baja, mientras que la cobertura de la protección social es incompleta y mal

focalizada. La tarea es garantizar que cada sol gastado entregue servicios de calidad y llegue a quienes más lo necesitan. Perú puede reorientar recursos hacia protección social, educación y resiliencia climática, al tiempo que fortalece los registros sociales para mejorar la focalización, mejora la evaluación de proyectos de inversión mediante análisis sistemáticos de costo-beneficio y fortalece las capacidades de los gobiernos subnacionales, todo lo cual permitiría mejores resultados.

Aumentar los ingresos

La eficiencia del gasto por sí sola no será suficiente. Con ingresos tributarios de apenas 17% del PIB, el Perú tiene ingresos entre los más bajos de América Latina y muy por debajo del promedio de la OCDE de 34% del PIB (Figura 2). Esto refleja una extendida evasión fiscal, alta informalidad, una administración tributaria ineficiente y una estructura tributaria dependiente del IVA y del impuesto a la renta corporativa, pero debilitada por la baja recaudación del impuesto a la renta personal y gastos tributarios.

Por ello es necesario mejorar la administración tributaria y avanzar en una reforma tributaria integral. Fortalecer la administración tributaria implica modernizar su capacidad para garantizar el cumplimiento. Inversiones en digitalización, facturación electrónica, intercambio de datos entre entidades y auditorías basadas en riesgos harían más eficaz la fiscalización. La reforma tributaria debería incluir varios elementos:

- Revisiones sistemáticas de los gastos tributarios, actualmente estimados en más del 2% del PIB, y cláusulas de caducidad para mantener solo las medidas con beneficios sociales o de productividad claros.
- Simplificación de los regímenes de impuesto a la renta empresarial para las pequeñas empresas mediante la

sustitución de esquemas múltiples y superpuestos por un régimen único que reduzca la evasión e incentive el crecimiento de las empresas y la formalización empresarial.
- Ampliación de la base del impuesto a la renta personal reduciendo gradualmente el umbral a partir del cual se empieza a pagar y reemplazando las contribuciones a la seguridad social basadas en el tamaño de la empresa por contribuciones progresivas basadas en el ingreso laboral, más bajas para quienes ganan menos, para incentivar la formalización laboral.

Junto con una mayor recaudación de impuestos a la propiedad, ambientales y selectivos al consumo, estas medidas crearían un sistema tributario más justo, eficiente y con una base de ingresos más amplia.

El desafío del Perú es reactivar el crecimiento salvaguardando al mismo tiempo la sostenibilidad fiscal. El cumplimiento de la regla fiscal debe ir de la mano de una mayor eficiencia del gasto, mayores ingresos fiscales y reformas para elevar la productividad y fortalecer las instituciones, sentando las bases de la prosperidad a largo plazo.

Para más información: Panorama económico de la OCDE para el Perú.

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Building fiscal space for stronger, sustainable and broadly shared growth in Peru

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By Aida Caldera-Sanchez, Paula Garda and Michael Koelle, OECD.

Available in Spanish

Peru has the opportunity to combine stronger growth with sustainable public finances. Over the past two decades, Peru was among the fastest-growing economies in Latin America, supported by fiscal rules, credible monetary policy, and robust financial supervision. Careful fiscal management boosted living standards, attracted investment, and helped weather repeated shocks. But growth has slowed since the end of the commodity boom, held back by weak private investment and stagnant productivity. At the same time, recent years have seen fiscal deficits exceed the fiscal rule targets, with measures that increase spending without adequate financing, and erosion of the tax base. Unless addressed, these trends risk weakening the strong macroeconomic framework that once underpinned resilience.

As the recently launched OECD Economic Survey of Peru projects, growth will moderate to 2.8% in 2025 and 2.6% in 2026, amid global and domestic uncertainty and close to the economy’s current capacity to grow in the long run. This makes fiscal sustainability even more pressing. With weaker growth,

debt is harder to stabilise, and OECD projections show fiscal deficits above rule limits in both years, requiring an additional adjustment of about 0.4% of GDP. Without stronger revenue mobilisation and stricter control of spending, meeting fiscal rules will remain challenging even over the medium term.

Why fiscal space matters

To raise the economy's capacity to grow in the long run, Peru needs fiscal space to invest in education, social protection, infrastructure and climate adaptation. Without reforms to finance already committed spending, debt ratios will rise steadily even from a low starting point (Figure 1, brown line). By contrast, more efficiency in spending, comprehensive tax reform (yellow line), and an ambitious pro-growth reform agenda (green line) to raise productivity, reduce informality, and strengthen institutions would keep debt on a sustainable path. Together, these reforms would give Peru the means to accelerate income convergence and lift living standards.

Complying with the fiscal rule

The immediate priority is to bring the fiscal deficit back within the rule limits. This is critical to retain investor confidence, keep borrowing costs low, and preserve the government's ability to respond to future shocks. Returning to compliance can be achieved by controlling current spending—especially payroll, which tends to rise in electoral years—phasing out the diesel subsidy under the Fuel Price Stabilisation Fund (FEPC) and limiting the proliferation of tax expenditures. Ongoing support to Petroperú, the state-owned oil enterprise, must be paired with a credible plan to restore its viability, including aligning with OECD-standard governance for state-owned enterprises (SOEs).

Spending better

Making public spending and investment more efficient should be

a top priority. Peru's government already invests more than many OECD countries and those in the region, but infrastructure quality remains low, while social protection coverage remains incomplete and poorly targeted. The task is to ensure that every sol spent delivers quality services and reaches those most in need. Reorienting resources towards social protection, education, and climate resilience, while strengthening social registries for better targeting, improving project evaluation using systematic cost-benefit analysis, and building the capacities of subnational governments would improve outcomes.

Raising revenues

Higher spending efficiency alone will not be enough. At just 17% of GDP, Peru's tax revenues are among the lowest in Latin America and far below the OECD average of 34% (Figure 2). This reflects widespread tax evasion, high informality, inefficient tax administration, and a tax structure reliant on VAT and corporate income taxes but weakened by low personal income tax collection and tax expenditures.

Improving the tax administration and advancing a comprehensive tax reform are therefore needed. Strengthening the tax administration means modernising its capacity to ensure tax compliance. Investments in digitalisation, electronic invoicing, data sharing across agencies, and risk-based audits would make oversight more effective. The tax reform should have several elements:

- Systematic reviews of tax expenditures, currently estimated at over 2% of GDP, and sunset clauses to keep only measures with clear social or productivity benefits.
- Simplification of corporate tax regimes for small businesses by replacing multiple overlapping schemes with a single scheme to reduce evasion and encourage

business formalisation.
- Expansion of the personal income tax base by gradually lowering the threshold at which individuals start paying and replace firm-size-based social security contributions with progressive contributions based on labour income, lower for low earners, to encourage labour formalisation.

Together with stronger property, environmental, and excise tax collection, these measures would create a fairer, more efficient tax system and broaden the revenue base.

Peru’s challenge is to reignite growth while safeguarding fiscal sustainability. Fiscal rule compliance must go hand in hand with higher spending efficiency, higher revenues, and reforms to raise productivity and strengthen institutions, laying the foundations for long-term prosperity.

For more information: **OECD Economic snapshot for Peru.**

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Reaching equal pay: a pending job

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written by oecdecoscope | October 15, 2025

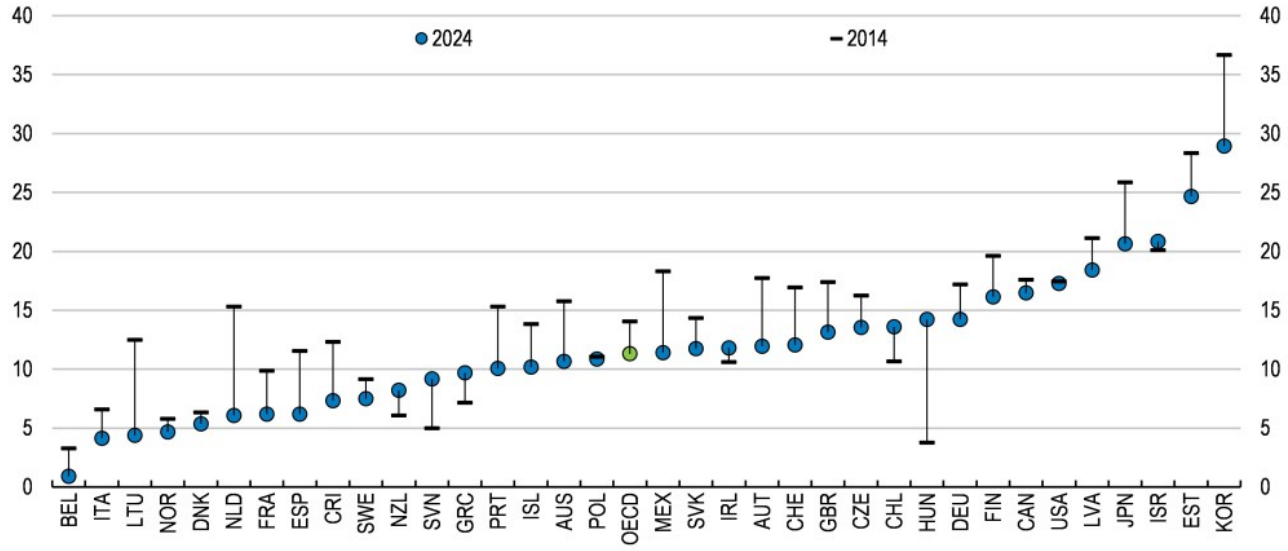
By Claudia Ramírez Bulos and Aida Caldera Sánchez, OECD

In 2024, a woman working full-time in the average OECD country took home just 89 cents for every dollar earned by a man. But the picture varies significantly by country: in South Korea, women earned 29% less than men, in Japan 22%, while in Italy and Lithuania the difference was closer to 4% (Figure 1). Despite these disparities, one thing is clear: reaching equal pay between men and women is still a pending job across OECD countries.

This picture also emerges clearly in **OECD Economic Surveys**, which track country-specific progress on gender equality as part of their broader assessment of labour markets and growth. From Germany to Japan, from Korea to Spain, the Surveys show that persistent pay gaps reflect not only individual choices, but structural barriers that limit women’s opportunities to participate fully in the labour market.

Figure 1. The gender wage gap remains large in most OECD countries

Difference in median full-time earnings between men and women, % of the level for men, 2014 and 2024



Note: The data for 2014 refer to 2013 for Chile. The data for 2024 refer to 2023 for Austria, Chile, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Netherlands, Poland, Portugal, Slovakia, Slovenia, Spain, the EU-27, and the OECD. The data for 2024 refer to 2022 for Belgium, Iceland, Israel, Switzerland. For Luxembourg the latest data refer to 2020 (0.4); for Türkiye the latest data refer to 2018 (10.0).
Source: OECD Gender wage gap statistics.

Why equal pay matter

Equal pay isn’t just about fairness, it’s about unlocking economic potential. Paying women fairly for equal work drives higher workforce participation, fuels economic growth, and helps lift families out of poverty. **OECD Economic Surveys** consistently underline that more equal labour markets are also more productive. Closing today’s gender pay gap builds tomorrow’s gender pension equity, ensuring women enjoy the same financial security in retirement as men.

What is behind the wage gap between men and women?

The gender wage gap reflects unequal responsibilities and unequal opportunities. OECD analysis shows that three-quarters

of the gap comes from men and women with similar qualifications being paid differently within the same firm, often reflecting differences in tasks and responsibilities, or simply discrimination. The remaining quarter reflects the tendency for women to be clustered in lower-paid firms and industries such as care, health and education, while far fewer make it into high-paying, fast-growing fields like information, communications and technology (Figure 2) (OECD, 2021[1]).

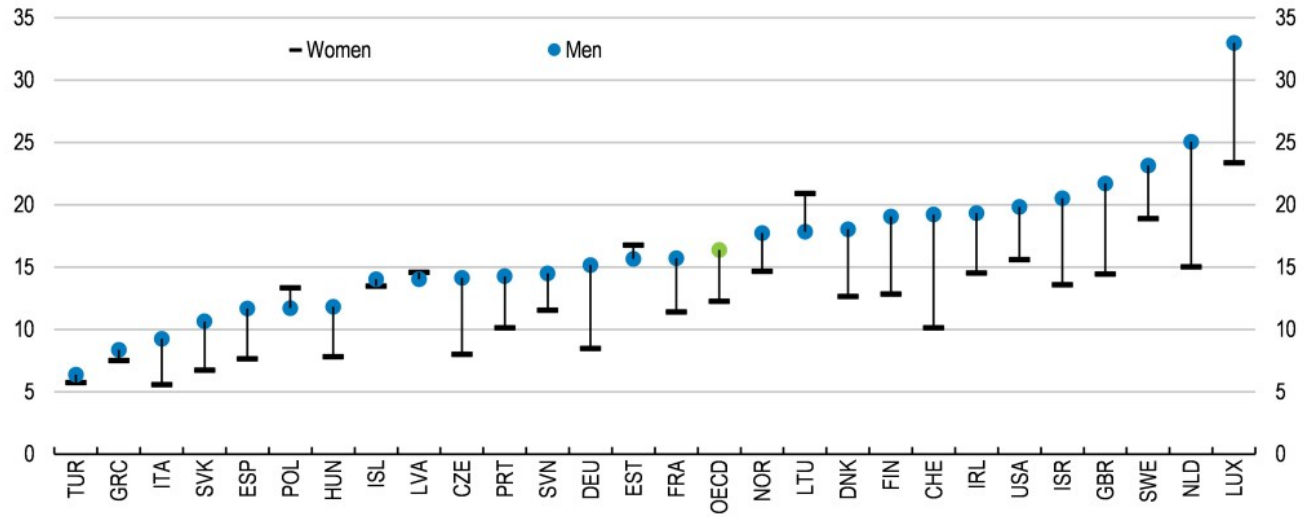
Economic Surveys highlight additional structural barriers:

- In Germany, high marginal tax rates on second earners, often women, discourage full time work (OECD, 2025[2]).
- In Japan, the Surveys stress that limited uptake of parental leave by fathers and unequal career progression for women slows efforts to close the gap (OECD, 2025[3]).
- In Korea, pay transparency and stronger enforcement of anti-discrimination laws are flagged as priorities to tackle one of the largest gender pay gaps in the OECD (OECD, 2024[4]).

These structural obstacles are compounded by women still bearing a disproportionate share of unpaid household and care work – about four hours a day on average in OECD countries, twice as much as men (Figure 3), leaving less time for paid work, training, or promotions. Also, women's greater likelihood of working part-time or fewer hours (voluntary and involuntary) limits their experience, career advancement, and access to higher-paying jobs. Hence women not only earn less per hour worked but work less hours on average.

Figure 2. Fewer women work in high-paid jobs than men

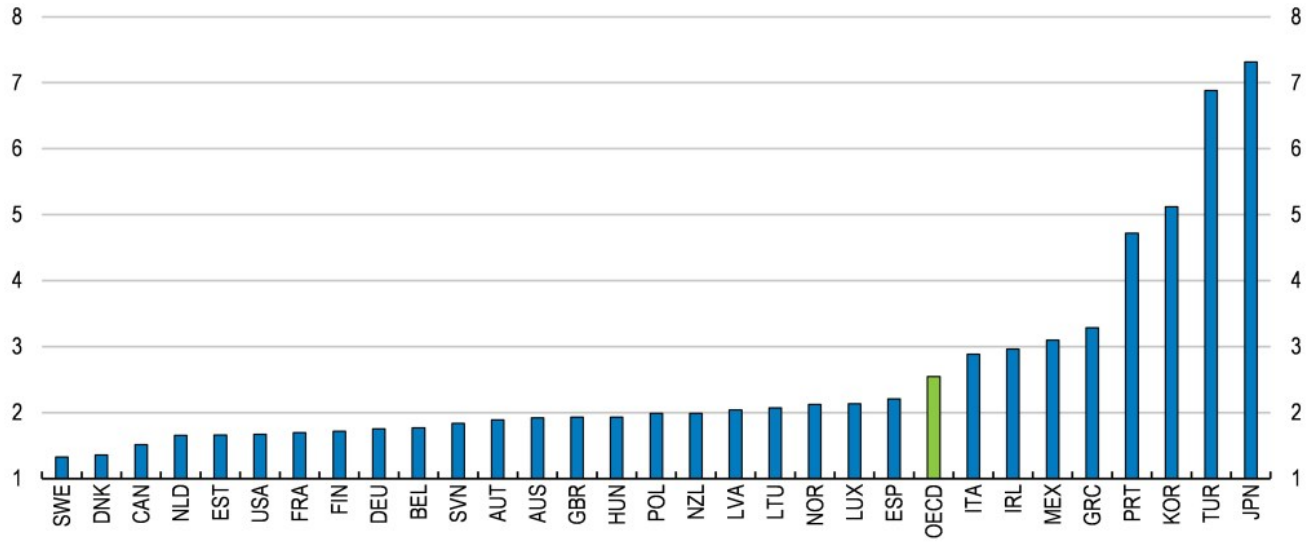
ICT specialists and users in their job by gender, % of all jobs, 2022



Source: OECD Going Digital Toolkit gender indicators.

Figure 3. Women assign more time to unpaid household and care work than men

Average time spent by women on unpaid care and domestic work, female to male ratio



Note: "Unpaid care and domestic work" includes routine housework and care for household and non-household members.
Source: OECD Time use database 2024.

Progress and policy lessons

The gender pay gap has narrowed by around three percentage points across the OECD in the last decade (Figure 1), thanks to reforms in education, labour market and social policies.

OECD Economic Surveys show how tailored policy packages deliver results.

- Austria reduced its gap through a mix of measures that strengthened pay transparency and reporting laws, reinforced equal treatment and anti-discrimination legislation, and supported women with mentoring programs and initiatives to balance family and work responsibilities – all while encouraging more women to take on leadership roles.
- Spain has also made significant progress, reducing its pay gap by 5.3 points over the past decade. This improvement reflects higher labour market participation, more women moving into full-time roles and higher-paying industries, and the implementation of stronger pay transparency rules to target gender discrimination, which apply to companies with more than 50 employees.
- Australia narrowed its gap through expanded parental leave, subsidised childcare, growth of more flexible work arrangements, wage setting reforms and mandatory pay reporting.

These cases illustrate that progress is possible, but also that achieving pay equity requires a comprehensive approach that tackles barriers at home and in the workplace.

The road ahead

A consistent message across **OECD Economic Surveys** is that progress requires coordinated action on childcare, family leave, tax design, and workplace practices (Gonne and Trincão, 2024[5]):

- Expanding affordable childcare, improving shared and flexible parental leave.
- Reforming tax and benefit systems to remove

disincentives to work for second earners, often women.
- Making fair wage-setting practices including mandatory pay transparency policies, requiring employers to publish gender wage gaps and giving workers the right to know what colleagues in comparable roles earn the norm.
- Supporting women's access to leadership and decision-making roles such as temporary quotas, mentorship programs, and women's networks.
- Awareness campaigns and data collection to monitor, evaluate, and improve the effectiveness of policies.

Equal pay will not come automatically. It requires deliberate policy action, sustained monitoring, and a commitment to use all the available talent to strengthen economies and societies.

OECD Economic Surveys will continue to track country-specific progress, helping governments design and implement reforms ensuring that equal pay is not only a principle, but a reality.

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Estonia’s new car tax and registration fee: Are they changing consumer demand?

Category: Estonia,Tax,Uncategorized
written by oecdecoscope | October 15, 2025

By Zuzana Smidova and Vaiva Šeckute, OECD

At the beginning of the year, Estonia introduced a vehicle registration fee and an annual car tax linked to the vehicle’s greenhouse gas (GHG) emissions. Until then, it was one of the few European countries without motor vehicle taxes.

OECD countries increasingly use vehicle taxation to encourage drivers to switch to cleaner cars and reduce emissions, as well as to raise revenue, by linking these taxes to emissions. Although motor fuels are already taxed, consumers tend to undervalue the long-term savings from choosing more efficient vehicles, so registration fees can help change purchasing patterns.

Estonia’s car fleet is one of the oldest in the EU and has some of the largest engines (Figure 1). Transport emissions account for around one fifth of Estonia’s total greenhouse gas emissions. Achieving the target of a 25% decrease by 2035 compared to the 2005 level is proving challenging with emissions remaining stable in recent years.

In 2023, the average CO2 emissions per kilometre from new passenger cars were among the highest in the EU (Figure 2). This partly reflects reliance on purchases of second-hand cars from western Europe and the absence of an emissions-based motor vehicle tax.

Data from the first eight months of the year show that, since the tax was introduced, purchasing has moved more rapidly than before towards cars emitting less emissions (Figure 3). The overall number of passenger car registrations dropped as many consumers who had planned to buy a car did their purchases last year in anticipation of the tax. Looking at the breakdown by vehicle type, there has been a shift towards cleaner vehicles. The data shows that the registrations of electric vehicles increased, while registrations of hybrid cars declined less than petrol and diesel cars compared to the same period of last year. As a result, the share of electric vehicles rose from about 5% last year to 10% and the share of hybrid vehicles grew from some 25% to almost 40%. Encouragingly, based on these first estimates, average emissions from newly registered cars also fell by 10% (ERR, 2025).

Introducing the registration fee and annual tax are a significant achievement and the link to emissions and engine size seem to be bearing fruits. Nevertheless, some of its features could be improved further. The annual tax decreases with vehicle age. While this aims to make it more affordable for those on low incomes who tend to have old cars, it undermines the incentives to switch to more efficient cars. Instead, a targeted car scrappage scheme for older vehicles financed by the revenues from the motor tax could be considered.

Decreasing emissions from transport will require strong incentives on multiple fronts – increasing availability of public transport, introducing stricter minimum emission standards and moving towards distance-based charging, which can allow for higher charges where alternatives for cleaner

modes of transport exist (OECD, 2024; van Dender, 2019).

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New OECD long-run scenarios focus on the trade-off between carbon mitigation and climate damage

Category: Climate,Environment,Uncategorized
written by oecdecoscope | October 15, 2025

by Yvan Guillemette, OECD.

Last week the OECD released the latest update of its long-term scenarios, which are designed to quantify some of the most important long-term macroeconomic trends and policy challenges facing the global economy. One central challenge is the need

to accelerate the transition toward renewable energy sources to reduce greenhouse gas emissions and attenuate the impacts of climate change. How this might impact future output trajectories is the focus of this update.

The analysis considers two “business-as-usual” scenarios in which decarbonisation of the energy mix and improvements in energy efficiency continue along recent trends. The first is based on a median climate damage curve and the second on a high climate damage curve within the wide range found in the scientific literature. In the scenario with a median climate damage curve (scenario BAU1), global annual potential output growth is projected to moderate gradually from around 2.9% today to 2.7% in the first part of the 2030s, 2.1% in the early 2040s and remain at around 1.3% in the second half of the century. This moderation reflects declining working-age population growth and slowing trend labour efficiency growth in the emerging-market economies as their productivity levels get gradually closer to the frontier. China remains the world’s largest economy until the mid-2060s when it is surpassed by India.

Global annual potential output per capita growth slows by less than overall output, but still declines from about 2% today to 1¼ per cent by 2050, remaining broadly stable thereafter.

Insufficiently rapid progress on reducing greenhouse gas emissions implies continued global warming. The global average surface temperature anomaly – the increase in the global average temperature since pre-industrial times – continues to increase throughout the projection period and reaches 2½ °C in 2100. The reduction in global output associated with climate

change, estimated to be approximately 1¾ per cent of global GDP today, rises to nearly 9% by 2100. With a steeper climate damage curve, at the high end of recent estimates, projected climate damages reduce global output by 36% by 2100 (scenario BAU2).

An illustration of the potential impacts of an accelerated energy transition on future output must consider two main impact channels. The first is faster carbon mitigation. This is a negative supply shock in the short to medium run (relative to a business-as-usual scenario), with the size varying across countries according to their current energy mixes and ease of substitutability. The second is the avoidance of climate-related damages, a positive supply shock in the medium to long run (again, relative to a business-as-usual scenario) that is also country specific. To highlight the uncertainty surrounding these channels, four energy transition scenarios are considered with differing assumptions about the pace at which carbon mitigation costs might decline over time and the steepness of the global climate damage curve.

- With a median climate damage curve and a slow decline in mitigation costs (scenario ET1), global output remains lower in 2100 than in the corresponding business-as-usual scenario.
- With a median climate damage curve and a quick decline in mitigation costs (scenario ET2), the energy transition becomes a net positive for global output around 2085.
- With a high-damage curve and a slow decline in mitigation costs (scenario ET3), the energy transition becomes a net positive for global output in the mid-2050s.
- With a high-damage curve and a quick decline in mitigation costs (scenario ET4), the energy transition becomes a net positive for global output in the

mid-2040s. All 139 countries modelled individually are net beneficiaries by 2080.

The new long-term scenarios also incorporate several key improvements to the underlying projection framework: 1) the geographical coverage is now global, including 139 countries modelled individually; 2) the projection horizon has been extended from 2060 to 2100; 3) the approach for long-run productivity convergence across countries has been revised; and 4) the framework now allows for the impact of climate damages on output via a global climate damage curve and country-specific climate sensitivities that can be altered to consider different assumptions and scenarios.

Selected series for the scenarios are available on the OECD Data Explorer and additional data visualizations are available on this web page.

Additional readings:

OECD (2025), “OECD global long-run economic scenarios: 2025 update”, *OECD Economic Policy Papers*, No. 36, OECD Publishing, Paris, https://doi.org/10.1787/00353678-en.

The market implications of industrial subsidies

Category: Public Investment,Uncategorized
written by oecdecoscope | October 15, 2025

By Valentine Millot, Łukasz Rawdanowicz, Jehan Sauvage and Elisabeth van Lieshout, OECD.

Do government subsidies fuel firm growth or just distort competition? Our latest study reveals that subsidies boost market share but they do not have positive effects on investment and productivity. This raises important questions about efficiency and spillovers in industrial policies.

Governments are increasingly employing subsidies and other types of industrial policies in general. This calls for not only quantifying support measures, but also investigating their market implications. The OECD has played an important role in improving transparency regarding industrial subsidies. One of notable contribution is the recent creation of the OECD MAnufacturing Groups and Industrial Corporations (MAGIC) database (OECD, 2025a). This database provides detailed information on the amount of government subsidies received by the largest global manufacturing firms in 14 industrial sectors. In our latest study, we add to the empirical literature about subsidy effects by estimating the causal impacts of government subsidies on the performance of these firms using the OECD MAGIC database (OECD, 2025b).

Subsidies have ambiguous theoretical implications and mixed empirical outcomes

The impact of subsidies on firm performance is ambiguous in theory. Subsidies can encourage investment by lowering firms' cost of capital, with potential positive effects on productivity and competitiveness. This, in turn, can help firms gain market shares or boost profitability. However,

subsidies may also support inefficient investment or reduce incentives to innovate, especially if paired with protectionist measures.

The impacts of government subsidies on market outcomes can also vary over time and across specific policy tools. For instance, one-off support measures to distressed companies during crises are likely to have a different impact on firm performance than ongoing subsidies disbursed in the context of sustained industrial policy strategies.

Ultimately, the impact of subsidies on firm performance is an empirical question. However, econometric evidence thus far tends to vary across studies, which mostly use data for one jurisdiction or one sector only (Aghion et al., 2015; Criscuolo et al., 2019; Branstetter and Li, 2023; Brandão-Marques and Toprak, 2024). Our recent paper seeks to fill this gap by providing cross-sector and cross-country evidence.

Main empirical findings

According to our panel estimations using two methods to address reverse causality, on average, across the largest manufacturing firms operating in 14 sectors and numerous countries, total government subsidies:

- increase market shares. This impact is economically sizeable, relative to observed small annual changes in market shares, with an increase of one percentage point in subsidies as a share of revenue corresponding to between the 27^{th} and 51^{st} percentile of the observed distribution of annual absolute market share changes, depending on the estimation method.
- do not seem to have an impact on firms' investment rate but appear to increase nominal spending on investment. This implies that subsidies do not substantively shift firms' overall tendency to invest.

- have no or a negative effect on real productivity growth, in line with most frequent findings in the literature that subsidies do not enable firms to become more productive.
- have no significant contemporaneous impact on various measures of profitability. This suggests that firms generally do not translate subsidies into simple windfall profits.

Given that overall subsidies appear to have no or negative impact on the investment rate and productivity, the finding that subsidies are associated with increases in market shares does not seem to be explained by efficiency gains. Instead, this relationship could result from the ability of firms receiving subsidies to cover part of their operating costs and lower their prices. This narrative is consistent with evidence that subsidies do not boost profitability.

Effects tend to vary across subsidy types and firm characteristics

For several performance indicators, the effects of subsidies differ across their types, with most frequent and consistent findings for tax concessions.

- Several specifications point to a positive impact of tax concessions on investment levels and rates, productivity, and profitability. These effects can stem from their perceived predictability, in particular if they are part of the tax code, as compared to other forms of subsidies that are often discretionary. Moreover, they generally allow firms to make independent decisions, unlike grants tied to individual projects. Thus, tax incentives could be more conducive to investment and productivity improvements.
- In contrast, there is some evidence that below-market borrowings lower real productivity growth and

profitability. This can reflect the fact that this policy tool at times has been used to support distressed firms, when it is less likely to have positive contemporaneous effects on productivity and profitability. Below-market borrowings may just help firms to survive in the market that would not otherwise have done so without seeking to increase their productivity.

These heterogenous results for individual subsidy types suggest that the effects of government support can differ significantly depending on the nature and design of individual support measures. There is also some tentative evidence about differentiated effects of subsidies across various characteristics of firms. Some of them relate to China-based companies. For instance, the negative impact of below-market borrowings on productivity and profitability is less strong for China-based firms. This could be because, in contrast to other countries, below-market borrowings are a systemic rather than an emergency type of government support to companies.

Future research

While our paper has enhanced understanding of some market implications of subsidies, continued efforts are needed to improve the transparency and measurement of government support and to broaden the scope of analysis of possible subsidy effects.

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What has been holding back investment?

Category: Uncategorized
written by oecdecoscope | October 15, 2025

By Dennis Dlugosch, Max Glanville, John Hooley, Fatih Ozturk and Ben Westmore, OECD.

Despite strong corporate profits and historically low

financing costs, investment has remained subdued across many OECD economies since the Global Financial Crisis (GFC), according to our recently released OECD paper. What has been holding it back?

Investment has stalled—why does it matter?

Investment is a key driver of long-term economic growth. Yet since the GFC, real investment has failed to keep pace with pre-crisis trends, weighing on potential output growth. Real investment in both advanced and emerging market economies is still roughly 20% below its pre-GFC trend (Figure 1). Even in economies with relatively strong business investment—most notably the United States—investment remains below its pre-crisis trajectory.

This slowdown reflects both major cyclical shocks—the GFC and the COVID-19 pandemic—and deeper structural forces. Moreover, these effects are interrelated: cyclical downturns can themselves bring structural change by inflicting lasting 'scars' on firm balance sheets, labour-market dynamics and patterns of technological adoption.

For business investment, weak demand is only part of the puzzle

In the wake of the GFC and pandemic, aggregate demand fell sharply, discouraging firms from expanding capacity. While demand has partially recovered, business investment has not. Analysis using a simple investment 'accelerator' model shows that subdued demand explains about one-third of the shortfall in business investment (Figure 2, Panel A). The rest is an unexplained "gap" deriving from non-demand factors weighing on investment.

The size of these unexplained gaps differs by country, from relatively low gaps, in the case of Japan and Finland, to gaps of above 30 percent of predicted investment, in the case of Australia, Korea, and the Netherlands (Figure 2, Panel B).

Financing costs are low, profits are high. But where are the profits going?

Other traditional explanations for weak investment like high capital costs or weak profitability are not behind the slowdown. Borrowing costs and corporate tax rates have fallen. Tobin's Q, an indicator of market incentives to invest, has remained above one in many countries, suggesting firms' returns on investments exceed their costs. At the same time, corporate profits have surged, but businesses are investing less of their earnings in fixed capital.

Instead, firms have been accumulating financial assets or returning funds to shareholders in the form of dividends or share buybacks. In many countries, the corporate sector has shifted from being a net borrower to a net lender, meaning firms are saving more than they are investing. High "hurdle rates" suggest firms demand very high returns before committing their capital, possibly due to perceived risk or reduced competitive pressures.

Uncertainty is a major factor holding back investment

Policy-related uncertainty has risen steadily since 2016, which can discourage long-term investment. Firms tend to delay or scale back projects when they perceive uncertainty to be high. OECD estimates suggest that uncertainty may explain up to one-sixth of the investment shortfall across OECD countries, or one-quarter of the unexplained gap. And the outlook is not great; uncertainty indicators have increased dramatically since late 2024 and recent survey evidence suggests that perceived uncertainty is increasingly a major obstacle to business investment.

The digital transition and intangible economy are changing the nature of investment

Investment patterns have shifted toward digital and knowledge-based assets, such as software, data, and R&D. These assets

now account for over 35% of business investment across OECD economies, up from 28% in 2000. Investment in digital capital has been particularly strong in tech-intensive industries, particularly in firms specialising in the use of artificial intelligence.

But digital assets come with challenges. They depreciate faster, meaning more investment is needed just to maintain the capital stock. Digital assets are also more difficult to finance externally, because of their limited use as collateral. These challenges push firms, especially smaller ones, to rely on retained earnings and limits investment capacity.

Market power and declining business dynamism may be reducing the pressure to invest

Another relevant part of the puzzle is the rise in market concentration and the decline in business dynamism observed across many advanced economies. As market concentration increases, investment becomes more heavily concentrated among a few large firms, while competitive pressures weaken. In this context, dominant players may prefer to buy back shares or acquire competitors rather than invest in new capacity, especially when faced with limited competition or regulatory uncertainty.

Housing investment has been lagging, leading to affordability issues

Residential housing investment has also slowed in recent decades, failing to keep up with rising demand from population growth, urbanisation and increased immigration. This supply shortfall has resulted in persistent affordability problems. Across the OECD, the share of consumption allocated to housing has increased by nearly 3 percentage points since 2000. The low levels of investment likely reflect various supply constraints, including regulatory barriers, increasing

construction costs, zoning restrictions, and labour shortages.

Public policies can help revive investment

Reviving investment will require a range of public policy reforms tailored to the circumstances of each country. This was reflected in the policy recommendations in the country notes of the June 2025 *OECD Economic Outlook.* Many of these recommendations focused on promoting stronger business investment, with changes to competition policy the most commonly suggested area for reform (Figure 4). Efforts to address skills shortages, improve access to finance and reduce barriers to foreign direct investment were other priority areas. Outside of the business sector, there is scope to boost housing investment in some economies, with regulatory reforms that include the easing of land-use restrictions and rental market regulations seen to be beneficial in certain countries. Furthermore, high-quality public investment – particularly in green and digital infrastructure, research and development, health, and education – is often needed and can boost potential output growth, especially if it crowds-in private investment spending.

In the current environment of heightened policy uncertainty, improving the general clarity and predictability of economic policies is also crucial for promoting stronger investment rates. Rules-based trade policies, stable fiscal and tax regimes, clear regulatory processes and affirming climate commitments would all help address the substantial rise in policy uncertainty seen over the past decade.

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Winds of change: The effects of tariffs on equity markets

Category: Uncategorized
written by oecdecoscope | October 15, 2025

By Caroline Roulet and Srdan Tatomir

The international trade landscape is changing. The new tariffs introduced by the United States (US) this year up to mid-May are estimated to have raised the effective tariff rate on US merchandise imports to 15.4%, from just over 2% in 2024, the highest rate since 1938 (OECD, 2025). This has led to retaliation from China and, to a more limited extent, Canada. At the same time, indicators of trade policy uncertainty are at the highest levels since 1960 and several magnitudes higher than in 2018-2019 (Caldara et al, 2019).

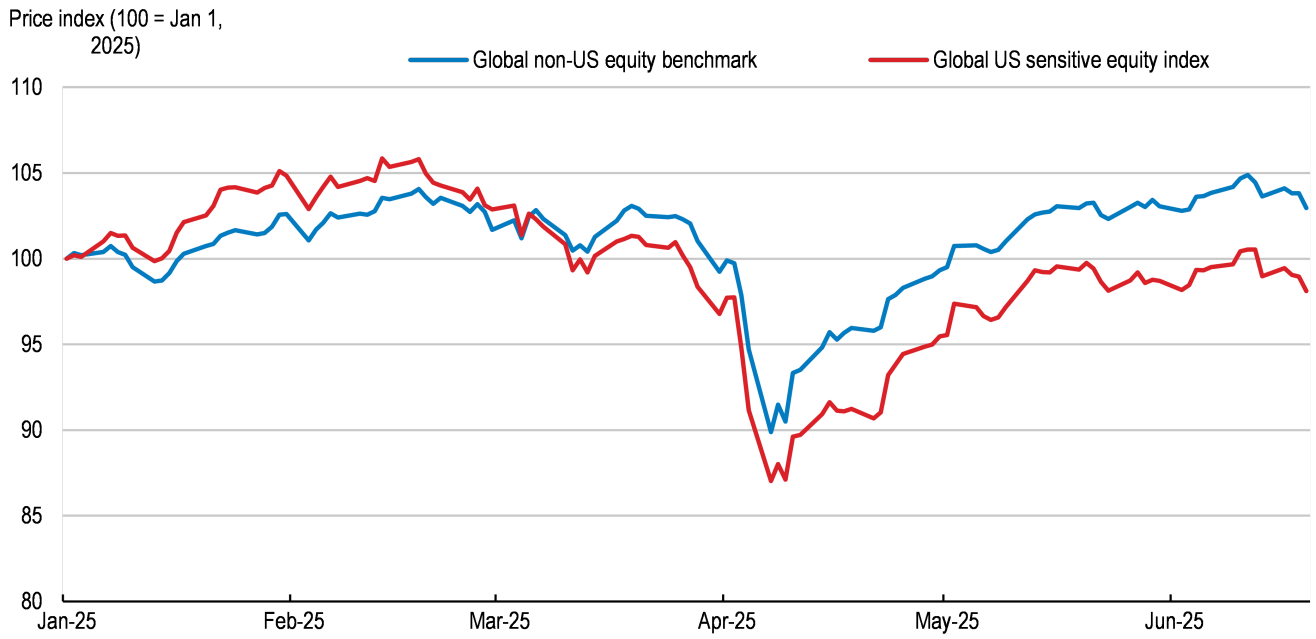
Higher tariffs and higher trade-related uncertainty are expected to weigh on global trade and economic growth as outlined in the latest OECD Economic Outlook. It will take some time for the full effects of these changes on the real economy to emerge. Financial markets can provide an early

signal about the potential impact of trade developments on companies around the world.

During the US-China trade tensions in 2018-2019, the equity prices of exposed companies weakened and this was subsequently associated with lower levels of activity. In the US, equity prices for publicly listed companies exposed to Chinese tariffs experienced a significant and persistent decline following tariff-related policy announcements, with larger declines for firms that were indirectly exposed to higher tariffs through their supply chains (Amiti et al, 2025; Yilmazkuday, 2025). US firms competing with imported Chinese goods benefited from less competition, but the rise in their equity prices was small (Huang et al, 2020). The tariff-related equity price declines were strongly correlated with lower profits and weaker output, employment and productivity levels, and higher perceived risks of corporate default (Amiti et al, 2025; Huang et al, 2020). In China, publicly listed firms exposed to the US also experienced declines in their equity prices (Huang et al, 2020). Higher US tariffs dented firms' output and employment in Chinese regions more exposed to trade (Chor and Li, 2021).

A similar set of concerns have appeared in 2025 in corporate equity markets. The equity prices of foreign companies highly exposed to the US economy have lagged behind the broader market since February. Following the substantial increase in US tariffs announced in April, the gap relative to January 1 widened to around 5 percentage points, which has persisted to date (Figure 1). Publicly listed companies in China, other emerging-market economies and in the Asia-Pacific region have been hit the hardest relative to their respective broader regional benchmarks, with European companies hit to a lesser extent so far (Figure 2).

Figure 1: Equity markets point to weaker performance for companies exposed to the US



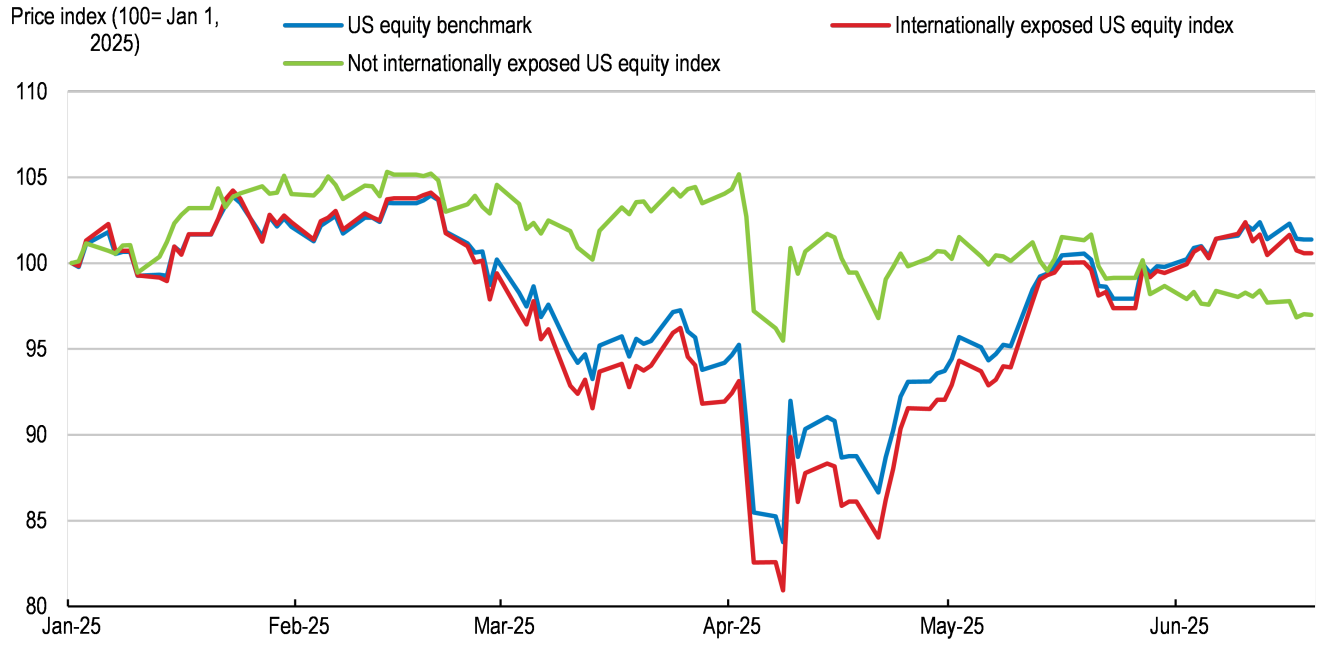
Note: Based on data up to 19 June using a sample of 1,884 non-financial corporates in 28 selected advanced and emerging-market economies. The global US exposed index reflects the equity market performance of firms that are particularly sensitive to recent US policy changes, while the global non-US equity benchmark represents the broader non-financial corporate equity market. Exposed corporates are defined as ones with sales in the United States of 20% or more of their total sales. Indices are weighted by market capitalisation.
Source: OECD calculations.

In China, this could reflect the much higher increase in tariffs compared to most other US trading partners, as well as the sizable boost to domestically focused companies from policy support (OECD, 2025). In contrast, risks of a slowdown in growth have affected the equity prices of all companies in North America, resulting in smaller differences between companies exposed to the US and those who are domestically focused. The announced increase in tariffs has been relatively broad across different categories of goods and, when comparing sectors across countries, the negative effects have weighed on equity prices in many of them. However, companies exposed to the US in the discretionary consumer sector have tended to be more strongly affected relative to their respective sectoral benchmark, whereas technology and healthcare companies have seen little impact so far. Imports of pharmaceuticals and

semi-conductors have remained exempt from new US import tariffs up to now.

In the United States, US companies with a relatively strong reliance on foreign sales initially traded at a discount in March and April, but the gap with other US companies has subsequently closed and become positive more recently (Figure 3). This could reflect initial expectations of retaliatory tariffs that have generally not materialised so far. Weaker US growth prospects relative to other countries, partly due to high uncertainty as well as higher costs of imported intermediate inputs, might be also disproportionately affecting US companies focused on the domestic market. However, historical experience suggests that the full impact of tariffs and trade-related uncertainty on equity prices develops over time (Adolfsen and Harr, 2025; Yilmazkuday, 2025). US companies are accumulating inventories ahead of anticipated tariff increases but surveys suggest they are already receiving fewer new orders, revising earnings forecasts downwards and scaling back investment plans (OECD, 2025).

Figure 3: Tariff effects have receded in US equity markets



Note: Based on data up until 19 June using a sample of 2,157 US non-financial

corporates. Internationally exposed US corporates are defined as those with international sales of 20% or more of their total sales. Corporates that are not internationally exposed have a ratio of international sales to total sales of 0%. The US equity benchmark is the S&P 500 equity benchmark, excluding financials. All indices are weighted by market capitalisation.
Source: OECD calculations.

Overall, there have been clear signs in equity markets of differences across companies according to their potential exposure to tariff barriers, with the equity prices of foreign companies more highly exposed to the US market having underperformed others. As the announced tariffs have been relatively broad, the negative effects have weighed on the equity prices of most companies, but especially ones in the consumer goods sector. The equity prices of US companies with significant international exposure have recovered since falling sharply as tariffs began to be raised, but potential remains for further and unexpected trade policy events to disrupt markets again.

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