OECD Economic Outlook, Interim Report

Testing Resilience

March 2026

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Testing resilience

Summary

- The evolving conflict in the Middle East has human and economic costs for the countries directly involved, and will test the resilience of the global economy. A halt in shipments through the Strait of Hormuz and the closure or damage of energy infrastructure has generated a surge in energy prices and disrupted the global supply of energy and other important commodities, such as fertilisers.
- Volatility in financial markets has picked up, particularly in some Asian economies, and financial conditions have tightened, though they remain mildly accommodative in both advanced and emerging-market economies.
- The breadth and duration of the conflict are very uncertain, but a prolonged period of higher energy prices will add markedly to business costs and raise consumer price inflation, with adverse consequences for growth.
- Prior to the escalation of the conflict, global growth remained resilient, with activity boosted by strong AI-related investment and production, and supportive financial and fiscal conditions.
- US bilateral tariff rates have declined following the US Supreme Court ruling against the tariffs imposed under the International Emergency Economic Powers Act. There are particularly large reductions for several emerging-market economies, including Brazil, China and India. Nonetheless, the overall US effective tariff rate remains well above that prevailing prior to 2025.
- Higher energy prices and supply-chain disruptions come at a time when inflation remains above target in a few major economies, including Brazil, Mexico, Türkiye, the United Kingdom and the United States. Medium-term inflation expectations have also risen following the energy price spike.
- Global GDP growth is projected to ease to 2.9% in 2026 before edging up to 3.0% in 2027. The energy price surge and the unpredictable nature of the evolving conflict in the Middle East will raise costs and lower demand, offsetting the tailwinds from strong technology-related investment and production, lower effective tariff rates and the momentum carried over from 2025.
- These projections are conditional on a technical assumption that the current extent of energy market disruption moderates over time, with oil, gas and fertiliser prices declining gradually from mid-2026 onwards.
- Annual GDP growth in the United States is projected to moderate from 2.0% in 2026 to 1.7% in 2027, as strong AI-related investment is gradually offset by a slowdown in real income growth and consumer spending. Euro area GDP growth is anticipated to ease to 0.8% in 2026, as higher energy prices weigh on activity, before increasing to 1.2% in 2027 helped by stronger defence spending. In China, growth is projected to ease to 4.4% in 2026 and 4.3% in 2027.
- G20 inflation is projected to be 1.2 percentage point higher than previously expected in 2026 at 4.0%, before easing to 2.7% in 2027 with an assumed fading of energy price pressures. Core inflation in the G20 advanced economies is anticipated to weaken from 2.6% in 2026 to 2.3% in 2027.

- A significant downside risk to the outlook is that persistent disruptions to exports from the Middle East that raise energy prices even further than assumed and aggravate shortages of key commodities, add to inflation and reduce growth. Such a scenario, or lower than expected returns from AI investment, could also trigger more extensive repricing in financial markets, weakening demand and raising financial stability risks.
- On the upside, a surprisingly resilient business sector, an earlier-than-assumed resolution of the conflict in the Middle East that lowers energy prices, or broadening investment in artificial intelligence technologies that yields stronger productivity gains, could push growth higher.
- Faced with the energy price shock, central banks need to remain vigilant and ensure that inflation expectations stay well anchored. Monetary policy adjustments may be needed if price pressures broaden or if growth prospects weaken substantially.
- Government measures to cushion the impact of higher energy prices should be timely, well-targeted on households most in need and viable firms, preserve incentives to lower energy use and have clear expiry mechanisms.
- Fiscal space is limited and actions are needed to safeguard debt sustainability and free resources to meet longer term spending challenges. Stronger efforts to contain and reallocate spending, improve public sector efficiency and enhance revenues are required, set within credible medium-term country-specific adjustment paths.
- Effective monitoring, supervision, and robust regulatory policies are needed to address financial stability risks given stretched valuations in financial markets and growing interconnections between banks and non-bank financial institutions.
- Agreements to ease trade tensions and deepen trade relations would improve policy certainty and strengthen the prospects for sustainable growth. New export restrictions in response to supply disruptions should be avoided, as these could exacerbate supply shortages and push up prices.
- Policies that improve domestic energy efficiency and lower reliance on imported fossil fuels over the medium-term are a priority. These can help lower exposure to future geopolitical tensions, as well as mitigate costs for households and businesses.

Table 1. Global growth is expected to moderate

	2025	2026		2027	
		Interim EO projections	Difference from December EO	Interim EO projections	Difference from December EO
World	3.3	2.9	0.0	3.0	-0.1
G20[1]	3.3	3.0	0.1	3.0	-0.1
Australia	2.0	2.3	0.0	2.4	0.1
Canada	1.7	1.2	-0.1	1.7	0.0
Euro area	1.4	0.8	-0.4	1.2	-0.2
Germany	0.4	0.8	-0.2	1.5	0.0
France	0.9	0.8	-0.2	1.0	0.0
Italy	0.5	0.4	-0.2	0.6	-0.1
Spain[2]	2.8	2.1	-0.1	1.7	-0.1
Japan	1.2	0.9	0.0	0.9	0.0
Korea	0.9	1.7	-0.4	2.1	0.0
Mexico	0.6	1.3	0.1	1.7	0.0
Türkiye	3.6	3.3	-0.1	3.8	-0.2
United Kingdom	1.3	0.7	-0.5	1.3	0.0
United States	2.1	2.0	0.3	1.7	-0.2
Argentina	4.4	2.8	-0.2	3.5	-0.4
Brazil	2.3	1.5	-0.2	2.1	-0.1
China	5.0	4.4	0.0	4.3	0.0
India[3]	7.6	6.1	-0.1	6.4	0.0
Indonesia	5.1	4.8	-0.2	5.0	-0.1
Russia	1.0	0.6	0.1	0.8	0.2
Saudi Arabia	4.5	4.0	0.0	3.6	-0.3
South Africa	1.1	1.2	-0.1	1.7	0.2

Note: Difference from December 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 23 March 2026.

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 119 database; and OECD Economic Outlook 118 database.

Table 2. Headline inflation is projected to rise in 2026

	2025	2026		2027	
		Interim EO projections	Difference from December EO	Interim EO projections	Difference from December EO
G20[1]	3.4	4.0	1.2	2.7	0.2
Australia	2.8	4.1	1.4	2.5	0.0
Canada	2.1	2.4	0.3	2.0	0.0
Euro area	2.1	2.6	0.7	2.1	0.1
Germany	2.3	2.9	0.8	2.6	0.2
France	0.9	1.8	0.5	1.5	-0.1
Italy	1.6	2.4	0.7	1.8	0.0
Spain[2]	2.7	3.0	0.7	2.2	0.4
Japan	3.2	2.4	0.2	1.9	-0.2
Korea	2.1	2.7	0.9	2.0	0.0
Mexico	3.8	3.8	0.5	3.2	0.3
Türkiye	34.9	26.7	5.9	16.9	5.2
United Kingdom	3.4	4.0	1.5	2.6	0.5
United States	2.6	4.2	1.2	1.6	-0.7
Argentina	41.9	31.3	13.7	14.1	4.1
Brazil	5.0	4.1	-0.1	3.8	0.0
China	-0.1	1.3	1.0	1.1	0.3
India[3]	2.0	5.1	1.7	4.1	0.1
Indonesia	1.9	3.4	0.3	2.6	-0.6
Russia	8.7	6.4	1.0	4.5	0.2
Saudi Arabia	2.0	1.9	-0.3	2.2	0.2
South Africa	3.2	3.9	0.3	3.3	0.1
Memorandum item					
G20 countries excluding Argentina and Türkiye	2.2	3.1	0.9	2.2	0.0

Note: Difference from December 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 23 March 2026.

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 119 database; and OECD Economic Outlook 118 database.

Table 3. Core inflation is projected to remain moderate

	2025	2026		2027	
		Interim EO projections	Difference from December EO	Interim EO projections	Difference from December EO
G20 Advanced Economies[1]	2.6	2.6	0.1	2.3	0.1
Australia	3.0	3.5	0.9	2.9	0.4
Canada	2.5	2.1	0.1	2.0	0.0
Euro area	2.4	2.3	0.2	2.1	0.1
Germany	2.8	2.6	0.4	2.4	0.0
France	1.6	1.3	-0.1	1.6	0.0
Italy	1.9	2.6	0.7	1.9	0.1
Spain[2]	2.6	2.7	0.5	2.1	0.3
Japan	1.7	1.5	-0.1	1.9	0.0
Korea	1.9	2.4	0.6	2.3	0.3
Mexico	4.1	3.8	0.3	3.2	0.3
Türkiye	35.5	26.2	5.7	16.9	5.2
United Kingdom	3.5	2.8	-0.1	2.2	0.0
United States	2.8	3.0	0.0	2.4	0.1
South Africa	3.2	3.5	0.3	3.3	0.2

Note: Difference from December 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 23 March 2026.

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 119 database; and OECD Economic Outlook 118 database.

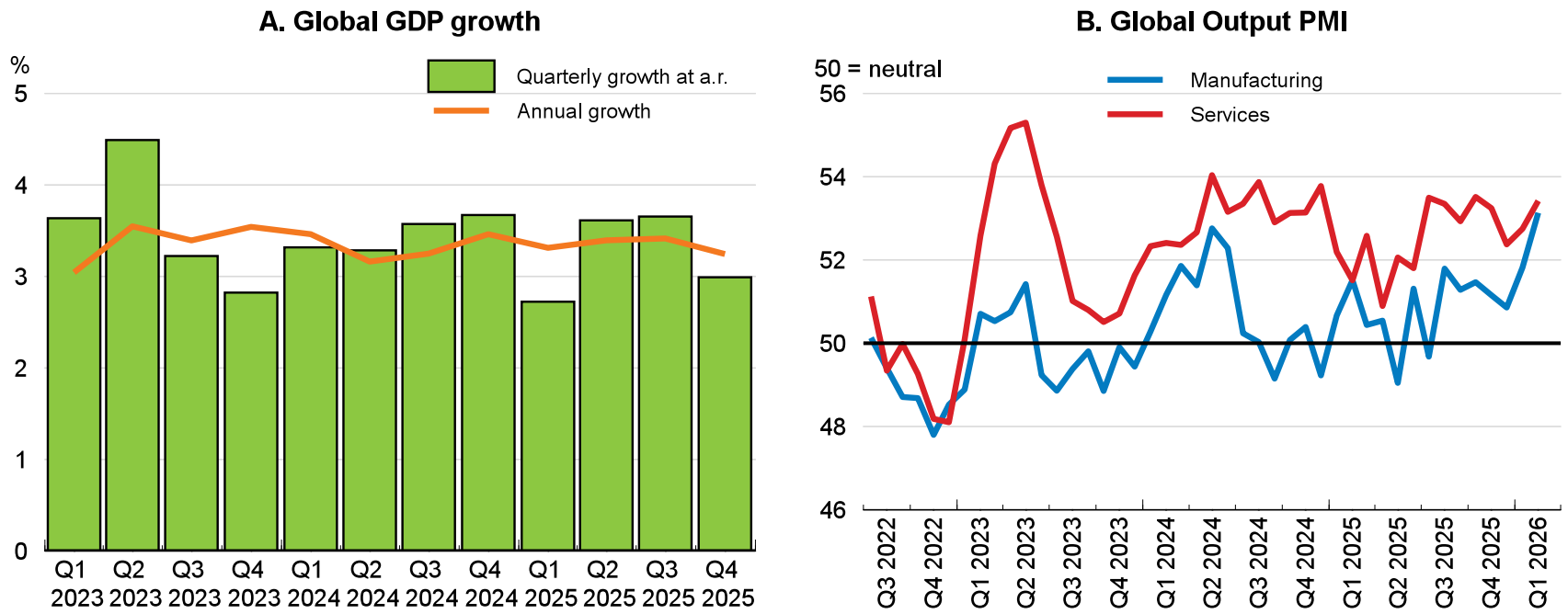
Recent developments

Global growth had continued to be resilient

1. The evolving conflict in the Middle East has human and economic costs for the countries directly involved and is testing the resilience of the global economy. Global growth remained solid in 2025, expanding at an annualised pace of 3¼ per cent in the second half of the year, somewhat stronger than projected in the December OECD Economic Outlook (Figure 1, Panel A). Private consumption and investment were key drivers in many economies, with supportive financial and fiscal conditions adding to increased demand for artificial intelligence technologies. While growth in the United States slowed in the fourth quarter, owing in part to the government shutdown, the pace of activity was stronger than initially anticipated through the second half of the year as sustained rapid gains in technology-related business investment more than offset weakness in spending on other investment categories and headwinds from tariffs. Growth was also more rapid than anticipated in India, following national accounts revisions, and, to a lesser extent, the euro area, Indonesia and Saudi Arabia. In China, strong export performance and government subsidies for consumers boosted activity, though residential investment growth slumped further.

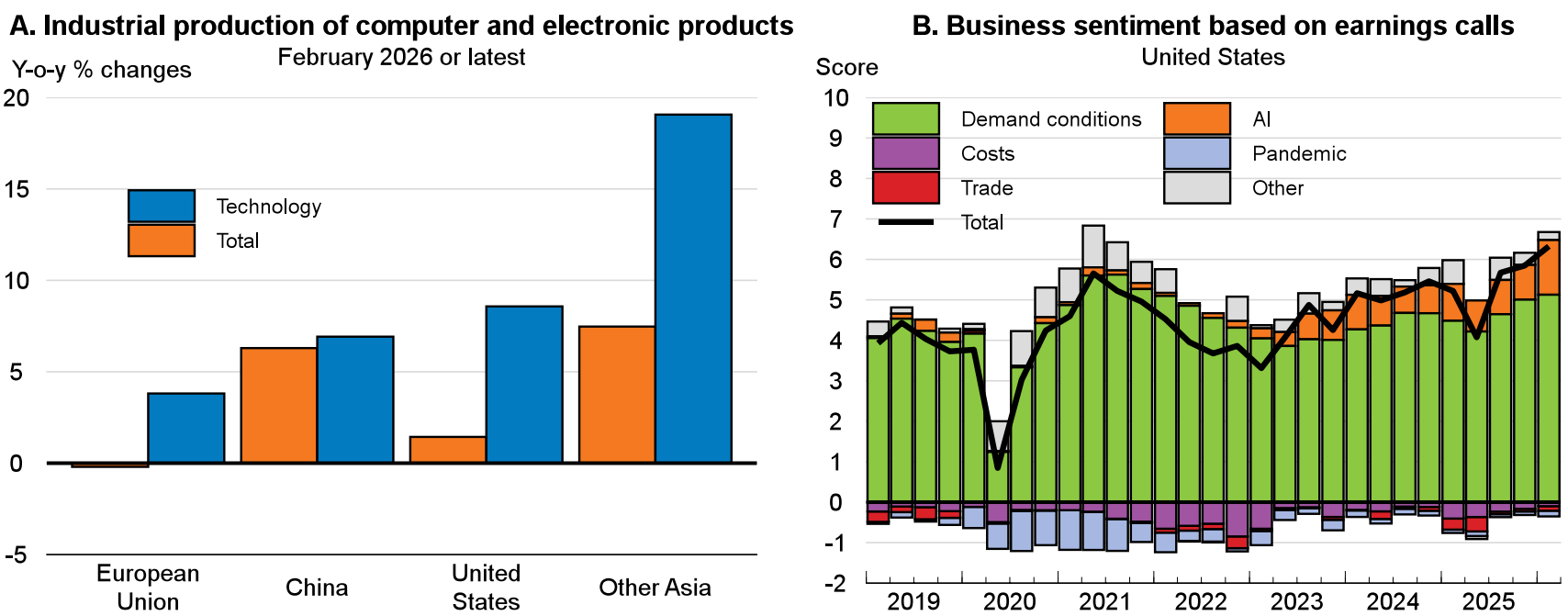
2. Indicators for the early months of 2026 suggest that global growth remained solid in both services and manufacturing sectors (Figure 1, Panel B), with technology-related industrial production continuing to grow rapidly, especially in Asia and the United States (Figure 2, Panel A). Capital expenditure intentions for 2026 of the large publicly listed technology firms in the United States and China also increased further. This aligns with a recent improvement in a measure of US business sentiment derived from earnings call transcripts of large-listed firms, mostly driven by increased optimism related to artificial intelligence technologies (Figure 2, Panel B).

Figure 1. Global growth remained resilient prior to the conflict



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. In Panel B, data are shown up to February.
Source: OECD Interim Economic Outlook 119 database; S&P Global; and OECD calculations.

Figure 2. Technology-related production has risen rapidly as businesses have become more optimistic about artificial intelligence

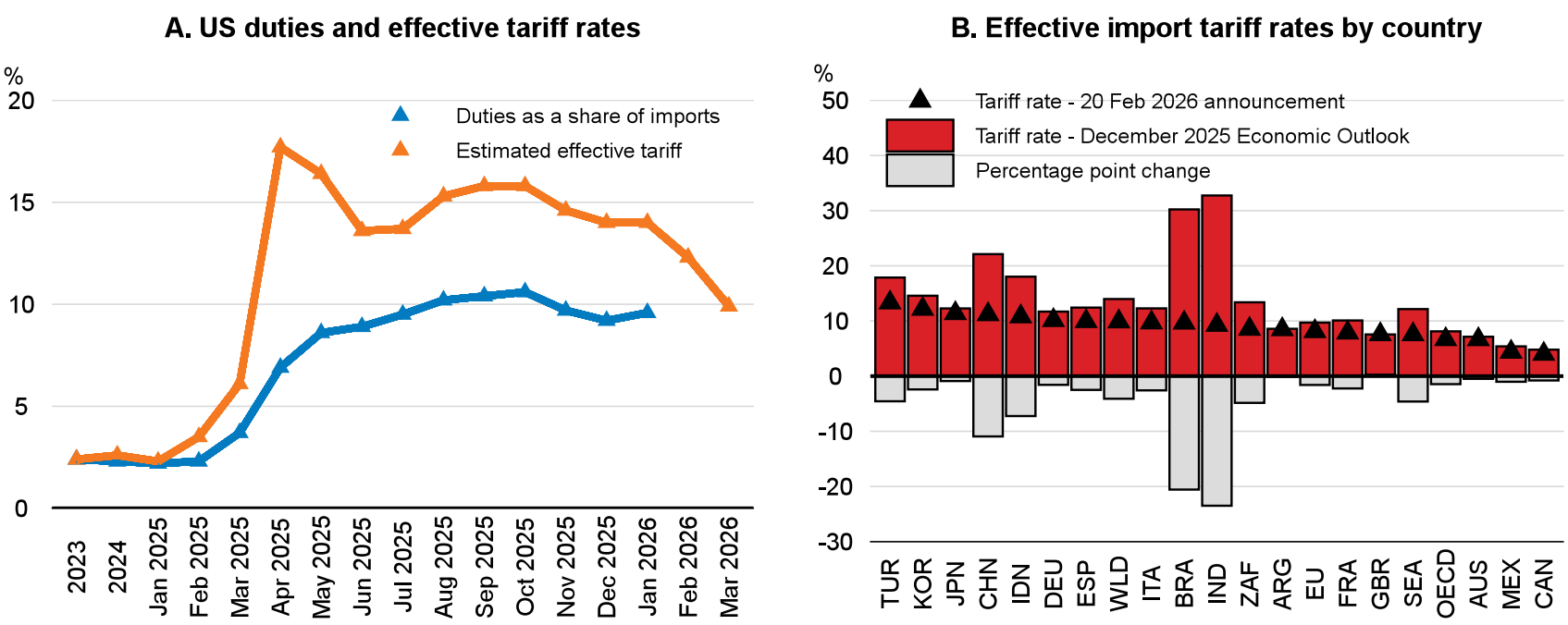


Note: Panel A is based on seasonally adjusted data in real terms. The latest month available is February 2026 for the United States and China and January 2026 for the European Union and Other Asia. “Other Asia” is the weighted average of industrial production for Japan, Korea, Singapore and Chinese Taipei. The selected high-technology industries are: computer and electronic production for Asia, computer, electronic and optical products and electrical equipment for the EU (NACE Rev 2 C26), computers and peripheral equipment, communications equipment and semiconductors and related electronic components for the United States (NAICS 3341, 3342 and 3344), computer, communication & other electronic equipment for China. Panel B is based on earnings call transcripts of the 100 biggest listed companies in the United States and asking ChatGPT to read each transcript and provide a score on business sentiment. The aggregate figures for each period are based on a simple average of scores across the sampled companies. The subcomponents of business sentiment are derived drivers of sentiment in each period based on the textual analysis of the earning call transcripts.
Source: OECD Main Economic Indicators database; Eurostat; Ministry of Economic Affairs Chinese Taipei; National Bureau of Statistics of China; Statistics Korea; Statistics Singapore; Ministry of Economy Trade and Industry of Japan; US Federal Reserve; LSEG; ChatGPT; and OECD calculations.

3. Global merchandise trade also continued to expand at a steady pace through the second half of 2025. Technology-related exports from Asian economies grew markedly, in keeping with robust technology investment in trading partner economies. High-frequency indicators suggest global goods trade remained solid in early 2026, with PMI survey measures of global manufacturing export orders in February 2026 at their highest level since November 2021, with improvements in both advanced and emerging-market economies.

4. Changes in US bilateral tariff rates since mid-November have lowered the (ex-ante) effective tariff rate on US merchandise imports to an estimated 9.9% from 14% assumed in the December 2025 OECD Economic Outlook (Figure 3, Panel A). On balance, this should reduce the headwinds to global growth from higher tariffs, but the renewed changes may also prolong trade policy uncertainty. Following the US Supreme Court ruling that the International Emergency Economic Powers Act (IEEPA) did not authorise the imposition of tariffs, a new 10 percentage point tariff applied across all countries has been introduced by the United States. This applies to all imported goods other than products subject to separate sector-specific tariffs or products specifically exempted, including many pharmaceuticals and semiconductor-related goods. USMCA-compliant merchandise imports from Canada and Mexico (between 80-90 per cent of goods imports from these countries) are also exempted from tariffs. The resulting change in the effective tariffs applied by the United States varies markedly across economies, with sizeable reductions for several emerging-market economies, including Brazil, China, India and Indonesia (Figure 3, Panel B). The new flat rate tariff can remain in place for 150 days (up to late July), after which Congressional approval is required for it to be extended. The projections in this Interim Economic Outlook are based on a technical assumption that the US effective tariff rate remains at the current level throughout 2026 and 2027.

Figure 3. Estimated tariff rates have fallen notably for several large emerging-market economies

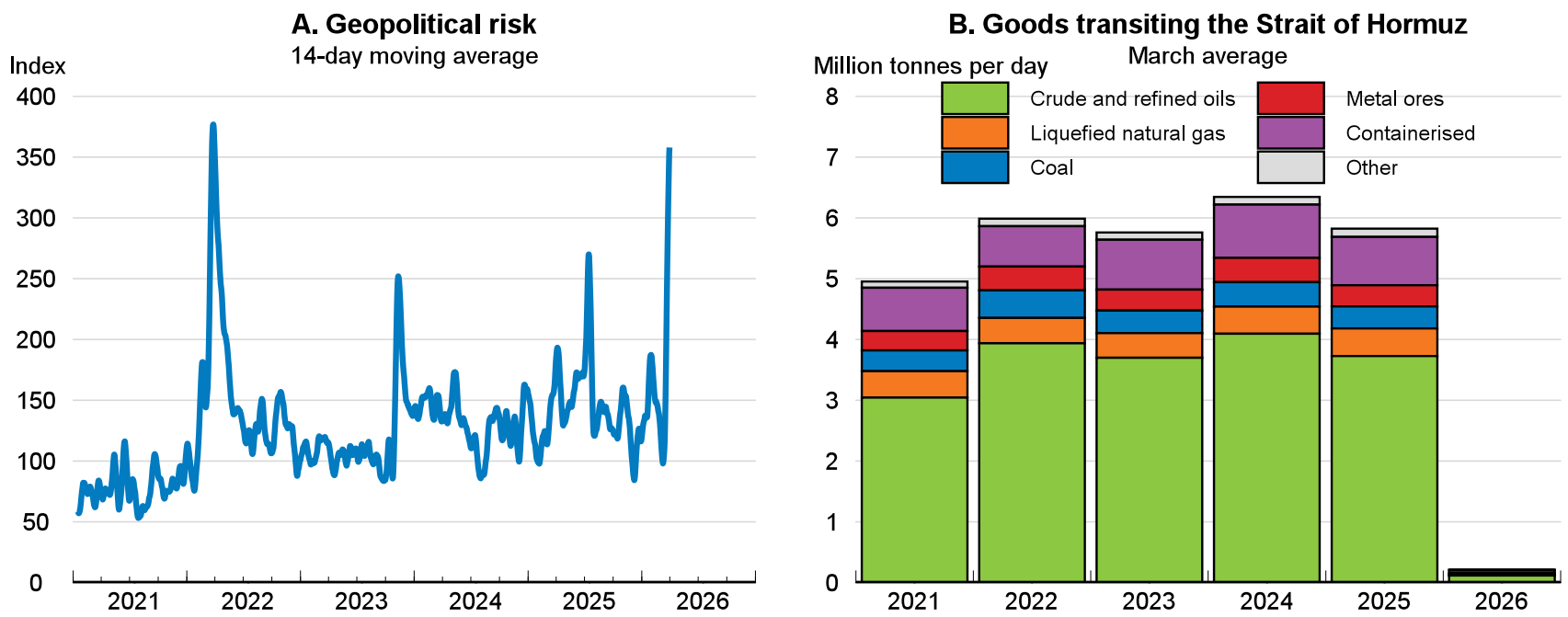


Note: Panel A shows monthly average estimated effective tariff rates, based on applicable rates to products and countries at the time they became effective, weighted by country-specific product shares of United States imports in 2024. As of 20 February, tariffs under the International Emergency Economic Powers Act (IEEPA) have been removed, and replaced with a 10% tariff which applies to all goods imports into the United States, with the exception of goods subject to sectoral tariffs and exempted products. Data before 2025 are based on WITS average effective tariffs rates, corrected for section 301 actions on China undertaken between 2018 and 2024. Tariff revenues estimated as a share of CIF import values are based on monthly data from US Census Bureau. Data before 2025 are based on USITC (2025) "U.S. imports for consumption, duties collected, and ratio of duties to value, 1891 2024". In Panel B, estimated tariff rates based on applicable rates to products and countries at the time they became effective, weighted by country-specific product shares of United States imports in 2024. “SEA” corresponds to South- East Asia. Both panels include updated weights for the compliance of imports from Canada and Mexico with the United States Mexico Canada Agreement.
Source: US Census Bureau; the White House; US Federal Register; and OECD calculations.

Conflict in the Middle East is now testing the resilience of the global economy

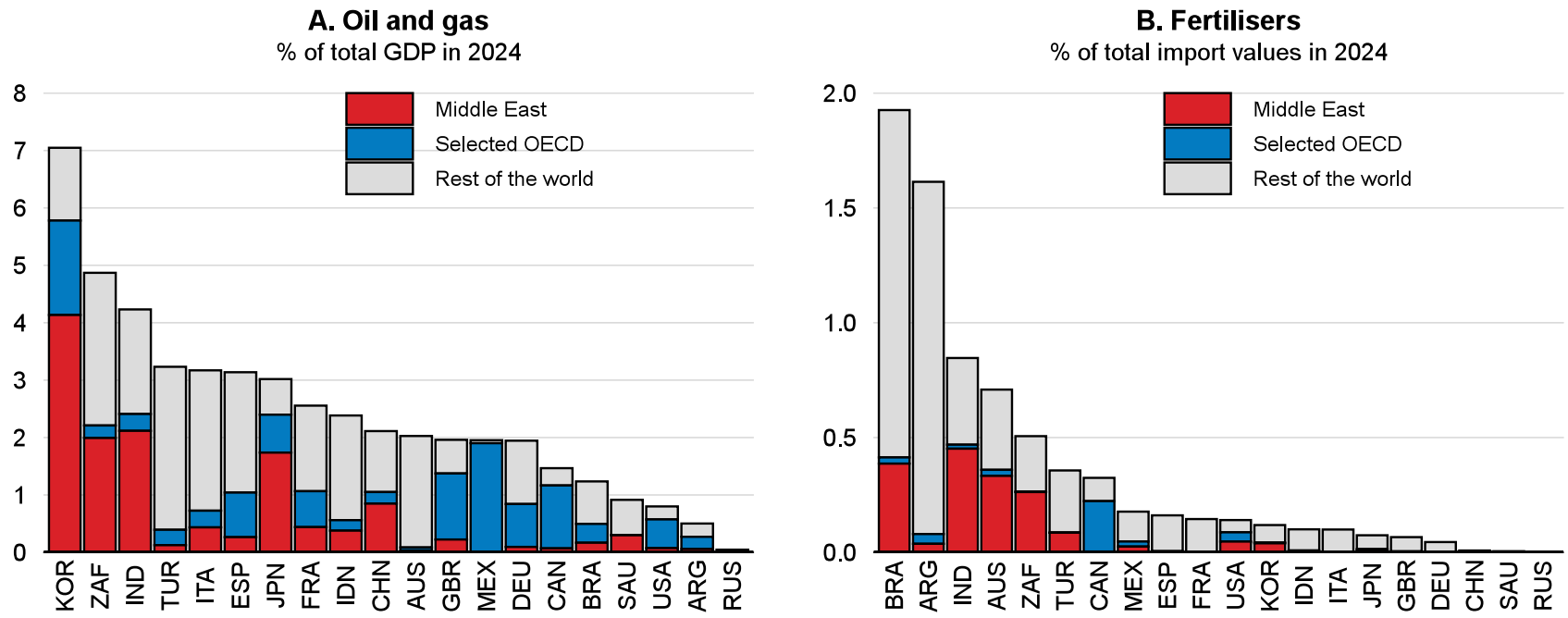
5. The resilience of the global economy is now being tested by the escalating conflict in the Middle East. The breadth and duration of the conflict remain very uncertain, but measures of geopolitical risk have spiked notably (Figure 4, Panel A) and there have been marked effects on energy markets. Since late-February, closure of significant energy infrastructure and a near halt in shipments through the Strait of Hormuz have disrupted the global flow of crude oil, oil products and liquefied natural gas (LNG) (Figure 4, Panel B). Oil and oil product exports through the Strait of Hormuz represented around 20% of global production in 2025 and 25% of global seaborne oil trade according to the International Energy Agency, with only limited opportunities for transport via alternative routes and for deferred shipments to be held in local storage facilities. For LNG, about 93% of Qatar's and 96% of the United Arab Emirates exports transited through the Strait, representing almost one-fifth of global LNG trade, with no alternative routes to bring these volumes to market. The most immediate risks are for many countries in Asia that are particularly reliant on energy imports from the region (Figure 5, Panel A). Nonetheless, the direct consequences of the disruption to supplies are likely to spread quickly given the global nature of energy markets.

Figure 4. Geopolitical risk has spiked with the conflict significantly disrupting energy markets



Note: In Panel A, the observation for March is an average of the daily index until 16 March. In Panel B, the product composition is estimated by constructing an approximation of the product mix at the vessel level. The product mix is calculated as a volume-weighted average of the product mixes of the berths each vessel has visited in the past. The product classification is taken from Pilgrim, Dorville and Mourougane (forthcoming), with an additional breakdown for LNG. Coal includes coal, coke and bitumen and metal ores include metal ores and concentrates. Fishing vessels and miscellaneous vessels are omitted in the calculation. Data are the daily average for March in each calendar year using seasonally adjusted data (day of week and week of year effects). The last data point is 19 March 2026.
Source: Caldara and Iacoviello (2022); Pilgrim, Dorville and Mourougane (forthcoming) "Monitoring global trade by products using Big Data"; and OECD calculations.

Figure 5. Many countries are reliant on exports from the Middle East

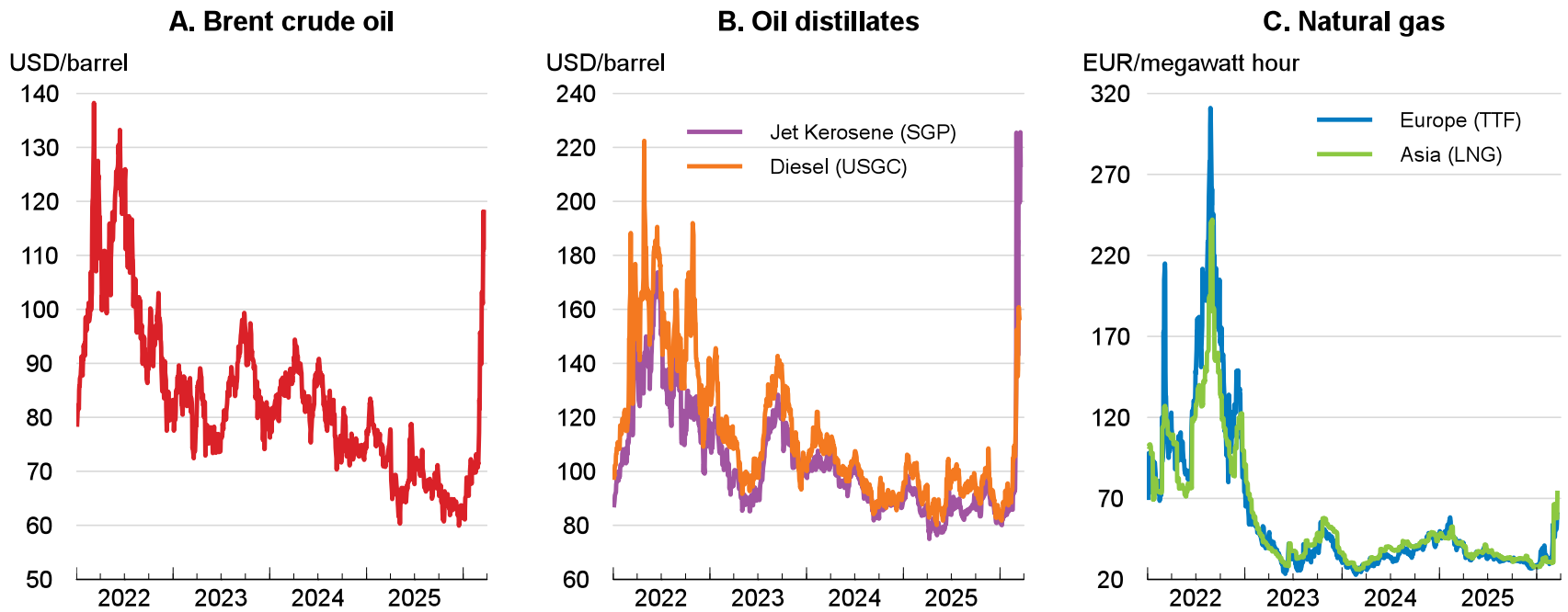


Note: Based on nominal goods import values. The red, blue and grey bars are respectively the share of oil and gas products originating from Middle East countries, selected OECD countries and the rest of the world. 'Middle East' includes Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates. 'Selected OECD' includes Australia, Canada, Colombia, Mexico, Norway, and the United States. 'Rest of the world' includes all other countries. Panel A indicates the share of oil and gas in a country's total imports. Oil and gas are defined as the total of HS2709 (Crude petroleum oils), HS2710 (Refined petroleum products) and HS2711 (Petroleum gases of which natural gas). Gas pipeline trade flows are not included. Panel B indicates the share of selected fertilisers in total imports. These are defined as the total pf HS281410 (Ammonia, anhydrous), HS310210 (Urea), HS310530 (Diammonium phosphate), and HS310540 (Monoammonium phosphate).
Source: OECD Balanced International Merchandise Trade Statistics (edition 2024 November); and OECD calculations.

6. With only limited near-term spare capacity in other producers, the disruptions to supply have generated a sharp increase in energy prices, with significant price volatility due to uncertainty about the duration and the ongoing impacts of the conflict (Figure 6). Crude oil prices had already begun to increase ahead of the current conflict, and rose by over 50% between the onset and March 20. Gas prices have increased sharply in both Europe and Asia, and the prices of oil distillates such as jet fuel and diesel have surged. If sustained, these price shocks will add markedly to business costs and raise consumer price inflation, with adverse consequences for growth. A prolonged period of disruption could also result in the emergence of significant energy shortages that would lower growth further. Some Asian governments have already implemented measures to manage the risk of shortages arising from the conflict, such as energy export restrictions in China and energy rationing for businesses in India.

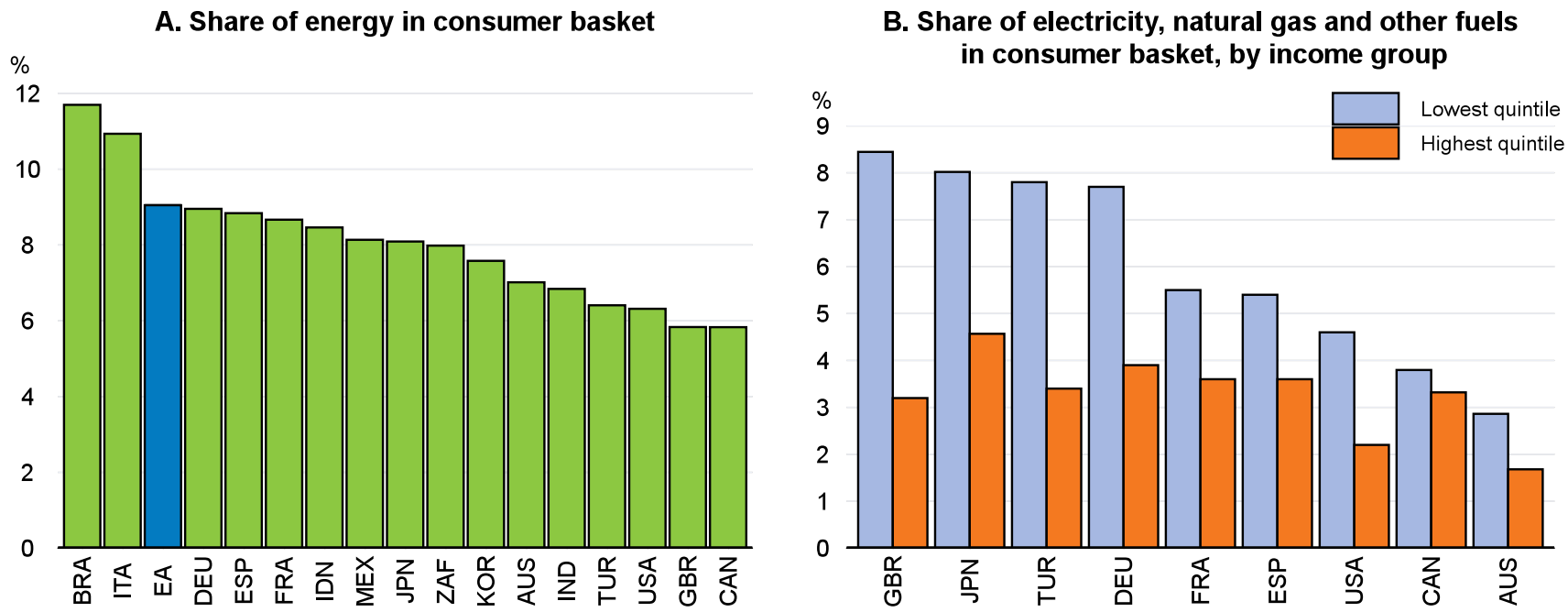
7. Impacts on households and businesses will vary across and within countries depending on the intensity of use of the affected energy goods. The share of energy in household consumption baskets ranges from around 12% in Brazil to 6% in Canada (Figure 7, Panel A), though the share of the affected fossil fuels in each country's energy mix will also be important. Households in the lowest part of the income distribution will be particularly impacted as they have a higher consumption share of energy than those in the highest part of the income distribution (Figure 7, Panel B). Similarly, there will be heterogenous effects on businesses in different sectors, with transport, petrochemicals and metals manufacturing particularly affected.

Figure 6. Energy prices have surged



Note: The figure shows data up to 20 March 2026.
Source: LSEG; and OECD calculations.

Figure 7. The share of energy in household consumption differs across countries



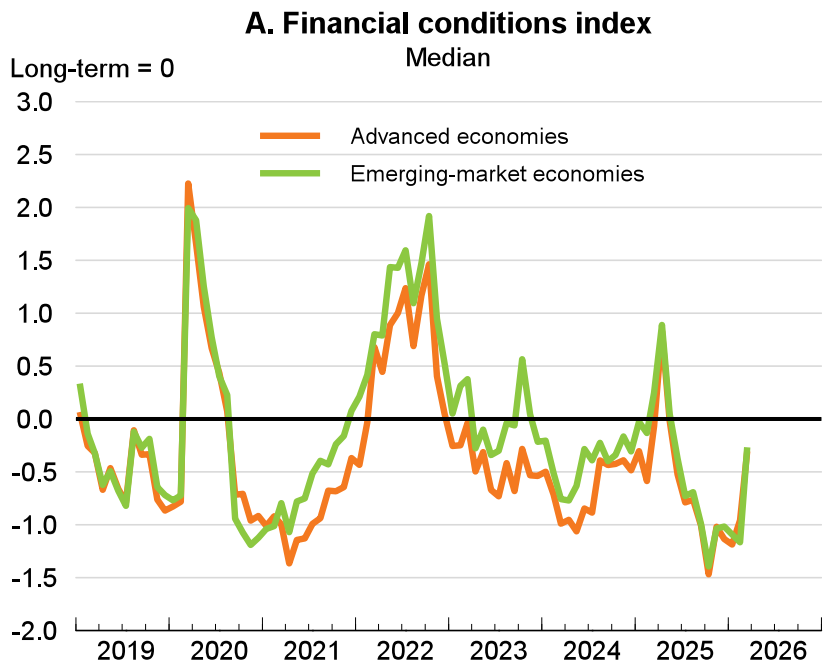
Note: Latest available information. Data in Panel A are based on weights used for national consumer prices indices (harmonised index of consumer prices for countries in the euro area) and generally include fuels for transport equipment as well as electricity, natural gas and other fuels.
Source: OECD Consumer Price database; CEIC; Eurostat; Instituto Brasileiro de Geografia e Estatística; India, Ministry of Statistics and Program Implementation; United Kingdom, ONS; Reserve Bank of Australia; Statistics Canada; Statistics of Japan; Statistics Korea; Turkish Statistical Institute; US Bureau of Labor Statistics; and OECD calculations.

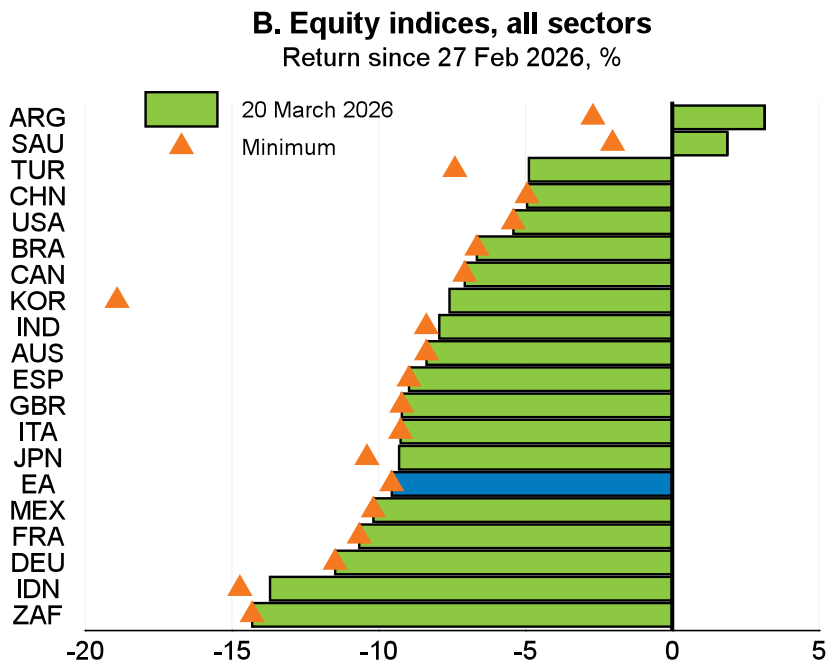
8. Inventory levels differ across energy markets at present. Natural gas markets are relatively tight, with depleted seasonal inventories in Europe. In contrast, global oil inventories are more robust, at around their highest level since 2021, with the majority of these held outside the Gulf economies. Member countries of the International Energy Agency agreed on 11 March to make 400 million barrels of oil available to the market from their emergency reserves to mitigate the negative economic impact of supply disruptions. This is equivalent to the volume of oil and oil products that would typically pass through the Strait of Hormuz in 20 days, prior to the conflict. While welcome, it may take some time for all of these additional supplies to become available and for refined product shortages to be reduced.

9. The conflict also poses broader risks to global supply chains. Fertilisers are a particular risk, with Persian Gulf states accounting for 34% of the world's urea exports and around 20% of diammonium phosphate and anhydrous ammonia exports in 2024. LNG is an important input to nitrogenous-based fertilisers, and the Gulf states also produce about half of the world's sulphur exports, which are used in the manufacture of fertilisers as well as other industrial products. Fertiliser prices have risen sharply, with urea prices up by over 40% since mid-February. This will have adverse implications for crop yields and global food prices in 2027 if sustained. Brazil, India, Australia and South Africa all source a relatively high share of key fertiliser inputs from the Middle East (Figure 5, Panel B). Collectively, Bahrain, Oman, Qatar, Saudi Arabia and the United Arab Emirates are also an important source of aluminium production, accounting for 8% of the global supply of primary aluminium. The Middle East is a significant source of other materials as well, producing over one-third of the global supply of helium and over two-thirds of the supply of bromine, which are important for industrial supply chains, including for semiconductors and memory chips. More broadly, countries around the Persian Gulf are a logistical hub for many services. The significant curtailment of air travel in the region could potentially have discernible impacts on trade volumes and costs, with airlines based in countries around the Persian Gulf accounting for 15% of both the international air freight and air passenger markets. Other types of services trade might also be affected if the conflict deepens, with the United Arab Emirates an important exporter of tourism and business services.

10. Financial conditions were very accommodative in both advanced and emerging-market economies prior to the escalation of hostilities in the Middle East, with strong equity price growth and low bond spreads (Figure 8, Panel A). The repricing that has occurred since the end of February has removed a lot of this accommodation. Volatility in financial markets has increased markedly, and equity prices have fallen across countries (Figure 8, Panel B). The price of gold, traditionally considered a safe-haven asset, has declined, possibly reflecting sales by leveraged investors seeking liquidity to absorb losses elsewhere, as well as market expectations of possible monetary policy tightening in some economies. The US dollar has appreciated against a basket of currencies since end-February, adding to the upward pressures on energy prices in domestic currency terms in many countries, with effective exchange rate declines in Korea and a number of emerging-market economies, including Mexico, South Africa, and Thailand, and continued currency weakness in India. Ten-year sovereign bond yields have also risen across major advanced and emerging-market economies. This has been especially the case in Mexico, South Africa and Türkiye, but also in Canada, France, Italy, Spain and the United Kingdom. In the euro area, sovereign spreads over German government bonds have widened.

Figure 8. Financial conditions have tightened but remain mildly accommodative





Note: In Panel A, the monthly Financial Conditions Indices (FCI) for advanced and emerging economies are computed as the medians of individual country standardised FCIs. National FCIs are standardised around a long-term average and obtained as the first principal component of a wide range of country-specific and global financial data series (15 country-specific indicators and 12 global indicators) including equities, interest rates, measures of volatility, sovereign spreads and exchange rates. Higher (lower) values of the FCI point to tighter (easier) financial conditions. The latest values refer to March 2026 and have been estimated with data available up to 20 March 2026.
Source: LSEG; and OECD calculations.

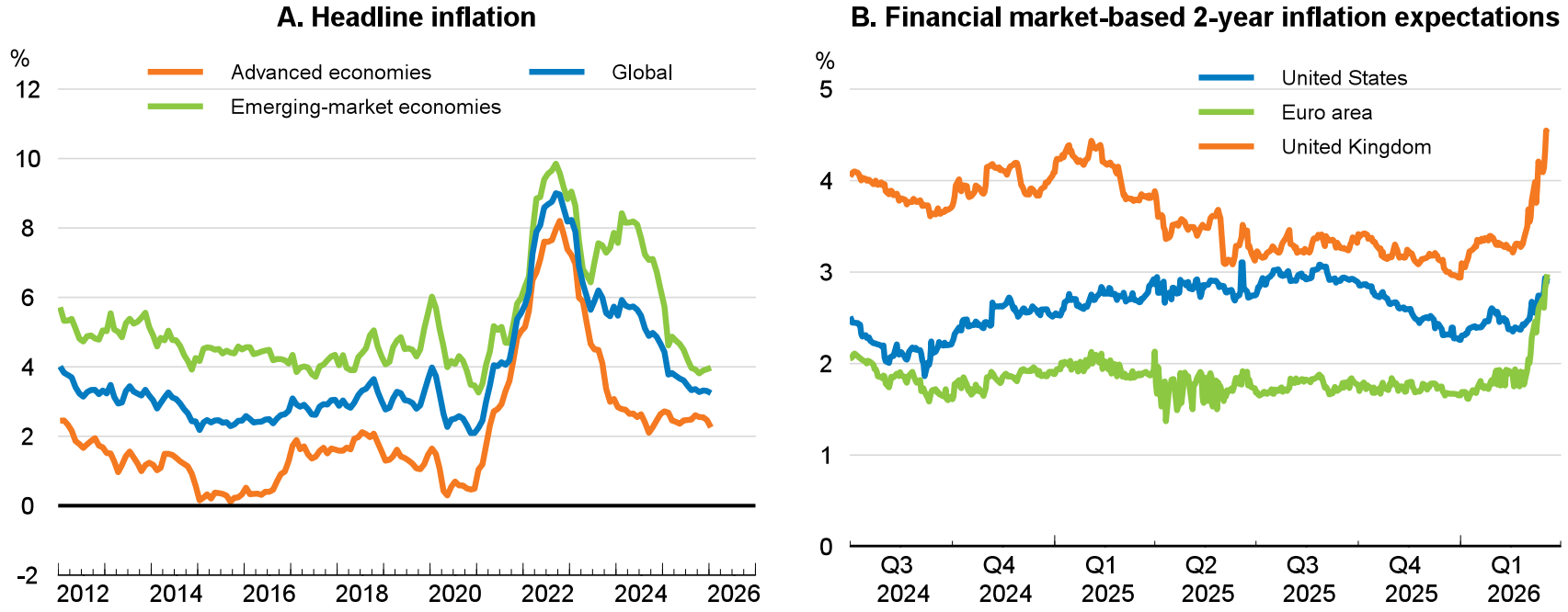
Inflation was still elevated in some economies prior to the conflict

11. The recent increase in global energy prices and threats to supply chains are occurring at a time of above target inflation in some major economies and relatively tight labour markets. Measures of job vacancies have continued to ease in several advanced economies, including Canada, the United Kingdom and the United States, signalling weaker labour demand. However, unemployment rates generally remain low by historical standards and, while moderating, the pace of nominal wage growth has been solid. Unit labour cost growth in the median OECD economy has continued to ease, benefitting from a recovery in labour productivity growth in many economies. In several large emerging-market economies, such as India and Indonesia, labour market conditions have also been generally favourable, with unemployment rates at relatively low levels.

12. Headline inflation remained broadly stable in both advanced and emerging-market economies prior to the conflict (Figure 9, Panel A). In the median OECD economy, this reflected a moderation in goods inflation offset by a slight increase in services inflation, which remains elevated. Nonetheless, inflation developments differed across countries. Inflation remained above central bank targets in a few major economies, including Brazil, Mexico, Türkiye, the United Kingdom and the United States. Prior to the escalation of the Middle East conflict, there were also signs of a resurgence in inflation in Australia, and a pickup from moderate rates in India, Indonesia, Italy and South Africa. In China, inflation has also turned up after several quarters of falling prices. In contrast, inflation had returned to target and remained largely benign in the euro area as a whole, as well as in Korea and Canada. Monthly PMI survey data in February indicated a rising balance of firms increasing output prices, particularly in the US and other advanced economies, though it remained well below the levels seen in 2022.

13. Past experience has shown that commodity price shocks can push up inflation expectations and broader price pressures. The salience of energy and food prices for consumer expectations, and the fact that the prices of energy and food relative to other items generally remain elevated following Russia's war against Ukraine, enhances this risk. Prior to the conflict, measures of short-term inflation expectations of households remained above central bank targets in several advanced economies, including the euro area, the United Kingdom and the United States. Medium-term market-based measures of inflation expectations have risen in March, especially in the euro area and United Kingdom (Figure 9, Panel B).

Figure 9. Inflation remains steady but inflation expectations have recently increased



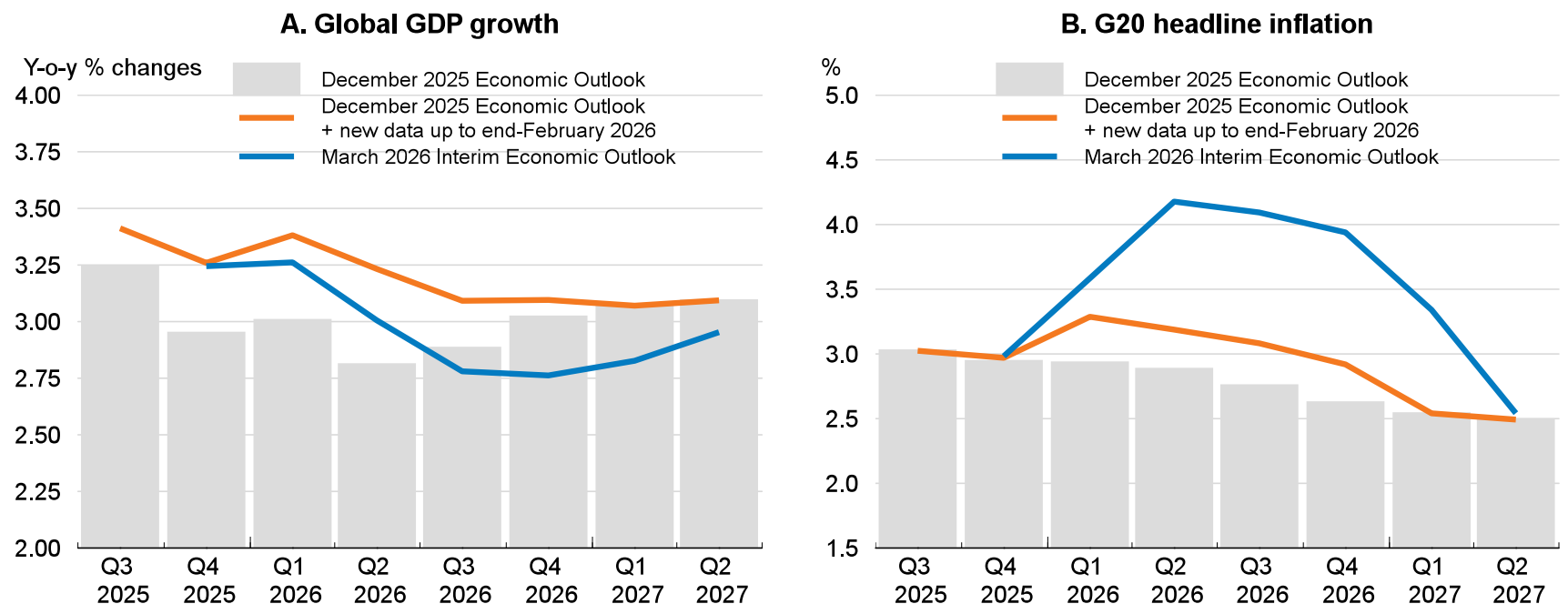
Note: The series shown in Panel A are PPP-weighted aggregates covering 36 advanced economies and 36 emerging-market economies. In Panel B, financial market-based two-year inflation expectations are measured using the two-year inflation-linked swap rates. The latest values are as of 20 March 2026.
Source: OECD Consumer Price database; Eurostat; US Bureau of Economic Analysis; national sources; LSEG; and OECD calculations.

Projections

14. Global GDP growth is projected to be 2.9% in 2026 and 3.0% in 2027. This reflects the balance of a variety of forces. Higher energy and fertiliser prices and the unpredictable nature of the evolving conflict in the Middle East will add to inflation and weigh on demand. This will offset the growth impetus from continued strong momentum in technology-related investment and production, lower effective tariff rates than previously assumed, broadly supportive fiscal and monetary policies and stronger-than-expected outcomes in the latter half of 2025 in many countries.

15. A preliminary update of the December 2025 Economic Outlook projections, using revised data for 2025 and monthly information up until the end of February 2026, suggested that global GDP growth could have been upwardly revised by around 0.3 percentage points in 2026 from the December 2025 Economic Outlook (Figure 10, Panel A). This revision has been entirely erased by the impact from the escalation of conflict in the Middle East. Equally, G20 inflation would have been projected to be marginally higher in 2026 relative to the December 2025 Economic Outlook if incorporating monthly data up until the end of February (Figure 10, Panel B). Taking the impact of the conflict into account has led to a substantial upward revision, with G20 headline inflation being revised up by 1.2 percentage points in 2026 and 0.2 percentage point in 2027 from the December 2025 Economic Outlook projections.

Figure 10. The Middle East conflict has led to a sizeable change in growth and inflation prospects



Note: The figures show the projections for global GDP growth and G20 headline inflation from the December 2025 OECD Economic Outlook, the current March 2026 Interim Economic Outlook and a preliminary update of the December 2025 Economic Outlook projections using revised data for 2025 and monthly information up until the end of February 2026. The preliminary update has a revised assessment for the first quarter of 2026, with quarter-on-quarter growth and inflation in subsequent quarters set in line with those projected in the December 2025 Outlook.
Source: OECD Interim Economic Outlook 119 database; OECD Economic Outlook 118 database; and OECD calculations.

16. The current projections are based on a technical assumption that energy prices evolve in line with futures markets pricing for oil and gas as of March 20. Brent oil prices and TTF natural gas prices are around 40% and 60% higher respectively in 2026 than assumed in the December 2025 OECD Economic Outlook projections, with the gap narrowing gradually as the near-term price surge unwinds. They imply higher headline inflation pressures in the near-term, but limited additional pressures in 2027 provided that inflation expectations remain well anchored. In addition, effective tariff rates on imports into the United States are assumed to remain at the level prevailing at the start of March throughout the rest of 2026-27.

17. The impact from higher energy prices will be felt differently across countries depending on whether they are net energy importers or exporters, and the overall energy intensity of domestic production. Higher energy prices will strengthen the terms-of-trade and income growth in net energy exporting countries, while the opposite is true for net energy importers, especially those with relatively low energy inventory levels. Over the course of 2026, the energy shock becomes an increasingly more important factor, with global growth through the year now projected to be lower than previously expected.

18. In advanced G20 economies, growth is projected to weaken in the near-term before gradually rising through 2027. In the United States, strong growth momentum in the first quarter of 2026 is expected to be offset by a slowdown in consumer spending, owing to the combination of declining purchasing power, weakening labour force growth and depleted household savings. As a result, annual GDP growth is projected to ease from 2.0% in 2026 to 1.7% in 2027. In Canada, growth is projected to soften to 1.2% in 2026, before gradually rising to 1.7% in 2027 as stronger growth in private consumption and government investment more than counteract persistent weakness in business investment growth. In both the United States and Canada, higher energy prices may encourage greater domestic energy production, notwithstanding ongoing geopolitical and policy uncertainty.

19. In the euro area, growth is anticipated to ease from 1.4% in 2025 to 0.8% in 2026, as higher energy prices weigh on activity, before increasing to 1.2% in 2027. While fiscal expansion in Germany will support growth, especially in 2027, more restrictive fiscal policy will be a headwind in Italy and France. Similarly, planned fiscal tightening and higher energy prices are anticipated to keep growth subdued in the United Kingdom, though the impact will be attenuated by lower policy interest rates next year, with GDP growth

rising from 0.7% in 2026 to 1.3% in 2027. In Japan, business investment will be supported by robust corporate profits and government subsidies, and new fiscal measures will add to final demand, particularly in 2026. These positive forces will be offset by the rising cost of energy imports, with growth projected to slightly ease from 1.2% in 2025 to 0.9% in both 2026 and 2027.

20. Economic growth in the G20 emerging-market economies is projected to ease somewhat, largely due to a step down in growth in China and India. In China, growth is anticipated to ease from 5.0% in 2025 to 4.4% in 2026 and 4.3% in 2027, as government subsidies for consumers end, energy import prices move higher, adjustment in the real estate sector continues and anti-involution measures weaken investment growth. Nonetheless, these factors should be partially offset by a series of new infrastructure projects and the recent reduction in the effective tariff rate on imports to the United States. Similarly, the decline in tariffs should support growth in India, though gas rationing will disrupt some production activities and fiscal support is expected to fade, with growth easing from 7.6% in fiscal year (FY) 2025-26 to 6.1% in FY 2026-27 and 6.4% in FY 2027-28. In Indonesia, growth is projected to remain broadly stable as recent fiscal stimulus supports private consumption growth. Monetary policy easing is expected to offer some support to growth in several emerging-market G20 economies in 2027 once inflation moderates, including Brazil, Mexico, South Africa and Türkiye.

21. Aggregate consumer price inflation for the G20 countries will be markedly higher than previously expected in 2026, mostly owing to the increase in global energy prices. Headline inflation in the G20 is now projected to rise from 3.4% in 2025 to 4.0% in 2026, before moderating to 2.7% in 2027. In the advanced G20 economies, headline inflation is projected to rise from 2.5% in 2025 to 3.5% in 2026, before falling to 1.9% in 2027, while core inflation is anticipated to remain at 2.6% in 2026 before moderating to 2.3% in 2027. In the United States, the impact of higher energy prices on inflation will more than offset the effect from the decline in effective tariff rates on imports, especially given that the initial tariff rate increases from the first half of 2025 have only been partially passed through to consumer prices. As a result, projected headline inflation for the United States in 2026 has been revised up by 1.2 percentage points in 2026, with inflation now expected to rise from 2.6% in 2025 to 4.2% in 2026 before falling to 1.6% in 2027. In the euro area and Japan, the increase in energy prices is also expected to result in stronger price pressures in the near-term, but headline inflation is still expected to move back to central bank targets in 2027.

22. In the G20 emerging-market economies, headline inflation is projected to increase from 4.1% in 2025 to 4.4% in 2026 before easing to 3.3% in 2027. In India, the fading deflationary impact of past food and energy price-reducing shocks will be exacerbated by the recent surge in global energy prices, pushing inflation up from 2.0% in FY 2025-26 to 5.1% in FY 2026-27 and 4.1% in FY 2027-28. Inflation in China is expected to rise from its current very low level as higher energy prices feed through and spare production capacity is reduced, with headline inflation projected to rise from -0.1% in 2025 to 1.3% in 2026 and 1.1% in 2027. Further disinflation in Argentina and Türkiye is expected, despite the headwinds from energy and fertiliser costs, and inflation is also anticipated to moderate in 2027 in several other emerging-market economies, including Brazil, Indonesia, Mexico and South Africa.

Risks and challenges

23. The evolution of the conflict in the Middle East is highly uncertain and poses considerable risks to the baseline projections. The expected decline in energy prices in futures markets, which is used for the projections, represents a view that the current disruptions are expected to start easing over time, and be limited in 2027. Longer-lasting closure of oil and gas production facilities in the region with damage to critical infrastructure or persisting disruptions to exports through the Strait of Hormuz would be likely to have more significant adverse consequences than currently priced into world markets. Potential supply disruptions could be exacerbated by the current relatively low level of European gas reserves and the difficulties in exporting the vast majority of the world's spare crude oil production capacity, which is primarily in Saudi Arabia. In addition to a further spike in prices, energy shortages could weigh on production activity

in some economies, especially net energy importers. Net energy imports typically account for over 80% of domestic energy use in some Asian countries that are also highly reliant on energy imports from the Middle East, including Japan and Korea.

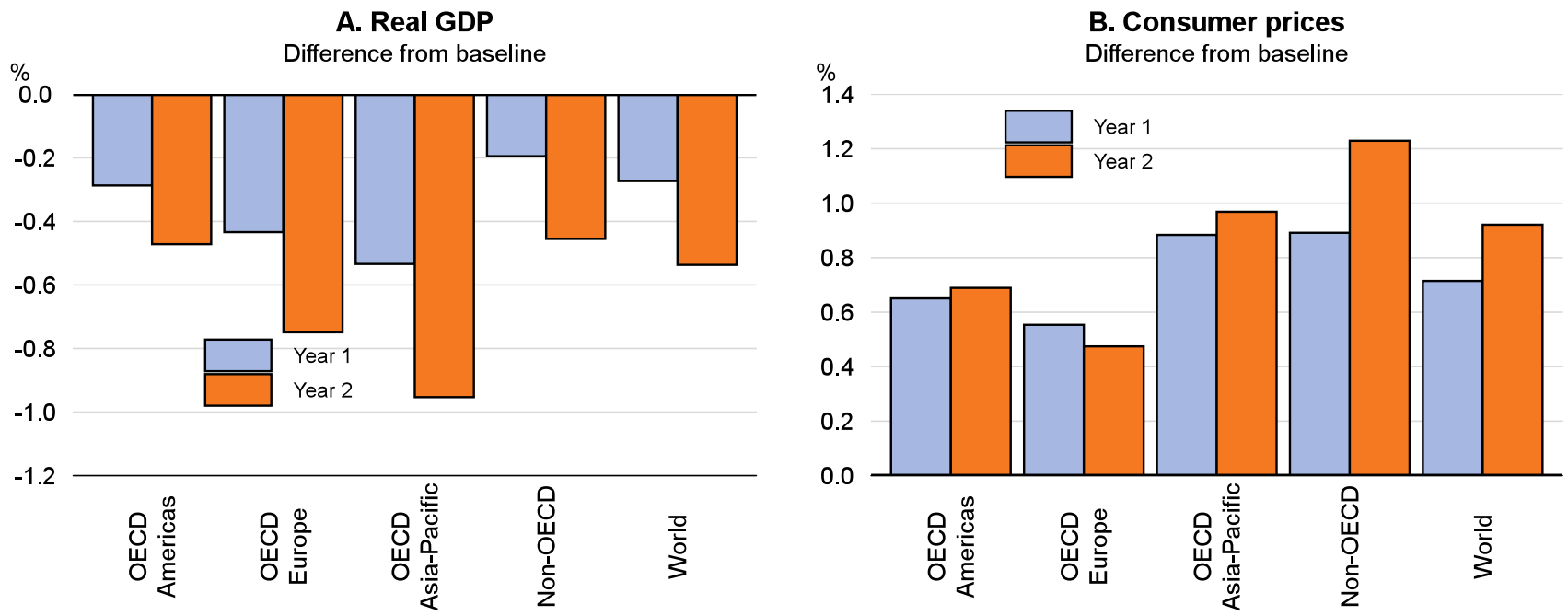
24. Further disruptions to trade in the Persian Gulf could also have negative effects on a broader range of products in global supply chains. For example, ongoing constraints to fertiliser supply could increase global food prices, with potentially serious impacts on household finances and inflation expectations. Furthermore, reduced supply of sulphur, helium or aluminium could impede production in a range of industries. On the upside, an earlier-than-expected de-escalation of hostilities could see commodity spot prices fall back sharply, limiting the drag on global growth and resulting in early declines in headline inflation.

25. Illustrative scenarios using the NiGEM global macroeconomic model highlight the potential sensitivities of growth and inflation to two of the many possible energy price paths over the next year.

- A downside scenario considers the impact of an unexpected sharp increase in energy prices from their assumed level in the baseline projections, with oil prices averaging USD 135 p/b in the second quarter of 2026 and TTF prices EUR 77 MW/h. Thereafter they are assumed to decline, but remain significantly above the baseline price trajectory. Relative to the baseline projections, oil and gas prices are 26% and 17% higher on average in the first year of the shock, and around 15% higher in the second year. Global financial conditions are also assumed to tighten in this scenario due to risk repricing in the aftermath of the shock, with higher investment risk premia adding to model-based equity price declines. The latter shock weakens private sector demand, which moderates some of the upward pressures on prices from higher energy prices.
- An alternative upside scenario explores the implications of a quicker-than-anticipated end to the current conflict in the Middle East, with energy prices returning towards their pre-conflict levels within a few months. This implies that oil and gas prices are around 20% lower than in the baseline on average in the first year of the shock.
- Global fertiliser prices are assumed to move in line with the shocks to gas prices in both scenarios.

26. In the downside scenario, global output declines by around 0.5% by the second year of the shock (Figure 11, Panel A), with weaker real incomes and tighter financial conditions hitting consumer spending and investment. Many Asia-Pacific economies are particularly affected, reflecting the importance of imported energy for many of them. The advanced economies are also relatively hard-hit by the financial shock, in part due to their greater sensitivity to financial conditions. The output effects are relatively contained in the non-OECD economies, but this reflects a balance of different factors, with energy-importing economies hit significantly, but an improvement in the terms of trade boosting output in many energy-exporting economies. Global consumer prices rise by around 0.9% by the second year of the shock (Figure 11, Panel B), with the largest effects in emerging-market and developing economies. This reflects the higher energy intensity of these countries along with their greater sensitivity to higher food prices as higher fertiliser costs feed through. In the near-term policy interest rates rise initially by between 25-50 basis points in many economies to help ensure that inflation expectations remain anchored, with private short-term inflation expectations relatively sensitive to changes in oil prices, but these increases are short-lived as the downside effects on output intensify. The automatic budgetary stabilisers are allowed to cushion the impact of the shock, but no additional discretionary fiscal support is assumed to be provided to households to compensate for higher energy costs. Any such support would help to underpin household real incomes but would add further to the already rising debt burdens in many countries. This scenario does not incorporate any enforced reductions in energy use for businesses due to severe energy shortages. If such shortages were to arise, the downside effects on growth would be larger in the near-term.

Figure 11. Further sharp rises in energy prices would impact growth and inflation prospects



Note: See text for explanation of the shocks applied. The panels show the impact on the level of real GDP and consumer prices.
Source: OECD calculations using the NiGEM macroeconomic model.

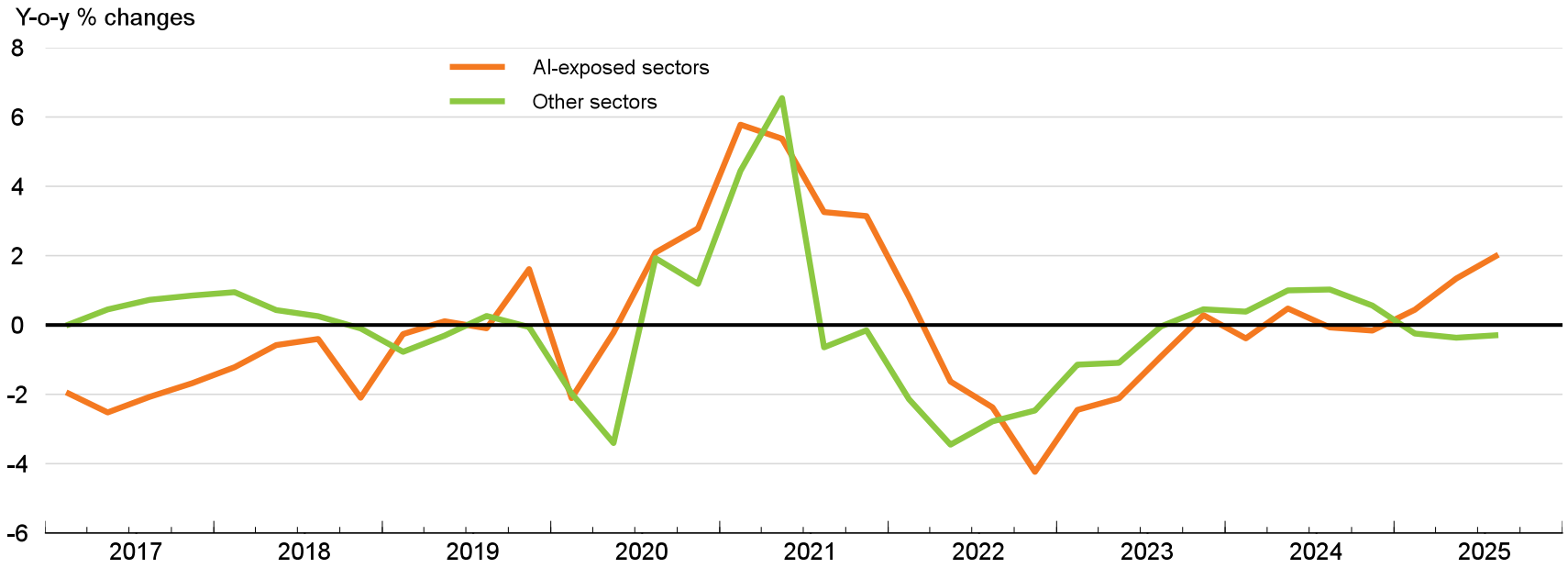
27. In the upside scenario, global output rises by around 0.3% in the second year, with lower prices providing a boost to real incomes and financial conditions, particularly in energy-importing economies. Policy interest rates are also lowered by around 25 basis points in many economies due to reduced inflationary pressures. Consumer prices decline relative to baseline, with global prices around 0.7% lower in the second year of the shock.

28. Prolonged disruptions to energy supply and growth, or lower-than-expected returns from net AI investment, or rising losses in private capital markets, could all trigger more widespread risk repricing in financial markets, with adverse consequences for private demand. A reassessment of earnings growth expectations for AI companies in richly valued equity markets could spread from technology stocks to broader benchmark indices. In the United States, AI companies have accounted for a growing share of equity and corporate bond issuance in recent years as their cash buffers have dwindled. Such firms, and those in related sectors, have also been increasingly raising funds in private debt and equity markets, which are less transparent. This could result in a high correlation of default risk across multiple credit products. Recent redemptions and net outflows from several major private credit funds also suggest potential liquidity pressures, which could transmit to banks through increased use of credit lines and raise financial stability concerns. A downward reassessment of expected returns from AI could also cause firms to markedly scale back the very large planned investments in data centres, software and other AI-related capital, weakening growth.

29. On the upside, firms could prove more adaptable than expected in the face of the current geopolitical shock. Businesses have proven remarkably resilient to recent adverse developments, such as higher trade barriers, the pick-up in inflation and rising labour shortages, and might be able to adapt their operations and supply chains to cushion the impact of the conflict more effectively than currently assumed. In addition, optimism about the economic benefits from artificial intelligence technologies could fuel stronger investment in related capital in more countries. The United States has accounted for much of the growth in AI-related capital spending so far, but other major economies could increasingly derive benefits from this spending and also increase AI-related capital investment more rapidly themselves. The effect on economic growth could be compounded if such spending were to translate into a sustained improvement in aggregate productivity growth. While the extent and timing of productivity gains related to the adoption of AI is highly uncertain, such gains may become more visible than currently anticipated over the next two years. There are already signs in the United States of faster labour productivity growth in those sectors that have been the greatest adopters of artificial intelligence technologies, such as finance and professional services (Figure 12).

Figure 12. Productivity growth in the United States has recently been faster in sectors with high AI adoption

Weighted median labour productivity growth by sectoral group, deviation from trend, United States



Note: Labour productivity is calculated as a ratio of real gross value added to employment by NAICS sector. The Top 5 AI adopting sectors are based on the Generative AI Adoption Tracker published at www.genaiadoptiontracker.com and are consistent with measures of sectoral AI exposure documented by Eloundou et. al. 2024. Specifically, AI-exposed sectors are 'Information', 'Finance and insurance', 'Real estate and rental and leasing', 'Professional, scientific and technical services' and 'Management of companies and enterprises'; other sectors are the rest of the economy. The growth rate is detrended with the average over 2017-25 specific to each group. Sector weights are based on employment.
Source: US Bureau of Economic Analysis; US Bureau of Labor Statistics; and OECD calculations.

Policy requirements

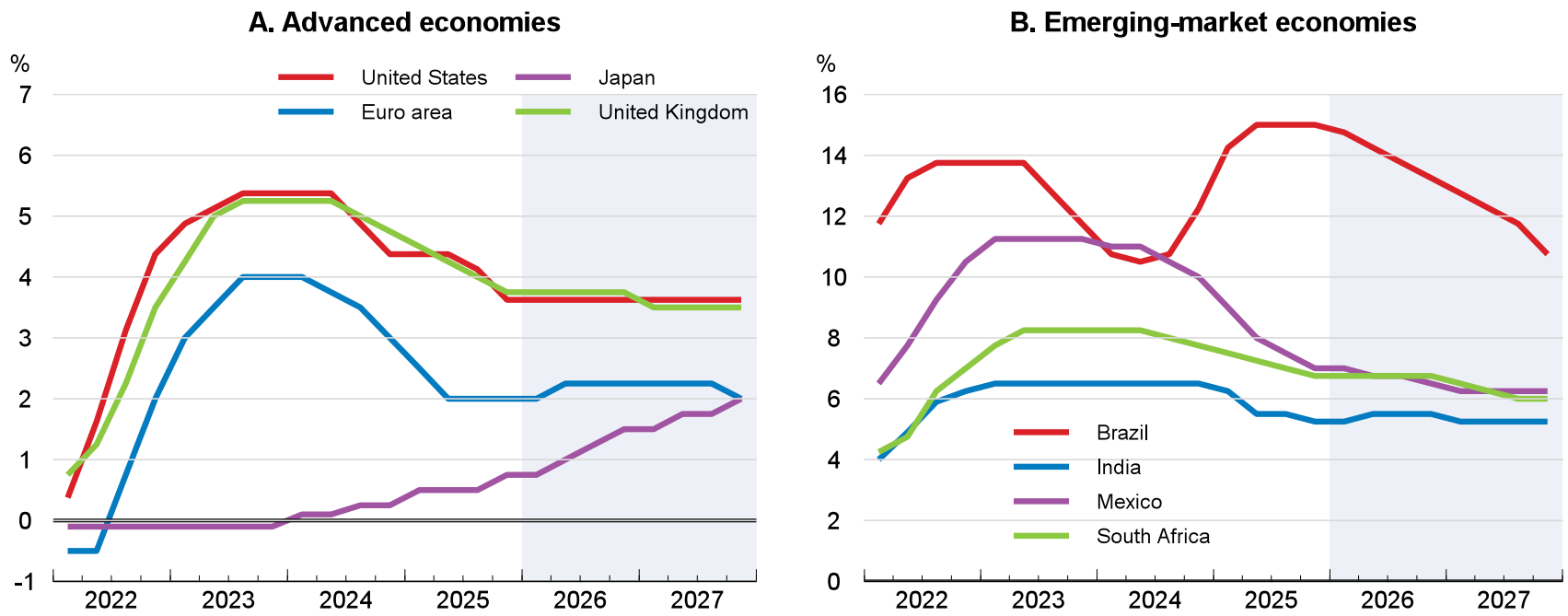
Monetary policy should remain vigilant

30. Monetary policy rate developments are becoming increasingly varied across countries. Rates remain at or close to restrictive levels in the United States, the United Kingdom, Brazil, Mexico, South Africa and Türkiye, and have recently been raised in Australia, reflecting stronger than expected inflation pressures, and Japan. In contrast, policy rates have remained unchanged in the euro area, Canada and Korea with inflation close to target and policy rates close to neutral levels. Policy rates are also at moderate levels in many other emerging-market economies, including India and Indonesia, with policy decisions remaining finely balanced to minimise risks of currency volatility and keep inflation expectations well anchored.

31. Central banks need to remain vigilant and attentive to shifts in the balance of risks around economic and financial developments to ensure that underlying inflation pressures are durably contained. The current supply-induced rise in global energy prices can be looked through provided inflation expectations remain well-anchored, but policy adjustment may be needed if there are signs of broader price pressures or weaker labour market conditions. Changes increase in global risk aversion due to the evolving conflict in the Middle East and associated currency movements may also bear on policy judgements in emerging-market economies. Careful calibration may be needed to balance the risks of persisting inflation against the downside risks of a significant growth moderation.

32. In the United States, policy rates are projected to remain unchanged through the remainder of 2026 and 2027, reflecting rising headline inflation in the near-term, core inflation projected to remain above target through 2027, and solid projected GDP growth (Figure 13). The policy rate is also expected to remain unchanged in the United Kingdom in 2026, before a decline in the first quarter of 2027 as inflation begins to moderate. In the euro area, a modest increase in policy rates is expected in the second quarter of this year to help ensure that inflation expectations remain well-anchored despite higher energy prices, with this remaining in place until inflation moves back to target in 2027. A policy rate rise is also projected in Australia in the second quarter of 2026, with rates then lowered gradually through 2027 as inflation wanes. Policy rates are projected to increase gradually in Japan as monetary policy accommodation continues to be withdrawn. Amongst the emerging-market economies, India is projected to raise policy rates temporarily in the second quarter of 2026 to help offset stronger inflationary pressures. In contrast, policy rates are expected to decline in Brazil, Mexico, South Africa and Türkiye once inflation pressures moderate. In China, the policy stance is expected to remain accommodative.

Figure 13. Policy rate paths are diverging across countries



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 119 database.

Fiscal actions to cushion the impact of energy costs add to the pressures on the public finances

33. A number of governments have already announced emergency support measures for households and businesses to mitigate the renewed increase in energy costs, particularly in countries facing the risk of supply shortages. Any new discretionary measures should be well-targeted on households most in need and viable firms, preserve incentives to lower energy use, and have clear expiry mechanisms. The automatic budgetary stabilisers will also help to cushion the overall shock to the economy. Broad-based subsidies and transfers, tax reductions and price caps are easy to implement in a timely way, but will have higher fiscal costs and weaken incentives to reduce energy use. They are also more likely to require offsetting reductions in other spending areas if budgetary space is particularly tight.

34. Discretionary support was widespread in 2022-23 to cushion real incomes and business costs following the energy price jump after the invasion of Ukraine, but was often poorly targeted with significant fiscal costs. Many governments also continued to provide sizeable help to energy users well after energy prices fell from their peaks, even though minimum wages and welfare benefits had been permanently increased by then to take account of past inflation. Two key lessons from the measures adopted in 2022-23 were the difficulty in making a timely identification of the households and viable firms most in need of support, and designing policies that preserved incentives to save energy. For example, among G20 countries, Canada and Germany both had comparatively well-designed support measures. Even so, the measures adopted in Canada, while broadly successful in targeting support to vulnerable households, did not typically provide incentives to save energy and in Germany policy support preserved incentives to save energy, but was generally untargeted.

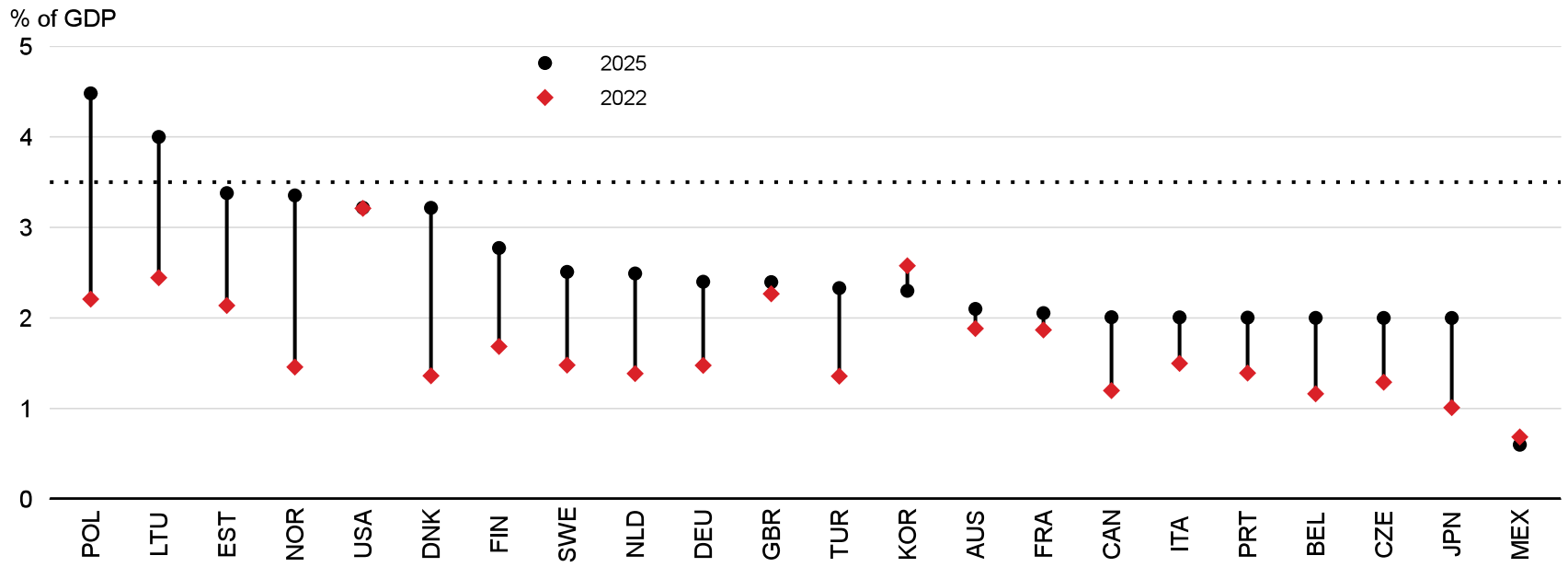
35. New fiscal actions to cushion the impact of higher energy prices will add to the budgetary challenges that most governments now face. With persistent budget deficits, elevated debt and rising debt interest costs, credible and well-designed fiscal measures are needed to safeguard long-term debt sustainability and preserve the capacity to react to future shocks. In the median G20 economy, general government gross debt has risen by close to 40% of GDP since 2007, immediately prior to the global financial crisis. Other near-term spending demands, such as rising defence expenditure in many countries, are also now adding to the longer-term fiscal pressures arriving from ageing populations and climate change. Many emerging and developing economies face additional spending challenges from the need to enhance their physical and digital infrastructure, address climate-related losses, and strengthen social safety nets.

36. The pace and mix of fiscal adjustments should vary across economies and depend on initial conditions, including the state of the public finances and the economy. They should also be anchored within credible medium-term adjustment paths that focus on the need to strengthen sustainable economic growth while preserving adequate support for those in need. Containing and reallocating public spending, and improving public sector efficiency, are essential in many countries to limit the need for further tax increases, especially where spending is high relative to the size of the economy. Regular reviews of government programmes, enhanced use of digital technologies and better public procurement can all help in this respect. Higher tax receipts may also be needed where revenue is low as a share of the economy and there is room to lift revenues in a manner that limits distortions to work incentives and economic activity. Tax revenues, particularly in emerging and developing economies, can also be raised by broadening tax bases and improving tax compliance, as well as by raising rates.

37. Many countries have begun to raise defence spending significantly (Figure 14), including NATO countries committed to allocating 3.5% of GDP to core military spending by 2035. While initial spending surges can be debt-financed in many countries, compensating reductions in non-defence spending or higher revenues will be needed eventually to ensure fiscal sustainability if defence spending remains elevated. Countries borrowing to finance re-armament could experience a near-term boost to economic activity, especially if public debt is low and spare capacity is ample, but some crowding out of non-defence activity is likely over time as resource constraints become binding. The simultaneous expansion of defence spending in many countries might offer collective benefits, including to countries without domestic military production, but may also raise the prices of defence equipment and reduce the purchasing power of defence budgets. The current conflict in the Middle East might also raise near-term spending pressures. Effective procurement will be essential if governments are to contain the costs of rapid capability upgrades, encourage innovation and knowledge diffusion and foster growth in the defence industrial base. Greater efforts to harness competition, simplify unduly complex procedures and shorten acquisition cycles can all help in this respect. For the EU especially, a further priority is to promote efficient regional markets by harmonising procurement standards.

Figure 14. Military spending is increasing in many countries

Selected OECD member states



Note: Data for 2025 are estimates. The dotted line shows NATO Allies' commitment to allocate 3.5% of GDP to core defence spending by 2035.
Source: Conigrave, B. and Y.-H Shin "Fiscal and macroeconomic impacts of defence spending" OECD Economics Department Working Paper No. 1861, OECD Publishing, Paris; NATO; Stockholm International Peace Research Institute; national budget and defence plans; and OECD calculations.

Resolving trade tensions would strengthen growth prospects

38. A lasting resolution to trade tensions would strengthen economic growth prospects. Governments need to work together, bilaterally and multilaterally, to find the best possible ways to make international trading arrangements fairer, and function better, in a way that preserves the economic benefits of open markets and rules-based global trade. Steps to lower tariffs and non-tariff barriers, deepen trade agreements or reduce barriers to trade in services could significantly improve living standards. Countries should avoid introducing export restrictions in response to global supply risks stemming from the conflict in the Middle East. Doing so could exacerbate global supply shortages and potentially raise prices further. Over the long term, countries need to make further efforts to reduce critical dependencies by developing alternative technologies to better ensure resilience and encourage diversification of suppliers and buyers.

Improving energy efficiency and reducing dependency on fossil fuel imports

39. Governments can do more to help lower the vulnerability of economies to geopolitical shocks. The recent events underscore the continuing exposure of economies to global energy disruptions, even if the intensity of fossil fuel use has declined steadily since the mid-1970s. In the short-term, temporarily switching to alternative fuel sources where possible, such as coal or electricity, would help to cushion the immediate shock, but may not be a permanent solution if it undermines longer-term decarbonisation targets. Encouraging other behavioural changes, including increased car sharing and public transport use, should also be explored. In the medium-term, further reducing reliance on foreign sources of fossil fuels, especially from conflict-prone regions, is a structural reform priority.

40. The primary demand-side priority for reducing reliance on foreign sources of energy is for governments to promote more efficient energy use. In addition to reducing the sensitivity of the domestic economy to fluctuations in global energy markets, such measures can improve business competitiveness and lower costs for households at a time of heightened affordability concerns in many economies. The International Energy Agency estimates that policy interventions by governments since 2000 have reduced household energy bills in advanced economies by 20%. This has coincided with steady energy efficiency improvements at the global level. Nonetheless, global energy efficiency improvements have slowed since the pandemic, to less than half the COP28 target of a 4% annual improvement by 2030. A stalling in progress in the industrial sector has been a key factor behind this slowdown.

41. A range of policy measures should be considered to promote greater energy efficiency in the household and industrial sectors, including those detailed recently by the International Energy Agency, While it will take some time for such measures to have their full impact, they are important elements in safeguarding economies against future energy crises. For industry, ongoing public investment in relevant research and development and regular upgrading of minimum energy performance standards for industrial equipment can help the private sector improve energy efficiency. Regulatory measures have historically led to the greatest efficiency improvements and may be more attractive than financial incentives given fiscal constraints in some economies. Energy efficiency in households can also be further boosted by regular regulatory upgrades, such as building, vehicle or appliance standards, along with information campaigns and financial incentives for lower income households to help offset the high upfront costs of necessary actions. If policies are introduced to shield households and firms from the ongoing energy price shock, they should be carefully designed to maintain incentives to improve energy efficiency, such as through using targeted cash transfers rather than energy bill subsidies.

42. On the supply side of energy markets, reducing fossil fuel imports in the domestic energy mix can help lower exposure to geopolitical risks. This is a particular priority for large net energy importers. Further efforts to promote low-cost domestic clean energy sources, such as renewable energy technologies, could both reduce fossil fuel imports and help governments achieve their carbon mitigation objectives. Both price-based and non-price-based policy approaches to encourage this transition should be considered, depending on national circumstances and preferences. Regulatory changes can be an important element, such as accelerated permitting procedures for renewable energy capacity. In addition, the transition will increase the prominence of electricity in energy systems and often require additional investment to expand the scale and durability of electricity grids. Enhancing energy-market integration, within countries and regions, could help to optimise the operation of national electricity networks. In all regions, the spillovers from future conflicts could also be cushioned by strong inventory management and emergency preparedness. For instance, global resilience to supply shocks could benefit from a coordinated build-up of inventories over the long-term, outside of periods of market stress. The work of the International Energy Agency in helping to co-ordinate oil reserves and collective responses to major disruptions in energy markets will remain vital.

OECD Economic Outlook, Interim Report

Testing Resilience

March 2026

The conflict in the Middle East is testing the resilience of the global economy that was being driven by supportive financial and fiscal conditions and increasing demand for artificial intelligence technologies. However, the recent major disruption to global energy and commodity markets has caused prices to spike and raised volatility in financial markets. If it persists, the conflict will weigh on global growth and push up inflation. A key downside risk is that prolonged disruptions to exports from the Middle East produce a more marked price reaction and aggravate shortages of key commodities. Such a scenario, or lower than expected returns from AI investment, could prompt more extensive repricing in financial markets, weaken private demand and raise financial stability risks.

The Interim Report says that any government measures to cushion the impact of higher energy prices should be well-targeted on those most in need, preserve incentives to lower energy use and have clear expiry mechanisms. Central banks should remain vigilant, as monetary policy adjustments may be needed if broadening price pressures arise or if growth prospects weaken. Looking further ahead, policies that improve domestic energy efficiency and lower reliance on imported fossil fuels are needed to help reduce countries exposure to future geopolitical tensions.

The Interim Report is an update on the assessment in the December 2025 of the *OECD Economic Outlook, Volume 2025 Issue 2*.

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