

OECD Economic Outlook, Interim Report

# Finding the Right Balance in Uncertain Times

September 2025





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#### Please cite this publication as:

OECD (2025), *OECD Economic Outlook, Interim Report September 2025: Finding the Right Balance in Uncertain Times*, OECD Publishing, Paris, <https://doi.org/10.1787/67b10c01-en>.

ISBN 978-92-64-57606-3 (PDF)

ISBN 978-92-64-57322-2 (HTML)

OECD Economic Outlook

ISSN 0474-5574 (print)

ISSN 1609-7408 (online)

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# Finding the right balance in uncertain times

## Summary

- Global growth was more resilient than anticipated in the first half of 2025, especially in many emerging-market economies. Industrial production and trade were supported by front-loading ahead of higher tariffs. Strong AI-related investment boosted outcomes in the United States and fiscal support in China outweighed the drag from trade headwinds and property market weakness.
- US bilateral tariff rates have increased on almost all countries since May. The overall effective US tariff rate rose to an estimated 19.5% at the end of August, the highest rate since 1933.
- The full effects of tariff increases have yet to be felt – with many changes being phased in over time and companies initially absorbing some tariff increases through margins – but are becoming increasingly visible in spending choices, labour markets and consumer prices.
- Signs of softening are appearing in labour markets, with rising unemployment rates and declining job openings as a share of the unemployed in some economies, including the United States.
- Disinflation has levelled off in many economies, with rising food prices behind a resurgence of goods inflation and services inflation generally remaining persistent.
- Financial market conditions have eased in recent months in advanced and emerging-market economies, with buoyant asset prices, improving credit provision and low corporate bond spreads. Nonetheless, asset values appear stretched and there is growing concern about future fiscal risks.
- Global GDP growth is projected to decrease from 3.3% in 2024, to 3.2% in 2025 and 2.9% in 2026, as front-loading ceases and higher tariff rates and still-high policy uncertainty dampen investment and trade.
- Annual GDP growth in the United States is projected to fall from 2.8% in 2024 to 1.8% in 2025 and 1.5% in 2026, as strong investment growth in high technology sectors is more than offset by higher tariff rates and a drop in net immigration. Euro area GDP growth is expected to be 1.2% in 2025 and 1.0% in 2026, with increased trade frictions and geopolitical uncertainty somewhat offset by easier credit conditions. Growth in China is projected to be 4.9% in 2025 and 4.4% in 2026, as front-loading unwinds, higher tariffs take effect and fiscal support fades.
- Inflation is projected to decline in most G20 economies as economic growth moderates and labour market pressures ease. Headline inflation is projected to fall from 3.4% in 2025 to 2.9% in 2026 in the G20 economies, with core inflation in the G20 advanced economies remaining broadly stable at 2.6% in 2025 and 2.5% in 2026.
- Significant risks to the economic outlook remain. Further increases in bilateral tariff rates, a resurgence of inflationary pressures, increased concern about fiscal risks, or substantial risk repricing in financial markets could all lower economic growth relative to the baseline. High and volatile crypto-asset valuations also raise financial stability risks given growing interconnectedness with the traditional financial system. On the upside, reductions in trade restrictions or faster development and adoption of artificial intelligence technologies could strengthen growth prospects.

- Countries need to find ways of engaging co-operatively within the global trading system and working together to make trade policy more transparent and predictable while addressing economic security concerns.
- Central banks should remain vigilant and react promptly to shifts in the balance of risks to price stability. Provided inflation expectations remain well anchored, policy interest rate reductions should continue in economies in which underlying inflation is projected to moderate towards target. Maintaining central bank independence will preserve policy credibility and reduce the volatility and persistence of inflation.
- Effective monitoring, supervision, and robust regulatory policies are needed to address financial stability risks.
- Fiscal discipline is needed to safeguard longer-term debt sustainability and maintain space to react to future shocks. Credible medium-term budgetary adjustment paths with stronger efforts to contain and reallocate spending and enhance revenues are key to ensuring debt burdens stabilise.
- Enhanced structural reform efforts are needed to durably improve living standards and help realise the potential gains from new technologies such as artificial intelligence.

**Table 1. Global growth has remained resilient but is expected to moderate in 2026**

	2024	2025		2026	
		Interim EO projections	Difference from June EO	Interim EO projections	Difference from June EO
World	3.3	3.2	0.3	2.9	0.0
G20 <sup>1</sup>	3.4	3.2	0.3	2.9	0.0
Australia	1.1	1.8	0.0	2.2	0.0
Canada	1.0	1.1	0.1	1.2	0.1
Euro area	0.8	1.2	0.2	1.0	-0.2
Germany	-0.5	0.3	-0.1	1.1	-0.1
France	1.1	0.6	0.0	0.9	0.0
Italy	0.7	0.6	0.0	0.6	-0.1
Spain <sup>2</sup>	3.2	2.6	0.2	2.0	0.1
Japan	0.1	1.1	0.4	0.5	0.1
Korea	2.0	1.0	0.0	2.2	0.0
Mexico	1.4	0.8	0.4	1.3	0.2
Türkiye	3.3	3.2	0.3	3.2	-0.1
United Kingdom	1.1	1.4	0.1	1.0	0.0
United States	2.8	1.8	0.2	1.5	0.0
Argentina	-1.3	4.5	-0.7	4.3	0.0
Brazil	3.4	2.3	0.2	1.7	0.1
China	5.0	4.9	0.2	4.4	0.1
India <sup>3</sup>	6.5	6.7	0.4	6.2	-0.2
Indonesia	5.0	4.9	0.2	4.9	0.1
Russia	4.3	1.0	0.0	0.7	0.0
Saudi Arabia	1.9	3.7	1.9	3.9	1.4
South Africa	0.5	1.1	-0.2	1.3	-0.1

Note: Difference from June 2025 OECD Economic Outlook in percentage points, based on rounded figures. World and G20 aggregates use moving nominal GDP weights at purchasing power parities (PPPs). Revisions to PPP estimates affect the differences in the aggregates. Based on data available up to 18 September 2025.

1. The European Union is a full member of the G20, but the G20 aggregate only includes countries that are also members in their own right.

2. Spain is a permanent invitee to the G20.

3. Fiscal years, starting in April.

Source: OECD Interim Economic Outlook 118 database; and OECD Economic Outlook 117 database.

Table 2. Headline inflation is projected to decline in 2026

	2024	2025		2026	
		Interim EO projections	Difference from June EO	Interim EO projections	Difference from June EO
G20 <sup>1</sup>	6.2	3.4	-0.2	2.9	-0.3
Australia	3.2	2.5	0.2	2.4	0.1
Canada	2.4	2.0	-0.1	2.0	-0.1
Euro area	2.4	2.1	-0.1	1.9	-0.1
Germany	2.5	2.2	-0.2	2.1	0.0
France	2.3	1.1	-0.1	1.6	-0.1
Italy	1.1	1.9	-0.1	1.8	-0.1
Spain <sup>2</sup>	2.9	2.6	0.2	2.0	0.1
Japan	2.7	3.1	0.3	2.1	0.1
Korea	2.3	2.2	0.1	1.9	-0.1
Mexico	4.7	4.2	0.8	3.6	0.4
Türkiye	58.5	33.5	2.1	19.2	0.7
United Kingdom	2.5	3.5	0.4	2.7	0.4
United States	2.5	2.7	-0.5	3.0	0.2
Argentina	219.9	39.8	3.2	16.5	1.6
Brazil	4.4	5.2	-0.5	4.4	-0.6
China	0.2	-0.2	-0.1	0.3	-1.1
India <sup>3</sup>	4.6	2.9	-1.2	3.9	-0.1
Indonesia	2.2	1.9	-0.4	2.7	-0.3
Russia	8.5	8.5	-1.2	4.9	-1.2
Saudi Arabia	1.7	2.2	0.3	2.0	0.2
South Africa	4.4	3.3	0.1	3.7	-0.5
<i>Memorandum item</i>					
G20 countries excluding Argentina and Türkiye	2.5	2.2	-0.3	2.3	-0.4

Note: Difference from June 2025 OECD Economic Outlook in percentage points, based on rounded figures. The G20 aggregate uses moving nominal GDP weights at purchasing power parities (PPPs). Revisions to PPP estimates affect the difference in the aggregate. Based on data available up to 18 September 2025.

1. The European Union is a full member of the G20, but the G20 aggregate only includes countries that are also members in their own right.
2. Spain is a permanent invitee to the G20.
3. Fiscal years, starting in April.

Source: OECD Interim Economic Outlook 118 database; and OECD Economic Outlook 117 database.



**Table 3. Core inflation is projected to remain broadly stable**

	2024	2025		2026	
		Interim EO projections	Difference from June EO	Interim EO projections	Difference from June EO
G20 Advanced Economies <sup>1</sup>	2.7	2.6	-0.2	2.5	0.0
Australia	3.7	2.7	0.2	2.5	0.2
Canada	2.6	2.6	-0.1	2.1	-0.2
Euro area	2.8	2.4	0.2	2.0	0.0
Germany	3.2	2.7	0.0	2.1	-0.3
France	2.3	1.8	0.2	1.7	0.0
Italy	2.2	1.9	0.4	1.8	0.1
Spain <sup>2</sup>	2.8	2.3	0.0	1.9	-0.1
Japan	2.0	1.7	-0.2	2.0	0.0
Korea	2.2	2.0	0.0	2.0	0.0
Mexico	4.1	4.1	0.5	3.5	0.3
Türkiye	59.8	33.5	1.2	18.9	0.3
United Kingdom	3.7	3.7	0.6	2.7	0.4
United States	2.8	2.9	-0.6	3.0	0.2
South Africa	4.2	3.3	0.0	3.7	-0.6

Note: Difference from June 2025 OECD Economic Outlook in percentage points, based on rounded figures. The G20 advanced economies aggregate uses moving nominal GDP weights at purchasing power parities (PPPs). Revisions to PPP estimates affect the difference in the aggregate. Core inflation excludes food and energy prices. Based on data available up to 18 September 2025.

1. The European Union is a full member of the G20, but the G20 aggregate only includes countries that are also members in their own right.

2. Spain is a permanent invitee to the G20.

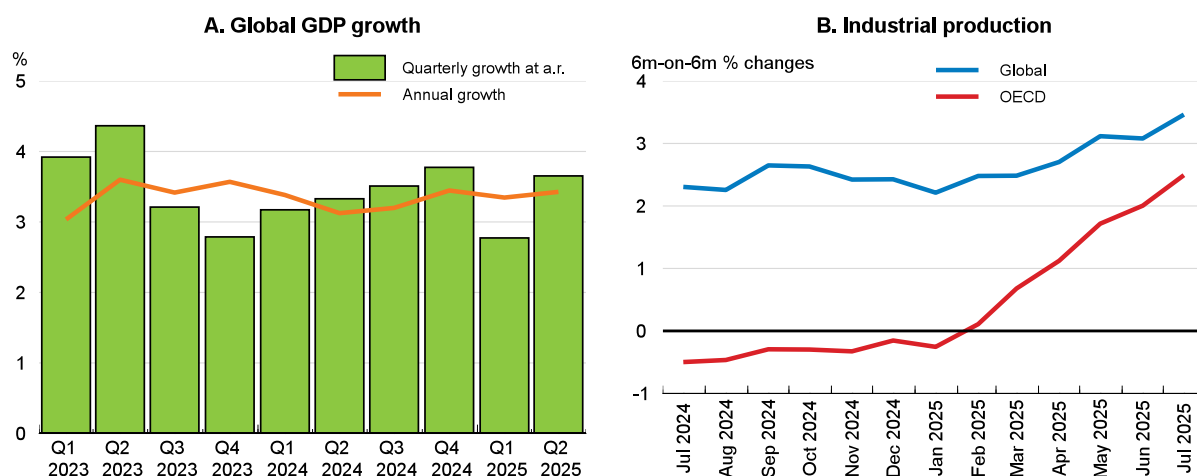
Source: OECD Interim Economic Outlook 118 database; and OECD Economic Outlook 117 database.

## Recent developments

### ***Global growth has remained resilient, supported by front-loading of trade and production ahead of higher tariffs***

1. Global economic growth proved more resilient than anticipated in the first half of 2025, with the world economy expanding at an annualised pace of 3.2%. The front-loading of goods production and trade ahead of the introduction of higher US tariff rates was an important source of support, with industrial production growth in the first half of the year exceeding the average pace of 2024 in most G20 economies. Strong investment growth in high technology sectors also boosted activity in the United States and Japan. Nonetheless, private consumption growth has weakened in the United States, as well as in some euro area countries such as France and Italy. Many emerging-market economies had upside growth surprises but in some cases this reflected idiosyncratic factors that are not expected to continue, including a first quarter spike in agriculture production in Brazil, and in the second quarter a steep fall in the growth of the GDP deflator in India, significant stockbuilding in Türkiye, and a marked rebound in investment in Indonesia. In China, growth has held up, with a pick-up in the pace of government spending more than offsetting the dampening influence of the ongoing property market adjustment and headwinds to trade with the United States.

**Figure 1. Global growth has remained resilient with front-loading supporting industrial production**

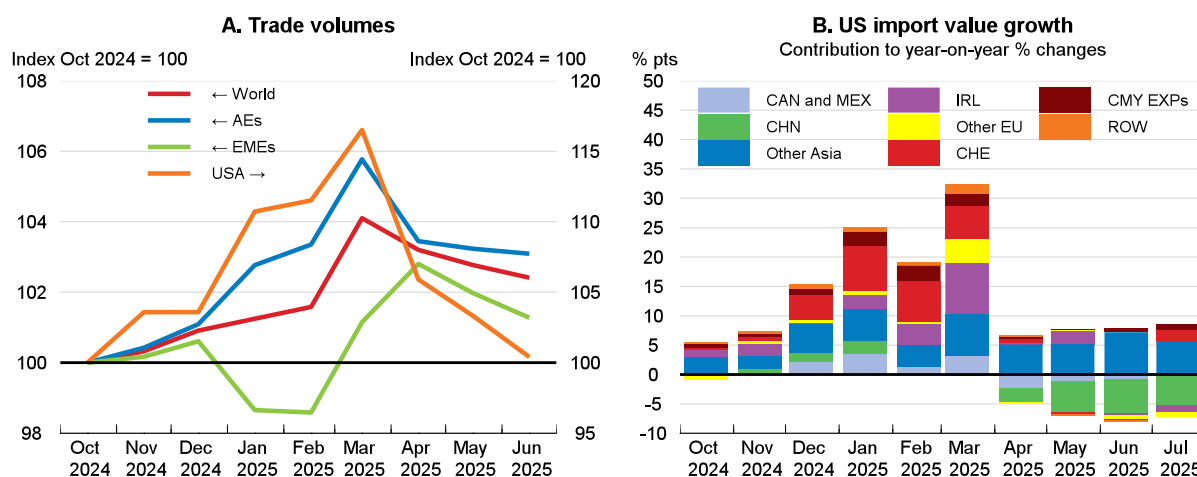


Note: In Panel A, annual growth denotes the change over the year to the quarter shown. Quarterly growth at a.r. denotes quarter-on-quarter growth at an annualised rate. The global aggregates are PPP-weighted measures.

Source: OECD Interim Economic Outlook 118 database; OECD Main Economic Indicators database; and OECD calculations.

2. Global merchandise trade grew rapidly in the first half of 2025, partly influenced by the spike in goods shipments to the United States. This was particularly evident prior to April (Figure 2, Panel A) and was accompanied by a rise in inventory-to-sales ratios at US retailers. Trade continued to expand steadily in advanced Asian economies in the second quarter, as well as in emerging-market economies in both Asia and Eastern Europe, but import volumes declined sharply in the United States and exports dropped in Canada and Latin America. Bilateral trade between China and the United States has declined sharply in recent months (Figure 2, Panel B). Recent high-frequency global trade indicators have been mixed, with signs that container port traffic, air freight and passenger traffic have all moderated over the summer. Business survey indicators of new export orders also remain comparatively soft.

**Figure 2. United States trade growth soared prior to April but has since weakened**



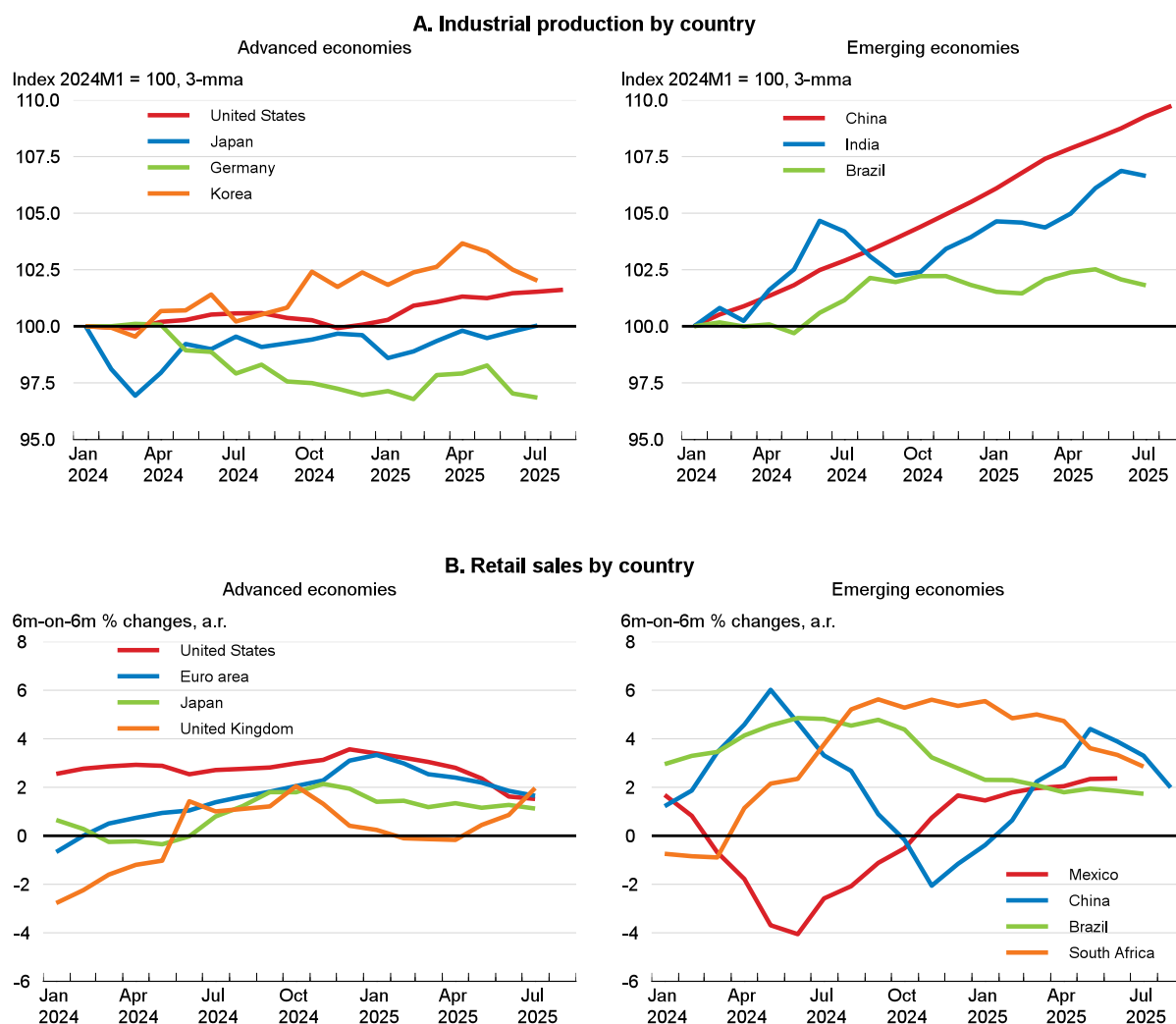
Note: Merchandise trade is used in both panels. In Panel A, trade volumes are calculated as an average of trade export and import volumes. "AEs" and "EMEs" refer to advanced economies and emerging-market economies respectively. In Panel B, "CMY EXPs" and "ROW" refer to commodity exporters and the rest of the world respectively. Commodity exporters comprise Argentina, Australia, Brazil, Chile, Indonesia, New Zealand, Peru, South Africa and the OPEC+ economies.

Source: CPB; US Census Bureau; and OECD calculations.

### Recent activity indicators show signs of moderation

3. Recent business survey indicators suggest that output growth has held up in most countries through to August, but there are some signs of a potential slowing of momentum in high-frequency activity data. Industrial production has fallen in recent months in several countries, such as Korea, Germany and Brazil (Figure 3, Panel A). There are also signs of an underlying moderation in consumption growth in some major economies, including the United States, the euro area and China (Figure 3, Panel B). Consumer confidence also remains subdued by historical standards and below the level observed in late 2024, especially in major advanced economies, possibly reflecting elevated policy uncertainty and rising food price pressures.

**Figure 3. Industrial production and retail sales growth are easing in several major economies**



Note: The retail sales measure uses monthly household real expenditure for the United States, the monthly real consumption activity indicator for Japan and retail sales volumes in all other economies.

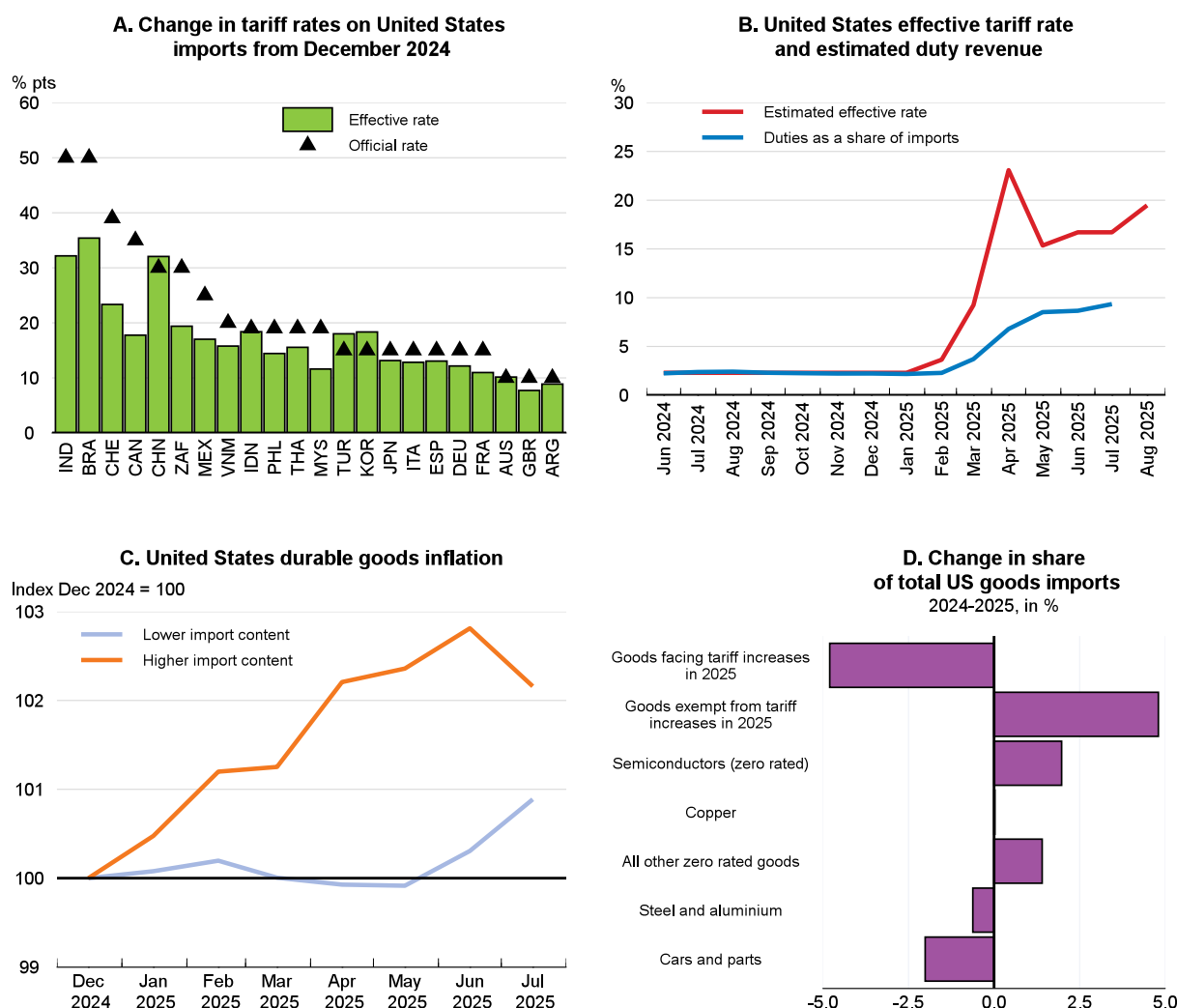
Source: OECD Main Economic Indicators database; and OECD calculations.

4. Additional increases in US bilateral tariff rates on almost all trading partners since mid-May have raised the (ex-ante) effective tariff rate on US merchandise imports to an estimated 19.5% as of end-August (using 2024-based weights) (Figure 4, Panel A). This is the highest tariff rate since 1933 and 4.1 percentage points higher than the rate in mid-May (used in the June *OECD Economic Outlook*). At the sectoral level, US tariffs on all steel and aluminium imports have been raised by an additional 25 percentage points and tariffs on all copper imports by 50 percentage points. New bilateral agreements covering tariffs, investment and other areas of cooperation have been concluded with some countries since May, including the European Union, Japan and Indonesia, reducing the tariff rates being applied on some items. Amongst the G20, China, India and Brazil face the highest increases in bilateral US tariff rates this year. Ongoing legal challenges and negotiations, and the risk of new tariffs on currently-exempt items, add to uncertainty about trade policies. Newspaper-based measures of trade policy uncertainty have moderated since April 2025, but remain high by historical standards.

5. The impacts of higher tariff rates are yet to be fully felt in the US economy. This reflects a combination of factors, with firms making use of inventories and ample profit margins to avoid or absorb the initial impact of higher tariffs, lags between the announcement and imposition of higher tariff rates, and the exemption of goods already in transit from higher tariff rates. At the margins, there are also some signs of reduced purchases of goods subject to higher tariff increases (Figure 4, Panel D). Observed (ex-post) monthly tariff rates calculated from United States revenue and trade statistics (reported customs duties divided by the value of merchandise imports) have risen sharply this year, but lag estimated effective tariff rates (Figure 4, Panel B), portending an increase in tariff collection in the coming months.

6. There are already some signs that tariffs have begun to be passed through into consumer prices, notably durable goods with a high import content (Figure 4, Panel C). Recent business surveys also suggest that continued increases in manufacturing input prices in the United States are being passed through to output prices. There are few indications from import price data that foreign companies have sought to offset higher US tariffs in the prices of exports to the United States, with one notable exception being the lower price of passenger car exports from Japan.

**Figure 4. Higher tariff rates are gradually feeding through into the real economy**



Note: In Panels A and B, 2025 estimated effective tariff rates are based on applicable rates to products and countries, weighted by country-specific product shares of United States imports in 2024. Estimates of duties payable are by the US Census Bureau and expressed as a share of total import values inclusive of cost, insurance and freight. Compliance rates with the United States Canada Mexico agreement are assumed to be 50% for Canada and Mexico, whilst compliance in cars and parts is assumed to be 25% in Canada and 20% for Mexico. Higher rates of compliance would reduce the estimated tariffs for these countries. In Panel C, prices based on the personal consumption expenditures deflator and using import content by products from Barbiero and Stein (2025). Panel D shows the difference between the average value share in 2024 and the average share in the first six months of 2025.

Source: Bureau of Economic Analysis; Barbiero and Stein (2025), "The Impact of Tariffs on Inflation", *Current Policy Perspective*, 25-2, Federal Reserve Bank of Boston; US Census Bureau; USITC; the White House; and OECD calculations.

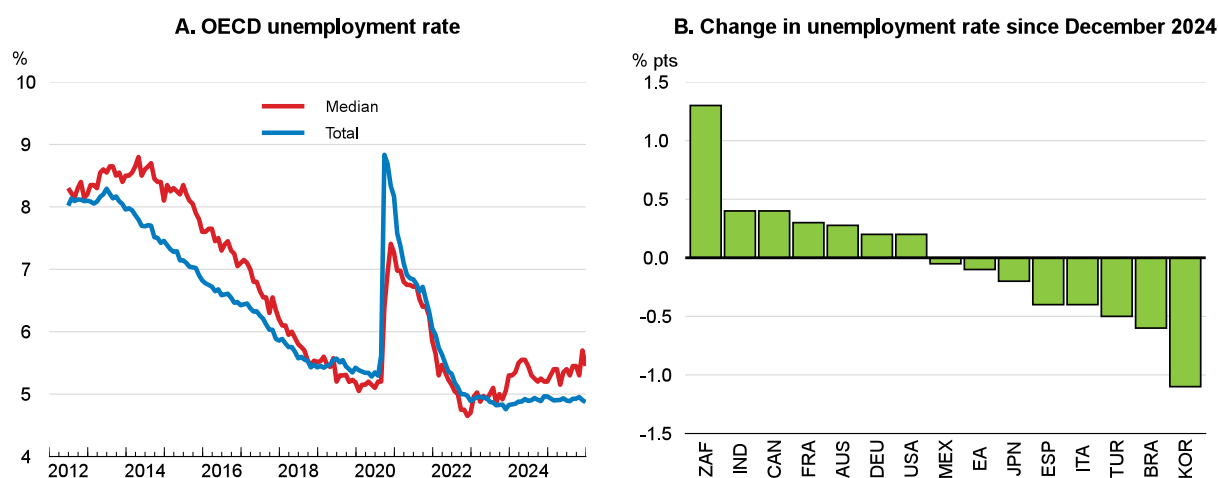
### **Labour markets are easing in some economies**

7. Labour market conditions have shown some signs of easing. Although the unemployment rate in the OECD as a whole remains very low by historical standards, the rate in the median country has edged up since the end of 2024 (Figure 5, Panel A). However, developments have varied. While the unemployment rate has increased in South Africa, India, Canada, France, Australia, Germany and the United States, it has fallen in other countries, most notably Korea, Türkiye, Brazil, Italy and Spain (Figure 5, Panel B) and reached a historical low in the euro area. Signs of weaker labour demand are also apparent in continued gradual falls in the ratio of job vacancies to the number of unemployed in the United States,

Germany, Australia, the United Kingdom and Canada. There are also some signs of softening in work intensity in advanced economies, with average hours per employee declining over the year to the second quarter of 2025 in Japan, Canada, France, Spain and the United Kingdom.

8. Nominal wage growth in the advanced economies has continued to moderate with the easing in labour markets and inflation. However, wage growth remains above levels consistent with inflation targets in the United States, Canada, the United Kingdom and the euro area, unless there are lasting improvements in labour productivity growth. The combination of easing nominal wage growth and price inflation remaining elevated has caused real wage growth to soften since the final quarter of 2024 in many advanced economies, including Japan, Italy, Canada, Spain and the United Kingdom.

**Figure 5. Labour markets have softened in some countries**



Note: Panel A is based on monthly data for 36 OECD member countries. Panel B is calculated from monthly data for OECD countries using the current published unemployment rate in July 2025, except for Canada, Korea, and the United States (August 2025). For Brazil, figures are calculated from monthly data using the current published unemployment rate in July 2025. For other non-OECD emerging-market economies, calculations use quarterly data, with the current unemployment rate for the second quarter of 2025.

Source: CEIC; OECD labour force database; and OECD calculations.

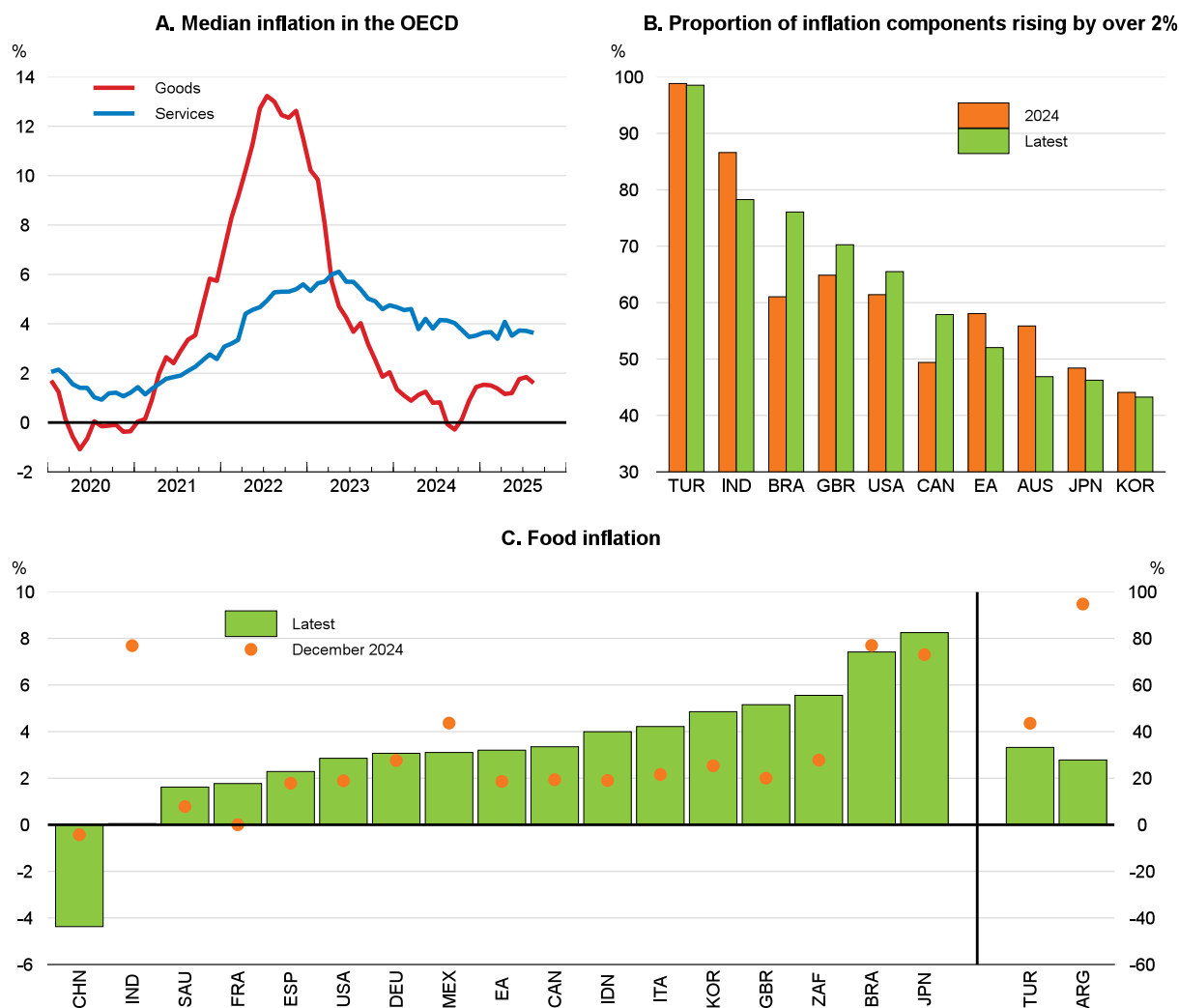
### ***Inflation developments have varied across countries, but rising food inflation has been a common theme***

9. Disinflation has levelled off in many economies, with goods inflation rising again and services inflation remaining persistent (Figure 6, Panel A). Nonetheless, there has been a notable divergence in developments across advanced economies. While the share of items in the consumer basket with prices rising by more than 2% (year-on-year) has increased so far this year in the United States, Canada, Brazil and the United Kingdom, this share is declining in the euro area, Australia, and India (Figure 6, Panel B). Price developments also continue to vary widely across emerging-market economies. Inflation has recently picked up from low levels in Indonesia, but has fallen further in Argentina and Türkiye. China fell back into deflation in August.

10. Higher global food prices have contributed to rising goods inflation, with dairy and vegetable oil prices having risen steeply since early 2024. Food inflation is especially high in Japan, largely owing to rice price developments, but there have also been mounting food price pressures in other countries including South Africa, the United Kingdom, Korea, Italy and Indonesia (Figure 6, Panel C). In contrast, food price inflation has declined sharply in India, helped by strong domestic supply and export restrictions. Across countries, services sector components such as health, recreation and restaurants have generally

shown limited signs of disinflation, with price pressures remaining elevated compared with the pre-pandemic period. However, weakening housing cost pressures are now helping to reduce inflation in most advanced economies. Household short-term inflation expectations remain at high levels by historical standards in the United States and the United Kingdom, but there has been less of a rise in short and longer run expectations in other countries.

**Figure 6. Disinflation has stalled in some OECD economies**



Note: The three panels show year-on-year inflation rates. In panel B, the most recent data are for August 2025, except for Australia, Japan and the United States (July 2025) and are based on measures of year-on-year inflation. In Panel C, the most recent data are for August 2025, except for Japan, Saudi Arabia and South Africa (July 2025). The definition of food inflation generally corresponds to food and non-alcoholic beverages, except for Brazil and India (food and beverages), and Indonesia (food, beverages and tobacco).

Source: OECD Consumer Prices database; Australian Bureau of Statistics; Bureau of Economic Analysis; CEIC; Eurostat; Instituto Brasileiro de Geografia e Estatística; Ministry of Statistics and Program Implementation; ONS; Statistics Canada; Statistics of Japan; Statistics Korea; Turkish Statistical Institute; and OECD calculations.

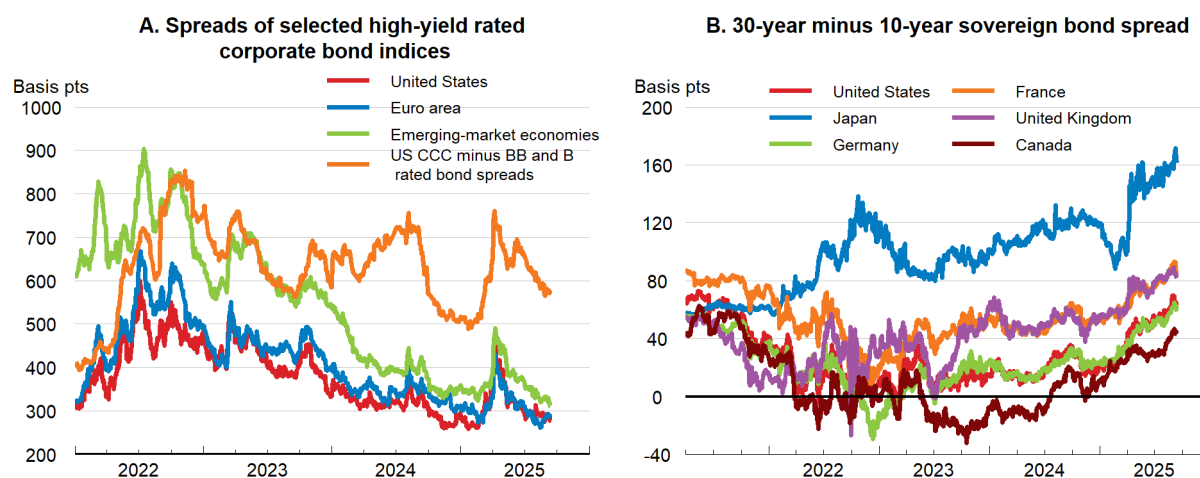
### **Financial conditions have eased considerably**

11. Financial conditions have become more supportive in recent months in both advanced and emerging-market economies, with indicators of financial market volatility continuing to decline after spiking

in April. Equity valuations have been buoyant, with stock prices rising substantially in most countries, and the market capitalisation of crypto-assets has continued to surge. Heightened investor risk appetite has also been highlighted by a decline in equity risk premiums and falling spreads on high-yield corporate bonds (Figure 7, Panel A). Bank credit growth has continued to recover in advanced economies, albeit from low levels. The US dollar has depreciated against most currencies this year, contributing to easier financial conditions in the United States and those emerging-market economies with a high share of US dollar-denominated debt.

12. Despite these changes, some signs of heightened uncertainty in financial markets remain and there is growing concern about future fiscal risks. These include the historically-high estimated real term premium underpinning 10-year US sovereign yields, the widening French sovereign bond spread relative to Germany, and a substantial steepening of the long-end of the sovereign yield curve (Figure 7, Panel B). The increase in fiscal risks is most evident in the advanced economies, with the interest rate premium for emerging-market sovereign and corporate borrowing relative to advanced economies recently at the lowest level since 2007. Gold spot prices, traditionally an indicator of uncertainty, have risen by around 40% since the start of this year.

**Figure 7. Heightened risk appetite is coupled with growing concerns about future fiscal risks**



Note: Panel A shows option-adjusted spreads (OAS), which measure the difference in yield between a high-yield rated bond with an embedded option (such as a callable bond) and a sovereign bond. The OAS helps investors compare cash flows from a fixed-income security to reference rates while also valuing embedded options against general market volatility. The difference between OAS of CCC-rated and BB to B rated US corporate bonds indicates the risk premium for investors in high-risk versus lower-risk high-yield corporate bonds.

Source: LSEG; and OECD calculations.

## Projections

13. Global GDP growth is projected to slow from 3.3% in 2024 to 3.2% in 2025 and 2.9% in 2026 (Figure 8, Panel A). Growth is expected to soften noticeably in the second half of this year, as front-loading activity unwinds and higher effective tariff rates on imports to the United States and China dampen investment and trade growth. Heightened geopolitical and policy uncertainty will also continue to weigh on domestic demand in many economies. The projections are based on a technical assumption that the bilateral tariff rates prevailing at the end of August persist through the rest of 2025 and 2026, despite ongoing legal challenges in the United States.

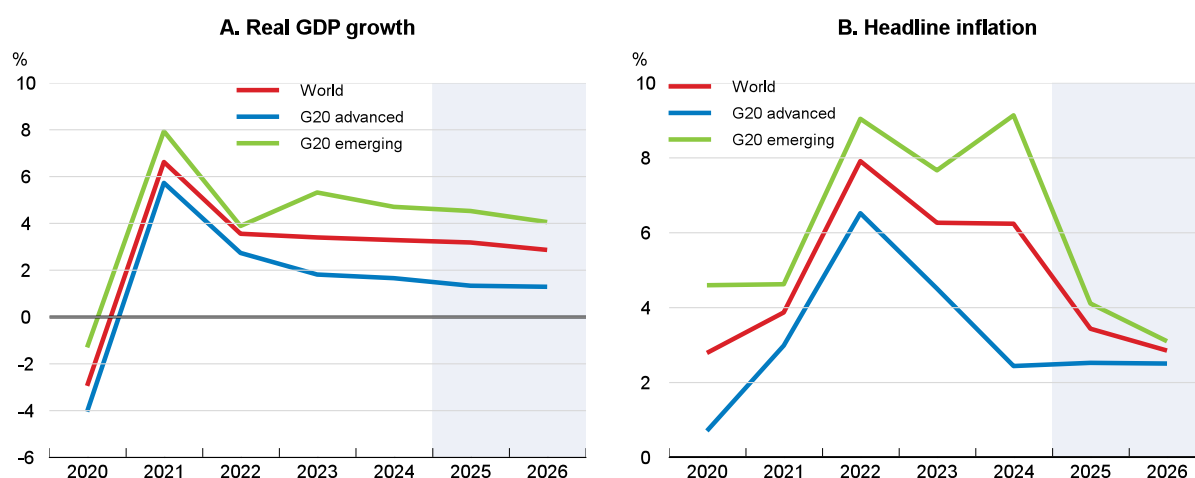


14. In advanced G20 economies, aggregate economic growth is projected to moderate. Growth is expected to slow in the United States as higher effective tariff rates further come into effect and policy uncertainty remains elevated. A drop in net immigration and reductions in the federal workforce are also anticipated to soften economic growth. However, these factors will be somewhat offset by the strong momentum of business investment in high technology sectors, fiscal support and assumed further monetary policy easing. Annual GDP growth is projected to slow from 2.8% in 2024 to 1.8% in 2025 and 1.5% in 2026. In Canada, growth is projected to remain modest, at 1.1% in 2025 and 1.2% in 2026, given greater trade restrictions on exports to the United States.

15. In European economies, increased trade frictions and geopolitical uncertainty are expected to be somewhat offset by easier credit conditions, with growth in the euro area projected to be 1.2% in 2025 and 1.0% in 2026. Fiscal expansion is expected to boost economic activity in Germany, but expected consolidation in both France and Italy will dampen growth. In the United Kingdom, a tighter fiscal stance, higher trade costs and uncertainty are also anticipated to drag on external and domestic demand, with growth projected to ease from 1.4% in 2025 to 1.0% in 2026. In Japan, robust corporate profits and strong investment growth should be a tailwind to economic activity this year, with growth projected to be 1.1% in 2025 before slowing to 0.5% in 2026. The recent rebound in Korea is projected to continue, with annual growth picking up from 1.0% in 2025 to 2.2% in 2026.

16. Economic growth in the emerging-market G20 economies is projected to ease over the coming years. In China, the unwinding of front-loading of exports, the imposition of higher tariff rates on imports and the fading of fiscal support is expected to lower growth, beginning in the second half of this year. Chinese real GDP growth is projected to be 4.9% in 2025 and 4.4% in 2026. One-off factors behind recent economic strength in Brazil, Türkiye and South Africa are expected to unwind through the second half of this year before growth stabilises. In Brazil, growth is expected to be 2.3% in 2025 and 1.7% in 2026, Türkiye is projected to grow by 3.2% in both 2025 and 2026 and South Africa is projected to grow by 1.1% in 2025 and 1.3% in 2026. In India, higher tariff rates will weigh on the export sector, but overall activity is anticipated to be supported by monetary and fiscal policy easing, including the reform to the Goods and Services Tax, with growth projected to be 6.7% in 2025 and 6.2% in 2026. Similarly, further monetary policy easing and strong public investment are expected to support the Indonesian economy, with annual growth of 4.9% projected for both 2025 and 2026.

17. Aggregate consumer price inflation for the G20 countries is expected to decline as economic growth and labour markets ease (Figure 8, Panel B). In the United States, the increase in effective tariff rates will further boost inflation, with the rate of pass-through to final goods prices assumed to strengthen as businesses become less willing to absorb the rising cost of imported goods. As a result, US annual inflation is projected to remain above target throughout 2026. In the euro area, inflation is anticipated to remain subdued, while the normalisation of food prices in Japan will contribute to inflation moving back to the central bank target in 2026. Overall, headline inflation in the G20 advanced economies is projected to be 2.5% in both 2025 and 2026, while core inflation is also anticipated to remain broadly stable at 2.6% in 2025 and 2.5% in 2026. In the G20 emerging-market economies, inflation is projected to decline more noticeably, with headline inflation of 4.1% in 2025 and 3.1% in 2026. Significant further disinflation in Argentina and Türkiye are key factors, but inflation is also anticipated to moderate in Brazil and Mexico. In contrast, a rise in inflation is projected for Indonesia, as past exchange rate depreciation feeds into domestic prices. In China, inflation is expected to gradually increase from its current very low level, partly reflecting the imposition of higher tariff rates on goods imported from the United States.

**Figure 8. Economic growth is projected to weaken in G20 economies**

Source: OECD Interim Economic Outlook 118 database; and OECD calculations.

## Risks and challenges

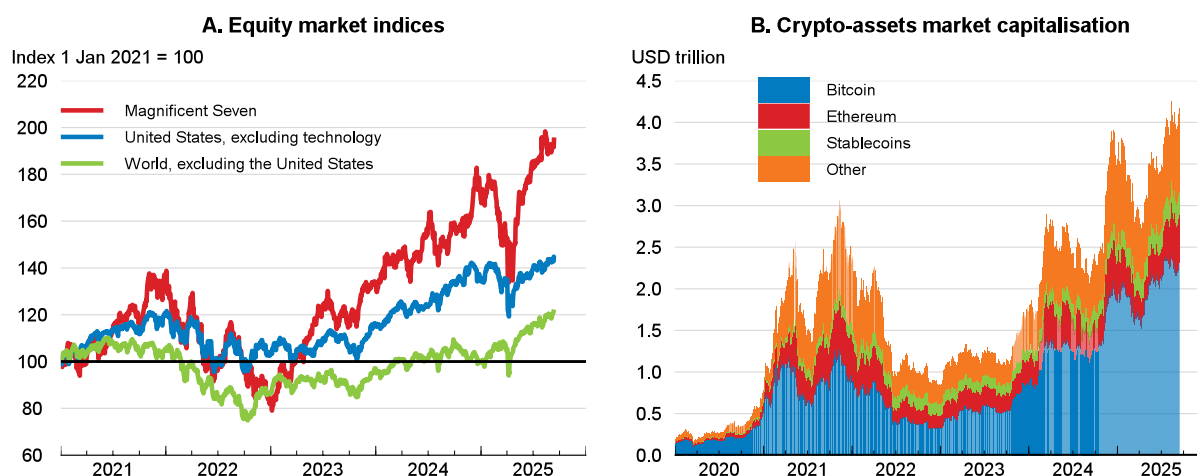
18. Substantial risks remain around the baseline projections. Amid ongoing policy uncertainty, a key concern is that bilateral tariff rates could be raised further on merchandise imports. This could arise through the application of recent tariff rate increases in the United States and China to a broader range of goods, including pharmaceuticals and semi-conductors. Higher trade barriers could also be adopted in other economies to protect domestic industry against enhanced low-price competition, especially in the event that trade is diverted. In addition to the direct effects through raising costs and final goods prices, such changes could raise policy uncertainty further, with adverse impacts on investment and consumer confidence. The associated restructuring of production and supply chains might also result in additional costs that would feed through into prices and dampen growth. On the upside, any agreements that lower bilateral tariff barriers from current levels and improve confidence would support stronger economic growth and trade and lower inflation relative to the baseline.

19. Inflation could be higher than currently projected. Food price inflation could continue to move higher and any additional increase in geopolitical tensions in oil-producing regions could threaten global energy supply, pushing up energy prices. Given the salience of food and energy prices for household consumption baskets, higher price rises for these items could raise short-term inflation expectations and result in policy interest rates being higher than would otherwise have been the case. Such a scenario could also adversely affect consumer confidence, further weakening growth. An additional concern, particularly in the United States, is that the pass-through of tariffs into prices could strengthen more quickly than anticipated once companies exhaust the scope to absorb higher costs in their profit margins. This may increase the risk of second-round effects and greater inflation persistence.

20. Fiscal vulnerabilities could increasingly attract attention, tightening financial conditions and adversely impacting growth prospects. Rising long-term sovereign bond yields reflect large and persisting fiscal deficits combined with historically high levels of public debt in many economies. Further increases in term premia could heighten refinancing risks for some sovereign borrowers and may negatively feedback to parts of the financial system, including through the impact on the value of sovereign bond holdings. Ongoing vulnerabilities related to debt distress in emerging-market and developing economies also remain, especially for lower-income countries who have had difficulty accessing markets or declining levels of foreign aid. The majority of emerging and developing economies have seen an increase in government debt as a share of GDP since 2019 and a significant share of their sovereign bonds are set to mature by the end of 2026.

21. Potential financial stability risks have intensified given the stretched valuations apparent in several asset markets. Weaker-than-expected growth or upside inflation surprises could trigger widespread risk repricing in financial markets and a resurgence in volatility. Equities are richly valued in many major economies, based on equity price-to-earnings ratios, with persistently robust earnings growth needed to justify current prices. Rising equity prices have been especially evident for technology stocks (Figure 9, Panel A), increasing the concentration of equity indexes in the technology sector. High concentration exacerbates the potential impact of idiosyncratic firm or sector-specific shocks on aggregate equity markets, with potential spillovers to leveraged investment funds that trigger large margin calls and deleveraging through forced sales. The rapid expansion of non-bank financial intermediaries, often in opaque and fragmented private finance markets that rely on banks for liquidity, also raises spillover risks. On the upside, stronger defence spending or stronger investment and productivity growth due to new technologies, such as artificial intelligence, could boost economic growth by more than projected, improving living standards and supporting asset valuations.

**Figure 9. Valuations of technology stocks and crypto-assets are elevated**



Note: In panel A, “Magnificent Seven” is represented by the Magnificent 7 Total Return Index, and comprises the stocks of Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla. The United States equity index is represented by the LSEG country benchmark, which excludes companies in the technology sector. The “World” corresponds to the MSCI AC Index, which provides large- and mid-cap equity coverage across 22 developed markets—excluding the United States—and 24 emerging markets. In panel B, “Bitcoin” and “Ethereum” are the top two crypto-assets by market value. “Stablecoins” covers the combined market capitalisation of 64 US dollar-denominated stablecoins. “Other” covers more than 17,000 cryptocurrencies tracked across more than 1,370 exchanges.

Source: CoinGecko; LSEG; and OECD calculations.

22. The high price volatility of crypto-assets and their growing interconnectedness with the traditional financial system also raises financial stability risks. Crypto-asset market capitalisation is around record highs, totalling USD 3.9 trillion in September 2025, up from USD 830 billion in January 2023 (Figure 9, Panel B). However, crypto-asset values are highly volatile compared to other asset classes, such as aggregate equity market indexes. The exposure of financial institutions to crypto-assets remains limited but is increasing with the expansion of crypto exchange-traded products and recent regulatory developments, particularly in the United States and the European Union. For instance, stablecoins – one specific type of crypto-asset – are backed by traditional financial assets, such as sovereign bonds, and valuation pressures could trigger destabilising runs with broader financial stability implications.

## Policy requirements

### ***Trade policies need to become more transparent and predictable***

23. Countries need to find ways of engaging co-operatively within the global trading system and working together to make trade policy more predictable. Agreements to ease trade tensions and lower existing trade barriers, and clear and transparent trade policies, would improve policy certainty and strengthen the prospects for investment and growth. Steps to lower tariffs and non-tariff barriers, deepen trade agreements or reduce barriers to trade in services would also benefit productivity and living standards. Efforts to prevent further trade fragmentation should be coupled with reforms that enhance security and strengthen the resilience of supply chains, including by encouraging firms to diversify both suppliers and buyers and by agreements between countries that align regulatory standards on key intermediate production inputs. This would help to balance economic security needs with continued growth while preserving open markets.

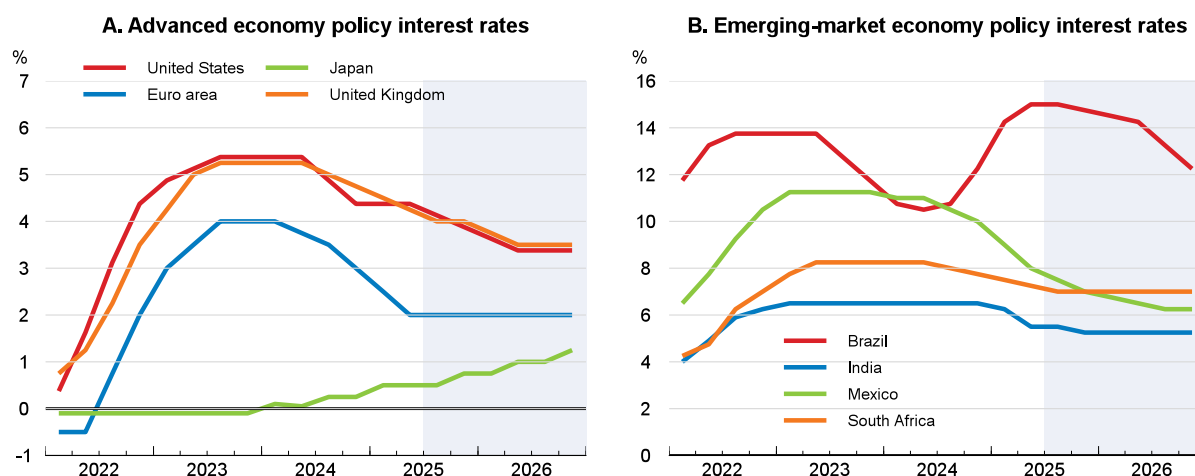
### ***Monetary policy should remain vigilant***

24. Policy interest rates have been lowered recently by many major central banks. Amongst the advanced economies, both the United States and Canada reduced policy rates in September, with concerns about downside risks in labour markets outweighing the risk of upside inflationary pressures from tariff increases. In contrast, policy rates have remained unchanged in Japan since January, and in the euro area since June given area-wide inflation close to target and policy rates close to neutral. Policy rates have been reduced in many major emerging market economies given contained inflation pressures, recent currency appreciation against the US dollar, and adverse demand shocks from higher US trade costs and elevated uncertainty. Brazil is an exception, with the policy rate having been raised further to ensure that inflation expectations remain well-anchored. Central bank balance sheet reductions have also continued in many countries, but the pace has moderated in some, including the United States and the United Kingdom.

25. Central banks need to remain vigilant and attentive to shifts in the balance of risks around economic developments and financial markets in order to maintain price stability. Provided inflation expectations remain well anchored, policy rate reductions should continue in economies in which underlying inflation is projected to moderate towards target (Figure 10). The ability and incentives of policymakers to react quickly and credibly to shifts in the risks to price stability are enhanced by central bank independence, both legal and operational, and accountability. These lower the volatility and persistence of inflation by helping to ensure that long-term inflation expectations remain well anchored.

26. In the United States, policy rates are projected to decline further over the coming year as labour market pressures ease, provided the ongoing rise in the relative price of tradeable goods from higher tariffs does not trigger broader inflation pressures. A gradual easing of policy rates is also expected in Australia, Canada and the United Kingdom. In the euro area, where policy rates are already close to neutral levels, the policy stance is expected to remain unchanged. Policy rates are projected to increase in Japan as monetary policy accommodation continues to be gradually withdrawn. Amongst the emerging-market economies, policy rates are expected to decline in Brazil, Mexico and Türkiye, as inflation pressures moderate, but remain broadly unchanged in most other economies. In China, the policy stance is expected to remain accommodative given the underlying softness of inflation.

**Figure 10. Policy rates are expected to ease gradually**



Note: Policy interest rates in the baseline projection. Panel A shows the midpoint of the federal funds target range for the United States and the deposit facility rate for the euro area.

Source: OECD Interim Economic Outlook 118 database.

### ***Active supervision and monitoring are needed to address financial stability risks***

27. Stretched valuations in financial markets, including the rapid growth in crypto-asset market capitalisation, and the growing interconnections between banks and non-bank financial institutions call for enhanced vigilance to safeguard financial stability. Effective monitoring, supervision and robust regulatory policies are needed, particularly of potential liquidity mismatches and leverage risks for non-bank financial institutions, in line with internationally-recommended norms. Enhancing reporting requirements and filling data gaps would improve the monitoring of risks and help relevant authorities mitigate financial vulnerabilities and prepare for possible future corrections in asset prices that would have systemic consequences. While crypto-assets share some characteristics with traditional financial products, they present a unique set of policy challenges given their borderless and pseudonymous nature. Countries should continue efforts to develop and update regulations related to crypto assets. Tailored regulatory approaches are warranted while ensuring regulations maintain technological neutrality to avoid creating an uneven playing field. While flexibility for jurisdictions to implement domestic regulatory approaches is often required, international regulatory cooperation is key given the ease with which crypto-assets move across borders.

### ***Credible and well-designed budgetary measures are needed to safeguard public debt sustainability***

28. Faced with rising budgetary pressures and elevated public debt, fiscal discipline is needed to enable governments to safeguard longer-term debt sustainability and maintain space to react to future shocks. Many countries have persisting budget deficits, and debt service costs are rising as low-yielding debt matures and is replaced by costlier new issuance. Difficult budgetary choices are increasingly being felt as new near-term demands, such as rising defence spending, augment the impending fiscal pressures from ageing populations and climate change. Significant spending challenges in many emerging-market economies also stem from the need to enhance physical and digital infrastructure and strengthen existing social safety nets at a time of high debt, particularly in lower-income countries.

29. Addressing these challenges requires credible and well-designed medium-term budgetary adjustment paths with stronger efforts to contain and reallocate spending and enhance revenues. The pace and composition of adjustment measures should be country-specific, but focus spending and tax

choices on the need to strengthen sustainable economic growth while preserving adequate support for those in need.

30. Systematic and regular spending reviews, strengthened public procurement practices, and enhanced use of digital technologies could all help to improve public sector efficiency and allow resources to be reallocated efficiently as priorities shift. Improved targeting and reforms to enhance working lives would also help to contain public expenditure. Broader tax bases, elimination of inefficient tax expenditures, and shifting tax systems over time towards less-distortive taxes with fewer exemptions would help to mobilise additional revenue and make the tax system more growth-friendly. Enhanced tax compliance and collection, and reforms to reduce informality are also key priorities in many emerging-market economies. Strong fiscal institutions, including clear and well-designed fiscal rules and independent fiscal councils, can improve the credibility and transparency of budgetary policies and policy choices, and thereby contain financing costs.

### ***Stronger structural reform efforts would improve living standards***

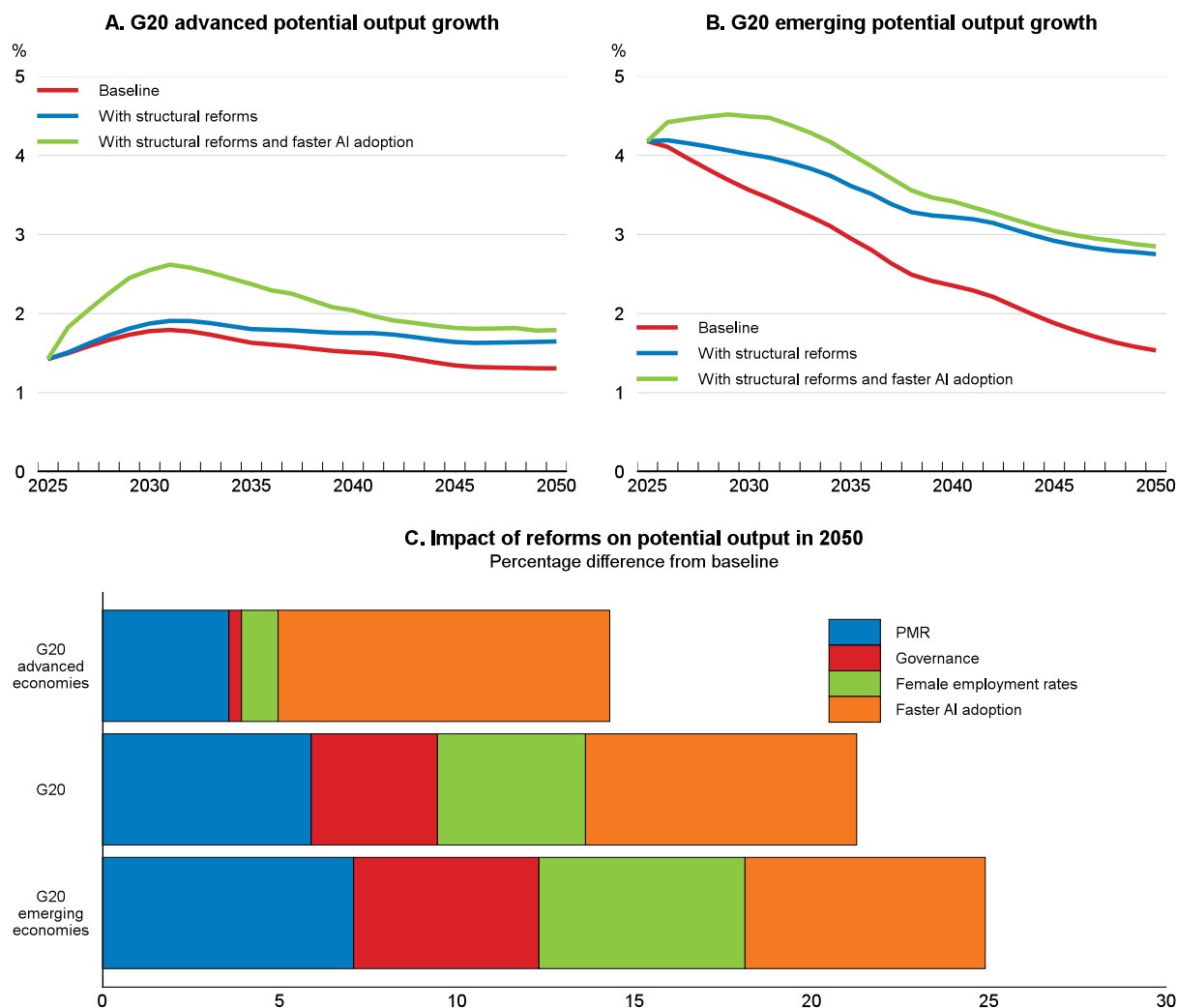
31. At a time of limited fiscal capacity in many economies, structural policy reforms can help mitigate the medium and long-term headwinds facing economic growth. New estimates from the OECD Long-Term Model project that global potential output growth will slow markedly over the coming decades, largely due to demographic factors and the consequences of a sustained period of weak capital investment for productivity. From around 3% in 2025, global annual potential output growth is projected to moderate to 2¾ per cent in the first part of the 2030s and 2¼ per cent in the early 2040s. The slowdown is almost entirely accounted for by developments in the emerging-market economies, including their gradual convergence with higher-income economies. While potential output growth in the G20 advanced economies is projected to fall from an already-low annual rate of 1½ per cent to 1¼ per cent between 2025 and 2050, annual growth in the G20 emerging-market economies is projected to fall from 4¼ per cent to 1½ per cent over the same period. However, growth prospects could be stronger if all countries enhanced their efforts to implement a broad range of structural reforms and new technologies, such as artificial intelligence, were to be adopted rapidly.

32. Recent editions of the *OECD Economic Outlook* have highlighted key factors behind the ongoing slowdown in global growth, including a sustained period of weak investment and productivity growth, and rising labour shortages. Policy reforms that enhance competitive dynamics in product markets, mitigate labour shortages and improve economic governance could all help to overcome these. For example, reducing regulatory barriers to firm entry and growth could improve product market competition and incentives to innovate and invest. Skill shortages could be helped by policy reforms that raise employment and participation rates, particularly of women, such as lower income tax wedges for second earners or introducing more balanced parental leave arrangements. Estimates using the OECD Long-Term Model highlight that a package of reforms that involves reducing product market regulation, raising female employment rates and improving the rule of law could boost average annual real GDP growth by 0.2 percentage points in the advanced G20 economies over the period to 2050 and 0.8 percentage points in emerging-market G20 economies (Figure 11, Panels A and B). The estimated gains differ by country, with many emerging-market economies experiencing the largest cumulative boost to output and living standards by 2050 (Figure 11, Panel C).

33. The development and diffusion of artificial intelligence (AI) technologies is already well underway, and will be a key source of new economic opportunities. Significant uncertainty remains about the speed of AI adoption, and hence the impact on future productivity and growth developments, with adoption dependent on existing endowments of labour and skills, investment, industry composition, and a range of domestic government policies. Structural reforms, including the measures set out above, could promote stronger AI uptake. Pro-competition reforms could sharpen the incentives for AI adoption and reduce the capacity for successful AI firms to build and exploit monopoly positions. Measures to improve digital skills

and alleviate skilled labour shortages, and improve the rule of law could also encourage businesses to invest in AI. Adding the “faster AI adoption” scenario presented in recent OECD work on AI, in which AI adoption rates are similar to those seen previously for mobile phones, to the assumed structural reform package scenario could raise average annual GDP growth by an additional 0.4 percentage points in advanced G20 economies and 0.3 percentage points in emerging-market G20 economies by 2050 (Figure 11, Panels A and B). Collectively, this could result in a substantial improvement in living standards in all G20 economies by 2050 (Figure 11, Panel C).

**Figure 11. Structural reforms along with faster AI adoption would lead to a higher growth path**



Note: The baseline projection is the business-as-usual scenario (BAU1) from the most recent set of long-run scenarios (OECD, 2025). The fast AI adoption scenario assumes increases in labour productivity growth that peak in the early 2030s. These correspond, for G7 economies, to half of the contributions of AI to labour productivity growth projected in Filippucci et al. (2025) for the coming decade, on the basis that only the boost to services productivity is likely not already implicit in the baseline trajectory. The median G7 result of this study is applied to non-G7 advanced economies and the lowest G7 estimate is applied to G20 emerging economies. The structural reforms include 1) product market deregulation, based on the OECD PMR indicator (and the World Bank's Regulatory Quality indicator when PMR is missing), to the average of the top-5 OECD economies by 2050, 2) improvements in governance, based on the World Bank's Rule of Law indicator, to the average OECD level by 2050 for the G20 emerging-market economies, and to the average of the top-5 OECD countries for advanced economies, and 3) a gradual closing of one third of the age-specific gaps between female and male employment rates by 2050 for all economies.

Source: Simulations with OECD Long-Term Model; OECD (2025), "OECD global long-run economic scenarios: 2025 update", OECD Economic Policy Papers, No. 36, OECD Publishing, Paris; and Filippucci, F. et al. (2025), "Macroeconomic productivity gains from Artificial Intelligence in G7 economies", *OECD Artificial Intelligence Papers*, No. 41, OECD Publishing, Paris.

# Finding the Right Balance in Uncertain Times

**September 2025**

Global growth was more resilient than anticipated in the first half of 2025, with industrial production and trade supported by front-loading ahead of higher tariffs. However, recent indicators show some signs of softening growth and disinflation has levelled off. Effective tariff rates on imports to the United States have also risen further since May. Global growth is expected to moderate as the full impact of higher tariffs is felt. Key downside risks include further increases in trade barriers, a resurgence of inflationary pressures, increased concern about fiscal risks, and disruptive repricing in financial markets that endangers financial stability. On the upside, reductions in trade restrictions or more rapid development of artificial intelligence technologies could push economic growth higher.

The Interim Report says that countries need to find ways of engaging co-operatively within the global trading system and working together to make trade policy more transparent and predictable. Central banks should remain vigilant, but can lower policy interest rates where underlying inflation is projected to moderate towards target, provided inflation expectations remain well anchored. Fiscal discipline is needed to safeguard longer-term debt sustainability and allow governments to react to future shocks. Enhanced structural reform efforts are required to durably improve living standards and help realise the potential from new technologies, such as artificial intelligence.

The Interim Report is an update on the assessment in the June 2025 of the Economic Outlook (Volume 2025 Issue 1).



PDF ISBN 978-92-64-57606-3

