Resolution Foundation

The Macroeconomic Policy Outlook: Q2 2026

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Since the US-Israeli strikes on Iran began nearly two months ago, global energy markets have been volatile. But the shock facing Britain has so far been smaller than that which followed Russia's invasion of Ukraine: UK gas prices peaked at 78p per therm above pre-war levels – not 300p, as in 2022. Even so, a return to recent peaks would hit family finances hard: British households' energy and fuel spending this year would be £11 billion higher than if prices had stayed at early-2026 levels. In light of ongoing uncertainty over developments in the Middle East, this edition of the *MPO* unpacks the potential impact of the shock on the UK economy, and discusses how the Bank of England and Government should respond.

In recent weeks, the IMF and OECD both marked down the UK's 2026 growth rate by 0.5 percentage points – the largest downgrades of any rich country. Although UK GDP is about half as energy intensive as the global average, two features set Britain apart from its peers. First, British households are unusually exposed to gas prices. Gas accounts for 62 per cent of final household energy consumption – by far the highest share in the G7 – and our electricity prices are closely tied to wholesale gas. Second, UK interest rates are particularly exposed. In March 2026, UK 10-year yields rose by more than those in any other G7 country bar Italy, reflecting sticky UK inflation and stretched public finances. This pushed up mortgage rates by a percentage point, costing around an extra £100 a month for a typical first-time buyer re-fixing in March rather than February.

The big question for the Bank of England is how aggressive to be in anticipating second-round inflation effects. The case for a forceful response is strengthened by the fact that the UK has had only one month of below-target inflation in nearly five years, and by the perception that the Bank was slow to act after Russia's invasion of Ukraine. But our view is that the Bank should be more cautious. This is not 2022: the shock is smaller, there is more slack in the economy, and before the war the Bank was forecasting rising unemployment and at-target inflation from June.

On the fiscal side, the Government should cushion families from the shock – but support needs to be timely, targeted and temporary, not a repeat of the blanket Energy Price Guarantee. Universal support would be expensive and, if unfunded, could push up interest rates. Targeted energy bill discounts are the better route. The harder question is how to pay for that support amidst a worse economic outlook. In a severe but plausible downside scenario we estimate borrowing would increase by £16 billion in 2029-30. This would leave the Government still meeting its fiscal rules thanks to the additional headroom in last year's Budget, albeit wiping out most of that headroom. It would be a mistake to suspend or change the fiscal rules given the size of the shock, the UK's lack of fiscal space, and clear evidence of higher borrowing costs. Instead, the Government should continue to commit to live within its rules, demonstrate its willingness to deliver consolidation, and keep cost of living support credibly temporary and targeted.

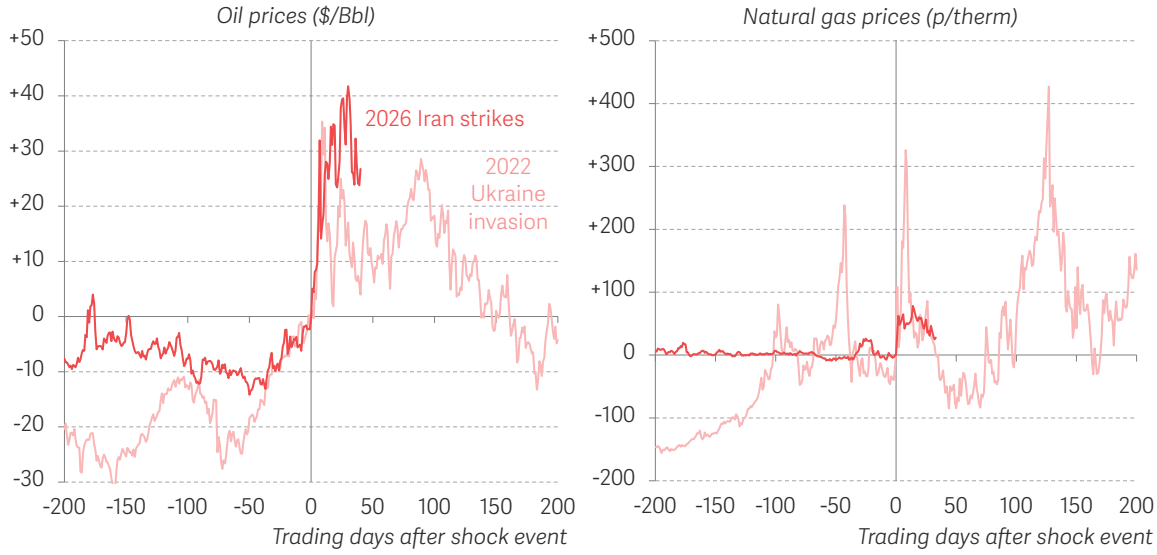
Sustained conflict in the Middle East could deliver an £11 billion hit to UK family finances

In early 2026, the Iran War delivered a double blow to the global supply of oil, gas and other hydrocarbons. Drilling and refining infrastructure has been destroyed or taken offline, and the effective closure of the Strait of Hormuz disrupted transport from the Persian Gulf to the rest of the world. As things stand, the near-term future of trade in the Middle East is highly uncertain. While oil and gas prices have receded from recent peaks amid hopes of deescalation, they remain above pre-war levels, and the risk of sustained conflict cannot be ignored. In this edition of the *MPO,* we examine the potential impact of these developments on the UK economy and discuss how policy makers at the Bank of England and the Government should respond.

The surge in global energy prices echoes the market reaction to Russia's full-scale invasion of Ukraine in February 2022. But the magnitude of the shock to natural gas is very different. As Figure 1 shows, UK natural gas prices rose by 78p per therm in March 2026 before falling back, compared to a spike of more than 300p per therm in March 2022. Recent oil price moves have, by contrast, been similar in size to those in 2022. At its peak in April 2026, a barrel of crude cost $42 more than the day before the Iran war began (a 57 per cent increase), compared to a peak increase of $35 per barrel in 2022 (a 36 per cent increase).[1]

FIGURE 1: **Less oil and gas is being supplied to the world, so prices have spiked**

Change in daily Brent crude spot price (left panel) and UK NBP natural gas month-ahead futures (right panel) following the February 2022 invasion of Ukraine and February 2026 strikes on Iran



NOTES: End-of-day data up to 16 April 2026. Day 0 is the final trading day before the full-scale invasion of Ukraine on 24 February 2022 and the US-Israeli strikes on Iran conducted on 28 February 2026.
SOURCE: RF analysis of Investing.com, Brent Spot US Dollar & UK Natural Gas (NGLNMc1).

[1] These figures do not account for an unprecedented widening in the wedge between the price of crude oil and the refined petroleum products that households and businesses actually consume. For example, in the week beginning 5 April 2026, the price difference between a barrel of crude oil and a barrel of gasoil (diesel) opened at $98, up from $26 at the start of the week before the Iran war began. Based on comparable weekly data, the previous high in 2022 was $71 at the start of the week beginning 9 October 2022.

The direct impact on British families will come through higher energy prices. In March and early April, forecasts for the July 2026 energy price cap rose to £1,973 for a typical household – 20 per cent above its April level. Average weekly petrol prices also rose 20 per cent above their pre-war levels, while diesel prices jumped by 36 per cent. The outlook for fuel and energy prices remains uncertain. But a sustained return to these peaks would see British households spending an extra £11 billion on fuel and energy in 2026 than if prices had remained at early-2026 levels (assuming no real-terms consumption cuts) – a hit equivalent to 0.5 per cent of aggregate household income.[2] While this would place real financial pressure on family finances, it's less than half the increase in fuel and energy spending seen between 2021 and 2022 (1.3 per cent of household income) – which occurred despite the introduction of the Energy Price Guarantee and families cutting back on energy use.

Higher bills are the most visible channel through which the Iran war affects the UK economy. But tighter global energy supply is also weighing on global production and demand, with knock-on effects for UK output, jobs and incomes – to which we now turn.

Continued restrictions on shipping through the Strait of Hormuz would hit global production and demand

A future in which less oil, gas and related products pass through the Strait of Hormuz would mean higher prices for and greater scarcity of key inputs to the process of producing and transporting goods. For as long as conflict reduces global supply, the world economy's ability to produce output will be impaired. This reflects the sheer scale of trade flowing through the Strait. In 2025, commodities worth at least 0.5 per cent of world GDP passed through this narrow stretch of water, including around a fifth of the world's oil and liquefied natural gas.[3] For some other inputs, such as helium, the share is even higher; for others, such as fertiliser, it is lower but still significant.

In some cases it's possible to use less of these goods – turning down office aircon, flying planes more slowly – but in other cases it is much harder. Production of semiconductors will likely be shuttered completely, for example. A simple illustration highlights the scale of the challenge. If a 10 per cent increase in input prices reduces demand for those inputs by 1 per cent, then a 10 per cent reduction in world supply – consistent with half of the oil that normally comes through the Strait remaining stranded – would imply a near doubling of prices (up by 100 per cent), broadly in line with recent movements in refined oil products. In this case, a simple model would suggest that world potential supply would initially fall by 0.25-0.6 per cent.[4] The lower bound reflects a world where good substitutes are available

[2] This projection assumes an energy price cap of £1,973 applies from July to December 2026, and that petrol and diesel prices are sustained for the rest of 2026 at their recent weekly peaks of 158p and 192p per litre. In the counterfactual where prices remain at early-2026 levels, the energy price cap is held at its April-June level of £1,670, while petrol prices revert to their average prices in the week beginning 23 February 2026, namely 132p and 141p per litre respectively. Totals for spending on energy and fuel in the UK are based on ONS Consumer trends, and 2026 spending totals are calculated by uprating 2025 spending totals in line with the projected year-on-year price changes (we implicitly assume that energy costs in Northern Ireland track the price cap that applies in Great Britain). The share of income spent on energy and fuel in 2026 is based on the OBR's March 2026 forecast for nominal household income.

[3] This is calculated as the volume of the key goods passing through the Strait, as referenced in the hyperlinks above, multiplied by their average 2025 prices and divided by world GDP in 2025. It is an underestimate as we only consider the main commodities passing out of the Strait, and do not include the goods going the other way.

[4] See D R Baqaee & E Farhi, The Macroeconomic Impact of Microeconomic Shocks: Beyond Hulten's Theorem, Econometrica 87(4), July 2019, https://doi.org/10.3982/ECTA15202, and R Bachmann et al., What if? The macroeconomic and distri-

and so disruption is contained to just the goods that don't make it through; in the upper bound good substitutes are hard to find, and so production processes which use the scarce inputs are more seriously impaired. Over time, we'd expect this impact to shrink as production processes adjust.

Global demand will also weaken – and potentially by more than the supply-side hit. Most obviously, oil consumers will be poorer – money spent filling tanks with expensive petrol is money that isn't spent in shops and restaurants. In this way, high oil prices redistribute incomes from domestic economies to oil producers. Heightened uncertainty created by the war will also weigh on private sector activity, causing firms and households to delay discretionary spending and investment. And as markets price in weaker growth and tighter monetary policy, falling asset prices and tighter financial conditions will further dampen demand.

There is reason to think that the UK could be hit harder than other rich countries

Economic history suggests that disruption in global energy markets could hit the UK hard. Statistical analysis of historic oil price shocks over the past 35 years shows that a temporary but persistent 50 per cent increase in oil prices (i.e. one that decays within three years, as it has on average in the past) could reduce UK GDP by around 1.25 per cent at its trough, six to eight quarters after the shock. That would be sufficient to push growth close to negative territory, before effects fade as prices and activity normalise.[5] The hit to the level of GDP at the three-year horizon, important for the Government's fiscal rules, would be around 0.9 per cent.

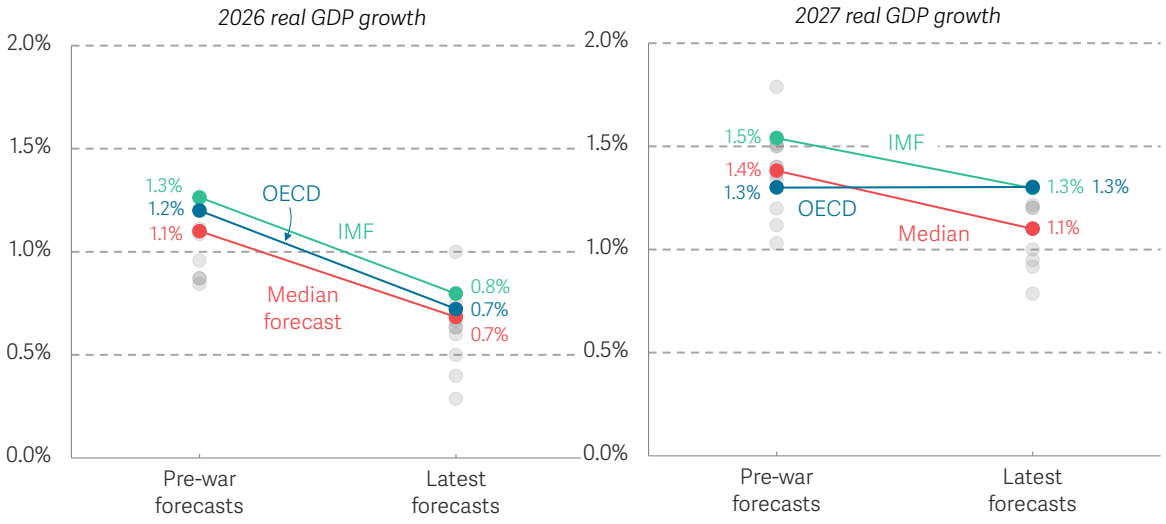
Since the war started, the IMF, OECD and other forecasters have been somewhat less pessimistic in downgrading their UK growth forecasts. As shown in Figure 2, both the IMF and OECD have marked down UK growth for this year by 0.5 percentage points. A similar picture emerges from HM Treasury's panel of independent forecasters who, like the IMF, have lowered their growth forecasts this year and next.

butional effects for Germany of a stop of energy imports from Russia, Economica 91(364), July 2024, https://doi.org/10.1111/ecca.12546. The first reference shows that, for shocks which are small or to inputs with good substitutes, the impact on GDP is equal to the ratio of global sales of the input to world GDP times the percentage reduction. So a 50 per cent reduction to inputs worth 0.5 per cent of world GDP reduces potential supply by 0.25 per cent But if shocks are large or to hard-to-replace inputs, the multiplier is the average of the pre- and post-shock ratio of global inputs sales to world GDP, where the latter share can be much higher for hard-to-replace inputs, because the price rises much more than the quantity falls. So the impact can be much larger – 2.5 times larger in the case of 1970s oil shock. We use that multiplier to construct our upper bound in this scenario. The multiplier could be bigger 1) because we have not accounted for lost trade going into the Strait and 2) because some of the affected inputs (including oil) could be harder to replace than oil was in the 1970s. On the other hand, the magnitude of the initial oil price shock is smaller than the 1970s in proportional terms, suggesting that stocks or other substitutes are available.

[5] We estimate the impulse response of UK GDP to 10% increase in oil prices driven by a global oil supply shock using both a VAR and an LPM, using as instruments the oil supply shock series in D Kaenzig, The macroeconomic effects of oil supply news: Evidence from OPEC announcements, American Economic Review, 111(4), 2021, p1092-1125.

FIGURE 2: **Forecasters have downgraded the UK's near-term growth outlook**

Forecasts for real GDP growth in 2026 and 2027, before and after the start of the Iran war: UK



NOTES: Shaded grey dots are individual forecasts in HM Treasury's panel of forecasts for the UK economy. The IMF's latest forecast is from April 2026 and its pre-war forecast is from October 2025. The OECD's latest forecast is from March 2026 and its pre-war forecast is from December 2025. Other forecasters are those for whom an updated forecast was published in the April 2026 HM Treasury panel, and their pre-war forecast is that published in February.
SOURCE: RF analysis of HM Treasury, Forecasts for the UK economy, February 2026 and April 2026; IMF, World Economic Outlook, October 2025 and April 2026; OECD, Economic Outlook, March 2026 and December 2025.

Strikingly, major forecasters see the UK as particularly vulnerable to a global energy shock. The IMF and OECD downgrades are the largest for any rich country, dealing a blow to the Government's ambitions of becoming the fastest growing economy in the G7.

On the face of it, it is not obvious why the UK is so exposed. UK GDP is around half as energy-intensive as the world average, suggesting a smaller supply-side hit than elsewhere. Nor is the UK particularly reliant on imported oil and gas: North Sea production means *net* imports are lower than in most G7 countries (excluding the energy-exporting US and Canada). Adjusting for population, Britain's net energy imports via oil and gas are a third lower than France's (34 per cent less) and less than half of Germany's (57 per cent less).

But two factors help explain the UK's greater exposure. First, households are more exposed to a rise in gas prices. Gas accounts for more than three-fifths (62 per cent) of final household energy consumption, comfortably the highest share in the G7. On top of this, Britain's electricity prices are set by wholesale gas prices around 85 per cent of the time, further pushing up households' energy costs when gas prices rise.[6] This means that the hit to household incomes from higher gas prices will be particularly large.

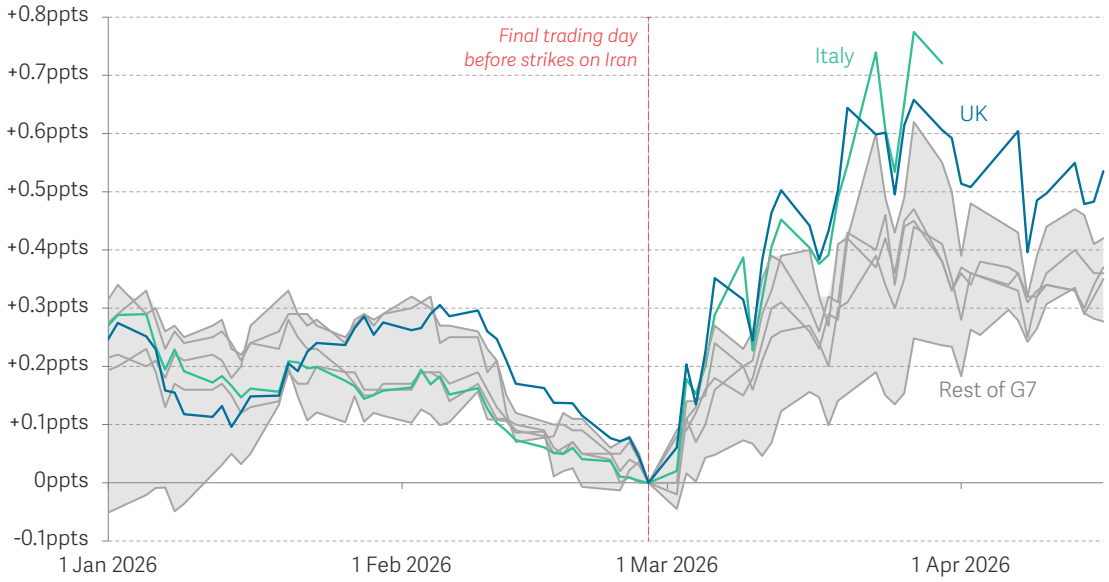
Second, UK interest rates have proved particularly responsive to the shock. Since the

[6] In 2021, on average across Europe (including the UK) gas set the price of electricity around 40 per cent of the time. B Zakeri et al., The role of natural gas in setting electricity prices in Europe, Energy Reports 10, November 2023, https://doi.org/10.1016/j.egyr.2023.09.069.

current conflict began, yields on government debt have risen by more in Britain than in all other G7 countries bar Italy, as shown in Figure 3. In part, this may be driven a perception of higher interest rates needed to deal with Britain's especially large inflation shock: the IMF has upgraded the UK's near-term inflation outlook by more than any other G7 economy (by a cumulative 1.5 percentage points in the two years to end-2027). But market moves have seemingly exceeded changes in Bank Rate expectations.[7] This is consistent with the UK's long-standing sensitivity to global shocks which, as discussed in our previous work, seems to reflect persistently high inflation as well as stretched public finances.

FIGURE 3: **UK borrowing costs have risen by more than all G7 countries bar Italy**

Change in 10-year government bond yields relative to 27 February 2026: G7 members



NOTES: End-of-day data up to 16 April 2026. Daily data from the Banca d'Italia is released monthly, so is only available up to 31 March 2026. Yields are a mix of observed benchmark bond yields and yields interpolated from fitted yield curves, depending on data availability.
SOURCE: RF analysis of Bank of England, Yield curves; Board of Governors of the Federal Reserve System via FRED, Selected Interest Rates; Banque de France, Financial Market Data; Bundesbank, Money and capital markets; Banca d'Italia, Gross yield of benchmark 10-year BTP; Ministry of Finance Japan, Japanese Government Bonds Interest Rates; Bank of Canada, Selected benchmark bond yields.

This rise in rates will have real economic consequences. It will raise businesses' borrowing costs, which are often priced with reference to gilts. Meanwhile, higher OIS rates (a key benchmark for mortgage pricing that move closely with gilt yields) pushed up fixed mortgage rates by about 1 percentage point between February and late-March. For a typical recent first-time buyer coming to the end of their initial deal, missing out on lower rates in February will mean paying around £100 more each month.

There are, then, good reasons to think that the war in the Middle East could deal a significant blow to the UK economy. The question is how macroeconomic policy makers at the Bank of England and Treasury should respond.

[7] In HM Treasury's April panel of forecasts for the UK economy, the median expectation for Bank Rate was for no cuts this year (leaving it at 3.75 per cent in Q4 2026) and one cut next year (to 3.5 per cent in Q4 2027). Back in the February panel, the median expectation among those who submitted an April forecast was between one and two cuts this year (to between 3.5 per cent and 3.25 per cent) and cumulatively two cuts by the end of next year (to 3.25 per cent). By contrast, the OIS instantaneous forward curve – often referred to as a market-based measure of Bank Rate expectations – has in recent weeks implied as many as three rate rises over the year ahead.

The big decision for the Bank of England is how aggressively it should anticipate large second-round inflation effects

As Governor Andrew Bailey has been at pains to make clear, global energy shocks put the Bank of England in a difficult position when it comes to setting interest rates. Such shocks push up inflation and reduce demand relative to available supply. This means interest-rate setters can't simultaneously bring down inflation while also supporting the real economy through the shock.

The textbook response to this unpalatable trade-off is to look through (i.e. ignore) the first-round direct effects of imported inflation. This is because attempting to stop an initial burst of inflation would require a sharp monetary tightening that, once its full effects had played through, would crush growth and push inflation well below target. Instead, it is argued, the Bank should focus on mitigating second-round effects (that arise as workers seek higher wages to protect their purchasing power and firms raise prices to protect profits) without excessively weighing on demand.

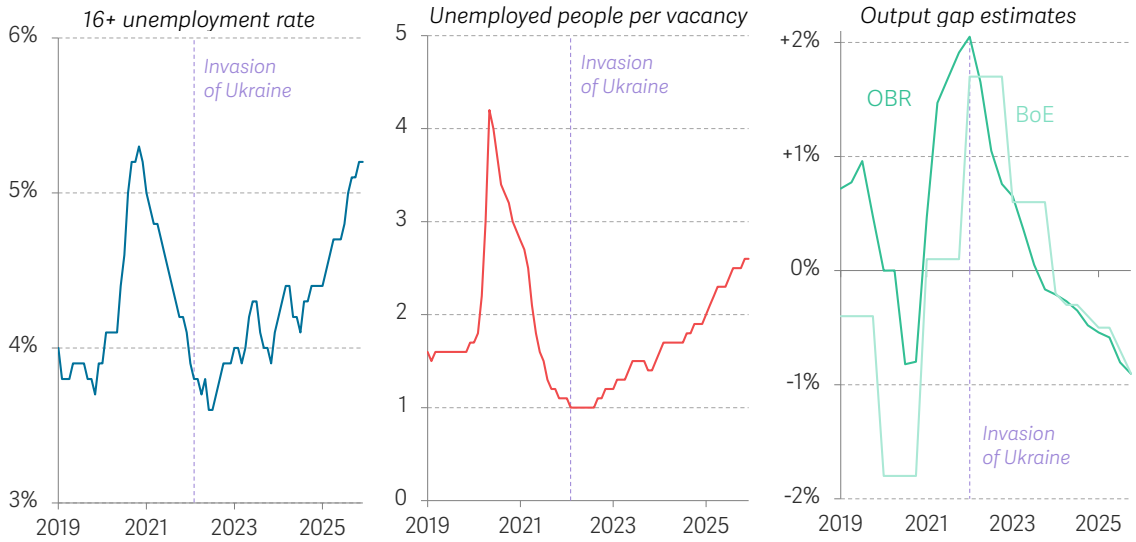
The key decision for the Bank is how far it should go in anticipating these second-round effects. A timid response risks allowing inflation to become entrenched; the UK has had only one month of below-target inflation in almost five years.[8] This risk is reinforced by the widespread perception that the Bank of England was slow to raise rates following Russia's invasion of Ukraine. Nonetheless, the MPC unanimously held rates in March, with multiple members explicitly taking a 'wait-and-see' approach in the face of high uncertainty and decisions that are costly to reverse.

It might be tempting to respond more forcefully, but our view is that caution is warranted. Most obviously, as pointed out above, this is not 2022: the shock (so far at least) is smaller. But, even for a similarly sized shock, the risk of second-round effects could be more contained this time around. All indicators suggest there is more slack in the economy today than during the previous energy shock (as shown in Figure 4). Higher unemployment and weaker demand will limit the extent to which workers can push for higher wages and businesses can successfully pass-on higher costs to prices. Moreover, pre-war forecasts pointed to further softening in the economy. In February, the Bank of England forecasted rising unemployment and at-target inflation from June – a stark contrast to its February 2022 (pre-invasion) forecast of inflation rising to nearly 6 per cent.

[8] There is some evidence that, following a period of above-target inflation, households' inflation expectations have risen even as headline inflation has fallen from its recent peaks. A useful comparison is between the Bank of England's Inflation Attitudes Surveys of February 2026 (when inflation was at 3.0 per cent) and August 2021 (when inflation was at 3.2 per cent). In February 2026, expected inflation was 0.5 percentage points higher over the next 12 months, 1.0 percentage points higher over the 12 months after that, and 0.7 percentage points higher five years ahead.

FIGURE 4: **There appears to be more slack in the economy than when the 2022 energy shock hit**

16+ unemployment rate (left panel), unemployed people per vacancy (middle panel) and estimates of the output gap (right panel): UK



NOTES: Unemployment and vacancy figures follow the standard convention of using three-month averages, plotted on the middle month of each three-month window. The output gap is the difference between observed GDP and potential GDP, expressed as a percentage of potential GDP, estimated by the OBR in March 2026 and the Bank of England in February 2026. The Bank of England's output gap estimate is an annual average up to 2023 and then quarterly from Q1 2024 onwards.
SOURCE: RF analysis of ONS, Labour market statistics; OBR, Economic and Fiscal Outlook, March 2026; Bank of England, Monetary Policy Report, February 2026.

The fiscal response must be grounded in the reality of our stretched public finances

The Government has the ability to cushion the impact of the shock on the UK economy. As we have argued in our previous work, energy bills is the place to do that. Indeed, it is the job of fiscal policy to use the government's balance sheet to cushion the impact of such an unanticipated shock to the global economy. In principle, that support should be provided on a timely, targeted and temporary basis, with the government effectively acting as an insurer of last resort for families who face significant hardship and who would not have been able to take out protection before the shock hit. In effect this means shifting the burden of higher energy bills into the future through government borrowing, to be offset with tighter future policy to rebuild fiscal space.

Some argue for blanket support for all, that is effectively unlimited in that it puts a cap on prices (in other words, a new Energy Price Guarantee scheme). A key argument for doing so is that this is the only way to act directly to contain the impact on inflation and ease the difficult trade-off faced by interest-rate setters.

But our view is that such an approach would be a mistake. It would be extremely costly: offsetting the roughly 1.5 percentage point increase in the Bank of England's inflation

outlook for Q3 2026 would cost about £20 billion if continued for a year.[9] This is a very high cost for a temporary reduction in inflation.[10] More importantly, it would expose the Government to significant fiscal risk – essentially writing a 'blank cheque' in the event of any further escalation in the Middle East – while helping not just struggling households but also those on high incomes. Such high spending would be particularly unwise given the evidence mentioned above that the financial markets are already demanding a premium on UK debt. If such support was unfunded, it would also lead to a clash between a loosening of fiscal policy at the same time as a tightening of monetary policy, driving interest rates up further. Standard multipliers suggest this could increase mortgage rates by around 0.4 percentage points in the near term.[11] Finally, providing such unlimited, blanket support would blunt the price signal needed to reduce demand and encourage alternative supply, shifting adjustment elsewhere in the global economy.

Approaches that provide blanket support for all, but which are limited in size – such as VAT cuts or removing some of the policy costs off bills – will also reduce the rise in measured inflation. Adjusting these in a permanent and funded way can be an effective means of redistributing from those with high incomes to those with high energy needs. But unfunded versions risk being counterproductive, by raising interest rates and requiring higher taxes and lower living standards in the future.

Instead, as discussed in our previous work, a better approach is to put in place a system of targeted energy bill discounts. That response should be calibrated to account for the size of the current shock, the hardship it causes, while also accounting for the state of the public finances. That involves providing targeted support to lower-income families with relatively high energy needs. There are many ways to do this, but providing a discounted price to these families – through data sharing between government and energy companies – would send support to where it is most needed.

Even under a severe but plausible scenario, the Government's fiscal headroom would be enough to absorb the economic impact

The Government will undoubtedly need to consider how to pay for any support provided. But the implications of the war for the public finances will go much wider. To help illustrate the issues here, we consider a severe but plausible scenario for the public finances. In particular, we take the largest rise in short- and longer-term interest rates seen since the outbreak of the conflict (of around 0.4 and 0.5 percentage points by 2029 respectively), the largest fall in risky asset prices (a roughly 9 per cent fall in UK equities), and use the impact on growth estimated above (of around 0.9 per cent after three years in our statistical model) and we

[9] In 2025, we calculate that British households spent £1.4 trillion in categories covered by the CPI index. We take total domestic expenditure from ONS Consumer trends and deduct spending on imputed rents, financial intermediation services indirect measured (FISIM), narcotics, prostitution, games of chance and life insurance. Full pass-through to consumer prices means that offsetting a 1.5 percentage point rise in headline inflation via energy price discounts would cost 1.5 per cent of total CPI-covered spending, or around £20 billion annually (other interventions with partial pass-through would have a higher cost).

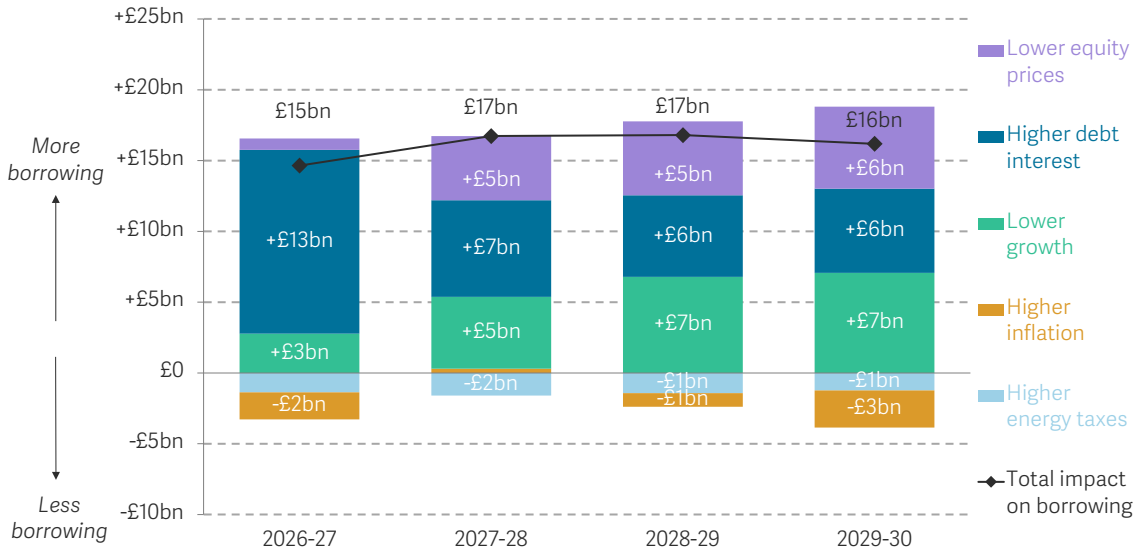
[10] Due to base effects, holding down prices in Q3 2026 would mechanically raise inflation in Q3 2027.

[11] This uses HM Treasury's published baseline for the impact of fiscal loosening of on short rates, which is an increase of 60 basis points for a temporary loosening equal to 1 per cent of GDP. A fiscal loosening of £20 billion from Q3 2026 to Q2 2027 would be worth 0.6 per cent of GDP, using the OBR's March 2026 forecast for nominal GDP. This scales to 0.4 percentage points.

allow that to feed through into lower employment (by around 0.5 per cent). We also account for the fact that, in cash terms, wages are likely to be higher, slightly pushing up tax revenues (net of higher welfare spending), and that receipts from energy-related taxes will also be higher. Finally, we assume that any extra spending on household support would be at an end by 2029-30, the year in which the fiscal rules will be assessed. We estimate that, based on this scenario, borrowing would be around £16 billion higher in 2029-30 than estimated at the time of the Spring Forecast, wiping out more than two-thirds of the Government's £24 billion headroom in 2029-30.

FIGURE 5: **In a severe but plausible scenario, we estimate that around three-quarters of the Government's headroom would be wiped out**

Estimated changes to the OBR forecast for public sector net borrowing since the Spring Forecast in a severe but plausible scenario: UK



NOTES: Chart shows the impact on borrowing of a 9 per cent fall in equity prices; a 0.3 percentage point and 0.5 percentage point increase in short rates and gilt rates respectively; 0.9 per cent lower GDP (and a 0.4 per cent lower employment); a roughly 1 percentage point rise in inflation, for a year, starting from Q2 2026; and the impact of higher oil and gas prices on energy taxes.
SOURCE: RF analysis of OBR, Economic and Fiscal Outlook, various.

Faced with such pressures, it might be tempting for the Government to either amend the fiscal rules to allow for a longer period of adjustment, or even trigger the 'escape clause', suspending them altogether. Our view is that this would be a mistake. Even in this scenario, the shock is not large enough for the Government to breach its fiscal rules, even if headroom is significantly diminished. Indeed, the Government deserves credit for increasing its headroom at the Budget last year without which it would not be able to sustain such a shock. Loosening or suspending the rules would deliver another blow to financial-market confidence in the UK fiscal position, which is already weak. Our view is that the Government can – and should – borrow to provide targeted and temporary support for families, but should return the public finances to a sustainable trajectory as the shock subsides.

Looking further ahead, this episode underlines the risks of the approach taken by successive governments of lurching from one crisis to the next with limited fiscal space. Hoping for a

favourable shocks and fiscal windfalls to ease trade-offs is not a sustainable strategy. Here we should avoid letting a 'good crisis go to waste'. If the conflict continues for longer than expected and energy-bill support must be longer lasting – or if we need to fund higher defence spending – then the arguments for raising tax to rebuild resilience are strengthened. But in a more uncertain world, building fiscal capacity for the future should be a priority.