

The market implications of industrial subsidies

Category: Public Investment, Uncategorized

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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 27th and 51st 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 heterogeneous 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

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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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On the path to the top league: sustaining Croatia's convergence

Category: Croatia, Immigration, Inflation, Skills
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By **Tim Bulman**, OECD Economics Department

Croatia, with a population of four million and independent as of three decades ago out-performs in many fields. The successes of its sports teams and of its leading athletes, and

the beauty of its natural landscapes and the cities and islands along its sparkling coastline are well known. It is now aiming to achieve similar renown for its economy and quality of life.

An ambitious programme of reforms and investments over the past decade are bearing fruit and Croatia is advancing up the league tables. The economy is expanding and diversifying, generating jobs and raising incomes, and making poverty increasingly rare. The country navigated the COVID-19 and energy price shocks well, achieving robust rebounds in output and employment. The quality of the environment and of public services has improved, contributing to a markedly more optimistic outlook among younger generations. The country is also becoming increasingly attractive to immigrants. Croatia's integration into the euro- and Schengen areas at the start of 2023 is recognition of these changes and strengthens the base for continued progress.

Indeed, strong progress will need to continue if Croatia's is to move to the top of the league tables. For future generations to enjoy the incomes of the average OECD country, the economy will need to expand by 3% annually on average for the next thirty years, at the same time as it addresses the twin challenges of climate change and population ageing. The 2023 Economic Survey of Croatia, the first prepared by the OECD and which is being launched in the context of Croatia's accession process to the OECD, identifies three groups of policy actions that can enable Croatia to build its form.

Robust growth will need to continue for Croatia to converge with OECD incomes

GDP per capita, 2015 prices and PPPs, thousand USD

Note: 'Peers' is the unweighted average of Czech Republic, Hungary, Slovak Republic, and Slovenia.

Source: OECD Annual National Accounts (database).

Ensure public finances and prudential supervision support sustainable growth

Inflation is abating only gradually from its surge in 2022, when it peaked at 13.0% year-on-year in November, the highest rate since the 2000s. The labour market is tight, and employers report growing recruitment challenges. Meanwhile integration into the euro- and Schengen-areas are adding to demand from exports and investment, while banks have increased lending capacity. The government plans to shift the budget from a modest surplus in 2022 to a small deficit in 2023 and a larger deficit in 2024, further adding to demand pressures.

Avoiding fiscal stimulus while inflation remains high would ensure fiscal policy is counter-cyclical, and help inflation in Croatia return to the level of its peers. Vigilantly monitoring banks' new lending can support macroeconomic stability.

Consumer prices are still rising faster than in the euro area

Consumer price inflation, year-on-year

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Note: 'Peers' is the unweighted average of Czech Republic, Hungary, Slovak Republic, and Slovenia.

Source: OECD Price Statistics database.

Support a more dynamic business environment where productive firms can

grow

Croatia has a lively start-up scene, and many new firms are relatively productive. But they grow less than in other countries. Instead, entrenched, lower-productivity firms dominate much of the business sector. Many firms' lagging productivity reflects low investment, especially foreign direct investment that brings new technologies, and investment in digitalisation and more innovative management.

Firms identify the time and resources spent on complying with regulations as a major constraint. Continuing to review, streamline and simplify regulations, and closely monitoring whether regulatory burdens are indeed diminishing can ensure progress.

In practice, businesses report that complying with regulations is burdensome

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Many legal disputes remain slow to resolve, despite some recent gains, and many businesses report a lack of confidence in the legal system. Efforts to develop alternative dispute resolution, digitalise legal processes and better communicate legal decisions can help.

State-owned enterprises (SOEs) continue to play an over-sized role in Croatia's economy, but many under-perform in how well they use their assets and workers and in the quality of the goods and services they deliver. Making SOE governance, arms-length from the government and more transparent about performance and returns can help. Listing state-owned enterprises where there is not a core justification for government ownership can also boost the firms' performance and the dynamism of Croatia's economy.

Strengthen skills and activate those out of the workforce to raise incomes and inclusiveness

Croatia's growing and increasingly diverse economy requires ever higher levels of workforce skills. Many workers have solid intermediate skills, but investors report difficulties hiring higher-level skills. A big push to improve adult education can help. The strong take-up of a new adult education voucher scheme demonstrates that demand exists for a well-designed system, i.e. one that identifies workers' skill needs, adapts to their schedules and circumstances, and is affordable. Better connecting school and vocational education with employers' current and future needs would better prepare students for a dynamic economy.

Addressing barriers to adult education can raise participation

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Alongside raising skills, a relatively large share of Croatia's younger and older adults is not in the labour force. These people are among those most at risk of poverty. Many have few skills and little experience of working formally. Tailored activation services that develop skills and offer work experience can enable them to move into lasting jobs. Lagging areas with few opportunities are likely to need extra policy attention. Assisting older adults stay in work longer would help ensure they can enjoy adequate incomes and quality of life in retirement.

Croatia's reform and investment programme reflects its ambitions. Full implementing these efforts will take ongoing effort and energy. The benefits of graduating to the top league will be well worth the effort.

Corporate taxation can support business investment, but details of the tax system matter

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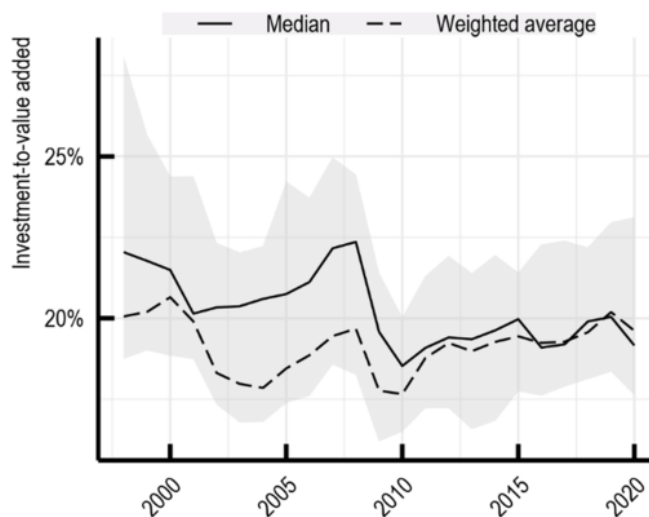
By Tibor Hanappi, Valentine Millot and Sébastien Turban, OECD Economics Department

Business investment has been weak in OECD countries since the global financial crisis (GFC). What can be done to boost it?

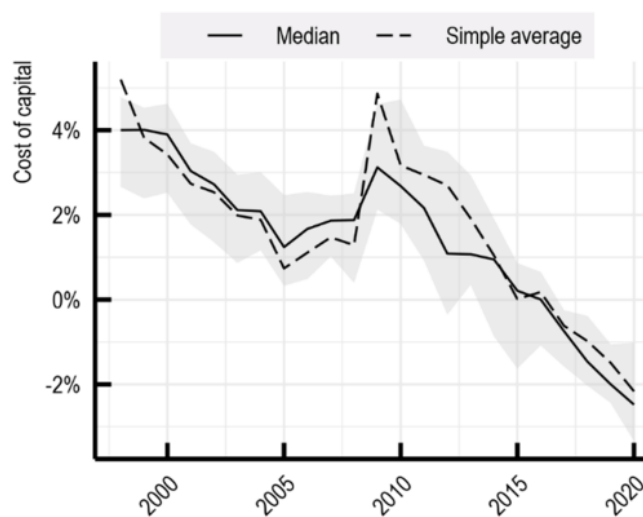
One potential lever is to modify corporate taxation to reduce the cost of capital, which is usually considered as a key investment determinant (Feld and Heckemeyer, 2011_[3]; Vartia, 2008_[4]; Schwellnus and Arnold, 2008_[5]). However, as can be seen in the figure below, while the cost of capital has steadily fallen, reflecting the secular decline in global interest rates and cuts in statutory corporate tax rates (STR), business investment rates have not increased and real investment has barely caught up with its pre-GFC trend. These observations suggest that either the sensitivity of firms' investment to the cost of capital has declined, or the desired level of investment for a given cost of capital has fallen

because of other factors. In turn, they raise questions about whether and which changes to corporate tax systems can stimulate business investment.

A. Investment intensity in OECD countries



B. Cost of capital in OECD countries



Note: Panel A: Investment intensity is computed as the ratio of gross fixed capital formation over gross value-added in business sectors (Sectors B through N according to the ISIC Rev.4 classification, excluding Real Estate). Panel B: The cost of capital corresponds to the rate of return on a marginal investment required for an investor to break even after tax. It is computed based on the formula from Hanappi (2018_[4]), the fiscal parameters from Spengel et al. (2020_[5]), long-term sovereign interest rates and changes in the GDP deflator as a proxy for inflation. Trends and changes in the cost of capital, but not levels, are robust to replacing sovereign bond yields with a stable premium for corporations. In both panels, the shaded area corresponds to the interquartile range across OECD countries.

Source: Hanappi, Millot and Turban (2023), "How does corporate taxation affect business investment? Evidence from aggregate and firm-level data", *OECD Economics Department Working Papers*, No. 1765, OECD Publishing, Paris.

Aggregate trends hide heterogeneity in investment responses to taxation. Indeed recent analysis has shown that the sensitivity of firm investment to corporate taxation tends to

be heterogeneous across different types of firms (Federici and Parisi, 2015_[6]; Zwick and Mahon, 2017_[7]; Fuest, Peichl and Siegloch, 2018_[8]; Kopp et al., 2019_[9]; Millot et al., 2020_[10]). As such, a more nuanced assessment of the implications of corporate taxation on investment and growth is needed.

Our new paper (Hanappi, Millot and Turban, 2023) aims to fill this need. We bring together country-industry and firm-level data on investment, as well as detailed data on the cost of capital and its tax component, to analyse how the tax sensitivity of investment has evolved over time and how it differs across firm and investment characteristics. Finally, we also disentangle key parameters of the corporate tax system to analyse the potential impacts of different tax designs.

The tax sensitivity of investment has weakened since the GFC and varies across firms and tax parameters

Our estimations at the industry and the firm level confirm previous findings that business investment tends to respond negatively to increases in corporate taxation as measured by forward-looking effective tax rates (ETRs) (see Hanappi (2018_[4]) for details on the methodology to construct those ETRs). However, the analysis shows that the tax sensitivity of investment fell after the GFC, suggesting that lower ETRs increase investment less now than they did in the past.

We also find that firms that are large, are part of multinational groups, have a large proportion of intangibles in their total fixed assets, or are highly profitable, have all become less sensitive to taxation compared to other firms after the GFC. The fact that these firms have become less sensitive could largely explain the aggregate trends, as investment tends to be highly concentrated among a small number of big firms, usually belonging to multinational groups.

Finally, our paper highlights significant heterogeneity in

investment responses to different corporate taxation parameters. Increases in effective taxation delivered through non-profit taxes (i.e. business taxes levied on bases other than corporate income, such as real estate or corporate wealth) have a stronger negative impact on business investment than corporate income taxes (CIT). As for the CIT, “equivalent” changes (i.e., those resulting in the same effective marginal tax rate) in the STR and in capital allowances are associated with different investment responses, depending on the initial level of STR and allowances.

What are the implications for corporate tax policy?

Corporate taxation can support business investment, but the bang for the buck may have fallen, and details of the tax system matter. The results from the empirical analysis call for a more nuanced and granular approach to corporate tax policy. Beyond headline statutory tax rates, a variety of measures can be considered to support investment effectively, accounting for heterogeneity in tax sensitivity.

Potential policy options include:

- Eliminating or reducing non-profit taxes on domestic and international businesses, which are likely to generate larger adverse effects on investment than taxes on profits.
- Limiting cuts in the headline corporate income STR; which can be relatively costly compared with other corporate tax policies, as they lower the effective tax rates for all firms regardless of their tax sensitivity.
- Considering the use of targeted CIT instruments to support specific investments, provided that a coherent policy rationale and a strong institutional framework exist. Differences in effective tax rates across assets and firms can be justified when there are positive externalities. However, decisions to implement targeted

measures should also account for the costs of the induced distortions, potentially increased compliance costs and administrative burdens for taxpayers and tax authorities.

- Making use of more generous capital allowances to reduce ETRs where they are expected to induce strong investment responses. Higher STRs, combined with more generous capital allowances, are likely to be less distortive as the CIT would be largely levied on economic rents. Moreover, such policies would likely be less affected by the Global Minimum Tax under the Global Anti-Base Erosion (GloBE) Rules due to the exclusion of a fraction of the value of assets and payroll from the base of the minimum tax.

Read more on the new paper: *How does corporate taxation affect business investment? Evidence from aggregate and firm-level data* in the direct link here.

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How Climate Policies Shape Borrowing Costs and Investment through the Banking Channel

Category: Climate, Uncategorized

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More stringent climate policies means that firms' environmental performance affects their costs of debt as (sophisticated) investors price transition risks

Updating the Polish economy: how to digitalise and boost productivity

Category: Uncategorized

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Digitalisation in Poland requires more investment and upgrading of skills to boost productivity.

Policy changes to turn the tide

Category: Digitalisation, Economic outlook
written by oecdecoscope | July 22, 2025
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For the past two years, global growth outcomes and prospects have steadily deteriorated, amidst persistent policy uncertainty and weak trade and investment flows. We now estimate global GDP growth to have been 2.9% this year and project it to remain around 3% for 2020-21, down from the 3.5% rate projected a year ago and the weakest since the global financial crisis. Short-term country prospects vary with the importance of trade for each economy though. GDP growth in the United States is expected to slow to 2% by 2021, while growth in Japan and the euro area is expected to be around 0.7 and 1.2% respectively. China's growth will continue to edge down, to around 5.5% by 2021. Other emerging market economies are expected to recover only modestly, amidst imbalances in many of them. Overall, growth rates are below potential.

The mix between monetary and fiscal policies is unbalanced. Central banks have been easing decisively and timely, partly

offsetting the negative impacts of trade tensions and helping to prevent a further rapid worsening of the economic outlook. Thereby, they have also paved the way for structural reforms and bold public investment to raise long-term growth, such as spending on infrastructure to support digitalisation and climate change. However, to date, other than a few countries, fiscal policy has been only marginally supportive, and not especially of investment, while asset prices have been buoyant.

The biggest concern, however, is that the deterioration of the outlook continues unabated, reflecting unaddressed structural changes more than any cyclical shock. Climate change and digitalisation are ongoing structural changes for our economies. In addition, trade and geopolitics are moving away from the multilateral order of the 1990s. It would be a policy mistake to consider these shifts as temporary factors that can be addressed with monetary or fiscal policy: they are structural. In the absence of clear policy directions on these four topics, uncertainty will continue to loom high, damaging growth prospects.

The lack of policy direction to address climate change issues weighs down investment. The number of extreme weather events is on the rise and insufficient policy action could increase their frequency. They may lead to significant disruptions to economic activity in the short term, and long-lasting damage to capital and land, as well as to disorderly migration flows. Adaptation plans are in their infancy, while mitigation, moving away from fossil fuels, through measures such as carbon taxes, has proved technically and politically challenging. Governments must act quickly: without a clear sense of direction on carbon prices, standards and regulation, and without the necessary public investment, businesses will put off investment decisions, with dire consequences for growth and employment.

Digitalisation is transforming finance, business models and

value chains, through three main channels: investment, skills and trade. So far, only a small fraction of businesses appear to have successfully harnessed the strong productivity potential of digital technologies, which partly explains why digitalisation has been unable to offset other headwinds on aggregate productivity. Reaping the full benefits of digital technologies requires complementary investments in computer software and databases, R&D, management skills and training, which remains a challenge for too many firms. Digitalisation is also affecting people and work, because it confers a huge advantage to people whose main tasks require cognitive and creative skills, and penalises those whose work has a large routine element, and at the same time generates new forms of contractual arrangements that escape traditional social protection. But the policy environment to harness new technology – concerning skill upgrading, social protection, access to communication infrastructure, digital platform development, competition in digital markets and regulation of cross-border data flows – lags behind, making it difficult to reap the benefits of digitalisation in full.

The Chinese economy is structurally changing, rebalancing away from exports and manufacturing towards more consumption and services. Increasing self-sufficiency in core inputs for certain manufacturing sectors is reflecting a desire to move away from importing technology towards national production. A shift in energy utilisation to address pollution, and the rise in services also induce additional changes in Chinese demand for imports. China's traditional contribution to global trade growth is set to slow and change in nature. While India is set to grow rapidly, its growth model is different and its contribution to global trade growth will not be enough to substitute for China as a global engine for traditional manufacturing.

Trade and investment are also structurally changing, with digitalisation and the rise of services, but also with

geopolitical risks. The rise in trade restrictions is nothing new. About 1500 new trade restrictions have been implemented by G20 economies since the global financial crisis in 2008. Yet, the past two years have seen a surge in trade-restricting measures and an erosion of the rules-based global trading system, which is deep-rooted. Coupled with rising government support across a range of sectors, this induces disruptions in supply chains and reallocations of activities across countries that both exert a drag on current demand by reducing incentives to invest and undermine medium-term growth. Against this backdrop, there is scope and an urgent need for much bolder policy action to revive growth. Reducing policy uncertainty, rethinking fiscal policy, and acting vigorously to address challenges raised by digitalisation and climate change, all have the potential to reverse the current slippery trend and lift future growth and living standards.

First, a clear policy direction for transitioning towards sustainable growth amidst digitalisation and climate challenges would trigger a marked acceleration of investment. Governments should focus not only on the short-term benefits of fiscal stimulus, but primarily on the long-term gains and to this end they should review their investment policy frameworks. The creation of national investment funds, focused on investing in the future, could help governments design investment plans to address market failures and take account of positive externalities for society as a whole. A number of governments already have dedicated funds of the sort, but their governance could be improved to ensure higher economic and social returns on investment.

Second, greater trade policy predictability and transparency could go a long way to reduce uncertainty and revive growth. For instance, there is a need to bring more transparency to the numerous forms of government support that distort international markets and to agree global rules on the transparency, predictability, reduction and prevention of such

support.

Third, fiscal and monetary policies can be better activated, and to powerful effect if coordination prevails. There is scope to strengthen automatic stabilisers to preserve household income and consumption. Active coordination across the euro area would contribute to lift growth now. Moreover, should the outlook deteriorate more than we project, coordinated fiscal and monetary action across the G20, even allowing for the limited policy space some central banks have, could efficiently avert a recession, not least because coordination would bolster confidence.

The current stabilisation at low levels of economic growth, inflation and interest rates does not warrant policy complacency. The situation remains inherently fragile, and structural challenges – digitalisation, trade, climate change, persistent inequalities – are daunting. Rather, there is a unique window of opportunity to avoid a stagnation that would harm most people: restore certainty and invest for the benefit of all.



<http://oecd.org/economic-outlook/>

Unsatisfactory global growth: A call to policy action!

written by oecdecoscope | July 22, 2025



by Catherine L. Mann

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Welcome to the OECD Economics Department's new ECOSCOPE blog !

Our *Interim Economic Outlook* launched today shows a troubling picture—world growth stuck at 3% in 2016, and only 3.3% in 2017, with substantial volatility in financial markets raising new risks. The OECD's mantra is “better policies for better lives” and that is central to our assessment that a stronger policy response is urgently needed to get global growth out of this low-growth equilibrium. Monetary stimulus alone cannot reverse many of the worrying trends seen in the *Interim* including weak trade, low investment and an apparent slowing of trend productivity. Given very low interest rates, now is an opportune time for collective fiscal action, focusing on

investment spending that will raise growth in the near term and underpin long-term output potential. Greater ambition on structural reforms to provide an environment conducive to private investment goes hand-in-hand. (On 26 February, we will launch our annual *Going for Growth* assessment of structural policy needs and the progress countries are making towards achieving more productive economies with better quality jobs (details to be posted on this site)). Monetary, fiscal, and structural policy tools are synergistic and all need to be deployed at this time.

Does the call for more fiscal action by the OECD represent a change of view ?

In a well-known phrase, Keynes wrote “When my information changes, I alter my conclusions. What do you do, sir?”. So, what is new?

First, OECD governments have more fiscal space than they did in the immediate post-crisis period. The sovereign debt crisis has faded and the most severe banking problems have been addressed. Budget deficits have fallen in many countries following budgetary consolidation and falling interest costs. The long-term interest rate is far lower than it was 3-years ago with negative interest rates on government borrowing of a few years and the ability to raise money at longer horizons at a minimal cost.

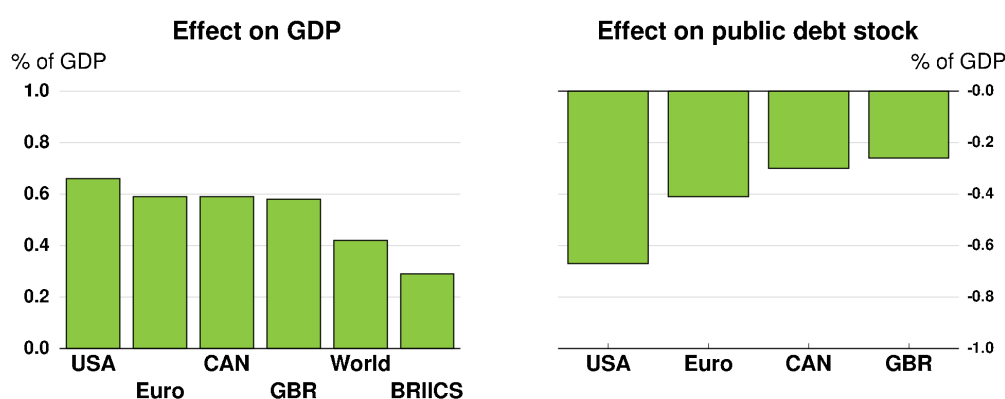
Second, the persistent downgrade of forecasts across the economics profession in recent years raises deep questions about how the economy is operating. Some key mechanisms that drive economic recoveries seem to be not working: wage pressures are exceptionally weak even in countries where unemployment has fallen; inequality is rising; business investment is not responding to the extraordinarily low cost of capital; currency depreciations are not leading to robust exports; inflation pressures seem non-existent across many economies despite exceptional monetary policy action;

productivity growth and diffusion innovation appear to have slowed. The thread that runs through these disconnects is weak demand, hence the need to use all policy tools to full effect.

A scenario exercise in the *Interim* shows the potential growth gains, and fiscal sustainability benefits of a collective action on fiscal spending.

1st year effects of a 1/2 percent of GDP public investment stimulus by all OECD countries

Change from baseline



There are many open questions about what are the key issues facing policymakers, and how they should balance both immediate and longer-term objectives. This blog is an opportunity to debate these topics!

We hope that windows into research by OECD economists posted on this blog will share new insights about the evidence and the “better policies” we need to ensure the “better lives”. Please join the conversation!

Background

Achieving prudent debt targets using fiscal rules

Interim Economic Outlook

The Future of Productivity

