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# Written Statement to the International Monetary and Financial Committee: 2026 IMF and World Bank Spring Meetings

## Global economic outlook

1. **The evolving conflict in the Middle East is testing the resilience of the global economy.** The near-halt of shipments through the Strait of Hormuz and disruptions to energy infrastructure have caused a surge in energy prices and reduced the global supply of oil, gas and other key commodities, such as aluminium, helium and fertilisers. The most immediate risks are for countries in Asia that are particularly reliant on energy imports from the Gulf region. However, the commodity price shocks are already being felt around the world and, if sustained, will raise business costs and consumer price inflation while weakening growth.

2. **The conflict poses risks to global supply chains beyond the energy sector.** Fertilisers are a particular risk, with Persian Gulf states accounting for 34% of the world's urea exports in 2024 and a high proportion of exports of other fertilisers. The Middle East also produces over one-third of the global supply of helium and over two-thirds of the supply of bromine, which are important for industrial supply chains, including for semiconductors and memory chips.

3. **Prior to the current conflict, the global economy continued to show resilience.** Year-on-year global growth was 3.4% in the third quarter and 3.2% in the fourth quarter of 2025. Household consumption and business investment were key drivers, with supportive financial conditions sustaining robust demand for AI technologies. Global merchandise trade continued to expand at a steady pace through January 2026, helped by strong growth in technology-related exports from Asian economies. Signals from business surveys in January and February 2026 were positive, pointing to increasing strength in manufacturing and services output and improving export orders.

4. **The latest data through February show that labour markets remained resilient.** Unemployment rates are low by historical standards in both advanced and emerging market economies and the pace of nominal wage growth remains solid. The OECD unemployment rate stood at 5.0% in February 2026, having been at or just below this mark since April 2022. However, measures of job vacancies softened further in several advanced economies, including Canada, the United Kingdom and the United States, signalling moderating labour demand.

5. **Changes in US bilateral tariff rates in February lowered the effective tariff rate on US merchandise imports to an estimated 9.9%, from 13.8% in December 2025.** This should reduce the headwinds to global growth from higher tariffs, though ongoing changes may also prolong trade policy uncertainty. Reductions in bilateral tariff rates have been particularly large for imports from Brazil, China, India and Indonesia.

6. **Since the start of the current conflict in the Middle East, business and consumer sentiment has declined and financial conditions have tightened.** Business surveys point to output growth having moderated in March in both manufacturing and services sectors. Consumer confidence has also fallen, including in the euro area. Financial conditions have become less accommodative, with volatility in financial markets increasing markedly, long-term interest rates ticking up and equity prices declining. The US dollar has appreciated since the end of February, which adds to upward pressures on energy prices in domestic currency terms in other countries.

7. **The energy supply shock poses a new challenge for monetary policymakers.** While median inflation across G20 countries has been relatively stable over the past two years, market expectations of inflation in two years' time have edged up since the end of February, and indicators of input price inflation

for businesses have risen. Even before the conflict, inflation was above central bank targets in several G20 economies, including Brazil, Mexico, Türkiye, the United Kingdom and the United States.

8. **Global GDP growth is projected to be 2.9% in 2026 and 3.0% in 2027, after growth of 3.3% in 2025, according to the OECD Interim Economic Outlook from 26 March 2026.[1]** This is 0.3 percentage points lower for 2026 and 0.1 percentage points lower for 2027 than was expected in February, prior to the onset of the ongoing conflict in the Middle East. Our projections reflect higher energy and fertiliser prices and elevated uncertainty as a result of the conflict, which will add to inflation and weigh on demand. In part, these negative factors are being offset by robust technology-related investment, lower effective US tariff rates as of late February, and strong momentum in economic activity carried over from 2025.

9. **In G20 advanced economies, economic growth is projected to weaken in the near term.** In the United States, strong growth momentum in the first quarter of 2026 is expected to be offset by a slowdown in consumer spending, owing to the combined impact of rising energy prices, weakening labour force growth and declining household savings. GDP growth is projected to ease from 2.1% in 2025 to 2.0% in 2026 and 1.7% in 2027. In the euro area, growth is expected to decline from 1.4% in 2025 to 0.8% in 2026, as higher energy prices weigh on activity, before increasing to 1.2% in 2027. While fiscal expansion in Germany will support growth, especially in 2027, more restrictive fiscal policies will be headwinds in France and Italy. Fiscal policy tightening and higher energy prices are anticipated to keep growth subdued in the United Kingdom, though the impact will be attenuated by lower policy interest rates next year. GDP growth for the United Kingdom is projected at 0.7% in 2026 and 1.3% in 2027, following growth of 1.3% in 2025. In Japan, rising costs of energy imports will offset the positive influence from robust corporate profits and new fiscal support measures, with growth projected to ease from 1.2% in 2025 to 0.9% in both 2026 and 2027.

10. **Economic growth in G20 emerging market economies is also projected to ease.** In China, growth is expected to weaken from 5.0% in 2025 to 4.4% in 2026 and 4.3% in 2027, as public subsidies for consumers end, energy import prices move higher and adjustment in the real estate sector continues. Nonetheless, these factors should be partially offset by new infrastructure projects and the recent reduction in effective tariff rates on imports to the United States. Similarly, the decline in tariffs should support growth in India, though gas rationing will disrupt some production activities and fiscal support is expected to fade, with growth easing from 7.6% in the fiscal year 2025-2026 to 6.1% in the fiscal year 2026-2027, before recovering to 6.4% in the fiscal year 2027-2028. In Indonesia, growth is projected to remain broadly stable at 4.8% in 2026 and 5.0% in 2027, after growth of 5.1% in 2025, as recent fiscal stimulus supports private consumption growth. Once inflation moderates in 2027, monetary policy easing is expected to support growth in several other G20 emerging market economies, including Brazil, Mexico, South Africa and Türkiye.

11. **Inflation will be markedly higher than previously expected, largely owing to the increase in global energy prices.** Prior to the onset of the conflict, inflation was on a downward path. Higher energy prices have reversed this trajectory. Headline inflation in G20 countries is now projected at 4.0% in 2026, 1.2 percentage points higher than expected in December 2025, and up from 3.4% in 2025. It is projected to decline to 2.7% in 2027, reflecting the technical assumption that energy prices will evolve in line with futures markets and so moderate over time. In the United States, the impact of higher energy prices on inflation will more than offset the effect from the decline in effective tariff rates on imports. In the euro area and Japan, the increase in energy prices is expected to result in stronger price pressures in the near term, but inflation is expected to move back to central bank targets in 2027. Inflation is projected to rise in 2026

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[1] These projections are based on the technical assumption that energy prices will evolve in line with futures markets pricing for oil and gas as of 20 March.

in several emerging market economies, including China, India, Indonesia and South Africa. Core inflation in G20 advanced economies is expected to average 2.6% in 2026, the same as in 2025, before moderating to 2.3% in 2027.

**12. Risks around these projections are significant, especially in relation to the duration and scale of the current conflict in the Middle East.** A key downside risk is that persistent disruptions to exports from the Middle East could lead to higher energy and other commodity prices than assumed and more severe shortages. For example, a scenario, in which oil and gas prices remain higher than our baseline – 26% and 17% higher in the first year of the shock, and 15% higher in the second year – and global financial conditions tighten further, is estimated to reduce global GDP by 0.5% and raise global consumer prices by 0.9% by the second year.[2] Such a scenario could also trigger more extensive repricing in financial markets and financial stability risks. On the upside, a surprisingly resilient business sector, a quick resolution of the conflict in the Middle East that lowers energy prices, or even stronger investment in AI technologies could push growth higher.

## Policy requirements

**13. Government measures to cushion the impact of higher energy prices should be targeted towards households most in need and viable firms, preserve energy efficiency incentives and be temporary with clear expiry mechanisms.** Higher energy prices are impacting households and firms. Spending on fuel for transport equipment, electricity, natural gas and other fuels is estimated to account for just below 6% to 12% of consumer spending across G20 countries. However, broad-based subsidies and transfers, tax reductions and price caps, while possibly faster to implement, should be avoided given their higher fiscal costs and weaker incentives to reduce energy consumption.

**14. Any new fiscal support measures will add to the budgetary challenges that most countries already face.** With persistent budget deficits, elevated debt and rising debt interest costs, credible and well-designed fiscal measures are needed to safeguard long-term public debt sustainability and preserve capacity to react to future shocks. Total public debt in the OECD was 113% of GDP in the fourth quarter of 2024, up from 74% of GDP in the fourth quarter of 2007. Further spending pressures, including from population ageing and defence requirements, are high. Stronger efforts to contain and reallocate spending, improve public sector efficiency and optimise revenues are required, including through regular reviews of public spending programmes, enhanced use of digital technologies and better public procurement.

**15. Central banks need to remain vigilant and ensure inflation expectations stay well anchored.** If inflation expectations are well anchored, the current supply-driven rise in energy prices can be treated as temporary and need not trigger a policy response. But planned interest rate paths will need to be higher if broader and persistent price pressures emerge, or lower in case of weakening labour market conditions. Careful calibration will be important to balance the risks of persistent inflation and of a significant growth moderation.

**16. Constructive dialogue between countries is central to ensure a lasting resolution to trade tensions.** New restrictions on goods imports introduced since the start of 2009 are estimated to have affected 19.7% of the world's total imports last year, up from 3.1% in 2016. All other things being equal, well-functioning open global markets mean better living standards and stronger growth. Countries should continue to draw on these key benefits, while tackling concerns around unfair trade practices, an unlevel playing field, supply chain resilience, and more generally economic security. Productive engagement

[2] This scenario makes the technical assumption that oil and gas prices rise to an average of USD 135 per barrel and EUR 77 per megawatt-hour in the second quarter of 2026. Thereafter, they are assumed to decline, but to remain significantly above the baseline price trajectory.

among governments is needed to make international trading arrangements fairer and function better, in a way that preserves the economic benefits of open markets and rules-based global trade.

**17. Policies that lower reliance on imported fossil fuels help reduce exposure to supply shocks.** This is particularly important for large energy importers, such as India, Korea and South Africa. Further efforts to expand domestic energy production from renewables would reduce fossil fuel imports and help achieve carbon mitigation objectives. Improving energy efficiency, including through regular upgrading of energy performance standards for industrial equipment, buildings and household appliances, would lower energy needs.