Trade Union Advisory Committee to the OECD

TUAC

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TUAC comments on the OECD Economic Outlook

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The OECD's projections and policy recommendations

The latest OECD Economic Outlook, titled *Under Pressure,* arrives at a moment of acute geopolitical instability, following the closure of the Strait of Hormuz and the US-Iran war. Despite the resilience shown by the economy in 2025 – largely cushioned by front-loaded trade, lower tariffs compared with previous projections, and the growth of nominal wages – the macroeconomic horizon is heavily clouded by compounding geopolitical rifts. Concentrated investments in Artificial Intelligence (AI) have supported headline growth figures, but the military escalations in the Middle East and the looming threat of prolonged disruptions in the Strait of Hormuz have driven energy prices back into volatile territory, threatening to trigger a new cost-of-living crisis. The rapid expansion of non-bank financial institutions, record-high interest rates on government bonds, concentrated equity markets, and high levels of public debt all pose great risks to stability. This uncertainty is reflected in the Outlook's projections, which present two different scenarios: one of a time-limited disruption and one where the disruption is prolonged. In both scenarios, economic growth has been revised downwards for 2026 compared with the March Interim Outlook, but the picture changes greatly depending on the pace of resolution of the conflict.

OECD projections for Global GDP growth (World)			
	2025	**2026**	**2027**
March interim report	3.3%	2.9%	3.0%
June report – time-limited scenario	3.4%	2.8%	3.1%
June report – severe scenario	3.4%	2.1%	1.8%

OECD projections for Inflation (G20)			
March interim report	3.4%	4.0%	2.7%
June report – time-limited scenario	3.4%	4.0%	3.1%
June report – severe scenario	3.4%	4.4%	4.4%

OECD Interim Outlook March 2026 and OECD Economic Outlook June 2026

Time-limited disruption scenario

In this scenario, the conflict is resolved by June, and prices gradually return to pre-conflict levels from late in the second quarter of 2026 onward, cushioned by the use of strategic reserves, oil in transit, and some modest additional supply from non-Gulf producers. Inflation, at 3.4% in 2025, is expected to increase to 4.0% in 2026 and ease to 3.1% in 2027. The impact is felt mostly by countries involved in commercial trade with the Middle East, especially Asian countries.

Under such conditions, the OECD recommends a vigilant monetary policy focused on keeping inflation expectations well anchored, with interest rates expected to increase slightly or remain around current levels. The fiscal stance is expected to be slightly expansionary based on the -0.2% of GDP projected median change in underlying primary balances. Nevertheless, the OECD calls for maintaining the path of fiscal consolidation, given that public debt is projected to rise regardless of the crisis due to ageing populations, rising defence expenditure, and extreme weather events. To address energy costs directly, the OECD advocates well-targeted, temporary, and energy-saving measures. Enhanced stress-testing frameworks are required to better assess the impact of rising corporate credit distress, potential sovereign risks (e.g. through haircuts or liquidity freezes), and possible spillovers arising from non-bank financial institutions' interlinkages with the economy and the banking sector.[1] To increase public revenues the OECD also suggests broadening the consumption and capital tax bases.

[1] A non-bank financial institution (NBFI) is a financial institution that does not have a full banking license and cannot accept deposits from the public. NBFIs encompass a wide range of entities, with different business models, balance sheet structures and regulatory frameworks. NBFIs are not subject to the same prudential requirements applied to banks and their linkages with the real economy and various financial sectors can be complex, which raises concerns about systemic risks.

Prolonged disruption scenario

In this scenario, disruptions to energy production and exports in the Gulf economies persist until the latter half of 2027. Global growth is expected to significantly decrease, with inflation peaking at 4.4% in 2026 and remaining around that level in 2027 as well. Beyond the vulnerabilities identified in the time-limited scenario, there is a credible risk of second-round effects, including in the food and manufacturing sectors, as Middle Eastern countries account for a large share of exports of fertilisers and petrochemical inputs. To stabilise inflation and anchor expectations, central banks are expected to raise interest rates by around 0.50-0.75%, though with careful calibration to avoid amplifying the downturn. The OECD recognises that in such a scenario there would be a greater economic rationale for expansionary fiscal policy, at least initially, to help stabilise output. The scope for this would depend on each country's debt levels, with fiscal stimulus aimed specifically at reducing energy intensity, through measures such as teleworking and increases in the supply of public transportation. Should financial market conditions tighten further, the OECD notes that governments could consider adopting measures to support the liquidity of the financial sector, while central banks could expand their balance sheets through quantitative easing or long-term refinancing operations.

Summary of TUAC's assessment

In TUAC's view, the analysis tends to overestimate the baseline resilience of the global economy ahead of the energy shock and to underestimate the risk of a prolonged inflationary phase-out period even after a quick conclusion of successful negotiations between the United States and Iran, which is anything but certain.

The resilience shown by the global economy in headline macroeconomic indicators is belied when taking into account real purchasing power, which still lags behind 2021 levels. Furthermore, financial markets are sustained by an AI investment wave that shows the hallmarks of a potentially disruptive asset bubble, while persistent inequalities hold back aggregate demand. While it is true that statutory minimum wages have increased in recent years across several OECD countries, average real wages remain below pre-pandemic levels. Should the geopolitical crisis persist, the cost-of-living crisis will worsen, precautionary savings will rise, and aggregate demand will contract. Stagflation – the combination of high inflation and stagnant economic growth – could take hold. This situation is compounded by persistent disparities in the tax burden, with national tax systems relying extensively on labour income as the primary source of public

revenues. To prevent this stagflationary path, TUAC highlights five critical areas where policy must deviate from traditional economic prescriptions:

- **Accelerate a green transition that is just for workers.** Ahead of the 2022 energy crisis, GDP growth was around three times higher compared to the end of 2025, just before the Hormuz crisis. Macroeconomic, fiscal and monetary policies were also more growth-friendly than at present. Because the fundamental lesson of 2022 – the need to structurally decouple from fossil fuel dependency via investments in green, renewable sources – was ignored, workers are being forced to pay again for the consequences of a crisis that countries could have avoided by investing in strategic autonomy.

- **Reject labour flexibilisation and wage suppression.** Labour market "tightness" has not led to a wage-price spiral; rather, nominal wages have already shown signs of moderation (for EU countries, negotiated wage growth was reported at 2.6% for May 2026). The inflationary wave is driven by supply-side shocks, not demand, and it is aggravated by persistent structural imbalances such as the generalised reduction in the labour share. Therefore, policy recommendations aimed at making the labour market more flexible will only deepen those imbalances and worsen living conditions further.

- **Protect fiscal space via growth, not austerity.** Rebalancing public budgets under the weight of ageing populations and climate disruptions cannot be achieved through blind fiscal tightening that sacrifices social expenditure. Welfare systems and public services are vital economic stabilisers, not mere costs. True debt sustainability is achieved through growth, fuelled by public investment and policies that improve living conditions.

- **Deploy broad-based protections against supply-side inflation.** Governments must consider the impact of increasing energy prices on workers more broadly. Narrowly targeted, means-tested energy measures create exclusionary thresholds that can drive near-poor families into financial destitution during a 4.4% inflationary spike. Broad protections are needed instead, funded by windfall profit taxes of the kind that helped support households through the 2022 energy crisis.

- **Govern AI adoption in a way that is fair for workers.** AI investment has supported headline growth, but its gains are highly concentrated among a narrow number of digital companies, while current evidence does not yet show a clear impact of AI on aggregate productivity – although one is probable in the medium term. Without proper governance,

AI risks widening the gap between labour and profit shares rather than delivering broad-based prosperity.

The 2022 and the 2026 energy crises: comparable shocks, radically different conditions

In TUAC's opinion, the comparison between the energy crises of 2022 and 2026 risks being misleading. The macroeconomic, fiscal and monetary conditions in most OECD countries ahead of the two shocks were radically different. The 2022-23 shock kicked in after the COVID-19 pandemic, when growth was recovering at around 6%, backed up by strong fiscal support, record-high household savings and sustained demand, with monetary policy rates close to zero. The 2026 Hormuz shock, on the other hand, is happening at a time of slow growth, tightening fiscal policies and high interest rates.

Furthermore, the current crisis exposes how the fundamental lessons of the 2022 energy shock have not been fully absorbed by policymakers. In light of the vulnerabilities exposed in 2022, there was a clear consensus on the need to structurally decouple economies from dependency on volatile fossil fuels. While it is true that most governments have pushed renewable capacity expansion to historical highs [Renewables 2024 Report], the response was largely reactive, substituting one geographic fossil fuel supplier for another rather than fundamentally overhauling energy systems. By treating the 2022 supply-side shock as a temporary anomaly rather than a systemic warning, the global economy has been left highly exposed to the current 2026 disruptions in the Middle East.

This vulnerability underscores the absolute necessity of accelerating the green transition. True economic resilience cannot be achieved through perpetual reliance on volatile oil and gas markets. Governments must view the current crisis as an urgent mandate to further scale up public investments in renewable infrastructure, energy efficiency, and grid modernisation. Crucially, this transition must be managed equitably. Rather than allowing the costs of energy insecurity to repeatedly erode workers' real wages, a proactive climate strategy is required to create high-quality, green jobs, stabilise domestic energy costs, and break the cycle of energy crises.

Labour markets and real purchasing power

The OECD's evaluation of real wages must be considered with great caution, as the details tell a story different from resilience. The only wages that today are significantly higher in real terms than in 2021 are statutory minimum wages, which have indeed increased in the great majority of OECD countries, also spurred in the EU area by the EU Minimum Wage Directive. [OECD Wage Bulletin – March 2026]. Average real wages, though, are still lagging behind, and nominal wage growth has slowed down after the 2024 surge. When compared with the expected inflation rate – 4.0%, at best, 4.4% at worst – this will mean a significant decrease in real purchasing power for workers at a time when previous losses have not been recovered yet.

It is also telling that the so-called 2024 "labour market tightness" has not translated into strong and sustained real wage growth. The explanation is multifaceted, encompassing political erosion of labour rights, the spread of platform and non-standard employment, persistent gender pay gaps, and some parts of the labour market displaying of monopsonistic behaviour. Recent OECD recommendations in favour of deregulation – including calls to undermine employment protection legislation – will further shift the cost of the crisis onto workers, exacerbating already record-high income inequalities and ultimately proving detrimental to growth.

Distribution matters: workers must participate in and gain from the AI adoption process

The Outlook stresses the benefits of the implementation and dissemination of Artificial Intelligence on productivity and, therefore, on growth, describing it as a lifeline for ageing OECD economies expected to report a considerable decrease in GDP per capita. However, there is as yet no clear evidence of AI's impact on aggregate productivity indicators. What is observable, however, is that a narrow number of digital companies are capturing highly concentrated financial gains from AI. New technologies can improve productivity, but wide prosperity does not come automatically, as it depends on the way gains are distributed and on who reaps the benefits. If not well governed, AI risks further widening the gap between the labour and the profit share, exacerbating economic inequality.

The impact of AI on the labour market is also uncertain. Current evidence is insufficient to determine whether AI will substitute for or augment workers. So far, it seems that the effects of AI are mostly visible in headline investment and GDP growth figures, but not yet in labour productivity or employment. It could be that, being a general-purpose technology, AI will hit

labour markets (and statistics) somewhat later than anticipated, but this doesn't rule out the possibility that it will hit fast and affect large chunks of the labour market, which may not be prepared to absorb the shock. The objective should be to ensure that technological change delivers benefits for society and workers. As the OECD has highlighted, social dialogue, and particularly collective bargaining, is crucial to ensure AI enhances, rather than weakens, job quality and that both workers and companies benefit from its adoption.

The sustainability of public debt is achieved by growth, not fiscal tightening

While the Outlook is right to highlight the long-term pressures on public finances – ageing populations, defence spending, and climate change – recent OECD findings point out that sound public finances and debt-to-GDP sustainability are ultimately products of robust economic growth rather than fiscal consolidation [Drivers of public debt reduction - OECD 2025].

Past crises have demonstrated that careless cuts to public spending risk choking off aggregate demand just as the economy enters a fragile phase, at a time when sustained public and private investments are required to stimulate the economy. Rather than pursuing spending cuts to health and pensions as most governments did in 2025-2026, the focus should be on revenue-increasing measures and on expansionary, growth-oriented investments, bearing in mind the lessons from the pandemic: welfare systems are not merely costs – they are economic stabilisers and drivers of growth.

To ensure fiscal sustainability is socially balanced, policies on the revenue side should prioritise principles of fiscal progressivity, equity and redistribution. Tax evasion and tax avoidance remain core challenges across OECD countries, depriving the public purse of resources. The OECD's recommendation for broader-based capital taxation does not go far enough: with income and wealth inequality at record highs and showing no sign of abating, fiscal policy must do more to rebalance the tax burden. Finally, it is striking that the case for taxing windfall profits has vanished from the conversation entirely. The 2022 energy crisis showed that windfall taxes can raise meaningful revenue and help fund support for households and firms.

Through these measures, fiscal policy can become a key instrument for protecting the purchasing power of workers, expanding productive capacity, and generating the economic growth necessary to manage public debt safely without compromising social cohesion.

Targeted energy measures: how do we set the threshold on who is vulnerable or not?

The OECD's reliance on "well-targeted, temporary, and energy-saving" energy measures fails to consider how economic vulnerability is defined and measured. Targeted measures create artificial, exclusionary income thresholds that shut out millions of middle and low-income households who are severely exposed to energy shocks. [New federal figures reveal 1 in 3 US households struggle to pay energy bills, but the reality is likely even worse]. In a severe disruption scenario where inflation reaches a punishing 4.4%, energy and food inflation act as highly regressive flat taxes. Families living slightly above arbitrary poverty or welfare lines are entirely exposed to skyrocketing utility bills without any state safety net, effectively driving the "near poor" into outright financial destitution. While the effects of the energy crisis vary considerably among countries depending on the share of fossil fuels used, geographic location, and trade relations with Middle Eastern countries, there is scope for broader measures to sustain demand should economic conditions deteriorate.

Moreover, narrow means-testing mechanisms suffer from massive administrative lags, complex bureaucratic barriers, and low take-up rates, leaving vulnerable households unprotected precisely when energy prices spike. The recommendation on using administrative data on households already benefiting from public welfare measures is sound, but for it to work effectively, it is vital that governments invest more in public services.

Rather than constructing exclusive thresholds for accessing benefits and focusing policy recommendations on the distinction between targeted and untargeted measures, broader initiatives stabilising essential energy consumption should be considered, financed through windfall profits taxes – which, as argued above, should be reinstated with a robust and clear legal framework drawing on the lessons learnt from the 2022 crisis. Such taxes would also distribute the pressure more equally on the firm side, alleviating the economic distress of SMEs. Altogether, to improve economic resilience, governments should apply broad-based support to workers and their families during this crisis, rather than emergency handouts for the absolute poorest.

Monetary policy's inflation target risks becoming a self-fulfilling path to economic recession

The OECD's suggestion that central banks could raise interest rates by an additional 0.50% to 0.75% in the prolonged disruption scenario risks exacerbating an already delicate situation. The

projected inflation in this scenario is structurally driven by supply-side disruptions – specifically energy bottlenecks in the Strait of Hormuz and shortages in petrochemical inputs – rather than excess domestic demand. Further monetary tightening cannot resolve these geopolitical and structural supply constraints. Instead, it risks inducing a deeper economic slowdown by significantly increasing borrowing costs for both governments and businesses.

Further interest rate hikes would restrict the fiscal space needed for social infrastructure and disincentivise the corporate investments required for the digital and green transitions. Monetary policy must remain flexible and avoid over-tightening, ensuring that the burden of stabilising a supply-side crisis does not fall disproportionately on labour markets and real wages.