

# OECD Economic Outlook

Under Pressure

**June 2026**

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UNDER PRESSURE

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# Table of contents

|                                                                                                            |     |
|------------------------------------------------------------------------------------------------------------|-----|
| Acknowledgements                                                                                           | 7   |
| Editorial Under pressure                                                                                   | 9   |
| 1. General assessment of the macroeconomic situation                                                       | 11  |
| Introduction                                                                                               | 12  |
| Recent developments                                                                                        | 15  |
| Scenarios                                                                                                  | 32  |
| Risks                                                                                                      | 41  |
| Policies                                                                                                   | 51  |
| References                                                                                                 | 66  |
| Annex 1.A. Policy and other assumptions underlying the projections in the time-limited disruption scenario | 69  |
| 2. From energy shocks to stronger resilience                                                               | 71  |
| Introduction                                                                                               | 72  |
| Energy prices have surged but exposure differs across countries, firms and households                      | 74  |
| Many countries have acted quickly to provide relief                                                        | 77  |
| Lessons from the 2022-23 energy crisis                                                                     | 81  |
| Enhancing administrative capacity to deliver targeted and timely support                                   | 85  |
| Strengthening the resilience of energy systems                                                             | 87  |
| References                                                                                                 | 96  |
| 3. The fiscal and economic impacts of higher defence spending                                              | 99  |
| Summary                                                                                                    | 100 |
| Defence spending is on the rise                                                                            | 100 |
| Large increases in defence spending add pressure to the public finances                                    | 105 |
| Defence spending could provide a near-term boost to economic activity                                      | 106 |
| Longer-term economic effects of defence spending are highly uncertain                                      | 112 |
| References                                                                                                 | 113 |
| 4. Developments in individual OECD and selected non-member economies                                       | 117 |
| Argentina                                                                                                  | 118 |
| Australia                                                                                                  | 121 |
| Austria                                                                                                    | 124 |
| Belgium                                                                                                    | 127 |
| Brazil                                                                                                     | 130 |
| Bulgaria                                                                                                   | 134 |

|                 |     |
|-----------------|-----|
| Canada          | 137 |
| Chile           | 141 |
| China           | 144 |
| Colombia        | 148 |
| Costa Rica      | 151 |
| Croatia         | 154 |
| Czechia         | 157 |
| Denmark         | 160 |
| Estonia         | 163 |
| Euro area       | 166 |
| Finland         | 170 |
| France          | 173 |
| Germany         | 177 |
| Greece          | 181 |
| Hungary         | 184 |
| Iceland         | 187 |
| India           | 190 |
| Indonesia       | 194 |
| Ireland         | 198 |
| Israel          | 201 |
| Italy           | 204 |
| Japan           | 208 |
| Korea           | 212 |
| Latvia          | 215 |
| Lithuania       | 218 |
| Luxembourg      | 221 |
| Malaysia        | 224 |
| Mexico          | 227 |
| Morocco         | 230 |
| Netherlands     | 233 |
| New Zealand     | 236 |
| Norway          | 239 |
| Peru            | 242 |
| Philippines     | 245 |
| Poland          | 248 |
| Portugal        | 251 |
| Romania         | 254 |
| Saudi Arabia    | 257 |
| Slovak Republic | 260 |
| Slovenia        | 263 |
| South Africa    | 266 |
| Spain           | 269 |
| Sweden          | 272 |
| Switzerland     | 275 |
| Thailand        | 278 |
| Türkiye         | 281 |
| Ukraine         | 284 |
| United Kingdom  | 287 |
| United States   | 291 |
| Viet Nam        | 295 |

## FIGURES

|                                                                                                                                       |     |
|---------------------------------------------------------------------------------------------------------------------------------------|-----|
| Figure 1.1. The Persian Gulf countries have a significant role in the global economy                                                  | 16  |
| Figure 1.2. A steep pick up in energy and other commodity prices is beginning to weigh on economic activity                           | 17  |
| Figure 1.3. Strait of Hormuz transits and commercial flights remain severely restricted, raising supply backlogs                      | 17  |
| Figure 1.4. Oil and gas stock levels differ substantially across countries                                                            | 18  |
| Figure 1.5. The Persian Gulf is an important export destination for African and Asian economies                                       | 20  |
| Figure 1.6. Persian Gulf shares of world exports of key products                                                                      | 21  |
| Figure 1.7. Countries' exposure to selected Persian Gulf products                                                                     | 22  |
| Figure 1.8. Reduced policy uncertainty has helped to boost trade                                                                      | 23  |
| Figure 1.9. AI related trade has supported global growth, particularly in Asia                                                        | 24  |
| Figure 1.10. US import tariffs on most countries have fallen this year                                                                | 25  |
| Figure 1.11. Labour market conditions remain broadly stable with limited signs of AI-related displacement                             | 26  |
| Figure 1.12. The energy price shock is beginning to feed through to consumer prices                                                   | 28  |
| Figure 1.13. Inflation expectations have moved higher following the energy price shock                                                | 29  |
| Figure 1.14. Financial conditions remain mildly accommodative but have tightened amidst higher market volatility                      | 30  |
| Figure 1.15. Equity prices declined substantially following the escalation of the Middle East conflict                                | 31  |
| Figure 1.16. Sovereign bond yields have increased since the onset of the conflict in the Middle East                                  | 31  |
| Figure 1.17. Global growth prospects depend heavily on the duration of the conflict                                                   | 32  |
| Figure 1.18. Headline inflation is projected to rise in many economies this year                                                      | 34  |
| Figure 1.19. Global trade growth is projected to moderate                                                                             | 35  |
| Figure 1.20. Current account imbalances are projected to decline slightly                                                             | 36  |
| Figure 1.21. A prolonged disruption scenario raises inflation and hits growth                                                         | 38  |
| Figure 1.22. Reliance on Persian Gulf energy imports varies across economies                                                          | 39  |
| Figure 1.23. Indirect linkages significantly increase economies' exposure to Persian Gulf energy                                      | 39  |
| Figure 1.24. Exposure to Persian Gulf energy varies widely across sectors                                                             | 40  |
| Figure 1.25. Companies face challenges from elevated debt and rising debt refinancing costs                                           | 43  |
| Figure 1.26. AI investment is rising rapidly, with increased reliance on market-based financing                                       | 43  |
| Figure 1.27. Performance of private credit and equity funds and their exposure to the software sector                                 | 45  |
| Figure 1.28. Banking sector exposure to NBFIs is rising in advanced economies                                                         | 46  |
| Figure 1.29. Agricultural reliance on Persian Gulf imports for nitrogen fertilisers                                                   | 48  |
| Figure 1.30. Fertiliser price rises raise food prices                                                                                 | 49  |
| Figure 1.31. Real long-term interest rates have remained high compared to pre-pandemic levels                                         | 52  |
| Figure 1.32. Policy rates projections in the time-limited disruption scenario                                                         | 53  |
| Figure 1.33. Government debt ratios are projected to increase further in many countries                                               | 55  |
| Figure 1.34. Many countries need stronger fiscal balances to stabilise public debt in the near term                                   | 56  |
| Figure 1.35. Quantitative easing and quantitative tightening have been the main drivers of changes in central bank balance sheet size | 59  |
| Figure 1.36. Productivity growth has slowed and the share of the working age population has started to decline                        | 63  |
| Figure 1.37. Reform recommendations to strengthen the foundations for growth and competitiveness                                      | 65  |
| Figure 2.1. Energy prices have spiked                                                                                                 | 74  |
| Figure 2.2. Many large oil importers have significant short-term buffers, but the level of coverage varies                            | 76  |
| Figure 2.3. The share of energy in household consumption differs across countries                                                     | 76  |
| Figure 2.4. Classification of energy support measures                                                                                 | 77  |
| Figure 2.5. Countries have not converged towards a targeted approach following the 2022 energy crisis                                 | 81  |
| Figure 2.6. The bulk of support measures in 2022-23 were untargeted                                                                   | 82  |
| Figure 2.7. Energy support measures announced as of 18 May 2026                                                                       | 84  |
| Figure 2.8. Energy efficiency gains since 2000 have resulted in energy savings in many OECD countries                                 | 89  |
| Figure 2.9. Progress in adoption varies across energy efficiency policies                                                             | 90  |
| Figure 2.10. Use of energy to create value added differs among countries and sectors                                                  | 91  |
| Figure 2.11. Degree of energy diversification varies across countries                                                                 | 93  |
| Figure 2.12. Share of electricity in final energy consumption                                                                         | 95  |
| Figure 3.1. Recent military spending increases are large and highly synchronised across countries                                     | 101 |
| Figure 3.2. Defence spending composition varies across countries                                                                      | 102 |
| Figure 3.3. NATO Europe's import dependency varies by military equipment type                                                         | 103 |
| Figure 3.4. Recent large military spending increases have tended to occur in lower debt countries                                     | 106 |

|                                                                                                    |     |
|----------------------------------------------------------------------------------------------------|-----|
| Figure 3.5. The transmission of higher defence spending to the real economy                        | 107 |
| Figure 3.6. Many households expect higher taxes or spending cuts to fund rearmament                | 109 |
| Figure 3.7. Capacity utilisation is below past peaks in some economies' defence-related industries | 110 |
| Figure 3.8. Gains from some defence purchases may be highly concentrated by industry               | 111 |
| Figure 3.9. Job ads at European defence firms surged in 2022-23 but subsequently moderated         | 111 |
| Figure 3.10. Defence budget research and development allocations                                   | 113 |

## TABLES

|                                                                                               |     |
|-----------------------------------------------------------------------------------------------|-----|
| Table 1.1. Global GDP growth is projected to moderate in the time-limited disruption scenario | 15  |
| Table 2.1. Policy options to improve responses and strengthen resilience to energy shocks     | 73  |
| Table 2.2. Selected energy support measures announced in response to the 2026 energy crisis   | 80  |
| Table 3.1. Selected estimates of defence spending multipliers                                 | 107 |

## BOXES

|                                                                                              |     |
|----------------------------------------------------------------------------------------------|-----|
| Box 1.1. Exports of critical materials from the Middle East                                  | 20  |
| Box 1.2. Exposures to energy supply from the Persian Gulf                                    | 38  |
| Box 1.3. The potential impact of an energy price shock on AI infrastructure                  | 41  |
| Box 1.4. Fertiliser exports from the Persian Gulf, food price risks and policy options       | 47  |
| Box 1.5. How large should central bank balance sheets be?                                    | 59  |
| Box 2.1. Automatic activation and delivery: country examples of targeted support in practice | 87  |
| Box 3.1. Considerations for cost assessment, price risk management and effective procurement | 104 |

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# Editorial

## Under pressure

The conflict in the Middle East has become the dominant force shaping the global economic outlook. The world economy entered 2026 stronger than many had anticipated. Activity demonstrated considerable resilience sustained by strong investment in artificial intelligence, supportive financial conditions and easing trade tensions. Global growth prospects appeared poised for a significant upward revision.

Yet the global economy is now again under pressure. Disruptions to shipments through the Strait of Hormuz, together with damage to energy infrastructure, have triggered a sharp rise in energy prices and increased the cost of fertilisers and other critical industrial inputs. Higher costs are feeding into inflation pressures, weakening confidence, and weighing on household demand and business activity.

The evolution of the Middle East conflict remains uncertain, but its economic consequences are likely to be felt for some time even after its resolution. The range of possible outcomes is wide. Recognising this uncertainty, we framed our global projections through a scenario-based approach. Rather than relying on a single forecast path, the analysis considers two possible trajectories: a *time-limited disruption scenario* in which disruptions remain relatively short-lived, and a *prolonged disruption scenario*, with broader, much more long-lasting negative consequences.

At the time of finalising this Economic Outlook, the prospects of a peace deal seemed to gain some momentum. A durable settlement to the current conflict would not only bring relief to the people of the region but also lay the groundwork for a resolution to the disruptions it has caused to the global economy. Assuming that energy prices gradually ease from mid-2026 onward, broadly in line with current futures market expectations, we project global economic growth to slow from 3.4% in 2025 to 2.8% in 2026 before recovering to 3.1% in 2027. Annual consumer price inflation in the G20 countries is expected to rise to 4.0% in 2026 from 3.4% in 2025, before easing to 3.1% in 2027 as energy and food price pressures gradually fade.

However, the longer the disruptions last, the larger the economic and social costs become. Should the disruptions persist well into 2027, global growth is expected to slow significantly, to just 2.1% in 2026 and 1.8% in 2027, potentially pushing some economies into or close to recession. Unemployment would rise and investment – including in energy-intensive AI – would weaken significantly, with increasing risks of financial market repricing. Global inflation would rise by 0.4 percentage points in 2026 and 1.3 percentage points in 2027, with upside pressures from elevated commodity prices partially offset by weaker final demand. The consequences would be global but could prove especially severe for developing economies with limited energy reserves, higher shares of energy and food in household consumption, constrained fiscal capacity and weak social safety nets, low private savings buffers and more fragile currencies.

Policymakers face difficult decisions. Central banks can look through the supply-driven rise in prices as long as inflation expectations remain well anchored and second-round effects are contained. However, a policy response may become necessary if price pressures broaden, or if growth weakens significantly.

Many governments have moved quickly to provide relief to households and firms from the high global energy prices – largely through broad-based measures, as documented in the OECD Energy Support Measures Tracker and Chapter 2. Measures such as tax reductions and price caps, tend to weaken incentives to reduce energy use – particularly undesirable during an energy supply crunch. They can also prove costly. Fiscal space is limited due to elevated public debt and further pressures to come from ageing, defence spending – as discussed in Chapter 3 – and the increasing frequency of extreme weather events. In this context, relief measures should be increasingly targeted to contain fiscal costs – particularly if the disruption is prolonged. Finally, support measures should include automatic sunset clauses to ensure they are phased out once conditions normalise.

If growth were to weaken substantially, as in the prolonged disruption scenario, the burden to cushion activity would fall mostly on fiscal policy, given the limited room for monetary policy to act. At the same time, policy choices would need to be carefully calibrated to avoid exacerbating strains in energy markets, adding to inflationary pressures, and undermining fiscal sustainability.

Finally, the vulnerability of our economies to one single chokepoint demonstrates the need for intensifying efforts to strengthen the resilience of supply chains - in this case, particularly to diversify energy supply - and to improve energy efficiency. In the near-term, emergency demand-restraint measures and international coordination of strategic energy stocks can help mitigate some of the effects of the supply crunch, but the need to invest more to wean us off the dependency on fossil fuel imports is more urgent than ever.

3 June 2026



Stefano Scarpetta  
Chief Economist

# **1. General assessment of the macroeconomic situation**

## Introduction

The evolving conflict in the Middle East is having significant humanitarian costs and testing the resilience of the global economy. The duration and extent of the conflict remain uncertain, though at the time of finalising the Outlook there are some encouraging signs of a negotiated settlement. Even after the conflict ends, the economic effects are likely to be felt for some time given the months it will take to restore damaged infrastructure and transport routes and deliver products around the world. Energy prices and the prices of other key agricultural and industrial inputs produced in the Persian Gulf economies have soared since February as production and exports have been curtailed, with the likelihood of shortages and actions to reduce energy usage becoming more pronounced in all countries the longer the conflict persists. Headline inflation has been pushed up in many economies, hitting the real incomes of households. Consumer and business confidence have eased and some signs of supply shortfalls have emerged. Many Asian economies are the most directly exposed to these shocks given their reliance on imports from the Middle East but the impact will be felt everywhere given interlinkages in global supply chains and integrated global energy markets. The heaviest burden is likely to fall on commodity-importing developing economies, as they are least able to attract scarce supplies or cushion households and firms against the shocks, and on the Gulf economies themselves.

Given the exceptionally uncertain situation and the extent to which economic prospects depend on achieving a durable resolution to the conflict, this Economic Outlook presents two different scenarios of how the global economy might evolve over the next eighteen months. These are largely shaped by the evolution of the energy crisis, the time taken to achieve a lasting settlement to the conflict and the resulting policy responses, and highlight the range of possible outcomes that might occur. Both scenarios occur against a background of an otherwise solid underlying momentum in the global economy, with output boosted by strong AI-related investment, production and trade, and supportive financial and fiscal conditions. Lower US effective tariff rates on imports than originally announced have also reduced headwinds to growth.

A projections-based scenario is one in which the disruptions from the conflict are sizeable but limited to a relatively short period of time, hereafter referred to as the “time-limited disruption” scenario. Energy prices are assumed to decline gradually over time in line with futures prices, amidst progress towards a negotiated and durable peace agreement. Energy production and trade in the Gulf economies gradually return to pre-conflict levels from the third quarter of 2026 onwards in this scenario. There may be some limited energy shortages in some economies, especially in Asia, but the use of strategic reserves, oil in transit or stored on tankers, and some modest additional supply from non-Gulf producers helps to cushion the shock. Global GDP growth is projected to slow from 3.4% in 2025 to 2.8% in 2026 before picking up to 3.1% in 2027. Policy interest rates are expected to remain broadly stable this year in most major economies with underlying price pressures generally projected to remain contained, before easing slightly in 2027. The fiscal stance is anticipated to be broadly neutral in the majority of countries in the near-term, with planned consolidation measures often being offset by additional expenditure to cushion the impact of energy price shocks on households and companies. Annual consumer price inflation in the G20 countries is expected to rise to 4.0% in 2026 from 3.4% in 2025, before easing to 3.1% in 2027 as energy price pressures fade and food price pressures peak. Core inflation is expected to return close to target in many economies by the end of 2027. If a lasting settlement is attained, with larger declines in energy prices than implied by futures prices in late May, then global growth is likely to be marginally higher and inflationary pressures lower. For instance, an additional decline of 10% in oil and gas prices and fertiliser costs from the latter half of 2026 would raise global GDP growth by an additional 0.1 percentage point in 2027 and reduce global inflation by 0.3 percentage points.

A model-based analysis, hereafter referred to as the “prolonged disruption” scenario, highlights the potential costs of failing to secure a peace agreement until well into 2027. The current disruptions to energy production and exports in the Gulf economies are assumed to persist until the latter half of 2027, before gradually fading thereafter. In this scenario, the likelihood of substantial shortages of energy products and agricultural and industrial inputs produced by the Gulf economies is high, resulting in scarring effects on potential output via lower efficiency and foregone investment. Global energy and fertiliser prices are significantly higher for an extended period relative to the time-limited disruption scenario, financial conditions are considerably tighter and household and business confidence substantially weaker. Global growth is expected to slow significantly, to just 2.1% in 2026 and 1.8% in 2027, pushing several economies into or close to recession, and raising unemployment. Global inflation is raised, by an additional 0.4 percentage points in 2026 and 1.3 percentage points in 2027, with upside pressures from elevated commodity prices partially offset by weaker final demand. Many Asian economies would be hard hit in this scenario, reflecting their heavy exposure to energy supplies from the Middle East. Policy interest rates would be likely to rise from current levels in 2026, by between 50-75 basis points in most countries to help moderate inflation pressures, with these increases being removed gradually in 2027 as downward pressure on growth intensifies. Budgetary pressures are increased because of the weaker economy and higher interest costs on new debt issuance, potentially limiting the space available for discretionary measures to help stabilise activity.

There are many other factors that could affect the outlook under either scenario. Prolonged disruptions to the supply of energy and energy products could adversely affect AI investment due to the dependence of key infrastructure on energy availability and on products, such as semiconductors, that rely on specialised inputs from the Gulf economies. A further increase in national export restrictions for key products in short supply would add to policy uncertainty and intensify the impact of prolonged supply disruptions and energy shortages. There could also be more extensive risk repricing in financial markets than seen so far, adding significantly to the existing pressures on some highly leveraged non-bank financial institutions such as private credit and equity funds. Higher energy import costs could widen external deficits in commodity-importing emerging and developing economies, putting pressure on reserves and external financing conditions. On the upside, a continuation of the recent resilience and adaptability to shocks shown by the business sector, and increasing visibility of the possible productivity gains from AI technologies could push growth higher, especially in 2027. Further changes to US tariff levels could raise or lower trade, policy uncertainty and growth.

Given the high level of uncertainty, flexible and agile policies are needed to ensure macroeconomic stability. Policies also need to focus on medium-term challenges, including the need to establish a credible fiscal path to debt sustainability, enhance energy security, secure a lasting decline in trade tensions and strengthen the prospects for sustainable and resilient growth.

- 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 will be needed if there are signs of broader price pressures, as in the prolonged disruption scenario, or signs of a significant growth moderation. Clear communication is needed to ensure that the factors behind finely balanced policy decisions are well understood. In the event of a significant tightening of global financial conditions, it could be necessary to enhance currency swap lines and reconsider the current plans of some central banks for a further reduction in sovereign bond holdings.

- Government measures to cushion the impact of higher energy prices should, be well-targeted on the households most in need and viable firms, while preserving incentives to reduce energy use and diversify energy sources. Such measures should also include clear sunset mechanisms as energy prices decline. Untargeted support and measures such as tax reductions and price caps are likely to have higher fiscal costs and weaken incentives to reduce energy use, delaying the necessary adjustment in energy demand. Such policies would be particularly costly should the impact of the conflict in the Middle East persist. If growth weakens substantially, as in the prolonged disruption scenario, fiscal policy will need to provide any necessary stimulus to cushion output given the limited scope for monetary policy to do so. The scope to act is likely to vary across countries according to their current budgetary position, with many emerging and developing countries particularly constrained. Careful policy choices will be needed to ensure that any stimulus measures do not magnify imbalances in energy markets or intensify inflationary pressures.
- The potential need for further stimulus in the prolonged disruption scenario highlights that stronger efforts to contain and reallocate spending, improve public sector efficiency and enhance revenues are required to ensure longer-term debt sustainability and maintain the ability to react to significant shocks. The pace and composition of such adjustments will depend on the specific circumstances and challenges in each economy over time but should seek to preserve and foster the growth potential on which debt reduction ultimately depends.
- Safeguarding financial stability requires robust supervision, progressing with robust regulatory policies for non-bank financial intermediaries (NBFIs) and crypto-assets in line with internationally agreed recommendations, and closing remaining data gaps on the many less regulated NBFIs. Enhanced stress-testing frameworks are also needed to better assess the risks around the increasing interconnectedness between banks and NBFIs, including scenarios that explore the potential effects of long-lasting disruptions in the Middle East and to marked changes in AI valuations.
- The vulnerability of economies to future energy supply shocks can be mitigated by efforts that improve the diversification of energy supply and promote energy efficiency, highlighting the importance of maintaining clear price signals in energy support measures. In the near-term, emergency demand-restraint measures and international coordination of strategic energy stocks can help mitigate adverse supply disruptions.
- Constructive dialogue between countries is central to ensure a lasting resolution to trade tensions. Agreements to ease trade tensions and deepen trade relations would improve policy certainty, help ensure well-functioning and open global markets, and strengthen the prospects for investment, productivity and output growth. New export restrictions in response to supply disruptions should be avoided, as these only exacerbate global product shortages and push up prices.
- Enhanced reform efforts can improve the foundations and prospects for sustainable medium-term growth and improve resilience. Actions to reduce regulatory burdens, strengthen skill development, and promote labour mobility and participation are especially important. Collectively, these improve investment incentives and the capacity for workers and markets to adjust smoothly to structural changes in the mix of tasks and jobs over time, including those that result from new digital technologies.

Table 1.1. Global GDP growth is projected to moderate in the time-limited disruption scenario

|                                            | Average<br>2013-2019 | 2024     | 2025 | 2026 | 2027 | 2025<br>Q4 | 2026<br>Q4 | 2027<br>Q4 |
|--------------------------------------------|----------------------|----------|------|------|------|------------|------------|------------|
|                                            |                      | Per cent |      |      |      |            |            |            |
| <b>Real GDP growth<sup>1</sup></b>         |                      |          |      |      |      |            |            |            |
| World <sup>2</sup>                         | 3.4                  | 3.4      | 3.4  | 2.8  | 3.1  | 3.3        | 2.7        | 3.2        |
| G20 <sup>2</sup>                           | 3.5                  | 3.4      | 3.3  | 3.0  | 3.0  | 3.2        | 2.8        | 3.1        |
| OECD <sup>2</sup>                          | 2.3                  | 1.8      | 1.8  | 1.5  | 1.7  | 1.7        | 1.5        | 1.8        |
| United States                              | 2.5                  | 2.8      | 2.1  | 2.0  | 1.8  | 2.0        | 1.7        | 2.0        |
| Euro area                                  | 1.9                  | 0.9      | 1.4  | 0.8  | 1.2  | 1.2        | 0.9        | 1.3        |
| Japan                                      | 0.9                  | -0.2     | 1.1  | 0.6  | 0.8  | 0.4        | 0.9        | 0.8        |
| Non-OECD <sup>2</sup>                      | 4.4                  | 4.6      | 4.7  | 3.8  | 4.2  | 4.6        | 3.5        | 4.2        |
| China                                      | 6.8                  | 5.0      | 5.0  | 4.5  | 4.3  | 4.7        | 4.3        | 4.4        |
| India <sup>3</sup>                         | 6.8                  | 7.1      | 7.6  | 6.3  | 6.4  |            |            |            |
| Brazil                                     | -0.4                 | 3.4      | 2.3  | 1.6  | 2.1  |            |            |            |
| <b>OECD unemployment rate<sup>4</sup></b>  | 6.5                  | 4.9      | 5.0  | 5.1  | 5.0  | 5.0        | 5.1        | 5.0        |
| <b>Inflation<sup>1</sup></b>               |                      |          |      |      |      |            |            |            |
| G20 <sup>2,5</sup>                         | 3.0                  | 6.2      | 3.4  | 4.0  | 3.1  | 3.0        | 4.1        | 2.6        |
| OECD                                       | 1.7                  | 5.0      | 4.0  | 4.3  | 3.0  | 3.8        | 4.4        | 2.4        |
| United States <sup>6</sup>                 | 1.3                  | 2.6      | 2.6  | 3.7  | 2.1  | 2.8        | 3.8        | 1.7        |
| Euro area <sup>7</sup>                     | 0.9                  | 2.4      | 2.1  | 2.8  | 2.4  | 2.1        | 3.3        | 2.0        |
| Japan <sup>8</sup>                         | 0.9                  | 2.7      | 3.2  | 1.8  | 2.2  | 2.7        | 2.1        | 1.8        |
| <b>OECD fiscal balance<sup>9</sup></b>     | -3.1                 | -4.7     | -4.4 | -4.8 | -4.6 |            |            |            |
| <b>World real trade growth<sup>1</sup></b> | 3.4                  | 4.1      | 5.0  | 3.1  | 2.9  | 4.7        | 2.6        | 3.2        |

1. Per cent; last three columns show the change over a year earlier.

2. Moving nominal GDP weights, using purchasing power parities.

3. Fiscal year.

4. Per cent of labour force.

5. Headline inflation.

6. Personal consumption expenditures deflator.

7. Harmonised consumer price index.

8. National consumer price index.

9. Per cent of GDP.

Source: OECD Economic Outlook 119 database.

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## Recent developments

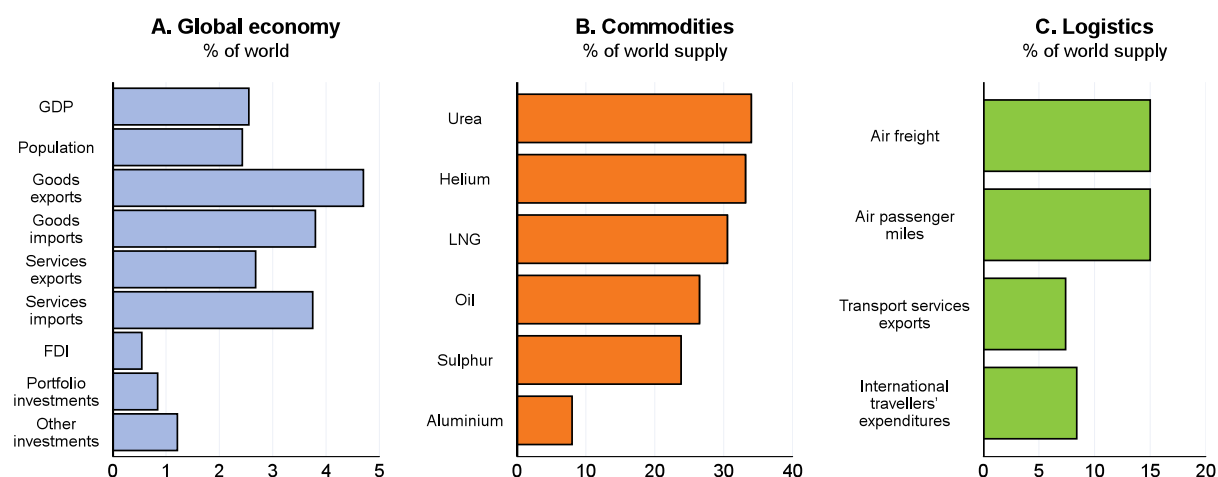
### *The persistent conflict is impeding global economic growth*

The ongoing conflict in the Middle East has generated significant human costs for the countries directly involved and is buffeting the global economy, reflecting the interconnections of the affected economies with the rest of the world (Figure 1.1). Continuing disruptions to shipments through the Strait of Hormuz, along with damage to energy and other infrastructure, are crimping the global supply of key commodities. Global oil supply fell by 12% between February and April 2026, with oil production from the Gulf economies down by 45% in April (IEA, 2026a). Exports of LNG from the region have also halted, given the damage to key production facilities, notably in Qatar. Global gas supply is expected to be around 15% lower than previously anticipated as a result of the losses from the conflict (IEA, 2026b). There has also been curtailment of supply of many other industrial inputs that stem from the extraction of hydrocarbons, including fertilisers, helium, sulphur, and petrochemical compounds.

Prices of the affected commodities have ratcheted upwards, particularly in Asian markets given their comparatively heavy reliance on imports from the Gulf region. Competition to obtain scarce supplies has added to the upward pressures, especially for harder-to-obtain refined fuels and products for which the Gulf economies are major producers, pushing up spot market prices. Compared with 27 February, the price of crude, oil products, natural gas, sulphur and fertilisers, such as urea, have all risen sharply (Figure 1.2, Panel A). The supply of other commodities, including helium, which is used in the manufacture of industrial products such as semiconductors, has also been disrupted, though the price impacts are less visible because they are mostly traded on long-term contracts. Whilst some vessels have been able to exit the Strait given the ceasefire in place since April, traffic remains a fraction of pre-conflict levels (Figure 1.3, Panel A). Supply chains have reconfigured for oil exports from the Gulf and for delivery of goods into the region by other routes, albeit at a reduced rate. Congestion remains severe in ports such as Jeddah on the Red Sea and in Oman just east of the Strait of Hormuz, where goods are being offloaded to continue into the region on road or to cross the Strait in much smaller vessels. The conflict has also significantly curtailed air traffic, including in key aviation hubs Qatar and the United Arab Emirates, negatively impacting exports of business services and tourism. Gulf airspace has now been reopened but the number of commercial flights remains significantly lower than prior to the conflict (Figure 1.3, Panel B). Prior to the conflict, countries in the region accounted for around 15% of the global air freight and air passenger market.

**Figure 1.1. The Persian Gulf countries have a significant role in the global economy**

Gulf countries

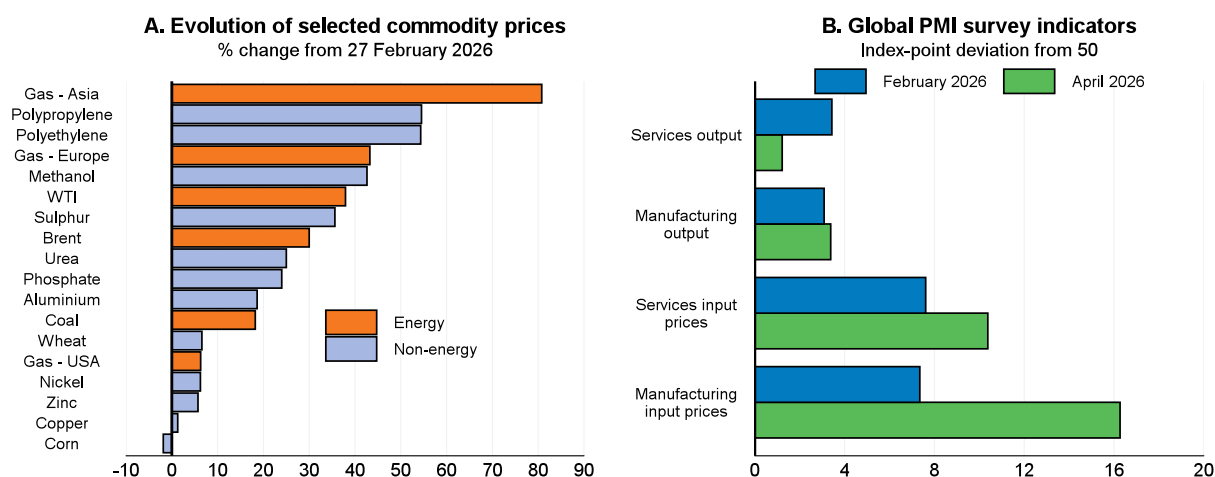


Note: The Persian Gulf economies include Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates unless otherwise specified. In Panel A, investment data covers Bahrain, Kuwait, Oman, and Saudi Arabia. In Panel B, data is based on global production, with the exception of urea, which represents the share of international exports. Data for Iran is not included in oil or liquefied natural gas; sulphur production excludes Bahrain and Iraq; helium production is based on Qatar.

Source: OECD Balanced International Merchandise Trade Statistics (edition 2026 January); OECD Balanced Trade in Services database; International Air Transport Association; International Aluminium Institute; International Energy Agency; International Monetary Fund International Investment Position (IIP) database and World Economic Outlook) database; United States Geological Society; World Trade Organisation; and OECD calculations.

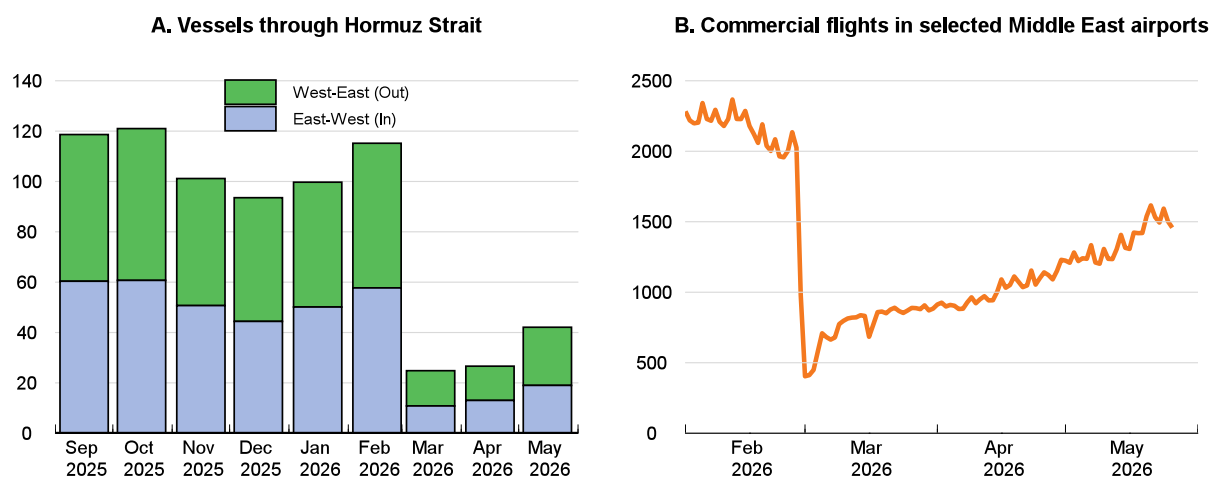
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**Figure 1.2. A steep pick up in energy and other commodity prices is beginning to weigh on economic activity**



Note: Panel A is based on data up to 27 May 2026. The series for urea is the New Orleans granular cost, including freight, in USD per metric tonne. In Panel B, the indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.  
Source: LSEG; S&P Global; and OECD calculations.

**Figure 1.3. Strait of Hormuz transits and commercial flights remain severely restricted, raising supply backlogs**

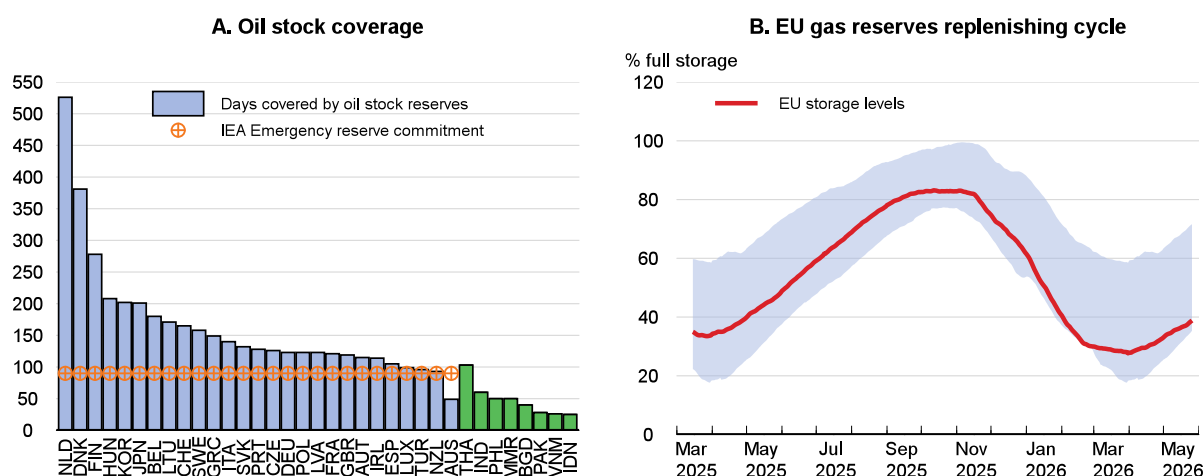


Note: Panel A shows the average daily number of vessels exiting the Strait of Hormuz if travelling west to east; entering the Strait as east to west up to May 22, 2026. Panel B shows the number of daily commercial flights from 9 major international airports (Amman, Beirut, Doha, Dubai, Kuwait City, Muscat, Riyadh, Sharjah and Tel Aviv) up to May 26, 2026.  
Source: Pilgrim, Dorville and Mourougane (2026); Flightradar24; and OECD calculations.

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To mitigate supply and production disruptions, inventories are being drawn down and all possible use is being made of available storage facilities in the Gulf economies. Preliminary data suggests that global oil stocks have declined significantly, falling by 129 million barrels in March and a further 117 million barrels in April, to be 7.9 billion barrels (IEA, 2026a). However, scope for inventory drawdowns is limited in some regions. Oil stock coverage is relatively low in some Asian countries that are heavily dependent on imports from the Middle East, such as India, the Philippines and Viet Nam (Figure 1.4, Panel A). There are problems developing for many petroleum products, with refineries in the Middle East affected by the conflict, and refineries in many Asian countries having minimal crude oil stocks. European natural gas storage levels were also already depleted at the onset of the conflict following the Northern Hemisphere heating season, increasing demand to replenish reserves (Figure 1.4, Panel B). Within the Gulf region itself, ample reserves have cushioned the immediate potential shock on food supply, given the region is almost entirely dependent on imports.

**Figure 1.4. Oil and gas stock levels differ substantially across countries**



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Note: In Panel A, data correspond to February 2026 for IEA economies. Oil stocks include all petroleum (primary products and refined products), excluding naphtha and international marine bunkers. Refined products are converted to crude-oil equivalent. Days of cover are calculated relative to net imports adjusted for stock changes. Further details on methodology are available in the IEA oil stock data documentation. The orange symbol denotes the IEA 90-day emergency stockholding requirement, which applies only to IEA member countries. IEA data refers to December 2025. For non-IEA economies (shown with green bars), fuel-reserve coverage is based on official government statements and briefings published in 2026 by national authorities. Panel B is based on data up to 26 May 2026. The shaded area is the range of the minimum and maximum EU average for each day over 2016-26. The “% full storage” measures the working gas volume available.

Source: International Energy Agency (IEA); AGSI; Bangladesh MPEMR/BSS; Government of India Press Information Bureau; Indonesia Cabinet Secretariat; Myanmar MOI; Pakistan parliamentary statements; Philippines DOE/PNA; Thailand PRD; Viet Nam MOIT; and OECD calculations.

There are early signs in various countries of demand being pared back in response to the steep increase in prices or diminished inventories. For example, Asian petrochemical producers have curtailed operating rates due to scarce feedstock supply (IEA, 2026a) and commercial use of liquefied petroleum gas is being rationed in some emerging-market economies, including India, Viet Nam and the Philippines (OECD, 2026a). Tightening jet fuel markets and longer flight paths have also resulted in flight cancellations across the Middle East, Europe and Africa. Such constraints on activity will grow the longer the conflict persists, as inventories are further drawn down and supplies become more difficult and more costly to obtain on global spot markets. Despite weaker demand, supply disruptions led to an estimated 6 million barrel per day shortfall in the global oil market from March to the end of May (IEA, 2026a). Global market balance for all those commodities with supply impacted by the conflict will not be restored until the accumulated deficits that have built up are eroded through an extended period of supply flows exceeding demand.

Recent economic indicators have begun to reflect the impacts from the conflict. Measures of consumer confidence have declined sharply, including in Chile, Japan and Korea, as well as in many European countries such as Ireland, Italy, Luxembourg, Portugal and the United Kingdom. Business surveys since the escalation of the conflict have highlighted rising input price inflation in both manufacturing and services sectors (Figure 1.2, Panel B), and an increase in suppliers' delivery times, especially in Europe. In April, the global supply chain pressure index of the Federal Reserve Bank of New York was almost two standard deviations above its long-term average. Businesses reported a weakening in output growth between February and April in the services sector, though output conditions in manufacturing sectors remained stable, coinciding with an increase in stock building of goods amid higher global uncertainty (Figure 1.2, Panel B). Preliminary flash PMI survey responses for May suggest a broad-based weakening in output growth in both services and manufacturing in many of the countries for which data are available.

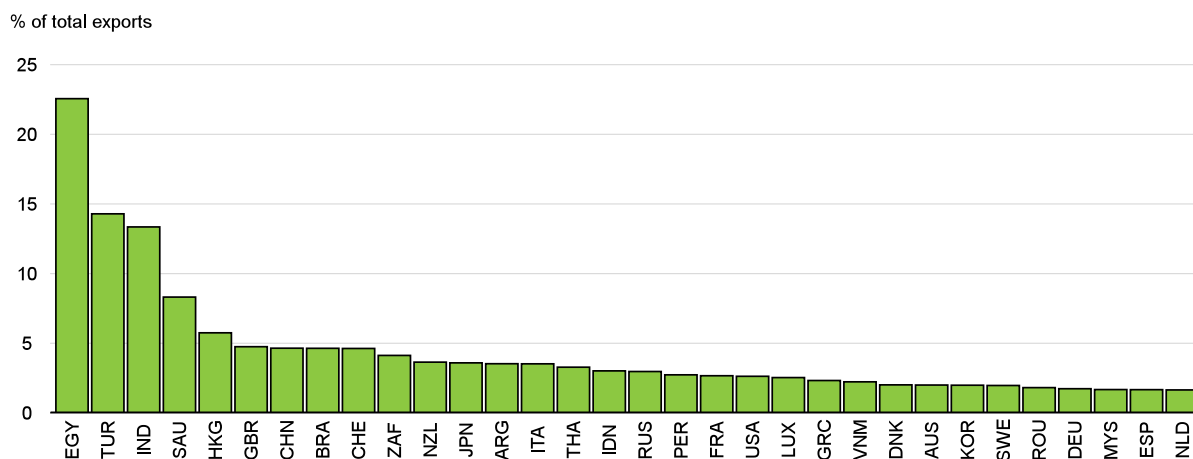
New export orders in both services and manufacturing weakened in March and April in many countries, particularly emerging-market economies. This may reflect their greater reliance on critical imports from the Middle East (Box 1.1) and its role as a key destination for many exports from emerging-market economies (Figure 1.5). However, the negative impact is likely to broaden as the conflict persists. Preliminary May data suggests European goods exports may have weakened significantly. The softening of services export orders since the conflict may reflect the sensitivity of services such as tourism and logistics to higher transport costs, as well as reduced household spending on non-essential services. The weakness in services orders was especially steep in tourism (S&P, 2026a), with higher prices likely weighing on both domestic and international travel.

Freight rates have risen, particularly for goods travelling into or transiting through the Middle East, reflecting higher war risk insurance premia, and the costs of offloading cargo at unscheduled stops. Rising jet and ship fuel prices have contributed to global ocean freight rates rising about 45% above the levels just before the conflict, and global air freight rates rising almost 30% higher. Global bottlenecks may reflect land-side congestion rather than generalised issues with sea routes, with ship congestion concentrated in ports around the Persian Gulf.

There are significant risks that disruptions could persist or even grow for some time, even if the Strait of Hormuz opens fully. Damages to energy production facilities will take time to repair, delaying recovery in production capacity, and ship movements through the Strait and deliveries to destination countries will take time to normalise. These will likely affect the supply of energy and, in particular, prices for refined products such as global jet fuel and diesel. Higher costs and supply shortages may limit air freight and passenger flights, and lower sailing speeds may raise delivery times.

**Figure 1.5. The Persian Gulf is an important export destination for African and Asian economies**

Nominal merchandise exports to Persian Gulf, 2024



Note: The Persian Gulf economies include Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates.

Source: OECD Balanced International Merchandise Trade Statistics (edition 2026 January); and OECD calculations.

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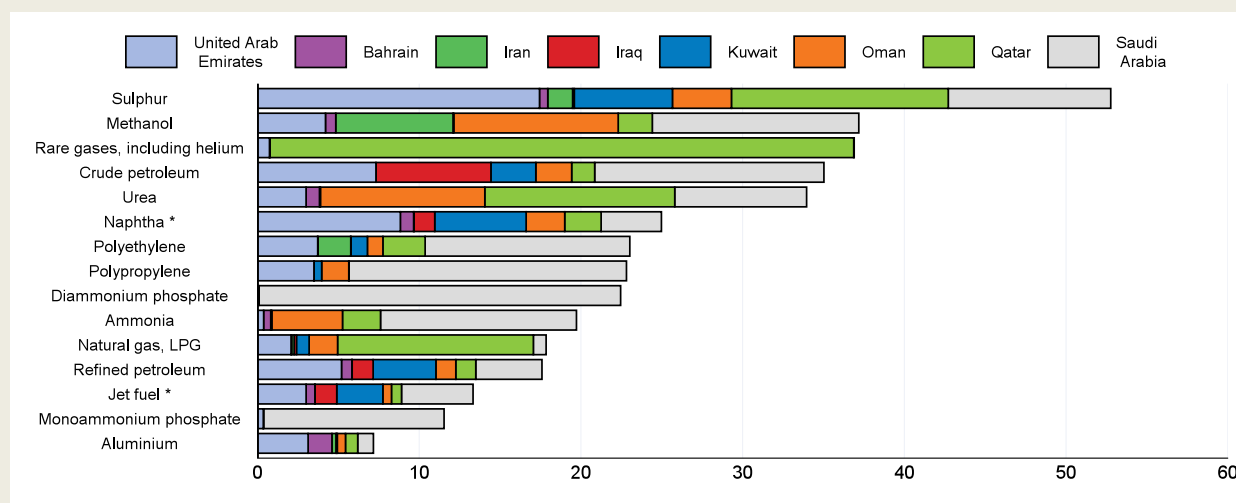
### Box 1.1. Exports of critical materials from the Middle East

The Persian Gulf economies are globally important exporters of many key energy and industrial chemicals such as methanol, ammonia and sulphur. This box highlights the role of the Gulf economies in global exports, and the countries' most directly vulnerable to supply disruptions from Gulf exports in selected products. The estimates of trade dependencies are derived from the OECD's balanced international merchandise trade dataset for 2024.<sup>1</sup>

The Gulf's abundance in energy exports – both petroleum and natural gas – has meant that it has also become a key source for global trade in products generated as by-products from oil and gas processing, including helium, where Qatar's supply accounts for just over 35% of the world's total exports. Collectively, the Gulf economies also provide just over half of global sulphur exports and a quarter of global naphtha exports (Figure 1.6).<sup>2</sup> The region exports just over 20% of the world's traded polyethylene and polypropylene chemical compounds, with polypropylene used for packaging, pipes, medical goods and car parts, and polyethylene used for packaging, bottles and electrical insulation. The Gulf economies also have a comparative advantage in the production of goods that benefit from cheap energy, particularly natural gas – including methanol, ammonia, urea, di- and mono-ammonium phosphate fertilisers, and smelting aluminium.<sup>3</sup>

**Figure 1.6. Persian Gulf shares of world exports of key products**

Per cent



Note: \* Naptha and jet fuel are part of refined petroleum products. Rare gases exclude argon, and include helium, measured using HS280429; methanol - HS290511; polyethylene - HS3901; polypropylene - HS390210; aluminium - HS76; crude petroleum - HS2709; refined petroleum - HS2710; naphtha - HS271012; jet fuel and other types - HS271019; natural gas, LPG - HS2711; anhydrous ammonia - HS: 281410; urea - HS310210; DAP - diammonium phosphate (HS:310530); MAP - monoammonium phosphate - HS310530; sulphur - HS2503. The data used are based on UN Comtrade data, and so trade from Iran may be undercounted.

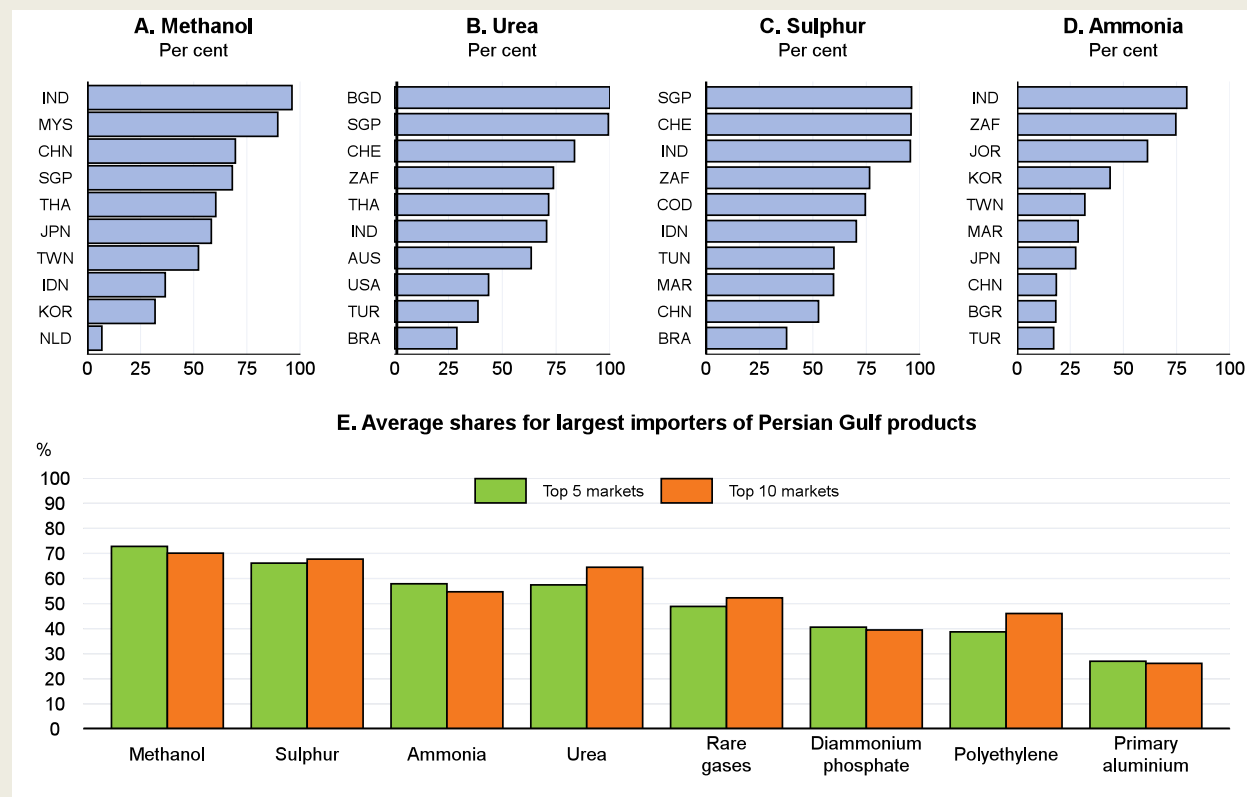
Source: OECD Balanced International Merchandise Trade Statistics (edition 2026 January); and OECD calculations.

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The exposure of individual countries to risks from disrupted Persian Gulf supply varies considerably (Figure 1.7). For sulphur, methanol and rare gases, for which there are few substitutes, exports from the Gulf economies represent between 50-90% of total product imports in the major recipient economies. A similar pattern holds true for urea and ammonia. Concentration risk tends to be lower for petrochemical compounds, phosphate fertilisers and aluminium, with the top five export markets typically having 20-40 per cent of imports provided by the Gulf economies. Nonetheless, supply chains reliant on these products could still be threatened due to the Gulf's importance in the provision of upstream products such as naphtha, sulphur and ammonia for other global suppliers. The longer the crisis persists, the greater the chance that shortages begin to impact across a range of supply chains, as substitutes are not readily available for many products, and specialised equipment limits the ability of firms to quickly switch to alternatives.

**Figure 1.7. Countries' exposure to selected Persian Gulf products**

Share of imports from Persian Gulf in total country imports of each product



Note: In the upper panels the bars show the share of imports from the Persian Gulf in total imports of the product in each country. These countries represent the 10 largest importers of Persian Gulf products in dollar terms, but are ordered by those most reliant on Persian Gulf imports. Panel E shows the average import shares that the Persian Gulf accounts for in the five and ten largest importers from the Persian Gulf in dollar terms. Dependence on Gulf imports is weighted by the dollar spending of each country's imports from the Persian Gulf. Definitions for products as in Figure 1.6.

Source: OECD Balanced International Merchandise Trade Statistics (edition 2026 January); and OECD calculations.

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1. Trade data is used as a proxy for country vulnerability, as cross-country input-output tables, which would measure indirect exposures, are not sufficiently detailed.

2. Helium gas is captured under rock formations similar to natural gas, and mining natural gas allows helium to be released too (albeit in much smaller quantities). Naphtha is a range blend of hydrocarbons which are created when crude oil is distilled. It cannot be used as a fuel directly, and is instead processed into ethylene, propylene, butadiene and benzene. Sulphur is produced as a by-product from the refining of crude oil. It is typically converted into sulphuric acid for many industrial uses, but trade is dominated by the raw material.

3. Methanol is produced from natural gas and is used in the production of polyethylene and polypropylene; it is converted into formaldehyde to produce resins, adhesives and paints, it is used to produce biodiesel and is an energy source in methanol fuel cells. Ammonia is produced using hydrogen from natural gas; urea is produced with ammonia; diammonium phosphate and monoammonium phosphate are created using sulphur and ammonia.

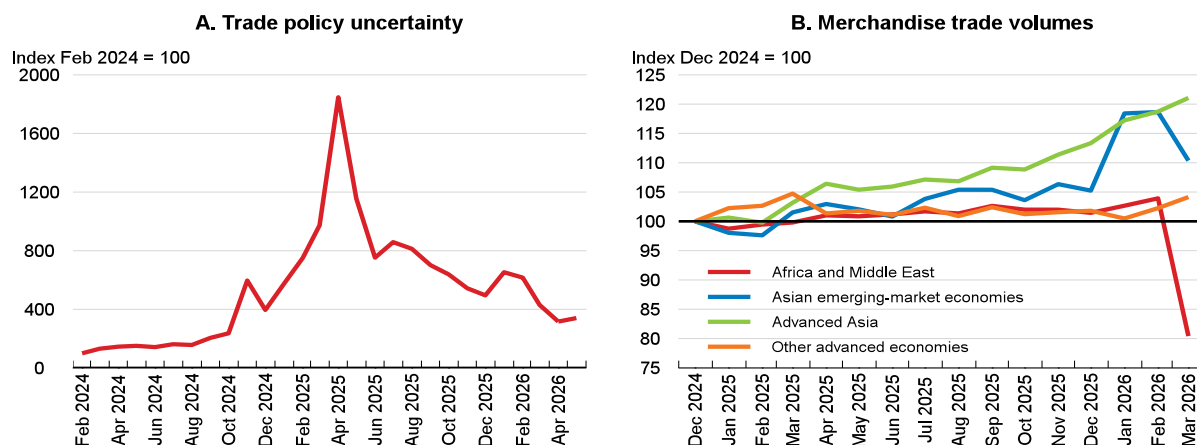
### Global economic conditions were relatively robust before the conflict

The conflict in the Middle East escalated at a time when the global economy was relatively robust. Annualised global growth was 3.1% in the fourth quarter of 2025 and continued to expand at a solid pace in many economies through much of the first quarter of 2026. Technology-related investment has strengthened in several economies, most notably the United States, but also in Canada and several European economies including Lithuania, Sweden and Estonia. This has supported industrial production of technology-related products, especially in Asian economies. In China and Korea, strong GDP growth in the first quarter of 2026 was aided by a large increase in production and exports of semiconductor products. Stronger semiconductor exports also contributed to solid growth in Japan in the first quarter, along with resilient domestic demand. In the United Kingdom, first quarter GDP growth was also solid amid improved domestic demand growth. There were signs of softness elsewhere, including in the euro area, with strong first quarter growth in Germany, moderate growth in Italy and a contraction in France. Output is also estimated to have declined in a few countries, including Chile, Israel, Malaysia, Mexico Saudi Arabia and Sweden.

Aggregate household balance sheets were generally in a strong position in the advanced economies when the conflict escalated. Saving buffers were high in most economies, with saving rates above the average in the 2015-19 period across Europe, Australia and Canada. The position of corporate balance sheets was more mixed across countries. The gross operating surplus as a share of GDP was well above the 2015-19 average in some economies, including Canada and Norway, but markedly lower in others, such as Latvia, Lithuania and Poland.

Global trade momentum has also been solid. Trade volumes of goods and services are estimated to have risen by 5.0% in 2025, helped by a steady decline in trade policy uncertainty (Figure 1.8, Panel A) and strong AI-related trade (Figure 1.9, Panel A). China and many other Asian economies have seen particularly strong growth (Figure 1.8, Panel B), with export volumes rising by around 16% in Viet Nam in 2025 and by around 11% in China, helped by higher tech-related spending as well as stronger import demand from emerging-market economies. Export growth from Korea and Japan also strengthened in the first quarter of 2026. By contrast, trade in cars was relatively weak at the end of 2025 (Figure 1.9, Panel A). Monthly data for 2026 from the CPB point to continued strong merchandise trade growth, especially in the advanced Asian economies, but a marked drag on overall merchandise trade in March due to a sharp export decline in Africa and the Middle East.

**Figure 1.8. Reduced policy uncertainty has helped to boost trade**

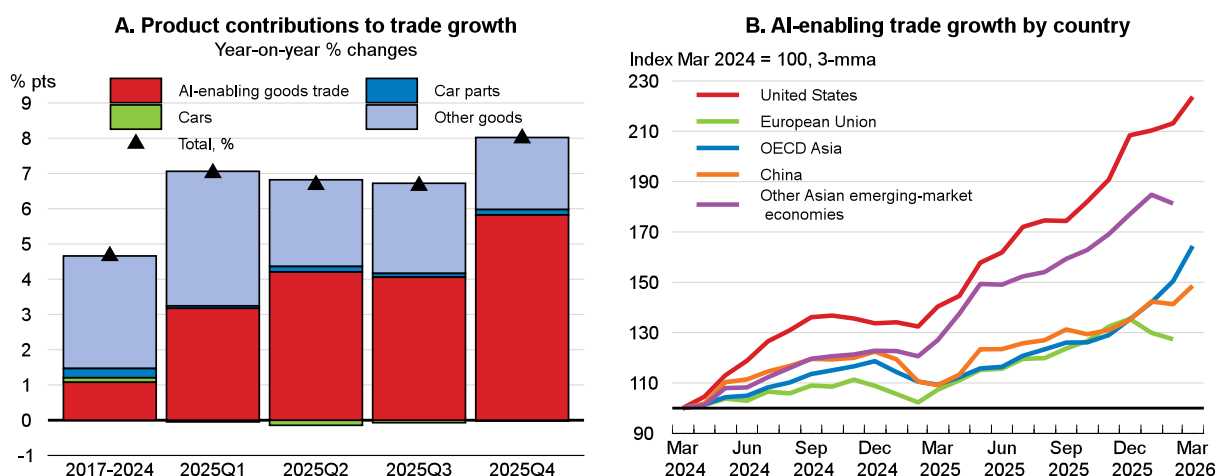


Note: In Panel A, May data based on the 1- 26 May average. Panel B shows export and import volumes, using 2021 weights. Trade in emerging Asian economies includes China, with the slowdown in March likely due to timing of the Lunar New Year.

Source: Data downloaded from <https://www.matteoiacoviello.com/tpu.htm>; CPB; and OECD calculations.

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Figure 1.9. AI related trade has supported global growth, particularly in Asia



Note: Based on monthly merchandise trade statistics in nominal USD. Trade values are computed as the average of exports and imports, with the exception of USA in Panel B, which shows imports only. Panel A – trade for selected countries include G20 and dynamic Asian economies for which timely customs data are available until December 2025. These comprise Argentina, Australia, Brazil, Canada, China, European Union, Hong Kong (China), India, Indonesia, Japan, Korea, Malaysia, Mexico, the Philippines, Singapore, South Africa, Chinese Taipei, Thailand, Türkiye, United Kingdom, the United States and Viet Nam. This represents around three-quarters of global merchandise trade in 2024. Data for Viet Nam is based on partner country data for available G20 and listed dynamic Asian economies. AI-related goods are 104 products at the HS6 level defined in WTO (2025). Cars and car parts are 109 products at the HS6 level. Panel B - OECD Asia includes Japan and Korea. Other Asian emerging-market economies include Hong Kong (China), India, Indonesia, Malaysia, the Philippines, Singapore, Chinese Taipei, Thailand, and Viet Nam. Source: Eurostat; ITC Trade Map; UN Comtrade; and OECD calculations.

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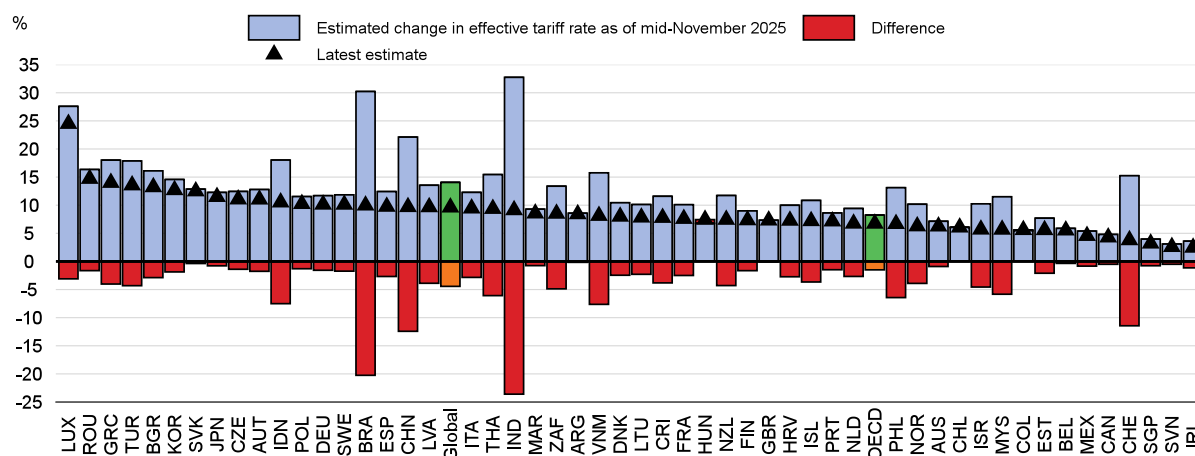
Changes to US trade policies since November have lowered the (ex-ante) effective tariff rate on US merchandise imports from 14% at the time of the December 2025 OECD Economic Outlook to an estimated 9.6% including all pronouncements in force up to 6 April 2026. Following the US Supreme Court ruling that the International Emergency Economic Powers Act (IEEPA) did not authorise the imposition of tariffs in February, the United States introduced a new 10 percentage point tariff on all countries. The increase applies to all imported goods other than products subject to separate sector-specific tariffs, products specifically exempted, and USMCA-compliant merchandise imports from Canada and Mexico. Sector-wide tariffs, implemented based on investigations by the US Office of the Trade Representative, remain in place, although a number of changes were announced in April.<sup>1</sup> The resulting change in the effective tariffs applied by the United States varies markedly across economies, with sizeable reductions for Switzerland as well as several emerging-market economies, including Brazil, China and India (Figure 1.10). These rates could change further in the coming months. The 10-percentage point tariff will expire in late July 2026, unless extended by Congress, and a new pharmaceutical tariff regime is set to be implemented in the United States, effective on 31 July 2026. The likely impact is uncertain but could be modest if there are extensive exemptions, with increases in bilateral tariffs only for a handful of economies with significant pharmaceuticals shares in exports, mostly in Europe.<sup>2</sup>

<sup>1</sup> A framework agreement was also concluded with Switzerland.

<sup>2</sup> Tariffs of 100% will be imposed on branded pharmaceutical products from companies that have not secured pricing agreements with the US administration, compared to 25% tariffs on branded products from companies that have pricing agreements. Generic drugs have been exempted from tariff increases. Framework agreement partners will benefit from lower rates.

**Figure 1.10. US import tariffs on most countries have fallen this year**

Changes relative to December 2024 tariff rate



Note: Estimated percentage point change in 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. The mid-November 2025 estimates were published in the December 2025 OECD Economic Outlook, prior to the ratification of the framework agreement between the United States and Switzerland.

Source: US Census Bureau; the White House; US Federal Register; and OECD calculations.

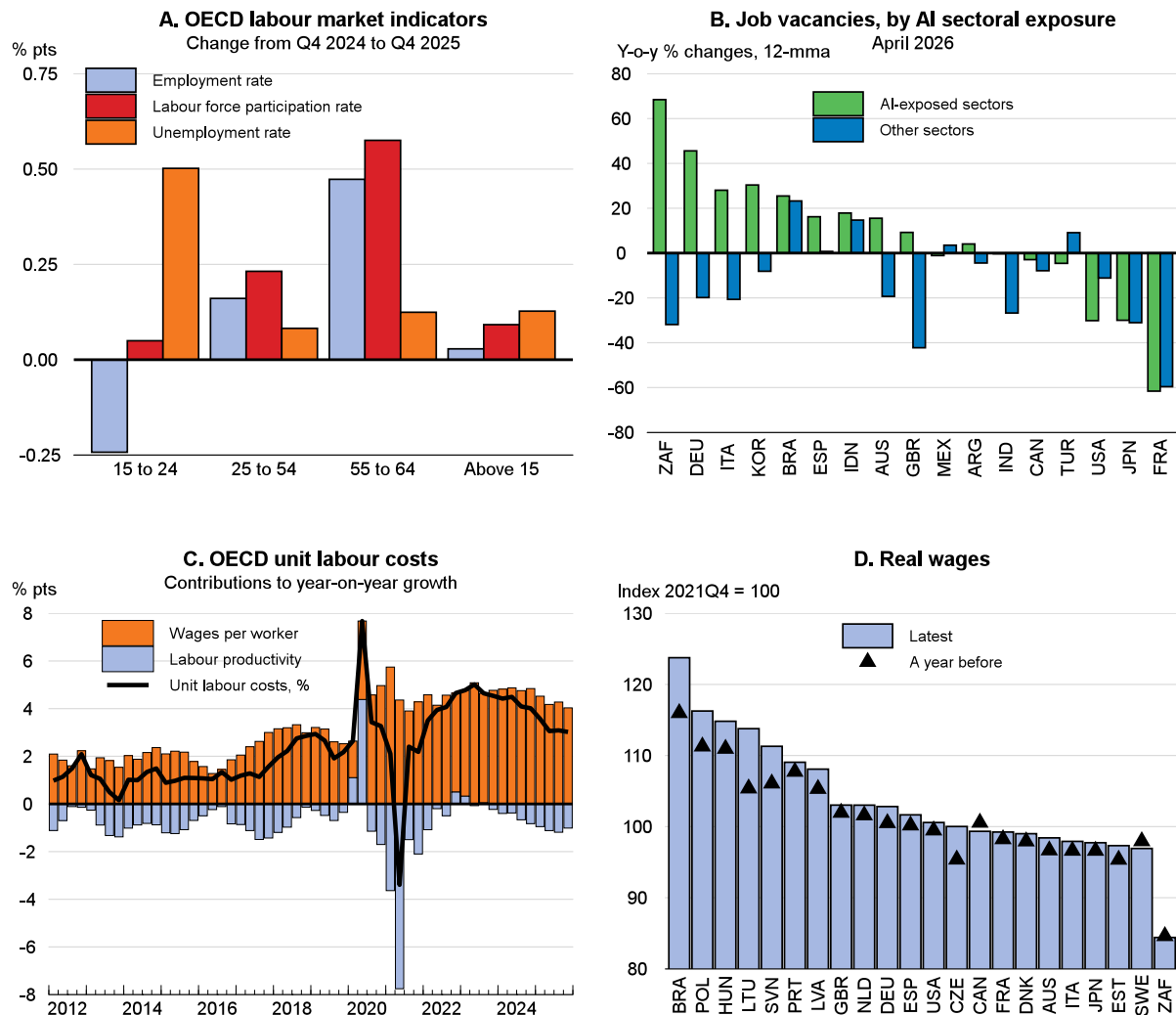
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### ***Labour market conditions have been broadly stable***

Labour market conditions remained broadly stable prior to the conflict, with the OECD unemployment rate still at low levels by historical standards. Nonetheless, different worker cohorts had diverse experiences: employment and labour force participation rates were rising in the OECD as a whole for those aged 55-64 but people in the 15-24 age group experienced a decline in the employment rate (Figure 1.11, Panel A). Job vacancies, a forward-looking measure of labour demand, have continued to moderate in several economies, but the rate of easing has not yet risen since the escalation of conflict in the Middle East. There are also no signs of widespread labour displacement due to business adoption of AI technologies at the industry level. Measured job vacancies of the industries identified as being most exposed to AI have increased more than other sectors over the year to April 2026 in most economies with available data, with the United States being a notable exception (Figure 1.11, Panel B). Other recent OECD analysis does not find evidence of substitution of workers with AI tools either, with a lack of workers with digital skills emerging as a barrier to the adoption of AI technologies (OECD, 2026b).

Nominal wage growth remained relatively elevated across the OECD in the final quarter of 2025, growing by 4% in year-on-year terms (Figure 1.11, Panel C), but is likely to lag inflation increases as seen in 2022-23. The level of real wages remained below 2021 levels in several countries even before the renewed energy price increases this year, including in France, Australia, Italy, Japan and South Africa (Figure 1.11, Panel D). Monthly data in early 2026 suggest some moderation in nominal wage growth in Germany and the United States, but little change in the United Kingdom and Japan. Unit labour cost growth in the OECD eased in 2025 despite the solid wage gains, aided by a recovery in labour productivity growth in many economies (Figure 1.11, Panel C). Median labour productivity growth (output per person employed) across OECD economies rose from 0.3% in the first half of 2024 to 1.2% by the fourth quarter of 2025, a rate that was broadly in line with the average pace through 2010-19.

**Figure 1.11. Labour market conditions remain broadly stable with limited signs of AI-related displacement**



Note: For Panel A, the aggregation is based on OECD countries except Costa Rica and Iceland due to missing data. Missing information for October 2025 for the United States were replaced by a linear interpolation between September and November 2025. In Panel B, AI-exposed sectors correspond to 'Information technology', 'Finance & Insurance', 'Real estate and rental and leasing', 'Professional, scientific and technical services' and 'Management of companies and enterprises'; vacancies of "Public administration" are excluded. Panel D shows labour compensation per employee deflated by the private consumption deflator except for Brazil, where it corresponds to real labour income (usual earnings); 'Latest' corresponds to 2026Q1 for Brazil, Denmark, Germany, Japan, Spain and the United States and to 2025Q4 for other countries.

Source: OECD Economic Outlook 119 database; OECD Infra-Annual Labour Statistics database; CEIC; and OECD calculations.

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### ***The energy price shock has pushed up inflation***

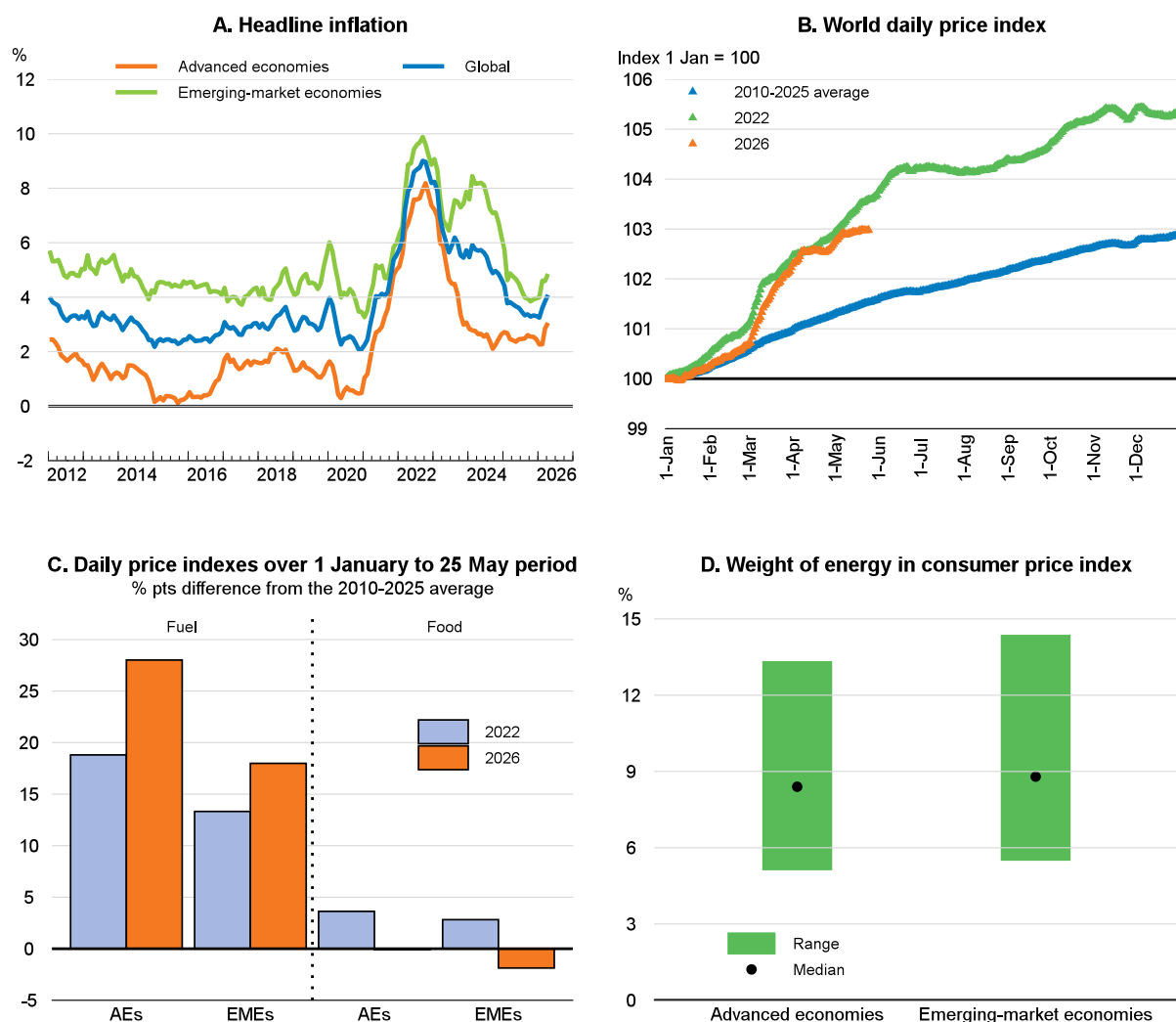
There were already signs of headline inflation picking up in the first two months of 2026 in some countries, including Colombia, Greece, India, Mexico and the Philippines. The subsequent increase in global commodity prices and producer costs following the escalation of the conflict has generated a more widespread increase in consumer price inflation. Monthly headline inflation in March and April 2026 picked up notably in many economies, including the euro area, Chile, Peru and the United States. In some other countries, including Hungary, India, Korea and China, government support measures such as price caps and indirect tax reductions, along with relatively low food inflation, helped keep inflation contained.

Online retail prices provide another timely indicator of price pressures. Daily price indices derived from a large sample of retailers (including petrol price offers) show a steep and persistent rise in prices since 27 February, with a similar trajectory to that observed in the early period of the inflation spike in 2022 following Russia's invasion of Ukraine (Figure 1.12, Panel B). This pattern is apparent across both advanced and emerging-market economies (Figure 1.12, Panel C). So far, the daily price movements reflect the direct impact from the increase in energy prices, with little sign of increased food inflation so far due to the effect of higher energy and fertiliser prices on the costs of food producers. Despite easing somewhat over the past month, urea prices remain substantially higher than in late-February, though the spike in prices through March and April was less pronounced than in early 2022 in response to Russia's war on Ukraine.

The impacts of higher inflation on households will vary across countries depending on the intensity of use of the affected energy goods. The share of energy in household consumption baskets varies markedly across both advanced and emerging-market economies (Figure 1.12, Panel D), though impacts will also be conditioned by differences in the share of fossil fuels in the energy mix across countries. Emerging-market economies are likely to be hard hit given they tend to have a higher share of energy in consumption baskets. Furthermore, within OECD countries, households in the lowest part of the income distribution will be most adversely impacted, owing to their typically higher consumption share of energy relative to higher income households.

Inflation expectations have risen in some economies following the spike in energy and other commodity prices. The risk of expectations becoming destabilised may be more pronounced given recent price pressures are concentrated in salient items for household consumption baskets, such as energy. Moreover, they closely follow a period of relatively high inflation in such items: even before the escalation of the conflict, prices of energy and food relative to other consumer items generally remained elevated compared to the pre-pandemic period (Figure 1.13, Panel A). Measures of household inflation expectations over the medium-term picked up in April in the euro area and United States. Market-based measures of medium-term inflation expectations also rose sharply, especially in Brazil, the euro area and United Kingdom, though have eased somewhat in recent weeks (Figure 1.13, Panel B). Survey-based measures of medium-term corporate inflation expectations have also moved higher in Japan, though they remained stable in Canada and the United Kingdom.

Figure 1.12. The energy price shock is beginning to feed through to consumer prices

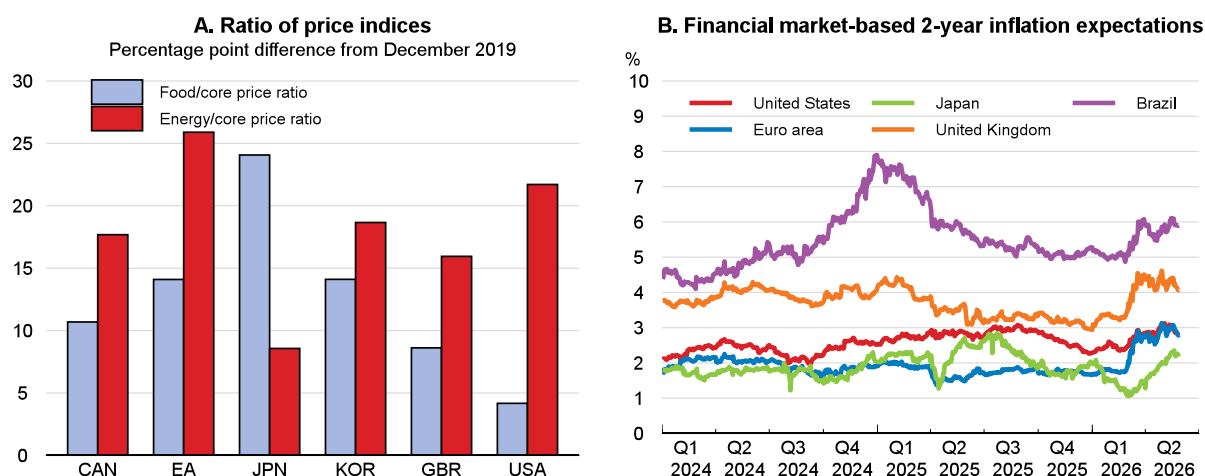


Note: Panels B and C are based on data up to 25 May 2026. The daily price indexes are derived from the methodology outlined by Cavallo and Rigabon (2016) and use web-scraping technologies to monitor and collect daily prices on millions of items sold by online retailers that also have a physical presence in 27 countries. Price changes are then weighted based on official CPI weights in each country and aggregated to a world index using Purchasing Power Parity weights. Sectors not observed directly (e.g. education, health, real estate) are proxied with related goods that have shown similar historical patterns or estimates based on past CPI data. Panel C is based on the daily price data with a base period of 1 January for each year. As an example of how to read this chart, the first orange bar in Panel C highlights that for advanced economies, fuel price inflation in 2026 over 1 January to 25 May was nearly 30% higher than average fuel price inflation over 1 January to 25 May across the years in the 2010-2025 period. In Panel D, 'Advanced economies' is based on 37 countries, and 'Emerging-market economies' is based on 20 countries.

Source: OECD Consumer Price database; State Street PriceStats; Eurostat; US Bureau of Economic Analysis; national sources; and OECD calculations.

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**Figure 1.13. Inflation expectations have moved higher following the energy price shock**



Note: In Panel A, the data refer to April 2026. Panel B is based on data up to 20 May 2026. Financial market-based inflation expectations are derived from two-year inflation swap zero coupon rates, except for Brazil, where the two-year breakeven inflation rate is used.

Source: OECD Consumer Price Indices database; Bloomberg; and OECD calculations.

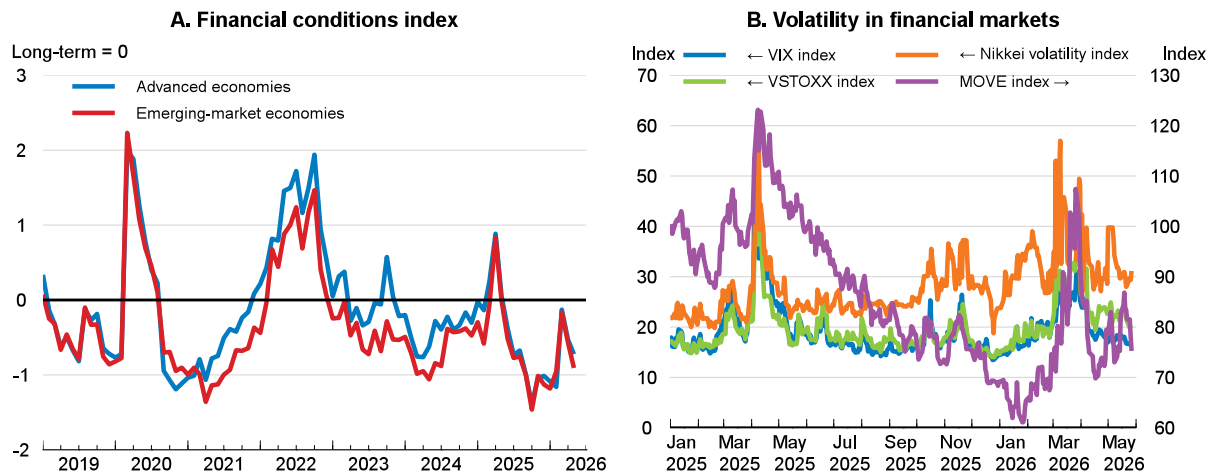
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### ***Financial conditions have become less accommodative***

Financial conditions remain accommodative in both advanced and emerging-market economies, but have tightened since the onset of the conflict in the Middle East (Figure 1.14, Panel A). Amid higher volatility there has been considerable repricing, particularly of equities outside the US, major crypto-assets and precious metals. Sovereign and corporate bond yields have risen, particularly for lower-rated borrowers, reflecting expectations of higher inflation and policy rates as well as more elevated risk premia. An appreciation of the US dollar has further tightened financial conditions in some emerging markets. Despite these changes, equity valuations generally remain elevated and bond spreads compressed relative to historical norms.

The escalation of the Middle East conflict initially resulted in a sharp decline in global equity markets (Figure 1.15, Panel A). US markets have subsequently recovered, largely driven by technology and energy stocks, but elsewhere the decline has proven more persistent than in recent geopolitical crisis episodes (Figure 1.15, Panel B). Despite an increase, equity risk premia remain low by historical standards, suggesting that valuations are still elevated. In some sectors, such as software, an adjustment in prices had already begun in late 2025, especially in the US software sector amid concerns about the impact of AI on the business models of existing companies. The equity prices of private credit and private equity companies have also declined due to their significant exposure to the software sector. Crypto-asset markets have also recorded substantial price declines, reflecting a broader shift away from higher-risk assets. Since the end of October 2025, the total market value of crypto-assets has fallen by around 35%, although stablecoins have broadly maintained their market capitalisation. The price of gold – traditionally considered a safe haven asset – has been highly volatile since early 2026, with sharp falls in March driven by investor sales to raise liquidity and by expectations of interest rate increases. Nonetheless, prices remain high by historical standards, after very strong growth through 2025.

**Figure 1.14. Financial conditions remain mildly accommodative but have tightened amidst higher market volatility**



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. Latest data points are as of April 2026. In Panel B, equity markets' implied volatility as measured by the VIX, the VSTOXX and the Nikkei volatility indices can be interpreted as the market expectation of risk (30-day expected volatility) in US, European and Japanese markets respectively. The MOVE index is a yield curve weighted index of the normalised implied volatility on 1-month Treasury options which are weighted on the 2-, 5-, 10- and 30-year contracts. Latest data points are as of 27 May 2026.

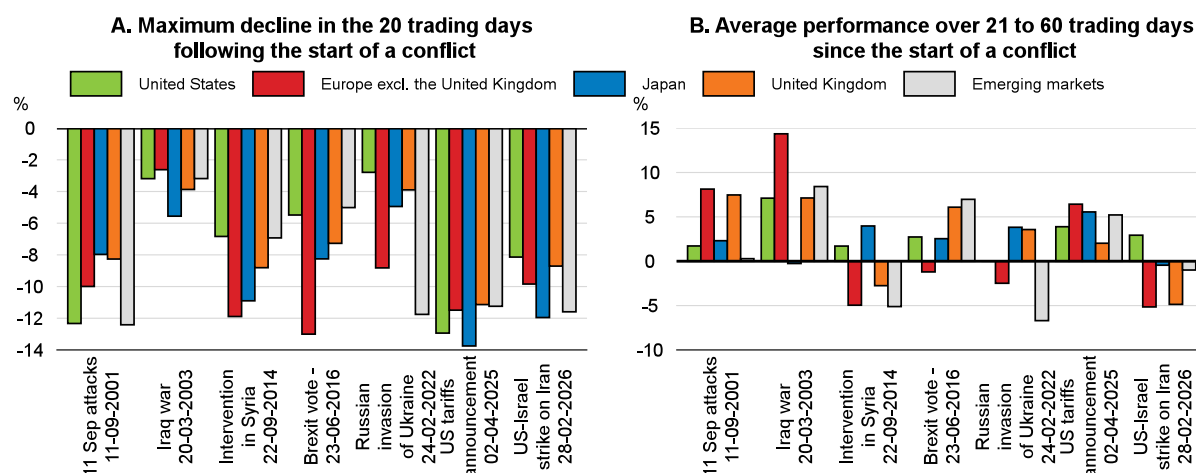
Source: FRED Bank of Saint Louis; LSEG; and OECD calculations.

Sovereign bond yields have risen across most advanced and emerging markets, with China an exception (Figure 1.16). In most countries, the increase has been more pronounced for shorter maturities. This mainly reflects the upward impact of rising energy prices on market-based inflation expectations across many advanced and emerging market economies, in tandem with expectations of higher policy rates. China remains comparatively insulated helped by low pre-conflict inflation and scope to cushion global energy supply shocks. There is also evidence of some limited risk repricing. In the euro area, sovereign spreads over German Bunds have widened but remain low by past standards. Spreads on USD-denominated sovereign bonds have also increased moderately in emerging-market economies.

Corporate bond spreads have increased moderately, especially for lower-grade issuers and in emerging economies and Europe, but overall remain compressed. Corporate borrowing rose in the first quarter of 2026 for both higher and lower-rated firms, and bank lending strengthened in the major advanced economies as lending and deposit rates broadly stabilised. Resilient macroeconomic fundamentals and investor confidence in productivity gains from AI have helped to maintain favourable market valuations and credit conditions, even as geopolitical tensions weighed on investor sentiment. Mortgage costs in the United States and European economies have increased markedly as the increase in sovereign bond yields feeds through into borrowing costs. Sizeable increases have occurred in the United Kingdom, with more moderate rises in Germany and the United States.<sup>3</sup>

<sup>3</sup> In the United Kingdom, the average rate on a two-year fixed mortgage with a 75% loan-to-value ratio rose to 5.14% at end-April, from 3.97% at end-February 2026. In Germany, short- and long-term mortgage rates increased to 2.85% and 3.38%, respectively, in end-May 2026, up from 2.2% and 3.0% at end-February. In the United States, the 30-year mortgage rate rose to 6.65%, from 6.1% over the same period.

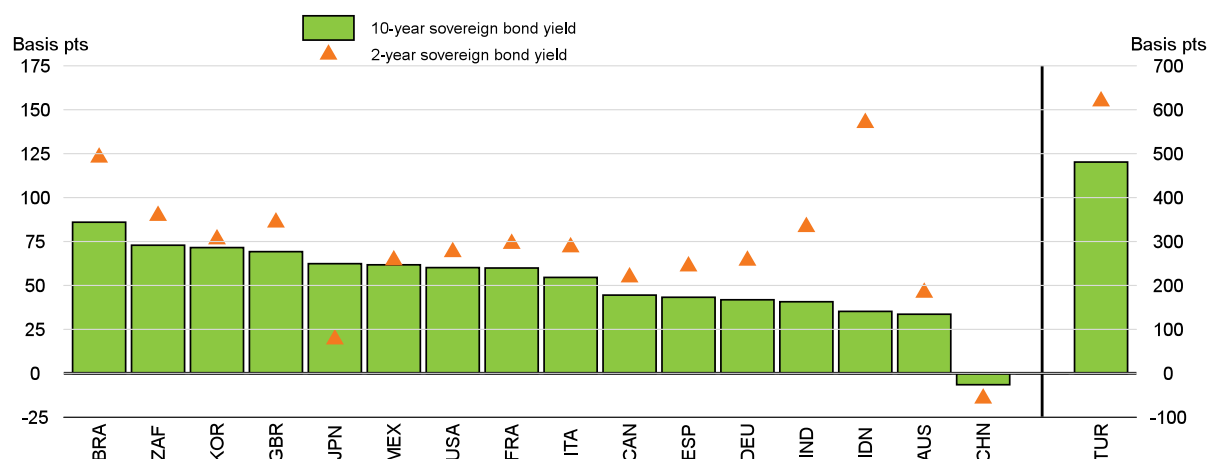
**Figure 1.15. Equity prices declined substantially following the escalation of the Middle East conflict**



Note: Equity benchmarks used are: Nikkei 225 (Japan), S&P 500 (United States), MSCI Europe excluding the UK (Europe), FTSE All-Share (United Kingdom), and MSCI Emerging Markets (Emerging markets). The initial dates indicated for each episode attempt to capture any material pre-event impact and hence may differ from actual starting dates. In both panels, changes are always relative to the initial dates for each episode. In Panel B the latest data points are as of 22 May 2026. Source: LSEG; and OECD calculations.

The US dollar has strengthened since the escalation of tensions in the Middle East, reversing the steady decline seen previously. The renewed appreciation of the US dollar, particularly for Asian emerging market economies, reflects its positive correlation with oil prices in recent years, helped by the United States becoming a net oil exporter, and continued market perception that it is a safe haven when a global shock occurs. This adds to domestic energy price pressures in many economies and tightens financial conditions in emerging markets by increasing external debt-servicing burdens, raising import costs, and intensifying capital outflow pressures. Sustained inflows into major emerging-market equity and bond funds through late 2025 and early 2026 have gradually given way to outflows (EPFR, 2026).

**Figure 1.16. Sovereign bond yields have increased since the onset of the conflict in the Middle East**



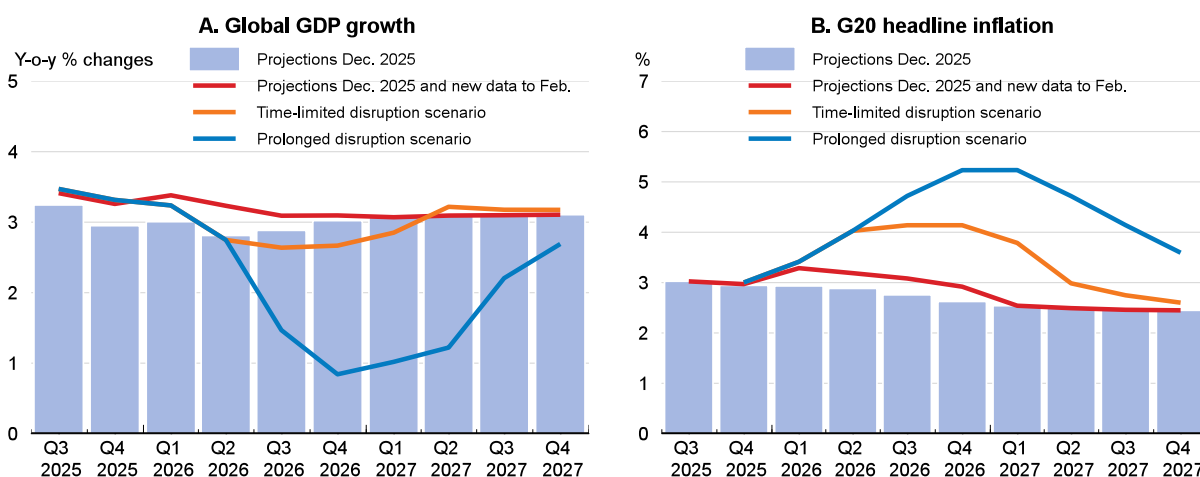
Note: Türkiye is shown on the right-hand scale, all other countries on the left-hand scale. This figure shows the difference between the average over the 10 days to 27 May 2026 and the value on 27 February 2026 using yields of domestic-currency sovereign bonds. Source: LSEG; and OECD calculations.

## Scenarios

The current conjuncture and the outlook are exceptionally uncertain. Growth prospects depend on many factors, including the degree of damage to energy infrastructure and timeline for its repair, the durability of any negotiated settlement, the time it takes for normal trade patterns and transportation routes with the Middle East to resume, the extent of downstream bottlenecks in global supply chains and whether there are further enforced output reductions in importing countries in response to input shortages. The downward pressure on global growth and upward pressure on inflation from each of these factors will become more pronounced the longer the conflict persists (Figure 1.17, Panel A). Given the high level of uncertainty, two scenarios for the global economy are presented, conditioned on distinctly different evolutions of the conflict:

- A “time-limited disruption” scenario, with energy production in the Gulf economies gradually recovering from late in the second quarter of 2026 with regular air and shipping routes fully operational from that point. This is based on a technical assumption that energy prices evolve in line with futures markets pricing for oil and gas as of 26 May, which have energy prices peaking in the second quarter of 2026 before declining steadily thereafter. Under this assumption, the Brent crude oil price peaks at an average quarterly value just under USD 102 per barrel, with the average annual value of USD 92 per barrel in 2026 and USD 80 per barrel in 2027. Gas prices follow a similar trajectory, with a peak in the second and third quarters of 2026 and a decline, especially in 2027. Food prices also follow available futures curve data, with overall food commodity prices peaking in the first half of 2027 before starting to moderate. Other commodity prices are assumed to remain at their levels in April. Some shortages of key products are incorporated in a few countries, but they are generally assumed to be limited and short lived. Economic prospects in this scenario are based on projections made for each country.
- A “prolonged disruption” scenario, with energy production in the Gulf economies remaining subdued up to the third quarter of 2027, and rising global supply shortages that cause disruptions to production in importing and exporting countries. Under this scenario, energy prices are assumed to be 50% higher over the period from the third quarter of 2026 to the third quarter of 2027. The price of fertilisers and other affected inputs into industrial processes, such as sulphur and helium, would also rise as supply is curtailed. In such a situation, a renewed tightening in financial conditions would be likely and household confidence would be likely to weaken further. Outcomes under this scenario are based on illustrative simulations with the NiGEM global macroeconomic model.

**Figure 1.17. Global growth prospects depend heavily on the duration of the conflict**



Source: OECD Economic Outlook 119 database; OECD Economic Outlook 118 database; and OECD calculations.

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### ***Global growth will weaken in the time-limited disruption scenario***

Under the time-limited disruption scenario, global GDP growth is projected to slow from 3.4% in 2025 to 2.8% in 2026, before picking up to 3.1% in 2027 (Figure 1.17, Panel A). Higher energy prices will reduce domestic demand growth through 2026, with the terms of trade deteriorating in energy-importing economies. The unpredictable evolution of the conflict and concern about possible shortages will also undermine confidence and raise uncertainty. Set against this, strong underlying momentum in many economies, with booming technology-related investment and broadly supportive financial conditions and fiscal policies, should support near-term growth. Households are also expected to smooth consumption by modestly drawing down on their high saving buffers, and the reduction in effective tariff rates on imports to the United States will reduce headwinds to growth. The surprising strength of the global economy through the end of 2025 and early months of 2026 would have prompted an upward revision to projected global real GDP growth absent the escalation of conflict in the Middle East (Figure 1.17, Panel A).

Under this scenario, global growth is projected to soften considerably in the second quarter of 2026, before picking up gradually thereafter, with significant weakening in many Asian economies and an outright decline in output in many Gulf economies. The subsequent gradual recovery in the Gulf economies as production recovers is reflected in a rising contribution from the rest of the world to global growth in 2027. Central banks are largely expected to keep monetary policy rates stable through 2026 as they balance the risk of inflation expectations becoming de-anchored with that of a sharper growth slowdown stemming from the conflict. In 2027, moderating energy prices are assumed to allow policy rate reductions in many countries, including the United Kingdom, Australia, Colombia, Hungary, Iceland, Türkiye, Brazil, Romania and South Africa. Fiscal policy is projected to be broadly neutral in the typical advanced economy in 2026, before some mild consolidation occurs in 2027. In contrast, fiscal policy is assumed to become more expansionary in 2026 in a few large economies, including Germany and Japan.

Real GDP growth in the United States and Canada will benefit from stronger energy-sector exports, but this will be offset by the negative impact of higher energy prices on inflation and household purchasing power. In the United States, growth is projected to slow from 2.1% in 2025 to 2.0% in 2026 and 1.8% in 2027, while Canada's growth is expected to decline from 1.7% in 2025 to 1.2% in 2026 before rebounding to 1.7% in 2027 as domestic demand recovers. In Europe, growth in the euro area is projected to ease from 1.4% in 2025 to 0.8% in 2026, then pick up to 1.2% in 2027, with labour market resilience and the positive influence of defence spending initiatives partially offset in several economies by tighter fiscal policy and the fading of NextGenerationEU spending. In the United Kingdom, growth is expected to slow from 1.4% in 2025 to 0.9% in 2026, before recovering to 1.1% in 2027 as global trade and financial conditions improve. Fiscal support is expected to aid the recovery in advanced Asian economies, despite their direct exposure to the disrupted trade flows stemming from the conflict that cause a sharp slowdown in the second quarter of 2026. Japan's growth is projected to dip from 1.1% in 2025 to 0.6% in 2026 and 0.8% in 2027, whereas growth in Korea is projected to strengthen from 1.0% in 2025 to 2.6% in 2026 and 1.9% in 2027, driven by a strong labour market and the robust semiconductor cycle.

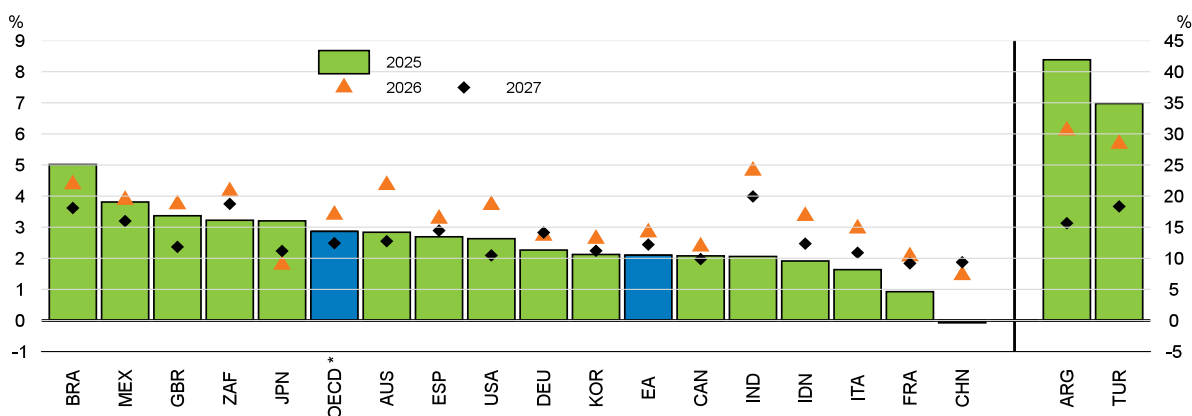
In the emerging-market economies, China's growth is projected to ease from 5.0% in 2025 to 4.5% in 2026 and 4.3% in 2027, as energy-related vulnerabilities and real estate sector adjustments weigh on activity despite mitigating factors such as the increasing share of renewables in the energy mix, adequate oil reserves and gasoline price caps. India's growth is also expected to moderate from 7.6% in fiscal year 2025–26 to 6.3% in 2026–27 and 6.4% in 2027–28, reflecting the impact from the increase in energy prices and rationing initiatives. Indonesia is projected to see a more modest dip in growth, partly due to lower reliance on energy imports from the Middle East, with growth easing from 5.1% in 2025 to 4.7% in 2026, followed by a recovery to 5.0% in 2027. In Latin America, Mexico's growth is projected to strengthen from 0.8% in 2025 and 2026 to 1.8% in 2027, supported by past policy rate reductions and resilient labour markets, while Brazil's growth is expected to slow from 2.3% in 2025 to 1.6% in 2026 before rebounding to 2.1% in 2027 as inflation declines and lower interest rates support domestic demand growth.

Employment growth in the OECD economies is expected to be relatively subdued in 2026 before edging up in 2027 as economic growth recovers in the time-limited disruption scenario. Annual employment growth in the median OECD country is projected to be 0.4% in 2026 and 0.5% in 2027. Labour force growth is projected to further ease, with populations ageing and migration inflows moderating in some economies. Nonetheless, the median unemployment rate across OECD economies is projected to rise slightly from 5.5% in 2025 to 5.7% in 2027. Nominal wage growth is expected to continue to decline in a majority of OECD economies as labour markets further loosen. The spike in headline inflation this year will cause real wages to weaken markedly, with around one-third of OECD economies projected to have negative real wage growth. Nonetheless, real wage gains are projected to gain pace in 2027, as the energy shock passes and stronger labour productivity growth helps reduce inflationary pressures.

Headline inflation is projected to rise in 2026 in many economies in this scenario, reflecting the recent increase in energy and other commodity prices (Figure 1.17, Panel B and Figure 1.18). While inflation pressures are generally projected to abate in 2027 as energy prices decline, this will be partly offset by the slight increase in food price inflation, as the lagged impact of higher energy and fertiliser prices on food commodity prices becomes more apparent. In the United States, inflation is expected to remain elevated in the near-term, reflecting the energy shock and the continued lagged impact from past tariff rate increases. However, inflation is projected to moderate as energy prices ease and tariff impacts fade. In Japan, the near-term rise in inflation will be restrained by the cap on gasoline prices and additional subsidies on electricity and gas, with inflation projected to move back to the 2% target in 2027. Following a rise in headline inflation through the first three quarters of 2026, euro area inflation is also projected to move back to target, with unit labour cost growth projected to moderate further in 2027. Similarly, emerging-market economies are projected to experience a spike in inflation that fades over time. In India, the fading deflationary impact of past food and energy price-reducing shocks will be exacerbated by the surge in energy prices and recent currency depreciation. Inflation in China is expected to rise to between 1½-2 per cent in 2026-27 as higher energy prices are accompanied by the planned reduction in spare industrial capacity. Further disinflation in Argentina and Türkiye is expected, due to continued excess capacity, despite the headwinds from energy and fertiliser costs. Inflation is also anticipated to moderate in 2027 in several other emerging-market economies, including Brazil, Indonesia, Mexico and South Africa.

**Figure 1.18. Headline inflation is projected to rise in many economies this year**

Headline inflation



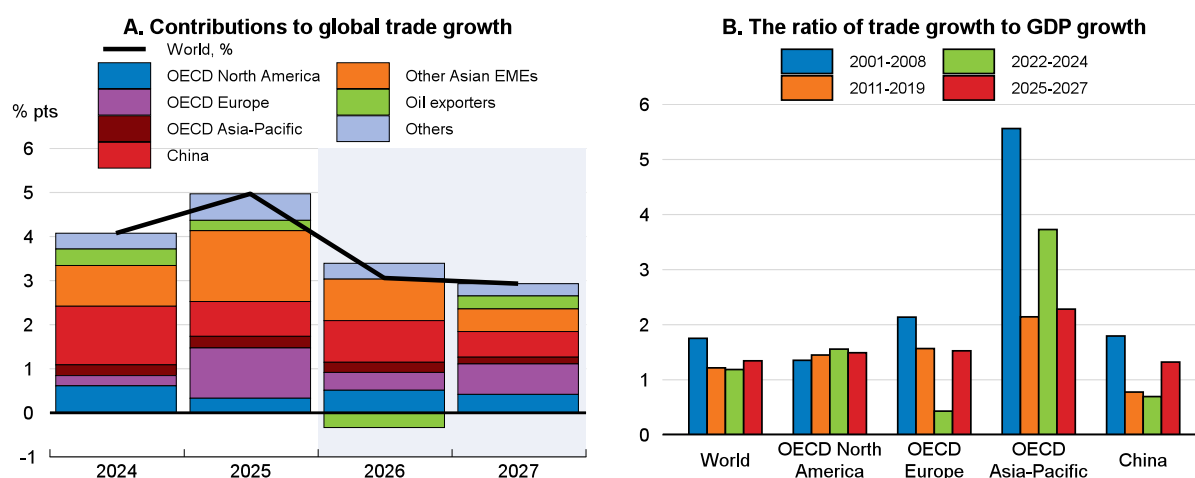
Note: Argentina and Türkiye are shown on the right-hand scale, all other countries on the left-hand scale. Data refer to the personal consumption expenditure price index for the United States, harmonised index of consumer prices for the euro area aggregate, euro area member states and the United Kingdom, and national consumer price indices for all other countries. India projections are based on fiscal years, starting in April. OECD is computed as the median of member countries.

Source: OECD Economic Outlook 119 database; and OECD calculations.

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Global trade growth is projected to moderate from 5.0% in 2025 to 3.1% in 2026, and slow further to 2.9% in 2027 (Figure 1.19, Panel A). In 2026, export volumes in China and the dynamic Asian economies are expected to grow by over 6.5%, amongst the fastest rates globally. Aggregate trade growth is projected to slow in the second and third quarters of this year, reflecting a sharp decline in trade with the Gulf economies, and increasing energy and transport costs. Set against this, strong momentum at the turn of the year, lower tariff rates on imports into the United States and strong AI-related trade should help to sustain overall global trade growth. In Europe, higher energy prices and limited AI-related exports are expected to lower trade growth in 2026 to less than half the rate in 2025, before a recovery in 2027. In the United States, overall trade growth is boosted over time by lower tariffs and reduced trade policy uncertainty. By 2027, a gradual moderation of trade growth in Asia is projected to bring overall world trade growth close to the rate of world GDP growth (Figure 1.19, Panel B).

**Figure 1.19. Global trade growth is projected to moderate**



Note: 'OECD Europe' includes the OECD members of the European Union, Iceland, Switzerland, Türkiye and the United Kingdom. For this chart, it excludes Norway. 'OECD Asia-Pacific' includes Australia, Japan, Korea and New Zealand. 'Other Asian EMEs' includes Hong Kong (China), India, Indonesia, Malaysia, the Philippines, Singapore, Chinese Taipei, Thailand and Viet Nam. 'Oil exporters' includes Algeria, Angola, Azerbaijan, Bahrain, Brunei, Chad, the Republic of Congo, Ecuador, Equatorial Guinea, Gabon, Iran, Iraq, Kazakhstan, Kuwait, Libya, Nigeria, Norway, Oman, Qatar, Russia, Saudi Arabia, Sudan, Timor-Leste, Trinidad and Tobago, Turkmenistan, United Arab Emirates, Venezuela and Yemen. The trade elasticity in Panel B is calculated as the ratio of world and regional trade growth to GDP growth, both measured in constant US dollars.

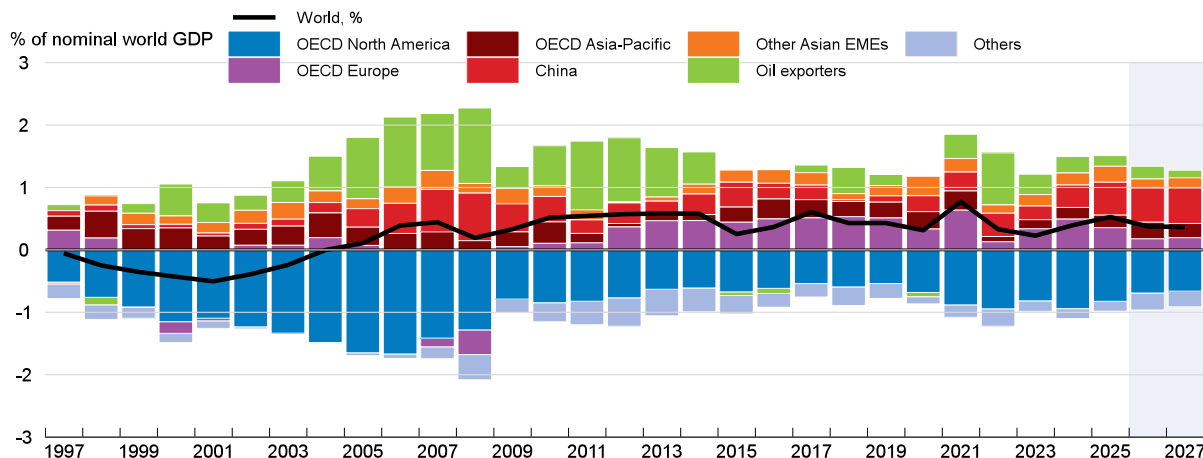
Source: OECD Economic Outlook 119 database; and OECD calculations.

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Global current account balances are projected to decrease slightly over the projection period (Figure 1.20). The current account deficit of the United States is projected to decline from 3.6% of GDP in 2025 to 3.1% in 2026 and 2027, helped by higher revenue from net energy exports and relatively subdued import growth in 2026. The euro area surplus is projected to decline from 2.6% of GDP in 2025 to 1.9% in 2026, before recovering somewhat to 2.2% in 2027. In Asia's largest economies, current account surpluses are projected to rise from 2025 levels, with the exception of India. China's current account surplus is expected to rise from 3.8% of GDP in 2025 to 4.0% by 2027, and that of Japan from 4.8% to 5.4% of GDP. Korea is also projected to have a sharp increase in its external balance, from 6.6% of GDP in 2025 to around 10% of GDP in 2027, helped by continued strong IT-related exports. Sharp changes in energy prices provide favourable terms of trade dynamics for oil producers, although for Gulf economies, trade volumes are not able to respond until after the shock of the conflict has dissipated.

**Figure 1.20. Current account imbalances are projected to decline slightly**

Contributions to global current account



Note: 'OECD Europe' includes the OECD members of the European Union, Iceland, Switzerland, Türkiye and the United Kingdom. For this chart, it excludes Norway.; 'OECD Asia-Pacific' includes Australia, Japan, Korea and New Zealand; 'Other Asian EMEs' includes Hong Kong (China), India, Indonesia, Malaysia, the Philippines, Singapore, Chinese Taipei, Thailand and Viet Nam; 'Oil exporters' includes Algeria, Angola, Azerbaijan, Bahrain, Brunei, Chad, the Republic of Congo, Ecuador, Equatorial Guinea, Gabon, Iran, Iraq, Kazakhstan, Kuwait, Libya, Nigeria, Norway, Oman, Qatar, Russia, Saudi Arabia, Sudan, Timor-Leste, Trinidad and Tobago, Turkmenistan, United Arab Emirates, Venezuela and Yemen. Source: OECD Economic Outlook 119 database; and OECD calculations.

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### ***Prolonged disruptions would inflict a significant further hit to global growth and add to inflationary pressures***

The prolonged disruption scenario is one which the current situation persists well into 2027, with the supply of energy and other critical inputs from the Gulf economies remaining impeded. Global energy supply is assumed to remain 10% lower than the pre-conflict level, with exports from the Middle East economies reduced by 40%. Disruptions to energy production are also assumed to impede production and exports of other critical inputs from the Middle East, notably fertilisers. Faced with a sustained period of lower supply, significant declines in global energy demand are required to bring energy markets into balance. In part this is likely to occur due to shortages of energy and energy products as public and private strategic reserves are depleted, but a sustained period of higher energy (and fertiliser) prices is also likely to occur. These factors will weigh relatively heavily on net energy importers, but will also be felt around the world via higher consumer prices and shortages of inputs from global supply chains (Box 1.2), leading to lower output and energy use across all industries.

Illustrative simulations using the NiGEM global macroeconomic model in forward-looking mode highlight the potential global outcomes in this scenario.

- Oil and gas prices are assumed to rise by 50% relative to the time-limited disruption scenario from the third quarter of 2026 to the third quarter of 2027, when supplies gradually begin to recover, with the increase in energy prices fading gradually thereafter. Fertiliser prices are also assumed to rise to a similar extent, raising agricultural input costs, with food prices up by 4% in 2027.

- Shortages, and the potential loss of efficiency from disruptions to exports of specialised inputs into industrial processes from the Gulf economies, are assumed to result in an enforced rationing of energy for businesses, proxied by a reduction in technical efficiency. In the scenario, efficiency is allowed to decline by 2% in all Asian economies, apart from China, as well as New Zealand and Türkiye, reflecting the stronger direct plus indirect exposure of these economies to energy produced by the Gulf economies (Box 1.2). In all other economies, technical efficiency declines by 1%.
- These developments can also be expected to adversely affect confidence and result in a significant tightening of financial conditions. In the scenario this is proxied by an (ex-ante) increase of 1 percentage point in the household savings ratio, an increase in risk premia and a decline in equity prices of 15%. The risk premia shocks vary across countries, with investment risk premia assumed to rise by 75 basis points in the advanced economies and 100 basis points in emerging and developing economies. The term premium on government long-term bonds is also assumed to increase by 50 basis points, placing upward pressure on debt servicing costs.

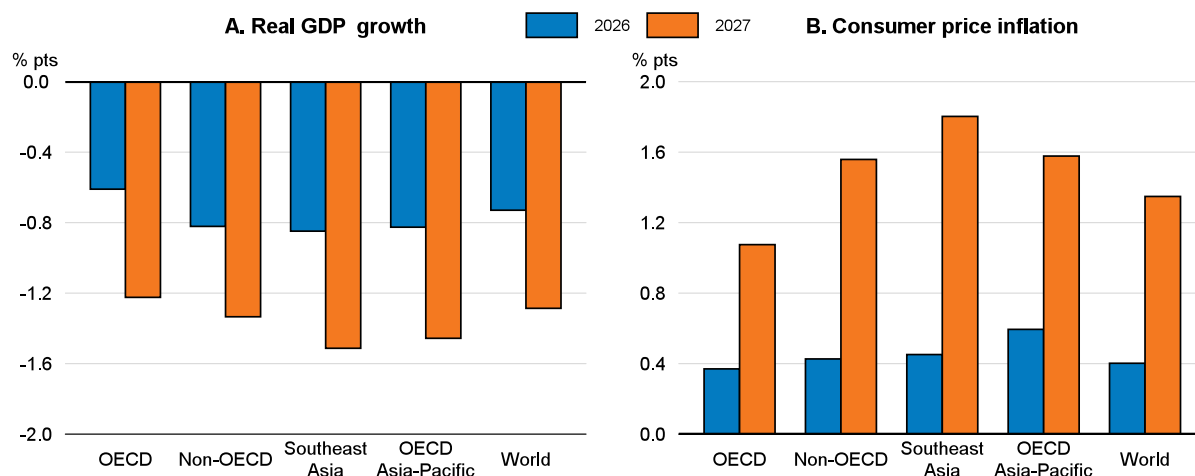
Taken together, these shocks could reduce global GDP growth by 0.7 percentage points in 2026 and 1.3 percentage points in 2027 relative to the time-limited disruption scenario, bringing aggregate world GDP growth down to 2.1% and 1.8% respectively (Figure 1.21, Panel A). Such rates are extremely low outside of major global recessions such as the global financial crisis or the pandemic, when global output declined, and some countries could experience an outright recession. Higher input prices would also push up global inflation further, by 0.4 percentage points in 2026 and 1.3 percentage points in 2027, even though their impact on costs and output prices is partially mitigated by the weakness of final demand (Figure 1.21, Panel B). Higher prices and a weaker labour market would hit real incomes and household spending, adding to the spending reduction from higher precautionary saving. Business investment would be hit by the higher cost of capital and weak demand, declining by close to 5% by the latter half of 2027 relative to the time-limited disruption scenario. Even as the assumed set of shocks begins to fade from the fourth quarter of 2027 onwards, the period of prolonged disruption will have persisting effects, with potential output in many economies at the start of 2028 between 1-1½ per cent lower relative to the time-limited disruption scenario, making fiscal positions more challenging and lowering future living standards.

The impact of the different shocks will vary across economies, with that on inflation being relatively higher in emerging and developing economies, reflecting the greater share of energy and food prices in their consumer price baskets. Many economies in Asia are likely to be hit heavily, reflecting their relatively high reliance on energy inputs from the Gulf economies, but higher inflation, shortages, tighter financial conditions and weaker confidence are also likely to weaken growth significantly in Europe and North America.

In the near-term policy interest rates rise by between 50-75 basis points in most economies to help ensure that inflation expectations remain anchored, with private sector inflation expectations relatively sensitive to changes in energy and food prices. However, these increases are short-lived with the downside effects on output and demand intensifying into 2027. The automatic budgetary stabilisers are allowed to cushion the effect of the shocks, pushing up government budget deficits by between ¼-½ per cent of GDP in the typical economy in 2027 and raising government debt-to-GDP ratios, but no additional discretionary fiscal support is assumed to be provided to cushion the impact of the shocks.

**Figure 1.21. A prolonged disruption scenario raises inflation and hits growth**

Percentage points change from the time-limited disruption scenario



Note: The prolonged disruption scenario assumes oil, gas and fertiliser prices rise by 50% relative to the time-limited disruption scenario from 2026Q3 to 2027Q3, followed by a gradual decline as supplies recover. The scenario also assumes lower technical efficiency due to energy rationing and supply-chain disruptions, higher household saving and tighter financial conditions. See text for further description of the shocks implemented. Source: OECD calculations using the NiGEM macroeconomic model.

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### Box 1.2. Exposures to energy supply from the Persian Gulf

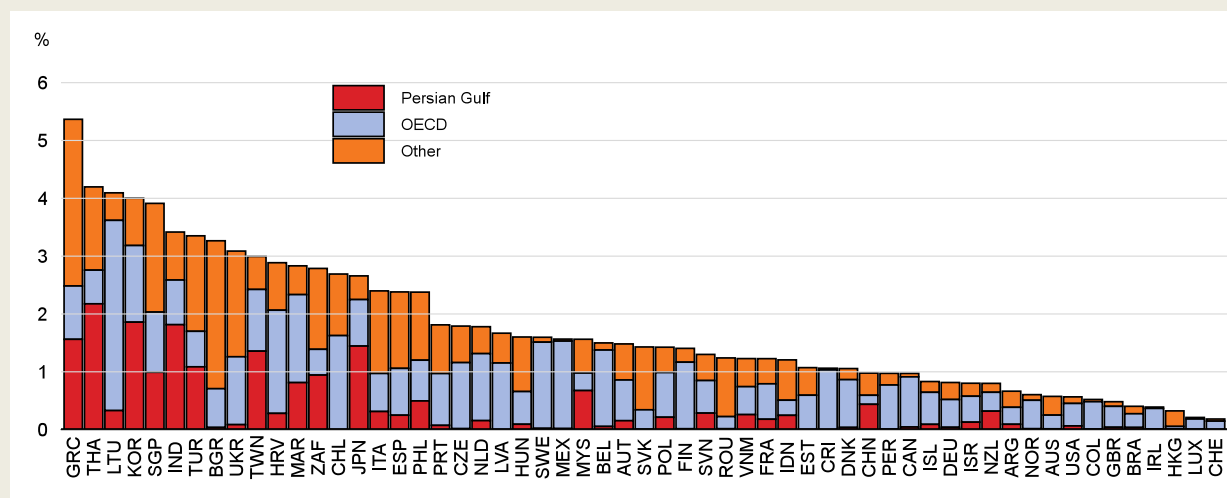
Heightened geopolitical tensions in the Persian Gulf have renewed concerns about the exposure to disruptions in energy supply and prices. Such exposure varies across countries and sectors, reflecting differences in both direct use of energy from the region and indirect exposures via underlying production linkages within and across economies.

The direct dependence on energy imports from the Persian Gulf region differs markedly across economies (Figure 1.22). Asian and European economies tend to exhibit relatively higher import intensities compared to countries in the Americas, with Thailand, Korea, India and Greece having a particularly strong reliance on crude oil and refined petroleum from Gulf suppliers. In contrast, the United States and other commodity producers have lower direct exposure, reflecting greater domestic energy production and more diversified energy sourcing. Some smaller energy-importing economies also have limited exposure, in part reflecting relatively small or less energy-intensive industrial bases.

Direct import dependence provides only a partial measure of overall exposure to energy supplies from the Persian Gulf. Once indirect linkages through domestic and international supply chains are taken into account, overall exposure to Persian Gulf energy increases significantly (Figure 1.23), particularly in economies where relatively high direct dependence coincides with strong upstream linkages, compounding their exposure. Many Asian countries remain among the most exposed, including Thailand, Korea, India, Japan and Chinese Taipei. Indirect channels via supply chains account for a large share of total exposure and often exceed direct dependence.

**Figure 1.22. Reliance on Persian Gulf energy imports varies across economies**

Direct intermediate imports of energy by source as a share of gross output, 2023



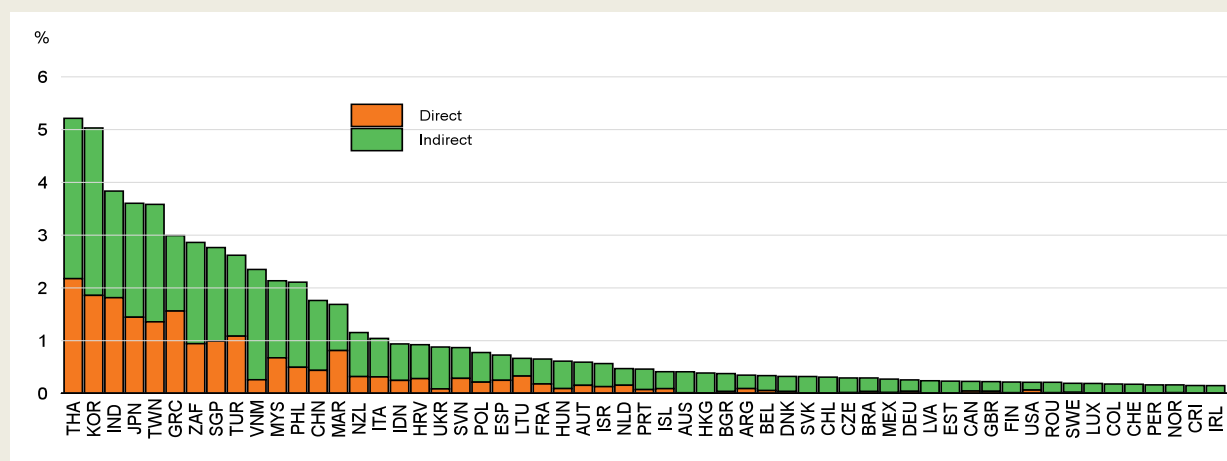
Note: Energy imports refer to intermediate inputs used in production and cover energy mining, including natural gas, and coke and refined petroleum (ISIC Rev. 4 divisions 5, 6, and 19). Bars show imported energy intensity for each country defined as the sum of imports from energy exporters as a share of gross output. The Persian Gulf countries identified separately in the data are the United Arab Emirates and Saudi Arabia. Direct imports from selected other Persian Gulf economies included within the Rest of World (Iran, Iraq, Kuwait, Qatar, Oman, and Bahrain) are estimated by applying their share of Rest of World (ROW) energy trade—derived from OECD BIMTS—to ICIO energy imports from ROW. Calculations are based on the 2023 ICIO table in current prices, which are projections based on available national accounts data.

Source: OECD PYP ICIO dataset (edition 2026, forthcoming); OECD Balanced International Merchandise Trade Statistics (edition 2026 January); and OECD calculations.

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**Figure 1.23. Indirect linkages significantly increase economies' exposure to Persian Gulf energy**

Direct and indirect intermediate energy imports from the Persian Gulf as a share of gross output, 2023



Note: See notes to Figure 1.22 for the definitions of the goods covered, the Persian Gulf countries included and the calculations to obtain the adjusted direct exposure to imports from the Persian Gulf countries. This adjusted direct exposure is used to compute total (direct and indirect) exposure via the Leontief inverse. Regional exposure is calculated as a gross output-weighted average across sectors, with exposure defined as energy imports from the Persian Gulf as a share of gross output. Calculations are based on the 2023 ICIO table in current prices which are projections based on available national accounts data.

Source: OECD PYP ICIO dataset (edition 2026, forthcoming); OECD Balanced International Merchandise Trade Statistics (edition 2026 January); and OECD calculations.

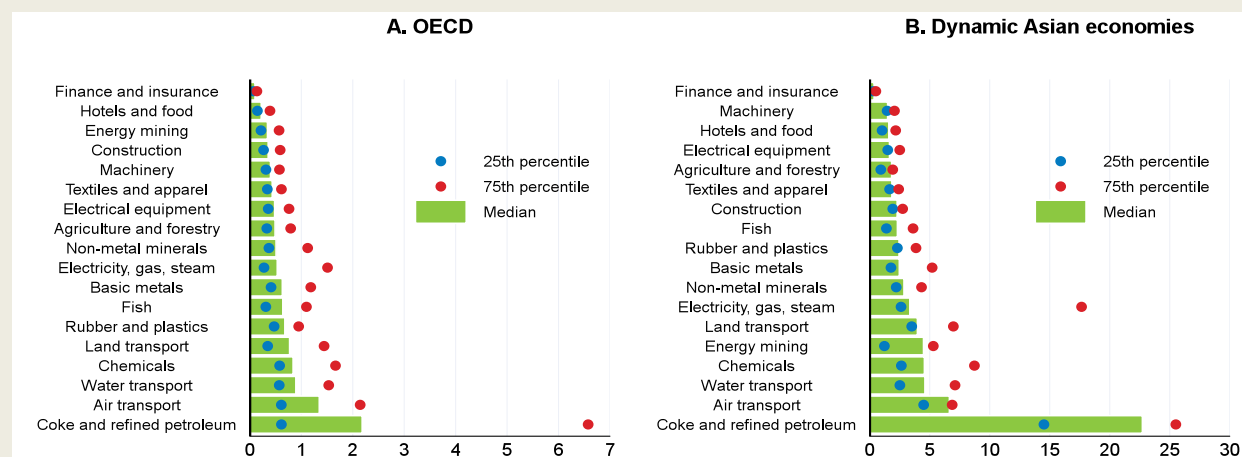
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Beyond the cross-country differences, the effects of such shocks would vary widely across sectors due to differences in reliance on energy inputs and the characteristics of production networks. Within the OECD region, sectors such as coke and refined petroleum and, to a lesser extent, electricity, gas and steam tend to have a relatively high overall exposure to Persian Gulf energy inputs (Figure 1.24, Panel A). This is driven primarily by their direct reliance on energy from the region, with additional indirect exposure arising from upstream domestic and foreign inputs—such as electricity, chemicals, transport, and machinery—which themselves embed Gulf energy use. Transport services, chemicals, and basic metals are amongst the more exposed sectors when supply-chain linkages are taken into account. Even sectors with limited direct energy use—including machinery, construction and services—remain exposed through production networks. As a result, indirect effects are both widespread and account for a large share of overall exposure. These operate primarily through refined petroleum products and electricity inputs embedded in production. Direct exposure to Persian Gulf energy is primarily linked to crude oil and natural gas imports.

Sectoral exposure also differs across countries and regions. The highest overall exposure is in the dynamic Asian economies, including many small open economies in Southeast Asia. This reflects strong direct reliance on Persian Gulf energy and significant indirect reliance through production networks (Figure 1.24, Panel B). Country dispersion in exposure is also larger, but even the dynamic Asian economies at the lower end of the distribution have a higher exposure than the median OECD economy. Energy-intensive sectors, such as coke and refined petroleum, transport services, chemicals and energy mining, are the most exposed, with both manufacturing and services sectors impacted via their upstream linkages. Overall, indirect exposure is widespread across sectors within each region, underscoring how reliance on Gulf energy extends beyond the most energy intensive sectors.

**Figure 1.24. Exposure to Persian Gulf energy varies widely across sectors**

Total (direct and indirect) intermediate energy imports from the Persian Gulf as a share of gross output, 2023



Note: Energy imports refer to intermediate inputs used in production and cover energy mining, including natural gas, and coke and refined petroleum (ISIC Rev. 4 divisions 5, 6, and 19). Dynamic Asian economies include Hong Kong (China), Malaysia, the Philippines, Singapore, Thailand, Chinese Taipei and Viet Nam. The Persian Gulf countries identified separately in the data are the United Arab Emirates and Saudi Arabia. Direct imports from selected other Persian Gulf economies included within the Rest of World (ROW) (Iran, Iraq, Kuwait, Qatar, Oman, and Bahrain) are estimated by applying their share of Rest of World (ROW) energy trade—derived from OECD BIMTS—to ICIO energy imports from ROW. This adjusted direct exposure is used to compute total (direct and indirect) exposure via the Leontief inverse. Bars show the median across countries for each sector. Percentiles refer to the country distribution within each area, calculated separately for each sector. Calculations are based on the 2023 ICIO table in current prices which are projections based on available national accounts data.

Source: OECD PYP ICIO dataset (edition 2026, forthcoming); OECD Balanced International Merchandise Trade Statistics (edition 2026 January); and OECD calculations.

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## Risks

### ***The prolonged disruption scenario could have unexpectedly adverse impacts on a wider range of countries or industries***

Other disruptions to global supply chains could emerge, with such risks becoming more acute in the prolonged disruption scenario. Shortages could be stronger than expected and become apparent in a wider range of countries, especially those with lower incomes that struggle to afford higher prices, with negative international spillovers through global supply chains. The global economy is much more interconnected now than in previous decades, increasing the force with which such spillovers could propagate, although this is partially offset by the decline in energy intensity over time.

Shortages could be particularly damaging for certain growth industries in the global economy, such as AI. The significant energy price shocks or energy shortages associated with the prolonged disruption scenario would increase data centre operating costs and constrain the supply of critical hardware used in AI systems (Box 1.3). Furthermore, longer-lasting closure of gas production facilities and trade through the Strait of Hormuz would reduce the availability of other commodities used intensively in the manufacture of AI-related inputs, such as helium. These effects could further reduce the capacity and incentive for AI investment, leading to notably weaker growth in those economies currently being boosted by AI-related investment and production. Ongoing disruption to fertiliser supply could reduce crop yields over the coming years by more than anticipated, resulting in more substantial food price inflation that risks increasing poverty rates. More broadly, a prolonged disruption increases the risk of medium-term inflation expectations becoming de-anchored, creating second round effects that push inflation higher. Both the fact that this supply shock comes soon after the 2022-23 inflation spike and the salience of energy and food prices for inflation expectations may increase the risk that inflation expectations become de-anchored.

#### **Box 1.3. The potential impact of an energy price shock on AI infrastructure**

AI infrastructure is heavily dependent on energy systems and global value chains. As such, energy price shocks or energy shortages can hinder AI investment. In addition to the impact of such a shock through demand and financial conditions, the effect may arise through three main channels:

- Data centre operating costs - energy accounts for 60 percent of data centre operating costs, making AI service costs highly sensitive to electricity prices (IEA, 2025). Countries with a high share of electricity generation from imported fossil fuels will be more exposed to energy price shocks or shortages, potentially weakening data centre investment.
- Hardware production – The production of ICT hardware that underpins AI systems is highly electricity-intensive, reflecting the energy demands of advanced lithography, clean-room operations, and cooling systems. Moreover, the manufacture of key components, most notably semiconductors, depends heavily on energy- and petrochemical-intensive processes that rely on imported feedstocks, particularly from the Middle East.
- Trade and logistics - AI hardware components (GPUs, servers, networking equipment) are heavily traded across borders, meaning that a spike in trade costs could impact associated value chains. For example, during the Red Sea crisis (2023–2024), shipping costs surged and delivery times rose, including for construction materials used in data centres.

In addition, the escalation of the conflict may reduce AI capacity in the Middle East. Large-scale AI infrastructure projects, including multi-gigawatt data centre campuses, are closely linked to sovereign wealth funds and state-backed capital (IDC, 2026). Prolonged geopolitical tensions could delay or halt these projects, affecting global inference capacity expansion and its geographic distribution. The conflict may also directly threaten AI-related infrastructure in the region, hitting output and productivity. For example, drone attacks in March on web services facilities in the United Arab Emirates and Bahrain disrupted regional cloud services (Jabbour, 2026).

### ***Corporate debt strains may amplify risk repricing in financial markets and constrain investment and growth***

Tightening financial conditions and rising refinancing needs could increase the debt service burdens of non-financial firms in both scenarios, but particularly in the prolonged disruption scenario, posing risks to profitability and the availability of internal finance for investment. In the third quarter of 2025, total corporate debt in G20 economies amounted to around USD 90 trillion—equivalent to roughly 90% of GDP (Figure 1.25, Panel A), only marginally below the pandemic peak. Borrowing costs have risen sharply. Close to one-half of outstanding investment-grade bonds now carry interest rates above 4%, for the first time since 2015, and the cost of outstanding debt is converging towards the cost of new issuance (OECD, 2026c). A quarter of corporate debt will mature in the next three years (Figure 1.25, Panel B) and was largely issued during the low-rate period of 2018–21, resulting in substantial refinancing needs at significantly higher costs. This is compounded by a structural shift towards shorter-maturity issuance. Relatedly, prolonged energy supply disruptions and their effects on activity and financial conditions could constrain refinancing for financially weak issuers, raising pressure on debt-servicing burdens and lifting global speculative-grade default rates if growth were to weaken sharply (S&P, 2026b).

Risks in corporate debt markets are being compounded by the rapid expansion of the AI sector, amid elevated valuations of AI-related stocks, raising repricing risk for AI investing firms and also for firms whose business models are vulnerable to AI-driven disruption. AI companies, notably the “Magnificent Seven”,<sup>4</sup> are undertaking large capital expenditure programmes that outstrip earnings growth and are projected to reach USD 1.1 trillion in 2027 (Figure 1.26, Panel A). This increases their sensitivity to changes in market sentiment and valuation assumptions.<sup>5</sup>

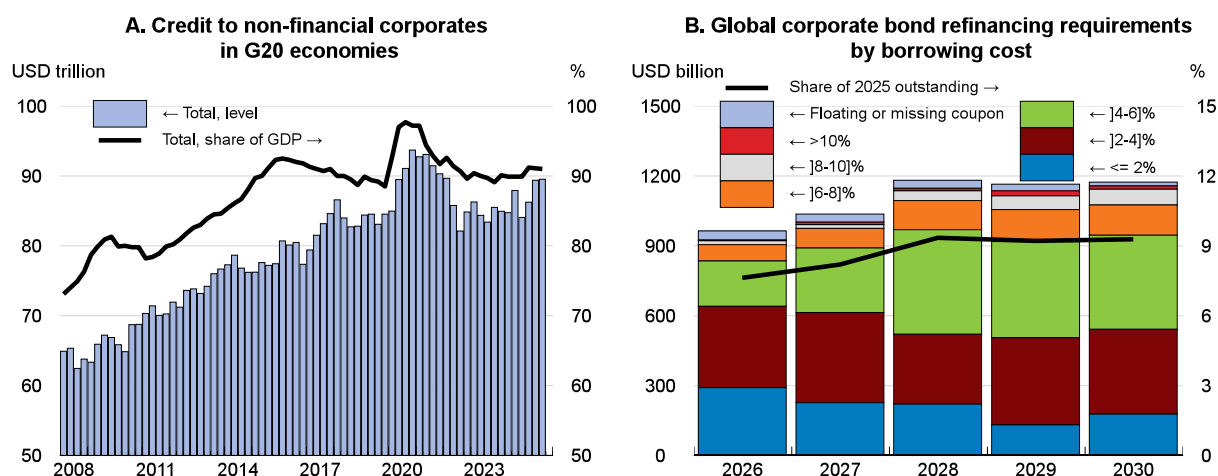
The interplay between concentration, rising leverage and substantial reliance on opaque financing models by AI companies could amplify shocks if expected returns on AI investments fail to materialise and private lenders are exposed to correlated valuation shocks across a wide range of AI-related assets. Given the high reliance of AI firms on energy, these risks are magnified in the prolonged disruption scenario. For instance, AI firms are increasingly using both marketable debt and less transparent private capital finance (Figure 1.26, Panel B), raising refinancing risks if expectation of future returns and equity valuations adjust. AI companies now account for a large and growing share of investment-grade bond issuance in 2025, with this pattern expected to continue in 2026–27. This could exert upward pressure on interest rates and credit spreads as investors absorb a higher amount of corporate bond issuance. Widespread circular financing arrangements among AI firms, with AI firms acting as both borrowers and creditors to one another, also raise interconnectedness and contagion risks in the sector (IMF, 2026).

More broadly, slower growth and higher corporate debt service burdens could also force companies to scale back investment. Prudent management is required to ensure that corporate debt fragilities do not act as a significant brake on future growth (Aldasoro et al., 2026), or spill over to the balance sheets of banks and non-bank financial intermediaries (Federal Reserve, 2025). Banks may be directly affected by rising losses on loans to stressed corporates, but also indirectly via exposure to non-bank lenders such as private credit funds, potentially weakening their capital buffers and their ability to provide credit to the real economy.

<sup>4</sup> The “Magnificent Seven” refers to seven large US technology companies: Alphabet, Amazon, Apple, Meta Platforms, Microsoft, Nvidia and Tesla.

<sup>5</sup> The AI investment boom is creating pockets of concentration in commercial real estate, with the value of private data centre construction in the United States rising steadily and equalling that of office construction in December 2025.

**Figure 1.25. Companies face challenges from elevated debt and rising debt refinancing costs**

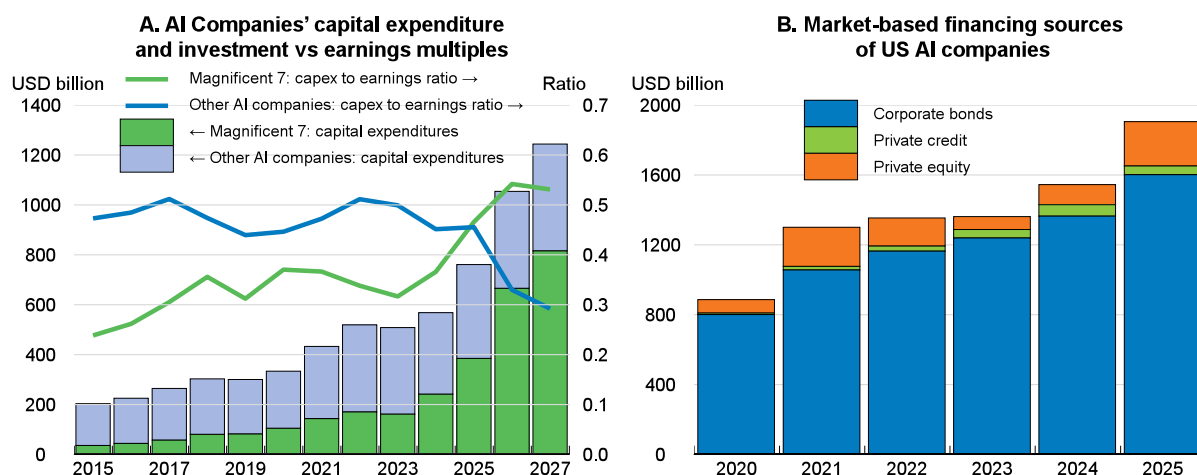


Note: Panel A shows total credit — comprising loans and bonds — extended to non-financial corporates in G20 economies. Quarterly data at current prices are converted to 2025 Q3 prices using the US consumer price index. Panel B shows bonds issued by non-financial corporations maturing in 2026-30 by cost.

Source: Bank for International Settlements (BIS) credit to the non-financial sector database; OECD (2026), *Global Debt Report 2026*; and OECD calculations.

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**Figure 1.26. AI investment is rising rapidly, with increased reliance on market-based financing**



Note: In Panel A, the “Magnificent 7” comprises Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla. Other AI companies are identified based on the constituents of the iShares and X-trackers exchange traded funds invested in AI firms as of December 2025. Projections for 2026 and 2027 as of 20 May 2026. Earnings are measured by EBITDA – earnings before interest, tax and amortisation. Panel B displays US corporate bonds outstanding for the “Magnificent 7” and other US AI companies, alongside private credit exposures by US business development companies to software and technology services firms and US private equity investments in software companies.

Source: Bloomberg; LSEG; White & Case; and OECD calculations.

### ***Vulnerabilities in private capital funds could pose risks to financial stability in either scenario***

Risks for private credit and equity funds have increased, reflecting growing concerns about fund liquidity and asset quality and valuations, compounded by opacity in parts of the non-bank financing ecosystem. These concerns have been reflected in declining stock market performance (Figure 1.27, Panel A). Globally, the assets managed by private equity and credit funds are estimated to have risen from USD 3 trillion in 2012 to USD 15 trillion in 2025.<sup>6</sup> US private equity and private credit funds account for around 57% and 62% of the global assets of those funds.

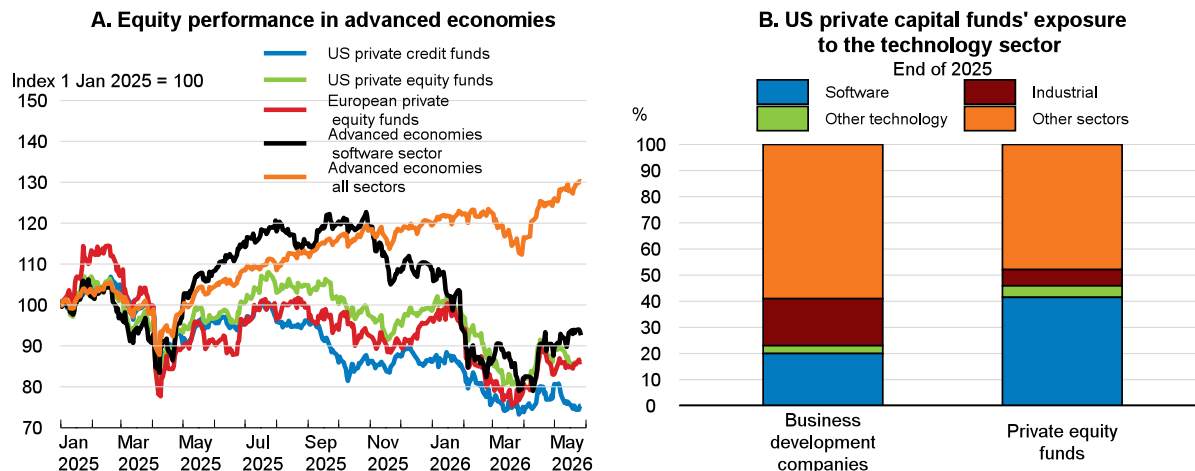
Private equity and credit funds are particularly exposed to the performance of technology-related companies, with the software sector accounting for 20% of US business development companies' portfolios<sup>7</sup> and 42% of new investments of US private equity funds in 2025 (Figure 1.27, Panel B). Divestments remain challenging in the software sector, as private equity firms struggle to realise the high valuations paid for acquisitions in 2020–21. Valuations of tech-linked loans have also been slow to adjust. Following the failure in 2025 of two large borrowers funded by private credit (Tricolor and First Brands Group), write-downs at large US private credit funds have gathered pace in 2026, triggering redemption requests by investors (Congressional Research Service, 2026). In a number of funds, actions were taken to limit redemptions, reflecting risks around liquidity mismatches. Stress in one segment of the private capital market can spill over to another, as large private capital funds often manage both private equity and private credit portfolios, and private credit funds frequently lend to companies owned by private equity funds.

There are increasing concerns about the opacity of valuations in the private capital sector, with losses from certain exposures sometimes becoming apparent only with a delay. Growing concerns about overestimated outdated valuations—given the significant discretion fund managers retain over valuing illiquid positions—and deteriorating fundamentals are compounded by the rising use of payment-in-kind loans by private credit companies since 2023, with interest and principal both paid at maturity (Karoui and Cazaubieilh, 2026). The increasing exposure of private capital funds to AI-linked collateral—such as data centres and chip-collateralised loans—may also raise investor concerns about the long-term value of these assets, given rapid technological obsolescence, limited price history and valuations potentially inflated by short-term chip shortages (Kim and Armstrong, 2025). This is particularly important as some specific loans to AI borrowers, as well as AI issuers, have started to be rated for loan securitisations (Gimple, 2026), potentially leading to sharp downgrades in event of a downturn. These developments underscore the sensitivity of private credit funds—particularly those offering liquidity to retail investors—to shifts in sentiment, and could possibly result in the sector facing constraints at a time when corporate financing needs continue to rise.

<sup>6</sup> The value of assets managed by private equity and private credit funds comprises both invested assets and uninvested committed capital (dry powder). In 2025, the global private capital market amounted to around USD 22 trillion, comprising private equity and private credit as well as venture capital, private infrastructure funds, and private real estate funds.

<sup>7</sup> US private credit lenders primarily consist of private credit funds and business development companies (BDCs). Regulated by the Securities and Exchange Commission, BDCs are closed-end or publicly traded investment companies that raise funds in public markets to provide financing to small and mid-sized domestic firms that may have limited access to traditional bank credit. BDCs must invest at least 70% of their assets in US companies valued under USD 250 million.

**Figure 1.27. Performance of private credit and equity funds and their exposure to the software sector**



Note: In Panel A, the equity benchmark for US private credit funds is the S&P US business development companies (BDCs) Index, which tracks major publicly traded BDCs. For US private equity funds, the benchmark is the S&P Listed Private Equity Index, covering leading publicly listed firms active in private equity. For comparison, the MSCI World (covering all sectors in advanced markets) and the LSEG developed markets software sector indices are also shown. Latest data points are as of 27 May 2026. Panel B presents the sectoral distribution of private credit exposures of US BDCs and US private equity investment funds at end-2025.

Source: Houlihan Lokey; White & Case; LSEG; and OECD calculations.

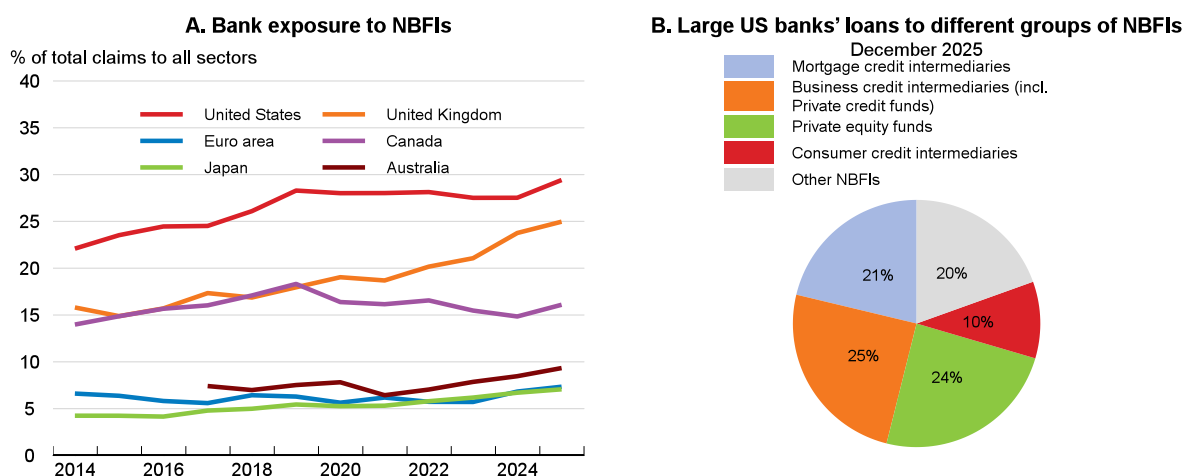
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The rapid expansion of private credit over the past decade has deepened the interconnections with traditional financial intermediaries, which have invested in, or lent to, private credit funds (Berg and Lee, 2026).<sup>8</sup> This raises potential adverse spillover risks. Competition in lending markets is also being reshaped, particularly in the United States, with banks ceding activity to alternative lenders following post-GFC regulatory tightening, and expanding their lending to non-bank financial institutions (Figure 1.28, Panel A). Loans to private capital funds account for a substantial share of the NBFI loan portfolios of large US banks in 2025 (Figure 1.28, Panel B), with unutilised credit lines implying that actual exposures may exceed on-balance-sheet figures.

Banks and NBFIs could both face losses in the event of distress in private credit funds, with multiple layers of leverage across borrowers, funds and end-investors potentially amplifying risks of liquidity shortages, potential fire sales and simultaneous deleveraging (Cera et al., 2026). Although most private credit funds are not highly leveraged, some use derivatives for leverage (Federal Reserve, 2023; Berg and Lee, 2026), and may also permit early redemptions. This heightens liquidity risk amid limited transparency in private markets.

<sup>8</sup> In the United States, pension funds, insurers and other investment funds accounted for around USD 550 billion of equity holdings in private credit funds in 2024, plus about USD 170 billion in commitments to provide additional capital (in both cases, over half of the total). In addition, banks and non-banks had in 2024 an estimated lending exposure of USD 410 to 540 billion to private credit funds.

Figure 1.28. Banking sector exposure to NBFIs is rising in advanced economies



Note: Panel A shows total claims of banks (i.e. loans, debt securities and derivatives) to non-bank financial intermediaries (NBFIs) across selected advanced economies. Data are expressed as a share of total banks' claims to all sectors. The data are reported as of Q4 for each year. The consolidated banking statistics capture the worldwide claims by counterparts (both domestic and foreign) of banking groups based in reporting countries and exclude intragroup positions, similar to the consolidation approach followed by banking supervisors. In Panel B, US bank loans to NBFIs by segment are sourced from Schedule RC-C (Loans and Lease Financing Receivables) of the Consolidated Reports of Condition and Income (Call Reports). Percentages are calculated using domestic Call Report data for the 49 large institutions for which data are available. Source: Bank for International Settlements (BIS); Federal Financial Institutions Examination Council; and OECD calculations.

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### ***Tighter financial conditions, higher energy prices and shortages of key products raise risks in emerging-market economies***

Near-term risks in emerging-market economies have risen with the tightening of global financial conditions and could intensify, particularly in the prolonged disruption scenario. Net portfolio capital flows were increasing in most EMEs up to early 2026, helped by improved global risk appetite. The onset of the conflict and the associated increase in risk aversion has led to marked changes. Outflows from most EME funds have accelerated, driven primarily by equity funds, with Latin America a notable exception (EPFR, 2026). Many Asian economies have been particularly affected, reflecting their reliance on energy imports from the Middle East. The magnitude of capital outflows from EMEs has already surpassed levels observed during recent episodes of elevated geopolitical risk (IMF, 2026). This has been partly reflected in the sharp depreciation of some local currencies against the US dollar, including for India, Indonesia, the Philippines and Thailand.

Energy exporting countries generally stand to benefit from higher oil and gas prices (provided supply is not restricted) but most emerging and developing economies are net energy importers and face terms of trade and income losses, as well as possible supply shortfalls. This is the case in much of Southeast Asia, with energy imports in Pakistan, India, Bangladesh, Thailand, Viet Nam and the Philippines accounting for between one-third and two-thirds of domestic consumption. Chile and Costa Rica also import substantial amounts of energy, and energy imports account for the majority of energy use in Morocco and Türkiye (World Bank, 2026). Several countries are particularly exposed to oil and gas supplies from the Middle East and face a higher risk of energy shortages. Around 90% of Pakistan's oil and gas imports, and half of those by India and Thailand, come from the Gulf.

Policies to cushion the rise in fuel prices can be costly, and could be challenging to implement given limited fiscal space in many emerging and developing countries, raising risks of a sharper decline in output. However, sovereign bond yields in larger energy-importing EMEs have so far risen only moderately. Many countries have placed greater emphasis on energy-saving measures, such as working-from-home mandates, reduction of travel for civil servants, decreased use of electricity in government buildings and lower public transport fares. In the prolonged disruption scenario, many emerging and developing economies may find that it is too costly to provide support to cushion the shocks.

Sovereign borrowing risks rise in both scenarios given higher interest rates and weaker GDP growth. Sovereign debt has almost doubled relative to GDP since 2010 and refinancing will be costlier. A challenge facing many EMEs will be to refinance a large share of outstanding bond debt in the next few years (OECD, 2026c). For instance, low-income countries are estimated to have 29% of their outstanding sovereign bonds by end-2025 maturing in the course of 2026. In this context, deteriorating economic conditions and larger budget deficits might make borrowing significantly more difficult, raising risks of sovereign default.

Continued disruption could further raise the price of fertilisers from the Middle East and possibly their availability (Box 1.4). This could affect planting and harvesting seasons over 2026 and 2027, reducing yields and potentially leading to higher food prices over time (OECD, forthcoming, Hebebrand et al., 2026 and Arita and Glauber, 2026). Ongoing disruptions to the supply of fertiliser inputs, such as urea, ammonia and sulphur, alongside high energy prices, could further raise global prices of fertilisers, reducing application rates in many poorer countries, with significant risks that millions of people could be pushed into extreme poverty (UNDP, 2026).

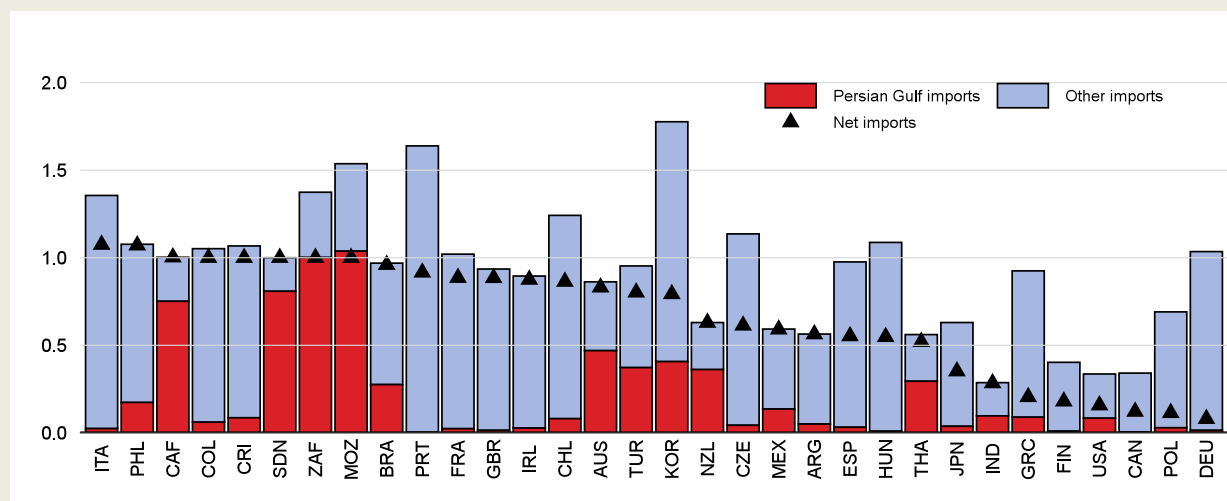
#### **Box 1.4. Fertiliser exports from the Persian Gulf, food price risks and policy options**

The Persian Gulf economies are important exporters of synthetic fertiliser and fertiliser inputs, collectively accounting for 35% of global urea exports, and 20% of ammonia, as well as around 20% of liquefied natural gas exports, which is needed to create any nitrogen-based fertiliser.<sup>1</sup> The region is also important for phosphate-based fertilisers, including products such as diammonium phosphate, as well as critical inputs such as ammonia and sulphur, which are particularly important for key global phosphate-based fertiliser producers such as Morocco and Egypt.<sup>2</sup> A prolonged disruption to production and exports due to the conflict in the Middle East could further raise prices of fertiliser and fertiliser inputs globally, with implications for crop yields and food security. This box assesses the potential risks and possible policy responses, focusing on nitrogen-based fertilisers since the application of phosphate-based fertilisers can usually be delayed with fewer immediate consequences.

A number of key grain producers, including Brazil, Türkiye and Australia, as well as a number of smaller economies in Africa, are highly reliant on imports from the Persian Gulf to meet their fertiliser needs (Figure 1.29). Other major grain producers such as India and the United States rely more on local production than imports to meet their fertiliser needs, although the Gulf is an important supplier of their imported fertilisers.

**Figure 1.29. Agricultural reliance on Persian Gulf imports for nitrogen fertilisers**

Ratio of imported fertilisers to all fertilisers used for agriculture



Note: The figure shows the quantity of imported nitrogen-based fertilisers as a share of the total quantity of nitrogen-based fertilisers applied for use agriculturally. Net imports equal to one mean the country relies on imports to meet its fertiliser needs. A figure of less than one suggests domestic production is used to meet fertiliser needs, with numbers close to zero suggesting imports are not very important; a number less than zero (not shown) exists for countries which are net exporters (e.g. China, Russia and Saudi Arabia). Some countries import fertilisers and re-export them (e.g. Korea). These re-exports account for the difference between net and total imports and are not shown. Persian Gulf countries are Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates. Shares of imports from the Persian Gulf are based on the FAO trade matrix database; agricultural use and gross and net imports are based on the FAO nutrient database.

Source: Food and Agriculture Organisation (FAO) Agricultural database; and OECD calculations.

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Supply disruptions from the closure of the Strait of Hormuz are adding to pressures in global fertiliser markets. In addition to the direct disruptions to urea and ammonia supply, which are difficult to re-route, higher natural gas prices raise fertiliser production costs, even for those countries which are not directly dependent on the Gulf for imported fertilisers, including net fertiliser exporters. Rising input costs can lower local production, raising demand for imports - and global fertiliser prices.<sup>3</sup> At the same time, export controls from China, designed to keep domestic fertiliser prices low, have lowered the global supply of nitrate fertilisers. Lingering effects from Russia's war of aggression on Ukraine have reduced Europe's domestic fertiliser production, whilst also lowering Russia's ammonia exports. In response, related Middle East fertiliser prices have risen, with ammonia prices up around 59% since 27 February, and urea prices up 39%. Nonetheless, to date, prices remain below 2022 levels (Figure 1.30, Panel A).<sup>4</sup>

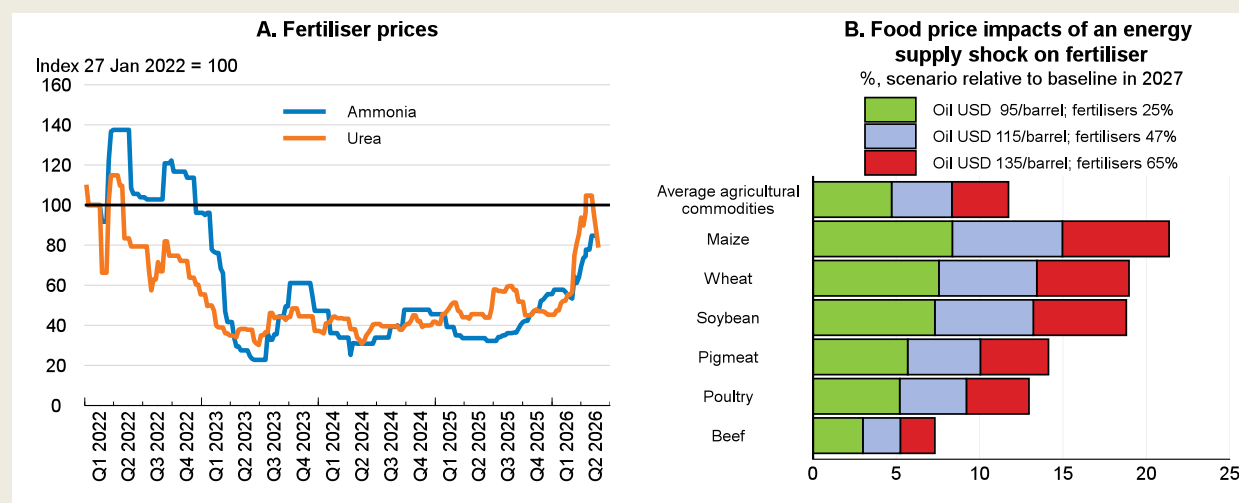
If sustained, higher fertiliser prices and shortages of supply have important implications for future food prices in both advanced and emerging-market economies, particularly over the next two years. OECD model-based estimates of the impact of simultaneous fertiliser and energy price shocks suggest that a rise of almost 50% in global fertiliser prices (consistent with a global oil price shock of USD115 per barrel) would result in an average rise of 4% in agricultural commodity prices in 2026 and around 8% in 2027 relative to baseline levels, albeit with significant variations (Figure 1.30, Panel B). Grains are most affected, along with the prices for commodities that serve as substitutes for energy.

There are already some signs of upward price pressures on cereals, with FAO estimates suggesting that global cereals prices in April were 2.4% higher than in February. However, high global grain inventories and bumper harvests may dampen further immediate food price reactions. In the short term, many farmers can respond to higher fertiliser prices by running down inventories. If fertiliser prices are still high in the

second half of the year when the winter planting season commences in Europe, the United States and China, there will be fewer inventories to act as buffers and less scope to delay fertiliser purchases and applications.<sup>5</sup> Damage to Gulf production facilities for LNG and urea, as well as the risk of only a slow normalisation of the flow of goods through the Strait of Hormuz, mean fertiliser prices are likely to remain higher for longer than the duration of conflict in the Middle East. Futures contracts are pricing in higher grains prices over time, reflecting this risk.

Because the Persian Gulf is a net food importer, the conflict is not expected to directly affect crop supply. However, higher fertiliser and energy prices will lower fertiliser affordability, hit household incomes and reduce crop yields, and thus impact food security globally. Smaller developing countries could experience severe hunger impacts, given stubbornly high post-pandemic food insecurity (WFP, 2026). If fertiliser prices remain well above grains prices ahead of the next planting season, this risk will worsen significantly given the difficulties of financing new purchases. Possible switches to biofuel production to reduce shortages of oil could also amplify food price volatility (FAO, 2026).

**Figure 1.30. Fertiliser price rises raise food prices**



Note: Panel A are prices for Middle East benchmarks. Panel B shows the impact of a simultaneous shock to oil and fertiliser prices relative to baseline, including an additional price impact for countries which are highly reliant on Persian Gulf fertiliser imports.

Source: Bloomberg; OECD (2026f); and OECD calculations.

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Possible policies in response to fertiliser shocks include subsidies to farmers to offset the higher cost of fertilisers (India is a long-standing example, whilst Spain and Greece have introduced new measures) and export restrictions on fertiliser products and inputs (China) (OECD, 2026a). Whilst support for farmers and vulnerable countries is critical to limit the human cost of rising food prices, policies need to be carefully calibrated. Export restrictions are particularly harmful and will only exacerbate global shortages and price increases. Together with subsidies, they can often distort incentives for efficient fertiliser use in times of shortages, whilst also often being weakly targeted. Efforts to support freer trade and safe passage would support trade normalisation across a range of goods. More broadly, consideration should be given to the incentives that govern industrial use of fertiliser inputs, as well as biofuel production, given periods of potential food market stress. Over the longer term, governments should continue to prioritise policies that support the development of slow-release, organic and microbial fertilisers (FAO, 2026; OECD, 2023a; Hebebrand et al., 2026).

1. All nitrogen-based fertilisers use hydrogen from natural gas, which is combined with nitrogen to create ammonia. Natural gas is also often used as the energy source for this chemical reaction. Urea is produced with ammonia, carbon and oxygen using heat (usually from natural gas) and pressure. Diammonium phosphate and monoammonium phosphate are created using sulphur, which is converted into sulphuric acid and reacted with phosphate rock to create phosphoric acid, which in turn is reacted with ammonia.
2. Synthetic fertilisers are typically classified by nutrient: nitrogen (which includes products such as ammonia and urea), phosphorous and potassium. Each nutrient is a complement rather than a substitute for the other. Nitrogen is the most fundamental nutrient as it ensures healthy plant development and that plants are nutritious once harvested. Phosphorus supports a plant's ability to use and store energy, and helps with normal development. Potassium strengthens a plant's resistance to disease and its overall quality (OECD/FAO, 2023).
3. This occurred in 2022 when Europe, which accounts for about 10% of global imports, reduced domestic production of ammonia and urea due to higher natural gas prices, and raised imports.
4. Russia is a major fertiliser user and producer, accounting for 8% of world production and 15% of world exports in nitrogen fertilisers; the Persian Gulf economies account for almost 7% of production and 20% of global exports in 2023.
5. The winter wheat planting season typically begins in September for China, US and Europe, and August for the former Soviet Union states; Brazil's first season of corn planting begins in October, whilst India's dry season rice planting begins in November.

### ***Households could be reluctant to lower saving buffers in the time-limited disruption scenario***

Household consumption growth could be harder hit than currently envisaged, even if the energy market disruption is relatively short-lived. The projections for the median OECD economy in the time-limited disruption scenario are characterised by a brief slump in private consumption growth in the second quarter of 2026 before a relatively rapid recovery leaves the level of real private consumption back at its pre-conflict trend by mid-2027. The bounce back in consumption is enabled by a projected fall in household saving rates in many economies. However, ongoing political and geopolitical uncertainty, combined with the deterioration in purchasing power following the inflation spike, could have a more prolonged dampening impact on consumer confidence and possibly even raise precautionary saving. Recent OECD work has highlighted that inflation in energy and food prices has a particularly large and persistent negative impact on consumer confidence, given the salience of these items for household consumption baskets. Moreover, these impacts are estimated to be particularly evident for lower income households, who tend to have a higher marginal propensity to consume (Ollivaud and Westmore, 2026).

### ***Uncertainty remains about future trade policies***

There is considerable uncertainty regarding the path that will be taken by trade policy over the coming months. The US administration has launched two new trade investigations, into unfair labour practices and excess capacity, which are scheduled to be finalised by late July 2026, when the temporary 10% tariff ends. The Office of the US Trade Representative is legislatively responsible for implementing trade actions following these investigations, under the direction of the President. They are able to take into account not only the findings but also engagements with trading partners when calibrating responses. The size and distribution of these tariffs and how they may differ with current tariff assumptions could either raise, lower or leave unchanged the risks to the outlook for trade and GDP growth.

### ***An early negotiated settlement to the current conflict could have stronger effects than projected***

In the time-limited disruption scenario, energy prices are assumed to evolve along the lines of their futures curves as of May 26. An early negotiated settlement to the conflict could result in a sharper fall in oil prices

than assumed if market confidence about the durability of the settlement improves. Such a decline would not change oil supply prospects substantially in the near term relative to the time-limited disruption scenario, but would lower price pressures and potentially policy interest rates, and improve financial market sentiment. An illustrative simulation using the NiGEM global macroeconomic model suggests that a 10% decline in oil, gas and fertiliser prices relative to the time-limited disruption scenario from the third quarter of 2026 onwards, would raise global GDP growth by an additional 0.1 percentage point in 2027 and lower global inflation by 0.3 percentage points.

### ***There are other potential sources of upside surprises to the outlook***

There are several additional factors that could generate upside surprises to the global economy over the next two years. These are especially relevant in event of an early resolution to the conflict. It may be that firms are more adaptable than expected in the face of the 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. A further reduction in policy uncertainty, including through new trade agreements or reductions in tariff rates, could also give businesses more confidence in implementing long-term investment plans.

Investment could also be stronger if optimism about the economic benefits from artificial intelligence technologies further strengthens. 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, for example through faster and more widespread adoption of AI tools. 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. This is especially the case if firms undertake complementary investments in human and organisation capital that integrate AI in a way that enhances business processes. Countries with low current levels of AI adoption may also be able to learn from the experience of countries that have already achieved higher levels of AI adoption, resulting in steeper adoption rates that more quickly translate into productivity benefits.

## **Policies**

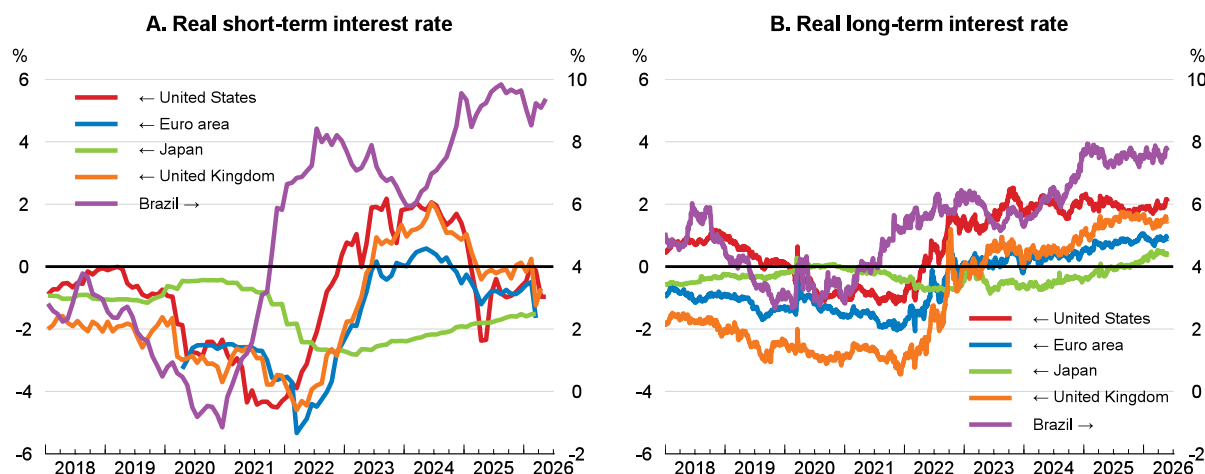
### ***Monetary policy should remain vigilant***

Most central banks in the large advanced economies have kept policy rates unchanged in the initial months of 2026, which has contributed to broadly stable real long-term interest rates (Figure 1.31). This has been the case in the United States and the United Kingdom, where inflation is still above target, and in the euro area, Canada and Korea, with lower inflation rates. In contrast, policy rates have been increased three times in Australia and once in Norway, reflecting the need to address underlying inflation pressures. In Japan, where monetary accommodation continues to be gradually withdrawn, policy rate increases have paused. Amongst the large emerging-market economies, policy rates remain restrictive in Brazil and Türkiye, despite recent declines, whereas policy rates remain at low or moderate levels in China and India. Mexico has recently announced that the cycle of policy rate cuts started in 2024 has come to an end. Colombia has recorded the largest policy rate changes, with two 100 basis point increases to re-anchor excessively high inflation expectations, with a more modest increase in Indonesia.

Central banks in both advanced and emerging-market economies 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. Temporarily higher headline inflation resulting from the energy price shock

can be looked through provided inflation expectations remain well-anchored and second-round effects are expected to be mostly avoided. However, balancing the risks of persisting inflation against the downside risks of a significant growth slowdown and rise in unemployment may require an adjustment in policy rates, particularly for central banks with dual mandates. The prolonged disruption scenario would tilt this trade-off towards higher policy rates in the near term. Changes in global risk aversion and associated currency movements add to the need for careful calibration of monetary policy in emerging-market economies. Central bank independence and accountability help to ensure that policymakers can respond quickly to changes in the balance of risks for price stability and lower the volatility and persistence of inflation.

**Figure 1.31. Real long-term interest rates have remained high compared to pre-pandemic levels**



Note: Based on data up to 27 May 2026. In Panel A, the real short-term interest rates are calculated using nominal one-year government bond yields and one year-ahead inflation expectations by consumers in the United States, the euro area and the United Kingdom, by corporates participating in the Tankan Survey in Japan, and by market professionals participating the Focus Survey in Brazil. In Panel B, the real long-term interest rates show 10-year inflation-linked bond yields.

Source: Banco Central do Brasil; Bank of Japan; European Central Bank; University of Michigan; YouGov/Citigroup; and OECD calculations.

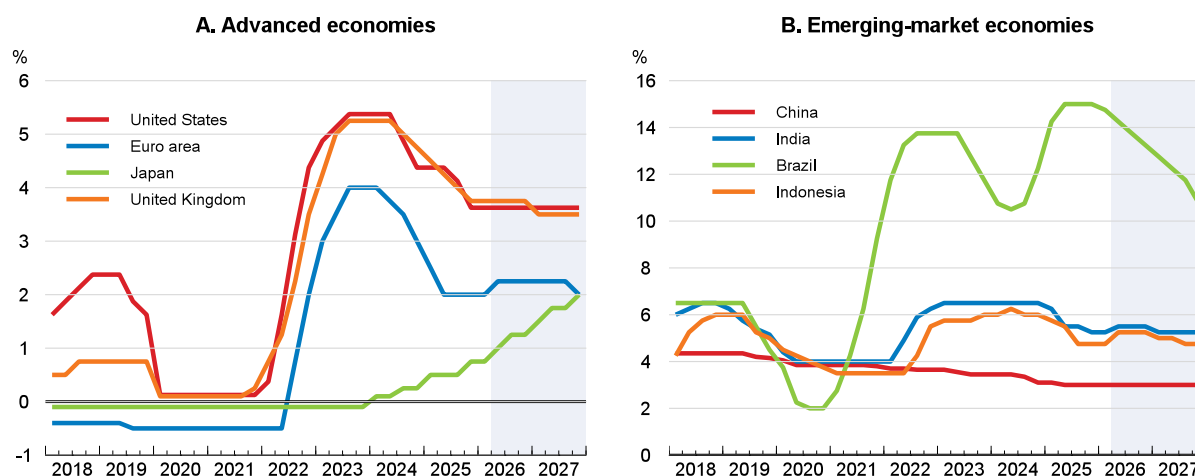
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In the time-limited disruption scenario, diverse policy rate trajectories are expected across advanced economies (Figure 1.32, Panel A), though rate adjustments are generally projected to be small. Virtually all economies will either increase their policy rates or keep them unchanged in the remainder of 2026, with Australia, the euro area and Korea among the former and Canada, the United Kingdom and the United States among the latter. In contrast, many central banks in advanced economies are projected to cut policy rates in 2027 as energy price pressures decline, including the Bank of Korea and the European Central Bank (reversing increases in 2026), as well as the Bank of England, and the Reserve Bank of Australia. In Japan, the policy rate is projected to increase gradually from 0.75% at present to 2% by end-2027, as core inflation stabilises around 2% and the output gap closes. Central bank bond holdings are assumed to decline further in Australia, the euro area, Japan and the United Kingdom. For all advanced economies, real policy rates are projected to be close to or within estimated ranges for real neutral rates – the real interest rate at which the policy stance is neither accommodative nor restrictive – at the end of 2027, with inflation back or close to target at that time.

With few exceptions, the large emerging-market economies are projected to either decrease or keep unaltered their policy rates in the remainder of 2026-27 in the time-limited disruption scenario (Figure 1.32, Panel B), given the prevailing context of expected growth moderation and only temporary increases in inflation from the energy price shock. Policy rates are projected to remain unchanged in China at a low level

to support activity. A small rate increase is anticipated in India in mid-2026, undone in early 2027, with rates remaining close to neutral levels. Mexico is expected to keep its rate unchanged. In contrast, substantial policy rate reductions are projected in Brazil and Türkiye as inflation moderates, leaving rates by end-2027 still at restrictive levels.

**Figure 1.32. Policy rates projections in the time-limited disruption scenario**



Note: 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 Economic Outlook 119 database.

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Though estimates are surrounded by considerable uncertainty, some studies show a recent uptick in global neutral rates (Del Negro et al., 2026). One potential explanation is a decline in the convenience yield (i.e., lower investor appetite for the safety and liquidity of sovereign bonds) reflecting higher public debt and quantitative tightening (Schnabel, 2025a). Other possible drivers of higher neutral rates, whose impact may be brought forward by influencing expectations, are stronger productivity and investment, for instance as a result of widespread AI adoption (Rachel, 2025). On the other hand, higher oil prices, if they persist as in the prolonged disruption scenario, could put downward pressure on neutral rates through the decline in potential growth rates.

### ***Strengthening the resilience of the banking sector and non-bank financial intermediaries***

Banks' exposures to vulnerabilities in the real economy and their growing interconnectedness with non-bank financial institutions (NBFIs) underscore the need to maintain adequate capital and liquidity buffers to absorb shocks. Enhanced stress-testing frameworks are required to better assess the impact of rising corporate credit distress, potential sovereign risks (e.g. through haircuts or liquidity freezes), and possible spillovers arising from bank–NBFI interlinkages, including scenarios that explore the potential effects of long-lasting disruptions in the Middle East (Acharya et al., 2024; IMF, 2026) or changes in AI valuations. Completing the full and consistent implementation of the Basel framework, alongside a more coordinated review of national prudential regulations, would enhance the effectiveness of international standards. Banking regulation could also be streamlined by rationalising global and domestic capital requirements, enhancing technology usage, and more proportionate regulation (with lighter compliance burdens on smaller institutions (Hernández de Cos, 2026)).

As NBFIs become more leveraged and increasingly interconnected with banks, supervisors' ability to identify systemic risks and mitigate contagion requires more timely and comprehensive reporting to close data gaps, enhanced cross-jurisdictional data-sharing, and closer scrutiny of liquidity and leverage vulnerabilities, particularly in investment funds (FSB, 2025). Identification of systemically important and highly interconnected NBFIs could also facilitate development of entity-specific regulatory and supervisory requirements, and thereby strengthen financial stability. In the private credit sector, recent write-downs highlight the need for stronger lending standards, enhanced transparency, and timely loss recognition to reduce self-reinforcing redemption pressures (Cera et al., 2026; IMF, 2026). Securities regulators should ensure that effective liquidity risk management tools are in place for investment funds, particularly open-ended funds, to help minimise the risk of investor runs and abrupt deleveraging (IOSCO, 2025).

### ***Challenges to fiscal sustainability are increasing***

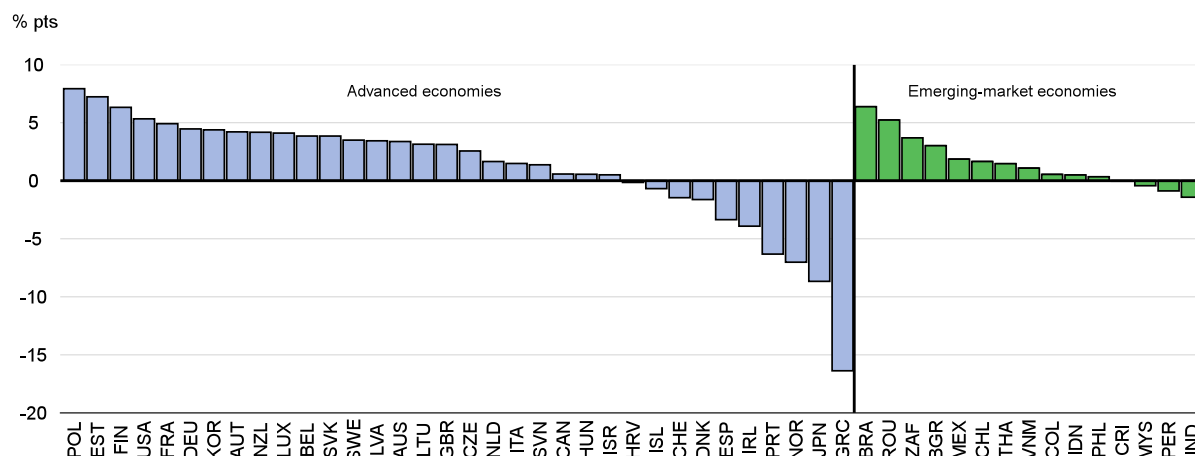
In the time-limited disruption scenario, the fiscal stance is expected to be slightly expansionary in the typical OECD advanced economy in 2026, based on the -0.2% of GDP projected median change in underlying primary balances (one indicator of the structural fiscal position), although not all economies are undertaking some fiscal easing. A large majority of advanced economies are planning some fiscal tightening in 2027, partly reflecting the withdrawal of energy support measures, with a projected median improvement of 0.4% of potential GDP in underlying primary balances. This will not prevent a further rise in the OECD aggregate debt-to-GDP ratio, which is projected to increase by over 2 percentage points from 2025 to 2027 to 113% of GDP (Figure 1.33). The fiscal projections for 2026-27 for advanced and emerging market economies (discussed below) are conditional on announced government measures and OECD assessments of current plans (Annex 1.A).

The fiscal stance is projected to remain broadly neutral over 2026-27 in the United States, with the headline budget deficit widening somewhat to 7.7% of GDP as excess capacity increases. Modest fiscal consolidation is expected in the euro area as a whole, with fiscal tightening in France, Italy and Spain offsetting fiscal expansion in Germany that is partly defence-related. Japan's structural primary deficit will widen with fiscal stimulus this year, including income tax reforms and new energy subsidies, followed by projected fiscal consolidation in 2027, assuming no additional supplementary budgets. Sizeable consolidation is also projected in Australia and the United Kingdom over 2026-27. In contrast, a mild fiscal expansion is expected in Canada.

For emerging market economies as a group, progress in curbing budget deficits is projected to halt temporarily in 2026 in the time-limited disruption scenario, with larger deficits expected in many countries. In China, funds carried over from the previous year will lead to more spending and development banks will provide quasi-fiscal support. Fuel subsidies and, in some countries, lower excise taxes, are expected to push up fiscal deficits in Brazil, Indonesia and Türkiye. Spending restraint will make Mexico an exception. In 2027, as growth gathers pace and energy-related support measures are phased out, fiscal balances are expected to improve in most emerging-market economies, but improvements will generally be modest, often below 0.5% of GDP. Little change is projected in China. Open-ended cuts to petrol duties and higher interest payments are expected to further widen the budget deficit in Türkiye. As in advanced economies, the debt ratios of emerging markets are often projected to remain on an upward trend in 2026-27 (Figure 1.33).

**Figure 1.33. Government debt ratios are projected to increase further in many countries**

Change in the ratio of general government gross financial liabilities to GDP, 2025–2027



Note: The chart is based on central government gross financial liabilities for Chile, Colombia, Costa Rica, Malaysia, and Thailand and on broader government definitions (often general government) for the other economies. For emerging markets, gross liabilities are often not comparable across countries as different concepts are applied. Data for India refer to fiscal years.

Source: OECD Economic Outlook 119 database; and OECD calculations.

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In both advanced and emerging market economies, recent developments and short-term prospects compound long-standing fiscal challenges. Rising bond yields put upward pressure on debt service costs, especially where refinancing needs are large,<sup>9</sup> while widespread emergency support measures for energy users are weighing on primary revenue and driving up expenditure (OECD, 2026d and Chapter 2). The marked change in the mix of investors purchasing government bonds since the pandemic, with the shift from central banks to private investors such as hedge funds and investment funds, may mean that yields have to be more elevated to sustain demand for government debt in the future and that risks have risen of potential financing shocks from sharp changes in investor sentiment (OECD, 2025a; OECD, 2026c).

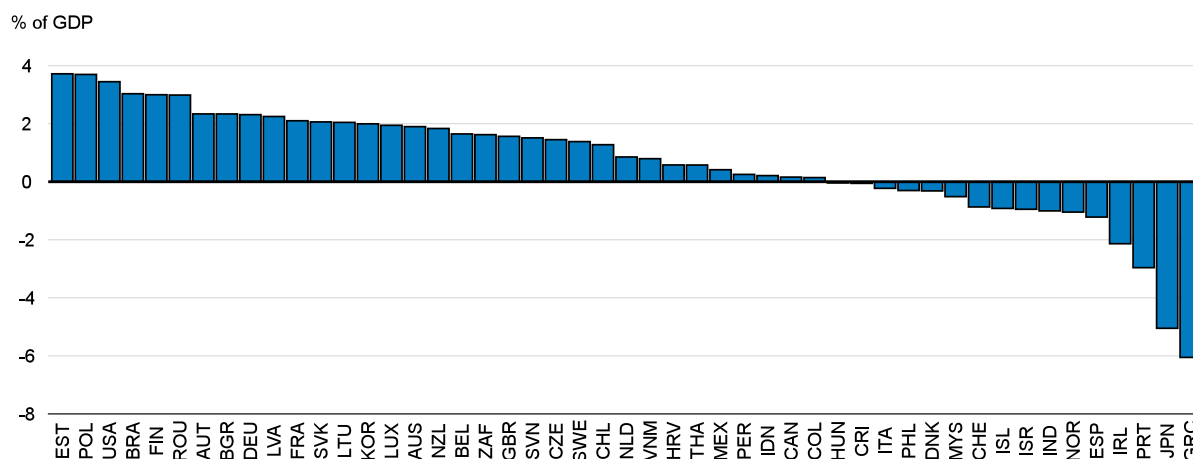
### ***Actions are needed to address long-term fiscal pressures***

Fiscal balances in the time-limited disruption scenario often fall short of what would be needed for stabilising debt ratios (Figure 1.34), and, in the absence of corrective action, face further deterioration from rising defence expenditure, ageing populations and measures to accelerate decarbonisation and address extreme weather events. Emerging-market economies are generally less exposed to military spending pressures and to the ageing-induced drag on potential growth (Guillemette, 2025) but face additional expenditure challenges from the need to upgrade infrastructure and strengthen social safety nets. These fiscal challenges are compounded in the prolonged disruption scenario, given the severe slowdown in the global economy, particularly for net energy importing countries.

<sup>9</sup> This is often the case in emerging markets, but also increasingly so in advanced economies, where debt issuance has been shifting towards shorter maturities (OECD, 2026c).

**Figure 1.34. Many countries need stronger fiscal balances to stabilise public debt in the near term**

Difference between debt-stabilising and projected primary fiscal balance, 2027



Note: The debt-stabilising primary fiscal balance is the primary balance consistent with an unchanged debt-to-GDP ratio from 2026 to 2027, given otherwise unchanged projections for 2027. Due to data limitations, computations refer to overall balances for Brazil, Chile, Colombia, Costa Rica, India, Indonesia, Malaysia, Mexico, Peru, the Philippines, Thailand, and Viet Nam. The chart is based on central government definitions for Chile, Colombia, Costa Rica, Malaysia, and Thailand and on broader government definitions (often general government) for the other economies. For emerging markets, balances are often not comparable across countries as different concepts are applied. Data for India refer to fiscal years.

Source: OECD Economic Outlook 119 database; and OECD calculations.

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Many governments have already implemented support measures for households and firms to mitigate the impact of higher energy costs (OECD 2026 and Chapter 2). Such discretionary measures should be well-targeted on the households most in need and viable firms, preserve incentives to reduce energy use and have clear sunset mechanisms, allowing prompt withdrawal as energy prices subside. So far, various forms of price relief, such as lower taxes on energy and regulated or capped energy prices, have been the most common intervention. Though easy to implement in a timely way, these measures are poorly targeted and often weaken incentives to save energy and diversify energy sources. The likelihood of high ensuing fiscal costs is already weighing, albeit only temporarily, on the budget projections for some advanced and emerging market economies. Support to shield farmers from high fertiliser prices (Box 1.4) further adds to the fiscal impacts of the Middle East conflict. In the medium run, policy action to foster decarbonisation, such as by lowering reliance on fossil fuels and promoting energy efficiency, will also reduce exposure to oil and gas price shocks.

Military spending is rising rapidly in many countries, including NATO members committed to allocating the equivalent of 3.5% of GDP to core defence requirements by 2035 (Chapter 3). The primary goal is to shore up national security rather than boost growth, but many countries should expect a modest near-term lift in economic activity from higher defence expenditure. Output gains could be larger in economies with ample capacity to absorb the added demand, particularly if public debt is low and monetary policy accommodates the fiscal stimulus. The longer-term economic effects of defence spending are more uncertain. Some crowding out of private activity is likely over time as resource constraints bind. Higher taxes or compensating cuts to non-defence spending could also negate any lasting benefits from larger defence budgets. Thorough cost assessments should inform decision making, particularly with respect to large-scale defence programmes (Tryggvadottir and Bambalaite, 2026). Effective procurement will also be essential to limit the costs of rearmament and ensure timely capability upgrades. Cooperating with other countries on common purchases can improve value for money while enlarging markets for highly productive defence firms (Conigrave and Shin, 2026, Chapter 3).

To ensure longer-term debt sustainability and create policy space to respond to future shocks, countries need to design and implement more ambitious fiscal adjustment efforts. The pace and composition of such measures will depend on the specific circumstances of each economy and should seek to preserve and foster growth potential, on which debt reduction ultimately depends (Pina et al., 2025). Containing and reallocating public spending, notably by improving public sector efficiency, should be done in a way that promotes physical and human capital formation and preserves social support to those in need. Increasing retirement ages in line with gains in life expectancy, coupled with measures to support the employment of older workers, should be a priority in many economies. In emerging-market economies, there is scope to further reduce distortive and environmentally-harmful subsidies and improve the targeting of social benefits by making better use of household and social registries.

Increasing tax revenues, either by broadening tax bases or by raising rates, may also be needed where receipts can be collected in a way that limits distortions to work incentives and economic activity. In many economies there is scope for base broadening in the taxation of consumption and capital. Efforts to curb informality and tax evasion, especially important in emerging economies, will also yield broader tax bases. Fiscal adjustments that need to be sustained over several years should be underpinned by strengthened fiscal institutions to enhance the credibility of medium-term adjustment paths. Independent fiscal institutions have an important role to play in this regard. In emerging-market economies greater use of fiscal rules would help support countercyclical fiscal policy, which is associated with improved macroeconomic and financial sector stability, higher private investment and lower external vulnerabilities (World Bank, 2026).

### ***The prolonged disruption scenario entails considerable policy challenges***

The prolonged disruption scenario generates significant policy challenges, with many economies either in or close to recessions and inflation being pushed up further. Larger and more persistent energy price increases make it much harder for central banks to look through the shock given the risks of inflation expectations becoming de-anchored. Food prices, a high-visibility component of household consumption baskets, are also higher, and increased energy prices will filter through to many core inflation items through channels such as higher transport costs and more expensive specialised inputs into industrial processes. As the risk of de-anchoring of inflation expectations builds up, many central banks are likely to have to react and raise policy rates, though such increases need to be carefully calibrated to avoid amplifying the downturn. Substantial risk repricing in global financial markets also further increases pressures for monetary policy tightening in emerging-market economies.

If pressures in global US dollar funding develop, enhanced use may need to be made of the existing swap lines between six major central banks by extending the maturity, increasing the frequency and lowering the price of operations.<sup>10</sup> Many countries can also draw on bilateral currency swap lines with the Federal Reserve, the European Central Bank, and the People's Bank of China. The national measures to support liquidity in the financial sector and to boost bank lending to businesses and households seen during the pandemic could also be reintroduced in the event of a severe tightening of conditions in financial markets.

Plans for further reduction of sovereign bond holdings by central banks may also need to be reconsidered, with the more challenging environment weighing on the trade-offs behind the appropriate size of central bank balance sheets (Box 1.5). In the event of a severe tightening of market conditions, central banks could also consider a fresh expansion of their balance sheets, either through quantitative easing or, as in the euro area, renewed longer-term refinancing operations. This would reduce possible upward pressure on long term interest rates, tilting the yield curve and mitigating increases in borrowing costs, and thus support to activity. However, such actions could also raise considerable communication challenges if they occurred at a point at which central banks were still increasing policy interest rates.

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<sup>10</sup> The Bank of Canada, the Bank of England, the Bank of Japan, the European Central Bank, the Federal Reserve and the Swiss National Bank.

With monetary policy focused on stabilising inflation expectations in the prolonged downturn scenario, at least initially, there is a greater economic rationale for expansionary fiscal policy to help stabilise output. The automatic budgetary stabilisers provide a first line of defence and should be allowed to operate. However, their ability to cushion activity in the short run could be hampered by the nature of the shocks. The combination of higher inflation and weak growth tends to increase revenue from indirect taxes relative to direct taxes on incomes, and many categories of government spending are set in advance in nominal terms. In addition, the automatic stabilisers by themselves will not foster the relative price adjustment and demand reallocation required given energy scarcity.

The scope for new discretionary fiscal stimulus measures varies across countries and largely depends on the need to preserve financial market access at affordable, if nonetheless higher, interest rates. In countries with low or moderate debt levels, additional debt-financed stimulus measures could be introduced, although care would be needed to ensure that they helped to reduce energy intensity instead of simply intensifying shortages of energy and other critical inputs or adding to inflationary pressures. Options include taking steps to reduce energy consumption in the short run, such as support for telework, and lowering prices and increasing the supply of public transportation. Over time, increased public investment would help to foster energy supply diversification and energy efficiency, as would tax allowances to incentivise private investment for those goals.<sup>11</sup> As highlighted further below, policies that promote energy diversification and efficiency become more urgent under a prolonged disruption scenario. Countries lacking fiscal space or with limited access to financial markets - a constraint more likely to bind among emerging-market and developing economies - would need to ensure that any new support measures would be at least partly funded through expenditure reduction elsewhere or revenue increases. Some aggregate demand stimulus could nonetheless be achieved via a balanced budget multiplier framework. In this context, offsetting revenue increases with low short-run multipliers and limited negative effects on growth potential, such as some forms of capital taxation, could be considered.

The prolonged disruption scenario would make it essential that measures to mitigate the impact of higher energy prices on households and companies are well targeted and of a non-distortive, lump-sum nature. Top-up payments to existing welfare recipients are easy to implement and a valid starting point for targeting, which can then be improved by taking on board other relevant factors (such as energy needs or geographical location) so that no vulnerable households are missed (OECD, 2026d). Most discretionary interventions adopted so far (such as untargeted energy price support that often lowers marginal prices) would become increasingly costly and of limited effectiveness with a prolonged disruption to energy markets. A failure to implement support measures that provide incentives to save energy would exacerbate the impact of shortages and of the negative terms of trade shock.

Amid tighter financial conditions and larger borrowing needs, governments also need to take steps to minimise tensions in sovereign debt markets. The importance of credible medium-term budget adjustment paths underpinned by sound institutional arrangements would increase. In the euro area, a move towards common borrowing to finance investment with cross-border spillovers (Bakker et al., 2024) would reduce risks of financial fragmentation while contributing to expand the supply of euro-denominated safe assets.

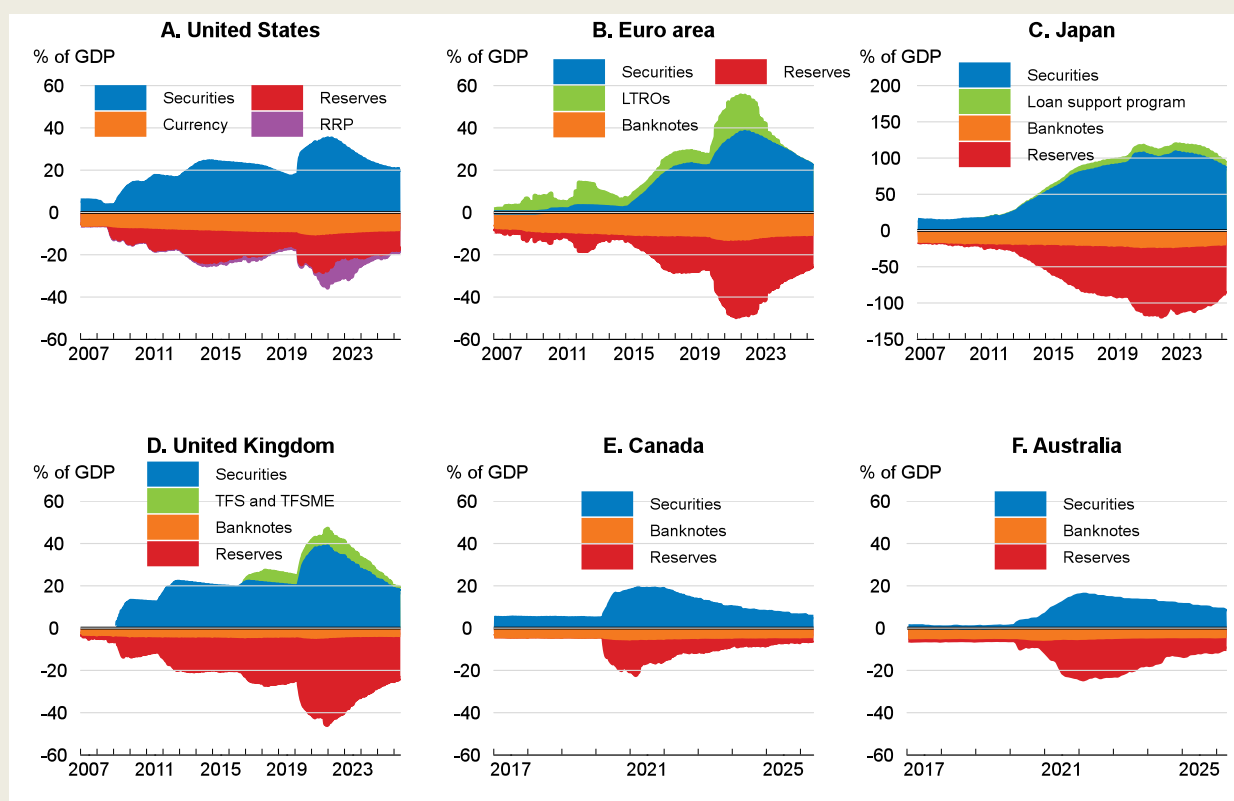
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<sup>11</sup> In highly integrated economies, such as those in the EU, the cross-border benefits of investment can be substantial, both from macroeconomic and structural perspectives (for instance, more integrated energy markets (OECD, 2025b))

### Box 1.5. How large should central bank balance sheets be?

The value of total assets and liabilities of many central banks in advanced economies has varied widely since the global financial crisis (Figure 1.35). Quantitative easing (QE), the large-scale purchase of securities (mainly government bonds), led to a significant increase in the size of the balance sheets of the Federal Reserve and the Bank of England from 2009, and of other central banks, such as the European Central Bank (ECB), some years later. During the pandemic, these and other central banks resorted again to QE to support economic activity and to address strains in financial markets, expanding their balance sheets further. As conditions stabilised, they began quantitative tightening (QT), the downsizing of bond holdings, in 2022-23 (as the Federal Reserve had already done in 2017-19). In several economies the size of balance sheets relative to GDP has now already returned, or come close, to pre-pandemic levels. Against this background some central banks have brought QT to a halt while others are still pursuing it, raising questions about the appropriate steady state size of central bank balance sheets.

**Figure 1.35. Quantitative easing and quantitative tightening have been the main drivers of changes in central bank balance sheet size**



Note: Only major components of the central bank balance sheets are shown. Assets are displayed as positive and liabilities as negative. For the euro area, data refer to the actual membership at each point in time, reserves include the amount of deposit facility, and longer-term refinancing operations (LTRs) include targeted longer-term refinancing operations (TLTROs) and pandemic emergency longer-term refinancing operations (PELTROs). For the United Kingdom, securities are proxied by loans from the Bank of England to the Asset Purchase Facility (APF), net of Term Funding Scheme (TFS) drawings.

Source: OECD Economic Outlook 119 database; Bank of Canada; Bank of England; Bank of Japan; Board of Governors of the Federal Reserve System; European Central Bank; Eurostat; Reserve Bank of Australia; Office for National Statistics; and OECD calculations.

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The balance sheet of the central banks which conducted QE is mainly composed of reserves on the liability side and government bonds on the asset side. Thus, the decision about the appropriate balance sheet size essentially depends on an assessment of the trade-offs that arise as reserves and bond holdings increase or decrease. These trade-offs can evolve over time, depending on the wider economic situation and on financial market conditions. Duygan-Bump et al. (2026) argue that there is actually a central bank trilemma, since only two of the following three objectives can be achieved simultaneously: a small balance sheet, low volatility of short-term interest rates, and limited market intervention.

The case for a smaller balance sheet is often made on the asset side. Lower central bank government bond holdings can reduce price distortions in sovereign debt markets, leading to a more efficient allocation of resources. From a monetary policy standpoint, large holdings of government bonds may constrain, or be perceived to constrain, monetary policy due to the risk of fiscal dominance, complicating central bank communication (Logan et al., 2026). Lower steady state bond holdings also preserve policy space to reintroduce QE as a response to future crises, if needed (Anderson et al., 2026).

However, it is far from certain that central banks can step back from bond market intervention, particularly in the current context of large budget deficits and substantial debt issuance. Any reduction in central bank holdings requires greater public debt absorption by private sector investors, which tend to be more price-sensitive and are sometimes highly leveraged. This entails the risk of higher yields and greater volatility in sovereign bond markets (Ando et al., 2026; OECD, 2026c). In the event of serious bond market volatility, central banks could need to enhance securities purchases to help preserve financial stability. In a currency union, tensions in sovereign debt markets could also lead to financial fragmentation, threatening the smooth and effective transmission of monetary policy across the whole area (Cipollone, 2025).<sup>1</sup>

Important policy trade-offs also apply to the liability side of central bank balance sheets. From the perspective of the private sector, reserves are safe and liquid assets and they serve as an essential means of settlement. Although a reduction in the amount of reserves could lead to better functioning of money markets, with a pickup in trading volumes, there is a risk that, at certain junctures, liquidity shortages in money markets lead to increased interest rate volatility, forcing the central bank to intervene. Events in September 2019 in the United States are an example, when the repo rate spiked sharply amid ongoing QT at the same time as high tax payments and Treasury settlements.<sup>2</sup>

Estimating the demand for reserves to ensure that balance sheet reductions do not lead to liquidity stress is difficult. There is a broad consensus that demand for reserves has increased over the past two decades, partly due to changes in financial regulation (Anderson et al., 2026; BIS, 2025; Duffie, 2026).<sup>3</sup> In addition, financial institutions can be reluctant to utilise a central bank liquidity backstop for reputational reasons, inducing them to hold more reserves as a buffer (Anderson et al., 2026; Logan et al., 2026; Nelson et al., 2026). More broadly, the demand for reserves varies according to the reserves regime. In a regime in which central banks seek to control short-term interest rates by remunerating reserves while supplying ample liquidity to the market (an ample reserves regime) the demand for reserves is higher (Borio et al. 2024), in contrast to the regime of scarce reserves prior to the global financial crisis.

In this context, a range of options has been recently proposed in the United States to reduce the demand for reserves under an ample reserves regime and thus further shrink the central bank balance sheet. These options, many of which require considerable preparatory work, include a firm commitment to conducting liquidity-providing operations when demand rises temporarily, while taking steps to mitigate perceived reputational risks from the use of liquidity backstops. Other possible options are reviewing the regulatory framework for intraday liquidity management, applying tiering to reserves to incentivise financial institutions to provide more funds into money markets and redesigning the payments system to make a more efficient use of reserves (Anderson et al., 2026; Duffie, 2026; Logan et al., 2026).

A smaller balance sheet would also reduce the volatility of public debt cost, although such an objective could also be achieved by tilting central bank bond holdings towards shorter-term securities (Schnabel, 2025b). Public debt cost depends on both bond holdings and reserves. QE effectively shortened the average maturity of public debt in the consolidated balance sheet of the general government and the central bank, replacing long-term fixed-rate bonds by short-term floating-rate reserves (OECD, 2023b). This increased the speed of transmission of changes in policy rates to public debt costs, making the latter more volatile. Very low policy rates in QE years reduced effective debt costs via higher central bank profits, transferred to the Treasury as dividends. Conversely, higher policy rates in recent years made reserve remuneration costs soar, inducing central bank losses.

1. In this regard, the ECB created in 2022 the Transmission Protection Instrument (TPI), which allows the Eurosystem to purchase government bonds of eligible countries in the event of disorderly market dynamics.

2. Structural features of the repo market, such as concentration of liquidity suppliers, also amplified the rate increase (BIS, 2019).

3. Although reserves are categorised as Level 1 high-quality liquid assets, the same asset class as domestic government bonds, for the purposes of the Basel III Liquidity Coverage Ratio (LCR) reserves tend to be regarded as more liquid assets in assessments of the monetisation capacity of asset holdings under stress scenarios.

### ***Diversification of energy supply and better energy efficiency are needed to improve energy security***

Governments can do more to lower the vulnerability of their economies to future geopolitical shocks. Recent events highlight 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, the priority is effective crisis management, including the use of strategic energy stocks, activating emergency-demand restraint measures, and providing timely, targeted income support that preserves energy-saving incentives. In the longer-term, reducing reliance on foreign sources of fossil fuels and improving energy efficiency in the domestic economy are key priorities, and more pressing the longer the current disruption to global energy markets persists.

As discussed in Chapter 2, greater diversification of energy supply remains a first line of defence against future external shocks. Through diversification, the system becomes less vulnerable to any single point of failure — whether driven by geopolitical disruptions, extreme weather, or cyberattacks. Reducing the share of fossil fuel imports in the domestic energy mix can lower exposure to international geopolitical risks and is a particular priority for large net energy importers. Further introducing policy measures that promote low-cost domestic clean energy sources, such as renewable energy technologies, can both reduce fossil fuel imports and help governments achieve their carbon mitigation objectives. Price based and non-price-based policy approaches that tackle both barriers on the demand and supply side should be considered, depending on national circumstances and preferences. Any increase in the share of renewable energy sources will need to be accompanied by increased electrification, requiring greater investment in new electricity grids and storage. However, spending on grids has generally lagged what is needed to accommodate the expansion in new electricity generation, increasing congestion, delaying the connection of new generation sources and pushing up electricity prices (IEA, 2025). Further accelerating permitting of grid projects and reducing barriers to businesses obtaining transformers and other key components can enable further electrification and a greater role for domestic sources in countries' energy supply.

Policies that promote greater energy efficiency in the household and industrial sectors can also help reduce reliance on fossil fuel imports and safeguard economies against future energy crises. Increasing regulatory energy efficiency standards are an important element, including those related to building, vehicle, appliances and industrial equipment. Such measures can be complemented with information campaigns and financial incentives for lower income households to help offset the high upfront costs of necessary actions. However, adoption of these policies remains uneven across countries (see Chapter 2), highlighting scope for further reform efforts.

In all regions, the spillovers from future conflicts can also be cushioned by strong inventory management and emergency preparedness. 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.

### ***Structural reforms are needed to improve growth prospects and resilience***

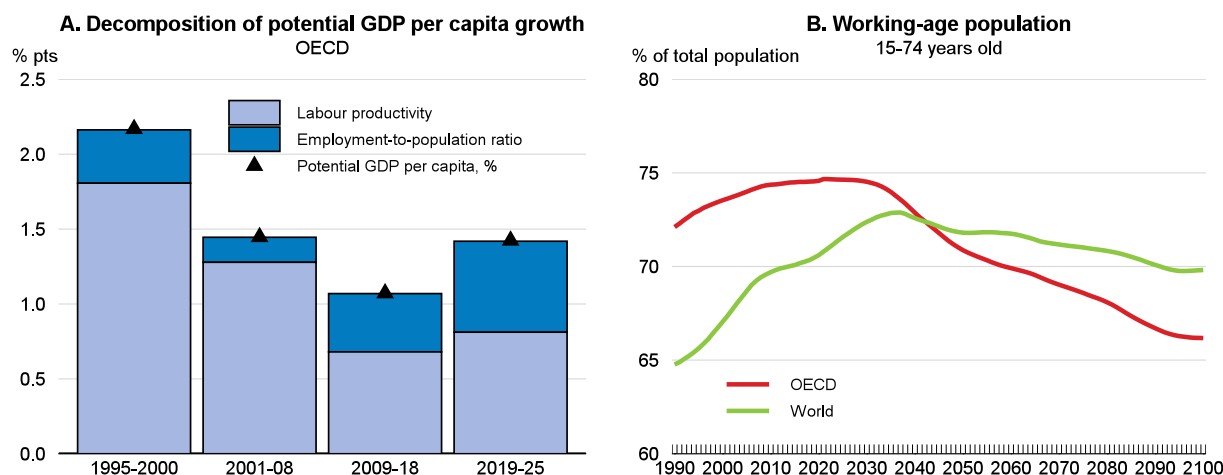
The current conflict also underscores the importance of structural reforms that enhance the ability for economies to adapt when faced with structural and external shocks. Diversification of energy supply will entail significant structural change, as economic activities are made more energy efficient and domestic energy systems are further reshaped, a process influenced by a range of structural policies (Chapter 2). Enhanced reforms efforts in key areas will also help to determine the extent to which countries can more fully capitalise on the opportunities offered by burgeoning investment in AI technologies, and reduce fiscal pressures.

Structural challenges have been evident in OECD economies for some time. Notwithstanding the recent cyclical improvement, productivity growth in the average OECD economy has slowed since the global financial crisis (Figure 1.36, Panel A). This partly reflects weakening business dynamism and human capital accumulation across OECD economies (Chapter 2). The share of the working age population has also begun to decline in OECD economies (Figure 1.36, Panel B), creating additional challenges for policymakers. Despite these challenges, reform momentum has been in retreat across the OECD for more than a decade.

The new *OECD Foundations for Growth and Competitiveness Initiative* (covering 48 countries including all 38 OECD member countries) highlights the need for policymakers to consider multiple interlinked policy areas to revive the structural drivers of economic growth:

- Key enabling conditions for growth need to be in place, including high-quality human capital, sound institutions, effective governance, reliable infrastructure, affordable and secure energy supply and a strong quality of regulations.
- Policymakers also need to ensure that market incentives are in place that encourage firms and households to channel resources to their most productive uses. Business incentives and market dynamism can be sharpened by strengthening competition in product markets, including through lower administrative burdens to firm entry and simplifying insolvency regimes. In the same vein, reducing barriers to labour mobility and participation and improving skills can promote a more efficient allocation of resources. Well-designed tax-benefit systems and activation policies are needed to strengthen work incentives, alongside good access to affordable childcare and housing policies that promote mobility.
- With the enabling conditions for growth established and policies providing adequate market incentives set, governments can consider strategically steering economic activity toward priority areas. Targeted reforms that promote innovation, green investments and energy security help address market failures, accelerate technological transitions, and align growth with long-term societal objectives, while strengthening competitiveness and economic resilience.

**Figure 1.36. Productivity growth has slowed and the share of the working age population has started to decline**



Source: OECD Economic Outlook 119 database; OECD Long-Term Economic Outlook 118 database; and OECD calculations.

StatLink  <https://stat.link/l9rdit>

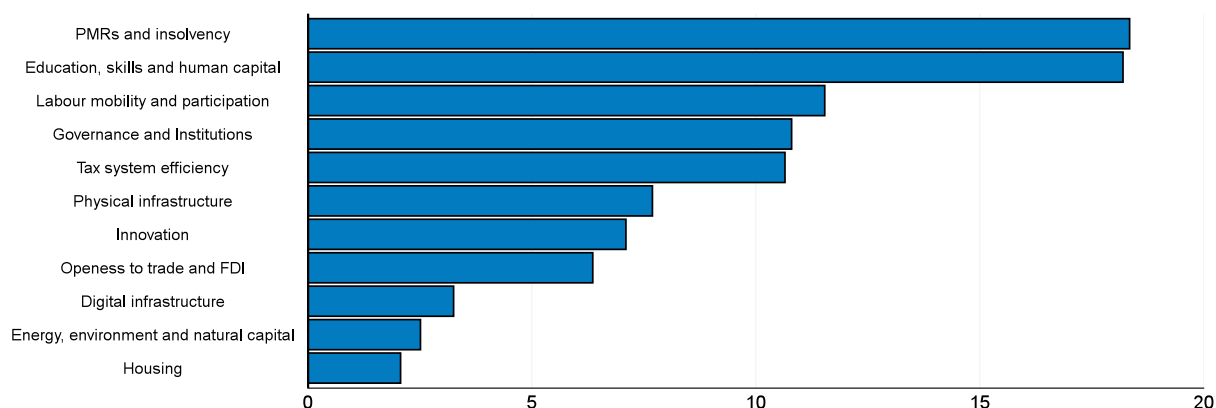
While each country's situation is unique, the country specific reform recommendations from the country notes in the OECD Foundations for Growth and Competitiveness publication highlight the broad range of reforms required (Figure 1.37). In summary:

- Reforms to product market regulations and insolvency policies comprise 18% of the policy recommendations. These include measures that simplify permits, licenses and administrative procedures, including in Australia, Indonesia, India, Peru, Sweden and the United States. Reducing regulatory burdens in professional services is also emphasised, including in Canada, France, Italy, Korea and Türkiye. In addition, reforms that streamline insolvency procedures and strengthen restructuring tools are recommended in many economies, including Belgium, Israel, Norway, Poland and South Africa.
- Education, skills and human capital policy reforms also comprise 18% of the policy recommendations. This includes expanding lifelong and adult learning opportunities in countries such as Costa Rica, Croatia, Germany, Denmark, Spain and the Slovak Republic. At younger ages, providing additional support to disadvantaged schools and at-risk students are emphasised, including in Brazil, China, France, Mexico and the United Kingdom. Further expansion of vocational education and apprenticeship systems is also recommended for many countries, including Italy, Latvia, Lithuania, Peru and Romania.
- Reforms that promote labour mobility and participation account for around 12% of the policy recommendations. This includes efforts to expand access to childhood and elderly care as well as primary school education, with such recommendations relevant for Ireland, the Netherlands, Portugal, the United Kingdom and the United States. Reforms that reduce the tax wedge are recommended for other countries, including Spain, Italy, Mexico and Türkiye, while increased spending and efficiency of active labour market policies is also emphasised, such as in Austria, Czechia, France and Greece. Furthermore, labour market participation can be supported by changes to parental leave policies, including in Costa Rica, Italy, the Slovak Republic and the United States.

- The need for further improvements to governance and institutions is cited in 11% of the policy recommendations. One key aspect is expanding the use of digital tools to modernise the public sector, including in Chile, India, Iceland, Latvia and New Zealand. Reforms to improve public procurement are also recommended, including in Argentina, Bulgaria, Finland and South Africa, and the need to introduce or improve ex ante regulatory impact assessments, including in Colombia, Denmark and Portugal. Improved legislation against corruption was also highlighted for a number of countries, including Bulgaria, China, Peru and the United Kingdom.
- Policy changes that improve the efficiency of the tax system account for 11% of the policy recommendations. Broadening the tax base and reducing tax expenditures are recommended in many countries, including Canada, France, Ireland, Sweden and South Africa. Efforts to reform property taxation, in some cases by shifting the tax burden to property away from direct taxes, are also emphasised, including in Australia, Denmark, Norway and Slovenia.
- Further investment in physical infrastructure is urged in 8% of the policy recommendations, including in energy infrastructure in Belgium, Estonia, Indonesia, India and Mexico. A need to strengthen strategic planning, clarity, transparency and accountability is also emphasised, including in Costa Rica, Germany, Hungary, Japan and the United Kingdom.
- Improvements to innovation policy are highlighted in 7% of the recommendations, including the need to evaluate and reform R&D tax credits in Chile, Japan, Lithuania and Poland, and greater public R&D spending, including in Finland, Luxembourg, Slovak Republic and the United States.
- The need to promote rules-based open markets and openness to FDI is emphasised in 6% of policy recommendations. This most commonly relates to the need to improve trade facilitation, including in Brazil, India, Israel and Peru. Reducing barriers to FDI is also recommended in a number of countries, including Canada, Iceland, Japan and New Zealand.
- Measures that encourage the acceleration of digital adoption comprise 3% of policy recommendations. This most commonly reflects a need to promote the adoption of digital tools, including in Australia, France, New Zealand and Romania, but there is also a need to boost investment in digital infrastructure in some economies, including Greece, India, Ireland, Peru and the Slovak Republic.
- Further measures to raise investment in energy and natural capital account for 3% of policy recommendations. This mostly reflects a need to strengthen emission regulation and climate resilience standards, including in Australia, Chile, Korea, Spain and South Africa.
- Housing policy reforms are emphasised in a handful of countries. This includes improvements to housing-related regulation, including in Canada, Luxembourg, the Netherlands and the United States, and expanding funding for social housing in Australia, Canada, Israel, Portugal and Sweden.

### Figure 1.37. Reform recommendations to strengthen the foundations for growth and competitiveness

Share of policy recommendations, per cent



Note: Each bar displays the share corresponding to the number of countries with a recommendation in that area based on a whole sample of 48 countries.

Source: OECD calculations based on Foundations for Growth and Competitiveness Country Notes.

StatLink  <https://stat.link/aeipxv>

### ***Countries should focus on long-term trade diversification rather than harmful export bans***

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, preserving 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. Export bans for agricultural products tend to exacerbate price increases and particularly harm smaller, and poorer import dependent countries – with a negative impact on global food security in the short term and supply capacity over the long term (OECD, 2023; OECD/FAO 2023). Prior to the onset of the conflict, the WTO had estimated that global food and agricultural products subject to export restrictions had fallen to around USD 7 billion in 2025, from almost USD 12 billion in 2024 (WTO, 2025).

The conflict has also resulted in export bans on products such as sulphuric acid and phosphates as countries face prospective shortages in supply from the Middle East. Export restrictions for critical minerals are becoming both increasingly prevalent and more prohibitive, which raises the chances of significant negative spillover effects (OECD, 2026e). Continued use of export bans for industrial policy use, as has been the increasing case for critical raw materials, can induce domestic under-investment and wasteful use. Rather than export bans, 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.

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## Annex 1.A. Policy and other assumptions underlying the projections in the time-limited disruption scenario

Fiscal policy settings for 2026-27 are based as closely as possible on legislated tax and spending provisions and are consistent with the growth, inflation and wage projections. Where government plans have been announced but not legislated, they are incorporated if it is deemed clear that they will be implemented in a shape close to that announced. It is assumed that EU countries generally adopt fiscal policy adjustments which are consistent with the reformed Stability and Growth Pact, apart from those member states where planned higher net expenditure has required, or is expected to require, the activation of national escape clauses.

Projections for the EU countries account for spending financed by the NextGenerationEU (NGEU) grants and loans, based on expert judgments about the distribution of spending across years and different expenditure categories and informed by officially announced plans where available. NGEU grants are assumed to be received and spent by end-2026 at the latest and to be budget balance-neutral, increasing both capital tax and transfers receipts and government expenditure by the same amount. In addition, positive net one-offs are added in order to reflect the discretionary stimulus associated with those grants, as measured by changes in underlying primary balances.

For monetary policy, the assumed path of policy interest rates and unconventional measures represents the most likely outcome, conditional upon the OECD projections of activity and inflation. This may differ from the stated path of the monetary authorities. In the euro area, 10-year sovereign spreads relative to Germany are assumed to remain constant over the projection period at levels close to those observed in the first half of May.

The time-limited disruption scenario projections assume unchanged exchange rates from those prevailing on 8 May 2026: one US dollar equals JPY 156.8, EUR 0.85 (or equivalently one euro equals USD 1.18) and 6.8 renminbi.

In the time-limited disruption scenario projections, the price of a barrel of Brent crude oil expressed in USD per barrel is assumed to move in line with the futures price as of 26 May, with a decline from USD 101.8 in 2026Q2 to USD 77.5 in 2027Q4. The TTF natural gas price expressed in EUR / MWh is assumed to move in line with the futures price as of 26 May, declining from EUR 46.3 in 2026Q2 to EUR 34.2 in 2027Q4. Global food commodity prices are assumed to evolve based on available product-specific futures curves as at 26 May, rising by 8.0% in 2026 and 3.6% in 2027. Other commodity prices are assumed to be constant over the projection period at their average levels from April 2026.

The cut-off date for information used in the projections is 27 May 2026.

OECD quarterly projections are on a seasonal and working-day-adjusted basis for selected key variables. This implies that differences between adjusted and unadjusted annual data may occur, though these in general are quite small. In some countries, official projections of annual figures do not include working-day adjustments. Even when official projections do adjust for working days, the size of the adjustment may in some cases differ from that used by the OECD.



## 2. From energy shocks to stronger resilience

## Introduction

The disruption in energy supply and rise in energy prices linked to the evolving conflict in the Middle East have brought energy affordability and supply security back to the centre of the policy debate. Higher energy prices are once again fuelling inflation, raising pressure on household budgets and firms' costs - all at a time when fiscal space is limited. Governments are therefore facing a familiar policy question: whether to cushion the short-term economic and social effects of the energy shock and how to do so without adding to already strained public budgets or weakening incentives to save energy.

The government policy responses to the crisis show how difficult this balance can be. Many governments have acted rapidly, often rolling out measures such as fuel tax cuts, subsidies and other price interventions. Such broad-based measures can provide timely relief during emergencies as they can be introduced quickly and do not require data and administrative systems to identify vulnerable households and firms in real time. These features also enhance their political acceptability during crises, as they avoid politically difficult eligibility decisions and help reduce the risk of coverage gaps. However, they often tend to be costly, hard to unwind, and weaken incentives to save energy, as the 2022-23 energy crisis showed.

The lessons from the 2022-23 crisis remain highly relevant for today's energy crisis. Support measures are more effective and less costly when they are targeted at vulnerable households and viable, exposed firms, are temporary by design, and preserve incentives to save energy and reduce reliance on fossil fuels. At the same time, repeated crises have underscored that strengthening resilience to energy shocks requires more than short-term support measures.

This chapter draws on the OECD's Energy Support Measures Tracker to document government policy responses to the 2026 energy crisis and identifies policy priorities. Looking ahead, policy makers have at their disposal a range of demand-, supply-side, and governance and regulatory tools to improve crisis responses, strengthen future crisis preparedness, and enhance longer-term energy system resilience (Table 2.1):

- **Crisis response** focuses on managing the immediate shock. This includes coordination of the use of strategic energy stocks, activating emergency-demand restraint measures, and providing support to vulnerable households and exposed but viable firms while preserving energy-saving incentives. Clear and transparent rules for reviewing support measures with explicit sunset clauses or phaseout rules can help contain fiscal costs and support the timely withdrawal of emergency support measures.
- **Crisis preparedness** focuses on improving the capacity of the energy system and the public administration to anticipate, coordinate and execute responses to shocks. This involves ensuring that energy stockholding systems are adequately designed, governed and ready to be deployed when disruptions occur. It also hinges on improving data availability and continuity to identify vulnerabilities, inform decision making, as well as digitalised benefit-delivery systems to provide timely and targeted support, and advanced analytics to enhance operational triage, anomaly and fraud detection in addition to short-term forecasting of caseloads and budget needs. Finally, it calls for expanding flexible electricity demand and ensuring storage capacity to ease system stress.
- **Structural resilience** requires policy reforms to durably lower vulnerability to fossil-fuel supply disruptions and other energy system shocks. This hinges on pursuing two complementary and mutually reinforcing objectives: higher energy efficiency and broader diversification across energy sources, technologies and locations. Electrification of end uses can underpin both objectives by enabling the integration of a wider range of primary energy sources into final demand, provided that grid upgrades and regulatory reforms support improvements in electricity systems' operation, monitoring, control, and flexibility.

**Table 2.1. Policy options to improve responses and strengthen resilience to energy shocks**

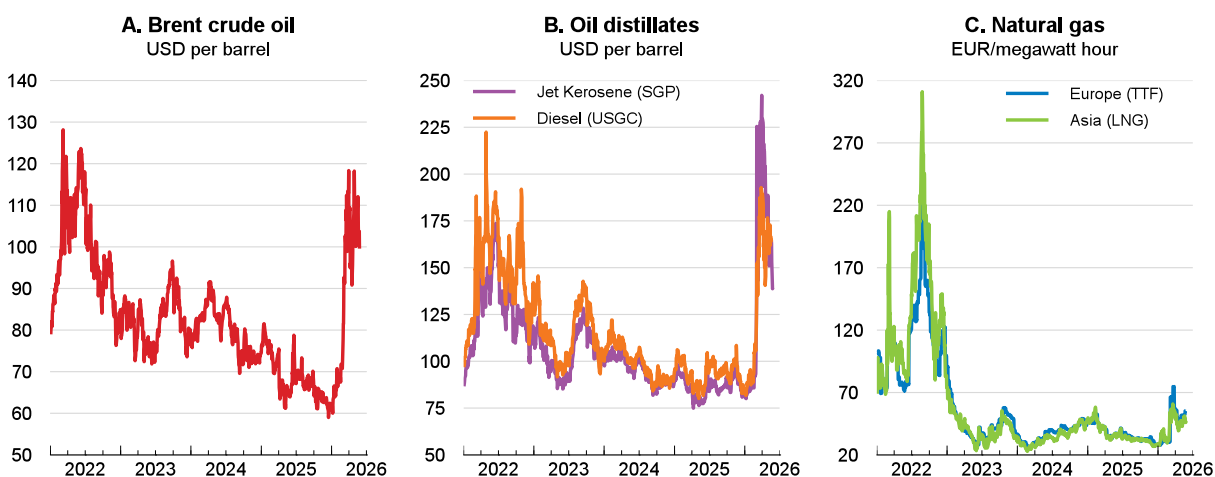
| Policy function       | Demand-side tools                                                                                                                                                        | Supply-side tools                                                                                                                                                        | Governance and regulatory tools                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
|-----------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Crisis response       | Targeted support; emergency demand restraint; demand response activation; public communication on support measures and energy saving                                     | Strategic stock releases (internationally coordinated); mobile generation; rapid repair mobilisation; activation of cross-border emergency assistance arrangements       | Crisis units; timely emergency communications; rapid data sharing (e.g. on inventories); review and phase-out rules for support measures; international coordination for strategic stock releases; high-frequency budget monitoring and reporting (spending, coverage, take-up); transparent fiscal accounting of contingent liabilities (e.g. guarantees to utilities)                                                                                                                                                                                                                                                     |
| Crisis preparedness   | Pre-defined demand-restraint protocols.                                                                                                                                  | Building or improving energy reserve systems and critical equipment stockpiles; stress tests of critical energy infrastructure                                           | Stress tests of support delivery systems; linking information and databases to better identify vulnerable households and firms; data continuity rules; pre-defined protocols for activating, recalibrating and withdrawing support without delay; ex ante fiscal governance frameworks, including appropriations, contingency reserves, and rapid reallocation mechanisms; audit and control protocols to limit leakage and fraud; mechanisms for rapid ex post evaluations and reconciliation of crisis spending                                                                                                           |
| Structural resilience | Energy efficiency improvements; electrification of end-uses; incentives and demand response mechanisms to increase demand flexibility (e.g. dynamic electricity tariffs) | Diversified energy supply mix; cross-border interconnections; decentralisation of energy assets and resources; grid reinforcements; backup capacity; electricity storage | Resilience embedded in planning; permitting and grid-connection reform; real-time power system monitoring, data exchange and control; pre-arranged and operational cross-border emergency assistance arrangements; integration of “insurance value” of resilience (i.e. avoided losses from outages and supply disruptions) and risk metrics into energy projects’ appraisal and budget prioritization; medium-term budget frameworks for resilience investment (multi-year envelopes for grids and flexibility services); systematic tracking of public spending and tax expenditures relating to energy system resilience |

## Energy prices have surged but exposure differs across countries, firms and households

The conflict in the Middle East has roiled energy markets, as discussed in Chapter 1 of this Outlook. Since late February, the near halt in shipments through the Strait of Hormuz and damage to key energy infrastructure in the region have drastically disrupted the flow of crude oil, oil products and liquefied natural gas. With few alternative transport routes for products originating in the Gulf of Persia, and limited scope to ramp up alternative supply sources in the short term, the disruption has quickly fed into prices (Figure 2.1). The effects are spreading beyond energy markets, with business surveys beginning to point to rising input price inflation (see Chapter 1).

Strategic oil reserves can provide an important buffer against supply disruptions, but current inventory levels provide limited protection against a prolonged supply disruption. As detailed in Chapter 1, the closure of the Strait of Hormuz since late February 2026 has removed an estimated 12.8 million barrels of oil per day (mb/d) from global oil supply, which is equivalent to around 12% of global daily consumption (IEA, 2026d). Gulf production alone has fallen by 45% from pre-war levels. While exports have been partially rerouted through alternative ports and pipelines, and Atlantic Basin producers have stepped up supply, these measures fall short of compensating for the scale of Gulf losses. IEA member countries have released 164 million barrels of oil from emergency stocks out of a total commitment of 400 million barrels. The IEA projects a cumulative deficit of 900 million barrels through September 2026 – assuming conflicts cease by early June – and that rebuilding depleted stocks might take up to three years on top of underlying demand growth (IEA, 2026d).

**Figure 2.1. Energy prices have spiked**



Note: Shows the evolution of U.S. Gulf Coast Ultra-Low Sulfur No 2 Diesel Spot Price for Diesel; TTF Natural Gas Price for Europe and LNG for Asia. Latest data refers to 26 May 2026.

Source: LSEG; and OECD calculations.

IEA member countries are required to ensure oil stock levels equivalent to no less than 90 days of net imports. Some countries, such as Japan and Korea, hold well in excess of those levels. Net exporters, also tend to hold strategic reserves, even absent an IEA commitment. The US Strategic Petroleum Reserve (SPR) adds around 20 days of additional coverage on top of commercial stocks. However, large headline stock levels do not necessarily guarantee immediate market relief, as refinery capacity, tanker availability and product bottlenecks can constrain how quickly strategic releases translate into physical supply. The picture is considerably less reassuring for many emerging market economies (Figure 2.2). In particular, many Southeast Asian economies hold stocks covering approximately one month of consumption. These economies combine high import dependence with tighter fiscal positions and greater currency vulnerability, amplifying the speed and severity with which supply shocks transmit to households and public finances.

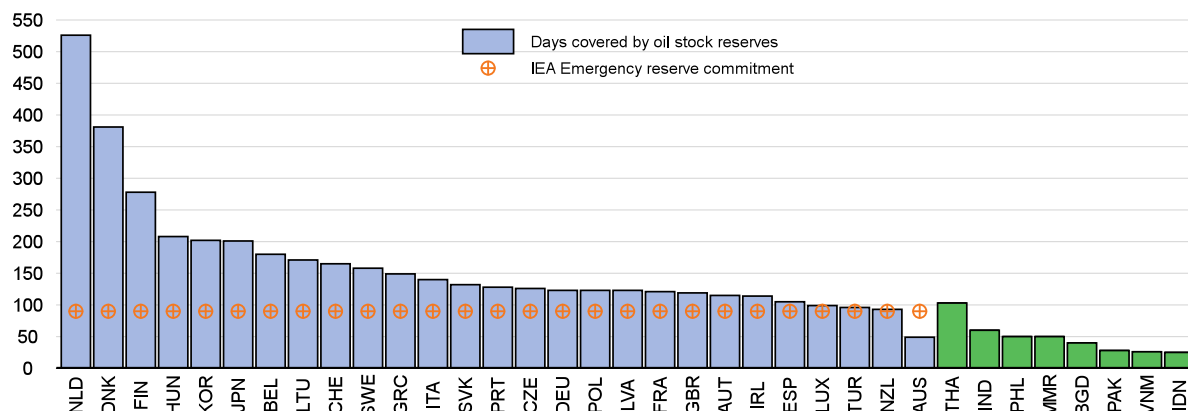
Overall, energy price increases are putting pressure on household energy bills and business costs, with adverse consequences for growth and welfare for most countries. Exposure to the current shock differs markedly across countries and sectors. At the country level, vulnerability depends not only on direct import dependence on the Middle East, but also on indirect exposure through domestic and international supply chains, and the availability of inventory buffers (see Box 1.2 in Chapter 1).

Firms in energy-intensive sectors, such as transport, petrochemicals and metals, are likely to be most affected. However, even sectors with limited direct energy use — including machinery, construction and services — remain exposed through production networks that rely on energy from the Middle East. More broadly, vulnerability also depends on firms' ability to substitute away from affected inputs, pass higher costs on to customers, and absorb temporary liquidity pressures. Limited diversification, tight liquidity and constrained financing amplify firms' vulnerability, especially for smaller businesses.

Household vulnerability varies widely, both across and within countries. Energy costs account for a larger share of consumer spending in some countries than in others, ranging from around 17% in Latvia to around 5% in the United Kingdom (Figure 2.3 Panel A). Cross-country differences also depend on how strongly international energy-price shocks pass through to retail prices, for example because of differences in energy taxation and subsidies, countries' energy mixes and the frequency with which retail contracts are adjusted. Within advanced countries, the burden of high energy prices falls disproportionately on poorer households, because energy accounts for a larger share of their consumption baskets (Figure 2.3 Panel B). Income is therefore a key determinant of household vulnerability, but it is not the only one. Housing energy efficiency, the energy source used, households' energy needs and geographic location, including whether they live in rural areas, also shape the extent to which they are affected by higher energy prices (Hemmerlé et al., 2023).

**Figure 2.2. Many large oil importers have significant short-term buffers, but the level of coverage varies**

Days of oil stock coverage based on net imports (IEA) and consumption (non-IEA), latest data available

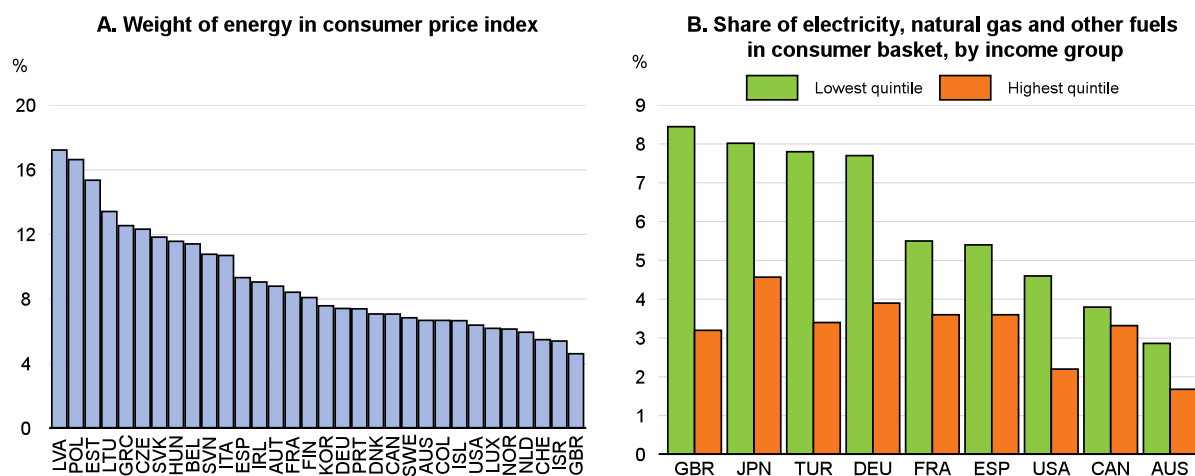


Note: Oil stocks include all petroleum (primary products and refined products), excluding naphtha and international marine bunkers. Refined products are converted to crude-oil equivalent. Days of cover are calculated relative to net imports adjusted for stock changes. Further details on methodology are available in the IEA oil stock data documentation. The orange symbol denotes the IEA 90-day emergency stockholding requirement, which applies only to IEA member countries. IEA data refers to December 2025. For non-IEA economies (green bars), fuel-reserve coverage refers to domestic consumption based on official government statements and briefings published in 2026 by national authorities. The figures for non-IEA countries are indicative estimates and may vary over time and by fuel product.

Source: International Energy Agency (IEA); Bangladesh MPEMR/BSS; Government of India Press Information Bureau; Indonesia Cabinet Secretariat; Myanmar MOI; Pakistan parliamentary statements; Philippines DOE/PNA; Thailand PRD; Vietnam MOIT; and OECD calculations.

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**Figure 2.3. The share of energy in household consumption differs across countries**

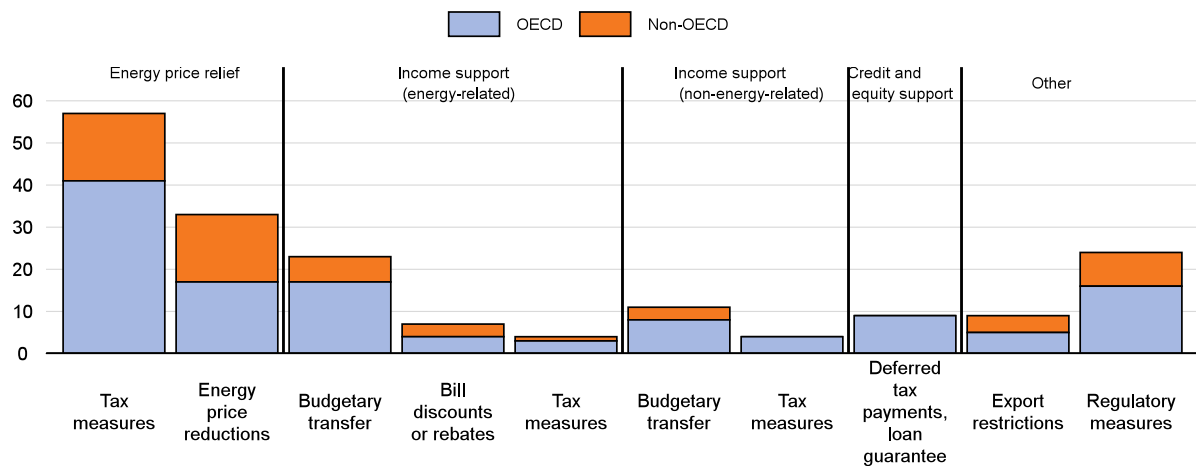


## Many countries have acted quickly to provide relief

Many governments across the OECD have moved quickly to shield households and firms from rising fuel costs (see Table 2.2). As documented by the OECD Energy Support Measures Tracker, as of 18 May 2026, 31 OECD countries and 15 key non-OECD countries (out of the 55 countries plus the European Union covered by the Tracker) have announced measures. Energy price relief accounts for the largest share of recorded measures, primarily delivered through tax reductions and regulated price caps (Figure 2.4). Regulatory measures and income support via subsidies tied directly to energy bills or broader fiscal transfers have also been used, though to a lesser extent. Among the measures announced by OECD countries with a direct fiscal cost, around 78% are explicitly temporary, i.e. they have an explicit end date or have been designed as one-off interventions. Around 44% are targeted, with most measures focusing on industrial sectors most exposed to fuel price increases such as agriculture and road freight transport. Around 37% of measures are both temporary and targeted. This is somewhat higher than the share recorded during the comparable period of the 2022–23 energy crisis, when around 30% of measures announced within the first three months of the crisis (March–May 2022) were both temporary and targeted.

**Figure 2.4. Classification of energy support measures**

Count of measures



Note: The chart classifies support measures along two dimensions. First, measures are grouped by type of support: energy price relief, income support, credit and equity support, or other measures. Second, measures are classified by implementation mechanism, such as tax measures, regulated or capped prices, budgetary transfers, regulatory actions, or financial support instruments. The non-OECD economies included are Argentina, Brazil, Bulgaria, China, Croatia, India, Indonesia, Malaysia, Morocco, the Philippines, Romania, South Africa, Thailand, Ukraine, and Viet Nam. Data as of 18 May 2026.

Source: OECD Energy Support Measures Tracker 2026.

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Fuel tax reductions – the most widely used instrument so far – have been used in 21 OECD countries and 10 of the non-OECD countries. These measures lower the tax component of retail prices directly, thereby reducing the price faced by consumers and can be implemented quickly through existing systems. The scale of relief, however, varies considerably across countries. For instance, Latvia reduced diesel excise duties by around 15% (EUR 0.07 per litre), while Ireland temporarily lowered them by EUR 0.22 per litre, broadly comparable to the excise duty cuts implemented in Italy. Some countries achieved larger reductions through combined measures. Spain cut excise burdens sharply while simultaneously reducing VAT on fuels from 21% to 10%, resulting in pump price reductions of around EUR 0.30 to 0.40 per litre. Poland and Slovenia reduced fuel excise duties to the minimum levels permitted under EU law, with Poland complementing these cuts with a temporary VAT reduction and Slovenia with the suspension of environmental levies.

Direct price interventions have been used more selectively than fuel tax measures, with 13 OECD and 9 non-OECD countries having rolled them out. Of these, 8 OECD and 5 non-OECD countries have implemented both direct price intervention and tax cuts. These include retail price caps, ceilings on wholesale prices passed through to retail, and per-litre subsidies designed to limit the extent to which price increases reach final users. Some countries have opted for direct and transparent reductions in retail fuel prices. Greece has introduced a per-litre subsidy for diesel applied directly at the pump, equivalent to about EUR 0.20 per litre, and Hungary imposed fixed maximum pump prices for petrol and diesel specifically for vehicles with domestic license plates. In contrast, Japan and Korea have intervened upstream in the pricing chain. Japan has subsidised fuel wholesalers to keep the nationwide average retail price of gasoline near JPY 170 per litre, with similar support extended to diesel, heavy oil and kerosene, while Korea has imposed a ceiling on refiners' wholesale prices for gasoline and diesel.

Direct income support has also been deployed, though its scope varies considerably across countries. So far, direct income support has been implemented in 14 OECD and 6 non-OECD countries. Such measures can take the form of energy-related income support, which links transfers to energy use or bills thus lowering the average cost of energy consumption. Sweden has introduced nationwide compensation for electricity and gas bills as part of a SEK 4.7 billion (USD 502 million) relief package. Payments will be based on actual household energy consumption in January and February 2026 and delivered automatically through the social insurance system. In other cases, income support has been provided without being explicitly tied to energy consumption, offering households greater disposable income to absorb higher living costs. Greece has introduced a targeted fertiliser-cost subsidy for farmers that refunds 15% of fertiliser invoice values for a limited period, alongside a digital fuel wallet for vulnerable households. Some measures have been designed to reflect both fuel type and consumer vulnerability. The United Kingdom targeted aid for off-grid and heating-oil-dependent households, while Portugal introduced a EUR 15 reimbursement per bottled-gas cylinder, distributed through local parish councils.

Beyond price relief and income support, governments have also introduced regulatory measures. Australia and New Zealand temporarily relaxed domestic fuel quality specifications to broaden import options, with Australia allowing higher sulphur levels in petrol and New Zealand aligning its standards with Australian specifications. The United Kingdom strengthened regulators' ability to challenge price increases through stronger monitoring and mandatory data disclosure. Portugal and Spain introduced consumer protections, prohibiting supplier disconnections during billing disputes and requiring flexible contract conditions respectively.

Some countries introduced fuel rationing or purchase limits. These include India, which directed all domestic LPG supply to household use, Indonesia, which capped subsidised fuel purchases at 50 litres per vehicle per day, and the Slovak Republic, which limited the value of subsidised fuel purchases to EUR 400 per transaction. Several governments also sought to reduce consumption directly. Korea launched a nationwide energy-saving campaign and mandated odd-even driving restrictions for public-sector employees, and Indonesia required civil servants to work from home and reduce international travel. Chile froze regulated public transport fares through end-2026, Lithuania halved domestic rail fares, and several Australian states offered free public transport for up to three months.

Export restrictions have been less common among advanced countries but feature extensively in some emerging markets. China and Korea used administrative controls, introducing export-licensing requirements on refined fuels and caps on exports of refined petroleum products and naphtha respectively. India and Argentina applied fiscal disincentives, with India imposing export duties on diesel and aviation turbine fuel and Argentina raising crude oil export duties to 8% when Brent exceeds USD 80 per barrel. Viet Nam and Romania required producers to redirect uncommitted crude to domestic refineries or seek prior authorisation before exporting fuels. Hungary and the Slovak Republic temporarily imposed outright export bans on crude oil or key refined products to preserve domestic supply.

The announced fiscal costs of measures vary across countries. Korea announced a supplementary budget of approximately USD 17 billion covering direct energy cost relief, consumer vouchers for lower-income households, fuel subsidies for farmers and fishermen, and grants to local governments. Germany's two-month reduction of the energy tax on gasoline and diesel will provide around USD 1.8 billion in relief. Spain announced a USD 5.7 billion package spanning tax cuts, income transfers and sector-specific subsidies. Canada suspended its federal fuel excise tax at an estimated cost of USD 1.7 billion. France announced at least USD 74 million in targeted support for road transport, agriculture and fishing, though several measures remain uncoded.

Comparing the fiscal measures countries implemented so far in 2026 with those announced during the first three months following Russia's full-scale invasion of Ukraine (March - May 2022) reveals three broad patterns (Figure 2.5). First, in a small number of countries, including France, the Netherlands, New Zealand and the United Kingdom, universal price relief measures that featured prominently in 2022 are absent from the 2026 policy mix to date. Instead, all or most of the 2026 measures take the form of targeted interventions, such as transfers and subsidies directed at vulnerable households and the most exposed industrial sectors. Second, countries like Austria, Estonia, Poland and the Slovak Republic have moved in the opposite direction. Targeted transfers that characterised most of their 2022 response have given way to universal price caps and fuel tax cuts in 2026. For a third group, including Chile, Greece, Ireland, Italy, Lithuania, and Spain, the 2026 response broadly mirrors the 2022 approach in structure with measures combining universal price controls with targeted industrial sector and household support.

**Table 2.2. Selected energy support measures announced in response to the 2026 energy crisis**

Examples drawn from the 2026 OECD Energy Support Measures Tracker, cutoff 18 May 2026

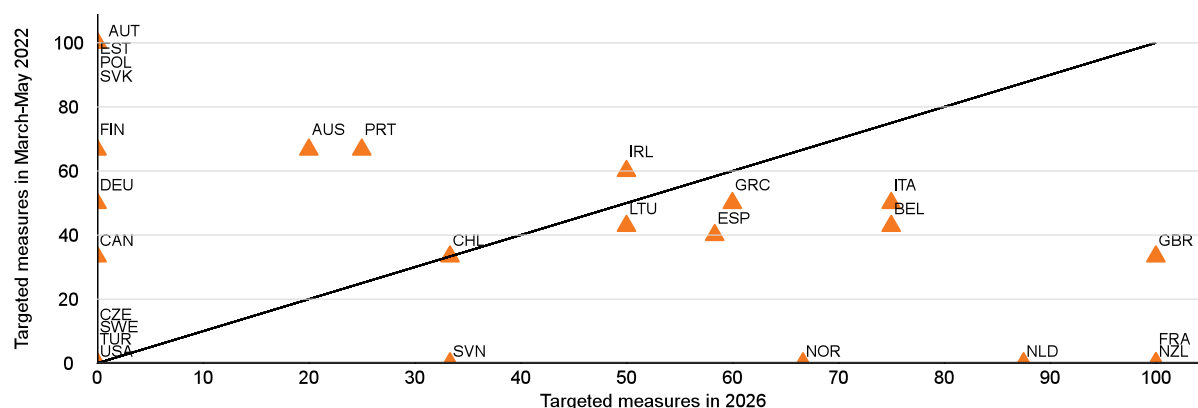
| Type of support                     | Mechanism of support                                | Examples from the Tracker                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|-------------------------------------|-----------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Energy price relief                 | Tax measures                                        | France: Waived the excise tax on agricultural non-road diesel for the month of April and May, targeting farmers registered as agricultural operators.<br>Ireland: In March, increased the Diesel Rebate Scheme ceiling for transport operators from EUR 0.075 to EUR 0.12 per litre. The increase was backdated to January 2026 and applies through June.<br>Norway: Removed the road-usage tax on petrol and diesel to lower pump prices, and on mineral oils used in professional fishing and hunting. This is applied from April to September 2026. |
|                                     | Reduced, regulated or capped marginal energy prices | Japan: Subsidised fuel wholesalers to keep the nationwide average retail price of gasoline near JPY 170 per litre, with subsidy rates reviewed weekly. Similar subsidies apply to diesel, heavy oil and kerosene, and at a reduced rate for aviation fuel.<br>Korea: Introduced a ceiling on refiners' wholesale gasoline and diesel prices, limiting maximum supply prices to gas stations.                                                                                                                                                           |
| Income-support (energy related)     | Budgetary transfers                                 | Ireland: Extended the fuel-allowance season by one month in spring 2026 to support low-income households with higher heating expenses.<br>Greece: Offered a monthly digital fuel wallet to vulnerable households. This provides a fixed allowance designated for fuel purchases.                                                                                                                                                                                                                                                                       |
|                                     | Reduced, regulated or capped average energy prices  | Portugal: Granted low-income households a EUR 15 discount per bottled-gas cylinder, up to two cylinders per month.                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| Income support (non-energy related) | Tax measures                                        | New Zealand: Increased the In-Work Tax Credit for working families by NZD 50 per week from April 2026 to March 2027 to provide temporary income support, with the measure operating as a price-triggered mechanism that automatically ends if 91-octane petrol prices fall below NZD 3.00 per litre for four consecutive weeks.                                                                                                                                                                                                                        |
|                                     | Budgetary transfers                                 | Greece: Provided temporary cash reimbursements to farmers for fertiliser purchases during a two-month 2026 support window. The reimbursements amount to 15% of the cost of invoices during the support window.<br>Spain: One-off, automatic financial aid to farmers to offset fertiliser-cost increases.<br>United Kingdom: Provided one-off direct payments to means-tested vulnerable households reliant on heating oil (and LPG in Scotland) in March 2026.                                                                                        |
| Credit and equity support           | Deferred tax payments                               | France: Deferred social-security contributions and tax deadlines for agriculture, fishing, and transport firms.                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| Non-budgetary measures              | Export bans                                         | Hungary: Imposed a temporary export ban on crude oil, gasoline, and diesel with no specified expiry date.<br>Slovak Republic: Restricted diesel exports by banning shipments in containers and tanker trucks.                                                                                                                                                                                                                                                                                                                                          |
|                                     | Regulatory reforms and safeguards                   | Germany: Adopted legislative changes expanding antitrust powers in fuel markets to strengthen oversight of pricing behaviour.<br>Slovak Republic: Introduced a EUR 400 spending cap per diesel transaction during a 30-day emergency period to limit excessive purchases.<br>Portugal: Prohibited electricity and gas disconnections in billing-dispute cases beginning in March 2026 to protect consumers.<br>New Zealand: Temporarily aligned fuel-quality specifications with Australian standards to widen import options for domestic suppliers.  |

Note: Support measures are classified along two dimensions: (i) support type, which captures the economic channel (energy price relief, income support (energy-related or not energy-related), credit and equity support, export restrictions, or other), and (ii) mechanism, which identifies how the measure is implemented (e.g. tax reductions, regulated or capped prices, budgetary transfers, or financial support instruments). Energy price relief is classified based on whether it affects the marginal price (the cost of an additional unit of energy) or the average price (total expenditure per unit consumed). Income support is defined as energy-related when it is conditional on energy use or bills (e.g. energy vouchers), thus reducing the average price of energy, and as non-energy-related when it is not tied to energy consumption (e.g. general cash transfers). Data as of 18 May 2026.

Source: 2026 OECD Energy Support Measures Tracker. <https://www.oecd.org/en/data/tools/oecd-energy-support-measures-tracker.html>.

**Figure 2.5. Countries have not converged towards a targeted approach following the 2022 energy crisis**

Share of total fiscal energy support measures, OECD countries



Note: The chart covers fiscal energy support measures only. It compares the share of targeted energy support measures implemented during the March–May 2022 energy crisis with measures announced as of 18 May 2026. For countries below the 45-degree line, the share of targeted measures is higher in 2026 than in 2022; the opposite holds for countries above the line. Targeted measures are defined as fiscal instruments directed at a specific subgroup of households or firms. Countries that reported no measures in at least one of the two periods are excluded from the chart.

Source: OECD Energy Support Measures Tracker 2022/23; and OECD Energy Support Measures Tracker 2026.

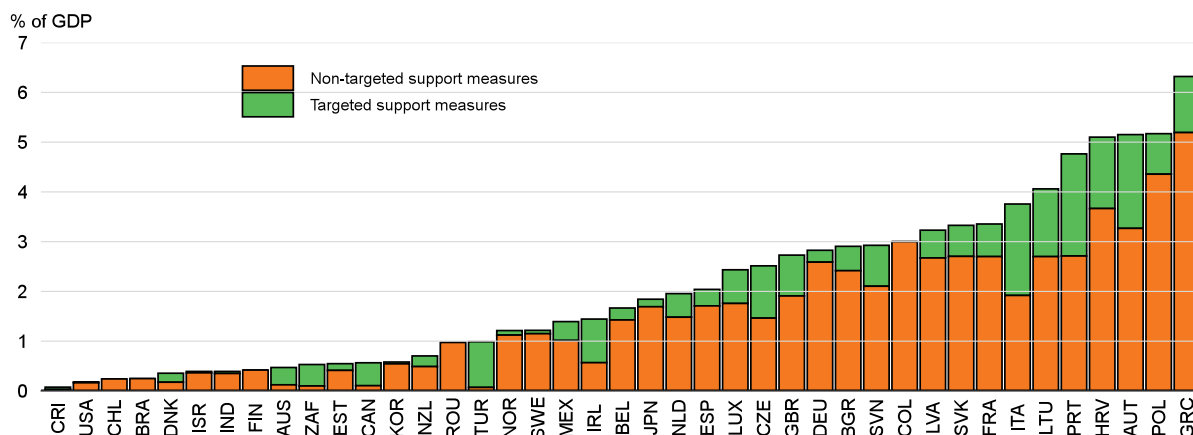
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## Lessons from the 2022-23 energy crisis

The 2022-23 energy crisis showed how costly broad-based support can become. Across 41 OECD and non-OECD countries, announced support measures totalled about USD 400 billion in 2022 and USD 405 billion in 2023 in gross terms. In the median OECD economy, this corresponded to gross fiscal costs of 0.7% of GDP in 2022 and 0.8% in 2023, with support exceeding 2.5% of GDP in some countries. Untargeted support measures accounted for nearly 80% of the estimated total fiscal costs (Figure 2.6), while energy price relief measures alone accounted for over half of total spending. Although the current shock differs in its initial source of disruption from the 2022-23 crisis, similar policy design issues arise as fossil-fuel price spikes are putting pressure on household budgets, firms' costs and inflation.

**Figure 2.6. The bulk of support measures in 2022-23 were untargeted**

Gross fiscal costs of support measures, 2022-23



Note: Support measures are considered targeted if their main beneficiaries are not “all households” or “all firms” or “all energy users”. The figure includes both price and income measures. The gross fiscal cost does not account for the impact of accompanying energy-related and revenue-increasing measures, such as the taxation of windfall profits.

Source: OECD Energy Support Measures Tracker 2022-23.

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The current energy crisis comes at a time when public finances are strained. In many countries, budget deficits are still high, debt is elevated, and debt servicing costs are higher than in 2022-23. In 2025, across OECD countries, the average general government gross debt as a share of GDP stood at 111% of GDP – up from 110% in 2022 and 73% in 2007. Energy support measures add to other fiscal pressures, including ageing, higher defence spending in some countries, extreme weather events, and the energy transition.

Broad-based measures, while easier and faster to implement, will further weigh on budgets. However, in countries where social benefits or public sector salaries are closely linked to inflation, interventions that lower energy prices may generate some offsetting fiscal effects. The fiscal implications also differ across instruments. Cuts in VAT or other ad valorem taxes partly forgo revenue that would otherwise rise automatically with higher energy prices, whereas income support and reductions in per-unit taxes imply more direct budgetary costs or revenue losses. Broad and untargeted price measures postpone rather than remove inflation pressures and have higher fiscal costs than targeted measures – in particular if they are long-lasting. They are also politically difficult to withdraw, even once the crisis abates. In this respect, three lessons from the 2022-23 energy crisis stand out: support should be targeted, temporary and preserve incentives to save energy (Hemmerlé et al., 2023). These lessons also matter for structural resilience to future energy supply shocks, since broad, open-ended or price-suppressing emergency measures can weaken incentives to save energy and delay investment in energy efficiency or more diversified energy supply (as discussed below).

### **Targeting support measures to help contain fiscal costs**

Given limited fiscal space in most countries, support should focus on preventing severe hardship among the most vulnerable households and avoiding severe hardship for the most affected and otherwise viable firms. However, identifying in real time firms for which the energy price spike creates only temporary liquidity stress rather than solvency problems is challenging. Using pre-crisis benchmarks and exposure thresholds is one way to determine eligibility. The use of declining and capped support and requiring co-payments rather than providing full compensation might also avoid support for unviable companies. Any

support for firms should not come at the expense of business dynamism or distort competition in domestic markets by protecting incumbents or providing unfair advantages to some firms. SMEs may warrant particular attention as they tend to be particularly vulnerable to energy price shocks (Hemmerlé et al., 2023). Governments may, however, also want to target large, energy-intensive firms or industries for strategic or national security reasons.

Emergency top-up payments to existing welfare recipients are often the simplest and fastest way to support households most in need. However, in the 2022-2023 energy crisis, only around 10% of the total costs of energy-price relief measures exploited existing social transfer programmes to deliver support (Hemmerlé et al., 2023). As lower-income households are generally the most exposed to high energy prices, income remains the main basis for targeting. Yet, among low-income and near-poor households, exposure can differ depending on factors other than income such as housing energy efficiency, geographical location and social benefits already received. Existing benefits systems, therefore, provide a useful starting point to identify and reach households in need of protection but may need to be complemented with additional information to calibrate support and reach vulnerable households that existing benefit systems may miss.

The 2022-23 crisis showed that targeting support is feasible (Hemmerlé et al., 2023). Costa Rica, for instance, provided income support directly into bank accounts of poor households that were registered in a digital database that recorded all past and present beneficiaries entitled to social transfers. In Ireland, household support was channelled mainly through existing welfare schemes, especially higher regular and lump-sum payments to recipients of an existing means-tested fuel allowance. Ireland also provided targeted support to SMEs and the self-employed whose energy bills had increased by 50% or more in a reference period, covering 40% of the increase in the reported energy bill, up to a monthly cap of EUR 10 000. Likewise, Italy granted energy intensive firms tax credits covering 20% of electricity and gas costs when prices rose more than 30% above 2019 levels. This shows that, even in a crisis, support can be targeted by relying on existing data and administrative systems, and setting clear eligibility thresholds.

Some measures introduced by OECD countries in 2026 move in a similar direction, for instance, through one-off payments to vulnerable households, temporary extensions of existing allowances, and more targeted support for exposed sectors such as farming and transport. Even so, broad-based measures still account for a larger share of the current policy mix (Figure 2.7).

### ***Ensuring support is temporary***

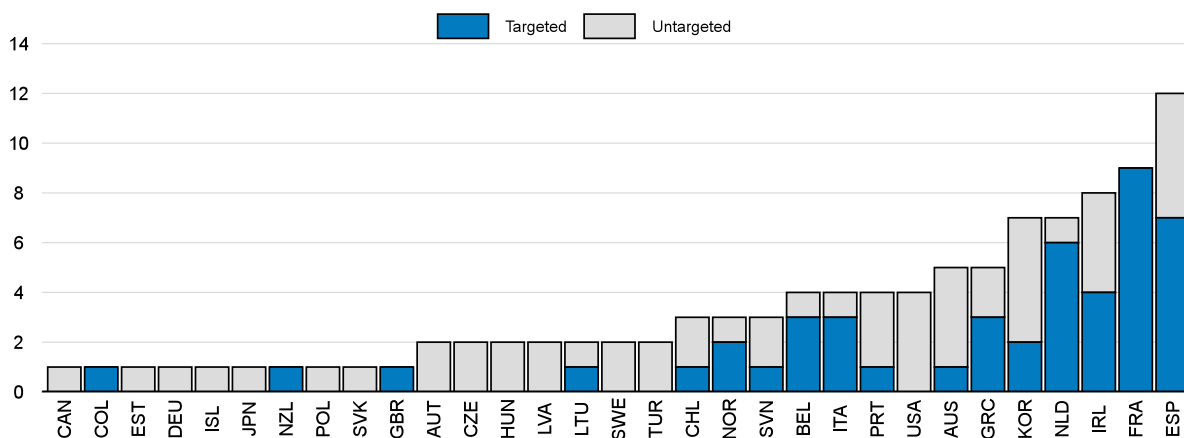
A second lesson is that support should be temporary. The fact that support is set to automatically expire or needs to be explicitly reviewed can help limit costs and keep crisis measures focused on acute energy price pressures, thereby avoiding unnecessary and long-lasting social payments or subsidies. The 2022-23 crisis showed that some governments kept broad support measures in place even well after energy prices abated, adding to fiscal costs and blurring the case for continued intervention.

New support could therefore come with clear end dates or automatic phase-out rules linked, for instance, to retail energy prices falling back to a pre-defined benchmark. For example, Germany's support for households in 2022-23 was tied to contract prices, so the value of support declined automatically as retail energy prices fell, helping to contain fiscal costs as market conditions improved. For firms, Bulgaria's measures in 2022-23 covered 75% of electricity costs for SMEs, but only for four consecutive months in 2022, at the firms' choice.

Most measures introduced by OECD countries in 2026 also include explicit support windows, one-off interventions or temporary extensions of existing schemes. Others, however, lack clear expiry dates or phase-out rules.

**Figure 2.7. Energy support measures announced as of 18 May 2026**

Count of total fiscal energy support measures, OECD countries



Note: The figure covers fiscal energy support measures only. Targeted measures are defined as fiscal instruments directed at a specific subgroup of households or firms. Extensions or parameter adjustments of existing measures are consolidated into a single measure.

Source: OECD Energy Support Measures Tracker 2026.

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### ***Preserving incentives to save energy***

A third lesson is that support should preserve energy-saving incentives while supporting diversification away from fossil fuels. Measures lowering energy prices for households and firms weaken incentives to reduce energy demand – which is particularly problematic when facing an energy supply crunch. Furthermore, such measures can discourage improvements in energy efficiency and the diversification of energy supply, two key levers for enhancing countries' resilience to energy supply shocks (as discussed below). By contrast, direct income transfers can cushion hardship for vulnerable households while preserving price signals and thereby incentives to save energy. For firms, support can be linked to requirements and incentives that encourage innovation and improve energy efficiency, including in industrial processes.

When governments reduce energy bills directly (e.g. through energy bill vouchers), support that applies only up to a basic level of energy consumption is preferable to support that covers the entire energy bill. This limits relief to basic energy needs without weakening incentives to reduce consumption above that basic level. Because information on basic energy needs is often unavailable, many countries during the 2022-23 crisis based their support (often price caps) on average electricity consumption thresholds instead. Setting such thresholds at a sufficiently low level and clearly communicating them to households would help preserve incentives to save energy while protecting a minimum level of energy consumption.

During the previous energy crisis, some countries designed support in this direction. In the Netherlands, for example, energy price relief applied different consumption thresholds in warmer and colder months. Hence, energy usage above the seasonal threshold continued to face market prices, preserving incentives to save energy throughout the year. Croatia provided an electricity-cost subsidy for energy-intensive firms conditional on an energy audit and on investments that either substantially reduced greenhouse gas emissions or increased the share of renewable energy in electricity consumption to at least 60%.

In the current 2026 response by OECD countries, one-off payments, capped discounts or income support tend to preserve energy-saving incentives. However, most measures introduced so far have taken the form of fuel-tax reductions or direct price interventions that lower marginal fuel prices, thereby weakening incentives to curb energy use.

## Enhancing administrative capacity to deliver targeted and timely support

Energy shocks remain a recurrent macroeconomic, social and fiscal risk. The experience of the 2022-23 episode and the current energy crisis show that effective crisis responses hinge not only on fiscal space, but also on administrative capacity to deliver support rapidly and effectively. Insufficient administrative capacity and a lack of data are key reasons why governments often defaulted to broad-based and price-cap measures during the 2022-23 crisis, inflating costs and undermining the efficiency of the support provided (Hemmerlé et al., 2023). Where digital infrastructure and administrative capacity are weaker, governments may therefore be structurally more constrained in their ability to target support, even when targeted measures would be preferable.

Once implemented, broad-based measures also risk becoming entrenched. In 2024, when energy prices were significantly below the crisis peak, untargeted measures still accounted for over 70% of the fiscal cost of consumption support for fossil fuels across OECD countries (OECD, 2025e).

Better crisis preparedness – through fit-for-purpose institutions, granular and high-quality data systems and stress-tested delivery mechanisms – is therefore key to ensuring support is timely, temporary and targeted. Making strides in this direction requires progress on three fronts: i) better shock anticipation capacity to prepare and trigger timely, rule-based responses; ii) stronger coordination among relevant government agencies to align objectives across finance, energy and social policy; iii) greater execution capacity to deliver targeted support at speed, monitor take-up in real time and unwind the support when shocks dissipate.

### ***Shock anticipation***

Crisis preparedness starts with a strong capacity to anticipate shocks and plan effective responses. This entails:

- ensuring that emergency energy stockholding systems are adequately designed, governed and ready to be deployed when disruptions occur;
- being able to identify people and firms more exposed to shocks and supply chain disruptions;
- and regularly stress-testing the eligibility and delivery systems.

Preparedness for energy supply shocks depends on energy reserve systems with clear legal authority over stock releases, reserve levels calibrated to countries' vulnerabilities, and stocks that are physically accessible and operationally releasable when needed. Pre-arranged international co-ordination mechanisms can help align stock releases across countries and make collective responses more effective.

Assessing households and firms' exposures to shocks hinges on linking information and databases to monitor and quantify the channels through which higher energy prices affect households and firms. Key factors include income, household composition, housing and heating characteristics, location, and existing benefit receipt (Hemmerlé et al., 2023). For firms, relevant information may include indicators of energy use, payroll and tax records, and use of existing support schemes. Opt-in schemes, where firms apply for support, can elicit firms to provide the required information and lower administrative complexities.

Granular data and robust digital infrastructure are another important component of anticipatory capacity. For example, smart meters and network data can show where electricity consumption is concentrated and where peak demand is rising most sharply, while also helping operators detect outages and local bottlenecks more quickly (World Bank, 2025; IEA, 2025a). Smart-meter rollout, however, remains uneven across countries: for example, in the European Union, rollout in 2024 exceeded 80% in 14 member states but remained below 30% in 10 others, while in the United States advanced meters accounted for about 72% of all electric meters in 2022 (CEER, 2025; EIA, 2023).

Regular scenario exercises and stress tests of eligibility and delivery systems can help reveal whether support programmes can be activated and scaled up quickly, whether eligibility rules are operationally robust, and where financing or administrative bottlenecks are most likely to emerge (Coudouel, Fuselli and Saidi, 2024). Similar exercises can also test whether energy emergency stocks can be released quickly during a crisis and whether bottlenecks in transport, storage and distribution channels could delay this process.

If supply disruptions risk turning into physical shortages, governments also need pre-defined rationing or curtailment protocols (Haas, Kozluk and Giuliana, 2022). These should be a last resort. To limit economic and social damage, priority should go to critical users, based on transparent criteria such as social criticality, wider supply-chain effects, the scope for fuel switching, and the risk that interruption would cause lasting damage or long restart delay (OECD/IEA, 2005). This in turn requires clear legal authority, real-time information and regular simulation exercises.

### ***Government coordination***

An effective crisis response also requires strong coordination across public institutions. Responses to energy shocks cut across responsibilities of different ministries (such as finance, energy, social policy, housing and digital administration) and can demand joint action by regulators, independent agencies and subnational authorities. Without clear coordination and responsibilities, emergency responses risk being fragmented, delayed, and costly.

Crisis preparedness requires clear demarcation of roles and responsibilities among the agencies involved in emergency responses, common definitions of vulnerability, interoperable databases and pre-defined protocols for activating, recalibrating and withdrawing support without delay. This can involve pre-existing inter-ministerial crisis units, shared real-time information systems, and inter-agency protocols that clarify who leads on data sharing, eligibility assessment, financing and communication during an emergency (OECD, 2025c). Linked administrative and IT systems can improve coordination and alignment across social programmes and connect energy support with other services, such as housing and social assistance. This can reduce duplication and hasten implementation, while strengthening outreach to vulnerable households who might otherwise be missed (Hemmerlé et al., 2023).

### ***Capacity to deliver support***

Ultimately, delivery capacity determines whether timely support can be delivered to the households and firms that need it most. In a crisis, topping up existing social programmes is usually faster, cheaper to administer and less error-prone than implementing new schemes from scratch. Where legal and technical conditions allow, automatic enrolment through existing payment channels can reduce delays, administrative burdens and non-take-up by relying on information governments already hold. However, reliance on existing programmes does not by itself eliminate the risk of non-take-up. In Belgium, for example, between 37% and 51% of eligible working-age people do not take up social assistance, and those with the fewest resources are the least likely to respond to simple outreach interventions (OECD, 2024b). This reinforces the case for better outreach, linked administrative data, simpler enrolment procedures and automatic delivery where feasible (see Box 2.1).

Advanced analytics, including AI tools, can further strengthen execution through operational triage, anomaly and fraud detection and short-term forecasting of caseloads and budget needs (OECD, 2024a). However, these systems should complement rather than replace robust and well-tested administrative processes and clear accountability rules for decision making. Their use in public administration also requires strong safeguards for data quality, privacy, cybersecurity, transparency and accountability (OECD, 2019).

### **Box 2.1. Automatic activation and delivery: country examples of targeted support in practice**

Experience from the 2022-23 energy crisis shows that pre-defined triggers and linked administrative systems can help governments reduce delays, limit non-take-up and avoid relying on broad-based measures during a crisis. This is particularly valuable when energy prices rise sharply and support needs to be deployed quickly.

The United Kingdom's Cold Weather Payment illustrates the value of a standing scheme with pre-defined triggers and automatic delivery. Eligible households receive a payment when temperatures in their area are recorded or forecast to be 0°C or below for seven consecutive days, with eligibility linked to existing benefit receipt and local weather data. This reduces the need for case-by-case applications during severe cold spells and provides a clear example of how automatic activation rules can support timely assistance.

Italy's social bonus provides an example of automatic delivery through linked administrative systems. The discount is applied automatically to eligible electricity, gas and water bills for households below a means-tested threshold based on income, assets and household composition. Eligibility is then verified through cross-checks across social-security and utility-related databases. This helps to limit the non-take-up that often arises when households need to apply separately for support.

Denmark offers a further example of how linked data can improve targeting. By combining income data with information from administrative housing registers on households' main heating source, the authorities were able to identify households most exposed to the surge in heating costs and distribute heating cheques automatically. The crisis measure provided a one-off payment of DKK 6 000 to more than 400 000 low-income households whose heating source was particularly exposed to the surge in prices. This shows that even when a support measure is introduced as an emergency response, pre-existing data systems can still make targeting more operational.

Source: Hemmerlé et al. (2023)

## **Strengthening the resilience of energy systems**

### ***Energy and the macro-economy***

Energy shocks can have real macroeconomic consequences, going beyond social impacts. For example, André et al. (2023) find that following an energy price shock firms reduce capacity utilisation and experience lower productivity in the short term. The repeated nature of such shocks calls for better-designed emergency support and crisis management, but also for reducing structural exposure to energy price volatility and supply disruptions.

This is becoming more important as modern energy demand is increasingly being shaped by structural rather than cyclical developments. The IEA World Energy Outlook 2025 projects the world's energy demand rising by 8 to 15% over the coming decades, driven by increasing need for mobility, heating, cooling, and other household and industrial uses in addition to rising demand from data centres and

artificial intelligence (AI)-related services. Rapid electrification, the evolving concerns about energy security (including the supply of critical minerals) and the increasing share of global demand from emerging economies are among the main forces shaping the global energy system.

Strengthening the resilience of energy systems to shocks lowers the frequency and fiscal costs of future interventions and is therefore becoming a more pressing policy priority. Making progress in this direction rests on two complementary strategic axes:

- Improving energy efficiency can lower overall energy demand, limiting exposure to volatile energy markets and fossil-fuel import dependence while buttressing competitiveness through lower energy costs.
- Greater energy supply diversification, in turn, reduces vulnerability associated with single points of failure by avoiding excessive reliance on a narrow set of fuels, technologies, suppliers or transit routes.

Pursuing both objectives can be mutually reinforcing. Energy efficiency gains reduce the scale of supply that must be secured, while diversification strengthens the reliability of the remaining supply. The electrification of the energy system can support both energy efficiency and diversification, with generation being based on a wide range of primary energy sources. These resilience measures can reduce the economic losses from future supply disruptions, but they also involve upfront costs and, in some cases, higher system costs. Governments should prioritise measures that ensure the largest reduction in potential disruption costs.

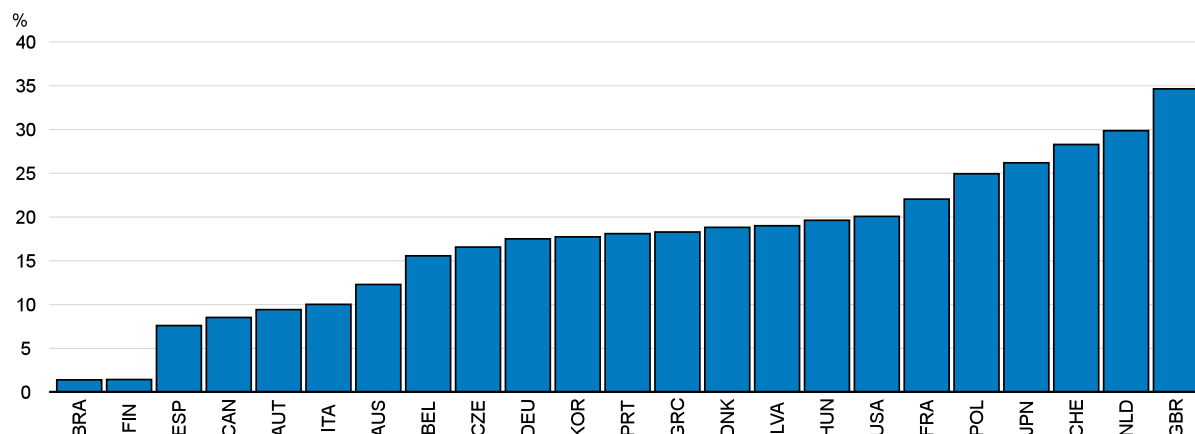
### ***Improving energy efficiency***

Energy efficiency investments reduce the energy intensity of production and consumption, thereby reducing the total costs of energy use (fuel, operating expenditure, but also capital expenditure on generation, networks, and storage), while potentially enhancing productivity and international competitiveness. Reduced energy demand can diminish reliance on high-risk import chokepoints, exposure to volatile energy markets, and inflationary pass-through from energy shocks.

OECD economies have made sizeable gains in energy efficiency. In some OECD economies, efficiency improvements since 2000 have saved an amount of energy equivalent to around one-fifth or more of current energy consumption with respect to a no-efficiency gain baseline (Figure 2.8). By reducing the baseline demand for energy, higher energy efficiency makes it easier to respond to an energy crisis (as rationing becomes less stringent and costly, strategic reserves last longer and blackout risks diminish because of lower peak loads).

**Figure 2.8. Energy efficiency gains since 2000 have resulted in energy savings in many OECD countries**

Share of energy consumption avoided between 2000-2024 through energy efficiency improvements



Note: Savings are the difference between observed energy consumption and the energy consumption that would have occurred had energy intensity remained at its 2000 level, with output growing at the same rate as observed during the 2000-2024 period. A higher share indicates greater cumulative efficiency gains relative to each country's 2000 baseline. The reference year is 2023 for Austria, Belgium, Czechia, Finland, Greece, Hungary, Japan, Korea, Spain and the United Kingdom; 2022 for Australia, Denmark, France, Germany, Italy, Latvia, Poland, Portugal, Switzerland and the United States; and 2021 for Brazil, Canada and the Netherlands.

Source: International Energy Agency (IEA), Energy Efficiency Indicators, 2024.

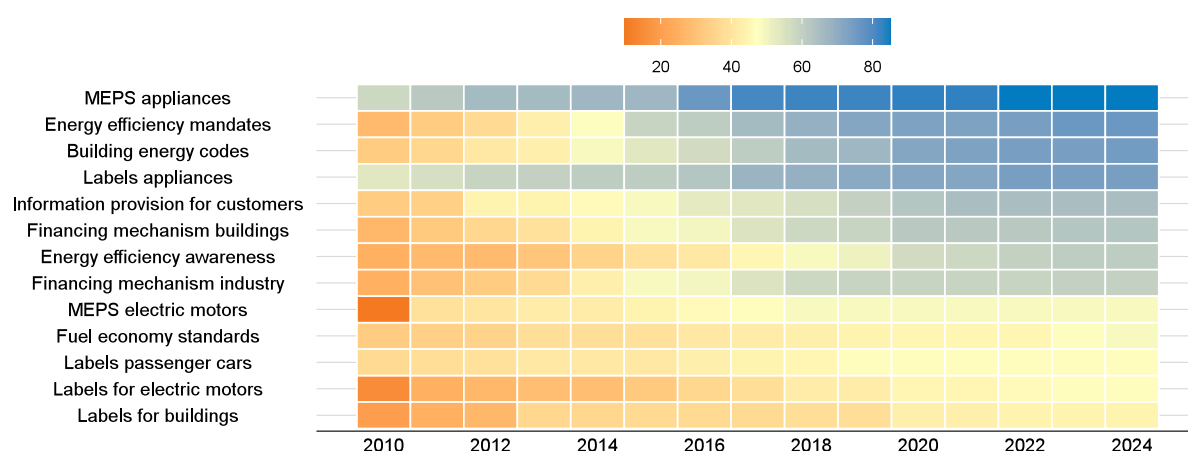
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High and volatile energy prices provide incentives for firms and households to invest in energy efficiency, but market failures can hinder such investments from reaching economically efficient levels. The policy mix should therefore focus on providing clear price signals while addressing the market failures hindering energy-efficiency investment. These include imperfect information about future energy savings, behavioural inertia and upfront financing costs (Allcott and Greenstone, 2012; Gerarden, Newell and Stavins, 2017). Policies to address these market failures cover energy performance standards, energy efficiency mandates, fuel economy standards, finance mechanisms, and information campaigns, among others. Information and awareness campaigns aimed at addressing information gaps and overcoming behavioural biases can be particularly useful in helping households and firms identify low-cost energy-saving opportunities and encouraging behavioural adjustments.

In most countries, adoption of energy efficiency policies remains uneven, reflecting in part differences in countries' industrial structure and the potential for energy savings in each sector (Figure 2.9). Even so, substantial untapped potential remains in many sectors, in part because policy stringency has often lagged technological progress. Many appliances sold today are only around half as efficient as the best available models. For example, the efficiency of best-in-class lightbulbs doubled over the past 15 years, while minimum energy performance standards increased by only around 30% (IEA, 2025a). At the same time, improving energy efficiency involves trade-offs because of upfront outlays or investments.

**Figure 2.9. Progress in adoption varies across energy efficiency policies**

Number of countries, 2010-2024



Note: Data are based on the OECD Climate Actions and Policies Measurement Framework (CAPMF), which is built on data from the OECD, IEA, World Bank and others. The heatmap illustrates the 13 energy efficiency policies tracked by the CAPMF across 105 countries (2010-2024). The colour scale ranges from dark orange (no countries have adopted the policies) to dark blue (highest number of adopted policies). MEPS are minimum energy performance standards.

Source: OECD (2026).

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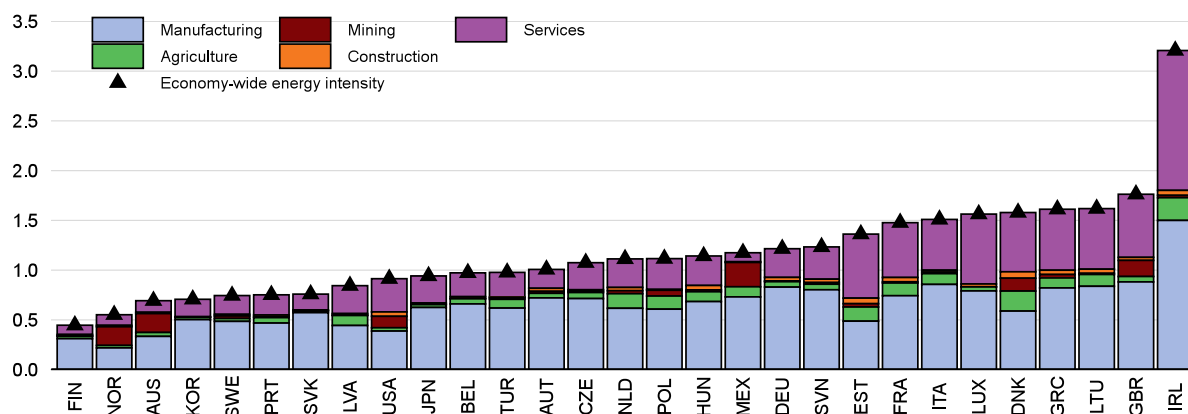
Stronger minimum energy performance standards for buildings (including existing buildings when they are renovated, sold or rented out), combined with accelerated retrofit programmes, can improve buildings' energy efficiency. These efficiency gains lower energy bills, reduce dependence on fossil fuels and limit the need for costly additions to generation and network capacity. In 2024, buildings accounted for about 30% of global final energy consumption and contributed to about 20% of the growth of global energy demand between 2019 and 2024. Furthermore, energy for space cooling has seen the fastest growth of any end-use in buildings since 2000, growing over 4% per year (IEA, 2025a). The IEA estimates that if all air conditioners bought since 2019 had been the most efficient model available, the world could have avoided electricity demand growth equivalent to that from data centres over the same period (IEA, 2025a). This illustrates how tighter standards, clearer labelling, and incentives (including financial incentives) to replace inefficient equipment can help avoid locking in higher peak electricity demand and larger future needs for generation, networks and storage, while lowering energy costs for owners and tenants (IEA, 2024).

However, building energy efficiency improvements require upfront investments and present trade-offs with housing affordability. Financing constraints remain a major barrier to retrofits, especially for low-income households. In addition, information gaps and uncertainty about expected savings can also delay take-up. Policy therefore needs to strengthen incentives to invest, ease access to finance and address information barriers through, for instance, energy audits and labelling. Targeted grants and concessional or low-cost loans can then help ease remaining financing constraints where they are most binding (OECD, 2023). Targeted grants are likely to be more important where borrowing constraints are tight, while concessional or low-cost loans can play a larger role where households' repayment capacity is stronger. Slovenia illustrates such a mixed approach: the Eco Fund provides loans and grants for building insulation and cleaner heating systems for households more broadly, while the Energy Poverty Mitigation programme provides fully funded retrofits for vulnerable households and the Social Climate Plan supports housing-efficiency improvements for low-income groups.

In industry, the priority is to support adjustments that durably lower energy intensity and thus reduce exposure to volatile fossil-fuel prices in addition to lowering energy costs. The contribution of industry to economy-wide energy intensity varies markedly across countries, reflecting differences in economic structure and the deployment of energy saving technologies (Figure 2.10). Globally, between 2019 and 2025, industry accounted for about two-thirds of global final energy demand growth. In the same period, progress in reducing industrial energy intensity slowed sharply to 0.5% per year, down from 2% per year over the last decade (IEA, 2025a). This is weighing on economy-wide energy efficiency progress.

**Figure 2.10. Use of energy to create value added differs among countries and sectors**

Value added to total energy consumption, by sector, 2022-2023



Note: Each bar represents total value added divided by total final energy consumption for a given country, decomposed by sector's contribution to aggregate value added. A higher value indicates that more value added is generated per unit of energy consumed, i.e. lower economy-wide energy intensity. Cross-country differences reflect both sectoral composition and differences in energy use within sectors. Data cover the 2022-2023 average.

Source: International Energy Agency (IEA), Energy End-uses and Efficiency Indicators database 2025; and OECD calculations.

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The 2022-23 energy crisis showed that emergency energy savings and fuel switching can help absorb an acute supply shock, but durable gains require lasting changes. This would require firms to invest in, for instance, process efficiency, energy management, more efficient motors and pumps, and electrification of low-temperature heat where this is technically feasible and economically justified (IEA, 2025a). This might require policy support to overcome market failures hindering such investments. Electrification can also help diversify the industrial energy mix (as discussed below). In practice, firms may underinvest in energy efficiency because energy-saving investments compete with other capital spending, expected payback can be uncertain, and financing constraints can be binding, especially for smaller firms. This in turn points to a role for policies to reduce information and implementation barriers, including energy audits, labels and standards for industrial equipment, and loan guarantees or other financing tools for smaller firms when needed. Adoption of standards and labels for electric motors, for example, remains much less widespread than for appliances, despite their relevance to industrial energy use (Figure 2.9).

Stable and predictable policy frameworks would help to direct resources towards enhancing energy efficiency, as policy uncertainty delays capital upgrading and hampers behavioural changes. Clear price signals, minimum efficiency standards and labels, and targeted grants or tax incentives, where market failures or financing constraints are binding, are policy options to help crowd in energy efficiency investment. Evidence from Europe suggests that policy packages combining carbon pricing with sector-specific regulations and faster permitting for clean infrastructure can strengthen energy-security gains and distribute them more broadly across countries than carbon pricing alone (Dolphin, 2024).

The focus of policy should be on the timing of energy use as well as on reducing annual consumption. Demand-response programmes, smart metering, time-of-use tariffs and dynamic pricing can shift electricity demand away from hours when electricity is most scarce and costly. This reduces peak stress, improves system security margins and can postpone some network and generation investment. The IEA reports that households can typically save 5-15% on electricity costs under dynamic tariffs, while flexible demand can provide system capacity at far lower cost than building new capacity (IEA, 2025c). Evidence from the United Kingdom and the United States also suggests that real-time feedback and pre-event communications can reduce peak demand by about 3% (Department for Energy Security & Net Zero, 2024; Thayer et al., 2016). This makes demand flexibility a useful complement to supply-side investment as it can improve resilience and affordability while containing investment needs.

### ***Boosting diversification***

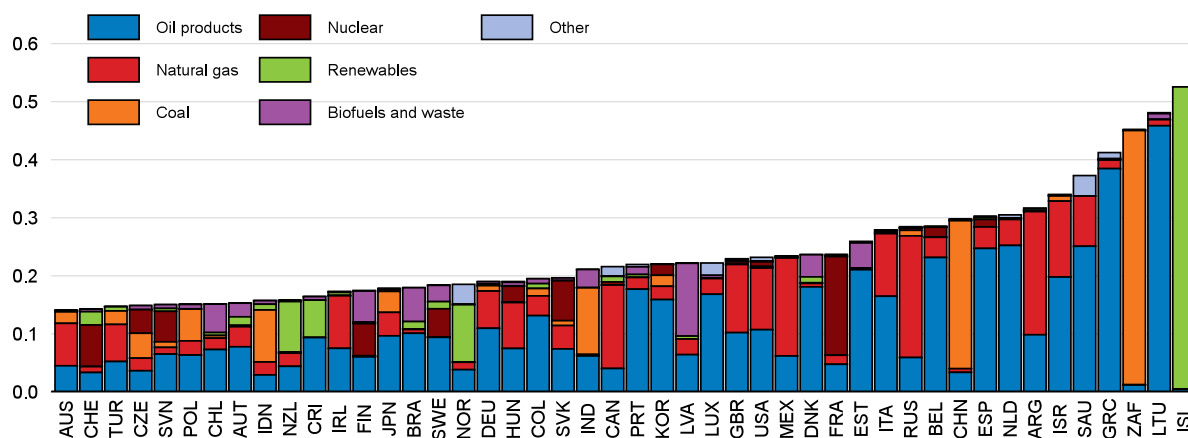
Diversification across energy sources, technologies, and locations strengthens energy system resilience. Through diversification, the system becomes less vulnerable to any single point of failure — whether driven by geopolitical disruptions, extreme weather, or cyberattacks. However, diversification entails a trade-off: it raises upfront costs while lowering expected losses under uncertainty.

Diversification across fuels and supply sources remains a first line of defence against external shocks. Governments cannot entirely eliminate supply risks, but they can reduce their macroeconomic consequences by limiting exposure to any single chokepoint or supplier. For oil and gas importers, this means reducing reliance on a narrow set of suppliers, routes and infrastructures often in geopolitically unstable regions, while maintaining emergency reserves and demand-restraint plans that can be activated when disruptions occur (IEA, 2025b). This can require investments in import infrastructure that can switch between supplies easily, including access to alternative terminals and to alternative pipelines or LNG routes (OECD, 2025b). Regulatory reforms that facilitate access to alternative network infrastructure and ease permitting requirements on supply-security grounds would enable faster progress in this area. Recent European experience has shown that access to LNG imports from a wider range of suppliers, together with stronger pipeline interconnections, helped countries redirect flows and reduce dependence on Russian gas, thereby strengthening resilience to supply disruptions (European Commission, 2025).

The degree of energy diversification varies widely across countries (Figure 2.11). The Herfindahl-Hirschman Index, a measure of market concentration, suggests that some economies rely on a broad mix of energy sources, while others remain dependent on one or two dominant fuels. In several cases, low diversification of energy sources reflects heavy reliance on oil and gas; in others, it reflects the dominant role of coal, nuclear or some specific renewable sources. This matters for resilience because economies with a narrower supply mix are generally more exposed when the dominant source is disrupted or becomes more expensive. At the same time, concentration is not equally risky in all cases. For instance, reliance on abundant domestic sources, such as geothermal and hydropower in Iceland, may pose smaller energy security risks than dependence on imported fossil fuels routed through a small number of suppliers or transport corridors.

**Figure 2.11. Degree of energy diversification varies across countries**

Herfindahl-Hirschman Index (HHI), based on total energy supply, 2023-2024 average



Note: The Herfindahl-Hirschman Index (HHI) measures energy supply concentration which is calculated as the sum of squared shares of each energy product in Total Energy Supply (TES). TES is the total energy available from domestic production, imports and stock changes before transformation or end use. The index ranges from 0 (perfect diversification) to 1 (complete concentration in a single source). Shares are computed at the individual technology level (65 products), with squared values then aggregated into the seven fuel groups shown, following UNSD energy product classifications. Negative TES values (exports, stock draws, transformation outflows) are excluded. The "Other" category includes derived gases, heat, other petroleum products, peat, refinery feedstocks, tidal and ocean energy and other hydrocarbons.

Source: International Energy Agency (IEA) data; World Energy Balances 2025; and OECD calculations.

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Diversification across technologies is equally important. Different technologies are exposed to different hazards and failures, so a more diversified technology mix lowers the risk that one shock disrupts a large share of supply (IEA, 2022). A resilient power system therefore relies on a mix of generation technologies and operating arrangements. This means combining dispatchable capacity with storage capacity, variable renewables and other flexibility mechanisms, so that weaknesses in one part of the system can be offset by strengths in another (IEA, 2022; IEA, 2026b). For example, when wind or solar output is low, dispatchable generation, storage and flexible demand can help keep supply and demand in balance. Conversely, when fuel supplies are disrupted or thermal plants fail, renewables can reduce pressure on the rest of the system. This becomes more important as electrification advances and risks of extreme weather events intensify.

Italy and the United Kingdom provide two recent examples of how diversification increasingly depends on regulatory design as well as new capacity. In Italy, the *Testo Unico FER* simplified renewable permitting, while the new *MACSE* framework uses long-term auctions to support investment in electricity storage and system flexibility. The United Kingdom's Clean Power 2030 strategy illustrates the same broader approach by combining expansion of low-carbon generation with planning and grid reform and greater use of flexibility resources such as storage and demand response.

Geographic diversification within the energy system also matters. Concentration of domestic generation, storage or network assets in a small number of critical nodes can create single points of failure generating cascading losses. Recent evidence from Ukraine underscores the resilience gains from geographically dispersing assets, decentralising the energy system, and distributing emergency reserves and critical equipment across locations rather than concentrating them in a few large sites (IEA, 2026b). The same logic applies more broadly to electrical substations, major energy plants, storage terminals and transport corridors.

Decentralised systems are better able to isolate shocks, maintain essential services, and restore supply more quickly after disruption. These benefits are not without costs, however. More distributed configurations can involve the loss of some economies of scale and higher costs for network monitoring and coordination. For policymakers, this means giving greater weight – in network planning – to modularity, redundancy and local backup where the resilience gains are likely to be largest, especially where weather hazards, sabotage risks or cross-border infrastructure vulnerabilities are high. This also calls for sufficient backup capacity and alternative supply options, particularly where systems depend heavily on hard-to-replace equipment or routes (IEA, 2022; IEA, 2026b).

### ***Electrification can help diversify energy sources and make the energy system more resilient***

Electrification can underpin energy diversification and strengthen energy security by making final energy demand less dependent on the direct use of a narrow set of fuels and suppliers. Unlike end-uses tied directly to a single fuel, electricity can be produced from a wide range of primary energy sources, ranging from fossil fuels and renewables to nuclear and geothermal. The share of electricity in final energy consumption differs across countries (Figure 2.12), implying that in some economies the resilience of the power system is already more central to overall energy security than in others. Among OECD countries it ranges from just above 10% in Lithuania and Latvia to more than 40% in Norway and Iceland, with an OECD average of 24%. Where electric alternatives are already more mature, notably in buildings and passenger road transport, electrification can also reduce direct fossil-fuel use and often improve energy efficiency (IEA, 2024).

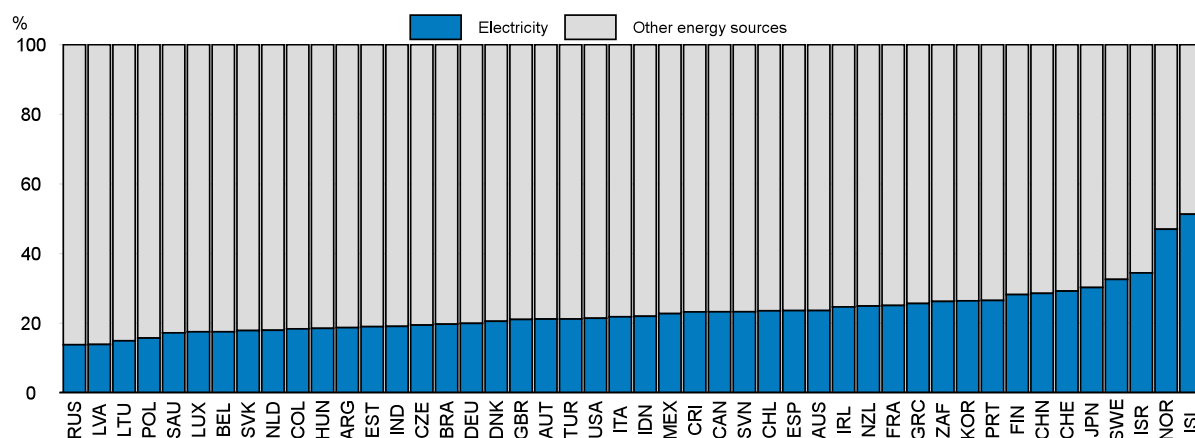
Electrification does not automatically strengthen resilience. Resilience gains attributable to electrification are larger when the electricity mix itself is diversified. As electricity becomes more central to final energy demand, the reliability and diversification of the power system become more important for macroeconomic stability. More than 2 500 GW of renewable, storage and large-load projects are currently stalled in grid connection queues worldwide, underlining how network and regulatory bottlenecks can hold back otherwise viable investment (IEA, 2026a). IEA analysis suggests that annual grid investment needs to rise by around 50% by 2030, after years in which grid investment lagged behind investment in generation (IEA, 2026c).

Electrification can also strengthen resilience not only by allowing for a more diversified energy mix, but also by shifting the structure of the system towards one that is more modular, decentralised and more robust to supply and physical disruptions. This will require reinforcing and modernising transmission and distribution systems so they can carry larger volumes of electricity, connect a growing number of smaller and more dispersed generators, and continue operating under stress. More distributed energy system configurations, however, also involve cost trade-offs (as highlighted above).

Stronger cross-border interconnections can support diversification by allowing countries to exploit complementarities across energy sources, smooth local shocks and share generation capacity. However, such interconnections require significant up-front investments. Increasing storage capacity can enhance resilience by providing rapid response during disturbances and supporting local continuity of supply, though its value will depend on system needs and costs. Distributed generation and storage, including microgrids, can likewise reduce single points of failure and help maintain critical services when the main grid is disrupted (IEA, 2026b; Anderson et al., 2017).

**Figure 2.12. Share of electricity in final energy consumption**

Percentage of total final energy consumption, 2023



Note: Electricity share calculated as electricity consumption divided by total final energy consumption. Total final energy consumption covers energy consumed by end users including for heating, cooling, transport, and industrial processes, excluding conversion and transformation losses.

Source: International Energy Agency (IEA) World Energy Balances 2025.

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Realising the resilience gains from electrification depends as much on regulation and system management as on physical investment. There is increasing recognition that regulatory barriers are hindering grid investment and its expansion (OECD, 2025d). Current regulatory frameworks have been designed for conventional, centralised energy systems. As a result, they are ill-suited to deliver the investment required to strengthen energy systems' resilience through higher decentralisation, flexibility, and diversification (OECD, 2026a).

More broadly, this points to regulatory priorities covering grid investment, system flexibility and the reliable operation of more decentralised power systems. Reducing permitting and regulatory barriers to grid reinforcement and more efficient grid use, cross-border interconnections, storage, and flexible-demand solutions can help investment keep pace with rising electricity demand and with the need for greater resilience. Key reform areas include streamlining siting and permitting procedures, allowing remuneration for new services (such as balancing, storage and flexibility services), improving grid-connection rules – where “first-come, first-served” approaches encourage speculative applications and long queues – and adapting regulatory frameworks that still favour traditional capital expenditure over more flexible and grid-enhancing solutions (OECD, 2025a). The blackout in the Iberian Peninsula in April 2025 illustrates the risks that can emerge when technical, operational and regulatory arrangements do not keep pace with the evolving nature of the power system (ENTSO-E, 2026).

More specifically, the resilience benefits of decentralised electricity systems depend on regulatory reforms allowing small and dispersed electricity-generating assets to participate in the system. In many countries, the rights and obligations of households or firms that both consume and generate electricity (i.e. prosumers) remain unclear. These ambiguities raise legal and financial risks. Clarifying definitions, rights and obligations and ensuring proportionate cost-allocation rules for these new business models are prerequisites for turning the potential benefits of decentralisation into actual resilience gains (OECD, 2025a). For instance, market and regulatory frameworks should recognise the value of the services microgrids and dispersed generating assets can provide when connected to the main grid, including flexibility and peak load reduction. Moreover, network tariffs should be designed to ensure that grid users

share infrastructure costs and that the services they provide (such as balancing, storage and flexibility services provided by distributed assets) are valued correctly.

Removing the regulatory and technical obstacles that still limit digital monitoring and control is also a reform priority (OECD, 2025a). That is because electricity systems with more distributed generation, storage and flexible demand increase real-time management, monitoring and control needs along with robust cybersecurity standards. Better deployment of these tools can help system operators manage power networks more efficiently, detect local bottlenecks sooner and integrate more distributed resources without relying only on costly physical expansion. Clearer rules on access to metering and system data can enlarge the scope to use data for flexibility and operational decision-making. Developing common standards for data exchange and more coordinated cybersecurity frameworks will help safely integrate digital solutions and realise their full benefits (EDSO, 2024; Monaco et al., 2024). The policy challenge is therefore not simply to electrify faster but also to align the pace of electrification with the expansion, regulation and digital management of the power system on which it increasingly depends.

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### **3. The fiscal and economic impacts of higher defence spending**

## Summary

Defence spending is rising rapidly in OECD countries as many move to shore up security. The primary goal of defence spending is to bolster defence, not boost GDP, but it is still important that governments consider the economic consequences of higher military expenditure, and the implications for public finances. This chapter examines trends in defence spending across OECD countries, the fiscal context to, and the effects of, increases in defence spending, and evidence on the short- and longer-term economic impacts (Conigrave and Shin, 2026). While security is essential for economic stability, increased military spending is likely to have broader implications, including for growth and public finances. In general, available evidence suggests that the economic multiplier of defence spending is modest. However, the economic effects of higher defence spending will vary across countries due to factors such as their economic and fiscal context, industrial structure and the composition of military purchases. Trade and supply-chain linkages will also distribute some output gains to parts of the non-defence economy and across national borders.

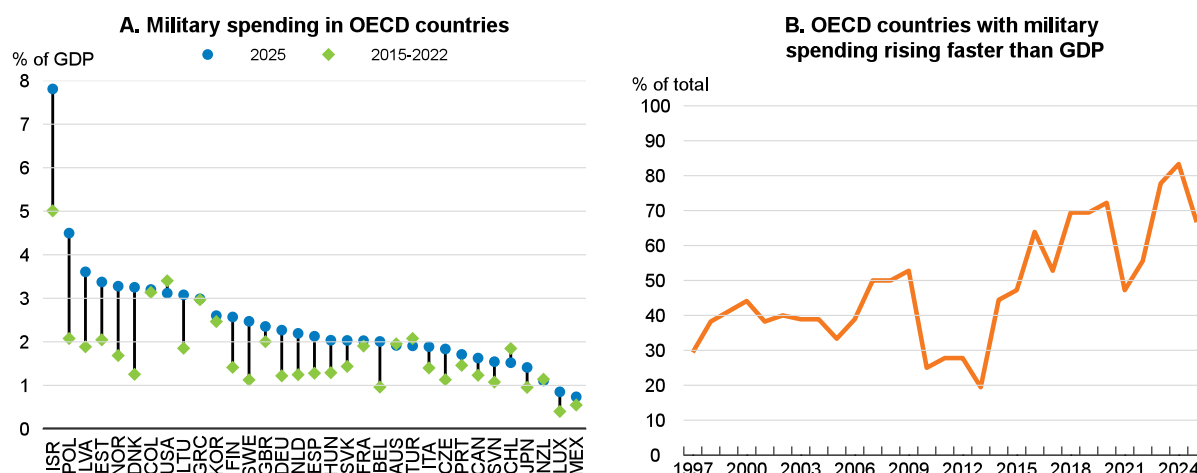
In the short term, defence purchases could help push output closer to potential in those economies with spare capacity to absorb the extra demand. Imports, while potentially reducing the fiscal costs of timely capability upgrades, will dilute output gains from defence expenditure in countries with limited military production capacity. In contrast, the initial stimulus to production could be greater in countries sourcing more of their defence requirements from domestic suppliers. However, over time, competition for resources from military spending may push up prices and crowd out other private activity, potentially drawing labour and capital away from more efficient uses in the economy. The purchasing power of defence budgets could also diminish amid strong international demand for military equipment and elevated defence-related price inflation. Higher interest rates or fiscal corrections, essential in many countries to keep public finances on a sustainable track, could further limit the short-run growth boost from military spending. Compensating cuts to non-defence public spending could also compromise other policy objectives – for instance, if governments postpone climate action, curb social spending, or shrink budgets for health and education.

In the long run, it is unlikely that higher military spending will expand economies' productive capacity unless it produces spillover effects in non-defence sectors via innovation. For these to be realised though, structural reforms may be needed, including improving procurement practices, harnessing competition, and alleviating skills shortages that might impair knowledge diffusion. Greater coordination in military purchases, particularly in Europe, could enhance the overall efficiency of higher spending, limit cost pressures and enlarge markets for productive firms while supporting interoperability.

## Defence spending is on the rise

Defence spending has surged in many countries since 2022, the first year of Russia's war of aggression against Ukraine. Amid sustained military build-ups, defence budgets have in many OECD countries grown more rapidly than national incomes (Figure 3.1, Panel A). Relative to the size of the economies concerned, this widespread rise in spending has brought military expenditure back to levels last seen at the end of the Cold War. Significantly, recent defence spending increases are also highly synchronised across countries (Figure 3.1, Panel B).

**Figure 3.1. Recent military spending increases are large and highly synchronised across countries**



Note: Data for 2025 are estimates. Panel A: A simple average is shown for outcomes over 2015-22. Israel's elevated military spending in 2025 followed a sharp increase in military activities amid evolving conflicts in the Middle East. Panel B: GDP is trend nominal GDP. The sample includes all current members of the OECD for which data are available; it expands to include Colombia in 2002 and Lithuania in 2003.

Source: Stockholm International Peace Research Institute (SIPRI); OECD Economic Outlook 119 database; and OECD calculations.

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### ***Spending targets have been revisited***

Medium-term targets for defence spending have increased. NATO members are committed to allocating 5% of GDP to defence and security-related spending by 2035, of which 3.5% of GDP must go to core defence.<sup>1</sup> Rapid rearmament on the alliance's eastern flank has already brought some countries' defence spending close to (Estonia) or above (Latvia, Poland) these thresholds. Some other European countries expect to meet the new NATO targets ahead of schedule, by the end of this decade or sooner (Denmark, Germany, Norway, Sweden). Large military spending increases are not confined to Europe or NATO. Relative to GDP, defence budgets in Canada and Japan are now expanding from low levels. Increased military spending has also been proposed by the US administration, while Israel's defence budget has historically been much larger than in other countries and has risen significantly in recent years.

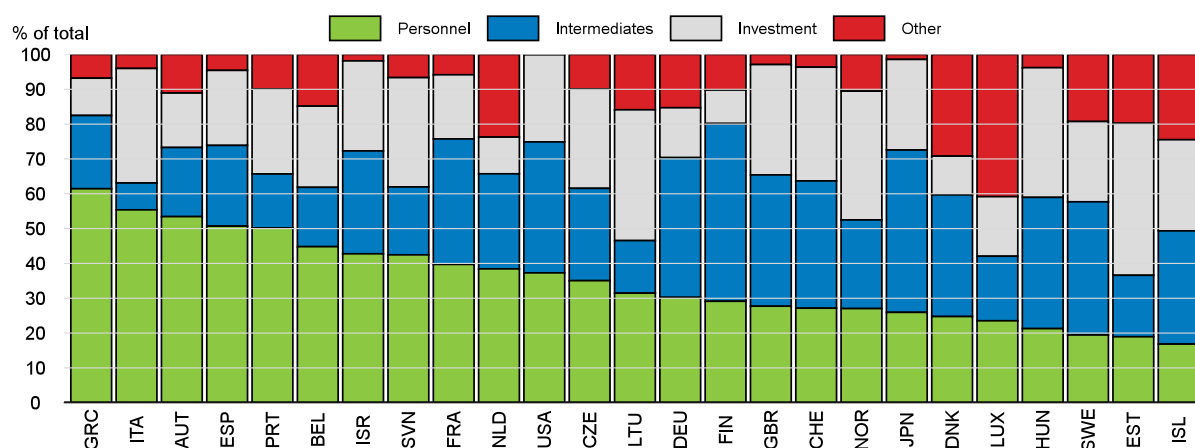
<sup>1</sup> The remaining 1.5% of GDP, falling outside NATO's agreed definition of defence spending, would go towards protecting critical infrastructure, defending networks, civil preparedness and resilience, innovation and strengthening the alliance's defence industrial base.

### ***Weapons purchases are a prominent focus of many defence budgets***

Considerable resources are going to capital spending (Figure 3.2). Weapons purchases, often aimed at refilling equipment stores or closing capability gaps, are lifting the share of defence expenditure accounted for by fixed investment. In accrual terms, such spending, which also includes outlays on military infrastructure and innovation, made up one quarter of OECD countries' defence budgets on average in 2024.<sup>2</sup> This is up from 20% of defence expenditure through the second half of the 2010s. In parallel, some governments are supporting expansion in domestic arms and ammunition production or making sizable capital transfers to other countries, notably Ukraine, in military aid (Denmark, Finland, Germany, the Netherlands, Norway) (see "Other" in Figure 3.2). Intermediate consumption has remained a sizable share of many countries' defence outlays. This large category includes, among other things, costs of transport, communications, energy, repairs and technical services. In contrast, personnel costs, including wages, while the largest single part of many defence budgets, have grown more modestly than total spending. This reflects the overall stability of active personnel numbers, notably in European OECD countries. While several have recently revived mandatory (Latvia, Lithuania) or voluntary military service (France, Germany) or expanded existing military service programmes (Denmark, Norway, Sweden), few have significantly raised their permanent defence forces in recent years (Poland, Czechia, Estonia and Latvia). Adverse demographics – population ageing and, in some regions, emigration – add to the challenge of military recruitment.

**Figure 3.2. Defence spending composition varies across countries**

2024



Note: The figure shows the composition of general government defence expenditure in 2024. "Personnel" is compensation of employees (e.g., armed forces wages). "Intermediates" is intermediate inputs (e.g., transport, communications, fuel, building and technical services). "Investment" is gross fixed capital formation (e.g., weapons systems). "Other" includes capital and current transfers and stock building, among other items. Source: OECD COFOG database; and OECD calculations.

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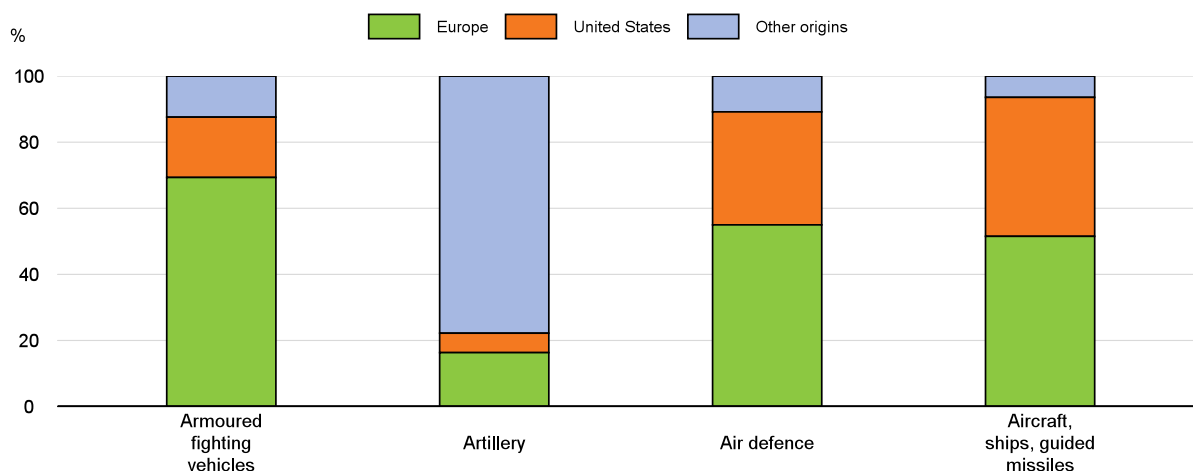
<sup>2</sup> Based on an unweighted average of outcomes for 25 OECD countries for which internationally comparable data are available. Figures are calculated from accrual-based national accounts data on expenditure by function of government (COFOG data). Differences in the accounting of pre-payments for the supply of military equipment can cause accrual and cash-based estimates of defence spending (such as those reported by NATO) to diverge, at times significantly.

### Trade in defence materiel has increased

Trade in defence materiel has increased. Indeed, reflecting a focus on equipment acquisitions, some countries' arms imports have expanded much more rapidly than their total defence spending (for instance, Japan and Poland). Current industrial capacity will limit the extent to which domestic supply can meet countries' immediate defence needs, even with support for local arms production. NATO European countries, for example, depend heavily on suppliers in other regions for some types of military equipment, including air defence and rocket artillery (Figure 3.3). Imports of defence materiel cause more of the economic stimulus of defence spending to leak abroad to other countries. However, purchases of imported equipment, backed with good procurement and international cooperation (Box 3.1), may also be critical if countries are to quickly close capability gaps and limit the cost of rearmament. Rising international demand for military equipment risks adding upward pressure to input prices – including for metals, energy, specialised components and skilled labour – eroding the real buying power of defence budgets, especially if supply constraints bind.

**Figure 3.3. NATO Europe's import dependency varies by military equipment type**

Selected contracts by supplier origin, % share of category total: February 2022 to September 2024



Note: Data are for contracts signed between February 2022 and September 2024, covering domestic and international equipment purchases. The total value of contracts across all categories is just over USD 180 billion. "Other origins" includes Brazil, Israel and Korea. "Artillery" includes self-propelled howitzers and rocket launchers. "Air defence" includes ballistic missile defence and medium and long-range surface-to-air missiles. "Aircraft, ships, guided missiles" also includes combat drones; values for this category are calculated as residuals from IISS-reported total procurement values by origin.

Source: International Institute for Strategic Studies (IISS); and OECD calculations.

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### Box 3.1. Considerations for cost assessment, price risk management and effective procurement

#### Ensuring defence planning is informed by complete cost assessments

Thorough assessment of the costs of proposed programmes, and alternative ways to meet defence requirements, is important to inform purchasing decisions (Tryggvadottir and Bambalaite, forthcoming 2026). In addition to upfront payments on acquisitions, lifecycle costs of operating, maintaining, repairing and replacing weapon systems should be accounted for, particularly when the programmes concerned are large. For some defence expenditures, contingent government liabilities may be substantial. One possible example is the non-repayment of state-backed loans for private defence firms' capital expenditures. For military personnel, benefits payable on new recruits' pensions will also add to future years' government expenditure, alongside the costs of providing health care to veterans (Stiglitz and Bilmes, 2008).

#### Managing price-related risks

Future exchange rates, wages, equipment prices and energy costs are all subject to uncertainty. Unexpected price developments can drive up costs, increasing the resources needed to meet capability goals. Recent spikes in the price of fuel, a significant input to some defence budgets, illustrate one source of uncertainty facing defence planners. Costs of military supplies may also rise more rapidly than ministries' technical assumptions. During the war in Ukraine, for instance, arms and ammunition price indices have risen more rapidly than overall industrial prices in some countries (Italy, Spain, the United States). Such outcomes are more likely amid rising international demand for defence materiel. Sound practices are needed for setting price assumptions and to handle surprise price swings – for instance, using currency hedging or contingency reserves alongside judicious stock management and choice of contract types to redistribute risks.

#### Improving defence procurement

The scale of some countries' plans may test the capacity of procurement agencies used to smaller purchasing volumes. Amid constant technological change, defence procurement often involves challenges in encouraging suppliers to innovate and reduce costs (Rogerson, 1994). This is not always straightforward, including as firms know more about their own costs than governments. When purchase quantities of individual products are small and firms face scale economies in production, competition may not lower costs, at least in the production phase of procurement. Within defence bureaucracies, programme performance is hard to measure while secrecy impedes oversight. As incentives in contract variation often favour technical sophistication in weapons and preserving big budgets, good governance must ensure a continued focus on cost effectiveness (Tryggvadottir and Bambalaite, forthcoming 2026). Reforms in some countries (Canada, Germany) rightly aim to streamline processes and curb waste. Another common goal is to improve international coordination in purchasing, particularly in Europe, and thereby harness scale economies and help expand the markets accessible to firms in small countries.

## Large increases in defence spending add pressure to the public finances

OECD countries enter rearmament from different fiscal starting points. However, in most, large defence requirements will bring forward tough choices on public spending priorities and how to finance them to keep debt sustainable.

Fiscal contexts differ across rearming countries. Some higher-debt countries plan to increase defence spending while consolidating their overall budgets (Belgium, France, Italy, United Kingdom). Some other countries have fiscal space to allow debt burdens to grow for a period, with military build-ups in some instances occurring amid broad fiscal expansions (Denmark, Germany, Norway). The size of public debt, and the means for funding defence spending – including fiscal reprioritisation and reduced envelopes for other spending needs – may influence its economic effects (discussed in more detail below; see also Figure 3.5) and could make it more difficult for governments to meet other policy objectives.

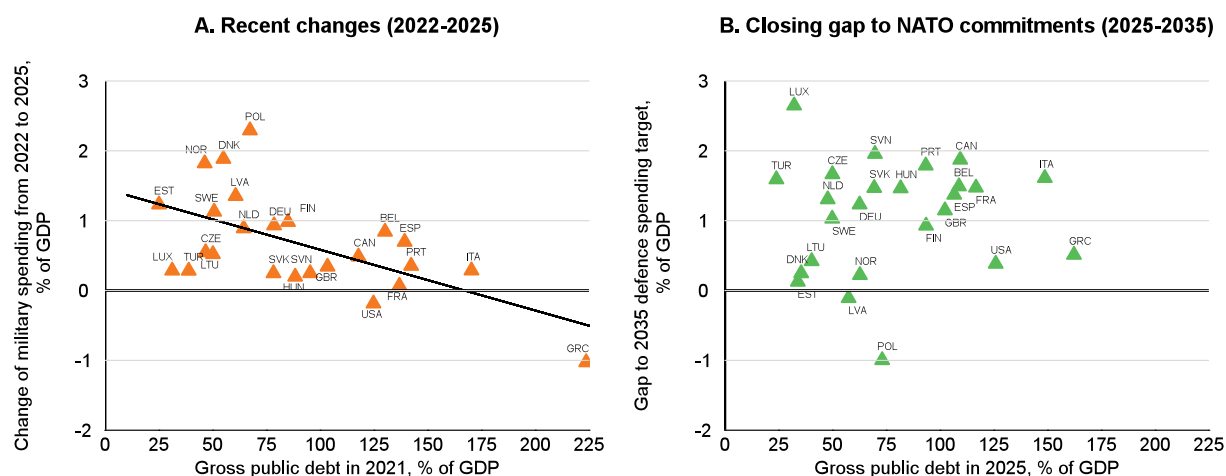
Fiscal rules, particularly in the European Union, are accommodating national debt financing of higher military spending over the next few years. National escape clauses under the Stability and Growth Pact have been activated for 17 countries, enabling them to spend an extra 1.5% of GDP annually on defence from 2025 to 2028.<sup>3</sup> Such flexibility temporarily removes a formal hurdle to defence budget expansion in countries now spending less on defence than their security strategies propose or alliance commitments require. To date, large spending increases have tended to occur in countries with low or moderate public debt ratios (Figure 3.4, Panel A), but meeting NATO targets in coming years would see defence budget expansion in several high-debt countries as well (Figure 3.4, Panel B). Supranational support for defence investments is available to EU members in the form of EU- and EIB-issued loans, Social and Cohesion Funds and unspent funds from the Recovery and Resilience Facility. Loans funded by EU debt, such as those under the EUR 150 billion Security Action for Europe (SAFE) instrument, offer relatively cheap financing for countries with high borrowing costs. But such loans still add to public debt. When countries' escape clauses expire, normal EU fiscal limits are set to reapply, requiring fiscal tightening in countries where public debt is growing at unsustainable rates.

Added pressure from sustaining large defence budgets would require many countries to reduce other government expenditure and consolidate public finances more broadly in the years ahead to contain government debt. Debt accumulation has, for instance, been rapid in Latvia and Poland, countries that moved early to boost defence spending from 2022. Having borrowed to kick-start rearmament with moderate debt burdens, both countries have since taken or announced measures to limit further budget balance deterioration.<sup>4</sup> For many countries, big defence spending compounds existing challenges of making room in budgets for increased outlays on pensions, health care, and climate measures. Medium-term adjustments will be needed in many cases to keep public debt on a sustainable track. Improvements in spending efficiency could prove essential. However, to correct wide budget imbalances, some high-debt countries may have to do more to reprioritise government spending or raise tax revenues.

<sup>3</sup> The countries are Austria, Belgium, Bulgaria, Croatia, Czechia, Denmark, Estonia, Finland, Germany, Greece, Hungary, Latvia, Lithuania, Poland, Portugal, Slovakia and Slovenia. The maximum increase in defence spending is determined relative to 2021 levels calculated from COFOG data.

<sup>4</sup> Latvia has introduced taxation of undistributed profits of credit institutions. Tax receipts are also increasing with reduced rates of informality. Poland has increased rates of corporate income taxation for banks and has announced a freeze in family benefits; bracket creep in personal income taxation will help lift revenues (OECD, 2025a).

**Figure 3.4. Recent large military spending increases have tended to occur in lower debt countries**



Note: In panel B, the implied gap to target is calculated as the difference, as a percentage of GDP, of estimated defence spending in 2025 compared with 3.5%, the NATO commitment for core defence spending by 2035. Negative figures indicate that in 2025 defence spending in the countries concerned (Latvia, Poland) was estimated to exceed the new NATO commitment. Türkiye's gross debt estimate is based on the Maastricht definition; for other countries, gross debt is general government gross financial liabilities.

Source: SIPRI; OECD Economic Outlook 119 database; and OECD calculations.

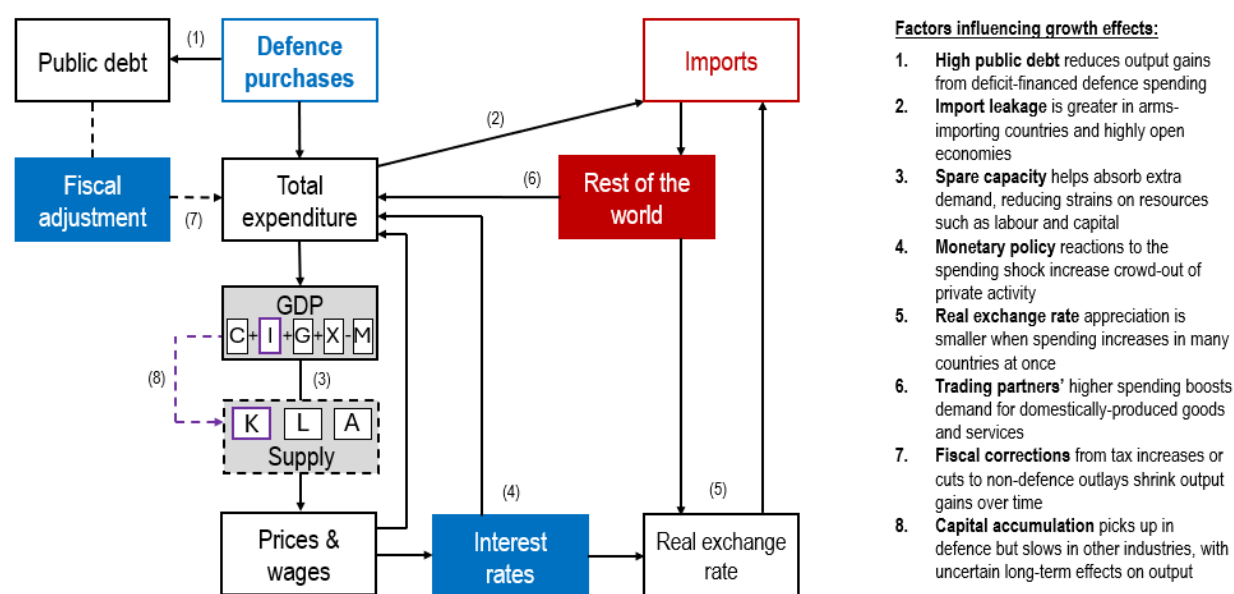
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## Defence spending could provide a near-term boost to economic activity

The economic effects of defence spending are uncertain and will vary across countries. Estimates of multipliers on defence spending – measuring output gains accumulated over a given horizon relative to changes in government spending – often fall in a range of 0.6 to 1 (Table 3.1).<sup>5</sup> Such estimates suggest near-term output gains could be expected, though often with some crowding out of private activity as resource competition drives up prices (Figure 3.5). Amid rising international demand for military equipment, price pressures in defence-related sectors could emerge while supply is expanding to meet new orders. Offsetting losses in non-defence activity may occur if interest rates rise, an outcome made more likely where spare capacity is limited or, in a monetary union such as the euro area, when defence spending rises in multiple member economies at once, as currently. Necessary fiscal corrections to stabilise public debt could also negate the growth boost from higher defence spending. Indeed, where increased military spending is primarily funded by cuts to non-defence public expenditure or higher taxes, net declines in economic activity could occur (Barro and Redlick, 2011). Import leakage will dilute the direct stimulus from defence purchases, and more so in countries with open economies and small defence sectors. However, with military spending rising in many countries simultaneously, trade will also distribute gains across borders and to non-defence firms.

<sup>5</sup> A review of the broader literature on government spending multipliers can be found in Ramey (2019). Ilzetzki (2025) also reviews empirical evidence on the growth effects of defence spending.

Figure 3.5. The transmission of higher defence spending to the real economy



Note: The figure depicts the transmission to the real economy of higher defence purchases. "Total expenditure" is total final expenditure. "K" is capital, "L" is labour, "A" is total factor productivity. The figure abstracts from possible longer run influences of defence spending on the economy's supply side – for instance, spillovers to non-defence innovation from military research, and productivity-weakening resource misallocation.

Table 3.1. Selected estimates of defence spending multipliers

| Study / sample                                                                  | Multiplier | Horizon   | Comment / type of defence data                                                                                                                                                            |
|---------------------------------------------------------------------------------|------------|-----------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. Empirical studies of US data                                                 |            |           |                                                                                                                                                                                           |
| Antolin-Diaz and Surico (2025)<br>United States<br>1890-2015, quarterly data    | 0.6        | 1 year    | Multipliers are estimated to be greater at longer time horizons. Defence spending news.                                                                                                   |
| Auerbach and Gorodnichenko (2012)<br>United States<br>1947-2008, quarterly data | 1 - 1.2    | 1 year    | Impulse responses are scaled by sample average values of the output-spending ratio to convert from percentages to dollar changes. National accounts data on government defence purchases. |
| Barro and Redlick (2011)<br>United States<br>1950-2006, annual data             | 0.6 - 0.8  | 2 years   | Lower bound corresponds to shocks that are temporary, upper is for permanent shocks. Estimates control for tax rate changes. Defence spending news.                                       |
| Ben Zeev and Pappa (2017)<br>United States<br>1947-2007 quarterly               | 2.1        | 1.5 years | Based on news shocks orthogonal to current government defence spending that best explain future movement in defence spending over a five-year horizon.                                    |
| Hall (2009)<br>United States<br>1930-2008, annual data                          | 0.6        | On impact | Estimates are lower for subsamples excluding WWII. National accounts data on government defence purchases.                                                                                |
| Ramey and Zubairy (2018)<br>United States<br>1889-2015, quarterly data          | 0.7        | 2-4 years | Output effects are similar (slightly higher) at the two-year horizon in a subsample that excludes WWII. Defence spending news.                                                            |
| 2. Empirical studies of other OECD countries                                    |            |           |                                                                                                                                                                                           |
| Furceri et al. (2026)<br>EU-27<br>2009-2023, monthly data                       | 1.5        | 1 year    | Defence procurement data.                                                                                                                                                                 |
| Garcia et al. (2025)<br>EU-27<br>1995-2023, annual data                         | 1.4        | 1 year    | National accounts (COFOG) data on military expenditure.                                                                                                                                   |

| Study / sample                                                                                     | Multiplier | Horizon | Comment / type of defence data                                                                                                                                                                                                                               |
|----------------------------------------------------------------------------------------------------|------------|---------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Olejnik (2023)<br>9 Central and Eastern European countries<br>1999–2021, annual data               | 0.6        | 1 year  | National accounts (COFOG) data on military expenditure.                                                                                                                                                                                                      |
| Sheremirov and Spirovska (2022)<br>129 advanced and developing countries<br>1988–2013, annual data | 0.8        | 1 year  | Multipliers are above unity for a subsample of advanced economies, though estimated less precisely. SIPRI data on military expenditure.                                                                                                                      |
| 3. Analyses using macroeconomic models                                                             |            |         |                                                                                                                                                                                                                                                              |
| Bokan et al. (2025)<br>Euro area                                                                   | 0.4 - 1.1  | 2 years | Government spending, monetary policy active, debt and tax-financed. Assumes a linear increase in spending. Upper bound is from a semi-structural model. Lower bound is from a dynamic stochastic general equilibrium model.                                  |
| European Commission (2025a)<br>European Union                                                      | 0.1 - 0.3  | 4 years | Government spending, debt financed. Assumes a linear increase in spending. Lower bound assumes a higher import content of defence purchases.                                                                                                                 |
| Giagheddu and Kanik (2025)<br>Sweden                                                               | 0.4 - 0.7  | 2 years | Military spending, debt financed. Adjustments account for high import content, economy in recession. Lower bound assumes a permanent spending increase, no adjustment for the cycle. Upper bound is for a temporary increase, with adjustment for the cycle. |
| IMAD (2025)<br>Slovenia                                                                            | 0.3 - 0.5  | 2 years | Government consumption, debt financed. Assumes a linear increase in spending. Lower bound assumes a higher import content of defence purchases.                                                                                                              |

Note: The first and second panels show time series and panel estimates of defence spending multipliers from aggregate data. Excluded are state-dependent and subnational multiplier estimates, and estimates for subcategories of defence spending. Most of the studies present results for cumulative multipliers. “Purchases” means the sum of government consumption and investment. “Defence spending news” are narrative-based measures of defence expenditure shocks constructed from news sources. Several of the studies estimate effects on output of total government spending using military purchases or related variables as an instrument. The third panel shows implied multipliers from model simulations of defence spending shocks. Some figures are calculated from visual inspection of graphs depicting simulation results.

### ***Output effects will differ across countries***

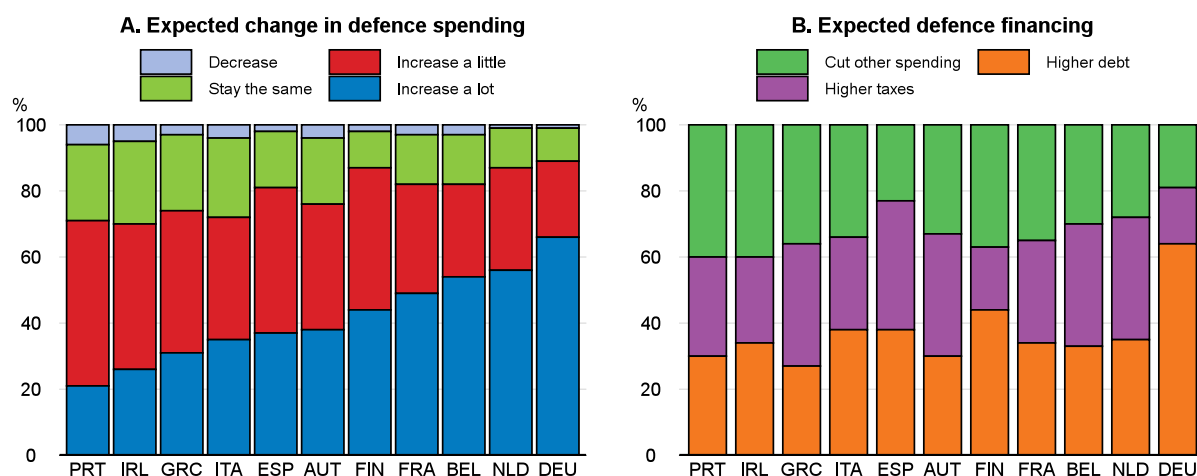
For a given country and context, the following factors will help determine the sign and size of potential near-term growth effects from higher military spending (see also Figure 3.5):

- **Financing:** In countries funding rearmament with cuts to non-defence spending or higher taxes, output effects would be small, and potentially negative. In contrast, higher multipliers could result from primarily deficit-financed military spending, particularly if public debt is moderate (Ilzetki, Mendoza and Végh, 2013). If debt burdens are large, increases in government borrowing costs could transmit to other interest rates, lifting risk premia and capital costs and denting investment. Consumption responses are uncertain; muted reactions might be expected if households anticipate a fiscal correction will be needed to pay for big defence spending, as has been the case in some countries recently (Figure 3.6).
- **Spending composition:** Boosts to domestic activity from weapons purchases, a focus of recent defence budgets, will be smaller if goods are sourced from foreign producers (Balima et al., 2026) (for NATO Europe, see Figure 3.3). Higher multipliers on equipment purchases may apply in countries where weapons are bought from local manufacturers, despite possible import leakage as firms source inputs from abroad and as higher demand lifts final goods and services imports. Spending multipliers tend to be lower in economies, like many in the OECD, that are highly open to trade (Ilzetki, Mendoza and Végh, 2013).
- **State of the economy:** Several studies find that the near-term output impact of public spending is larger when there is slack in the economy (Auerbach and Gorodnichenko (2012), Fazzari, Morley and Panovska (2014), Caggiano et al. (2015)), as is currently the case in many rearming countries. Spare capacity in defence-related sectors, such as manufacturing (Figure 3.7), would reduce the risks of straining resources and generating broader price pressures. In Germany, for instance, manufacturing capacity utilisation is below the peak seen in the past decade; there is also evidence

of plant, equipment and labour redeployment from automotive to defence manufacturers (The Economist, 2025).

- **Monetary policy:** Short-term output gains and price inflation from higher public demand will be larger if monetary policy is constrained<sup>6</sup> or otherwise accommodates the fiscal stimulus, notably in view of the state of the economy. In a monetary union, a spending increase in a small economy might be met with little to no central bank reaction. Limited policy rate responses could result in higher inflation and a short-term stimulatory effect for private demand from lower real interest rates (Farhi and Werning, 2016). Such positive effects could be greater for interest rate-sensitive expenditures such as private investment or durable goods consumption. In contrast, simultaneous defence spending shocks by several monetary union member states, as seen currently in the euro area, might be more likely to affect the path of union-wide policy interest rates.
- **Demand shocks in trading partners:** Synchronous spending increases in multiple countries will benefit arms exporters and influence broader growth and price effects. Sales of intermediates to foreign defence firms may support output in countries with small defence sectors or limited national defence spending increases. Simultaneous demand shocks by trading partners might also limit real exchange rate appreciation that in other circumstances could weigh on exports and trade-exposed sectors. On the other hand, compared with a single country's unilateral defence build-up, bottlenecks in the supply of materiel, and inputs to arms production, might more likely emerge from a global increase in defence spending. If supply is slow to respond, delays may result, with cost pressures eroding the buying power of defence budgets as well as GDP gains. A step-up in military equipment demand could also add pressure to the prices of commodities used in arms production, notably steel, aluminium and copper.<sup>7</sup>

**Figure 3.6. Many households expect higher taxes or spending cuts to fund rearmament**



Note: The graphs are based on household survey responses. Respondents were asked: (Panel A) how they believe defence spending will change in their country over the next 12 months; (panel B) if defence spending were to increase, how they expect it to be financed. In Panel A, "Decrease" is the sum of respondent shares for "Decrease a little" and "Decrease a lot".

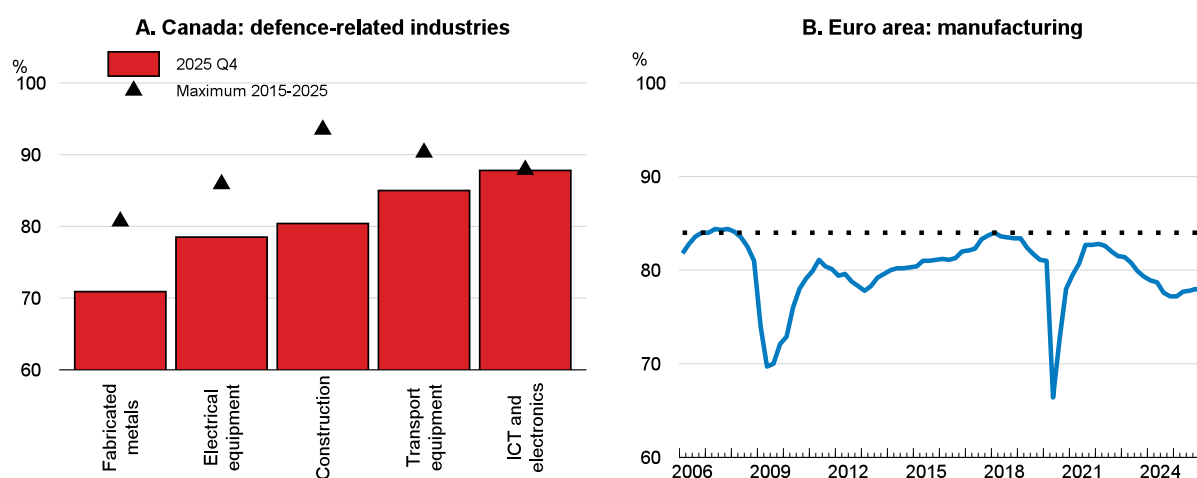
Source: Baumann et al. (2025); and OECD calculations.

StatLink  <https://stat.link/u4xrqb>

<sup>6</sup> In the years after the Global Financial Crisis, several studies examined multipliers at times when central banks were constrained by the zero lower bound. Among other papers, Ramey and Zubairy (2018) (for the United States) and Miyamoto, Nguyen and Sergeyev (2018) (for Japan) find evidence suggesting multipliers are higher in such periods.

<sup>7</sup> Estimates attributed to Goldman Sachs suggest the defence sector may account for 3% of global demand for industrial metals, ranging from 2% of demand for steel to 7% of nickel demand (Tan, 2025).

**Figure 3.7. Capacity utilisation is below past peaks in some economies' defence-related industries**



Note: Panel A shows capacity utilisation rates in four manufacturing industries (Fabricated metal products; Electrical equipment, appliances and components; Computer and electronic products; and Transportation equipment) and construction. In Panel B, the dotted line shows the peak capacity utilisation rate since 2015.

Source: Statistics Canada; TD Economics; Eurostat; and OECD calculations.

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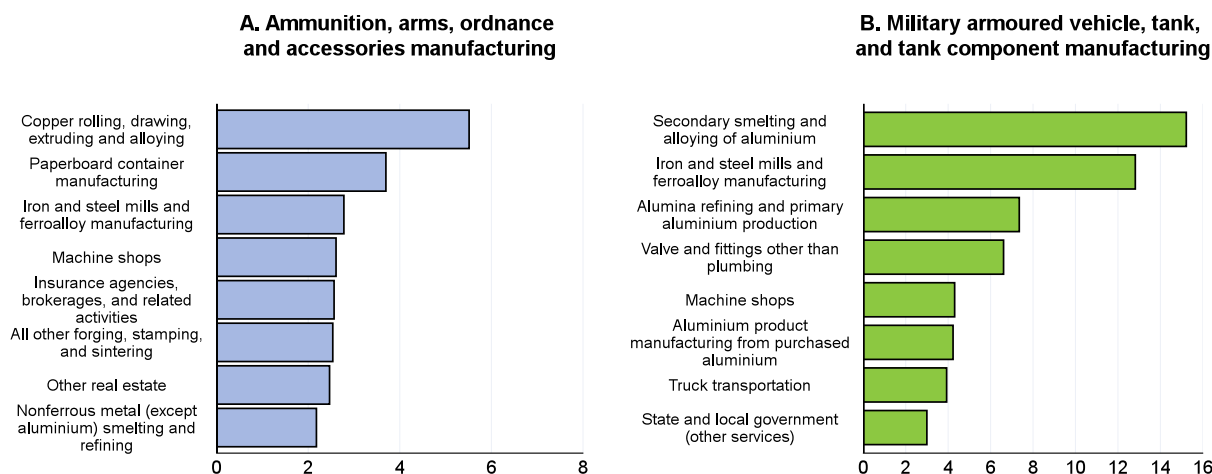
### ***Gains within economies could be highly concentrated***

Where aggregate economic benefits turn out to be modest, the gains from defence spending may be offset by counteracting forces – including drags on growth from trade restrictions, high energy prices, or conflict itself. Sectoral or local boosts to output and employment could still be substantial (Nakamura and Steinsson, 2014). Benefits from some defence purchases may be highly concentrated by industry (Figure 3.8). Spending on defence also tends to be more geographically concentrated than other categories of national spending (De Mello and Ter-Minassian, 2026). Empirical evidence suggests local spending multipliers may be larger than national multipliers, with sizeable positive spillovers to nearby areas and non-defence firms. Relatively large local multipliers appear to reflect in part the greater factor mobility within countries than between them. This may outweigh the negative effect of sizable imports from other regions to local economies that tend to be more open than national economies. Responses from macroeconomic policy and exchange rates are also typically absent from the measurement of local multipliers, but present in the case of aggregate ones.

Job creation could be limited if defence purchases mainly benefit capital-intensive firms – for instance, in metals manufacturing. Advertisements for jobs in major European defence firms increased in number from 2022 but job postings subsequently moderated (Figure 3.9, Panel A). Skill requirements in defence-related manufacturing tend to be higher, on average, than in the general workforce. Firms in defence industries rely relatively heavily on advanced technical, engineering and safety-related skills (Galai et al. (2019), European Commission (2025b)). Data on vacancies suggest demand has been strong for engineers and software developers (Figure 3.9, Panel B). In attracting workers from other businesses, defence recruitment may exacerbate existing skill shortages in rearming economies.

**Figure 3.8. Gains from some defence purchases may be highly concentrated by industry**

Production required for a USD 100 million demand increase for selected US defence products, USD million

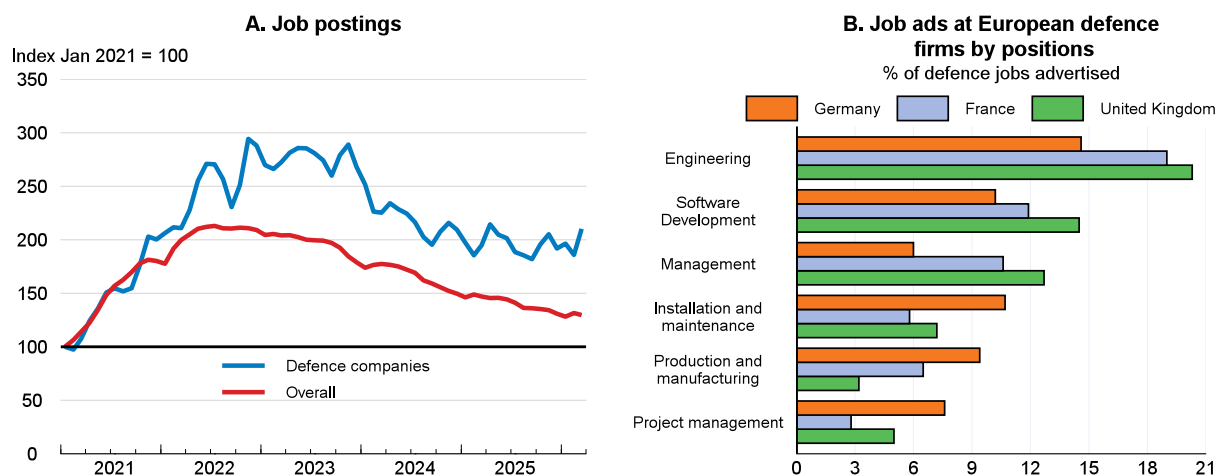


Note: The figure shows total requirements by industry from benchmark US input-output tables for 2017. Not shown are production requirements from the defence industries themselves (USD 110 million for Ammunition, arms, ordnance and accessories; USD 105 million for Military armoured vehicle, tank, and tank components).

Source: US Bureau of Economic Analysis; and OECD calculations.

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**Figure 3.9. Job ads at European defence firms surged in 2022-23 but subsequently moderated**



Note: Panel A: Data cover Switzerland, EU countries and European NATO members for which an Indeed site exists. Data for defence companies are based on monthly job postings for the largest European defence companies. Panel B: Data are for a one-year period ending 31 May 2025. Source: Judes, A. and V. Sondergeld (2025), "Europe's Defence Industry Is Hiring, but UK Jobseekers Remain Hesitant", Indeed Hiring Lab, with industry data updated to March 2026; and OECD calculations.

StatLink <https://stat.link/axgk2q>

## Longer-term economic effects of defence spending are highly uncertain

To generate measurable long-run economic gains, military expenditure must expand an economy's productive capacity – whether by adding to the stock of productive capital, increasing the size or skills of the labour force, or enhancing the efficiency with which factor inputs are used in production. Failing this, an initial stimulus to demand will fade over time, with households potentially left facing higher taxes to pay for increased public expenditure.

Some types of defence spending can have positive effects on potential output:

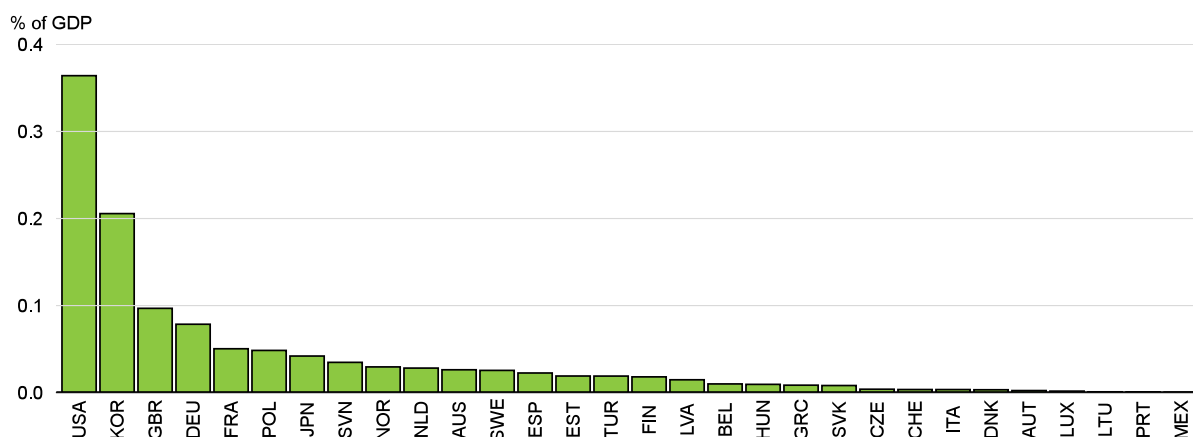
- **Defence R&D**, a small item of government spending for most OECD countries (Figure 3.10), can support private innovation and generate long-term productivity gains (Antolin-Diaz and Surico, 2025). Positive spillovers to civilian innovation may be quantitatively important when budgets for defence R&D are large, as in the United States, where successes from mission-oriented research are well documented and government-funded defence research occurs within an effective innovation system (Gross and Sampat, 2023). Measures to address skills shortages, most obviously through immigration, may be important to avoid shrinking the pool of workers available for non-defence innovation. Without such measures, spending on defence research might simply push up the wages of engineers, scientists and technology workers (Goolsbee, 1998), crowding out private R&D.
- **Military procurement** may enable private investments by improving firms' cash flow and access to finance. Defence firms' productivity might also rise as work on large orders brings process or technology improvements that lower businesses' unit production costs (Ilzetzki, 2025). Reforms to improve procurement, and associated institutions, could reduce waste in government spending (Box 3.1), ensuring a strong translation from purchases to a larger capital stock (Pritchett, 2000).
- **Military service** might, for some recruits, substitute for years of schooling (Angrist, 1998), create pathways to jobs in science, engineering and technology (Werum et al., 2020) or provide skills useful for management in civilian industries (Grönqvist and Lindqvist, 2016). In contrast, aspects of active service and conflict exposure could weigh on veterans' future labour market prospects (Bailey et al., 2025). The lasting employment effects of military service are uncertain.
- **Protection of critical infrastructure** from malicious cyber activity or physical sabotage, instances of which have increased (OECD, 2025b), will not of itself shift the economy onto a higher growth path. However, such investments could still prevent incremental drops in output after attacks. But as with defence generally, the lack of a defined counterfactual, in terms of averted losses, makes it harder to determine the efficient level of investment. Long-term economic benefits are similarly difficult to gauge.

Other forces may curb any potential positive effects from defence spending in the long run. Secrecy may impede the diffusion of knowledge from military research, which appears to bring smaller productivity payoffs than public non-defence R&D spending (Fieldhouse and Mertens, 2023). Military purchases may draw resources away from more efficient uses in the economy by driving up prices. In so doing, defence spending could weigh on aggregate productivity. State support for enlarged military production, including stand-by capacity for future defence requirements, could also reduce productivity if it lowers industry-wide capacity utilisation. Sustaining large defence budgets could require non-trivial cuts to other government spending. If military spending, or higher debt service costs, displaces productive expenditure on education, health or infrastructure, the net effect could be to reduce output and incomes. Other policy objectives might be impaired in the process, as could also occur if governments postpone climate action or curb social spending (Balima et al., 2026). Where offsetting fiscal adjustments rely heavily on tax increases, as is common after a military build-up (Marzian and Trebesch, 2025), this could be expected to shrink the economy's productive capacity. Potential output reductions are more likely if defence budgets are ultimately funded by higher taxes on income which discourage work and investment.

The empirical literature does not have a clear consensus on whether defence spending raises or lowers output in the long run (Dunne and Tian, 2020), or whether there are lasting effects on consumption and welfare. Durable benefits, beyond current military build-ups, are more likely if structural reforms accompany higher defence spending. Priority reforms for many countries are to improve procurement practices, harness competition where it can lower costs and foster innovation, and alleviate skills shortages that might impair knowledge diffusion. In Europe in particular, coordination in military purchases, backed by harmonised standards, could enlarge markets for productive firms and support interoperability.

**Figure 3.10. Defence budget research and development allocations**

2024 or latest available data



Note: Data for the United Kingdom and Korea are for 2023. Provisional values are shown for most countries.

Source: OECD Research and Development Statistics; and OECD calculations.

StatLink  <https://stat.link/e5xaod>

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## **4. Developments in individual OECD and selected non-member economies**

# Argentina

Real GDP is projected to grow by 2.8% in 2026 and 3.5% in 2027, driven mostly by exports from the energy, mining and agricultural sectors. Private investment is benefiting from an increasingly favourable business environment. Private consumption growth will remain modest, limited by high interest rates and a slow recovery of real wages. Higher oil prices will slow the pace of disinflation. Slowing the pace of reform could lower confidence and stall consumption and investment growth.

Foreign reserve accumulation has picked up and will continue to support the transition towards a more flexible exchange-rate regime, strengthening resilience to external shocks. Contained public expenditures and steady revenues will allow for maintaining small fiscal surpluses over the projected horizon. Once fully implemented, the recent labour market reform will support formal job creation, but additional efforts to promote competition could boost productivity. Structural reforms should now focus on eliminating distortive taxes, broadening tax bases, and simplifying the tax system.

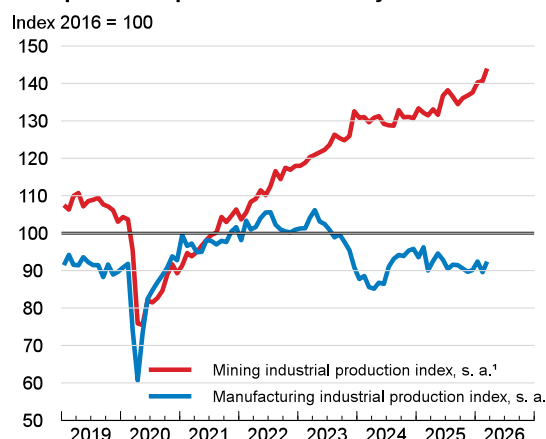
## Growth has strengthened due to higher energy, mining and agriculture output

Real GDP grew by 0.6% in the fourth quarter of 2025, bringing annual 2025 growth to 4.4% after two years of recession. The main monthly activity indicator registered strong growth momentum at the end of 2025 and again in March 2026, reversing a fall in February. Exports from the energy, mining and agricultural sectors have become a growth engine, while domestically oriented sectors, like manufacturing and retail services, continue to lag behind. Industrial capacity utilisation and consumer confidence remain low and are decreasing. Although unemployment rose in the fourth quarter of 2025, the employment rate fell only marginally. Inflation has strengthened since mid-2025, reaching a monthly rate of 2.6% in April, slowing the recovery of real wage growth.

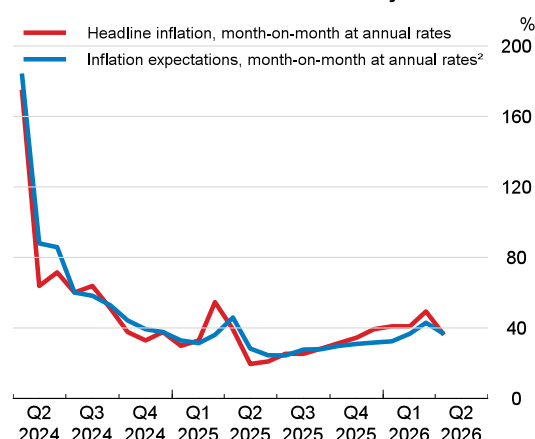
The evolving conflict in the Middle East has increased fuel prices, hampering efforts to reduce inflation. The impact of the 10% tariff on exports to the United States will be limited, as these account for only 9% of Argentina's exports. Moreover, a recent bilateral trade agreement is set to reduce tariffs for 1,675 products. The exchange rate has appreciated since November, and the central bank has accumulated close to USD 4.3 billion in reserves during the first quarter, although net reserves remain negative.

## Argentina

### Exporters outperform domestically-oriented sectors



### Inflation increased over the last year



1. The mining industrial production index covers mining of metallic and non-metallic minerals, extraction of natural gas and crude oil, and support services for the extraction of crude oil and natural gas.

2. Average.

Source: INDEC; and Banco Central de la República Argentina.

StatLink <https://stat.link/30k5q1>

## Argentina: Demand, output and prices

|                                    | 2022                          | 2023                                        | 2024  | 2025 | 2026 | 2027 |
|------------------------------------|-------------------------------|---------------------------------------------|-------|------|------|------|
| <b>Argentina</b>                   | Current prices<br>ARS billion | Percentage changes, volume<br>(2004 prices) |       |      |      |      |
| <b>GDP at market prices</b>        | 82 810.0                      | -1.9                                        | -1.3  | 4.4  | 2.8  | 3.5  |
| Private consumption                | 54 595.5                      | 1.0                                         | -2.9  | 7.9  | 3.0  | 2.8  |
| Government consumption             | 13 003.3                      | 2.1                                         | -3.8  | 0.2  | 0.2  | 0.6  |
| Gross fixed capital formation      | 14 589.3                      | -2.0                                        | -17.2 | 16.4 | 0.3  | 8.9  |
| Final domestic demand              | 82 188.2                      | 0.6                                         | -5.8  | 8.1  | 2.2  | 3.4  |
| Stockbuilding <sup>1</sup>         | - 192.3                       | 0.0                                         | -1.5  | 1.0  | -0.8 | 0.0  |
| Total domestic demand              | 81 995.9                      | 0.6                                         | -7.3  | 9.2  | 1.1  | 3.8  |
| Exports of goods and services      | 13 482.9                      | -9.5                                        | 19.8  | 7.6  | 8.9  | 4.5  |
| Imports of goods and services      | 12 668.7                      | 1.9                                         | -10.2 | 27.0 | 1.8  | 5.5  |
| Net exports <sup>1</sup>           | 814.2                         | -1.8                                        | 4.0   | -2.3 | 1.1  | -0.1 |
| <b>Memorandum items</b>            |                               |                                             |       |      |      |      |
| GDP deflator                       | —                             | 136.7                                       | 207.6 | 39.1 | 27.3 | 13.7 |
| Consumer price index <sup>2</sup>  | —                             | 133.5                                       | 219.9 | 41.9 | 30.5 | 15.6 |
| Current account balance (% of GDP) | —                             | -3.0                                        | 0.8   | -0.9 | -0.1 | 0.0  |

1. Contributions to changes in real GDP, actual amount in the first column.

2. Based on yearly averages.

Source: OECD Economic Outlook 119 database.

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## Monetary and fiscal policies should remain restrictive

Achieving sustainably lower inflation should remain the main objective of monetary policy. Control of monetary aggregates will remain tight, and interest rates are expected to stay high in the medium term, despite a gradual decline. Reserve accumulation will be supported by export revenues from an expected record harvest, and by higher oil prices in the near term. Fiscal consolidation is set to continue, with

expenditure restraint, higher revenues from export taxes and improvements in tax administration. This will lead to small headline fiscal surpluses in both 2026 and 2027.

## **Growth will continue to be supported mostly by exports**

Real GDP is expected to grow by 2.8% in 2026 and 3.5% in 2027, underpinned by export-oriented sectors, like agriculture, energy and critical minerals. Private consumption growth will remain moderate due to a slow recovery of real wages and high interest rates. Lower administrative burdens and dedicated investment regimes for both large and medium-sized investments will support investment. Against the background of rising fuel prices in the first half of 2026, disinflation will only gather renewed momentum from the second half of the year, supported by contained demand pressures, tight monetary policy and persistent fiscal discipline. Average headline inflation is projected at around 31% for 2026 and around 16% for 2027. A slowdown of the current reform momentum, or incomplete implementation of approved reforms, could lower confidence and lead to protracted consumption and investment growth, and possibly renewed currency volatility.

## **Further reforms can boost productivity**

Phasing out inefficient subsidies, raising public-sector efficiency and replacing distortionary taxes with broader income and consumption taxes would strengthen macroeconomic stability. Eliminating remaining natural gas subsidies, while providing support to low-income households, would provide market signals to steer resources towards alternative energy sources in the longer term. Productivity could benefit from further reductions in barriers to domestic and international competition while streamlining firm resolution procedures and addressing gaps in transport infrastructure and digitalisation. Increasing cooperation with the private sector can keep training curricula aligned with evolving labour market requirements, reducing skill shortages and boosting productivity growth.

# Australia

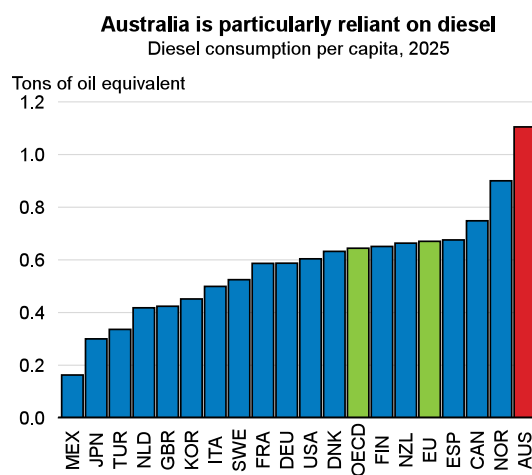
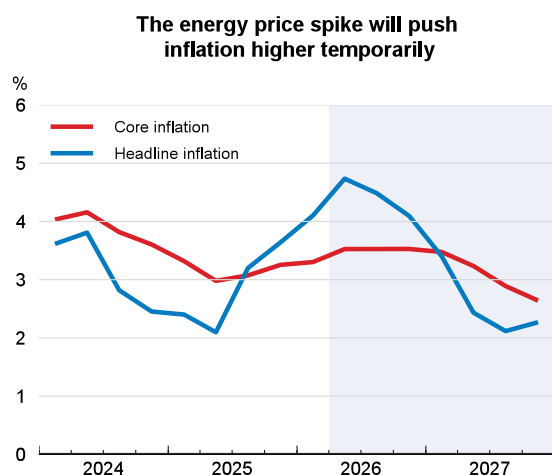
The Australian economy had considerable momentum on the eve of the evolving Middle East conflict but now faces headwinds that will hinder growth and push up inflation this year. GDP growth is projected to slow slightly to 1.9% in 2026 and 1.8% in 2027. The energy price spike will push headline inflation above 4% this year, but its unwinding should help inflation fall back to about 2½ per cent in 2027. The main risks are that the energy supply shock is larger than expected or that the policy reaction triggers a sharper-than-projected slowdown in demand growth.

Monetary policy tightening, already underway pre-conflict, may need to be continued but should be unwound as inflation subsides. Limited temporary fiscal measures to mitigate dislocation from the energy supply shock may be warranted, but revenue windfalls from high commodity prices should be mostly saved. To enhance energy security and boost sustainable growth, Australia should accelerate progress with electric vehicle adoption and renewables generation, with improved grid links and increased storage capacity.

## Pre-conflict macroeconomic developments were mostly favourable

Before the onset of the Middle East conflict, the economy was enjoying a period of strengthening growth and healthy labour market conditions. Year-on-year GDP growth in the fourth quarter of 2025 reached 2.6%, above estimated potential, while the pre-conflict unemployment rate was low and stable. Inflation, which had picked up in the third quarter of 2025, stabilised from October onward and showed initial signs of returning to the 2-3% target range.

## Australia



Source: OECD Economic Outlook 119 database; and U.S. Energy Information Administration (EIA).

StatLink  <https://stat.link/graly9>

## Australia: Demand, output and prices

|                                                      | 2022                          | 2023                                             | 2024 | 2025 | 2026 | 2027 |
|------------------------------------------------------|-------------------------------|--------------------------------------------------|------|------|------|------|
| Australia                                            | Current prices<br>AUD billion | Percentage changes, volume<br>(2023/2024 prices) |      |      |      |      |
| <b>GDP at market prices</b>                          | 2 491.8                       | 2.1                                              | 1.1  | 2.0  | 1.9  | 1.8  |
| Private consumption                                  | 1 239.6                       | 2.7                                              | 0.7  | 2.1  | 1.4  | 1.3  |
| Government consumption                               | 532.7                         | 1.8                                              | 4.8  | 3.2  | 2.7  | 2.1  |
| Gross fixed capital formation                        | 567.9                         | 5.0                                              | 1.9  | 2.5  | 3.6  | 3.1  |
| Final domestic demand                                | 2 340.1                       | 3.0                                              | 1.9  | 2.4  | 2.2  | 1.9  |
| Stockbuilding <sup>1</sup>                           | 28.2                          | -0.8                                             | 0.2  | -0.2 | 0.0  | 0.0  |
| Total domestic demand                                | 2 368.4                       | 2.1                                              | 2.0  | 2.3  | 2.3  | 1.9  |
| Exports of goods and services                        | 672.1                         | 6.9                                              | 1.1  | 2.6  | 3.3  | 2.5  |
| Imports of goods and services                        | 548.6                         | 6.7                                              | 5.8  | 3.8  | 4.4  | 2.8  |
| Net exports <sup>1</sup>                             | 123.5                         | 0.4                                              | -1.0 | -0.2 | -0.3 | -0.1 |
| <b>Memorandum items</b>                              |                               |                                                  |      |      |      |      |
| GDP deflator                                         | —                             | 3.5                                              | 2.5  | 2.7  | 4.1  | 2.5  |
| Consumer price index                                 | —                             | 5.6                                              | 3.2  | 2.8  | 4.4  | 2.6  |
| Core inflation index <sup>2</sup>                    | —                             | 5.4                                              | 3.9  | 3.2  | 3.5  | 3.1  |
| Unemployment rate (% of labour force)                | —                             | 3.7                                              | 4.0  | 4.2  | 4.5  | 4.6  |
| Household saving ratio, net (% of disposable income) | —                             | 2.9                                              | 4.3  | 6.7  | 6.3  | 6.8  |
| General government financial balance (% of GDP)      | —                             | -1.3                                             | -2.8 | -3.9 | -3.5 | -3.4 |
| General government gross debt (% of GDP)             | —                             | 54.7                                             | 58.0 | 60.8 | 62.3 | 64.2 |
| Current account balance (% of GDP)                   | —                             | -0.4                                             | -2.2 | -2.6 | -2.8 | -3.0 |

1. Contributions to changes in real GDP, actual amount in the first column.

2. Data refer to trimmed mean inflation calculated by the Australian Bureau of Statistics, excluding the top and bottom 15% of the distribution of price changes.

Source: OECD Economic Outlook 119 database.

StatLink  <https://stat.link/42lq3s>

The most immediate impact of the conflict on the economy was via fuel prices. By mid-April, diesel prices had risen by some 66% and petrol prices by 59%, notwithstanding a temporary federal excise tax cut which cut retail prices by about 10%, although prices subsequently fell back somewhat. The conflict's impact has also been seen in business and consumer confidence measures, which fell sharply. In addition, financial conditions have tightened, with 10-year government bond yields surging to over 5.1%, their highest level since 2011, before settling near 5%.

## Monetary policy tightening is likely and fiscal policy is expected to tighten mildly

With pre-conflict headline inflation already above target and the Reserve Bank of Australia in a tightening phase, further policy rate increases are likely as inflation is pushed higher by the energy supply shock. One additional rate increase is expected by September 2026, before an easing phase begins in 2027 as inflation subsides and labour market slack emerges. Existing fiscal plans at the federal and state/territory levels imply consolidation through 2027. The energy shock is not expected to have a major net impact on general government budget outcomes, with revenue windfalls from higher-than-expected commodity prices roughly offsetting the negative effect of lower activity and the modest energy price relief measures announced to date. The general government deficit is expected to decline this year and next, with a rise in the debt-to-GDP ratio through end-2027.

## Economic conditions should improve in 2027 as headwinds reverse

The adverse demand impact of the energy supply shock and the monetary policy response to it will weigh on GDP growth this year, although this should give way to a rebound through 2027 as those headwinds reverse. The slowdown mainly reflects weaker consumption growth, as higher inflation and mortgage rates erode real disposable incomes. Job growth will also ebb, pushing the unemployment rate up by about half a percentage point by end-2026. Headline inflation, which was 3.7% in February, will jump to around 5% in the coming months as the impact of higher fuel costs is felt. The projected reversal of the energy price spike means that its inflationary effects should be dissipating from the second half of 2026 onward, although the surge in fertiliser prices could push up food prices in 2027. Core inflation will remain above the mid-point of the 2-3% target range throughout 2026-27 but should be within the range and approaching the mid-point by late 2027. Apart from the risk of a more serious disruption of oil and gas production and shipping from the Middle East than assumed in the projections, Australia-specific risks include the possibility that the impact of monetary policy tightening on consumption and other interest-rate-sensitive spending is greater than projected. At the same time, if second-round price effects are larger than projected, this could imply even higher policy rates in 2026 and later or no easing in 2027, with negative growth implications in both years.

## Coping with the energy supply shock and delivering reforms

Monetary policy should only be further tightened if inflation expectations become unanchored, threatening a prolonged inflationary episode despite the growth slowdown. Conditional on expectations remaining anchored, an easing of policy may be needed as economic slack gathers. Given the relatively large general government deficit and rising public debt ratio, steady medium-term consolidation in line with Australia's fiscal framework will be needed. Any revenue windfalls arising from the conflict should be mostly saved, while limited temporary measures to help affected sectors deal with the impact of the energy price spike may be justified. Australia's vulnerability to fuel supply disruptions underlines the case for accelerating progress with electric vehicle adoption and renewables generation, with improved grid links and increased storage capacity. Other needed policies, such as easing restrictive land-use regulation, especially in urban areas, could also help to curb fuel consumption and improve energy security, while at the same time boosting productivity growth and addressing affordability challenges.

# Austria

The recovery from the long recession will be held back by high energy prices, with real GDP projected to grow by 0.7% in 2026 and 1.1% in 2027. Government measures limiting the increase in fuel prices will cushion headline inflation, which is projected to reach 2.8% in 2026 before declining to 2.4% in 2027 as commodity price pressures ease. Consumption will slow during 2026, but unemployment is projected to remain broadly stable. Risks are skewed to the downside. A longer than expected disruption to energy markets could slow growth significantly, and the intensification of global and regional geopolitical tensions could further disrupt value chains.

Medium-term fiscal consolidation should be implemented as planned, and energy price measures, while remaining temporary, should be well-targeted. Upgrading the electricity grid to support the use of renewables is essential to reduce energy costs and increase energy security. Easing entry barriers in services sectors, reducing regulatory burdens for businesses and strengthening competition in key markets would boost productivity growth and increase competitiveness.

## The economy has been slowly recovering after the long recession

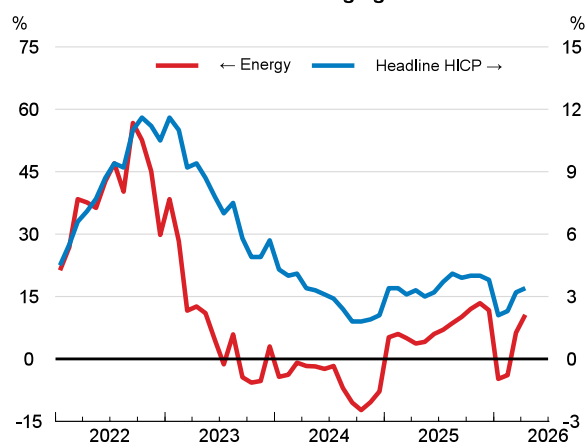
Austria emerged from a two-year recession in 2025 and momentum was positive in early 2026 until the evolving conflict in the Middle East, although conditions for industry remained challenging. Business sentiment, especially in retail and services, was looking up, and tourism recorded a positive winter season. Inflation was slowly decreasing, with the year-on-year headline inflation at 2.3% in February. The unemployment rate has remained broadly stable at around 5.7%. The outbreak of the conflict in the Middle East and the subsequent rise in energy prices and uncertainty are overhauling these dynamics, slowing down the recovery, with inflation rising to 3.4% in April.

## Austria

**Business sentiment was improving before Middle East conflict**



**Inflation is rising again**



1. Business confidence corresponds to the simple average of Construction, Manufacturing, Retail Trade and Services sectors.

Source: OECD Economic Outlook 119 database; and Eurostat.

StatLink  <https://stat.link/ojab0t>

## Austria: Demand, output and prices

|                                                                        | 2022                          | 2023                                        | 2024 | 2025 | 2026 | 2027 |
|------------------------------------------------------------------------|-------------------------------|---------------------------------------------|------|------|------|------|
|                                                                        | Current prices<br>EUR billion | Percentage changes, volume<br>(2015 prices) |      |      |      |      |
| <b>Austria</b>                                                         |                               |                                             |      |      |      |      |
| <b>GDP at market prices*</b>                                           | 449.4                         | -0.8                                        | -0.7 | 0.6  | 0.7  | 1.1  |
| Private consumption                                                    | 229.0                         | -0.2                                        | 1.0  | 0.5  | 0.9  | 1.0  |
| Government consumption                                                 | 92.3                          | 0.6                                         | 3.8  | 2.4  | 1.0  | 0.7  |
| Gross fixed capital formation                                          | 113.3                         | -1.3                                        | -4.3 | 1.4  | 0.7  | 1.5  |
| Final domestic demand                                                  | 434.5                         | -0.3                                        | 0.3  | 1.1  | 0.9  | 1.0  |
| Stockbuilding <sup>1</sup>                                             | 18.1                          | -2.7                                        | -1.3 | 0.2  | 0.2  | 0.0  |
| Total domestic demand                                                  | 452.6                         | -3.0                                        | -1.1 | 1.3  | 1.0  | 1.0  |
| Exports of goods and services                                          | 276.0                         | -0.6                                        | -2.3 | 0.3  | 1.0  | 1.9  |
| Imports of goods and services                                          | 279.3                         | -4.3                                        | -2.6 | 1.7  | 1.4  | 1.7  |
| Net exports <sup>1</sup>                                               | - 3.3                         | 2.3                                         | 0.1  | -0.7 | -0.2 | 0.1  |
| <b>Memorandum items</b>                                                |                               |                                             |      |      |      |      |
| GDP deflator                                                           | —                             | 7.2                                         | 4.1  | 3.2  | 2.5  | 1.6  |
| Harmonised index of consumer prices                                    | —                             | 7.7                                         | 2.9  | 3.6  | 2.8  | 2.4  |
| Harmonised index of core inflation <sup>2</sup>                        | —                             | 7.3                                         | 3.9  | 3.1  | 2.7  | 2.4  |
| Unemployment rate (% of labour force)                                  | —                             | 5.1                                         | 5.2  | 5.7  | 5.8  | 5.6  |
| Household saving ratio, net (% of disposable income)                   | —                             | 8.6                                         | 11.7 | 9.9  | 9.0  | 9.3  |
| General government financial balance (% of GDP)                        | —                             | -2.6                                        | -4.6 | -4.2 | -4.0 | -4.2 |
| General government gross debt (% of GDP)                               | —                             | 86.3                                        | 88.2 | 87.5 | 89.4 | 91.7 |
| General government debt, Maastricht definition <sup>3</sup> (% of GDP) | —                             | 77.8                                        | 80.0 | 81.5 | 83.4 | 85.7 |
| Current account balance (% of GDP)                                     | —                             | 1.6                                         | 1.5  | 1.9  | 1.4  | 0.9  |

\* Based on seasonal and working-day adjusted quarterly data; may differ from official non-working-day adjusted annual data.

1. Contributions to changes in real GDP, actual amount in the first column.

2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.

3. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.

Source: OECD Economic Outlook 119 database.

StatLink  <https://stat.link/l4wyij>

Austria is substantially reliant on energy imports, notably of gas, especially in the manufacturing sector. The surge in energy prices is detrimental to industrial competitiveness and demand in key trading partners. Increasing competition from China, US tariffs on merchandise imports and heightened uncertainty also weaken the outlook.

## The planned reduction in deficit will continue, but at a slower pace

The government deficit remains above 4% of GDP, despite consolidation efforts that took effect in 2025. The government is expected to continue implementing the medium-term fiscal consolidation as planned, with an overall tightening in the fiscal stance of 0.4% of GDP assumed in the projections between 2025 and 2027. The reduction of the mineral oil tax in 2026 and the weaker-than-expected economic performance will reduce fiscal revenues in 2026, despite higher inflation. The federal deficit is projected to remain high, averaging 4.1% of GDP over 2026-27.

## External shocks are hampering the recovery

Real GDP growth is projected to grow by 0.7% in 2026 and 1.1% in 2027. Higher energy prices are expected to depress both domestic and external demand in the second and third quarters of 2026. Heightened uncertainty will negatively impact investment, while public spending growth will be subdued due to budgetary consolidation. As energy prices and geopolitical tensions ease, economic activity is projected to regain momentum. The unemployment rate is projected to remain broadly stable at around 5.7%. Headline inflation is projected to average 2.8% in 2026 due the rise in energy prices, with government measures expected to partially cushion the increase in fuel prices. As commodity price pressures are expected to ease in 2027, inflation is projected to decline to 2.4%. Risks are tilted to the downside. A longer than expected duration of the conflict in the Middle East would add to inflationary pressures and depress further both domestic and external demand. The intensification of global and regional geopolitical tensions could further disrupt value chains, which would be particularly detrimental to Austria, whose foreign value added in exports is among the highest in the OECD.

## Increasing the use of renewables would improve energy security and competitiveness

While the medium-term fiscal consolidation should be implemented as planned, Austria also needs a long-term strategy to address fiscal pressures from ageing, climate change and defence. Simplifying the high administrative barriers to build large-scale renewable infrastructure would allow a further expansion of domestic renewables energy production and strengthen energy security, while reducing production costs and emissions. Scaling up renewable electricity also requires upgrading, expanding and digitalising the electricity grid. Developing a more nationally integrated and competitive energy supply market by avoiding fragmentation at the Länder level would increase efficiency and lower energy prices. Reducing the regulatory burden and improving innovation would help encourage business dynamism, while narrowing early retirement schemes and encouraging older workers to stay in the labour force would support growth.

# Belgium

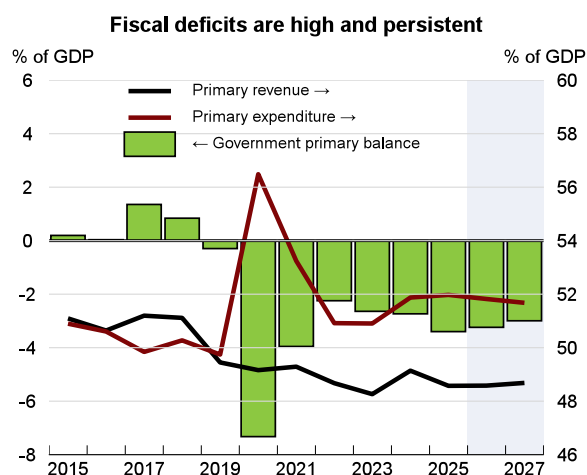
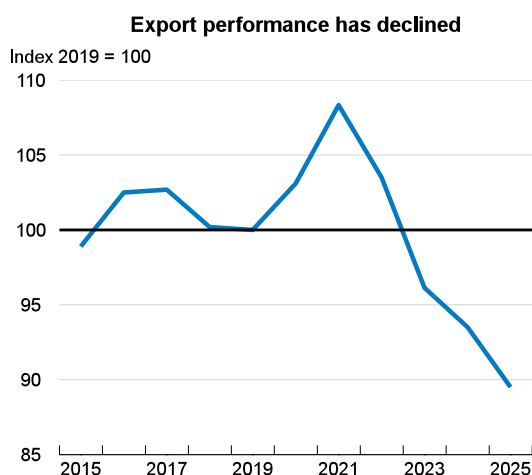
GDP growth will decrease to 0.7% in 2026 before picking up to 1.1% in 2027. Energy support measures and partial wage indexation will only partly mitigate the negative impact of inflation and fiscal consolidation measures on purchasing power, hurting consumption growth. Headline inflation will increase to 3.5% in 2026 before slowing to 2.6% in 2027. The energy shock and geopolitical tensions will also drag on exports. Potential gas or oil shortages pose a risk for Belgium's highly fossil-fuel dependent industry. A consolidation strategy that fails to put public debt on a downward path would raise already high interest costs.

Fiscal consolidation is underway, but additional efforts remain necessary to stabilise the high level of public debt and strengthen budgetary coordination across federal and regional governments. Reducing high energy intensity and fossil fuel dependence through a comprehensive energy transition strategy would strengthen energy security and resilience to energy shocks. Lowering administrative burdens and streamlining permitting procedures would foster investment.

## Growth has slowed

After a sharp slowdown at the end of 2025, due to weaker external demand and softer household spending, quarterly GDP growth picked up from 0.2% to 0.8% (annualised) in the first quarter of 2026. Wage growth eased and consumer confidence fell to its lowest level since April 2025, while business confidence and export orders remained weak in early 2026. Business investment proved resilient in 2025, but housing investment continued to fall, reaching 16% below its 2019 level. The unemployment rate has stabilised at around 6.4% in recent months. Headline inflation increased to 4.2% in April from 2.2% in March, with energy prices rising by 18.2%. Core inflation has been sticky, at 3.3% in April, on the back of rising services inflation (4.0%) and administrative prices.

## Belgium



Source: OECD Economic Outlook 119 database.

StatLink  <https://stat.link/4qe62>

## Belgium: Demand, output and prices

|                                                                        | 2022                          | 2023                                        | 2024  | 2025  | 2026  | 2027  |
|------------------------------------------------------------------------|-------------------------------|---------------------------------------------|-------|-------|-------|-------|
|                                                                        | Current prices<br>EUR billion | Percentage changes, volume<br>(2020 prices) |       |       |       |       |
| <b>Belgium</b>                                                         |                               |                                             |       |       |       |       |
| <b>GDP at market prices</b>                                            | 561.7                         | 1.6                                         | 1.1   | 1.0   | 0.7   | 1.1   |
| Private consumption                                                    | 289.7                         | 1.1                                         | 2.0   | 1.7   | 0.7   | 0.8   |
| Government consumption                                                 | 131.5                         | 2.6                                         | 1.5   | 1.6   | 1.1   | 0.3   |
| Gross fixed capital formation                                          | 134.3                         | 3.0                                         | 2.1   | 0.1   | 2.0   | 1.5   |
| Final domestic demand                                                  | 555.4                         | 1.9                                         | 1.9   | 1.3   | 1.1   | 0.9   |
| Stockbuilding <sup>1</sup>                                             | 19.4                          | -1.0                                        | -0.5  | 0.0   | -0.4  | 0.0   |
| Total domestic demand                                                  | 574.8                         | 1.0                                         | 1.4   | 1.3   | 0.7   | 0.9   |
| Exports of goods and services                                          | 530.0                         | -7.2                                        | -1.7  | -0.3  | -0.3  | 1.9   |
| Imports of goods and services                                          | 543.1                         | -7.6                                        | -1.3  | 0.1   | -0.3  | 1.7   |
| Net exports <sup>1</sup>                                               | - 13.1                        | 0.6                                         | -0.3  | -0.3  | 0.0   | 0.2   |
| <i>Memorandum items</i>                                                |                               |                                             |       |       |       |       |
| GDP deflator                                                           | —                             | 5.5                                         | 1.9   | 2.6   | 2.7   | 2.8   |
| Harmonised index of consumer prices                                    | —                             | 2.3                                         | 4.3   | 3.0   | 3.5   | 2.6   |
| Harmonised index of core inflation <sup>2</sup>                        | —                             | 6.0                                         | 3.4   | 2.4   | 2.8   | 2.4   |
| Unemployment rate (% of labour force)                                  | —                             | 5.5                                         | 5.7   | 6.2   | 6.4   | 6.3   |
| Household saving ratio, net (% of disposable income)                   | —                             | 7.8                                         | 6.6   | 6.2   | 5.3   | 5.1   |
| General government financial balance (% of GDP)                        | —                             | -4.1                                        | -4.4  | -5.2  | -5.2  | -5.1  |
| General government gross debt (% of GDP)                               | —                             | 105.4                                       | 105.1 | 108.8 | 111.0 | 112.7 |
| General government debt, Maastricht definition <sup>3</sup> (% of GDP) | —                             | 102.5                                       | 103.9 | 107.9 | 110.1 | 111.7 |
| Current account balance (% of GDP)                                     | —                             | 0.2                                         | -0.4  | -1.9  | -3.0  | -2.4  |

1. Contributions to changes in real GDP, actual amount in the first column.

2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.

3. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.

Source: OECD Economic Outlook 119 database.

StatLink  <https://stat.link/9jygb0>

Belgium's fossil fuel dependence is one of the highest in the EU, making it vulnerable to the evolving conflict in the Middle East via increased energy prices. Fossil-fuel dependent sectors (chemicals, basic metals, agro-food) account for a large share of manufacturing and exports, but rising costs have weakened their price competitiveness in recent years and contributed to weaker export market performance. Around 80% of households have electricity and gas contracts indexed monthly or quarterly, accelerating the pass-through of price increases from wholesale to retail markets. US tariffs have had a limited impact, mainly because of exemptions to pharmaceuticals, Belgium's main export to the United States, and this situation is expected to persist under the revised tariff regime.

## Consolidation will need to be stepped up

Fiscal consolidation is set to start in 2026, following a widening of the primary deficit to 3.4% of GDP in 2025. A structural primary balance improvement of around 0.5% of potential GDP is expected in both 2026 and 2027. Measures to lift labour supply include a cap on unemployment benefits, strengthening incentives to reduce long-term sickness and further increasing effective retirement age. Revenue measures include shifting household excise duties from electricity to fossil fuels, higher securities and bank tax and introducing a capital gains tax. The budget also includes a rise in defence spending, from 1.4% of GDP in 2025 to 1.7% in 2026-27. While the plans comply with EU fiscal rules, they remain insufficient to reduce debt without additional measures.

Targeted three-month measures using windfall energy VAT revenue were decided to support commuters and vulnerable households heating with fossil fuels. The fiscal and the macroeconomic impacts are estimated to be negligible. Automatic indexation of wages to inflation will be limited to earnings below EUR 4000 and social benefits below EUR 2000 to balance safeguarding purchasing power and price competitiveness.

### **The energy shock will put a drag on growth**

GDP growth is projected to slow to 0.7% in 2026 before recovering to 1.1% in 2027. High energy prices will weigh on domestic and external demand, while slower disposable income growth due to capped negotiated wage growth and fiscal consolidation further weakens household consumption. Business investment will decelerate following the energy shock but remain resilient. Labour force and employment will continue to grow, though at a slower pace, supported by policy measures. Headline inflation rises to 3.5% in 2026 before easing to 2.6% in 2027, while core inflation remains more persistent due to wage pressures. Downside risks include potential oil and gas shortages or persistently high energy prices amid prolonged conflict, which would severely affect energy intensive industry and exports. Without additional consolidation measures, high debt servicing costs could increase further and pose macro financial risks. On the upside, the defence industry could benefit from higher domestic and European defence spending if firms manage to scale up production.

### **Structural reforms are needed to improve resilience**

Reducing high public debt requires additional credible medium-term consolidation measures. Improved spending efficiency, including in the health and long-term care sectors, stronger budgetary coordination across federal and regional governments, and binding expenditure rules remain essential to ensure fiscal discipline. Lowering energy intensity and fossil-fuel dependence is critical to safeguard competitiveness and energy security. This requires a clear energy transition strategy, including stronger support for green innovation, a credible carbon-pricing pathway, and the phase-out of fossil-fuel subsidies. Cutting administrative burdens and streamlining permitting procedures would help stimulate investment in renewables.

# Brazil

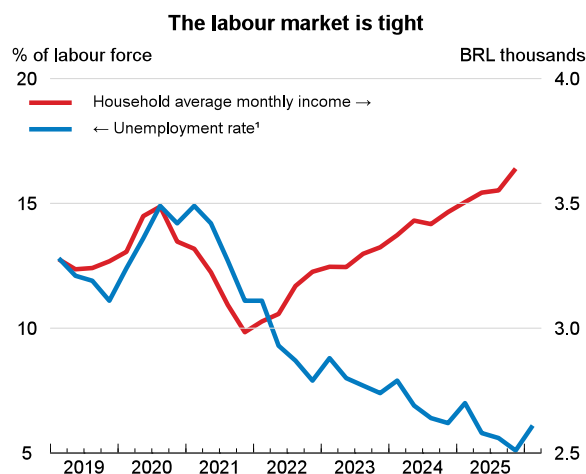
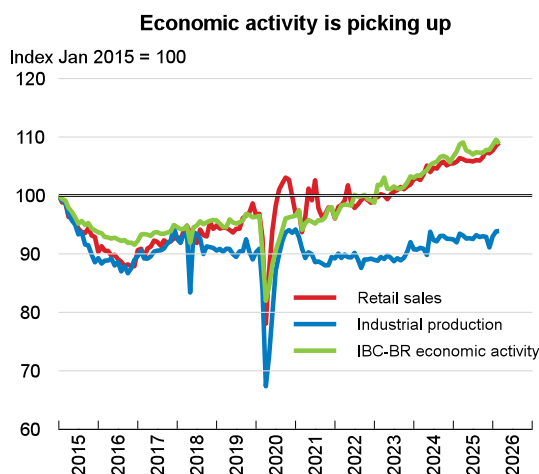
Real GDP growth is projected to slow to 1.6% in 2026, before rebounding to 2.1% in 2027. Exports will be the main driver of growth in 2026, supported by a strong commodity sector and robust demand from China. Private consumption will remain resilient amid favourable labour market conditions and rising disposable incomes. High interest rates will weigh on investment in 2026. Inflation is projected to ease gradually, despite the evolving conflict in the Middle East, reaching 4.4% in 2026 and 3.6% in 2027. Further increases in energy and fertiliser prices could weigh on growth and fuel inflation.

Ensuring long-term public debt sustainability will hinge on continued fiscal consolidation, improving the efficiency of public spending, while enhancing tax administration and revenue collection. Monetary policy is expected to ease gradually throughout 2026 and 2027 as inflationary pressures recede. Brazil has a remarkably clean energy matrix and low energy import dependency, but also further scope for scaling up investment in renewables such as wind and solar. Lowering regulatory barriers in network sectors and professional services could foster competition and bring productivity benefits to a wide range of downstream activities.

## Economic activity is recovering from a slow patch in late 2025

Economic activity stagnated in the second half of 2025, curbing annual 2025 GDP growth to 2.3%. High interest rates weighed on economic activity, with investment dropping by 3.5% quarter-on-quarter (non-annualised) in the last quarter. Recent indicators point to a modest recovery since early 2026. Industrial production has increased by 1.4% since November. Private consumption is showing positive signs, with monthly retail sales growing by 0.6% in February and 0.5% in March. The labour market remains resilient despite an uptick in unemployment to 6.1% in the first quarter. Real wages of workers rose at a rapid pace of 5.5% year-on-year in the first quarter of 2026.

### Brazil 1



1. Moving quarterly data.

Source: CEIC; Banco Central do Brasil; IBGE; and OECD calculations.

StatLink  <https://stat.link/zu6p14>

## Brazil: Demand, output and prices

|                                                      | 2022                          | 2023                                        | 2024 | 2025 | 2026 | 2027 |
|------------------------------------------------------|-------------------------------|---------------------------------------------|------|------|------|------|
| <b>Brazil</b>                                        | Current prices<br>BRL billion | Percentage changes, volume<br>(2000 prices) |      |      |      |      |
| <b>GDP at market prices</b>                          | 10 079.7                      | 3.2                                         | 3.4  | 2.3  | 1.6  | 2.1  |
| Private consumption                                  | 6 356.7                       | 3.3                                         | 5.1  | 1.3  | 1.3  | 1.8  |
| Government consumption                               | 1 854.9                       | 3.8                                         | 2.0  | 2.1  | 2.1  | 1.0  |
| Gross fixed capital formation                        | 1 794.2                       | -2.9                                        | 6.8  | 3.0  | 0.4  | 4.2  |
| Final domestic demand                                | 10 005.8                      | 2.3                                         | 4.8  | 1.8  | 1.3  | 2.0  |
| Stockbuilding <sup>1</sup>                           | 29.0                          | -0.9                                        | 0.5  | 0.2  | -0.9 | 0.0  |
| Total domestic demand                                | 10 034.8                      | 1.3                                         | 5.3  | 2.0  | 0.4  | 2.1  |
| Exports of goods and services                        | 1 978.7                       | 8.9                                         | 2.1  | 6.5  | 5.5  | 2.6  |
| Imports of goods and services                        | 1 933.8                       | -1.1                                        | 14.1 | 5.1  | -1.0 | 2.6  |
| Net exports <sup>1</sup>                             | 44.9                          | 1.9                                         | -1.8 | 0.3  | 1.2  | 0.0  |
| <b>Memorandum items</b>                              |                               |                                             |      |      |      |      |
| GDP deflator                                         | —                             | 5.2                                         | 4.1  | 5.7  | 5.5  | 4.4  |
| Consumer price index                                 | —                             | 4.6                                         | 4.4  | 5.0  | 4.4  | 3.6  |
| Private consumption deflator                         | —                             | 4.9                                         | 4.1  | 5.9  | 5.6  | 4.7  |
| Government financial balance <sup>2</sup> (% of GDP) | —                             | -7.7                                        | -6.3 | -7.4 | -7.8 | -7.3 |
| Government gross debt <sup>2</sup> (% of GDP)        | —                             | 73.8                                        | 76.4 | 78.8 | 82.1 | 85.2 |
| Current account balance (% of GDP)                   | —                             | -1.2                                        | -3.0 | -2.9 | -2.6 | -2.2 |

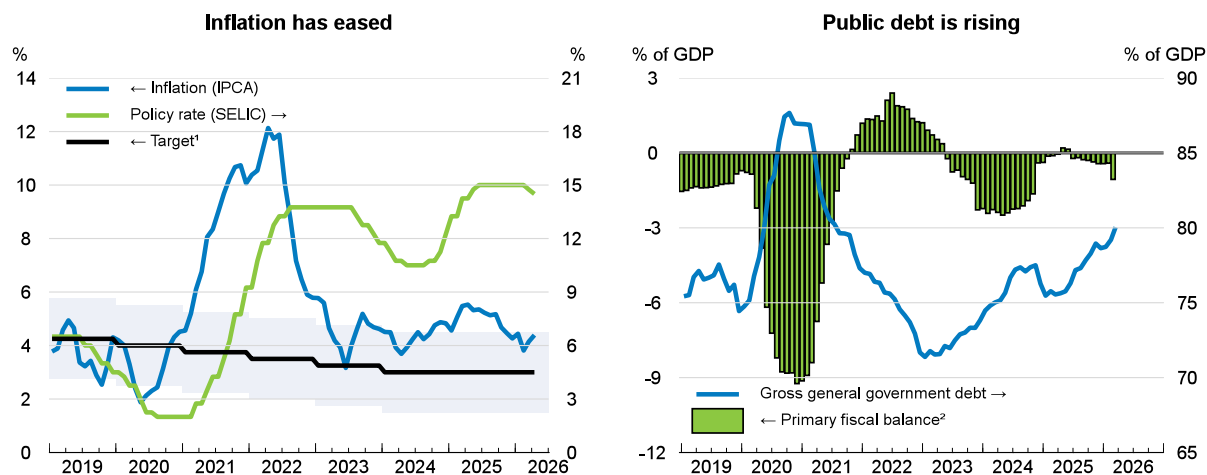
1. Contributions to changes in real GDP, actual amount in the first column.

2. Data refer to general government.

Source: OECD Economic Outlook 119 database.

StatLink  <https://stat.link/k06uwi>

## Brazil 2



1. The shaded area corresponds to the inflation tolerance band.

2. Flows accumulated in 12 months.

Source: OECD Economic Outlook 119 database; and Banco Central do Brasil.

StatLink  <https://stat.link/yangsd>

After peaking at 5.5% in April 2025, headline inflation declined to 3.8% in February, before rising to 4.4% in April due to higher prices for transportation, food and beverages triggered by the evolving conflict in the Middle East. Petrol prices at the pump have risen by 8% while prices for diesel, which has a higher import share, rose by over 20% between February and April. Rising global urea prices also add to cost pressures as Brazil imports most of its fertilisers. At the same time, as a net oil exporter, Brazil increased its trade surplus in April. Goods exports rose by 14% in annual terms in April, boosted by exports from extractive industries.

## Monetary policy is easing, but rising spending needs add to fiscal pressures

The central bank initiated monetary easing in March amid moderating growth and easing inflation. The Selic policy rate was cut by 25 basis points in March and April to 14.5%, after being at 15% since June 2025. It is expected to decrease further to 13.25% at the end of 2026 and 10.75% at the end of 2027. However, uncertainty about the duration of the evolving conflict in the Middle East could affect the timing and magnitude of further cuts.

Meeting budget targets is becoming more challenging amid rising spending pressures. The 2025 budget outcomes complied with the zero-primary deficit target, staying within a tolerance band of 0.25 percentage points, after excluding certain court-ordered payments. Without this adjustment, the primary balance would have shown a deficit of 0.5%. Achieving the 2026 target depends on successful implementation of further consolidation measures. In March and April, the government introduced several energy support measures, including diesel subsidies for importers and producers which must be passed on to consumers, cooking gas subsidies, and federal tax exemptions on diesel, biodiesel and jet fuel used in civil aviation. In May, this was complemented by gasoline subsidies for producers and importers. These measures are financed by a temporary 12% export tax on crude oil, a 50% tax on diesel fuel exports and a higher levy on cigarettes, with the package designed to be fiscally neutral.

## Uncertainty is weighing on economic activity

GDP growth is projected to slow to 1.6% in 2026 amid challenging global and domestic conditions, before rebounding to 2.1% in 2027. Exports will be the main driver of growth, supported by mining, robust agricultural output and strong demand from China. Lower effective tariffs on exports to the United States and implementation of the Mercosur-EU agreement should also provide an additional boost to exports. Private consumption will maintain momentum on the back of historically low unemployment and strong wage growth, and minimum wage increases and a higher basic allowance in personal income taxes will bolster disposable incomes in 2026. Investment will continue to be held back by elevated interest rates and global uncertainty before recovering in 2027. Inflation is projected to ease gradually, reaching 4.4% in 2026 and 3.6% in 2027, within the target range.

The outlook is subject to several risks. The evolving conflict in the Middle East could raise energy and fertiliser prices further, putting upward pressure on inflation and weighing on agricultural output. Similarly, exports could be affected by supply chain disruptions. Lasting support measures related to the energy price shock could increase the risk of fiscal slippage if offsetting measures fail to materialise. On the upside, stronger-than-expected agricultural production would boost exports, while faster disinflation would allow a faster pace of monetary easing, lifting domestic demand.

## Supporting long-term growth and domestic energy resilience

Ensuring long-term macroeconomic stability will require adherence to the fiscal framework to place public debt on a firmly declining path. This should be supported by containing the growth of mandatory spending, notably through reviewing indexation mechanisms and improving the targeting and efficiency of social programmes, including recent energy-support measures, while reducing tax expenditures and enhancing tax administration. Maintaining a tight monetary policy stance will remain essential to durably anchor inflation expectations and preserve policy space in the face of external shocks. Strengthening energy security and resilience calls for continued diversification of the energy mix beyond hydropower, including by scaling up investment in renewables such as wind and solar, expanding transmission infrastructure, and improving energy efficiency. Reducing regulatory barriers and enhancing competition in electricity and gas markets would help lower costs and attract more private investment to the sector. Economy-wide productivity is set to benefit from the gradual implementation of the consumption tax reform, which will simplify the tax system and reduce compliance costs. This could be complemented by regulatory reforms that lower barriers to entry in network sectors and professional services. Enhancing human capital through further improvements in the quality of education and an expansion of labour-market relevant vocational training would also support productivity. Reducing the labour tax wedge for low-income earners, particularly through lower social contributions, could allow more workers to join the formal labour market.

# Bulgaria

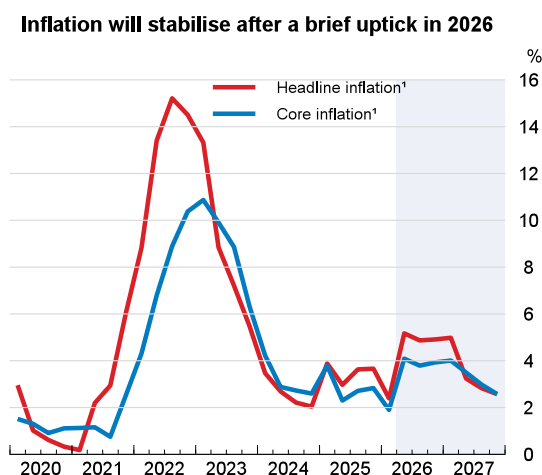
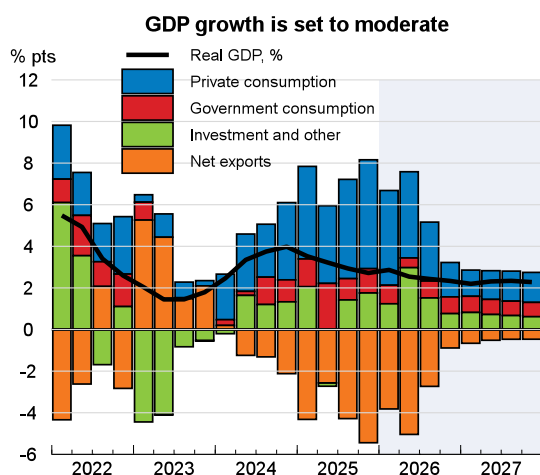
Growth is projected to moderate to 2.5% in 2026 and 2.3% in 2027. Consumption growth will slow as wage and social transfer growth ease and higher energy prices related to the evolving conflict in the Middle East erode real incomes. Investment will be led by public outlays backed by EU fund disbursements, before private investment gradually recovers as uncertainty fades. Higher energy prices are pushing up near-term inflation, and a prolonged escalation of energy prices could risk inflation remaining elevated.

Borrowing costs for households and firms have eased slightly since euro area accession. As the budget deficit was above 3% of GDP, a steady medium-term fiscal adjustment and fiscal strategy is needed to strengthen the public finances and manage population ageing, climate change and defence spending pressures. Structural reforms to accelerate renewable energy deployment, expand domestic transmission and cross-border interconnection infrastructure, and invest in energy storage would strengthen energy security while developing a price-based demand response mechanism along with improved public transport would help reduce energy demand and durably lower inflation.

## Growth momentum fades as inflation rises

Annual GDP growth moderated to 2.9% in the first quarter of 2026. Private consumption remained the key driver, supported by rising real incomes, as well as growth of credit and social transfers. Investment exceeded expectations as the implementation of EU-financed projects gained pace following a year of relative political stability. Economic sentiment and consumer confidence fell to their lowest levels since 2022 following the government's resignation in December 2025. Industrial production continued to contract in early 2026, but the labour market remains tight, with the unemployment rate falling to 3.5% in 2025. Annual headline inflation jumped to 6% in April, driven by higher energy prices, following a dip in February.

## Bulgaria



1. Headline inflation refers to the harmonised index of consumer prices, Core inflation refers to the harmonised index of consumer prices excluding food, energy, alcohol and tobacco.

Source: OECD Economic Outlook 119 database.

StatLink  <https://stat.link/al3u06>

## Bulgaria: Demand, output and prices

|                                                                        | 2022                          | 2023                                        | 2024 | 2025 | 2026 | 2027 |
|------------------------------------------------------------------------|-------------------------------|---------------------------------------------|------|------|------|------|
|                                                                        | Current prices<br>EUR billion | Percentage changes, volume<br>(2020 prices) |      |      |      |      |
| <b>Bulgaria</b>                                                        |                               |                                             |      |      |      |      |
| <b>GDP at market prices</b>                                            | 86.1                          | 1.7                                         | 3.4  | 3.1  | 2.5  | 2.3  |
| Private consumption                                                    | 49.9                          | 1.1                                         | 4.9  | 7.8  | 5.5  | 2.3  |
| Government consumption                                                 | 15.7                          | 1.1                                         | 3.6  | 7.0  | 3.4  | 3.2  |
| Gross fixed capital formation                                          | 14.6                          | 10.2                                        | 1.5  | 11.4 | 7.5  | 3.5  |
| Final domestic demand                                                  | 80.2                          | 2.7                                         | 4.0  | 8.3  | 5.5  | 2.7  |
| Stockbuilding <sup>1</sup>                                             | 4.9                           | -4.6                                        | 0.8  | -0.5 | -0.5 | 0.0  |
| Total domestic demand                                                  | 85.1                          | -2.2                                        | 4.8  | 7.6  | 4.9  | 2.7  |
| Exports of goods and services                                          | 60.2                          | 0.0                                         | 1.8  | -2.1 | 2.4  | 1.9  |
| Imports of goods and services                                          | 59.3                          | -5.5                                        | 3.9  | 5.9  | 8.2  | 2.8  |
| Net exports <sup>1</sup>                                               | 1.0                           | 3.8                                         | -1.2 | -4.4 | -3.0 | -0.5 |
| <i>Memorandum items</i>                                                |                               |                                             |      |      |      |      |
| GDP deflator                                                           | —                             | 8.0                                         | 7.2  | 7.4  | 8.4  | 5.4  |
| Harmonised index of consumer prices                                    | —                             | 8.6                                         | 2.6  | 3.5  | 4.3  | 3.4  |
| Harmonised index of core inflation <sup>2</sup>                        | —                             | 8.9                                         | 3.1  | 2.9  | 3.4  | 3.3  |
| Unemployment rate (% of labour force)                                  | —                             | 4.3                                         | 4.2  | 3.5  | 3.5  | 3.5  |
| Household saving ratio, net (% of disposable income)                   | —                             | -2.2                                        | 0.7  | 0.9  | 0.7  | 0.5  |
| General government financial balance (% of GDP)                        | —                             | -2.0                                        | -3.0 | -3.5 | -3.0 | -4.1 |
| General government gross debt (% of GDP)                               | —                             | 32.2                                        | 32.8 | 39.1 | 39.8 | 42.1 |
| General government debt, Maastricht definition <sup>3</sup> (% of GDP) | —                             | 22.9                                        | 23.8 | 29.9 | 30.5 | 32.9 |
| Current account balance (% of GDP)                                     | —                             | -1.2                                        | -0.5 | -5.7 | -6.7 | -6.4 |

1. Contributions to changes in real GDP, actual amount in the first column.

2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.

3. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.

Source: OECD Economic Outlook 119 database.

StatLink  <https://stat.link/86liap>

The conflict in the Middle East has pushed fuel and wholesale electricity prices up, though less severely than during the Russia-Ukraine war, which disrupted gas supplies and regional electricity markets more directly. Although Bulgaria's direct exposure is limited, the country's relatively high energy spending leaves the economy vulnerable to global energy price volatility. The government moved quickly to shield vulnerable households and firms from this rise in energy costs. Measures included a EUR 20 monthly subsidy for low-income car-owners, reduced fuel excise taxes for agricultural producers, and subsidies for energy-intensive industries. Transport carriers will benefit from a deferral of toll fee increases and higher transport aid while businesses will be supported with monthly electricity price compensation scheme, shortening the previous semi-annual payments.

## Fiscal consolidation is expected

Households' and firms' borrowing costs have eased slightly since Bulgaria joined the euro area in January 2026. The budget deficit exceeded 3% of GDP, as strong growth in social and health spending, public wages and investment outpaced higher VAT revenues and EU Recovery and Resilience Facility fund receipts. Excluding these one-off EU fund inflows, the underlying fiscal position is weaker than the headline deficit suggests. A new 2026 budget, following the formation of a stable government, is expected to moderate wage and benefits growth and tighten the fiscal stance in 2027. The headline deficit, however, is set to rise to 4.1% of GDP in 2027 as one-off EU fund inflows expire and military equipment deliveries increase.

## Growth will moderate

Economic growth is projected to moderate to 2.5% in 2026 and 2.3% in 2027. Private and public consumption growth will continue to support demand but to a lesser extent as wage and social transfer growth eases, and higher inflation and energy costs erode real incomes. Investment growth will be driven by public investment in 2026, backed by EU fund inflows, before a gradual recovery in private investment takes over as the effects from political uncertainty and geopolitical risks dissipate. Export growth will remain subdued but recover gradually, tracking external demand in key EU markets with an additional tailwind from higher defence exports, which have tripled since 2021. Annual headline inflation is projected to reach 4.3% due to elevated energy prices before moderating to 3.4% in 2027. Further escalation of the conflict in the Middle East could keep inflation elevated and weigh on growth.

## Fiscal consolidation and energy reforms would help durably lower inflation

Steady fiscal adjustment is needed to narrow the fiscal deficit to keep debt low and avoid overheating risks, while a long-term strategy is needed to address growing spending pressures from ageing, defence and the green transition. Some of recent energy support measures have been well targeted, focusing on vulnerable households and sectors with strong pass-through pressures, but untargeted price support measures should be phased out. Further measures to enhance energy security would help durably lower inflationary pressures, including streamlining permits for renewable energy installations and grid access, expanding transmission infrastructure and cross-border interconnections, and investing in energy storage and balancing markets. Developing a price-based demand response mechanism while improving public transport would help reduce energy demand.

# Canada

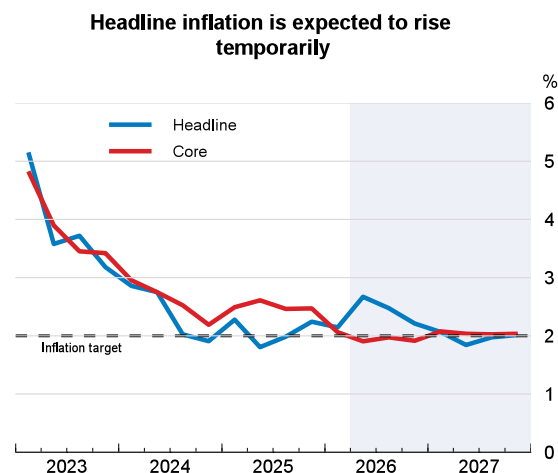
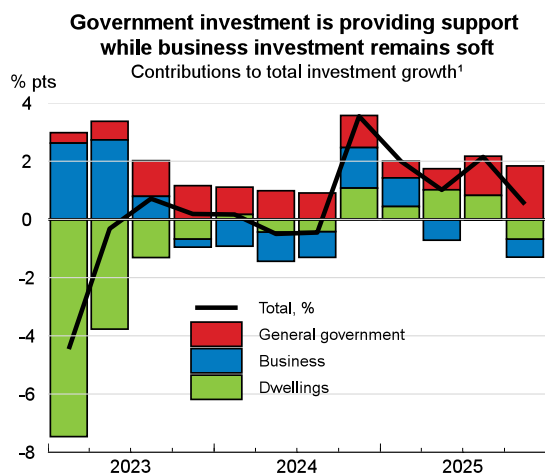
GDP growth is expected to strengthen over 2026 and 2027, reaching 1.2% and 1.7% respectively, as the economy recovers from the 2025 trade-related slowdown triggered by higher US tariffs. Household consumption and government spending on defence and infrastructure will continue to underpin growth, while business investment should recover gradually. Given Canada's position as a net energy exporter, exporters are set to benefit from higher energy prices linked to the Middle East conflict. Headline inflation is set to rise temporarily before easing back toward 2% over the projection horizon, while core inflation should remain closer to target, restrained by persistent economic slack.

Monetary policy has remained on hold at 2.25% since October 2025 and is expected to stay unchanged in the near term, as the Bank of Canada is set to look through temporary energy-related price increases given the remaining economic slack. Fiscal policy is projected to ease further in 2026, with a broadly neutral stance assumed for 2027, which appears appropriate. Key policy priorities are advancing internal market reforms, improving trade diversification and infrastructure delivery, and accelerating digitalisation.

## Growth has moderated in response to higher tariffs

Real GDP contracted by 0.2% in the fourth quarter of 2025 following a 0.6% increase in the third quarter. The decline was driven primarily by a sharp rundown in inventories, while private consumption, government investment and net exports contributed positively to activity. Business investment showed a small increase after several quarters of decline. Leading indicators, such as monthly GDP by industry, point to a rebound in growth in the first quarter of 2026. After a modest easing in late 2025, the unemployment rate has increased again in recent months, reaching 6.9% in April 2026. Headline inflation rose to 2.8% in April 2026, from 2.4% in March, driven by higher energy prices linked to the conflict in the Middle East. Core inflation continued to moderate, easing to 1.5% in April.

## Canada 1



1. Year-on-year growth rates.

Source: OECD Economic Outlook 119 database.

StatLink  <https://stat.link/liubg6>

## Canada: Demand, output and prices

|                                                      | 2022                          | 2023                                        | 2024  | 2025  | 2026  | 2027  |
|------------------------------------------------------|-------------------------------|---------------------------------------------|-------|-------|-------|-------|
|                                                      | Current prices<br>CAD billion | Percentage changes, volume<br>(2017 prices) |       |       |       |       |
| <b>Canada</b>                                        |                               |                                             |       |       |       |       |
| <b>GDP at market prices</b>                          | 2 864.2                       | 2.0                                         | 2.0   | 1.7   | 1.2   | 1.7   |
| Private consumption                                  | 1 552.1                       | 2.3                                         | 2.2   | 2.3   | 1.3   | 1.3   |
| Government consumption                               | 581.3                         | 2.4                                         | 3.8   | 2.4   | 2.1   | 2.1   |
| Gross fixed capital formation                        | 661.1                         | -1.0                                        | 0.7   | 1.4   | 1.9   | 2.0   |
| Final domestic demand                                | 2 794.5                       | 1.5                                         | 2.2   | 2.1   | 1.6   | 1.6   |
| Stockbuilding <sup>1</sup>                           | 55.6                          | -1.2                                        | -0.2  | 0.0   | -0.5  | 0.0   |
| Total domestic demand                                | 2 850.1                       | 0.3                                         | 2.0   | 2.1   | 1.1   | 1.6   |
| Exports of goods and services                        | 965.8                         | 6.2                                         | 0.9   | -1.7  | 1.6   | 2.8   |
| Imports of goods and services                        | 951.8                         | 1.2                                         | 0.7   | -0.4  | 1.2   | 2.7   |
| Net exports <sup>1</sup>                             | 14.0                          | 1.7                                         | 0.1   | -0.4  | 0.1   | 0.0   |
| <b>Memorandum items</b>                              |                               |                                             |       |       |       |       |
| GDP deflator                                         | —                             | 1.5                                         | 2.7   | 2.6   | 2.4   | 1.9   |
| Consumer price index                                 | —                             | 3.9                                         | 2.4   | 2.1   | 2.4   | 2.0   |
| Core consumer price index <sup>2</sup>               | —                             | 3.9                                         | 2.6   | 2.5   | 2.0   | 2.0   |
| Unemployment rate (% of labour force)                | —                             | 5.4                                         | 6.4   | 6.8   | 6.6   | 6.2   |
| Household saving ratio, net (% of disposable income) | —                             | 2.2                                         | 4.9   | 4.7   | 3.6   | 3.5   |
| General government financial balance (% of GDP)      | —                             | -0.2                                        | -2.1  | -1.8  | -2.4  | -2.2  |
| General government gross debt (% of GDP)             | —                             | 101.4                                       | 106.6 | 109.4 | 109.8 | 110.0 |
| Current account balance (% of GDP)                   | —                             | -0.7                                        | -0.5  | -0.9  | -0.8  | -0.8  |

1. Contributions to changes in real GDP, actual amount in the first column.

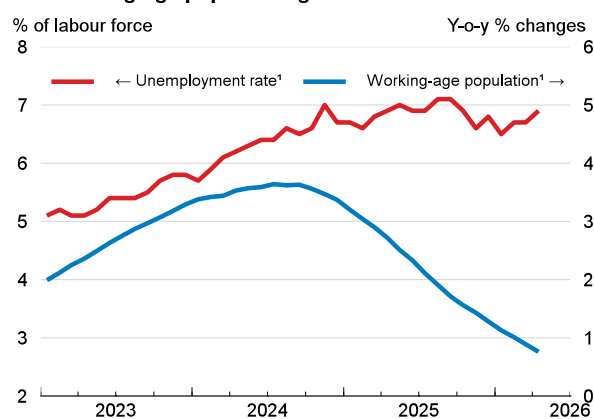
2. Consumer price index excluding food and energy.

Source: OECD Economic Outlook 119 database.

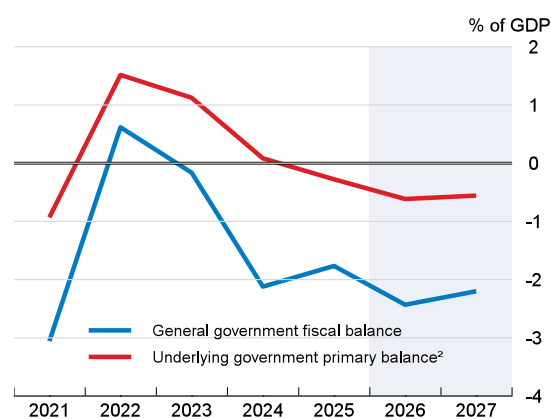
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## Canada 2

**Unemployment has edged up again slightly, while the working-age population growth has continued to slow**



**Fiscal policy remains supportive in 2026 and is set to become more neutral thereafter**



1. Refers to population aged 15 years and over.

2. As percentage of potential GDP.

Source: Statistics Canada; and OECD Economic Outlook 119 database.

StatLink  <https://stat.link/s8ylmk>

The Canadian economy slowed over the course of 2025 as higher US tariffs weighed on activity. However, the easing remained relatively mild, with some quarterly volatility, supported by the sharp increase in the share of goods exported under the United States-Mexico-Canada Agreement (USMCA), which helped reduce the effective tariff burden. Against the backdrop of the evolving conflict in the Middle East, Canada, as a net energy exporter, is expected to benefit from higher energy prices, supporting energy-sector investment, exports and national income. These positive effects will, however, be partly offset by the adverse effects of higher energy prices on inflation and household consumption. The temporary suspension of the federal fuel excise tax on gasoline, diesel and aviation fuels between April and September 2026, intended to cushion these effects, appears relatively broad-based and insufficiently targeted, and would benefit from a more tailored design. Household consumption should also receive a temporary boost from the new “Canada Groceries and Essentials Benefit” (a cash transfer to support households’ spending on essential goods, including a one-off top-up in 2026).

### **Monetary policy is set to remain on hold while fiscal policy provides support**

The Bank of Canada has kept its policy rate unchanged at 2.25% since October 2025, the lower bound of its estimated neutral range. The rate is expected to remain at this level in the near term, reflecting two opposing forces on inflation: downward pressure from continued slack in the economy, and upward pressure from higher energy prices, whose temporary impact on headline inflation the Bank is likely to look through. Quantitative tightening in the form of net asset sales concluded in March 2025, and the Bank has since returned to standard balance-sheet management.

The general government budget deficit narrowed from 2.1% of GDP in 2024 to 1.8% in 2025, reflecting the expiry of a one-off compensation payment (related to the underfunding of First Nations Child and Family Services). In contrast, the underlying fiscal position deteriorated in 2025 due to targeted support for the sectors most affected by tariffs, broader tax cuts and higher defence spending. Further fiscal easing is expected in 2026, driven by additional defence spending and new infrastructure investment, as well as the temporary suspension of federal fuel excise taxes, slightly offset by savings on operational spending as laid out in the new spending review. A broadly neutral fiscal stance is assumed for 2027, in the absence of new policy measures.

### **Growth is expected to recover from the trade-induced slowdown**

Growth is projected to rebound in the first quarter of 2026, with the recovery continuing throughout 2026 and 2027. Exports should continue to improve as the economy emerges from the slowdown induced by tariff increases. Business investment should gradually recover, while household consumption is set to remain robust, though expanding at a more moderate pace in line with slower population growth. In the near term, consumption growth is expected to be temporarily dampened in the second quarter 2026 by higher energy prices, before regaining strength thereafter amid rising real incomes. Housing investment is expected to expand moderately in 2026 and gain momentum in 2027, supported by targeted housing policy measures. Government investment should remain robust in 2026-2027, in line with planned increases in defence spending and infrastructure programmes. Labour-market conditions are poised to improve from the second half of 2026, as headwinds gradually dissipate. Headline inflation is set to remain elevated in the near term, reflecting higher energy prices from the conflict in the Middle East and the fading impact of the earlier removal of the federal fuel charge, although this increase will be partly mitigated by the temporary suspension of the federal fuel excise tax. Inflation will gradually moderate thereafter. Core inflation should remain closer to 2%, with spillovers from higher energy and food prices remaining broadly contained.

Risks to the outlook are tilted to the downside, reflecting Canada's exposure to adverse global shocks through trade and confidence channels. A prolonged conflict in the Middle East would affect activity primarily through higher and more volatile energy prices, tighter global financial conditions and heightened uncertainty. While Canada may benefit temporarily from higher energy prices as a net energy exporter, more severe supply disruptions and rising input costs across a broader range of goods would ultimately intensify inflationary pressures and weigh on domestic demand. Uncertainty around the USMCA joint review scheduled for 1 July 2026 represents a further downside risk, as potential revisions or contentious negotiations could dampen business confidence and investment given high exposure to the US market. Conversely, stronger and more sustained global demand for secure energy supply, together with domestic policy efforts to accelerate major energy projects, could be a longer-term upside risk.

### **Reforms should continue to deepen the internal market and reduce regulatory barriers**

Canada has begun to implement substantial reforms aimed at diversifying trade, strengthening the internal market through the removal of Canadian Free Trade Agreement (CFTA) exemptions, and improving the approval and financing of national infrastructure projects. These reform efforts should continue. Further priorities include standardising the recognition of professional qualifications across provinces, including foreign credentials, and easing provincial restrictions on the free movement of professional services. Enhancing competition in the telecommunications sector and expanding access to high-speed broadband would further support digitalisation. The ongoing shift in government outlays from operational spending toward higher investment, including in infrastructure, should continue to support long-term potential and productivity growth.

# Chile

Growth is projected to slow from 2.6% in 2025 to 1.7% in 2026, before recovering to 2.5% in 2027. Private consumption and investment will continue to expand, but higher energy costs, tighter global financial conditions and fiscal consolidation will weigh on activity. Inflation will rise temporarily due to higher fuel and transport costs but is projected to ease from 4.2% in 2025 to 3.8% in 2026 and 3.2% in 2027. Risks are tilted to the downside, including a more persistent energy shock, weaker external demand and tighter financial conditions.

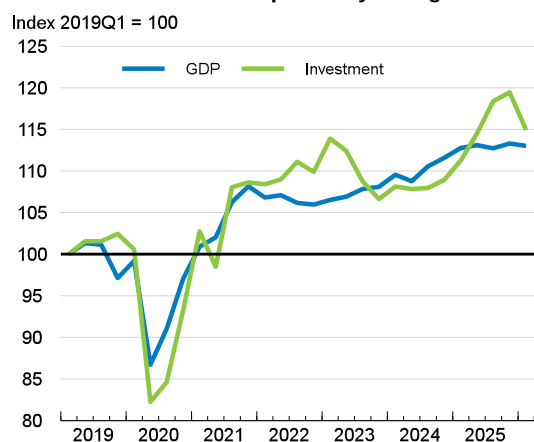
Chile should rebuild fiscal buffers while keeping energy-support measures targeted and temporary to preserve incentives and contain costs. Raising growth will require reforms to unlock investment, raise labour market participation and strengthen lifelong learning and reskilling to help workers adapt to AI, automation and the green transition. Effective and timely implementation of the business-permit reform would support investment, including in energy and infrastructure.

## Activity weakened at the start of the year, and inflation picked up

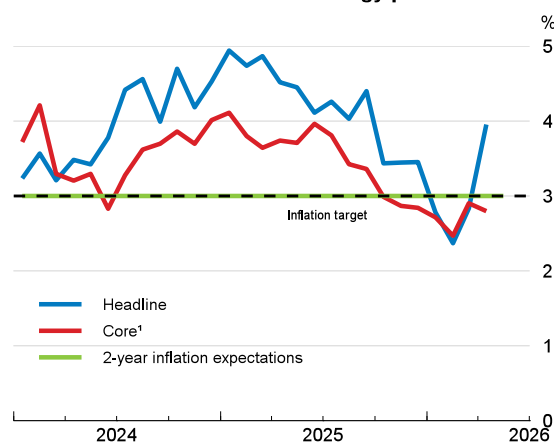
Chile's economy grew by 2.6% in 2025, but activity weakened at the start of 2026. Real GDP rose by only 0.2% over the year to the first quarter, as resilient domestic demand was partly offset by a significant decline in net exports. Inflation picked up sharply in April, with headline consumer prices rising by 4%, up from 2.8% in March. Labour market conditions remain soft, with the unemployment rate reaching 8.9% in March.

### Chile

**Growth has been underpinned by strong investment**



**Inflation has risen since the energy price shock**



1. Consumer price index excluding energy and food.

Source: Central Bank of Chile; and INE.

StatLink  <https://stat.link/uj7lnx>

## Chile: Demand, output and prices

|                                                 | 2022                          | 2023                                        | 2024 | 2025 | 2026 | 2027 |
|-------------------------------------------------|-------------------------------|---------------------------------------------|------|------|------|------|
| Chile                                           | Current prices<br>CLP billion | Percentage changes, volume<br>(2018 prices) |      |      |      |      |
| <b>GDP at market prices*</b>                    | 262 993.9                     | 0.8                                         | 2.6  | 2.6  | 1.7  | 2.5  |
| Private consumption                             | 166 955.0                     | -4.6                                        | 1.0  | 2.8  | 2.5  | 1.8  |
| Government consumption                          | 38 733.2                      | 2.4                                         | 2.7  | 3.1  | 6.0  | 1.1  |
| Gross fixed capital formation                   | 67 397.5                      | 0.8                                         | -2.0 | 7.1  | 1.2  | 4.5  |
| Final domestic demand                           | 273 085.6                     | -2.3                                        | 0.5  | 3.9  | 2.8  | 2.4  |
| Stockbuilding <sup>1</sup>                      | 449.4                         | -1.3                                        | 0.5  | 0.5  | -0.9 | 0.1  |
| Total domestic demand                           | 273 534.9                     | -3.6                                        | 1.0  | 4.4  | 1.8  | 2.5  |
| Exports of goods and services                   | 93 633.8                      | 0.7                                         | 6.7  | 4.8  | 0.1  | 3.6  |
| Imports of goods and services                   | 104 174.9                     | -10.8                                       | 1.6  | 10.7 | 0.4  | 3.8  |
| Net exports <sup>1</sup>                        | -10 541.0                     | 4.5                                         | 1.6  | -1.6 | -0.1 | 0.1  |
| <i>Memorandum items</i>                         |                               |                                             |      |      |      |      |
| GDP deflator                                    | —                             | 6.6                                         | 7.1  | 6.8  | 5.6  | 2.6  |
| Consumer price index                            | —                             | 7.6                                         | 4.3  | 4.2  | 3.8  | 3.2  |
| Private consumption deflator                    | —                             | 7.2                                         | 5.0  | 3.8  | 3.5  | 3.1  |
| Unemployment rate (% of labour force)           | —                             | 8.7                                         | 8.5  | 8.5  | 8.8  | 9.0  |
| Central government financial balance (% of GDP) | —                             | -2.4                                        | -2.9 | -2.8 | -2.6 | -2.1 |
| Central government gross debt (% of GDP)        | —                             | 39.3                                        | 41.8 | 42.2 | 42.5 | 43.8 |
| Current account balance (% of GDP)              | —                             | -3.0                                        | -1.5 | -1.1 | -1.0 | -1.1 |

\* Based on seasonal and working-day adjusted quarterly data; may differ from official non-working-day adjusted annual data.

1. Contributions to changes in real GDP, actual amount in the first column.

Source: OECD Economic Outlook 119 database.

StatLink  <https://stat.link/ygl0zc>

Higher international oil prices linked to the evolving conflict in the Middle East have fed quickly into domestic fuel costs. The authorities have largely allowed the increase in international oil prices to pass through to domestic prices, using a fuel stabilisation mechanism (MEPCO) to smooth abrupt fuel-price changes and avoiding large fiscal costs. The policy response has been targeted, including strengthened kerosene support, the freeze of Santiago public transport fares, and a temporary bonus for taxis and school transport. Chile has little direct exposure to the Middle East through trade, but it remains exposed indirectly through the impact of higher global energy prices, and weaker global activity could weigh on export demand. Nevertheless, the terms of trade are projected to improve in 2026 as still-high copper prices outpace higher energy prices.

## Fiscal policy is tightening while energy support remains limited

Fiscal policy is assumed to remain restrictive in 2026 and 2027, reflecting a fiscal adjustment package of nearly USD 3.8 billion (around 1% of GDP). The adjustment is expected to come mainly from efficiency gains, reprioritisation and tighter control of current spending. The central government deficit is projected to narrow from 2.8% of GDP in 2025 to 2.1% in 2027, with the new energy-relief measures assumed to have only a small aggregate fiscal effect. The central bank policy rate is assumed to remain at 4.5% through 2026 and early 2027, before being cut to 4.25% in the second quarter of 2027 once inflation nears its target.

## Growth will moderate as energy costs and fiscal tightening weigh on demand

GDP growth is projected to slow to 1.7% in 2026 before recovering to 2.5% in 2027. The recovery is expected to be driven mainly by gross fixed investment, supported by mining, energy and related machinery projects. Private consumption will continue to support activity, helped by income growth, but

will be restrained by higher fuel prices and softer confidence. Export volumes are expected to recover after a weak first quarter, while imports will continue to rise alongside resilient domestic demand. Inflation is projected to rise in 2026 as higher fuel and transport costs pass through, before easing towards the target in 2027. Downside risks dominate. A more persistent energy shock would further squeeze household purchasing power and raise business costs. Weaker external demand, lower copper demand or tighter global financial conditions would also weigh on growth. Disruptions to sulphuric acid availability could also weigh on growth by constraining mining output and exports, especially if tighter Chinese export restrictions persist. On the upside, faster implementation of permit reform, stronger mining and energy investment, or stronger copper prices could lift activity.

### **Lifting growth while preserving macroeconomic stability**

Supporting investment and productivity are key priorities given slower growth and external headwinds. Lifting economic growth in Chile will require a broad policy package to unlock investment projects, raise labour market participation, and strengthen lifelong learning and reskilling to help workers adapt to shifts driven by AI, automation and the green transition. Effective and timely implementation of the business-permit reform should now be a priority, helping unlock investment, including in energy and infrastructure. Fiscal consolidation remains needed to rebuild buffers, and new reforms should be financed or phased in in a way that does not undermine the necessary fiscal adjustment. Any additional measures to cushion higher energy prices should remain targeted and temporary to limit fiscal costs and preserve incentives.

# China

Economic growth will slow to 4.5% in 2026 and 4.3% in 2027. China's high energy use and import dependencies expose it to global oil price increases, but cheaper sourcing, increasing reliance on renewables and abundant reserves will mitigate the impact. Exports will benefit from lower US tariffs and competitiveness gains in higher tech sectors. Consumption will be held back by high precautionary savings but supported by policy. Real estate investment will continue to contract and prices fall. The anti-involution campaign will weigh on business investment, but infrastructure investment will pick up driven by mega projects. The main risks are deeper disruption to energy markets and a greater slowing of global demand.

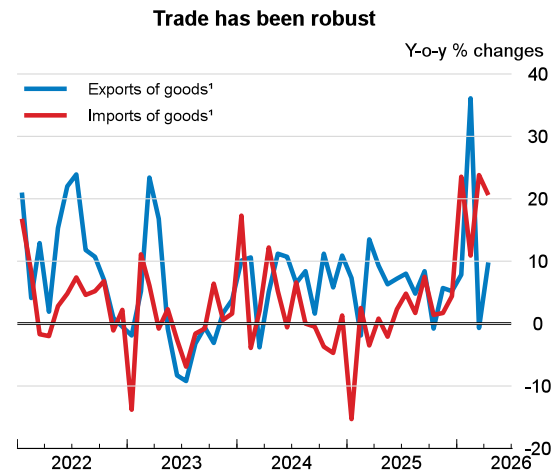
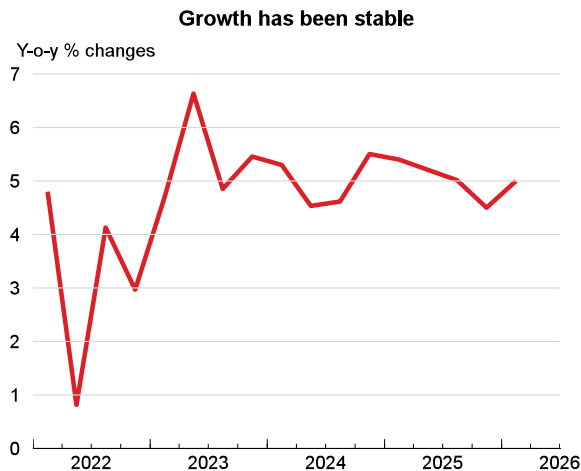
Monetary policy remains supportive, maintaining interest rates at very low levels and keeping open the possibility of interest rate or required reserve rate cuts. Fiscal policies have become slightly more supportive with quasi-fiscal measures, such as spending through development banks. While China has made rapid progress in expanding renewables generation, it needs to step up measures to reinforce energy security and reduce emissions.

## Growth has been steady despite headwinds

Annual growth was strong at 5% in the first quarter of 2026. Industrial production has been robust with high-tech manufacturing registering double-digit growth. Consumption has been supported by a new round of the trade-in programme, although the payback effect of past waves has mitigated its impact. Adjustment in the property sector has continued with excess capacity still being worked off. Infrastructure investment has picked up, but the recovery in business investment has been modest amidst relatively low capacity utilisation. Higher fresh fruit, vegetable and seafood prices have helped to turn CPI inflation positive with the annual rate at 1.2% in April, though steadily falling pork prices mitigate that impact. The authorities have repeatedly purchased pork in the market to limit the price declines. Annual producer price inflation has turned positive for the first time in many years as prices in several industries stopped falling or are falling to a lesser extent, indicating that the anti-involution measures are having an impact.

The evolving conflict in the Middle East has raised domestic petrol prices due to a formula linked to global prices, though the extent of increases implied by the formula have been restricted by the government. China has shifted the source of energy imports, relying more on Russia, Brazil and Malaysia and less on the Middle East. The economy has a high energy intensity, but coal plays the major role, with renewables having a growing share. Around 60% of oil is used in transportation and the remaining 40% in chemicals and other manufacturing industries, where technology allows some substitution from oil to coal. Export growth has been robust, driven by high-tech goods and their increasing competitiveness. US tariffs imposed on Chinese imports by the current administration have been revoked, restrictions on exports from the United States on selected high-tech components have been abolished and many other bilateral economic exchanges have become easier. Chinese exports have shifted towards the ASEAN countries. Export controls are still in place on seven rare earth metals, but the second round of licencing has been postponed till later this year. China imports a large share of its food, including very high reliance for some products, but manages the price through strategic reserves. China is a major fertiliser producer and has tightened export controls on certain types to maintain domestic supply. From May, export of sulphuric acid, used in fertilisers, metal smelting and battery production, has been banned to secure domestic supply.

## China 1



1. In nominal terms (CNY).  
Source: CEIC.

StatLink  <https://stat.link/bf5hxxg>

## China: Demand, output and prices

|                                                               | 2022                           | 2023                                        | 2024 | 2025 | 2026 | 2027 |
|---------------------------------------------------------------|--------------------------------|---------------------------------------------|------|------|------|------|
|                                                               | Current prices<br>CNY trillion | Percentage changes, volume<br>(2015 prices) |      |      |      |      |
| <b>China</b>                                                  |                                |                                             |      |      |      |      |
| <b>GDP at market prices</b>                                   | 123.4                          | 5.4                                         | 5.0  | 5.0  | 4.5  | 4.3  |
| Total domestic demand                                         | 119.8                          | 6.0                                         | 2.5  | 3.0  | 2.9  | 4.0  |
| Exports of goods and services                                 | 24.9                           | 6.0                                         | 17.3 | 10.8 | 10.5 | 5.0  |
| Imports of goods and services                                 | 21.3                           | 9.9                                         | 4.8  | 0.8  | 3.4  | 3.6  |
| Net exports <sup>1</sup>                                      | 3.6                            | -0.3                                        | 2.6  | 2.2  | 1.9  | 0.7  |
| <b>Memorandum items</b>                                       |                                |                                             |      |      |      |      |
| GDP deflator                                                  | —                              | -0.5                                        | -0.8 | -1.0 | 0.7  | 1.7  |
| Consumer price index                                          | —                              | 0.3                                         | 0.2  | -0.1 | 1.5  | 1.9  |
| General government financial balance <sup>2</sup> (% of GDP)  | —                              | -5.9                                        | -6.5 | -7.6 | -7.9 | -7.9 |
| Headline government financial balance <sup>3</sup> (% of GDP) | —                              | -3.3                                        | -3.5 | -4.0 | -4.1 | -4.0 |
| Current account balance (% of GDP)                            | —                              | 1.4                                         | 2.5  | 3.8  | 3.8  | 4.0  |

1. Contributions to changes in real GDP, actual amount in the first column.

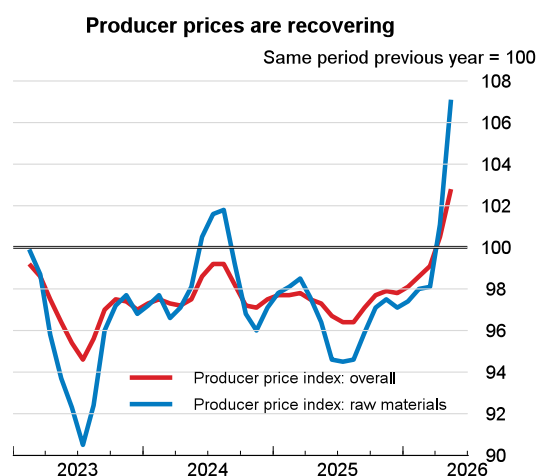
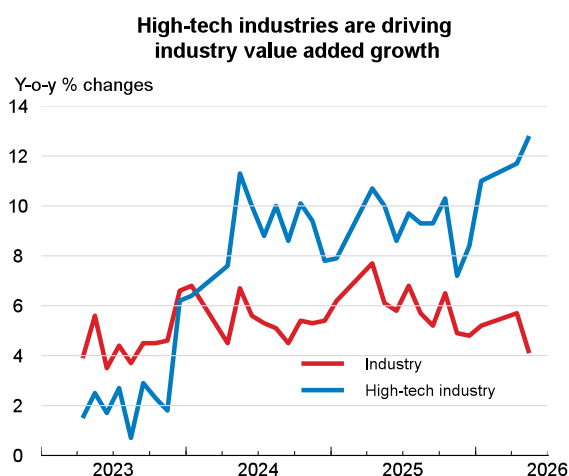
2. Encompasses the balances of all four budget accounts (general account, government managed funds, social security funds and the state-owned capital management account).

3. The headline fiscal balance is the official balance defined as the difference between revenues and outlays. Revenues include: general budget revenue, revenue from the central stabilisation fund and sub-national budget adjustment. Outlays include: general budget spending, replenishment of the central stabilisation fund and repayment of principal on sub-national debt.

Source: OECD Economic Outlook 119 database.

StatLink  <https://stat.link/xj6i09>

## China 2



Source: CEIC.

StatLink  <https://stat.link/y5qmgk>

## Monetary and fiscal policy will continue to support growth

Monetary policy rates will remain low, and the authorities stand ready to cut rates or required reserve ratios if needed, though room for rate cuts is limited. Some banks will be recapitalised to allow them to extend more loans to priority sectors, including small firms. Small business loan guarantee schemes will be extended, though enhanced disclosure and reporting requirements for companies would help by improving confidence in the reliability of their financial statements. A requirement for banks to publish all loan-related costs in a transparent manner will improve access to financing as banking fees can no longer be hidden.

Fiscal policy has become somewhat more supportive in 2026. The trade-in programme is being cut back slightly, but previously unspent fiscal funds have been carried over to be dispersed this year, quasi-fiscal policies such as financing through policy banks are being stepped up. Central bank profits are also being used to support consumer loans and private investment in services industries and by small firms. The new Five-Year Plan has new infrastructure projects, including the mega-size dam on the Yarlung Tsangbo river, with spending of around 1% of GDP each year up to its scheduled completion in 2030. Taxing e-commerce, which already started last year, will help to finance part of the additional spending.

## Weaker global demand will weigh on growth, despite improved competitiveness

Growth is expected to weaken in 2026 and 2027 due to sluggish global demand in the context of the evolving conflict in the Middle East. China's lower direct exposure, however, will improve its competitiveness relative to competitors that face soaring international prices and supply disruptions and thus soften the impact. Adjustment in the property sector will continue to weigh on growth, though to a decreasing extent as the share of the sector in the economy shrinks. Infrastructure investment will continue its robust growth. Household consumption will be supported by higher social transfers, higher incomes due to wage progression rules, the introduction of more public holidays and longer and staggered annual leave, although savings will remain high in the absence of a stronger social safety net. Inflation will remain low but between 1-2%.

Risks to growth are tilted to the downside. Escalation of the conflict in the Middle East may result in supply disruption and weigh on exports to the region. Anti-involution measures will lower investment in industries with overcapacity but are necessary to reallocate resources and halt the long-lasting deflationary cycle for good. The myriad of new subsidies to boost investment and accelerate technological progress may lift growth in the short run but may hamper longer run efficiency. Competitiveness gains could be higher than expected, boosting exports. Some measures aimed at boosting consumption such as more public holidays may not bring about the desired impact as consumers need higher incomes and stronger social safety net to save less and spend more. In contrast, reducing the mortgage burden and targeting low-income groups with transfers may result in higher consumption.

### Structural reforms are needed to sustain growth

Monetary policy needs to remain accommodative to provide sufficient liquidity, while fiscal policy needs to ensure sustainability in the context of rapidly increasing public debt. In particular, the funding gap at sub-national government levels needs to be addressed to avoid further accumulation of implicit debt. Potential growth is slowing due to population ageing, but there is ample room for structural reforms to keep growth at a reasonably strong level in the medium term. In particular, bolder social security reforms are needed. Unemployment insurance coverage needs to be extended to all, and pensions provide at least a minimum standard of living for all eligible people. The list of treatments and medicines covered by health insurance also needs to be widened. The widening gap between the high-tech economy, where salaries are globally competitive and other sectors, where they are suppressed, may lead to greater inequalities. A more equitable sharing of the gains by investing more in training as well as automation and digitalisation in non-high-tech sectors would lift incomes across the board.

# Colombia

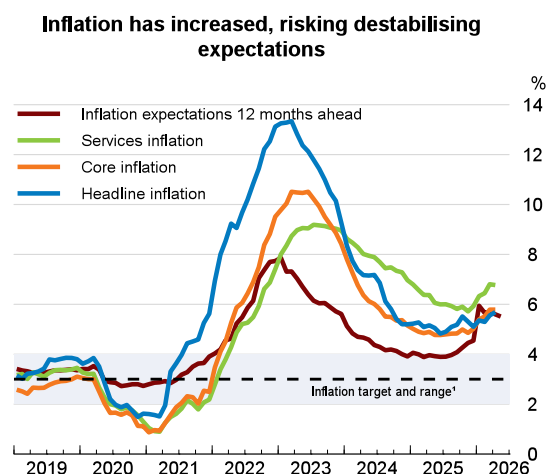
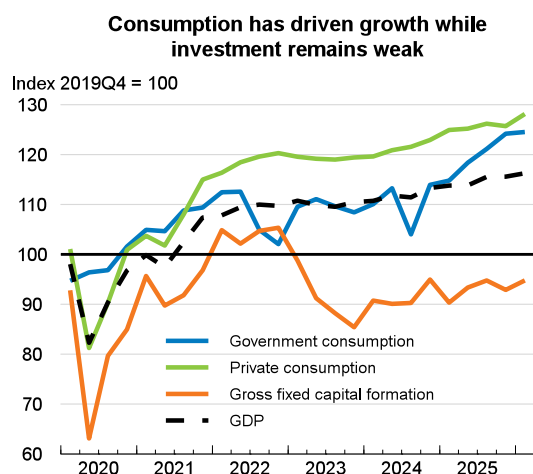
Growth will moderate to 2.4% in 2026 and 2.1% in 2027. High inflation, tight monetary conditions and uncertainty will weigh on investment and moderate household consumption, while still-large fiscal deficits continue to support activity. Higher oil prices linked to the evolving Middle East conflict will temporarily support export revenues but also add to inflationary pressures. Inflation is expected to increase in 2026, driven by persistent services inflation, minimum-wage indexation and higher energy prices, before declining gradually from early 2027. Risks to the outlook are tilted to the downside, including more persistent inflation, delays in fiscal consolidation and weaker external demand in a more volatile global environment.

Monetary policy should remain restrictive until inflation and inflation expectations are firmly on a sustained path toward target. Fiscal consolidation is expected to resume, but deficits will remain large, pushing debt and interest costs higher. A more ambitious and credible consolidation strategy is needed to bring debt back toward its medium-term anchor and restore investor confidence. Strengthening policy credibility, reducing regulatory uncertainty and improving the business environment would support private investment and improve medium-term growth prospects.

## Growth has moderated as inflation pressures re-emerge

Economic momentum weakened in early 2026, after robust growth through most of 2025 that was largely driven by consumption, with investment remaining weak. GDP rose by 2.2% year-on-year in the first quarter of 2026, and by 0.6% quarter-on-quarter seasonally adjusted. Final consumption grew by 3.4% year-on-year, supported by strong government consumption, and gross fixed capital formation rose by 3.7% but remained uneven amid continued weakness in construction and infrastructure. Business and consumer confidence remain subdued, reflecting rising inflation, tighter financial conditions and heightened uncertainty. Investment conditions remain weak, elevated borrowing costs and caution ahead of the electoral cycle weighing on capital spending.

## Colombia



1. The horizontal dashed black line indicates the target inflation rate (3%), and the shaded area the tolerance band around the target.

Source: OECD Economic Outlook 119 database; and Central Bank of Colombia.

StatLink <https://stat.link/jcnx2s>

## Colombia: Demand, output and prices

|                                                 | 2022                           | 2023                                        | 2024 | 2025 | 2026 | 2027 |
|-------------------------------------------------|--------------------------------|---------------------------------------------|------|------|------|------|
|                                                 | Current prices<br>COP trillion | Percentage changes, volume<br>(2015 prices) |      |      |      |      |
| <b>Colombia</b>                                 |                                |                                             |      |      |      |      |
| <b>GDP at market prices</b>                     | 1 471.1                        | 0.8                                         | 1.5  | 2.6  | 2.4  | 2.1  |
| Private consumption                             | 1 084.4                        | 0.5                                         | 1.6  | 3.5  | 3.2  | 2.1  |
| Government consumption                          | 206.0                          | 1.6                                         | 0.6  | 8.4  | 6.0  | 3.4  |
| Gross fixed capital formation                   | 280.5                          | -12.8                                       | 0.7  | 1.4  | 2.9  | 1.3  |
| Final domestic demand                           | 1 571.0                        | -1.7                                        | 1.3  | 3.9  | 3.6  | 2.2  |
| Stockbuilding <sup>1</sup>                      | 10.5                           | -0.7                                        | 0.3  | 0.0  | -0.5 | 0.0  |
| Total domestic demand                           | 1 581.5                        | -2.4                                        | 1.6  | 3.8  | 2.3  | 2.3  |
| Exports of goods and services                   | 299.9                          | 3.1                                         | 0.4  | 1.9  | 1.7  | 2.5  |
| Imports of goods and services                   | 410.3                          | -10.0                                       | 1.2  | 8.6  | 3.1  | 3.2  |
| Net exports <sup>1</sup>                        | - 110.4                        | 3.4                                         | -0.2 | -1.4 | -0.4 | -0.2 |
| <i>Memorandum items</i>                         |                                |                                             |      |      |      |      |
| GDP deflator                                    | —                              | 7.0                                         | 6.4  | 5.4  | 5.8  | 4.6  |
| Consumer price index                            | —                              | 11.7                                        | 6.6  | 5.1  | 6.1  | 5.1  |
| Core inflation index <sup>2</sup>               | —                              | 9.8                                         | 6.1  | 4.9  | 6.3  | 5.4  |
| Unemployment rate (% of labour force)           | —                              | 10.2                                        | 10.2 | 8.9  | 8.8  | 9.2  |
| Central government financial balance (% of GDP) | —                              | -4.2                                        | -6.8 | -6.4 | -5.8 | -4.2 |
| Central government gross debt (% of GDP)        | —                              | 56.2                                        | 61.3 | 64.4 | 64.8 | 65.0 |
| Current account balance (% of GDP)              | —                              | -2.3                                        | -1.7 | -2.4 | -1.8 | -2.2 |

1. Contributions to changes in real GDP, actual amount in the first column.

2. Consumer price index excluding primary food, utilities and fuels.

Source: OECD Economic Outlook 119 database.

StatLink  <https://stat.link/r2hxkg>

Inflation pressures intensified again in early 2026. Inflation rose to 5.7% in April, while core inflation reached 5.8%, reflecting higher labour costs following successive minimum-wage increases, strong indexation mechanisms, and continued fiscal expansion. Food inflation has also increased, reflecting weather-related shocks. Inflation expectations have moved further above the 3% target. Higher oil prices linked to the evolving conflict in the Middle East have begun to feed into consumer prices, notably through fuel and transport costs. While Colombia is a net exporter of crude oil benefiting the current account, the overall macroeconomic impact is likely to be limited, as offsetting effects through imports of refined fuels and fertilisers, fiscal price-smoothing mechanisms, weaker global demand and higher risk premia dampen the net benefit.

## Monetary policy is restrictive, while fiscal policy remains expansionary

Monetary policy tightened again in early 2026 in response to rising inflation expectations. With inflation still rising and expected to remain above target and a still positive output gap, the policy rate is projected to increase further to around 12.75% by the third quarter of 2026, remain at that level until mid-2027, and ease only once inflation and expectations are clearly on a sustained path toward target. Fiscal policy remains expansionary following the suspension of the fiscal rule in mid-2025, weakening the credibility of the fiscal framework and contributing to elevated sovereign risk premia. Expected consolidation over the projection period, with the central government deficit declining to around 4% of GDP by 2027, falls short of the government's stated plans and the requirements implied by the fiscal rule. A return to the fiscal rule in 2028 would therefore require additional consolidation measures, raising concerns about political feasibility and policy credibility.

## Growth is set to moderate, with inflation remaining high

Growth is expected to slow over 2026–27 as the economy adjusts to tighter financial conditions. Private consumption will decelerate as support from large minimum-wage increases is increasingly offset by high inflation, tighter credit conditions and higher unemployment. Investment will remain held back by elevated borrowing costs. Externally, higher oil prices are expected to support the current account in 2026, partly offsetting weaker global demand, before reversing in 2027 as commodity prices and global demand moderate. Further fiscal slippages could raise risk premia, and potential El Niño-related shocks could add to inflation and weigh on growth. External risks include weaker growth in the United States, Colombia's main trading partner, and tighter global financial conditions, which could amplify exchange-rate pressures. On the upside, higher oil prices or a credible fiscal adjustment could support confidence and investment.

## Restoring fiscal credibility is key to sustaining growth and disinflation

Decisive fiscal consolidation is required to stabilise debt around its medium-term anchor, lower risk premia and support disinflation. This should be underpinned by a clear and credible commitment to return gradually to the fiscal rule supported by improvements in spending efficiency and a comprehensive and gradual tax reform. Better targeting of social transfers and subsidies, broadening tax bases, reducing inefficient tax expenditures and rebalancing the tax mix away from corporate taxation toward personal income taxation, would support private investment and medium-term growth. Reducing the cost of formality—including lowering social contributions for low-income workers—would strengthen revenues over time and raise productivity. Strengthening energy security, reducing fiscal costs and advancing climate objectives reinforce the case for accelerating electrification and the expansion of non-hydro renewable energy, a case further underscored by recent geopolitical tensions. Further progress in phasing out fossil-fuel subsidies, as reflected in recent increases of domestic gasoline and diesel prices, and shifting support towards targeted compensation for vulnerable households would support the energy transition and reduce fiscal pressures.

# Costa Rica

GDP is projected to grow by 3.5% in 2026 and 3.4% in 2027. Domestic demand is expected to remain robust, supported by moderate gains in disposable income and employment and resilient investment despite increasing global uncertainty. External demand will weaken in 2026 due to a softer global growth outlook stemming from tighter financial conditions, diminishing confidence and uncertainties over trade policy. The evolving conflict in the Middle East poses downside risks through potential disruptions to energy and fertiliser supplies and key trade routes.

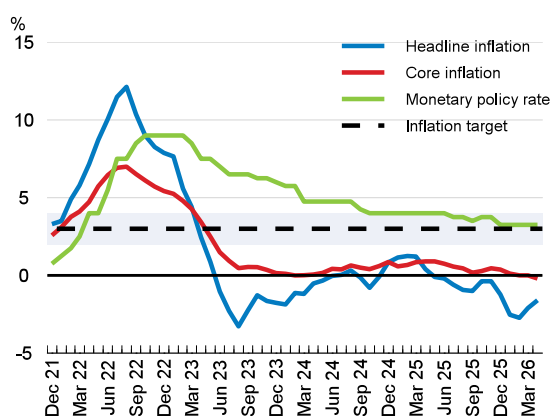
Strict implementation of the fiscal rule remains essential to contain public expenditure and ensure fiscal sustainability. With the economy near potential and domestic inflation pressures subdued, higher global commodity prices will push inflation back towards the 3% target. The monetary policy rate is expected to remain at 3.25%, in line with the natural rate. Opening and reforming the electricity market would accelerate investment, innovation and renewable energy adoption, supporting energy security.

## Growth remains strong while inflation stays low

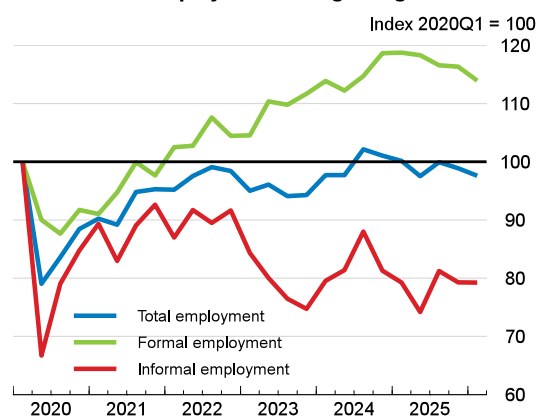
GDP growth was strong in 2025, reaching 4.6%, and economic activity has remained robust in early 2026. The Monthly Index of Economic Activity increased by 4.7% year-on-year in March 2026, supported by construction, business services and manufacturing. Confidence indicators are also resilient. In February, consumer confidence was at its highest level since 2002, and business confidence in 2026Q1 was above its 2025 average. Labor market dynamics, however, remain mixed. Total employment continues to stagnate, with both employment and participation rates persistently below pre-pandemic levels. Formal employment continues to expand while informal employment keeps declining. The shift towards formal, higher-productivity jobs is supporting productivity growth, partly offsetting the drag from lower labour force participation. In April, annual headline inflation remained negative at -1.6%, and core inflation turned negative, at -0.2%.

## Costa Rica

**Falling goods prices are keeping inflation below zero<sup>1</sup>**



**Formal employment is increasing but total employment is stagnating**



1. The horizontal dashed black line indicates the target inflation rate of monetary policy, and the shaded area the tolerance band around the target (2-4%). Headline and core indicate, respectively, the headline consumer price inflation rate and the core consumer price inflation rate. The core consumer price inflation rate measures consumer price inflation excluding food and energy components.

Source: Banco Central de Costa Rica; and INEC.

StatLink  <https://stat.link/k8lv2s>

## Costa Rica: Demand, output and prices

|                                                 | 2022                           | 2023                                        | 2024 | 2025 | 2026 | 2027 |
|-------------------------------------------------|--------------------------------|---------------------------------------------|------|------|------|------|
|                                                 | Current prices<br>CRC trillion | Percentage changes, volume<br>(2022 prices) |      |      |      |      |
| <b>Costa Rica</b>                               |                                |                                             |      |      |      |      |
| <b>GDP at market prices</b>                     | 45.9                           | 4.8                                         | 4.1  | 4.6  | 3.5  | 3.4  |
| Private consumption                             | 29.7                           | 4.2                                         | 3.7  | 3.8  | 3.6  | 3.3  |
| Government consumption                          | 6.8                            | -0.5                                        | 0.9  | 2.8  | 2.0  | 0.6  |
| Gross fixed capital formation                   | 8.0                            | 9.2                                         | 4.5  | 3.9  | 6.9  | 3.6  |
| Final domestic demand                           | 44.5                           | 4.4                                         | 3.5  | 3.7  | 3.9  | 2.9  |
| Stockbuilding <sup>1</sup>                      | 0.5                            | -1.2                                        | 0.3  | -0.1 | -1.0 | 0.3  |
| Total domestic demand                           | 45.0                           | 3.1                                         | 3.8  | 3.5  | 2.9  | 3.3  |
| Exports of goods and services                   | 18.6                           | 10.6                                        | 5.7  | 8.6  | 4.2  | 5.9  |
| Imports of goods and services                   | 17.7                           | 6.5                                         | 5.1  | 6.5  | 3.0  | 5.9  |
| Net exports <sup>1</sup>                        | 1.0                            | 1.8                                         | 0.5  | 1.2  | 0.7  | 0.3  |
| <b>Memorandum items</b>                         |                                |                                             |      |      |      |      |
| GDP deflator                                    | —                              | -1.1                                        | 0.5  | -0.5 | 1.3  | 2.0  |
| Consumer price index                            | —                              | 0.5                                         | -0.4 | -0.1 | -0.1 | 2.0  |
| Core inflation index <sup>2</sup>               | —                              | 1.0                                         | 0.0  | 0.1  | 0.9  | 1.8  |
| Unemployment rate (% of labour force)           | —                              | 8.9                                         | 7.4  | 6.7  | 7.0  | 6.8  |
| Central government financial balance (% of GDP) | —                              | -3.2                                        | -3.7 | -3.1 | -3.2 | -3.0 |
| Central government gross debt (% of GDP)        | —                              | 60.4                                        | 58.9 | 59.4 | 59.4 | 59.3 |
| Current account balance (% of GDP)              | —                              | -1.3                                        | -1.0 | -0.7 | -1.7 | -1.2 |

1. Contributions to changes in real GDP, actual amount in the first column.

2. Consumer price index excluding food and energy.

Source: OECD Economic Outlook 119 database.

StatLink  <https://stat.link/xtc1ou>

Rising energy prices are likely to raise headline inflation, with retail fuel prices rising by 15% year-on-year in May. Fuel supply, largely imported from the United States and primarily used for transportation, given that electricity generation is almost entirely from renewables, is projected to remain stable. The negative impact of a weaker global outlook on exports will be partially offset by the new 10% tariff on goods exports to the United States, which is five percentage points lower than the previous rate. The United States accounts for around 16.2% of total exports and 47% of goods exports.

## Monetary policy will remain neutral amid high uncertainty

The central bank lowered the monetary policy rate by 25 basis points to 3.25% in December 2025. Monetary policy is expected to remain broadly neutral going forward, with the policy rate kept unchanged amid elevated uncertainty and the need to balance inflation risks against a softening growth outlook. Fiscal consolidation is set to continue, as the fiscal rule constrains public expenditure and supports a positive primary balance, despite ongoing budget deficits driven by high debt-servicing costs. Elevated public debt underscores the importance of strict implementation of the fiscal rule.

## Growth will moderate amid external headwinds

GDP growth is projected at 3.5% in 2026 and 3.4% in 2027, held back by weaker net exports as the conflict in the Middle East dampens global demand. Increased uncertainty will soften investment in 2026, with public investment remaining constrained by limited fiscal space. Weaker employment creation, together with external inflationary pressure, will weigh on private consumption. Risks to the outlook are tilted to the downside. A pending US investigation could result in higher tariffs on US imports of medical devices, a key

exporting sector for Costa Rica. A protracted conflict in the Middle East could significantly weaken external demand, raise energy and food commodity prices, and hit employment.

### **Maintaining fiscal discipline while supporting growth by advancing structural reforms**

Against a backdrop of moderating growth and a weaker global outlook, reducing fiscal sustainability risks remains a key priority, and strict adherence to the fiscal rule continues to be essential. Fiscal space could be created by improving public spending efficiency through spending reviews and by broadening tax bases. To improve the business environment and support growth, Costa Rica needs to continue along its reform path and reduce stringent market regulations by streamlining regulatory bottlenecks and lowering barriers in services and network sectors. Opening the electricity market, by easing private and foreign investment restrictions and streamlining permits, would accelerate investment, diversify energy sources, and strengthen energy security.

# Croatia

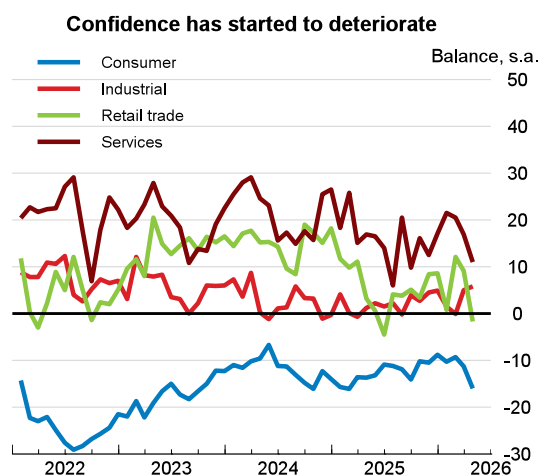
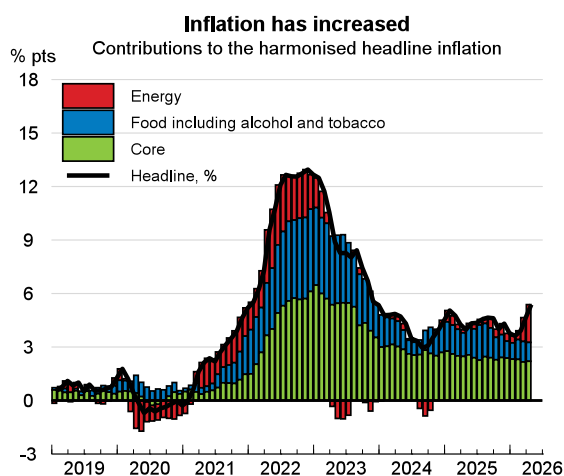
Real GDP growth is projected to moderate to 2.6% in 2026 and 2.4% in 2027. Consumption growth will slow, reflecting weaker real income growth amid high inflation. Investment growth will ease due to heightened uncertainty and the end of the EU Recovery and Resilience Funds in 2026. Exports will pick up moderately with the recovery of foreign demand. A prolonged conflict in the Middle East would keep energy prices elevated for longer, pushing up inflation and weighing on economic growth.

A return to fiscal prudence is needed to support disinflation, rebuild fiscal buffers and prepare for medium-to long-term spending pressures. Untargeted energy price support should be phased out and incentives to cut fossil fuel use preserved. Faster permitting and investment in grid capacity would support renewable energy deployment and energy security. Pension reforms and policies to support workers' health and skills would extend working lives, boosting growth as the population ages.

## Economic growth is moderating, and inflation is rising

High frequency indicators point to a moderation in growth in the first quarter of 2026. The average growth of industrial production and retail sales slowed in the first quarter of 2026 relative to the last quarter of 2025. The evolving conflict in the Middle East weighed on services, retail trade, and consumer confidence in April, although industrial sentiment remained resilient. Harmonised consumer price inflation rose to 5.4% (year-on-year) in April, driven by increases in food and energy prices. Core inflation remains elevated at 3.7%, reflecting sticky service prices inflation. The unemployment rate remains at historically low levels and nominal wage growth continues to be strong, albeit easing.

## Croatia



Source: Eurostat.

StatLink  <https://stat.link/zvdcg5>

## Croatia: Demand, output and prices

|                                                                        | 2022                          | 2023                                        | 2024 | 2025 | 2026 | 2027 |
|------------------------------------------------------------------------|-------------------------------|---------------------------------------------|------|------|------|------|
|                                                                        | Current prices<br>EUR billion | Percentage changes, volume<br>(2021 prices) |      |      |      |      |
| <b>Croatia</b>                                                         |                               |                                             |      |      |      |      |
| <b>GDP at market prices</b>                                            | 67.6                          | 3.8                                         | 3.8  | 3.4  | 2.6  | 2.4  |
| Private consumption                                                    | 39.9                          | 3.3                                         | 6.0  | 2.5  | 2.2  | 2.0  |
| Government consumption                                                 | 14.3                          | 6.9                                         | 7.2  | 4.1  | 2.7  | 1.9  |
| Gross fixed capital formation                                          | 14.6                          | 22.7                                        | 5.3  | 6.1  | 4.5  | 2.8  |
| Final domestic demand                                                  | 68.9                          | 8.2                                         | 6.1  | 3.7  | 2.9  | 2.1  |
| Stockbuilding <sup>1</sup>                                             | 3.1                           | -6.5                                        | 1.4  | 0.5  | -0.6 | 0.0  |
| Total domestic demand                                                  | 71.9                          | 2.0                                         | 7.5  | 4.2  | 2.3  | 2.2  |
| Exports of goods and services                                          | 40.2                          | -1.4                                        | 1.6  | 0.9  | 3.2  | 2.3  |
| Imports of goods and services                                          | 44.6                          | -4.2                                        | 8.4  | 2.8  | 2.1  | 2.0  |
| Net exports <sup>1</sup>                                               | - 4.3                         | 1.9                                         | -3.8 | -1.1 | 0.4  | 0.1  |
| <i>Memorandum items</i>                                                |                               |                                             |      |      |      |      |
| GDP deflator                                                           | —                             | 12.9                                        | 4.5  | 4.7  | 4.8  | 2.2  |
| Harmonised index of consumer prices                                    | —                             | 8.4                                         | 4.0  | 4.4  | 4.7  | 2.8  |
| Harmonised index of core inflation <sup>2</sup>                        | —                             | 8.8                                         | 4.8  | 4.1  | 3.7  | 2.7  |
| Unemployment rate (% of labour force)                                  | —                             | 6.1                                         | 5.0  | 4.9  | 4.9  | 5.0  |
| Household saving ratio, net (% of disposable income)                   | —                             | 2.6                                         | 4.3  | 6.0  | 6.2  | 6.2  |
| General government financial balance (% of GDP)                        | —                             | -1.1                                        | -2.3 | -3.0 | -3.0 | -2.9 |
| General government gross debt (% of GDP)                               | —                             | 80.6                                        | 76.0 | 74.7 | 74.0 | 74.5 |
| General government debt, Maastricht definition <sup>3</sup> (% of GDP) | —                             | 60.9                                        | 57.4 | 56.3 | 55.6 | 56.2 |
| Current account balance (% of GDP)                                     | —                             | 0.1                                         | -2.2 | -3.4 | -3.6 | -3.5 |

1. Contributions to changes in real GDP, actual amount in the first column.

2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.

3. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.

Source: OECD Economic Outlook 119 database.

StatLink  <https://stat.link/jrx41s>

Croatia is highly dependent on fossil fuel imports, which meet around 60% of its energy needs, exposing the economy to global energy price shocks, although its direct exposure to energy imports from the Middle East is low. Electricity, gas and fuel prices increased by 11.3% in April (year-on-year). The government has capped electricity and gas prices in March until October 2026, and fuel price caps are reviewed every two weeks. At the end of March, oil reserves were considered sufficient to support the next three months of economic activity, and at the beginning of April the government announced the release of 35 thousand tonnes of its emergency diesel reserves (about 5%).

## Fiscal policy will be broadly neutral in 2026, with consolidation in 2027

In March 2026, the government introduced a new aid package worth EUR 449 million (approximately 0.5% of GDP) to mitigate the impact of rising energy prices on households and business. This includes energy price caps, cash compensation for energy costs of beneficiaries of social assistance and unemployed veterans, and monetary support for farmers and fishermen. The package also contains measures to strengthen energy resilience, including support for renewable energy deployment and the modernisation of district heating infrastructure, financed through EU Recovery and Resilience Funds. In addition, the reduced VAT rates on heating and gas were extended until March 2027. The government deficit is projected to remain close to 3% of GDP in 2026 and 2027. The fiscal stance is broadly neutral in 2026 and will turn contractionary in 2027 as energy support measures are assumed to be withdrawn and the drawing of EU recovery and resilience funds ends.

## Growth is set to moderate

Private consumption growth will ease as real disposable income growth slows, due to the energy price shock and a slower nominal wage growth. Investment growth will weaken due to heightened uncertainty and the end of the EU Recovery and Resilience Funds. A gradual strengthening of foreign demand from the end of 2026 will support exports. After rising in the first two quarters of 2026, headline inflation will moderate as energy price pressures ease. Core inflation will ease as productivity growth picks up and wage growth moderates. Risks are tilted to the downside. A prolonged conflict in the Middle East would keep energy prices elevated for longer, resulting in higher inflation and weaker economic growth. Elevated uncertainty and high inflation in Europe could weigh on tourism activity. Croatia's heavy reliance on food imports - covering around half of the country's food consumption – also exposes it to global price shocks including for fertilisers.

## Fiscal policy should be prudent while structural reforms can spur growth

A tighter fiscal policy stance is needed to support the disinflation process and build fiscal buffers for future spending pressures. Untargeted energy price support measures, such as reduced VAT rates on heating and gas and caps on electricity, gas and fuel prices, should be phased out, which would also strengthen incentives to reduce fossil fuel consumption. Streamlining the permitting process, launching one-stop shops and investing in grid capacity are needed to accelerate renewable energy deployment. Pension reforms, such as tightening early retirement pathways and raising the statutory retirement age, would help mitigate ageing-related spending pressures. Measures to improve the health and skills of the ageing population—including enhancing prevention, promoting professional rehabilitation after sickness, and boosting participation in adult learning—would help to bring more people into the labour force and sustain growth.

# Czechia

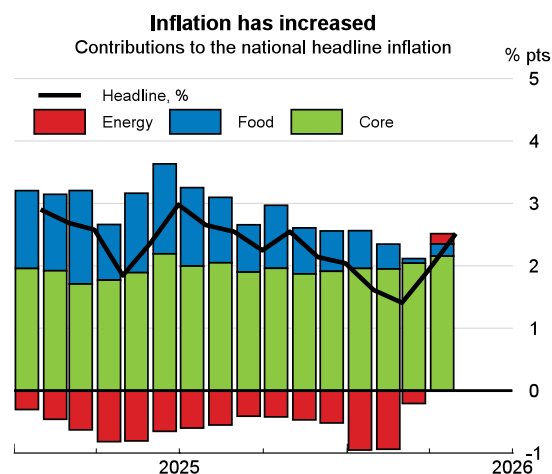
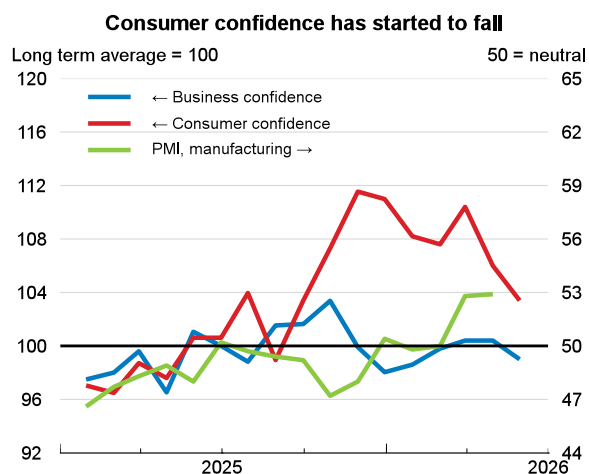
Growth is set to moderate to 1.9% in 2026 before slightly strengthening to 2.1% in 2027. Higher energy and food prices will erode households' real disposable income, weighing on consumption. Despite high uncertainty, investment should remain robust in 2026, supported by EU structural and recovery funds, before slowing in 2027. Export growth is expected to strengthen in 2027. Risks to growth remain skewed to the downside, notably from a prolonged conflict in the Middle East that disrupts supply chains or a renewed intensification of trade restrictions.

Monetary policy should continue to ensure inflation pressures are contained and expectations anchored. Energy cost support should be better targeted and preserve incentives to cut fossil fuel use. Pension reforms enacted in 2024 should be fully implemented to address ageing costs. Faster renewable deployment and stronger innovation support, especially for small firms, would enhance energy security, productivity, and competitiveness.

## Economic growth slowed in early 2026

Quarterly GDP growth slowed to 0.2% in the first quarter of 2026. Growth was supported by domestic demand while international trade had a negative impact. Consumer and industry confidence dropped in April and May. However, the manufacturing PMI improved further in April and passenger car production picked up in the first four months of 2026, with particularly strong growth of electric and hybrid vehicle production. Headline consumer price inflation rose to 2.5% in April on the back of energy price increases, while service price inflation is sticky and elevated at 4.6%. One-year-ahead consumer price inflation expectations of financial markets increased to 2.7% in April. The labour market has cooled, but the unemployment rate, at 3.1% in March, remains one of the lowest in the OECD. Nominal wage growth continues to be robust, driven by persistent labour shortages and an increase in the minimum wage in January 2026.

## Czechia



Source: Czech Statistical Office; S&P Global; and OECD Prices database.

StatLink  <https://stat.link/q1jbzo>

## Czechia: Demand, output and prices

|                                                                        | 2022                          | 2023                                        | 2024 | 2025 | 2026 | 2027 |
|------------------------------------------------------------------------|-------------------------------|---------------------------------------------|------|------|------|------|
|                                                                        | Current prices<br>CZK billion | Percentage changes, volume<br>(2020 prices) |      |      |      |      |
| <b>Czechia</b>                                                         |                               |                                             |      |      |      |      |
| <b>GDP at market prices</b>                                            | 7 048.4                       | 0.2                                         | 1.1  | 2.6  | 1.9  | 2.1  |
| Private consumption                                                    | 3 423.4                       | -2.5                                        | 2.4  | 3.0  | 2.1  | 2.0  |
| Government consumption                                                 | 1 381.4                       | 3.2                                         | 3.1  | 2.1  | 1.6  | 1.9  |
| Gross fixed capital formation                                          | 1 951.3                       | 4.5                                         | -3.0 | 2.6  | 4.7  | 2.4  |
| Final domestic demand                                                  | 6 756.1                       | 0.7                                         | 1.0  | 2.7  | 2.7  | 2.1  |
| Stockbuilding <sup>1</sup>                                             | 236.4                         | -3.1                                        | -0.4 | 0.5  | -0.7 | 0.0  |
| Total domestic demand                                                  | 6 992.4                       | -2.4                                        | 0.5  | 3.2  | 2.0  | 2.1  |
| Exports of goods and services                                          | 5 100.7                       | 2.8                                         | 1.1  | 4.1  | 2.1  | 2.3  |
| Imports of goods and services                                          | 5 044.7                       | -0.9                                        | 0.2  | 5.2  | 2.3  | 2.3  |
| Net exports <sup>1</sup>                                               | 56.0                          | 2.6                                         | 0.6  | -0.4 | 0.0  | 0.1  |
| <b>Memorandum items</b>                                                |                               |                                             |      |      |      |      |
| GDP deflator                                                           | —                             | 8.6                                         | 3.9  | 3.5  | 2.4  | 2.4  |
| Consumer price index                                                   | —                             | 10.7                                        | 2.4  | 2.5  | 2.5  | 2.5  |
| Core inflation index <sup>2</sup>                                      | —                             | 7.4                                         | 3.5  | 3.1  | 2.9  | 2.2  |
| Unemployment rate (% of labour force)                                  | —                             | 2.6                                         | 2.6  | 2.8  | 3.2  | 3.2  |
| Household saving ratio, net (% of disposable income)                   | —                             | 14.5                                        | 13.7 | 12.4 | 12.4 | 12.3 |
| General government financial balance (% of GDP)                        | —                             | -3.7                                        | -2.0 | -2.1 | -2.5 | -2.9 |
| General government gross debt (% of GDP)                               | —                             | 48.4                                        | 49.0 | 50.0 | 51.1 | 52.6 |
| General government debt, Maastricht definition <sup>3</sup> (% of GDP) | —                             | 42.2                                        | 43.3 | 44.2 | 45.3 | 46.8 |
| Current account balance (% of GDP)                                     | —                             | -0.1                                        | 1.7  | 0.7  | 0.3  | 0.5  |

1. Contributions to changes in real GDP, actual amount in the first column.

2. Consumer price index excluding food and energy.

3. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.

Source: OECD Economic Outlook 119 database.

StatLink  <https://stat.link/mrsxz9>

Czechia imports about 40% of its energy needs but the share imported directly from the Middle East is very low. In late March, the government announced the release of 100 thousand tonnes (or about 10%) of its emergency oil reserves. In early April, the government introduced caps to retail petrol and diesel profit margins and cut the excise tax on diesel. In mid-May, retail prices of petrol and diesel were around 25% above the levels in late February. Retail electricity prices have fallen in year-on-year terms, mainly due to the abolition of the renewable energy fee.

## Monetary policy is slightly restrictive while fiscal policy is expansionary

The monetary policy rate, at 3.5% since May 2025, is slightly restrictive. The projections assume a temporary and modest policy rate increase to 3.75% from mid-2026 to end-2027. Fiscal policy will be modestly expansionary in 2026 reflecting the approved budget, additional infrastructure investment, and the transfer of the financing of support for renewable energy from households and firms to the state budget. In 2027, the budget deficit is projected to deteriorate further as the government is assumed to implement measures of its t programme (e.g. accelerated depreciation, higher family benefits). This partly offsets the fiscal drag from the end of drawing EU recovery and resilience funds at the end of 2026.

## **Growth is set to moderate**

Higher energy and food prices will weigh on household real disposable income and slow consumption growth. Despite high uncertainty, investment growth will remain robust in 2026 due to the stronger use of EU structural and recovery and resilience funds, before slowing in 2027. After modest growth in the near-term, exports are set to strengthen in 2027, supported by the fiscal expansion in Germany. Risks to growth are skewed to the downside. A prolonged conflict in the Middle East with more significant disruption of supply chains or a re-intensification of US trade restrictions would slow the growth of the energy-intensive and export-oriented economy. On the upside, a further fall of the historically high savings rate could support stronger private consumption growth.

## **Energy cost support should be better targeted and structural reforms accelerated to enhance energy security and competitiveness**

The central bank needs to remain vigilant and ensure that underlying inflationary pressures are durably contained, and that inflation expectations remain well anchored. Energy cost support should remain temporary and be better targeted to the most vulnerable households and businesses, while maintaining incentives to reduce fossil fuel consumption. Reforms enacted in 2024 to improve the overall sustainability of the pension system should be fully implemented to mitigate ageing-related spending pressures. Accelerating the deployment of renewables, including by further simplifying permitting procedures, would contribute to energy security. Strengthening research intensity and innovation capacity, for instance by better targeting business support for R&D to young and small firms and developing capital markets, would help boost productivity and competitiveness.

# Denmark

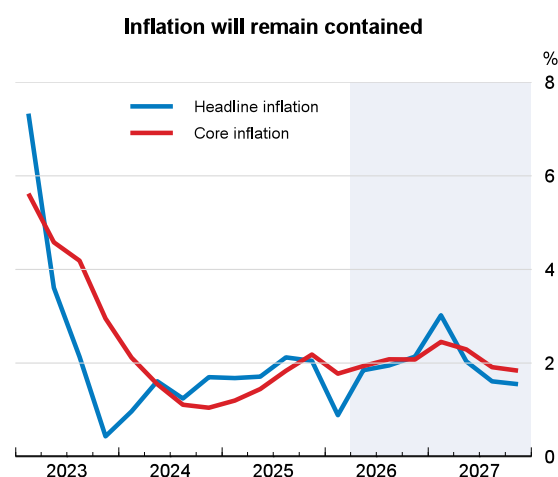
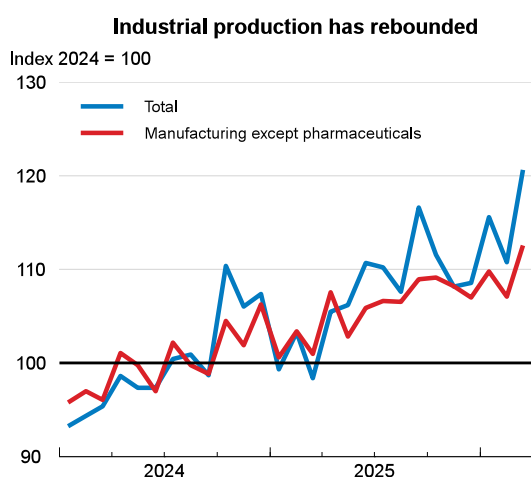
GDP growth is projected to slow from 2.9% in 2025 to 2.5% in 2026 and 1.5% in 2027. Geopolitical tensions and the energy supply shock are expected to dampen foreign demand in key export sectors. Rising energy prices will generate inflationary pressures, but tax measures and moderate wage growth will help to contain inflation. High uncertainty will sustain elevated private savings. Greater international stability would boost confidence and domestic activity, while a further deterioration in global trade conditions would severely affect exports, particularly maritime transport.

The central bank is projected to temporarily raise policy rates in line with expected euro area tightening. Fiscal policy will be expansionary in 2026–27 due to higher defence spending and tax cuts. Available fiscal room should support growth-enhancing investment in electricity infrastructure to reduce dependence on imported fossil fuels. Any additional spending should be calibrated to avoid exacerbating inflationary pressures.

## GDP growth has rebounded

After a significant slowdown at the end of 2025, quarterly GDP growth rebounded from 0.5% to 1.9% in the first quarter, boosted by pharmaceutical exports. In early 2026, business sentiment and capacity utilisation remained high, and industrial production continued to grow. Despite low and declining consumer confidence, retail sales have increased, except in liquid fuel filling stations. The labour market has eased further, with a modest decline in employment in February and a rise in registered unemployment, while wage growth in the private sector – at 3.6% – has remained robust. Inflation dropped in early 2026 due to tax cuts but picked up to 1.4% in April mainly driven by higher fuel prices. Core inflation was broadly stable at 1.6%.

## Denmark



Source: OECD Economic Outlook 119 database; and Danmarks Statistik.

StatLink  <https://stat.link/wnr7tz>

## Denmark: Demand, output and prices

|                                                                        | 2022                          | 2023                                        | 2024 | 2025 | 2026 | 2027 |
|------------------------------------------------------------------------|-------------------------------|---------------------------------------------|------|------|------|------|
|                                                                        | Current prices<br>DKK billion | Percentage changes, volume<br>(2020 prices) |      |      |      |      |
| <b>Denmark</b>                                                         |                               |                                             |      |      |      |      |
| <b>GDP at market prices</b>                                            | 2 831.3                       | 0.6                                         | 3.5  | 2.9  | 2.5  | 1.5  |
| Private consumption                                                    | 1 235.9                       | -2.5                                        | 1.0  | 2.3  | 2.0  | 1.9  |
| Government consumption                                                 | 624.5                         | 0.2                                         | 1.0  | 1.5  | 3.0  | 2.0  |
| Gross fixed capital formation                                          | 653.7                         | -3.8                                        | 3.0  | -3.5 | 1.1  | 3.5  |
| Final domestic demand                                                  | 2 514.1                       | -2.2                                        | 1.5  | 0.6  | 2.1  | 2.3  |
| Stockbuilding <sup>1</sup>                                             | 47.8                          | -1.4                                        | -0.3 | 0.0  | 0.3  | 0.1  |
| Total domestic demand                                                  | 2 561.9                       | -3.8                                        | 1.2  | 0.5  | 2.5  | 2.4  |
| Exports of goods and services                                          | 2 003.3                       | 7.8                                         | 7.1  | 3.0  | 3.9  | 1.5  |
| Imports of goods and services                                          | 1 733.9                       | 2.5                                         | 4.1  | -0.4 | 2.2  | 2.8  |
| Net exports <sup>1</sup>                                               | 269.4                         | 4.0                                         | 2.4  | 2.4  | 1.5  | -0.7 |
| <i>Memorandum items</i>                                                |                               |                                             |      |      |      |      |
| GDP deflator                                                           | —                             | -2.1                                        | 1.5  | 1.7  | 1.5  | 2.6  |
| Consumer price index                                                   | —                             | 3.3                                         | 1.4  | 1.9  | 1.7  | 2.0  |
| Core inflation index <sup>2</sup>                                      | —                             | 4.3                                         | 1.5  | 1.7  | 2.0  | 2.1  |
| Unemployment rate (% of labour force)                                  | —                             | 5.2                                         | 6.3  | 6.5  | 6.8  | 6.6  |
| Household saving ratio, net (% of disposable income)                   | —                             | 9.1                                         | 8.5  | 7.4  | 7.8  | 8.0  |
| General government financial balance (% of GDP)                        | —                             | 3.4                                         | 4.5  | 2.9  | 1.1  | 0.2  |
| General government gross debt (% of GDP)                               | —                             | 40.7                                        | 38.5 | 35.5 | 34.2 | 33.8 |
| General government debt, Maastricht definition <sup>3</sup> (% of GDP) | —                             | 33.0                                        | 30.5 | 27.9 | 26.6 | 26.3 |
| Current account balance (% of GDP)                                     | —                             | 11.0                                        | 12.2 | 12.5 | 11.2 | 10.6 |

1. Contributions to changes in real GDP, actual amount in the first column.

2. Consumer price index excluding food and energy.

3. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.

Source: OECD Economic Outlook 119 database.

StatLink  <https://stat.link/lq39sv>

Relatively low fossil fuel consumption partly shields Denmark from energy price shocks. Reduced international trade flows and disruptions in the Strait of Hormuz have hit maritime transport, which accounts for around 20% of Denmark's exports. Freight rates have surged, reflecting higher operational and insurance costs, while trade volumes have declined. Exports to the United States have fallen following the US tariff increase. However, the impact of tariffs on Denmark's economy remains limited, as a large share of exports to the United States are produced locally and therefore exempt from tariffs. Revenues in the pharmaceutical sector are expected to come under pressure due to lower US prices, although sales volumes should continue to grow at a moderate pace.

## Fiscal policy is set to support households purchasing power

A new coalition government is being formed. Broad cross-party consensus points to continuity in fiscal policy, with a reduction in large surpluses while remaining compliant with fiscal rules. Spending on defence is expected to permanently rise to 3.5% of GDP from 2026 in line with NATO requirements. Indexation of social benefits to past wage growth, a food voucher for low-income households as well as cuts in personal income, electricity tax and excise duties will also contribute to the reduction in the budget surplus from 2.9% in 2025 to 0.2% in 2027 and support domestic demand via higher household incomes. Credit conditions and borrowing costs are projected to stabilise. Denmark's Nationalbank is expected to mirror ECB decisions to maintain the krone's peg to the euro, including an expected 25 basis point increase in policy rates that is subsequently reversed in 2027.

## Higher energy prices will dampen GDP growth

GDP growth is projected to moderate, reflecting a weaker global trade environment and slower growth in the pharmaceutical sector. Private consumption should remain resilient, supported by robust wage growth, rising social benefits, and tax cuts, which will partly offset the adverse impact of higher energy prices on purchasing power in 2026. Labour market easing should help keep wage growth aligned with collective agreements. Inflation is projected to fall below 2% by the end of 2027. Upside risks include stronger consumer confidence, a faster decline in precautionary savings, and additional fiscal measures to address energy costs. Defence and security spending could also provide greater stimulus if directed toward domestic infrastructure and recruitment. Downside risks stem from potentially stronger disruptions in shipping amid escalating geopolitical tensions.

## Ambitious climate and energy policies can reduce exposure to external shocks

Exposure to energy price shocks can be reduced by accelerating the electrification of energy supply. Barriers to the infrastructure investment needed to deploy renewable capacity should be reduced, while support for biogas facilities should continue with strict cost control. While some fiscal easing is appropriate as global turbulence weighs on activity, further loosening could add to inflationary pressures. The fiscal room for manoeuvre has narrowed due to the rapid increase in defence spending from 2.3% of GDP in 2024 to 3.5% in 2026 and will continue to decline as the population ages. High uncertainty over future revenues underscores the need to preserve fiscal buffers and prioritise growth-enhancing investment over untargeted spending and tax cuts. Continued progress in cutting red tape and simplifying regulation would help contain costs and foster sustained growth.

# Estonia

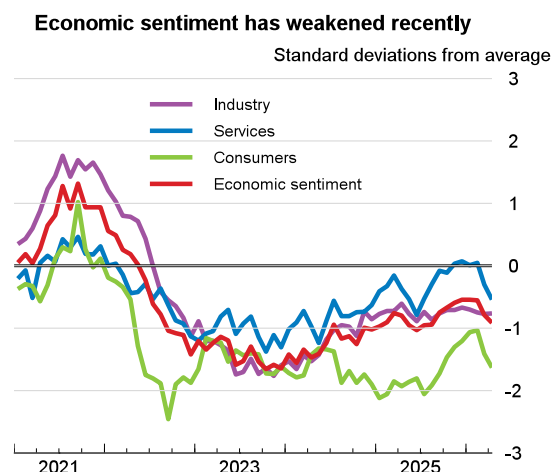
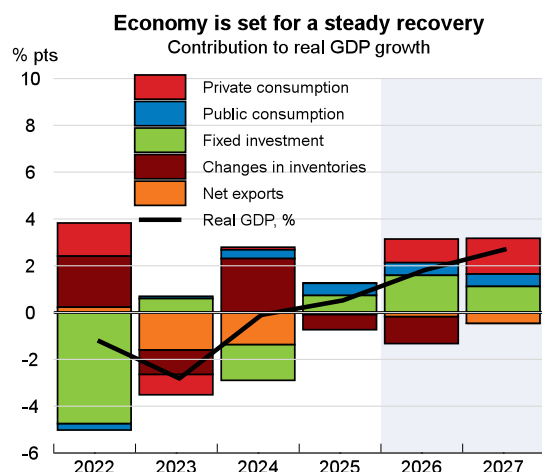
The economic recovery will continue despite headwinds from the evolving conflict in the Middle East, with GDP growth reaching 1.8% in 2026 and 2.7% in 2027. Growth will be driven by stronger private investment, consumption and public investment. Inflation will reach 4.1% in 2026 as higher energy prices feed through to consumer prices, while the cancellation of a planned excise duty increase will have only a limited impact in cushioning households. Risks are tilted downward, including regional geopolitical tensions, weaker Nordic demand and persistently high energy prices.

The government deficit will increase to around 4.5% of GDP this year and next. Any positive fiscal surprises should be used to reduce the deficit, with steady consolidation starting next year. A long-term spending and tax strategy is needed to address pressures from ageing, climate and defence. Energy support should be temporary and targeted to vulnerable households. Investment in grids, energy security and storage would support resilience and the green transition.

## Growth has picked up but price pressures have risen

Growth resumed last year, following three years of recession, and strengthened to 1.3% year-on-year in the first quarter of 2026, according to the first estimate. Household consumption has been broadly flat since the end of 2022, but retail sales volumes picked up in the first quarter of 2026. Inflation remained elevated at 3.3% in April due to rising energy price growth even though service inflation continued to moderate. Unemployment declined to 6.8% in the first quarter of the year. Consumer confidence fell in March and April amid weaker expectations about households' financial situation.

## Estonia



Source: OECD Economic Outlook 119 database; European Commission; and OECD calculations.

StatLink  <https://stat.link/4g8ksj>

## Estonia: Demand, output and prices

|                                                                        | 2022                          | 2023                                        | 2024 | 2025 | 2026 | 2027 |
|------------------------------------------------------------------------|-------------------------------|---------------------------------------------|------|------|------|------|
|                                                                        | Current prices<br>EUR billion | Percentage changes, volume<br>(2020 prices) |      |      |      |      |
| <b>Estonia</b>                                                         |                               |                                             |      |      |      |      |
| <b>GDP at market prices</b>                                            | 36.3                          | -2.8                                        | -0.1 | 0.5  | 1.8  | 2.7  |
| Private consumption                                                    | 19.1                          | -1.7                                        | 0.2  | 0.0  | 1.9  | 2.9  |
| Government consumption                                                 | 7.0                           | 0.5                                         | 1.8  | 2.5  | 2.5  | 2.4  |
| Gross fixed capital formation                                          | 9.0                           | 2.4                                         | -6.1 | 3.0  | 6.6  | 4.4  |
| Final domestic demand                                                  | 35.1                          | -0.1                                        | -0.9 | 1.3  | 3.2  | 3.2  |
| Stockbuilding <sup>1</sup>                                             | 1.4                           | -3.0                                        | 1.3  | 0.6  | -2.8 | 0.0  |
| Total domestic demand                                                  | 36.5                          | -3.1                                        | 1.0  | 2.3  | 0.5  | 3.2  |
| Exports of goods and services                                          | 31.7                          | -9.1                                        | -1.5 | 4.9  | 2.5  | 2.5  |
| Imports of goods and services                                          | 32.0                          | -7.2                                        | 0.2  | 5.1  | 2.8  | 3.1  |
| Net exports <sup>1</sup>                                               | -0.3                          | -1.6                                        | -1.4 | -0.1 | -0.2 | -0.5 |
| <b>Memorandum items</b>                                                |                               |                                             |      |      |      |      |
| GDP deflator                                                           | —                             | 8.8                                         | 4.0  | 3.9  | 3.7  | 2.7  |
| Harmonised index of consumer prices                                    | —                             | 9.1                                         | 3.7  | 4.8  | 4.1  | 2.6  |
| Harmonised index of core inflation <sup>2</sup>                        | —                             | 8.7                                         | 5.1  | 5.9  | 2.1  | 2.5  |
| Unemployment rate (% of labour force)                                  | —                             | 6.4                                         | 7.5  | 7.4  | 6.8  | 6.6  |
| Household saving ratio, net (% of disposable income)                   | —                             | -0.8                                        | 3.0  | 2.9  | 4.1  | 3.6  |
| General government financial balance (% of GDP)                        | —                             | -2.7                                        | -1.1 | -2.0 | -4.3 | -4.7 |
| General government gross debt (% of GDP)                               | —                             | 28.8                                        | 33.0 | 33.9 | 37.4 | 41.2 |
| General government debt, Maastricht definition <sup>3</sup> (% of GDP) | —                             | 20.2                                        | 23.5 | 24.1 | 27.6 | 31.3 |
| Current account balance (% of GDP)                                     | —                             | -1.6                                        | -1.6 | -0.4 | -1.5 | -1.6 |

1. Contributions to changes in real GDP, actual amount in the first column.

2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.

3. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.

Source: OECD Economic Outlook 119 database.

StatLink  <https://stat.link/8k3t9i>

Estonia's exposure to the evolving conflict in the Middle East is mainly through global energy prices, as direct imports from the Middle East are limited. Estonia is vulnerable to energy price volatility because energy and food represent a considerable share of household consumption and the pass-through to domestic prices is rapid. However, gas prices are expected to be less affected than in 2022, when European gas markets reoriented away from Russia towards new suppliers. Estonia has made rapid progress in increasing renewables generation, which accounts for around half of electricity supply.

## Fiscal policy is expansionary

The general government budget deficit is projected to widen to 4.3% this year. This reflects a substantial fiscal easing, with defence spending rising by 1.6 percentage points to 5% of GDP and changes to the basic tax allowance, which will boost household incomes at a fiscal cost of 1.3% of GDP. In response to higher energy prices, the government cancelled a planned excise duty increase at a fiscal cost of 0.1% of GDP. The deficit is expected to rise further in 2027 as no significant consolidation measures are currently planned. Public debt is projected to rise from 24% of GDP in 2025 to over 31% in 2027.

## The recovery is set to continue

The economic recovery is projected to continue this year and next, despite the headwinds from the evolving conflict in the Middle East, with GDP growth reaching 1.8% in 2026 and 2.7% in 2027. Growth will be driven by the recovery in private investment and consumption and strong public investment, including rising

defence expenditure. Higher energy prices in 2026 and higher food prices in 2027 are expected to raise headline inflation to 4.1% in 2026 and to 2.6% in 2027. The effect on core inflation is likely to be more muted, given easing wage pressures. Risks are tilted to the downside and include geopolitical tensions in the region, more persistent weakness in Nordic demand and energy prices remaining higher for longer.

### **Fiscal consolidation and reforms would support economic resilience**

Despite low public debt, Estonia faces growing spending pressures from population ageing, health care, the climate transition and defence. Given the substantial budget deficit, a steady consolidation effort will be needed from 2027. Any revenue overperformance or lower-than-expected spending in 2026 should be used to reduce the deficit faster. Existing measures to cushion increases in energy prices have limited fiscal costs but should be temporary and targeted to vulnerable households. A long-term strategy is needed for spending and taxation to manage fiscal pressures and keep debt low. Estonia should accelerate investment in grid reinforcement, energy security and storage to ensure security of supply, support price stability and enable the sustainable expansion of renewables. Broadening the reach of current upskilling policies would help advance the digital transition in traditional industries, prepare the labour force for the wider adoption of AI and the climate transition, and support more inclusive growth.

## Euro area

GDP growth is projected to slow from 1.4% in 2025 to 0.8% in 2026, before picking up to 1.2% in 2027 as domestic demand and trade growth strengthen. Private consumption will be supported by resilient labour markets and a modest reduction in the household saving rate. Private investment will be constrained by uncertainty, while public investment will be supported in 2026 by the Recovery and Resilience Facility funds. Wage growth is projected to ease gradually, helping inflation to return to target after the energy price shock linked to the evolving conflict in the Middle East.

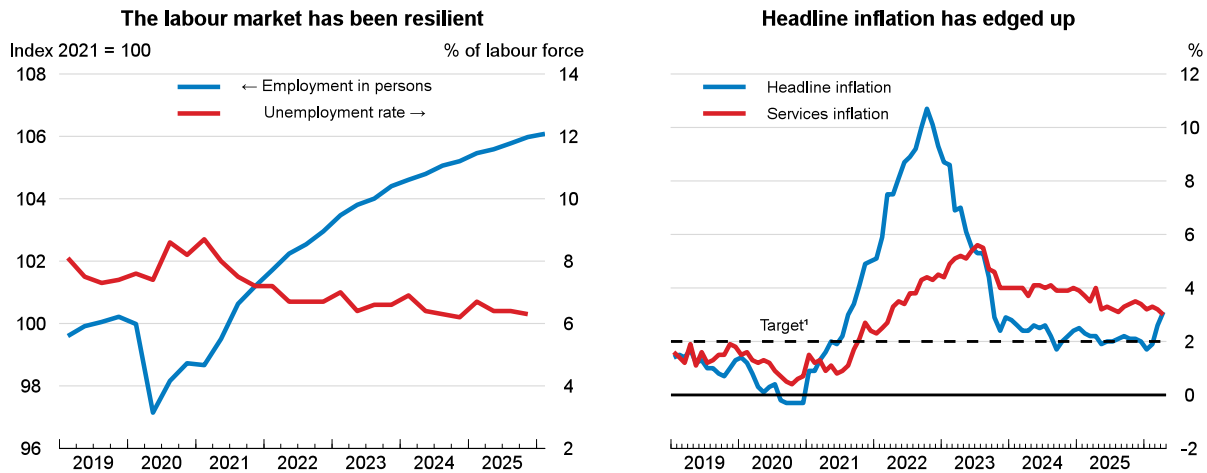
Fiscal policy is projected to remain broadly neutral in 2026 and mildly tighter in 2027. Although defence spending is set to increase, prudent fiscal policy is needed to rebuild fiscal buffers and ensure medium-term fiscal sustainability. Amid elevated uncertainty, monetary policy should also remain vigilant to ensure that inflation returns durably to target. To help improve energy security, reduced tax rates and tax exemptions for fossil fuels should be phased out and investment in cross-border electricity grid connections strengthened.

### Uncertainty weighs on the economy

GDP grew by 0.1% quarter on quarter in the first quarter of 2026. The evolving conflict in the Middle East is continuing to weigh on activity, following a sharp decline in oil exports, particularly diesel and jet fuel, from the Gulf countries. Recent indicators suggest deteriorating sentiment, and a balance of firms in the May composite PMI survey reported that output declined, reflecting higher energy prices and weakening demand. Higher energy prices pushed up headline inflation to 3% in April, but core inflation remained at 2.2%, mainly reflecting elevated services inflation which has not dropped below 3% since April 2022. At the same time, the euro remained strong, close to historic highs against a basket of 41 currencies, and medium-term market-based inflation expectations stayed broadly stable around the 2% target. The labour market is cooling, with both employment growth and nominal wage growth slowing in the second half of 2025. Even so, the seasonally adjusted unemployment rate remained close to its historic low, at 6.2% in March. Financial conditions have tightened somewhat, particularly for loans to firms, and banks expected the tightening to continue in the first quarter of 2026.

The current account recorded a surplus of 1.7% of euro area GDP in the 12 months to March 2026, reflecting a lower services trade surplus and a lower balance of goods trade following the closure of the Strait of Hormuz, through which the EU imported about 5% of its crude oil, 10% of LNG and 45% of jet fuel. In August 2025 the US introduced a 15% tariff on imports of EU goods, including cars and parts, with a 50% tariff on imports of steel and aluminium as well as products made of these metals. The EU has stopped applying a 10% levy on US car imports and further postponed its retaliatory measures. In February 2026, following the ruling of the US Supreme Court, the US administration introduced a new 10% global tariff to replace the previous levies. In May, the European Parliament agreed in principle to ratify the EU-US framework agreement, with final adoption pending. In support of Ukraine, EU countries have extended temporary protection to more than 4 million refugees until March 2027. This has helped to reduce labour shortages in low-wage sectors in some EU countries. The EU has so far disbursed more than EUR 36 billion (0.3% of euro area GDP) from the EUR 50 billion Ukraine facility and provided EUR 17 billion (0.1% of euro area GDP) to help EU countries address the needs of Ukrainian refugees.

## Euro area 1



1. The dashed line indicates the ECB's inflation target of 2%.

Source: OECD Quarterly National Accounts database; Eurostat Unemployment rates by sex, age, citizenship database; and Eurostat Harmonised index of consumer prices (HICP) database.

StatLink  <https://stat.link/rth2xz>

## Euro area: Demand, output and prices

|                                                                        | 2022                          | 2023                                        | 2024 | 2025 | 2026 | 2027 |
|------------------------------------------------------------------------|-------------------------------|---------------------------------------------|------|------|------|------|
|                                                                        | Current prices<br>EUR billion | Percentage changes, volume<br>(2021 prices) |      |      |      |      |
| <b>Euro area</b>                                                       |                               |                                             |      |      |      |      |
| <b>GDP at market prices</b>                                            | 13 635.2                      | 0.5                                         | 0.9  | 1.4  | 0.8  | 1.2  |
| Private consumption                                                    | 7 188.8                       | 0.5                                         | 1.3  | 1.5  | 0.8  | 1.0  |
| Government consumption                                                 | 2 918.6                       | 1.5                                         | 2.3  | 1.6  | 1.7  | 1.0  |
| Gross fixed capital formation                                          | 2 988.4                       | 2.5                                         | -2.6 | 3.0  | 1.3  | 1.7  |
| Final domestic demand                                                  | 13 095.8                      | 1.2                                         | 0.6  | 1.9  | 1.1  | 1.1  |
| Stockbuilding <sup>1</sup>                                             | 269.6                         | -1.0                                        | -0.1 | 0.4  | -0.1 | 0.0  |
| Total domestic demand                                                  | 13 365.4                      | 0.1                                         | 0.6  | 2.2  | 1.0  | 1.1  |
| Net exports <sup>1</sup>                                               | 269.8                         | 0.4                                         | 0.4  | -0.6 | -0.2 | 0.1  |
| <b>Memorandum items</b>                                                |                               |                                             |      |      |      |      |
| GDP deflator                                                           | —                             | 6.1                                         | 2.9  | 2.5  | 2.3  | 2.4  |
| Harmonised index of consumer prices                                    | —                             | 5.4                                         | 2.4  | 2.1  | 2.8  | 2.4  |
| Harmonised index of core inflation <sup>2</sup>                        | —                             | 4.9                                         | 2.8  | 2.4  | 2.4  | 2.4  |
| Unemployment rate (% of labour force)                                  | —                             | 6.6                                         | 6.4  | 6.4  | 6.4  | 6.3  |
| Household saving ratio, net (% of disposable income)                   | —                             | 7.9                                         | 9.0  | 8.5  | 7.9  | 7.8  |
| General government financial balance (% of GDP)                        | —                             | -3.5                                        | -3.1 | -2.9 | -3.2 | -3.3 |
| General government gross debt (% of GDP)                               | —                             | 94.5                                        | 93.5 | 92.9 | 94.0 | 94.9 |
| General government debt, Maastricht definition <sup>3</sup> (% of GDP) | —                             | 88.7                                        | 88.8 | 89.5 | 90.6 | 91.4 |
| Current account balance (% of GDP)                                     | —                             | 2.6                                         | 3.5  | 2.6  | 1.9  | 2.2  |

Note: Aggregation based on euro area countries that are members of the OECD, and on seasonally-adjusted and calendar-days-adjusted basis.

1. Contributions to changes in real GDP, actual amount in the first column.

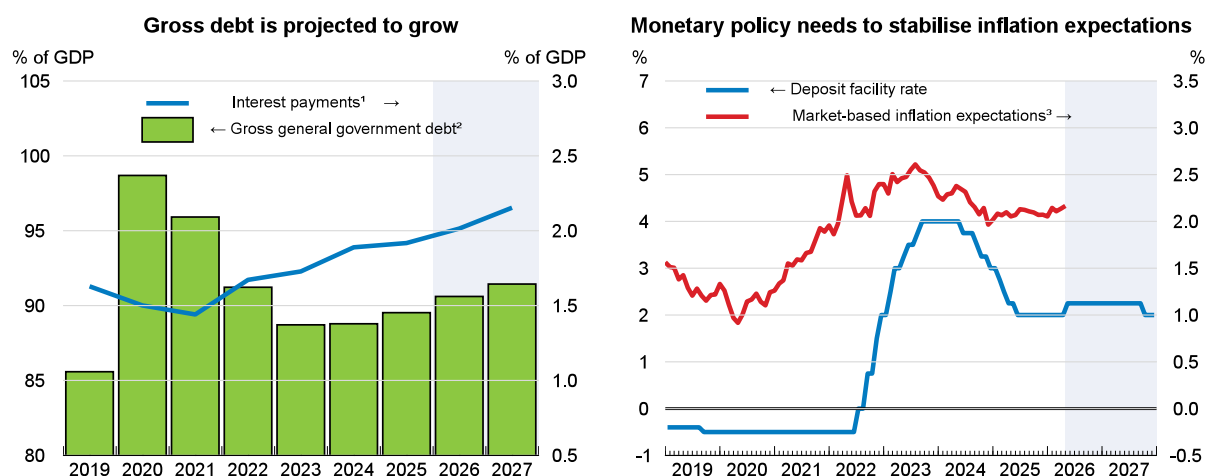
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.

3. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.

Source: OECD Economic Outlook 119 database.

StatLink  <https://stat.link/qfj19h>

## Euro area 2



1. Gross general government interest payments.

2. Maastricht definition.

3. 5-year inflation expectations 5-year ahead derived from swap contracts.

Source: OECD Economic Outlook 119 database; European Central Bank (ECB); Eurostat; and OECD calculations.

StatLink  <https://stat.link/tvag1u>

## Macroeconomic policy will remain broadly neutral

The aggregate euro area fiscal stance tightened slightly in 2025 but is projected to remain broadly neutral in 2026 and mildly tighter in 2027, even though further discretionary support measures may be introduced if the Middle East conflict continues. Spending under the Recovery and Resilience Facility (RRF) could provide support of about 0.5% of GDP in 2026, if disbursed fully as planned. The end of the programme as well as withdrawal of the energy support measures will help make fiscal policy mildly tighter in 2027. Russia's war of aggression against Ukraine has triggered additional military spending. In the countries that opted for the coordinated use of national escape clauses under the EU fiscal rules, additional defence spending could amount to more than 1% of GDP by 2027. In January 2026, the Commission approved loan agreements with 16 EU countries amounting to EUR 112 billion under the Security Action for Europe (SAFE), which will need to be repaid after a 10-year grace period.

The European Central Bank's monetary policy stance is broadly neutral, with the deposit facility rate remaining at 2% since June 2025. Uncertainty surrounding the duration of the energy price shock, the scope of the pass-through to core inflation and the design of fiscal support calls for vigilant and prudent monetary policy, to ensure that inflation is durably reduced to the 2% target. The policy rate is projected to increase by 25 basis points in 2026, before being lowered back to 2% in the last quarter of 2027, reflecting the need to prevent inflation expectations from de-anchoring.

## Economic growth will gradually rebound from the current slowdown

Growth is projected to slow to 0.8% in 2026, amidst the evolving conflict in the Middle East, before picking up in 2027 helped by a rebound in trade. The labour market will remain tight, with labour shortages in some sectors and historically low unemployment slowing wage growth normalisation. Growing real disposable incomes and a lower household saving rate should support private consumption. Elevated uncertainty will

weigh on private investment, but public investment will be supported by the last year of the RRF spending in 2026. Headline and core inflation are projected to moderate towards the target as the energy price shock in the middle of 2026 gradually dissipates.

Risks to the projections are tilted to the downside. A longer conflict in the Middle East could lead to shortages and rationing of oil and natural gas in the euro area, reducing activity and pushing up inflation. In addition, worsening EU-US trade tensions would weigh on external demand, while trade diverted toward the EU could reduce demand for domestically produced goods. Financial stability risks associated with a rapidly shifting geopolitical environment can be amplified by an abrupt repricing of sovereign risk. On the upside, a durable peace in the Middle East and a reduction of trade tensions could help lift external demand and bring down inflation.

### **Prudent macroeconomic policies need to be reinforced by structural reforms**

The investment needs associated with defence and continuing decarbonisation are considerable. To contain public debt and rebuild fiscal buffers, reprioritisation of spending and prudent fiscal policy will be needed to address other spending pressures, such as population ageing. To limit fiscal costs, new energy support measures need to be temporary and targeted. The activation of national escape clauses under the EU fiscal rules may further delay the reduction of existing excessive deficits. Compliance with the fiscal rules should be carefully monitored to establish the credibility of the new framework and safeguard medium-term fiscal sustainability. The monetary policy stance should not be eased prematurely to ensure that inflation expectations remain firmly anchored. To encourage electrification, reduced tax rates and exemptions for fossil fuels should be phased out. In addition, investment in cross-border electricity grid connections should be stepped up and should meet rigorous cost-benefit analysis criteria.

# Finland

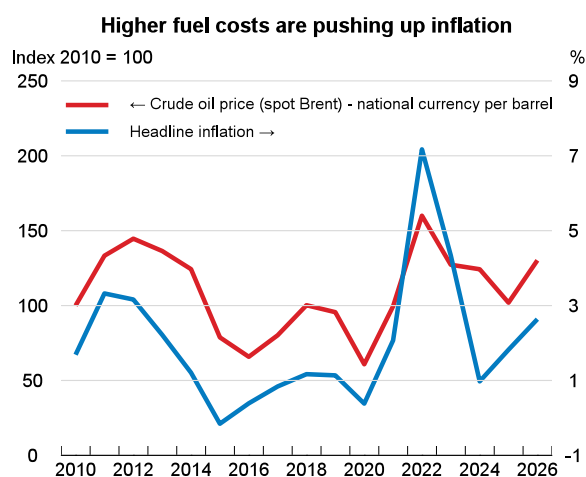
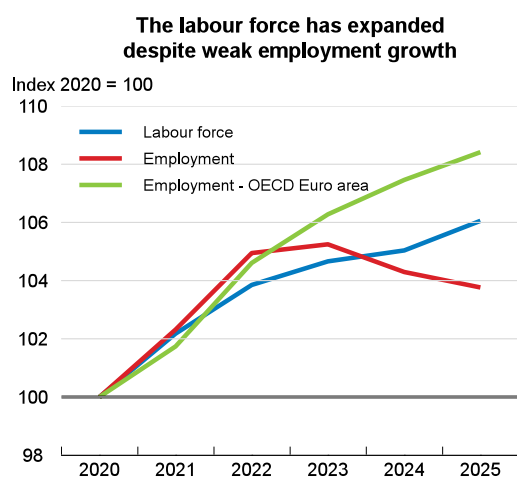
After stagnating in 2025, Finland faces a fragile and uneven recovery in 2026, constrained by higher energy prices and global volatility owing to the evolving conflict in the Middle East. Elevated energy prices are eroding household purchasing power, raising production costs and weakening confidence, delaying the recovery in consumption. GDP growth is projected to remain modest at 0.8% in 2026 before strengthening to 1.2% in 2027 as energy pressures ease, external demand improves and lower interest rates support activity. Inflation is expected to rise temporarily to around 2.6% in 2026, while unemployment remains above 10%.

Finland's medium-term outlook is supported by competitive electricity prices and growing capabilities in green technologies and defence manufacturing. However, large deficits, rising public debt and higher interest costs require steady, credible fiscal consolidation while preserving priority investment. Key policy priorities include strengthening energy security and boosting productivity through better R&D commercialisation.

## External shocks and weak confidence are weighing on domestic demand

A subdued recovery is underway. Private consumption started to pick up in the second half of 2025 and retail sales grew robustly in the first quarter of 2026. Residential construction remained depressed following the sharp correction in 2023–24, although the pace of decline slowed. The economy expanded 0.9% in the first quarter of 2026. However, other indicators, including low consumer confidence and shrinking employment, suggest that growth is not yet broad based. Pushed up by rising energy prices, harmonised headline inflation rose to 2.4% in April 2026. Despite continued declines in employment due to weak activity, the unemployment rate decreased from 10.6% to 10.4% in the first quarter of 2026, driven by a sharp contraction in the labour force following sustained expansion.

### Finland



Source: OECD Economic Outlook 119 database.

## Finland: Demand, output and prices

|                                                                        | 2022                          | 2023                                        | 2024 | 2025 | 2026 | 2027 |
|------------------------------------------------------------------------|-------------------------------|---------------------------------------------|------|------|------|------|
|                                                                        | Current prices<br>EUR billion | Percentage changes, volume<br>(2015 prices) |      |      |      |      |
| <b>Finland</b>                                                         |                               |                                             |      |      |      |      |
| <b>GDP at market prices</b>                                            | 266.1                         | -1.3                                        | 0.4  | 0.2  | 0.8  | 1.2  |
| Private consumption                                                    | 134.5                         | -0.3                                        | -0.2 | -0.2 | 0.1  | 1.0  |
| Government consumption                                                 | 64.3                          | 4.2                                         | 2.0  | -0.2 | -0.5 | 0.0  |
| Gross fixed capital formation                                          | 65.6                          | -7.1                                        | -5.0 | 0.8  | 5.7  | 3.2  |
| Final domestic demand                                                  | 264.5                         | -0.9                                        | -0.8 | 0.0  | 1.2  | 1.3  |
| Stockbuilding <sup>1,2</sup>                                           | 7.0                           | -3.1                                        | 0.6  | -0.3 | 0.1  | 0.0  |
| Total domestic demand                                                  | 271.4                         | -3.9                                        | 0.5  | -0.2 | 1.5  | 1.2  |
| Exports of goods and services                                          | 123.2                         | -1.4                                        | 1.8  | 3.4  | 0.9  | 2.6  |
| Imports of goods and services                                          | 128.5                         | -6.8                                        | -0.8 | 1.7  | 3.0  | 2.8  |
| Net exports <sup>1</sup>                                               | - 5.3                         | 2.7                                         | 1.1  | 0.7  | -0.9 | 0.0  |
| <b>Memorandum items</b>                                                |                               |                                             |      |      |      |      |
| GDP deflator                                                           | —                             | 3.9                                         | 0.7  | 1.5  | 2.3  | 1.9  |
| Harmonised index of consumer prices                                    | —                             | 4.3                                         | 1.0  | 1.8  | 2.6  | 2.2  |
| Harmonised index of core inflation <sup>3</sup>                        | —                             | 4.1                                         | 2.2  | 2.4  | 1.8  | 2.2  |
| Unemployment rate (% of labour force)                                  | —                             | 7.2                                         | 8.4  | 9.8  | 10.5 | 10.5 |
| Household saving ratio, net (% of disposable income)                   | —                             | 2.4                                         | 4.3  | 4.4  | 2.5  | 3.3  |
| General government financial balance (% of GDP)                        | —                             | -2.9                                        | -4.4 | -3.4 | -3.8 | -3.6 |
| General government gross debt (% of GDP)                               | —                             | 85.0                                        | 90.2 | 93.5 | 96.9 | 99.9 |
| General government debt, Maastricht definition <sup>4</sup> (% of GDP) | —                             | 77.0                                        | 82.4 | 88.5 | 91.9 | 94.9 |
| Current account balance (% of GDP)                                     | —                             | -0.7                                        | -0.4 | 1.0  | -0.2 | -0.3 |

1. Contributions to changes in real GDP, actual amount in the first column.

2. Including statistical discrepancy.

3. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.

4. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.

Source: OECD Economic Outlook 119 database.

StatLink  <https://stat.link/zuhvgo>

International developments remain a major drag on activity. Russia's war of aggression against Ukraine led to the closure of the Finnish Russian border, the loss of bilateral trade and a decline in tourism from Asia due to airspace restrictions. Weak growth in Germany, Finland's most important export destination for machinery, metals and intermediate goods, has weighed heavily on industrial exports. Since mid-2025, Finland has also faced higher tariffs in the United States on non-exempt goods. As a net energy importer with energy intensive industries, Finland is exposed to the evolving conflict in the Middle East via global energy prices, as well as knock-on effects on globally traded industrial products such as fertilisers and industrial gases, contributing to a deterioration of the terms of trade in 2026. This vulnerability is partly mitigated by the high share of non-fossil fuel electricity generation, which accounts for around 95% of total electricity output.

## Monetary easing supports demand, while fiscal consolidation continues

Monetary conditions are gradually easing as ECB policy rate cuts feed through to financing costs, although transmission remains incomplete as high household indebtedness and cautious bank lending continue to weigh on credit demand and spending. Lower interest rates are expected to support investment and help stabilise housing activity. Fiscal policy remains contractionary over the projection period, reducing the structural primary deficit by around 0.2 percentage points of GDP from 2025 to 2027. While this occurs against a backdrop of weak activity, the adjustment is gradual and allows the automatic stabilisers to operate. Gross public debt continues to rise, approaching 100% of GDP by 2027, placing a premium on a credible medium-term fiscal framework. New fiscal rules introducing deficit targets and requiring a declining

debt ratio over the parliamentary term should help anchor fiscal credibility. The government's multiyear consolidation programme combines spending restraint, tax measures and regular spending reviews, partly offset by income tax cuts and a planned reduction in the corporate tax rate from 2027. No fiscal measures have been taken to cushion the energy price shock. However, defence spending continues to rise and is projected to reach at least 3% of GDP by the end of the decade.

### **The investment led recovery is expected to strengthen as external demand improves**

GDP growth is projected to strengthen from 0.8% in 2026 to 1.2% in 2027, as easing monetary conditions, recovering investment and stabilising housing construction more than offset the drag from a tighter fiscal stance. Investment is expected to be driven by defence, energy and green-industrial projects, underpinned by cheap and abundant low-emissions electricity. Private consumption is expected to be broadly flat in 2026, despite falling real disposable incomes, with households reducing savings, and then strengthen by 1% in 2027 as real incomes recover and employment growth resumes. External demand remains a constraint in 2026, with net exports subtracting from growth due to weak European demand and adverse energy-related price effects. Improving growth in Germany over 2026–27 will help support Finnish export growth. Headline inflation will rise to 2.6% in 2026 before easing to 2.2% in 2027, while underlying inflation remains contained. The unemployment rate is expected to peak at around 10.5% and decline only gradually. While Finland maintains substantial strategic reserves, which limit risks for petrol and diesel supply, risks are tilted to the downside, mainly from persistently high energy prices and jet fuel shortages should the Middle East conflict be prolonged. Weaker-than-expected German growth or further trade fragmentation also represent material downside risks, while a faster than expected rise in German investment constitutes an upside risk.

### **Fiscal consolidation should continue while taking reforms to accelerate electrification**

Maintaining a credible and gradual fiscal consolidation path is essential to stabilise public debt in a volatile international environment, while allowing automatic stabilisers to operate if the recovery weakens. Fiscal space should be preserved for priority public investment, notably in defence, energy and infrastructure. At the same time, lifting medium-term growth will require accelerating resilience and productivity-enhancing reforms. Faster permitting and grid investment and crowding in private investment to scale innovation in clean energy and green industrial projects would accelerate electrification, improving energy security. Productivity can be further boosted by easing skills shortages through higher-education and foreign-talent reforms, and fostering private investment in digitalisation and defence projects.

# France

Growth is expected to slow to 0.7% in 2026 and remain weak in 2027, at 0.8%. Economic activity strengthened in the second half of 2025, supported by a pick-up in investment and exports, and a modest recovery in household consumption, but slowed in early 2026. Economic momentum has been disrupted by the evolving conflict in the Middle East. The resulting surge in inflation is eroding purchasing power, weighing on private consumption. Heightened uncertainty is set to dampen business investment. Residential investment should prove more resilient, supported by the earlier rise in building permits, although higher interest rates will continue to weigh on the existing-homes market.

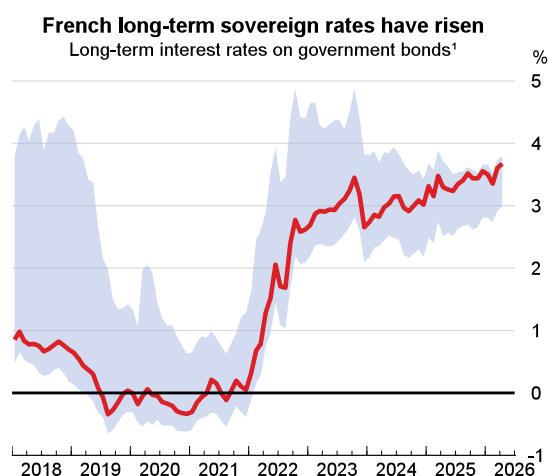
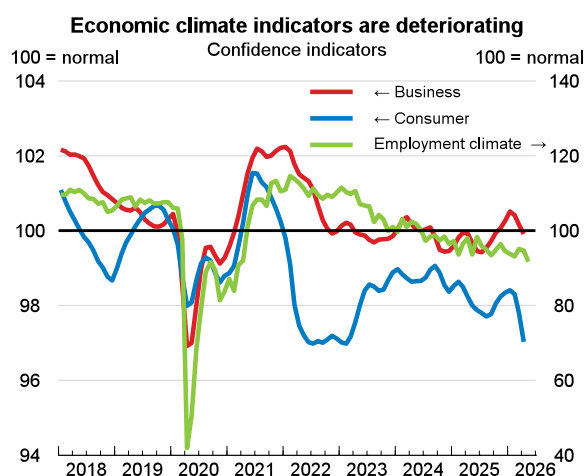
The fiscal deficit fell from 5.8% of GDP in 2024 to 5.1% of GDP in 2025, outperforming the target of 5.4% of GDP due to better-than-expected revenues, notably corporate taxes, and tight expenditure management. It is projected to reach the government objective of 5% of GDP in 2026 and decline further to 4.6% of GDP in 2027. Risks are high, however, as these projections assume no additional broad-based energy support measures and a gradual recovery in energy production and exports in the Middle East from the second half of 2026. While France is relatively less exposed to the disruption in Middle East exports given its energy mix, further electrification of industry and transport would increase resilience. Growth would be strengthened by measures supporting higher employment of young and older workers, and by tackling productivity bottlenecks through stronger skills, R&D and digital investment.

## Economic momentum has been weakened by the Middle East conflict

Political uncertainty eased towards the end of 2025 and early 2026, allowing the budget to be adopted in February, supporting confidence and activity. After showing early signs of moderation, momentum weakened further following the outbreak of the evolving conflict in the Middle East. Short-term indicators deteriorated in March and April: household confidence retreated for two consecutive months from a one-year high in February, and business confidence has declined since January after returning to its long-term average at the end of 2025. The unemployment rate also continued to rise. Higher energy prices lifted annual headline inflation to 2.5% in April, from 1.1% in February, although it remained below the euro area average.

Although France is less exposed than most peers – around 95% of electricity generation comes from nuclear and renewables – the economy remains vulnerable to oil price shocks and shortages in fossil-fuel-intensive activities. The reduction in the US tariff rate on merchandise imports from France since 20 February could provide a modest offset to the energy price shock. However, the impact on exports is likely to remain limited, as trade-related uncertainty stays elevated and growth prospects in Germany, France's main trading partner, remain modest.

## France 1



1. The shaded area shows the range for Euro area 17.

Source: OECD Short-term Statistics database; INSEE; and OECD Economic Outlook 119 database.

StatLink  <https://stat.link/ijgc31>

## France: Demand, output and prices

|                                                                        | 2022                          | 2023                                        | 2024  | 2025  | 2026  | 2027  |
|------------------------------------------------------------------------|-------------------------------|---------------------------------------------|-------|-------|-------|-------|
|                                                                        | Current prices<br>EUR billion | Percentage changes, volume<br>(2020 prices) |       |       |       |       |
| <b>France</b>                                                          |                               |                                             |       |       |       |       |
| <b>GDP at market prices</b>                                            | 2 652.8                       | 1.6                                         | 1.1   | 0.9   | 0.7   | 0.8   |
| Private consumption                                                    | 1 434.6                       | 0.8                                         | 1.0   | 0.5   | 0.3   | 0.9   |
| Government consumption                                                 | 653.5                         | 1.5                                         | 1.4   | 1.6   | 1.3   | 0.7   |
| Gross fixed capital formation                                          | 622.8                         | 0.7                                         | -1.3  | 0.8   | 0.4   | 0.5   |
| Final domestic demand                                                  | 2 710.9                       | 0.9                                         | 0.6   | 0.8   | 0.6   | 0.8   |
| Stockbuilding <sup>1</sup>                                             | 14.3                          | -0.3                                        | -0.8  | 0.8   | -0.3  | -0.1  |
| Total domestic demand                                                  | 2 725.2                       | 0.6                                         | -0.2  | 1.6   | 0.3   | 0.6   |
| Exports of goods and services                                          | 970.8                         | 2.8                                         | 2.4   | 2.3   | 1.6   | 2.5   |
| Imports of goods and services                                          | 1 043.2                       | 0.1                                         | -1.3  | 4.3   | 0.5   | 1.9   |
| Net exports <sup>1</sup>                                               | - 72.5                        | 1.0                                         | 1.3   | -0.7  | 0.4   | 0.2   |
| <b>Memorandum items</b>                                                |                               |                                             |       |       |       |       |
| GDP deflator                                                           | —                             | 5.0                                         | 2.1   | 1.2   | 1.6   | 1.8   |
| Harmonised index of consumer prices                                    | —                             | 5.7                                         | 2.3   | 0.9   | 2.1   | 1.8   |
| Harmonised index of core inflation <sup>2</sup>                        | —                             | 4.0                                         | 2.3   | 1.6   | 1.6   | 1.7   |
| Unemployment rate <sup>3</sup> (% of labour force)                     | —                             | 7.4                                         | 7.4   | 7.7   | 8.3   | 8.2   |
| Household saving ratio, gross (% of disposable income)                 | —                             | 16.7                                        | 17.9  | 17.9  | 17.2  | 16.8  |
| General government financial balance (% of GDP)                        | —                             | -5.4                                        | -5.8  | -5.1  | -5.0  | -4.6  |
| General government gross debt (% of GDP)                               | —                             | 116.2                                       | 115.6 | 116.8 | 119.6 | 121.7 |
| General government debt, Maastricht definition <sup>4</sup> (% of GDP) | —                             | 109.6                                       | 113.2 | 116.0 | 118.8 | 120.9 |
| Current account balance (% of GDP)                                     | —                             | -1.0                                        | 0.1   | -0.3  | -0.3  | 0.1   |

1. Contributions to changes in real GDP, actual amount in the first column.

2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.

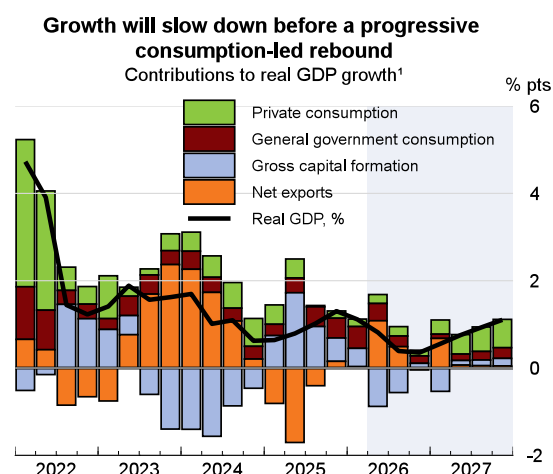
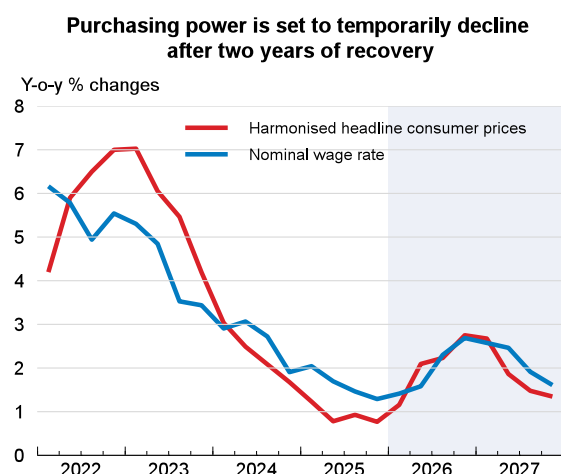
3. National unemployment rate, includes overseas departments.

4. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.

Source: OECD Economic Outlook 119 database.

StatLink  <https://stat.link/hifam3>

## France 2



1. Year-on-year growth rates.

Source: OECD Economic Outlook 119 database.

StatLink  <https://stat.link/qxyrej>

## Fiscal consolidation needs to continue

Despite elevated fiscal uncertainty, the deficit narrowed from 5.8% of GDP in 2024 to 5.1% of GDP in 2025, outperforming the 5.4% of GDP target driven especially by stronger corporate tax receipts amid more resilient activity and sustained expenditure discipline through careful in-year budget management. This has led to the largest underlying primary adjustment in a decade. This improves the likelihood of meeting the 5% of GDP objective in 2026, provided consolidation continues and energy support remains contained. The deficit is expected to decline further to 4.6% of GDP in 2027, reflecting continued consolidation. The fiscal stance will continue to tighten, by about 1.5% of GDP over 2026-2027, but this adjustment remains insufficient to stabilise the debt-to-GDP ratio, projected to increase to 121%. Faster fiscal consolidation is constrained by weak growth, rising debt-servicing costs, the phasing-out of EU recovery funds and political uncertainty. The 2025 adjustment relied mainly on revenue measures, while the 2026 budget adopts a more balanced mix, combining continued exceptional taxes with a 0.3% of GDP cut in public spending, partly offset by higher defence and security spending. Energy support measures remain state-contingent and tightly targeted, with tax deferrals, loans and a 20/30-cent-per-litre fuel rebate for vulnerable professional users and heavy drivers, currently renewed on a monthly basis.

Monetary policy easing in 2025 supported a rebound in business and residential investment towards the end of 2025 and early 2026, although the pass-through to long-term interest rates remains incomplete. Heightened geopolitical uncertainty and inflation have pushed up long-term sovereign rates, reversing part of the earlier decline following the easing of domestic political uncertainty. This rise in bond yields poses fiscal risks, as France's long-term government borrowing costs are currently among the highest in the euro area.

## Economic growth is set to remain subdued

GDP growth is projected to slow to 0.7% in 2026, with adverse spillovers from the evolving conflict in the Middle East offsetting solid growth momentum at the end of 2025. In 2027, growth will pick up slightly to 0.8%, with easing geopolitical tensions lifting underlying activity, while lingering effects from the oil price shock restrain headline growth. Higher inflation will erode purchasing power and weigh on private consumption in the near term, as wages will adjust only gradually. However, a drawdown of historically high household savings and the indexation of the minimum wage to inflation in the summer are set to provide some offset. Business investment is expected to slow amid heightened uncertainty and higher energy input costs, with the projected rise in euro area policy interest rates in mid-2026 adding a further headwind. In 2027, business investment will gradually strengthen, supported by new technology adoption and higher defence spending. Residential investment should remain more resilient in the near term, supported by a backlog of permits. Net exports will support growth in 2026-27, driven by strong aeronautics and naval exports and sustained wage moderation. Fiscal consolidation will continue to weigh on growth in 2026 and 2027, with tightly targeted energy support providing only limited support to domestic demand.

Risks are tilted to the downside, especially in 2026. A prolonged disruption to oil and gas supply routes, including refined products, would weigh more heavily on activity and add to inflationary pressures. Renewed policy uncertainty due to the absence of a currently clear majority in parliament could further increase long-term interest rates and constrain households' and firms' investment decisions, at least until the Presidential and parliamentary elections scheduled in spring 2027. On the other hand, the rise in defence spending in Europe could benefit French producers sooner than expected and support exports.

## Greater electrification of industry and transport would enhance resilience

Despite a more favourable energy mix, the energy shock is significantly affecting households and the most vulnerable sectors – such as agriculture, fishing and road freight – underscoring the need to further accelerate the electrification of production processes and expand the electric vehicle fleet. Continued support for energy-efficient technologies (notably under the France 2030 plan) and faster deployment of renewable energy would strengthen resilience to future shocks. Raising the employment rate is key to support growth, as it remains below the OECD average, particularly for older workers and young people. This requires reinforced measures to prevent early labour-market exit, expand work-based vocational education and reduce early inequalities in educational outcomes. At the same time, persistent productivity bottlenecks call for further reforms to improve the effectiveness of R&D support, ease financing constraints on digital investment and strengthen lifelong learning. Special focus is needed on low-skilled and older workers, who participate less and therefore face greater difficulties adapting to technological change. Rising defence spending also offers scope to boost productivity by increasing the share devoted to R&D with civilian and defence applications.

# Germany

The economy is projected to grow by 0.7% in 2026 and 1.1% in 2027 (GDP with working day adjustments). Private consumption will be supported by rising wages, albeit at a slower pace, as higher energy prices and inflation reduce real income growth. Public investment will rise strongly due to increased flexibility in the fiscal rules and large investment needs. Private investment will gradually pick up, supported by rising public investment and high corporate savings, but global policy uncertainty will weigh on investment in export-oriented manufacturing. Exports will recover gradually as global demand strengthens.

Ensuring medium-term fiscal sustainability requires improving public spending efficiency, reallocating spending and broadening the tax base, as well as addressing rising spending pressures due to rapid population ageing. Continuing to reduce administrative burdens, digitalise the public administration and improve infrastructure implementation capacity, particularly at the municipal level, is needed to support public and private investment. This would also help to accelerate the green transition and reduce dependency on fossil fuel imports. To avoid additional inflationary pressures due to the significant fiscal easing, it is key to reduce barriers to firm entry and growth and address skilled labour shortages.

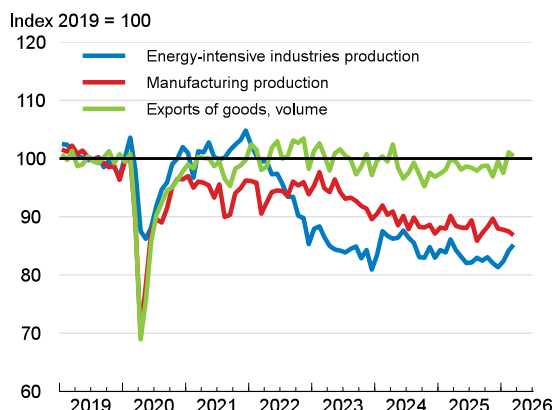
## Rising energy prices risk derailing the recovery

Real GDP has expanded by 1.4% in seasonally adjusted annual rates (saar) in the first quarter of 2026. Public consumption continued to rise strongly, while public investment declined after a surge in the previous quarter. Private non-residential investment and exports increased strongly. Recent indicators of new manufacturing orders have improved due to stronger external and internal demand. However, the evolving conflict in the Middle East has reduced business and consumer confidence and raised energy prices and inflation in April. Fuel prices have increased by 14.5% and 13.5% for diesel and gasoline since February, and annual headline inflation increased from 2% in February to 2.9% in April. Core inflation remains sticky at 2.3% y/y in April, driven by high services price inflation, at 3.1% due to strongly rising unit labour costs. Although labour markets have cooled, unemployment remains low.

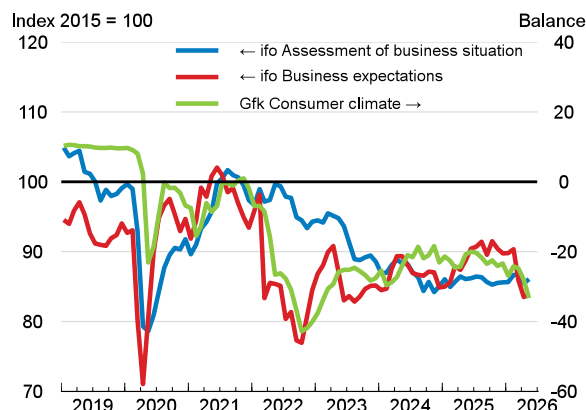
Rising trade protection and increasing competition from China in key export markets have weighed on export volumes in 2024 and 2025. However, merchandise export values expanded by 0.5% (m/m) in March and were 2% higher than a year earlier. This improvement was driven by strong growth in exports to other EU member states, while exports to the United States and China continued to fall. About 11% of aluminium and 5% of refined oil imports are sourced from countries whose exports are affected by a blockade of the Strait of Hormuz.

## Germany 1

Higher energy prices and weak global demand have weighed on manufacturing production



Business and consumer confidence have declined



Source: Federal Statistical Office; Bundesbank; ifo business surveys; and GfK.

StatLink  <https://stat.link/8k6tzn>

## Germany: Demand, output and prices

|                                                                        | 2022                          | 2023                                        | 2024 | 2025 | 2026 | 2027 |
|------------------------------------------------------------------------|-------------------------------|---------------------------------------------|------|------|------|------|
| <b>Germany</b>                                                         | Current prices<br>EUR billion | Percentage changes, volume<br>(2020 prices) |      |      |      |      |
| <b>GDP at market prices</b>                                            | 3 982.8                       | -0.7                                        | -0.5 | 0.3  | 0.7  | 1.1  |
| Private consumption                                                    | 2 090.6                       | -0.5                                        | 0.5  | 1.5  | 0.4  | 0.6  |
| Government consumption                                                 | 868.2                         | -0.2                                        | 2.6  | 1.5  | 2.4  | 0.9  |
| Gross fixed capital formation                                          | 858.1                         | -1.6                                        | -3.2 | 0.0  | 0.9  | 2.8  |
| Final domestic demand                                                  | 3 816.9                       | -0.7                                        | 0.2  | 1.2  | 1.0  | 1.1  |
| Stockbuilding <sup>1</sup>                                             | 69.8                          | -0.1                                        | 0.0  | 0.7  | -0.3 | 0.0  |
| Total domestic demand                                                  | 3 886.7                       | -0.7                                        | 0.2  | 1.9  | 0.7  | 1.1  |
| Exports of goods and services                                          | 1 811.9                       | -0.9                                        | -1.9 | -0.7 | 0.6  | 1.5  |
| Imports of goods and services                                          | 1 715.9                       | -1.0                                        | -0.4 | 3.2  | 0.6  | 1.4  |
| Net exports <sup>1</sup>                                               | 96.0                          | 0.0                                         | -0.7 | -1.5 | 0.0  | 0.1  |
| <b>Memorandum items</b>                                                |                               |                                             |      |      |      |      |
| GDP without working day adjustments                                    | 3989.5                        | -0.9                                        | -0.5 | 0.2  | 0.9  | 1.2  |
| GDP deflator                                                           | —                             | 6.7                                         | 3.1  | 3.0  | 2.7  | 2.8  |
| Harmonised index of consumer prices                                    | —                             | 6.0                                         | 2.5  | 2.3  | 2.7  | 2.8  |
| Harmonised index of core inflation <sup>2</sup>                        | —                             | 5.1                                         | 3.2  | 2.8  | 2.6  | 2.9  |
| Unemployment rate (% of labour force)                                  | —                             | 3.1                                         | 3.4  | 3.8  | 4.0  | 3.8  |
| Household saving ratio, net (% of disposable income)                   | —                             | 10.4                                        | 11.2 | 10.1 | 10.0 | 10.2 |
| General government financial balance (% of GDP)                        | —                             | -2.5                                        | -2.7 | -2.7 | -3.5 | -4.0 |
| General government gross debt (% of GDP)                               | —                             | 63.3                                        | 62.8 | 62.7 | 64.8 | 67.1 |
| General government debt, Maastricht definition <sup>3</sup> (% of GDP) | —                             | 62.3                                        | 62.2 | 63.4 | 65.5 | 67.9 |
| Current account balance (% of GDP)                                     | —                             | 5.5                                         | 5.9  | 4.5  | 3.6  | 3.8  |

1. Contributions to changes in real GDP, actual amount in the first column.

2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.

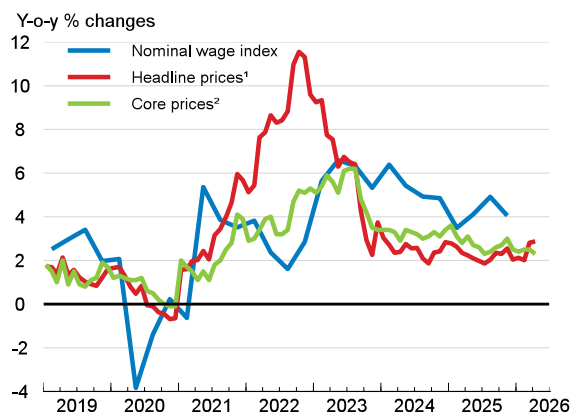
3. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.

Source: OECD Economic Outlook 119 database.

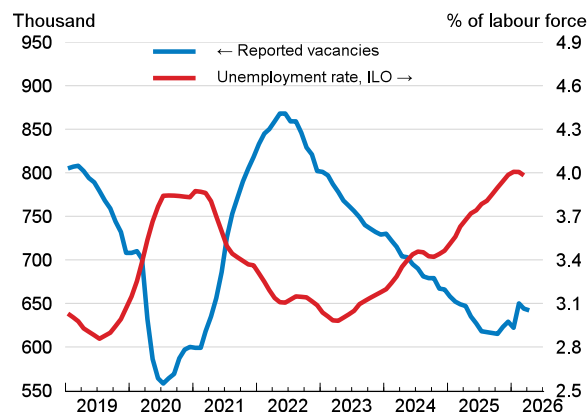
StatLink  <https://stat.link/u5ogq1>

## Germany 2

**Inflation has picked up and nominal wages continued to increase**



**The labour market has cooled**



1. Harmonised index of consumer prices.

2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.

Source: Federal Statistical Office; and Eurostat.

StatLink  <https://stat.link/lhkzs8>

## Defence spending and infrastructure investment are set to increase strongly

The fiscal stance will ease by 0.8% of GDP in 2026 and 0.5% of GDP in 2027, respectively. A reform of the national fiscal rules in 2025 allows higher investments in defence and infrastructure over the coming years. The government plans to increase defence spending from 2.1% in 2024 to 3.5% of GDP by 2029, which will be financed by issuing public debt. Moreover, a debt-financed special infrastructure fund will provide up to EUR 500 bn (about 12% of GDP) for additional investment in infrastructure and the green transition over the next 12 years. The reform of fiscal rules also raised the structural deficit ceiling for the Laender from 0% to the one applicable to the Federal Government (0.35% of GDP), providing the Laender with additional fiscal space of around EUR 15 bn per year. As infrastructure planning and approval procedures will take time, public investment is expected to increase gradually from 3.2% of GDP in 2025 to 3.6% in 2027. Together with the existing climate and transformation fund, the new infrastructure fund will finance support measures to crowd-in private investment and accelerate the green transition.

Other measures were implemented or are planned to revive the stagnating economy, modernise the public administration and address skilled labour shortages. Depreciation allowances for investment in equipment were raised, the electricity tax and network charges were reduced, and subsidies for energy-intensive firms have increased in 2026. The government has committed to reducing administrative burdens and accelerating the digitalisation of the public administration, including for example by establishing a one-stop shop for setting up a firm. Moreover, labour supply incentives were raised in 2026 by exempting the earnings of workers above the statutory retirement age from income taxes, up to EUR 2 000 per month. In response to the recent rise in fossil fuel prices, the government has strengthened the powers of the competition agency to better enforce competition in energy markets and will reduce fuel excise taxes for diesel and gasoline by 17 cents per litre in May and June, which is a measure that is not well targeted at vulnerable households and reduces energy saving incentives.

## The recovery will be driven by domestic demand

GDP will grow by 0.7% in 2026 and 1.1% in 2027 (0.9% and 1.2%, respectively, without working day adjustments). Private consumption will continue to increase due to rising nominal wages, albeit at a slower pace, as higher energy prices and inflation will reduce real income growth. Public spending on defence and infrastructure will rise strongly to meet large investment needs. Private investment will gradually pick up, supported by rising public investment and high corporate savings, while high global policy uncertainty will weigh on investment in export-oriented manufacturing. Exports will recover gradually as global demand strengthens. Headline inflation will rise due to higher energy prices, while core inflation will remain sticky due to continued wage pressures and second round effects from higher energy prices.

A longer duration or further escalation of the evolving conflict in the Middle East would lead to higher energy prices and inflation as well as declining confidence, weighing on private consumption and investment. Further escalation in trade policy tensions would weigh on economic growth, as the manufacturing sector is strongly integrated into global supply chains. If structural reforms to support the supply side of the economy are not implemented, the significant fiscal easing may lead to rising inflationary pressures.

## Structural reforms should complement the reform of fiscal rules

To ensure efficient implementation of public investment and defence spending, it is necessary to further simplify and harmonise public procurement and infrastructure planning and approval procedures, and improve public administration capacity, particularly at the local level. This would also help to accelerate the green transition and reduce dependency on fossil fuel imports. To avoid rising inflationary pressures, the reform of fiscal rules should be combined with structural reforms. Reducing high administrative burdens and regulatory barriers to entry and growth of firms, particularly in construction and services, is key to strengthen competition and revive business dynamism, investment and innovation. This will require accelerating digitalisation in the public administration, including by setting mandatory common IT standards, and expanding efforts to review, simplify and harmonise existing regulations and administrative procedures across levels of government. Occupational entry regulations and licensing requirements to open a business, particularly in the construction sector, should be reduced to strengthen competition. Shifting the tax burden away from labour towards capital income and wealth, for example by raising revenue from recurrent taxes on immovable property and reducing inheritance tax exemptions for business assets, would improve labour supply incentives. Reducing fiscal incentives for early retirement would improve work incentives for older workers and help to stabilise pension spending amidst rising fiscal pressures due to ageing. To address skilled labour shortages, it is key to expand training opportunities for workers and the unemployed, including through increased support for completion of formal VET degrees.

# Greece

GDP growth is projected to remain robust at 1.9% in 2026 and 2.0% in 2027. Disbursements of Recovery and Resilience Funds will support investment, and employment gains, personal income tax cuts and energy support measures will support consumption, despite high energy prices. Exports are projected to pick-up in the second half of 2026 with improving international demand. Headline inflation will rise to 4.2% in 2026 pushed up by higher energy prices before easing to 2.6% in 2027. Risks to growth are balanced, provided energy output and exports in the Middle East recover from the third quarter of onwards, as assumed. A better-than-expected expansion in tourism could boost growth while delays in the implementation of EU funds or prolonged disruptions to energy markets could dampen the outlook.

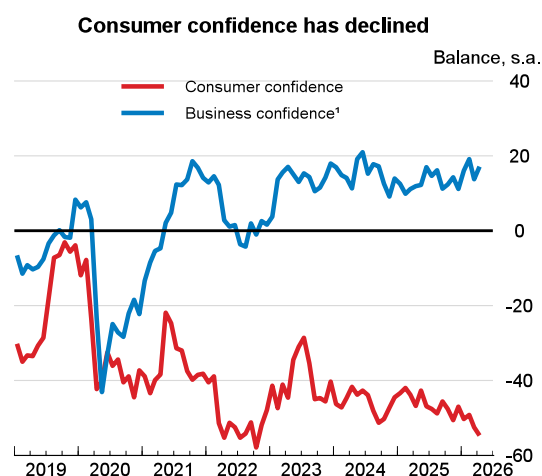
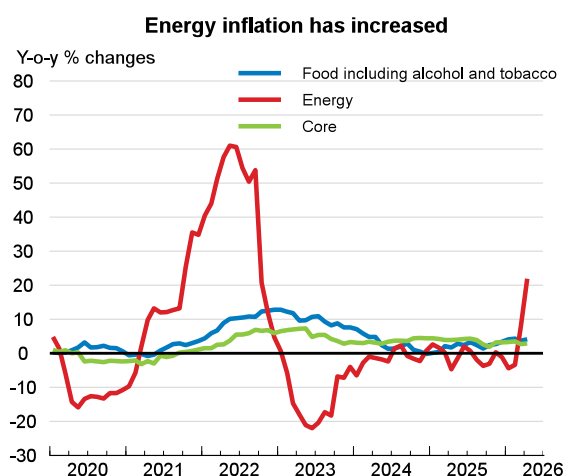
Sizeable primary fiscal surpluses are projected in 2026-27. Prudent fiscal policy and rapid debt reduction should remain a priority as challenges stemming from population ageing and investment needs will remain high. Limiting tax expenditures and continuing efforts to reduce tax evasion would create additional fiscal room to strengthen spending on education and health care. Recently-taken support measures against rising energy prices should be phased out rapidly as price pressure ease. Further simplifying permitting and licensing procedures for investments in renewable energy would help reduce reliance on fossil fuels.

## Growth remains robust

The economy grew by 2.1% in 2025, driven by investment, private consumption and net exports. High frequency indicators continued to point towards expansion in early 2026, but confidence indicators deteriorated in April 2026, notably for consumers and industry. The unemployment rate declined in 2025 but picked up in the first months of 2026. Labour market tightness remains high, especially in construction, notwithstanding signs of easing in other sectors. Inflation increased to 4.6% in April 2026 with rising energy prices, and persistent food and service inflation. Real wage growth remained resilient, while minimum wages increased by 4.5% in April 2026. Annual private sector credit growth stood at 7.6% in March 2026, underpinned by robust credit expansion to non-financial corporates and a continued recovery in household lending.

Growth in tourism has remained strong, with international tourist arrivals expanding further and booking rates remaining broadly stable in early 2026. The effects of the evolving conflict in the middle East are starting to appear. Weighted average wholesale market prices for electricity (EUR/MWh) increased by 16% from February to April. The partial closure of the Strait of Hormuz is also impacting on service exports and energy imports. While Greek shipowners account for around 20% of global tonnage, mostly bulk carriers and oil tankers, disruptions have in the past led to increased demand. Net energy imports, notably oil and gas, corresponded to 93% of total energy supply, making Greece's external position especially vulnerable to disruptions in international energy markets.

## Greece



1. Business confidence is an unweighted average of confidence indicators in industry, construction, retail trade and services.  
Source: OECD Consumer Prices database; and Eurostat.

StatLink <https://stat.link/0se2i9>

## Greece: Demand, output and prices

|                                                                        | 2022                          | 2023                                        | 2024  | 2025  | 2026  | 2027  |
|------------------------------------------------------------------------|-------------------------------|---------------------------------------------|-------|-------|-------|-------|
|                                                                        | Current prices<br>EUR billion | Percentage changes, volume<br>(2020 prices) |       |       |       |       |
| <b>Greece</b>                                                          |                               |                                             |       |       |       |       |
| <b>GDP at market prices</b>                                            | 207.0                         | 2.1                                         | 2.1   | 2.1   | 1.9   | 2.0   |
| Private consumption                                                    | 146.9                         | 2.3                                         | 2.4   | 2.0   | 1.3   | 2.0   |
| Government consumption                                                 | 41.2                          | 2.8                                         | -2.6  | 0.3   | 1.5   | 1.3   |
| Gross fixed capital formation                                          | 32.5                          | 6.5                                         | 4.5   | 8.9   | 7.1   | 3.2   |
| Final domestic demand                                                  | 220.6                         | 3.0                                         | 1.8   | 2.7   | 2.3   | 2.1   |
| Stockbuilding <sup>1,2</sup>                                           | 6.4                           | -2.1                                        | 2.1   | -2.1  | 0.2   | 0.0   |
| Total domestic demand                                                  | 227.0                         | 0.9                                         | 3.8   | 0.7   | 2.5   | 2.1   |
| Exports of goods and services                                          | 101.9                         | 2.2                                         | 1.0   | 1.7   | 2.4   | 2.7   |
| Imports of goods and services                                          | 121.9                         | 0.0                                         | 4.8   | -1.3  | 2.6   | 2.7   |
| Net exports <sup>1</sup>                                               | -20.0                         | 1.0                                         | -1.9  | 1.3   | -0.2  | -0.1  |
| <b>Memorandum items</b>                                                |                               |                                             |       |       |       |       |
| GDP deflator                                                           | —                             | 6.3                                         | 3.2   | 2.8   | 3.5   | 3.0   |
| Harmonised index of consumer prices                                    | —                             | 4.2                                         | 3.0   | 2.9   | 4.2   | 2.6   |
| Harmonised index of core inflation <sup>3</sup>                        | —                             | 5.3                                         | 3.6   | 3.6   | 3.0   | 2.5   |
| Unemployment rate (% of labour force)                                  | —                             | 11.1                                        | 10.1  | 8.9   | 8.3   | 8.1   |
| General government financial balance <sup>4</sup> (% of GDP)           | —                             | -1.4                                        | 1.3   | 1.7   | -0.2  | -0.2  |
| General government gross debt (% of GDP)                               | —                             | 181.3                                       | 170.8 | 162.3 | 152.0 | 145.9 |
| General government debt, Maastricht definition <sup>5</sup> (% of GDP) | —                             | 164.3                                       | 154.2 | 146.1 | 135.8 | 129.8 |
| Current account balance <sup>6</sup> (% of GDP)                        | —                             | -7.2                                        | -7.2  | -5.8  | -6.7  | -6.0  |

1. Contributions to changes in real GDP, actual amount in the first column.

2. Including statistical discrepancy.

3. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.

4. National Accounts basis. Data also include Eurosystem profits on Greek government bonds remitted back to Greece, and the estimated government support to financial institutions and privatisation proceeds.

5. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.

6. On settlement basis.

Source: OECD Economic Outlook 119 database.

StatLink <https://stat.link/c1bpyw>

## Public debt will decline further

High primary budget surpluses are projected, amounting to 2.6% of GDP in 2026 and 2.7% of GDP in 2027, following a historically high surplus of 4.4% of GDP in 2025, with an assumed tightening of the fiscal stance of 0.4% of GDP between 2025 and 2027. Public debt will decline to 129.8% of GDP in 2027. New fiscal measures amount to 0.8% of GDP in 2026 and 1.0% of GDP in 2027, mostly reflecting a personal income tax reform for employees, pensioners, farmers and self-employed and families, and increasing spending on defence and security. Defence spending will increase by 0.2% of GDP from 2025 to 2026. Disbursements of Recovery and Resilience funds will rise from 2.6% of GDP in 2025 to 4.4% of GDP in 2026 before being phased out. Temporary support measures to mitigate high energy prices, introduced in March 2026 and projected to last until September 2026, include untargeted price subsidies for diesel as well as targeted road-fuel subsidies and income support for low-income households. Minimum-wage increases in 2027 will support household incomes further.

## Growth will remain resilient

GDP growth is projected to remain resilient at 1.9% in 2026 and 2.0% in 2027. Growing disposable incomes, helped by continued expansion of employment and tax/fiscal support, will support consumption. Investment growth is projected to moderate in 2027 with the phase-out of Recovery and Resilience funds. Export growth will pick up gradually as external demand strengthens. Headline inflation is projected to reach 4.2% in 2026 amidst higher international energy prices and ease to 2.6% in 2027 as the energy price shock recedes with services inflation remaining elevated. Risks to growth are balanced, provided energy output and exports in the Middle East gradually recover from the second half of 2026 onwards. Upside risks stem from stronger-than-expected tourism performance, while implementation delays regarding the absorption of EU funds or prolonged energy market disruptions would dampen the outlook.

## Accelerating the energy transition would reduce reliance on fossil fuels

Keeping the public debt-to-GDP ratio on a rapidly declining path remains key given the still high debt level and high spending pressures from climate change and population ageing. Limiting tax expenditures and continuing measures to fight tax evasion would create additional fiscal space. Strong and sustainable growth will be needed to raise living standards while reducing debt. Continuing efforts to streamline business regulations, ease restrictions on professional services, and rebalance labour market policies toward high-quality training and counselling would strengthen competition and investment, improve labour productivity and reduce skill mismatches. Greece has progressed well with upscaling generation capacity from renewable sources, but the reliance on fossil fuels remains high, especially for transport and housing. Facilitating investments in generation capacity from renewable energy sources by further simplifying and streamlining permitting and licensing procedures would help accelerate emission cuts and strengthen energy security. Additional targeted financial support for energy renovations and electric vehicles would also support investments to phase-out fossil fuels in the transport and housing sectors.

# Hungary

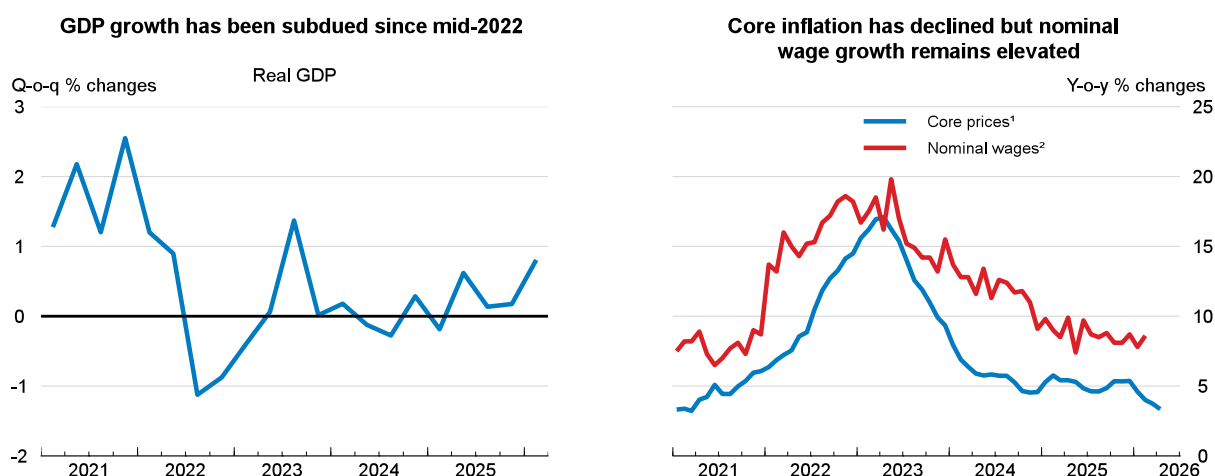
GDP is projected to grow by 1.6% in 2026 and 2.0% in 2027, after 0.5% in 2025. Due to the energy price shock and the expected phasing out of fuel price caps by mid-2026, private consumption growth will temporarily slow, despite strong nominal wage growth and personal income tax (PIT) cuts. After dropping by 16% over 2022-25, investment is expected to rebound. Exports will be hampered by sluggish growth in the euro area in 2026 before picking up in 2027. A stronger than expected energy shock may deteriorate growth and fiscal prospects, but progress in the discussions around blocked EU funds may boost confidence and lift investment.

In a context of uncertainty and higher energy prices, the central bank is projected to keep its policy rate unchanged in 2026, before lowering it again in 2027. While the fiscal stance is expected to loosen in 2026, amid PIT cuts and public wage increases, rebuilding fiscal space will be necessary to prepare for rising ageing-related spending, as well as climate mitigation and adaptation costs. Moving from energy price caps to targeted cash transfers to vulnerable households would increase incentives for saving energy and renovating dwellings, reduce the fiscal exposure to energy prices, and lower dependence on energy imports.

## Economic activity is weak

GDP grew by 0.5% in 2025. Investment declined by 2.8%, amid low business confidence, low capacity utilisation, and trade policy uncertainty. Private consumption was the main engine of growth, supported by strong real wage growth and improving consumer confidence. Headline inflation declined to 2.0% in April 2026 from 4.2% a year earlier, but core inflation excluding food and energy (OECD definition) did not fall below 3.4%. Despite low growth, unemployment has risen only moderately to 4.4% in March 2026.

## Hungary



1. National consumer price index excluding food and energy.

2. Data refer to average gross earnings of full-time employees in the private sector.

Source: OECD National Accounts database; OECD Consumer Prices database; and Hungarian Central Statistical Office.

## Hungary: Demand, output and prices

|                                                                        | 2022                          | 2023                                        | 2024 | 2025 | 2026 | 2027 |
|------------------------------------------------------------------------|-------------------------------|---------------------------------------------|------|------|------|------|
| Hungary                                                                | Current prices<br>HUF billion | Percentage changes, volume<br>(2021 prices) |      |      |      |      |
| <b>GDP at market prices</b>                                            | 65 950.4                      | -0.8                                        | 0.7  | 0.5  | 1.6  | 2.0  |
| Private consumption                                                    | 33 231.6                      | -2.2                                        | 7.3  | 3.1  | 3.6  | 3.1  |
| Government consumption                                                 | 13 656.3                      | 3.9                                         | -2.8 | 2.4  | 2.9  | 1.3  |
| Gross fixed capital formation                                          | 18 167.4                      | -5.9                                        | -8.6 | -2.8 | 1.1  | 3.7  |
| Final domestic demand                                                  | 65 055.3                      | -2.0                                        | 0.8  | 1.5  | 2.8  | 2.8  |
| Stockbuilding <sup>1</sup>                                             | 4 423.3                       | -3.7                                        | -0.8 | 0.8  | 0.0  | 0.0  |
| Total domestic demand                                                  | 69 478.6                      | -5.3                                        | -0.2 | 2.3  | 2.9  | 2.8  |
| Exports of goods and services                                          | 59 230.2                      | 1.8                                         | -0.5 | -1.1 | 0.3  | 2.3  |
| Imports of goods and services                                          | 62 758.3                      | -3.4                                        | -1.4 | 1.2  | 2.6  | 3.5  |
| Net exports <sup>1</sup>                                               | -3 528.1                      | 4.8                                         | 0.7  | -1.7 | -1.6 | -0.8 |
| <b>Memorandum items</b>                                                |                               |                                             |      |      |      |      |
| GDP deflator                                                           | —                             | 15.0                                        | 7.6  | 6.3  | 3.6  | 5.1  |
| Consumer price index                                                   | —                             | 17.1                                        | 3.7  | 4.4  | 3.8  | 3.7  |
| Core inflation index <sup>2</sup>                                      | —                             | 13.7                                        | 5.7  | 5.2  | 3.9  | 3.4  |
| Unemployment rate (% of labour force)                                  | —                             | 4.1                                         | 4.5  | 4.4  | 4.5  | 4.1  |
| Household saving ratio, net (% of disposable income)                   | —                             | 16.2                                        | 14.7 | 12.6 | 12.9 | 12.9 |
| General government financial balance (% of GDP)                        | —                             | -7.0                                        | -5.1 | -4.7 | -6.1 | -5.4 |
| General government gross debt (% of GDP)                               | —                             | 82.3                                        | 82.3 | 81.7 | 82.3 | 82.3 |
| General government debt, Maastricht definition <sup>3</sup> (% of GDP) | —                             | 73.3                                        | 73.5 | 74.6 | 75.5 | 75.9 |
| Current account balance (% of GDP)                                     | —                             | -0.1                                        | 1.7  | 1.6  | -0.3 | 0.5  |

1. Contributions to changes in real GDP, actual amount in the first column.

2. Consumer price index excluding food and energy.

3. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.

Source: OECD Economic Outlook 119 database.

StatLink  <https://stat.link/2n3dvv>

Hungary imports over 80% of its crude oil and over 70% of its natural gas consumption, which makes it vulnerable to energy supply shocks. The Hungarian forint depreciated by 5% against the US dollar in the first month of the evolving conflict in the Middle East, which compounded the increase in imported energy prices, but has more than fully regained ground since then. Hungary is also closely dependent on economic activity in the euro area, the destination for 50% of its exports.

## Monetary policy is expected to restart easing in 2027 with the budget deficit increasing

The central bank lowered its policy rate to 6.25% in February 2026, after keeping it at 6.5% for 18 months. Due to the energy price shock and the surrounding uncertainty, it is expected to restart lowering the policy rate only in 2027, at a moderate pace to ensure that inflation durably reverts to the 3% target. The rate would settle around 5.5% in end-2027. Without any fiscal adjustment measures following the April 2026 general elections, the fiscal deficit is expected to expand from 4.7% of GDP in 2025 to 6.1% in 2026 before narrowing to 5.4% in 2027, amid PIT cuts and one-off public wage premia, but also declining public investment and debt servicing costs as a share of GDP. Maastricht debt is projected to increase from 74.6% of GDP in 2025 to 75.9% in 2027.

## Growth is expected to strengthen

GDP is expected to increase by 1.6% in 2026 and 2.0% in 2027, and inflation to rebound over 5% towards the end of 2026 before reverting to 1.7% in the fourth quarter of 2027, driven by fluctuations in energy

prices. Regulated electricity and natural gas prices along with the price caps on motor fuels currently shield households from the energy shock, but fuel price caps are expected to be phased out by mid-2026, in line with the current legislation. Consequently, private consumption growth is expected to temporarily decline in the second half of 2026 before rebounding in 2027, driven by strong real income growth. Investment is set to increase moderately in 2026 before accelerating in 2027. Exports will be hampered by sluggish external demand in 2026 before rebounding in 2027. A stronger than expected energy shock may lead to extensions of fuel price caps. This would temporarily support consumption and limit inflation, but at a high cost for public finances. Progress in the discussions with the EU may allow Hungary to regain access to blocked EU funds, which may boost investor confidence and lift investment above the current projection. The availability of new manufacturing capacity may provide a further boost to exports, but due to low manufacturing capacity utilisation, the new factories will be fully exploited only if external demand picks up significantly.

### **Structural reforms are needed to improve fiscal sustainability and growth**

Reforming public pensions, e.g. by tightening eligibility conditions and adjusting benefit levels for some, would limit the increase in ageing-related spending, which is projected to exceed 5% of GDP by 2070. However, financing future pensions will also require additional fiscal space, which calls for consolidation. Restructuring energy support by moving from price caps to targeted cash transfers to vulnerable households would increase incentives for saving energy and renovating dwellings, reduce the exposure of public finances to energy prices, and lower dependence on energy imports. Reducing costs for business creation, improving the insolvency framework to facilitate the reallocation of capital across firms, and ensuring a favourable business environment by strengthening the fight against corruption would support business dynamism, competition and productivity, which is lagging behind OECD peers.

# Iceland

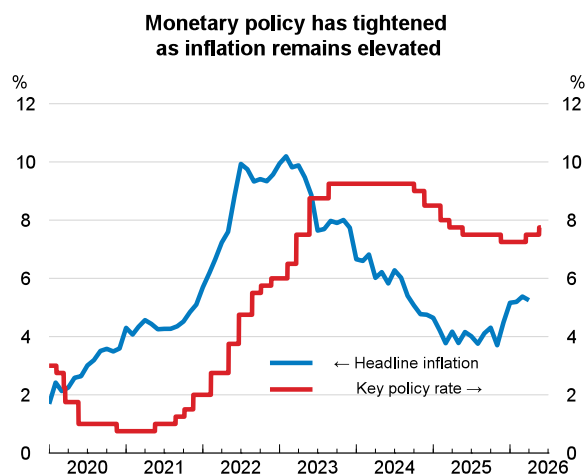
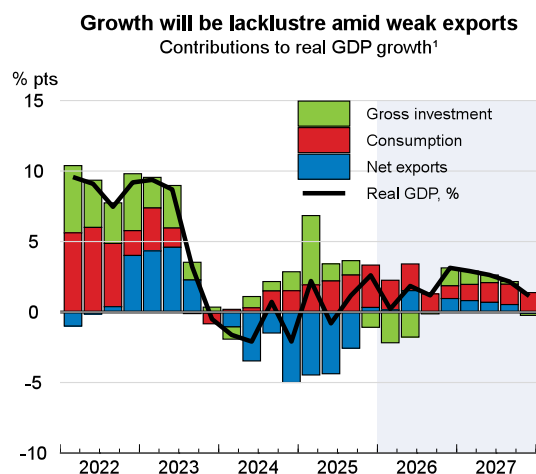
GDP growth is set to increase from 1.3% in 2025 to 1.6% in 2026 and 2.2% in 2027, driven by private consumption and then a recovery in exports. The conflict in the Middle East is expected to affect Iceland mainly through higher import prices. Business investment is projected to rebound from a sharp fall in late 2025, while exports recover in 2027. Unemployment is set to rise to nearly 7% before easing somewhat in 2027. Inflation is expected to remain well above target in the near term and return close to target by end-2027. Key risks include a wage-price spiral, weak export demand and renewed volcanic activity.

The central bank raised the policy rate in two steps from 7.25% to 7.75% in spring 2026 and is expected to ease it gradually once the peak in energy prices is past. Fiscal policy is restrictive and set to remain so in 2026–27, with the underlying primary balance improving by about 1.4% of GDP in 2026 and 2027, respectively. This will support disinflation and rebuild fiscal space. Strengthening the regulatory framework for the power sector and easing the stringent regulations for foreign direct investment would help mitigate emerging energy supply constraints and improve growth prospects.

## The economy is gradually recovering

Activity is gradually recovering, but slack remains amid persistently tight monetary conditions and high global uncertainty. Private consumption is holding up, supported by a steady increase in real wages. By contrast, services exports, notably tourism, are weakening. Following strong growth in the first half of 2025, business investment has declined as demand for AI-related infrastructure and equipment has slowed. Housing investment remains subdued, reflecting slower population growth and restrictive financial conditions. The unemployment rate continues to edge up towards 6%. Headline consumer price inflation has increased to just over 5%, well above the 2.5% target. Price pressures are driven by higher oil and food prices, increased public levies and rising shipping costs. The contribution from housing inflation continues to ease.

## Iceland



1. Year-on-year growth rates. The sum of components may deviate from observed GDP growth because of balancing items, chain-linking procedures and direct/indirect seasonal adjustment methods.

Source: OECD Economic Outlook 119 database; Statistics Iceland; and Central Bank of Iceland.

StatLink  <https://stat.link/8od3tk>

## Iceland: Demand, output and prices

|                                                 | 2022                          | 2023                                        | 2024 | 2025 | 2026 | 2027 |
|-------------------------------------------------|-------------------------------|---------------------------------------------|------|------|------|------|
|                                                 | Current prices<br>ISK billion | Percentage changes, volume<br>(2020 prices) |      |      |      |      |
| <b>Iceland</b>                                  |                               |                                             |      |      |      |      |
| <b>GDP at market prices</b>                     | 3 947.0                       | 5.1                                         | -1.3 | 1.3  | 1.6  | 2.2  |
| Private consumption                             | 1 964.5                       | 0.4                                         | 0.9  | 4.3  | 2.2  | 1.9  |
| Government consumption                          | 1 008.4                       | 2.4                                         | 1.8  | 1.2  | 1.7  | 1.6  |
| Gross fixed capital formation                   | 937.6                         | 6.2                                         | 6.5  | 4.0  | -2.2 | 1.5  |
| Final domestic demand                           | 3 910.6                       | 2.3                                         | 2.6  | 3.5  | 0.9  | 1.7  |
| Stockbuilding <sup>1</sup>                      | 19.2                          | 0.2                                         | -1.1 | 0.4  | -0.1 | 0.0  |
| Total domestic demand                           | 3 929.8                       | 2.6                                         | 1.5  | 4.0  | 0.8  | 1.7  |
| Exports of goods and services                   | 1 844.2                       | 3.9                                         | -2.2 | 1.0  | -0.1 | 3.8  |
| Imports of goods and services                   | 1 827.1                       | -1.9                                        | 4.2  | 7.2  | -1.6 | 2.5  |
| Net exports <sup>1</sup>                        | 17.1                          | 2.7                                         | -2.8 | -2.7 | 0.6  | 0.5  |
| <b>Memorandum items</b>                         |                               |                                             |      |      |      |      |
| GDP deflator                                    | —                             | 5.5                                         | 6.1  | 6.9  | 5.0  | 2.4  |
| Consumer price index                            | —                             | 8.7                                         | 5.9  | 4.1  | 4.7  | 2.8  |
| Core inflation index <sup>2</sup>               | —                             | 8.4                                         | 6.1  | 3.9  | 5.0  | 2.9  |
| Unemployment rate (% of labour force)           | —                             | 3.4                                         | 3.4  | 4.3  | 6.7  | 6.7  |
| General government financial balance (% of GDP) | —                             | -2.2                                        | -3.6 | -2.7 | -1.8 | -0.2 |
| General government gross debt <sup>3</sup>      | —                             | 78.3                                        | 80.9 | 81.8 | 82.1 | 81.1 |
| Current account balance (% of GDP)              | —                             | -1.4                                        | -3.3 | -3.7 | -1.1 | -0.7 |

1. Contributions to changes in real GDP, actual amount in the first column.

2. Consumer price index excluding food and energy.

3. Includes unfunded liabilities of government employee pension plans.

Source: OECD Economic Outlook 119 database.

StatLink  <https://stat.link/7spcz5>

Iceland is not very exposed to rising energy prices, as the country relies predominantly on domestic hydro and geothermal sources and the electricity grid is not interconnected with other countries. To mitigate higher transport costs, however, the government reduced VAT on fuel - measures set to expire in September - and stepped-up investment in charging infrastructure. Financial stress indicators suggest that the financial sector remains resilient, and loan arrears remain low.

## Monetary and fiscal policies remain tight

The central bank raised its policy rate twice, by a total of 0.5 percentage points to 7.75% in spring 2026, as inflation expectations have risen, partly in the wake of the conflict in the Middle East. The bank is expected to reduce rates in late 2026 and early 2027 as inflation recedes. Fiscal policy is set to tighten, with the underlying primary balance projected to improve by about 1.4% of GDP per year in 2026 and 2027, driven mainly by stronger tax collection and lower spending on volcanic eruption relief. This fiscal consolidation is appropriate, as it will support disinflation and increase fiscal space.

## Growth will be more robust

The economy is projected to grow by 1.6% in 2026 and 2.2% in 2027, driven by robust private consumption following substantial wage increases at the beginning of 2026. Exports are expected to grow slowly in 2026, with tourism expected to soften further amid weaker demand in origin countries and higher air travel costs, but marine product exports will strengthen. Exports are projected to recover in 2027, supported by stronger aluminium exports. As import growth is projected to remain subdued, net exports will contribute positively to growth, and the current account balance will improve. Business investment is projected to

recover from its downturn in the second half of 2025, but to remain weak overall, reflecting low confidence. Risks remain elevated. A renewed surge in inflation and a reopening of wage agreements could trigger a wage-price spiral. Prolonged weakness in destination markets could further weigh on exports, particularly tourism. Renewed volcanic activity could damage infrastructure and need additional public spending on relief and resettlement.

### **Regulatory reform could help boost electricity generation and transmission**

Growing demand for electricity, partly driven by decarbonisation efforts and data centres, is straining Iceland's power system. Power shortages are becoming more frequent and prices are rising. The market is dominated by a few large producers and consumers linked by confidential agreements. Accelerating and simplifying administrative procedures for agreed power projects could help lift generation. Gradually expanding the wholesale market would increase efficiency of the electricity system. Dynamic pricing would help reduce pressure on generation and transmission during peak times. Easing the stringent regulations for foreign direct investment could also help lift investment in power generation.

# India

Real GDP is projected to grow by 6.3% during the 2026-27 fiscal year (FY) and by 6.4% in FY2027-28. Rising inflation is expected to weigh on private consumption, while investment slows amid higher oil and gas prices and gas rationing. Employment growth and labour market participation are set to weaken. Inflation is projected to increase to 4.8% in FY2026-27, driven by higher food, energy and fertiliser costs, and currency depreciation. The current account deficit is expected to widen, as higher energy import costs outweigh the impact of weaker domestic demand. More persistent energy rationing could lead to weaker growth. On the upside, energy support could cushion real incomes and consumption more than expected.

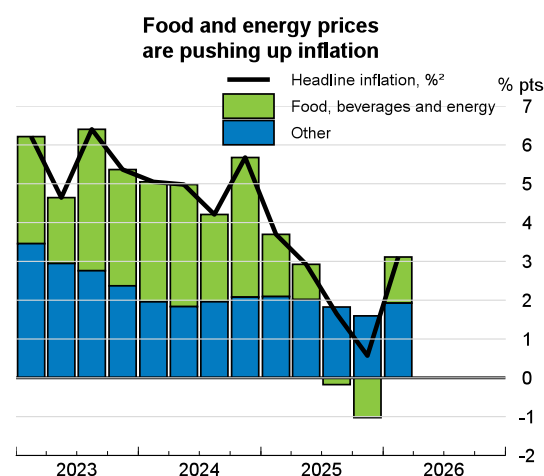
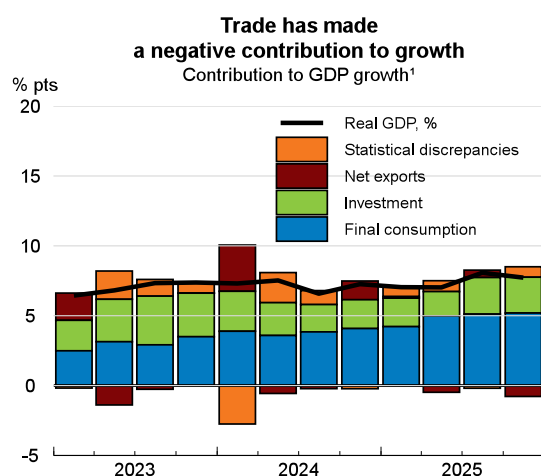
Fiscal policy is poised to turn expansionary in FY2026-27 to mitigate the impact of higher energy prices, notably through subsidies. Moving from price support to targeted transfers could reduce the fiscal cost of policy support. Following a period of easing, monetary policy is projected to tighten with a policy rate increase in early FY2026-27 to help keep inflation within the target band. Streamlining and harmonising regulations would reduce administrative burdens, boosting productivity and investment. Accelerating the rollout of renewable energy sources would strengthen energy security and reduce carbon emissions.

## Energy price shocks are weighing on activity and inflationary pressures are re-emerging

Growth has remained robust, despite some moderation. Real GDP expanded by 7.8% year-on-year in the quarter ending in December (Q3 FY2025–26), easing from 8.4% in the previous quarter. High-frequency indicators, including softer industrial production, suggest a loss of momentum. Retail indicators and survey-based measures of consumer sentiment point to an easing of private consumption as higher food and energy prices weigh on households' real purchasing power. At 3.5% year-on-year in April, headline inflation has picked up since early 2026, driven primarily by food prices, but core inflation has remained broadly stable and below the mid-point of the central bank's target band of  $4\% \pm 2\%$ . The depreciation of the rupee relative to the US dollar of around 7% since the beginning of the year has added to inflationary pressures by raising import costs, particularly for fuel and fertilisers, with partial pass-through to consumer prices. Labour market conditions are softening, with the employment rate declining from 40.5% in December to 39.5% in April.

India's crude oil and natural gas dependence on the Middle East is substantial, with crude oil imports accounting for about 46% of total imports in 2024 and natural gas for about 57%. Energy import prices have risen sharply in recent months, but only part of that has fed into domestic energy prices. Reductions in excise duties on petrol and diesel and the removal of import duties on selected petrochemical inputs, alongside export levies on refined products, have helped to contain the pass-through from international prices to domestic inflation. Rationing measures have prioritised natural gas supply to households and transport, while expanding access to kerosene through the public distribution system and increasing the availability of small LPG cylinders for migrant workers. The recent reduction in US import tariffs lowered the average effective tariff rate on India by 23 percentage points, reducing pressures on exporting sectors.

## India 1



1. Year-on-year growth rates. The sum of components may deviate from observed GDP growth because of balancing items, chain-linking procedures and direct/indirect seasonal adjustment methods.

2. Year-on-year growth rates. The series Other is calculated excluding Food & beverage, and Electricity, gas and other fuel from the computation of the index.

Source: OECD Economic Outlook 119 database; and MOSPI.

StatLink <https://stat.link/dpb32i>

## India: Demand, output and prices

|                                                 | 2022                           | 2023                                             | 2024 | 2025 | 2026 | 2027 |
|-------------------------------------------------|--------------------------------|--------------------------------------------------|------|------|------|------|
|                                                 | Current prices<br>INR trillion | Percentage changes, volume<br>(2021/2022 prices) |      |      |      |      |
| <b>India</b>                                    |                                |                                                  |      |      |      |      |
| <b>GDP at market prices</b>                     | 261.2                          | 7.2                                              | 7.1  | 7.6  | 6.3  | 6.4  |
| Private consumption                             | 149.2                          | 5.8                                              | 5.8  | 8.2  | 6.8  | 7.2  |
| Government consumption                          | 28.9                           | 0.6                                              | 6.5  | 5.6  | 5.5  | 6.0  |
| Gross fixed capital formation                   | 84.5                           | 7.3                                              | 6.4  | 7.1  | 6.0  | 7.2  |
| Final domestic demand                           | 262.7                          | 5.7                                              | 6.1  | 7.6  | 6.4  | 7.1  |
| Stockbuilding <sup>1,2</sup>                    | 5.3                            | 0.8                                              | 0.0  | 0.0  | 0.0  | 0.0  |
| Total domestic demand                           | 268.0                          | 6.6                                              | 6.8  | 8.5  | 6.3  | 7.0  |
| Exports of goods and services                   | 62.8                           | 0.7                                              | 6.6  | 6.6  | 3.0  | 4.0  |
| Imports of goods and services                   | 69.6                           | -1.0                                             | 5.3  | 10.2 | 3.5  | 6.6  |
| Net exports <sup>1</sup>                        | -6.8                           | 0.4                                              | 0.2  | -1.0 | -0.2 | -0.7 |
| <b>Memorandum items</b>                         |                                |                                                  |      |      |      |      |
| GDP deflator                                    | —                              | 3.5                                              | 2.5  | 1.1  | 3.1  | 3.6  |
| Consumer price index                            | —                              | 5.4                                              | 4.6  | 2.1  | 4.8  | 4.0  |
| Central government financial balance (% of GDP) | —                              | -5.7                                             | -4.9 | -4.5 | -4.8 | -4.5 |
| Central government gross debt (% of GDP)        | —                              | 59.8                                             | 58.4 | 57.3 | 56.2 | 54.8 |
| General government financial balance (% of GDP) | —                              | -8.3                                             | -8.1 | -7.4 | -7.7 | -7.4 |
| General government gross debt (% of GDP)        | —                              | 85.0                                             | 84.1 | 83.5 | 83.1 | 82.1 |
| Current account balance (% of GDP)              | —                              | -0.8                                             | -0.6 | -0.7 | -2.1 | -1.2 |

Note: Data refer to fiscal years starting in April.

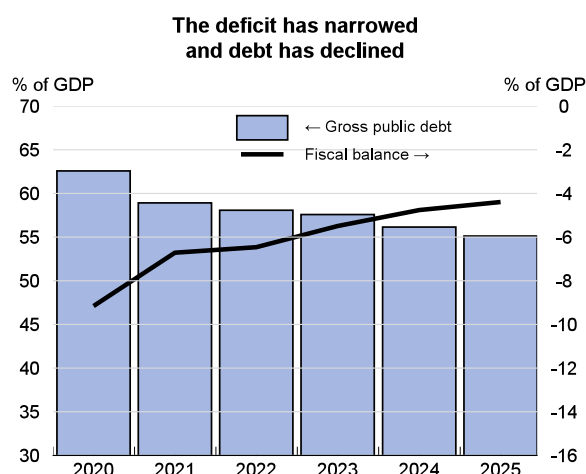
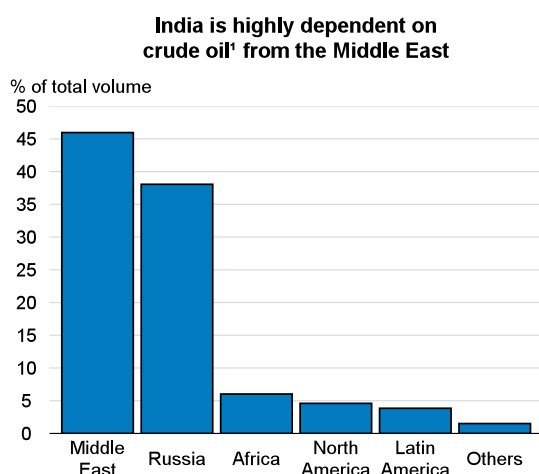
1. Contributions to changes in real GDP, actual amount in the first column.

2. Actual amount in first column includes statistical discrepancies and valuables.

Source: OECD Economic Outlook 119 database.

StatLink <https://stat.link/wqkoc2>

## India 2



1. Data refer to the Indian imports of the HS6 category 270900: Petroleum oils and oils obtained from bituminous minerals in volume for the year 2024.

Source: OECD Economic Outlook 119 database; and UN Comtrade database.

StatLink  <https://stat.link/hf7qyc>

## Fiscal support will cushion the energy shock and monetary policy will tighten to contain inflation

The Reserve Bank of India reduced the monetary policy rate from 6.5% in January 2025 to a broadly neutral level of 5.25% in February 2026 and average lending rates have fallen. Non-food bank credit (bank credit net of food procurement-related lending) expanded by 15.9% year-on-year in March. However, recent developments point to a re-emergence of inflationary pressures. Headline inflation has begun to rise, driven primarily by higher food prices as favourable base effects fade. Higher oil and gas prices are adding both direct and indirect pressures, increasing transportation and production costs across sectors. The depreciation of the rupee is further amplifying imported inflation by raising the domestic cost of fuel, fertilisers and other tradable goods. In this context, a temporary increase in the policy rate of around 25 basis points is projected by the end of the first quarter of FY2026-27 to help maintain inflation within the 4%  $\pm$  2% target band and anchor expectations. As inflationary pressures recede over the projection horizon, monetary policy is expected to ease in FY2027-28.

Fiscal policy is projected to become expansionary in FY2026-27 to cushion the impact of higher energy prices. The FY2026-27 budget envisaged a reduction in the fiscal deficit from 4.4% of GDP in FY2025-26 to 4.3% of GDP. However, measures adopted to mitigate the energy price shock are expected to widen the deficit by around 0.4% of GDP relative to the budgeted path. These measures will provide near-term support to household real incomes and limit the impact on consumption but will also slow the pace of public debt reduction, which is expected to reach 54.7% in FY2027-28. Fiscal policy is expected to return to a moderate consolidation path in FY2027-28 as energy prices stabilise and temporary support measures are phased out.

## **Growth is projected to slow temporarily, while inflation picks up**

Real GDP growth is projected to slow to 6.3% in FY2026-27. The negative effects of higher energy prices and gas rationing, weaker global demand and higher production costs are expected to weigh on investment and exports, despite lower US import tariffs providing some support to exports. Private consumption growth is projected to slow as inflation reduces households' purchasing power. As some of these headwinds recede in FY2027-28, growth is expected to recover to 6.4%. Inflation is projected to rise to 4.8% in FY2026-27, driven by higher food and energy prices and currency depreciation, before easing in FY2027-28 as commodity prices stabilise and monetary policy tightens. The current account deficit is expected to widen in FY2026-27, reflecting higher energy import costs and weaker external demand.

Risks are tilted to the downside. Persistent disruptions to energy supply, including prolonged gas rationing, could further constrain production and raise inflation, including through reduced fertiliser supply and agricultural output. Trade policy uncertainty remains elevated, and additional restrictions or weaker global demand could weigh on exports and investment. On the upside, if energy support measures effectively reduce near-term inflation and limit the erosion of real disposable incomes more effectively than assumed in the projections – particularly for liquidity-constrained households – private consumption may prove more resilient than projected.

## **Improving spending efficiency and reducing administrative obstacles would preserve fiscal buffers and boost growth**

Energy support measures have largely relied on broad-based, price-distorting interventions rather than targeted assistance. This approach has high fiscal costs, slowing the rebuilding of buffers. Direct transfers to vulnerable households and viable firms would achieve similar objectives at significantly lower fiscal cost. Expanding renewable energy sources, while strengthening grid infrastructure and storage capacity, would make growth more sustainable by reducing carbon emissions and at the same time reduce the reliance on imported energy. Regulatory complexity and overlapping administrative requirements across central and state levels continue to raise compliance costs, delay project implementation and deter investment, particularly in manufacturing and infrastructure. Streamlining and harmonising regulatory frameworks, expanding single-window clearance systems, digitalising approvals and setting clear administrative deadlines would reduce uncertainty and improve transparency.

# Indonesia

Real GDP is projected to grow by 4.7% in 2026, followed by a pick-up to 5.0% in 2027. Higher energy costs and policy uncertainty are expected to weigh on consumption and investment amid a weakening labour market. Net exports are projected to make no net contribution to growth, as softer global demand for some of Indonesia's main export commodities is expected to be broadly offset by weaker imports amid moderating domestic demand. Inflation is projected to rise to 3.4% in 2026, as higher global energy prices gradually feed through to domestic prices, despite the current freeze in subsidised fuel prices.

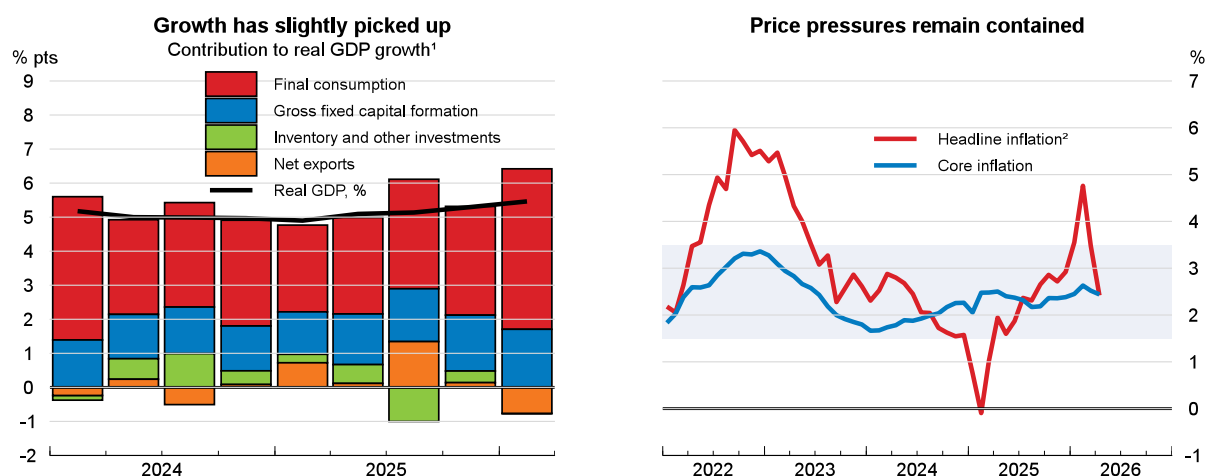
Monetary policy is expected to remain unchanged until the end of 2026, as the current fuel price freeze shields domestic inflation from rising global energy prices. Fiscal policy is projected to be supportive in 2026, as increased spending on fuel subsidies and on a free meals programme is only partly offset by tax increases and expenditure cuts elsewhere. Public spending efficiency could be enhanced by better targeting of energy subsidies to vulnerable households. Accelerating the deployment of renewable energy would enhance energy security, while strengthening the governance of the sovereign investment and holding entity Danantara would help maximise the positive economic impact of its investments.

## The economy started 2026 on a firm footing but appears to be losing momentum

Quarterly real GDP grew by 5.6% year-on-year in the first quarter of 2026 amid robust domestic demand, while net exports were a drag. Government consumption picked up markedly, growing by 21.8% year-on-year, while household consumption and gross fixed capital formation remained strong, supported by lower borrowing costs after the substantial monetary policy easing delivered through 2025. However, more recent indicators point to some loss of momentum, with retail sales falling by 1.9% year-on-year in April. Consumer confidence has weakened since the beginning of the year, with expectations for job availability softening. Headline inflation eased to 2.4% in April from 3.5% in March, as base effects from the temporary electricity tariff discount a year earlier unwound, while core inflation remained contained.

For Indonesia, the terms-of-trade effect of the evolving conflict in the Middle East is muted. The country is a net importer of crude oil and fuels, but a net energy exporter once coal and gas exports are taken into account. The government has responded to higher global energy prices by freezing subsidised fuel prices, accelerating the deployment of a new domestic biofuel (B50), and requiring civil servants to work from home one day per week. The shock is also raising upside risks to domestic costs of fertilisers and industrial inputs, as these markets have tightened globally. Recent trade policy developments, including lower US tariffs, reduce immediate pressure on exporters, but uncertainty created by weaker external demand and a more volatile global policy environment remains elevated.

## Indonesia 1



1. Year-on-year growth rates. The sum of components may deviate from observed GDP growth because of balancing items, chain-linking procedures and direct/indirect seasonal adjustment methods.

2. Annual rates. The shaded area corresponds to the central bank's inflation tolerance band.

Source: OECD Economic Outlook 119 database.

StatLink  <https://stat.link/ez3gdu>

## Indonesia: Demand, output and prices

|                                                      | 2022                           | 2023                                        | 2024 | 2025 | 2026 | 2027 |
|------------------------------------------------------|--------------------------------|---------------------------------------------|------|------|------|------|
|                                                      | Current prices<br>IDR trillion | Percentage changes, volume<br>(2010 prices) |      |      |      |      |
| <b>Indonesia</b>                                     |                                |                                             |      |      |      |      |
| <b>GDP at market prices</b>                          | 19 588.5                       | 5.0                                         | 5.0  | 5.1  | 4.7  | 5.0  |
| Private consumption                                  | 10 390.7                       | 4.9                                         | 5.1  | 5.0  | 4.3  | 4.9  |
| Government consumption                               | 1 506.3                        | 3.0                                         | 6.8  | 2.5  | 21.5 | 3.7  |
| Gross fixed capital formation                        | 5 697.3                        | 3.8                                         | 4.6  | 5.1  | 5.1  | 5.3  |
| Final domestic demand                                | 17 594.3                       | 4.4                                         | 5.1  | 4.8  | 5.9  | 4.9  |
| Stockbuilding <sup>1</sup>                           | 1 300.5                        | 0.3                                         | 0.3  | -0.1 | -0.7 | 0.0  |
| Total domestic demand                                | 18 894.8                       | 4.5                                         | 5.2  | 4.6  | 5.0  | 4.8  |
| Exports of goods and services                        | 4 799.7                        | 1.7                                         | 6.9  | 7.0  | 2.5  | 4.6  |
| Imports of goods and services                        | 4 106.1                        | -1.2                                        | 8.1  | 4.8  | 3.2  | 3.4  |
| Net exports <sup>1</sup>                             | 693.7                          | 0.7                                         | 0.0  | 0.7  | 0.0  | 0.4  |
| <b>Memorandum items</b>                              |                                |                                             |      |      |      |      |
| GDP deflator                                         | —                              | 1.5                                         | 0.9  | 2.4  | 2.9  | 2.4  |
| Consumer price index                                 | —                              | 3.7                                         | 2.2  | 1.9  | 3.4  | 2.5  |
| Private consumption deflator                         | —                              | 4.3                                         | 2.6  | 2.2  | 3.4  | 2.7  |
| Government financial balance <sup>2</sup> (% of GDP) | —                              | -1.6                                        | -2.3 | -2.9 | -3.0 | -2.9 |
| Government gross debt <sup>2</sup> (% of GDP)        | —                              | 39.6                                        | 40.2 | 40.4 | 40.7 | 40.9 |
| Current account balance (% of GDP)                   | —                              | -0.1                                        | -0.6 | -0.1 | -0.7 | -0.4 |

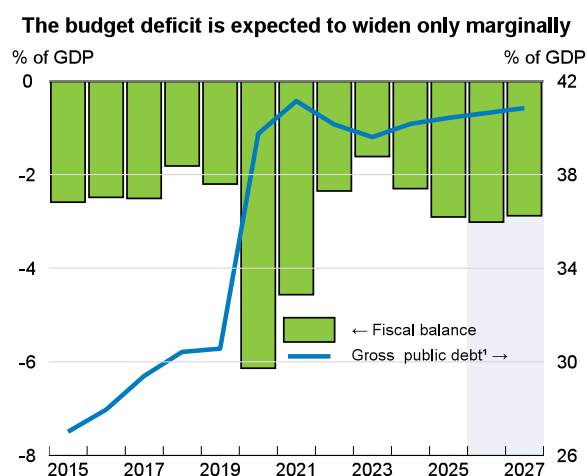
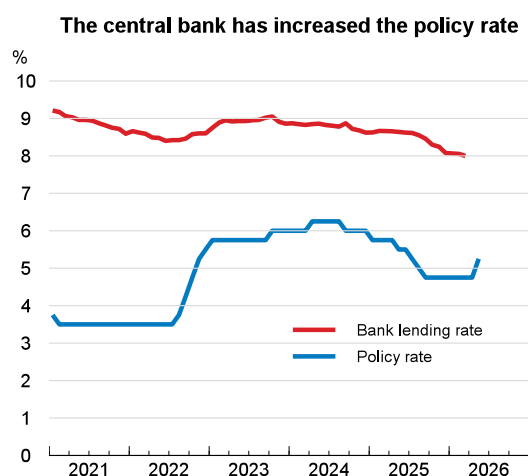
1. Contributions to changes in real GDP, actual amount in the first column.

2. Data refer to general government.

Source: OECD Economic Outlook 119 database.

StatLink  <https://stat.link/g958td>

## Indonesia 2



1. 2025 is still a projection.

Source: OECD Economic Outlook 119 database; and CEIC.

StatLink  <https://stat.link/6xpm3u>

## Macroeconomic policies balance inflation containment with support to growth

The central bank is expected to maintain the current moderately restrictive policy stance until the end of 2026, with the current fuel price freeze helping to contain inflationary pressures. Past monetary policy easing has only partially been transmitted to bank lending rates, but the central bank raised the policy rate by 50 basis points in May, as upward risks from the pass-through of higher global energy prices and the currency depreciation of around 6% against the US dollar since the beginning of the year are rising. Pursuing a data-dependent approach that balances support to economic growth and close monitoring of price pressures from higher global energy prices and the currency depreciation is key to durably maintain inflation at target. If the exchange rate stabilises and second-round effects remain contained, the policy rate could be lowered gradually towards a more neutral level in early 2027.

The government budget deficit is expected to widen from 2.9% of GDP in 2025 to 3.0% in 2026. The 2026 budget targeted a reduction to 2.7% of GDP, driven primarily by cuts in transfers to subnational governments. Higher oil prices are estimated to raise the budget deficit by 0.6% of GDP through increased fuel subsidy spending if the fuel price freeze is maintained. The government has signalled its intention to keep the deficit below the 3% ceiling of the fiscal rule, which will require offsetting measures of 0.3% of GDP — including expenditure cuts elsewhere and potential windfall taxes on commodity exporters. Off-budget capital spending through the sovereign investment and holding entity Danantara is expected to support investment, reinforcing the broadly supportive overall fiscal stance. In 2027, further expansion of the free meals programme is projected to be more than offset by lower energy subsidy costs, narrowing the budget deficit to 2.9% of GDP. Public debt is expected to remain around 41% of GDP.

## Growth is expected to soften in the near term

Real GDP is projected to grow by 4.7% in 2026 and 5.0% in 2027. Higher global energy prices, increasing borrowing costs following recent monetary policy tightening, and elevated policy uncertainty are expected to weigh on private consumption and investment amid a softening labour market. The current fuel price

freeze will cushion the direct impact of higher global energy prices on households but will not fully shield the economy from rising input costs for agriculture and energy-intensive industries. Net exports are not projected to make a net contribution to growth, as export growth will slow amid weaker global trade while import growth moderates in line with softer domestic demand. Headline inflation is projected to rise to 3.4% in 2026, as higher global energy prices gradually pass through to domestic prices, notwithstanding the partial cushioning from the current fuel price freeze. The current account is expected to decline, as higher export prices for gas and coal, of which Indonesia is a net exporter, are insufficient to offset higher oil import prices.

Risks to the outlook are tilted to the downside. Persistent supply disruption in international energy markets could necessitate rationing, further dampening consumption and weighing on industrial output. Sustained capital outflows, driven by global and domestic policy uncertainty, could place renewed depreciation pressure on the rupiah, amplifying inflationary pressures through higher import costs. On the upside, swift and effective deployment of the sovereign investment and holding entity Danantara could crowd in private capital, catalyse investment and accelerate the implementation of high-impact infrastructure and industrial projects.

### **Sustaining prudent debt levels and energy security requires structural reform**

Raising the efficiency of public spending is a key policy priority to preserve prudent public debt levels, notably through better targeting of energy subsidies to vulnerable households. Targeted transfers to low-income households, and to those reliant on energy for work, should be preferred to broad-based price controls, which are costly and poorly targeted. Social initiatives such as the free meals programme can help reduce child malnutrition and improve public health, but tighter cost control and better targeting would help contain fiscal costs. Accelerating the deployment of renewable energy, including the new domestic biofuel (B50), would diversify the energy mix across sources and technologies, strengthen energy security and reduce exposure to external price shocks. At the same time, stronger governance of public investment, including better project planning, monitoring and evaluation, would help ensure that infrastructure spending delivers stronger, more inclusive and more durable growth.

# Ireland

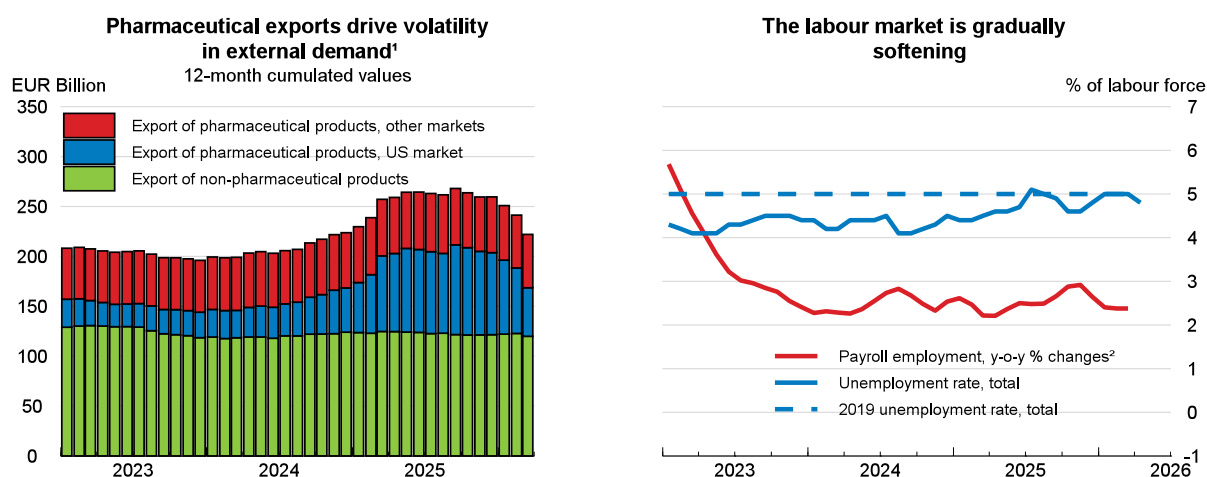
A tariff-related boost to pharmaceutical exports lifted GDP growth to 12.4% in 2025. The economy is projected to contract by 1% in 2026, due to the unwinding of a frontloading of exports, geopolitical uncertainty and higher energy prices. GDP will grow by 2.9% in 2027, helped by an export market recovery. Underpinned by a relatively resilient labour market, modified domestic demand, which controls for the main distortions arising from multinational activity, is projected to moderate but grow by 2.1% in 2026 and 2.5% in 2027.

The fiscal stance is broadly neutral in 2026-27. Explicitly time-bound, broad-based reductions in energy excise duties are among the main recent measures against the energy shock. More targeted measures would preserve price signals and incur a lower fiscal cost. Amid windfall corporate tax gains, a binding domestic fiscal rule will be vital to ensure medium-term fiscal sustainability. Faster permitting processes to accelerate the deployment of renewable generation capacity would enhance energy security.

## External headwinds are weighing on growth momentum

Front-loading of pharmaceutical exports drove annual GDP growth of 12.4% in 2025. However, the subsequent unwinding resulted in a 3.8% contraction in the fourth quarter, and preliminary estimates point to a continued decline in the first quarter of 2026. High-frequency data suggest a mixed picture in early 2026, with relatively strong output and orders growth in manufacturing, alongside signs of a possible downturn in services activity. Although the unemployment rate remained low at 4.8% in April, volatile youth unemployment rates and slower annual payroll and wage growth point to a gradual softening in labour market conditions. A spike in energy prices, linked to the evolving conflict in the Middle East, pushed headline harmonised consumer price inflation up to 3.6% in April.

## Ireland



1. Data refer to the 'Medicinal and pharmaceutical products' commodity group.

2. 3-month moving averages.

Source: Central Statistics Office.

StatLink  <https://stat.link/b4qd5u>

## Ireland: Demand, output and prices

|                                                                        | 2022                          | 2023                                        | 2024  | 2025 | 2026 | 2027 |
|------------------------------------------------------------------------|-------------------------------|---------------------------------------------|-------|------|------|------|
|                                                                        | Current prices<br>EUR billion | Percentage changes, volume<br>(2023 prices) |       |      |      |      |
| <b>Ireland</b>                                                         |                               |                                             |       |      |      |      |
| <b>GDP at market prices</b>                                            | 520.9                         | -2.6                                        | 2.5   | 12.4 | -1.0 | 2.9  |
| Private consumption                                                    | 126.5                         | 4.5                                         | 3.0   | 2.9  | 1.9  | 2.3  |
| Government consumption                                                 | 57.1                          | 6.3                                         | 4.8   | 4.0  | 3.2  | 2.3  |
| Gross fixed capital formation                                          | 110.1                         | 13.4                                        | -28.5 | 42.5 | -9.7 | 1.8  |
| Final domestic demand                                                  | 293.7                         | 8.2                                         | -8.1  | 17.1 | -2.1 | 2.1  |
| Stockbuilding <sup>1</sup>                                             | 12.1                          | 0.2                                         | -1.0  | 0.2  | 0.1  | 0.0  |
| Total domestic demand                                                  | 305.8                         | 8.2                                         | -8.4  | 17.6 | -1.9 | 2.0  |
| Exports of goods and services                                          | 726.1                         | -4.1                                        | 8.8   | 9.6  | -1.5 | 3.4  |
| Imports of goods and services                                          | 511.0                         | 2.3                                         | 2.8   | 9.4  | 0.4  | 2.9  |
| Net exports <sup>1</sup>                                               | 215.1                         | -8.0                                        | 9.1   | 4.2  | -2.5 | 1.7  |
| <b>Memorandum items</b>                                                |                               |                                             |       |      |      |      |
| Modified final domestic demand <sup>2</sup> , volume                   | —                             | 6.2                                         | 1.7   | 4.9  | 2.1  | 2.5  |
| GDP deflator                                                           | —                             | 3.5                                         | 4.5   | 1.1  | 3.0  | 2.1  |
| Harmonised index of consumer prices                                    | —                             | 5.2                                         | 1.3   | 2.1  | 3.5  | 2.5  |
| Harmonised index of core inflation <sup>3</sup>                        | —                             | 4.4                                         | 2.3   | 2.0  | 3.0  | 2.5  |
| Unemployment rate (% of labour force)                                  | —                             | 4.3                                         | 4.3   | 4.6  | 4.8  | 5.0  |
| Household saving ratio, net (% of disposable income)                   | —                             | 6.5                                         | 8.4   | 9.4  | 8.1  | 7.9  |
| General government financial balance (% of GDP)                        | —                             | 1.4                                         | 4.1   | 1.8  | 1.3  | 1.1  |
| General government gross debt (% of GDP)                               | —                             | 45.4                                        | 39.4  | 34.2 | 32.4 | 30.3 |
| General government debt, Maastricht definition <sup>4</sup> (% of GDP) | —                             | 41.8                                        | 38.3  | 32.8 | 31.0 | 28.9 |
| Current account balance (% of GDP)                                     | —                             | 7.0                                         | 16.2  | 8.1  | 7.1  | 8.9  |

1. Contributions to changes in real GDP, actual amount in the first column.

2. Excludes airplanes purchased by leasing companies in Ireland but then operated in other countries and investment in imported intellectual property by multinationals.

3. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.

4. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.

Source: OECD Economic Outlook 119 database.

StatLink  <https://stat.link/qh1e3c>

Against a backdrop of structurally high retail electricity prices, partly stemming from infrastructure bottlenecks, continued pressure on energy prices would weigh on vulnerable households. Trade in goods with the Middle East is relatively small (around 2% of total goods trade in 2025). As such, exposure to the conflict is largely indirect, mainly reflecting terms-of-trade effects. Direct exposure to import tariffs imposed by the United States is limited. Pharmaceuticals, which accounted for around 75% of goods exports to the United States in 2025, remain exempt, largely reflecting firm-level agreements. However, recent tariff increases on inputs, such as aluminium, may raise production costs in some exposed manufacturing sectors.

## Fiscal policy is broadly neutral

The government has announced temporary support measures to counter rising energy prices, worth around EUR 0.8 billion, which are set to expire at the end of July. These combine an across-the-board reduction in fuel excise duties, targeted transfers to hauliers, bus passenger operators, farmers and the fisheries sector and a one-off welfare payment for vulnerable households. The package adds to the measures in Budget 2026, which rolled over reduced VAT rates for electricity and gas and extended them to food and apartment sales. This further increases the reliance of public finances on volatile corporate tax revenues, which support the broadly neutral fiscal stance over 2026-27. The fiscal surplus, bolstered by windfall corporate tax receipts, masks widening underlying deficits driven by infrastructure needs, rapid

population growth and recurrent spending overruns. Gross public debt is projected to decrease below 60% of GNI\* in 2026.

### **Labour market conditions are set to ease only gradually**

GDP growth is projected contract by 1% in 2026, reflecting the unwinding of tariff-related front-loading, global geopolitical tensions and volatile energy prices, before growing by 2.9% in 2027 as confidence improves. Amid persistent skills shortages, labour market conditions are projected to ease only gradually as employment and wage growth moderate. Headline inflation, projected at 3.5% in 2026 and 2.5% in 2027, will weigh on private consumption, which will nevertheless remain supportive. Modified domestic demand is projected to expand by 2.1% and 2.5% in 2026 and 2027 respectively, driven also by public consumption and housing investment. Heightened global competition for diesel might lead to tighter domestic supply conditions and higher prices. Persistently high energy prices could weigh on competitiveness if they were to feed through to wage demands or increase the cost of public investment. A sharp reversal in multinationals' profitability could weigh on growth and the public finances, while stronger net inward migration or multinational performance are upside risks.

### **Ensuring medium-term fiscal sustainability while reducing vulnerabilities**

Ensuring macroeconomic stability calls for a binding and credible fiscal rule, combined with improved spending efficiency. Over the medium term, this would preserve fiscal space for necessary spending increases linked to infrastructure and rapid population growth. At the same time this would curtail recurrent overruns and limit inflationary pressures amid capacity constraints. Measures to cushion the impact of higher energy prices should be targeted and temporary. Reducing reliance on fossil fuels and the geographical concentration of energy links, for example by accelerating plans to increase the number of interconnectors, would strengthen energy security. Faster permitting processes would accelerate the deployment of renewable generation capacity, while reinforcing electricity grids and water networks would help contain comparatively high utility costs. Closing the innovation gap between multinationals and domestic SMEs should also be prioritised to boost productivity.

# Israel

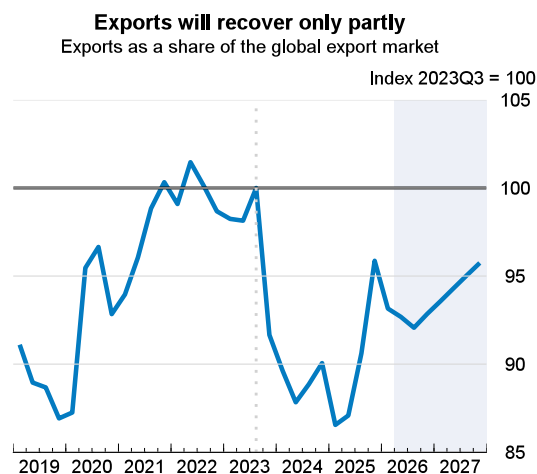
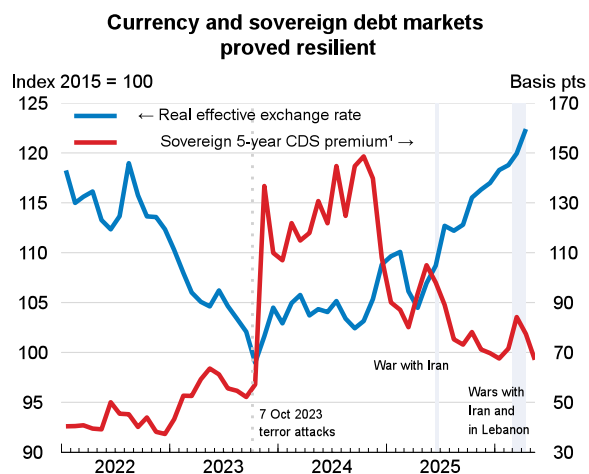
Following the sharp contraction caused by the March-April 2026 military operations, the economy will rebound strongly. Resilient private-sector fundamentals, stable financial conditions, and rapid post-ceasefire recovery in consumption and construction are projected to result in GDP growing by 3.3% in 2026 and 5.6% in 2027. Inflation will ease from 2.3% in 2026 to 2.1% in 2027 as fuel prices abate and labour supply normalises. Fiscal deficits will narrow as defence spending declines and revenues remain solid. Risks are substantial on both sides: renewed high-intensity warfare would weaken activity and worsen public finances, while deeper regional trade integration could deliver significantly stronger growth.

Monetary policy will have renewed scope for easing once security-related labour constraints abate. Fiscal policy should rebuild buffers by sustaining revenue measures, reducing defence outlays when feasible, while preserving room for growth-enhancing investment in education and infrastructure.

## Conflicts hit a robustly growing economy

The wars with Iran and in Lebanon broke out in a period of rapid private-sector-led economic growth. Industrial production expanded at an annual rate of 11% in the three months to January 2026. Credit card purchases by households rose 9.2% year-on-year in February 2026. Unemployment narrowed from 3.2% of the labour force in December 2025 to 2.6% in February 2026, while inflation eased from 2.5% year-on-year in November-December 2025 to 1.9% in January-February 2026. The large-scale military operations and missile attacks over Israeli territory resulted in a sharp private-sector contraction in March 2026, as schools closed and many workers shifted from civilian activity to military duty. Consumer sentiment dropped in March 2026 and remained weak in April 2026. The impact on inflation, which remained stable at 1.9% year-on-year in April 2026, has been muted by international comparison, as electricity prices in Israel are largely insensitive to global natural gas prices owing to domestic extraction priced through long-term contracts.

## Israel



1. Monthly data (average of daily data) for Credit Default Swap (CDS).  
Source: LSEG; OECD Economic Outlook 119 database; and OECD calculations.

StatLink  <https://stat.link/8wces5>

## Israel: Demand, output and prices

|                                                 | 2022                          | 2023                                        | 2024 | 2025 | 2026 | 2027 |
|-------------------------------------------------|-------------------------------|---------------------------------------------|------|------|------|------|
|                                                 | Current prices<br>NIS billion | Percentage changes, volume<br>(2020 prices) |      |      |      |      |
| Israel                                          |                               |                                             |      |      |      |      |
| GDP at market prices                            | 1 764.3                       | 2.1                                         | 1.0  | 2.9  | 3.3  | 5.6  |
| Private consumption                             | 869.8                         | -0.6                                        | 3.9  | 2.6  | 2.9  | 6.8  |
| Government consumption                          | 369.8                         | 8.1                                         | 11.8 | 1.7  | 1.5  | 0.7  |
| Gross fixed capital formation                   | 445.9                         | -2.1                                        | -5.5 | 8.4  | 8.5  | 8.2  |
| Final domestic demand                           | 1 685.5                       | 1.0                                         | 3.6  | 3.7  | 3.9  | 5.6  |
| Stockbuilding <sup>1</sup>                      | 41.9                          | -0.6                                        | -1.0 | -0.2 | -0.6 | 0.0  |
| Total domestic demand                           | 1 727.4                       | 0.3                                         | 2.5  | 3.6  | 3.3  | 5.6  |
| Exports of goods and services                   | 553.4                         | -1.1                                        | -4.7 | 5.7  | 5.8  | 5.2  |
| Imports of goods and services                   | 516.4                         | -7.4                                        | -0.7 | 8.2  | 9.0  | 4.9  |
| Net exports <sup>1</sup>                        | 37.0                          | 1.8                                         | -1.2 | -0.5 | -0.7 | 0.2  |
| Memorandum items                                |                               |                                             |      |      |      |      |
| GDP deflator                                    | —                             | 4.6                                         | 5.6  | 2.1  | 2.5  | 2.3  |
| Consumer price index                            | —                             | 4.2                                         | 3.1  | 3.0  | 2.3  | 2.1  |
| Core inflation index <sup>2</sup>               | —                             | 4.2                                         | 2.6  | 3.2  | 2.1  | 2.1  |
| Unemployment rate (% of labour force)           | —                             | 3.4                                         | 3.0  | 3.0  | 2.9  | 2.9  |
| General government financial balance (% of GDP) | —                             | -5.4                                        | -8.1 | -5.1 | -5.3 | -4.2 |
| General government gross debt (% of GDP)        | —                             | 61.3                                        | 67.6 | 69.5 | 71.0 | 70.0 |
| Current account balance (% of GDP)              | —                             | 3.2                                         | 2.8  | 1.4  | 1.5  | 1.5  |

1. Contributions to changes in real GDP, actual amount in the first column.

2. Consumer price index excluding food and energy.

Source: OECD Economic Outlook 119 database.

StatLink  <https://stat.link/c39go4>

The evolving conflict in the Middle East and broader trade tensions have contrasting effects on Israeli international trade. The sharp reduction in commercial flights complicates cross-border business travel, which is particularly important for the high-tech sector. Inward foreign tourism has dried up. Meanwhile, the Israeli economy is well positioned to respond to the increase in global demand for defence equipment and services.

## Monetary policy easing can continue once fiscal consolidation resumes and supply conditions improve

Steady monetary policy management and fiscal responsibility have maintained currency and financial stability despite successive large shocks since October 2023. Credit default swap (CDS) rates, which summarise the market assessment of sovereign risk, went up by 20 basis points in late February- early March 2026 before returning in April 2026 to their January 2026 levels. Domestic stock exchange valuations have reached historical highs. The shekel has been appreciating since April 2025. After the 25 basis point cut of May 2026, the monetary policy stance can be further recalibrated once supply constraints, including those arising from reserve duty pressures on the labour market, abate. With supply improving, oil prices easing, and shekel appreciation feeding through, the central bank should be able to cut its policy interest rate to 3.5% in 2027.

Renewed intense military activity in 2026 entails large fiscal costs that delay consolidation. The government deficit is expected to widen to 5.3% in 2026 before narrowing to 4.2% in 2027, as defence spending decreases while revenue collection remains robust partly thanks to the continued implementation of measures taken in previous budgets.

## Activity will rebound following the ceasefires

GDP is projected to grow by 3.3% in 2026 and 5.6% in 2027. Following the April 2026 ceasefires with Iran and in Lebanon, activity quickly recovered. Construction, which restarted already mid-March, will expand more quickly than before the wars including to repair damage from missile attacks. Pent-up demand for housing from past housebuilding reductions and strong population growth will fuel investment expansion. Consumption is anticipated to bounce back quickly as in the aftermath of previous recent episodes of armed conflict. The recovery in service exports will be slower, as it partly depends on international air travel, which resumes more sluggishly. Inflation will decrease over 2026-2027, as motor fuel prices abate from their April 2026 highs and civilian labour-market shortages ease. Risks abound on both sides: renewed intense warfare would hurt activity and widen the deficit, while a global slump in AI valuations would threaten Israel's high-tech sector. On the upside, trade agreements with countries in the region would unleash stronger growth.

## Macroeconomic policy should remain cautious

Exposure to recurring large shocks calls for restoring the ample fiscal buffers that have served the country well. This requires quickly reducing government debt by maintaining the revenue-raising measures introduced in recent budgets and diminishing defence spending when security conditions allow. As a priority to enable strong future growth, fiscal room should be kept for needed public spending on education and infrastructure while simplifying planning and permitting procedures.

# Italy

GDP growth is projected to remain at 0.5% in 2026, as the renewed energy price shock weighs on household consumption, investment and exports, offsetting the impetus from the rising disbursement of the National Recovery and Resilience Programme funds. The surge in energy prices will lift inflation, unwinding recent gains in real wages. In 2027, retreating energy prices and reduced uncertainty will lift growth to 0.6%. Italy's outlook is relatively exposed to the evolving conflict in the Middle East, given the high share of energy sourced from imported fossil fuels and the importance of exported manufacturing production.

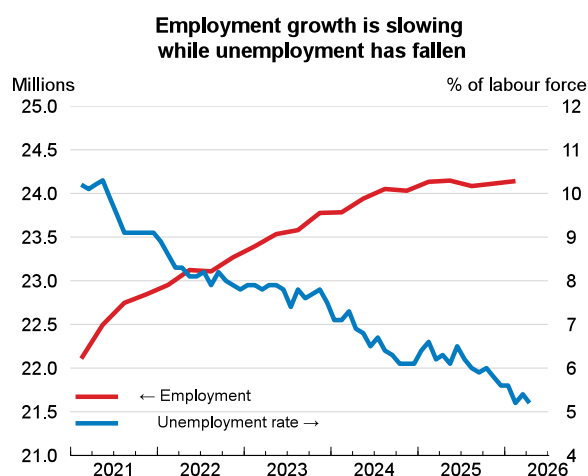
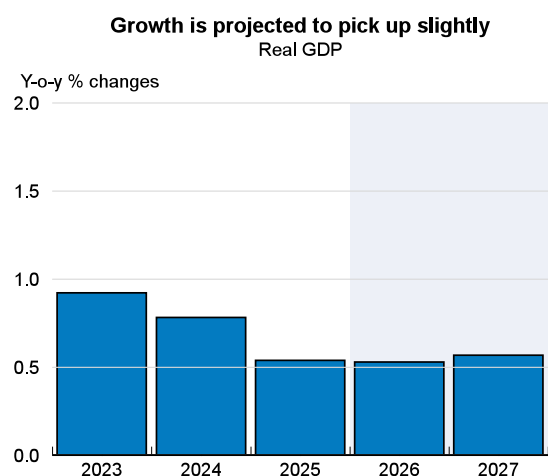
Pursuing fiscal consolidation while pursuing a comprehensive programme of structural reforms to raise productivity and employment will help to start reducing the debt burden and improve the economy's resilience to external shocks. Ensuring energy price support measures are temporary and targeted towards vulnerable households and firms will limit the harm from the shock while containing fiscal costs. Pursuing planning and approval reforms to hasten investments in renewable energy generation and transmission can reduce energy costs and vulnerability to elevated fossil fuel prices.

## The energy price surge has undercut the economy's improving momentum

The economy's momentum was gradually improving in late 2025 and early 2026, before the surge in energy prices and instability undercut confidence. GDP expanded by 0.2% in the first quarter of 2026 compared with the previous quarter, supported by rising investment and expanding production related to pharmaceuticals and the energy and digital transitions. Into 2026, firms reported improving orders, while the rising disbursement of National Recovery and Resilience Programme (NRRP) funds bolstered construction activity and tax incentives supported housing investment. The Milano Cortina Winter Olympics temporarily boosted services activity and exports. Employment growth has moderated, but a decline in labour force participation reduced the unemployment rate to 5.3% in February 2026, near historic lows. The outbreak of the conflict in the Middle East prompted a sharp deterioration in consumer and business confidence. Energy price increases lifted the harmonised year-on-year inflation rate to 2.8% in April. Core inflation has moderated to 1.6% as services price growth eased.

Export volumes weakened in late 2025, notably to euro area markets and to the United States, before recovering somewhat in early 2026, although exporters' outlook for orders was pessimistic and worsened following the outbreak of the Middle East conflict. Energy-intensive manufacturing and exports are significant for overall production, and Italy has been more reliant than other major euro-area countries on refined petroleum and natural gas (one-quarter and 11% of total supply respectively) supplied through the Strait of Hormuz, and the energy trade balance deteriorated in March with higher international prices. US tariffs are diverting exports of large emerging-market economies, heightening competitive pressures in domestic and foreign markets for Italian manufacturers in sectors such as in toys, electronics, rubber and plastics, and machinery.

## Italy 1



Source: OECD Economic Outlook 119 database.

StatLink  <https://stat.link/530urk>

## Italy: Demand, output and prices

|                                                                        | 2022                          | 2023                                        | 2024  | 2025  | 2026  | 2027  |
|------------------------------------------------------------------------|-------------------------------|---------------------------------------------|-------|-------|-------|-------|
|                                                                        | Current prices<br>EUR billion | Percentage changes, volume<br>(2020 prices) |       |       |       |       |
| <b>Italy</b>                                                           |                               |                                             |       |       |       |       |
| <b>GDP at market prices</b>                                            | 1 998.1                       | 0.9                                         | 0.8   | 0.5   | 0.5   | 0.6   |
| Private consumption                                                    | 1 166.5                       | 0.5                                         | 1.2   | 1.1   | 0.3   | 0.5   |
| Government consumption                                                 | 376.4                         | 1.0                                         | 1.5   | 0.6   | 0.6   | 0.7   |
| Gross fixed capital formation                                          | 435.1                         | 10.1                                        | -3.1  | 3.5   | 2.3   | 0.9   |
| Final domestic demand                                                  | 1 978.0                       | 2.7                                         | 0.3   | 1.5   | 0.8   | 0.6   |
| Stockbuilding <sup>1</sup>                                             | 56.4                          | -2.4                                        | 0.3   | -0.2  | 0.3   | 0.0   |
| Total domestic demand                                                  | 2 034.4                       | 0.3                                         | 0.6   | 1.3   | 1.1   | 0.6   |
| Exports of goods and services                                          | 701.3                         | -0.2                                        | -0.4  | 1.2   | 0.8   | 1.2   |
| Imports of goods and services                                          | 737.6                         | -1.9                                        | -1.0  | 3.6   | 2.8   | 1.2   |
| Net exports <sup>1</sup>                                               | - 36.3                        | 0.6                                         | 0.2   | -0.7  | -0.6  | 0.0   |
| <b>Memorandum items</b>                                                |                               |                                             |       |       |       |       |
| GDP deflator                                                           | —                             | 6.3                                         | 2.0   | 2.0   | 1.4   | 2.6   |
| Harmonised index of consumer prices                                    | —                             | 5.9                                         | 1.1   | 1.6   | 3.0   | 2.2   |
| Harmonised index of core inflation <sup>2</sup>                        | —                             | 4.6                                         | 2.2   | 1.9   | 2.3   | 2.0   |
| Unemployment rate (% of labour force)                                  | —                             | 7.7                                         | 6.5   | 6.0   | 5.4   | 5.6   |
| Household saving ratio, net (% of disposable income)                   | —                             | 3.4                                         | 3.3   | 3.2   | 3.4   | 3.6   |
| General government financial balance (% of GDP)                        | —                             | -7.1                                        | -3.4  | -3.1  | -2.9  | -2.8  |
| General government gross debt (% of GDP)                               | —                             | 147.5                                       | 147.9 | 148.7 | 150.5 | 150.2 |
| General government debt, Maastricht definition <sup>3</sup> (% of GDP) | —                             | 133.9                                       | 134.7 | 137.1 | 138.8 | 138.6 |
| Current account balance (% of GDP)                                     | —                             | 0.2                                         | 1.1   | 1.1   | 0.0   | 0.7   |

1. Contributions to changes in real GDP, actual amount in the first column.

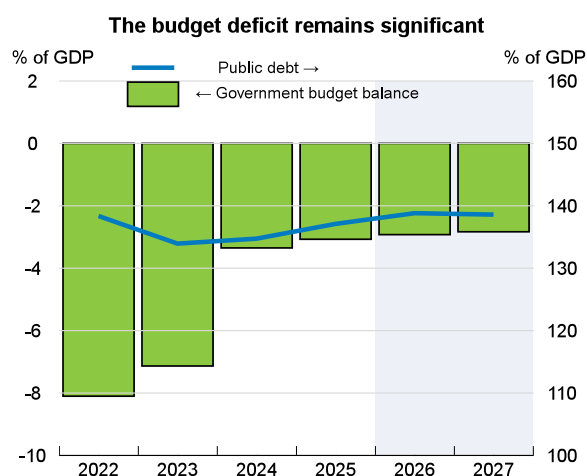
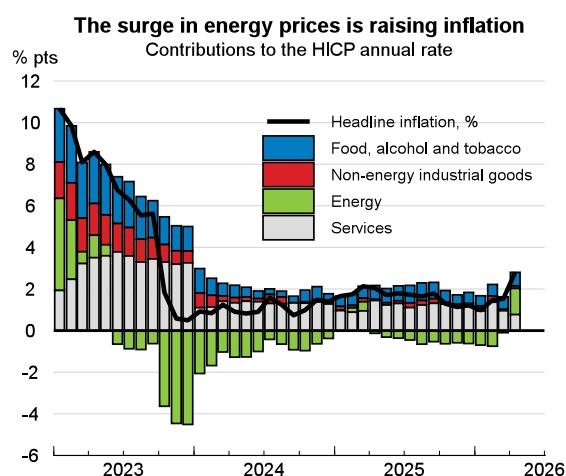
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.

3. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.

Source: OECD Economic Outlook 119 database.

StatLink  <https://stat.link/acv850>

## Italy 2



Source: OECD Economic Outlook 119 database.

StatLink  <https://stat.link/lqbut3>

## Gradual fiscal consolidation continues

Gradual fiscal consolidation continues, with the budget deficit narrowing to 3.1% of GDP in 2025, although at a slightly slower pace than anticipated in the 2026 budget. Increased receipts, notably social security contributions, supported the fiscal balance. Net primary expenditure rose as share of GDP, in contrast with the Medium-Term Fiscal-Structural Plan that implies a declining ratio. Accelerating implementation of the NRRP lifted public investment above 3.8% of GDP, the highest rate in 35 years. Public debt rose to over 137% of GDP in 2025, with the rise partly due to the ongoing effects on cash flow from previous years' generous building renovation tax credits. To abate the effects of Italy's relatively high energy prices, exacerbated by the evolving Middle East conflict, the government has reduced fuel excise tax rates and extended a series of targeted transfers to low-income households and firms in sectors highly exposed to high fuel costs such as road haulage, agriculture and fishing. The measures are limited by end dates or financing allocations, and are partly financed through increased taxes on energy companies, higher VAT receipts and ETS revenues, and by reduced funding to some ministries.

Overall, financing conditions were broadly stable in late 2025 and early 2026 and private sector lending growth remained modest. Costs of new loans to firms fell, while those to households, which are generally fixed rate, rose, reflecting higher long-term bond yields. Following the outbreak of the Middle East conflict, interest costs rose with market yields and spreads on government bonds widening modestly.

## Growth is weighed down by external developments

Output growth is expected to remain modest at 0.5% in 2026, as the renewed increase in energy prices and uncertainty weigh on households' consumption and businesses' production and investment. Rising public investment with accelerating disbursement of the NRRP funds will support activity, especially in construction and associated manufacturing sectors. Employment growth is likely to slow, although the rise in the unemployment rate is likely to be limited as fewer adults are entering the labour force. In 2027, household spending and external demand are likely to pick up as energy prices and geopolitical uncertainty subside, lifting GDP growth to 0.6%. The pick-up is held back by weak income growth, with real wages

recovering few of their losses from higher consumer prices due to the limited renewals of collective agreements scheduled for 2027 and continued slack in the labour market.

Risks to the outlook are substantial and are tilted to the downside given Italy's relatively high exposure to the Middle East conflict. The high public debt exposes the economy to global financial market volatility and increased risk premiums which may follow higher global inflation. Conversely, government investments and reforms to improve the business environment, investment and skill development, accelerated by the NRRP, may encourage businesses to invest more than expected, making use of their improved balance sheets and liquidity, and attract more adults into the labour force.

### **Fiscal consolidation alongside ambitious structural reforms would lift prospects**

Pursuing the planned fiscal consolidation laid out in the Medium-Term Fiscal-Structural Plan (MTFSP) would reduce the debt burden, refinancing needs and interest costs, and lessen the economy's vulnerability to financial market volatility. As spending pressures are rising from population ageing, climate change and defence, achieving the planned consolidation will require improving public spending effectiveness and integrity, and curbing high pension spending. Improving tax compliance can fund reforms to make the tax system more growth-friendly, enabling reductions in the tax burden for individual taxpayers, particularly low-wage workers. Pursuing a comprehensive programme of structural reforms, building on the NRRP and the MTFSP, to raise productivity and employment and raise incomes, would also support fiscal sustainability. Improving school-to-work transitions, adult and vocational training, as well as reforming labour market policies would help to better engage youth in the workforce, while expanding parental leave earmarked for fathers could encourage take-up and reduce barriers to women from working. While the productivity of Italy's larger producers is high, many firms are small with low productivity. Increasing competition from emerging-market economies is being heightened by trade diversion following international trade policy restrictions. Continuing to streamline and provide greater stability in government support to businesses, reduce regulatory and tax compliance burdens, scale-up support for innovative research and development, and encourage the professionalisation of firms' management would help firms raise their productivity and grow. Accelerating the development of renewable energy sources and electrifying energy use would reduce Italy's exposure to volatile fossil fuel prices and supply uncertainty, and could lower energy costs. This requires pursuing ongoing reforms to simplify and anticipate planning approvals across the multiple layers of public bodies, and ensuring that pricing policies, including measures to support vulnerable users, encourage improved efficiency, the shift away from fossil fuels and further investment in the sector.

# Japan

Real GDP growth is projected to ease slightly to 0.6% in 2026 and 0.8% in 2027. Despite the headwinds from the rising cost of energy imports, domestic demand will be the main driver of growth. Robust wage growth and energy subsidies will support private consumption. Government consumption is set to remain high. Government subsidies and high corporate profits will boost investment in 2026, partly offsetting the energy shock. The increase in energy prices will be partly mitigated by government measures in 2026, and headline consumer price inflation is projected to move towards the 2% target in late 2027.

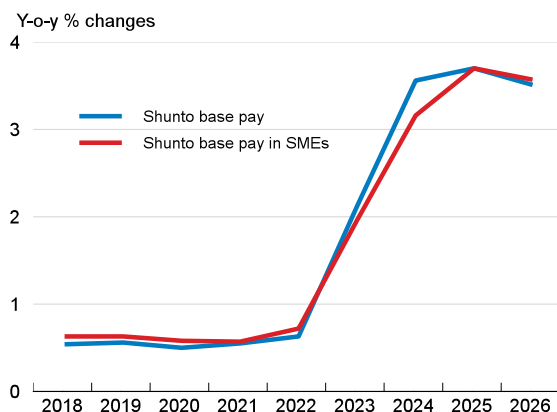
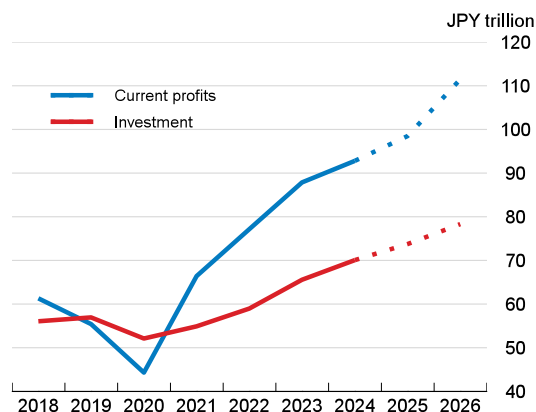
The fiscal stance is projected to be expansionary in 2026, following 2025 tax reforms and additional energy subsidies. In the absence of supplementary budgets, fiscal policy will tighten in 2027. Given rising interest rates, elaborating a clear and credible medium-term fiscal consolidation plan, underpinned by specific expenditure and tax measures, is needed to secure medium-term fiscal sustainability. While increased uncertainty due to the evolving conflict in the Middle East creates challenges, the gradual withdrawal of monetary accommodation should be continued, given robust wage growth and projected inflation around the 2% target. Enhancing energy security requires stepping up the promotion of research, development and deployment of green technologies and increasing renewable energy production.

## The evolving conflict in the Middle East is partly disrupting the robust growth in early 2026

Real GDP grew robustly at 0.5% (quarter-on-quarter) in the first quarter of 2026. Private consumption and investment remained resilient, reflecting robust corporate profits and momentum in nominal wage growth. The Bank of Japan (BoJ)'s March *Tankan Survey* points to the tightest labour market in three and a half decades, which will further support wage increases and investment in labour-saving technologies. The preliminary outcomes for the 2026 *Shunto* wage negotiations imply an increase of 3.5% for base pay and 5.1% for total wages. Firms' profits and investment plans in FY2026 remain solid according to the March *Tankan Survey* but could be underestimating the impact of the conflict. Headline consumer price inflation was 1.4% in April, due to easing food prices, and temporary energy subsidies.

The effective tariff rate of the US to Japan edged down slightly as across-the-board tariff rate was reduced to 10% from 15% in February. Goods and service exports grew by 1.7% in the first quarter of 2026, partly due to the recovery of automobile exports and strong demand for electrical machinery, including that for semiconductors. Nevertheless, risks from the evolving conflict in the Middle East have increased. Japan imports around 90% of its crude oil from the Middle East. Although Japan maintains abundant strategic reserves (equivalent to around seven months of consumption) as of 23 May 2026 and only imports around 10% of its LNG from the Middle East, elevated oil and gas prices could erode corporate profits and damp demand. Import prices rose by 17.5% over the year to April.

## Japan 1

Wage growth momentum is set to continue<sup>1</sup>Corporate profits are supporting business investment<sup>2</sup>

1. 2026 values are as of 7 May.

2. Non-financial firms. Horizontal axis indicates fiscal years. For FY2025 and FY2026, firms' plans on current profits and investment were extrapolated.

Source: Japanese Trade Union Confederation; Bank of Japan; and OECD calculations.

StatLink  <https://stat.link/avfowi>

## Japan: Demand, output and prices

|                                                      | 2022                           | 2023                                        | 2024  | 2025  | 2026  | 2027  |
|------------------------------------------------------|--------------------------------|---------------------------------------------|-------|-------|-------|-------|
|                                                      | Current prices<br>YEN trillion | Percentage changes, volume<br>(2020 prices) |       |       |       |       |
| <b>Japan</b>                                         |                                |                                             |       |       |       |       |
| <b>GDP at market prices</b>                          | 584.9                          | 0.7                                         | -0.2  | 1.1   | 0.6   | 0.8   |
| Private consumption                                  | 319.0                          | 0.1                                         | -0.6  | 1.3   | 0.7   | 0.6   |
| Government consumption                               | 121.1                          | -0.2                                        | 1.6   | 1.0   | 1.7   | 1.9   |
| Gross fixed capital formation                        | 162.8                          | 1.9                                         | -0.6  | 0.9   | 1.1   | 0.7   |
| Final domestic demand                                | 603.0                          | 0.5                                         | -0.2  | 1.1   | 1.0   | 0.9   |
| Stockbuilding <sup>1</sup>                           | 2.8                            | -0.5                                        | -0.1  | 0.3   | -0.6  | 0.0   |
| Total domestic demand                                | 605.8                          | 0.0                                         | -0.2  | 1.4   | 0.5   | 0.9   |
| Exports of goods and services                        | 120.8                          | 3.1                                         | 2.2   | 2.5   | 1.4   | 1.6   |
| Imports of goods and services                        | 141.6                          | -0.4                                        | 1.7   | 3.8   | 0.7   | 2.1   |
| Net exports <sup>1</sup>                             | - 20.9                         | 0.7                                         | 0.1   | -0.3  | 0.2   | -0.1  |
| <b>Memorandum items</b>                              |                                |                                             |       |       |       |       |
| GDP deflator                                         | —                              | 4.6                                         | 3.2   | 3.4   | 2.3   | 2.5   |
| Consumer price index                                 | —                              | 3.3                                         | 2.7   | 3.2   | 1.8   | 2.2   |
| Core consumer price index <sup>2</sup>               | —                              | 2.7                                         | 2.0   | 1.7   | 1.6   | 2.0   |
| Unemployment rate (% of labour force)                | —                              | 2.6                                         | 2.5   | 2.5   | 2.7   | 2.7   |
| Household saving ratio, net (% of disposable income) | —                              | -0.9                                        | 0.7   | 0.2   | 1.1   | 1.9   |
| General government financial balance (% of GDP)      | —                              | -2.3                                        | -1.7  | -1.0  | -1.9  | -1.1  |
| General government gross debt (% of GDP)             | —                              | 218.1                                       | 205.4 | 197.5 | 193.9 | 188.9 |
| Current account balance (% of GDP)                   | —                              | 3.7                                         | 4.6   | 4.8   | 5.2   | 5.4   |

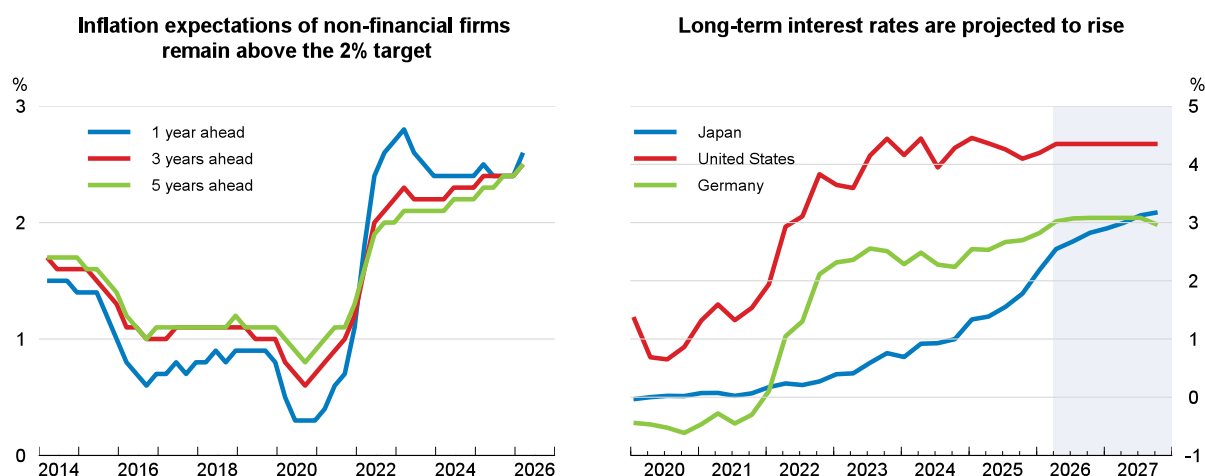
1. Contributions to changes in real GDP, actual amount in the first column.

2. Consumer price index excluding food and energy.

Source: OECD Economic Outlook 119 database.

StatLink  <https://stat.link/u3hvdv>

## Japan 2



Source: Bank of Japan; and OECD Economic Outlook 119 database.

StatLink  <https://stat.link/mf05x>

## Monetary policy is projected to tighten, while fiscal policy will support growth in 2026

The Bank of Japan has taken steps toward monetary policy normalisation by starting to reduce the size of its balance sheet and raising the policy interest rate, which reached around 0.75% in December 2025. Despite volatility in headline consumer inflation due to temporary factors and the energy shock in the first half of 2026, inflation is projected to converge towards target at the end of 2027. Firms currently expect inflation above target, at 2.5% for three-to-five years horizons, according to the March Tankan Survey. The breakeven inflation rate on 10-year JGBs has been trending up and was 1.89% at the end of April. While uncertainty from external headwinds warrants a cautious approach, the policy rate is projected to increase gradually to 2% by the end of 2027, given higher inflation expectations, solid nominal wage growth and the closing of the output gap.

The overall fiscal stance between 2025 and 2027 is contractionary, assuming no additional supplementary budgets in FY2026-27. The primary deficit is projected to increase from 1.0% of GDP in 2025 to 1.6% of GDP in 2026, reflecting the November 2025 stimulus package, income tax reforms and fuel subsidies. The primary balance is set to improve but remain negative in 2027. OECD projections assume additional spending on high school tuition assistance (0.1% of GDP) and defence (0.2% of GDP) in FY2026. The higher income deduction in the personal income tax from FY2025 is expected to reduce tax revenues by 0.2% of GDP. A special corporate tax surcharge of 4% for tax liabilities exceeding JPY 5 million was introduced in April 2026 to partly finance the increase in the defence budget. The cap on retail gasoline prices and additional subsidies on electricity and gas (between July and September) introduced in response to rising prices are assumed to cost 0.3% of GDP. Backloading of retirement benefits of public servants due to the extension of the retirement age will also raise government consumption in 2026. Despite these spending pressures, the gross public debt-to-GDP ratio is projected to decrease from around 205% in 2024 to around 189% in 2027, as nominal growth surpasses debt servicing costs.

## The economy is set to grow moderately despite external headwinds

Real GDP is projected to ease slightly but continue to expand at a moderate pace, growing above potential at 0.6% and 0.8% in 2026 and 2027, respectively. With the headwinds from the rising cost of energy imports, domestic demand will ease but remain the main driver of growth. High corporate profits will enable continued solid wage growth, which will support private consumption. Business investment is projected to be supported by ample internal finance and government measures, including the fiscal stimulus package introduced in November 2025. Stronger price pressures due to higher energy prices are partly offset by subsidies, and headline consumer price inflation is projected to move back to the 2% target in late 2027.

The main risks are higher energy prices, potential disruptions in supply chains and weaker-than-expected external demand due to geopolitical tensions and trade policy uncertainty. A prolonged disruption to shipments through the Strait of Hormuz could adversely affect households and firms. Sharp movements in bond and equity prices could destabilise financial markets and hurt the balance sheets of financial institutions and the government. A loss of confidence in Japan's fiscal sustainability and an increase in the sovereign risk premium could also adversely affect the financial sector and the real economy. Faster-than-expected reconstruction of global supply chains and the development of new export channels could further boost exports and support growth.

## Building fiscal buffers against shocks and boosting productivity are priorities

Policies need to balance keeping inflation around the 2% target, ensuring fiscal sustainability and boosting potential growth. In a context of increasing debt servicing costs, putting public debt on a downward trajectory should be prioritised. The government should limit the use of supplementary budgets to large economic shocks and elaborate a clear and credible medium-term fiscal plan to achieve primary surpluses early on and then maintain them. Untargeted measures to cushion the impact of higher energy prices, such as the recent price cap on fuels, can be fiscally costly and distort price signals. Any further policies, if needed, should be targeted and temporary. Improving the relevance and targeting of adult learning to increase participation by female, older and non-regular workers and boosting the flexibility of labour markets would help counter adverse demographics and tackle labour shortages. Raising productivity requires strengthening competition and making public support to small and medium-sized enterprises more effective to increase business dynamism, encouraging foreign direct investment to unlock productivity spillovers and reforming the innovation framework and incentives for start-ups. Streamlined permitting processes are needed to increase the share of renewables in electricity production, boosting energy security.

# Korea

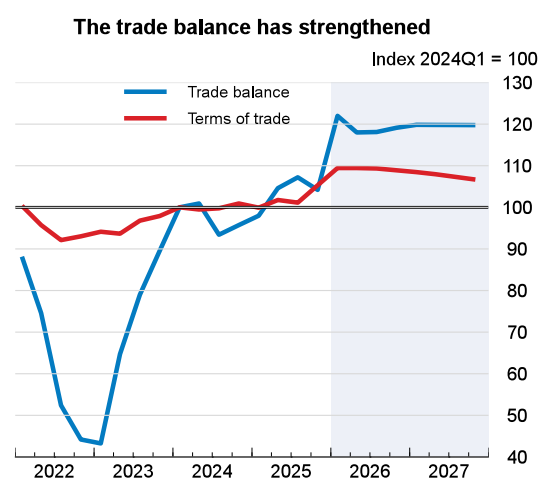
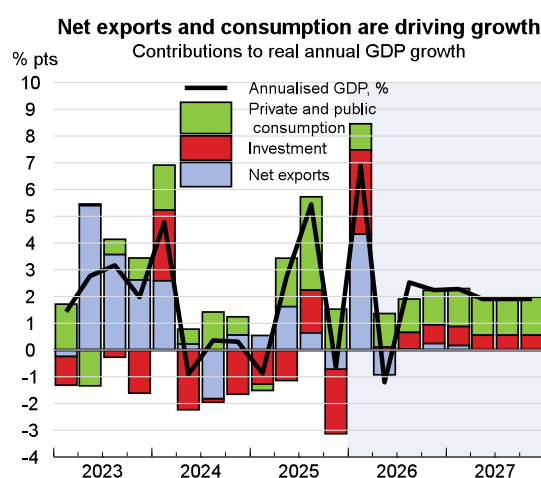
GDP growth is projected to strengthen to 2.6% in 2026 before moderating to 1.9% in 2027. Semiconductor exports continue to drive growth and private investment. Consumption will continue a gradual recovery, supported by fiscal policy. Headline inflation is set to reach 2.6% in 2026 before falling back to the target in 2027. Potential shortages related to the evolving conflict in the Middle East are a key downside risk, while strong demand for advanced semiconductors could raise growth more than projected.

Monetary policy should remain focused on anchoring inflation expectations while looking through the temporary supply shock and tax changes. Targeted support to vulnerable households and businesses should be prioritised, while phasing out energy price support, export controls and price regulations. Creating a broad political consensus for a long-term fiscal sustainability framework would help meet fiscal pressures from rapid ageing.

## Technology exports are boosting growth

GDP grew by 1.7% in the first quarter (non-annualised) according to the advance estimate, driven by net exports, consumption and private investment. Industrial production also turned positive, but apart from semiconductors and shipbuilding, business confidence in the manufacturing sector remains weak. Consumer confidence weakened considerably in April. Annual CPI inflation rose from close to 2% in the first quarter to 2.6% in April, with a partial pass-through of energy prices counteracted by recent currency strengthening. Long-term inflation expectations remain anchored. The unemployment rate edged up to 2.8% in April, while employment declined slightly after expanding by 0.4% in the first quarter.

## Korea



Source: OECD Economic Outlook 119 database.

StatLink  <https://stat.link/y8zdtx>

## Korea: Demand, output and prices

|                                                      | 2022                           | 2023                                        | 2024 | 2025 | 2026 | 2027 |
|------------------------------------------------------|--------------------------------|---------------------------------------------|------|------|------|------|
|                                                      | Current prices<br>KRW trillion | Percentage changes, volume<br>(2020 prices) |      |      |      |      |
| <b>Korea</b>                                         |                                |                                             |      |      |      |      |
| <b>GDP at market prices</b>                          | 2 323.8                        | 1.6                                         | 2.0  | 1.0  | 2.6  | 1.9  |
| Private consumption                                  | 1 139.4                        | 2.0                                         | 1.1  | 1.3  | 2.2  | 2.1  |
| Government consumption                               | 409.9                          | 1.9                                         | 2.1  | 3.0  | 2.9  | 2.1  |
| Gross fixed capital formation                        | 742.1                          | -0.2                                        | -0.8 | -3.3 | 2.1  | 2.2  |
| Final domestic demand                                | 2 291.3                        | 1.3                                         | 0.7  | 0.2  | 2.3  | 2.1  |
| Stockbuilding <sup>1</sup>                           | 32.3                           | 0.1                                         | -0.5 | 0.4  | -0.4 | 0.0  |
| Total domestic demand                                | 2 323.7                        | 1.4                                         | 0.2  | 0.6  | 1.9  | 2.1  |
| Exports of goods and services                        | 1 052.6                        | 3.4                                         | 6.8  | 4.2  | 6.0  | 1.9  |
| Imports of goods and services                        | 1 052.4                        | 3.0                                         | 2.5  | 3.9  | 4.4  | 2.1  |
| Net exports <sup>1</sup>                             | 0.1                            | 0.2                                         | 1.8  | 0.3  | 1.0  | 0.1  |
| <b>Memorandum items</b>                              |                                |                                             |      |      |      |      |
| GDP deflator                                         | —                              | 2.0                                         | 4.1  | 3.1  | 7.6  | 1.5  |
| Consumer price index                                 | —                              | 3.6                                         | 2.3  | 2.1  | 2.6  | 2.2  |
| Core inflation index <sup>2</sup>                    | —                              | 3.4                                         | 2.2  | 1.9  | 2.5  | 2.3  |
| Unemployment rate (% of labour force)                | —                              | 2.7                                         | 2.8  | 2.8  | 2.8  | 2.7  |
| Household saving ratio, net (% of disposable income) | —                              | 7.3                                         | 9.7  | 10.4 | 10.0 | 10.0 |
| General government financial balance (% of GDP)      | —                              | -0.9                                        | -1.5 | -2.5 | -2.1 | -2.1 |
| General government gross debt (% of GDP)             | —                              | 48.6                                        | 48.5 | 45.8 | 48.2 | 50.2 |
| Current account balance (% of GDP)                   | —                              | 1.8                                         | 5.3  | 6.6  | 12.3 | 9.9  |

1. Contributions to changes in real GDP, actual amount in the first column.

2. Consumer price index excluding food and energy.

Source: OECD Economic Outlook 119 database.

StatLink  <https://stat.link/jl6xom>

Exports have surged since the beginning of 2026, with marked increases in both prices and volumes, especially of tech exports. Nominal import growth has also been strong, but well below that of exports. Higher global energy prices have affected prices of both imports and exports of petrochemicals and refined oil products. Korea has considerable reserves of crude oil and has launched a concerted effort to secure industrial inputs including naphtha, natural gas and helium. Exports of naphtha have been restricted and exports of refined fuels capped at their 2025 volumes.

## Fiscal policy is supportive

A supplementary budget of more than 1% of GDP, implemented in response to the energy crisis, targeted households, businesses and local governments. The government has also decided to regulate fuel prices and strengthen a temporary fuel tax cut, lowering taxes on gasoline by 15% and diesel by 25% from their statutory levels. These measures are offset by higher than forecast tax revenue related to booming tech exports. Net lending as a result remains at its 2025 level. Public debt increases gradually, surpassing 50% of GDP in 2027. The Bank of Korea is assumed to raise the Base rate by 25 basis points to 2.75% in the third quarter of 2026 to keep inflation expectations anchored, reverting to 2.5% as CPI inflation returns to target in 2027.

## Exports and resilient consumption will boost growth

GDP is projected to strengthen to 2.6% in 2026 and 1.9% in 2027. Consumption will recover gradually in 2026-27, supported by fiscal support in response to the energy crisis. Exports are set to outstrip imports by a margin especially in the first half of 2026, and the current account surplus will widen considerably. Private investments will remain strong, initially responding to global demand for semiconductors, but broadening towards the end of 2026. Consumer price inflation is set to average 2.6% in 2026 before falling back to the target in 2027. Policy measures, including fuel price regulations and tax cuts, will slow the inflationary impulse of the energy supply shock, but also increase its persistence. Risks are balanced, provided energy prices decline from the third quarter of 2026, as assumed. Prolonged supply disruptions related to the evolving conflict in the Middle East can lead to shortages of critical industrial inputs. Export restrictions imposed by Korea and industrial action can also reduce growth more than forecast. Strong demand for advanced semiconductors could raise growth more than projected.

## The fiscal framework needs strengthening

The policy response to the energy price shock should prioritise targeted support to vulnerable households and businesses. Energy price regulations, fuel tax cuts and export controls should be phased out. Deficits have been mounting in the past few years, while fiscal pressures from ageing are set to intensify. A broad political consensus for a framework aligning annual budgets with a sustainable long-term fiscal trajectory is needed. Such a framework could include a cyclically-adjusted net lending limit and the designation of an independent fiscal institution to monitor compliance. Monetary policy should look through the energy shock. A small rise in policy rates is incorporated in the projections, but a larger increase may be needed to keep long-term inflation expectations anchored. Boosting investments in clean electricity generation and liberalising the electricity market would reduce the vulnerability to future energy shocks.

# Latvia

Real GDP is projected to grow by 1.9% in 2026 and 2.2% in 2027. Rising inflation will reduce real wage growth, mitigating the recovery in private consumption. Defence-related purchases and rising public wages will continue to support public consumption, while rising public investment will crowd in business investment. Exports will recover gradually as global demand strengthens. Inflation will remain high due to rising energy prices and strong wage growth. Delays in the absorption of EU funds could dampen the recovery in domestic demand.

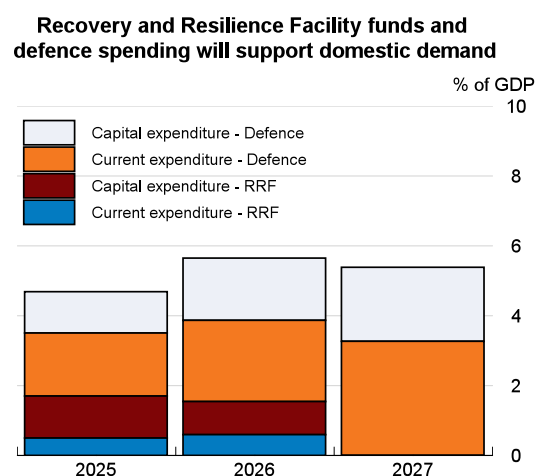
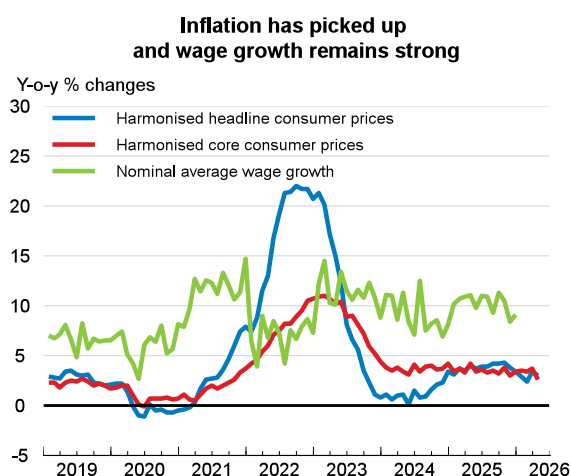
Raising spending efficiency and revenue, and reallocating spending are key to ensuring medium-term fiscal sustainability. Accelerating the modernisation of the public administration, reducing the administrative burden and enhancing policy impact evaluation would raise spending efficiency and support growth. Strengthening competition enforcement and addressing skills shortages by improving training opportunities and facilitating skilled immigration would support business dynamism. Further improving integration into the EU electricity market and expanding renewable energy supply would help raise energy security.

## Public consumption and investment have supported growth

GDP growth strengthened in the second half of 2025. Public consumption increased, driven by higher public wages and defence-related purchases, while strong absorption of EU funds supported public investment. Rising real incomes supported private consumption. Industrial production rose by 1.3% month-on-month in March and was 9.5% higher than a year earlier. Following the evolving conflict in the Middle East and rising fuel prices, investor confidence deteriorated in April. Annual inflation rose to 2.9% in April from 2.4% in February due to rising energy prices. Core inflation stood at 2.6% due to strongly rising labour costs. The unemployment rate was 6.4% in March, and the vacancy rate was 2.1% in the fourth quarter of 2025, reflecting increased shortages of technicians and associate professionals.

Exports recovered in 2025, as the decline of exports to the United States due to higher tariffs was compensated by rising exports to other EU countries. Imports rose strongly due to increasing defence spending and purchases of military equipment, leading to strong inventory build-up. Although merchandise export values rose by 6.4% month-on-month in March, the merchandise trade deficit has widened since the fourth quarter of 2025. Relatively low exposure to Middle East energy imports could mitigate the adverse terms-of-trade effects of the evolving conflict.

## Latvia



Note: Core inflation refers to the harmonised index of consumer prices excluding food, energy, alcohol and tobacco. Wage refers to average net monthly wages and salaries of employees. The right-hand panel shows the projected allocation of revenue from the Recovery and Resilience Facility funds and defence spending in line with Latvia's national escape clause from EU fiscal rules, which was approved by the European Union Council in July 2025.

Source: Eurostat; Central Statistical Bureau of Latvia; Ministry of Finance of Latvia; OECD Economic Outlook 119 database; and OECD calculations.

StatLink <https://stat.link/9jqh0e>

## Latvia: Demand, output and prices

|                                                                        | 2022                          | 2023                                        | 2024 | 2025 | 2026 | 2027 |
|------------------------------------------------------------------------|-------------------------------|---------------------------------------------|------|------|------|------|
|                                                                        | Current prices<br>EUR billion | Percentage changes, volume<br>(2020 prices) |      |      |      |      |
| <b>Latvia</b>                                                          |                               |                                             |      |      |      |      |
| <b>GDP at market prices</b>                                            | 36.1                          | -0.9                                        | 0.0  | 2.1  | 1.9  | 2.2  |
| Private consumption                                                    | 21.5                          | -0.9                                        | 0.1  | 0.8  | 1.3  | 1.7  |
| Government consumption                                                 | 7.5                           | 2.5                                         | -0.4 | 7.0  | 2.9  | 2.8  |
| Gross fixed capital formation                                          | 8.4                           | 5.0                                         | -7.0 | 9.8  | 2.9  | 3.5  |
| Final domestic demand                                                  | 37.4                          | 1.1                                         | -1.6 | 4.1  | 2.0  | 2.4  |
| Stockbuilding <sup>1</sup>                                             | 0.5                           | -0.6                                        | 0.4  | 1.6  | 1.6  | 0.0  |
| Total domestic demand                                                  | 37.9                          | 0.4                                         | -1.2 | 5.8  | 3.4  | 2.3  |
| Exports of goods and services                                          | 28.0                          | -7.0                                        | 0.1  | 0.1  | -0.1 | 2.3  |
| Imports of goods and services                                          | 29.7                          | -5.0                                        | -1.8 | 5.7  | 2.5  | 2.4  |
| Net exports <sup>1</sup>                                               | - 1.8                         | -1.3                                        | 1.3  | -3.8 | -1.8 | -0.2 |
| <b>Memorandum items</b>                                                |                               |                                             |      |      |      |      |
| GDP deflator                                                           | —                             | 10.7                                        | 2.8  | 3.6  | 3.6  | 3.2  |
| Harmonised index of consumer prices                                    | —                             | 9.1                                         | 1.3  | 3.8  | 3.6  | 3.2  |
| Harmonised index of core inflation <sup>2</sup>                        | —                             | 8.4                                         | 3.7  | 3.5  | 3.5  | 3.3  |
| Unemployment rate (% of labour force)                                  | —                             | 6.5                                         | 6.9  | 6.9  | 6.8  | 6.6  |
| Household saving ratio, net (% of disposable income)                   | —                             | -1.3                                        | 2.5  | 2.6  | 2.6  | 2.7  |
| General government financial balance (% of GDP)                        | —                             | -2.3                                        | -1.8 | -2.5 | -3.2 | -4.3 |
| General government gross debt (% of GDP)                               | —                             | 54.6                                        | 57.6 | 57.5 | 58.7 | 61.0 |
| General government debt, Maastricht definition <sup>3</sup> (% of GDP) | —                             | 44.4                                        | 46.2 | 46.9 | 48.1 | 50.3 |
| Current account balance (% of GDP)                                     | —                             | -3.8                                        | -1.6 | -3.4 | -5.2 | -5.0 |

1. Contributions to changes in real GDP, actual amount in the first column.

2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.

3. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.

Source: OECD Economic Outlook 119 database.

StatLink <https://stat.link/dhr4uz>

## **Fiscal policy will tighten gradually**

Fiscal policy will be broadly neutral in 2026 before tightening by 0.5% of GDP in 2027, and public debt will continue to increase. EU Recovery and Resilience Facility grants will finance public investment and measures to improve training and digital adoption in small businesses in 2026, and their phase-out will lead to a fiscal tightening in 2027, despite the increase in defence spending by 1.4% of GDP over 2026-27. About 40% of the forthcoming defence spending is public investment, which will also increase due to Rail Baltica-related investments. Planned expenditures in education, health and social benefits, and interest expenses add to spending pressures. The fiscal cost of the temporary reduction in the diesel excise duty in 2026, which is not well targeted at vulnerable households and reduces energy saving incentives, will be largely offset by higher value-added tax revenues. A reduction in informality and rising average wages will raise revenue from personal income taxes and social security contributions. This will partly finance the increased spending.

## **Rising domestic demand will lead the recovery**

Real GDP is expected to grow by 1.9% in 2026 and 2.2% in 2027. Rising wages and improving consumer confidence will support the recovery of private consumption, although this is mitigated by higher energy prices due to the evolving conflict in the Middle East and lower real wage gains. Public consumption will grow due to rising spending on defence, education, health and social protection. Business investment will continue to improve due to spillovers from strong public investment growth and broadly neutral monetary policy in the euro area. Trade policy uncertainty will weigh on exports before a gradual recovery supported by stronger demand from the EU. Delays in the absorption of EU funds due to labour shortages, and weak capacity in infrastructure planning could weigh on domestic demand. On the upside, a stronger-than-expected impact of the fiscal expansion in Germany on euro area growth would raise export demand.

## **Accelerating structural reforms will help to ensure fiscal sustainability and support growth**

Financing an increase in defence, healthcare and social protection while containing the fiscal deficit will require raising spending efficiency, reallocating spending, increasing income and property tax revenue, and strengthening tax enforcement. Accelerating the implementation of the central data exchange platform and facilitating the use of data for policy analysis, while improving cooperation across the public sector, would help raise spending efficiency and reduce administrative burdens. Plans to simplify and accelerate public procurement procedures should be combined with increasing transparency, and further centralisation of procurement for standardised goods and services. Strengthening the powers of the Competition Council to conduct market investigations and enforce competitive neutrality of state-owned enterprises would help foster business dynamism and innovation. Expanding renewable energy supply and improving the integration into EU electricity markets would raise energy security and reduce exposure to global energy price shocks.

# Lithuania

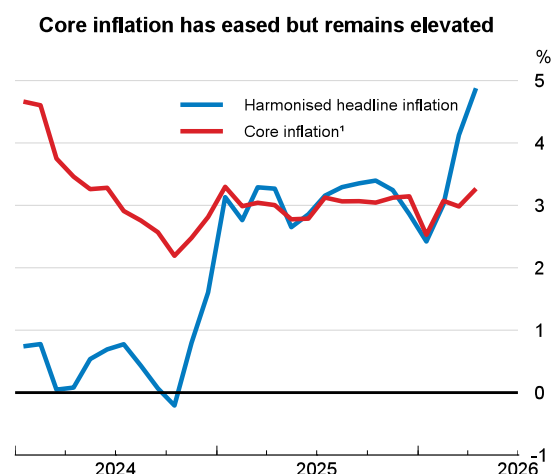
GDP growth is projected to remain resilient at 2.8% in 2026 before moderating to 2.0% in 2027, despite the evolving conflict in the Middle East. Growth will be supported by private consumption and defence spending. Consumers will benefit from one-off withdrawals from private pension savings in 2026. The labour market remains tight and inflation is set to rise to 5.1% in 2026 due to higher energy prices, before easing in 2027. An intensification of regional geopolitical risks or a prolonged period of high energy prices are the main risks to the outlook.

The budget deficit is expected to widen to around 3% of GDP, reflecting rising defence and pension spending. Fiscal consolidation will be required in the years ahead, alongside a clear tax and spending strategy, to keep debt relatively low. Keeping energy support measures temporary, while improving their targeting to low-income households, would enhance policy effectiveness. Deepening capital markets would ease firms' financing constraints and support productivity growth.

## Economic activity remained solid into early 2026

GDP increased by 2.9% in 2025, supported by strong investment and exports, but flash estimates indicate that output might have declined in the first quarter of 2026. Consumer sentiment improved during the second half of 2025 but subsequently deteriorated in early 2026. Unemployment stood at 6.5% in March 2026, below its long-term average. Core inflation has remained stable since early 2025, but headline inflation, already elevated, rose to 5.1% in May, owing largely to higher energy prices. The labour market remains tight, with high vacancies supporting strong wage growth.

## Lithuania



1. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.  
Source: OECD Consumer Prices database; and OECD National Accounts database.

## Lithuania: Demand, output and prices

|                                                                        | 2022                          | 2023                                        | 2024 | 2025 | 2026 | 2027 |
|------------------------------------------------------------------------|-------------------------------|---------------------------------------------|------|------|------|------|
|                                                                        | Current prices<br>EUR billion | Percentage changes, volume<br>(2021 prices) |      |      |      |      |
| <b>Lithuania</b>                                                       |                               |                                             |      |      |      |      |
| <b>GDP at market prices</b>                                            | 67.1                          | 0.7                                         | 3.0  | 2.9  | 2.8  | 2.0  |
| Private consumption                                                    | 38.4                          | -0.1                                        | 3.1  | 2.1  | 3.2  | 1.8  |
| Government consumption                                                 | 11.5                          | 0.0                                         | 1.6  | 1.0  | 0.3  | 1.3  |
| Gross fixed capital formation                                          | 15.1                          | 11.3                                        | -1.7 | 8.0  | 5.8  | 3.8  |
| Final domestic demand                                                  | 64.9                          | 2.5                                         | 1.7  | 3.3  | 3.2  | 2.2  |
| Stockbuilding <sup>1</sup>                                             | 3.6                           | -3.5                                        | 1.2  | 2.2  | 0.2  | 0.0  |
| Total domestic demand                                                  | 68.5                          | -0.9                                        | 2.8  | 5.6  | 3.4  | 2.2  |
| Exports of goods and services                                          | 58.5                          | -3.3                                        | 2.6  | 5.3  | 2.5  | 2.6  |
| Imports of goods and services                                          | 59.9                          | -5.3                                        | 2.4  | 9.3  | 2.9  | 2.9  |
| Net exports <sup>1</sup>                                               | - 1.4                         | 1.8                                         | 0.2  | -2.4 | -0.1 | -0.2 |
| <b>Memorandum items</b>                                                |                               |                                             |      |      |      |      |
| GDP deflator                                                           | —                             | 10.0                                        | 3.2  | 3.6  | 3.7  | 3.0  |
| Harmonised index of consumer prices                                    | —                             | 8.7                                         | 0.9  | 3.4  | 5.1  | 3.0  |
| Harmonised index of core inflation <sup>2</sup>                        | —                             | 9.6                                         | 3.2  | 3.0  | 3.3  | 3.8  |
| Unemployment rate (% of labour force)                                  | —                             | 6.8                                         | 7.1  | 6.9  | 6.6  | 6.4  |
| Household saving ratio, net (% of disposable income)                   | —                             | 1.8                                         | 3.8  | 7.5  | 7.0  | 6.8  |
| General government financial balance (% of GDP)                        | —                             | -0.7                                        | -1.3 | -1.8 | -2.7 | -3.3 |
| General government gross debt (% of GDP)                               | —                             | 38.3                                        | 40.1 | 40.4 | 41.5 | 43.5 |
| General government debt, Maastricht definition <sup>3</sup> (% of GDP) | —                             | 37.1                                        | 38.0 | 38.2 | 39.3 | 41.4 |
| Current account balance (% of GDP)                                     | —                             | 1.2                                         | 3.2  | 0.8  | 0.2  | 0.1  |

1. Contributions to changes in real GDP, actual amount in the first column.

2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.

3. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.

Source: OECD Economic Outlook 119 database.

StatLink  <https://stat.link/1zf5yt>

Lithuania is dependent on imported energy, although direct imports of oil and gas from the Middle East are limited. Supply risks have been mitigated by broadening the range of oil import sources and developing the capacity to import liquefied natural gas. The recent expansion of domestic renewable electricity generation, combined with the diversification of electricity imports through new electric interconnections, has strengthened energy security. Temporary measures to alleviate the impact of rising energy costs on households include a reduction of the diesel excise tax and of domestic train ticket fares.

## Fiscal policy is becoming more accommodative

The fiscal stance eased in 2025 and will ease further in 2026. Overall fiscal support to the economy is expected to decline in 2027 as NGEU grant-financed spending is phased out. The general government deficit is projected to widen from 1.8% in 2025 to 2.7% in 2026 and 3.3% in 2027, mainly due to higher expenditures on pensions, public wages and defence. Defence spending is set to rise from 3.1% of GDP in 2025 to almost 4% in 2027. The reduction in excise duties for diesel and in public transport fares is expected to remain time limited as legislated, offsetting higher VAT revenues from increased energy prices. General government debt is projected to increase from 40.4% of GDP in 2025 to 43.5% in 2027.

## Household consumption will support growth despite higher inflation

GDP growth is expected to remain resilient at 2.8% in 2026 before slowing to 2.0% in 2027, despite higher energy prices. The government has opened a window for Lithuanians to withdraw cash from their private pension saving accounts in 2026-27, which will temporarily boost consumption in 2026, but weaken the adequacy of the pension system in the long term. At the same time, private investment is projected to weaken amid heightened uncertainty and tighter financing conditions, before recovering later in the year. The unemployment rate is projected to continue declining, despite weakening employment, as the labour force shrinks. Headline inflation is expected to rise to 5.1% in 2026 before settling at 3.0% in 2027, reflecting energy price developments and the high share of energy in the consumption basket. Core inflation will pick up, reaching 3.3% in 2026 and 3.8% in 2027. Stronger than expected inflation persistence and regional geopolitical tensions are major risks to the outlook.

## Structural reforms would improve fiscal sustainability, support productivity and enhance domestic energy security

Fiscal consolidation is required from 2027 to avoid overheating the economy and keep the debt-to-GDP ratio low, together with a strategy to manage long-term pressures from ageing, defence and the climate transition. Key policies include improving the efficiency of public spending, mobilising additional tax revenues and formalising informal economic activity. Government energy support should be made more targeted and timebound as well as designed so as to maintain energy saving incentives. Measures to strengthen energy security and resilience are crucial for Lithuania's medium- to long-term growth. Developing more long-term project pipelines for project investors would foster private investment in renewable energies, while greater efforts should be made to encourage energy efficiency improvements. Boosting productivity growth through deeper capital markets, reformed pension fund rules, and better financial literacy can offset the economic drag of population ageing while curbing corruption and supporting investor confidence.

# Luxembourg

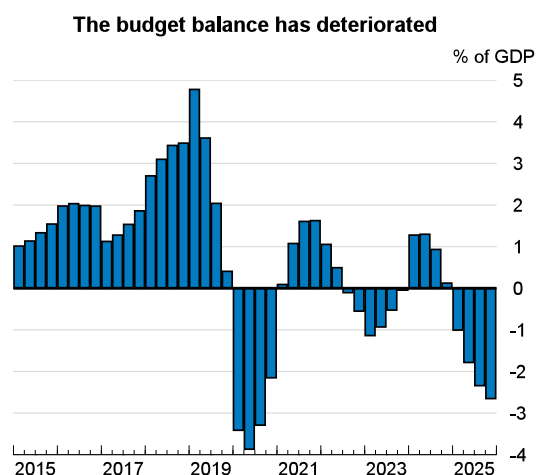
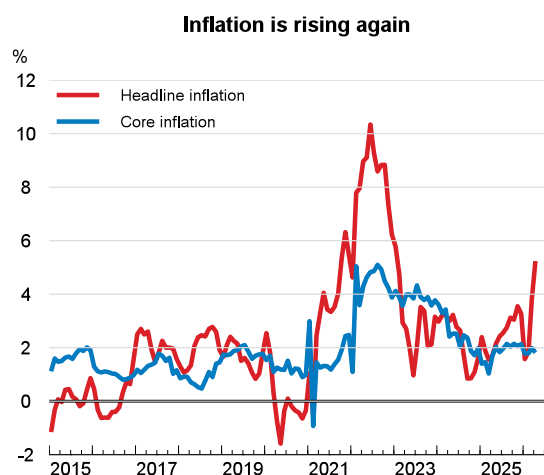
GDP is projected to expand by 0.7% in 2026 and 1.3% in 2027, supported by increased public and business investment and robust financial sector activity. Household consumption growth will slow in 2026 with heightened geopolitical uncertainty and rising inflation, but pick up in 2027 as conditions improve and wage indexation sustains real incomes. The surge in energy prices is expected to temporarily lift inflation in mid-2026. Risks to the outlook are predominately to the downside, including from volatility in financial markets.

The budget deficit widened sharply in 2025 due to higher social and personnel spending. Measures to ensure the sustainability of the pension system and contain social security and public personnel spending and to ensure the implementation of the medium-term fiscal plan are needed. Encouraging commuters to shift from fuel-cars to more sustainable transport would help reduce exposure to global energy prices. A comprehensive strategy to boost skills and innovation would help maintain economic competitiveness.

## Geopolitical tensions and energy prices are curbing the recent pick-up in activity

After a prolonged period of weakness, the economy's momentum was improving until the recent shock to energy prices triggered by the outbreak of the conflict in the Middle East. Consumer and business confidence had been steadily improving through the last quarter of 2025 and early 2026 and retail sales reached a 14-month high in January 2026, with demand for services supported by wage indexation. Investments in the space and defence sector bolstered overall growth in 2025, while financial activity was stronger than expected in the first three quarters of 2025. Activity in the construction sector remained subdued. With the surge in energy prices, consumer confidence dropped well below its long-term average in March and April 2026.

## Luxembourg



Source: Eurostat; and OECD Economic Outlook 119 database.

StatLink  <https://stat.link/b1exq8>

## Luxembourg: Demand, output and prices

|                                                                        | 2022                          | 2023                                        | 2024  | 2025 | 2026 | 2027 |
|------------------------------------------------------------------------|-------------------------------|---------------------------------------------|-------|------|------|------|
| Luxembourg                                                             | Current prices<br>EUR billion | Percentage changes, volume<br>(2015 prices) |       |      |      |      |
| <b>GDP at market prices</b>                                            | 76.9                          | 0.1                                         | 0.3   | 0.6  | 0.7  | 1.3  |
| Private consumption                                                    | 24.9                          | 3.8                                         | 3.2   | 2.3  | 1.4  | 2.2  |
| Government consumption                                                 | 13.8                          | 1.6                                         | 4.9   | 3.7  | 2.5  | 2.0  |
| Gross fixed capital formation                                          | 12.7                          | -4.9                                        | -2.8  | -0.3 | 0.9  | 1.5  |
| Final domestic demand                                                  | 51.5                          | 1.1                                         | 2.3   | 2.1  | 1.6  | 2.0  |
| Stockbuilding <sup>1</sup>                                             | 0.5                           | -0.1                                        | 0.1   | -0.1 | -0.3 | 0.0  |
| Total domestic demand                                                  | 52.0                          | 0.8                                         | 2.6   | 1.9  | 1.2  | 1.9  |
| Exports of goods and services                                          | 170.6                         | 0.6                                         | -12.2 | 1.1  | 1.2  | 2.1  |
| Imports of goods and services                                          | 145.7                         | 1.0                                         | -13.6 | 1.8  | 1.6  | 2.5  |
| Net exports <sup>1</sup>                                               | 24.9                          | -0.5                                        | -1.3  | -0.7 | -0.2 | -0.1 |
| <i>Memorandum items</i>                                                |                               |                                             |       |      |      |      |
| GDP deflator                                                           | —                             | 7.1                                         | 3.5   | 4.0  | 0.8  | 4.8  |
| Harmonised index of consumer prices                                    | —                             | 2.9                                         | 2.3   | 2.5  | 4.2  | 1.9  |
| Harmonised index of core inflation <sup>2</sup>                        | —                             | 3.9                                         | 2.5   | 1.8  | 2.2  | 2.3  |
| Unemployment rate (% of labour force)                                  | —                             | 5.2                                         | 5.8   | 6.0  | 6.3  | 6.2  |
| Household saving ratio, net (% of disposable income)                   | —                             | 5.7                                         | 5.0   | 4.5  | 0.5  | -0.1 |
| General government financial balance (% of GDP)                        | —                             | -0.7                                        | 0.9   | -2.0 | -2.0 | -1.6 |
| General government gross debt (% of GDP)                               | —                             | 30.4                                        | 32.0  | 32.2 | 34.4 | 36.3 |
| General government debt, Maastricht definition <sup>3</sup> (% of GDP) | —                             | 24.6                                        | 26.4  | 26.4 | 28.6 | 30.5 |
| Current account balance (% of GDP)                                     | —                             | 6.8                                         | 7.1   | 5.3  | 2.7  | 5.1  |

1. Contributions to changes in real GDP, actual amount in the first column.

2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.

3. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.

Source: OECD Economic Outlook 119 database.

StatLink  <https://stat.link/xt3bjz>

Energy prices increased by 17.7%, fuel prices by 28.8% and heating oil by 75.5% in the year to April 2026. This lifted annual headline CPI inflation to 5.2%, the highest rate in three years, unwinding the decline in the inflation rate in 2025. Since late March, reduced jet fuel stocks have led the aviation authorities to request that airlines limit refuelling in Luxembourg.

## Fiscal policy will remain supportive

Financial conditions remain relatively accommodative, supporting activity in the country's large financial sector. The budget balance deteriorated sharply in 2025, from the 2024 surplus to a deficit of 2.0% of GDP, as social security benefits and recurrent government spending rose. The deficit is projected to remain elevated as recent revisions to tax brackets weigh on personal income tax revenue growth and public investments in defence, digital and green innovation add to expenditures. In January 2026, the government increased the CO<sub>2</sub> tax credit for low- and medium-income households, the tax credit for energy efficiency renovations of all rental housing, public contributions to electricity transmission costs, and public support to renewable energy development. Careful planning of spending will help ensure the implementation of the 2025 medium-term budget plan and maintain fiscal credibility.

## Public investment and financial sector activity will support growth

Economic growth is expected to progressively pick up, with GDP growing at 0.7% in 2026 and 1.3% in 2027. Global uncertainty will weigh on employment and private investment in the second and third quarters of 2026, while high energy costs will slow consumption growth. Offsetting this, growth will be supported by large public and private investments in defence satellites, transport and logistics, and by private consumption, which is bolstered by scheduled increases in the minimum wage, and by pensions and wage indexation adjustments. Energy price shocks are expected to pass through general price levels, driving headline inflation up to 4.2% and core inflation to 2.2% in 2026. Downside risks include the effects of volatility in global financial markets, given the size of the financial sector in the economy. Recent policy measures to support housing supply could accelerate the recovery in construction activity.

## Encouraging sustainable mobility would reduce exposure to energy price shocks

A careful review of expenditures could help bring the public budget back to the path laid out by the Medium-Term Fiscal Structural Plan. Raising the effective retirement age would support the sustainability of public finances and retirees' incomes into the longer-term. Gradually linking tax benefits for company cars to their emissions, introducing congestion charges, motorway tolls and further improving public transport and cycling networks would accelerate the shift away from individual internal combustion engine transport. More reactive construction permitting processes and reforming land development regulation would bolster housing supply, reducing costs and helping attract foreign workers. Addressing skills shortages and better coordinating the sources of public R&D support would bolster innovation and productivity growth.

# Malaysia

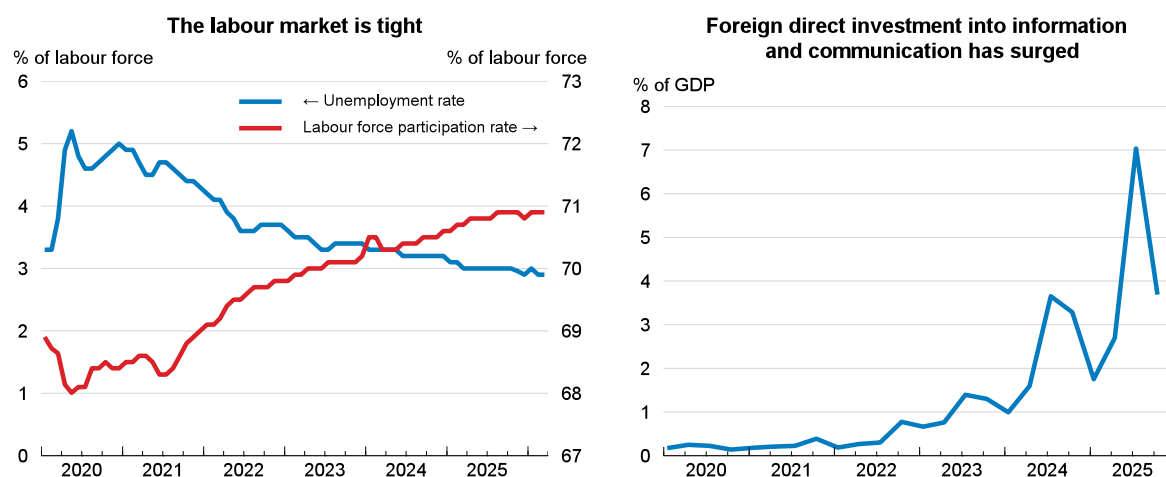
GDP is projected to grow by 4.2% in 2026 and 4.8% in 2027. Private consumption is expected to remain robust, underpinned by favourable labour market conditions. Investment will be buoyed by technology-intensive sectors including semiconductors. Inflation is expected to rise, driven by wage increases, higher energy prices and associated second round effects. External demand is set to weaken amid high global energy prices, value-chain disruptions and high uncertainty. The evolving conflict in the Middle East and renewed global trade tensions constitute key risks for Malaysia's manufacturing exports.

Maintaining fiscal consolidation would build fiscal space for future spending needs in social protection, education and the green transition. This could be achieved by phasing out energy subsidies, while strengthening targeted support to vulnerable groups, and mobilising additional tax revenues. Monetary policy is broadly neutral and should remain vigilant to emerging price pressures, raising interest rates if needed. Relaxing foreign equity caps and phasing out price controls could boost productivity, while involving employers in the curriculum design for vocational and higher education could reduce skill mismatches.

## Growth has moderated but remains solid

Quarterly GDP stalled in the first quarter of 2026, reflecting weaker domestic and foreign demand. On a year-on-year basis, growth moderated to 5.4%, down from 6.2% in the previous quarter. The labour market remained strong, with the unemployment rate at an all-time low of 2.9% and the labour force participation rate at an all-time high of 70.9%. Nonetheless, private consumption weakened substantially in the first quarter, while government consumption contracted. Investment also slowed, after having outpaced regional peers over most of 2025, buoyed by a surge in foreign direct investment in electrical and electronics products related to data centres and artificial intelligence. Headline and core CPI stood at 1.9% and 2.0%, respectively in April 2026. Fuel prices have been kept fixed for most users, and implicit subsidies have increased amid rising global oil prices.

## Malaysia



Source: CEIC.

StatLink  <https://stat.link/6jezwm>

## Malaysia: Demand, output and prices

|                                                 | 2022                          | 2023                                        | 2024 | 2025 | 2026 | 2027 |
|-------------------------------------------------|-------------------------------|---------------------------------------------|------|------|------|------|
| Malaysia                                        | Current prices<br>MYR billion | Percentage changes, volume<br>(2015 prices) |      |      |      |      |
| <b>GDP at market prices</b>                     | 1 794.9                       | 3.6                                         | 5.2  | 5.2  | 4.2  | 4.8  |
| Private consumption                             | 1 034.0                       | 4.6                                         | 4.8  | 5.3  | 4.2  | 4.5  |
| Government consumption                          | 208.4                         | 4.3                                         | 4.6  | 5.3  | 3.8  | 4.9  |
| Gross fixed capital formation                   | 326.8                         | 5.4                                         | 12.1 | 9.6  | 5.3  | 5.7  |
| Final domestic demand                           | 1 569.3                       | 4.7                                         | 6.3  | 6.3  | 4.4  | 4.9  |
| Stockbuilding <sup>1</sup>                      | 96.5                          | 0.4                                         | -1.0 | -0.2 | -0.3 | 0.3  |
| Total domestic demand                           | 1 665.8                       | 5.1                                         | 5.1  | 6.0  | 4.0  | 5.2  |
| Exports of goods and services                   | 1 378.6                       | -7.9                                        | 8.6  | 4.9  | 3.7  | 3.6  |
| Imports of goods and services                   | 1 249.5                       | -6.8                                        | 8.7  | 6.3  | 3.3  | 4.2  |
| Net exports <sup>1</sup>                        | 129.1                         | -1.2                                        | 0.3  | -0.6 | 0.4  | -0.2 |
| <b>Memorandum items</b>                         |                               |                                             |      |      |      |      |
| GDP deflator                                    | —                             | -1.8                                        | 0.7  | -0.4 | 2.1  | 2.3  |
| Consumer price index                            | —                             | 2.5                                         | 1.8  | 1.4  | 2.3  | 2.3  |
| Core inflation index <sup>2</sup>               | —                             | 3.0                                         | 1.8  | 2.0  | 2.4  | 2.3  |
| Federal government financial balance (% of GDP) | —                             | -5.0                                        | -4.1 | -3.7 | -4.0 | -3.8 |
| Federal government gross debt (% of GDP)        | —                             | 64.2                                        | 64.5 | 65.2 | 65.3 | 64.8 |
| Current account balance (% of GDP)              | —                             | 1.1                                         | 1.4  | 1.6  | 1.2  | 1.3  |

1. Contributions to changes in real GDP, actual amount in the first column.

2. Consumer price index excluding food and energy.

Source: OECD Economic Outlook 119 database.

StatLink  <https://stat.link/g2r1xc>

Merchandise exports were resilient in 2025 with higher electrical and electronics products exports underpinned by robust global demand for semiconductor-related goods which support artificial intelligence and data centre investment. Service exports, particularly tourism, have been and are expected to remain robust. As a net energy exporter, driven by strong exports of natural gas, Malaysia is less affected by the evolving conflict in the Middle East than other Southeast Asian economies. Shortages are unlikely to arise on a broad scale but could affect specific types of refined petroleum products.

## Subsidies have been reduced while monetary policy remains broadly neutral

Fiscal outcomes have improved thanks to strong economic growth and consolidation efforts. However, public debt is higher than in regional peers and projected to stay above 60% of GDP. Subsidies absorb a sizeable share of expenditure and the government has made progress in rationalising certain subsidies, such as electricity and selected food items. The government's recent decision to maintain the retail price for RON-95 petrol at MYR 1.99 per litre is expected to minimise the pass-through of higher oil prices to households in the short term, but increases fiscal costs. The monetary policy stance has been broadly neutral after a 25 basis points cut to 2.75% in July 2025 and is expected to remain so during 2026 and 2027.

## The economy will grow moderately, but faces significant downside risks

GDP is projected to grow by 4.2% in 2026 and 4.8% in 2027, led by domestic demand. Private consumption is expected to remain firm against the backdrop of solid employment and wage growth. Public investment is expected to underpin the economy as infrastructure projects progress. Tech-related exports and demand for semiconductor-related products are expected to be resilient. Inbound tourism will remain strong due to the campaign which aims to welcome 47 million tourists but the impact of the evolving conflict in the Middle

East is uncertain. Malaysia is tightly integrated in global value chains and vulnerable to changes in the global economic environment, including supply chain disruptions and trade barriers. An abrupt end to the recent surge in demand for AI-related electronics would be a risk for Malaysia, given the significant investment inflows in this sector.

### **Fiscal consolidation and regulatory reforms can improve growth prospects**

Fiscal consolidation should be stepped up to build fiscal space against future spending needs related to social protection and the green transition as well as emerging challenges. This will require redesigning energy subsidies while protecting low-income households with targeted transfers and mobilising additional revenue sources, such as re-introducing a broad value-added tax. The central bank should continue to monitor potential inflationary pressures from higher wages, an eventual reduction of fuel subsidies and higher energy prices and be prepared to raise rates if needed. Boosting productivity will hinge on relaxing relatively restrictive product market regulations that limit market entry and competition, especially in services such as retail trade where price ceilings on essential goods limit competition. There is also scope for re-evaluating the costs and benefits of state-owned enterprises (SOEs) in sectors where the private sector is operating efficiently while creating a more level playing field by improving SOEs governance. Support to small and medium enterprises, whose productivity is lagging, could be streamlined and consolidated to increase efficiency and reduce duplication. Public sector efficiency could be enhanced by fully implementing the Government Service Efficiency Commitment Act 2025, streamlining bureaucracy, and expanding digital government services. Increasing human-capital investment and addressing skill mismatches are critical, including by involving the private sector in the design of vocational and higher education curriculums.

# Mexico

The economy is projected to grow by 0.8% in 2026 and by 1.8% in 2027. Growth will be driven mainly by domestic demand, with private consumption supported by low unemployment. Lower interest rates will gradually support private investment but its recovery will be gradual amid persistent domestic and global policy uncertainty. Public consumption and public investment will remain constrained by ongoing fiscal consolidation. While exports of computer equipment will remain robust, other exports will be weighed down by trade tariffs, slowing growth in the United States and global uncertainty triggered by the evolving Middle East conflict. Inflation is projected to ease gradually to 3.2% in 2027.

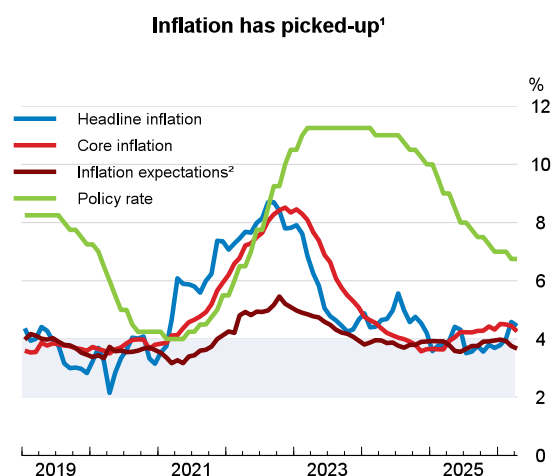
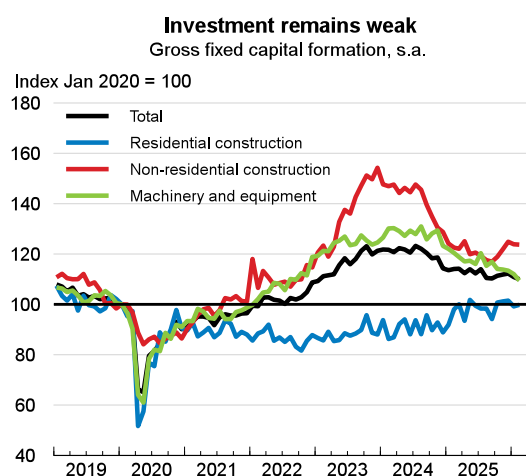
Measures to address rising energy prices should become more targeted to the most affected households and SMEs and provide incentives for energy savings. Strengthening revenues and improving the quality of public spending would help safeguard fiscal sustainability and create space for productivity-enhancing public spending. Monetary policy should remain data-dependent, with the policy rate maintained at its current level until there is clear evidence that inflation is on a path back to the 3% target. Raising the share of electricity generated from renewable sources would advance decarbonisation, strengthen energy security, and enhance the country's attractiveness for investment.

## Activity has significantly weakened and inflation remains above target

After solid growth at the end of 2025, economic activity weakened sharply in early 2026 amid slowing domestic demand and heightened trade uncertainty, with GDP contracting by 0.6% (quarter-on-quarter, seasonally adjusted). The weakness was broad-based, affecting industry, agriculture and services. Private investment remains subdued while private consumption has moderated, in line with a slowdown in formal job creation. External demand has held up in some sectors, such as computer equipment, but automotive exports remain weak. Despite weaker domestic demand, headline inflation rose to 4.5% (year-to-year) in April 2026, driven by persistent fruit and vegetables price pressures. Core inflation remains stable at around 4.3%, with persistent pressures in services. Twelve-month ahead inflation expectations remain above the 3% target.

Mexico is affected by the evolving Middle East conflict mainly through indirect channels, particularly via its impact on global growth. A retail fuel price stabilisation mechanism operates through the excise tax (IEPS), under which the government reduces or eliminates the tax when international fuel prices increase, thereby reducing cost pressures and supporting household purchasing power. The fiscal cost of the mechanism is covered by higher revenues stemming from higher oil prices. The projections assume that the mechanism remains in place over 2026-27. Due to its strong trade linkages to the United States, which accounts for over 80% of exports, Mexico is affected by the trade tariff introduced by the United States. Exports compliant with the USMCA face a 0% tariff, with their share having increased to around 90%. Non-compliant exports face a 10% tariff. Automobiles, automobile parts, trucks and trucks components are subject to the 25% tariff rate. Exports of steel and aluminium products and on semi-finished copper products and derivative products intensive in copper face a 50% tariff rate. The joint review of the USMCA is scheduled to formally begin on 1 July 2026.

## Mexico



1. The shaded area represents the central bank's inflation target range.

2. Private sector inflation expectations for the next 12 months.

Source: INEGI; and Banxico.

StatLink  <https://stat.link/y5utnm>

## Mexico: Demand, output and prices

|                                                      | 2022                          | 2023                                        | 2024 | 2025 | 2026 | 2027 |
|------------------------------------------------------|-------------------------------|---------------------------------------------|------|------|------|------|
|                                                      | Current prices<br>MXN billion | Percentage changes, volume<br>(2018 prices) |      |      |      |      |
| <b>Mexico</b>                                        |                               |                                             |      |      |      |      |
| <b>GDP at market prices</b>                          | 29 524.8                      | 3.1                                         | 1.1  | 0.8  | 0.8  | 1.8  |
| Private consumption                                  | 20 831.2                      | 4.2                                         | 2.4  | 1.3  | 1.9  | 1.5  |
| Government consumption                               | 3 287.1                       | 2.4                                         | 3.7  | 1.3  | 1.2  | 1.1  |
| Gross fixed capital formation                        | 6 619.5                       | 13.8                                        | 3.6  | -6.4 | 0.5  | 2.4  |
| Final domestic demand                                | 30 737.8                      | 6.0                                         | 2.8  | -0.5 | 1.5  | 1.7  |
| Stockbuilding <sup>1</sup>                           | - 354.4                       | -0.2                                        | 0.1  | 0.0  | 0.0  | 0.0  |
| Total domestic demand                                | 30 383.4                      | 5.7                                         | 2.9  | -0.2 | 1.6  | 1.6  |
| Exports of goods and services                        | 12 679.3                      | -7.1                                        | 3.0  | 7.3  | 1.5  | 3.3  |
| Imports of goods and services                        | 13 537.8                      | 3.7                                         | 2.7  | 3.5  | 7.9  | 2.9  |
| Net exports <sup>1</sup>                             | - 858.6                       | -4.7                                        | 0.0  | 1.3  | -3.1 | 0.0  |
| <b>Memorandum items</b>                              |                               |                                             |      |      |      |      |
| GDP deflator                                         | —                             | 4.7                                         | 3.9  | 4.5  | 3.0  | 3.0  |
| Consumer price index                                 | —                             | 5.5                                         | 4.7  | 3.8  | 3.9  | 3.2  |
| Core inflation index <sup>2</sup>                    | —                             | 6.7                                         | 4.1  | 4.1  | 4.0  | 3.2  |
| Unemployment rate <sup>3</sup> (% of labour force)   | —                             | 2.8                                         | 2.7  | 2.6  | 2.7  | 2.7  |
| Government financial balance <sup>4</sup> (% of GDP) | —                             | -3.4                                        | -5.0 | -3.9 | -3.6 | -3.2 |
| Government gross debt <sup>4</sup> (% of GDP)        | —                             | 47.3                                        | 54.1 | 58.8 | 60.3 | 60.7 |
| Current account balance (% of GDP)                   | —                             | -0.7                                        | -0.8 | -0.6 | -0.9 | -0.7 |

1. Contributions to changes in real GDP, actual amount in the first column.

2. Consumer price index excluding volatile items: agricultural, energy and tariffs approved by various levels of government.

3. Based on National Employment Survey.

4. Data are for the overall public balance, comprising federal and other public agencies such as the social security system and state-owned enterprises.

Source: OECD Economic Outlook 119 database.

StatLink  <https://stat.link/9syewm>

## Monetary policy has eased further and fiscal consolidation is underway

The central bank has continued its monetary easing cycle, lowering the policy rate to 6.50% in May. As economic activity moderates, price pressures are expected to gradually ease. However, with increases in headline inflation in the first quarter of 2026, core inflation stable at around 4.3%, and upside risks from the evolving Middle East conflict, monetary policy should remain data-dependent, with the policy rate remaining at its current level until there is clear evidence that inflation is on a path back to the 3% target. Based on OECD inflation projections, the policy rate is projected to remain unchanged until the end of 2027. The budget deficit narrowed to 3.9% in 2025 and is expected to narrow further to 3.6% by 2026 and to 3.2% by 2027. Most of the planned fiscal adjustment is expected to come from expenditure reductions.

## Growth will remain moderate

The economy is projected to expand by 0.8% in 2026 and 1.8% in 2027. Private consumption will be supported by low unemployment and declining inflation. Private investment will gradually benefit from lower interest rates, though it will remain constrained by high domestic and global uncertainty. Public investment is set to stay subdued as part of the efforts to reduce the fiscal deficit. Export growth would be dampened by trade tariffs, high global uncertainty and slowing growth in the United States. Inflation is projected to ease gradually. However, the outlook for both growth and inflation remains uncertain. A sharper-than-projected slowdown in the United States and tighter financial conditions could weigh more heavily on exports and investment. Higher fertiliser prices could also push up food inflation, complicating the disinflation process. In addition, increased global risk aversion and exchange rate volatility could raise sovereign borrowing costs and further constrain fiscal space. On the upside, a reduction in uncertainty, for example through a swift and successful renegotiation of the trade agreement with the United States and Canada, could provide stronger-than-expected support to investment and exports.

## Boosting growth requires deeper structural reforms

Introducing a medium-term fiscal framework would strengthen expenditure planning and prioritisation, helping to improve the quality of public spending and channel additional public spending towards productivity-enhancing areas, such as infrastructure, education or digitalisation. This would also be facilitated by efforts to strengthen revenues, particularly through the immovable property tax. Expanding vocational training would increase the availability of technical skills, boosting competitiveness and facilitating access to formal employment. Streamlining and digitalising business regulations would support firm creation and growth, enhance competition and promote formal job creation.

# Morocco

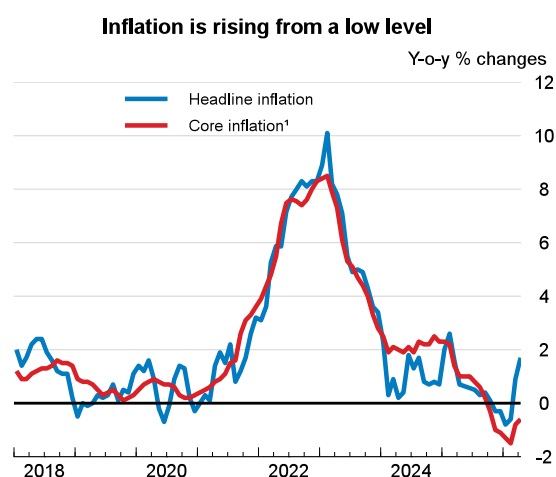
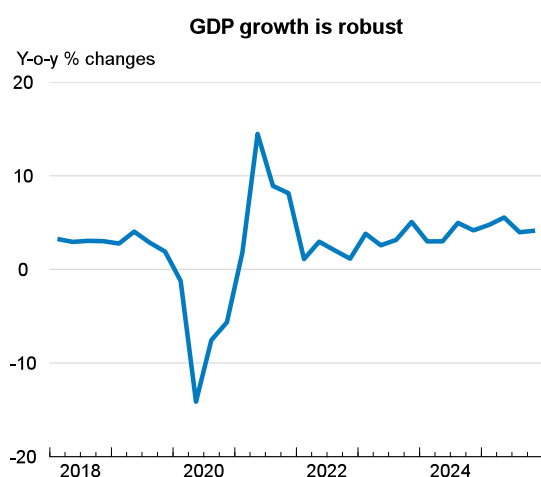
GDP growth is projected to increase by 5.0% in 2026 and 3.9% in 2027, after 4.6% in 2025. Exceptional rainfall in the winter is expected to boost agricultural output while public investment in major infrastructure projects will continue to support growth in 2026. The energy price shock is set to temporarily increase inflation and the current account deficit in 2026, but private consumption is projected to remain robust. A prolonged conflict would hamper Morocco's exports and create supply disruptions for the domestic fertiliser industry.

The fiscal deficit is expected to continue narrowing despite the sustained increase in public expenditure, owing to increasing tax revenues following recent tax reforms. Given the expected rebound in inflation, the Central Bank is set to stop its easing cycle and keep its policy rate unchanged over 2026-27. Decisive policies are needed to support strong and inclusive growth by expanding social protection, tackling informality and corruption, and enhancing market competition. Reducing Morocco's reliance on energy imports would also be key to improve energy security.

## GDP growth is robust

GDP grew by 4.6% in 2025, as private consumption and investment were supported by declining inflation, improving consumer confidence and large public infrastructure projects. Inflation declined continuously over 2025, driven by decreasing food prices but increased to 1.7% in April 2026 due to energy prices. Business confidence, exports and tourism receipts were rising in early 2026, just before the energy price shock. Unemployment declined marginally from 13.4% in 2024 to 13.0% in 2025 but remains high, especially for young people (37.2%) and women (20.5%).

## Morocco



1. Core inflation excludes volatile items (mainly fresh food and energy prices) as well as administratively regulated prices.

Source: Haut commissariat au Plan (HCP); and Bank Al-Maghrib.

## Morocco: Demand, output and prices

|                                    | 2022                          | 2023                                        | 2024 | 2025 | 2026 | 2027 |
|------------------------------------|-------------------------------|---------------------------------------------|------|------|------|------|
|                                    | Current prices<br>MAD billion | Percentage changes, volume<br>(2014 prices) |      |      |      |      |
| <b>Morocco</b>                     |                               |                                             |      |      |      |      |
| <b>GDP at market prices</b>        | 1 333.5                       | 3.7                                         | 3.8  | 4.6  | 5.0  | 3.9  |
| Private consumption                | 827.9                         | 4.8                                         | 3.4  | 4.5  | 3.4  | 4.1  |
| Government consumption             | 252.6                         | 6.1                                         | 5.6  | 6.8  | 5.4  | 6.6  |
| Gross fixed capital formation      | 354.9                         | 3.0                                         | 13.2 | 9.7  | 4.1  | 5.0  |
| Final domestic demand              | 1 435.4                       | 4.8                                         | 6.2  | 6.4  | 4.0  | 4.8  |
| Stockbuilding <sup>1</sup>         | 51.3                          | 0.6                                         | -0.1 | 1.9  | 1.9  | 0.0  |
| Total domestic demand              | 1 486.7                       | 5.0                                         | 5.8  | 7.6  | 5.6  | 4.5  |
| Exports of goods and services      | 596.2                         | 7.9                                         | 8.0  | 6.3  | 5.7  | 5.9  |
| Imports of goods and services      | 749.4                         | 9.5                                         | 11.6 | 12.7 | 6.7  | 6.9  |
| Net exports <sup>1</sup>           | - 153.1                       | -1.8                                        | -2.5 | -3.8 | -1.0 | -1.1 |
| <b>Memorandum items</b>            |                               |                                             |      |      |      |      |
| GDP deflator                       | —                             | 7.1                                         | 4.0  | 2.1  | 3.0  | 1.4  |
| Consumer price index               | —                             | 6.1                                         | 1.0  | 0.7  | 3.2  | 1.4  |
| Current account balance (% of GDP) | —                             | -1.0                                        | -1.2 | -2.2 | -3.1 | -3.3 |

1. Contributions to changes in real GDP, actual amount in the first column.

Source: OECD Economic Outlook 119 database.

StatLink  <https://stat.link/tjf4s3>

The current account deficit exceeded 2% of GDP in 2025 before the energy shock started. As it imports 90% of its energy needs, Morocco is vulnerable to such shocks. Rising prices of phosphate-based fertilisers, which accounted for 21% of Morocco's 2025 export revenues, partially offset this exposure. More generally, Morocco is closely dependent on economic activity in the European Union, representing 60% of its goods exports, while direct exposure to the United States is limited, representing 3% of goods exports.

## The monetary policy rate is expected to be kept on hold and the fiscal deficit to narrow

The central bank has kept the policy rate unchanged since March 2025 at 2.25%. Given the expected temporary rebound in inflation due to the energy shock, no further cut is anticipated over 2026-27. The fiscal deficit decreased marginally from 3.9% in 2024 to 3.5% of GDP in 2025 and is set to stabilise at 3.0% in 2026-27. While public investment and consumption will continue increasing, driven by infrastructure projects and the extension of social protection, that is expected to be offset by higher fiscal revenues, driven by increasing economic activity and recent tax reforms, which progressively enlarge the tax basis and bolster enforcement. In response to the energy shock, the government reactivated the support measures to the transport sector that were in place in 2022-23 but did not add any direct support to households. Both an extended energy price shock and the on-going extension of social protection may lead to higher-than-expected fiscal spending.

## Growth is projected to remain strong in 2026 and 2027

Economic activity is expected to grow by 5.0% in 2026 and 3.9% in 2027. Inflation is projected to increase from 0.7% in 2025 to 3.2% in 2026 due to rising food and energy prices and then to fall back to 1.4% in 2027. Abundant rain during the winter has refilled water reservoirs, supporting a rebound in agricultural output of around 15% in 2026 before a normalisation in 2027. Consumption growth is projected to moderate slightly as inflation increases, but will remain robust. Infrastructure investment will continue to underpin

expansion in the manufacturing and construction sectors. Export performance is projected to continue improving over 2026–27 but the current account deficit is expected to widen to 3.1% of GDP in 2026 and 3.3% in 2027 due to rising import prices. The unemployment rate is projected to decrease slightly in 2026 (by 0.3 percentage points) and stabilise in 2027. A further reduction in global trade due to escalating geopolitical tensions would hamper Morocco's exports and GDP growth. In the short-term, Morocco may gain from a reallocation of the global demand for fertilisers, as the blockade of the Hormuz strait prevents other major producers in the Middle East from exporting, but a prolonged conflict may also create supply disruptions for the domestic fertiliser industry due to the reliance on imports of ammonia and sulphur from the Gulf economies.

### **Strengthening human capital and productivity would support inclusive growth**

Reducing informality and strengthening human capital and productivity are key priorities for Morocco. Increasing the flexibility of labour contracts and incentives to work in the formal sector while improving tax enforcement would help to tackle informality. Expanding access to childcare, tackling gender stereotypes and reinforcing work-based vocational training would support the integration of women and youth in the labour market. Productivity would be lifted by upskilling the workforce and enhancing competition. The anti-corruption framework has been strengthened, but further efforts are needed as perceived corruption, especially in public procurement, remains high. Climate transition is another priority. Gradually raising water prices, reinforcing climate policies, and reducing reliance on energy imports would improve resilience and energy security.

# Netherlands

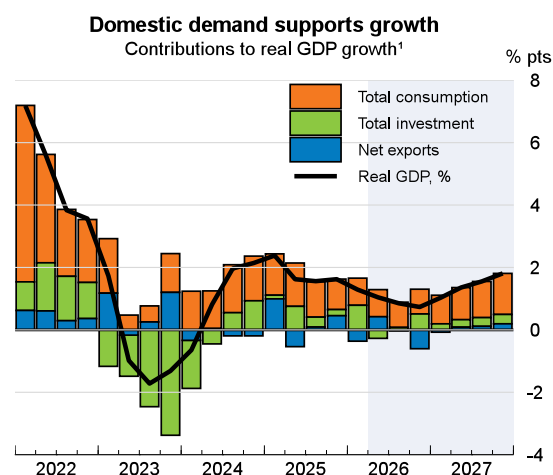
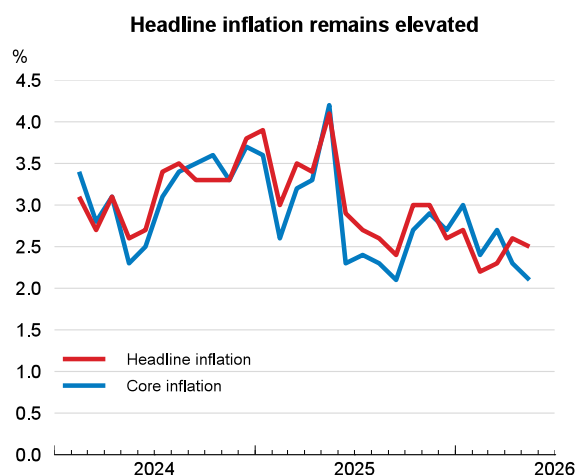
Economic growth is projected to remain modest, slowing to 1% in 2026 before strengthening to 1.4% in 2027. In 2026, spillovers from the evolving conflict in the Middle East will weigh on activity through weaker private consumption, driven by higher energy costs, and weak external demand, reflecting the Netherlands' exposure to global trade developments. As inflation eases and wage growth remains firm, consumption should gradually recover in 2027, with government investment further supporting the pickup. Inflation is expected to increase temporarily to 2.7% in 2026, before easing to 2.1% in 2027. However, inflation might prove more persistent, as second-round wage effects, amplified by an already tight labour market, could keep core inflation elevated for longer despite moderating headline pressures.

Despite higher defence spending, fiscal policy remains appropriately mildly supportive, reflecting offsetting measures to raise labour-tax revenues and slow the growth of healthcare and social-security spending. Allowing automatic stabilisers to operate fully amid elevated energy prices helps cushion the impact of the shock on incomes and demand while preserving incentives for green investments and adjustments. Prioritising productivity-enhancing investment, including in digital skills and digital adoption, and easing electricity-grid bottlenecks that hold back private investment, would support medium-term growth.

## The economy has remained resilient, but headwinds are emerging

Economic activity strengthened in the second half of 2025 as domestic demand improved on the back of easing inflation and continued labour market resilience, but quarterly growth slowed to 0.1% (non-annualised) in the first quarter of 2026. Headline inflation picked up from 2.2% in January to 2.5% in April 2026, reflecting renewed energy-related price pressures linked to the evolving conflict in the Middle East. Against this backdrop, consumer and business confidence weakened in April. Labour market conditions remain tight, although early signs of easing are emerging with job vacancies continuing to decline. The unemployment rate has remained broadly stable, at around 4.0% in the first quarter of 2026.

## Netherlands



1. Year-on-year growth rates.

Source: Statistics Netherlands (CBS); and OECD Economic Outlook 119 database.

StatLink  <https://stat.link/7xga5c>

## Netherlands: Demand, output and prices

|                                                                        | 2022                          | 2023                                        | 2024 | 2025 | 2026 | 2027 |
|------------------------------------------------------------------------|-------------------------------|---------------------------------------------|------|------|------|------|
|                                                                        | Current prices<br>EUR billion | Percentage changes, volume<br>(2021 prices) |      |      |      |      |
| Netherlands                                                            |                               |                                             |      |      |      |      |
| GDP at market prices                                                   | 993.5                         | -0.6                                        | 1.1  | 1.8  | 1.0  | 1.4  |
| Private consumption                                                    | 437.5                         | 0.7                                         | 1.0  | 1.6  | 0.5  | 1.2  |
| Government consumption                                                 | 241.7                         | 2.8                                         | 3.6  | 1.9  | 2.4  | 2.3  |
| Gross fixed capital formation                                          | 203.6                         | 1.3                                         | -0.5 | 1.0  | 1.1  | 1.3  |
| Final domestic demand                                                  | 882.8                         | 1.4                                         | 1.4  | 1.6  | 1.2  | 1.5  |
| Stockbuilding <sup>1</sup>                                             | 23.9                          | -2.4                                        | 0.0  | 0.1  | 0.1  | 0.0  |
| Total domestic demand                                                  | 906.7                         | -1.1                                        | 1.4  | 1.8  | 1.2  | 1.5  |
| Exports of goods and services                                          | 958.6                         | -2.9                                        | -0.2 | 2.5  | 1.0  | 1.8  |
| Imports of goods and services                                          | 871.8                         | -3.9                                        | 0.0  | 2.5  | 1.4  | 2.0  |
| Net exports <sup>1</sup>                                               | 86.8                          | 0.6                                         | -0.2 | 0.3  | -0.1 | 0.1  |
| Memorandum items                                                       |                               |                                             |      |      |      |      |
| GDP deflator                                                           | —                             | 6.3                                         | 5.7  | 3.3  | 2.3  | 2.0  |
| Harmonised index of consumer prices                                    | —                             | 4.1                                         | 3.2  | 3.0  | 2.7  | 2.1  |
| Harmonised index of core inflation <sup>2</sup>                        | —                             | 6.4                                         | 3.2  | 2.8  | 2.2  | 2.3  |
| Unemployment rate (% of labour force)                                  | —                             | 3.5                                         | 3.7  | 3.9  | 4.0  | 4.1  |
| Household saving ratio, net <sup>3</sup> (% of disposable income)      | —                             | 7.8                                         | 9.5  | 10.2 | 10.2 | 11.0 |
| General government financial balance (% of GDP)                        | —                             | -0.4                                        | -0.7 | -1.6 | -1.9 | -2.0 |
| General government gross debt (% of GDP)                               | —                             | 50.9                                        | 48.1 | 47.8 | 48.6 | 49.5 |
| General government debt, Maastricht definition <sup>4</sup> (% of GDP) | —                             | 45.9                                        | 43.8 | 44.4 | 45.2 | 46.0 |
| Current account balance (% of GDP)                                     | —                             | 9.4                                         | 9.2  | 7.9  | 6.8  | 7.0  |

1. Contributions to changes in real GDP, actual amount in the first column.

2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.

3. Including savings in life insurance and pension schemes.

4. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.

Source: OECD Economic Outlook 119 database.

StatLink  <https://stat.link/5wn9t2>

Higher global energy prices linked to the evolving conflict in the Middle East have increased cost volatility in the Netherlands, reflecting the economy's reliance on LNG-based gas imports. Spillovers to energy-intensive inputs, such as fertilisers, chemical feedstocks and critical industrial gases, weigh on agriculture, manufacturing and high-tech industries, which together account for around one-fifth of GDP. Additional indirect effects arise through supply chains and exports, leaving the highly trade-dependent economy exposed to weakening global trade momentum. In addition, Dutch exporters continue to face a significant tariff burden in the United States, with an estimated effective tariff rate at just below 7%.

## Rising spending pressures are slowing fiscal consolidation

The fiscal position remains sound, supported by low public debt. The general government fiscal deficit is projected to widen modestly to 1.9% of GDP in 2026, reflecting in part a one-off military pension transaction, and to 2% in 2027, due to continued increases in defence spending and elevated public investment. In addition, the government has announced a temporary energy-support package of almost EUR 1 billion (about 0.1% of GDP), combining short-term relief for households and firms with targeted tax measures and investments in energy efficiency and resilience. The package is designed to be largely deficit-neutral, financed through reallocations within existing budgets and offsetting revenue measures. Planned consolidation measures, including revenue-raising measures and restraint in healthcare, unemployment and disability-related spending, will help contain underlying spending pressures but are not sufficient to prevent a gradual deterioration in the headline balance. Government debt is projected to rise moderately from 44% of GDP in 2025 to 46% by 2027.

## **Growth is moderating before recovering as domestic demand strengthens**

Economic growth is projected to moderate to 1% in 2026 before strengthening to 1.4% in 2027, reflecting a combination of external shocks and domestic pressures. In 2026, higher energy prices linked to the evolving conflict in the Middle East will raise production costs and weigh on purchasing power, while heightened global uncertainty are expected to dampen trade and investment. As these headwinds ease, domestic demand should increasingly drive activity in 2027, supported by private consumption and continued strength in government investment. Inflation is projected to be 2.7% in 2026 before easing to 2.1% in 2027 as energy-related pressures fade. Underlying inflation is likely to decline more slowly, reflecting strong wage growth and still-limited spare capacity. Unemployment will increase slightly as labour market tightness eases, reaching 4.2% by end-2027. Risks to the outlook are tilted to the downside. The recent energy-price shock could lead to more persistent inflation through second-round wage effects, amplified by an already tight labour market, keeping underlying inflation elevated and weighing on growth. These pressures could be exacerbated by prolonged disruptions to LNG imports, refined-fuel supplies and fertiliser availability, to which the Netherlands remains exposed through its reliance on global gas markets. On the upside, a faster-than-expected drawdown of elevated household savings could support stronger consumption and growth.

## **Structural reforms are needed to raise resilience and long-term growth**

The Netherlands maintains a strong fiscal position, but medium-term sustainability will come under pressure from population ageing, persistent labour shortages weighing on potential growth and revenues, and substantial investment needs for the green transition. Advancing the transition to net zero while strengthening domestic energy security requires accelerating investment in renewable energy and electricity networks, improving energy efficiency, and lowering regulatory and permitting barriers that delay grid expansion. To boost productivity and support inclusive growth, reforms should focus on strengthening competition, raising labour supply by increasing childcare supply and incentives for older workers, and easing skill shortages through education and training. Further progress in digitalisation and innovation would support firms' adaptation to technological change and lift long-term growth.

# New Zealand

After contracting in 2024, the New Zealand economy began to recover in the second half of 2025. It is projected to grow by 1.4% in 2026 and 2.2% in 2027, supported by earlier monetary easing and resilient exports. However, the recovery remains fragile, with labour market conditions still soft and confidence weakened by higher energy costs and elevated uncertainty. Inflation, which remained slightly above the 1–3% target band in early 2026, is projected to rise further in 2026 as higher energy prices feed through to transport and other input costs, before moderating in 2027. Risks remain tilted to the downside, including from energy supply.

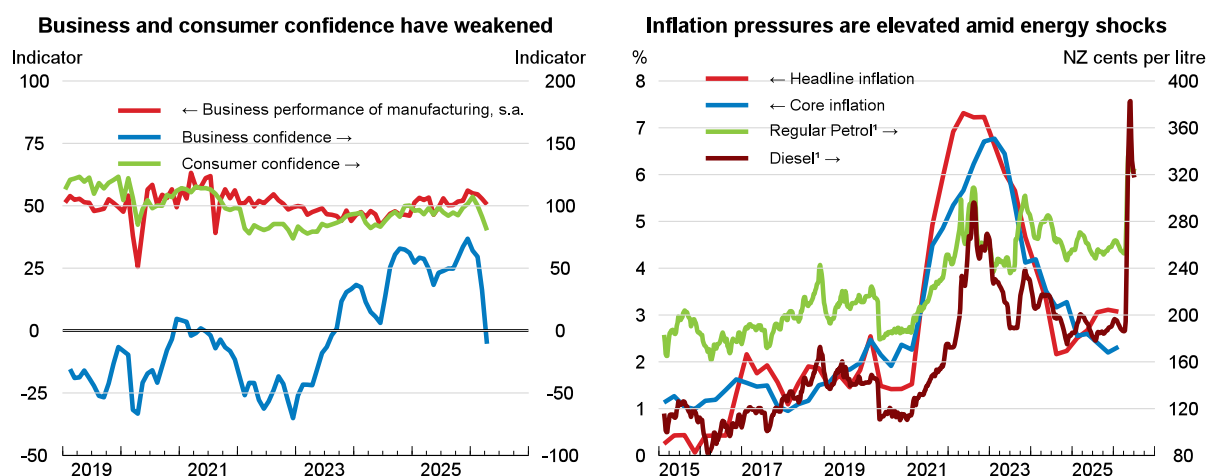
Fiscal consolidation should proceed steadily to ensure sustainability, while retaining flexibility if downside risks materialise. Energy-related support should remain temporary and targeted and maintain incentives to reduce energy consumption. Monetary policy should remain data-dependent, ensuring that inflation expectations stay anchored while balancing renewed inflation pressures against remaining spare capacity. Structural reforms are needed to lift weak productivity and strengthen resilience, including improving energy security and affordability, deepening capital markets, strengthening competition and advancing digitalisation and innovation, including in the health sector.

## **A modest recovery is underway, but higher energy costs and uncertainty weigh on momentum**

The economy has continued to recover gradually since the second half of 2025, supported by lower interest rates and resilient exports. However, the recovery remains fragile and uneven, with domestic demand subdued, labour market conditions soft, and net inward migration markedly below earlier highs. Annual inflation remained at 3.1% in the first quarter of 2026, slightly above the 1–3% target band, with higher fuel and energy prices putting renewed pressure on inflation, eroding household purchasing power and raising firms' costs. Tourism has continued to recover, although business and consumer confidence have deteriorated amid the evolving conflict in the Middle East.

The recent energy shock has increased transport and input costs and heightened concerns about fuel supply resilience, reflecting New Zealand's dependence on imported refined fuels. This is affecting confidence and is likely to erode household real incomes and tourism-related activity in the near term, with higher diesel and jet fuel prices adding to transport costs. Recent regulatory steps to widen fuel supply options should help ease some supply pressures. At the same time, goods exports have remained resilient, supported by solid global demand for key agricultural commodities, including beef and dairy. The reduction in United States tariffs from 15% to around 10% in February 2026 may provide some relief to export prospects, but continued uncertainty around global trade policy is likely to weigh on exports, investment and business sentiment.

## New Zealand



1. Adjusted retail price.

Source: Businessnz; CEIC - ANZ Bank New Zealand; OECD Economic Outlook 119 database; and Ministry of Business, Innovation & Employment.

StatLink <https://stat.link/lvry0j>

## New Zealand: Demand, output and prices

|                                                      | 2022                          | 2023                                             | 2024 | 2025 | 2026 | 2027 |
|------------------------------------------------------|-------------------------------|--------------------------------------------------|------|------|------|------|
|                                                      | Current prices<br>NZD billion | Percentage changes, volume<br>(2009/2010 prices) |      |      |      |      |
| <b>New Zealand</b>                                   |                               |                                                  |      |      |      |      |
| <b>GDP at market prices</b>                          | 393.9                         | 2.1                                              | -0.3 | 0.5  | 1.4  | 2.2  |
| Private consumption                                  | 223.2                         | 1.1                                              | -0.2 | 1.4  | 1.0  | 2.3  |
| Government consumption                               | 81.9                          | 0.1                                              | -0.9 | 2.5  | 2.7  | 0.2  |
| Gross fixed capital formation                        | 98.6                          | -0.3                                             | -4.9 | -1.5 | 0.9  | 4.1  |
| Final domestic demand                                | 403.7                         | 0.6                                              | -1.5 | 1.0  | 1.3  | 2.2  |
| Stockbuilding <sup>1</sup>                           | 12.0                          | -1.5                                             | 0.3  | -0.2 | 0.6  | 0.0  |
| Total domestic demand                                | 415.7                         | -0.8                                             | -1.1 | 0.8  | 2.0  | 2.2  |
| Exports of goods and services                        | 90.1                          | 11.5                                             | 4.7  | 2.7  | 1.9  | 1.9  |
| Imports of goods and services                        | 112.0                         | -0.7                                             | 1.7  | 3.4  | 2.9  | 1.9  |
| Net exports <sup>1</sup>                             | - 21.9                        | 2.8                                              | 0.7  | -0.2 | -0.3 | 0.0  |
| <b>Memorandum items</b>                              |                               |                                                  |      |      |      |      |
| GDP deflator                                         | —                             | 3.9                                              | 3.8  | 3.6  | 3.5  | 2.6  |
| Consumer price index                                 | —                             | 5.7                                              | 2.9  | 2.8  | 3.5  | 2.4  |
| Core inflation index <sup>2</sup>                    | —                             | 5.6                                              | 3.5  | 2.4  | 2.8  | 2.3  |
| Unemployment rate (% of labour force)                | —                             | 3.8                                              | 4.8  | 5.3  | 5.4  | 5.1  |
| Household saving ratio, net (% of disposable income) | —                             | 1.0                                              | 3.4  | 4.0  | 4.0  | 4.3  |
| General government financial balance (% of GDP)      | —                             | -3.5                                             | -3.0 | -3.3 | -4.1 | -3.7 |
| General government gross debt (% of GDP)             | —                             | 54.1                                             | 57.1 | 59.0 | 61.3 | 63.2 |
| Current account balance (% of GDP)                   | —                             | -6.2                                             | -4.6 | -3.6 | -4.0 | -3.7 |

1. Contributions to changes in real GDP, actual amount in the first column.

2. Consumer price index excluding food and energy.

Source: OECD Economic Outlook 119 database.

StatLink <https://stat.link/wpln4u>

## Monetary policy is on hold, while fiscal policy is supportive

Renewed energy-related price pressures are emerging, while the recovery has become more uncertain and spare capacity remains in the economy. Against this backdrop, the Reserve Bank decided in a split vote to keep the policy rate unchanged at 2.25% in May 2026 after reducing the official cash rate by a cumulative 325 basis points between August 2024 and November 2025. Monetary policy should continue to look through the initial fuel price shock, provided medium-term inflation expectations remain well anchored, but will need to move towards neutral (around 3%) if it becomes clearer that the recovery remains on track despite the fuel price shock. The fiscal stance is projected to be mildly expansionary in 2026 before mild consolidation in 2027. In response to the energy shock, the government has allocated part of its planned allowance for new initiatives to introduce temporary and targeted support measures, including an increase in the in-work tax credit for eligible working families, alongside regulatory changes to widen fuel supply options.

## The recovery is expected to be gradual, while downside risks remain elevated

Economic growth is projected to strengthen gradually to 1.4% in 2026 and 2.2% in 2027. The recovery will be supported by continued pass-through of earlier monetary easing, resilient goods and services exports, and policy support such as accelerated depreciation incentives under the Investment Boost programme. In the near term, higher energy and input costs and heightened uncertainty are expected to restrain investment and consumption by weakening confidence and household real incomes. Inflation is projected to rise to 3.5% in 2026 as higher fuel, transport and other input costs feed through to prices, before easing gradually towards the 2% midpoint as spare capacity persists and the effects of the energy shock fade. Risks are tilted to the downside, including from a further deterioration in energy supply conditions and climate-related events that could disrupt agricultural output.

## Lifting productivity and improving energy security are key priorities

Fiscal consolidation should proceed steadily over the medium term to address the structural deficit and rebuild buffers against ageing-related spending pressures and future climate risks, while allowing flexibility in the short term if conditions worsen. Improving energy security and affordability is essential, including by easing barriers to investment in non-gas firming capacity, expanding demand-side flexibility and strengthening competition and transparency in electricity markets. Reviving productivity growth will also require deeper capital markets to improve access to long-term finance and risk capital, alongside a more open and predictable regulatory environment that supports investment and innovation. Further digitalisation, particularly in the health sector, would help raise spending efficiency and ease ageing pressures.

# Norway

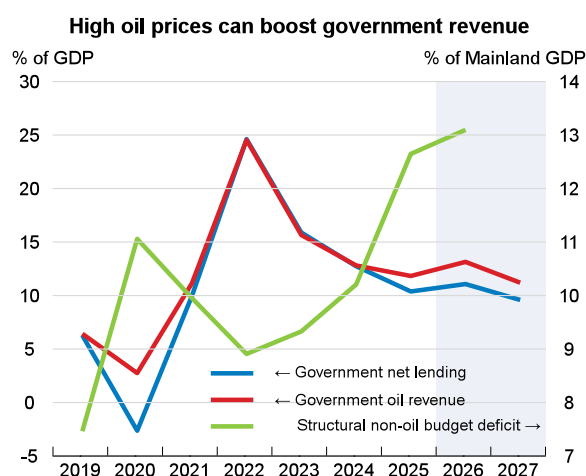
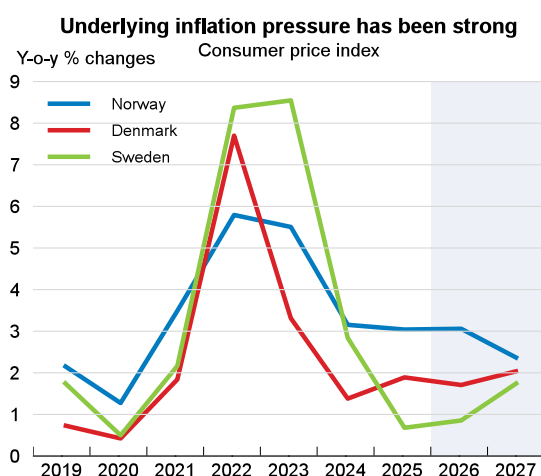
Mainland GDP will continue to recover, albeit at a moderate pace. High oil and gas prices will increase export and government revenues substantially. The direct impact of petroleum prices on inflation will be limited thanks to various energy support measures. However, import prices will rise and demand from trading partners will decline. Both business investment and mainland exports are expected to weaken somewhat. Nonetheless, household consumption will continue to sustain mainland GDP, supported by higher-than-anticipated wage growth.

Monetary policy has remained appropriately restrictive, given persistent underlying cost pressures. The central bank raised the policy interest rate by ¼ percentage point to 4.25% in early May, which should help keep inflation expectations anchored. Fiscal policy remains expansionary. As the structural non-oil deficit has substantially increased, the government should refrain from further loosening to avoid adding further impetus to inflation. Reducing regulatory burdens, particularly in the electricity sector, would boost sustainable growth.

## Mainland activity has been growing solidly

Mainland GDP growth picked up in 2025, with the momentum continuing into early 2026. This has been mainly driven by household consumption, thanks to strong growth in disposable income buoyed by collective wage settlements. Business surveys pointed to solid business investment and production in early 2026. Housing investment ceased declining in late 2025 after a significant drop. Mainland exports continued to increase, while US tariffs have had little effect on Norwegian exports, given the country's limited direct exposure. Inflation has been volatile over the past year, largely due to energy and food prices, but overall has turned out to be stronger than expected. Underlying cost pressures have been high, against the background of weak productivity growth.

## Norway



Source: OECD Economic Outlook 119 database; and the Ministry of Finance, Norway.

StatLink  <https://stat.link/e7msuq>

## Norway: Demand, output and prices

|                                                      | 2022                          | 2023                                        | 2024 | 2025 | 2026 | 2027 |
|------------------------------------------------------|-------------------------------|---------------------------------------------|------|------|------|------|
|                                                      | Current prices<br>NOK billion | Percentage changes, volume<br>(2023 prices) |      |      |      |      |
| Norway                                               |                               |                                             |      |      |      |      |
| Mainland GDP at market prices <sup>1</sup>           | 3 864.9                       | 0.9                                         | 0.6  | 1.8  | 1.7  | 1.5  |
| GDP at market prices                                 | 5 935.0                       | 0.4                                         | 1.4  | 1.1  | 1.3  | 1.2  |
| Private consumption                                  | 2 026.3                       | -1.0                                        | 1.3  | 2.7  | 2.4  | 1.5  |
| Government consumption                               | 1 045.9                       | 4.4                                         | 1.7  | 1.5  | 2.5  | 2.0  |
| Gross fixed capital formation                        | 1 151.5                       | -1.8                                        | -1.4 | 1.3  | 1.1  | 2.0  |
| Final domestic demand                                | 4 223.8                       | 0.1                                         | 0.7  | 2.0  | 2.1  | 1.8  |
| Stockbuilding <sup>2</sup>                           | 94.7                          | -0.5                                        | -0.3 | -1.0 | -0.4 | 0.0  |
| Total domestic demand                                | 4 318.5                       | -0.6                                        | 0.3  | 0.9  | 0.8  | 1.8  |
| Exports of goods and services                        | 3 180.0                       | 0.9                                         | 5.8  | 2.4  | 1.7  | 1.1  |
| Imports of goods and services                        | 1 563.4                       | -1.2                                        | 5.0  | 2.6  | 1.3  | 2.8  |
| Net exports <sup>2</sup>                             | 1 616.6                       | 0.8                                         | 1.1  | 0.3  | 0.4  | -0.4 |
| Memorandum items                                     |                               |                                             |      |      |      |      |
| GDP deflator                                         | —                             | -10.9                                       | 0.0  | 1.4  | 5.0  | -2.6 |
| Consumer price index                                 | —                             | 5.5                                         | 3.2  | 3.0  | 3.1  | 2.3  |
| Core inflation index <sup>3</sup>                    | —                             | 5.8                                         | 3.5  | 2.7  | 3.0  | 2.4  |
| Unemployment rate (% of labour force)                | —                             | 3.6                                         | 4.0  | 4.5  | 4.5  | 4.5  |
| Household saving ratio, net (% of disposable income) | —                             | 2.2                                         | 4.2  | 4.3  | 4.2  | 4.2  |
| General government financial balance (% of GDP)      | —                             | 15.9                                        | 12.7 | 10.4 | 11.1 | 9.6  |
| General government gross debt (% of GDP)             | —                             | 49.1                                        | 60.0 | 62.8 | 56.8 | 55.8 |
| Current account balance (% of GDP)                   | —                             | 17.0                                        | 15.0 | 13.8 | 17.1 | 12.3 |

1. GDP excluding oil and shipping.

2. Contributions to changes in real GDP, actual amount in the first column.

3. Consumer price index excluding food and energy.

Source: OECD Economic Outlook 119 database.

StatLink  <https://stat.link/pyeg10>

Surging petroleum prices will increase export and government revenues, while their impact on domestic inflation is expected to be comparatively limited. Norway relies almost exclusively on hydropower for electricity generation. Various energy support measures help to keep domestic inflation from rising, including the administered electricity price introduced in late 2025 as well as the temporary reduction in excise duties on fuel. Consumer price inflation in April stood at 3.4%, almost unchanged from the average of the previous three months. The profitability in the export-oriented energy-intensive sector in Norway will likely increase as sales prices increase more than costs. As the sector plays an important role in wage negotiations, this could raise aggregate wage growth.

## Macroeconomic policies should keep inflation in check

The central bank revised upward the near-term interest rate path in late March and raised the policy interest rate from 4% to 4.25% in early May, as underlying inflation pressure turned out to be much stronger than expected, amid higher expected global inflation. The policy interest rate is projected to remain at the current level until mid-2027 and then be reduced back to 4%. The revised National Budget was published in mid-May. The fiscal stance is easing further in 2026, including through cuts to personal income taxes, various energy support measures and higher defence spending. Overall, the structural non-oil budget deficit is expected to widen by around 1 percentage point, reaching 12.6% of mainland GDP in 2026. Nonetheless, the structural non-oil deficit in 2026 is expected to remain below the threshold of 3% of the value of the Government Pension Fund Global (GPF), the government's oil fund. Further fiscal expansion would make the conduct of monetary policy difficult. The projections assume a slight fiscal consolidation in 2027.

## Mainland GDP will grow robustly

Mainland GDP will grow by 1.7% and 1.5% in 2026 and 2027, respectively, despite the global energy price shock. Inflation will edge up mainly through a stronger impulse from import prices, which is somewhat mitigated by the recent currency appreciation. Household purchasing power will remain relatively strong due to stronger-than-anticipated wage growth. Business investment will become muted because of heightened uncertainty about the global economy and higher imported input costs. Higher interest rates will weigh on both business and housing investment. Mainland exports will be affected by lower demand from trading partners. So far, the authorities have not changed their estimate of oil production. A stronger-than-expected rise in energy prices would considerably boost the value of the GPFG, possibly leading to even more fiscal stimulus. In contrast, a sharp drop in international financial markets would reduce the GPFG value significantly, which may result in strong fiscal tightening.

## Easing regulatory burdens will increase efficiency

Licensing requirements are relatively high in Norway compared with other OECD countries, notably due to the lack of a risk-proportionate approach. Reducing licensing requirements would spur business dynamism and productivity growth. Streamlining duplicative procedures among public bodies for the development of power plants and grid facilities would help enhance electricity production capacity and thereby ensure sustainably lower energy prices. This would reduce the need for energy subsidies, which are currently largely untargeted. While these measures mitigate the impact of high energy prices in the short run, they should be unwound so that support becomes more targeted toward vulnerable households and essential energy consumption.

# Peru

GDP is projected to grow by 2.9% in 2026 and 2.9% in 2027, down from 3.4% in 2025. Activity is supported by resilient domestic demand, particularly private consumption and investment, and favourable terms of trade. Growth remains solid in 2026 despite supply-side disruptions including an El Niño-related impact, domestic gas supply constraints and higher energy prices linked to the evolving conflict in the Middle East. Inflation is projected to rise temporarily above the Central Bank's target range, before returning towards target as supply shocks fade.

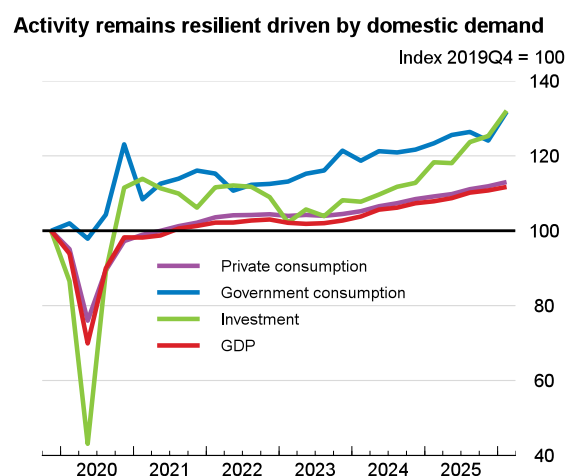
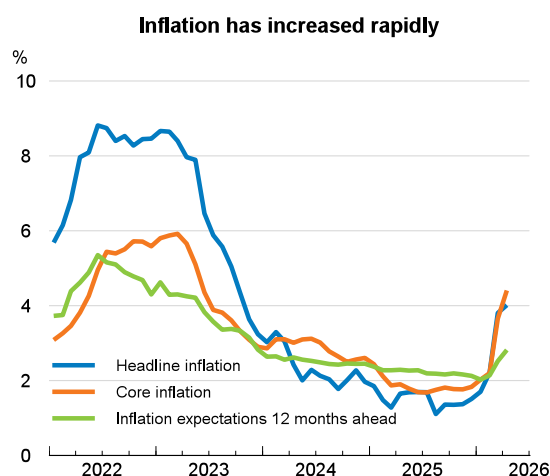
A neutral monetary stance remains appropriate, given anchored inflation expectations and price pressures driven mainly by temporary supply shocks. Fiscal policy should shift to a credible, rule-consistent consolidation path by improving spending efficiency, avoiding unfunded permanent spending increases and raising permanent revenues. Enhancing regulatory predictability and speeding up permitting would support investment and productivity.

## Growth remains resilient despite supply disruptions

GDP grew by 3.4% in 2025 and the pace of growth remained stable at 3.5% in the first quarter of 2026, supported by strong private consumption and a sharp rise in investment. High-frequency indicators suggest year-on-year growth remained above 3% in April, with capital goods imports and construction indicators pointing to continued investment strength, even as business expectations softened somewhat. Labour-market conditions remain supportive, with a strong expansion of formal employment (5.7%) and average nominal earnings (8.2%) in March. Headline inflation rose to 4% year-on-year in April, driven by higher fuel prices, temporary disruptions to domestic gas supply and adverse weather effects feeding through into higher food prices. Core inflation rose to 4.4%, reflecting temporary pass-through from higher fuel and gas costs into transport and other core prices, rather than domestic demand pressures.

External conditions remain mixed but broadly supportive. The 10% baseline United States tariff on most Peruvian exports remains in place, but key mining exports remain exempt. Copper prices remain historically high, helping sustain export earnings, and goods export volumes rose modestly in the first two months of 2026, with gains in both traditional mining exports and non-traditional products. At the same time, the temporary interruption to domestic gas and natural gas liquids supply in March, together with higher oil prices linked to the evolving conflict in the Middle East, raised energy costs and added to fertiliser price pressures.

## Peru



Source: Central Reserve Bank of Peru.

StatLink  <https://stat.link/1z0xw6>

## Peru: Demand, output and prices

|                                                      | 2022                          | 2023                                        | 2024 | 2025 | 2026 | 2027 |
|------------------------------------------------------|-------------------------------|---------------------------------------------|------|------|------|------|
|                                                      | Current prices<br>PEN billion | Percentage changes, volume<br>(2007 prices) |      |      |      |      |
| <b>Peru</b>                                          |                               |                                             |      |      |      |      |
| <b>GDP at market prices</b>                          | 943.9                         | -0.3                                        | 3.5  | 3.4  | 2.9  | 2.9  |
| Private consumption                                  | 602.9                         | 0.1                                         | 2.6  | 3.4  | 3.0  | 2.3  |
| Government consumption                               | 126.3                         | 3.4                                         | 3.6  | 3.5  | 5.8  | 2.5  |
| Gross fixed capital formation                        | 219.6                         | -5.5                                        | 5.2  | 9.8  | 9.3  | 2.5  |
| Final domestic demand                                | 948.8                         | -0.8                                        | 3.3  | 4.8  | 4.8  | 2.3  |
| Stockbuilding <sup>1</sup>                           | -9.4                          | -0.9                                        | 0.3  | 0.8  | 0.1  | 0.0  |
| Total domestic demand                                | 939.4                         | -1.6                                        | 3.7  | 5.6  | 4.9  | 2.3  |
| Exports of goods and services                        | 272.8                         | 4.0                                         | 7.1  | 5.9  | 4.4  | 4.9  |
| Imports of goods and services                        | 268.4                         | -1.0                                        | 7.6  | 13.1 | 10.6 | 2.9  |
| Net exports <sup>1</sup>                             | 4.5                           | 1.3                                         | -0.3 | -2.3 | -2.2 | 0.4  |
| <b>Memorandum items</b>                              |                               |                                             |      |      |      |      |
| GDP deflator                                         | —                             | 6.6                                         | 5.4  | 5.5  | 7.9  | 2.4  |
| Consumer price index                                 | —                             | 6.3                                         | 2.4  | 1.5  | 3.6  | 3.1  |
| Core inflation index <sup>2</sup>                    | —                             | 4.4                                         | 2.9  | 1.9  | 3.8  | 3.2  |
| Unemployment rate (% of labour force)                | —                             | 5.4                                         | 5.6  | 4.9  | 4.3  | 4.3  |
| Government financial balance <sup>3</sup> (% of GDP) | —                             | -2.8                                        | -3.5 | -2.1 | -2.0 | -1.8 |
| Government gross debt <sup>3</sup> (% of GDP)        | —                             | 32.8                                        | 32.4 | 31.8 | 30.7 | 31.0 |
| Current account balance (% of GDP)                   | —                             | 0.5                                         | 2.4  | 3.5  | 5.8  | 6.3  |

1. Contributions to changes in real GDP, actual amount in the first column.

2. Consumer price index excluding food and energy.

3. Data are for the non-financial public sector, comprising the general government and the state-owned enterprises.

Source: OECD Economic Outlook 119 database.

StatLink  <https://stat.link/dr4j9y>

## Monetary policy stays neutral as fiscal consolidation lags

The central bank kept the policy rate at 4.25% in May. One-year ahead inflation expectations have edged up to 2.8% in April but medium term inflation expectations remain broadly anchored. The projections assume that the policy rate will remain unchanged at 4.25% through 2026-27, with recent price increases driven mainly by temporary supply shocks. Should inflation prove more persistent, a tighter policy stance would be required to ensure convergence towards target. Fiscal policy will continue to provide support to activity over 2026 and 2027. However, the fiscal stance remains too accommodative given solid growth and past improvements in the terms of trade. The projections assume a fiscal deficit of 2.0% of GDP in 2026 and 1.8% in 2027, which is above the consolidation path implied by the fiscal rule. No major new broad-based measures to cushion higher energy prices are assumed. Existing measures, mainly targeted LPG subsidies for vulnerable households and fuel price stabilisation mechanisms remain modest.

## Growth will strengthen as temporary shocks fade

GDP growth is projected to ease to 2.9% in 2026 from 3.4% in 2025 and remain at 2.9% in 2027. Private consumption and investment will remain the main drivers of activity, despite the inflation uptick, supported by solid labour income growth, favourable metal prices and continued strength in construction. Growth in 2026 will be held back by temporary supply disruptions, including El Niño-related effects, domestic gas shortages and higher oil prices linked to the evolving conflict in the Middle East, as well as by weaker external demand and election-related uncertainty weighing on investment. Inflation is projected to rise temporarily in 2026 as higher energy, food and fertiliser costs pass through, but then ease as these shocks fade. Risks are tilted to the downside. Renewed social conflict affecting mining investment, stronger weather-related disruptions, higher energy prices or shortages of mining inputs could weaken growth and increase inflation. Fiscal risks stem from recent unfunded permanent spending measures. These could weaken the credibility of the fiscal framework, but low public debt, ample reserves and credible central bank provide important buffers.

## Stronger fiscal discipline and energy resilience would support growth

A credible return to the fiscal rule is needed to preserve hard-won macroeconomic stability. This requires improving spending efficiency, resisting unfunded permanent spending increases and strengthening revenues through a broadening of the tax base, so that social and productive priorities can be financed without putting debt sustainability at risk. Strengthening energy security through a more diversified energy mix, more reliable domestic gas supply, after recent supply disruptions exposed dependence on a few critical assets, and stronger contingency planning would reduce exposure to external shocks. Lowering regulatory barriers to mining, infrastructure and other private investment would also support productivity, resilience and stronger medium-term growth.

# Philippines

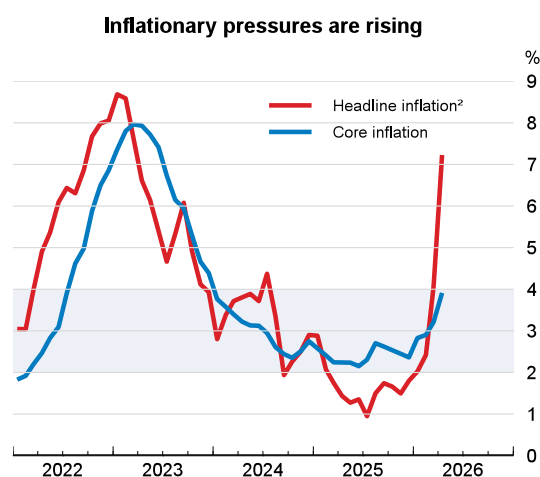
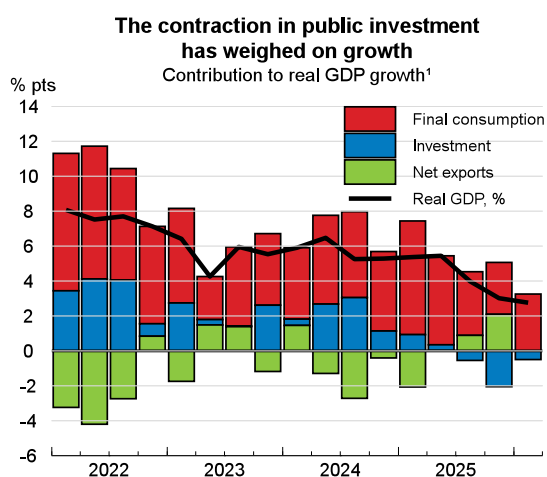
Real GDP will grow by 3.2% in 2026, and 5.0% in 2027. Private consumption will soften as higher inflation and weaker labour market conditions weigh on real incomes, but public investment is expected to recover gradually following its late 2025 contraction. Inflation will rise amid higher energy prices and the peso depreciation, and the current account deficit will widen. Given the country's reliance on energy imports, downside risks are mainly related to energy rationing, alongside weaker remittance inflows and uncertainty about the public investment recovery.

Monetary policy is expected to tighten in 2026 as inflation and exchange rate pressures rise. Fiscal policy will be more expansionary in the near term due to energy-related support measures, before returning to consolidation in 2027. Improving the efficiency of energy support, including through better targeting, would help contain fiscal costs while protecting vulnerable households. Structural reforms to strengthen competition and improve the investment climate would support growth over the medium term.

## Growth is slowing amid rising inflation and a weakening labour market

GDP growth slowed to 2.8% year-on-year in the first quarter of 2026, reflecting weaker domestic demand as higher inflation weighed on private consumption and the recovery in public investment remained weak following corruption investigations in late 2025. Short-term indicators suggest weaker growth momentum as higher inflation and weaker labour market conditions weigh on household spending. The unemployment rate rose from 4.4% in December 2025 to 5.0% in March. Inflation rose sharply to 7.2% in April, driven by higher energy prices and peso depreciation, while core inflation increased to 3.9%. Prior to this, inflation had risen gradually on the back of rising food prices.

## Philippines



1. Year-on-year growth rates. Seasonally non-adjusted data.

2. Annual rates. The shaded area corresponds to the central bank's inflation tolerance band.

Source: Philippine Statistics Authority; and CEIC.

StatLink  <https://stat.link/b6v1he>

## Philippines: Demand, output and prices

|                                                      | 2022                          | 2023                                        | 2024 | 2025 | 2026 | 2027 |
|------------------------------------------------------|-------------------------------|---------------------------------------------|------|------|------|------|
| Philippines                                          | Current prices<br>PHP billion | Percentage changes, volume<br>(2018 prices) |      |      |      |      |
| <b>GDP at market prices</b>                          | 22 028.3                      | 5.5                                         | 5.7  | 4.4  | 3.2  | 5.0  |
| Private consumption                                  | 16 725.0                      | 5.5                                         | 4.9  | 4.5  | 2.7  | 3.8  |
| Government consumption                               | 3 313.9                       | 0.3                                         | 7.7  | 8.4  | 7.8  | 4.5  |
| Gross fixed capital formation                        | 5 142.7                       | 8.2                                         | 6.3  | 0.8  | 1.2  | 8.2  |
| Final domestic demand                                | 25 181.6                      | 5.4                                         | 5.5  | 4.2  | 3.1  | 4.8  |
| Stockbuilding <sup>1</sup>                           | 295.2                         | -0.4                                        | 0.3  | -0.6 | 1.2  | 0.0  |
| Total domestic demand                                | 25 476.8                      | 5.0                                         | 5.8  | 3.7  | 4.2  | 4.8  |
| Exports of goods and services                        | 6 253.3                       | 1.3                                         | 3.2  | 8.2  | 5.7  | 3.0  |
| Imports of goods and services                        | 9 701.8                       | 1.0                                         | 4.3  | 5.0  | 8.1  | 2.9  |
| Net exports <sup>1</sup>                             | -3 448.5                      | 0.0                                         | -0.7 | 0.3  | -1.5 | -0.3 |
| <b>Memorandum items</b>                              |                               |                                             |      |      |      |      |
| GDP deflator                                         | —                             | 4.6                                         | 2.9  | 1.4  | 6.3  | 5.2  |
| Consumer price index                                 | —                             | 6.0                                         | 3.2  | 1.6  | 6.8  | 4.0  |
| Government financial balance <sup>2</sup> (% of GDP) | —                             | -6.2                                        | -5.7 | -5.6 | -6.1 | -5.6 |
| Government gross debt <sup>2</sup> (% of GDP)        | —                             | 60.1                                        | 60.7 | 63.2 | 63.9 | 63.6 |
| Current account balance (% of GDP)                   | —                             | -2.8                                        | -4.0 | -3.3 | -5.4 | -4.0 |

1. Contributions to changes in real GDP, actual amount in the first column.

2. Data refer to national government.

Source: OECD Economic Outlook 119 database.

StatLink  <https://stat.link/xfml4q>

The evolving conflict in the Middle East is adversely affecting growth, inflation and the external balance. The Philippines imports over half of its primary energy supply, including 66% of coal, 46% of natural gas, and 100% of its oil consumption. Around 95% of crude oils are imported from the Middle East, but natural gas imports from the region are insignificant. The government has responded with a range of measures, including expanded targeted fuel subsidies for transport operators and vulnerable groups, as well as work-from-home mandates in parts of the public sector and administrative guidance to promote hybrid working in the private sector. Tariff-related risks are less central to the near-term outlook, given the Philippines' relatively limited direct exposure to the United States, with exports to the US accounting for around 15% of total exports.

## Monetary policy is expected to tighten as fiscal policy provides support

The central bank raised the policy rate by 25 basis points to 4.50% in April 2026. Monetary policy is expected to tighten further with the policy rate rising to 5.75% as inflation picks up, due to higher energy prices and currency depreciation since the beginning of the year, before easing to 5.0% later in 2027 as price pressures moderate. Higher borrowing costs and lower remittance inflows — amounting to around 8–9% of GDP, with around 15% originating from Gulf economies — will weigh on domestic demand in the near term. Fiscal policy is projected to be expansionary in 2026 due to energy-related support measures to cushion the impact of higher energy prices on households and firms, with the government budget deficit widening from 5.6% of GDP in 2025 to 6.1% in 2026. The overall macroeconomic policy mix is broadly appropriate, with tighter monetary policy helping to contain inflation while fiscal policy provides temporary support to the economy.

## Growth will remain subdued amid energy price pressures

Real GDP is projected to grow by 3.2% in 2026 and recover to 5.0% in 2027. Private consumption is expected to soften in the near term as elevated inflation and weaker real income growth weigh on household spending. Public investment is projected to recover gradually from the second half of 2026 following the contraction in public construction linked to corruption investigations in late 2025, although the strength of the recovery will depend on the pace of project implementation. Exports are expected to slow amid weaker global demand and heightened geopolitical uncertainties. As a net energy importer, the Philippines is particularly exposed to global energy price fluctuations. The current account deficit is expected to widen to 5.4% of GDP in 2026, from 3.3% in 2025, due to higher energy import prices and softer remittance inflows. Inflation is expected to average 6.8% in 2026 before gradually easing amid dissipating energy price pressures and tighter financial conditions. Risks are tilted to the downside. Persistently higher energy prices would push up inflation and weigh on consumption, with the risk of energy rationing further disrupting economic activity. Weaker remittances and a slower pace of the public investment recovery could dampen domestic demand. On the upside, stronger capital inflows following recent foreign investment liberalisation could support investment and growth.

## Improving the investment climate and productivity would support growth

In the near term, containing the fiscal cost of energy-related support measures will be important to preserve fiscal sustainability, including by better targeting support to vulnerable households and ensuring that such measures remain temporary in nature. While no explicit end date has been set, some measures, particularly those related to fuel support for transport operators, are linked to price-based triggers. Over the medium term, accelerating the transition towards cleaner and more diversified energy sources, including renewables, by streamlining permitting procedures and strengthening grid infrastructure would strengthen energy security and resilience. Further reforms to enhance regulatory transparency, reduce barriers to entry in key sectors such as energy, telecommunications and transport, and strengthen project selection and implementation capacity of public investment would support stronger investment and productivity. Addressing labour market rigidities and encouraging formal job creation would support productivity growth, for example by reducing informality and easing hiring constraints. Measures to increase female labour force participation, such as expanding access to childcare and promoting flexible work arrangements, could ensure a better use of human capital.

# Poland

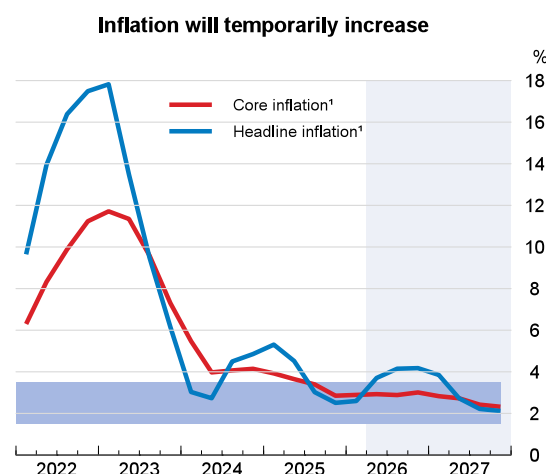
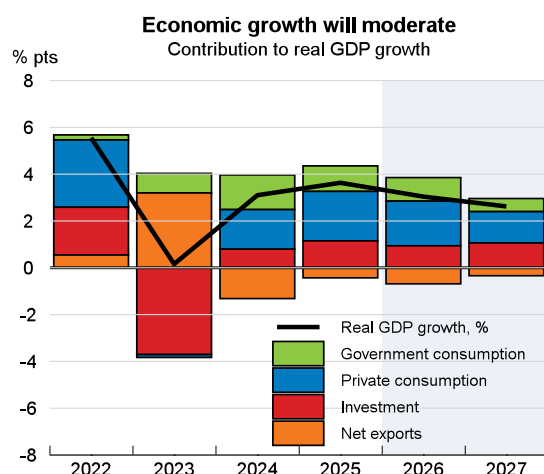
Growth will moderate to 3% in 2026 and 2.6% in 2027, reflecting headwinds from the evolving conflict in the Middle East and a peak in EU-funded investments. Inflation has increased in the first half of this year, but this will be temporary with underlying price pressures easing again at the end of the year and inflation falling to 2.7% in 2027. The labour market will remain solid with low unemployment. The economy remains exposed to risks from further energy price shocks and global demand, as well as geopolitical risks in the region.

Given the uncertainty of the impact of higher energy prices, any further easing of monetary policy should be postponed this year. The budget deficit remains high, reflecting elevated defence and social spending. Consolidation planned for 2026 and the following two years should be implemented and complemented by a long-term plan for the public finances. Energy price supports should be better targeted and phased out as soon as conditions allow. Given population ageing and wage pressures, greater upskilling and increasing the statutory retirement age would help to retain more people in the labour market.

## Solid momentum in early 2026 has been affected by the energy price surge

Economic activity remained robust at the start of this year, with seasonally adjusted year-on-year GDP growth of 3.4% in the first quarter. Annual real wage growth in the business sector moderated to 3.5% in March. The unemployment rate remained low at around 3.3% and the employment rate increased in the first quarter of the year. At the same time, vacancies began to increase. Business confidence strengthened in January and February before weakening in March and remaining broadly stable in April. Following an improvement at the beginning of the year, consumer confidence worsened in March but improved again in May. Inflation rose to 3.2% in April, driven by a sharp increase in transport fuel prices, although price increases in other energy components remained well below those observed in 2022. Core inflation also strengthened to 3% in the same month.

## Poland



1. Annual rates. The shaded area corresponds to the central bank's inflation target range.

Source: OECD Economic Outlook 119 database.

StatLink  <https://stat.link/qp3hzc>

## Poland: Demand, output and prices

|                                                                        | 2022                          | 2023                                        | 2024 | 2025 | 2026 | 2027 |
|------------------------------------------------------------------------|-------------------------------|---------------------------------------------|------|------|------|------|
|                                                                        | Current prices<br>PLN billion | Percentage changes, volume<br>(2020 prices) |      |      |      |      |
| <b>Poland</b>                                                          |                               |                                             |      |      |      |      |
| <b>GDP at market prices</b>                                            | 3 095.7                       | 0.2                                         | 3.1  | 3.6  | 3.0  | 2.6  |
| Private consumption                                                    | 1 803.1                       | -0.2                                        | 2.9  | 3.7  | 3.3  | 2.3  |
| Government consumption                                                 | 561.1                         | 4.6                                         | 7.8  | 5.3  | 4.8  | 2.5  |
| Gross fixed capital formation                                          | 509.6                         | 10.8                                        | 2.4  | 3.8  | 7.0  | 6.0  |
| Final domestic demand                                                  | 2 873.8                       | 2.7                                         | 3.8  | 4.0  | 4.3  | 3.0  |
| Stockbuilding <sup>1</sup>                                             | 168.3                         | -5.5                                        | 0.4  | 0.5  | -0.3 | 0.0  |
| Total domestic demand                                                  | 3 042.2                       | -3.0                                        | 4.3  | 4.6  | 4.0  | 3.0  |
| Exports of goods and services                                          | 1 932.7                       | 3.7                                         | 1.9  | 5.4  | 4.2  | 2.3  |
| Imports of goods and services                                          | 1 879.2                       | -1.4                                        | 4.6  | 6.8  | 5.9  | 3.1  |
| Net exports <sup>1</sup>                                               | 53.5                          | 3.2                                         | -1.3 | -0.4 | -0.7 | -0.3 |
| <b>Memorandum items</b>                                                |                               |                                             |      |      |      |      |
| GDP deflator                                                           | —                             | 10.0                                        | 4.0  | 3.0  | 2.9  | 2.7  |
| Consumer price index                                                   | —                             | 11.5                                        | 3.8  | 3.8  | 3.7  | 2.7  |
| Core inflation index <sup>2</sup>                                      | —                             | 9.9                                         | 4.4  | 3.4  | 2.9  | 2.6  |
| Unemployment rate (% of labour force)                                  | —                             | 2.8                                         | 2.9  | 3.1  | 3.3  | 3.4  |
| Household saving ratio, net (% of disposable income)                   | —                             | 2.9                                         | 7.1  | 7.5  | 7.5  | 7.6  |
| General government financial balance (% of GDP)                        | —                             | -5.2                                        | -6.5 | -7.3 | -6.9 | -6.3 |
| General government debt, Maastricht definition <sup>3</sup> (% of GDP) | —                             | 49.6                                        | 55.0 | 59.8 | 64.0 | 67.7 |
| Current account balance (% of GDP)                                     | —                             | 1.6                                         | 0.3  | -0.9 | -1.9 | -2.2 |

1. Contributions to changes in real GDP, actual amount in the first column.

2. Consumer price index excluding food and energy.

3. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.

Source: OECD Economic Outlook 119 database.

StatLink  <https://stat.link/07rth3>

Poland is exposed to the Middle East conflict through imports of energy, though these account for under a half of energy consumption. At the end of 2025, over half of its imported oil came from Saudi Arabia, one of the highest shares in the EU, and a fifth of gas imports originated in Qatar. While coal is still used for much of electricity production, energy price volatility impacts households' spending because energy and food represent a considerable share of their consumption. Poland is also exposed to the indirect effects of constraints in energy supply and on demand in key export markets.

## Monetary policy is on hold and fiscal policy is turning restrictive

With inflation close to target at the turn of the year, the authorities lowered the policy rate to 3.75% in March. Monetary policy is assumed to remain on hold this year, with a gradual easing from the second quarter of 2027 as inflationary pressures recede. The general government deficit deteriorated to 7.3% of GDP in 2025 and will remain elevated this year and next. Defence spending amounted to 4.5% of GDP, about half of which was devoted to new equipment purchases, with a sizeable import content. Defence outlays are projected to rise to 4.8% of GDP this year and 5% of GDP in 2027. Nevertheless, the weakening fiscal position also reflects discretionary increases in social spending that have not been fully financed. In response to elevated energy prices, the government temporarily reduced VAT and introduced a dynamic retail price cap on motor fuels. A windfall tax on the energy sector is planned. Fiscal policy is assumed to tighten, relying largely on revenue measures while protecting investment and healthcare spending. Nevertheless, public debt is projected to surpass the EU 60% of GDP debt threshold and to continue rising.

## **Solid but moderating growth will be underpinned by domestic demand**

GDP growth will moderate to 3% and 2.6% in 2026 and 2027. It will be supported by domestic demand, underpinned by a rise in real incomes and a lower household saving rate as well as by strong public investment, with EU transfers peaking at around 3% of GDP this year and remaining important in 2027. Following the increase in the first half of this year because of higher energy prices, inflation will ease and reach 2.7% in 2027, falling within the central bank's target range. The labour market will remain solid with the unemployment rate at 3.4%. Risks are tilted to the downside, reflecting the possibility of renewed energy price shocks, weaker global demand, and elevated geopolitical tensions in the region.

## **Fiscal consolidation is needed, along with reforms to boost energy security and productivity**

Further easing of monetary policy should be delayed given the uncertainties from higher energy prices. The fiscal consolidation, planned until 2028, should continue. To finance the higher level of defence spending, address ageing costs and the climate transition on a sustainable basis, a long-term plan for the public finances is needed. The government should undertake comprehensive spending reviews and increase property and environmental taxation. Energy price support measures should be better targeted and phased out as soon as conditions allow. Introducing a comprehensive emissions-based motor tax on private passenger cars can strengthen incentives to purchase fuel-efficient vehicles and generate additional revenues. The economy remains emissions-intensive, mainly due to the importance of coal. Strengthening energy infrastructure would allow for faster deployment of renewables. Implementation of measures to streamline business regulations and cut red tape for entrepreneurs, such as digitalisation of public proceedings, should continue. Given population ageing and wage pressures, greater upskilling of the workforce and increasing the statutory retirement age would help to retain more people in the labour market.

# Portugal

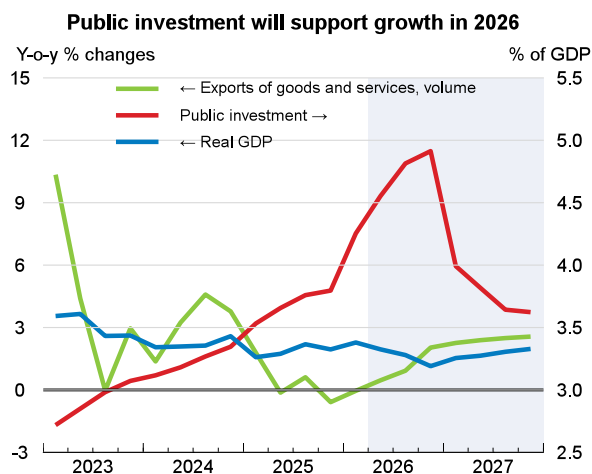
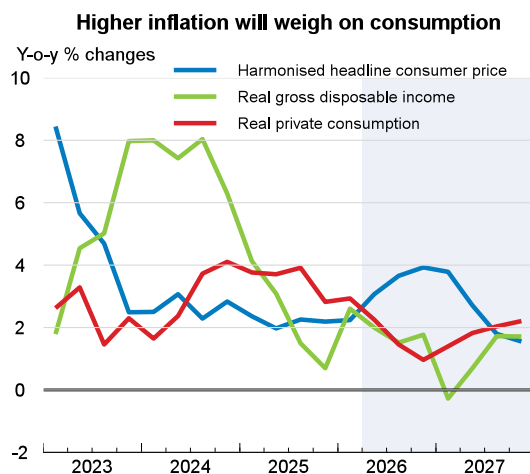
Real GDP growth is projected to reach 1.8% in 2026 and 1.7% in 2027. Higher energy prices will feed through the economy and inflation will peak at 3.2% in 2026. Strong disbursements of RRP funds, the tight labour market, permanent tax cuts and temporary fiscal support will cushion the impact of energy prices and severe storms on domestic demand in 2026. Export growth will increase progressively with external demand throughout 2027. An incomplete implementation of RRP funded projects or prolonged disruptions to energy markets could dampen the outlook.

Fiscal policy will help to cushion the external shock in 2026, before tightening in 2027. This reflects the phase-out of temporary measures introduced in response to higher energy prices and severe storms, and the expiry of RRP funding. Public debt will continue to decline, but ensuring a sustained downward path in the medium term will require more efficient spending. Expanding access to training and limiting early retirement options would raise employment among older workers, while the effective use of spending reviews would help to rebalancing expenditures towards investment.

## Growth has slowed

GDP grew by 2.3% over the year to the first quarter of 2026. Tax cuts, a one-off pension top-up and moderate inflation supported consumption in late 2025. However, extreme weather events and the evolving conflict in the Middle East slowed economic activity in the first quarter of 2026. Annual inflation picked up to 3.3% in April driven by a sharp rise in road fuel prices and still-strong food prices, while core inflation stood at 2.1%. Consumer confidence declined markedly over February to April 2026, while business sentiment softened. Industry and construction production, as well as services turnover, declined over the year to February but rebounded in March, and employment growth stabilised.

## Portugal



Source: OECD Economic Outlook 119 database.

StatLink  <https://stat.link/oqs0bt>

## Portugal: Demand, output and prices

|                                                                        | 2022                          | 2023                                        | 2024 | 2025 | 2026 | 2027 |
|------------------------------------------------------------------------|-------------------------------|---------------------------------------------|------|------|------|------|
|                                                                        | Current prices<br>EUR billion | Percentage changes, volume<br>(2021 prices) |      |      |      |      |
| <b>Portugal</b>                                                        |                               |                                             |      |      |      |      |
| <b>GDP at market prices</b>                                            | 244.0                         | 3.1                                         | 2.2  | 1.9  | 1.8  | 1.7  |
| Private consumption                                                    | 155.2                         | 2.4                                         | 3.0  | 3.5  | 1.9  | 1.9  |
| Government consumption                                                 | 42.5                          | 1.8                                         | 1.5  | 1.6  | 1.4  | 0.8  |
| Gross fixed capital formation                                          | 50.2                          | 6.0                                         | 4.3  | 3.6  | 5.2  | 1.7  |
| Final domestic demand                                                  | 247.9                         | 3.0                                         | 3.0  | 3.2  | 2.5  | 1.7  |
| Stockbuilding <sup>1</sup>                                             | 2.0                           | -0.8                                        | -0.1 | 0.4  | -0.3 | 0.1  |
| Total domestic demand                                                  | 249.8                         | 2.2                                         | 2.9  | 3.7  | 2.2  | 1.7  |
| Exports of goods and services                                          | 120.7                         | 4.3                                         | 3.2  | 0.4  | 0.8  | 2.4  |
| Imports of goods and services                                          | 126.6                         | 2.3                                         | 4.7  | 4.3  | 2.1  | 2.4  |
| Net exports <sup>1</sup>                                               | - 5.9                         | 0.9                                         | -0.6 | -1.7 | -0.5 | 0.0  |
| <b>Memorandum items</b>                                                |                               |                                             |      |      |      |      |
| GDP deflator                                                           | —                             | 7.5                                         | 4.9  | 3.9  | 2.9  | 2.8  |
| Harmonised index of consumer prices                                    | —                             | 5.3                                         | 2.7  | 2.2  | 3.2  | 2.5  |
| Harmonised index of core inflation <sup>2</sup>                        | —                             | 5.4                                         | 2.7  | 2.3  | 2.3  | 2.5  |
| Unemployment rate (% of labour force)                                  | —                             | 6.5                                         | 6.4  | 6.0  | 5.8  | 5.8  |
| Household saving ratio, net (% of disposable income)                   | —                             | 0.4                                         | 4.6  | 3.4  | 3.5  | 2.7  |
| General government financial balance <sup>3</sup> (% of GDP)           | —                             | 1.1                                         | 0.6  | 0.7  | 0.0  | -0.1 |
| General government gross debt (% of GDP)                               | —                             | 103.9                                       | 99.1 | 93.4 | 90.0 | 87.1 |
| General government debt, Maastricht definition <sup>4</sup> (% of GDP) | —                             | 96.9                                        | 93.5 | 89.7 | 86.3 | 83.3 |
| Current account balance (% of GDP)                                     | —                             | 0.6                                         | 2.2  | 1.2  | -0.1 | 0.4  |

1. Contributions to changes in real GDP, actual amount in the first column.

2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.

3. Based on national accounts definition.

4. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.

Source: OECD Economic Outlook 119 database.

StatLink  <https://stat.link/q3i7c9>

External conditions have weakened, weighing on Portugal's trade balance. Goods exports have been volatile, shrinking in January and February 2026 but increasing by 10.6% in the year to March 2026 (in nominal terms), while goods imports increased by 11.6%, reflecting partly the closure of refineries at the end of 2025. Although direct exposure to the United States is limited (2.8% of GDP), Portuguese exporters are facing higher tariffs and softer external demand from their main European trading partners. At the same time, despite the expansion of renewable electricity generation capacity, Portugal remains dependent on imported energy, leaving the economy exposed to global price shocks. Policy measures, including road fuel tax cuts in early March, targeted sectoral subsidies and loan support have partly cushioned the impact of rising import prices on households and firms.

## Fiscal policy will cushion the slowdown in 2026

Fiscal policy will be expansionary in 2026. An expected fiscal easing of around 2% of GDP will help to cushion the current slowdown. Spending from RRP grants is assumed to increase to close to 2.3% of GDP in 2026, while disbursements of RRP loans will increase to 0.7% of GDP. Temporary measures to cushion the energy price shock, including road fuel tax cuts and subsidies, as well as support for those affected by the early 2026 storms, are set to reach 0.4% GDP in 2026. Activity will also be supported by higher public wages, a further reduction in the personal income tax, business tax cuts and increasing defence spending. In 2027, the fiscal stance will turn contractionary, with an assumed tightening of 2.5% of GDP. The phase out of temporary support, as well as of RRP grants and loans, will weigh on internal demand, despite increasing spending from European cohesion funds. Primary fiscal surpluses and resilient GDP growth will

continue to reduce the debt-to-GDP ratio. The minimum wage rose by 5.7% in 2026 and is set to rise by 5.4% in 2027, stimulating wage growth.

### **Growth will remain resilient**

GDP will grow by 1.8% in 2026 and 1.7% in 2027. The increase in energy costs will slow real disposable income gains, despite tax cuts and temporary support measures. Inflation will reach 3.2% in 2026 and moderate to 2.5% in 2027 as international energy prices decline and services price pressures diminish slowly. Weak external demand will weigh on exports, but spending of RRP funds will temporarily boost investment. A further decline in the household saving rate and stronger than-expected wage developments could strengthen consumption but also fuel inflation. Higher than expected public expenditures, notably on defence, could also raise internal demand. By contrast, lower-than-expected disbursements of RRP funds or prolonged disruptions to energy markets could weigh on growth.

### **Policy should support stronger and more sustainable growth**

Sustained productivity growth, higher employment and more efficient public spending are needed to face rapid population ageing and significant investment needs, while keeping public debt on a firmly declining path. Shifting public spending towards investment will require a full roll out the new accrual-based accounting system and an effective use of spending reviews. Consolidating means-tested benefits, reducing tax expenditures and strengthening recurrent taxes on property would support efficiency gains, while reducing early retirement options and rebalancing expenditures on labour market policies towards training and counselling would raise employment. This would make room to expand further and diversify renewable energy production through clear auction timelines and increase resilience to energy shocks. As energy price pressures decline, increasing environmental taxation while protecting vulnerable groups, would help to attain Portugal's climate goals. Reducing entry barriers in services, including in the retail sector, and simplifying building permitting procedures would raise investment and productivity growth.

# Romania

GDP is projected to contract by 0.1% in 2026 following the output contractions in the last quarter of 2025 and the first quarter of 2026, before rising to 2.5% in 2027. Private consumption will remain weak until mid-2026, as slower wage growth, persistent inflation and fiscal tightening continue to erode real disposable incomes. Investment will be the main growth contributor, supported by EU funds, while exports will gradually improve. Key risks include delays in NGEU absorption, weakening fiscal consolidation and higher inflation from energy and wage pressures.

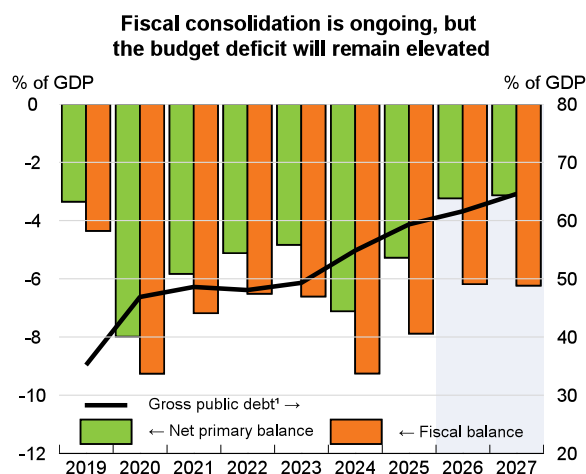
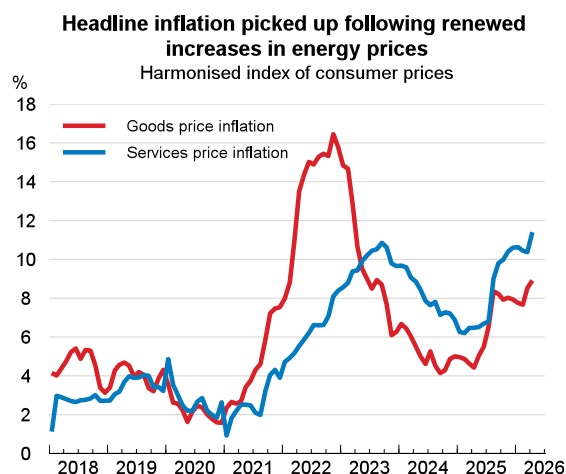
The monetary policy rate is expected to be stable until inflation is on a clear downward path towards target. Further fiscal consolidation beyond 2026 is essential to ensure debt sustainability, focusing on stronger tax collection and more efficient spending. Effective use of EU funds is key to support growth, while energy price support should be better targeted and phased out as conditions allow. Simplified administrative procedures, strengthened insolvency frameworks and reforms to improve labour force participation would enhance growth prospects.

## Growth has remained weak in 2025 amid fiscal consolidation

GDP growth remained weak in 2025, contracting significantly in the final quarter of the year and again, though more moderately, in the first quarter of 2026, amid fiscal consolidation, elevated inflation and subdued external demand. Industrial output fell by 2.2% year-on-year in March 2026, notably reflecting weakness in the auto sector. Public investment, underpinned by EU funds, supported activity. Private consumption, which declined in the second half of 2025 as slowing wage growth and fiscal tightening squeezed real incomes, remained weak in the first months of 2026, with retail sales down 3.2% year-on-year in March. Headline inflation rose to 10.7% in April due to higher energy prices, after renewed pressures in summer 2025 following the removal of electricity price caps and a VAT increase. Unemployment has edged up slightly but remains resilient, standing at 6.1% in March 2026.

The evolving conflict in the Middle East has pushed up domestic energy prices, adding to inflationary pressures and exposing oil-reliant sectors such as transport and agriculture. The government introduced temporary measures to safeguard supply and limit fuel price increases, including export controls, limits on markups, diesel excise cuts, and support for transporters, while extending electricity price caps for households.

## Romania



StatLink <https://stat.link/xc6ph8>

## Romania: Demand, output and prices

|                                                                        | 2022                          | 2023                                        | 2024 | 2025 | 2026 | 2027 |
|------------------------------------------------------------------------|-------------------------------|---------------------------------------------|------|------|------|------|
|                                                                        | Current prices<br>RON billion | Percentage changes, volume<br>(2020 prices) |      |      |      |      |
| <b>Romania</b>                                                         |                               |                                             |      |      |      |      |
| <b>GDP at market prices</b>                                            | 1 384.6                       | 2.3                                         | 0.9  | 0.7  | -0.1 | 2.5  |
| Private consumption                                                    | 875.1                         | 2.5                                         | 5.7  | 0.5  | -0.6 | 1.7  |
| Government consumption                                                 | 230.6                         | 4.0                                         | 1.2  | -2.6 | -3.2 | 1.7  |
| Gross fixed capital formation                                          | 347.9                         | 12.3                                        | -2.5 | 3.4  | 3.7  | 3.3  |
| Final domestic demand                                                  | 1 453.6                       | 5.1                                         | 3.1  | 0.7  | -0.1 | 2.1  |
| Stockbuilding <sup>1</sup>                                             | 26.8                          | -3.3                                        | 0.5  | 0.5  | -0.7 | 0.1  |
| Total domestic demand                                                  | 1 480.5                       | 2.1                                         | 3.4  | 1.1  | -0.7 | 2.2  |
| Exports of goods and services                                          | 602.5                         | -1.3                                        | -2.5 | 4.3  | 2.1  | 2.8  |
| Imports of goods and services                                          | 698.3                         | -1.5                                        | 4.0  | 4.9  | 0.2  | 1.9  |
| Net exports <sup>1</sup>                                               | - 95.9                        | 0.2                                         | -2.8 | -0.5 | 0.7  | 0.2  |
| <b>Memorandum items</b>                                                |                               |                                             |      |      |      |      |
| GDP deflator                                                           | —                             | 12.4                                        | 9.6  | 8.2  | 7.9  | 3.4  |
| Consumer price index                                                   | —                             | 10.4                                        | 5.6  | 7.3  | 7.9  | 3.4  |
| Core consumer price index <sup>2</sup>                                 | —                             | 12.4                                        | 6.2  | 6.6  | 7.1  | 4.0  |
| Unemployment rate (% of labour force)                                  | —                             | 5.6                                         | 5.4  | 6.1  | 6.0  | 5.9  |
| General government financial balance (% of GDP)                        | —                             | -6.6                                        | -9.3 | -7.9 | -6.2 | -6.2 |
| General government gross debt (% of GDP)                               | —                             | 59.1                                        | 63.8 | 69.8 | 72.0 | 75.0 |
| General government debt, Maastricht definition <sup>3</sup> (% of GDP) | —                             | 49.3                                        | 54.8 | 59.3 | 61.6 | 64.6 |
| Current account balance (% of GDP)                                     | —                             | -6.7                                        | -8.2 | -7.9 | -7.9 | -7.4 |

1. Contributions to changes in real GDP, actual amount in the first column.

2. Consumer price index excluding food and energy.

3. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.

Source: OECD Economic Outlook 119 database.

StatLink <https://stat.link/8ru4cg>

## Monetary policy is expected to stay restrictive, while the fiscal stance is tightening

Fiscal consolidation measures for 2025-2026 – including higher VAT, a freeze on public wages and pensions – helped reduce the budget deficit to 7.9% of GDP in 2025 and are projected to bring it down to 6.2% in 2026-2027, implying an annual improvement in the cyclically adjusted primary balance of 2.6% of GDP in 2025 and 2.9% in 2026, and a neutral stance in 2027. Government debt is expected to rise from 69.8% to 75.0% of GDP between 2025 and 2027. The fiscal cost of new energy support remains contained, with diesel excise cuts and support to transporters partly offset by a windfall tax on oil activities. The monetary policy stance is expected to remain unchanged until inflation begins to converge towards target in early 2027. The key policy rate is projected to decline from 6.5% currently to 5% by end-2027, with inflation returning to the target band (2.5%  $\pm$  1 percentage point) from the third quarter of 2027.

## GDP growth will gradually pick up in a challenging external environment

GDP is projected to contract by 0.1% in 2026, as a gradual recovery over the year is offset by carry-over effects from the two quarters of output declines in late 2025 and early 2026. Growth is expected to strengthen to 2.5% in 2027, close to potential growth. Private consumption is expected to remain weak until mid-2026, as fiscal consolidation, slower wage growth and elevated inflation weigh on real incomes and demand. Investment will be the main growth driver, supported by faster EU fund absorption and, from 2027, a gradual recovery in private investment as global prospects improve and financing conditions ease. Exports are set to recover gradually with improving external demand, while subdued import growth will help narrow a still-large current account deficit. Inflation has been pushed up due to renewed energy price pressures, but is projected to decline markedly from mid-2026, driven by base effects and falling energy prices. Unemployment is projected to remain around 6% in the near-term, before easing in 2027. Risks include delays in NGEU absorption, which could weigh on investment and growth, as well as insufficient fiscal consolidation and excessive wage growth, which could sustain inflation through second-round effects and widen external imbalances.

## Public finance consolidation and structural reform momentum needs to continue

Macroeconomic stability requires sustained fiscal consolidation beyond 2026 to stabilise public debt and reduce external imbalances. More efficient public spending, stronger tax collection, and a broader tax base would help improve the fiscal position. Some energy support measures distort prices and are poorly targeted; they should be better designed and phased out as conditions allow. Higher labour participation among the low-skilled youth and women would support fiscal sustainability and growth, calling for improvements in education, childcare, inclusive employment policies, and health. Further productivity gains depend on stronger innovation, digital uptake, education, and a more dynamic business sector. Simplified administrative and licensing procedures and more effective insolvency frameworks would support the reallocation of resources toward more productive activities. Expanding renewable supply and strengthening infrastructure and EU market integration would improve energy security.

# Saudi Arabia

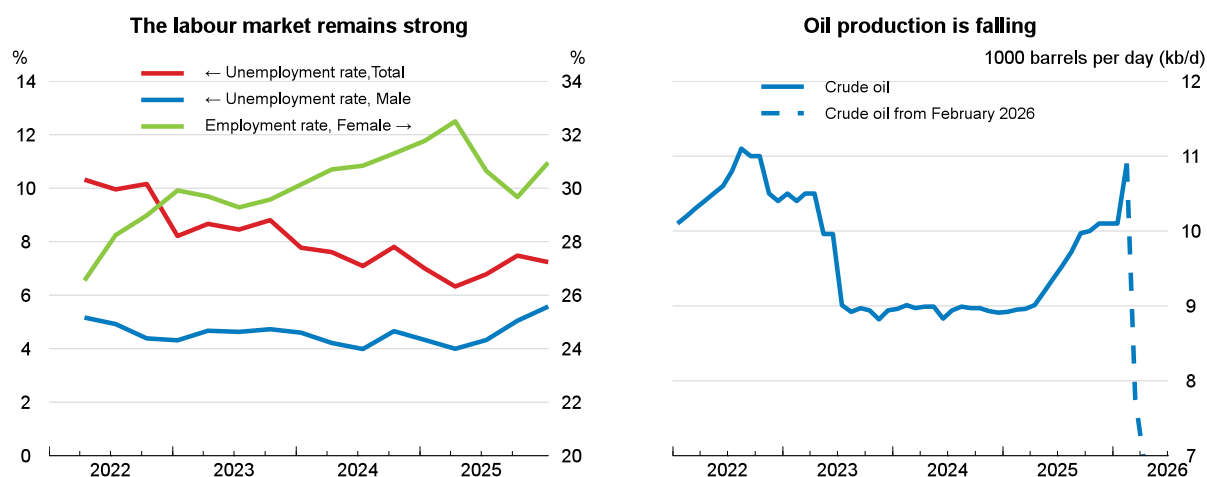
Real GDP growth is projected to moderate from 4.5% in 2025 to 3.2% in 2026, before recovering to 4.3% in 2027, reflecting the evolving conflict in the Middle East. Oil exports have declined by approximately a third due to constraints on shipping in the Gulf but supported by the pipeline to the Red Sea. Non-oil GDP is expected to remain resilient, supported by higher revenues, strong domestic demand, underpinned by strong labour market conditions, rising labour force participation, and moderating inflation as higher oil commodity prices are not transmitted into pump prices.

The government has used the substantial budget deficit to frontload infrastructure investment, targeting projects that would favour economic diversification. There remains scope to reduce the reliance on social benefits, enhance the efficiency of public investment, particularly in infrastructure and housing, and strengthen domestic revenue mobilisation. Further increasing labour market participation would support the economic diversification strategy and strengthen public finances. Monetary policy is expected to remain consistent with the peg to the US dollar.

## Economic activity has been strong, but oil production has fallen since February

Real GDP grew by 4.5% in 2025, driven mainly by the non-oil sector (around 75% of GDP), which contributed 2.8 percentage points to growth, while oil activities added 1.4 points. All sectors expanded, especially trade, tourism, and financial services. However, real GDP decreased by 1.5 % in the first quarter of 2026 compared to the fourth quarter of 2025. This decline was mainly driven by a 7.2% decrease in oil activities. Oil production remains disrupted by the evolving conflict. Tourism, including the Hajj pilgrimage, has also been affected. Inflation has remained contained despite the conflict, at 1.7% in April, unchanged from February.

### Saudi Arabia



Source: General Authority for Statistics (Gastat); and OPEC.

StatLink  <https://stat.link/z3pv8s>

## Saudi Arabia: Demand, output and prices

|                                         | 2022                          | 2023                                        | 2024 | 2025 | 2026  | 2027 |
|-----------------------------------------|-------------------------------|---------------------------------------------|------|------|-------|------|
|                                         | Current prices<br>SAR billion | Percentage changes, volume<br>(2023 prices) |      |      |       |      |
| Saudi Arabia                            |                               |                                             |      |      |       |      |
| GDP at market prices                    | 4 647                         | 0.6                                         | 2.6  | 4.5  | 3.2   | 4.3  |
| Private consumption                     | 1 821                         | 7.6                                         | 3.8  | 3.5  | 5.0   | 3.9  |
| Government consumption                  | 889                           | 5.5                                         | 3.1  | -3.5 | 5.6   | 5.3  |
| Gross fixed capital formation           | 1 129                         | 9.4                                         | 10.1 | -1.7 | 1.4   | 5.4  |
| Final domestic demand                   | 3 839.4                       | 7.6                                         | 5.5  | 0.4  | 4.1   | 4.7  |
| Stockbuilding <sup>1</sup>              | 103.4                         | -0.9                                        | -1.2 | 2.9  | 2.4   | 0.0  |
| Total domestic demand                   | 3 942.8                       | 6.5                                         | 3.9  | 3.3  | 6.4   | 4.6  |
| Exports of goods and services           | 1 672.1                       | -5.6                                        | 2.5  | 8.9  | -21.3 | 1.5  |
| Imports of goods and services           | 968.3                         | 15.1                                        | 7.4  | 4.7  | -12.9 | 2.4  |
| Net exports <sup>1</sup>                | 703.8                         | -5.1                                        | -1.1 | 1.5  | -3.4  | -0.2 |
| Memorandum items                        |                               |                                             |      |      |       |      |
| GDP deflator                            | —                             | -2.2                                        | 0.3  | -2.6 | 6.7   | 3.3  |
| Consumer price index                    | —                             | 2.5                                         | 1.5  | 2.0  | 2.0   | 2.1  |
| Government financial balance (% of GDP) | —                             | -1.8                                        | -2.5 | -5.8 | -3.5  | -3.2 |
| Government gross debt (% of GDP)        | —                             | 23.0                                        | 25.9 | 31.7 | 32.2  | 33.0 |
| Current account balance (% of GDP)      | —                             | 2.2                                         | -1.3 | -2.6 | -2.0  | -2.2 |

1. Contributions to changes in real GDP, actual amount in the first column.

Source: OECD Economic Outlook 119 database.

StatLink  <https://stat.link/59vpso>

Oil production and exports have fallen sharply since the conflict, owing to disruptions to production facilities, transport routes, and logistics. The Safaniya and Zuluf offshore fields, approximately 20% of production capacities, have been shut down. Crude output is estimated to be around a quarter below pre-conflict levels, while oil export volumes are estimated to have declined by roughly 2.5–3.0 million barrels per day. Exports of petroleum products (fertiliser etc.) will also decline. Saudi Arabia has partial alternative export capacity through pipelines and ports outside the Gulf. The sharp increase in global oil prices has partly offset the impact of lower volumes by supporting export and fiscal revenues. Higher oil prices have not been transmitted to consumers, with domestic retail fuel prices remaining stable.

## Fiscal policy is expansionary while monetary policy rates is on hold

The fiscal deficit rose to 5.8% of GDP in 2025, despite strong growth. In the near term, fiscal deficits are being used to finance economic diversification projects, infrastructure, and social spending while supporting economic resilience. A key priority is to reduce dependence on oil revenues by expanding non-oil revenues through taxes, fees, and stronger non-oil economic activity. Total revenues are projected at around 23% of GDP in 2026 and 2027, with non-oil revenues accounting for roughly one third. The deficit is projected to narrow in 2026 and 2027 as government revenues are supported by higher oil prices, although production is expected to decline in the short term. Monetary policy will continue to be anchored by the currency's fixed peg to the US dollar. Policy rates are expected to remain on hold until end-2027.

## Growth is moderating

Economic growth is projected to moderate to 3.2% in 2026 before picking up to 4.3% in 2027. The evolving conflict in the Middle East is expected to affect oil production during at least the first half of 2026, before a gradual normalisation of output. Household consumption is expected to remain solid, supported by high levels of social transfers and household income. The labour market should remain strong, with unemployment staying at historically low levels. Tourism, an important part of the economy, is likely to

contribute less to growth in 2026 as pilgrim flows are expected to slow. Public infrastructure investment is expected to strengthen. Risks are tilted to the downside, as Saudi Arabia is exposed to any escalation of the regional conflict. Further damage to production capacity would durably affect oil output and the wider economy. Heightened tensions could discourage pilgrims more than expected and weigh on the services sector, including financial activities.

### **Diversifying the economy would strengthen resilience**

Saudi Arabia aims to become a more diversified, investment-driven economy with stronger human capital, modern infrastructure, and reduced dependence on oil revenues. The government is promoting and incentivising investments to diversify the economy beyond hydrocarbons through support for mining, advanced manufacturing, renewable energy, and space technologies. Expanding public-private partnerships and privatisation, and infrastructure concessions would broaden the scope for private economic activity and investment. Deepening administrative simplification and regulatory reforms along with already high-level of digitalisation would raise productivity and attract foreign capital. Reducing the reliance on social benefits spending, greater efficiency in public infrastructure investment, and stronger domestic revenue mobilisation would improve fiscal outcomes while sustaining resilience and diversification.

# Slovak Republic

Growth is projected at 0.7% in 2026 and 1.6% in 2027. The global energy price shock and weak automotive production constrain trade and consumption. Absorption of EU funds will continue to support investment in 2026 but heightened economic uncertainty will dampen capital formation going forward. Persistently higher energy prices, the future fiscal consolidation mix, and lower-than-expected growth in Europe, especially in the automotive sector, represent clear downside risks to the outlook.

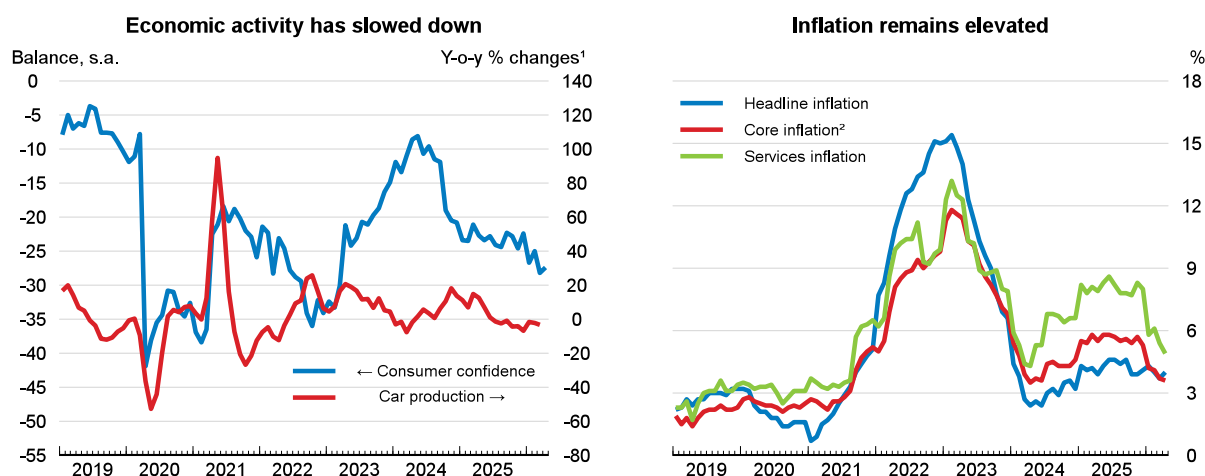
To ensure that the needed fiscal adjustment path is achieved, it is key to keep shifting its composition from revenue increases to spending restraint. Improving the efficiency of public spending, including by strengthening project preparation and implementation capacity, can improve the use of EU funds. Better targeting of energy subsidies would ease the significant burden on the budget, remove distortions, and encourage energy-efficiency efforts. Cutting red tape while strengthening the rule of law would durably boost growth prospects.

## Economic activity has slowed

According to the flash estimate, GDP growth slowed from 0.25% (quarter-on-quarter) in the last quarter of 2025 to 0.2% in the first quarter of 2026. Growth is still supported by investment (excluding housing) due to the absorption of EU funds. Housing investment and private consumption weakened substantially, on account of weak consumer confidence and persistent economic uncertainty. Muted dynamics in industrial production and retail trade, alongside weak business sentiment and consumer confidence, point to sluggish growth in the near term. Headline inflation stood at 4.1% in April, close to its level at the turn of year. Food prices continued to fall, reducing inflationary pressures, while domestic energy prices rose by less than international prices as a result of energy subsidies. Core inflation declined to 3.7% in April. Despite the unemployment rate edging up to 5.6%, employment is near historic highs, and the labour market remains tight.

Household disposable incomes are largely shielded from increases in the cost of heating by gas and electricity price subsidies that cover roughly 90% of households in 2026. Reduced diesel prices for domestically registered vehicles that were in place in March and April have resulted in delayed pass-through of global oil prices to domestic fuel prices. Effective tariff rates into the United States have been reduced since late 2025 yet remain high due to the export share of the automotive sector, which still faces a 15% rate.

## Slovak Republic



1. 3-month moving average.

2. Core inflation refers to the overall index excluding food, energy, alcohol and tobacco.

Source: Statistical Office of the Slovak Republic; and Eurostat Harmonised index of consumer prices database.

StatLink <https://stat.link/8l3sht>

## Slovak Republic: Demand, output and prices

|                                                                        | 2022                          | 2023                                        | 2024 | 2025 | 2026 | 2027 |
|------------------------------------------------------------------------|-------------------------------|---------------------------------------------|------|------|------|------|
|                                                                        | Current prices<br>EUR billion | Percentage changes, volume<br>(2020 prices) |      |      |      |      |
| <b>Slovak Republic</b>                                                 |                               |                                             |      |      |      |      |
| <b>GDP at market prices</b>                                            | 110.0                         | 2.1                                         | 1.9  | 0.8  | 0.7  | 1.6  |
| Private consumption                                                    | 67.5                          | -2.8                                        | 3.4  | 0.3  | 0.0  | 1.7  |
| Government consumption                                                 | 23.4                          | -2.5                                        | 4.0  | 1.1  | -0.5 | 0.4  |
| Gross fixed capital formation                                          | 23.0                          | 4.0                                         | 1.6  | 2.2  | 1.5  | -0.2 |
| Final domestic demand                                                  | 113.9                         | -1.3                                        | 3.2  | 0.9  | 0.2  | 1.1  |
| Stockbuilding <sup>1</sup>                                             | 2.6                           | -3.7                                        | 1.1  | -0.2 | -0.3 | 0.0  |
| Total domestic demand                                                  | 116.4                         | -4.6                                        | 4.3  | 0.7  | -0.1 | 1.1  |
| Exports of goods and services                                          | 108.8                         | -0.2                                        | -0.3 | 4.1  | 0.9  | 2.6  |
| Imports of goods and services                                          | 115.3                         | -7.1                                        | 2.0  | 3.9  | -0.1 | 2.0  |
| Net exports <sup>1</sup>                                               | -6.5                          | 7.2                                         | -2.1 | 0.2  | 0.8  | 0.5  |
| <b>Memorandum items</b>                                                |                               |                                             |      |      |      |      |
| GDP deflator                                                           | —                             | 10.0                                        | 3.4  | 4.2  | 3.9  | 2.4  |
| Harmonised index of consumer prices                                    | —                             | 11.0                                        | 3.2  | 4.2  | 4.3  | 2.6  |
| Harmonised index of core inflation <sup>2</sup>                        | —                             | 9.5                                         | 4.3  | 5.6  | 3.3  | 2.3  |
| Unemployment rate (% of labour force)                                  | —                             | 5.8                                         | 5.3  | 5.4  | 5.8  | 5.9  |
| Household saving ratio, net (% of disposable income)                   | —                             | 1.2                                         | 2.0  | 2.5  | 1.4  | 1.2  |
| General government financial balance (% of GDP)                        | —                             | -5.3                                        | -5.3 | -4.5 | -4.3 | -4.3 |
| General government gross debt (% of GDP)                               | —                             | 65.4                                        | 68.5 | 69.4 | 71.2 | 73.3 |
| General government debt, Maastricht definition <sup>3</sup> (% of GDP) | —                             | 55.8                                        | 59.7 | 61.4 | 63.2 | 65.2 |
| Current account balance (% of GDP)                                     | —                             | -3.0                                        | -4.6 | -3.6 | -3.7 | -3.3 |

1. Contributions to changes in real GDP, actual amount in the first column.

2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.

3. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.

Source: OECD Economic Outlook 119 database.

StatLink <https://stat.link/fjgqkm>

## Some fiscal consolidation is taking place

Despite revenue shortfalls, the fiscal deficit narrowed to 4.5% of GDP in 2025, helped by one-off factors such as delayed capital equipment purchases. The government approved its third consolidation plan in September 2025. Spending reductions include a salary freeze for most officials, a rationalisation of government offices, restrictions on capital expenditure and operating costs, and a reduction in the duration and amounts of unemployment benefits. Additional revenue is raised from cutting two national holidays, increase health insurance contributions and by raising taxes on above-average earners, gambling, and high-sugar and high-salt foods and drinks. Higher energy prices from the evolving conflict in the Middle East could create new fiscal pressures due to existing price support measures. The projections foresee a general government deficit of 4.3% in 2026 as well as in 2027, where no detailed official plans have been announced to date. After narrowing from 2.6% of GDP in 2025 to an estimated 1.9% in 2026, the cyclically adjusted primary deficit is projected to be 1.7% of GDP in 2027.

## Growth will remain subdued in the near term

Subdued consumer and business confidence and weaker external demand especially in the automotive sector will continue to weigh on growth in 2026; while higher absorption of EU Recovery and Resilience Facility (RRF) funds will temporarily support investment. As fuel prices recede and inflation normalises, private consumption will drive a modest recovery in 2027. Exports will be boosted by a new automotive plant starting production in 2027. As a trade and manufacturing-heavy economy, the Slovak Republic is highly vulnerable to risks from higher tariffs, geopolitical tensions, higher global energy prices, possible energy shortages, and structurally lower growth in the European automotive sector. The fiscal consolidation, if it does not address existing distortions and inefficiencies, might hamper medium-term growth. Headline inflation will peak at around 4.5 per cent in the second half of 2026 and then recede with falling energy prices. Core inflation will be on a downward trajectory throughout the projection period.

## Credibly restoring fiscal space amidst an energy price spike

The public finances have deteriorated since the pandemic and Russia's war of aggression against Ukraine and the associated energy price spike, with the Slovak Republic spending more of its GDP on energy subsidies than any other OECD country in 2023. Fiscal space needs to be restored with a multi-year consolidation plan that credibly reduces expenditures over the medium-term with a focus on reducing distortionary subsidies on energy, addressing the challenges of rapid population ageing, and improving the efficiency of public spending. Energy support should move from broad-based price subsidies to more targeted direct support for vulnerable households and firms. Expenditure-based consolidation should be complemented with a broadening of the tax base by reducing VAT exemptions and raising property taxes. Strengthening the rule of law while easing administrative procedures, including in public procurement, would improve the business environment, the private investment climate, and the absorption of EU funds for public investment.

# Slovenia

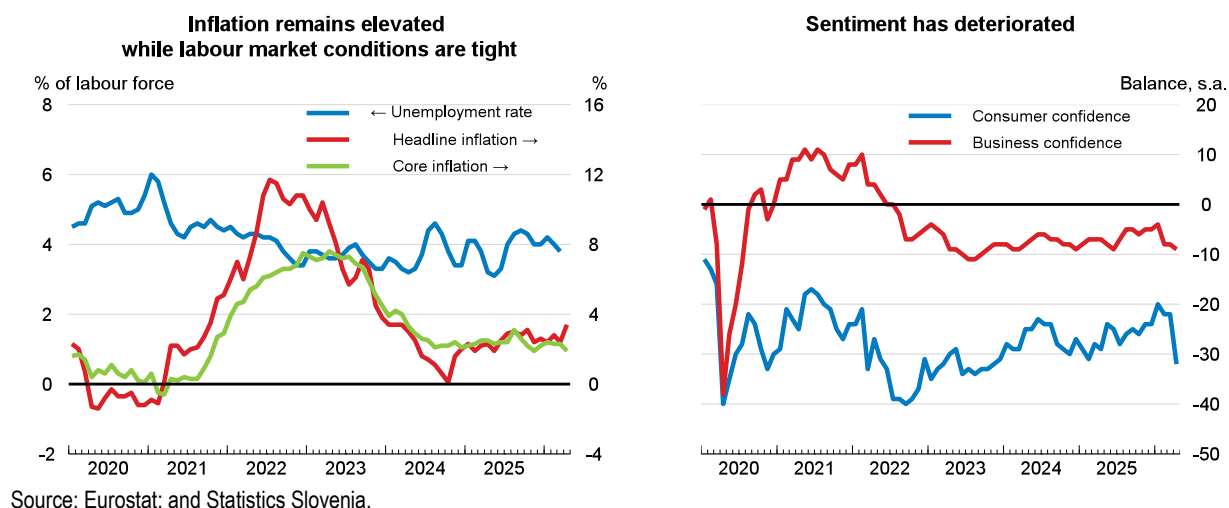
GDP is projected to grow by 1.9% in 2026 and 2.2% in 2027, driven by domestic demand. The energy price shock will weigh on private consumption and investment in 2026. Inflation will rise on the back of higher energy costs and strong wage growth linked to a tight labour market. Stronger-than-expected wage growth would keep inflation elevated for longer.

Fiscal policy will be expansionary in 2026 before tightening in 2027, despite higher defence spending and a larger public wage bill following public pay reforms. Permanently higher defence spending requires spending reprioritisation, while further pension and tax reforms, such as lowering the high labour tax burden, are needed to support growth and fiscal sustainability in the longer-term. Reducing imported fossil fuel reliance requires reforms to accelerate grid and low-carbon energy investment, such as simplifying permitting processes.

## The impact of the evolving Middle East conflict is gradually feeding through

Economic activity grew by 0.7% quarter-on-quarter in the first quarter of 2026 due to resilient domestic demand. Domestic demand benefited from strong private consumption, investment and post-flood reconstruction spending. A tight labour market, with a 3.9% unemployment rate in March, boosted wage growth alongside public pay reform. Nominal wages increased by 5.9% in 2025, while hourly labour costs rose by 17.1% year-on-year in the fourth quarter of 2025, partly due to a new winter holiday allowance. Strong wage pressures, reinforced by a 16% minimum wage rise in early 2026, pushed annual services inflation to 3.8% in April. More recent data suggest that the evolving Middle East conflict is gradually affecting the economy: annual headline inflation surged to 3.4% in April, up from 2.4% in March, reflecting annual energy price inflation of 15.6%. Consumer confidence fell strongly in April. On the upside, industrial production grew by 4.9% month-on-month in March, and retail trade turnover (without automotive fuels) rose by 0.8% month-on-month, signalling resilient industrial production and consumer demand.

## Slovenia



## Slovenia: Demand, output and prices

|                                                                        | 2022                          | 2023                                        | 2024 | 2025 | 2026 | 2027 |
|------------------------------------------------------------------------|-------------------------------|---------------------------------------------|------|------|------|------|
|                                                                        | Current prices<br>EUR billion | Percentage changes, volume<br>(2010 prices) |      |      |      |      |
| <b>Slovenia</b>                                                        |                               |                                             |      |      |      |      |
| <b>GDP at market prices</b>                                            | 56.9                          | 2.4                                         | 1.7  | 1.1  | 1.9  | 2.2  |
| Private consumption                                                    | 30.7                          | 0.0                                         | 3.8  | 1.7  | 2.2  | 2.4  |
| Government consumption                                                 | 11.1                          | 2.1                                         | 7.3  | 1.6  | 3.3  | 2.3  |
| Gross fixed capital formation                                          | 12.5                          | 5.5                                         | -0.3 | 4.1  | 6.4  | 2.1  |
| Final domestic demand                                                  | 54.3                          | 1.7                                         | 3.6  | 2.2  | 3.4  | 2.3  |
| Stockbuilding <sup>1</sup>                                             | 1.5                           | -1.6                                        | -0.2 | 0.3  | 0.2  | 0.0  |
| Total domestic demand                                                  | 55.8                          | 0.0                                         | 3.3  | 2.8  | 3.6  | 2.3  |
| Exports of goods and services                                          | 53.6                          | -1.9                                        | 2.3  | 0.3  | 1.1  | 2.3  |
| Imports of goods and services                                          | 52.5                          | -4.5                                        | 4.3  | 2.1  | 3.1  | 2.3  |
| Net exports <sup>1</sup>                                               | 1.1                           | 2.4                                         | -1.3 | -1.3 | -1.4 | 0.0  |
| <b>Memorandum items</b>                                                |                               |                                             |      |      |      |      |
| GDP deflator                                                           | —                             | 10.0                                        | 3.5  | 3.5  | 2.1  | 2.4  |
| Harmonised index of consumer prices                                    | —                             | 7.2                                         | 2.0  | 2.5  | 3.3  | 2.6  |
| Harmonised index of core inflation <sup>2</sup>                        | —                             | 6.7                                         | 2.8  | 2.4  | 2.7  | 2.6  |
| Unemployment rate (% of labour force)                                  | —                             | 3.7                                         | 3.7  | 3.9  | 4.2  | 4.0  |
| Household saving ratio, net (% of disposable income)                   | —                             | 7.5                                         | 6.1  | 8.5  | 10.3 | 10.9 |
| General government financial balance (% of GDP)                        | —                             | -2.6                                        | -0.9 | -2.5 | -3.3 | -3.5 |
| General government gross debt (% of GDP)                               | —                             | 72.1                                        | 70.5 | 69.8 | 69.6 | 71.1 |
| General government debt, Maastricht definition <sup>3</sup> (% of GDP) | —                             | 68.3                                        | 66.4 | 65.7 | 65.6 | 67.1 |
| Current account balance (% of GDP)                                     | —                             | 4.8                                         | 4.5  | 3.5  | 2.2  | 2.0  |

1. Contributions to changes in real GDP, actual amount in the first column.

2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.

3. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.

Source: OECD Economic Outlook 119 database.

StatLink  <https://stat.link/paufhv>

In addition to existing fuel price regulation outside of motorways, the government reduced excise duties and suspended the CO<sub>2</sub> environmental levy temporarily until the end of May to limit fuel price increases. US tariffs affect Slovenia mainly through European value chains. Merchandise trade strengthened before the conflict, with export volumes rising month-on-month in January and February, especially exports to non-EU countries.

## The fiscal stance will be expansionary in 2026, before tightening

Fiscal policy will remain expansionary in 2026 and then tighten in 2027 as stronger economic activity boosts revenue growth. Spending will remain elevated due to higher defence spending, public sector wage growth and higher social spending. Defence spending will rise from 1.9% of GDP in 2025 to 2% in 2027, financed by debt. Public pay reforms will lift public wages by 0.5% of GDP in 2026, while long-term care spending will increase by 1% of GDP in 2026, funded by a 2-percentage point rise in the social security contribution rate. Other structural measures, including a new winter holiday allowance and a 16% minimum wage increase in 2026, will add to fiscal costs. Reduced excise duties are assumed until June, estimated to cost 0.2% of GDP in 2026. Public debt, according to the Maastricht definition, is projected to remain broadly stable at about 66% of GDP in 2026-2027. Tax cuts worth 1.5% of GDP in 2026 and 1% of GDP in 2027, adopted by the National Assembly, are not included in projections, raising risks of higher deficits and debt.

## Domestic demand will support growth

GDP is projected to grow by 1.9% in 2026 and 2.2% in 2027, driven by domestic demand. The energy price shock and elevated uncertainty will weigh on private consumption, investment and net exports in 2026, although strong wage growth should keep private consumption resilient. Higher government spending and elevated government investment will support growth. Private investment is expected to recover from mid-2026, supported by post-flood reconstruction, EU funds and stronger external demand. Inflation will rise in 2026, reflecting higher energy costs. It will moderate only gradually in 2027, owing to strong wage growth on the back of tight labour market conditions. Downside risks include shortages of refined oil products and chemicals from Gulf countries, especially jet fuel and resins used in the automotive industry, higher inflation from stronger-than-expected wage growth and weaker demand from European trading partners. On the upside, higher consumption due to better-than-expected sentiment, together with the resilient labour market, could maintain strong economic momentum.

## Rebuilding fiscal buffers while strengthening energy security

Tighter fiscal policy is needed to rebuild buffers and create room for higher defence spending. Additional defence outlays should be offset by savings elsewhere and supported by growth-friendly tax reforms that reduce labour taxation, financed by higher consumption and environmental taxes as well as higher recurrent taxes on immovable property. Reducing fossil fuel dependence would improve energy security and requires higher investment in grids and low-carbon energy through simpler permitting. Stronger energy-sector competition through the separation of wholesale and retail activities and the ensuring of non-discriminatory third-party network access would encourage private investment.

# South Africa

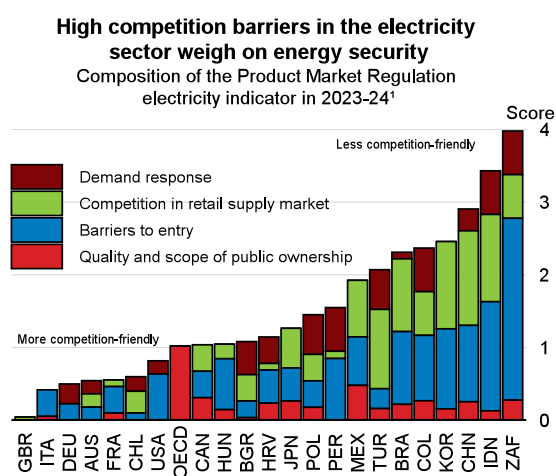
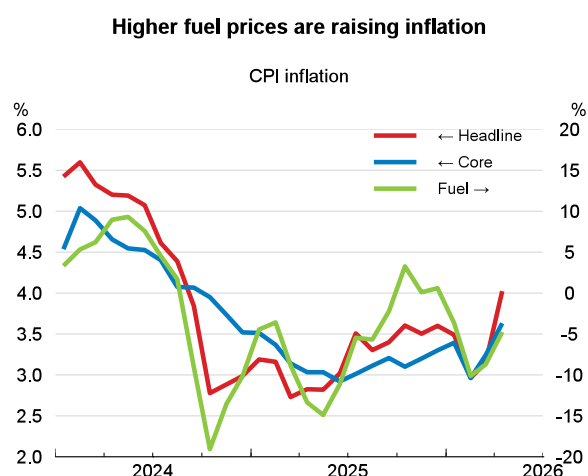
GDP is projected to increase by 1.2% in 2026 and 1.6% in 2027. Ongoing structural reforms support infrastructure investment, notably in energy, water and transport. The appreciation of the rand and the decrease in bond yields over the past year will support activity, although the impact will be lowered due to the slight reversal of these factors since the onset of the evolving conflict in the Middle East. Lower global demand will limit exports. Higher oil prices will push up inflation in 2026, but it will moderate in 2027, although remaining elevated due to higher food prices.

Fiscal consolidation, driven by declining expenditure as a share of GDP, will help contain increases in public debt. Monetary policy is projected to remain unchanged over 2026, before easing to a neutral stance over 2027. Efforts to raise spending efficiency are key to fiscal consolidation. Continued progress in strengthening the governance of state-owned enterprises, particularly in the electricity sector, would support growth and energy security. Creating a business-friendly regulatory environment would lower obstacles for firms and support job creation.

## Increases in oil prices are raising inflation

Headline inflation increased to 4.0% in April, reflecting higher global oil prices. Business and consumer confidence strengthened in the first quarter of 2026, extending the recovery over the second half of 2025, although consumer confidence remains below its long-term average. Labour market conditions continued to improve over 2025, with the unemployment rate declining to 31.9% in the fourth quarter.

## South Africa



1. The indicator for South Africa reflects the laws and regulations in force on 1 January 2023. For some countries, the indicator reflects those in force on 1 January 2024.

Source: Statistics South Africa; OECD Product Market Regulation database; and OECD-WBG Product Market Regulation database for 2023/2024.

## South Africa: Demand, output and prices

|                                                 | 2022                          | 2023                                        | 2024 | 2025 | 2026 | 2027 |
|-------------------------------------------------|-------------------------------|---------------------------------------------|------|------|------|------|
|                                                 | Current prices<br>ZAR billion | Percentage changes, volume<br>(2015 prices) |      |      |      |      |
| South Africa                                    |                               |                                             |      |      |      |      |
| GDP at market prices                            | 6 666.6                       | 0.8                                         | 0.5  | 1.1  | 1.2  | 1.6  |
| Private consumption                             | 4 228.0                       | 0.2                                         | 1.0  | 3.6  | 1.9  | 1.3  |
| Government consumption                          | 1 251.7                       | 1.9                                         | -0.1 | -0.2 | 1.4  | 0.5  |
| Gross fixed capital formation                   | 945.5                         | 3.0                                         | -3.9 | -2.2 | 2.4  | 2.6  |
| Final domestic demand                           | 6 425.2                       | 1.0                                         | 0.0  | 2.0  | 1.9  | 1.3  |
| Stockbuilding <sup>1</sup>                      | 99.3                          | -0.4                                        | -0.7 | 0.1  | -0.2 | 0.0  |
| Total domestic demand                           | 6 524.5                       | 0.5                                         | -0.6 | 2.1  | 1.7  | 1.3  |
| Exports of goods and services                   | 2 235.9                       | 5.1                                         | -2.8 | -2.5 | 0.1  | 2.4  |
| Imports of goods and services                   | 2 093.8                       | 3.9                                         | -6.4 | 1.1  | 2.0  | 1.5  |
| Net exports <sup>1</sup>                        | 142.1                         | 0.5                                         | 1.2  | -1.0 | -0.6 | 0.2  |
| Memorandum items                                |                               |                                             |      |      |      |      |
| GDP deflator                                    | —                             | 4.7                                         | 3.9  | 2.8  | 4.2  | 3.6  |
| Consumer price index                            | —                             | 5.9                                         | 4.4  | 3.2  | 4.2  | 3.7  |
| Core inflation index <sup>2</sup>               | —                             | 5.1                                         | 4.2  | 3.2  | 3.6  | 3.5  |
| General government financial balance (% of GDP) | —                             | -6.1                                        | -5.1 | -4.4 | -4.3 | -3.9 |
| General government gross debt (% of GDP)        | —                             | 79.8                                        | 84.8 | 87.7 | 89.8 | 91.4 |
| Current account balance (% of GDP)              | —                             | -1.1                                        | -0.7 | -0.5 | -0.6 | -0.8 |

1. Contributions to changes in real GDP, actual amount in the first column.

2. Consumer price index excluding food and energy.

Source: OECD Economic Outlook 119 database.

StatLink  <https://stat.link/217u34>

Financing conditions have improved in South Africa since early 2025, although they have weakened somewhat following the onset of the conflict in the Middle East. Spreads between South African and US long-term bonds have increased by around 40 basis points since February but remain around 120 basis points below their January 2025 level, suggesting that investor risk perceptions have eased overall. The exchange rate has depreciated in recent months, which has contributed to inflationary pressures, although it remains significantly above its January 2025 level. Higher fuel and fertiliser costs will raise input prices in the manufacturing and agriculture sectors, while higher travel costs may reduce demand in the tourism sector. In the transport sector, the shock will exacerbate the impact of existing logistics bottlenecks and limited public transport availability. If risks around shortages of fuels or fertilisers materialise, they would weigh on economic activity. While effective tariffs eased in February, tariffs on US imports from South Africa, currently estimated at 8.5%, will weigh on exports to the US, which declined over 2025.

## Fiscal policy is expected to remain restrictive while monetary policy is set to become more neutral

The central bank is assumed to look through the first-round effects of the energy shock and keep the policy rate on hold at 6.75% in the near term. Over 2027, monetary policy is set to ease towards a neutral stance, with the policy rate declining to 6% in the latter half of the year. The primary fiscal balance is projected to strengthen to 1.7% of GDP in 2026 and 2.1% of GDP in 2027, mainly through spending restraint. Transfers from the central bank to government accounts (via the Gold and Financial Contingency Reserve Account), equivalent to 0.3% of GDP in the 2025/26 fiscal year and 0.7% in the 2026/27 fiscal year, will continue to support debt reduction. To mitigate the impact of higher fuel prices, the government has reduced the general fuel levy on petrol and diesel between April to June, at a fiscal cost of ZAR 17.2 billion (0.2% of GDP) in foregone tax revenue.

## Activity will increase modestly, supported by reform progress

The economy is projected to grow by 1.2% in 2026 and 1.6% in 2027. Consumption growth is projected to moderate as employment gains are largely offset by declines in purchasing power. Fiscal consolidation will limit increases in government expenditure. Export receipts will continue to be supported by elevated commodity prices, although lower global demand and tariffs on imports into the United States will provide some offset. The increase in rail and port capacity will support exports over the medium term. Investment is projected to strengthen gradually, supported by declining interest rates and reform progress. The unemployment rate will decrease only slightly, reaching 31.7% in 2027. Inflation will rise to 4.2% in 2026, partly reflecting elevated fuel prices, before easing to 3.7% in 2027. Inflation expectations have eased following the reduction in the inflation target band. However, a de-anchoring of inflation expectations in response to higher fuel prices could trigger tighter monetary policy and weigh on growth. The materialisation of fuel or fertiliser shortages would also limit activity.

## Swifter reforms would support job creation, growth, and electricity security

Strengthening the fiscal framework through tighter spending controls and reinforced fiscal rules anchored to a stable debt target would support fiscal consolidation and enhance policy credibility. Priorities to support electricity security and decarbonisation include accelerating the unbundling of Eskom's generation and distribution segments, lowering regulatory barriers to competition, establishing a fully independent entity to manage the transmission grid, and revising the municipal funding model to reduce reliance on electricity revenues. Reducing elevated product-market regulation would lower obstacles to firm entry and job creation, while reducing urban sprawl through higher residential density and improved public transport would help better connect workers with employment opportunities.

# Spain

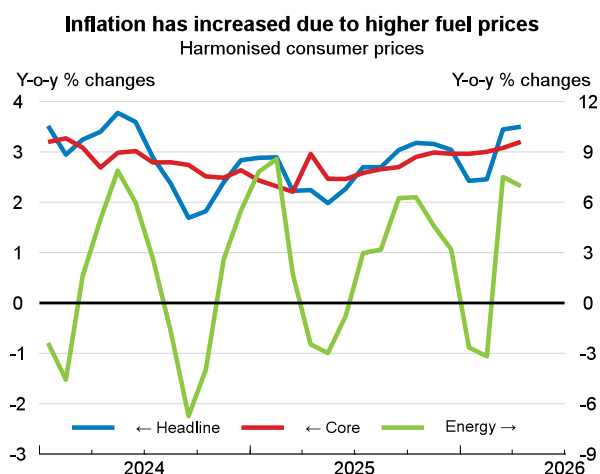
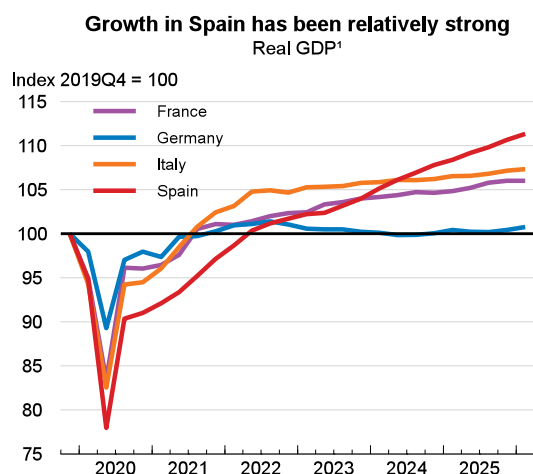
Economic growth remains robust but is projected to moderate from 2.8% in 2025 to 2.2% in 2026 and 1.7% in 2027. Growth will continue to be driven by domestic demand, with private consumption supported by robust employment gains and investment benefiting from EU-funded projects. Net exports will weigh on activity due to solid import growth and more moderate external demand. Inflation will rise temporarily to around 3.3% in 2026, reflecting higher energy prices, before declining to 2.9% in 2027 as energy effects fade. Risks are tilted to the downside, largely due to external factors.

Fiscal policy is expected to remain broadly neutral in 2026 and become more restrictive in 2027. Government measures to mitigate the impact of higher energy prices are expected to cushion the slowdown in activity and partially dampen inflationary pressures. These measures should be better targeted at vulnerable social groups and temporary to cushion the social impact of higher energy prices while limiting fiscal costs. Securing Spain's fiscal consolidation path while rebuilding fiscal buffers ahead of rising ageing-related spending should remain a priority. To fully harness the expansion of renewable electricity generation, Spain should continue to invest in grid infrastructure, interconnections and storage capacity.

## Activity remains resilient

Real GDP grew by 2.7% over the year to the first quarter of 2026, outpacing most European peers, driven by robust private consumption. Social security affiliations expanded by 2.4% year-on-year in April, while the unemployment rate reached 10.3% in March. Strong job creation and nominal wage growth supported consumption. Business expectations moderated in April, particularly in the services sector, while manufacturing expanded solidly. Headline inflation rose to 3.5% in April, largely driven by higher fuel prices amid the evolving conflict in the Middle East, while core inflation reached 3.2% with persistent services price inflation.

## Spain



1. Seasonally and calendar adjusted data.

Source: Eurostat; and OECD Economic Outlook 119 database.

StatLink <https://stat.link/fl6xq5>

## Spain: Demand, output and prices

|                                                                        | 2022                          | 2023                                        | 2024  | 2025  | 2026  | 2027  |
|------------------------------------------------------------------------|-------------------------------|---------------------------------------------|-------|-------|-------|-------|
|                                                                        | Current prices<br>EUR billion | Percentage changes, volume<br>(2020 prices) |       |       |       |       |
| <b>Spain</b>                                                           |                               |                                             |       |       |       |       |
| <b>GDP at market prices</b>                                            | 1 375.9                       | 2.5                                         | 3.5   | 2.8   | 2.2   | 1.7   |
| Private consumption                                                    | 775.8                         | 1.8                                         | 3.1   | 3.4   | 2.6   | 1.8   |
| Government consumption                                                 | 275.8                         | 4.5                                         | 2.9   | 2.4   | 1.4   | 1.1   |
| Gross fixed capital formation                                          | 281.9                         | 5.9                                         | 3.6   | 5.8   | 4.1   | 2.1   |
| Final domestic demand                                                  | 1 333.5                       | 3.2                                         | 3.2   | 3.7   | 2.7   | 1.7   |
| Stockbuilding <sup>1</sup>                                             | 30.3                          | -1.5                                        | 0.3   | 0.0   | -0.1  | 0.0   |
| Total domestic demand                                                  | 1 363.8                       | 1.6                                         | 3.4   | 3.7   | 2.6   | 1.7   |
| Exports of goods and services                                          | 545.8                         | 2.2                                         | 3.2   | 3.6   | 0.6   | 2.0   |
| Imports of goods and services                                          | 533.8                         | 0.0                                         | 2.9   | 6.2   | 1.7   | 2.2   |
| Net exports <sup>1</sup>                                               | 12.1                          | 0.9                                         | 0.2   | -0.7  | -0.3  | 0.0   |
| <i>Memorandum items</i>                                                |                               |                                             |       |       |       |       |
| GDP deflator                                                           | —                             | 6.2                                         | 2.9   | 2.9   | 2.7   | 2.3   |
| Harmonised index of consumer prices                                    | —                             | 3.4                                         | 2.9   | 2.7   | 3.3   | 2.9   |
| Harmonised index of core inflation <sup>2</sup>                        | —                             | 4.1                                         | 2.8   | 2.6   | 2.9   | 2.6   |
| Unemployment rate (% of labour force)                                  | —                             | 12.2                                        | 11.3  | 10.5  | 10.2  | 9.8   |
| Household saving ratio, net (% of disposable income)                   | —                             | 8.0                                         | 9.2   | 8.5   | 5.8   | 5.0   |
| General government financial balance (% of GDP)                        | —                             | -3.3                                        | -3.2  | -2.4  | -2.2  | -2.2  |
| General government gross debt (% of GDP)                               | —                             | 111.2                                       | 109.0 | 106.6 | 104.5 | 103.3 |
| General government debt, Maastricht definition <sup>3</sup> (% of GDP) | —                             | 105.2                                       | 101.6 | 100.7 | 98.5  | 97.3  |
| Current account balance (% of GDP)                                     | —                             | 2.7                                         | 3.2   | 2.9   | 2.9   | 2.4   |

1. Contributions to changes in real GDP, actual amount in the first column.

2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.

3. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.

Source: OECD Economic Outlook 119 database.

StatLink  <https://stat.link/nptzbs>

Credit to non-financial private businesses continues to expand, and exports have remained resilient despite global challenges, driven by strong growth in services exports, particularly non-tourism services. The average tariff on Spanish exports to the United States is expected to remain below 15% following the Supreme Court ruling in February, though some sectors are expected to be more affected. Spain's exposure to the evolving conflict in the Middle East is limited, operating mainly through higher energy prices which are partially cushioned by a temporary government support package of EUR 5 billion (0.3% of GDP) including tax and excise duty cuts, and targeted subsidies for most affected sectors.

## Fiscal policy will be neutral

Fiscal policy is expected to remain broadly neutral in 2026 and become more restrictive in 2027, with a gradual improvement in the fiscal balance to 2.2% of GDP in 2026 and 2027. Solid nominal growth in 2026–27 will support revenues, while the phasing-out of extraordinary spending, such as flood-related aid in Valencia, will lower expenditure as a share of GDP, reducing the fiscal deficit despite higher defence spending. This improvement will be partly offset by temporary measures to cushion higher energy prices in 2026 and by higher inflation-linked pension costs in 2027. As a result, public gross debt (Maastricht definition) is projected to decline gradually over the projection period to 97.3% in 2027.

## Growth will remain resilient despite the uncertain international environment

GDP is projected to grow by 2.2% in 2026 and 1.7% in 2027, supported by strong domestic demand. Private consumption will expand, supported by a solid labour market and real wage growth, but rising energy prices are expected to weigh on it, even if partly cushioned by the government support measures. Investment is projected to strengthen as residential construction recovers and remaining European funds are deployed. Strong domestic demand will raise imports, euro area weakness will weigh on exports, and services exports will moderate. Inflation is projected to rise from 2.7% in 2025 to 3.3% in 2026 reflecting higher energy prices, before easing close to 2.2% by end 2027. Prolonged conflict in the Middle East could intensify energy disruptions, keeping inflationary pressures elevated for longer and lowering growth, but also boost tourism in Spain, as travellers shift toward destinations viewed as safer.

## Rebuilding fiscal space while unlocking productivity growth

Policy should focus on using the current growth momentum to rebuild fiscal space while laying the foundations for stronger productivity growth. Measures to mitigate high energy prices have helped to cushion activity and inflation but should be better targeted at vulnerable social groups and temporary to cushion the social impact of higher energy prices while limiting fiscal costs. Putting debt on a firmly declining path will require sustained consolidation alongside structural reforms. Securing Spain's fiscal consolidation path while accelerating the deficit reduction would help rebuild fiscal buffers ahead of rising ageing-related spending. At the same time, boosting stronger productivity growth hinges on creating a more supportive business environment by improving access to finance and reducing the administrative burden. Spain is well positioned to leverage its strong expansion of renewable energy, but fully realising these gains will require streamlining permitting processes, accelerating investment in grid infrastructure and supporting investment in storage. This would enhance energy security and support investment and long-term growth.

# Sweden

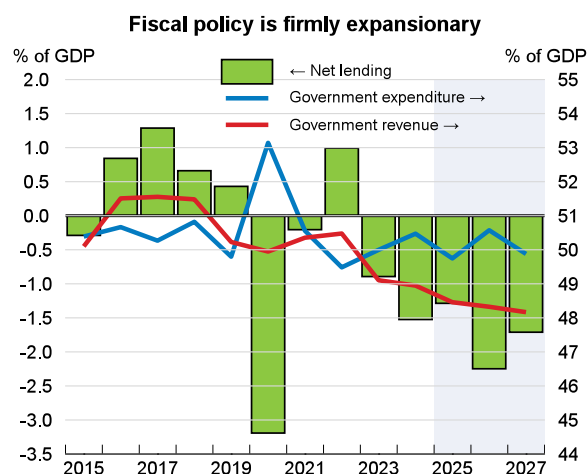
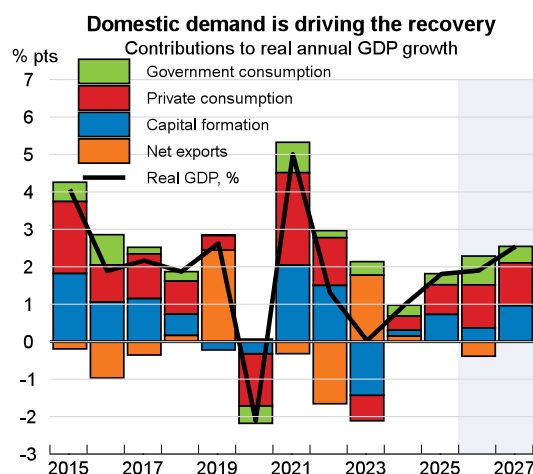
Real GDP growth is projected to rise by 1.9% in 2026 and 2.5% in 2027. Domestic demand is supported by a fiscal expansion, rising real incomes and a rebound in residential and public investment, particularly in defence. Unemployment is set to decline gradually from 8.9% in 2025 to 7.6% in 2027. Consumer price inflation with fixed mortgage rates (CPIF) is projected to fall to 1.2% in 2026 due to base effects and tax reductions, before returning to 1.9% in 2027. Risks are tilted to the downside, amid geopolitical tensions and elevated precautionary savings that may not decline as projected.

Monetary policy should remain focused on anchoring inflation expectations while looking through temporary price shocks and tax changes. Fiscal policy should preserve credibility under the new balanced-budget rule by anchoring the current expansion in a clear medium-term consolidation path. Energy support should remain temporary and targeted, to preserve energy-saving incentives and contain fiscal costs. Phasing out rent controls and tax subsidies to homeowners would help address housing market imbalances.

## The recovery is strengthening amid elevated uncertainty

The Swedish economy has been recovering since mid-2025, following a prolonged period of weakness. Survey indicators point to resilient manufacturing activity and stabilising business confidence, although output was subdued in the first quarter of 2026, according to the flash GDP estimate. Household consumption has strengthened in recent quarters, supported by rising real wages and tax cuts. However, high precautionary saving continues to weigh on spending. Inflation declined to 0.8% in April 2026 and underlying price pressures remain subdued, reflecting earlier currency appreciation, moderate wage growth, a value-added tax cut and remaining economic slack. The pass-through of higher energy prices is mitigated by temporary policy measures. Labour market conditions have improved, with employment close to historical highs and unemployment declining gradually, although some slack persists.

## Sweden



Source: OECD Economic Outlook 119 database.

StatLink <https://stat.link/edzq53>

## Sweden: Demand, output and prices

|                                                                        | 2022                          | 2023                                        | 2024 | 2025 | 2026 | 2027 |
|------------------------------------------------------------------------|-------------------------------|---------------------------------------------|------|------|------|------|
|                                                                        | Current prices<br>SEK billion | Percentage changes, volume<br>(2024 prices) |      |      |      |      |
| <b>Sweden</b>                                                          |                               |                                             |      |      |      |      |
| <b>GDP at market prices</b>                                            | 5 802.6                       | 0.0                                         | 1.0  | 1.8  | 1.9  | 2.5  |
| Private consumption                                                    | 2 661.6                       | -1.5                                        | 0.8  | 1.7  | 2.5  | 2.5  |
| Government consumption                                                 | 1 496.2                       | 1.4                                         | 1.1  | 1.1  | 2.9  | 1.7  |
| Gross fixed capital formation                                          | 1 484.0                       | 0.2                                         | 0.2  | 2.0  | 3.5  | 3.7  |
| Final domestic demand                                                  | 5 641.7                       | -0.3                                        | 0.7  | 1.6  | 2.9  | 2.6  |
| Stockbuilding <sup>1</sup>                                             | 75.7                          | -1.4                                        | 0.1  | 0.2  | -0.4 | 0.0  |
| Total domestic demand                                                  | 5 717.4                       | -1.7                                        | 0.8  | 1.9  | 2.5  | 2.6  |
| Exports of goods and services                                          | 3 145.0                       | 3.0                                         | 2.6  | 4.4  | 1.0  | 2.6  |
| Imports of goods and services                                          | 3 059.8                       | -0.3                                        | 2.4  | 4.6  | 1.8  | 2.7  |
| Net exports <sup>1</sup>                                               | 85.2                          | 1.8                                         | 0.1  | 0.0  | -0.4 | 0.0  |
| <i>Memorandum items</i>                                                |                               |                                             |      |      |      |      |
| GDP deflator                                                           | —                             | 5.9                                         | 3.0  | 1.2  | 0.8  | 2.2  |
| Consumer price index <sup>2</sup>                                      | —                             | 8.5                                         | 2.8  | 0.7  | 0.9  | 1.8  |
| Core inflation index <sup>3</sup>                                      | —                             | 10.0                                        | 4.1  | 0.2  | 0.1  | 1.7  |
| Consumer price index with fixed interest rates                         | —                             | 6.0                                         | 1.6  | 2.6  | 1.2  | 1.9  |
| Unemployment rate (% of labour force)                                  | —                             | 7.7                                         | 8.4  | 8.9  | 8.3  | 7.6  |
| Household saving ratio, net (% of disposable income)                   | —                             | 14.4                                        | 16.3 | 14.7 | 14.5 | 14.5 |
| General government financial balance (% of GDP)                        | —                             | -0.9                                        | -1.5 | -1.3 | -2.2 | -1.7 |
| General government debt, Maastricht definition <sup>4</sup> (% of GDP) | —                             | 32.2                                        | 34.2 | 35.0 | 37.1 | 38.5 |
| Current account balance (% of GDP)                                     | —                             | 6.2                                         | 6.9  | 6.1  | 4.4  | 4.8  |

1. Contributions to changes in real GDP, actual amount in the first column.

2. The consumer price index includes mortgage interest costs.

3. Consumer price index excluding food and energy.

4. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.

Source: OECD Economic Outlook 119 database.

StatLink  <https://stat.link/jd13og>

The escalation of tensions in the Middle East has increased uncertainty and pushed up energy prices, weighing on confidence and real incomes in the near term. Exports to the United States have declined recently, notably in passenger cars and biotechnology products, reflecting softer US demand and the impact of trade and industrial policies. At the same time, rising European defence and infrastructure spending is beginning to support external demand and is expected to provide a boost to exports over the projection horizon.

## Fiscal policy is expansionary and monetary policy remains on hold

Fiscal policy is expansionary in 2026, but set to tighten somewhat in 2027. The 2026 budget introduced tax cuts and higher public consumption and investment. Defence spending is increasing significantly and is largely debt-financed, contributing to a widening fiscal deficit. The shift to a balanced-budget rule starting in 2027 allows for current spending increases. Temporary energy support measures, including fuel tax reductions and targeted transfers to households, help cushion the impact of higher energy prices on disposable income, albeit at a fiscal cost. Public debt is expected to rise gradually. Monetary policy remains supportive, and the policy rate is expected to remain unchanged through 2026, with a tightening towards the end of 2027 to 2.0% as inflation converges to target and resource utilisation normalises.

## Robust domestic demand will sustain the recovery

Growth is projected to strengthen, driven by domestic demand. Private consumption is set to remain the main driver of growth, as fiscal support and declining inflation lift real disposable income. Elevated saving rates are expected to moderate the pace of expansion. Business investment is expected to recover as the uncertainty surrounding the evolving conflict in the Middle East diminishes, while residential investment and public spending continue to expand. Net exports are expected to contribute little to growth, reflecting subdued external demand. Headline inflation will fall below target in 2026 before returning to around 2% in 2027, reflecting base effects, energy-related measures and contained wage-cost pressures. Employment growth will strengthen, but the unemployment rate will decline only gradually due to continued labour force expansion. Risks to the outlook are tilted to the downside. Prolonged geopolitical tensions could sustain high energy prices, lead to tighter supply of refined products such as jet fuel and diesel and weaken confidence. Persistently high household savings could damp consumption growth, while weaker global demand or heightened trade disruptions could further constrain exports. Upside risks include a faster decline in precautionary savings.

## Preserving fiscal credibility is key

Maintaining fiscal credibility under the new balanced-budget rule will be essential to safeguard debt sustainability amid rising deficits and debt. While fiscal expansion supports the recovery and reflects higher defence and energy-related spending, a clear medium-term consolidation path is needed once conditions normalise. Ensuring that temporary energy price support measures are not extended beyond their intended horizon would help contain fiscal risks. Prioritising targeted transfers over broad-based tax reductions that dilute price signals would better balance short-term support with incentives for energy efficiency and the green transition. Addressing housing market imbalances would require phasing out rent controls and tax subsidies to homeowners.

# Switzerland

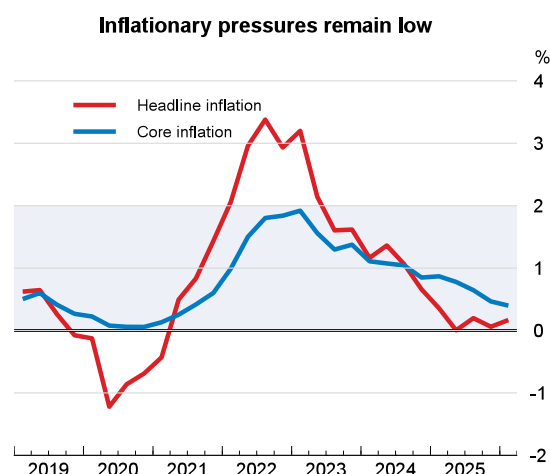
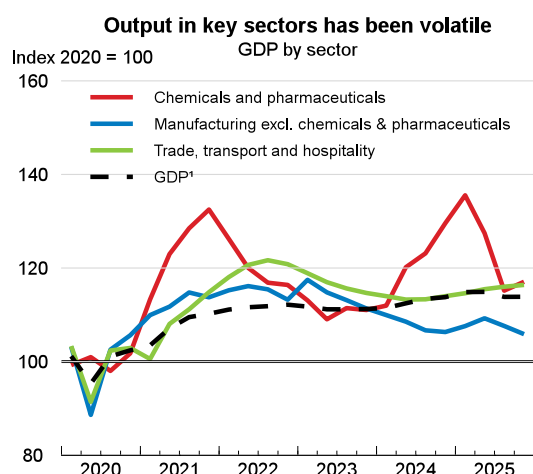
Real GDP is projected to grow by 1.1% in 2026 and 1.5% in 2027. Domestic demand will remain the main driver of growth as higher energy prices and the uncertain external environment weigh on foreign demand, while Switzerland is less dependent on oil and gas. Uncertainty will restrain exports. These effects should dissipate after 2026 as global demand strengthens. Inflation will pick-up slightly but remain low, due to the economy's low energy-intensity. New trade tariffs could reduce growth prospects.

Monetary policy will remain accommodative, limiting the effects from a strong currency. The fiscal stance will remain neutral. Expenditure reductions are expected for 2027, to ensure compliance with the federal debt-brake rule. Periodic spending reviews, integrated into the budget process, could help to ensure that cuts do not undermine growth. Increasing healthcare spending efficiency would help to reduce long-term spending pressures. Strengthening ties with trading partners would improve economic resilience.

## Real GDP growth remains below potential

Based on preliminary results, real GDP unadjusted for sporting events grew by 1.3% in 2025, below its annual average of 1.8% over the last decade. Consumer surveys and business sentiment indicators point to further growth momentum in the first quarter of 2026. In April, consumer price inflation, which hovered around zero in 2025, increased to 0.6% year-on-year, reflecting higher international energy prices due to the evolving conflict in the Middle East. The increase in energy prices was partly offset by the strong Swiss franc, which has been trading at historical highs.

## Switzerland



1. All variables are seasonally and calendar adjusted, and at constant values.  
Source: CEIC; SECO; and OECD Economic Outlook 119 database.

StatLink  <https://stat.link/0w4fgt>

## Switzerland: Demand, output and prices

|                                                      | 2022                          | 2023                                        | 2024 | 2025 | 2026 | 2027 |
|------------------------------------------------------|-------------------------------|---------------------------------------------|------|------|------|------|
|                                                      | Current prices<br>CHF billion | Percentage changes, volume<br>(2020 prices) |      |      |      |      |
| Switzerland                                          |                               |                                             |      |      |      |      |
| GDP at market prices <sup>1</sup>                    | 819.6                         | 0.9                                         | 1.4  | 1.3  | 1.1  | 1.5  |
| Private consumption                                  | 395.4                         | 1.4                                         | 2.4  | 1.5  | 1.4  | 1.1  |
| Government consumption                               | 93.6                          | 1.4                                         | 1.3  | 1.0  | 0.4  | 0.7  |
| Gross fixed capital formation                        | 215.3                         | 2.2                                         | 0.4  | -0.5 | 0.5  | 0.5  |
| Final domestic demand                                | 704.2                         | 1.6                                         | 1.6  | 0.8  | 1.0  | 0.8  |
| Stockbuilding <sup>2 3</sup>                         | 2.5                           | 1.5                                         | -0.7 | 2.8  | 1.4  | 0.0  |
| Total domestic demand                                | 706.7                         | 3.4                                         | 0.8  | 3.9  | 2.5  | 0.8  |
| Exports of goods and services <sup>3</sup>           | 614.7                         | -2.7                                        | 1.5  | 4.9  | -0.4 | 2.7  |
| Imports of goods and services <sup>3</sup>           | 501.8                         | 0.1                                         | 0.6  | 9.7  | 1.4  | 1.9  |
| Net exports <sup>2 3</sup>                           | 112.9                         | -2.1                                        | 0.7  | -2.2 | -1.3 | 0.8  |
| Memorandum items                                     |                               |                                             |      |      |      |      |
| GDP deflator                                         | —                             | 0.9                                         | 1.0  | 0.3  | 0.7  | 0.8  |
| Consumer price index                                 | —                             | 2.1                                         | 1.1  | 0.2  | 0.7  | 0.7  |
| Core inflation index <sup>4</sup>                    | —                             | 1.5                                         | 1.0  | 0.7  | 0.7  | 0.7  |
| Unemployment rate (% of labour force)                | —                             | 4.0                                         | 4.3  | 4.8  | 4.9  | 4.6  |
| Household saving ratio, net (% of disposable income) | —                             | 20.5                                        | 21.7 | 21.6 | 20.9 | 21.0 |
| General government financial balance (% of GDP)      | —                             | 0.3                                         | 0.5  | 0.5  | 0.4  | 0.6  |
| General government gross debt (% of GDP)             | —                             | 40.7                                        | 40.9 | 41.4 | 40.8 | 40.0 |
| Current account balance (% of GDP)                   | —                             | 5.8                                         | 8.9  | 7.1  | 4.2  | 4.5  |

1. Not adjusted for sporting-events.

2. Contributions to changes in real GDP, actual amount in the first column.

3. Includes valuables.

4. Consumer price index excluding food and energy.

Source: OECD Economic Outlook 119 database.

StatLink  <https://stat.link/v8dizb>

Switzerland's reliance on imports from the Middle East and the weight of energy in the consumer price index basket is among the lowest in the OECD, due to low energy-intensity, which limits the economy's direct exposure to trade disruptions. Most exports to the United States are now facing a 10% tariff rate, similar to that faced by competitors, with bilateral negotiations about a more permanent trade agreement still ongoing.

## Monetary policy remains supportive with fiscal policy remaining broadly neutral

As a response to the rapid appreciation of the Swiss franc, partly driven by safe-haven considerations, and to prevent consumer prices from falling below the 0-2% price stability range, the central bank has kept the policy rate unchanged at 0% since June 2025. The rate is expected to remain unchanged until the outlook improves from late 2026. Higher energy prices are countering disinflationary pressures from the currency appreciation. Additional policy rate cuts, which would make the rate negative, do not seem necessary at this point. Supportive monetary policy is welcome with fiscal policy expected to remain broadly neutral to ensure compliance with the federal debt-brake rule. Assuming that the fiscal savings and VAT tax increase proposed by the federal government will be approved, the fiscal balance is set to improve slightly. Support measures to cushion the impact of higher energy prices are not expected.

## The economic outlook is clouded by uncertainty

Real GDP unadjusted for sporting events is projected to grow by 1.1% in 2026 and 1.5% in 2027. High trade-related and geopolitical uncertainty are expected to continue affecting export growth and hampering

investment. Growth will be sustained by domestic private consumption as households benefit from low inflation and favourable financing conditions. The outlook will improve in 2027 as key trading partners recover from the energy supply shock and exports rebound. Headline inflation is projected to increase in the short term due to higher energy prices but remain within the 0-2% range consistent with price stability. Risks are tilted to the downside as the energy supply shock and disruptions to global supply chains could last longer than expected and new trade tariffs cannot be ruled out, including on pharmaceuticals. A faster recovery in European and other trading partners could strengthen growth further.

### **Ambitious reforms are needed to contain long-term spending pressures**

Broad-based and discretionary cuts to public spending would support fiscal consolidation but run the risk of affecting effective and growth-enhancing programmes. Systematic and regular spending reviews, linked to the annual budget process, would be one way to avoid this risk and help maintain an already low public spending in international comparison without damaging growth. There is scope to increase healthcare spending efficiency by further encouraging managed-care models and reducing over-servicing through strict gatekeeping. This would also help to contain mounting long-term spending pressures. Long-term public debt sustainability will, nonetheless, require more ambitious pension reforms. Stabilising ties with key trading partners and enhancing productivity-spillovers from export-oriented and larger firms to smaller domestic-oriented ones would increase the resilience to shocks and improve growth prospects.

# Thailand

Real GDP growth is projected to decrease to 1.7% in 2026 from 2.4% in 2025, mostly driven by the impact of the evolving Middle East conflict on trade and domestic demand. A pick-up in growth to 2.1% is expected in 2027 as conflict impacts fade and household spending recovers. Inflation will spike in 2026 due to rising energy prices. In addition to conflict-related uncertainties, risks around trade tariffs and household debt could lead to weaker growth outcomes.

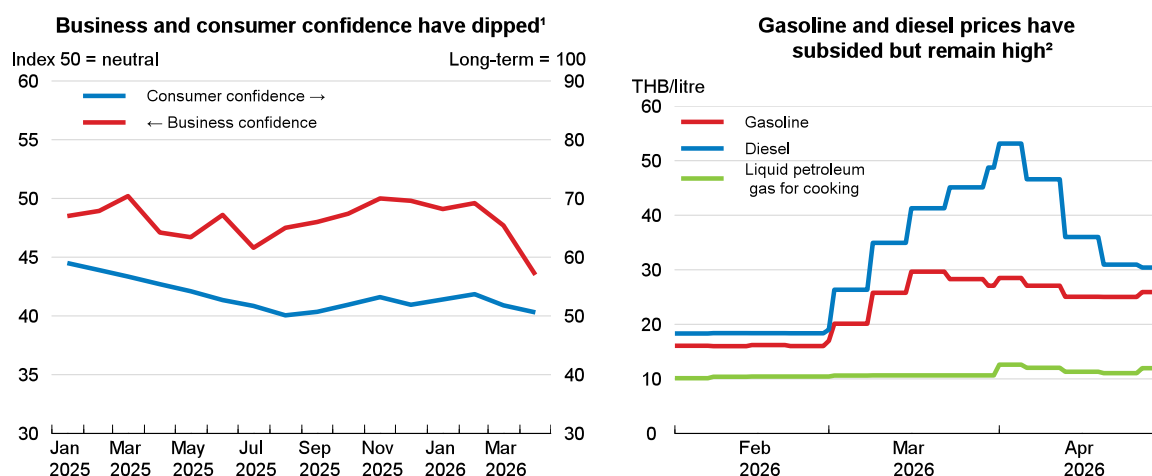
Monetary policy could ease further if economic conditions worsen. By contrast, scope for fiscal support is limited; measures helping households and businesses need to be tightly targeted, and time bound to contain their fiscal costs. Post-crisis, fiscal consolidation must be strongly prioritised to put the public-debt burden on a downward path. Additional impetus should be given to policies that diminish oil dependence while reducing carbon emissions, including an accelerated rollout of renewables. Thailand's trend productivity, which has been flagging, could be strengthened by making regulation more conducive to competition.

## Economic activity is now slowing

Economic activity has been strong but is now slowing. There were upside growth surprises in the final quarter of 2025 and in the first quarter of 2026, partly due to a surge in exports and investment. Indicators have since pointed to reduced growth. Consumer and business confidence indicators have declined sharply in the face of rising energy costs and other impacts from the conflict. Growth in the second quarter is expected to show a sizeable slowdown. Annual consumer price inflation increased from -0.1% in March to 2.9% in April reflecting the consequences of higher global oil prices, including the impact on fuel prices.

The impacts of the Middle East conflict on Thailand's economy have been widespread. Tourism numbers from some areas, such as the European Union, have declined while those from China and India have increased. Subsidies via Thailand's Oil Fund have fully shielded the price of liquid natural gas for cooking but have only partly shielded gasoline and diesel prices. Exports to the Middle East have been disrupted. Fertilizer price increases and threats to supply are impacting the agricultural sector. In manufacturing, shortages are expected in plastic pellets used, inter alia, to make packaging, including for food and drink. As of May, Thailand had oil reserves to meet demand for about 110 days. Meanwhile, exports to the United States surged in the first quarter of 2026 as most tariff rates were lowered from 19% to 10%. However, uncertainty about future tariff rates remains.

## Thailand



1. The business confidence index is presented as a diffusion index ranging from 0 to 100. An index value above 50 indicates an improvement in business sentiment, while a value below 50 reflects a deterioration. The consumer confidence index ranges from 0 to 200, with 100 as the cut-off point. An index value equal to 100 suggests that consumer confidence is stable.

2. Prices correspond to ex-refinery prices, i.e. prices charged by refineries for retail sale. Gasoline prices are for Gasohol 95 E20 (comprising 20% biofuel), diesel prices are for HSD B7 (comprising 7% biofuel). Liquid petroleum gas for cooking prices are originally reported in Baht per kilogram and have been converted to Baht per litre using an assumed density of 0.54 kg/L.

Source: CEIC; and Thailand's Ministry of Energy.

StatLink  <https://stat.link/4u0953>

## Thailand: Demand, output and prices

|                                                        | 2022                          | 2023                                        | 2024 | 2025 | 2026 | 2027 |
|--------------------------------------------------------|-------------------------------|---------------------------------------------|------|------|------|------|
| <b>Thailand</b>                                        | Current prices<br>THB billion | Percentage changes, volume<br>(2002 prices) |      |      |      |      |
| <b>GDP at market prices</b>                            | 17 398                        | 2.2                                         | 2.9  | 2.4  | 1.7  | 2.1  |
| Private consumption                                    | 9 470                         | 6.7                                         | 4.4  | 2.7  | 2.6  | 2.3  |
| Government consumption                                 | 3 086                         | -4.6                                        | 2.5  | 0.8  | 4.1  | 2.5  |
| Gross fixed capital formation                          | 4 058                         | 1.1                                         | -0.4 | 5.0  | 7.8  | 2.6  |
| Exports of goods and services                          | 11 418                        | 2.7                                         | 7.5  | 9.2  | 7.7  | 2.0  |
| Imports of goods and services                          | 11 666                        | -2.5                                        | 5.7  | 6.8  | 12.7 | 2.1  |
| <b>Memorandum items</b>                                |                               |                                             |      |      |      |      |
| Consumer price index                                   | —                             | 1.2                                         | 0.4  | -0.1 | 2.4  | 1.4  |
| Government financial balance <sup>1 2</sup> (% of GDP) | —                             | -3.0                                        | -5.6 | -5.6 | -5.9 | -5.8 |
| Government gross debt <sup>2</sup> (% of GDP)          | —                             | 61.5                                        | 63.3 | 65.6 | 66.5 | 67.1 |
| Current account balance (% of GDP)                     | —                             | 1.7                                         | 2.2  | 2.8  | -2.3 | -1.3 |

1. Data refer to the calendar year and differ from the fiscal-year data that is reported by the Thai authorities. The fiscal year in Thailand runs from the October to September.

2. Data cover central government plus additional items, for instance state enterprises.

Source: OECD Economic Outlook 119 database.

StatLink  <https://stat.link/ubk6vd>

## Monetary policy is supportive but high public debt limits the scope for fiscal support

The Bank of Thailand lowered its policy rate by 25 basis points to 1% in February, the sixth rate cut since 2024. A further 25 basis point cut is envisaged in 2026, with this being reversed in 2027. An accommodative monetary policy stance is welcome given the diminished scope for bolstering the economy through fiscal policy. Outstanding government debt was 66.4% of GDP as of March 2026 and heading towards the 70% legislated ceiling. Upward pressures on public debt include an increase in the Oil Fund's deficit, which reached approximately 0.3% of GDP in mid-April. Furthermore, in May, an emergency decree authorised additional borrowing equivalent to approximately 2% of GDP to provide support to households and to accelerate the green transition. Supports include the "Blue Flag" programme to provide affordable goods for households and the "Green Flag" programme to lower fertiliser costs for farmers.

## Growth will slow considerably in 2026

GDP growth is projected at 1.7% in 2026 due to the economic fallout of the evolving Middle East conflict. Exports and investment are expected to be particularly weak in the second quarter. The remainder of the year will see recovery in export growth and domestic demand as supply chains and consumer and business confidence normalise. Further recovery in 2027 will bring annual GDP growth to 2.1%. These developments will be echoed in the labour market. Inflation will unwind from highs reached in the first half of 2026, remaining within the 1-3% target for the year as a whole. The Oil Fund deficit and emergency loan will increase the fiscal deficit in 2026. A small deficit reduction is expected in 2027. Uncertainties around the Middle East conflict add to those around tariffs. There is also risk of severe drought from the El Niño weather cycle. High household debt warrants careful monitoring of financial-sector risks as debt levels are likely to increase in the near term.

## Further regulatory reform is key to stronger productivity growth

Short-term support to households and businesses needs to remain responsive but also targeted and time-bound, not least as the public debt burden is edging closer to the legislated ceiling of 70% of GDP. The increase in energy-security risk provides additional reason to accelerate policies that diminish oil dependency, including the deployment of renewable energy sources, and the transition to electric vehicles. Meanwhile, policies to improve Thailand's flagging trend productivity need to continue, including by making regulation more conducive to competition, reducing red tape and tackling corruption and further efforts to reduce widespread informality among workers and firms. The latter could include lower social contributions for low-income earners and improvements in the quality of vocational education.

# Türkiye

Growth is projected at 3.1% in 2026 and 3.8% in 2027. Higher energy and commodity prices are depressing domestic demand amid tight financial conditions. By late 2026, improving consumer sentiment and lower interest rates will underpin stronger consumption and investment. The decline in inflation will see annual headline inflation falling below 20% in the first half of 2027. A key risk is that the evolving conflict in the Middle East and the resulting price pressures slow the disinflationary process further.

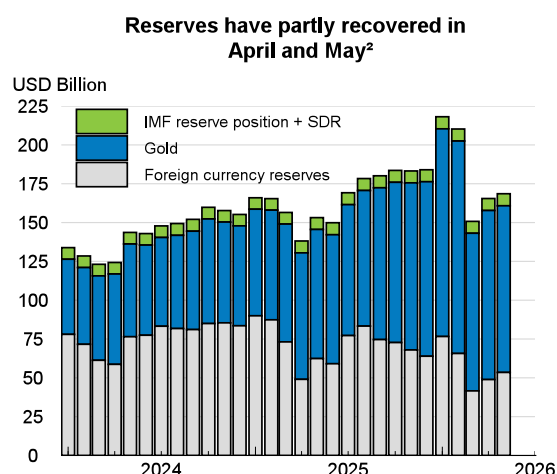
Interest rate cuts have been kept on hold since the start of the Middle East conflict. Maintaining tight monetary policy is key to lower inflation expectations, which remain far above the central bank's inflation target. Future rate increases should not be ruled out. Contractionary fiscal policy should continue to complement monetary policy efforts to tame inflation. Accelerating the deployment of renewable energy would help bolster energy security and curb emissions. Better tax incentives to encourage female labour force participation, improving skills and reducing barriers to entry in services can support current efforts to raise long-term growth potential.

## Domestic demand remains resilient

Declining inflation and lower policy rates supported domestic demand in the last quarter of 2025. Household consumption increased by 4.2% quarter-on-quarter. Strong private consumption more than offset a decline in net exports, as imports increased by 4.3% and exports fell by 4.5%. Following substantial disinflation between mid-2024 and mid-2025, progress has slowed recently. Year-on-year headline inflation was 32.4% in April, compared with 30.7% in January, while core inflation only declined marginally and producer price inflation was 6 percentage points higher than a year ago. Short-term indicators point to slowing momentum, with the manufacturing purchasing managers' index becoming increasingly contractionary in April 2026, and an indicator of industrial confidence has also fallen. Amid a current account deficit, including before the escalation of the conflict in March, the central bank has sold significant currency and gold reserves to support the currency. Reserves have partly recovered in April.

As a net energy and fertiliser importer, Türkiye's current account and inflation are affected by higher energy prices. However, direct supply risks are limited as most oil, gas and fertiliser imports do not originate from the Persian Gulf. Türkiye also remains vulnerable to a slowdown in European demand and competition from China on third markets, notably in manufacturing.

## Türkiye



1. Data correspond to 12-month ahead inflation expectations of market participants.

2. Refers to the latest available data (8 May).

Source: Central Bank of the Republic of Türkiye.

StatLink  <https://stat.link/9hm8zv>

## Türkiye: Demand, output and prices

|                                                 | 2022                          | 2023                                        | 2024 | 2025 | 2026 | 2027 |
|-------------------------------------------------|-------------------------------|---------------------------------------------|------|------|------|------|
|                                                 | Current prices<br>TRY billion | Percentage changes, volume<br>(2009 prices) |      |      |      |      |
| <b>Türkiye</b>                                  |                               |                                             |      |      |      |      |
| <b>GDP at market prices</b>                     | 15 325.9                      | 5.0                                         | 3.3  | 3.6  | 3.1  | 3.8  |
| Private consumption                             | 8 152.8                       | 10.4                                        | 4.3  | 4.1  | 4.6  | 4.1  |
| Government consumption                          | 1 811.1                       | 2.2                                         | -0.8 | 0.9  | 1.7  | 3.3  |
| Gross fixed capital formation                   | 4 681.3                       | 7.3                                         | 2.7  | 7.0  | 4.8  | 4.6  |
| Final domestic demand                           | 14 645.2                      | 8.3                                         | 3.0  | 4.6  | 4.3  | 4.1  |
| Stockbuilding <sup>1</sup>                      | 1 234.8                       | 2.6                                         | -1.5 | 0.1  | -0.2 | 0.0  |
| Total domestic demand                           | 15 880.0                      | 10.3                                        | 1.9  | 4.9  | 4.1  | 4.1  |
| Exports of goods and services                   | 5 845.5                       | -2.3                                        | 0.1  | -0.3 | -0.6 | 2.9  |
| Imports of goods and services                   | 6 399.6                       | 11.8                                        | -3.8 | 4.7  | 3.7  | 4.0  |
| Net exports <sup>1</sup>                        | - 554.2                       | -5.8                                        | 1.3  | -1.4 | -1.1 | -0.3 |
| <b>Memorandum items</b>                         |                               |                                             |      |      |      |      |
| GDP deflator                                    | —                             | 68.3                                        | 59.3 | 36.4 | 27.6 | 16.4 |
| Potential GDP, volume                           | —                             | 4.3                                         | 4.3  | 4.3  | 4.3  | 4.0  |
| Consumer price index <sup>2</sup>               | —                             | 53.9                                        | 58.5 | 34.9 | 28.4 | 18.3 |
| Core inflation index <sup>3</sup>               | —                             | 58.5                                        | 59.3 | 35.5 | 26.5 | 17.8 |
| Unemployment rate (% of labour force)           | —                             | 9.4                                         | 8.7  | 8.4  | 8.4  | 8.3  |
| General government financial balance (% of GDP) | —                             | -4.5                                        | -3.2 | -2.9 | -3.3 | -3.4 |
| Current account balance (% of GDP)              | —                             | -3.5                                        | -1.0 | -1.9 | -3.0 | -3.0 |

1. Contributions to changes in real GDP, actual amount in the first column.

2. Based on yearly averages.

3. The consumer price index excluding food, energy, alcoholic beverages and gold.

Source: OECD Economic Outlook 119 database.

StatLink  <https://stat.link/o9u7lm>

## **Fiscal policy will become more supportive, while monetary policy will remain tight**

Fiscal support measures in the context of the Middle East conflict include a reduced petrol excise tax, which has offset 75% of the price increases since 2 March. After some consolidation in 2025, increasing interest costs and energy support measures will raise the headline deficit from 2.9% in 2025 to 3.4% in 2027. Public debt, at 24% of GDP, is set to increase modestly. Policy rate cuts initiated in July 2025 have been halted and the policy rate is likely to remain on hold while commodity prices are high, before decreasing to 20% by the end of 2027. Amid falling inflation, the real interest rate will remain high but the policy mix will be only mildly contractionary and the output gap will not fall by much.

## **Growth will pick up once the Middle East conflict dissipates**

After some initial weakness in the first half of 2026, domestic demand is expected to pick up once the economic fallout from the Middle East conflict diminishes, leading to an expected annual growth of 3.1% for 2026. After slowing earlier in the year, disinflation is set to regain momentum in the second half of 2026 and during 2027, with year-on-year headline inflation expected to reach 15% by the end of 2027. This will underpin stronger private consumption and help bring annual output growth to 3.8% in 2027. Key risks include a stalling of the disinflation process if high energy and commodity prices turn out more persistent, and a durable increase in inflation expectations, especially if monetary policy were slow to react to rising price pressures. High commodity prices in the second quarter of 2026 will continue to put pressure on the current account deficit, which could trigger rapid currency depreciation that fuels imported inflation.

## **Achieving disinflation remains the policy priority**

Achieving rapid disinflation will require continuously tight macroeconomic policies. The central bank should increase the policy rate if progress towards disinflation proves insufficient. Accelerating the rollout of renewable energy, including solar and wind, would bolster energy security and reduce carbon emissions, and contain energy prices. Moving towards more targeted and time-bound energy cost support measures could be more effective while limiting their fiscal cost and supporting the need for continuously tight fiscal policy. Simplifying insolvency regulations and making labour contracts more flexible could foster capital and labour reallocation towards better-performing businesses. Reducing the tax wedge on families, would boost female labour force participation. Improving skills and easing occupational licensing in services could further support ongoing efforts to raise long-term growth potential.

# Ukraine

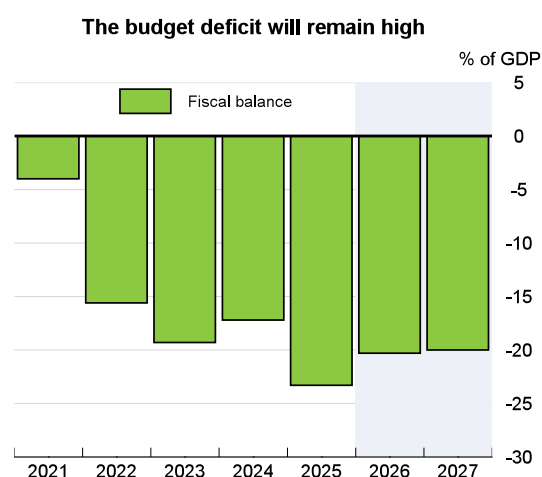
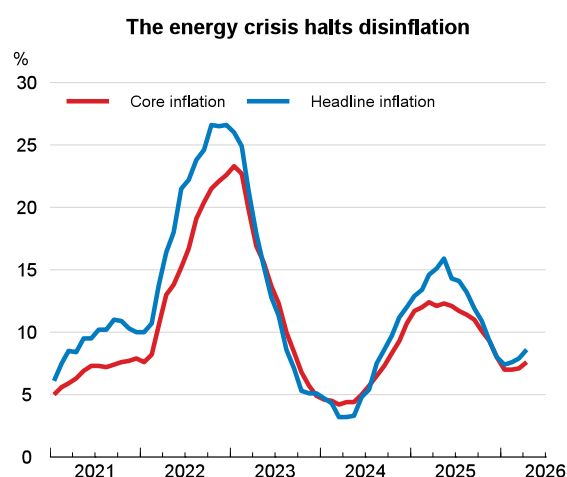
GDP growth is projected to slow to 1.0% in 2026 and 0.8% in 2027 following heightened attacks on civilian infrastructure during the winter of 2025 and the onset of the conflict in the Middle East. Ongoing shortages of skilled labour will constrain output growth and sustain high real wage growth, thus supporting consumption. More restrictive global trade policies will weigh on exports. Ongoing defence needs will continue to result in a large fiscal deficit as well as wide trade and current account deficits. The projections assume that the current scale of Russia's full-scale invasion of Ukraine is maintained through the projection horizon, as well as the extent of external support.

Ensuring that inflation expectations remain anchored and monetary policy is responsive to the renewed surge in inflation will support longer-term economic stability. Sustaining structural reforms to improve the business climate and raise public revenues while reducing compliance burdens would support the economy's resilience through the full-scale invasion.

## Russian attacks on energy infrastructure and the conflict in the Middle East weigh on activity and raise inflation

Real GDP is estimated to have contracted by 0.5% in the first quarter of 2026, as persistent Russian attacks on critical civilian infrastructure throughout the winter drastically reduced energy production. In addition, widespread labour shortages continue to limit activity and most firms report negligible spare capacity, leading to rising real wages and production costs. Inflation rose to 8.6% in the year to April 2026, as fuel prices surged and firms report increased inflation expectations.

### Ukraine



Source: National Bank of Ukraine; and OECD Economic Outlook 119 database.

StatLink  <https://stat.link/67lrn>

## Ukraine: Demand, output and prices

|                                                 | 2022                          | 2023                                        | 2024  | 2025  | 2026  | 2027  |
|-------------------------------------------------|-------------------------------|---------------------------------------------|-------|-------|-------|-------|
| <b>Ukraine</b>                                  | Current prices<br>UAH billion | Percentage changes, volume<br>(2022 prices) |       |       |       |       |
| <b>GDP at market prices</b>                     | 5 239.0                       | 5.5                                         | 2.9   | 1.8   | 1.0   | 0.8   |
| <i>Memorandum items</i>                         |                               |                                             |       |       |       |       |
| Consumer price index                            | —                             | 12.9                                        | 6.5   | 12.7  | 9.0   | 7.1   |
| General government financial balance (% of GDP) | —                             | -19.3                                       | -17.2 | -23.3 | -20.3 | -20.0 |
| Current account balance (% of GDP)              | —                             | -5.4                                        | -8.1  | -15.0 | -22.5 | -19.0 |

Source: OECD Economic Outlook 119 database.

StatLink  <https://stat.link/fqtjg4>

The current account deficit widened to 15.0% of GDP in 2025 with machinery and equipment import values growing by 36% year on year, primarily for use in the energy and defence sectors. The value of energy imports also increased starting from October 2025 due to intensified attacks on energy infrastructure, reaching 5% of GDP in 2025. The trade deficit widened further in the first quarter of 2026, driven again by defence and energy-related imports as well as increased energy prices. Fuel and energy imports were 52% higher than a year earlier. Grain exports have also been weakened by damaged logistics infrastructure and the re-introduction of EU tariffs and quotas starting from June 2025. The authorities have continued to intervene in foreign exchange markets to help smooth fluctuations in the demand for foreign exchange. Exchange rate volatility has increased following the outbreak of the Middle East conflict. Reserves declined by 16.5% to USD 48.2 billion (4.9 months of import coverage) between February and May 2026.

## Ongoing external assistance is financing large fiscal and current account deficits

Following an estimated fiscal deficit of 23.3% of GDP in 2025, the deficit is expected to be 20.3% of GDP in 2026, as defence needs remain high. Revenue growth is containing fiscal pressures through increased receipts of personal income tax and VAT on imports bolstered by rising prices and continued sizeable external grants. Official lending, provided by the EU, bilateral creditors, G7 Extraordinary Revenue Acceleration loans, and International Financial Institutions, is expected to finance the remaining deficit. Monetary authorities have reaffirmed their commitment to containing inflation, and, following the cut in the key policy rate to 15.0% in January 2026, have signalled further cuts are less likely in 2026 due to the ongoing conflict in the Middle East.

## The outlook remains highly uncertain

GDP is projected to grow by 1.0% in 2026 and by 0.8% in 2027 as Russia's attacks continue. Following a contraction in early 2026, growth is likely to be subdued in the near term due to higher global energy prices and market disruptions related to the damage from Russia's attacks on civilian infrastructure. In 2027, assuming no change in the security situation, the ongoing damage and the constrained labour market will limit reconstruction and recovery, although energy price pressures and general inflation are expected to abate. The risks are tilted to the downside. A prolonged Middle East conflict risks diverting international support from Ukraine. Increased fertiliser and pesticide costs could also reduce agricultural yields. Conversely, the potential of new defence export markets and related investments in Ukraine's defence sector are upside risks.

## **Continuing structural reforms will support macroeconomic stability, improve long-term growth prospects and facilitate external financing**

Progress in implementing structural reforms is needed to sustain external financing, support macroeconomic stability, raise productivity, attract investment for recovery and reconstruction, and place Ukraine on a path to EU accession. Measures to improve the efficiency of tax administration and reduce the cost of tax compliance would support public revenues and fiscal sustainability while encouraging greater formalisation of the economy. Priority areas for structural reforms include improved management and oversight of state-owned enterprises, facilitating Ukraine's economic integration into the European market, strengthening public procurement, and promoting integrity in public institutions. Diversifying energy supply by developing smaller-scale distributed energy generation, including renewable generation and storage, aligning technical standards with the EU, and accelerating investments in energy efficiency would help to mitigate the impacts of infrastructure destruction and reduce sensitivity to higher international prices.

# United Kingdom

Growth will weaken to 0.9% in 2026, as renewed inflationary pressures squeeze real incomes and exacerbate uncertainty, weighing on private consumption and investment. It will then pick up to 1.1% in 2027, helped by the normalisation of global energy prices and a gradual improvement in trade and financial conditions. Consumer price inflation is set to increase to 3.7% in 2026 before moderating to 2.4% in 2027, while core inflation will continue easing as wage growth moderates, due to rising slack in the labour market. The unemployment rate is projected to reach 5.5% in 2026 before edging down to 5.3% in 2027.

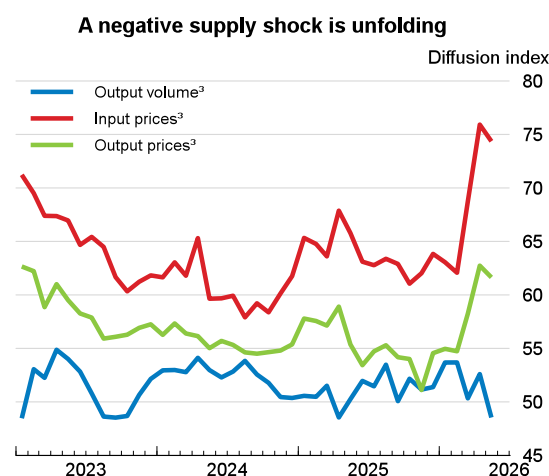
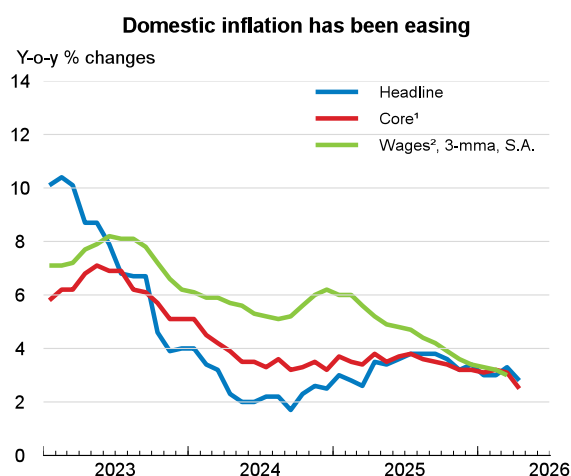
Further easing in monetary policy is expected, with the Bank of England looking through the energy shock in 2026 and moving to a neutral stance in 2027 as underlying price pressures ease. Fiscal policy will remain restrictive, given elevated borrowing costs, high debt interest payments and rising public debt. Continuing to reduce vulnerability to imported energy price inflation is essential, including by better aligning price signals and accelerating investment in electricity networks and system flexibility. Swiftly completing the ongoing planning reform would support infrastructure delivery and enhance growth.

## Momentum is shifting as prices rise again

Economic activity has picked up after a weak second half of 2025 and before the onset of the evolving conflict in the Middle East. Flash estimates indicate that GDP grew by 0.6% in the first quarter of 2026, driven by a strong rebound in the services sector. Momentum has been shifting since March, with consumer confidence dropping to its lowest level since late 2023. Bank Rate was held at 3.75% in April, with upward pressure on borrowing costs for households and the government. Labour demand continued to slow, especially in sectors most exposed to higher minimum wages. The unemployment rate, at 5.0% in the three months to March, is higher than a year earlier, even though the rise in labour supply has levelled off. Health-related inactivity remains structurally high and net inward migration continues to fall.

Renewed imported price pressures owing to the evolving conflict in the Middle East are interrupting the gradual decline in consumer price inflation. Annual producer input price inflation surged by 5.3% in March and 7.7% in April due to higher prices for imported fuels and materials. This reflects the economy's vulnerability to global energy market volatility, owing to a combination of high dependence on natural gas for energy generation, low storage and hedging, and the decline in the sterling effective exchange rate since January. Headline inflation edged up to 3.3% in March, adding to already-high inflation expectations, before dropping to 2.8% in April, reflecting the implementation of measures from the Autumn Budget that lower the cost of energy and fuel. At the same time, domestic price pressures are easing steadily due to the continued loosening of the labour market. The aggregate effective tariff rate faced by domestic goods exporters in US markets is broadly unchanged, despite the recent US Supreme Court ruling.

## United Kingdom 1



1. Consumer prices excluding energy, food, alcohol and tobacco.

2. Monthly wages and salaries survey (MWSS) estimate of average weekly earnings (AWE) for private sector regular pay in Great Britain.

3. UK composite purchasing manager indexes; values above 50 indicate expansion.

Source: S&P Global; and Office for National Statistics.

StatLink  <https://stat.link/8bf7wm>

## United Kingdom: Demand, output and prices

|                                                        | 2022                          | 2023                                        | 2024 | 2025  | 2026  | 2027  |
|--------------------------------------------------------|-------------------------------|---------------------------------------------|------|-------|-------|-------|
|                                                        | Current prices<br>GBP billion | Percentage changes, volume<br>(2023 prices) |      |       |       |       |
| <b>United Kingdom</b>                                  |                               |                                             |      |       |       |       |
| <b>GDP at market prices</b>                            | 2 580.9                       | 0.3                                         | 1.0  | 1.4   | 0.9   | 1.1   |
| Private consumption                                    | 1 604.6                       | -0.4                                        | -0.2 | 1.0   | 0.4   | 0.5   |
| Government consumption                                 | 530.6                         | 2.1                                         | 2.9  | 1.6   | 1.7   | 2.8   |
| Gross fixed capital formation                          | 490.4                         | 0.5                                         | 1.7  | 4.3   | 0.0   | 1.5   |
| Final domestic demand                                  | 2 625.6                       | 0.3                                         | 0.8  | 1.8   | 0.6   | 1.2   |
| Stockbuilding <sup>1</sup>                             | - 16.9                        | 0.3                                         | 0.9  | 0.2   | 0.5   | 0.0   |
| Total domestic demand                                  | 2 608.7                       | 0.5                                         | 1.7  | 2.0   | 1.2   | 1.2   |
| Exports of goods and services                          | 879.1                         | -2.3                                        | 1.3  | 2.1   | 1.0   | 1.4   |
| Imports of goods and services                          | 906.9                         | -1.6                                        | 2.7  | 4.2   | 1.9   | 1.6   |
| Net exports <sup>1</sup>                               | - 27.7                        | -0.2                                        | -0.5 | -0.7  | -0.3  | -0.1  |
| <b>Memorandum items</b>                                |                               |                                             |      |       |       |       |
| GDP deflator                                           | —                             | 6.3                                         | 4.0  | 3.6   | 3.3   | 2.1   |
| Harmonised index of consumer prices                    | —                             | 7.3                                         | 2.5  | 3.4   | 3.7   | 2.4   |
| Harmonised index of core inflation <sup>2</sup>        | —                             | 6.2                                         | 3.7  | 3.5   | 3.1   | 2.7   |
| Unemployment rate (% of labour force)                  | —                             | 4.0                                         | 4.3  | 4.8   | 5.5   | 5.3   |
| Household saving ratio, gross (% of disposable income) | —                             | 6.5                                         | 9.9  | 9.8   | 8.8   | 9.9   |
| General government financial balance (% of GDP)        | —                             | -6.0                                        | -6.1 | -5.5  | -5.1  | -4.4  |
| General government gross debt (% of GDP)               | —                             | 98.8                                        | 99.9 | 102.3 | 103.9 | 105.4 |
| Current account balance (% of GDP)                     | —                             | -3.6                                        | -3.0 | -2.4  | -3.5  | -3.8  |

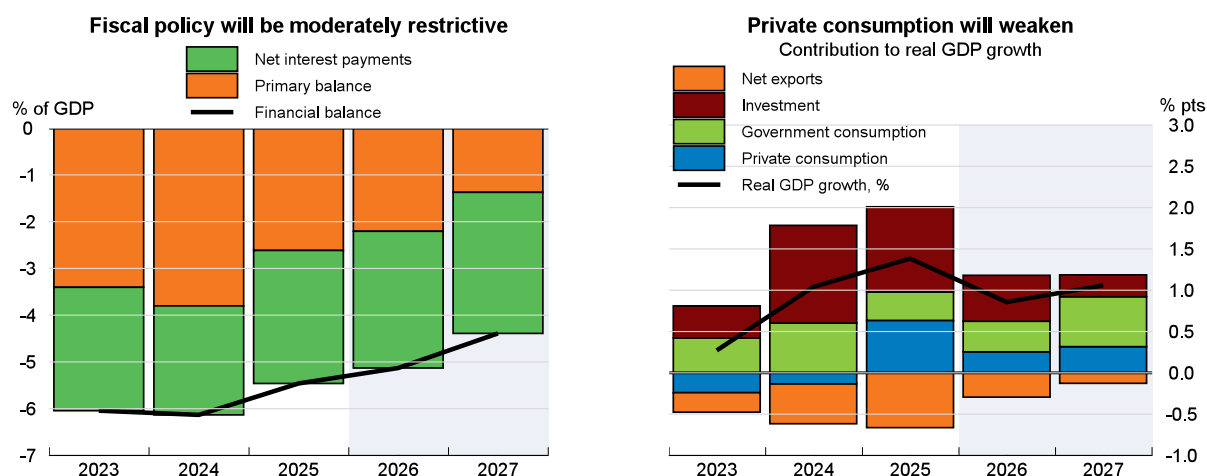
1. Contributions to changes in real GDP, actual amount in the first column.

2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.

Source: OECD Economic Outlook 119 database.

StatLink  <https://stat.link/cz7hk2>

## United Kingdom 2



Source: OECD Economic Outlook 119 database.

StatLink  <https://stat.link/rcv7px>

### The monetary stance will become neutral while fiscal policy remains restrictive

Bank Rate is projected to be held at its current value until the first quarter of 2027, before being cut to 3.5% as monetary policy moves towards a neutral stance, reducing but not eliminating the drag on growth. The Bank of England is expected to look through the energy price shock in 2026, as the surge in imported inflation is expected to be transitory and the growing slack in the labour market moderates domestic price pressures. The bank is also assumed to continue unwinding the stock of assets held for monetary policy purposes in the Asset Purchase Facility, with the GBP 70 billion target for gilt stock reduction over the 12-month period to September 2026 renewed for another year.

The fiscal stance will remain restrictive, with projected consolidation of about 1.5% of potential GDP over 2025-27. The general government financial deficit will improve from 5.5% of GDP in 2025 to 5.1% in 2026 and 4.4% in 2027, as the government complies with the fiscal rules. The government announced means-tested budgetary transfers of about GBP 50 million (negligible as a share of GDP) for households relying on heating oil, while strongly committing to keep energy support measures targeted and temporary. Instead, it is focusing on structural measures to accelerate the net zero transition and to prevent profiteering. It also raised the tax on excess profits of electricity generators due to the gas price spikes from 45% to 55%. Yet, debt interest payments remain elevated at close to 3% of GDP, while defence spending is set to reach 2.6% of GDP by 2027, about 0.3% points higher than in 2025. General government gross debt will continue rising in the short term, from 102.3% of GDP in 2025 to 105.4% in 2027, though the government's fiscal plans entail a stabilisation from 2030.

### Growth will moderate temporarily

GDP growth will moderate to 0.9% in 2026 before picking up to 1.1% in 2027. Private consumption and investment are projected to weaken in the near term due to the evolving conflict in the Middle East, as real disposable income stagnates and uncertainty remains elevated. By contrast, public expenditure will support the economy, due to both the automatic fiscal stabilisers and planned increases in government investment. Lower interest rates and a gradual improvement in global trade growth are expected to start providing moderate tailwinds in 2027, but long-standing supply constraints, including sluggish labour

productivity growth and slowing inward migration, will continue to act as a drag. The rise in consumer price inflation is expected to peak in the second half of 2026, as higher energy prices pass through consumer prices, including through the increase in administered energy prices in July, and then subside as global energy prices ease, but remain above target at 2.4% in 2027. Core inflation will continue to decline steadily, as labour market slack grows, albeit at a slower pace than in the second half of 2025, due to the pass-through of higher fuel costs into other prices, sticking at 2.7% in 2027.

Significant exposure to volatility in global energy prices is a key risk. The limited fiscal space for the government to attenuate the impact of higher energy prices on low-income households adds downside risk to output, especially in case of renewed imported inflationary pressures over the winter. High inflation expectations and potential second-round effects remain an upside risk to prices, as well as to output as it could require the monetary stance to remain tighter for longer. Prolonged constraints on fertiliser supply pose further upside risks to prices, given the salience of food items for household inflation expectations. In addition, localised shortages of diesel could weigh on activity, especially in rural areas, and low jet fuel inventories constitute a downside output risk in high-value trade sectors, such as the pharmaceutical industry, and in tourism. Relatively high excess savings remain an upside risk to private consumption and housing investment.

### Reducing exposure to gas price volatility would support macroeconomic stability

Continuing to strengthen energy security is essential to lower vulnerability to global energy price shocks. Correcting price signals that slow electrification, accelerating the expansion of grid capacity and strengthening short-term flexibility would enable clean generation to displace natural gas reliably. The ongoing fiscal consolidation through a combination of revenue-raising measures, spending cuts, and productivity-enhancing investments remains necessary to rebuild buffers, but careful design is needed to avoid adverse pro-cyclical effects on either near-term growth or inflation. At the same time, planned structural reforms to further expand supply remain necessary, including delivering on the overhaul of infrastructure planning and the simplification of financial services regulation.

# United States

GDP growth is projected to remain around 2% in 2026 before moderating to 1.8% in 2027. While the energy shock and heightened uncertainty stemming from the evolving conflict in the Middle East are expected to sap household consumption growth, underlying growth remains supported by strong AI-related investment. Productivity growth has strengthened, while employment growth has slowed markedly. Higher energy prices will drive a sharp but temporary rise in inflation. Risks are tilted to the downside: a sustained increase in oil prices would weigh further on economic activity, while elevated equity valuations and vulnerabilities in private credit markets pose additional risks. At the same time, the recent pickup in labour productivity growth could prove more durable than assumed.

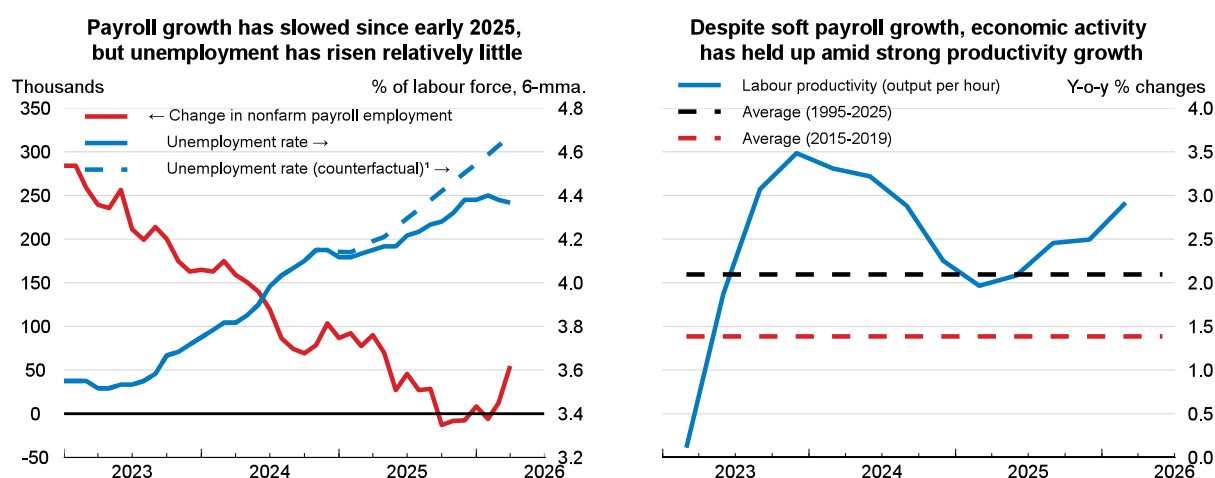
The target range for the policy rate is expected to remain constant at 3.5% to 3.75%, though rate increases may be warranted if inflationary pressures prove more persistent than anticipated. The budget deficit remains historically large, at over 7% of GDP, and will continue to grow. Sustained fiscal consolidation will be needed to contain demand pressures and place the debt ratio on a stable path. Removing bottlenecks to investment in electricity generation, distribution and storage would support energy security.

## Resilient growth meets inflationary pressures and heightened geopolitical risk

Economic activity in the United States remained resilient through the first quarter of 2026 despite a succession of adverse shocks, including higher tariffs, tighter immigration policies, and a contraction in the federal workforce. Output growth moderated to a quarterly annualised average of 2% since the beginning of 2025, broadly in line with estimated potential, as enormous AI-related investment and robust private consumption—supported by elevated equity valuations and concentrated among higher-income households—offset weakening labour market dynamics. Employment growth has slowed notably over the past year plus, yet the unemployment rate has remained broadly stable, reflecting a reduced “breakeven” pace of job creation as labour force growth has waned. At the same time, productivity growth has strengthened modestly above its historical average and well above its pre-pandemic average (a period of similar GDP growth), likely driven by the capital deepening linked to AI-related investment.

More recent high-frequency indicators have been mixed following the onset of the conflict in the Middle East in late February. Headline inflation, already running above target, picked up sharply through April, reflecting both energy price pressures and pass-through from higher food and transportation costs. Already subdued consumer sentiment has sunk further. At the same time, retail sales data through April suggest that real consumption growth is holding up, despite soft growth in real disposable personal income, as the saving rate has fallen to an unusually low level. Fuel exports to Europe and Asia have surged amid supply disruptions and higher global energy prices. In February, the Supreme Court invalidated the Administration’s use of the International Emergency Economic Powers Act to impose broad tariffs, resulting in its removal and an order to issue refunds to affected businesses. Following this ruling, the Administration invoked Section 122 of the Trade Act of 1974 to impose a 10% global tariff, which is being challenged in court and expires in July unless extended by Congress. Nevertheless, the average effective tariff rate on US imports has fallen from 14% before the Supreme Court’s ruling to 9.6% after it, where it is assumed to remain throughout 2026 and 2027. Monthly net tariff revenue, which had already begun to decline from its peak of USD 31 billion before the Supreme Court ruling because of the unwinding of front-loading and a shift to lower-tariffed goods, fell further to USD 22 billion in April 2026 and is expected to continue to fall over the next several months as the Treasury issues tariff refunds.

## United States 1



1. The counterfactual unemployment rate is estimated using the projection of labour force growth over 2025 and 2026 in the BLS's August 2024 Employment Projections and average monthly employment growth since December 2024.

Source: US Bureau of Labor Statistics.

StatLink  <https://stat.link/u5vy1m>

## United States: Demand, output and prices

|                                                              | 2022                          | 2023                                        | 2024  | 2025  | 2026  | 2027  |
|--------------------------------------------------------------|-------------------------------|---------------------------------------------|-------|-------|-------|-------|
|                                                              | Current prices<br>USD billion | Percentage changes, volume<br>(2017 prices) |       |       |       |       |
| <b>United States</b>                                         |                               |                                             |       |       |       |       |
| <b>GDP at market prices</b>                                  | 26 054.6                      | 2.9                                         | 2.8   | 2.1   | 2.0   | 1.8   |
| Private consumption                                          | 17 690.0                      | 2.6                                         | 2.9   | 2.6   | 1.8   | 1.8   |
| Government consumption                                       | 3 563.5                       | 3.0                                         | 3.3   | 0.6   | 0.4   | 0.6   |
| Gross fixed capital formation                                | 5 557.8                       | 3.8                                         | 3.5   | 2.7   | 2.7   | 2.6   |
| Final domestic demand                                        | 26 811.3                      | 2.9                                         | 3.1   | 2.4   | 1.8   | 1.8   |
| Stockbuilding <sup>1</sup>                                   | 181.2                         | -0.5                                        | 0.0   | -0.1  | -0.1  | 0.0   |
| Total domestic demand                                        | 26 992.5                      | 2.4                                         | 3.1   | 2.3   | 1.7   | 1.8   |
| Exports of goods and services                                | 3 036.4                       | 2.8                                         | 3.6   | 1.6   | 4.9   | 2.8   |
| Imports of goods and services                                | 3 974.3                       | -0.9                                        | 5.8   | 2.7   | 2.6   | 2.7   |
| Net exports <sup>1</sup>                                     | - 937.9                       | 0.5                                         | -0.4  | -0.2  | 0.2   | -0.1  |
| <b>Memorandum items</b>                                      |                               |                                             |       |       |       |       |
| GDP deflator                                                 | —                             | 3.7                                         | 2.5   | 2.8   | 3.8   | 2.1   |
| Personal consumption expenditures deflator                   | —                             | 3.8                                         | 2.6   | 2.6   | 3.7   | 2.1   |
| Core personal consumption expenditures deflator <sup>2</sup> | —                             | 4.2                                         | 2.9   | 2.8   | 3.3   | 2.4   |
| Unemployment rate (% of labour force)                        | —                             | 3.6                                         | 4.0   | 4.3   | 4.4   | 4.3   |
| Household saving ratio, net (% of disposable income)         | —                             | 5.8                                         | 5.7   | 4.8   | 4.0   | 4.8   |
| General government financial balance (% of GDP)              | —                             | -7.8                                        | -7.9  | -7.3  | -8.0  | -7.7  |
| General government gross debt (% of GDP)                     | —                             | 121.8                                       | 123.4 | 125.9 | 127.8 | 131.3 |
| Current account balance (% of GDP)                           | —                             | -3.3                                        | -4.0  | -3.6  | -3.1  | -3.1  |

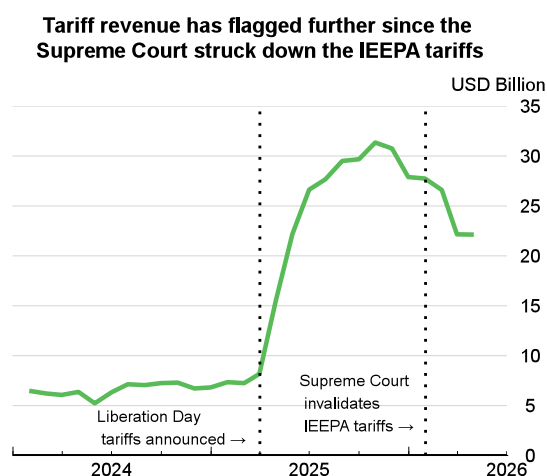
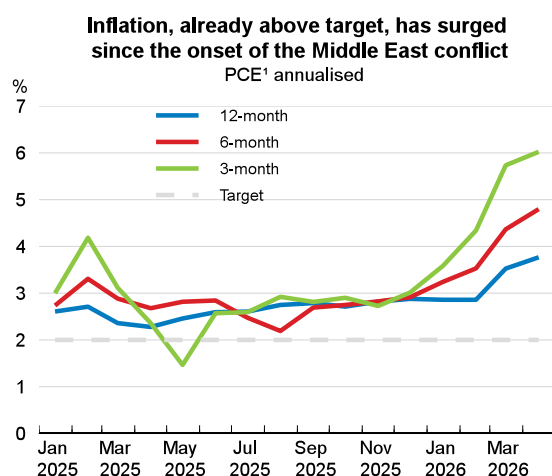
1. Contributions to changes in real GDP, actual amount in the first column.

2. Deflator for private consumption excluding food and energy.

Source: OECD Economic Outlook 119 database.

StatLink  <https://stat.link/8wvcf1>

## United States 2



1. Personal Consumption Expenditures price index.

Source: US Bureau of Economic Analysis; and US Treasury Monthly Treasury Statement.

StatLink <https://stat.link/m7zokx>

## Monetary policy must be vigilant against inflationary pressures, while an already large budget deficit edges up

Following the energy price shock, the Federal Open Market Committee has indicated its willingness to raise the policy rate should significant spillovers occur or evidence arise that inflation expectations have become unanchored. With only modest spillover effects expected and with year-over-year core PCE inflation beginning to fall back towards its 2% target later this year, the target range for the policy rate is projected to remain steady at 3.5% to 3.75%, a roughly neutral stance.

After narrowing somewhat to 7.3% of GDP in 2025, the deficit is expected to expand to 8% of GDP this year as further cuts to discretionary non-defence spending are more than offset by: the net deficit-expanding measures associated with the 2025 One Big Beautiful Bill Act (OBBBA); tariff refunds; an expected boost to defence spending; and fast-growing spending on health care and pensions. As issuance of tariff refunds tails off, the deficit narrows slightly in 2027 but remains elevated. In turn, general government gross public debt as a percentage of GDP will rise from 126% to 131% between 2025 and 2027, one of the highest debt ratios in the OECD.

## Growth will slow temporarily due to the energy price shock and heightened uncertainty

GDP growth is projected to slow over the next couple of quarters before gradually recovering. Private consumption growth is expected to remain subdued in the near term, despite a temporary boost from larger-than-usual tax refunds under the OBBBA, as higher energy prices erode real disposable income gains amid soft payroll growth. As gasoline prices ease and employment growth strengthens, consumption growth is projected to recover. Despite elevated input costs and geopolitical tensions, investment growth remains resilient, supported by very strong AI-related capital spending and more favourable tax treatment of investment. The energy price shock is set to push year-over-year headline PCE inflation sharply higher, peaking around 4% in mid-2026 before declining as energy prices fall back. Core inflation is projected to

step up temporarily, reflecting spillovers from energy and past tariff increases, before gradually returning to target by end-2027 as slack emerges in the economy.

Risks to the projection are tilted to the downside. A sustained increase in oil and gas prices stemming from the evolving conflict in the Middle East would weigh more heavily on activity than currently assumed, despite some offset from higher domestic energy production. Elevated equity valuations leave financial markets vulnerable to a reassessment of risk, particularly in technology sectors, while specific financial pressures—notably in private credit—raise the risk of financial stress. On the upside, recent improvements in labour productivity growth could prove more durable than assumed, supporting stronger output growth without adding to inflationary pressures. Tariff policy is unusually uncertain, and the risks are two-sided. Tariffs that were invalidated by the Supreme Court could be reimposed under other statutes (such as Section 232 or 301), potentially at higher rates. Alternatively, the average effective tariff rate could fall if the 10% global tariff is not extended beyond July or invalidated.

### **Managing higher energy prices and tackling the large fiscal deficit are priorities**

Reducing the large fiscal deficit and stabilising the debt ratio should be a priority given the high debt ratio. This would help lower long-term interest rates and narrow the current account deficit. Achieving steady medium-term fiscal consolidation will require addressing structural spending pressures, notably in health care. Strengthening price regulation and competition in health, expanding value-based payment models, and enhancing care coordination and prevention would help contain cost growth while maintaining or improving outcomes. Enhancing domestic energy security and resilience remains essential. Ageing grid infrastructure, permitting delays and rising exposure to extreme weather events pose risks to reliable supply. Streamlining permitting and expanding investment in electricity generation, grid infrastructure and storage—while preserving market-based incentives—would support resilience and diversification.

# Viet Nam

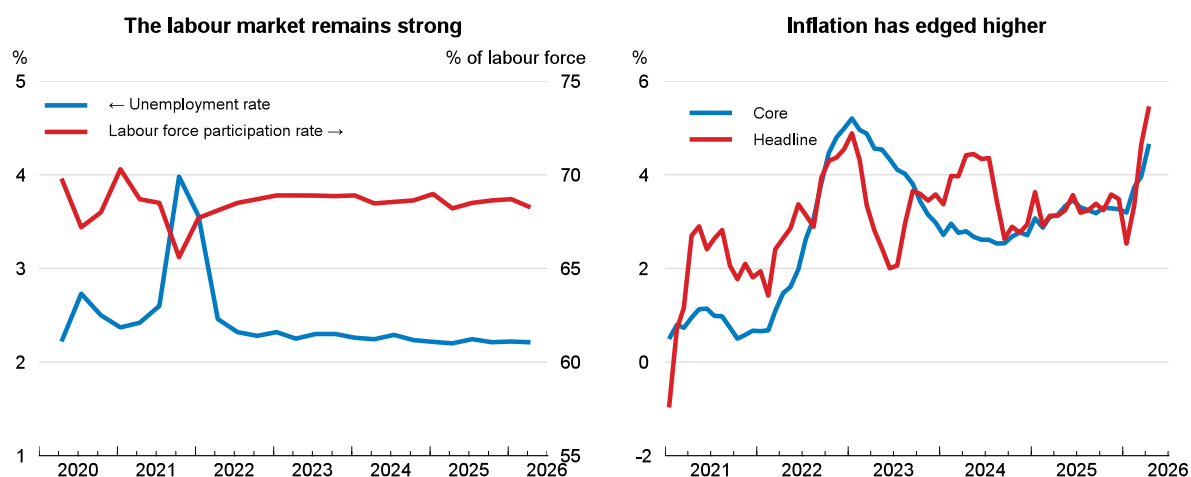
GDP is projected to grow by 6.5% in 2026 and 6.2% in 2027, marking a slowdown amid uncertainty stemming from the evolving conflict in the Middle East and US trade policy. Private consumption will remain buoyant due to steady increases in wages and employment. Investment growth will be supported by the implementation of public-sector-led projects under the new five-year plan. Exports will remain robust partly due to the surging demand for new technology but are subject to downside risks.

The monetary policy stance is expected to remain accommodative and fiscal policy is expected to be expansionary, as the authorities pursue their ambitious growth target of 10% average growth over 2026 to 2030. Improvements in the macroeconomic policy framework and financial sector reforms could improve resource allocation and bolster productivity. Further efforts to ease foreign investment restrictions in services and level the playing field between private and state-owned enterprises could strengthen competition and productivity, while a more comprehensive social protection system would improve resilience to shocks.

## Activity has been robust

GDP grew by 8.0% in 2025 and has remained strong in the first quarter of 2026, with GDP increasing by 7.8% year-on-year. Private consumption remained resilient, underpinned by increases in wages and employment. Public investment was strong, supported by progress in infrastructure projects. The labour market is tight with a historically low unemployment rate of 2.2%, and the labour force participation rate increased to 68.7% toward the end of 2025, followed by a slight decline to 68.3% in the first quarter of 2026. Headline and core inflation both rose in April 2026, to 5.5% and 4.7%, respectively. Fuel and transport prices increased by 11.1% year-on-year.

## Viet Nam



Source: CEIC.

StatLink  <https://stat.link/cgi5eo>

## Viet Nam: Demand, output and prices

|                                                       | 2022                           | 2023                                        | 2024 | 2025 | 2026 | 2027 |
|-------------------------------------------------------|--------------------------------|---------------------------------------------|------|------|------|------|
|                                                       | Current prices<br>VND trillion | Percentage changes, volume<br>(2010 prices) |      |      |      |      |
| <b>Viet Nam</b>                                       |                                |                                             |      |      |      |      |
| <b>GDP at market prices</b>                           | 9 621.4                        | 5.0                                         | 7.0  | 8.0  | 6.5  | 6.2  |
| Private consumption                                   | 5 260.9                        | 3.1                                         | 6.7  | 7.3  | 6.3  | 6.3  |
| Government consumption                                | 848.5                          | 4.6                                         | 5.8  | 11.9 | 7.9  | 6.4  |
| Gross fixed capital formation                         | 2 940.9                        | 4.7                                         | 7.1  | 8.6  | 7.4  | 6.8  |
| Final domestic demand                                 | 9 050.3                        | 3.8                                         | 6.8  | 8.2  | 6.8  | 6.5  |
| Stockbuilding <sup>1</sup>                            | 216.4                          | -1.4                                        | 0.6  | 0.6  | 0.4  | -0.1 |
| Total domestic demand <sup>2</sup>                    | 9 266.7                        | 2.3                                         | 7.3  | 8.7  | 7.1  | 6.3  |
| Exports of goods and services                         | 8 988.3                        | -3.2                                        | 16.0 | 16.3 | 7.2  | 3.7  |
| Imports of goods and services                         | 8 633.6                        | -5.8                                        | 16.4 | 17.1 | 7.8  | 3.8  |
| Net exports <sup>1</sup>                              | 354.7                          | 2.6                                         | -0.1 | -0.6 | -0.5 | -0.1 |
| <b>Memorandum items</b>                               |                                |                                             |      |      |      |      |
| GDP deflator                                          | —                              | 2.2                                         | 4.2  | 3.3  | 4.1  | 3.0  |
| Consumer price index                                  | —                              | 3.3                                         | 3.6  | 3.2  | 5.2  | 4.6  |
| General government financial balance (% of GDP)       | —                              | -1.6                                        | -3.8 | -4.2 | -4.8 | -4.8 |
| General government gross debt <sup>4</sup> (% of GDP) | —                              | 33.8                                        | 32.3 | 31.5 | 31.8 | 32.6 |
| Current account balance (% of GDP)                    | —                              | 5.8                                         | 5.9  | 6.7  | 4.5  | 3.4  |

1. Contributions to changes in real GDP, actual amount in the first column.

2. Data for nominal value includes the statistical discrepancy.

3. Consumer price index excluding food, energy and items managed by the state, including healthcare and education.

4. Data exclude the government-guaranteed debt.

Source: OECD Economic Outlook 119 database.

StatLink  <https://stat.link/n95wjc>

Exports remained robust throughout 2025 and maintained their momentum in early 2026. Despite the imposition of US tariffs, goods exports remained strong against the backdrop of surging demand for semiconductor-related goods. Services exports have also remained strong, particularly in the tourism sector. Foreign direct investment (FDI), an important driver of growth for Viet Nam, has continued its steady increase. With more than 80% of Viet Nam's oil imports coming from the Middle East, Viet Nam is strongly exposed to the evolving conflict in the Middle East.

## Macroeconomic policies should be ready for shocks

Fiscal policy will continue to support growth through increased public investment, pursuing an ambitious growth target of 10% average growth over 2026 to 2030. The fiscal deficit of the general government is expected to widen to 4.8% of GDP this year, mainly due to tax cuts in response to higher energy prices. The current energy-related tax cuts include setting import tariffs and the environmental protection tax on petroleum products to zero until end-June. Considering that public debt, at 31.5% of GDP in 2025, is well below the 60% ceiling, Viet Nam has fiscal space to address emerging medium-term spending pressures and short-term spending needs. The monetary policy stance, defined through quantitative credit targets, has been accommodative since June 2023 and is expected to remain supportive during 2026 and 2027.

## Growth is expected to slow amidst downside risks

GDP growth is projected to slow to 6.5% in 2026 and 6.2% in 2027 amid higher energy prices and measures to limit energy use. Private consumption will remain buoyant due to strong wages and employment, while the higher energy-related costs and the planned VAT rate increase at the beginning of 2027 will likely dampen private consumption temporarily and keep inflation elevated. Investment growth

will be supported by public-sector-led projects under the new five-year plan. However, if project implementation falls short of schedule, the growth effect may turn out lower or materialise later. Exports are expected to lose momentum in 2026 as possible supply disruptions, increased transport costs and the phase-out of front-loaded foreign demand, including on semiconductor-related products, take their toll. Service exports, particularly those related to tourism, are expected to remain robust. As a small trade-dependent economy and a net importer of oil and gas from the Middle East, Viet Nam is particularly vulnerable to higher energy prices and energy shortages, including of refined fuels. Additional downside risks stem from trade policy uncertainty and a possible increase in non-performing loans.

## Reforms could strengthen productivity and social outcomes

The central bank should closely monitor inflation risks from rising energy prices and related second-round effects and stand ready to tighten monetary policy if needed. Moving towards a price-based monetary policy would improve macroeconomic resilience and facilitate stronger competition in financial markets, potentially improving the allocation of capital and raising productivity. Regulatory reforms, such as opening up services markets to competition and FDI, hold significant potential to boost productivity, in addition to reducing the weight of state-owned enterprises and levelling the playing field with private firms. Informality affects around two-thirds of employees, limiting resilience and holding back productivity growth. Stronger incentives for formal job creation could result from efforts to reduce the labour tax wedge for low-income earners while enhancing the role of non-contributory social protection benefits. Investing in climate-change adaptation measures will be key to enhance climate resilience against floods, typhoons and rising sea levels. Tax cuts on fuels should remain time-bound, while stronger efforts to accelerate the rollout of renewable energy sources would help support both energy security and emission reductions.

# OECD Economic Outlook

Under Pressure

**June 2026**

**Volume 2026/1, No. 119**

The evolving conflict in the Middle East is having significant humanitarian costs and testing the resilience of a global economy boosted by with solid underlying strong AI-related activity. The prices of energy and other key inputs produced in the Persian Gulf have soared since February, pushing up headline inflation, and some signs of supply shortfalls are emerging amidst disruptions to production and exports. Given the exceptionally uncertain situation this Economic Outlook presents two distinct scenarios of how the global economy could evolve over the next eighteen months. A time-limited disruption scenario, with energy production in the Gulf economies recovering from the third quarter of 2026 would result in global growth moderating in 2026 before picking up in 2027. A prolonged disruption scenario, with supply constraints persisting until the latter half of 2027, would result in significantly weaker growth outcomes and substantially higher inflation in both 2026 and 2027. The slowdown could be exacerbated if AI investment is adversely impacted by disruptions to the supply of energy and other key products or if national export restrictions are introduced. Amidst heightened uncertainty, flexible and agile public policies are needed to ensure macroeconomic stability. Key medium-term policy priorities also remain, such as the need to establish a credible fiscal path to debt sustainability, enhance energy security and resilience, secure a lasting decline in trade tensions and strengthen the prospects for sustainable and resilient growth.

This issue includes an assessment of the global economic situation, a chapter on government policy responses to current energy crisis and policies to strengthen energy resilience, a chapter on the economic consequences of higher defence spending and a chapter summarising developments and providing projections for each individual country. Coverage is provided for all OECD Members as well as for selected partner economies.



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