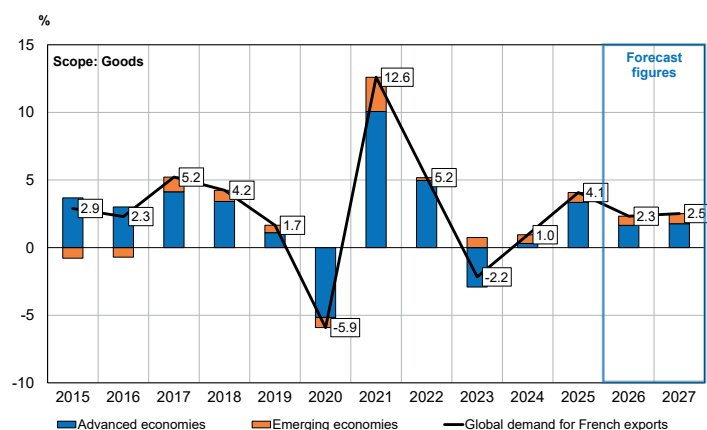


World Economic Outlook in Spring 2026: Global Economy Confronted with a New Energy Shock

French Treasury (DG Trésor) International Forecasting Teams

- The conflict in the Middle East has weighed on the global economic outlook and has heightened uncertainty. Its impact, however, will depend on the duration and intensity, and will differ across countries according to their energy intensity, energy mix and reliance on hydrocarbon imports.
- The global growth outlook has nonetheless been revised upward relative to the autumn forecasts, as the impact of US tariff measures has been smaller than previously anticipated. Global growth is expected to reach 3.2% in both 2026 and 2027, following 3.3% in 2025.
- Among advanced economies, growth in the United States is expected to pick up slightly in 2026, supported by the past depreciation of the US dollar and the country's position as a net exporter of oil and natural gas, before moderating in 2027. Growth in the euro area and the United Kingdom is set to slow, as these economies are more exposed to the energy shock, with growth remaining heterogeneous across countries, notably owing to their respective fiscal policy stances.
- In major emerging market economies, growth is projected to moderate slightly in 2026 and 2027. The effects of the conflict in the Middle East are expected to differ markedly depending on whether economies are net importers of hydrocarbons (India, China, Türkiye) or net exporters (Brazil).
- Global trade growth is set to slow sharply in 2026 (to 2.2%, after 4.3%), reflecting the full materialisation of the US tariff shock and the energy shock caused by the conflict in the Middle East. Global trade growth is then projected to recover to 2.8% in 2027, reaching its pre-pandemic average (2.8% from 2015 to 2019). In particular, trade in AI-related goods is expected to continue to support global trade growth.
- These forecasts are highly uncertain, especially for 2027. The impact of the conflict in the Middle East will depend on its duration and intensity, as well as on the public policy responses adopted by other countries (only the measures announced to date have been taken into account). In addition, US trade policy remains a persistent source of uncertainty.

Global demand for French exports



Source: OECD, IMF and national statistics institutes for past figures; DG Trésor for forecast figures.

1. Scenario assumptions: a sharp increase in oil and natural gas prices due to the conflict in the Middle East, alongside a relative stabilisation in trade uncertainty

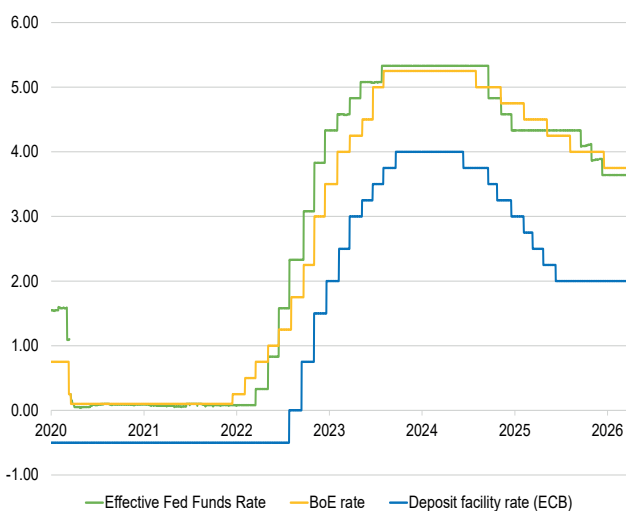
These global forecasts¹ are based on oil futures prices as at 23 March 2026. After trending downward throughout 2025 due to abundant supply and weak demand, oil prices have increased sharply since the beginning of 2026, particularly following 28 February and the launch of a joint military operation conducted by the United States and Israel against Iran (see Box 1). Accordingly, Brent crude prices are expected to average \$86.7 in 2026 and \$76.7 in 2027, significantly above the assumptions underlying the September 2025 global projections (\$67.5 in 2026). The euro-to-dollar exchange rate is assumed to remain constant at \$1.18, slightly above the level used in the September 2025 forecasts (\$1.16).

Following the outbreak of the conflict in the Middle East and its anticipated inflationary pressures, markets have revised their expectations for policy rates upward in major advanced economies² (see Chart 1): the European Central Bank (ECB) and the Bank of England (BoE) are expected to tighten monetary policy over the forecast horizon, while the US Federal Reserve (“the Fed”) is set to continue its policy of monetary easing. Financial markets are thus pricing in around three 25-basis-point (bp) increases in the ECB’s deposit

facility rate³ in 2026 (standing at 2.75% at end-2026), followed by stability in 2027. For the BoE, markets expect three rate hikes in 2026 (bringing the rate to 4.50% at end-2026), before a decline to 4.25% in 2027. For the Fed, markets anticipate stable rates in 2026 (at 3.50% to 3.75% at end-2026) before a 25-bp cut in 2027.

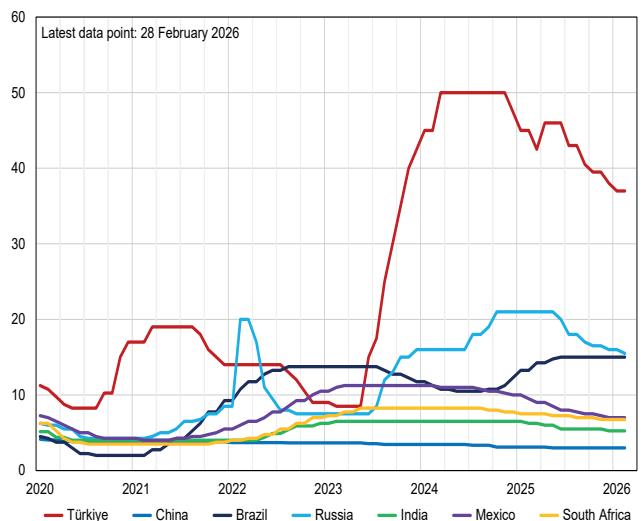
Most major emerging economies (see Chart 2) are expected to pursue cautious monetary policies in 2026 and 2027, combining broadly stable policy rates with limited adjustments, amid inflationary pressures triggered by the conflict in the Middle East. India has indicated it will continue to adopt a “neutral” monetary policy stance, while retaining some flexibility to adjust rates depending on inflation developments. In response to inflationary pressures stemming from the Middle East crisis, Türkiye’s central bank paused the monetary easing cycle initiated in 2025, although easing could resume in 2027. In China, authorities have indicated that monetary policy would remain “moderately accommodative” in 2026. In Brazil, the pace of policy rate cuts in 2026 could be adjusted depending on inflation developments.

Chart 1: Policy rates in major advanced economies



Source: ECB, the Fed, BoE.

Chart 2: Policy rates in major emerging economies (%)



Source: National central banks, LSEG Datastream.

- (1) These global economic forecasts were prepared by Louis Adjiman, Alban Aubert, Marion Bachelet, Paul Bachoffer, Louis Blanco, Lina Bourassi, Célia Devant-Perrotin, Rizlaine Embarek, Eléa Giraud, Alexandre Leroy, Jules Luye and Mathieu Pellerin.
- (2) Key interest rate projections for the ECB, the Fed and the BoE reflect market expectations on 24 March.
- (3) The deposit facility rate is currently the main instrument used by the ECB to conduct monetary policy in the euro area. It is the rate at which central banks remunerate overnight deposits from commercial banks.

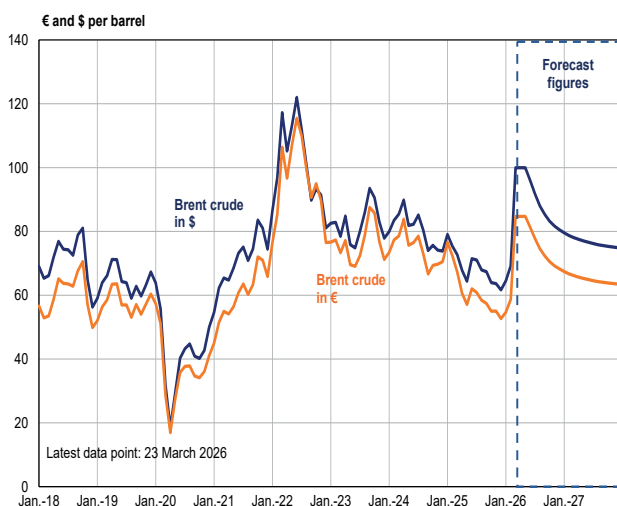
Box 1: Economic impact of the conflict in the Middle East

On 28 February, the United States and Israel launched a military operation against Iran, followed by retaliatory attacks and a regional escalation of the conflict. The forced closure of the Strait of Hormuz, a strategic shipping route through which roughly 20% of the global supply of oil and liquefied natural gas (LNG) travels, has disrupted the transport of oil and gas, impeding exports from countries in the region (which account for around 25% of global crude oil production and 18% of global natural gas production) and, consequently, weighing on regional energy production. In addition to the closure of the strait, strikes targeting energy infrastructure, notably in Qatar, have led to the partial suspension of LNG production.

The regional intensification of the conflict has exerted significant upward pressure on oil and natural gas prices. Oil prices had already been rising since the beginning of 2026 (up 18% between 8 January and 27 February, reaching \$73.0/barrel), reflecting the gradual incorporation of a geopolitical risk premium. The military operation launched on 28 February subsequently triggered a sharp increase in oil prices (rising 37.2% to \$100.1/barrel between 27 February and 23 March) and an even larger rise in European natural gas prices (up 77.4% to €56.7/MWh). In Europe, low gas storage levels (28.4% on 23 March compared with an average of 43.0% over the previous seven years for the same period) have further amplified pressure on European natural gas prices.

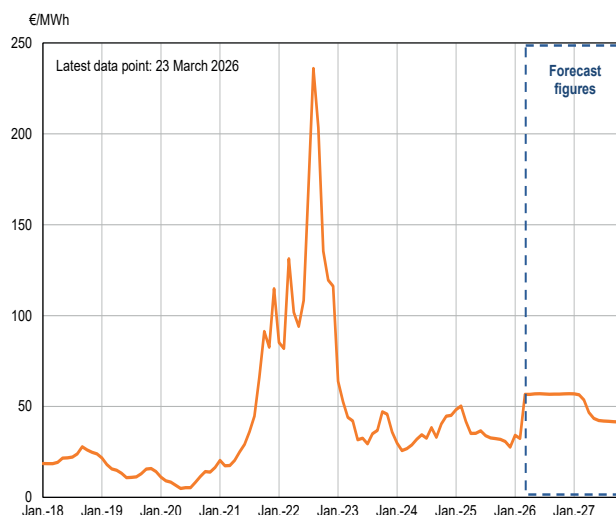
The scenario underlying these forecasts is based on oil futures prices as at 23 March 2026 and assumes the continuation of the conflict in the Middle East in spring 2026, including the closure of the Strait of Hormuz and a reduction in oil and gas production, the effects of which are expected to persist until the end of the second quarter (May oil futures, at \$99.9/barrel were used for March and April), before easing gradually thereafter. For 2027, the scenario assumes a gradual normalisation of energy markets. By contrast, the scenario does not incorporate assumptions involving major energy shortages or the large-scale destruction of energy infrastructure in Gulf countries.

Chart 3: Brent crude oil prices per barrel since 2018 and forecast figures



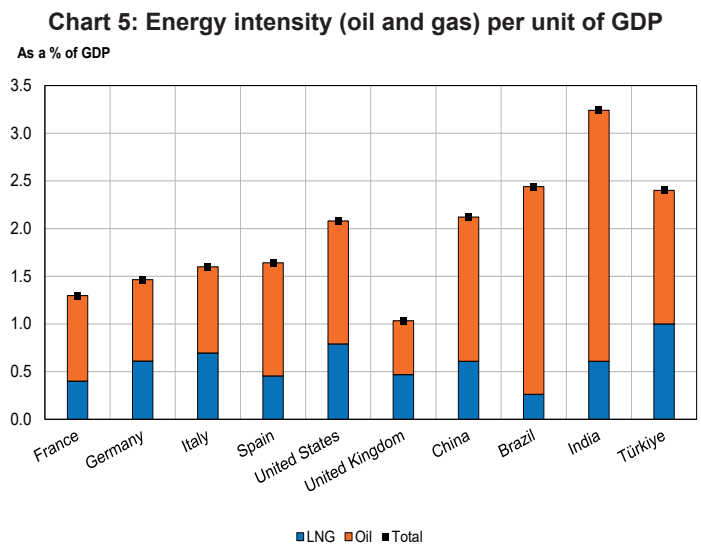
Source: Commodity Research Bureau.

Chart 4: Natural gas prices since 2018 and forecast figures



Source: ICE Futures Europe.

Macroeconomic impacts will depend on the duration and intensity of the conflict, particularly the duration of the closure of the Strait of Hormuz and any further destruction of production capacities. Beyond heightened geopolitical uncertainty, which is weighing on business investment, sustained increases in oil and natural gas prices should increase inflationary pressures and erode household purchasing power, thereby weighing on consumption. The impact across the economies covered is expected to remain uneven and will depend on a range of factors, notably countries' energy intensity (see Chart 5) and their dependence on oil and gas imports.



Source: International Energy Agency (IEA), World Bank.

Note: Energy intensity is calculated as total energy consumption per unit of GDP.

These global forecasts are based on the assumption that tariff rates remain unchanged over the forecast horizon. The rates used, whether bilateral or sector-specific, correspond to those in force before the Supreme Court of the United States invalidated part of the tariff measures in its 20 February ruling. In light of this, the increase in the average effective US tariff rate is expected to be slightly lower than the increase assumed in autumn 2025 forecasts⁴ (i.e. an increase of approximately 15 pp versus 16 pp). Although the Supreme Court's ruling led to a temporary reduction in US tariffs, particularly for some emerging economies, it is assumed that the investigations launched by the US administration will broadly restore the tariff rates that were in force prior to the ruling (see Box 2).

On the fiscal front, US policy is expected to support domestic growth in the short term, through the tax cuts introduced under the One Big Beautiful Bill Act (OBBBA), which are expected to boost investment. This effect is, however, expected to reverse in 2027, as the strongly regressive measures included in the OBBBA weigh on the purchasing power of households with a high propensity to consume. In the United Kingdom, the government's fiscal consolidation efforts, based primarily on higher government revenues, are expected to weigh on private demand. In Germany, the fiscal shift initiated in 2025 is set to result in a spending increase of 0.5 percentage points of GDP in 2026 and 0.2 percentage points in 2027 (see Box 3). In Spain and Italy, economic activity is expected to remain supported by investment financed through disbursements under the European Recovery and Resilience Facility (RRF).⁵

(4) Based on WTO estimates. See "World Economic Outlook in Autumn 2025: Global Economy Hampered by an Adverse Trade Environment", *Trésor-Economics*, No. 370, September 2025.

(5) EU Member States have until 31 August 2026 to meet the targets and milestones of their respective plans, until 30 September 2026 to submit their associated payment requests to the European Commission, and until 31 December 2026 to receive funds. All funds received by Member States by 31 December 2026 may continue to be disbursed to the real economy beyond that date. To be able to spend its funds after 2026, Spain is relying on a sovereign wealth fund ("España Crece") with €10.5bn in EU loans, supplemented by €60bn in national public funding, that aims to mobilise €120bn in public and private funds to support strategic projects in key sectors such as housing, energy, digitalisation, reindustrialisation and the circular economy. Italy is considering postponing €30bn of RRF funds beyond 2026.

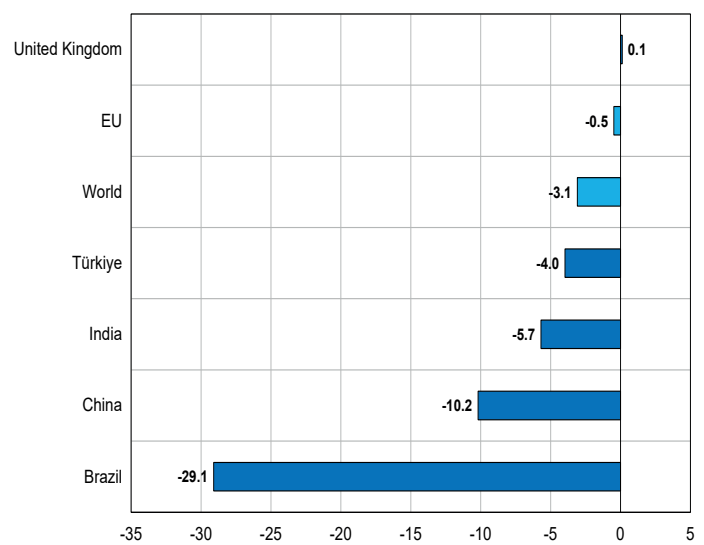
Box 2: Developments in US tariffs following the Supreme Court's 20 February ruling

On 20 February, the Supreme Court of the United States ruled that the International Emergency Economic Powers Act (IEEPA) of 1977 does not grant the US president the authority to impose tariffs, thereby invalidating most of the measures adopted on this legal basis since 2025: “Liberation Day” reciprocal tariffs and the “fentanyl” and “immigration” tariffs targeting China, Mexico and Canada, as well as tariffs on Brazil (with Trump citing threats to freedom of expression) and on India (over their purchases of Russian oil). Most sector-specific tariffs, however, remain in force. In response, the Trump administration introduced alternative tariff measures by implementing, under Section 122 of the Trade Act of 1974, an additional universal tariff of 10%. This temporary 150-day measure comes in addition to “most-favoured-nation” (MFN) tariff rates and effectively removes the 15% ceiling resulting from the July agreement with the European Union.

Compared to the situation prevailing on 19 February, the additional 10% tariff lowers the average rates applied to most of the United States' trading partners (see Chart 6), especially emerging economies. For France and its main trading partners, the average tariff rate applied to US imports from the European Union would decline by 0.5 percentage points. The impact of this reduction, which is relatively modest given the tariff rates in effect on 19 February, should be positive but marginal for the French economy, through both stronger US demand for French exports and the indirect effect of stronger global demand.

Furthermore, the Trump administration announced that it would increase the rate of tariffs under Section 122 to 15% and invoke Section 232 (national security) of the Trade Expansion Act of 1962 and Section 301 (unfair trade practices) in order to rebuild by summer the tariff structure previously implemented under the IEEPA.

Chart 6: Change in the average effective tariff rate for exports from major economies, between the “pre-cancellation of IEEPA tariffs” scenario and the “10% rate under Section 122” scenario



Source: WTO.

2. Despite the conflict in the Middle East, growth forecasts have been revised upward compared with September 2025 forecasts

2.1 The global economic and trade outlook has been revised upward

Global trade proved particularly resilient in 2025, expanding by 4.3%, significantly above the autumn forecast (+2.2 pp). This reflected smaller-than-expected tariff increases, especially for emerging economies (China, India, Türkiye), a faster-than-

expected adjustment of trade flows to US tariffs,⁶ and more pronounced anticipation effects. However, the full materialisation of the tariff shock, the unwinding of anticipation effects and the energy shock resulting from the conflict in the Middle East are expected to slow global trade growth to 2.2% in 2026, before a recovery to 2.8% in 2027. Investment linked to artificial intelligence, which strongly supported trade

(6) EU Member States have until 31 August 2026 to meet the targets and milestones of their respective plans, until 30 September 2026 to submit their associated payment requests to the European Commission, and until 31 December 2026 to receive funds. All funds received by Member States by 31 December 2026 may continue to be disbursed to the real economy beyond that date. To be able to spend its funds after 2026, Spain is relying on a sovereign wealth fund (“España Crece”) with €10.5bn in EU loans, supplemented by €60bn in national public funding, that aims to mobilise €120bn in public and private funds to support strategic projects in key sectors such as housing, energy, digitalisation, reindustrialisation and the circular economy. Italy is considering postponing €30bn of RRF funds beyond 2026.

in related goods (particularly semiconductors) in 2025, is expected to continue supporting global trade throughout the forecast horizon.

Global economic growth is projected to ease slightly to 3.2% in 2026 (after growth of 3.3% in 2025) and to remain stable in 2027. Compared with September 2025 forecasts, global growth has been revised upward (by 0.3 pp in 2026), mainly reflecting improved growth prospects in the United States and in emerging economies. Growth is nonetheless set to remain slightly below the pace of the late-2010s (3.4% on average between 2015 and 2019).

Emerging economies should remain the main driver of global growth, with growth of 4.1% in both 2026 and 2027, a pace slightly below their pre-pandemic average

of 4.4% from 2015 to 2019. Economic activity in advanced economies should remain significantly more subdued, with growth of 1.6% in both 2026 and 2027 (versus an average of 2.2% from 2015 to 2019).

Global demand for French exports is expected to slow sharply in 2026, with growth of 2.3% (after 4.1% in 2025), before increasing to 2.5% in 2027. This represents an upward revision compared with forecasts from autumn 2025 (by 0.2 pp in 2026) but it is projected to be significantly less dynamic than before the pandemic (3.3% on average from 2015 to 2019). The slowdown in imports from advanced economies, particularly in the euro area – France’s main trading partners – is not offset by stronger import growth in emerging economies, as the latter account for a smaller share of French export markets.

Table 1: Global growth forecasts

	2015-2019 average	2024	2025	2026	2027	2025	2026
			DG Trésor forecasts			Revisions to September 2025 forecasts	
Global growth (as a % of 2024 global GDP)	3.4	3.3	3.3	3.2	3.2	0.3	0.3
Advanced economies^a (40%)	2.2	1.8	1.7	1.6	1.6	0.3	0.1
Euro area ^b (12%)	2.1	0.8	1.5	1.1	1.2	0.2	-0.3
Germany (3%)	1.8	-0.5	0.4	0.5	0.9	0.2	-0.4
Spain (1%)	2.8	3.5	2.8	2.3	2.1	0.0	0.3
Italy (2%)	1.0	0.5	0.7	0.4	0.6	0.1	-0.4
United Kingdom (2%)	2.0	1.1	1.3	0.7	1.2	0.1	-0.5
United States (15%)	2.6	2.8	2.1	2.3	2.0	0.6	0.8
Emerging economies (60%)	4.4	4.4	4.4	4.1	4.1	0.4	0.3
Brazil (2%)	-0.5	3.4	2.3	1.7	2.1	0.3	-0.1
China (19%)	6.7	5.0	5.0	4.6	4.1	0.3	0.6
India ^c (8%)	6.8	7.2	7.5	6.6	6.4	0.5	0.7
Türkiye (2%)	4.3	3.3	3.6	3.6	3.7	0.6	0.2
Global trade in goods ^d	2.8	2.0	4.3	2.2	2.8	2.2	-0.1
Global demand for French goods	3.3	1.0	4.1	2.3	2.5	1.6	0.2

- a. Aggregate forecast figures for “advanced economies” and “emerging economies” are based on IMF projections, with figures adjusted for DG Trésor forecasts for the countries in the table above and adjusted, for historical data, for revisions to national accounts. The forecast for global demand for French goods no longer includes projections for the Russian economy reflecting the collapse in bilateral trade flows following trade sanctions against Russia.
- b. The euro area aggregate is constructed from working-day-adjusted quarterly national accounts. Forecast figures are estimated based on European Commission projections adjusted for DG Trésor forecasts for Germany, France, Italy and Spain.
- c. India’s growth figures are reported on a calendar-year basis. On a fiscal-year basis, growth is estimated to be 7.4% in 2025/2026, 6.3% in 2026/2027 and 6.4% in 2027/2028.
- d. Global trade is calculated as the sum of imports and covers 40 countries representing 85% of global imports.

Source: IMF, *World Economic Outlook Update*, January 2026; OECD, *Economic Outlook*, December 2025; European Commission, *European Economic Forecast*, Autumn 2025; DG Trésor calculations and forecasts.

2.2 Diverging growth dynamics across advanced economies depending on their exposure to the energy shock

In the **United States**, following a resilient year in 2025 (with the economy expanding by 2.1%), GDP growth is expected to accelerate in 2026 to 2.3%, spurred by both domestic demand and foreign trade, before slowing down in 2027 to 2.0%. Household consumption is projected to be supported primarily by higher-income households, owing to wealth effects related to stock market valuations driven by the tech industry, while persistent inflation and the social spending cuts enshrined in the One Big Beautiful Bill Act (OBBBA) are expected to weigh on lower-income households. Moreover, higher oil prices due to the conflict in the Middle East are set to have a greater impact on the consumption of low-income households, reinforcing the “K-shaped” growth pattern in the US economy. Business investment should remain robust, supported in the near term by the OBBBA taking effect and over the longer term by the expansion of AI. Foreign trade is expected to contribute positively to growth in 2026: the earlier depreciation of the US dollar should support exports and weigh on imports, with imports also expected to be hampered by tariff increases; these effects are set to diminish in 2027. The United States is expected to be the advanced country least exposed to the consequences of the conflict in the Middle East owing to (i) its status as a net exporter of oil and natural gas, and (ii) the relative disconnection of its regional gas market from global gas markets.

In the **euro area**, GDP growth is forecast to slow to 1.1% in 2026 (after growth of 1.5% in 2025), prior to picking up slightly in 2027 to 1.2%. Economic activity is expected to be significantly affected by higher energy prices caused by the conflict in the Middle East. Consumption is forecast to be weighed down by higher inflation,⁷ which should weigh on households’ purchasing power, which has also been affected by the previous slowdown in wage growth. Investment should continue to benefit from the gradual pass-through of prior interest rate cuts, but is also expected to be hampered by geopolitical uncertainty and the planned tightening of monetary policy over the forecast period.

After returning to growth in 2025 (0.4%), **Germany’s** GDP growth is forecast to pick up slightly in 2026 (0.5%) and more markedly in 2027 (0.9%). This

recovery is set to be driven by fiscal measures (see Box 3), which are expected to offset the country’s persistent foreign trade challenges and high exposure to rising commodity prices. Indeed, the German economy should be significantly affected by rising natural gas prices due to the energy-intensive nature of its industries and households’ exposure to the energy shock (gas being the main heating source for households). Exports are expected to stagnate in 2026 before recovering somewhat in 2027 amid a recovery in global trade, while imports should remain dynamic. Household consumption is expected to slow in 2026, before rebounding in 2027 due to improving labour market conditions following stimulus measures and the easing of inflationary pressures. Investment should recover in 2026 and 2027 after several years of declines, mainly supported by public spending and the gradual normalisation of the residential real estate market.

In the **United Kingdom**, GDP growth is forecast to slow from 1.3% in 2025 to 0.7% in 2026, weighed down by higher commodity prices, before increasing to 1.2% in 2027. The United Kingdom is highly exposed to higher natural gas prices in 2026, as gas is a major component of the country’s energy mix and the main source of household heating. With inflation still high (standing at 3.0% in February 2026), this new inflationary shock is expected to weigh heavily on household consumption, as households have also been negatively affected by the renewed freeze in income tax thresholds and slower wage growth amid rising unemployment. However, the transmission of the shock should be gradual since administered energy prices had been set for the first and second quarters of the year prior to the outbreak of the conflict. After contracting in the fourth quarter of 2025, private investment is projected to recover but should continue to be impacted by rising production costs for businesses, thereby weighing on firms’ investment capacity, and by higher mortgage rates affecting households’ residential investment. In 2025, disruptions to the automotive industry following a cyberattack led to a historically large trade deficit that is expected to carry over into early 2026, with exports recovering gradually thereafter. By contrast, slowing domestic demand should curb imports. Consequently, the negative contribution of foreign trade to GDP growth is projected to gradually narrow.

(7) In the near term, the impact should mainly be directly through rising energy prices (primarily oil and gas). Then, the impact should gradually hit underlying inflation, with 2027 affected the most, owing to higher inflation expectations, the fallout on non-energy prices, wage increases, as well as disruptions to global value chains.

In **Italy**, GDP growth is forecast to fall from 0.7% in 2025 to 0.4% in 2026, before rebounding to 0.6% in 2027. The slowdown expected in 2026 is mainly attributable to the impact of higher natural gas prices on economic activity. Natural gas accounts for 39% of Italy's energy supply and 44% of its electricity mix, while being widely used for industrial and domestic purposes. Households are particularly exposed to price hikes, with 45% of electricity contracts and 71% of gas contracts being variable-rate contracts in 2024. Despite the adoption of the Carburanti Decree-Law, households and businesses are set to remain highly exposed to higher gas prices.⁸ In this context, household consumption is expected to be muted until 2027, due to sluggish real wage growth and high precautionary savings. RRF spending is expected to continue to fuel investment in 2026, whereas government consumption is forecast to stagnate in 2026 and 2027 amid fiscal consolidation. Although the Italian economy is highly exposed to US tariffs, foreign trade should support economic activity over the forecast period thanks to new export markets (Latin America) and to Germany's economic recovery (as Italy's top trading partner).

After GDP growth of 2.8% in 2025, **Spain** is expected to see a gradual normalisation of growth, while growth

should remain robust in 2026 (2.3%) and 2027 (2.1%), mainly driven by household consumption, which is forecast to improve thanks to strong migration flows and employment. The effects of higher gas prices are set to be minimal in Spain given its strong renewable energy output, with renewables covering almost 60% of its electricity consumption in 2024 (compared to 48% in the EU), thereby reducing its dependence on oil and gas and limiting the impact of natural gas price fluctuations on electricity prices. Furthermore, the negative effect on economic activity is expected to be offset somewhat by (i) a positive effect on tourism in Spain, with a possible reallocation of tourism flows away from the Middle East and Asia with travellers instead opting to holiday in the country, as well as by (ii) the scale of the fiscal support announced.⁹ Investment should remain robust in 2026, owing to the pass-through of prior interest rate cuts, the accelerating absorption of RRF funds and strong residential construction demand, before slowing in 2027 as these factors fade. Foreign trade is projected to make a negative contribution to growth in 2026, and should be neutral in 2027. Imports are expected to slow over the forecast period, in line with domestic demand, while exports should follow the pattern of global trade, with stronger momentum in 2027.

Box 3: Fiscal stimulus in Germany

Germany's governing coalition initiated a major shift in fiscal policy aimed at boosting growth by significantly increasing spending and investment. The constitutional reform adopted in March 2025 introduced several noteworthy flexibilities, significantly easing debt brake constraints, which had previously limited the federal government's structural deficit to 0.35% of GDP. Firstly, defence spending in the core budget above 1% of GDP is excluded from the calculation of the debt brake. Secondly, a new special extrabudgetary fund for infrastructure modernisation and climate neutrality (SVIK) was set up. With a total allocation of €500bn over 12 years, €100bn of this fund is earmarked for Germany's federal states (*Länder*). Lastly, the reform raises the ceiling on the structural deficit limit for the *Länder* from 0.0% to 0.35% of their respective GDPs, whereas previously they were required to run balanced budgets.

These measures allow for greater use of borrowing to finance government priorities, particularly for defence and infrastructure investment. Accordingly, the German government plans substantial increases in federal budget spending (including the main special "off-budget" funds)^a to €634bn in 2026 and €618bn in 2027 (compared with roughly €540bn in 2024). Over a three-year period, the ratio of public spending to GDP should increase by 0.9 pp. The bulk of the defence spending increase (€62bn between 2024 and 2027 to meet the defence spending target of 3.5% of GDP by 2029) is expected to come from the core budget, whereas the Bundeswehr Fund is set to continue to ramp up until it is fully incorporated into the core budget in 2028. A total of €40.5bn and €38.7bn (excluding transfers to the *Länder* and the KTF Fund) is budgeted for the new Infrastructure Fund in 2026 and 2027, primarily targeting investment in transport (chiefly rail). The remainder of the total allocation is set to be used to finance the digitalisation of public administration and modernise hospitals.

a. The main special funds include the Climate and Transformation Fund (KTF), the Bundeswehr Fund and the Infrastructure Fund (SVIK).

(8) Adopted on 18 March 2026, the Carburanti Decree-Law introduces a temporary (20-day) decrease in the price of petrol, diesel and liquefied petroleum gas (LPG) by lowering excise duty. The decree-law also provides for tax credits for road fuel costs (capped at €100m) and fishing fuel costs (20% of costs, capped at €10m). These emergency measures are a short-term response focused on fuel prices.

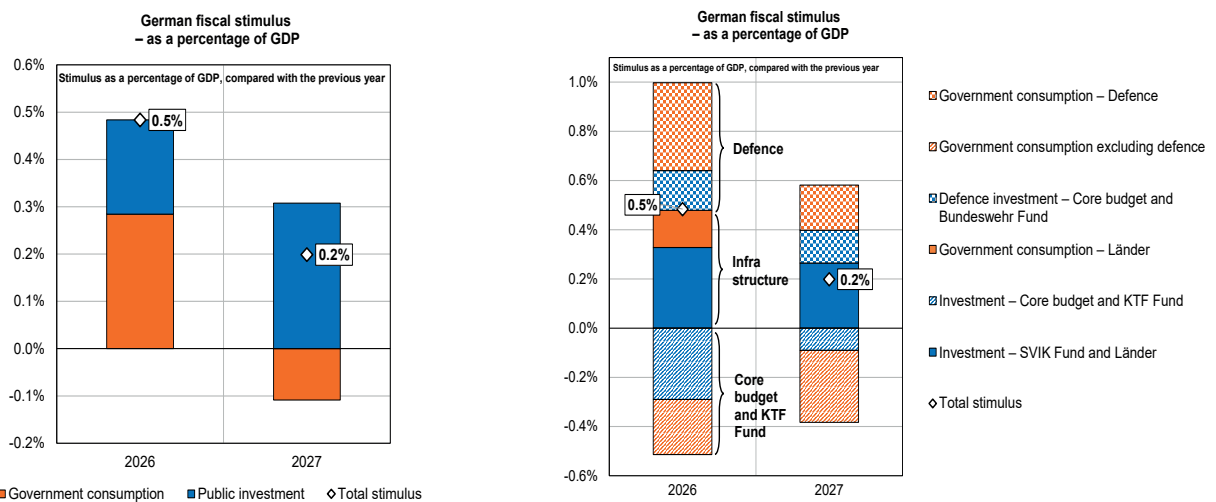
(9) To mitigate the impact of the crisis, Spain adopted a €5bn, 80-measure plan that includes tax breaks on energy and fuel, direct support for households and business sectors, and social safety net measures.

While Germany's fiscal shift is expected to boost economic activity, several factors could limit its impact:

- Implementation constraints related to the recurring underspending of public investment programmes. For federal budget expenditures, similar underspending^b in previous fiscal years is assumed for investments under the core budget, the KTF Fund and the Bundeswehr Fund, while the SVIK Fund is set to ramp up gradually.
- The additionality of investment spending would be only partial (i.e. on top of existing investment spending) given that some programmes were transferred from the core budget to the Infrastructure Fund. If the government uses some of the fiscal space freed up in the core budget for additional government consumption spending,^c the overall spending boost should remain well below the total amount of the additional investments announced.
- Local absorption capacity remains uncertain, while absorption capacity issues are also affecting some sectors. The ability of the *Länder* and municipalities to translate the transfers received into effective investment projects remains uncertain. Furthermore, defence spending could be hampered by substantial bottlenecks.

The spending boost estimated for Germany in the scenario takes these mitigating factors into account and distinguishes between investment spending and government consumption spending. In 2026, the fiscal stimulus is expected to be concentrated on government consumption, whereas in 2027, a contraction in government consumption is projected to offset part of the ramp-up in investment spending. Thus, the spending boost is estimated to reach 0.5 pp of GDP in 2026, driven by the Infrastructure Fund and defence spending, despite the substitution effects of the core budget and a fall in KTF Fund expenditures. It is forecast to be lower in 2027 (0.2 pp), owing to reduced core budget expenditures and slower growth in defence spending, despite the continued scaling-up of the Infrastructure Fund.

Chart 7: Germany's expenditure-based fiscal stimulus



Source: Federal Ministry of Finance (BMF), DG Trésor calculations.

- b. Ratio of budgeted to actual expenditure.
- c. The German Council of Economic Experts has said that fiscal space is overused to finance public consumption expenditure. The Council estimates that only around 50% of the new €500bn special fund for infrastructure and climate neutrality (SVIK) could effectively be allocated to additional investments over the medium term. In the 2026 budget, these carry-overs are estimated at roughly €12bn for transport and digital infrastructure and at €3bn for health infrastructure.

2.3 Although economic activity should remain dynamic in major emerging economies, it is expected to slow under the effects of the conflict in the Middle East and monetary policy stances

In **China**, economic activity is forecast to slow to 4.6% in 2026 and 4.1% in 2027, after standing at 5.0% in 2025. During the Central Economic Work Conference in December 2025, Chinese authorities indicated their intention to stabilise investment while continuing to upgrade the country's industrial base and accelerating progress towards its objective of becoming self-sufficient in new technologies. Inventory rebuilding following its depletion in 2025 should also support investment. The extent of the slowdown in China's economic activity will also depend on its ability to rebalance its growth model towards private consumption. Fiscal support measures appear so far insufficient to boost consumption, which is adversely affected by a sluggish labour market and a still-depressed real estate market; it is therefore expected to remain subdued. As a net importer of oil and gas, China's growth should also be affected by the conflict in the Middle East. However, this negative effect is expected to be minor due to the policy space the authorities have to adapt to the situation (large strategic reserves, restrictions on oil and gas exports, scope for supply diversification).

In **India**, GDP growth is forecast to be particularly strong over the 2025-2026 fiscal year (at 7.4%), but should slow down over the next two years, while remaining close to potential growth of 6.5% (according to the IMF), reaching 6.3% in 2026-2027 and then 6.4% in 2027-2028. Economic activity is expected to be

supported by the delayed impact of 2025's monetary easing policies and increased public investment spending, with an 11% rise announced in the 2026 budget presented last February. However, private consumption is projected to slow in 2026-2027 as a result of very strong harvests in 2025. The conflict in the Middle East is also expected to weigh on growth, as India is a net importer of oil and gas and heavily reliant on Gulf countries for its supply. This crisis should affect its exports, particularly food, and slow economic activity due to priority being given to households over industry in gas allocation.

In **Türkiye**, GDP growth is projected to be steady between 2025 and 2026 (3.6%). Türkiye, as a net importer of energy, is exposed to inflationary pressures stemming from the conflict in the Middle East, which should lead to a pause in the monetary easing cycle initiated in 2025. In 2027, growth is expected to reach 3.7%, as the effects of the conflict in the Middle East gradually dissipate, inflation partially recedes and a more accommodative monetary policy resumes, supporting domestic demand. Nevertheless, exports could continue to remain constrained, given slower global demand and intensifying competition with China in advanced economy markets, especially for exports to the EU.

In **Brazil**, GDP growth is expected to slow to 1.7% in 2026, reflecting the continued effects of monetary tightening. This impact is expected to be only partially offset by the effects of the Middle East conflict on Brazil's external trade as a net oil and gas exporter. In 2027, growth is projected to rise to 2.1%, chiefly owing to a less restrictive monetary policy and a recovery in investment.

Box 4: Redirection of Chinese exports towards the European Union

The tariff increases imposed by the United States in 2025 raise the risk that Chinese exports will be redirected to the European Union (EU) market after previously being destined for the US market. This risk is all the greater given the combination of China's excess production capacity and deflationary pressures, increasing both export volumes and their price competitiveness. In addition, the Chinese economy is developing new low-cost distribution channels, as shown by the emergence of e-commerce platforms such as Shein and Temu, which could facilitate the penetration of such products into the European market.

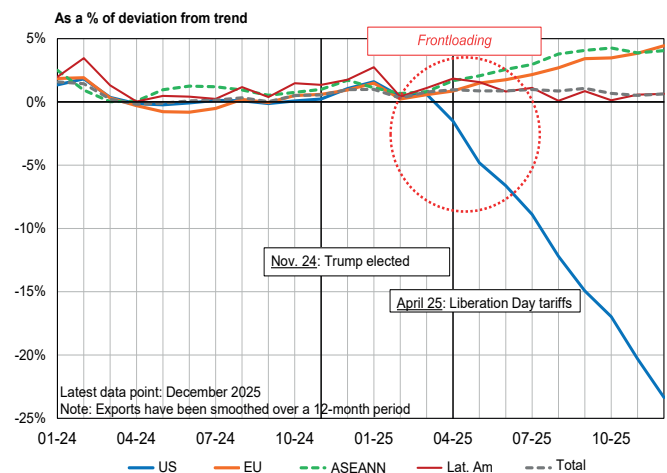
To date, imports from China have increased in France and the EU. In 2025, cumulative imports from China, in value terms, increased in France by 5% compared with 2024, whereas the growth rate for total French imports in 2025 stood at 0.7%, and Chinese imports from France declined by 2.0% between 2023 and 2024. This increase can only partly be explained by the redirection of Chinese exports that were initially destined for the United States to France. For example, the rise in pharmaceutical exports was particularly pronounced (up by €2.3bn, or 131%), driven specifically by one particular hormone-based medication, the price of which jumped 89%, which alone accounted for more than 99% of the increase in import values in this sector. The increase in Chinese imports is more marked at EU level: between 2024 and 2025, such imports rose by 6% while total imports to the EU increased by 2%.

Simultaneously, total Chinese exports worldwide increased by 1% (i.e. €32.3bn)^a in 2025 relative to 2024. After a slight increase in exports to the United States at the start of 2025 in anticipation of tariff increases, Chinese exports to the US market declined sharply from April onwards of that year (down by 25%, or €9.5bn) compared with the same period in 2024. At the same time, Chinese exports increased to the EU and ASEAN regions. It cannot be ruled out that this redirection phenomenon will intensify in the EU. In fact, international trade may display short-term inertia due to the time it takes for companies to switch suppliers, particularly in sectors where supply agreements between companies typically cover a relatively long time span.

Nonetheless, the statistics on imports from China should be interpreted with caution in view of:

- the role such Southeast Asian countries could play in redirecting goods to the EU and, in particular, to France: analysing trade flows from China alone may not be sufficient to capture the full extent of the redirection of imports, as some Chinese goods may transit indirectly from Southeast Asian countries. France recorded a pronounced increase in imports from Vietnam between April and September 2024 and April and September 2025 (up by €0.4bn, or 12%, after being up by 10% between April and September 2023 and April and September 2024) and in imports from Indonesia (up by €0.3bn, or 16%, after being up by 3% over the same period between 2023 and 2024).^b These imports mainly consisted of textile and clothing products, leather goods and footwear, and computer, electronic and optical products.
- a potential increase in the volume of Chinese exports that would be less visible in value terms due to existing deflationary pressures on Chinese goods and the appreciation of the euro against the yuan. All customs data used to establish the finding on imports from China are measured in value terms.
- a rise in small parcel imports: the finding of a moderate increase in imports from China is based on customs data that does not include small parcels (valued under €150), owing to the “de minimis” rule. Small parcel imports from China are, however, growing sharply in the EU according to analyses from the CEPII^c based on Global Trade Tracker data. Small parcel imports increased from €8.5bn over the December 2022 to August 2023 period, to €12.4bn over the December 2023 to August 2024 period, and to €20.3bn over the December 2024 to August 2025 period. In the United States, this upward trend in small parcel imports appears to have reversed from April 2025 onwards with the introduction of tariffs on small parcels (see Chart 9).

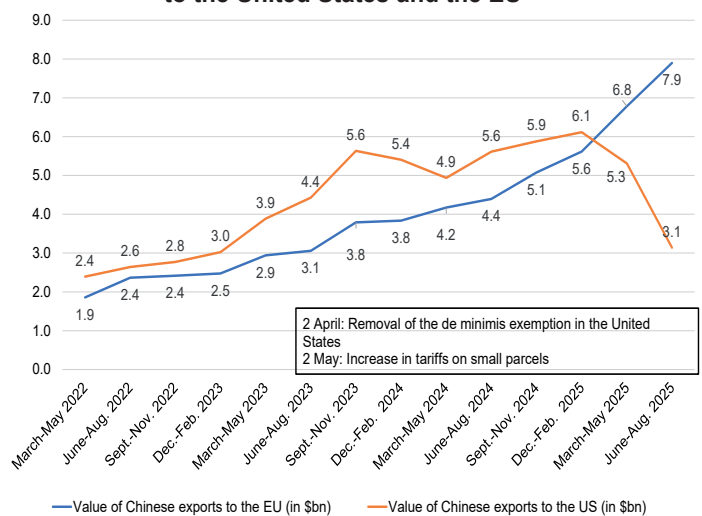
Chart 8: Chinese exports by destination: deviation from the trend over the Jan. 2024 to March 2025 period



Source: Chinese customs authorities (GTA), DG Trésor calculations.

How to read this chart: This chart shows the deviation between monthly Chinese exports and the trend calculated over the January 2024 to March 2025 period.

Chart 9: Chinese exports of small parcels (in \$bn) to the United States and the EU



Source: CEPII, calculations based on Global Trade Tracker (GTT) data.

a. Data from Chinese customs statistics. These figures may differ from French Customs data due to the different value thresholds used for recording trade flows and differences in product classification.
b. Douanes Kiosque data – *Le Chiffre du commerce extérieur* (in French only) – ASEAN.
c. According to the CEPII blog post entitled “Redirection du commerce chinois vers l’Europe : petits colis, grand détour” (in French only), published on 29 October 2025, CEPII calculations based on disaggregated HS6 trade data and the Global Trade Tracker tool highlight a redirection of Chinese small-parcel exports towards the EU, following the tightening of US tariffs.

3. Risks remain particularly elevated and tilted to the downside

The risks surrounding this scenario remain particularly elevated to the downside given the uncertainty around the duration and intensity of the conflict in the Middle East, a strategic hub for oil and LNG production and transport. The current high volatility of oil prices – even higher than in 2022 – and of natural gas prices adds considerable uncertainty to the forecasts. Developments in the war in Ukraine also continue to influence energy markets. In this context, the scenario for 2027 – based on key assumptions regarding the duration and intensity of the conflict and incorporating the public policy responses to the crisis to date – should therefore be interpreted with caution.

On the trade front, the US Supreme Court's ruling on IEEPA tariffs further clouds the outlook, while the Section 122 tariffs introduced in response are only

valid for 150 days. In addition, geopolitical tensions have intensified and continue to fuel the risk of trade retaliation (US threats against countries that sent troops to Greenland and against Spain in relation to the conflict in the Middle East).

AI also represents a source of risk according to the scenario: a correction in equity valuations could affect real GDP, both through wealth effects and its impact on investment.

Moreover, the frequency and intensity of extreme weather events continue to rise, increasing risks to infrastructure, agriculture and global supply chains.

Lastly, uncertainty remains regarding both the implementation of Germany's fiscal stimulus and its positive spillovers to France.

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