

Unlocking Chile's productivity growth

Category: chile,Uncategorized

written by oecdecoscope | March 20, 2025



By Claudia Ramirez Bulos and Adolfo Rodriguez-Vargas

Thanks to its strong macroeconomic framework, the Chilean economy has weathered significant challenges in recent years showing resilient growth. The economy recovered in 2024 from weak growth compared to 2023, and the economy is projected to grow around 2.2% on average in 2025 and 2026, as detailed in the recently published 2025 Economic Survey of Chile. However, the Chilean economy is about 50% less productive than the average OECD country, and productivity has failed to catch up over the last decade. Chile can reverse this trend and accelerate productivity growth to allow more sustainable increases in living standards by encouraging efficient resource allocation and taking advantage of its digital connectivity and vast natural resources. To address productivity challenges and leverage the opportunities created by the digital and green transitions, including the development of the lithium and hydrogen industries, it will be necessary to foster women's participation in the labour market, enhance skills development, promote investment and a more dynamic innovation environment, while improving business and environmental regulations, as described in the 2025 Economic Survey of Chile.

Fully unlocking the labour market potential

Fostering women's participation in the labour market can lead to a better allocation of talent, increasing the country's potential growth. OECD estimates suggest that fully closing gender gaps in labour market participation and hours worked by 2060 could lift Chile's potential GDP per capita by over 0.25 percentage points per year—a bigger boost than the OECD average. Yet, women's participation still lags 16 percentage points behind men at 77.6%, remaining below the OECD benchmark (Figure 1, Panel A). Unlocking women's full economic potential requires addressing unpaid work imbalances and closing education gaps in high-skill fields. Policies that expand access to high-quality childcare and elderly care, improved parental policies, alongside efforts to encourage more women into STEM careers by addressing gender stereotypes from a young age, will be key to closing gender gaps.

Enhancing skills development

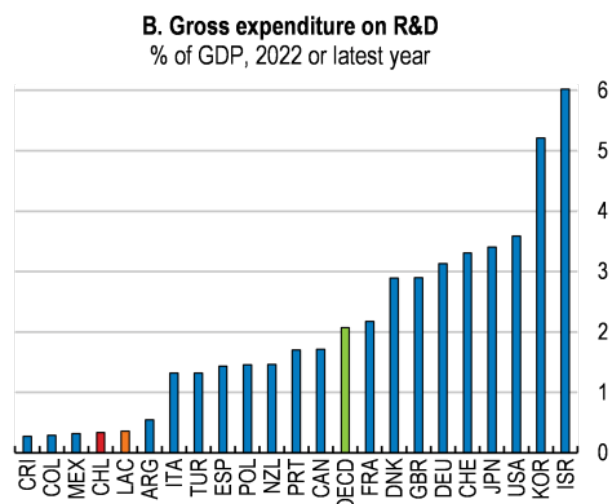
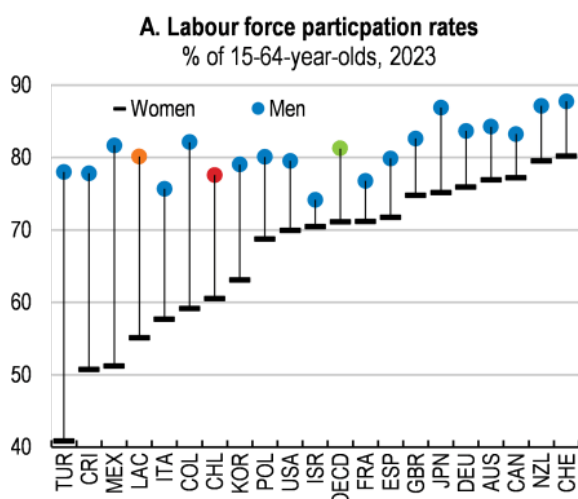
Chile's workforce needs a skills upgrade to fully seize the opportunities of the digital and green transitions. As industries evolve, workers will need to adapt—but many currently lack the necessary capabilities. In 2023, only 11.7% of Chilean adults were proficient in problem-solving in technology-rich environments, far below the OECD average of 32.3%. Additionally, 41% of employed adults felt underqualified for their jobs, citing inadequate computer or software skills, close to the OECD average of 42%. The green transition adds another layer of complexity. Chile's green transition plans require sufficiently skilled workers to set up, operate, and improve equipment based on novel technologies, some of them still in development. Strengthening education and training systems will be crucial. Raising teaching quality, integrating more digital skills into the

national curriculum, and expanding access to tailored digital training for workers can help ensure that Chile's workforce is prepared for the jobs of the future.

Promoting investment and innovation while improving business and environmental regulations

Promoting the diffusion of knowledge across firms is key to taking advantage of Chile's good digital connectivity and vast natural resources. Encouraging the adoption of advanced technologies can stimulate innovation and yield significant productivity gains. However, Chile invests relatively little in R&D, at 0.3% of GDP, well below the OECD average of 2.1% in 2022, with most resources coming from the public sector (Figure 1, Panel B). Furthermore, the percentage of companies that introduced technological innovations was 16.7% in 2019-2020, compared to 35% in the rest of the OECD. Simplifying access to public research and development support can help boost innovation, while strengthening the collaboration between businesses and universities, that in Chile remains low, would also help. In the medium-term, increasing R&D spending based on cost-benefit analysis would be advisable.

Figure 1. A more efficient resource allocation is needed to accelerate productivity growth



Note: LAC is a simple average of Argentina, Colombia, Costa Rica, and Mexico. Panel B: Data for Chile refer to the year 2020.

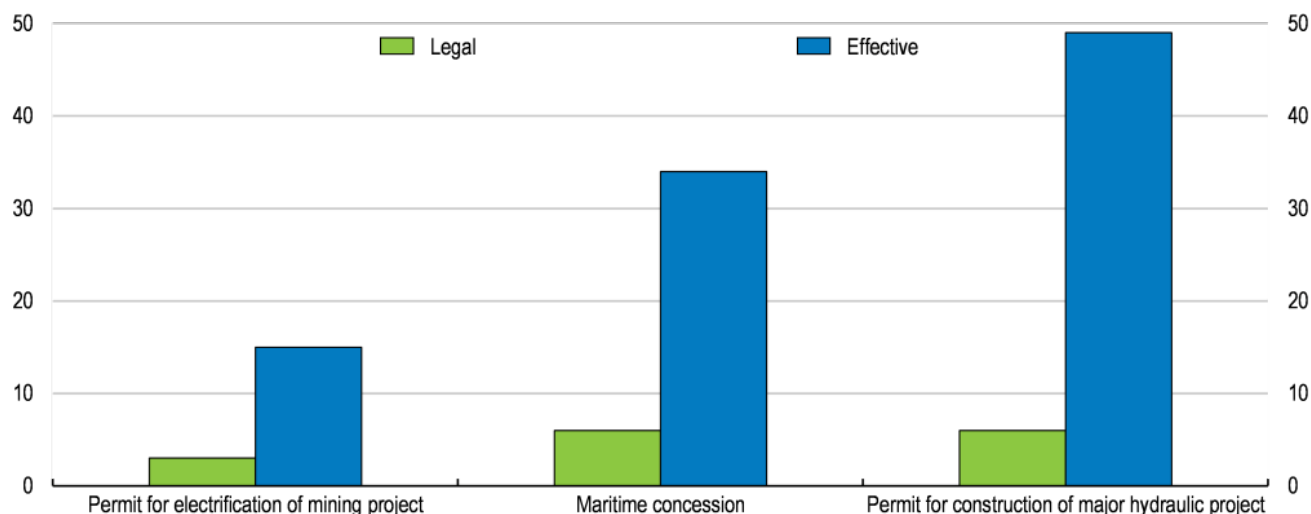
Source: OECD Labour force statistics; OECD Main Science and Technology indicators database.

Chile is well positioned to benefit from increased world demand for lithium, as it has the largest share of known lithium reserves and produces around a quarter of world lithium. The country has a unique opportunity to create jobs, attract investment, and move up the lithium value chain. At the same time, the government envisions a strong state role in lithium development alongside the private sector. However, committing to multiple high-profile initiatives risks diluting efforts. A more focused approach would yield better results. Prioritizing key areas—such as strengthening state mining companies' lithium expertise, establishing the planned National Lithium and Salt Flats Technological and Research Institute, and ensuring sustainable extraction practices—should be a priority. Strategic partnerships with private firms can also help bridge the knowledge gap and accelerate development. Additionally, regulatory and administrative burdens remain comparatively high in Chile, with complex sectoral permitting processes that lack systematised and readily available supporting information, with long durations (Figure 2). Reducing administrative burdens on businesses and strengthening competition can create

a more dynamic economic landscape conducive to growth.

Figure 2. The review of permits often exceeds legal times

Permit reviewing times, months, 2018-2022 average



Source: Consejo Nacional de Evaluación y Productividad, 2023, Análisis de los permisos sectoriales prioritarios para la inversión en Chile.

Read more:

OECD Chile Economic Snapshot –
<https://www.oecd.org/en/topics/sub-issues/economic-surveys/chile-economic-snapshot.html>

Poland: Towards a strong and healthy economy

Category: Uncategorized

written by oecdecoscope | March 20, 2025



By Zuzana Smidova

[Link to the blog in Polish](#)

Living standards in Poland have increased significantly over the past two decades, as the economy doubled in size, when measured by GDP per capita. Poland has narrowed the gap with its regional peers, Czechia and the Slovak Republic (Figure 1), and average life expectancy has risen to 78.6 years.

Progress has slowed more recently due to two external shocks: the COVID-19 pandemic and repercussions from Russia's war of aggression against Ukraine. Nevertheless, the economy recorded a robust growth of almost 3% last year and the momentum is expected to continue this year and next. This strong economic performance is reflected in the labour market, where the unemployment rate has reached historic lows and the number of people in work has exceeded pre-pandemic levels.

Figure 1. Strong growth led to significant catching up in economic standards



Note: Seasonally and calendar adjusted data.

Source: OECD Economic Outlook database.

The Economic Survey of Poland, published today, takes stock of this progress and examines the main short- and long-term challenges facing the economy. The most immediate challenge is to bring down inflation. Although the inflation rate has come down substantially from its peak of 18% in February 2023, it is still above the central bank's target. Core inflation also remains elevated, at over 4%. In this context, monetary policy should remain restrictive, but interest rates should gradually ease as wage growth slows and inflationary pressures durably subside.

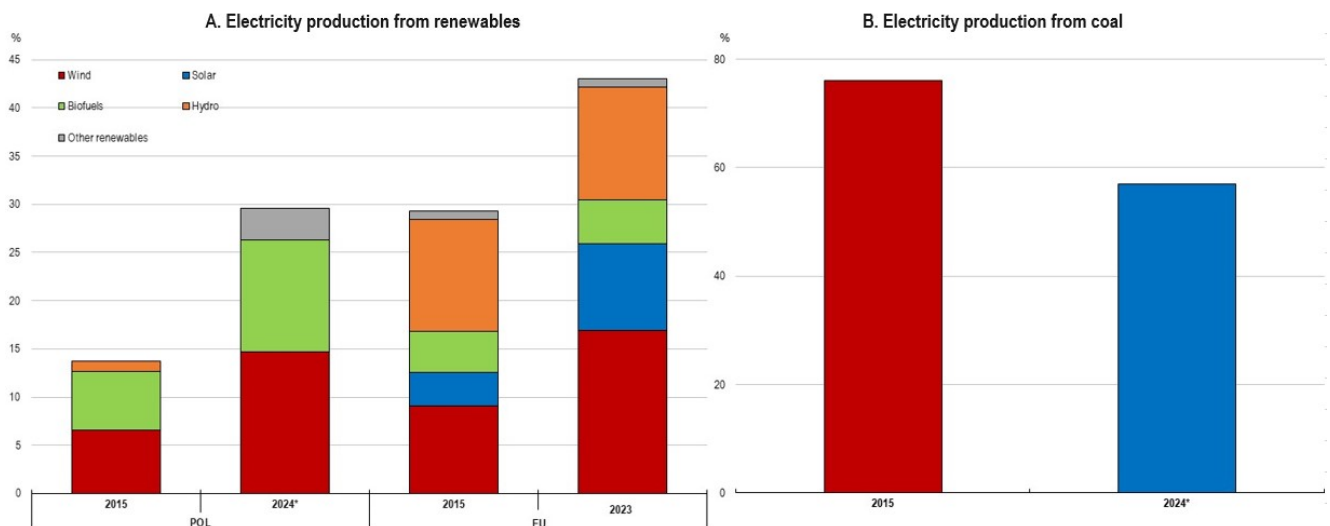
Poland's fiscal deficit has deteriorated in recent years due to rapid increases in social, health and defence spending. To finance current government priorities and prepare for future spending pressures, Poland needs a sustained fiscal adjustment as planned by the authorities. On the expenditure side, certain universal family benefits could be withdrawn for higher earners. On the revenue side, tax expenditures, environmental and property taxation could raise more revenue. Changing the taxation of buildings, currently based on the surface area, to a system based on the value of the property,

which exists in most of OECD countries, would help.

A supportive business environment, combined with a well-educated population, has attracted foreign investment and innovative companies. However, Polish companies face challenges in moving up the value chain, population ageing and a shortage of skills. The skills shortages should be addressed through increased training and upskilling, especially among small and medium-sized companies, as well as through targeted awareness campaigns and a comprehensive migration strategy.

Given Poland's continued reliance on coal, the transition to an economy that produces net zero emissions by 2050 is challenging (Figure 2). It requires stepping up implementation of the policies outlined in the draft National Energy and Climate Plan 2030, strengthening price incentives, and a range of supports for the most vulnerable. A more ambitious phase out of coal and shorter permitting times for renewables would help achieve the necessary long-term private sector investment. Emissions from the transport sector have doubled in the last thirty years. To reverse this trend, a comprehensive motor vehicle taxation covering all cars, would strengthen price signals, and should be accompanied by continued investment in public transport.

Figure 2: Electricity production from renewable sources has increased but coal remains important

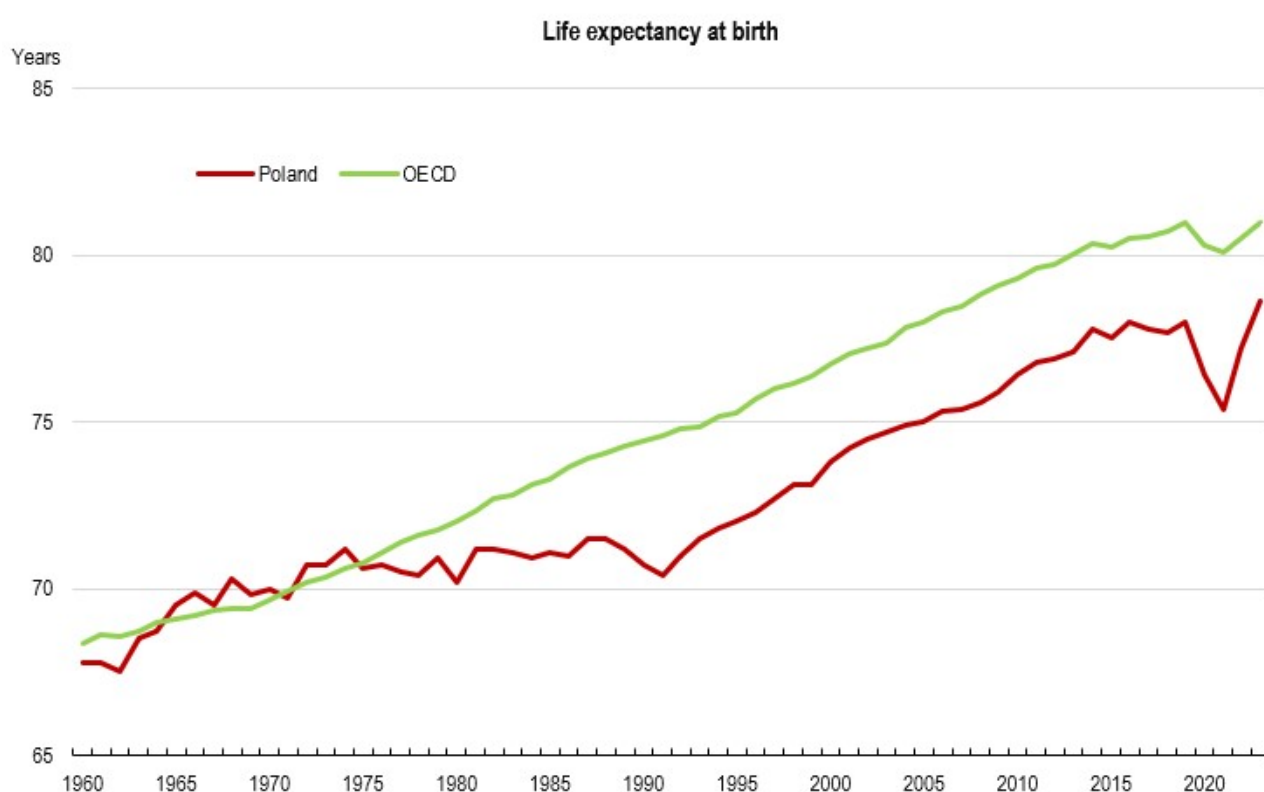


*Note: * Preliminary estimates for 2024.*

Source: Forum Energii (2025), OECD Green Growth Indicators database, International Energy Agency.

While life-expectancy has increased, it remains behind many OECD countries and there is a scope to improve health outcomes (Figure 3). Funding of the health system has increased, but rationalising excess bed capacity in hospitals and making more use of incentives in primary care would allow to raise efficiency and improve care. Improvements to treatment and a greater focus on prevention, particularly when it comes to risky behaviour such as drinking and smoking, can significantly improve health outcomes. With pressures from the ageing population, the authorities need to expand long-term care in a sustainable way.

Figure 3: Life expectancy improved significantly but remains below the OECD average



Note: The OECD average is weighted.

Source: OECD Health Statistics.

Reference:

Commercial real estate markets after the end of “low for long”: Risks and policy challenges

Category: Uncategorized

written by oecdecoscope | March 20, 2025



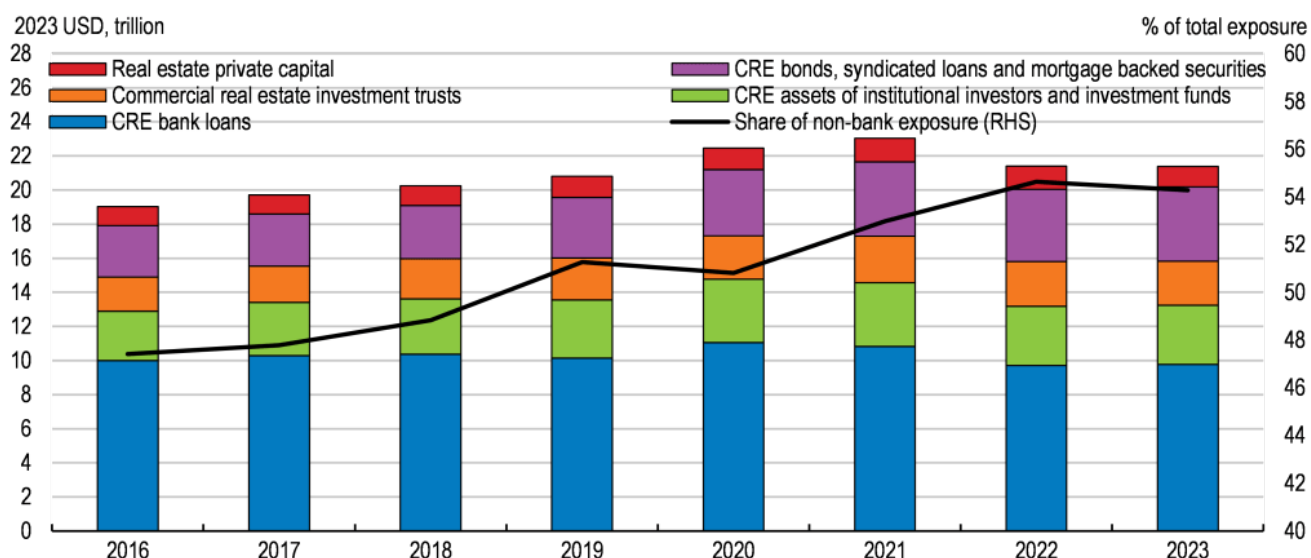
– By Caroline Roulet –

Real estate assets are the largest store of wealth in the OECD countries, valued at USD 111 trillion in 2022, nearly twice the level of GDP. Commercial buildings, plus other corporate structures, at an estimated USD 38 trillion, account for more than one-third of these assets. Conditions in many commercial real estate markets have worsened significantly since 2022, when the long period of low interest rates came to an end. Recent OECD work documents sizeable declines in commercial property prices, particularly in the United States and the euro area, driven by both higher global interest rates and changes in demand induced by growing teleworking and e-commerce. At the same time, the financing costs of property developers and risk premia for low-rated commercial mortgage-

backed securities have risen, and the performance of specialised institutions such as commercial real estate investment trusts and funds has weakened.

The exposures of financial intermediaries to commercial real estate are estimated to have totalled USD 21 trillion in 2023 (Figure 1), based on available data for individual institutions across a large number of economies. Although bank loans are the largest single source of exposure, the combined exposures of diverse non-bank sources have risen over time and now exceed 50%. In particular, commercial real estate investment trusts and funds have become increasingly important over the past fifteen years, especially in advanced economies. Debt accumulation by commercial real estate investment trusts and property developers is reflected in a substantial increase in outstanding bonds and syndicated loans, and a growing reliance on private capital.

Figure 1. Worldwide financial sector exposures to commercial real estate are very large

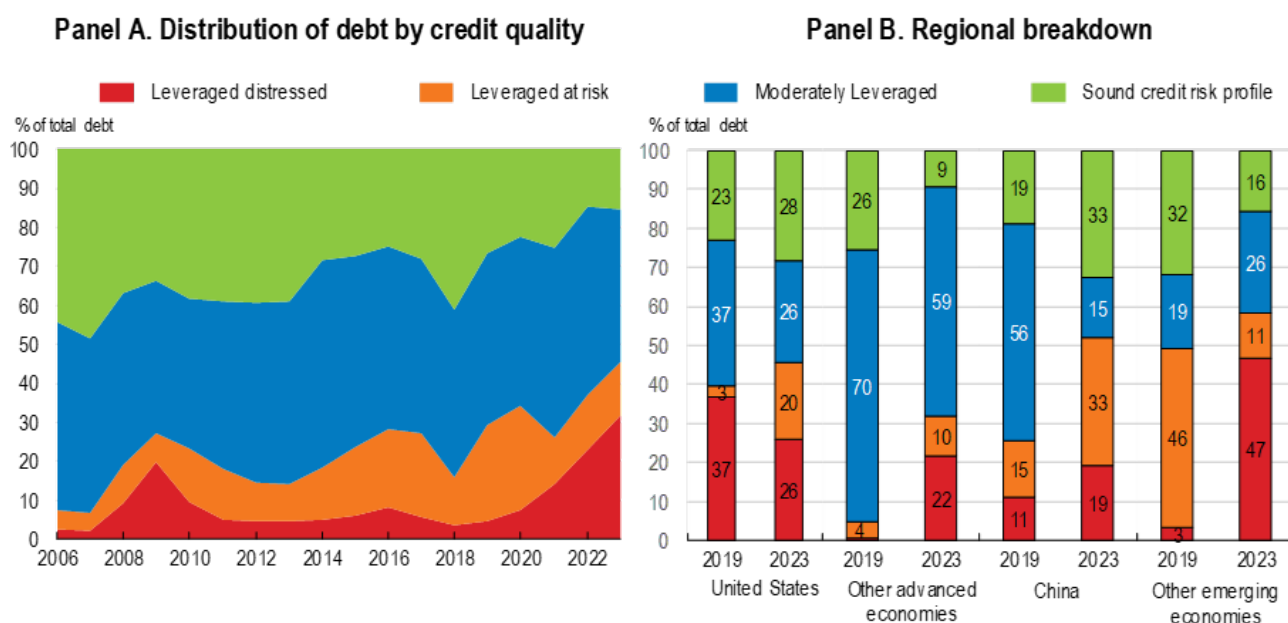


Note: This figure provides estimates of commercial real estate (CRE) exposures for both bank and non-bank financial intermediaries. Data are expressed in trillion US dollars adjusted by 2023 US consumer price index. See note of figure 1.6, Box 1 and Annex B in Roulet (2024) for further details.

Source: IMF FSI, OECD National Accounts, National central banks and office statistics, LSEG, Pitchbook, OECD calculations.

Commercial property developers face mounting credit quality challenges, with the amount of low-credit-quality debt recently surpassing levels in the global financial crisis (Figure 2, Panel A). Developers in emerging-market economies are particularly affected, but credit quality has also deteriorated in advanced economies (Figure 2, Panel B). Moreover, the maturity profile of bond and syndicated loan redemptions implies substantial refinancing needs in the next few years, particularly for leveraged borrowers (Roulet, 2024). Delinquency rates on commercial mortgage-backed securities are also rising, amidst a growing number of missed mortgage payments by borrowers with commercial real estate loans.

Figure 2. Across the world, the quality of property developers' debt has often deteriorated



Note: Four types of companies are shown in the chart. Corporates with a “sound credit risk profile” are ones with a leverage ratio (measured by the ratio of debt to EBITDA) between zero and 5 and an interest coverage ratio (ICR) higher

than 2. The other three types of companies all have a leverage ratio either above 5 or below zero (due to negative EBITDA). Among these, “leveraged distressed” corporates have an ICR lower than 1, “leveraged at risk” corporates have an ICR between 1 and 2, and “moderately leveraged” an ICR higher than 2. Debt data include the total debt reported on the liability side of the balance sheet. See Annex B in Roulet (2024) for further details.

Source: LSEG, OECD calculations.

These developments raise potential financial stability risks, reflecting the growing exposures of various interconnected financial intermediaries. The higher financing costs and lower earnings of commercial property developers could raise banks’ non-performing loans and generate losses for non-bank financial intermediaries. Significant losses at specialised commercial real estate investment trusts could spread to real estate investment funds, raising investor redemptions and potentially triggering downward price spirals from fire sales. Insurance companies’ solvency ratios and pension funds’ liquidity could also be adversely affected by losses, both directly from their commercial real estate loans and indirectly through their linkages with real estate funds.

Policy challenges remain in assessing and mitigating risks from commercial real estate exposures. Significant data gaps hinder accurate analysis of the exposures of many financial intermediaries. For instance, breakdowns of commercial real estate exposures by asset classes and type of collateral are often missing. Existing macroprudential tools in commercial real estate finance, such as capital buffers or loan-to-value ratios, are also primarily bank-based, with limited measures available to mitigate risks in non-banks. The use of these tools can also vary across jurisdictions.

Many policy tools to help monitor and mitigate financial stability risks from the commercial real estate sector need to be developed further, including:

- Cross-country agreement on a precise definition of commercial property assets and the development of common qualitative and quantitative indicators (ESRB, 2023a).
- Increased evaluation of the credit quality and loss-provisioning of commercial real estate portfolios held by both banks and non-bank financial intermediaries (ECB, 2023; ESRB, 2023b; IMF, 2024), along with enhanced stress-testing of banks. Such tests should take account of indirect exposures to commercial real estate through the bank funding of non-banks.
- Improved assessment and mitigation of liquidity mismatches and leverage risks for institutional investors and real estate investment funds, including constraints on redemptions in the latter (FSB, 2023; IOSCO, 2024).
- Further work on borrower-based measures, especially for non-bank financial intermediaries, and enhanced international cooperation to help limit regulatory fragmentation. Such measures should include limits on excessive indebtedness and regulations to ensure solid credit quality and adequate repayment capacities.

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Resilience in uncertain times

Category: Uncategorized

written by oecdecoscope | March 20, 2025



By Laura Betschka, Natalia García Soto and Max Glanville.

This blog is based on the editorial and Chapters 1 and 2 of the OECD Economic Outlook released in December 2024.

In the past few years, the global economy has demonstrated remarkable resilience despite being subject to major shocks, such as the pandemic and an energy crisis. Outcomes have varied significantly across countries. In the United States, growth remained particularly solid, fuelled by private consumption and real wage gains. On the contrary, many other advanced countries, especially in Europe, experienced more sluggish growth or even contractions. Indonesia and India have continued to grow strongly. In our recently published OECD Economic Outlook we project world GDP growth at 3.2% before edging up slightly to 3.3% in 2025 and 2026 (Figure 1).

**Figure 1. GDP projections from the OECD Economic Outlook
November 2024**

Upward revision, by 0.3pp or more							Downward revision, by 0.3pp or more		
	2024	2025	2026		2024	2025	2026		
 World	3.2	3.3	3.3	 OECD	1.7	1.9	1.9		
 Australia	 1.1	 1.9	2.5	 Argentina	 -3.8	 3.6	3.8		
 Canada	1.1	2.0	2.0	 Brazil	 3.2	2.3	1.9		
 Euro area	0.8	1.3	1.5	 China	4.9	4.7	4.4		
 Germany	0.0	 0.7	1.2	 India	6.8	 6.9	6.8		
 France	 1.1	 0.9	1.0	 Indonesia	5.1	5.2	5.1		
 Italy	0.5	 0.9	1.2	 Mexico	 1.4	 1.2	1.6		
 Spain	 3.0	 2.3	2.0	 Russia	 3.9	1.1	0.9		
 Japan	 -0.3	 1.5	0.6	 Saudi Arabia	 1.0	 3.6	3.8		
 Korea	 2.3	2.1	2.1	 South Africa	1.0	1.5	1.7		
 United Kingdom	 0.9	 1.7	1.3	 Türkiye	3.5	 2.6	4.0		
 United States	2.8	 2.4	2.1						

Note: Revisions relative to the latest estimates from the May

2024 Economic Outlook. India projections are based on fiscal years, starting in April. World and OECD aggregates use moving nominal GDP weights at purchasing power parities.

Source: OECD Economic Outlook 116 databases; and OECD Economic Outlook 115 database.

Inflation has returned to central bank targets in the majority of the advanced and emerging-market economies covered by the OECD Economic Outlook. At the same time, labour markets are easing but remain generally tight, with unemployment rates still near historical lows in many countries. This labour market tightness, along with falling inflation, has led to solid real wage growth in many countries. Yet, in many advanced economies consumption growth remains subdued. A contributing factor is that consumer confidence on average remains low in both advanced and emerging market economies. Research in the OECD Economic Outlook indicates that elevated food and energy prices weigh particularly on consumer sentiment, as households are particularly sensitive to these essential expenses. In many countries, the costs of food and energy have increased more than household incomes since before the COVID-19 pandemic, leading to a higher cost of living.

The relatively benign baseline outlook masks significant downside risks:

- **Rising trade tensions:** Trade has been a fundamental driver of global growth, job creation and declining poverty in the past decades. Rising trade tensions and an increase in protectionism might disrupt supply chains, raise consumer prices, and negatively impact growth.
- **A renewed escalation of geopolitical tensions and conflicts** could disrupt trade and energy markets, potentially fuelling inflation and constraining economic growth.

- **High levels of public debt:** Some emerging market economies and low-income countries are now in debt distress or are at high risk of it. Public debt is also a pressing concern for advanced economies. Ageing populations, increased spending on defence and the investments needed for the green transition amplify these challenges.
- **Financial market volatility:** Downside surprises may prompt sharp equity and bond market corrections, heightening volatility and systemic risks, particularly in the increasingly interconnected network of non-bank financial institutions.

Policy has a pivotal role to play in managing risks and unlocking prospects for strong, resilient and sustainable growth. This requires concerted action on monetary, fiscal, and structural policies.

As inflation pressures decline further, central banks should continue to ease monetary policy. Still, central banks need to act cautiously, considering incoming data and thoroughly assessing policy actions. Failing to durably contain inflation would increase the risks to growth and real incomes.

Governments need to put in place credible fiscal consolidation strategies. Fiscal prudence is crucial amid high public debt levels and rising spending pressures. Governments must balance easing fiscal strains with sustaining economic growth.

A Special Chapter of the recent OECD Economic Outlook focuses on labour shortages – an important challenge in many economies. Labour and skill shortages have risen over the past decade and intensified during the pandemic. Although labour markets are easing, shortages persist in many sectors, especially health and long-term care and information technology. On average, one out of four firms in OECD countries report severe labour shortages, defined as

difficulties filling all or most vacancies. Such shortages, particularly in technology-intensive firms, hinder business expansion and adoption of productivity-enhancing innovations. Population ageing, which leads to a shrinking labour force, risks further exacerbating the labour shortage problem.

To reduce growth bottlenecks from labour shortages, key policy priorities include up-skilling and re-skilling of the workforce, with a focus on lifelong learning and digital skills training to improve skills supply and address mismatches. In addition, policies to increase the participation of women, such as the provision of quality and affordable childcare facilities and the promotion of a gender balance in occupations. Targeted migration and integration policies could also increase the labour supply, including easing restrictions on residence permits and speeding up the recognition of foreign diplomas. Ensuring tax and benefit systems are designed to encourage work, including through well-targeted in-work benefits and the removal of implicit biases against second earners, can further boost labour force participation. Other policy areas to be considered include promoting youth participation by stimulating vocational training and retaining older workers by promoting healthy ageing and pension reforms.

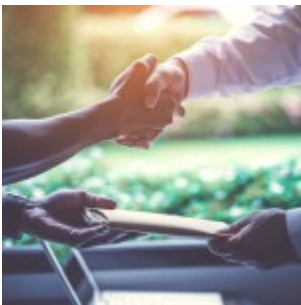
In sum, while the global economy is expected to remain resilient, uncertainties around the central growth scenario are high. In the short term, it is essential for policymakers to ensure macroeconomic stability by ensuring that inflation is durably realigned with central bank target and ensuring sustainable public finances. In the medium term, efforts should focus on lifting growth potential through fostering multilateral dialogue and ambitious structural reforms, for example by investing in infrastructure, reform migration policies and creating a pro-competitive regulatory environment.

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The rise of private credit markets: A threat to financial stability?

Category: Private sector,Uncategorized
written by oecdecoscope | March 20, 2025



By Caroline Roulet.

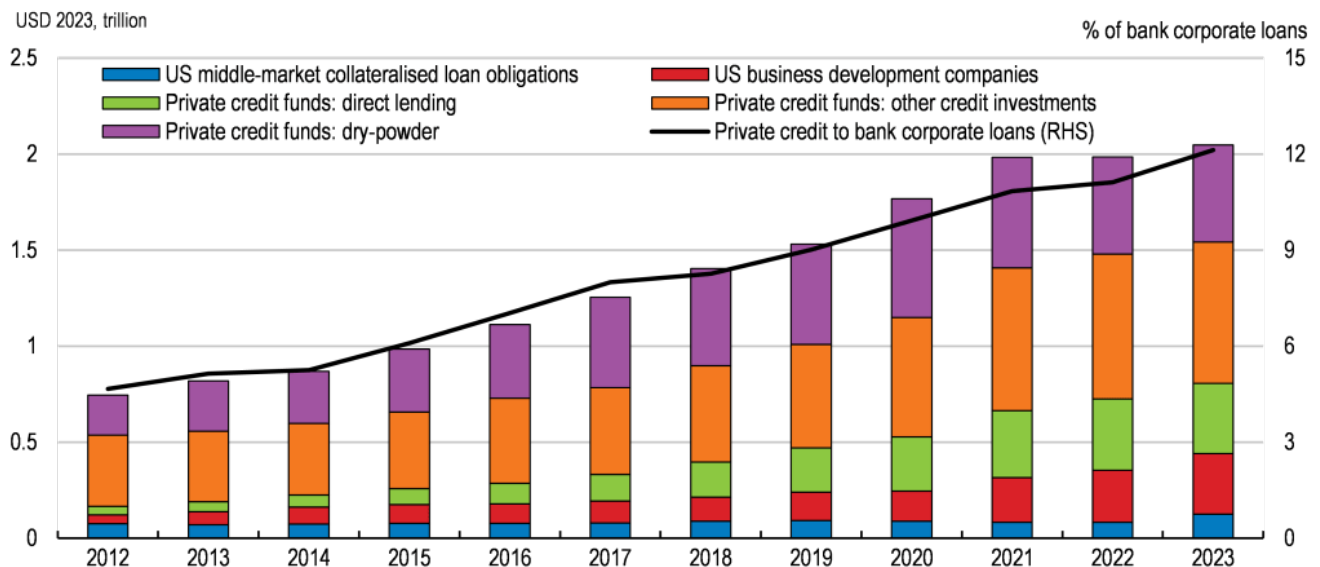
Private credit has become an important source of financing

Private credit is a form of non-bank financing to firms, mainly through specialist funds that raise long-term capital from end-investors and offer long-term floating-rate loans to middle and smaller sized companies without access to capital markets or bank credit. End-investors such as pension funds and insurance companies value private credit for a number of reasons, including portfolio diversification, confidentiality, and potentially higher returns. Regulatory compliance costs could also be lower, although this varies by type of end-

investor.

The latest OECD Economic Outlook documents the rapid expansion of this form of financing since the Global Financial Crisis and analyses the potential risks to financial stability. Private credit markets reached USD 2 trillion globally in 2023 (Figure 1). This was equivalent to 12% of bank loans to non-financial corporations, up from 5% in 2012. Private credit is very diverse but primarily US-focused, though is now also expanding rapidly in Europe and Asia.

Figure 1. Private credit continues to rise in advanced economies



Note: Business development companies (BDCs) are SEC-regulated, closed-end or publicly traded investment companies that must invest 70% of their assets in US companies valued under USD 250 million. Middle-market collateralised loan obligations (CLOs) are a segment of the US CLO market backed by senior secured loans to smaller companies that are originated in either public or private markets. Dry-powder is unallocated or unused capital maintained as cash reserves or liquid assets for future investment. Data are expressed in USD trillion adjusted by the 2023 US consumer price index and as a share of bank loans to non-financial corporations in advanced economies. See note of figure 1.25 in the December 2024 OECD

Economic Outlook for further details.

Source: Houlihan Lokey; International Monetary Fund (IMF) Financial Soundness Indicators database; Pitchbook; and OECD calculations.

The expansion of private credit markets raises potential financial stability risks

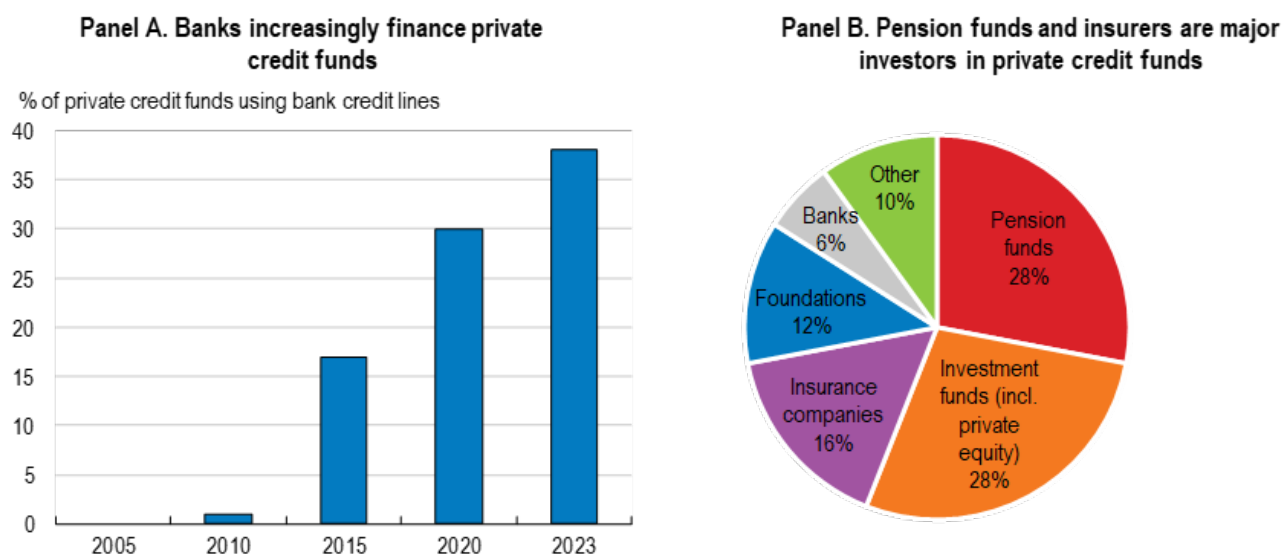
The growth in private credit has become a matter of interest for central banks and other regulators due to the relative lack of visibility of the market and the underlying risks, and the extent to which private credit funds are interconnected with other financial institutions, not least banks.

Losses by private credit providers could quickly spread to banks. Private credit funds rely increasingly on secured credit lines from banks, with these collateralised by private loans (Figure 2, Panel A). Private capital funds (such as private equity funds) have also become major investors in financial instruments that transfer risks from bank loan portfolios (so-called “credit risk transfers”). This generates risks for both private capital funds and banks if either credit quality deteriorates or if funds’ large end-investors are unable to provide the capital they have committed to.

Private credit funds are also directly interconnected to private equity funds and institutional investors (Figure 2, Panel B). For instance, large private capital funds often manage both private equity and private credit portfolios. Also, private credit funds often provide credit to companies wholly or majority-owned by private equity funds. Consequently, vulnerabilities in one segment of the private financing industry will likely spill over to the other. Liquidity pressures could also arise for end-investors, including insurance companies and pension funds, if there are unexpected capital calls by private credit funds. Such risks are more likely due to the rising amount of committed but so far uninvested capital by end-investors (so-called “dry

powder”), frequently held as cash reserves by private credit funds. In the United States, systemic risk warnings are increasing due to insurers’ private credit exposures (Fournier et al., 2024). In Europe, the difficulties of an Italian insurer (Eurovita) illustrate similar risks (AMF, 2024).

Figure 2. Interconnections between private credit funds and the financial system are growing



Note: In Panel B, credit lines to private credit funds are not included in banks’ investments, and data are as of June 2022. Source: MSCI (2023), Blackrock (2023), and OECD calculations.

More broadly, the lack of transparency in private markets is a concern. Multiple layers of leverage from borrowers to funds to end-investors are a potential source of financial instability, with risks of liquidity shortages triggering fire sales and simultaneous deleveraging. Although most private credit funds are unleveraged, some use derivatives for leverage (Federal Reserve, 2023). Some private credit funds also permit redemptions, which increases their liquidity risk.

The recent deterioration in credit quality is a further source of potential risk. A heavier debt service burden for private credit borrowers has led some to delay repayments by adding interest coupons to the loan principal. Refinancing risks are also raised, especially for the most fragile borrowers,

because around 50% of the outstanding loans of US private credit funds are due to be reimbursed within three years (Cai and Haque, 2024). With defaults among highly leveraged non-financial corporations rising, there are risks that losses on private credit loans could rise sharply. Such loans are often to firms in economic sectors with low collateralisable or tangible assets and hence low recovery rates in the event of business failure.

Private loans are non-traded, which hinders proper valuation by investors and monitoring by regulators. Credit risk assessments are also uncertain in the absence of clear regulatory standards and could result in losses being underestimated. In the event of a severe shock, a rapid loss of confidence could trigger margin calls in derivatives used by private credit funds, adding further to liquidity pressures from redemptions, with risks that distressed funds default with losses for end-investors. Many liquidity management tools at private credit funds have yet to be fully tested in severe scenarios. While divestment and fire sale risks seem low at present, close monitoring is needed given significant data gaps about the sector and its often limited prudential or conduct oversight. Greater transparency in regulatory reporting would close data gaps and enable better assessment and management of risks by private credit funds and end-investors (EBA, EIOPA and ESMA, 2024; IMF, 2024). Regulatory assessments and stress-testing of end-investors should also take appropriate account of their exposures to other non-bank financial institutions (Acharya, Cetorelli and Tuckman, 2024).

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The key role of food and energy inflation in shaping consumer confidence

Category: Inflation,Uncategorized

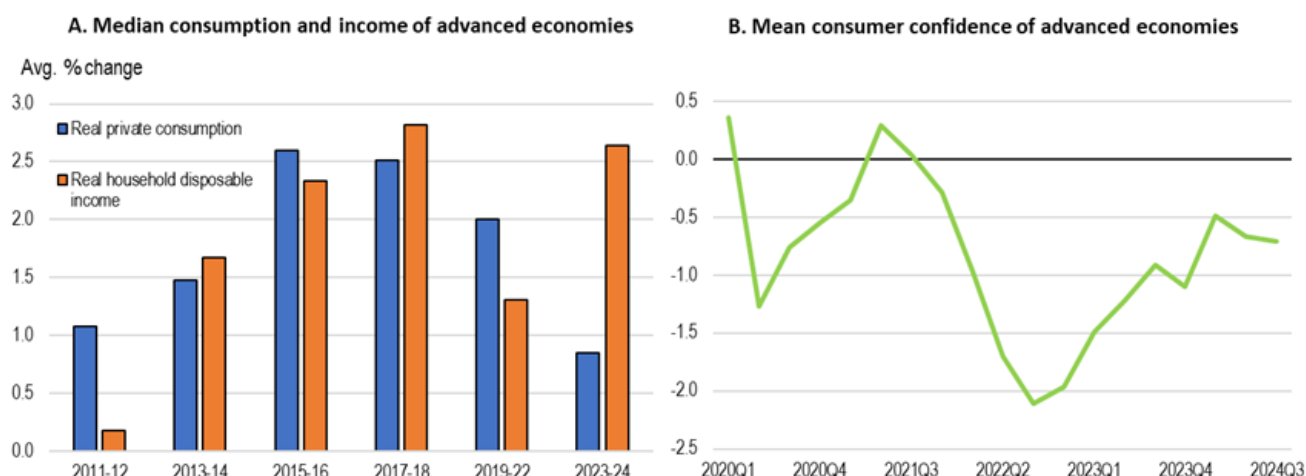
written by oecdecoscope | March 20, 2025



By Patrice Ollivaud and Ben Westmore.

Consumption growth remains weak in OECD economies, despite buoyant real disposable income growth over the past two years (Figure 1, Panel A). Households in many countries are opting to save a greater proportion of their income and this accords with their lingering concerns regarding the economic environment. While consumer confidence is gradually recovering, it remains below long-term average levels in most economies (Figure 1, Panel B). So what have been the factors shaping consumer moods and can we expect their outlook to brighten in the near-term?

Figure 1. Private consumption has been sluggish despite strong real income gains



Note: Based on 28 advanced economies. In Panel A, median real disposable income and private consumption growth are based on the cross-country year-on-year growth rates of household disposable income and private consumption, respectively, deflated by the personal consumption deflator. In Panels B, consumer confidence data are standardised so that the long-term average and standard deviation are zero and one, respectively. The mean refers to a weighted mean using GDP in PPP as weights.

Source: OECD Economic Outlook 116 database; OECD Consumer Opinion Surveys database; and OECD calculations.

In the latest OECD Economic Outlook, this question is explored by estimating a panel model for seven OECD countries (France, Germany, Italy, Japan, Spain, the United Kingdom and the United States) over 2001-2024. The results highlight the extent to which consumer confidence is affected by inflation, along with several other aspects of economic conditions, including economic growth (proxied by the composite Purchasing Managers' Index), the unemployment rate, interest rates and stock market values. In most of the countries in the sample, the model explains a significant proportion of changes in consumer confidence over the recent period.

However, the analysis suggests that not all types of inflation

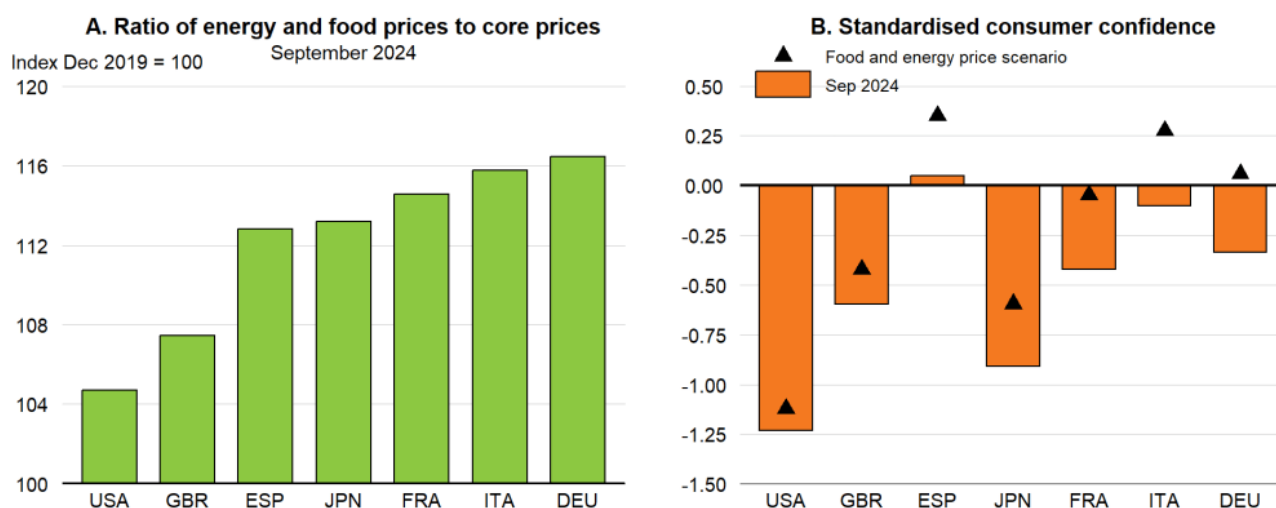
are equal in their impact on consumer sentiment. Food and energy inflation are found to have a particularly significant effect: the rise in food and energy inflation is estimated to explain three quarters of the decline in consumer confidence through the 2021-22 period in the average country in the sample. This accords with past findings that households can be more sensitive to price changes of frequently purchased items, such as groceries and energy (Anesti et. al. 2024; Binder and Makridis, 2022).

An implication of the empirical results is that a further decline in food and energy inflation could have a marked impact on consumer confidence and willingness to spend. Despite a recent decline in food and energy inflation, the level of food and energy prices relative to core consumer prices (excluding food and energy) still remains high compared with the pre-pandemic period in the sampled countries (Figure 2, Panel A). For example, the ratio of food and energy prices to core prices in Germany in September 2024 was 16 percentage points above the level in December 2019.

An alternative model that seeks to explain the level of consumer confidence by developments in this price ratio, along with the other important economic variables from the above specification, finds the price ratio to be statistically significant (Ollivaud and Westmore, 2025). This allows a calculation of the estimated increase in consumer confidence if the price of food and energy relative to core consumer prices were to return to the pre-pandemic level. In Germany and France, such a decline could return standardised consumer confidence to around its long-run average level (Figure 2, Panel B). In contrast, the same scenario is estimated to push consumer confidence substantially above its long-run average in Italy and Spain. This reflects the comparatively high level of confidence in these countries already, helped by recent declines in their unemployment rates, larger falls in long-term interest rates over the past year and, for Spain,

relatively strong economic growth. For the United States, the positive impact on consumer confidence of a retracing of the ratio of food and energy prices relative to core consumer prices is estimated to be more muted, owing to the comparatively low starting point of the price ratio in that country. Nonetheless, the results overall suggest consumer moods in many countries could brighten significantly if further falls in food and energy price inflation were to occur.

Figure 2. Further declines in the price of energy and food relative to core items would boost consumer confidence



Note: The ratio of (energy and food)/core prices is based on the personal consumption expenditure price index for the United States, harmonised index of consumer prices for euro area member states and the United Kingdom, and national consumer price indices for Japan. In Panel B, consumer confidence data are standardised so that the long-term average and standard deviation are zero and one, respectively. The “food and energy price scenario” assumes that the ratio of (energy and food)/core prices reverts to its level in December 2019, with the estimates based on coefficient estimates from a model that regresses the level of standardised consumer confidence on a lagged dependent variable, the ratio of food and energy prices to core prices, the composite PMI, long-term interest rates, the unemployment rate and the COVID Stringency

Index. All variables are estimated to be statistically significant with the expected sign under this specification. Source: Bureau of Economic Analysis; Eurostat; Statistics Bureau of Japan; OECD Consumer Opinion Surveys database; and OECD calculations.

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The heat is on: Heat stress, productivity and adaptation among firms

Category: Climate,Uncategorized
written by oecdecoscope | March 20, 2025



By Hélia Costa, Guido Franco, Filiz Unsal, Sarath Mudigonda, Maria Paula Caldas.

The pace of temperature increase has been steadily accelerating over the past decades (IPCC, 2021). The increasing frequency and intensity of heat stress episodes due to climate change poses significant threats to the global economy, including through its effects on productivity. Despite recent more stringent mitigation efforts and the expectation that climate targets will be met, temperatures are still projected to rise, raising concerns about the economic costs associated with climate change.

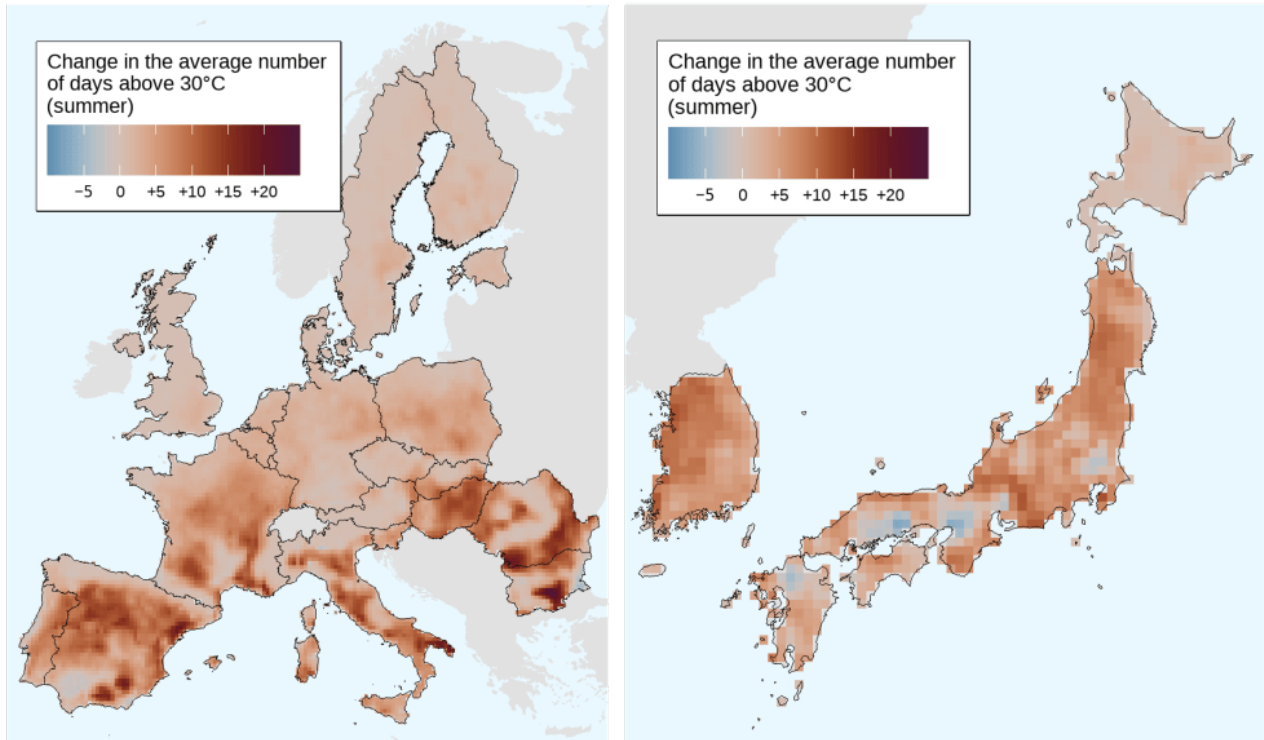
One key channel through which temperature affects economic outcomes is labour productivity. As temperatures increase, both the cognitive and physical capacity of workers decrease, and extreme temperatures can also increase absenteeism due to heightened health issues and transport disturbances. Beyond its direct effect, heat stress can further impact productivity through disruptions to infrastructure (such as energy), increased production costs, or disruptions to supply.

Against this backdrop, our new paper (Costa et al., 2024) presents novel cross-country firm-level evidence on the effect of heat stress – both slow onset events (gradual temperature increases) and extreme weather events (heatwaves) – on labour productivity. The analysis builds on a unique dataset gathering detailed weather and financial information for more than 2.7 million manufacturing and services firms across 23 advanced economies between 2000 and 2021, complemented with country-level information on adaptation investment. The newly constructed dataset reveals that the number of warm days and

the incidence of heatwaves present an increasing pattern in the period of analysis in most locations (Figure 1).

Figure 1. The number of warm days increased in most locations in the sample period

Change in the average number of days where temperatures rose above 30°C, in 2016-2021 vs 2000-2004



Note: The maps show the change in the average number of days in the year where the daily maximum temperature rose above 30°C, in the last five years of the analysis period (2016-2021) relative to the first five years (2000-2004).

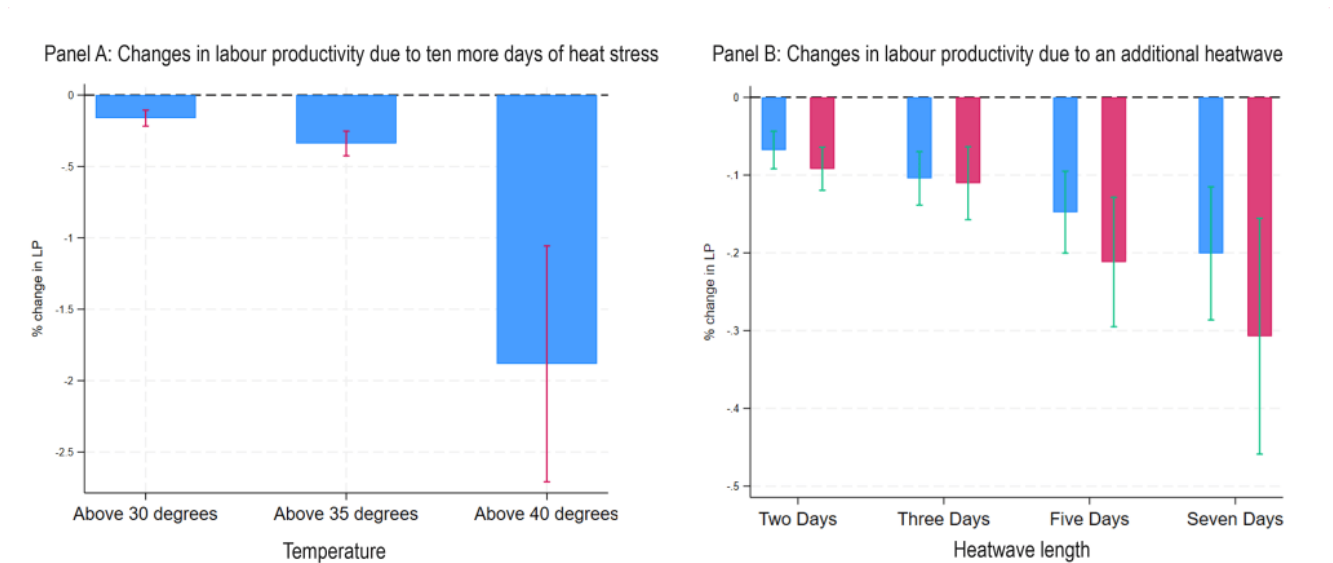
Source: Costa et al. (2024) based on data from Orbis and ERA-5 reanalysis data (Copernicus Climate Change Service).

How do extreme temperatures affect firm productivity?

We find that both more frequent high-temperature days and the occurrence of heatwaves lead to substantially reduced labour productivity (Figure 2). Ten extra days above a temperature of 35 degrees Celsius in a year result in a 0.3% reduction in firms' annual labour productivity. This effect is comparable, for example, to the decrease in productivity following a 5% rise in energy prices (André et al., 2023). One additional

heat wave lasting at least five days, in turn, causes a 0.2% reduction in firms' annual labour productivity.

Figure 2. Higher temperature negatively affects productivity



Note: Bars represent estimated coefficients and vertical lines the respective confidence intervals. Each bar is a different estimation. In Panel A each estimation differs with respect to the definition of the temperature variable, which is either the number of days above 30°C, or above 35°C or above 40°C. In Panel B, each estimation differs with respect to the definition of heat wave, varying both the temperature threshold above which temperature has to rise for a heat wave to have occurred (90th and 95th percentile of the local historic mean) and the minimum number of consecutive days this temperature needs to have occurred.

Source: Costa et al. (2024)

This effect is more pronounced in less productive and smaller firms, and exacerbated by longer heat waves, high humidity, and low wind speeds. We also find that the negative productivity impacts exhibit a non-linear relationship with rising temperatures and persist for two years before fading. The heterogeneity of the impact across firms suggests differences in not only exposure but also vulnerability to heat stress. Larger firms, for instance, may have greater resilience to rising temperatures thanks to better financial

resources, access to advanced technology, and knowledge of behavioural adaptation practices.

The analysis suggests some degree of adaptation may have already taken place. Firms in warmer locations and those more used to experiencing heatwaves exhibit lower productivity losses under similar temperature extremes. Additionally, both the implementation of National Adaptation Plans and firm-level investment in adaptation are also linked to reduced adverse effects of heat stress on productivity. However, the extent of current adaptation remains limited: higher temperatures relative to an already warm average result in more significant productivity losses, and there is no evidence of adaptation to severe extreme temperatures.

Directions for policy

In highlighting the substantial economic impacts of temperature-related changes, our analysis underscores important productivity and growth challenges posed by both gradual and disaster-driven climate impacts, providing valuable insights for policy making. First, sustained efforts in climate change mitigation are key to attenuating the increase in temperatures and the intensity and frequency of heat waves. This is particularly important given the non-linearity of costs to extreme temperatures and the limits to the effectiveness of adaptation suggested by our analysis.

Second, our results stress the urgent need to limit the economic impacts of heat stress through enhanced adaptation measures, tailored to different national and regional contexts to account for relevant heterogeneities in impacts and capacity. Where barriers to effective private sector engagement exist, like information and knowledge gaps, financial constraints, or coordination failures, policy efforts could prioritise promoting private sector adaptation. For example, while more than 60% of firms in the European Union report being impacted by the physical risks of climate

change, only slightly over one-third have taken concrete steps to build resilience (EIB, 2023).

Policymakers can support firms, particularly small and medium-sized enterprises, through targeted economic incentives such as subsidies or tax breaks to encourage investments in heat-resilient infrastructure and technical measures, like green roofs or advanced cooling systems. Additionally, providing information to firms can drive behavioural changes, such as adjusting work schedules to avoid peak heat periods. Complementary direct public investment may be necessary, for example in changing urban structure, climate-proofing transport systems, or investing in adaptation technology R&D.

Lastly, heat stress is just one of many climate-related challenges confronting economies. Other slow onset and extreme weather events can pose significant risks for firm-level performance and broader macroeconomic outcomes. Our upcoming research dives into these risks from two angles: we explore how flooding impacts firm performance – focusing on output, capital, and investment – and how regional macroeconomic results are impacted by extreme weather events. Together, these efforts aim to provide a more comprehensive understanding of the economic risks posed by climate change and inform the development of robust macroeconomic structural models.

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A heated issue: The unequal impacts of climate change and climate change mitigation

Category: Climate, Environment, Uncategorized

written by oecdecoscope | March 20, 2025



by Jule Hodok.

The direct impacts of climate change are unevenly distributed across countries, regions, and socioeconomic groups. Inaction will not only result in significant macroeconomic costs but also deepen existing inequalities (Intergovernmental Panel on Climate Change (IPCC), 2023). However, climate mitigation policies designed to reduce the emission of greenhouse gases

(GHGs) also have distributional effects. A new report by the OECD Economics department reviews the distributional consequences of climate change and climate change mitigation as well as illustrates the trade-offs between equity, efficiency, and effectiveness in the design of climate policies.

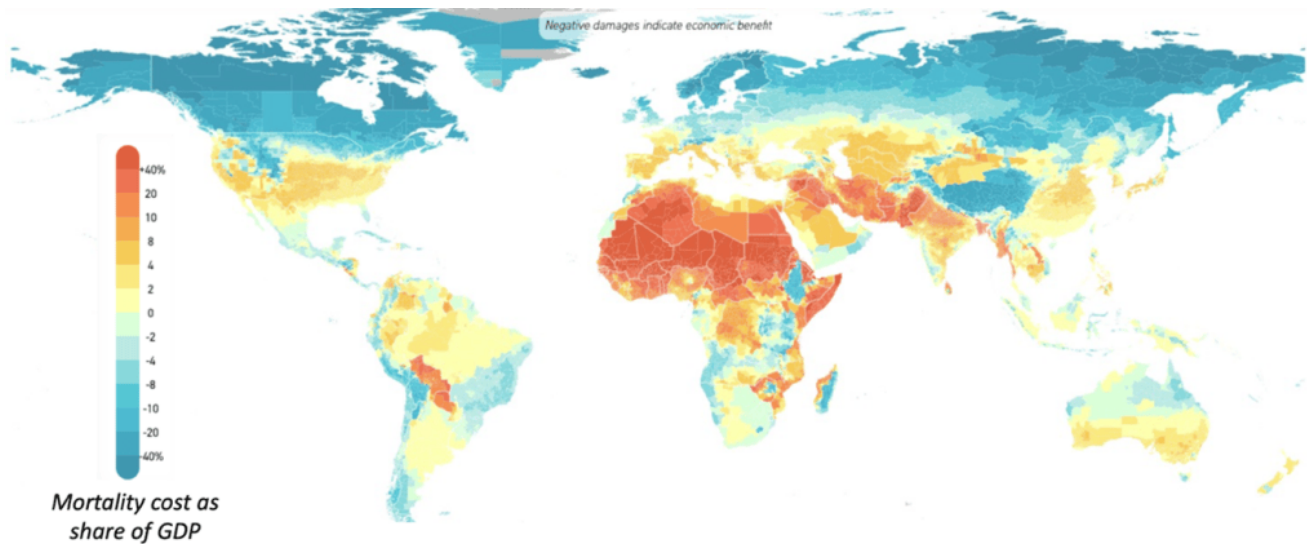
Unequal impacts of climate change

The extent to which a specific group of people, regions and countries are affected by climate change is determined by their exposure and vulnerability:

- “Exposure” is the presence of people, livelihoods, species, or ecosystems in places and settings that could be adversely affected by environmental degradation.
- “Vulnerability” is the tendency to suffer from the adverse effects and/or the lack of capacity to cope or adapt after exposure to climate change (Intergovernmental Panel on Climate Change (IPCC), 2023).

Developing countries are on average more exposed to climate change due to a combination of factors, such as often higher baseline temperatures, higher likelihood of droughts, and the reliance on climate-sensitive sectors, such as agriculture which is highly affected by temperature and precipitation levels (IPCC, 2023). They are also more vulnerable due to lower levels of adaptive capacity and resilience (Bilal & Känzig, 2024; Frankhauser, 2017) (Figure 1).

Figure 1. Predicted mortality cost as a share of GDP under a high emissions scenario



Notes: Estimates are based on a high emission scenario (RCP 8.5) for the end of the century (2080-2099). The methodology for estimating the mortality costs of climate change (temperature-related) derived from (Carleton, et al., 2022). Mortality costs are just one part of health-related impacts of climate change and account for an even smaller share of the overall costs of climate change.

Source: (Climate impact Lab, 2024)

Within countries, drawing clear, general conclusions of the impact of climate change is more difficult. Still, for example, urban areas often face higher risks of extreme temperatures and flooding (Frankhauser & McDermott, 2016), while rural communities tend to be more vulnerable due to a stronger reliance on resource-based industries (OECD, 2021). Evidence also suggests that lower-income households tend to be disproportionately affected, as they often lack the resources to adapt to climate change, e.g. by not being able to afford adaptive technologies, or lower access to quality healthcare and insurance (Bijnens, et al., 2024; Islam & Winkel, 2017).

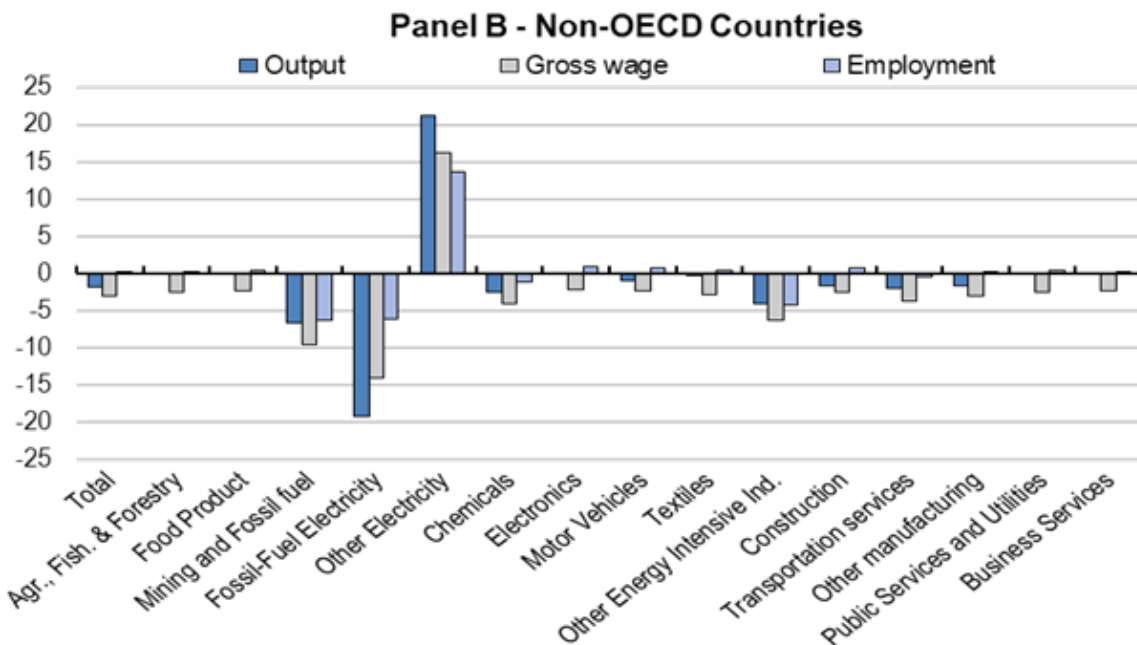
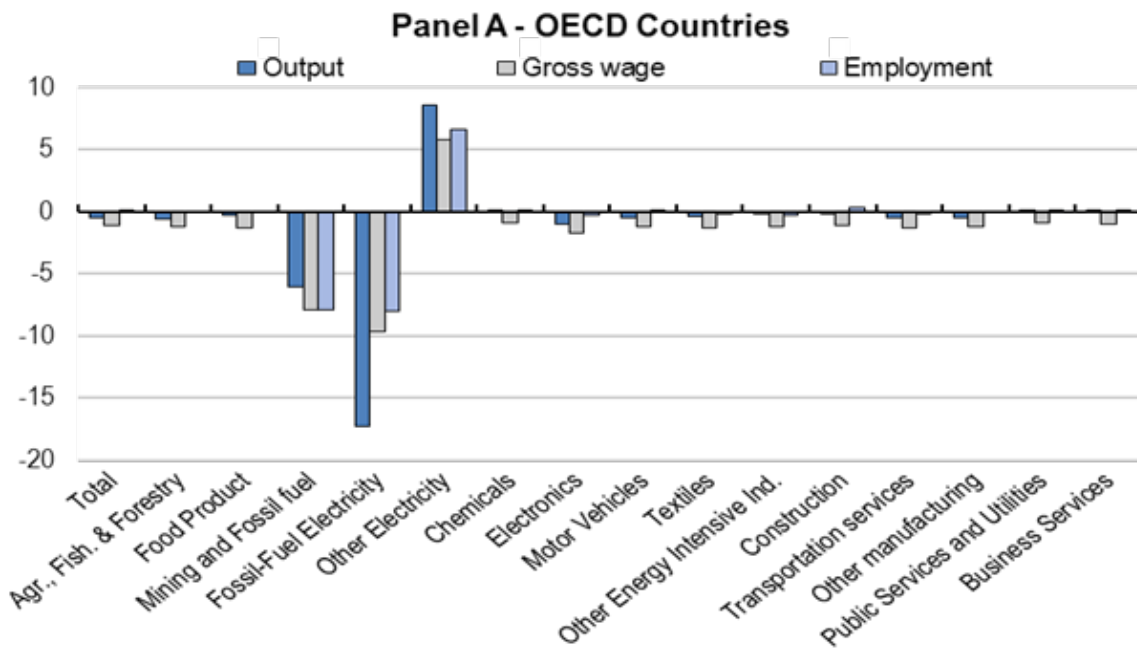
The distributional impacts of climate change mitigation

While mitigating climate change can, over the longer term, help alleviate some of the distributional concerns related to the direct impacts of climate change, climate policies themselves have distributional consequences, from both an

income and consumption perspective.

From an **employment and income perspective**, the climate transition will trigger a reallocation of labour and capital, from “high-emission” sectors, firms, and activities to low carbon emitters. For example, research estimates that in response to a global tax of USD 50/tCO₂, fossil fuel industries – which tend not to be large employers overall – would experience a decrease in employment and output, while the largest job gains would occur in low-carbon power generation (Chateau, Bibas & Lanzi, 2018) (see Figure 2 for an overview of sector-specific effects). However, as high-emission industries tend to be regionally clustered, such labour market effects are likely geographically concentrated, potentially widening regional inequalities within countries (OECD, 2021; OECD, 2023). Additionally, low-skilled workers and those with lower educational attainment are often most negatively affected as they tend to face higher barriers to reskilling and job mobility (OECD, 2023; Chateau, Bibas, & Lanzi, 2018).

Figure 2. Change in output, employment, and gross wage by sector in response to central scenario



Notes: a carbon tax of USD 50/tCO₂ is applied in all regions of the world; percentage change w.r.t reference equilibrium, 2011; OECD ENV-Linkages computable general equilibrium (CGE) is used as a tool for the analysis.

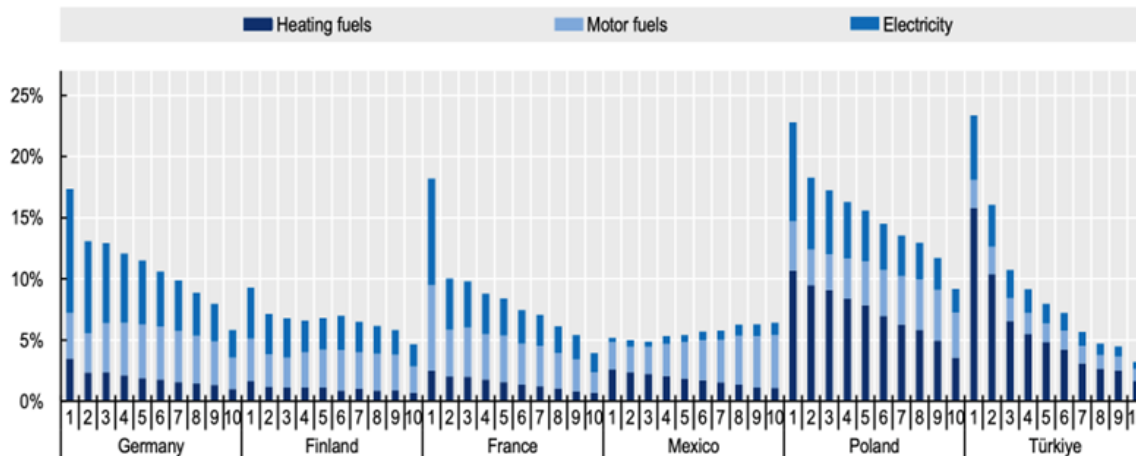
Source: (Chateau, Bibas, & Lanzi, 2018)

From a **consumption perspective**, policies that result in changes in relative prices will affect households differently if they have different consumption patterns. Four key findings emerge based on the review of existing literature:

- In advanced economies, carbon and energy taxation is mostly regressive (Flues & Thomas, 2015; Douenne, 2020; Immervoll et al., 2023). The regressivity often stems from the fact that food and some fuels are a necessity for many households making poorer households unable to reduce their consumption in response to higher prices (Figure 3) (Vandyck et al., 2023; Elgouacem, et al., 2024).
- In developing countries, carbon and energy taxation often are progressive. This stems from the fact that a large subset of the population has low incomes and relatively limited fossil fuel energy use. Developing countries are therefore particularly confronted with the trade-off between energy affordability and addressing climate change as even a small increase in the price of energy may significantly aggravate energy poverty (Dorband et al., 2019; Steckel, et al., 2021).
- The regressivity of policies depends on the specific policy in question and the type of fuel that is targeted. For example, transport fuel taxation is neutral in countries with higher GDP per capita and progressive in countries with lower GDP per capita (Flues & Thomas, 2015; Missbach et al., 2024). Additionally, other factors than income drive distributional effects. For example, most evidence shows that rural households are more vulnerable to carbon taxation, due to limited access to public transport (Causa et al., 2022).
- Non-market-based policies – including bans, standards, and direct regulation – tend to disproportionately affect lower-income households and may result in equity concerns through possibly unaffordable replacement costs of the emission-intensive good (Elgouacem, et al., 2024). Limited research on subsidies and feed-in-tariffs (e.g. for electric vehicles, solar panels, or home insulation) suggests that they tend to primarily benefit higher-income households who have the required capital

to invest in the low-carbon solution (Borenstein & Davis, 2016; Levinson, 2019).

Figure 3. Household expenditures on fuel and other energy, by income decile



Note: Groups 1-10 refer to income deciles. Domestic fuel includes expenditure on gas, liquified hydrocarbons, kerosene, and other liquid fuels, coal, and other solid fuels. Motor fuels includes expenditure on diesel and petrol for transportation.

Source: (Elgouacem, et al., 2024), (Screenshot, Figure 5.5 in paper)

Overall, integrating equity and fairness considerations in the design of climate policies and broader climate strategies can help manage their distributional impacts and improve the social acceptability of a climate transition.

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Derribando barreras al crecimiento en América Latina

Category: Latin America, Perspectivas económicas, Posts in Spanish, Uncategorized

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América Latina enfrenta un crecimiento moderado que, aunque resiliente, no es suficiente para mejorar significativamente los niveles de vida y la convergencia en PIB per cápita a países más avanzados. En un contexto donde el crecimiento global se estabiliza apenas por encima del 3% (OECD, 2024), y existen numerosas tensiones globales ¿cómo puede la región reavivar el crecimiento?

El crecimiento económico de la región sigue siendo moderado en 2024, en gran parte debido al efecto de política monetaria para frenar la inflación y a una demanda externa débil. Aunque se proyecta una ligera mejora en el crecimiento en los próximos dos años (Cuadro), gracias a la recuperación de los salarios reales, la resiliencia de los mercados laborales y la relajación de la política monetaria, este crecimiento converge hacia un crecimiento potencial bajo, insuficiente para elevar significativamente los niveles de vida.

Cuadro. Perspectivas económicas para los países de América Latina

	2024	2025	2026
PIB variación, %			
 Argentina	-3.8	3.6	3.8
 Brasil	3.2	2.3	1.9
 Chile	2.4	2.3	2.1
 Colombia	1.8	2.7	2.9
 Costa Rica	4.0	3.5	3.6
 México	1.4	1.2	1.6
 Perú	3.1	2.8	2.6
América Latina-7	1.7	2.2	2.1
OCDE	1.7	1.9	1.9
Mundo	3.2	3.3	3.3

	2024	2025	2026
Inflación general, %			
 Argentina	120.9	29.8	25.1
 Brasil	4.5	4.2	3.6
 Chile	4.3	4.2	3.2
 Colombia	6.7	4.3	3.1
 Costa Rica	-0.4	1.6	2.6
 México	4.7	3.3	3.0
 Perú	2.4	2.0	2.0
América Latina-6 (sin Argentina)	3.7	3.3	2.9
OCDE	5.2	3.7	2.9

Nota: América Latina 7 es la media ponderada por el PIB a valores de paridad del poder de compra de los 7 países en la tabla para el PIB. América Latina 6 es la media simple de los países incluidos en el cuadro para la inflación excluyendo a Argentina.

Fuente: OCDE Perspectivas Económicas No. 116, diciembre de 2024.

La inflación en América Latina sigue moderándose en la mayoría de los países, acercándose a los rangos meta fijados por los bancos centrales. Sin embargo, persisten desafíos significativos. En Brasil, un repunte inflacionario llevó a su banco central a pausar y, más recientemente, a subir las tasas de política monetaria. Aunque la mayoría de los bancos

centrales han reducido sus tasas de referencia, la velocidad e intensidad varía considerablemente. La relajación monetaria continuará en la mayor parte de los países de la región, pero deberá implementarse con cautela debido a riesgos inflacionarios.

América Latina enfrenta riesgos que podrían frenar su crecimiento. A nivel global, las tensiones comerciales y geopolíticas continúan generando incertidumbre y podrían aumentar la volatilidad de los precios de las materias primas e impactar la actividad económica de la región. Además, la inflación persistente en el sector servicios podría ralentizar la relajación monetaria, tanto global como regional. En el ámbito comercial, un posible aumento de aranceles en EEUU representaría un nuevo desafío, mientras que un crecimiento menor al esperado en China podría impactar a los países más expuestos.

A nivel doméstico, los riesgos incluyen aquellos derivados de elevados déficits fiscales, un creciente nivel de deuda pública y una alta carga de intereses, los cuales se han agravado en casi todos los países. De no abordarse oportunamente, estos factores podrían desencadenar reacciones adversas en los mercados financieros. La mayoría de los países están actualmente rezagados respecto a sus metas fiscales para 2024, lo que hace urgente implementar medidas de consolidación para situar la deuda en una senda descendente y salvaguardar la sostenibilidad fiscal. Por el lado positivo, un mayor crecimiento de los socios comerciales y una coyuntura mundial más benigna podrían impulsar las exportaciones y las entradas de capital, así como un repunte de la inversión podría impulsar el crecimiento.

A pesar de que la región ha afrontado de forma resiliente la coyuntura reciente, el crecimiento proyectado es moderado y aumentar el crecimiento de largo plazo sigue siendo el principal desafío para América Latina. Esto requiere fortalecer la inversión, que permanece débil, y el crecimiento

de la productividad, un reto de larga data en la región.

Impulsar la inversión y la productividad: Reformas clave para un ambiente empresarial competitivo

Mejorar el ambiente empresarial y fomentar la competencia son medidas esenciales para impulsar la inversión y la productividad sin requerir grandes recursos fiscales. Reformar las regulaciones del mercado de productos es clave para eliminar barreras a la competencia, un área donde América Latina está significativamente rezagada, según el reciente indicador de Regulación de Producto de Mercado (PMR) de la OCDE. Por ejemplo, reducir barreras regulatorias en sectores clave, tales como industrias de red (electricidad, transporte, telecomunicaciones) y servicios, podría atraer inversiones más diversificadas y promover la innovación en la región. Además, mejorar la gobernanza de las empresas públicas ayudaría a mejorar el ambiente de negocios.

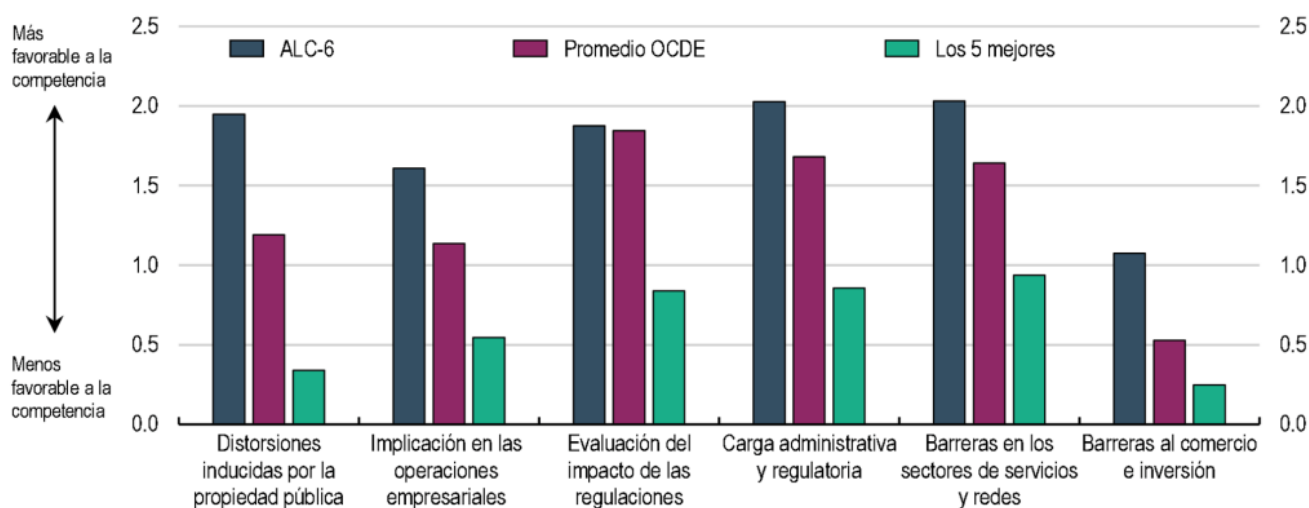
Las reformas prioritarias deben enfocarse en reducir la carga administrativa y los costos de entrada para las empresas, especialmente en el sistema de permisos y licencias, que son altos en la mayoría de los países de la región (Grafico), para impulsar la inversión, la formalidad empresarial y la productividad. Simplificar la creación de empresas mediante ventanillas únicas donde las empresas pueden realizar todos los trámites online y de una sola vez, como en Portugal o Estonia, puede reducir costes y mejorar la eficiencia. Aunque muchos países de América Latina ya cuentan con sistemas similares, es necesario ampliar su cobertura y funcionalidad. Por ejemplo, Chile está discutiendo una reforma para simplificar permisos sectoriales a través de una ventanilla

única, mientras que Argentina creó el Ministerio de Desregulación y Transformación del Estado para simplificar y agilizar trámites, reducir las cargas regulatorias y promover una administración más eficiente.

América Latina debe superar su bajo potencial de crecimiento implementando reformas audaces que derriben barreras al desarrollo empresarial, desarrollen el talento necesario, atraigan inversión y transformen la región en un terreno fértil para la innovación y el crecimiento sostenible. Los vastos recursos de energía renovable y el crecimiento del *nearshoring* brindan oportunidades únicas para América Latina. Invertir en infraestructura sostenible y atraer industrias verdes puede convertir a la región en un líder de sostenibilidad. El momento de actuar es ahora.

Gráfico. Mejorar el entorno empresarial y fomentar la competencia es necesario

Índice de regulación del mercado de productos, 2023



Nota: América Latina (ALC-6) es el promedio simple de Brasil, Chile, Colombia, Costa Rica, México y Perú.

Fuente: Base de datos PMR OCDE 2023-2024.

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Perspectivas económicas de la OCDE para países de América Latina, Diciembre 2024.

Información detallada por
país: Argentina | Brasil | Chile | Colombia | Costa Rica | México | Perú

Miracle or Myth? Assessing the macroeconomic productivity gains from Artificial Intelligence

Category: Digitalisation, Uncategorized
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By Francesco Filippucci, Peter Gal and Matthias Schief, OECD Economics Department.

Artificial Intelligence (AI) could unleash productivity gains, boost growth, and raise incomes. Indeed, many firms are

looking to the technology to increase productivity, with large documented gains in workers' performance from using Generative AI tools (e.g. Large Language Models similar to ChatGPT) in business contexts such as customer service, business consulting, or software development. Moreover, given its rapidly expanding capabilities, AI is widely heralded as a new General-Purpose Technology (GPT) that could lift macroeconomic productivity growth, as it was the case with the internet and personal computers or with previous breakthrough innovations like the steam engine and electricity (Agrawal, Gans and Goldfarb, 2019; Lipsey, Carlaw and Bekar, 2005; Filippucci et al, 2024).

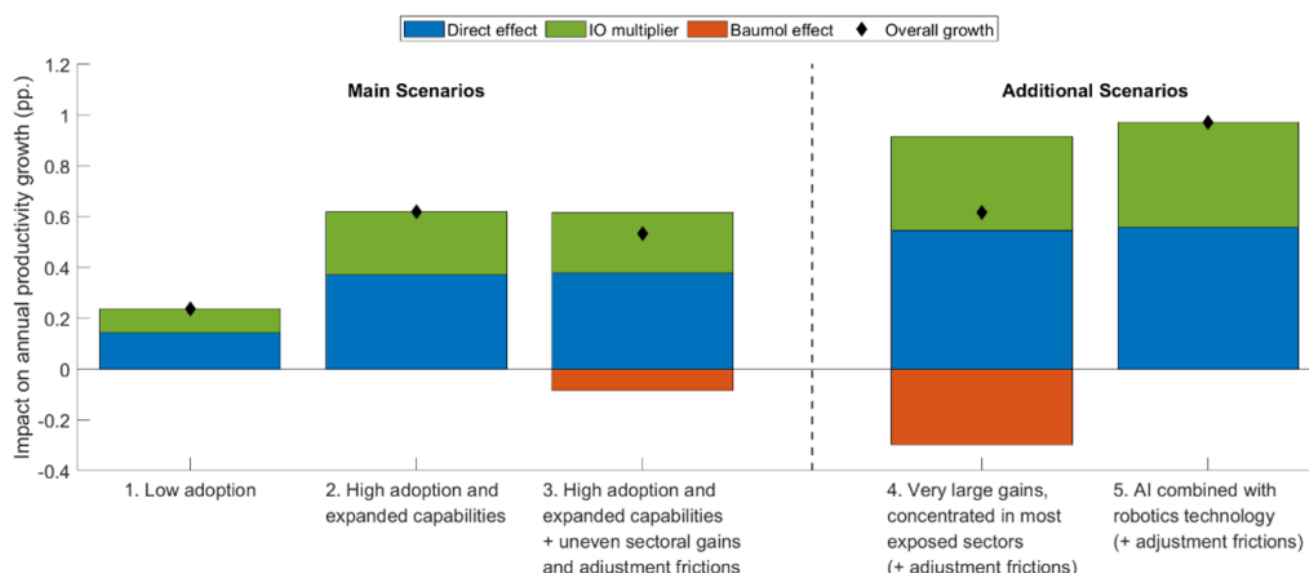
But can current micro-level productivity gains really lead to large productivity gains from AI at the macroeconomic level over the next decade? To answer this question, one needs to consider what share of economic activities would experience productivity gains if AI was adopted ("exposure to AI"), and how quickly firms will adopt AI. Additionally, at the macroeconomic level, one needs to consider that productivity gains can also depend on broader economic factors, such as sectoral linkages, demand responses, or labour and capital market frictions.

A new working paper by the OECD Economics Department (Filippucci, Gal and Schief, 2024) considers these mechanisms and assesses the macroeconomic productivity gains from AI over the coming 10-years. The results suggest that AI could contribute significantly to aggregate productivity growth over the next decade, contributing between 0.25 to 0.6 percentage points to annual Total Factor Productivity (TFP) growth in the United States (or 0.4 to 0.9 percentage points to annual labour productivity growth) in our main scenarios (Figure 1). Estimates for other economies are of similar magnitude, though somewhat lower given that adoption of AI is expected to be slower. These estimates imply a substantial improvement in the context of the weak productivity growth across the OECD over

the past decades, which has been in the range of 1-1.5% per year.

Figure 1: Macro-level productivity gains from AI over

Estimated impact on annual growth rates over a 10-year horizon



Note: The bars correspond to different scenarios regarding the adoption, capabilities, and micro-level gains of AI (as in Figure 1). In scenarios 1 and 2, demand is assumed to be relatively elastic, and the factors of production (labour and capital) can reallocate freely across sectors. In scenarios 3-5 with adjustment frictions, demand is assumed to be very inelastic, and factors cannot reallocate across sectors. See more details in section 3 of Filippucci, Gal and Schief (2024).

The aggregate productivity gain from AI is the sum of three effects: 1) a direct effect of increasing productivity at the sectoral level; 2) an input-output multiplier effect as productivity gains in one sector also benefit other sectors through reduced costs of intermediate inputs; and 3) a negative reallocation effect in the spirit of Baumol's growth disease (Baumol, 1967; Nordhaus, 2008) that arises if the sectors with limited productivity growth increase as a share of GDP.

A key insight that emerges from this analysis is that the macroeconomic impact of AI will depend primarily on the adoption speed and the degree to which AI can benefit economic activities across a wide range of sectors in the economy. Current adoption varies strongly across firms and sectors, with country-level adoption rates being generally low, in the range of 5-15%, as reported by official statistics of businesses and firm-level studies (e.g. Calvino and Fontanelli, 2023). Fast and productive integration of AI in a wider range of economic activities through expanded AI capabilities (e.g. further integration with other digital tools) is necessary for the emergence of large macroeconomic gains (Scenario 2 vs 1).

However, even with high adoption rates and expanded capabilities, general equilibrium effects working through prices could reduce the overall macroeconomic gain if the productivity benefits of AI remain concentrated in a few sectors (knowledge intensive services such as ICT, finance and professional services) (Scenarios 3 and 4). Demand for these services can become saturated, and growth will thus be limited “not by what we do well but rather by what is essential and yet hard to improve” (Aghion, Jones and Jones, 2019). In contrast, macroeconomic gains would be larger if AI gains were more widespread across sectors, for instance in the case of further integration with robotics technology, which would enable not only cognitive but also manual-intensive activities to benefit from AI (Scenario 5).

Overall, AI holds significant promise to revitalise productivity growth in OECD countries and beyond. Governments can also play a role in shaping the macroeconomic gains for AI, for example by resolving legal uncertainties around accountability, which may hold back productive AI adoption by firms (OECD, 2024a). At the same time, governments can foster a competitive environment (both in the AI-using as well as the AI-producing sectors; see Aghion and Bunel, 2024; OECD, 2024b)

which is conducive to innovation and experimentation, while monitoring potential labour market disruptions and supporting workers as they transition into new roles in the AI economy (e.g. Acemoglu, Autor and Johnson; Baily, Brynjolfsson and Korinek, 2023; OECD, 2023).

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