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The global economic outlook

- 1. The energy shock from the ongoing conflicts in the Middle East has slowed global growth and increased inflationary pressures.** Global growth declined from an annualised rate of 3.5% in the second half of last year to 2.7% in the first half of this year. High energy prices have pushed inflation above central bank targets in more than half of G20 countries. Yet, the global economy has absorbed the energy shock better than expected, with growth in the first half of this year exceeding the projection of 2.4% in the June OECD Economic Outlook.
- 2. Oil markets adjusted quickly on both the supply and demand sides.** On the supply side, extra production outside the Gulf, alternative export routes and large drawdowns of inventories helped fill the gap. On the demand side, consumers and businesses cut back energy consumption and, in some cases, switched to energy inputs that have faced less severe supply disruptions, such as coal. In China, energy imports and oil consumption fell sharply.
- 3. Stronger AI investment has been a powerful boost to production and trade.** In the 12 months to July 2026, production of computers and electronics grew by 18% in the European Union, 11% in the United States, 19% in China and 12% in other major Asian economies. Total industrial production in the European Union stagnated over the same period, and in the United States it grew by only 1%. Seventy per cent of the annual growth in global goods trade value came from AI-enabling products between January and May 2026.
- 4. The global economy remains exposed, as the buffers that helped absorb the initial shock are thinner now.** Observed global oil inventories were 507 million barrels lower in August than in February 2026, a fall of around 6%. The Strategic Petroleum Reserve in the United States is at its lowest level since 1982. Gas stocks have also been drawn down. In Europe, natural gas reserves as a share of total capacity are at the lowest level for this time of year in more than 15 years.
- 5. Energy prices have risen again.** In September 2026, oil prices returned to more than USD 100 per barrel, after falling to around USD 70 in early July. Gas prices rose even more sharply, in Europe to their highest level since 2022. Bottlenecks in refining are adding a second layer of cost in addition to higher oil prices. Refinery margins in Asia, Europe and the United States increased several-fold between February and August 2026, raising upward pressure on gasoline and diesel prices.
- 6. Consumer price inflation is turning up again.** Global headline inflation rose in August, and daily data for September show that prices were increasing faster than the historical average for the time of year. The effects of higher energy prices continue to work their way through the economy. Inflation expectations generally appear anchored but, after peaking in April and May 2026, have recently risen again in several major economies, including the euro area, the United Kingdom and the United States.
- 7. The OECD Interim Economic Outlook released on 23 September 2026 projects global GDP growth of 2.9% in 2026 and 3.0% in 2027, down from 3.4% in 2025.** This projection is conditional on the technical assumption that energy prices evolve in line with futures markets as of 14 September 2026. On this basis, energy prices peak at the end of 2026 and decline from early 2027, with oil averaging USD 105 per barrel in the last quarter of this year and USD 85 next year. Global growth is expected to be held back through the end of 2026, as inventory buffers are strained and inflation weighs on household purchasing power. The assumed easing of energy prices prompts a gradual recovery through 2027. AI-related investment and production will continue to support growth and offset relatively weak investment in other parts of the business sector.

8. In G20 advanced economies, real GDP growth is projected to remain broadly stable. In the United States, strong momentum in economic activity and further expansion of AI investment will offset lower real income growth and reduced household savings. As a result, GDP growth is projected to be 2.2% in 2026 and 2.1% in 2027. Upward revisions to GDP growth and downward revisions to consumer price inflation for the first half of this year, released at the end of September, suggest that US growth could be even stronger in 2026 than projected in the OECD Interim Economic Outlook. In the euro area, growth is expected to remain moderate at 1.0% in both 2026 and 2027. Higher energy prices and policy rates are expected to weigh on activity, though the impacts will fade as inflation eases and new defence spending initiatives gain pace. The UK economy is projected to grow by 1.1% in 2026 and 1.0% in 2027, with private consumption supported by government measures. In Japan, demand will be sustained by strong business investment amid robust corporate profits and government consumption. These positive forces will be offset by rising policy rates and higher costs for energy imports, with growth projected to ease slightly from 0.8% in 2026 to 0.7% in 2027.

9. Real GDP growth in G20 emerging market economies is also projected to be broadly stable, though the pattern of growth differs across countries. In China, growth is projected to ease further from 5.0% in 2025 to 4.5% in 2026 and 4.2% in 2027. A gradual rise in inflation is expected to weigh on consumption, and government efforts to rein in industrial overproduction will constrain business investment growth. In India, despite strong momentum, reduced purchasing power is expected to weaken growth in the near term. Growth is projected to decline from 7.8% in the fiscal year 2025-2026 to 7.1% in the fiscal year 2026-2027 and 6.5% in the fiscal year 2027-2028. In Indonesia, growth is projected to remain broadly stable at 5.2% in 2026 and 5.1% in 2027, with more favourable prices for its exports relative to its imports supporting further investment.

10. Inflation is projected to continue to increase through the end of this year before gradually moderating, with the assumed easing of global energy prices from early 2027 and tighter monetary policy helping limit broader price pressures. Headline inflation in the G20 is expected to rise from 3.4% in 2025 to 4.1% in 2026, before declining to 3.6% in 2027. In G20 advanced economies, headline inflation is projected at 2.5% in 2025, 3.2% in 2026 and 2.6% in 2027. In the euro area and the United States, headline inflation is expected to stay elevated in the near term before easing in 2027. In contrast, headline inflation in Japan is projected to strengthen in 2027 amid a tight labour market. Government measures will mitigate energy price pressures in many economies, including India, Indonesia and Mexico. Core inflation in G20 advanced economies is projected to ease slightly from 2.7% in 2026 to 2.5% in 2027.

11. The risks around the outlook are substantial, with the most immediate being further cuts to energy supplies from the Middle East. Damage to production facilities, continued restrictions in the Strait of Hormuz or disruptions to alternative routes, such as the Bab al-Mandeb Strait, could cause shortages and push energy prices above the assumed trajectory. This would raise the projected path for inflation and lower growth.

12. Food prices are another key risk. Between late May and mid-September, food-price futures for the first two quarters of 2027 rose by an average of 8%. Hot and dry weather has hurt harvest prospects in the Northern Hemisphere, and Russia's war of aggression against Ukraine continues to disrupt grain exports through the Black Sea. There is also a 98% chance of a very strong El Niño before the end of this year, which could damage crops and add to growing food price pressures.

13. Fiscal and financial risks have also increased. In September 2026, 30-year government bond yields were at their highest levels in 15 years or more in all G7 economies other than Italy. Higher yields mean higher debt-servicing costs for governments, whose budgets are already under strain, and higher borrowing costs for businesses and households.

14. AI is a source of both upside and downside risks. Faster adoption of AI technologies could lift productivity and growth. But AI infrastructure needs enormous amounts of capital, and analyst earnings forecasts for AI-related firms suggest that earnings growth will need to rise rapidly over the coming few

years for investor expectations to be met. If earnings disappoint, investment could slow sharply and asset prices could fall.

15. An illustrative adverse scenario highlights the potential impact of some of these downside risks. Persistently higher energy and food prices and tighter financial conditions could cut 0.7 percentage points from global growth in 2027 and add 1.1 percentage points to inflation. On the upside, a 10% fall in energy prices from the fourth quarter of 2026 onwards is estimated to raise global growth by 0.1 percentage points in 2027 and reduce global inflation by 0.3 percentage points.

Policy requirements

16. Strong fiscal discipline is needed to avoid a short-term rise in budget deficits and ensure the long-term sustainability of public finances. Higher energy prices are putting pressure on governments to extend or reintroduce support for households and firms. Where support is needed, it must be targeted and temporary, and it should preserve incentives to save energy and diversify supply. Yet, as of September 2026, only about half of active fiscal energy-support measures across 50 OECD and non-OECD countries were targeted. Untargeted support adds more to public spending at a time when debt is already high and the costs of ageing, defence and debt servicing are rising. In every G20 country except Germany and Türkiye, public debt as a share of GDP was higher in the first quarter of 2026 than at the end of 2007. Countries need to contain and reallocate spending, improve public-sector efficiency and make tax systems more effective. They should also protect investment that drives future growth, especially in education, skills and digital infrastructure.

17. Central banks need to ensure that inflation expectations remain well anchored. This year's energy shock ended the global cycle of interest rate cuts. Around two-fifths of central banks across OECD and other economies have increased policy rates since March. Central banks may not need to respond to temporary, energy-driven rises in inflation. However, they must act if price pressures broaden or growth and labour market conditions weaken sharply.

18. As they manage today's pressures, governments also need to look to the medium term to enhance growth prospects and resilience through structural reforms. Diversifying energy supply and improving energy efficiency would reduce exposure to disruptions. Reforms that strengthen competition, remove barriers to business investment and make it easier for workers and capital to move towards more productive activities would help economies adapt to technological change and lift potential growth.

19. A strong skills base is important for adapting to structural and technological change. But the skills foundation is weakening. The latest results of the OECD's Programme for International Student Assessment (PISA), published on 8 September 2026, show that reading and mathematics performance across OECD countries is at its lowest level on record. OECD evidence also points to declining adult skills. Reversing these trends and strengthening digital and AI literacy are essential to enable wider adoption of new technologies, lift productivity and boost long-term growth.