OECD Economic Outlook, Interim Report

Weathering Successive Shocks

September 2026

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Summary

- Global growth moderated in the first half of 2026, but remained resilient in many countries despite the adverse effects from the conflict in the Middle East. Sizeable oil inventories, additional supply from outside the Gulf economies and discretionary government support measures all helped to cushion the impact on the global economy. Continued strong AI-related activity also bolstered investment, production and trade.
- Global economic prospects remain heavily dependent on whether a durable resolution to the Middle East conflict is achieved. Energy prices have recently risen again amidst intensified disruptions to production and exports in the Gulf economies. Elevated refining margins due to production bottlenecks are placing additional upward pressure on consumer prices and business costs. Prices for some agricultural commodities have also risen markedly in recent months, partly due to the impact of extreme weather on supply.
- Continued changes in trade policies, both tariffs and export restrictions, add to policy uncertainty and contribute to supply disruptions. New US bilateral tariff rates from July are estimated to have raised the average US effective tariff rate by around 1 percentage point.
- Long-term interest rates have risen to the highest levels in 15 years or more in many economies, amidst mounting concerns about longer-term fiscal risks and heavy bond issuance by AI-firms. Nonetheless, broader financial conditions remain supportive, reflecting elevated equity markets and improved credit growth.
- Global GDP growth is projected to be 2.9% in 2026 and 3.0% in 2027. Stronger price pressures, weaker real income growth and higher interest rates will moderate near-term growth momentum in many economies, but robust AI-related activity and an assumed easing of energy prices in line with futures markets next year will help activity strengthen through 2027.
- Annual GDP growth in the United States is projected to be 2.2% in 2026 and 2.1% in 2027, with strong AI-related investment somewhat offset by a slowdown in consumer spending and real income growth. Euro area GDP is anticipated to rise by 1.0% in both 2026 and 2027, with demand strengthening once energy prices normalise and new defence initiatives gain pace. In China, growth is projected to moderate to 4.5% in 2026 and 4.2% in 2027.
- Inflation is projected to increase in the near-term, reflecting commodity price increases, before easing gradually in 2027 as moderating energy prices and tighter monetary policy help to limit broader price pressures. G20 headline inflation is projected to fall from 4.1% in 2026 to 3.6% in 2027. Core inflation in the advanced economies is anticipated to moderate from 2.7% in 2026 to 2.5% in 2027.

- There is considerable uncertainty around this outlook, particularly about possible developments in energy markets. The path of oil and gas prices depends critically on the duration of supply disruptions, the extent to which producers and consumers can adjust and geopolitical developments. A faster normalisation of energy markets would ease inflationary pressures and support activity, while renewed or more persistent disruptions could result in both higher inflation and weaker growth.
- Other significant downside risks include potential weather-related supply shocks, including a very strong El Niño, that adversely impact agricultural production and add to rising food price pressures. Further increases in long-term sovereign bond yields or AI investment returns that fail to meet expectations could also prompt repricing in asset markets and weaken growth prospects. On the upside, faster productivity-enhancing adoption of AI technologies might result in stronger growth than projected.
- Faced with the renewed energy price shock and above-target inflation, central banks need to ensure that inflation expectations stay well anchored. Further monetary policy adjustments may be needed if price pressures show signs of broadening or if growth prospects weaken substantially.
- Safeguarding financial stability requires careful supervision, and progressing with robust regulatory policies for non-bank financial intermediaries and crypto-assets, including closing data gaps.
- Government measures to cushion the impact of higher energy prices should be well-targeted, preserve incentives to reduce energy use and diversify energy sources, and have clear expiry mechanisms.
- Rising bond yields underline more than ever the need for enhanced efforts to contain and reallocate government spending, improve public sector efficiency and strengthen revenues to ensure longer-term debt sustainability and maintain the ability of governments to react to significant shocks. The appropriate pace and composition of such adjustments will depend on the specific circumstances and challenges facing each country, and should be set within credible multi-year strategies to achieve longer term consolidation.
- Structural policy reforms are also needed to raise potential output growth and strengthen economies' resilience to further supply-side disruptions. These include measures that further diversify energy supply and improve energy efficiency, along with those that enhance the ability of product and labour markets to adjust to shocks and ensure workers have the skills needed to adapt to structural change.
- The sharp declines in student performance highlighted by the new OECD PISA findings reinforce the urgency of improving education outcomes and skills, alongside digital literacy, while ensuring that adults have opportunities to develop and adapt their skills as technology and labour market needs evolve.
- Reforms to make the global trading system fairer and more resilient, while preserving the benefits of open markets, would help strengthen the prospects for sustainable and resilient growth.

Table 1. Global growth has moderated

	2025	2026		2027	
		Interim EO projections	Difference from June EO	Interim EO projections	Difference from June EO
World	3.4	2.9	0.1	3.0	-0.1
G20[1]	3.3	3.1	0.1	3.0	0.0
Australia	2.0	1.9	0.0	1.7	-0.1
Canada	1.9	0.9	-0.3	1.3	-0.4
Euro area	1.3	1.0	0.2	1.0	-0.2
Germany	0.3	1.1	0.4	1.1	0.0
France	0.9	0.4	-0.3	0.7	-0.1
Italy	0.5	0.9	0.4	0.6	0.0
Spain[2]	2.8	2.6	0.4	1.8	0.1
Japan	1.2	0.8	0.2	0.7	-0.1
Korea	1.1	3.7	1.1	2.6	0.7
Mexico	0.7	1.5	0.7	1.8	0.0
Türkiye	3.7	2.7	-0.4	3.6	-0.2
United Kingdom	1.3	1.1	0.2	1.0	-0.1
United States	2.1	2.2	0.2	2.1	0.3
Argentina	4.5	2.6	-0.2	3.0	-0.5
Brazil	2.3	2.0	0.4	1.9	-0.2
China	5.0	4.5	0.0	4.2	-0.1
India[3]	7.8	7.1	0.8	6.5	0.1
Indonesia	5.1	5.2	0.5	5.1	0.1
Russia	1.0	0.5	0.0	0.6	-0.2
Saudi Arabia	4.6	-1.8	-5.0	4.1	-0.2
South Africa	1.1	1.2	0.0	1.3	-0.3

Note: Difference from June 2026 OECD Economic Outlook in percentage points, based on rounded figures. World and G20 aggregates use moving nominal GDP weights at purchasing power parities (PPPs). Revisions to PPP estimates affect the differences in the aggregates. Based on data available up to 16 September 2026.

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

Source: OECD Interim Economic Outlook 120 database; and OECD Economic Outlook 119 database.

Table 2. Headline inflation is projected to rise in 2026

	2025	2026		2027	
		Interim EO projections	Difference from June EO	Interim EO projections	Difference from June EO
G20[1]	3.4	4.1	0.1	3.6	0.5
Australia	2.8	4.5	0.1	2.8	0.2
Canada	2.1	2.8	0.4	2.5	0.5
Euro area	2.1	3.0	0.2	2.9	0.5
Germany	2.3	2.9	0.2	3.3	0.5
France	0.9	2.5	0.4	2.1	0.3
Italy	1.6	3.0	0.0	2.6	0.4
Spain[2]	2.7	3.7	0.4	3.4	0.5
Japan	3.2	1.8	0.0	2.6	0.4
Korea	2.1	3.0	0.4	2.7	0.5
Mexico	3.8	4.1	0.2	3.4	0.2
Türkiye	34.9	31.5	3.1	24.7	6.4
United Kingdom	3.4	3.1	-0.6	2.6	0.2
United States	2.6	3.6	-0.1	2.6	0.5
Argentina	41.9	30.8	0.3	20.5	4.9
Brazil	5.0	5.1	0.7	4.3	0.7
China	-0.1	1.4	-0.1	1.9	0.0
India[3]	2.1	4.7	-0.1	4.2	0.2
Indonesia	1.9	3.3	-0.1	3.0	0.5
Russia	8.7	6.5	0.0	6.0	1.4
Saudi Arabia	2.0	1.8	-0.2	2.1	0.0
South Africa	3.2	4.1	-0.1	3.8	0.1
Memorandum item					
G20 countries excluding Argentina and Türkiye	2.2	3.0	-0.1	2.9	0.4

Note: Difference from June 2026 OECD Economic Outlook in percentage points, based on rounded figures. The G20 aggregate uses moving nominal GDP weights at purchasing power parities (PPPs). Revisions to PPP estimates affect the difference in the aggregate. Based on data available up to 16 September 2026.

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

Source: OECD Interim Economic Outlook 120 database; and OECD Economic Outlook 119 database.

Table 3. Core inflation is projected to moderate slowly

	2025	2026		2027	
		Interim EO projections	Difference from June EO	Interim EO projections	Difference from June EO
G20 Advanced Economies[1]	2.6	2.7	0.0	2.5	0.2
Australia	3.2	3.5	0.0	3.1	0.0
Canada	2.5	1.8	-0.2	2.2	0.2
Euro area	2.4	2.4	0.0	2.6	0.2
Germany	2.8	2.5	-0.1	2.9	0.0
France	1.6	1.6	0.0	2.2	0.5
Italy	1.9	1.9	-0.4	2.0	0.0
Spain[2]	2.6	3.4	0.5	2.9	0.3
Japan	1.7	1.5	-0.1	2.0	0.0
Korea	1.9	2.7	0.2	2.6	0.3
Mexico	4.1	4.1	0.1	3.2	0.0
Türkiye	35.5	30.0	3.5	24.6	6.8
United Kingdom	3.5	2.8	-0.3	2.6	-0.1
United States	2.8	3.3	0.0	2.5	0.1
India[3]	3.4	4.1	0.3	4.1	0.1
South Africa	3.2	3.6	0.0	3.7	0.2

Note: Difference from June 2026 OECD Economic Outlook in percentage points, based on rounded figures. The G20 advanced economies aggregate uses moving nominal GDP weights at purchasing power parities (PPPs). Revisions to PPP estimates affect the difference in the aggregate. Core inflation excludes food and energy prices. Based on data available up to 16 September 2026.

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

Source: OECD Interim Economic Outlook 120 database; and OECD Economic Outlook 119 database.

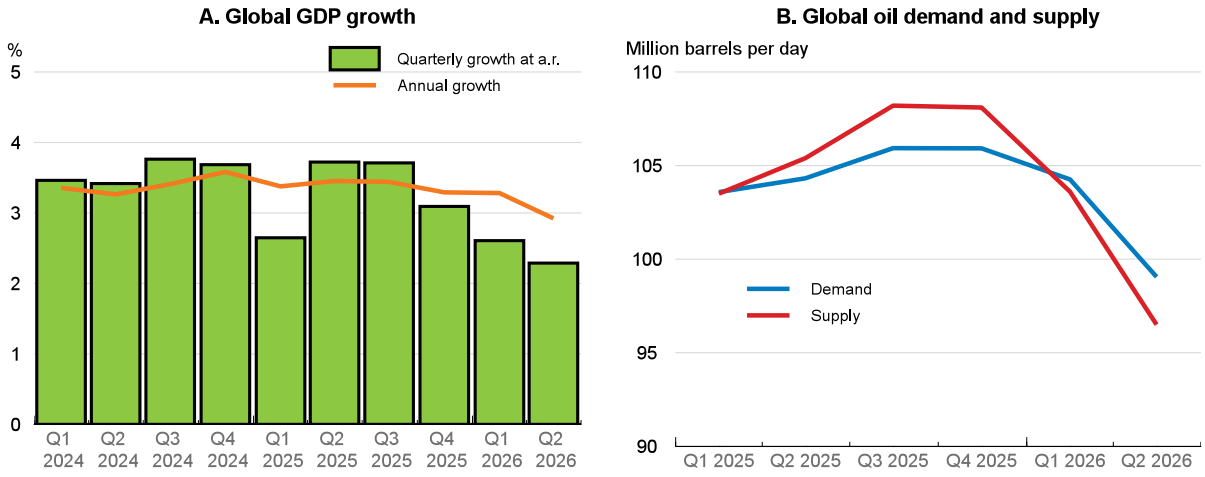
Recent developments

Global growth has eased with conflict impacts partly offset by strong AI activity

1. The pace of global growth moderated in the first half of 2026 to an annualised rate of 2.6% (Figure 1, Panel A), down from 3.6% in the latter half of 2025. Output fell sharply in the countries directly affected by the conflict in the Middle East, including Saudi Arabia, but proved more resilient than anticipated in many energy-importing and energy-exporting economies. A sharp reduction in energy supply from the Gulf economies (Figure 1, Panel B) and the associated surge in oil and gas prices pushed up consumer prices and reduced demand for the affected commodities (Figure 1, Panel B). The broader impact of this shock was cushioned by the widespread reintroduction of discretionary government support measures, some switching to alternative commodity inputs such as coal, additional energy supply from outside the Gulf, and drawdowns of oil reserves. Developments in China also helped to balance energy markets, with a sharp fall in energy imports, a marked reduction in inventories and a sizeable decline in oil consumption.

2. The aggregate economic effects of the conflict were partially counterbalanced by the continued rapid growth in artificial intelligence-related investment and production in many economies. In some, such as the United States, Canada and Australia, real GDP growth in the second quarter was boosted by investment in data centre structures and technology equipment. In turn, this stimulated growth in countries that intensively produce the related technology and construction components. Korea and Japan, two major semiconductor manufacturers, experienced a large boost in technology exports through the period. This was also the case in China, whilst growth in several other G20 emerging market economies, such as India, Indonesia and Brazil, was underpinned by resilient domestic demand and government policies that cushioned households and firms from the impact of higher energy prices. Several European economies, including the United Kingdom and Spain, also experienced solid domestic demand growth in the second quarter, while a recovery in exports supported an upturn in Germany.

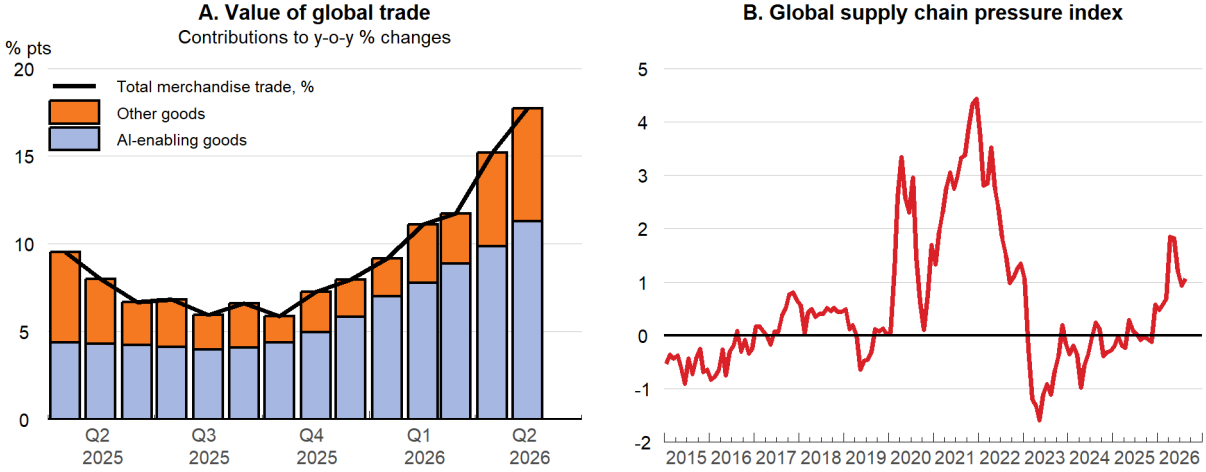
Figure 1. Global growth has moderated amid a sharp deterioration in oil supply and demand



Note: In Panel A, annual growth denotes the change over the year to the quarter shown. Quarterly growth at a.r. denotes quarter-on-quarter growth at an annualised rate. The global aggregates are PPP-weighted measures.
Source: OECD Interim Economic Outlook 120 database; IEA Oil Market Report and OECD calculations.

3. Global merchandise trade recovered gradually following the initial impact of the conflict, despite rising transportation costs. AI-related goods shipments continued to be a major supporting factor (Figure 2, Panel A), particularly boosting trade growth in Asian economies. Trade growth in non-AI goods has also begun to rise, helped by higher commodity prices and stronger inventory building in importing countries. Shipping activity data suggest that the recovery in merchandise trade continued into the third quarter, with indicators of supply chain pressures having moderated after spiking immediately following the onset of the conflict (Figure 2, Panel B). However, available data suggest that shipping through the Straits of Hormuz has remained at very low levels.

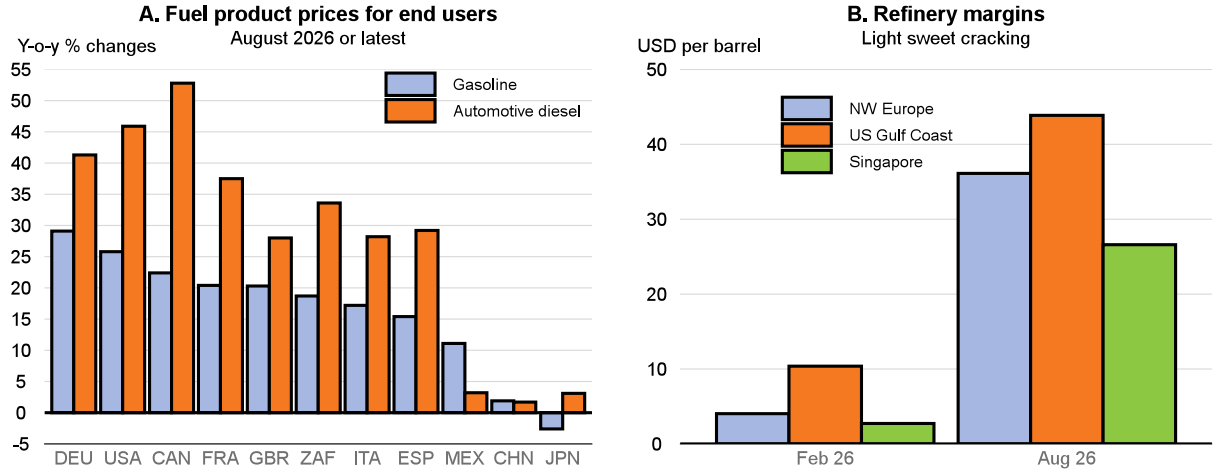
Figure 2. AI-related goods shipments continue to support global trade



Note: Panel A based on monthly merchandise trade statistics in nominal USD, using a three month moving average. Trade values are computed as the average of exports and imports for selected countries that have timely customs data up to May 2026. 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. AI-related goods are the 104 products at the HS6 level defined by the WTO.
Source: Federal Reserve Bank of New York, Global Supply Chain Pressure Index; Eurostat; ITC Trade Map; UN Comtrade; WTO; and OECD calculations.

4. Activity data prior to the renewed upturn in energy prices suggested that global growth has remained broadly stable in recent months. The global composite output PMI continued to recover through to August, led by an upturn in services, especially in the advanced economies. Technology-related industrial production has also maintained rapid growth, particularly in Asia, but also in the United States and, more recently, in many European economies. A decline in household saving rates from historically high levels and strong equity-related wealth effects in some countries have helped to support consumer spending. Consumer confidence has improved since May in the advanced economies despite the disruptions stemming from the conflict, partly reflecting stable labour market conditions. Unemployment rates remain at low levels and measures of job vacancies have been steady in most countries. Nonetheless, available credit card data for the United States, Germany and the United Kingdom show households dedicating a higher proportion of their spending towards fuel, amid very rapid growth in gasoline and diesel prices since the onset of the conflict. These price increases have reflected both the increase in crude oil prices and higher margins amidst rising bottlenecks within the refining sector (Figure 3). Higher fuel prices for consumers come at a time when the level of real wages in some G20 economies, such as Japan, South Africa and Italy, are still at or below the pre-pandemic level.

Figure 3. Gasoline and diesel prices have risen rapidly in many economies due to higher crude costs and rising refinery margins

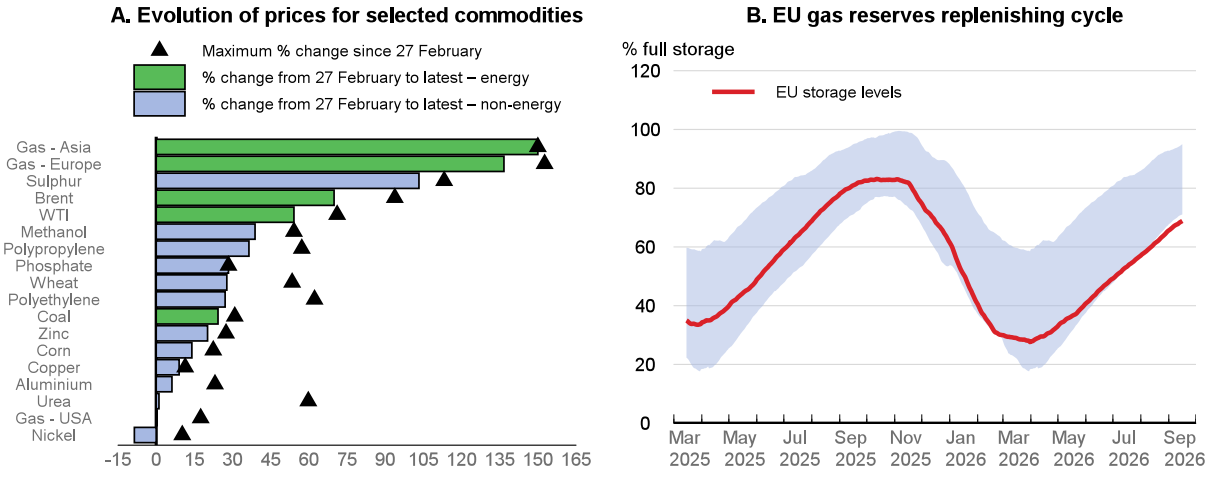


Note: In Panel A, the data correspond to July for China and Mexico, and to August for other countries.
Source: IEA Oil Market Report; CEIC; Automobile Association of South Africa; and OECD calculations.

5. Global economic prospects remain dependent on whether a durable resolution to the Middle East conflict is achieved. Prices in energy markets had moderated in June and July, alongside a pick-up in oil production and exports in the Gulf economies. More recently, prices have rebounded once again amidst intensified disruptions to production and exports in the Gulf economies and new threats to shipping in the Bab al-Mandab Strait, with futures markets pointing to only mild price changes in the next few months. The jump in gas prices in Europe and Asia has been especially pronounced, amidst summer heatwaves and low inventories (Figure 4, Panel A). In Europe, natural gas stocks as a share of total capacity sit at the lowest level for this time of year in over 15 years (Figure 4, Panel B). Crude oil prices and fuel product prices remain well above their levels a year ago. Globally, IEA estimates suggest that observed oil inventories in August were some 507 million barrels lower than in February, a decline of just over 6%. Sharper declines have occurred in some countries. In European OECD countries, fuel oil industry stocks have fallen by over 20% and the Strategic Petroleum Reserve in the United States has fallen to its lowest level since 1982.

6. Prices of other commodities for which the Gulf economies are important producers generally remain above pre-conflict levels, though developments have differed across the individual commodities (Figure 4, Panel A). Sulphur and petrochemical compound prices remain notably higher. In contrast, some fertiliser prices such as urea have moderated substantially from the peak in mid-April and are now back around pre-conflict levels, partly due to a relaxation of urea export quotas in China. Prices for corn and wheat have risen markedly in recent months, reflecting weather-related concerns over crop prospects in key producing regions and continued disruptions to the supply of grains from the Black Sea.

Figure 4. Gas prices have risen markedly, with gas stocks in Europe at historically low levels



Note: Panel A is based on data up to 17 September 2026. Panel B is based on data up to 16 September 2026. The shaded area is the range of the minimum and maximum EU average for each day over 2016-25. The "% full storage" measures the working gas volume available.
Source: LSEG; AGSI; and OECD calculations.

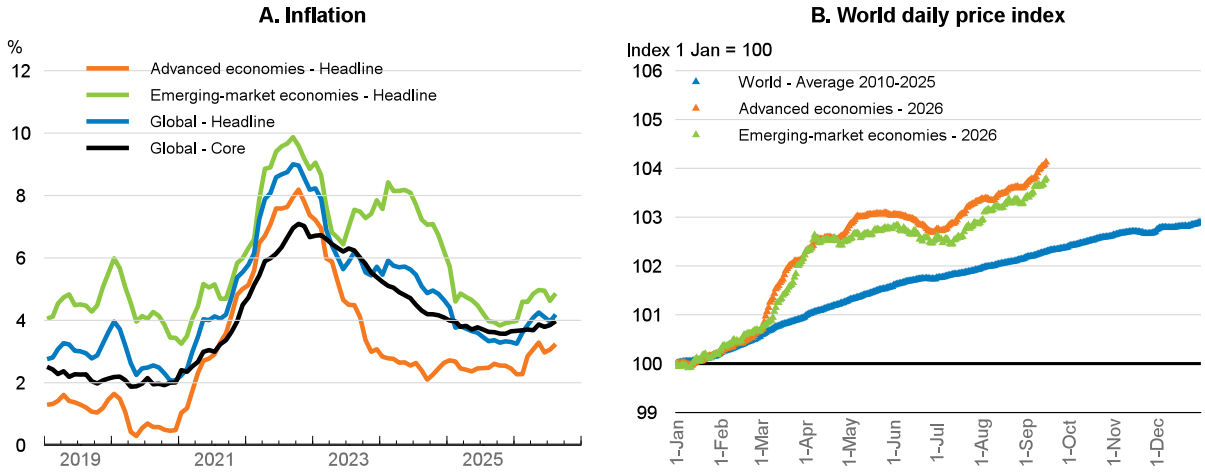
7. Continued changes in trade policies, both tariffs and the rising use of export restrictions on critical products, are contributing to high policy uncertainty. There have been additional changes to US bilateral tariff rates since the middle of the year, although the impact on the estimated effective tariff rate on US imports is relatively modest. New section 301 tariffs took effect in late July, replacing the flat 10 percentage point tariff previously applied across all countries. Tariff rates of 12.5 percentage points are now applied on a wide range of goods for 38 countries, including Mexico and Canada, and 10 percentage points for 17 countries, including the United Kingdom. Under separate legislation, Canada and Brazil face further tariffs of 50% and 25% on selected goods, with Canada introducing retaliatory measures. Planned tariffs on non-generic pharmaceutical products also came into effect in July. Despite these various policy changes, including a number of other limited new sectoral measures, the estimated effective tariff rate on US imports has risen by only a little over 1 percentage point, from 9.6% in June to 10.9% by mid-September. Amongst the major countries, the largest increases in estimated effective tariff rates are estimated to be for imports from Brazil and India after taking into account the share of tariffed goods.

Inflation developments

8. There are signs that inflation has begun to rise again after levelling off through the middle of the year. Headline inflation remained broadly stable in June and July, after increasing by 1 percentage point in the advanced economies and by 0.4 percentage point in the emerging-market economies between February and May (Figure 5, Panel A). However, headline inflation increased in August in many G20 economies, prompted by the resurgence in some commodity prices. Over half of the G20 countries currently have inflation above the central bank target. Daily measures of online retail prices suggest that price increases between mid-July and mid-September predominantly reflected the direct impact of the

renewed upturn in energy prices in both advanced and emerging market economies (Figure 5, Panel B). The daily price measures show little sign of increased food price inflation so far. Despite the resurgence of headline inflation, underlying inflation pressures appear relatively well contained. Nominal wage growth in most economies, with Japan an exception, has been flat since the first quarter of the year. Inflation expectations measured from household surveys or financial markets generally appear anchored but, after peaking in April and May, have been rising again recently in many major economies, including the United States, the euro area and United Kingdom.

Figure 5. Inflation has recently picked up again



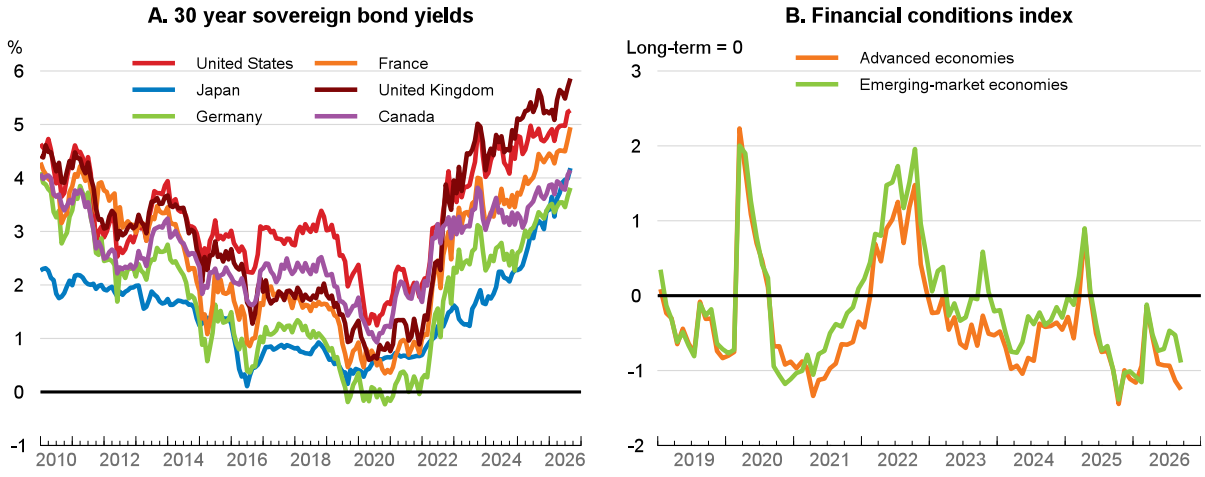
Note: In Panel A, the measure of global headline inflation is based on data for 73 countries and global core inflation is based on data for 49 countries. Panel B shows daily price indexes up to 15 September. These data are derived from the methodology outlined by Cavallo and Rigabon (2016) and use web-scraping technologies to monitor and collect daily prices on millions of items sold by online retailers that typically 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. The horizontal axis shows the days of the year, the blue line represents the average evolution of consumer inflation through the course of the year in the 2010-2025 period, the orange and green lines show that prices were rising in advanced and emerging-market economies in 2026 in line with this typical evolution until late February when the conflict escalated and prices rose more rapidly than historical norms. For example, the percentage change in the price index from the start of the year to 15 September was 2.3% on average over the 2010-25 period but is 4.1% in the advanced economies and 3.8% for the emerging market economies this year.
Source: OECD Consumer Price database; Eurostat; US Bureau of Economic Analysis; national sources; State Street PriceStats; and OECD calculations.

Long-term bond yields have risen, but broader financial conditions remain supportive

9. Long-term sovereign bond yields are now at their highest levels in 15 years or more in most major advanced economies (Figure 6, Panel A). Real long-term interest rates have also increased. Mounting concerns about longer-term fiscal risks and the heavy longer-term corporate bond issuance by AI-firms are key factors placing upward pressure on market yields and the term premium required to hold bonds. These developments exacerbate fiscal pressures on governments and lead to higher borrowing costs throughout the economy.

10. Broader financial conditions remain supportive of activity (Figure 6, Panel B), despite higher long-term yields, and indicators of financial stress are at a low level. Bank credit growth has strengthened further, especially in the advanced economies, and equity markets have performed strongly in most major economies in recent months, particularly in Europe, Canada and Japan. Volatility has generally been moderate, although there has been a notable price correction in Korea following the AI-related boom in major chip stocks. Conventional valuation metrics nevertheless suggest that equity markets remain stretched, particularly in technology sectors, while markets have so far shown little reaction to the ongoing rise in long-term interest rates.

Figure 6. Financial conditions remain supportive despite rising sovereign bond yields



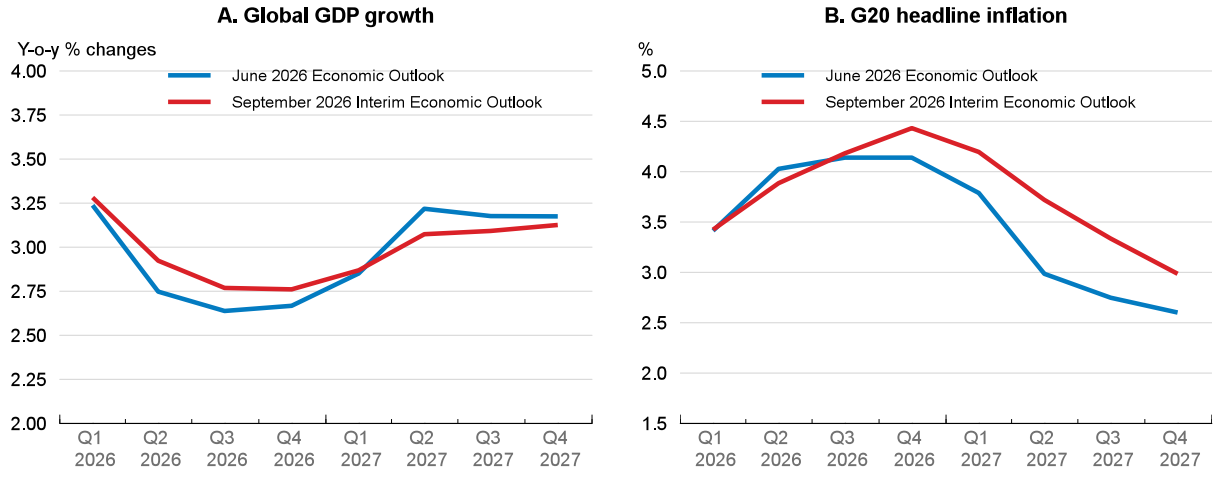
Note: The monthly Financial Conditions Indices (FCI) for advanced and emerging economies are computed as the medians of individual country standardised FCIs. The national FCIs are standardised around a long-term average and obtained as the first principal component of a wide range of country-specific and global financial data series.
Source: LSEG; and OECD calculations.

Projections

11. Global GDP growth is projected to be 2.9% in 2026 and 3.0% in 2027. The annual growth projections are broadly in line with those from the "time-limited disruption" scenario in the June 2026 OECD Economic Outlook but mask a somewhat different pattern of quarterly growth. While the private sector has proven resilient thus far, providing stronger than anticipated near-term growth momentum, the commodity price shock is proving more persistent than previously assumed. Inventory usage and household savings buffers will begin to be strained in some economies over time. Consequently, global growth is anticipated to face headwinds through the end of 2026 and early 2027 as household purchasing power is eroded and policy rates increase, before an assumed resolution of the conflict prompts a gradual recovery. In many G20 economies, growth will continue to be supported by AI-related spending and production, often continuing to outweigh relatively weak investment in other parts of the business sector.

12. The projections are based on a technical assumption that energy prices evolve in line with futures markets pricing for oil and gas as of 14 September. These have Brent crude prices and TTF gas prices peaking in the final quarter of 2026 at an average quarterly value of USD 105 per barrel and EUR 82 per megawatt hour, respectively. Thereafter, both oil and gas price futures decline steadily until the end of 2027, with prices averaging USD 85 per barrel and EUR 60 MW/h in 2027. Food price assumptions also reflect available futures curves, with overall food commodity prices peaking in the second quarter of 2027 at an average value some 11% higher than in the third quarter of 2026. The assumed price for Brent crude is broadly in line with that used in the "time-limited disruption" scenario of the June 2026 OECD Economic Outlook, but the assumed path for gas prices is around 60% higher and above the path in the "prolonged disruption" scenario. Effective tariff rates are assumed to remain at the level prevailing in mid-September throughout the rest of 2026-27.

Figure 7. Growth is projected to recover gradually



Source: OECD Interim Economic Outlook 120 database; OECD Economic Outlook 119 database; and OECD calculations.

13. Growth in the advanced G20 economies is projected to remain broadly stable, with the full impact of the energy market shock cushioned by government support measures in many economies. In the United States, countervailing forces are at work, with strong underlying momentum and further expansion of AI investment but consumer spending that is increasingly constrained by declining purchasing power, softer labour force growth and depleted household savings. As a result, annual GDP growth is projected to be 2.2% in 2026 and 2.1% in 2027. In Canada, growth is projected to soften to 0.9% in 2026, before picking up to 1.3% in 2027 with stronger growth in private consumption and government investment and a gradual recovery in the pace of business investment. The new tariffs on Canadian exports to the United States are a headwind for certain industries, but the macroeconomic impacts will be limited by the narrow scope of the measures. Uncertainty about the future of the United States Mexico Canada agreement is likely to be a headwind to regional trade growth.

14. In the euro area, growth is anticipated to remain moderate, at 1.0% in both 2026 and 2027. The recent rise in energy prices and higher policy rates are expected to weigh on activity, though the impacts will fade as energy prices ease and new defence spending initiatives gain pace. In the United Kingdom, the economy is expected to grow by 1.1% in 2026 and 1.0% in 2027, with consumption expected to be supported by newly announced government support measures. In Japan, final demand will be boosted by strong business investment, amid continued robust corporate profits and government consumption. These positive forces will be offset by rising policy rates and the higher cost of energy imports, with growth projected to ease marginally from 0.8% in 2026 to 0.7% in 2027. The Korean economy is projected to grow by 3.7% in 2026, reflecting strong industrial production and export growth, before easing to 2.6% in 2027 under the influence of more modest private consumption growth.

15. Economic growth in the G20 emerging-market economies is projected to remain broadly stable, though the pattern of growth differs across countries. In China, growth is anticipated to ease further from 5.0% in 2025 to 4.5% in 2026 and 4.2% in 2027, with a gradual rise in headline inflation weighing on consumption at the same time as investment growth is curtailed by the government's anti-involution policies aimed at curbing excessive capacity. Despite recent strong momentum, reduced purchasing power is also expected to weaken growth in India through the second half of this year, before a gradual recovery takes place in 2027. In annual terms, growth is projected to fall from 7.8% in fiscal year (FY) 2025-26 to 7.1% in FY 2026-27 and 6.5% in FY 2027-28. Growth is projected to remain broadly stable in Indonesia, at 5.2% in 2026 and 5.1% in 2027, with improved terms of trade supporting further investment growth. In Mexico, growth is expected to recover to be 1.5% in 2026 and 1.8% in 2027, helped by the continued

strength of tech-related production and the lagged impact of lower policy rates. Monetary policy easing over the projection period is also expected to support growth in several other emerging-market economies, including Brazil and Türkiye.

16. Aggregate consumer price inflation for the G20 countries is projected to pick up in the near-term before gradually moderating, with the assumed weakening of global energy prices through 2027 and tighter monetary policy helping to limit broader price pressures. Headline inflation in the G20 is expected to rise from 3.4% in 2025 to 4.1% in 2026, before easing to 3.6% in 2027. In the advanced G20 economies, headline inflation is projected to rise from 2.5% in 2025 to 3.2% in 2026, before falling to 2.6% in 2027. Core inflation is also anticipated to ease from 2.7% in 2026 to 2.5% in 2027. In the United States, headline inflation is expected to fall from 3.6% in 2026 to 2.6% in 2027, despite current pressures on business costs from tariffs and higher energy product prices. Inflation is anticipated to remain elevated in the euro area in the near-term, partly due to the recent steep increase in gas prices, before easing slightly, falling from 3.0% in 2026 to 2.9% in 2027. In contrast, headline inflation in Japan is projected to rise from 1.8% in 2026 to 2.6% in 2027, partly reflecting a tight labour market and strong nominal wage growth.

17. In the G20 emerging-market economies, headline inflation is anticipated to increase from 4.1% in 2025 to 4.8% in 2026 before easing to 4.3% in 2027. In some emerging market economies, such as India, Indonesia and Mexico, government price support measures are mitigating energy price pressures and will continue to do so in the near-term. In India, headline inflation is projected to fall from 4.7% in 2026 to 4.2% in 2027, while inflation in Indonesia is expected to ease from 3.3% in 2026 to 3.0% in 2027. Nonetheless, in China, the impact of declining energy prices is expected to be offset by a fall in spare production capacity, helping headline inflation to rise from 1.4% in 2026 to 1.9% in 2027. Further disinflation in Argentina and Türkiye is expected, despite the headwinds from energy and fertiliser costs, and inflation is also anticipated to moderate in 2027 in several other emerging-market economies, including Brazil, Mexico and South Africa.

Risks and challenges

18. Persistent uncertainty about the evolution of the Middle East conflict remains a key risk to the baseline projections. The expected decline in energy prices through 2027 in futures markets represents a view that the impact of current disruptions will start to ease and the tightness in global energy markets abate. However, faster than expected recoveries in import demand from China and other importers which have cut back consumption could push prices higher than currently projected in futures markets. Persisting constraints to exports through the Strait of Hormuz, additional disruptions to alternative export routes such as the Bab al-Mandeb Strait, or further significant damage to energy production facilities in the region, might also prompt a further sustained rise in energy prices and potentially lead to shortages of key commodities, particularly in net importing countries. The risks of supply disruptions could also be exacerbated by the current relatively low level of European gas reserves and the uncertain scope for sustained further reductions in oil inventories in some countries. While industry held stocks of oil in OECD countries have only declined slightly and remain at relatively high levels, government-controlled stocks have fallen more markedly. Stocks of some fuel products have declined sharply in certain regions, including diesel in Europe. Future energy shortages could be particularly damaging for some growth industries that are highly energy dependent, such as AI.

19. In contrast, a comprehensive and credible near-term resolution of the conflict in the Middle East, including a swift and full reopening of the Strait of Hormuz, is an upside risk to the growth projections. Such an event would likely prompt a fall in the price of the affected energy and other commodities below that assumed in the baseline. However, even without a near-term resolution, businesses could continue to prove more resilient and adaptable than expected. Firms have coped well with a succession of adverse developments in recent years, including higher trade barriers, the pick-up in inflation and rising labour shortages, and might be able to continue to adapt their operations and supply chains to cushion further disruptions. Structural factors, such as the growing diffusion of electric vehicles and the downward drift in the energy intensity of production over time, will also help.

20. The global economy also faces a heightened risk of extreme weather events in some regions that could weaken growth and push inflation higher. The US National Oceanic and Atmospheric Administration currently estimates a 95% probability of a very strong El Niño event in the October-December 2026 period. Such events are typically associated with ocean temperatures rising and disruption to rainfall patterns, with adverse impacts on economic activity in affected countries and regions. For example, a very strong El Niño is associated with a higher probability of drier conditions in Australia, a weaker monsoon in India and drought in Indonesia and Southeast Asian countries, which all curb agricultural production. While such an event could boost some agricultural output in other regions, the commodities farmed intensively in the regions most exposed would see their prices rise. Past experience suggests that a strong El Niño could raise global food commodity prices for up to two years, with even greater effects in the event of a very strong El Niño. Persisting disruptions to fertiliser supply from the Gulf economies might also reduce future crop yields by more than anticipated, especially if gas production remains restricted for longer, lowering global food supply.

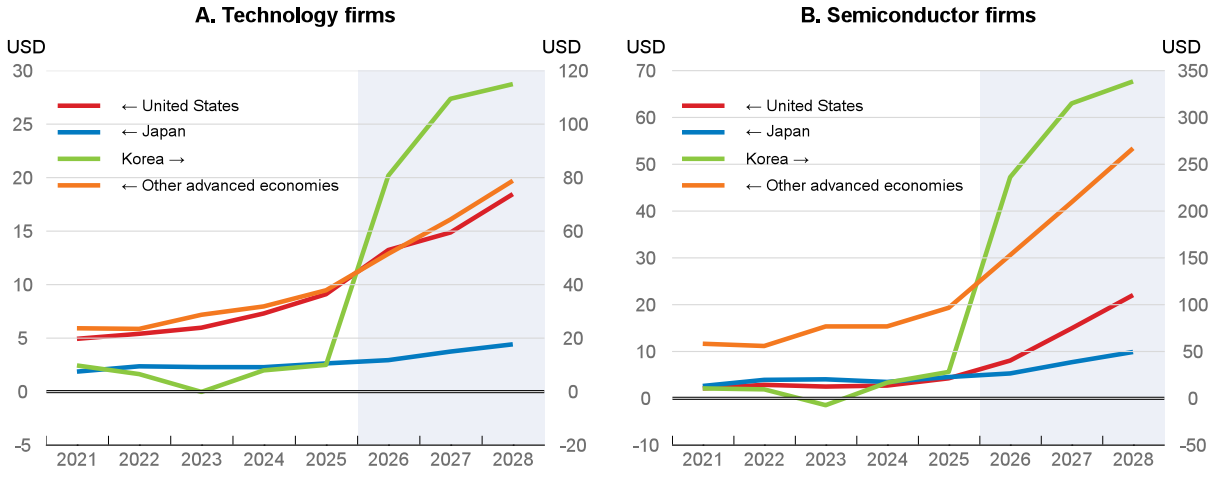
21. Such factors point to rising risks of stronger food commodity price pressures than assumed. Given the salience of food price developments for households, particularly lower-income ones, this could dampen real household incomes and raise inflation expectations, with risks of broader underlying price pressures. At the same time, a stronger El Niño could raise winter temperatures in the northern hemisphere, reducing energy demand, as in 2023/2024, and pressures on European gas prices.

22. Further increases in long-term sovereign bond yields are an increasingly important risk. These would place additional pressures on government finances, raise risks for equity valuations and increase borrowing costs throughout the economy. Higher yields could arise through heightened concerns about fiscal sustainability, increased competition for funding from the private sector due to strong bond issuance by AI companies, or expectations of substantially tighter monetary policy. Rising sovereign yields could also lead to repricing in equity markets, for instance through lower profitability of AI-related firms and weaker earnings growth.

23. The continuing development and adoption of artificial intelligence technologies brings both upside and downside risks for the global economy. Further broadening of AI-related investment and tech-related production across countries could provide an additional near-term tailwind to economic growth. AI technologies may also bring substantial productivity gains to economies once they are effectively integrated into production processes. Nonetheless, there is a risk that AI investment returns disappoint or take longer to materialise than currently expected, especially if bottlenecks emerge for inputs such as electricity or advanced semiconductors. Mounting security concerns related to AI could also slow the development of the technology or its adoption by users. The growing reliance of AI firms on leverage and increasingly complex financing structures, together with signs of rising credit risk, might also amplify any sharp shift in investor sentiment. 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 (Figure 8). Disappointing earnings growth could materially slow investment in the sector, transmitting to other associated industries such as engineering and construction, and result in deteriorating valuations in financial markets.

Figure 8. Earnings for AI-related companies will need to grow rapidly to meet expectations

Earnings per share forecasts



Note: In these figures, earnings per share (EPS) for 2021-2028 are based on IBES one-year-ahead Consensus forecasts. These can be negative, as companies can make losses. Aggregates are market capitalisation-weighted averages. The technology sector comprises companies operating in software and IT services, semiconductors, and technology hardware and equipment. Other advanced economies include Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Lithuania, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, and the United Kingdom. Data updated on 14 September 2026.
Source: LSEG; and OECD calculations.

24. A set of illustrative simulations using the NiGEM global macroeconomic model in forward-looking mode highlights the near-term effects that some of these potential downside risks might have:

- Oil and gas prices are assumed to remain at their current level up until the fourth quarter of 2027 before declining towards the path implied by futures markets, with continued disruptions to energy production and exports from the Middle East. For 2027, this implies that oil and gas prices are around 24% and 31% higher than assumed in the baseline projections.
- Faced with a sustained period of lower supply, some shortages of energy and energy products are likely to emerge gradually as reserves are depleted. Net energy importers are particularly exposed, especially in the Asia Pacific and in Europe, but disruptions will also be felt around the world via higher consumer prices and shortages of inputs from global supply chains. Shortages of energy and specialised inputs from Gulf economies are assumed to disrupt production and result in an enforced rationing of energy for businesses. These production losses are represented in the model by a temporary reduction in technical efficiency rather than a permanent loss of underlying productivity. In the scenario, efficiency is allowed to decline by 1½ per cent on average in 2027 in the economies most exposed either directly or indirectly to energy supply shortfalls, with efficiency declining by around ¾ per cent in all other economies.
- Additional supply shocks might also arise in food commodity markets in the event of very strong El Niño weather conditions. Together with some continuing disruption to fertiliser supplies from the Gulf economies, this could amplify expected upward pressures on food prices and potentially reduce agricultural production in the most exposed economies in Latin America, Africa and the Asia-Pacific. The possible effects are very uncertain, but it is assumed that food prices are 10% higher in 2027 than in the baseline projections, with small adverse effects on production (of around ¼ per cent of GDP) in those economies particularly exposed to a very strong El Niño.

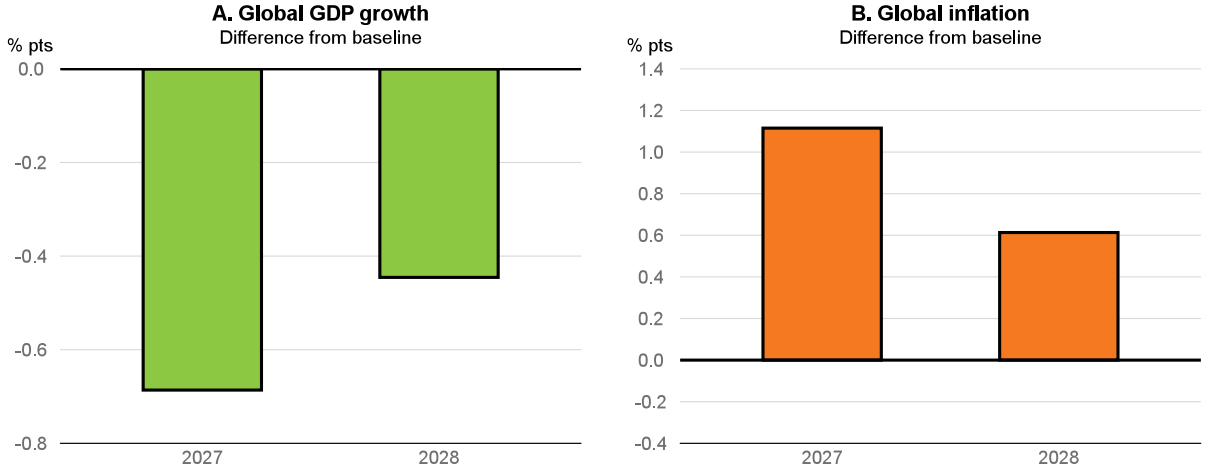
- These supply shocks already impact financial conditions, but could be amplified further if accompanied by an adverse demand shock from a more sizeable repricing in global equity markets and heightened pressures on risk and term premia that raise long-term interest rates and borrowing costs. Overall, in the illustrative scenario, equity prices are assumed to fall by 15% in 2027, with investment risk premia increasing by 35 basis points and the term premium on government long-term bonds rising by 25 basis points.

25. Taken together, the illustrative shocks considered could reduce global growth by 0.7 percentage points in 2027 and raise global consumer price inflation by 1.1 percentage point, with additional adverse effects in the following year (Figure 9). Each of the shocks contributes to the decline in output, with the largest effects arising from higher energy prices and tighter financial conditions. Higher input prices would push up global inflation, even with their impact partially mitigated by weaker final demand. Even as the shocks begin to fade, from the fourth quarter of 2027 onwards, there will be continued adverse effects on growth and inflation for some time.

26. In the near-term, faced with higher inflation, policy interest rates rise by around 1 percentage point 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. These increases fade as the downside effects on output and demand intensify. No additional discretionary fiscal support is assumed to be provided to cushion the impact of the shocks, but the automatic budgetary stabilisers are allowed to operate and the adverse effects on potential output will add to existing fiscal pressures over time.

27. On the upside, a sharper fall in oil and gas prices could occur if market confidence in a faster easing of supply disruptions improves. Such a decline 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 and gas prices from the fourth quarter of 2026 onwards, might raise global GDP growth by an additional 0.1 percentage point in 2027 and lower global inflation by 0.3 percentage points.

Figure 9. There are significant downside risks to growth and inflation



Note: Based on a scenario from 2026Q4 with higher oil, gas and food prices, tighter financial conditions and lower technical efficiency due to energy shortages, supply-chain disruptions and adverse weather conditions. See text for further description of the shocks implemented.
Source: OECD calculations using the NiGEM macroeconomic model.

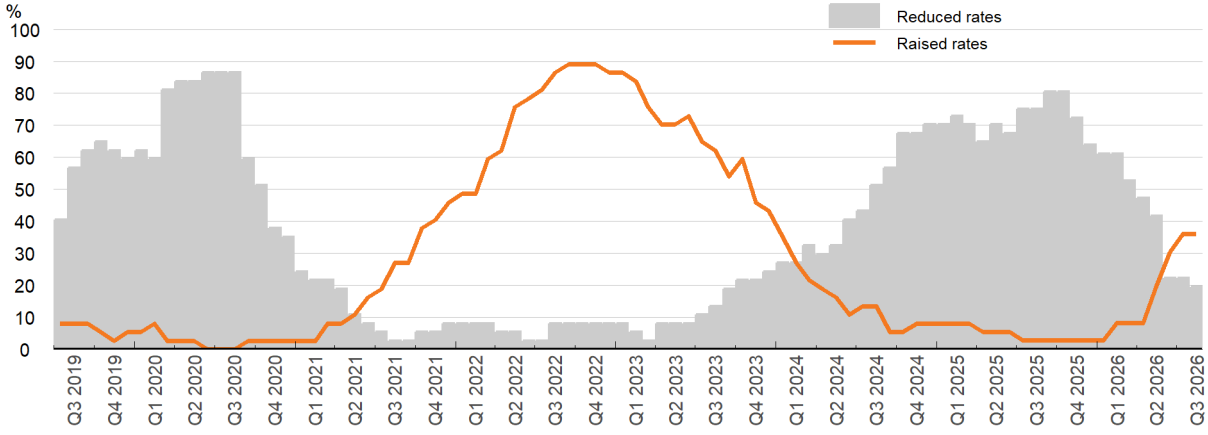
Policy requirements

Further monetary policy rate adjustments may be needed

28. The impact of higher energy prices on headline inflation and the potential risk of broader price pressures has contributed to changes in monetary policy rates across economies this year. At the margin, the rise in real expected long-term interest rates has also raised issues as to whether neutral policy rates might be somewhat higher than previously thought. Around one-third of central banks have raised policy rates since March, albeit in many cases by a modest amount, and many central banks that were previously implementing a sequence of policy rate declines have left rates unchanged in recent months (Figure 10). Amongst the G20 economies, policy rates have been raised since March in Australia, the euro area, Indonesia, Japan, Korea, South Africa and the United States. Brazil is a notable exception with the policy rate having been lowered by over 1 percentage point since March, albeit from a very restrictive level.

Figure 10. Many central banks have changed their policy stance this year

Share of central banks changing their policy rate over the past six months



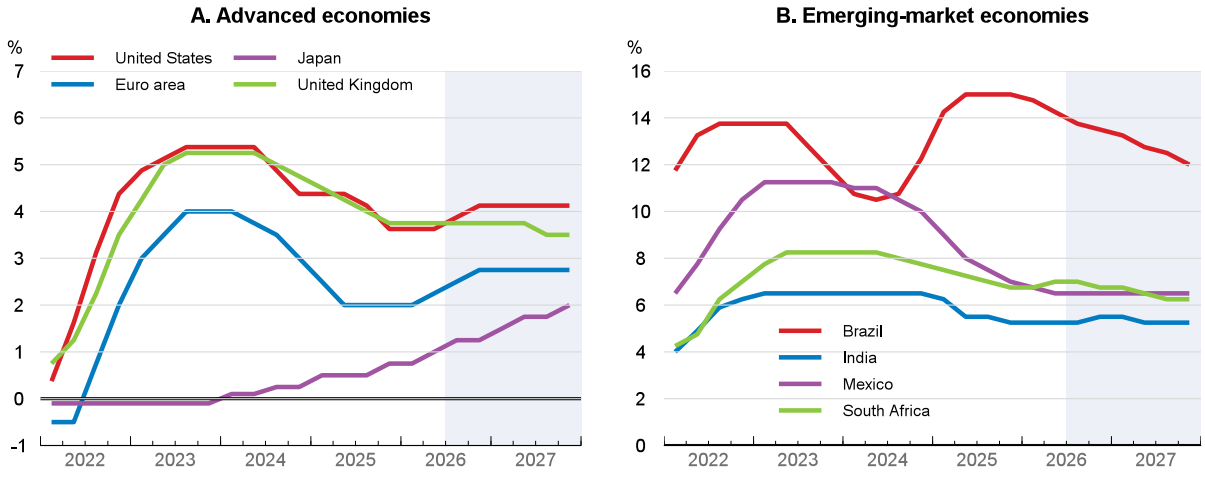
Note: Based on a sample of 37 central banks and data up to August 2026.
Source: OECD Interim Economic Outlook 120 database.

29. Faced with renewed energy price shocks and stronger than expected demand pressures, and at a time when inflation is already above target in many economies, central banks need to ensure that underlying inflation pressures are durably contained. Supply-induced rises in global energy prices and food prices can be looked through provided inflation expectations remain well-anchored, but further policy adjustments will be needed if there are increasing signs of broader price pressures or a significant growth moderation. Concern about potential currency pressures amidst ongoing repricing in asset markets and higher interest rates in the United States may also bear on policy decisions in emerging-market economies to ensure inflation expectation remain well anchored. Clear communication is needed in all countries to ensure that the factors behind policy decisions and the way in which risks to price stability are being evaluated and managed are well understood.

30. In the United States, one further policy rate increase is projected in the fourth quarter of 2026, with the federal funds target range then remaining unchanged at 4-4¼ per cent through 2027, reflecting continued inflationary pressures and solid projected GDP growth (Figure 11). Further modest rate increases are also expected in the euro area, Australia and Korea in the near term to help manage the

risks of broadening inflationary pressures. Additional policy rate increases are also projected in Japan as monetary policy accommodation is gradually withdrawn. In contrast, policy rates are expected to remain unchanged in Canada and in the United Kingdom until late next year. Amongst the emerging-market economies, India is projected to raise policy rates temporarily to help offset stronger inflationary pressures. In contrast, policy rates are expected to decline in Brazil, Indonesia, South Africa and Türkiye as inflation moderates. In China, the policy rate is expected to remain at low levels.

Figure 11. Policy interest rate projections in the major economies



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 Interim Economic Outlook 120 database.

Budgetary choices should address mounting fiscal pressures

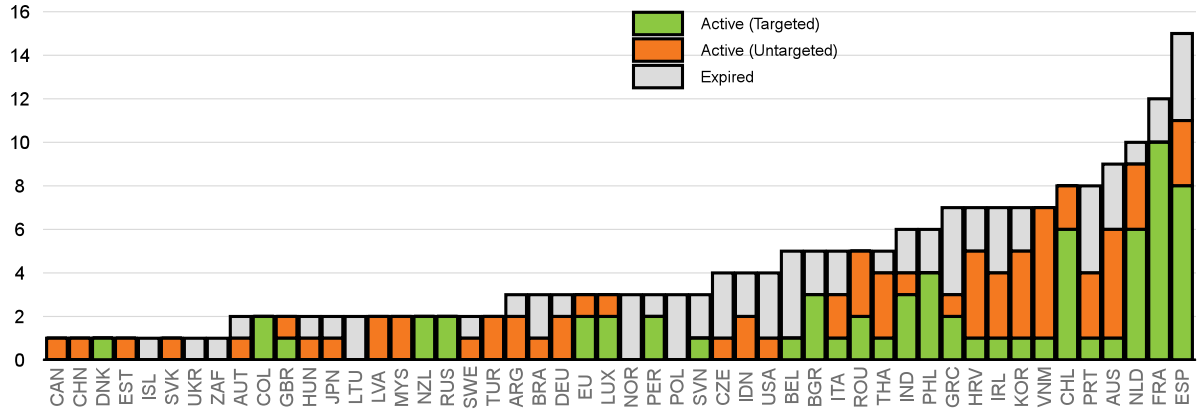
31. Governments face increasingly pressing fiscal challenges in many countries. Debt has risen, and continuing increases in bond yields and debt servicing costs add to mounting spending pressures from ageing populations, defence spending, and the growing costs of extreme weather events. Many emerging-market economies face additional pressures from the need to improve infrastructure and strengthen social safety nets and higher costs on foreign currency borrowing. Stronger efforts are needed to contain and reallocate spending, improve public sector efficiency and enhance revenues to ensure longer-term debt sustainability and maintain the ability of government to react to significant and recurring shocks. The appropriate pace and composition of such adjustments will depend on the specific circumstances and challenges facing each country but should seek to preserve and foster the growth potential on which successful debt reduction ultimately depends. Clearly-communicated and credible multi-year strategies would help to achieve longer term consolidation, particularly where the scope for near-term adjustment is limited.

32. In the near-term, the renewed rise in energy prices will add to budgetary costs, with pressures on governments to continue, or in some cases reintroduce, emergency support measures to mitigate the impact on households and firms. Such measures should be well-targeted on the households most in need and financially sound small and medium-sized firms, while preserving incentives to reduce energy use and diversify energy sources. Clear sunset mechanisms are also needed to ensure that they are phased out as energy prices decline.

33. The OECD Energy Support Measures Tracker shows that, across countries, only around half of the currently active measures are targeted (Figure 12). Untargeted and costly forms of price relief, such as lower taxes on energy and regulated or capped energy prices, remain the most common intervention. Regulatory measures and income support via subsidies tied directly to energy bills or broader fiscal transfers are also being employed, though to a lesser extent. The fiscal costs of support measures are generally quite modest in countries where cost estimates are available. However, there is significant variation across countries, and estimated fiscal costs range as high as 0.7% of GDP in Korea. Of the number of tracked measures introduced since the onset of the conflict, around 27% have now expired and 17% have been extended beyond their initial expiry date.

Figure 12. Government energy support measures often remain untargeted

Count of government measures introduced in response to the conflict in the Middle East



Note: Data cover 33 OECD countries, as Costa Rica, Finland, Israel, Mexico and Switzerland have not implemented any measures, and 16 non-OECD economies: Argentina, Brazil, Bulgaria, China, Croatia, India, Indonesia, Malaysia, Morocco, Peru, the Philippines, Romania, South Africa, Thailand, Ukraine, and Viet Nam. The tracker excludes demand reduction and energy transition measures. Targeted measures are those restricted to specific subgroups of households or firms. Extensions and parameter adjustments to existing measures are consolidated into a single instrument, so counts reflect distinct policies rather than repeated announcements. Data as of 14 September 2026.
Source: OECD Energy Support Measures Tracker 2026.

Further structural policy reforms would help economies cope with future supply shocks

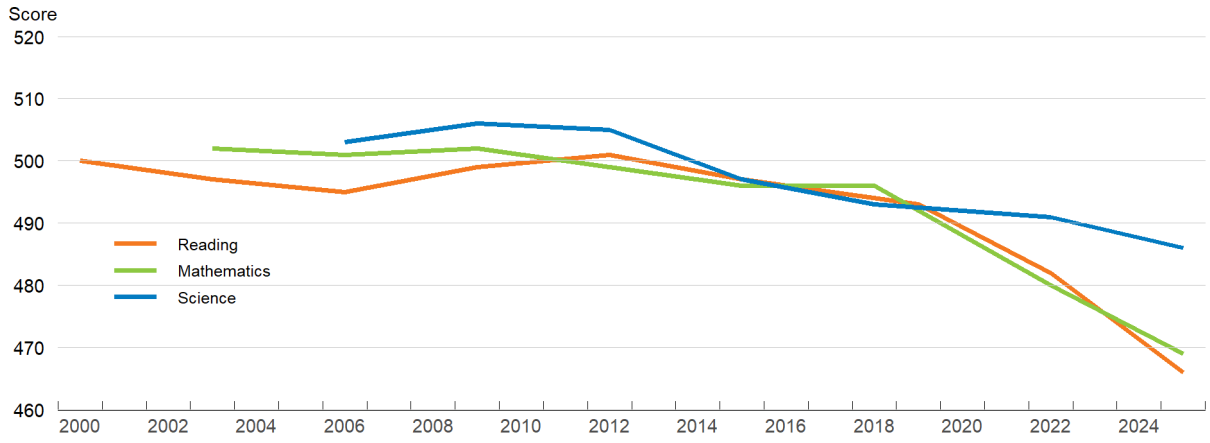
34. Structural policy reforms that enhance the ability of economies to cope with supply side disruptions are also a key priority for governments at the current juncture. The private sector has been impressively adaptable to the successive shocks of recent years and public policies help create the framework conditions to maintain and buttress this resilience. Reforms that help to lower the vulnerability of economies to global energy shocks are a near-term priority given the uncertainty around the evolution of the conflict in the Middle East. These include diversifying energy supply and improving energy efficiency in the domestic economy through well-designed regulatory efficiency standards, information campaigns and financial incentives where necessary.

35. More generally, policies that ensure a well-functioning social safety net and the ability of economies to efficiently reallocate resources are important to help countries cope with supply shocks. Social assistance systems that can effectively target the most vulnerable and provide timely support will help cushion the negative impacts of further disruptions in a way that is most cost-effective for fiscally constrained governments. This should be complemented by reforms that ease excessive restrictions on firms and workers being allocated to those parts of the economy where they are most needed. Examples include reducing unnecessary regulatory burdens on firm entry, ensuring insolvency procedures are not overly burdensome and paring back excessive restraints in the labour market, such as the use of non-compete clauses in areas where they are unjustified.

36. Policies to ensure that workers have adequate and adaptable skills will also strengthen resilience and growth prospects, allowing them to adapt to new unanticipated shocks and ongoing structural changes associated with population ageing, and the digital and green transitions. Adequate skills are also important enabling factors for firms to undertake capital investment. Measures that support the development of strong foundational skills are an essential bedrock. However, recently released PISA results show that student performance in standardised tests related to science, reading and mathematics has been falling across many countries for over a decade (Figure 12). The required policy approach to reverse these trends differs across countries, but measures that tackle teacher shortages and ensure that disadvantaged students and schools are allocated adequate resources are often needed. Initiatives to strengthen digital literacy and expand opportunities for adult learning are also a priority for ensuring that young people entering the labour market and existing workers have the skills needed to adapt to technological change, including through the further adoption of AI.

Figure 13. Student test scores have been declining in many countries

Programme for International Student Assessment (PISA) scores, OECD average



Source: OECD (2026), PISA 2025 Results (Volume I).

OECD Economic Outlook, Interim Report

Weathering Successive Shocks

September 2026

Global economic growth has moderated but remained resilient, with the adverse effects of the conflict in the Middle East cushioned by discretionary government support measures, some switching to alternative commodity inputs, additional energy supply from outside the Gulf economies and drawdowns of oil reserves. Strong AI-related activity has also bolstered investment, production and trade. The outlook is very uncertain, but an assumed decline in energy prices in 2027 with energy supply recovering is projected to help stabilise global growth. Prolonged disruptions to exports from the Middle East, weather-related supply shocks associated with a very strong El Niño, further increases in long-term sovereign bond yields or AI investment returns that fail to meet expectations are key downside risks that could weaken growth.

Faced with the ongoing energy price shock along with above-target inflation and fiscal pressures in many economies, the Interim Report says that central banks should ensure inflation expectations stay well anchored and government energy support measures should be well targeted on those most in need, preserve incentives to lower energy use and have clear expiry mechanisms. At the same time, structural policy reforms are needed to raise potential growth and strengthen economies' resilience to further supply-side shocks.

The Interim Report is an update on the assessment in the June 2026 *OECD Economic Outlook, Volume 2026 Issue 1*.

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