United Nations | Department of Economic and Social Affairs

World Economic Situation and Prospects 2026

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The *World Economic Situation and Prospects 2026* is a report produced by the United Nations Department of Economic and Social Affairs (UN DESA), in partnership with the United Nations Conference on Trade and Development (UNCTAD) and the five United Nations regional commissions: the Economic Commission for Africa (ECA), Economic Commission for Europe (UNECE), Economic Commission for Latin America and the Caribbean (ECLAC), Economic and Social Commission for Asia and the Pacific (ESCAP) and Economic and Social Commission for Western Asia (ESCWA). The United Nations World Tourism Organization (UN Tourism) also contributed to the report.

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For further information, visit https://www.un.org/en/desa or contact:

UN DESA
Li Junhua, Under-Secretary-General
Department of Economic and Social Affairs
Room S-2922
United Nations
New York, NY 10017
USA
+1-212-9635958
undesa@un.org

UNCTAD
Rebeca Grynspan, Secretary-General
United Nations Conference on Trade and Development
Room E-9042
Palais de Nations, 8–14
1211 Geneva 10
Switzerland
+41-22-9175806
sgo@unctad.org

ECA
Claver Gatete, Executive Secretary
United Nations Economic Commission for Africa
Menelik II Avenue
P.O. Box 3001
Addis Ababa
Ethiopia
+251-11-5511231
ecainfo@uneca.org

UNECE
Tatiana Molcean, Executive Secretary
United Nations Economic Commission for Europe
Palais des Nations
CH-1211 Geneva 10
Switzerland
+41-22-9174444
unece_info@un.org

ECLAC
José Manuel Salazar-Xirinachs, Executive Secretary
Economic Commission for Latin America and the Caribbean
Av. Dag Hammarskjöld, 3477. Vitacura
Santiago, Chile
Chile
+56-2-22102000
secepal@cepal.org

ESCAP
Armida Salsiah Alisjahbana, Executive Secretary
Economic and Social Commission for Asia and the Pacific
United Nations Building. Rajadamnern Nok Avenue
Bangkok 10200
Thailand
+66-2-2881234
escap-scas@un.org

ESCWA
Mourad Wahba, Acting Executive Secretary
Economic and Social Commission for Western Asia
P.O. Box 11-8575.
Riad el-Solh Square
Beirut
Lebanon
+961-1-981301
https://www.unescwa.org/contact

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Foreword

The 2026 *World Economic Situation and Prospects* report arrives at a time of profound uncertainty and accelerating changes in the global economic order.

The world economy has shown resilience amid turbulence. Yet growth remains subdued, far below pre-pandemic levels. Inflation has eased, but prices remain high and continue to rise—eroding purchasing power and straining household budgets.

Many developing economies continue to struggle with elevated debt burdens, constrained fiscal space and tepid growth—compounded by intensifying climate shocks. As a result, progress towards the Sustainable Development Goals remains distant for much of the world.

Meanwhile, a combination of economic, geopolitical and technological tensions is reshaping the global landscape, generating new economic uncertainty and social vulnerabilities.

Strategic rivalries are eroding multilateralism and fragmenting markets, leading to disruptions in global trade and investment. Some vulnerable economies are faced with reduced access to the markets, finance and technology they need to spur job creation and prosperity.

Rapid investments in artificial intelligence demonstrate the technology's vast potential, but are also creating fears of a financial bubble that could spill across the global economy.

Heated competition for critical minerals is preying on weak governance and social cohesion, driving uncertainty and division across affected communities. And rising military expenditure is diverting scarce resources away from social spending, as countries spend more on instruments of war than on investments in peace.

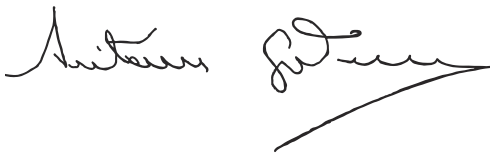
Yet, amid this turmoil, there are signs of hope.

In 2025, the international community took important steps to renew solidarity and strengthen collective action:

- the Sevilla Commitment set out an ambitious agenda to scale up development finance, address the debt crisis, and reform the international financial architecture;
- the World Social Summit reaffirmed that jobs, equality and human rights are the foundation of peace and prosperity; and
- COP30 strengthened global climate cooperation, advancing commitments on finance, adaptation and support for those most at risk.

As we enter the final stretch towards the deadline for the Sustainable Development Goals, these and other pledges must translate into action to deliver coordinated solutions on trade, debt, climate and sustainable finance.

Together, let us seize this moment with renewed purpose and unity to navigate disruption and help put every country on the path to inclusive, sustainable and resilient growth.



António Guterres
United Nations
Secretary-General

Explanatory notes

Symbols used in the tables

- .. Two dots indicate that data are not available or are not separately reported.
- – A dash indicates that the amount is nil or negligible.
- - A hyphen indicates that the item is not applicable.
- – A minus sign indicates deficit or decrease, except as indicated.
- . A full stop is used to indicate decimals.
- / A slash between years indicates a crop year or financial year, for example, 2025/2026.
- – Use of a hyphen between years, for example, 2025–2026, signifies the full period involved, including the beginning and end years.

References and terms

- Reference to "dollars" ($) indicates United States dollars, unless otherwise stated.
- Reference to "billions" indicates one thousand million.
- Reference to "tons" indicates metric tons, unless otherwise stated.
- Annual rates of growth or change, unless otherwise stated, refer to annual compound rates.
- Details and percentages in tables do not necessarily add to totals, because of rounding.
- For country classifications, see the statistical annex.
- Data presented in this publication incorporate information available as at 1 December 2025.

Abbreviations

AfCFTA	African Continental Free Trade Area
AGOA	African Growth and Opportunity Act
AI	artificial intelligence
ASEAN	Association of Southeast Asian Nations
BIS	Bank for International Settlements
CAPE	cyclically adjusted price-to-earnings (ratio)
CIS	Commonwealth of Independent States
CO_2	carbon dioxide
COP30	30th session of the Conference of the Parties to the United Nations Convention on Climate Change
COVID-19	coronavirus disease 2019
CPI	Consumer Price Index
DAC	Development Assistance Committee (OECD)
EAPD	Economic Analysis and Policy Division (of UN DESA)
ECA	Economic Commission for Africa
ECB	European Central Bank
ECLAC	Economic Commission for Latin America and the Caribbean
ECOWAS	Economic Community of West African States
EIU	Economist Intelligence Unit
ESCAP	Economic and Social Commission for Asia and the Pacific
ESCWA	Economic and Social Commission for Western Asia
EU	European Union
FAO	Food and Agriculture Organization of the United Nations
FDI	foreign direct investment
GCC	Cooperation Council for the Arab States of the Gulf
GDP	gross domestic product
G7	Group of Seven
G20	Group of Twenty
H1	first half of the year
IEA	International Energy Agency
IFPRI	International Food Policy Research Institute
ILO	International Labour Organization
IMF	International Monetary Fund
LDC	least developed country
LHS	left-hand scale
LLDC	landlocked developing country
LNG	liquefied natural gas
MDB	multilateral development bank
MERCOSUR	Southern Common Market (Latin America)
MFN	most-favoured-nation
NEET	not in employment, education, or training
ODA	official development assistance
OECD	Organisation for Economic Co-operation and Development
OPEC	Organization of the Petroleum Exporting Countries
PCE	personal consumption expenditure(s)
PMI	Purchasing Managers' Index
PPI	Producer Price Index
PPP	purchasing power parity
Q	quarter
QE	quantitative easing
QT	quantitative tightening
R&D	research and development
RHS	right-hand scale
S&P	Standard and Poor's
SAR	Special Administrative Region
SDGs	Sustainable Development Goals
SIDS	small island developing States
SMEs	small and medium-sized enterprises
UN DESA	United Nations Department of Economic and Social Affairs
UN-Habitat	United Nations Human Settlements Programme
UN Migration	International Organization for Migration (IOM)
UN Tourism	United Nations World Tourism Organization
UN Women	United Nations Entity for Gender Equality and the Empowerment of Women
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNECE	United Nations Economic Commission for Europe
UNEP	United Nations Environment Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNOCHA	United Nations Office for the Coordination of Humanitarian Affairs
USMCA	United States-Mexico-Canada Agreement
VAT	value added tax
WEO	World Economic Outlook
WMO	World Meteorological Organization
WTO	World Trade Organization
YoY	year-on-year

Acknowledgements

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SUSTAINABLE DEVELOPMENT GOALS

End poverty in all its forms everywhere

End hunger, achieve food security and improved nutrition and promote sustainable agriculture

Ensure healthy lives and promote well-being for all at all ages

Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all

Achieve gender equality and empower all women and girls

Ensure availability and sustainable management of water and sanitation for all

Ensure access to affordable, reliable, sustainable and modern energy for all

Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all

Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation

Reduce inequality within and among countries

Make cities and human settlements inclusive, safe, resilient and sustainable

Ensure sustainable consumption and production patterns

Take urgent action to combat climate change and its impacts

Conserve and sustainably use the oceans, seas and marine resources for sustainable development

Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss

Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels

Strengthen the means of implementation and revitalize the Global Partnership for Sustainable Development

Executive summary

Global economic outlook

Steady but subdued growth amid elevated policy uncertainty

The global economic outlook remains clouded by elevated macroeconomic uncertainties, shifting trade policies, and persistent fiscal challenges. Geopolitical tensions and financial risks add to these pressures, leaving the global economy fragile. In 2025, a sharp increase in United States tariffs created new trade frictions, though the absence of broader escalation helped limit immediate disruptions to international commerce. Despite the tariff shock, global economic activity proved resilient, supported by front-loaded shipments, inventory accumulation, and solid consumer spending amid monetary easing and broadly stable labour markets. Continued macroeconomic policy support is expected to cushion the impact of higher tariffs, but growth in trade and overall activity are likely to moderate in the near term.

Global economic growth, estimated at 2.8 per cent for 2025, is forecast to decline slightly to 2.7 per cent in 2026 before edging up to 2.9 per cent in 2027—remaining well below the pre-pandemic (2010–2019) average of 3.2 per cent. Growth in Europe, Japan, and the United States is projected to hold broadly steady but proceed at a moderate pace, with monetary or fiscal support continuing to underpin demand. Several large developing economies, including China, India, and Indonesia, are expected to continue experiencing solid growth driven by resilient domestic demand or targeted policy measures. However, prospects for many low-income and vulnerable countries remain less favourable.

The near-term outlook reflects a balance of supportive and constraining factors. On the upside, continued disinflation and monetary easing are expected to lower financing costs and sustain domestic demand, while wage gains in several major economies will help bolster private consumption. On the downside, elevated policy uncertainty—while easing from its peak—continues to weigh on business and consumer confidence. High public debt levels and limited fiscal space constrain macroeconomic policy flexibility and limit room for public investment, raising concerns about longer-term growth prospects in many countries.

Meanwhile, rapid advances in artificial intelligence (AI) and clean energy technologies, together with the expansion of digital infrastructure and growing demand for critical minerals, are spurring new waves of investment and innovation. However, such activity remains heavily concentrated in a few major economies with substantial technological and financial capacity, leaving many countries behind and exacerbating existing disparities. From a risk perspective, vulnerabilities persist on both the financial and trade fronts. Elevated asset valuations and rising leverage heighten the risk of abrupt financial corrections, while renewed trade and geopolitical tensions could disrupt global supply chains, capital flows, and exchange rates, adding pressure on vulnerable economies.

Progress towards the Sustainable Development Goals remains insufficient and uneven. Subdued global growth has been accompanied by slower economic convergence, with per capita income growth weakening across many developing economies in recent years—including in the least developed countries (LDCs). The number of people living in extreme poverty (below $3 per day in 2021 purchasing power parity terms), after returning to pre-pandemic levels in 2024, declined only marginally in 2025, with poverty increasingly concentrated in sub-Saharan Africa and in countries facing conflict and fragility. Cost-of-living pressures persist in many countries as rising prices continue to erode real incomes and strain affordability, disproportionately burdening low-income households, rural communities, and women. Economic expansion in 2025 has been accompanied by record carbon emissions and rising environmental pressures, underscoring the persistence of carbon-intensive growth patterns. Climate-related extreme events are becoming more frequent and severe, disrupting agricultural production, driving up food prices, and adding fiscal pressures linked to disaster response and reconstruction.

Broadly stable growth prospects for major economies

In the **United States**, economic growth slowed from 2.8 per cent in 2024 to an estimated 1.9 per cent in 2025 as strong consumer spending and AI-related investment were partly offset by weak residential and commercial construction. Growth is forecast to edge up to 2.0 per cent in 2026 and 2.2 per cent in 2027, supported by expansionary fiscal and monetary policies. Inflation will likely remain above the 2 per cent target in 2026, though it should gradually moderate as tariff effects wane and housing costs stabilize. Downside risks stem from policy uncertainty, a challenging fiscal outlook, and the possibility of sharp corrections in equity markets.

Growth in the **European Union** is projected at 1.3 per cent in 2026 and 1.6 per cent in 2027, compared with estimated growth of 1.5 per cent in 2025. Resilient consumer spending—supported by stable labour markets and rising real wages—remains the main driver of growth, while higher United States tariffs and geopolitical uncertainty will likely weigh on exports. With inflation generally near central bank targets, monetary policy is expected to stay accommodative. However, long-standing structural constraints—including competitiveness pressures, elevated energy costs, population ageing, and slow technological diffusion—continue to limit productivity growth and potential output.

Among the economies of **developed Asia**, growth in **Japan** is forecast at 0.9 per cent for 2026 and 1.0 per cent for 2027, slightly below the 1.2 per cent growth rate estimated for 2025. Private consumption is expected to recover gradually, while exports—particularly of automobiles—will likely remain constrained by higher United States tariffs and policy uncertainty. The Bank of Japan faces a delicate balancing act between containing inflation and sustaining wage growth and domestic demand. **Australia** and the **Republic of Korea** are projected to see a pickup in growth in 2026, underpinned by stronger domestic demand.

In the **Commonwealth of Independent States and Georgia**, growth is projected at 2.1 per cent for 2026, down from 4.6 per cent in 2024 and an estimated 2.2 per cent in 2025. The pace of expansion is expected to pick up slightly, with growth edging up to 2.5 per cent in 2027, but the outlook remains uncertain. Regional performance is diverging, with the Russian Federation experiencing a marked slowdown while Central Asian economies continue to record robust growth. The protracted war in Ukraine continues to weigh heavily on regional macroeconomic conditions and external trade.

Uneven growth momentum across developing regions

The economy of **China** is projected to grow by 4.6 per cent in 2026 and 4.5 per cent in 2027 following an estimated 4.9 per cent expansion in 2025. A temporary easing of trade tensions with the United States—including targeted tariff reductions and a one-year trade truce—has helped stabilize confidence, while policy support is expected to sustain domestic demand. Meanwhile, the country's goods trade surplus exceeded $1 trillion in the first 11 months of 2025, reflecting resilient export growth to markets beyond the United States, including other Asian economies and Europe. Downside risks persist, however, including potential renewed trade frictions, softening external demand, and persistent weakness in the property sector.

In **Africa**, growth is projected to rise modestly from an estimated 3.9 per cent in 2025 to 4.0 per cent in 2026 and 4.1 per cent in 2027, supported by improved macroeconomic stability, rising investment, and stronger consumer demand. Diversification of export partners has provided some resilience against trade disruptions, but the lack of diversification at the product level—for example, in apparel exports—remains a source of vulnerability for some economies. Divergent commodity price trends continue to drive uneven performance across the region. Inflation has moderated but remains elevated in many countries, leading to cautious monetary easing. Limited fiscal space, elevated debt-servicing costs, declining official development assistance (ODA), and ongoing trade uncertainty weigh on the region's outlook.

In **East Asia**, growth is projected to moderate from an estimated 4.9 per cent in 2025 to 4.4 per cent in both 2026 and 2027. Domestic demand should remain resilient—supported by disinflation, monetary easing, and fiscal expansion—as the export boost from front-loading ahead of United States tariff hikes dissipates. Risks are tilted to the downside amid ongoing global policy uncertainty, trade tensions, and weakening demand from major trading partners.

The outlook for **South Asia** remains relatively strong, though growth is projected to moderate from an estimated 5.9 per cent in 2025 to 5.6 per cent in 2026 before recovering to 5.9 per cent in 2027. Trade policy uncertainty and high public debt continue to constrain several economies. In **India**, growth is estimated at 7.4 per cent for 2025 and forecast at 6.6 per cent for 2026 and 6.7 per cent for 2027, supported by resilient consumption and strong public investment, which should largely offset the adverse impact of higher United States tariffs. Recent tax reforms and monetary easing should provide additional near-term support.

In **Western Asia**, growth momentum is expected to strengthen, with GDP projected to expand by 4.1 per cent in 2026 and 4.0 per cent in 2027, up from an estimated 3.4 per cent in 2025. Oil exporters are expected to benefit from the unwinding of OPEC Plus production cuts and continued economic diversification efforts. However, the regional outlook remains vulnerable to geopolitical tensions, ongoing conflicts, and security risks. Growth in **Türkiye** will remain moderate amid subdued demand, policy tightening, and large external financing needs.

In **Latin America and the Caribbean**, the outlook remains broadly resilient, with growth projected to decline slightly from an estimated 2.4 per cent in 2025 to 2.3 per cent in 2026 before edging up to 2.5 per cent in 2027. Stronger private consumption, a gradual investment recovery, and improved financial conditions are supporting economic activity. However, new United States tariff measures, changes in immigration policies in major host countries, and higher shipping costs are creating uneven impacts across the region, reshaping trade flows, supply chains, and remittance patterns.

Growth in the **least developed countries** is projected to rise to 4.6 per cent in 2026 and 5.0 per cent in 2027, up from an estimated

3.9 per cent in 2025 but still below the SDG target of at least 7 per cent. Stronger performance in several large LDCs, including Bangladesh, Ethiopia, and the United Republic of Tanzania, is underpinned by improved macroeconomic stability, robust agricultural output, and favourable commodity prices. However, many smaller LDCs face a challenging outlook, constrained by security concerns, limited fiscal space, and elevated debt. Higher United States tariffs and declining ODA are further weighing on export prospects and development financing.

Growth in the **landlocked developing countries (LLDCs)** is expected to moderate from an estimated 5.3 per cent in 2025 to 4.9 per cent in both 2026 and 2027 amid persistent logistics constraints. Divergent commodity price trends continue to generate uneven impacts across these economies, while remittance inflows provide an important source of support for domestic demand.

In the **small island developing States (SIDS)**, growth is forecast to decrease from an estimated 3.5 per cent in 2025 to 2.8 per cent in both 2026 and 2027. Although SIDS are benefiting from an ongoing tourism recovery, they remain vulnerable to climate shocks, limited economic diversification, elevated debt burdens, and persistent investment gaps.

Easing global inflation, but uneven progress

Global disinflation continued, with headline inflation easing to an estimated 3.4 per cent in 2025 and projected to slow further to 3.1 per cent in 2026. The decline has been driven by lower energy and food prices, more stable exchange rates, and slower nominal wage growth. About 40 per cent of the world's countries saw inflation return to long-term (2010–2019) averages in 2025, yet progress towards central bank targets remains slower than anticipated in several developed and developing economies. Inflation is above central bank targets—or above target ranges where applicable—in more than one third of inflation-targeting economies and is still elevated in parts of Africa and Western Asia. Risks persist, particularly from energy and food price shocks amid lingering geopolitical tensions, ongoing conflicts, and climate-related disruptions.

Resilient trade growth in 2025, but moderation ahead

Global trade remained resilient in 2025, expanding by an estimated 3.8 per cent despite heightened trade policy uncertainty and higher United States tariffs. Growth was supported by robust merchandise trade, boosted by the front-loading of shipments ahead of new tariffs, and by the continued strong expansion of trade in services, particularly in travel, digital, and professional services. However, momentum is expected to soften in 2026, with global trade projected to slow to 2.2 per cent as front-loading effects fade and tariffs become more entrenched.

While tariffs and other protectionist measures have unsettled the international trading environment and heightened uncertainty, global integration remains deep; trade in goods and services still accounts for over 50 per cent of world GDP, and about 72 per cent of goods moved under the World Trade Organization most-favoured-nation (MFN) regime in September 2025.

Beneath the short-term volatility, structural shifts are reshaping global commerce. Firms are diversifying supply chains, relocating production, and expanding South–South trade linkages, while rapid digitalization and technological innovation are driving a growing share of digitally delivered services. These trends are creating new opportunities for developing countries to integrate into emerging segments of global value chains, attract investment in manufacturing and services, and diversify export markets

beyond traditional partners. The expansion of regional and digital trade networks offers further potential for inclusive growth and broader participation in global trade.

Overall, these developments indicate a gradual transformation of global trade that goes beyond fragmentation. Risks to the outlook remain two-sided, with potential setbacks from renewed trade tensions, but also upside potential from an easing of trade frictions and stronger regional integration initiatives that could reinforce trade and investment flows.

Subdued global investment momentum

Global investment remained subdued in 2025, constrained by economic uncertainty, geopolitical tensions, and limited fiscal space. Monetary easing and targeted fiscal measures supported investment activity in some economies, while AI-related capital spending provided pockets of strength—particularly in the United States and parts of Europe—as businesses expanded investment in digital infrastructure and advanced technologies.

Investment trends diverged across developing regions. Several Asian economies recorded solid gains, supported by robust export performance and industrial expansion. In contrast, many countries in Africa and Latin America experienced muted investment growth amid tight fiscal conditions, elevated borrowing costs, and policy uncertainty. Foreign direct investment (FDI) also remained sluggish worldwide, reflecting weak business confidence and heightened geopolitical risks.

Broadly stable labour markets

Global labour markets were broadly stable in 2025, with the global unemployment rate holding at an estimated 5 per cent during the year and projected to edge down to 4.9 per cent in 2026. While announcements of higher United States tariffs and heightened trade policy uncertainty initially raised concerns about rising unemployment, the partial rollback later in the year helped ease such pressures. Beneath this overall stability, however, structural challenges persist. Gender gaps in labour force participation remain wide, and unemployment among youth, at more than twice the global average, continues to be a major concern. An estimated 257 million—or one in five—young people worldwide are not in employment, education or training (NEET). In addition, persons with disabilities continue to face significant barriers to employment, underscoring the need for more inclusive labour policies and greater investment in skills and accessibility.

Opportunities and uncertainties surrounding artificial intelligence

AI is emerging as a potential driver of productivity growth. While micro-level evidence shows efficiency gains in selected sectors, the timing and scale of the impact of AI on aggregate productivity remain uncertain and will depend on how quickly firms, workers, and institutions adapt. At the same time, significant country divergences are likely to emerge, reflecting differences in technological readiness, digital infrastructure, and investment capacity. AI adoption may also reshape labour markets, with effects more pervasive across the skill spectrum than in previous rounds of rapid technological change. These rapid developments present both opportunities and challenges. They underscore the importance of complementary policies—to strengthen workforce skills, expand digital infrastructure, and maintain open and competitive markets—as well as the need for international cooperation to ensure that productivity gains are realized, innovation remains inclusive, and existing economic and technological gaps between countries do not widen further.

Robust cross-border portfolio flows, but risks looming

Global financial conditions eased in 2025 as more accommodative monetary policy and a weaker United States dollar supported capital flows. Cross-border liquidity expanded with the strengthening of bank lending and renewed portfolio flows to developing economies. However, markets remain vulnerable to shocks amid subdued global growth and policy uncertainty. Equity markets posted solid gains driven largely by the performance of technology stocks, but valuations appear stretched at times, raising the risk of market corrections. Borrowing costs declined for countries with stronger credit profiles, whereas lower-rated sovereign borrowers continued to face elevated financing costs. At the same time, vulnerabilities in non-bank financial institutions—including limited transparency in their lending activities—are adding to systemic risk.

ODA flows are projected to decline further in 2026 and 2027 following announced reductions by major donors. If the cuts are implemented, ODA could fall back to 2020 levels by 2027, threatening support for humanitarian programmes and essential public services—with LDCs and sub-Saharan African countries facing the largest proportional declines. Meanwhile, workers' remittances remain a resilient and vital source of external finance for many developing countries, though their outlook is clouded by tightening immigration policies and persistently high transfer costs.

Continued easing of monetary policy

Global monetary easing continued through 2025 as moderating inflation, robust cross-border capital flows, and reduced depreciation pressures provided policy space for many central banks. By November 2025, roughly two thirds of central banks worldwide were in an easing cycle, with the trend most pronounced in developed economies and in developing economies across Asia and Latin America. Nonetheless, policy rates in many countries remain above pre-pandemic levels, and further cuts in 2026 are expected to proceed gradually. Risks of renewed inflation or currency volatility are likely to complicate the final stage of the disinflation cycle in many countries.

Growing fiscal spending demands, but limited room to manoeuvre

Fiscal conditions remain challenging across both developed and developing countries as policy uncertainty, subdued growth, and the lingering effects of recent shocks weigh on revenues and complicate consolidation efforts. In many developed and several large developing economies, fiscal spending has increased to promote strategic priorities, including industrial policy and technological innovation, energy security, defence, and responses to population ageing. By contrast, many developing and low-income countries face limited fiscal space, rising debt vulnerabilities, and declining development assistance, constraining essential spending. These pressures are likely to persist into 2026, keeping fiscal risks elevated and narrowing room for countercyclical policy responses.

Reinvigorating international cooperation for development

The international community faces a fragmented global landscape marked by geopolitical tensions, protectionism, and weakening trust in multilateral solutions. Mounting conflicts, intensifying competition over technologies and critical resources, and declining ODA strain global cooperation. These challenges underscore the urgent need to rebuild trust and renew the commitment to collective action in pursuit of shared prosperity and sustainability.

In 2025, several major international initiatives were launched, injecting new momentum into multilateral cooperation. The Sevilla Commitment, adopted at the Fourth

International Conference on Financing for Development, provides a renewed agenda to mobilize investment at scale, reform the global financial architecture, and enhance debt sustainability and domestic resource mobilization. It includes measures to strengthen the financial safety net, promote the use of state-contingent debt instruments, and expand access to long-term, affordable finance. The Doha Political Declaration, the outcome of the Second World Summit for Social Development, reaffirms the global commitment to poverty eradication, decent work, and social inclusion, emphasizing skills development, digital access, and the empowerment of women, youth, and marginalized groups. Adopted at COP30, the Belém Package advances climate action, pledging to triple adaptation finance by 2035 and launch the Just Transition Mechanism to support workers and communities.

Progress has also continued in trade and technology governance, with efforts to revitalize the WTO and the implementation of United Nations-led initiatives on AI governance promoting equitable, science-based policymaking.

Together, these developments demonstrate that despite divergences, collective solutions remain possible, but turning ambition into action will require coordinated implementation, adequate financing, and sustained political will to realize a more inclusive and resilient global future.

Inflation and price dynamics in a fragile global economy

Persistent shadows of the 2021–2023 inflation surge

High prices and inflation remain defining concerns across countries and regions, shaping not only economic conditions but also social and political dynamics. Global inflation has eased from its 2021–2023 peak—declining from 7.9 per cent in 2022 to an estimated 3.4 per cent in 2025—but remains above the pre-pandemic average of 2.8 per cent. Recent price increases have added to the sharp surges of previous years, including for essentials such as food, energy, and housing, leaving the overall cost of living persistently high. These cumulative pressures have eroded real incomes and strained household budgets, with the impact falling disproportionately on low-income, rural, and female-headed households. For Governments, higher service-delivery costs compound budgetary strains and limit long-term investment in infrastructure and social development.

A more volatile and uneven inflation landscape

The inflation shock of 2021–2023 revealed how quickly global disruptions can reshape price dynamics. The fallout from the pandemic, conflicts, climate extremes, and renewed trade frictions created a series of supply bottlenecks, pushed up input and transport costs, and strained energy markets. In some economies, strong demand and expansionary macroeconomic policies further amplified these pressures.

Inflation volatility and uncertainty have since become key features of the global landscape. Significant swings in the prices of food, energy, freight, and intermediate goods have made inflation more difficult to forecast and manage. Disruptions once viewed as temporary now interact with rising input costs, labour shortages, and fragile logistics systems, blurring the line between transitory and persistent inflation.

Local conditions will likely have a stronger influence on inflation dynamics in the period ahead. Differences in fiscal stances, labour market tightness, exchange-rate pass-through, and sectoral structures are driving a divergence in the inflation outlook across countries. Many developed economies face persistent services and housing inflation, while numerous developing countries—particularly food- and fuel-importing economies—continue to

experience elevated overall price pressures. In contrast, parts of East Asia have maintained subdued inflation, supported by integrated value chains and anchored expectations.

Long-term structural shifts shaping inflation dynamics

Long-term structural shifts are creating new risks and intensifying supply-side pressures that could keep inflation volatile and difficult to control. Geopolitical fragmentation is disrupting trade and investment patterns, raising input costs, and increasing exposure to regional shocks. Climate change heightens price volatility by damaging crops, straining energy systems, and undermining infrastructure resilience.

Demographic changes and labour-market constraints add further risk. Ageing populations and tighter migration policies are fuelling labour shortages and wage pressures in some economies, while slower population growth weakens demand in others. Meanwhile, technological transitions—including rapid advances in AI—may deliver medium-term productivity gains but could also bring short-term disruptions, skills mismatches, and higher energy demand, adding to inflationary pressures.

Together, these factors increase the persistence and unpredictability of inflation, underscoring the importance of coordinated policy responses that bolster supply resilience and promote productive investments.

Inflation undermining sustainable development and inclusion

Persistent inflation is deepening poverty, widening inequality, and heightening social vulnerability. Rising prices for food, energy, and housing disproportionately affect low-income and rural households, who spend a larger share of their income on essentials and often face higher effective inflation because lower-cost goods tend to rise faster in price while their nominal incomes remain stagnant or rise relatively slowly. Food inflation has particularly severe effects: when prices surge, households cut back on the quantity and quality of their diets, increasing risks of malnutrition, stunting, and long-term health deficits. These consequences fall especially heavily on children, who are vulnerable to nutritional deprivations, and on women, who face slower wage adjustments, unequal resource allocations within households, greater unpaid-care responsibilities, and heightened exposure to precarious work.

Elevated price levels also weigh on well-being and economic decision-making. As real wages lag behind prices, households—especially those with limited savings or access to credit—can reprioritize spending, reducing non-essential consumption and delaying major decisions on education, training, small-business investment, or other opportunities for advancement. Persistent affordability pressures have intensified household stress and heightened demands for social protection. When sustained, these pressures erode living standards, fuel social tensions, and increase the risk of instability, particularly in vulnerable or fragile economies.

Inflation volatility and uncertainty tend to undermine long-term growth prospects. When price signals are unstable, firms delay investment, weakening productivity growth, innovation, and technological upgrading. Heightened uncertainty raises risk premiums and borrowing costs, while tighter financial conditions disproportionately limit credit access for smaller firms. Unanchored or more reactive inflation expectations can amplify these effects, as households and firms adjust prices and wages in anticipation of future increases, making inflation more persistent and costly to reverse. Governments, meanwhile, face rising expenditure pressures—from indexed benefits and subsidies to essential public services—even as temporary revenue gains fade

once spending adjusts. These dynamics erode fiscal capacity, intensify debt vulnerabilities, and threaten progress towards the Sustainable Development Goals—particularly those relating to poverty reduction, food security, health, decent work, and reduced inequality.

A new policy approach for managing inflation

Stabilizing inflation amid recurrent supply shocks requires a more integrated and forward-looking approach. The recent inflation episode exposed vulnerabilities—manifested in slow wage adjustments, uneven pass-through from international to domestic markets, heightened uncertainty, and repeated disruptions in food, energy, and logistics—that made price pressures more persistent. Alongside falling real wages and incomes, these factors underscore that containing inflation requires more than short-term demand-management measures.

Monetary policy remains central to anchoring expectations and preserving the credibility of macroeconomic governance. Yet central banks now operate amid frequent supply shocks, fragile global linkages, and more sensitive inflation dynamics. Distinguishing between temporary and persistent price pressures can be difficult, complicating interest rate decisions. At the same time, elevated public and private debt, financial sector vulnerabilities, and evolving labour-market dynamics make the transmission of monetary policy less predictable. Overly rapid tightening can weaken recoveries and raise financial risks, particularly in developing countries, while late or insufficient tightening can entrench inflation and erode policy credibility. Clear communication, targeted macroprudential measures, and stronger monetary–fiscal coordination are therefore essential to balance inflation control with financial stability and growth objectives.

Fiscal policy is vital to cushioning the social costs of inflation and supporting macroeconomic stability. Well-targeted and temporary measures can protect vulnerable households and preserve social cohesion, while broad subsidies that are fiscally costly and create economic distortions are better avoided. In high-inflation environments, fiscal consolidation that preserves priority spending can complement monetary tightening and strengthen overall policy effectiveness. Over the medium term, credible fiscal frameworks—supported by robust fiscal rules, broader tax bases, and more efficient public spending—are essential to rebuilding buffers and preserving policy space.

Industrial and sectoral policies are key to addressing supply-side drivers of inflation. Persistent bottlenecks in food, energy, transport, and critical manufacturing inputs have exposed vulnerabilities in global value chains. Well-designed industrial strategies can help ease these constraints by expanding domestic production capacity, strengthening storage and logistics systems, and promoting innovation in strategic sectors. Well-designed buffer stocks and strategic reserves of essential commodities such as grains, fertilizers, and energy products can mitigate the impact of future shocks. Investment in renewable energy, climate-resilient agriculture, and low-carbon technologies further enhances long-term supply resilience and supports a more stable inflation environment.

Effective inflation management requires close coordination across policy domains and time horizons: monetary policy provides near-term stabilization; fiscal policy bridges the short and medium terms by supporting macroeconomic stability and protecting vulnerable households; and industrial and structural policies strengthen productive capacity and supply resilience, contributing to long-term price stability. Aligning these tools ensures that disinflation efforts do not come at the cost of social cohesion, investment, or development progress.

Global cooperation supporting price stability

Price shocks can spread rapidly across borders through energy, food, transport, and financial markets, making international cooperation increasingly vital to keeping living costs manageable. Improved communication among central banks can strengthen policy coordination and prevent unnecessary currency volatility. Expanding access to liquidity backstops such as swap lines and temporary financing facilities would mitigate spillovers and support economies currently outside existing safety nets.

Concessional finance and technical assistance are critical for helping vulnerable economies manage balance-of-payments pressures, stabilize food and energy markets, and strengthen monetary and fiscal frameworks. Beyond short-term relief, sustained investment in storage, processing, and distribution infrastructure can reduce exposure to global price volatility. Regional mechanisms, including buffer stocks, strategic reserves, and cross-border infrastructure, can cushion shocks and lower import dependence. Long-term resilience also depends on investments in climate-resilient food systems, renewable energy, and efficient logistical corridors. As climate shocks intensify and supply-chain disruptions become more frequent, stronger international cooperation will be essential to strengthen early warning systems and close adaptation financing gaps.

Economic prospects for 2026: key messages

Global growth remains subdued amid high macroeconomic uncertainty and persistent structural headwinds. While the world economy has demonstrated resilience, ongoing trade tensions, geopolitical risks, and fiscal strains continue to weigh on the outlook. Slow growth, limited fiscal space, and weakening multilateral cooperation are undermining progress towards the Sustainable Development Goals, underlining the need for renewed collective action to address persistent and emerging challenges relating to financing for development, climate, trade, and social inclusion. Many LDCs, LLDCs, and SIDS remain particularly constrained by debt burdens, limited policy space, and exposure to external shocks, highlighting the need for stronger international support to foster resilient and sustainable growth. Although inflationary pressures are easing, elevated prices continue to put a strain on households and reinforce inequalities, while geopolitical fragmentation, trade frictions, and climate-related risks add uncertainty to the inflation outlook.

Table of contents

Boxes

Figures

Boxes figures

Tables

CHAPTER I

Global Economic Outlook

Global economic environment and growth prospects

Stable but subdued global growth outlook

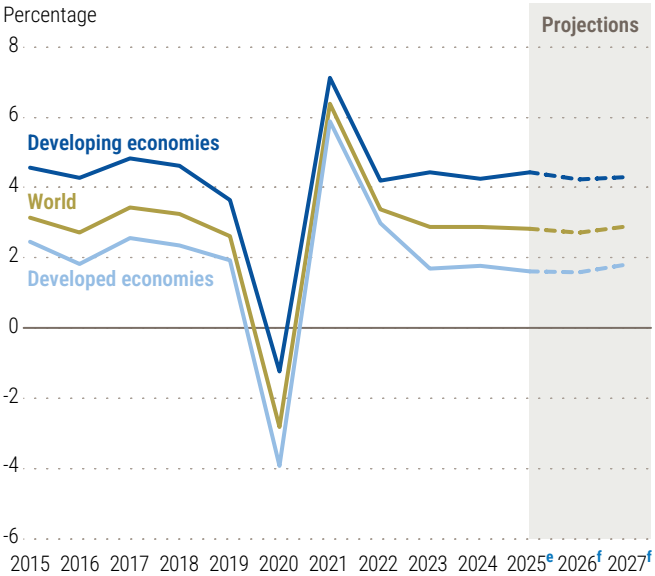
The global economic outlook remains clouded by elevated macroeconomic uncertainty, shifting trade policies, and fiscal challenges. Geopolitical tensions and financial risks add to these pressures, keeping the global economy fragile. In 2025, a sharp increase in United States tariffs created new trade frictions, though the absence of broader escalation helped limit disruptions to international commerce. Despite the tariff shock, global activity proved resilient, supported by the front-loading of shipments, inventory accumulation, and solid consumer demand underpinned by monetary easing and broadly stable labour markets. Continued policy support is expected to cushion the effects of higher tariffs, but growth in trade and overall activity are likely to moderate in the near term.

Global economic growth is estimated at 2.8 per cent for 2025 and is forecast to decline slightly to 2.7 per cent in 2026 before edging up to 2.9 per cent in 2027 (see figure I.1 and table I.1). The pace of expansion is expected to remain well below the 2010–2019 average of 3.2 per cent. Subdued investment, high debt levels, and limited fiscal space constrain productive capacity and hold back potential growth in many countries. These structural headwinds raise the prospect that the world economy could settle into a persistently slower growth path than in the pre-pandemic era. Advances in artificial intelligence (AI) could lift productivity growth, but the scale and timing of potential gains remain highly uncertain, and the benefits may be unevenly distributed, deepening existing structural inequalities.

Across regions, a moderate yet uneven expansion is anticipated for 2026. Economic growth in Europe, Japan, and the United States of America is projected to hold broadly steady but proceed at a modest pace, with monetary and

Figure I.1

Growth of economic output



Source: UN DESA, based on estimates and forecasts produced with the World Economic Forecasting Model.
Note: e = estimates; f = forecasts.

Table I.1

Growth of world output and gross domestic product

						Change from *World Economic Situation and Prospects* as of mid-2025	
Annual percentage change	**2010-2019 average**	**2024**	**2025[a]**	**2026[b]**	**2027[b]**	**2025**	**2026**
World	**3.2**	**2.9**	**2.8**	**2.7**	**2.9**	**0.4**	**0.2**
Developed economies	**2.0**	**1.7**	**1.6**	**1.6**	**1.8**	**0.3**	**0.3**
United States of America	2.4	2.8	1.9	2.0	2.2	0.3	0.5
Japan	1.3	-0.2	1.2	0.9	1.0	0.5	0.0
European Union	1.6	1.1	1.5	1.3	1.6	0.5	0.0
Euro area	1.4	0.9	1.4	1.1	1.4	0.6	0.0
United Kingdom of Great Britain and Northern Ireland	2.0	1.1	1.4	1.1	1.3	0.5	0.0
Other developed countries	2.6	1.5	1.3	1.6	1.9	-0.1	0.1
Economies in transition	**2.4**	**4.5**	**2.2**	**2.2**	**2.5**	**-0.3**	**-0.4**
South-Eastern Europe	2.0	3.5	2.4	3.4	3.4	-0.8	-0.2
Commonwealth of Independent States and Georgia	2.4	4.6	2.2	2.1	2.5	-0.3	-0.4
Russian Federation	1.9	4.3	0.8	1.0	1.5	-0.7	-0.5
Developing economies	**5.2**	**4.2**	**4.4**	**4.2**	**4.3**	**0.4**	**0.1**
Africa[c,d]	3.8	3.5	3.9	4.0	4.1	0.3	0.3
North Africa[c,d]	3.5	3.3	4.3	4.1	4.0	0.8	0.5
East Africa	6.3	5.6	5.4	5.8	5.7	0.2	0.2
Central Africa	2.7	2.9	2.8	3.0	3.3	0.2	0.1
West Africa	4.4	4.2	4.6	4.4	4.7	0.4	0.4
Southern Africa	2.4	1.6	1.6	2.0	2.2	-0.3	-0.2
East and South Asia[e]	6.7	5.1	5.1	4.6	4.7	0.5	0.1
East Asia	7.0	4.9	4.9	4.4	4.4	0.5	0.1
China	7.7	5.0	4.9	4.6	4.5	0.3	0.2
South Asia[e,f]	5.7	6.1	5.9	5.6	5.9	0.6	0.0
India[f]	6.7	7.1	7.4	6.6	6.7	1.1	0.2
Western Asia[g]	4.2	2.2	3.4	4.1	4.0	0.6	0.5
Latin America and the Caribbean	1.6	2.3	2.4	2.3	2.5	0.4	0.1
South America	1.2	2.3	3.0	2.5	2.5	0.7	0.3
Brazil	1.4	3.4	2.5	2.0	2.3	0.7	0.0
Mexico and Central America	2.7	1.8	1.0	1.8	2.5	0.0	-0.1
Caribbean[h]	0.4	2.2	1.8	1.6	1.7	-0.4	-0.4
Least developed countries[d,e]	**5.3**	**2.9**	**3.9**	**4.6**	**5.0**	**-0.2**	**-0.2**
Landlocked developing countries[e]	**5.3**	**4.8**	**5.3**	**4.9**	**4.9**	**0.4**	**0.0**
Small island developing States	**3.9**	**4.5**	**3.5**	**2.8**	**2.8**	**0.4**	**0.0**
Middle-income countries	**5.6**	**4.5**	**4.5**	**4.3**	**4.4**	**0.4**	**0.1**
Memorandum items							
World trade[i]	4.5	3.5	3.8	2.2	3.2	2.2	-0.1
World output growth with purchasing power parity (PPP) weights[j]	3.6	3.3	3.2	3.1	3.3	0.3	0.1

Source: UN DESA, based on estimates and forecasts produced with the World Economic Forecasting Model.
Notes: a estimate; b forecast; c excludes Libya due to conflicts in the country; d excludes Sudan due to conflicts in the country; e excludes Afghanistan as no forecasts have been made for the economy; f growth rates are on a calendar-year basis; g excludes the State of Palestine due to conflicts in the country; h excludes Guyana as the country's rapid expansion of oil production substantially increases regional average growth numbers; i includes goods and services; j based on 2017 benchmark. Estimates and forecasts are based on data and information available up to 1 December 2025.

fiscal support continuing to underpin demand. Several large developing economies, including China, India, and Indonesia, are expected to continue recording solid growth, driven by resilient domestic demand or targeted policy support. For the least developed countries (LDCs), the pace of expansion is forecast to strengthen yet remain well below the 7 per cent growth target of the Sustainable Development Goals (SDGs).

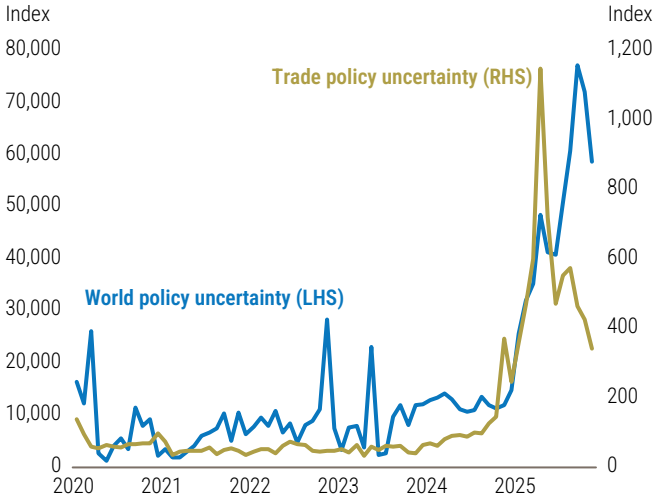
Recent global developments suggest a fragile outlook shaped by elevated policy uncertainty and softening industrial and trade activity. Although trade policy uncertainty has eased somewhat—reflecting partial tariff rollbacks in the United States and a wave of new trade agreements—it remains elevated by historical standards. Global policy uncertainty has declined only moderately after reaching record levels in September 2025, underscoring persistent geopolitical tensions and policy volatility (see figure I.2). Prolonged uncertainty and lingering trade frictions have started to weigh on industrial production and global merchandise trade (see figure I.3a). Business confidence in major economies has softened, and consumer confidence remains subdued (see figure I.3b).

Inflation has continued to moderate across most countries, supported by easing energy and food prices. However, in several large economies, headline inflation remains above target, sustained by persistent pressures in services. Disinflation is expected to continue through 2026–2027, though supply risks from growing economic fragmentation, trade frictions, and climate-related shocks may reignite price pressures and prompt a more cautious approach to monetary easing.

Monetary conditions eased further in 2025, and a softer United States dollar helped lower external financing costs and reduce exchange rate pressures, supporting broadly resilient global financial markets. Despite elevated macroeconomic and policy uncertainty, capital flows to major developing economies remained

Figure I.2

World policy uncertainty and trade policy uncertainty indices



Source: UN DESA, based on data from Economic Policy Uncertainty and the World Uncertainty Index.
Note: **LHS** = left-hand scale; **RHS** = right-hand scale.

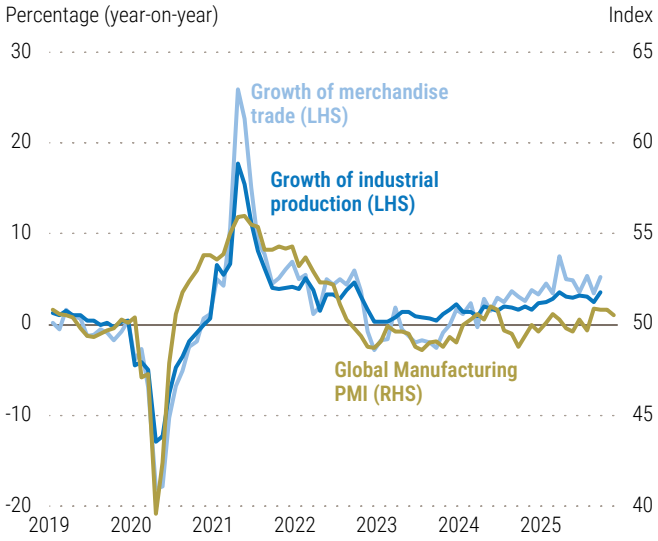
robust, strengthening external balances. Yet sovereign financing conditions remain sensitive to shifts in global risk sentiment, given the high public debt, persistent fiscal deficits, and still elevated long-term borrowing costs in many economies. In low-income developing countries, limited access to affordable finance and heavy debt burdens continue to constrain public investment and fiscal support for development. Financial stability could also be tested by sharp corrections in asset prices—particularly in technology and AI-related sectors, where valuations have surged amid expectations of large productivity gains and higher future profits. A disorderly adjustment could erode household wealth, dampen consumption, and trigger broader market spillovers.

The robust performance of the world economy in 2025 has been accompanied by record carbon emissions and mounting environmental pressures. Following a temporary decline during the pandemic, global energy-related carbon dioxide (CO_2) emissions increased by 0.8 per cent in 2024, reaching an all-time high of 37.8 gigatons, underscoring the persistence of carbon-intensive growth patterns (IEA, 2025a). Global temperatures

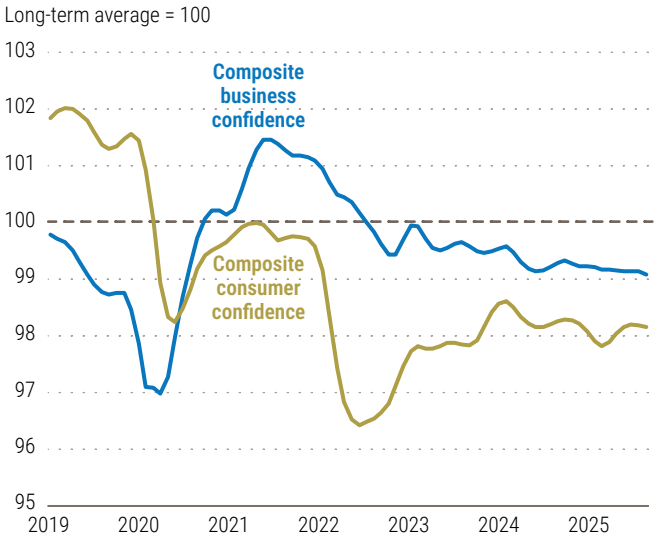
Figure I.3

High frequency indicators

a) Global Manufacturing Purchasing Managers' Index (PMI), industrial production, and merchandise trade



b) The Group of Twenty composite business and consumer confidence index



Source: UN DESA, based on data from OECD, CPB Netherlands Bureau for Economic Policy Analysis, and CEIC.
Note: Panel a) **LHS** = left-hand scale; **RHS** = right-hand scale.

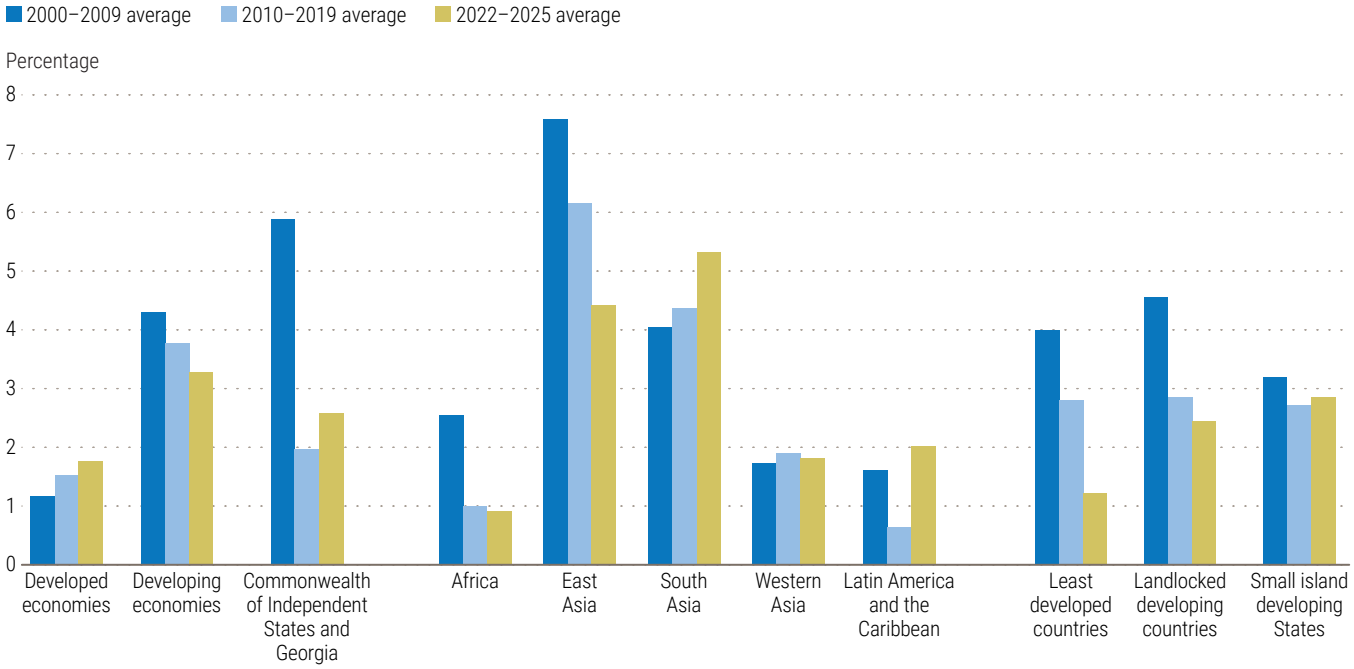
in 2025 are expected to rank among the highest on record, with a 70 per cent likelihood that the five-year average for 2025–2029 will exceed 1.5°C above pre-industrial levels (WMO, 2025). Weather- and climate-related extremes, from flooding and droughts to heatwaves and wildfires, are becoming more frequent and severe. These are no longer isolated shocks but rather structural forces that are reshaping production, consumption, and investment patterns worldwide. Their macroeconomic implications are increasingly visible in the forms of reduced agricultural output, higher food prices, disrupted transit corridors, and budgetary outlays linked to disaster response and reconstruction. In vulnerable developing economies, recurrent climate shocks have compounded challenging financing conditions, heightening debt risks and exacerbating social and economic pressures.

Progress towards the SDGs remains insufficient and uneven. By 2025, only about 35 per cent of targets were on track or reflected moderate progress (United Nations, 2025e). While global growth has shown resilience in the face of multiple shocks, income convergence between developing and developed economies slowed markedly between 2022 and 2025 in comparison with the previous two decades. Growth in per capita income has decelerated in developing economies, especially in the LDCs and conflict-affected countries, even as it has picked up slightly in developed economies (see figure I.4). The number of people living in extreme poverty (below $3 per day),[1] after returning to pre-pandemic levels in 2024, declined slightly from 839 million in 2024 to 831 million in 2025 (World Bank, 2025g). However, the pace of poverty reduction has slowed significantly over the past decade, and extreme poverty has become increasingly concentrated in sub-Saharan Africa and in countries affected by conflict and fragility.[2]

1 In 2021 purchasing power parity terms.
2 While poverty rates in East Asia and South Asia have fallen sharply, an estimated 111.2 million people remained below the poverty line in 2024.

Figure I.4

Growth of gross domestic product per capita in selected country groupings and developing country regions



Source: UN DESA.
Note: Growth rates in 2025 are estimates produced with the World Economic Forecasting Model.

Regional economic prospects remaining broadly stable

Economic prospects across countries remain uneven, shaped by the combined effects of macroeconomic policy adjustments, exposure to trade tensions, and lingering geopolitical uncertainties. While many economies are benefiting from resilient domestic demand and easing inflation pressures, high debt burdens, tight fiscal space, and subdued investment continue to weigh on medium-term growth.

Economic growth in the **United States** is estimated to have slowed from 2.8 per cent in 2024 to 1.9 per cent in 2025 as resilient consumer spending and AI-related investment were partly offset by widening negative net exports and a contraction in investment in residential and business structures. Growth is projected to edge up to 2.0 per cent in 2026 and 2.2 per cent in 2027, supported by expansionary fiscal and monetary policies that cushion the impact of a softening labour market and moderating wage growth. Price pressures are expected to ease gradually as the lagged effects of tariff-related increases dissipate and housing rent growth decelerates, though inflation is likely to remain above the Federal Reserve target of 2 per cent in 2026. Downside risks include policy uncertainty, an uncertain fiscal outlook marked by persistent budget deficits and elevated public debt, and the possibility of sharp corrections in equity markets.

The economy of **China** is projected to grow by 4.6 per cent in 2026 and 4.5 per cent in 2027 following an estimated 4.9 per cent expansion in 2025. While escalating trade tensions with the United States raised concerns about external pressures in early 2025, a temporary easing—marked by targeted tariff reductions and a one-year trade truce (effective 10 November 2025)—has helped stabilize market confidence. Muted inflation reflects still-subdued domestic demand, while ongoing policy measures—including consumption incentives, infrastructure

investment, and industrial upgrading—are expected to support economic activity. However, key risks remain, including the possibility of renewed trade frictions, subdued external demand, and persistent weakness in the property sector. In the medium term, the transition towards innovation-driven development—as outlined in the 15th Five-Year Plan for Economic and Social Development of the People's Republic of China, released in October 2025 for the period 2026–2030—may moderate headline growth but would likely enhance longer-term sustainability.

Growth in the **European Union** is projected at 1.3 per cent for 2026 and 1.6 per cent for 2027, compared with an estimated 1.5 per cent in 2025, as external headwinds and structural challenges persist. Higher United States tariffs and ongoing geopolitical uncertainty are expected to weigh on exports, while resilient consumer spending—supported by stable labour markets and rising real wages—remains the main driver of growth. Inflation is expected to stay near central bank targets, allowing monetary policy to remain broadly accommodative and sustain credit expansion and domestic demand. However, long-standing structural issues—including competitiveness concerns, elevated electricity prices, slow technological diffusion, and population ageing—continue to constrain productivity, holding back the region's growth potential.

In the **United Kingdom of Great Britain and Northern Ireland**, growth is projected to be 1.1 per cent in 2026 and 1.3 per cent in 2027, down from an estimated 1.4 per cent in 2025, with tighter fiscal policy and trade frictions expected to weigh on economic activity while sticky inflation keeps monetary policy restrictive.

Among the economies of developed Asia, growth in **Japan** is projected at 0.9 per cent in 2026 and 1.0 per cent in 2027, down slightly from the estimated growth of 1.2 per cent in 2025. Private consumption is expected to continue its gradual recovery, while exports, especially of automotive products, are likely to remain constrained by higher United States tariffs and ongoing trade policy uncertainty. The Bank of Japan faces a delicate balancing act between containing inflation and supporting wage growth and domestic demand. **Australia** and the **Republic of Korea** are projected to see a pickup in growth in 2026, underpinned by stronger domestic demand.

In the **Commonwealth of Independent States and Georgia**, growth is projected at 2.1 per cent for 2026—down from 4.6 per cent in 2024 and an estimated 2.2 per cent in 2025. The pace of expansion is expected to accelerate to 2.5 per cent in 2027, but the outlook remains clouded by elevated uncertainties. Economic performance across the region diverged markedly in 2025, with a slowdown in the Russian Federation contrasting with robust growth in Central Asian economies—a pattern likely to persist in the near term. The protracted war in Ukraine continues to shape macroeconomic conditions, affecting inflation, employment, trade, and economic policies. For smaller economies, the fading benefits of serving as trans-shipment hubs for trade with the Russian Federation have been offset by strong domestic demand, underpinned by infrastructure investment.

In **Africa**, GDP growth is forecast to gradually strengthen from an estimated 3.9 per cent in 2025 to 4.0 per cent in 2026 and 4.1 per cent in 2027, supported by improved macroeconomic stability, rising investment, and stronger consumer demand. While the region's diversification of export partners helps mitigate exposure to global trade disruptions, structural vulnerabilities persist—particularly in apparel-exporting economies. Divergent commodity price trends continue to contribute to uneven performance across subregions. Inflation has eased from post-pandemic highs but remains elevated, prompting a cautious approach to monetary easing. High debt-servicing costs continue to constrain fiscal space, while declining official development assistance (ODA) and heightened trade and financial uncertainty weigh on the continent's medium-term outlook.

In **East Asia**, economic growth is projected to moderate from an estimated 4.9 per cent in 2025 to 4.4 per cent in both 2026 and 2027. The strong export performance that boosted growth in 2025—driven by the front-loading of shipments to the United States ahead of tariff increases—is expected to fade. Nevertheless, domestic demand is expected to remain resilient, underpinned by continued disinflation, monetary easing, and fiscal expansion. Risks to the outlook remain tilted to the downside, reflecting protracted global policy uncertainty, the impact of higher United States tariffs, and slower growth among major trading partners.

The economic outlook in **South Asia** remains relatively strong. Growth is projected to moderate from an estimated 5.9 per cent in 2025 to 5.6 per cent in 2026 before strengthening to 5.9 per cent in 2027. Trade policy uncertainty continues to weigh on economic prospects, while high public debt in several countries limits fiscal space and heightens vulnerability to shocks. In **India**, growth is estimated at 7.4 per cent for 2025 and is forecast at 6.6 per cent in 2026 and 6.7 per cent in 2027, supported by resilient private consumption and strong public investment, which should largely offset the drag from higher United States tariffs on exports. Recent tax reforms and monetary easing are expected to provide additional support to near-term growth.

Growth momentum in **Western Asia** is expected to strengthen, with GDP projected to expand by 4.1 per cent in 2026 and 4.0 per cent in 2027, up from an estimated growth rate of 3.4 per cent in 2025. In oil-exporting economies, the unwinding of OPEC Plus[3] production cuts will boost oil output and lift revenues, while ongoing diversification efforts—including in manufacturing and digital technologies—will support non-oil growth. In **Türkiye**, growth is expected to remain moderate, with robust private demand (supported by monetary easing) tempered by tight fiscal policy and large external financing needs. The regional outlook remains highly vulnerable to geopolitical risks, as persistent conflicts and security tensions continue to undermine confidence and disrupt trade and investment flows.

The short-term outlook for **Latin America and the Caribbean** remains moderate. Regional growth is estimated at 2.4 per cent for 2025 and is projected to decline slightly to 2.3 per cent in 2026 before edging up to 2.5 per cent in 2027—reflecting sustained growth above the 2010–2019 average of 1.6 per cent. Growth is supported by stronger private consumption and a gradual recovery in investment. Financial conditions have also improved amid relatively stable prices for key commodities, solid capital inflows, and narrowing sovereign spreads. However, new tariff measures and shifts in immigration policies in the United States, alongside elevated shipping costs, are generating uneven impacts across the region, reshaping trade flows, altering supply chain dynamics, and influencing remittance patterns.

Prospects for LDCs, LLDCs, and SIDS

Economic growth in the **least developed countries (LDCs)** is forecast to rise to 4.6 per cent in 2026 and 5.0 per cent in 2027, up from an estimated 3.9 per cent in 2025 but still below both the pre-pandemic (2010–2019) average of 5.3 per cent and the SDG target of at least 7 per cent annual growth. Headline growth reflects improved or steady performance in several of the largest LDCs, including Bangladesh, Ethiopia, and the United Republic of Tanzania, thanks to stable agricultural output, favourable price trends for certain commodities (including gold), and robust domestic demand amid ongoing reforms under International Monetary Fund (IMF) programmes. Many smaller LDCs, however, continue to face significant economic headwinds, constrained by ongoing security challenges, limited fiscal space, and high debt burdens. Elevated trade tensions and tariff increases imposed by the United

3 OPEC Plus comprises the twelve members of the Organization of the Petroleum Exporting Countries as well as ten non-OPEC oil producers.

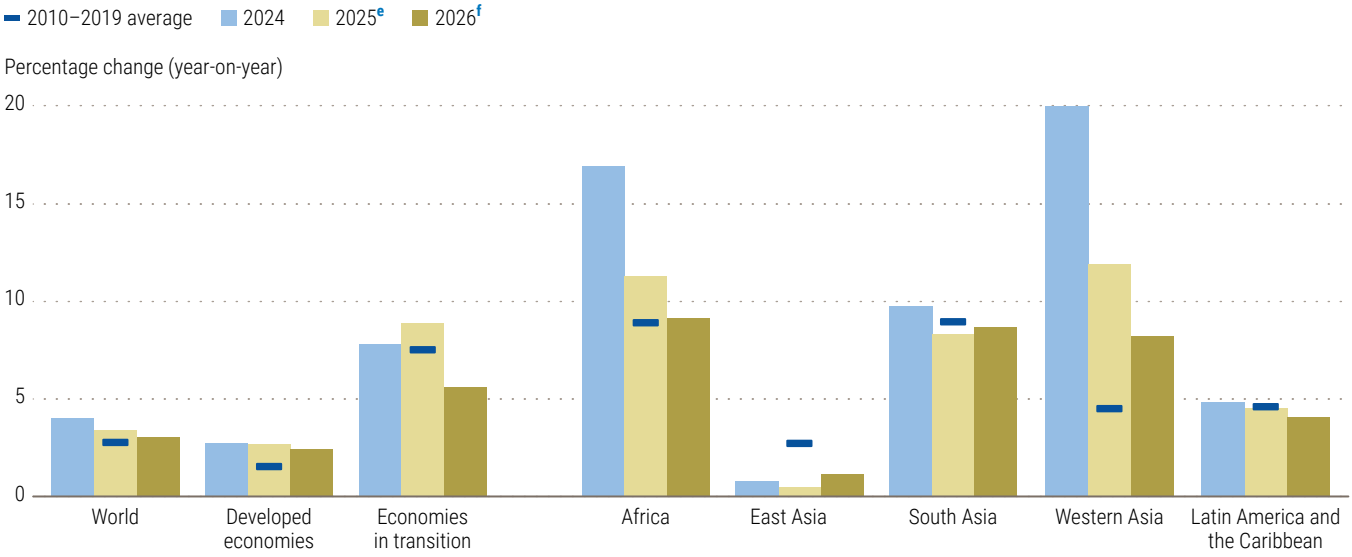
States—a market accounting for nearly 10 per cent of LDC exports—are expected to weigh on export performance (UNCTAD, 2025f). Several LDCs, including Lao People's Democratic Republic and Myanmar, are subject to particularly steep tariff increases, reaching around 40 per cent. Light manufacturing exports—especially textiles and apparel, key sources of employment for women—are hit the hardest. The expiration of the African Growth and Opportunity Act (AGOA) in September 2025 weakens preferential access for African LDCs to the United States market, placing additional pressure on export prospects. A sharp decline in ODA compounds these challenges, reducing an important source of concessional financing for investment, social protection, and climate-resilience programmes.

Economic growth for **landlocked developing countries (LLDCs)** is projected at 4.9 per cent in both 2026 and 2027, down from an estimated 5.3 per cent in 2025. Divergent commodity-market trends are generating uneven prospects across resource-dependent economies. For instance, Turkmenistan is projected to benefit from expanding oil production, while weakening diamond prices are weighing on growth in Botswana. Steady remittance inflows continue to support domestic demand in countries such as Nepal and Tajikistan. However, persistent logistics bottlenecks and ongoing geopolitical tensions remain major structural constraints for many LLDCs.

The economies of **small island developing States (SIDS)** are forecast to grow at an aggregate rate of 2.8 per cent in both 2026 and 2027, down from an estimated 3.5 per cent in 2025.[4] International tourism continues to expand, albeit more slowly than during the post-pandemic rebound, supporting economic activity in many countries. However, structural vulnerabilities—including high exposure to climate shocks, limited economic diversification, and elevated debt burdens—remain pronounced. According to the World Bank (2025b), as at September 2025, 11 of 37 SIDS were classified as being in or at high risk of debt distress.

Figure I.5

Global and regional inflation



Source: UN DESA, based on estimates and forecasts produced with the World Economic Forecasting Model.
Notes: e = estimates; f = forecasts. Regional and country group averages are GDP-weighted. Afghanistan, Argentina, the State of Palestine, Sudan, and the Bolivarian Republic of Venezuela are excluded.

4 The slowdown from 2025 to 2026 largely reflects weaker growth in Singapore. Excluding Singapore, average growth in SIDS is projected to accelerate from 2.7 per cent in 2025 to 4.1 per cent in 2026.

Inflation

Continued global disinflation, yet uneven progress

The global disinflation trend continued in 2025 and is likely to persist in the near term. Average global headline inflation declined to an estimated 3.4 per cent in 2025 from 4.0 per cent in 2024 and is projected to slow further to 3.1 per cent in 2026 (see figure I.5).[5] This moderation reflects lower international energy and food prices, easing currency depreciation pressures in many developing economies, and slower nominal wage growth in developed economies in particular. In 2025, inflation in about 40 per cent of the countries worldwide returned to long-term (2010–2019) averages. However, progress towards central bank targets remains slower than anticipated in several developed and developing economies (see figure I.6).

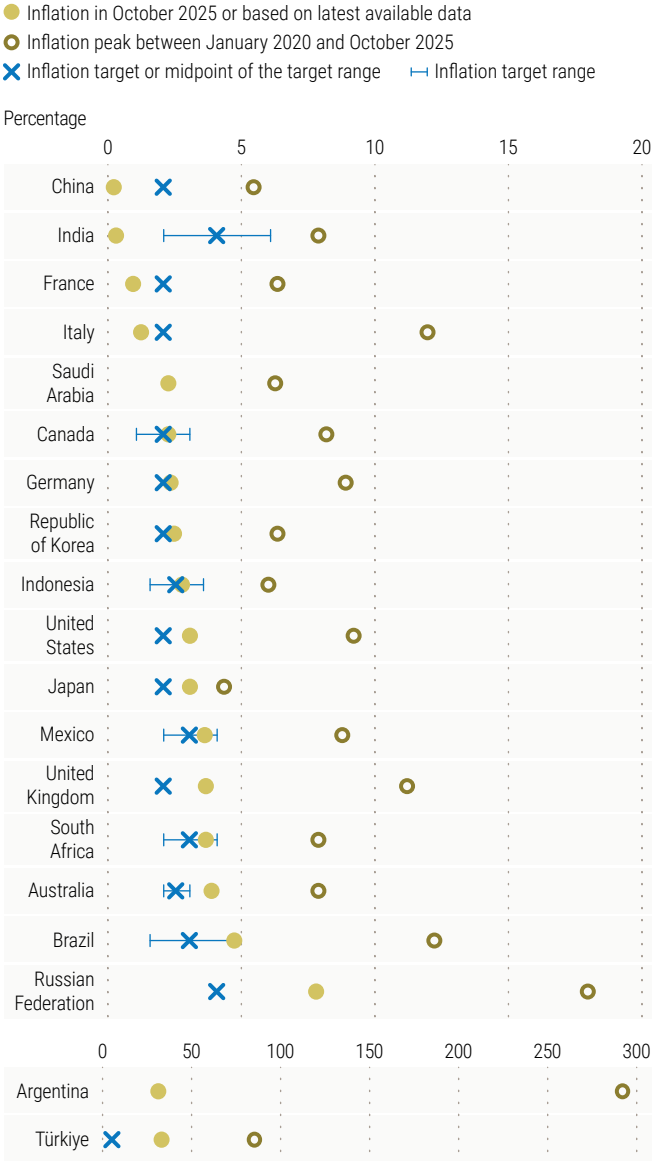
Although inflation is expected to ease over the forecast period, various factors could impede progress, including potential increases in energy prices linked to geopolitical tensions and conflicts, renewed supply chain disruptions, and adverse weather conditions that could constrain agricultural output—pushing food prices higher.

In developed economies, average inflation is estimated at 2.7 per cent for 2025—virtually unchanged from 2024—and is projected to ease to 2.4 per cent in 2026, approaching the 2010–2019 average. Core inflation, however, has remained elevated in several countries, driven by ongoing price pressures in services sectors such as housing, insurance, and healthcare. Average food inflation rose from 2.9 per cent in January to 4.1 per cent in September 2025, led by higher prices for categories such as dairy and meat across many developed economies.

In the United States, inflation is estimated at 2.9 per cent for 2025 and projected at 2.7 per cent for 2026. Short-term inflation expectations surged in early 2025 amid tariff announcements, but actual inflation proved milder than anticipated. Nevertheless, there are increasing signs of tariff pass-through to prices, especially for

Figure I.6

Inflation and inflation targets in Group of Twenty countries



Source: UN DESA, based on data from Trading Economics and national sources.
Notes: Several central banks set an inflation target range, while others specify a point target. Argentina and Saudi Arabia do not announce explicit inflation targets.

5 Afghanistan, Argentina, the State of Palestine, Sudan, and the Bolivarian Republic of Venezuela are excluded from global and regional inflation calculations.

durable goods such as vehicles, electronics, and furniture (Dvorkin, Leibovici and Santacreu, 2025). Consumer price inflation accelerated from 2.3 per cent year-on-year in April 2025 to 3.0 per cent in September.[6] Looking ahead, inflation could strengthen into early 2026 before easing as the impact of tariffs fades and services inflation moderates.

In the euro area, consumer price inflation hovered near the European Central Bank target of 2 per cent in 2025 and is projected to dip slightly below that level in 2026. The moderation reflects lower energy costs, slower wage growth, and the impact of a stronger euro on import prices. Inflation in the United Kingdom, estimated at 3.5 per cent for 2025, is expected to ease to 2.8 per cent in 2026, remaining significantly above target. Higher food prices and elevated services inflation—the latter driven by regulated and administered prices, housing costs, and labour cost pressures (including higher minimum wages and employer contributions)—are keeping inflation sticky. In Japan, inflation accelerated in 2025, driven largely by a surge in food prices led by a steep increase in rice but also spilling over to other food items. Inflation is forecast to ease slightly from an estimated 3.2 per cent in 2025 to 2.9 per cent in 2026.

In developing countries, average inflation is projected to moderate from an estimated 4.2 per cent in 2025 to 3.9 per cent in 2026, mainly due to reduced depreciation pressures and falling prices for energy and key food commodities such as cereals.[7] Inflation is expected to return to or remain close to its pre-pandemic average in South Asia and Latin America but is projected to stay above that level in Africa and Western Asia. In East Asia, inflation is expected to remain subdued in the near term, with increasing deflation risks in several economies—notably China and Thailand, where lower food and fuel prices, together with subdued domestic demand, have dampened domestic price pressures. Despite significant declines, food inflation remains high in some countries, particularly in Africa and Western Asia, due to conflicts, climate-related shocks, and fragile transport and logistics infrastructure. Core inflation has moderated but remains elevated in several countries, particularly in Latin America, largely due to wage adjustments and increasing costs in regulated and partly regulated sectors (such as transportation and healthcare) that continue to exert upward pressure on prices. While some developing countries still face double-digit and even triple-digit inflation, the share of economies with such high rates fell from about 24 per cent in 2024 to 18 per cent in 2025 and is expected to decline further in 2026, with notable improvements in economies such as Argentina and Türkiye.

International trade, commodities, and investment

Global trade showing resilience but momentum expected to soften

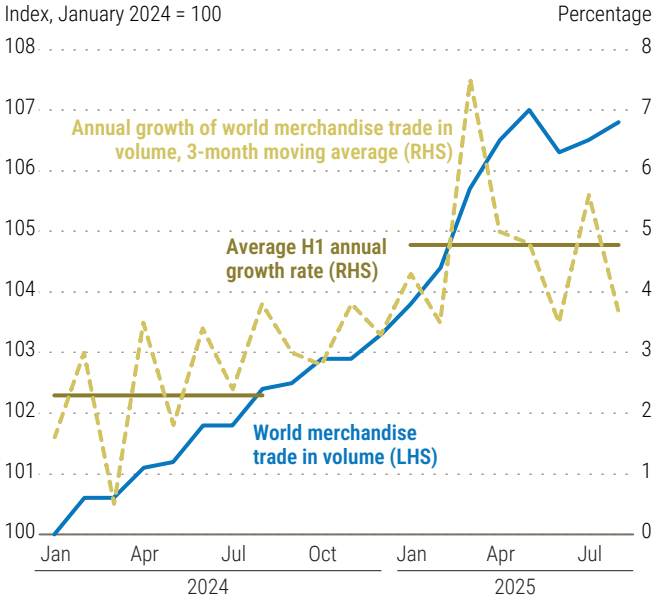
Global trade is estimated to have grown by 3.8 per cent in 2025, up from 3.5 per cent in 2024. This stronger-than-expected performance reflects the resilience of merchandise trade, which continued to strengthen despite significant headwinds and uncertainties, including heightened United States tariffs and ongoing strains on the multilateral trading system (see figure I.7). Trade in services maintained solid momentum throughout 2025, supported by the strong performance of travel services and digital services as well as the spillover effects from trade front-loading. In 2026, global trade growth is projected to slow to 2.2 per cent as import front-loading fades and higher tariffs weigh on economic activity.

The United States Government raised tariffs sharply in 2025, with the average effective rate

6 Personal consumption expenditures (PCE) inflation—the measure preferred by the Federal Reserve—stood at 2.8 per cent year-on-year in September.
7 The World Bank commodity price index for grains, which includes barley, maize, and rice, decreased by around 12 per cent between October 2024 and October 2025.

Figure I.7

World merchandise trade



Source: UN DESA, based on data from CPB Netherlands Bureau for Economic Policy Analysis.
Note: **LHS** = left-hand scale; **RHS** = right-hand scale; **H1** = first half of the year.

climbing from 2.5 per cent in 2024 to an estimated 15 per cent by November 2025—though still below the nearly 28 per cent announced in April. Most United States trading partners now face headline tariff increases ranging from 10 to 40 percentage points, though the effective rate varies significantly depending on specific export baskets and tariff exemptions.[8] The United States reached numerous bilateral trade agreements during the year, including with major economies such as the European Union, Japan, and the United Kingdom, as well as with smaller partners such as Cambodia, Ecuador, and Malaysia; the status and scope of the agreements differ significantly (see Sancho and Risse, 2025). Negotiations with China progressed through several rounds, with initial temporary escalations followed by de-escalation measures such as sustained tariff pauses, prolonged export-control suspensions, and increased agricultural trade.

The United States Government also targeted tariffs at specific sectors, imposing additional levies on imports of steel, aluminium, copper, automobiles and parts, heavy vehicles, lumber, and furniture; however, broad exemptions were applied to multiple categories such as electronics, machinery, and commodities such as gold and oil, with specific items listed in annex II of Executive Order 14257 (The White House, 2025d). Later in 2025, agricultural products also received exemptions (The White House, 2025b). Both special rates and exemptions remain highly uncertain, as ongoing section 232[9] investigations cover products such as pharmaceuticals and semiconductors, and revisions to the exemption list continue in response to supply and price pressures.

While tariff announcements in 2025 unsettled the global trade environment and heightened uncertainty, the world economy remains remarkably integrated. Despite growing protectionism, global trade (including both imports and exports) still accounts for over 50 per cent of GDP, underscoring persistent interdependence. As at September 2025, 72 per cent of goods still moved under the most-favoured-nation (MFN) regime—down from over 80 per cent at the start of the year (WTO, 2025b; WTO, 2025d). These trends underscore the resilience of multilateral norms amid growing fragmentation, suggesting that the core drivers of global integration continue to operate even as higher United States tariffs reshape trade patterns.

With the front-loading effect of higher tariffs dissipating, the trade outlook for 2026 remains muted. A high comparison base from 2025 is expected to bring the growth rate to a lower level. Risks to the outlook are two-sided: a renewed escalation of trade tensions and retaliatory measures among major trading partners could further dampen trade growth, while prospects for de-escalation through new or revised

8 For the latest effective tariff rates for individual countries, see the UNCTAD Tariff dashboard.
9 Section 232 of the United States Trade Expansion Act of 1962 authorizes the President of the United States to impose tariffs or other trade restrictions on imports deemed to threaten national security, following an investigation by the Department of Commerce.

trade agreements offer a potential upside. Global supply chains are expected to continue adjusting, creating opportunities for deeper trade cooperation among countries and regions that remain open to integration (Reinsch and Irghis, 2025). In this context, South-South trade has registered notable gains in recent quarters, underscoring its growing role in reshaping global trade dynamics (UNCTAD, 2025c).

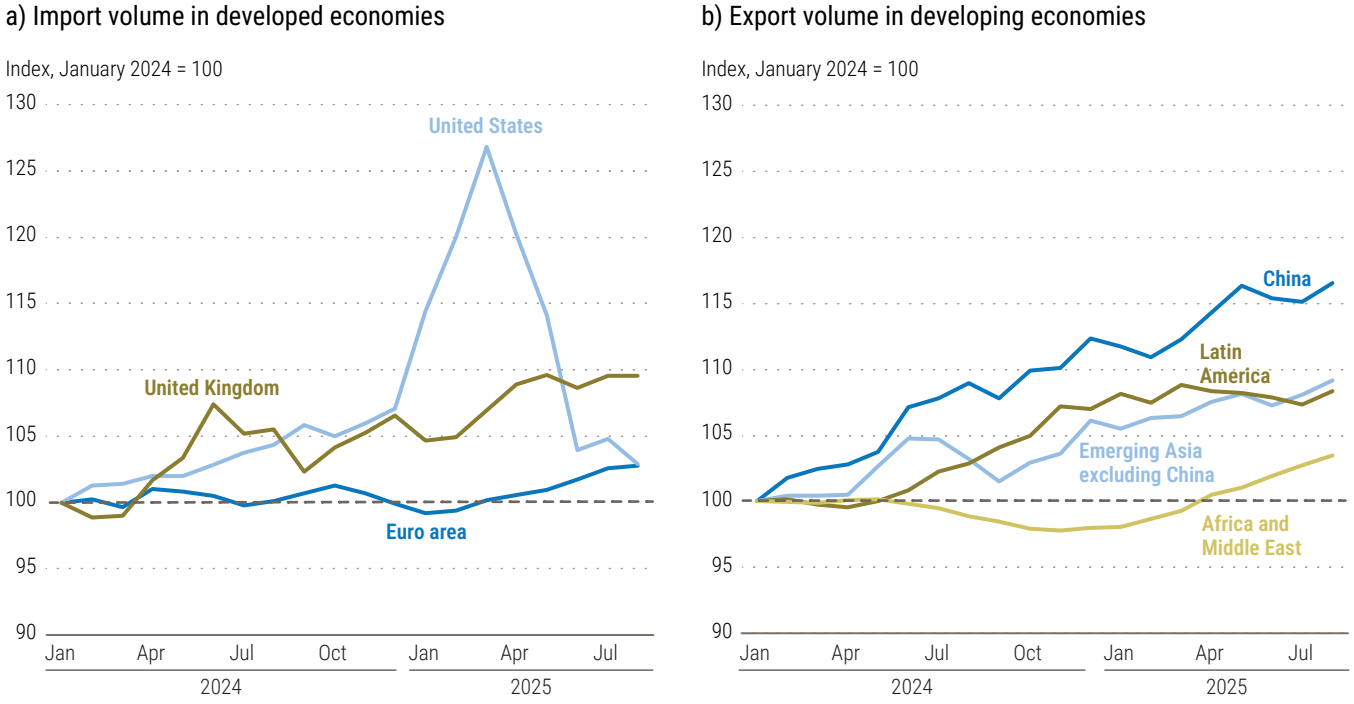
Trade in goods

Global merchandise trade volume is estimated to have risen by 3.3 per cent year-on-year in 2025, despite higher tariffs and trade policy uncertainty. United States merchandise imports saw a temporary surge in early 2025 (see figure I.8a), driven by intensified front-loading ahead of anticipated tariff hikes, particularly for products such as pharmaceuticals and machinery (see box I.1). Among developing economies, China continued to lead export growth, supported by strong shipments of manufactured and industrial goods, though notable export gains were also achieved elsewhere, particularly in Africa (see figure I.8b). Export growth in Africa and Latin America was driven primarily by commodities.

Electronics and machinery remained the primary drivers of merchandise trade expansion in 2025, fuelled by sustained global demand for semiconductors and AI-related components and equipment. According to the World Trade Organization, trade in AI-related goods grew by 20 per cent year-on-year in the first half of 2025 (WTO, 2025c). Pharmaceuticals and chemicals also recorded robust growth, partly reflecting the front-loading of United States imports, especially from the European Union. By contrast, trade in transportation equipment (including automobiles) stagnated over the same period, with United States imports declining by about 10 per cent year-on-year in nominal terms.

Figure I.8

Merchandise imports and exports, selected regions



Source: UN DESA, based on data from CPB Netherlands Bureau for Economic Policy Analysis.
Note: Groupings are not strictly comparable to those in the *World Economic Situation and Prospects 2026* but illustrate regional tendencies.

Box I.1

United States merchandise import composition: early impacts of tariffs on global trade flows

The emerging impacts of United States tariffs and related trade policy measures point to evolving realignments in global value chains and trade partnerships. While it remains too early to draw definitive conclusions, initial data indicate notable shifts in trade flows across major product categories.

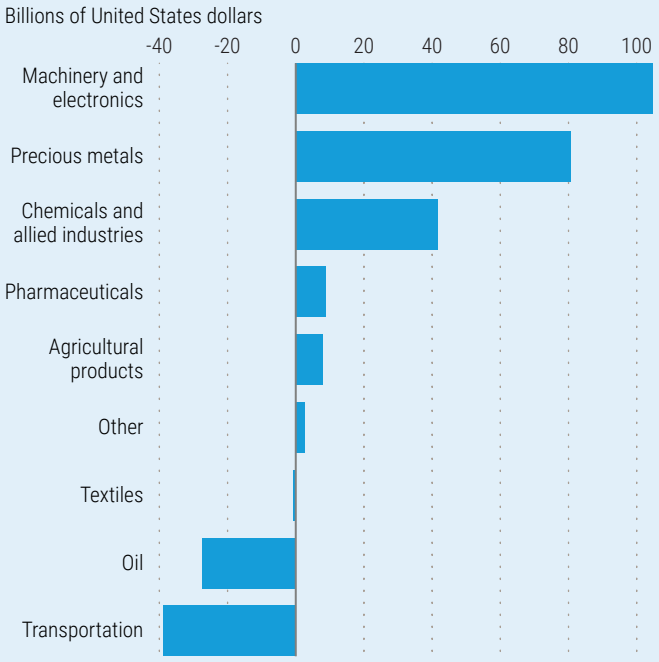
Throughout the first nine months of 2025,[a] United States imports grew by around 7 per cent year-on-year in nominal terms, partly due to the front-loading of imports before the implementation of new tariffs. Machinery and electronics recorded the strongest increase (see figure I.1.1a), driven by surging semiconductor demand amid the rapid development of artificial intelligence (AI) technologies (UNCTAD, 2025c). Imports of computers and semiconductor-related equipment are exempt from tariffs imposed under the International Emergency Economic Powers Act (IEEPA), as indicated in annex II of Executive Order 14257 (White House, 2025d), which may partly explain their dynamic growth, especially in relative terms. Chemical and pharmaceutical imports rose sharply as well, particularly in the first quarter of 2025 (see figure I.1.1b), reflecting pre-emptive procurement in anticipation of possible new trade restrictions, given the ongoing section 232 investigation into pharmaceutical products (U.S. Chamber of Commerce, 2025). In contrast, imports of transportation equipment declined significantly in mid-2025 as higher tariffs exacerbated a longer-term downward trend.

The value of countries' merchandise exports to the United States also changed. A sharp decline in shipments from China—particularly of electronic goods such as laptops and smartphones—was offset by increased imports from Viet Nam and other Association of Southeast Asian Nations (ASEAN) economies (Miller, 2025). India has also strengthened its position within global electronics supply chains (see figure I.1.2).

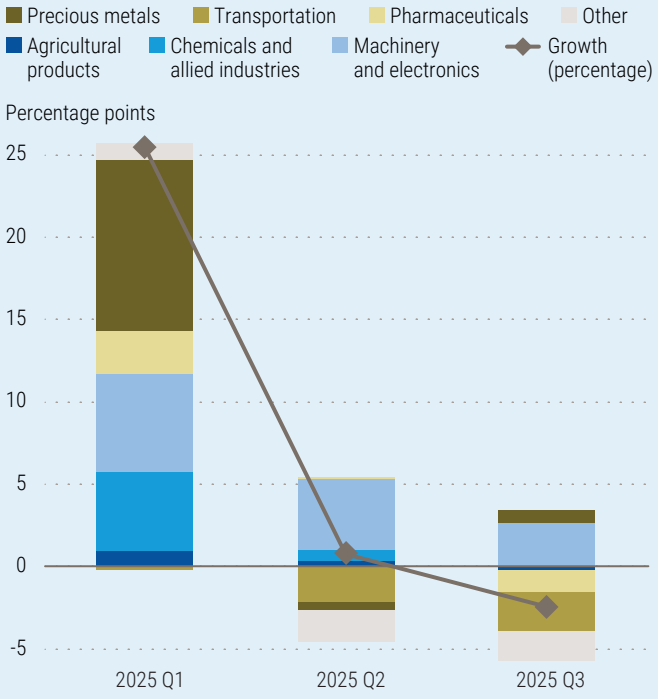
Figure I.1.1

United States merchandise imports

a) Change in value, by product category, Jan.–Sep. 2025 versus Jan.–Sep. 2024



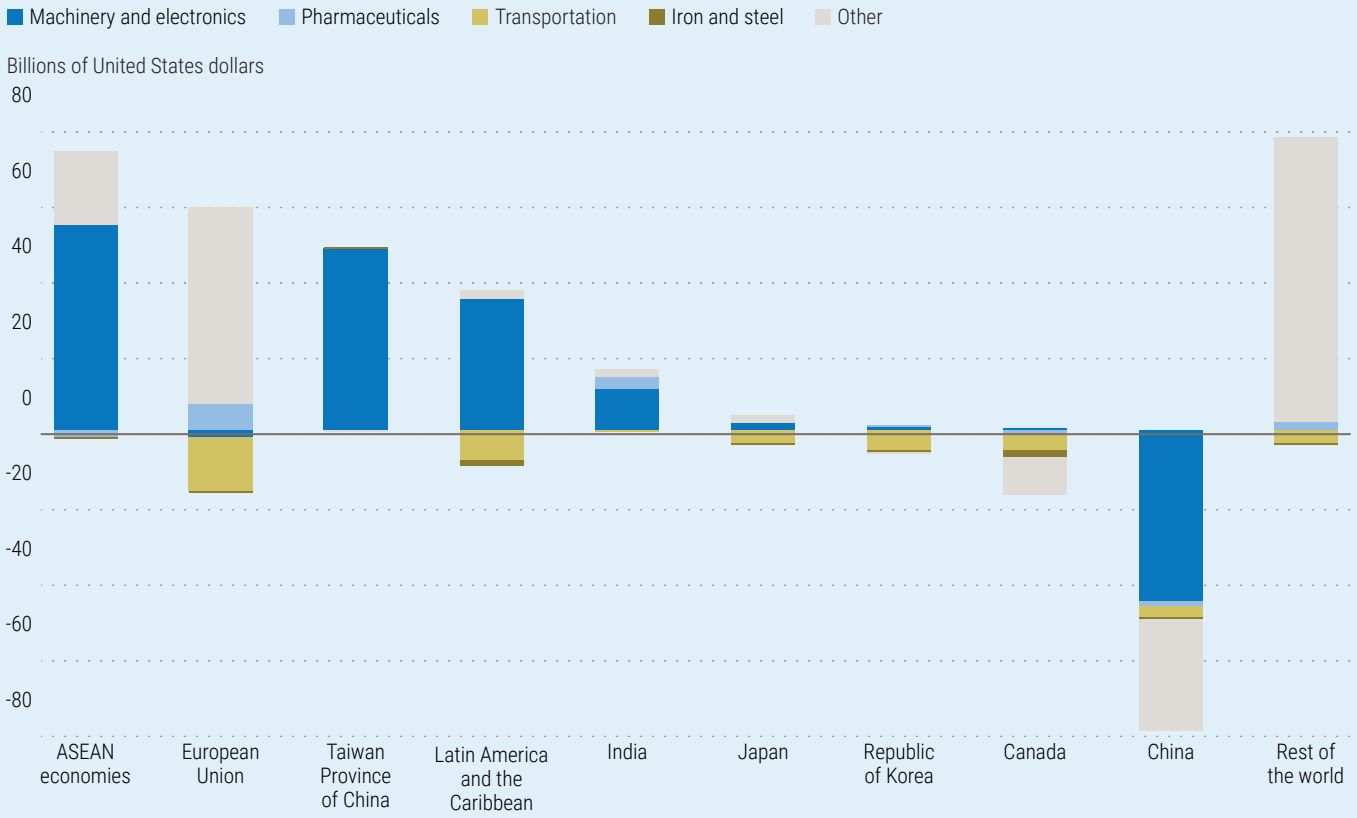
b) Annual growth and contributions, by product category



Source: UN DESA, based on data from the United States Census Bureau.
Note: The values are in nominal terms.

Figure I.1.2

Change in United States imports, by product category and origin, Jan.–Sep. 2025 versus Jan.–Sep. 2024



Source: UN DESA, based on data from the Trade Data Monitor.
Notes: ASEAN = Association of Southeast Asian Nations; **HS** = Harmonized Commodity Description and Coding System. Categories are aligned with the following Harmonized System codes: machinery and electronics correspond to HS codes 84 and 85; pharmaceuticals to HS 30; transportation equipment to HS 86–89; and iron and steel to HS 72.

For European pharmaceutical exporters, the surge in demand from the United States delivered short-lived gains. Pharmaceutical exports from the European Union and Switzerland spiked in early 2025 but have since trended downward.

The transportation sector—particularly the automotive industry—is undergoing a significant transition, with affordable electric vehicles emerging as an increasingly important export product, especially in China and other Asian economies (Rokosz, 2024). Prolonged weakness in United States imports, exacerbated by recent tariff measures, is reshaping global automotive trade patterns: United States imports from its main partners—including Canada, the European Union, Japan, the Republic of Korea, and Mexico, which together account for nearly 80 per cent of the country's imports—all fell year-on-year in the first nine months of 2025. Between January and September 2025, Canada recorded an almost 10 per cent decline in exports of transportation and related equipment to the United States, partly offset by increased exports to Africa and the European Union, albeit from a low base.

Over the same period, the European Union saw a nearly 6 per cent drop in automobile exports, driven by steep declines in shipments to China (-34 per cent) and the United States (-18 per cent). The sectoral impact was partly cushioned by modest growth in exports to markets such as Japan, Norway, and Türkiye. South Africa, whose economy relies heavily on automotive exports, experienced a 28 per cent drop in shipments to the United States but achieved a 25 per cent overall increase in automobile exports, supported by strong demand from other African countries, the European Union, and the United Kingdom.

Interpretation of recent trade data is limited by the fact that values are reported in nominal terms and thus strongly influenced by price movements. In 2025, large fluctuations in global commodity markets distorted measures of trade growth across several categories. The sharp rise in the precious-metals category, for

example, largely reflected surging prices for gold and silver rather than higher physical import volumes. Likewise, the recorded decline in oil imports in value terms could be attributed mainly to lower energy prices rather than a reduction in quantities traded.

Steel, which was one of the first major product categories subjected to tariffs in 2025, is an illustrative example. The initial 25 per cent tariff introduced in March—later raised to 50 per cent in August—led to a sharp decline in United States import values; steel import values fell nearly 15 per cent year-on-year between January and September, though overall volumes fell only modestly, with global steel prices dropping by about 9 per cent over the same period.[b] Canada and Brazil are two of the top iron and steel exporters to the United States; Canada experienced contractions in both the volume and value of steel exports, partly offset by diversification towards ASEAN markets, while Brazil maintained its iron and steel export volumes.[c] At the same time, United States steel output through late November rose by roughly 3 per cent year-on-year (American Iron and Steel Institute, 2025). Internationally, tariff measures by the United States have prompted reciprocal measures, including the recently announced steel sector protection and transformation measures implemented by Canada (Prime Minister of Canada, 2025) and the new safeguard framework for steel imports adopted by the European Commission (European Commission, 2025a).

The impact of recent tariff measures on global value chains is still unfolding and warrants close monitoring as their ripple effects continue to emerge. With new tariffs on lumber, kitchen cabinets, and heavy vehicles introduced in the second half of 2025, alongside several ongoing section 232 investigations, further adjustments and reconfigurations in global value chains are likely in the coming months.

Author: *Katarzyna Rokosz*

a Unless otherwise indicated, all 2025 data refer to the period January-September, in nominal value terms. Data cited in this box are from the United States Census Bureau and Trade Data Monitor.
b Based on steel rebar data from Trading Economics.
c Brazil and Canada are the top exporters of iron and steel products under HS code 72. In some contexts, "steel" may also encompass products classified under HS code 73 (articles of iron and steel).

The tariffs and other trade policy actions introduced in 2025 created significant uncertainty (particularly with the frequent suspensions, revisions, and exemptions), raising trade costs, unsettling markets, and placing particular pressure on developing economies. The unpredictability of these policy shifts has complicated efforts to gauge their effects on trade flows and prices worldwide (see box I.1). Effects vary widely across countries, regions, and products, with the outlook continuing to evolve.[10] In addition to tariffs, several other measures have shaped trade dynamics in 2025, including export restrictions, port fees, and a surge in anti-dumping investigations. The number of such investigations reported to the WTO reached an all-time high in 2024, and early 2025 data suggest this trend is continuing (WTO, 2025a).

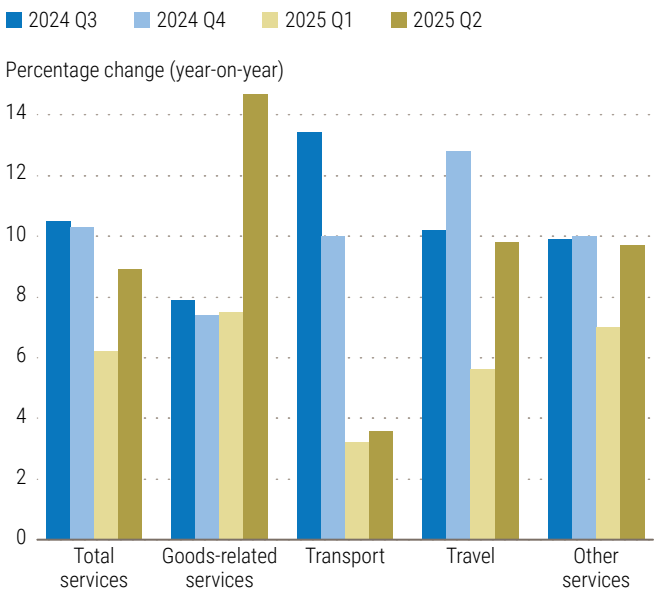
Trade in services

Trade in services is estimated to have expanded by 5.3 per cent in 2025 in real terms, driven by robust growth across major segments (see figure I.9). Growth is projected to remain solid in 2026, easing slightly to about 5 per cent. However, services trade continues to be dominated by developed economies, which account for about 70 per cent of global services export revenues (UNCTAD, 2024). Digital services and solid travel demand are expected to continue underpinning services trade growth. The rapid adoption of AI technologies is projected to further stimulate demand for digitally delivered services. According to the WTO (2025e), AI could boost global trade by nearly 40 per cent between 2025 and 2040 through higher trade volumes of digitally deliverable services, lower operational costs in merchandise trade, and greater efficiency in service delivery.

10 See, for instance, the UNCTAD Tariff dashboard for the latest per-country estimates of United States effective tariff rates.

Figure I.9

Growth of services trade, by category



Source: UN DESA, based on data from UNCTADstat.

Growth in travel services has eased following the sharp post-pandemic rebound. International tourist arrivals are estimated to have grown by 5 per cent in 2025, supported by solid demand despite high travel costs and geopolitical risks (UN Tourism, 2025). In the first nine months of 2025, more than 1.1 billion tourists travelled internationally, up 5 per cent from 2024 and 3 per cent above 2019 levels. Europe recorded nearly 625 million international tourists between January and September 2025, a 4 per cent increase from the same period in 2024 and 6 per cent higher than in 2019. Africa posted robust growth of 10 per cent, while the Americas saw a modest 2 per cent increase. The Asia-Pacific region registered an 8 per cent rise, but the number of tourists remained 10 per cent below pre-pandemic levels. The Middle East posted the strongest recovery relative to 2019, with arrivals 33 per cent above pre-pandemic levels, despite only 2 per cent year-on-year growth. High prices, weaker economic growth, and geopolitical tensions remain key challenges for the global tourism industry.

Emerging shifts in global trade

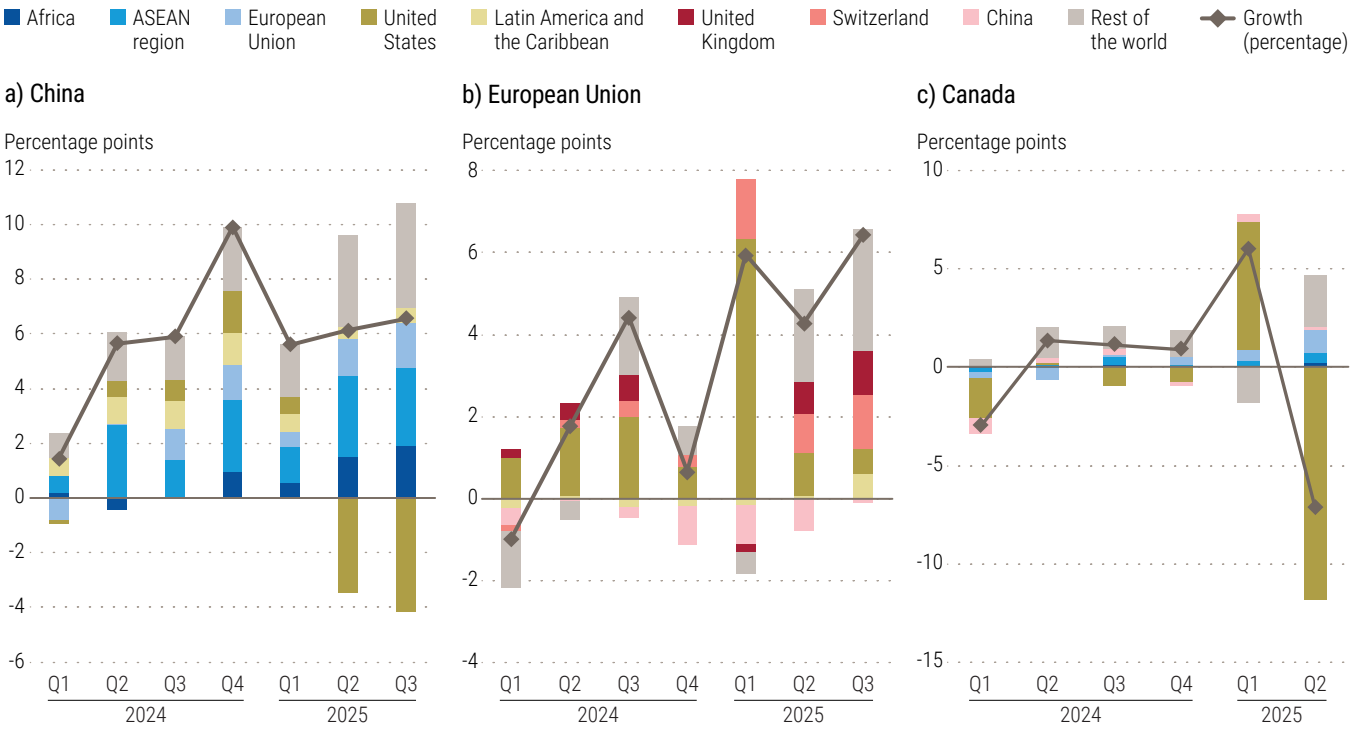
Higher United States tariffs and uncertainty over future market access prompted some realignment of global value chains in 2025. While impacts vary across product categories and trading partners, export market diversification has accelerated, particularly among the major trading partners of the United States (see box I.1). China largely offset reduced exports to the United States by increasing shipments to other regions, notably the Association of Southeast Asian Nations (ASEAN) region and Africa (see figure I.10a). Exports from the European Union also proved resilient as trade flows strengthened with regional partners such as Switzerland and the United Kingdom (see figure I.10b). Canada, whose exports to the United States fell by 3 per cent year-on-year in the first half of 2025, increased exports to Africa, the ASEAN countries, the European Union, and the United Kingdom, partially offsetting the decline in exports to the United States (see figure I.10c). Mexico and many other Latin American economies continue to rely heavily on the United States market, with only marginal changes in export structures observed in 2025.

Value chain adjustments remain closely linked to evolving dynamics in the maritime trade and shipping industry. As figure I.11 illustrates, growth in the distance covered by cargo has outpaced growth in traded volumes since 2023. Meanwhile, the volume of cargo travelling through the Suez Canal has yet to return to pre-2023 levels, even though conditions along key routes have largely stabilized. This suggests that global supply chains are still adapting to geopolitical and security disruptions. However, the prevalence of longer shipping routes points to reduced logistical efficiency and potentially higher costs for firms.

Current short-term trade realignments are unfolding within a broader context of structural transformation in global commerce—marked by technological innovation, the rise of services, the reconfiguration of trade partnerships, and close linkages with international finance

Figure I.10

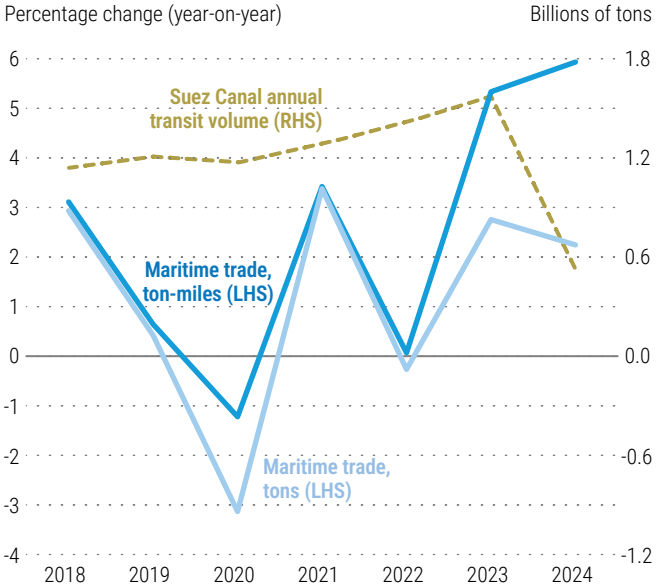
Annual growth of merchandise exports in selected economies and contributions, by destination



Source: UN DESA, based on data from the Trade Data Monitor.
Notes: **ASEAN** = Association of Southeast Asian Nations. The growth rates and contributions are based on nominal values.

Figure I.11

Maritime trade and Suez Canal transit volume



Source: UN DESA, based on data from UNCTAD and the Suez Canal Authority.
Note: **LHS** = left-hand scale; **RHS** = right-hand scale.

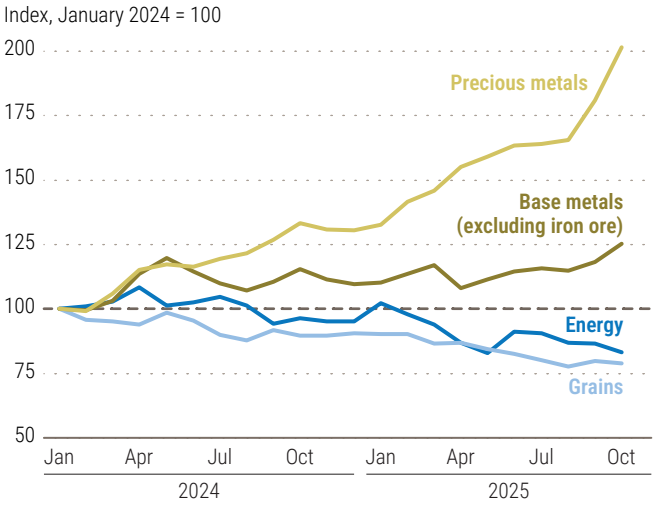
(UNCTAD, 2025g). While some of the effects of these adjustments are already visible in changing trade flows and shipping patterns, others will materialize gradually as long-term structural developments reshape value chains. This ongoing reconfiguration creates new opportunities for integration, particularly for developing countries seeking to enter emerging segments and diversify their export markets.

Diverging trends among commodity markets

Commodity prices exhibited diverse trends in 2025 (see figure I.12). Global oil prices fell markedly, with Brent crude dropping from about $80 per barrel in January to around $65 in November. This decline reflected increased supply, driven by OPEC Plus ramping up output, coinciding with slowing demand growth in China (World Bank, 2025a). Geopolitical developments,

Figure I.12

Commodity prices, selected indices



Source: UN DESA, based on World Bank Commodities Price Data (Pink Sheet).

including renewed sanctions on oil firms in the Russian Federation, briefly heightened concerns over upward price movements, but their effects proved short-lived. Following these temporary disruptions, prices stabilized at lower levels, reinforcing the broader downward trend.

Metal prices rebounded strongly in 2025 as robust demand coincided with supply constraints. Copper prices rose by nearly 20 per cent during the first 10 months of the year,[11] driven by United States tariff measures and production disruptions in Indonesia. Following the initial tariff announcements, copper prices surged as traders accelerated inventory accumulation ahead of tariff implementation. Tin prices also advanced, underpinned by steady industrial demand, particularly from the electronics and semiconductor sectors.

Precious-metal prices rose sharply in 2025, with gold and silver reaching record highs in the second half of the year. Gold prices strengthened on monetary easing, a weaker United States dollar, and continued central bank and investor demand (see the finance section for more details). Silver also hit unprecedented nominal levels, rising from about $30 per troy ounce in January to $50 in October, driven by robust investor interest and expanding industrial applications, notably in the fast-growing renewable energy sector.[12]

In food commodity markets, prices edged lower for most of 2025, reflecting sharp drops in grain prices—notably rice, wheat, and maize—amid ample global supplies. In the first 10 months of the year, the grains commodity index declined by about 13 per cent. In contrast, soybean oil prices increased in the third quarter, supported by strong demand for biodiesel feedstock and increased purchases by major edible oil importers replenishing depleted inventories (World Bank, 2025a). While beverage commodity prices have eased in recent months, coffee prices remain near the record highs reached in February 2025, when adverse weather conditions curtailed production.

Commodity prices are expected to face continued downward pressure in the near term, though dynamics will vary across sectors. Oil prices may remain subdued amid persistent oversupply and the gradual shift towards electric vehicles, while food commodities are likely to ease further should global harvests remain ample. In contrast, prices of several critical minerals, such as aluminium, copper, and tin, are expected to remain broadly steady, supported by demand from renewable energy and electric vehicle sectors despite subdued industrial activity and policy uncertainty.

Risks to the outlook remain two-sided. On the one hand, slower economic growth in major economies and a persistent supply glut could further weigh on prices for several commodities. On the other hand, escalating geopolitical tensions, new trade barriers, or additional sanctions could disrupt supply chains and lift prices, especially for energy and key metals. In addition, extreme weather events pose a risk of sharp price spikes in agricultural and energy markets.

11 Copper prices reflect London Metal Exchange grade A settlement prices.
12 The previous nominal record for silver was reached in January 1980.

Subdued global investment, with AI-related gains in some countries

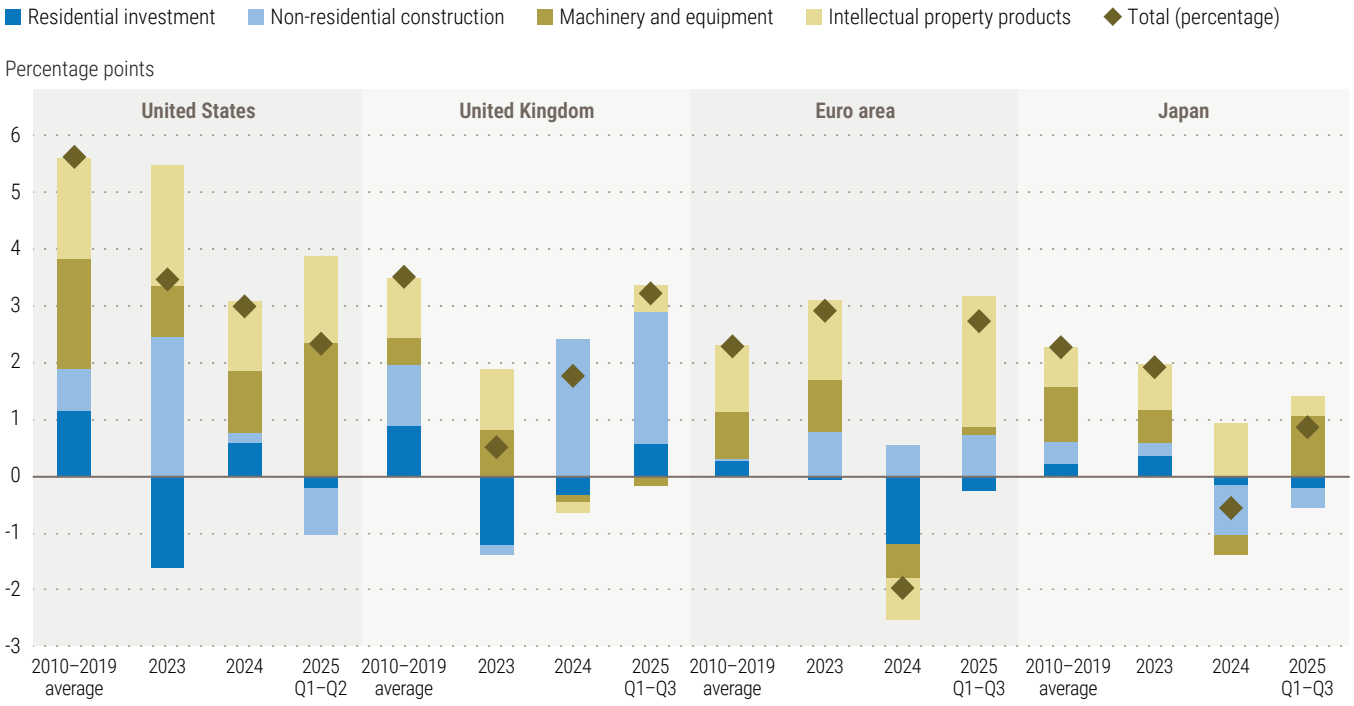
Economic uncertainty weighing on investment outlook

Global investment growth remained muted in 2025, weighed down by macroeconomic uncertainty, geopolitical tensions, and weak business confidence. Yet performance proved more resilient than expected as trade tensions gradually eased and monetary easing lowered borrowing costs. Public investment strengthened in several large economies, supported by fiscal measures targeting digital infrastructure, energy transition, and national security priorities. However, many Governments in developing countries (particularly those in vulnerable situations) continue to face tight fiscal space and high debt-servicing costs, limiting their capacity to invest in infrastructure, human capital, and other development priorities essential for productivity growth and long-term resilience. Against this backdrop, global investment is expected to remain subdued in 2026, extending the overall lacklustre post-pandemic trend despite pockets of strength.

Investment performance across developed economies improved in 2025 despite elevated policy uncertainty. Spending on machinery, equipment, and intellectual property products strengthened notably, especially in the United States, where massive investment in AI-related infrastructure drove overall investment growth. In the euro area, gains focused on software as well as research and development (R&D), while Japan recorded higher investment in export-oriented machinery, largely front-loaded amid trade policy uncertainty. These trends underscore the resilience of technology-driven investment, even as broader conditions remained uneven. Investment in housing, by contrast, remained weak over the course of 2025 in the euro area, Japan, and the United States, held back by high construction costs and still-elevated borrowing costs in several countries (see figure I.13).

Figure I.13

Annual investment growth in selected developed economies, by asset type



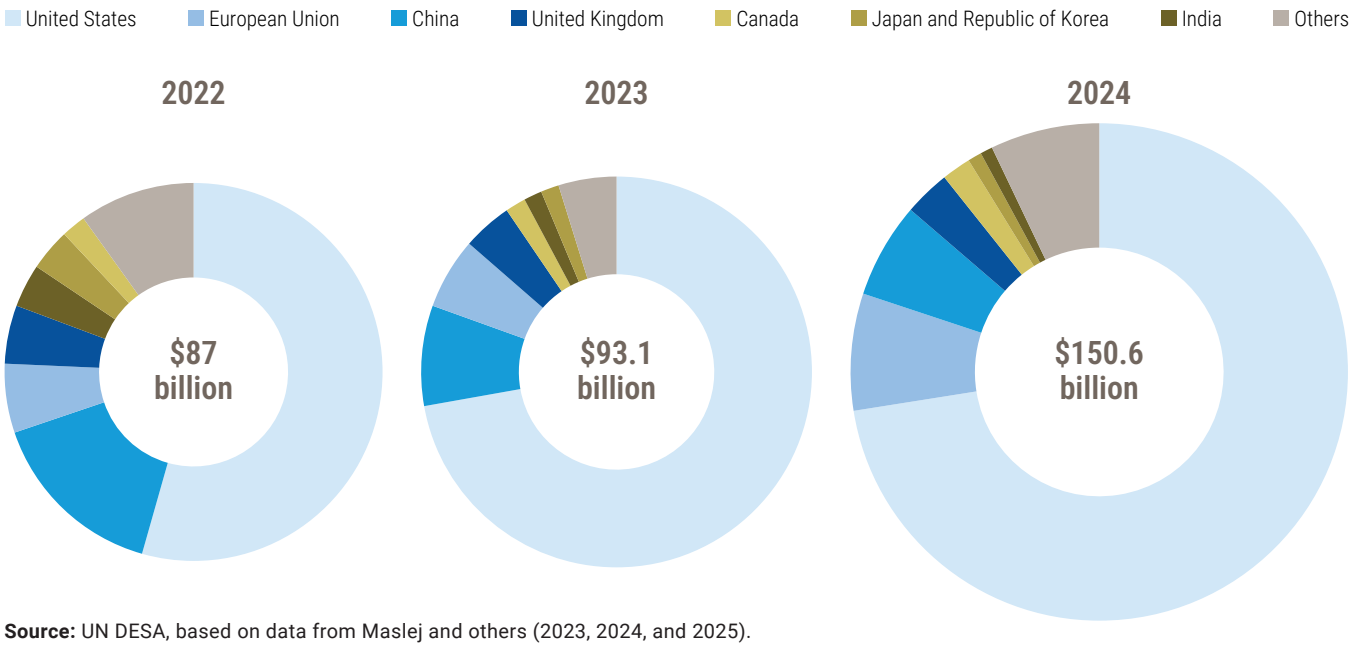
Source: UN DESA, based on data from CEIC, Eurostat, and national sources.
Notes: Figures are in constant prices. Data for the United Kingdom, the euro area, and Japan reflect total investments; data for the United States reflect private investments.

During the forecast period, the expansion of AI technologies is expected to remain a key driver of capital formation in the United States (see figure I.14).[13] However, spending on AI-related equipment may have been partly front-loaded amid trade policy uncertainty, leaving it vulnerable to a temporary pullback in 2026. In the European Union, the implementation of the NextGenerationEU recovery programme will continue to support investment in structures (including buildings, transport networks, and other long-term physical assets), while several member States plan to increase public investment in defence, infrastructure, and the energy transition. Germany introduced a €500 billion off-budget fund for infrastructure and climate investment over the period 2026–2037, with the impacts expected to begin in 2026 and strengthen thereafter (European Commission, 2025b). The investment environment in the United Kingdom is likely to remain subdued as the Bank of England maintains a cautious stance on monetary easing and fiscal policy shifts towards consolidation to reduce deficits.

Investment trends among developing economies diverged in 2025. In many Asian economies, investment remained a key growth driver, reflecting the efforts of countries to upgrade infrastructure and manufacturing as well as targeted fiscal support. India recorded strong growth in gross fixed capital formation, led by higher public spending on physical and digital infrastructure, defence, and renewable energy. The Cooperation Council for the Arab States of the Gulf (GCC) countries continued to undertake large-scale capital investments aligned with long-term economic diversification strategies. In contrast, China saw a contraction in fixed asset investment[14] through the first three quarters of 2025, weighed down by persistent weakness in the property sector.

Figure I.14

Global corporate investment in artificial intelligence, by economy



Source: UN DESA, based on data from Maslej and others (2023, 2024, and 2025).

13 A survey conducted in May 2025 found that 88 per cent of United States firms planned to increase AI budgets over the succeeding 12 months (Priest, 2025).

14 The concept of fixed-asset investment in China differs from gross fixed capital formation. Fixed-asset investment covers only tangible investment projects with a value above 5 million yuan and includes land purchase costs. Gross fixed capital formation captures investment of all sizes and includes both tangible and intangible assets but not land purchases.

In Africa and Latin America and the Caribbean, average investment growth has remained muted. Fiscal constraints continue to limit public investment, while subdued growth prospects, persistent policy uncertainty, and trade frictions weigh on private investment, notably in countries such as Mexico and South Africa. In Brazil, multi-decade-high interest rates continue to dampen investment demand. Still, some notable developments have emerged. Argentina saw a rebound in investment in 2025, with improving confidence likely to sustain momentum into 2026. Private investment in extractive industries also expanded, with oil and gas production capacities increasing in Mozambique and Senegal, for example, and new flows into critical mineral extraction and processing gaining traction as well, particularly in Chile, the Democratic Republic of the Congo, and Zambia.

Weakening foreign direct investment

Persistent weakness in foreign direct investment (FDI) continues to weigh on fixed capital growth.[15] Global FDI flows are estimated to have declined in 2025, marking the third consecutive year of contraction, though regional patterns varied (UNCTAD, 2025h).

In developed economies, the number of fixed capital investment projects—encompassing greenfield projects and international project finance deals—fell by about 20 per cent in the first half of 2025 (UNCTAD, 2025a). However, the total value of announced greenfield investments rose by 48 per cent, driven by a twofold increase in the United States and a sixfold increase in France. This growth reflected large-scale investments in renewable energy, infrastructure, and digital technologies, especially AI-related industries. In the United States, more than half of the value of investment projects was concentrated in semiconductors and data centres, underscoring the rapid expansion of digital infrastructure and high-tech manufacturing.

FDI inflows to developing economies contracted sharply in the first half of 2025. The decline was most pronounced in Africa, where inflows fell by 42 per cent. This sharp drop reflects the high base in 2024, driven by a large-scale urban development project in Egypt; excluding this project, the region recorded a more moderate 8 per cent decrease. Greenfield investment in manufacturing also weakened in developing economies, falling by 26 per cent during the first six months of the year (UNCTAD, 2025a).

Leveraging AI technologies to revive productivity growth

In many developed and developing economies, weak investment continues to constrain productivity growth (see figure I.15). Short-term factors such as export fluctuations and temporary policy effects have occasionally produced brief productivity gains. In 2025, for instance, the euro area and Japan saw an uptick driven by export front-loading ahead of anticipated tariff increases in the United States; however, these gains are expected to be short-lived and will not alter the broader slowing trend.[16]

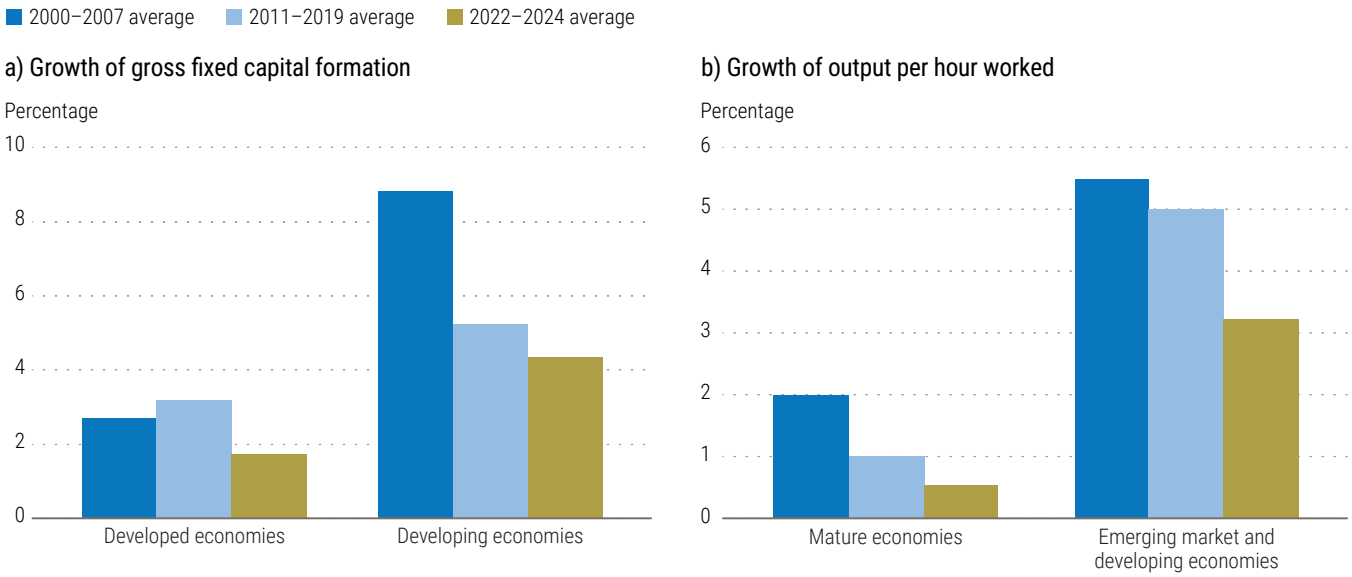
AI technologies have emerged as a potential catalyst for a revival in productivity growth, even as their short-term boost to electricity demand—driven by the need to power AI-related data centres—is expected to push electricity prices up sharply, leading to higher costs for businesses and households (see box I.2). By automating routine tasks, augmenting cognitive work, and enabling the creation of new products and services, AI can

15 While FDI and fixed capital formation are related, they derive from different frameworks; FDI records cross-border financial flows in the balance of payments, whereas fixed capital formation measures domestic investment in assets. Greenfield FDI tends to add directly to capital formation, while mergers and acquisitions mainly reflect ownership changes with limited immediate impact.

16 In the euro area, labour productivity (measured by output per hour worked) grew by 0.7 per cent quarter-on-quarter in the first quarter of 2025 following a 0.3 per cent decline in the fourth quarter of 2024, but growth dropped to nearly zero in the second quarter of 2025. A similar pattern was observed in Japan, where labour productivity growth accelerated to 16.9 per cent month-on-month in March 2025, followed by a 14.3 per cent decline in April.

Figure I.15

Growth of investment and productivity



Source: UN DESA, based on data from national sources and the Conference Board Total Economy Database.
Notes: Panel b) Country groups are not strictly comparable to those in the *World Economic Situation and Prospects 2026* but illustrate group tendencies. Productivity is measured by output per hour worked.

enhance efficiency and stimulate innovation. A growing body of empirical evidence points to notable—though confined—micro-level gains, showing that AI tools can improve efficiency in customer services, professional writing, and software development (Brynjolfsson, Li and Raymond, 2023; Noy and Zhang, 2023; Cui and others, 2025). Yet the extent and timing of their impact on aggregate productivity growth remain uncertain, as broad, economy-wide effects are not yet clearly visible. Acemoglu (2024) argues that while AI-driven productivity gains are meaningful, their aggregate impact on total factor productivity may be modest, raising it by no more than 0.7 per cent over the next decade. Arnon (2025) presents a more optimistic projection, estimating that AI could lift productivity by about 1.5 per cent by 2035. The impact of AI on employment is further explored in the labour market section.

At present, AI investment remains highly concentrated in developed economies and a few large developing countries, with the United States alone accounting for roughly 72.5 per cent of global corporate AI spending in 2024 (Maslej and others, 2025) (see figure I.14). This concentration suggests that the resulting gains could be unevenly distributed. Moreover, AI and automation may also reduce labour's share of income while increasing returns to capital, reinforcing existing inequalities (Acemoglu, 2024).

To make AI-driven growth more inclusive, complementary investments will be needed, particularly in workforce skills, social protection, digital infrastructure, competitive markets, and strong data governance and cybersecurity, especially in developing economies.[17] Stronger international cooperation will be vital to ensure that advances in AI help narrow, rather than widen, global productivity and income gaps in the coming decades.

17 In 2023, 30 per cent of developing countries and only 12 per cent of least developed countries had a national AI strategy, compared with 64 per cent of developed countries (UNCTAD, 2025b).

Box I.2

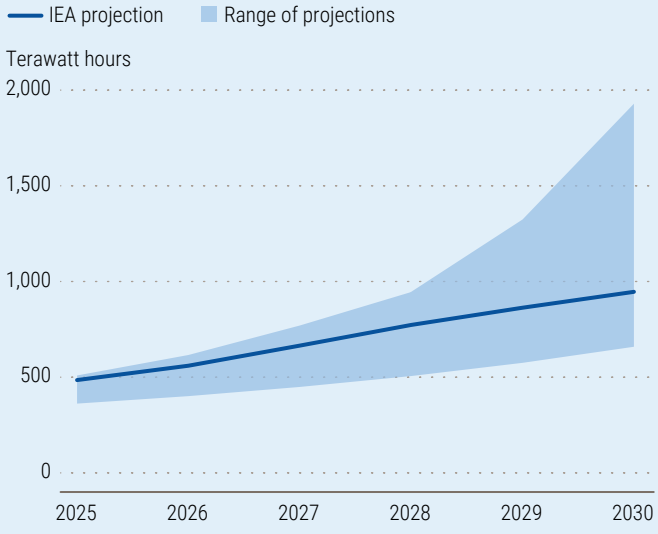
Hidden costs of artificial intelligence: economic implications of rapid growth in data centres

The rapid expansion of artificial intelligence (AI) is reshaping economies and daily life alike. Behind each AI-enabled chatbot lies a vast network of data centres that consume growing amounts of electricity to train large models and process millions of user queries. As electricity demand increases, it may outpace both generation capacity and the ability of existing transmission infrastructure to deliver power efficiently, leading to higher electricity prices and greater strain on grid reliability and infrastructure development. Depending on the energy mix used to meet this additional demand, the increasing computational requirements of AI systems may also affect progress towards climate and sustainability targets.

The proliferation of data centres—mostly in the United States, Europe, and China[a]—is driving rapid growth in electricity demand, putting pressure on existing supply systems. According to the International Energy Agency, data centres are expected to account for roughly 10 per cent of global electricity demand growth between 2024 and 2030 (IEA, 2025b). By 2030, they are projected to consume close to 1,000 terawatt hours annually—slightly more than the total electricity consumption of Japan today. The steepest increases are projected in China and the United States, which together are expected to account for nearly 80 per cent of global growth, followed by Europe and several Asian economies, including Japan. While projections differ markedly depending on underlying assumptions and scenarios (see figure I.2.1) (Kamiya and Coroamă, 2025), all point to a strong upward trajectory in electricity demand from data-intensive technologies.

Figure I.2.1

Projected range of electricity demand for data centres



Source: UN DESA, based on data from IEA (2025b) and Kamiya and Coroamă (2025).
Notes: **IEA** = International Energy Agency. The projected range is based on data from 13 studies, including 24 projections.

This surge in demand is expected to contribute to rising energy prices, as supply growth is unlikely to keep pace given grid constraints and additional pressures from electrification in other sectors, including transport (NERC, 2025; IEA, 2025b). A recent study projects that between 2025 and 2030, average electricity prices could rise by an estimated 8.6 per cent in the United States, 5.6 per cent in China, and 3.6 per cent in Europe due to the expansion of AI alone (Bogmans and others, 2025). Actual price developments remain highly uncertain and will depend critically on the pace of supply expansion, investment in grid expansion, and the stringency of national energy and climate policies. In parts of the United States with high concentrations of data centres, wholesale electricity prices in 2025 were already up to 257 per cent higher than in 2020 (Saul and others, 2025).

The geographic clustering of data centres is also creating demand for new transmission infrastructure to connect facilities with energy sources, which translates into increased transmission costs that could be passed on to consumers through higher base rates.[b] In Dublin—where data centres account for about 80 per cent of local electricity demand—retail electricity providers raised prices by more than 10 per cent in October 2025, citing the need to invest in grid infrastructure and alleviate network constraints (Energia, 2025; Bord Gáis Energy, 2025). In the United

a The United States, Europe, and China currently account for about 85 per cent of global electricity consumption by data centres (IEA, 2025b).
b Even though data centres appear to be the primary cost drivers, regulators typically distribute the costs across all consumers as transmission upgrading provides system-wide benefits (Martin and Peskoe, 2025).

States, the State of Virginia—home to nearly one third of the world's data centres—is planning a 15 per cent increase in base rates in 2026 and 2027 to finance grid expansion (Dominion Energy, 2025). Co-locating data centres and power generation can help ease pressure on local grids, but this approach is often constrained by land availability, higher complexity, and increased permitting requirements (IEA, 2025b).

The burgeoning demand for electricity by data centres can have broader impacts on sustainable development. Rising electricity bills in regions hosting large concentrations of data centres can disproportionately affect lower-income households due to relatively inelastic electricity demand. Persistently high electricity costs may also alter local economic structures; past experience indicates that energy-intensive industries unable to absorb fast-rising energy bills tend to relocate elsewhere (Panhans, Lavric and Hanley, 2017), while data centres themselves generate limited long-term employment once construction is completed (JLARC, 2024).

In parallel, electricity generation associated with data centres is projected to add about 1.7 gigatons of greenhouse gas emissions between 2025 and 2030 (Bogmans and others, 2025), equivalent to about 4.5 per cent of global emissions in 2025. Much of the existing renewable energy capacity is already committed to meeting other rapidly expanding demands, leaving new gas- and coal-fired plants to supply most of the additional electricity in China and the United States (IEA, 2025b).

The rapid expansion of data centres presages significant opportunities for technological innovation and growth. However, the associated surge in electricity demand and the resulting pressures on prices and emissions risk creating adverse development impacts, particularly for vulnerable groups. Ensuring that this technological transformation aligns with sustainable development objectives will be critical. This will require scaling up the deployment of renewable energy, guiding the spatial distribution and environmental performance of new data centres, and strengthening monitoring and data transparency to enable policymakers to better anticipate energy requirements and manage emerging risks.

Author: *Marten Walk*

International finance

Robust cross-border financial flows, with risks looming

Global financial conditions have eased over the course of 2025, supported by monetary policy easing across many developed and developing countries and a weakening United States dollar. Conditions are expected to remain broadly similar in 2026 amid continued monetary accommodation.

However, with a subdued economic outlook and lingering policy uncertainty, global financial markets and cross-border flows remain fragile and vulnerable to shocks, as evidenced by the brief volatility in the second quarter of 2025. While equity prices have risen across many markets, valuations appear particularly stretched in the United States, especially within technology-heavy benchmarks. Gains are concentrated in a limited number of sectors, raising the risk of disorderly corrections if investor sentiment shifts.

In addition, elevated long-term yields in major developed economies, driven by fiscal pressures and term-premium increases, could raise borrowing costs for developing economies. Sudden shifts in investor sentiment or a renewed tightening of financial conditions could trigger capital outflows, exchange rate pressures, and liquidity strains, testing overall financial resilience. These risks are further heightened by vulnerabilities in non-bank financial institutions, whose growing interconnectedness with the banking sector could amplify the transmission of financial stress and complicate crisis management efforts (Adrian, 2025).

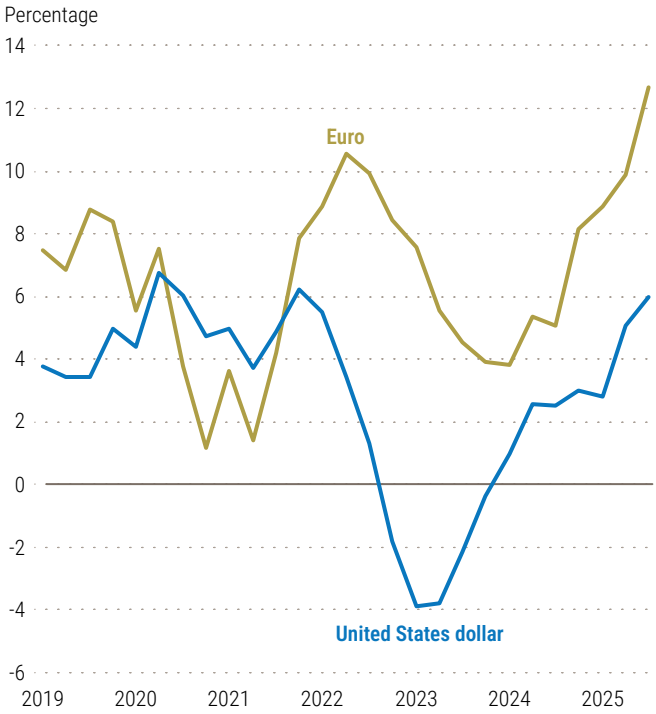
Global liquidity rose in 2025, underpinning the continued expansion of cross-border financial flows via both bank lending and portfolio channels. The growth of United States dollar credit to non-bank borrowers outside the United States[18]—a global liquidity indicator tracked by the Bank for International Settlements—accelerated to 6 per cent year-on-year in the second quarter of 2025, up 3 per cent from the fourth quarter of 2024 (see figure I.16a). This pickup reflected the depreciation of the dollar and growing expectations of Federal Reserve rate cuts, which together eased funding conditions for offshore borrowers. Euro-denominated credit to non-resident borrowers also expanded, recording faster growth than in 2023 and 2024, supported by decisive rate reductions by the European Central Bank. The increase in cross-border bank lending was observed across both developed and developing economies (BIS, 2025b). Among developing countries, the growth of cross-border bank lending was particularly pronounced in Africa and the Middle East, reflecting robust financing demand and improved access to international capital markets amid broadly favourable global conditions.[19]

Portfolio capital flows to emerging economies stagnated briefly in March and April 2025 amid heightened global trade tensions and tariff-related uncertainty but have since regained momentum, driven primarily by renewed debt inflows (see figure I.16b). Bond issuance by developing countries continued to expand in 2025, extending the strong momentum from 2024. In the first three quarters of 2025, total

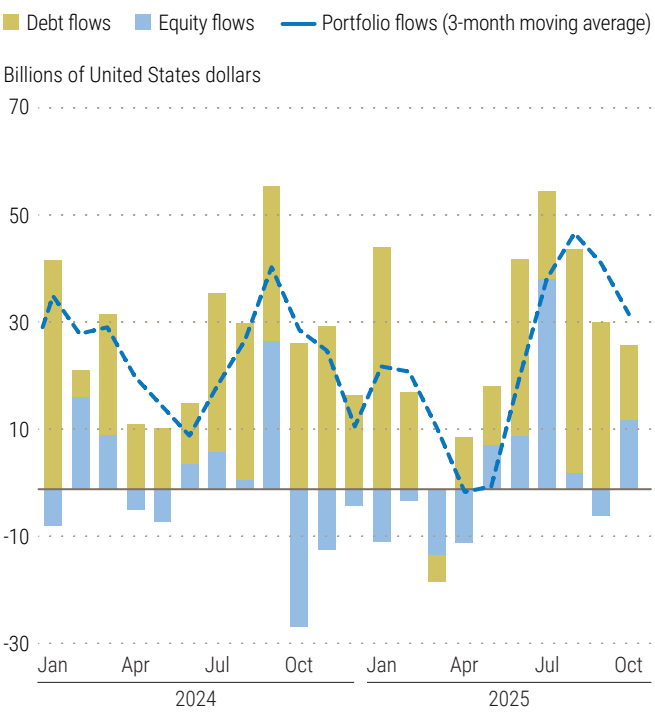
Figure I.16

Cross-border financial flows

a) Growth of credit to non-bank non-resident borrowers



b) Non-resident portfolio flows to emerging economies



Source: UN DESA, based on data from the Bank for International Settlements global liquidity indicators and the Institute of International Finance (IIF).
Note: The definition of emerging economies follows that of the IIF.

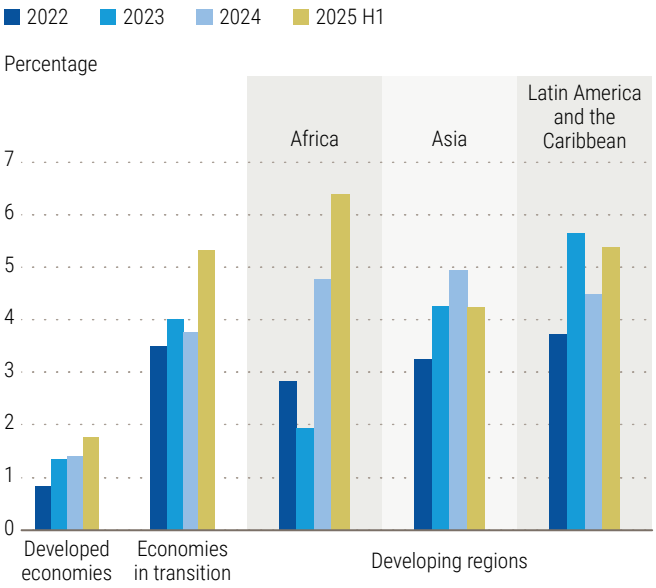
18 The indicator covers both loans extended by banks and funding from global bond markets through the issuance of international debt securities.
19 However, the implications of rising cross-border bank lending for debt sustainability will depend on the lending terms and the degree to which the financing supports productive investment.

international sovereign and non-financial corporate bond issuance by emerging and frontier markets (excluding China) reached $314.9 billion, representing a 37 per cent year-on-year increase (Lim, 2025). This reflected underlying macroeconomic resilience, with supportive policies bolstering domestic demand and ongoing disinflation creating space for further monetary easing.

However, market access remains uneven. Frontier and lower-rated economies continue to face elevated borrowing costs and limited investor appetite. As figure I.17 shows, the average coupon rate on sovereign bonds issued in hard currencies by African countries rose to 6.4 per cent in the first half of 2025, up from 4.8 per cent in 2024 and above the average for other developing regions. Angola and Kenya, for instance, successfully issued United States dollar-denominated Eurobonds in 2025; however, the elevated yields suggest that debt sustainability challenges remain.[20]

Figure I.17

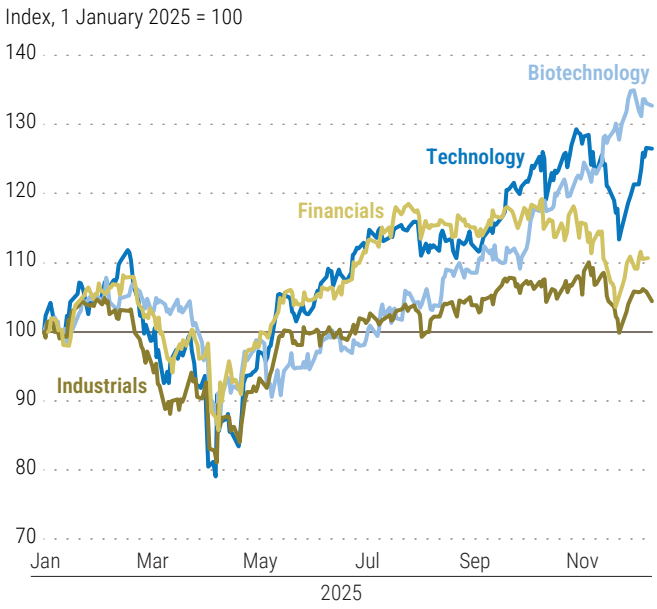
Average coupon rate of sovereign bond issuance in hard currencies, by country grouping or developing region



Source: UN DESA, based on data from the London Stock Exchange Group.
Notes: **H1** = first half of the year. The average coupon rate is the simple average across all bond issuances in hard currencies (euro, Japanese yen, pound sterling, and United States dollar) within each country grouping or developing region. Bonds with maturities under one year are excluded.

Figure I.18

Nasdaq index: selected sectors



Source: UN DESA, based on data from the Federal Reserve Economic Data database and CEIC.
Notes: Technology represents the Nasdaq-100 Technology Sector Index; biotechnology, industrials, and financials reflect broader Nasdaq sector indices.

Equity markets recorded solid gains in 2025, buoyed by improved risk sentiment, expectations of monetary easing, and robust corporate earnings. Equities in developing economies outperformed those in developed economies; the MSCI Emerging Markets Index advanced by more than 30 per cent in the first ten months of 2025, compared with gains of about 15 per cent for both the S&P 500 and EURO STOXX 50 indices.[21] Although stock prices retreated in November from record highs amid valuation concerns, they remained well above year-earlier levels. This resilience reflects investors' continued appetite for risky assets in an environment of easing financial conditions.

20 In October 2025, Angola priced five- and ten-year notes for a total of $1.75 billion with yields of 9.250 and 10.125 per cent, respectively. Kenya also returned to international markets the same month, issuing a dual-tranche $1.5 billion Eurobond with seven- and twelve-year maturities priced with yields of 7.875 and 8.800 per cent, respectively. However, GDP growth rates in both countries are projected to remain below the yields in the coming years.

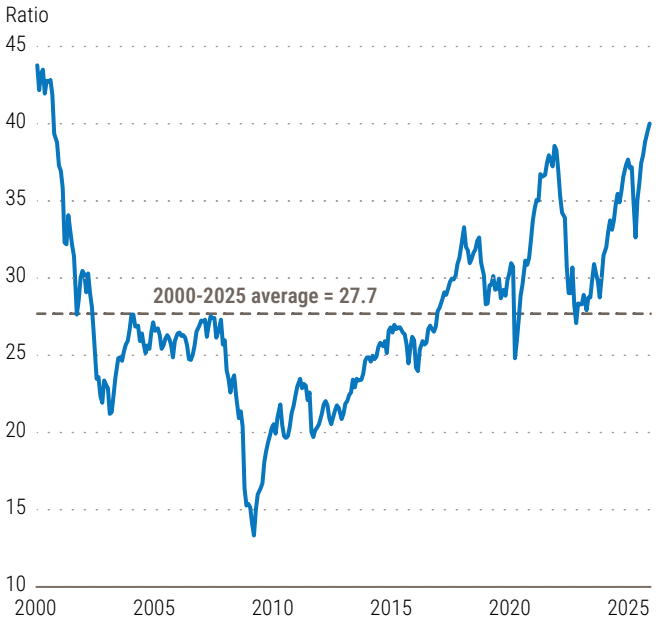
21 Calculation based on data from Trading Economics and MSCI (2025).

Stock market gains in 2025 were significantly driven by technology-related stocks, including in the United States (see figure I.18). The MSCI Emerging Markets Information Technology Index posted a particularly strong gain of over 50 per cent in the first 10 months of the year. This surge reflected investor optimism that rapid investment in data centre infrastructure and AI capacity by major technology firms will deliver significant returns. However, the extent to which these expectations will be realized remains uncertain.

Valuations in the technology sector appear increasingly stretched, as reflected in elevated price-to-earnings ratios. This has helped push up broader equity indices, including the S&P 500, where the cyclically adjusted price-to-earnings (CAPE) ratio has climbed well above its long-term average and has continued to rise (see figure I.19). CAPE ratios in several other major markets, including Canada and Germany,

Figure I.19

Cyclically adjusted price-to-earnings (CAPE) ratio of the S&P 500 index



Source: UN DESA, based on online data from Robert Shiller.

have also increased since the second half of 2024, though they remain well below United States levels. These developments suggest that parts of the global equity market may be vulnerable to repricing if profit expectations weaken. A sharp market correction could tighten financial conditions and generate cross-border spillovers through wealth and confidence effects and by raising risk premiums and funding costs.

Broader shifts in global financial sentiment in 2025 were accompanied by a marked weakening of the dollar. Heightened macroeconomic uncertainty, combined with investor concerns over the fiscal and growth outlook in the United States, drove the dollar down by about 8 per cent against major developed-economy currencies and 5 per cent against those of emerging markets during the first ten months of 2025, with most of the decline occurring in the first half of the year (see figure I.20). The softer dollar increased the relative attractiveness of assets denominated in other currencies, contributing to stronger portfolio inflows to non-United States markets.

The softer dollar also buoyed gold prices, increasing the attractiveness of the metal for global buyers. Prices climbed from just below $2,700 per troy ounce in early 2025 to more than $4,350 by late October before easing to just above $4,000 in late November. This rally was supported by declining real yields, ongoing inflation concerns, robust exchange-traded fund inflows, and increased hedging activity amid heightened global uncertainty. Several central banks, especially in developing economies, continued to build gold reserves (Agabekian, 2025). In August 2025, gold holdings by central banks (other than the Federal Reserve) exceeded holdings of United States Treasuries in global reserve portfolios for the first time since 1996 (McGeever, 2025). The share of the dollar in global foreign exchange reserves has steadily declined, falling from over 70 per cent in 2001 to around 57 per cent in 2025.[22]

22 The data are from the IMF Currency Composition of Official Foreign Exchange Reserves (COFER) dataset, which covers 149 reporters from more than 140 economies, including monetary authorities and other foreign-exchange-reserve-holding entities (such as sovereign funds). In addition to the United States dollar, major currencies identified in the dataset are the Australian dollar, Canadian dollar, Chinese renminbi, euro, Japanese yen, pound sterling, and Swiss franc.

Figure I.20

United States dollar index

Source: UN DESA, based on data from the Federal Reserve Economic Data database.

New vulnerabilities are emerging from the rapid expansion of non-bank financial institutions. These entities have become increasingly integral to the global financial system, acting as market makers, liquidity providers, and intermediaries in private credit, real estate, and cryptocurrency asset markets. Their growing presence has deepened interlinkages with the banking sector, as many non-bank financial institutions rely on bank funding for leverage and liquidity.

According to the IMF (2025f), loans to non-bank financial institutions account for about 9 per cent of the loan portfolios of banks in both Europe and the United States, indicating a meaningful channel of risk transmission. In the United States, in particular, the sector has expanded rapidly in recent years and now represents nearly 75 per cent of total financial-sector assets (BIS, 2025a). Developments such as credit-rating downgrades, sharp declines in collateral values, or funding disruptions could therefore adversely affect the capital and liquidity positions of banks, amplifying stress across financial markets (IMF, 2025f).

Bleak outlook for official development assistance

Official development assistance—a main source of development financing for developing economies—is projected to decline further in 2026 and 2027 following significant contractions in 2024 and 2025. According to the Organization for Economic Co-operation and Development (OECD, 2025), ODA from country members of the OECD Development Assistance Committee (DAC) is estimated to have declined by 9–17 per cent in 2025 following a 9 per cent drop in 2024 (see figure I.21). As a share of gross national income, ODA is estimated at 0.27–0.30 per cent for 2025—roughly unchanged from the 0.3 per cent registered in 2024 but well below the 0.7 per cent target set under SDG 17. Eleven DAC members—accounting for three quarters of total ODA in 2024 and including major donors such as France, Germany, the United Kingdom, and the United States—have announced reductions for the period 2025–2027.[23] If these cuts are implemented, ODA could return to 2020 levels even as global development needs continue to rise. The steepest proportional declines are projected for LDCs and sub-Saharan Africa, where bilateral ODA is estimated to have fallen by 13–25 and 16–28 per cent, respectively, in 2025. Bilateral ODA to LDCs has been declining each year since 2022 (see figure I.22).

These reductions risk disrupting funding for humanitarian action as well as essential services, including healthcare, education, and climate-related initiatives. Preliminary estimates suggest that aid for health may have declined by up to one third between 2023 and 2025, while the humanitarian and education sectors may have seen respective reductions of 21–36 and 18–22 per cent over the same period.

Anticipated reductions in support for multilateral development organizations may trigger additional funding decreases for the poorest countries and vital services. In 2023, nearly half of the ODA to LDCs was delivered through multilateral

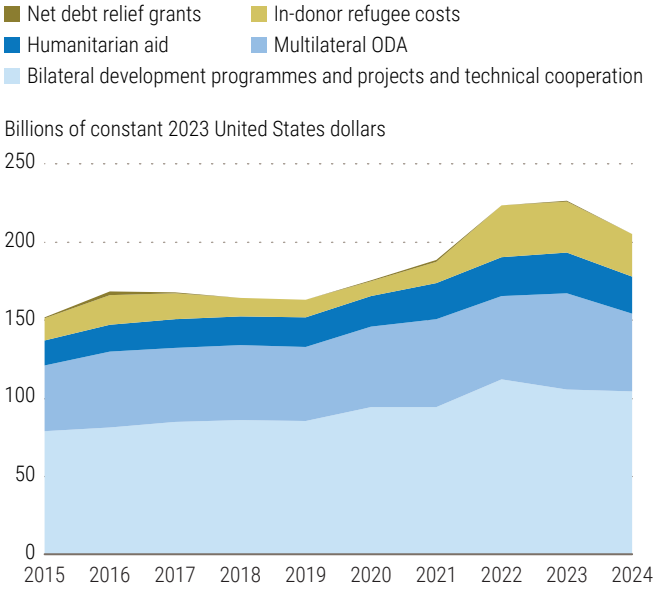
23 Conversely, several DAC members, including Australia, Denmark, Luxembourg, and Norway, are committed to meeting the target.

channels. The announced cuts will significantly affect funding to key multilateral health and humanitarian agencies, including the World Health Organization and the World Food Programme (OECD, 2025).

Multilateral development banks (MDBs) are taking actions to fill some of the resource gaps created by reductions in bilateral donor funding. For instance, they have expanded their financing capacity and impacts through balance sheet optimization measures—including adopting changes to their risk capital models and lending policy limits and incorporating callable capital into their capital adequacy policies—and have expanded coordination and co-financing among themselves (African Development Bank and others, 2024). In 2024, MDBs had their largest gross disbursement on record—$84.9 billion in loans and $7.8 billion in grants (Desmet and Kessler, 2025). MDBs also seek to catalyse private capital mobilization and reduce borrowing costs for developing countries, including through the provision of guarantees and other blended-finance instruments. The launch of a new guarantee platform in 2024 by the World Bank Group, hosted by its Multilateral Investment Guarantee Agency (MIGA), is a notable example of the strengthened efforts to de-risk projects and crowd in private finance for investment in developing countries.

Figure I.21

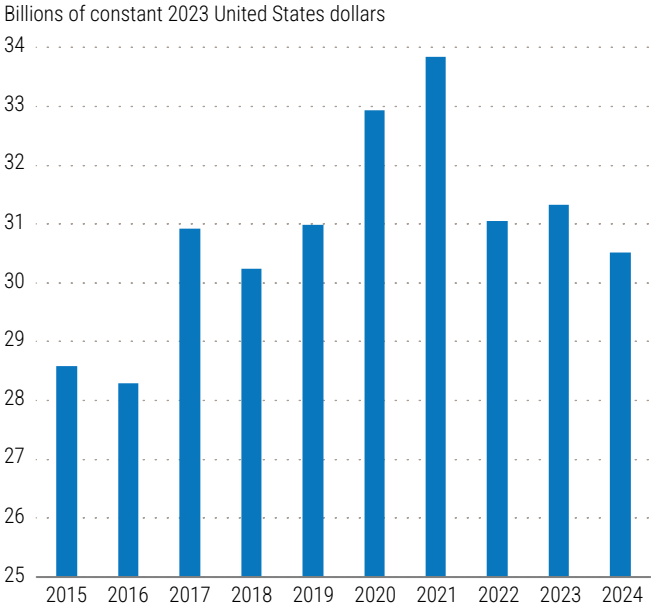
Official development assistance of DAC member countries, by component



Source: UN DESA, based on data from OECD Data Explorer and OECD (2025).

Figure I.22

Official development assistance of DAC member countries to least developed countries



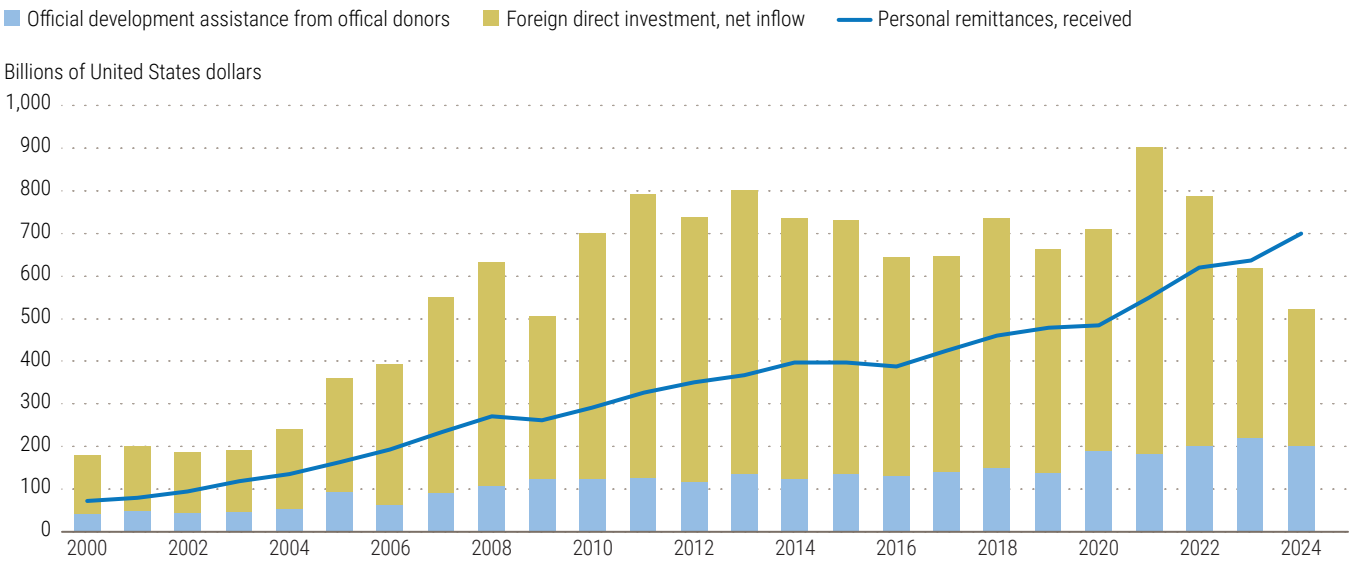
Source: UN DESA, based on data from OECD Data Explorer and OECD (2025).

Robust growth in remittances amid new challenges

Remittances—cross-border transfers of money by migrant workers to their families back home—have become one of the largest and most robust sources of external financing for developing countries. In 2023 and 2024, remittance inflows to low- and middle-income countries totalled $636 billion and $699.9 billion, respectively, exceeding the combined value of net FDI inflows and ODA in both years (see figure I.23). Robust labour markets in major host economies and the resilience of migrants to global shocks have underpinned the continued growth of remittances across most developing regions (Ratha, Plaza and Kim, 2024).

Figure I.23

Remittances, official development assistance, and foreign direct investment flowing to low- and middle-income countries



Source: UN DESA, based on data from the World Bank World Development Indicators database and OECD.

Although remittance growth is expected to continue in the coming years, the outlook remains uncertain. On the one hand, demographic pressures in developed economies, income gaps between developed and developing economies, regional conflicts, and climate-related disasters are likely to sustain migration incentives and consequently remittance flows. On the other hand, tightening immigration policies in major host countries could curb inflows to some developing economies, and revenue-generating measures such as new remittance taxes[24] could have the additional effect of discouraging the use of formal transfer channels, raising the risk of illicit flows (Huang, 2025).

Remittance costs remain high, reducing the value of funds received and constraining their ability to support household consumption, investment, and broader development outcomes. While there has been a gradual reduction over the past decade, the global average cost in the first quarter of 2025 was still around 6.5 per cent of the amount sent—more than double the 3 per cent SDG target. Sub-Saharan Africa remains the costliest region to send money to, with average fees close to 9 per cent (World Bank, 2025h). A combination of factors continues to keep costs elevated, including fragmented payment systems, limited market competition, currency-conversion costs, and regulatory and compliance requirements (Janfils, Kpodar and Beck, 2022; Ratha, 2023).

Labour market trends and challenges

Labour markets remaining largely stable

Labour markets remained broadly stable across most developed and many developing economies in 2025. While announcements of higher United States tariffs and heightened trade policy

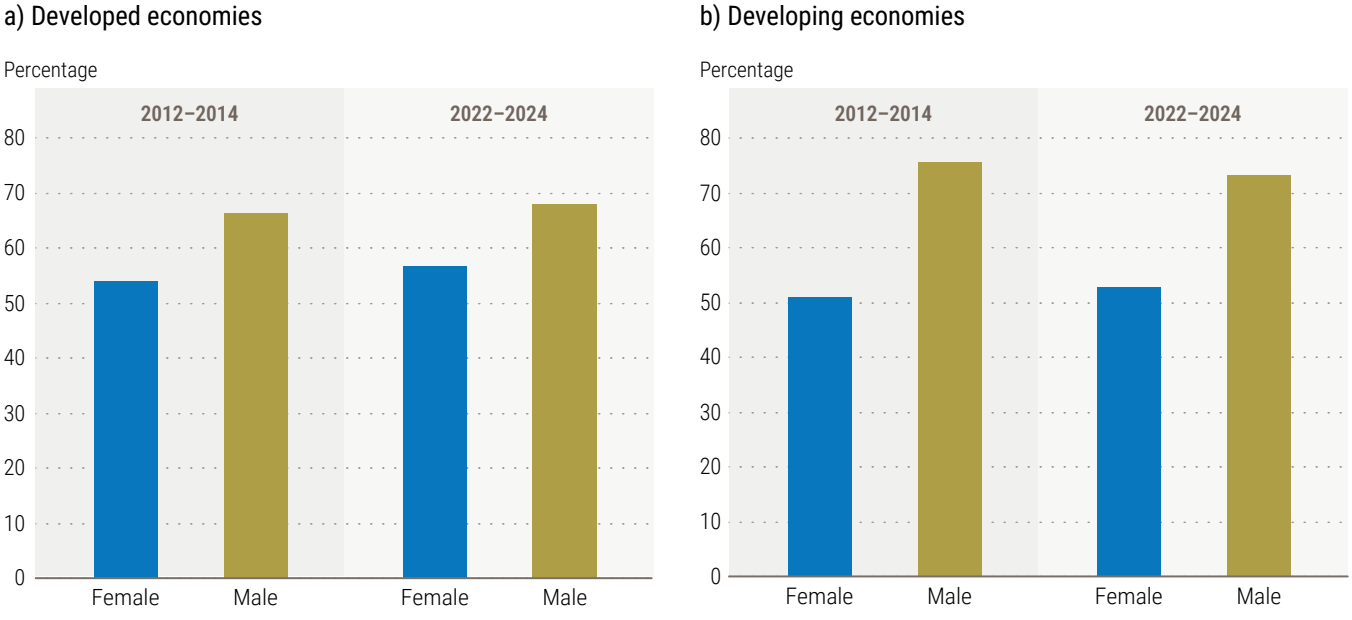
24 The United States instituted a 1 per cent tax on remittances effective 1 January 2026 (United States Internal Revenue Service, 2025). The tax is expected to affect several small Latin American and Caribbean economies most acutely given their heavy dependence on remittances from the United States. According to the latest data, remittances from the United States account for 23.1 per cent of GDP in El Salvador, 21.1 per cent in Honduras, 18.5 per cent in Jamaica, and 16.3 per cent in Guatemala.

uncertainty initially raised concerns about rising unemployment, the partial rollback later in the year helped ease these worries. According to the International Labour Organization, the global unemployment rate remained at a historically low 5 per cent in 2025—unchanged from 2024—and is projected to edge slightly lower to 4.9 per cent in 2026.[25] However, the employment outlook faces mounting downside risks, including persistent policy uncertainty, potential disruptions to trade flows, and fragile global growth prospects. Beneath the broadly stable employment outlook, deep-seated structural challenges continue to weigh on global labour markets. Gender gaps in labour force participation remain wide, especially in developing countries (see figure I.24). Unemployment among youth between the ages of 15 and 24 is persistently high; in 2023, the global youth unemployment rate stood at about 13 per cent, more than double the overall unemployment rate (ILO, 2024a). The share of youth not in employment, education or training (NEET) also remains elevated. Globally, an estimated 257 million young people—171 million women and 86 million men—were NEET in 2025, representing about a fifth of the total youth population.[26] Extended periods of unemployment or NEET status can have lasting scarring effects, leading to accumulated disadvantages over time (ILO, 2024a). Significant barriers to employment for persons with disabilities persist as well; the latest data show that only 27 per cent of persons with disabilities are employed, compared with 56 per cent of persons without disabilities (United Nations, 2024a).

In 2025, wage growth was supported by increases in minimum wages in many countries, including nearly all of the 22 European Union countries with a national minimum wage. In the United States, 21 States raised minimum wages between January and November 2025. Several developing countries, including Brazil, Malaysia, and Morocco, also implemented increases. In 2024, the International Labour Organization adopted a new

Figure I.24

Labour force participation, by gender



Source: UN DESA, based on data from ILOSTAT.
Note: Aggregates reflect median values.

25 Data **Source:** ILOSTAT.
26 Data **Source:** ILOSTAT.

formal definition of a "living wage"—a pay level that enables workers to afford a decent standard of living—and endorsed policies promoting its implementation (ILO, 2024b). As at November 2025, 57 economies had begun applying this framework by estimating living wage levels (Global Living Wage Coalition, 2025).

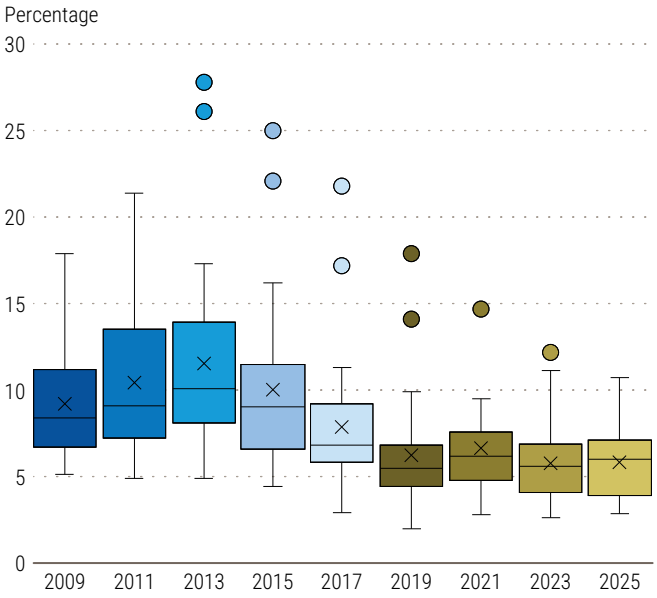
Developed economies

In the United States, labour market conditions softened over the course of 2025. The unemployment rate increased only moderately to 4.6 per cent in November, with job growth concentrated in female-dominated sectors such as education, healthcare, leisure, and hospitality, as well as in State and local governments. However, several underlying indicators point to weakening momentum: vacancy rates have stabilized (at 4.3 per cent in July 2025) after the post-pandemic surge (peaking at 7.4 per cent in March 2022), job searches are taking longer (gradually rising from under 20 weeks in February 2023 to over 24 weeks in September 2025), labour turnover has declined (with the total separation rate of non-farm jobs declining to 3.2 per cent in August 2025 from above 4 per cent in early 2022), and long-term unemployment has increased (more than 1.8 million persons were unemployed for 24 weeks or longer in September 2025, compared to just over 1 million in early 2023).[27] Labour market prospects for 2026 will depend on broader macroeconomic conditions, technology trends, and the effects of domestic policy initiatives, including those relating to immigration.

In Europe, labour markets showed resilience despite subdued growth in 2025, supported by strong gains in service-oriented economies. The average unemployment rate in the European Union remained at historically low levels, standing at 6 per cent in October 2025, and cross-country disparities continued to narrow (see figure I.25). This convergence largely reflects notable declines in unemployment in Southern

Figure I.25

Distribution of unemployment rates in the European Union



Sources: UN DESA, based on data from Eurostat.
Notes: The box-and-whisker plot displays six summary measures of the data. The bottom of the box indicates the first quartile (25th percentile) and the top of the box the third quartile (75th percentile). The horizontal line through the box indicates the median (50th percentile), and the marker represents the mean. The whiskers indicate the minimum and maximum values. Observations outside 1.5 times the inter-quartile range are considered outliers and are represented as dots.

European economies, including Greece, Italy, and Spain. Looking ahead, elevated United States tariffs and persistent competitiveness challenges could weigh on manufacturing jobs, particularly in the automotive sector. Firms may begin to scale back labour-hoarding practices, whereby companies retain more workers than immediately needed to avoid the costs and disruptions of future rehiring. At the same time, sectoral mismatches pose a persistent challenge for Europe, with sectors such as construction, engineering, healthcare, and hospitality continuing to experience labour shortages.

The labour market in Japan remained stable in 2025, with the unemployment rate standing at 2.6 per cent in October—virtually unchanged since the start of the year. Labour force

27 Data **Source:** Federal Reserve Economic Data database.

participation continued to rise, supported by further gains among women; the female participation rate reached a record 57 per cent in October. However, structural challenges—including population ageing, a shrinking labour supply, and persistent gender gaps in working hours—continue to weigh on the country's medium-term employment prospects.

Developing economies

Labour market conditions among developing countries varied significantly across regions in 2025. In East and South Asia, labour markets remained largely resilient amid robust economic growth, though elevated trade policy uncertainty could weaken prospects. Export-oriented sectors such as garments and footwear face heightened risks of job losses or downward pressure on wages. In China, the urban unemployment rate stood at 5.1 per cent in October 2025, the same as in December 2024. However, unemployment among young people between the ages of 16 and 24 remained elevated at over 17 per cent in October, partly reflecting entrenched skills mismatches between educational systems and labour market needs. In India, employment indicators remained broadly stable in 2025. The unemployment rate stood at 5.2 per cent in October 2025, compared with 4.9 per cent in 2024, while the labour force participation rate edged up in both rural and urban areas during the second half of the year. In Western Asia, unemployment rates in the GCC countries remained low, supported by the increased employment of non-nationals in the private sector. By contrast, growth moderation in Türkiye was accompanied by weaker job creation.

In Latin America, labour market conditions held firm in 2025 despite subdued economic growth. Unemployment declined or stayed low in several economies, including Brazil, Costa Rica, the Dominican Republic, Paraguay, and Uruguay—with Brazil recording a multi-decade low of 5.4 per cent in October. Higher minimum wages and easing inflation supported real wage gains. By contrast, the unemployment rate in Argentina stood at 7.6 per cent in the second quarter of 2025, only slightly below the four-year high of 7.9 per cent recorded earlier in the year. Recovery remains incomplete, with labour force participation in many economies remaining below pre-pandemic levels; in Brazil, for example, participation hovered around 62 per cent in mid-2025, compared with nearly 64 per cent in 2019.

In Africa, labour market conditions remain challenging, with employment growth failing to keep pace with population increases, youth unemployment and underemployment staying persistently high, and informal work continuing to dominate. Recent trade restrictions have heightened risks of job losses—particularly in the textile industry, an important employer in Kenya, Lesotho, and Madagascar. In addition, the automotive industry in South Africa has been impacted by weak domestic demand, higher tariffs on exports to the United States, and intensified competition, resulting in job losses in this key sector, which employs about 115,000 workers (Dludla, 2025).

In the Commonwealth of Independent States, labour shortages in the Russian Federation—driven by conscription and outward migration—pushed the unemployment rate down to a record low of 2.1 per cent in mid-2025. However, as economic growth slows, labour market conditions are beginning to soften in several civilian sectors. In the Central Asian economies that traditionally supply migrant workers to the Russian Federation, domestic employment expanded in 2025, supported by robust remittance inflows and strong economic momentum.

The impact of AI technologies on labour markets

AI technologies that promise to boost productivity are also expected to transform labour markets. A growing body of research examines the labour market implications of AI adoption. The World Economic Forum (2025a), for

instance, projects that between 2025 and 2030, employment in fields such as big data analytics and fintech engineering could double, while employment in many low- to medium-skilled occupations (such as administrative assistant, bank teller, and data entry clerk) could decline by about 20 per cent. However, estimates vary considerably, reflecting a broad range of approaches and continuing revisions in how occupational exposure to AI is measured (Gmyrek and others, 2025). Acemoglu (2024) argues that the effects of AI, unlike those of earlier technological transitions, are likely to be more pervasive across the skill spectrum, exposing even traditionally high-wage professions such as programming to displacement risks.

So far, the aggregate impact of AI on labour markets seems relatively modest. Recent business surveys show that generative-AI-driven workforce reductions have been concentrated in non-core business activities, including customer support and administrative processing. These roles were already vulnerable prior to AI adoption because they were often outsourced and highly standardized (Challapally and others, 2025). In addition, Hampole and others (2025) affirm that although AI-exposed occupations experienced reduced labour demand between 2010 and 2023, these losses were offset by increased labour demand from firms that grew due to AI-driven productivity gains.

Aggregate trends could, however, mask important differences across demographic groups. Early-career workers may be particularly vulnerable, as they are often concentrated in routine, entry-level roles that AI can more easily automate. For example, in a sample of United States workers in the most AI-exposed sectors, employment for workers aged 22–25 years declined by 6 per cent between late 2022 and July 2025, while employment for other age groups in these same professions increased (Brynjolfsson, Chandar and Chen, 2025).[28] Depending on how AI is used, there may also be heightened risks of skill obsolescence and greater difficulty adapting to new technologies in certain segments of the workforce.

AI is increasingly being used in hiring processes. According to a recent survey, 90 per cent of Fortune 500 chief human resource officers report using AI tools (Den Houter, 2024). Large language models can influence who gets hired, favouring certain social groups (An and others, 2025). Such bias can stem from training data or human choices embedded in model fine-tuning.

These emerging patterns underscore that the welfare gains from AI will not be automatic or evenly distributed across the workforce. To ensure inclusive outcomes, countries will need targeted retraining and upskilling initiatives, together with stronger social protection systems, so that the productivity gains of AI translate into broad-based improvements in employment and well-being. At the same time, to mitigate AI bias in hiring processes, effective safeguards are essential, including auditing training data, enhancing the fairness of algorithms, and preserving human oversight (Albaroudi, Mansouri and Alameer, 2024).

Macroeconomic policy challenges

Monetary policy: continued easing amid moderating inflation

Against a backdrop of moderating inflation, robust capital inflows, and elevated uncertainty, central banks around the world continued easing monetary policy throughout 2025—a trend expected to persist into 2026. Yet in many economies, policy rates remain above pre-pandemic levels, and in some cases easing measures have failed to significantly lower long-term financing costs such as mortgage rates.

28 The analysis is based on data from 25 million workers employed across tens of thousands of firms that use Automatic Data Processing payroll services in the United States.

Given the lingering risks of renewed exchange rate volatility and inflationary pressures, the pace and magnitude of further rate cuts are likely to slow in 2026.

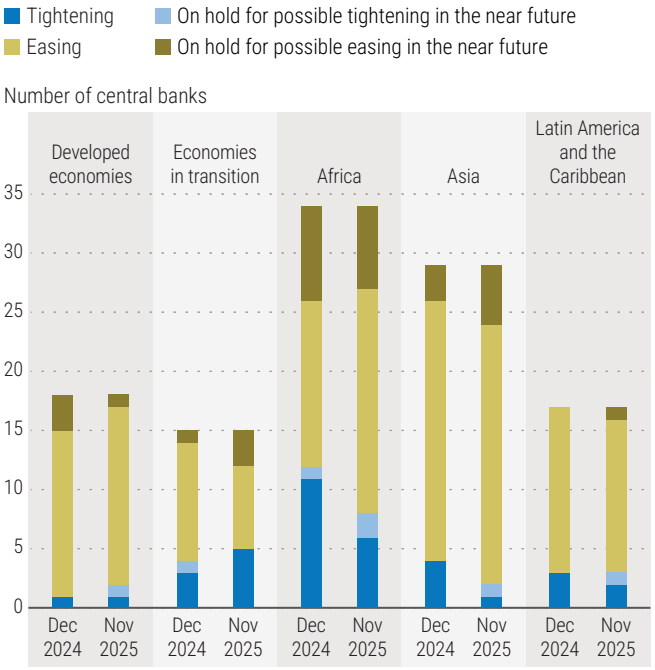
Among 113 central banks with available data,[29] 75 were in an easing cycle as at November 2025—up slightly from 74 in December 2024.[30] Meanwhile, 16 central banks were in a tightening cycle, down from 22 a year earlier. Another 22 central banks left policy rates unchanged between January and November 2025; of these, 17 were projected to ease monetary policy in the near term (up from 15 in December 2024), while 5 were expected to pursue tightening (up from 2). The move towards easier policy was most evident in developed economies and across Asia and Latin America and the Caribbean (see figure I.26). Momentum towards easing also strengthened in Africa. By contrast, in the economies in transition, a growing number of central banks shifted towards tightening.

Divergent inflation trends have led major developed economies to reduce policy rates at different speeds. In the United States, the Federal Reserve took a cautious approach, delaying its first rate cut of 2025 until the September meeting of the Federal Open Market Committee (FOMC) amid concerns about the inflationary effects of new tariff measures and persistently elevated core inflation. Looking ahead, easing is expected to be gradual; the median projection of FOMC participants foresees one cut in 2026, implying an end-2026 federal funds rate target range of 3.25–3.50 per cent (Federal Reserve, 2025c). By contrast, the European Central Bank moved earlier and faster, lowering policy rates at successive meetings in the first half of 2025 before pausing in the second half and holding the deposit facility rate at 2.0 per cent. According to the ECB Survey of Professional Forecasters, the deposit facility rate is projected to average 1.9 per cent in 2026—indicating, at most, one additional cut during the year (ECB, 2025). The Bank of Japan raised its short-term policy rate to around 0.5 per cent in January 2025 and has kept it unchanged since. Officials have indicated that any further moves will be gradual and data-dependent, hinging on sustained wage gains and underlying inflation aligning durably with the 2 per cent target.

The United States Federal Reserve ended its quantitative tightening (QT) in December 2025, resuming reinvestment of maturing Treasury securities and agency mortgage-backed securities (Federal Reserve Bank of New York, 2025). The renewed balance-sheet expansion is expected to be gradual and broadly in line with nominal GDP growth, reflecting a more neutral stance than in previous quantitative

Figure I.26

Monetary policy status in December 2024 and November 2025



Source: UN DESA, based on data from Trading Economics and national sources.
Note: Asia covers East Asia, South Asia and Western Asia.

29 Including 110 national central banks and 3 regional institutions (the European Central Bank, the Central Bank of West African States, and the Bank of Central African States).

30 The stance of each central bank reflects its most recent policy action within the reference period. Where multiple moves occurred, the last one prevails (for example, a March hike followed by an October cut is classified as easing). If no action occurred, the stance is classified as "on hold for possible easing" or "on hold for possible tightening" based on textual analysis of policy statements, minutes, and forward guidance.

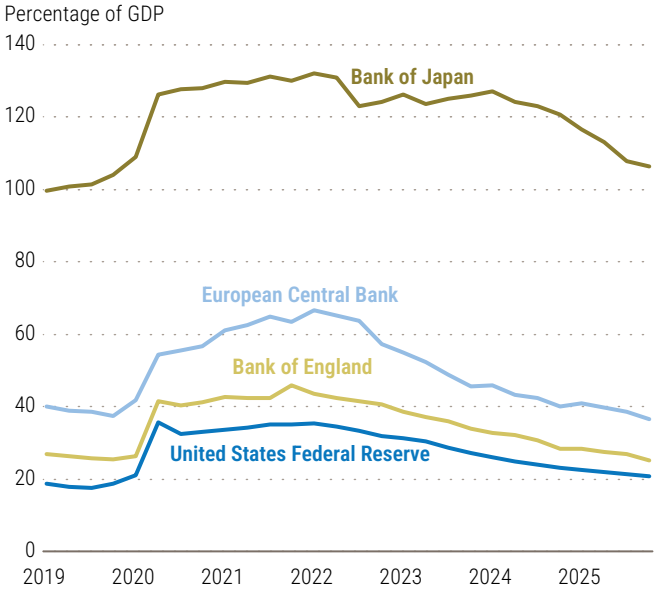
easing (QE) phases, with a shift towards holding shorter-term Treasury securities. At the end of 2025, the total assets of the Federal Reserve were estimated at about 21 per cent of GDP, compared to 19 per cent at the end of 2019 (see figure I.27). Through QT, the European Central Bank and the Bank of England are estimated to have reduced the ratio of total assets to GDP to 37 and 25 per cent, respectively, by the end of 2025. While these levels are close to pre-pandemic norms, both central banks are expected to continue asset run-off through 2026 before concluding QT. The Bank of Japan balance sheet continues to contract following asset reductions initiated in 2024. By the end of 2025, total assets stood at about 105 per cent of GDP. A slower pace of reduction is expected in 2026 as the authorities calibrate asset run-off with policy rate increases amid uncertainty over inflation, wage dynamics, and financial market stability.

In 2025, the monetary easing cycle broadened across developing countries in Asia and Latin America and the Caribbean. The People's Bank of China maintained its long-standing accommodative stance, while other central banks—including the Reserve Bank of India and the Central Bank of Malaysia—began cutting policy rates for the first time since 2020. In Argentina and Türkiye, authorities pursued monetary easing while seeking to anchor inflation expectations through managed currency depreciation; with inflation still elevated, however, the path of easing in 2026 is likely to remain challenging for both economies. Brazil was a major exception to the easing trend; after substantial tightening in the first half of 2025, the Central Bank of Brazil held its policy rate at 15 per cent—the highest since 2006—with an easing cycle expected to begin in 2026 as inflation moderates.

In Africa, declining inflation and more stable exchange rates supported a shift towards easing in 2025. Central banks in Egypt and Nigeria started cutting policy rates, their first reductions since 2020, while the Central Bank of West

Figure I.27

Total assets of selected central banks



Source: UN DESA, based on data available from the United States Federal Reserve, European Central Bank, Bank of England, and Bank of Japan.

African States (BCEAO) and the Bank of Central African States (BEAC) moved cautiously due to the euro peg of the West and Central African CFA francs. Six African central banks were maintaining tightening stances as at November 2025 in response to persistent price pressures. In 2026, downward trending inflation is expected to open room for further rate cuts across the region. However, exchange rate vulnerabilities may constrain the extent of easing, so the overall approach will remain guarded.

Several central banks in the economies in transition—including Belarus, Kazakhstan, Kyrgyzstan, Ukraine, and Uzbekistan—tilted towards tightening in 2025 amid elevated inflation. By contrast, the Central Bank of the Russian Federation eased its policy stance to support growth while acknowledging inflation risks linked to labour shortages. Looking ahead to 2026, moderating inflation could create scope for gradual rate reductions in some economies, while the Central Bank of the Russian Federation is expected to pursue a cautious, data-driven approach to easing.

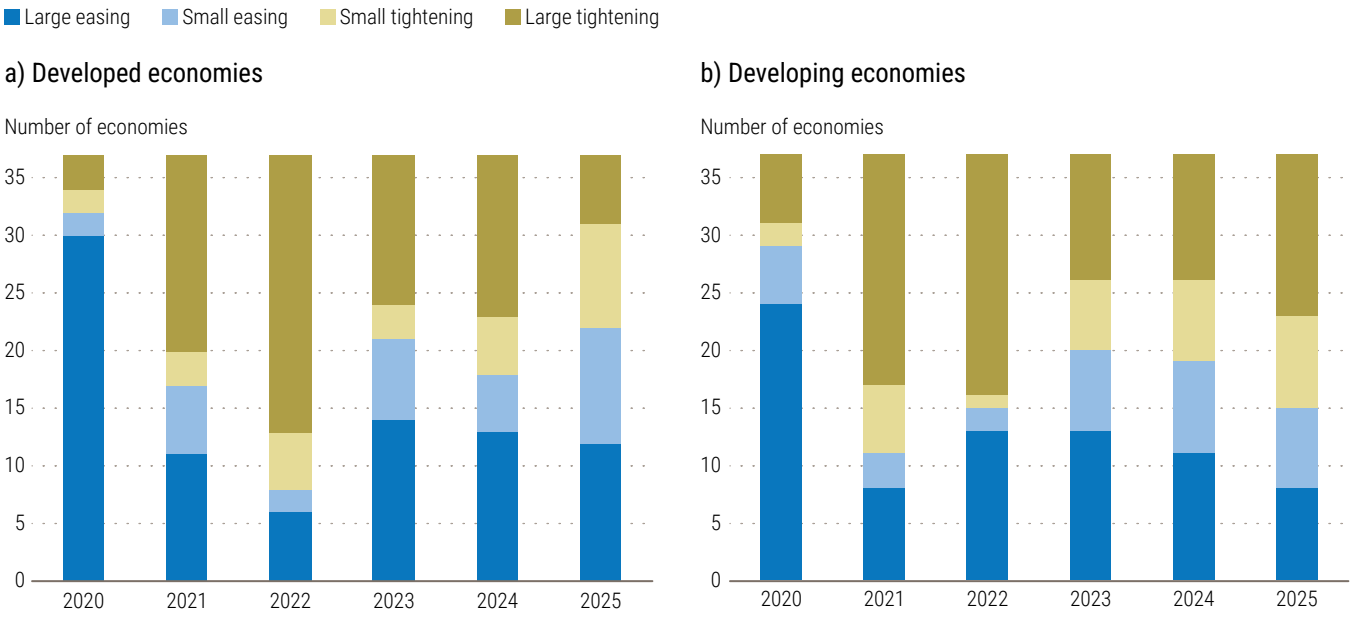
Two near-term challenges stand out for monetary authorities. First, with global growth remaining subdued, lingering supply-side constraints—including tariffs and trade frictions, elevated shipping costs, climate shocks, and labour market mismatches—may keep inflation volatile and prone to renewed upticks. This complicates the challenge for central banks of returning inflation to target. Second, high and rising public debt, together with larger sovereign bond issuance and the growing role of non-bank financial intermediaries, could amplify shocks through higher term premiums or short-lived but severe liquidity constraints, tightening financial conditions even when policy rates remain stable or follow a declining trend. These factors underscore the need for cautious, data-dependent easing, supported by clear communication and careful monitoring of market functioning. Chapter II examines how monetary, fiscal, and industrial policies can be aligned to contain inflationary pressures, protect vulnerable groups, and support investment for sustainable development.

Fiscal policy: growing spending demands, but limited room to manoeuvre

Fiscal conditions remain challenging in both developed and developing countries. Heightened policy uncertainty has clouded growth prospects and weighed on fiscal revenues. Many countries are still contending with the lingering effects of recent shocks, including the pandemic, the cost-of-living crisis, and a period of aggressive monetary tightening, further complicating efforts to strengthen fiscal sustainability. Against this backdrop, a growing number of Governments—despite elevated and widening budget deficits—shifted from tightening to a more accommodative fiscal stance in 2025 (see figure I.28). In developed economies and several large developing economies, fiscal spending has increased to support strategic priorities such as industrial policy and technological innovation, energy security, defence, and demographic challenges linked to ageing populations. In many other developing economies, however,

Figure I.28

Fiscal policy stance, by country group



Source: UN DESA, based on data and estimates from the IMF World Economic Outlook database, October 2025.
Note: Small easing/tightening is defined as a change in the structural fiscal balance of less than 0.5 per cent of GDP; large easing/tightening is a change of more than 0.5 per cent of GDP.

limited fiscal space and heightened debt vulnerabilities constrain policy flexibility. Declining development assistance further restricts the ability of low-income countries to finance essential public services and long-term development objectives. These pressures are likely to persist into 2026, keeping fiscal risks elevated and narrowing room for countercyclical policy responses.

Many developed economies adopted a more expansionary fiscal stance in 2025, with the median primary fiscal deficit widening to 1.6 per cent of GDP from 1.2 per cent in 2024—well above the pre-pandemic (2010–2019) average of 0.5 per cent. In the United States, recently enacted tax and spending legislation—especially the permanent extension of prior tax cuts and newly introduced deductions—is projected to increase federal deficits over the coming decade. Tariff revenues may offer a partial offset, though their durability is uncertain.[31] Japan remains on a path of fiscal expansion, with rising expenditure on social programmes and defence. The budget proposal for fiscal-year 2026 includes significant increases in welfare spending and continued implementation of a multi-year plan to strengthen defence capabilities (Prime Minister's Office of Japan, 2025). In the euro area, fiscal trends are mixed. Several economies, including Greece, Italy, and Spain, have achieved further improvements in fiscal balances, while Germany has eased its fiscal stance to support investment and defence priorities. France, by contrast, faces persistent fiscal challenges, characterized by high public spending and limited progress in reducing its structural deficit. The United Kingdom continues to pursue fiscal consolidation, aiming to narrow deficits and stabilize debt, while allowing modest increases in priority areas such as defence and infrastructure.

The number of developing economies pursuing fiscal consolidation increased modestly in 2025, driven largely by trends in Africa amid persistent fiscal pressures. By contrast, some countries with greater policy space, particularly in Asia, expanded targeted public spending. China, for example, maintained an expansionary fiscal stance to stimulate private consumption and issued additional government bonds to finance infrastructure investment while addressing local government debt vulnerabilities.

Several factors that shaped fiscal policy in 2025 are expected to continue influencing budget decisions in 2026 and beyond. Slower growth rates will constrain revenues. The combination of weaker revenues and persistent spending needs may widen deficits and lift debt levels, though enhanced spending efficiency and strengthened domestic resource mobilization could help offset these pressures. Recent modelling suggests that elevated uncertainty can raise public debt by about 4.5 per cent of GDP over four years (IMF, 2025e). Although potential productivity gains from AI could support growth in the medium term, their benefits may be gradual and may be concentrated in countries that advance in AI technologies, while short-term labour-market adjustments could increase welfare spending.

Monetary easing in many economies may help by reducing borrowing costs and easing debt-servicing pressures. However, its positive impact will likely be limited, as interest rates are expected to remain above pre-pandemic levels. Continuing price and inflation volatility could also restrict the pace of further monetary easing and complicate coordination between fiscal and monetary policies (see chapter II).

At the same time, financial vulnerabilities—from stretched asset valuations to continued pressures in some sovereign bond markets—could amplify fiscal risks. A sudden rise in financial volatility, particularly in the United States, could heighten investor risk aversion and raise sovereign borrowing costs globally. IMF (2025e) analysis indicates that a surge in United States financial volatility could increase emerging-market

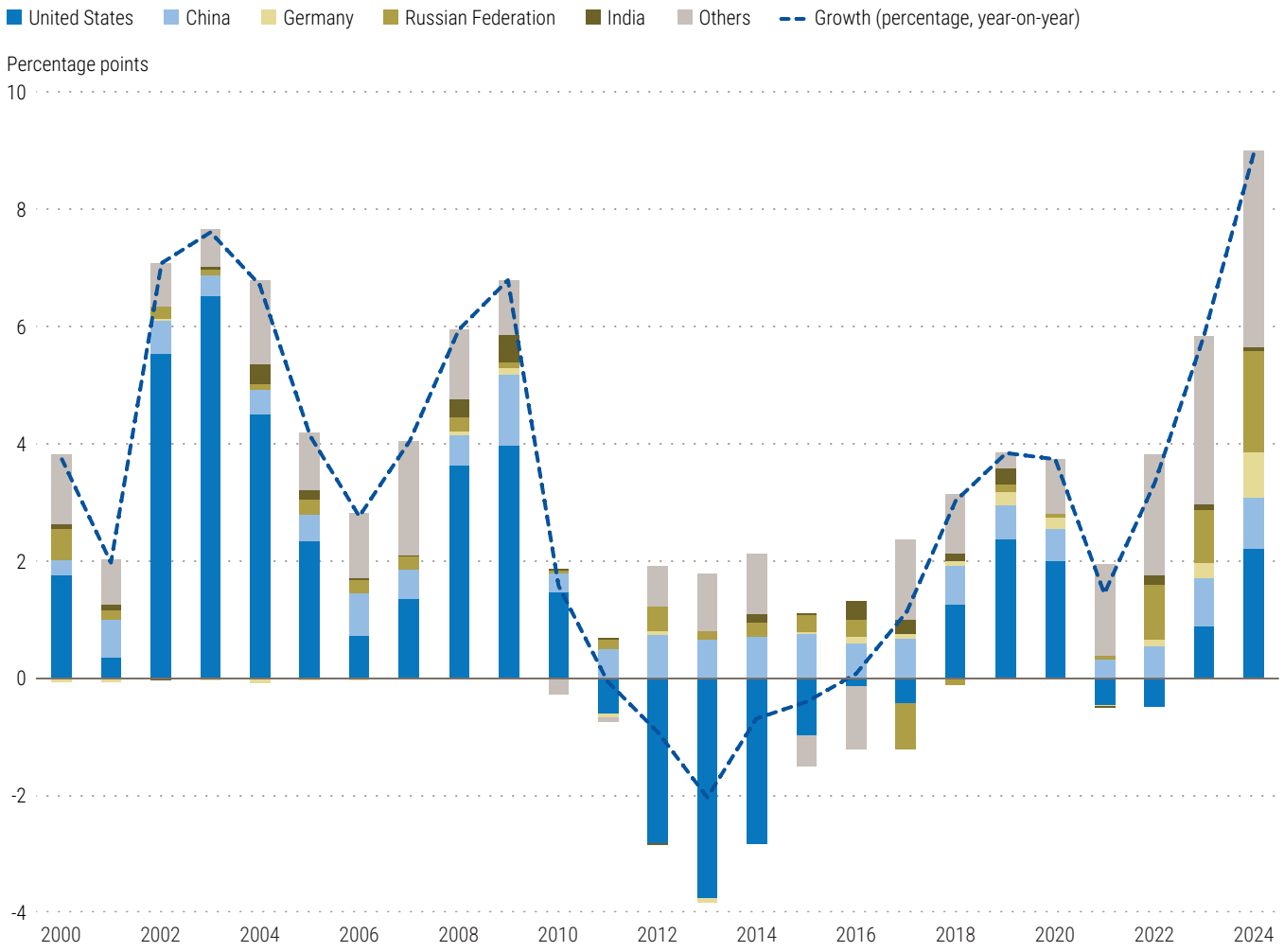
31 The United States Congressional Budget Office estimates that tariffs as at 15 November 2025 could reduce fiscal deficits by an average of $273 billion per year over the period 2025–2035, equivalent to about 0.9 per cent of GDP in 2024 (Swagel, 2025).

bond-yield volatility by about 30 per cent within four months, tightening financing conditions and adding pressure to public debt sustainability.

Longer-term factors are adding to fiscal pressures. Population ageing, particularly in developed economies and several Asian developing economies, is driving rising demand for pensions, healthcare, and long-term care. In OECD countries, public expenditure on old-age and survivors' benefits is projected to increase from 8.2 per cent of GDP in 2019 to 10.3 per cent in 2060, while public healthcare spending[32] may rise from 6.5 per cent of GDP in 2022 to 9 per cent in 2060 (Koutsogeorgopoulou and Morgavi, 2025). At the same time, heightened geopolitical tensions have prompted several major economies to increase defence spending (see figure I.29). Global military expenditure has risen sharply, with the unprecedented total of $2.7 trillion in 2024 reflecting the steepest annual increase since at least 1988—driven by the world's ten largest spenders,[33] which accounted for nearly three quarters of the total (United Nations, 2025d).

Figure I.29

Annual growth of global military expenditure and the contributions of major countries



Source: UN DESA, based on data from the Stockholm International Peace Research Institute (Liang and others, 2025).
Note: The five selected countries are the largest contributors to global military expenditure.

32 Includes the health component of long-term care.
33 The top 10 spenders include China, France, Germany, India, Japan, the Russian Federation, Saudi Arabia, Ukraine, the United Kingdom, and the United States.

This surge threatens to divert fiscal resources from long-term investment in human capital, infrastructure, and development cooperation with vulnerable economies.

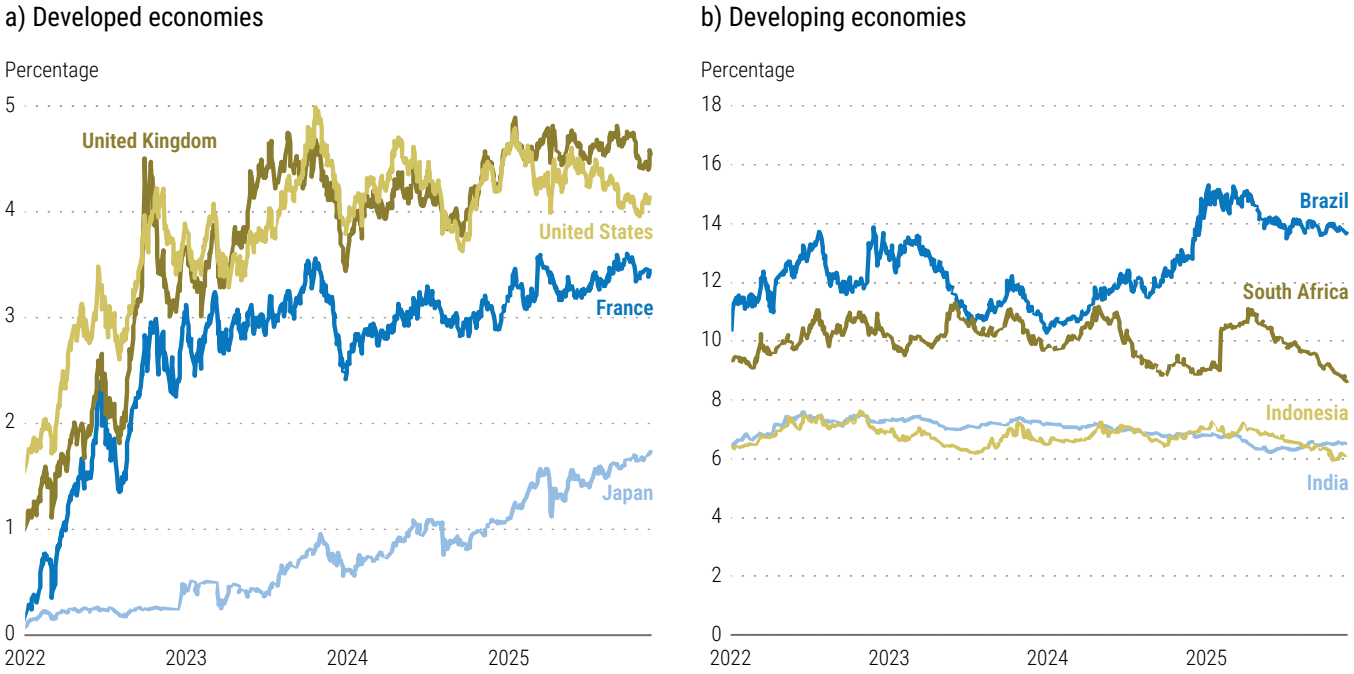
With fiscal deficits widening in many economies and revenues constrained by subdued growth, public debt ratios are set to rise further. Global general government gross debt is estimated at 95.7 per cent of world GDP for 2025, up from 93.5 per cent in 2024 and well above the 2010–2019 average of 79.4 per cent.[34] Much of this increase is driven by developed economies. Under current policies, general government gross debt in the United States is projected to climb from 125 per cent of GDP in 2025 to 143 per cent by 2030, while Japan is expected to maintain public debt levels above 220 per cent of GDP over the coming years. In some developed economies, sovereign borrowing costs have remained elevated despite monetary policy easing. In the second half of 2025, France and the United Kingdom faced persistently high financing costs, with 10-year government bond yields averaging around 3.5 and 4.8 per cent, respectively (see figure I.30a).

In developing economies, the general government gross debt-to-GDP ratio—though still below the global average—continued to rise in 2025, reaching an estimated 76.9 per cent, up from 73 per cent in 2024. This increase was driven by the largest economies in the group. In China, the public-debt-to-GDP ratio climbed from 88.3 per cent in 2024 to an estimated 96.3 per cent in 2025, while Brazil saw an increase from 87.3 per cent to an estimated 91.4 per cent over the same period.

Elevated debt-servicing costs continue to constrain fiscal space, crowding out public spending for health, education, infrastructure, and other sustainable development priorities, especially in vulnerable economies. In developing countries, interest payments absorbed

Figure I.30

Ten-year government bond yields in selected economies



Source: UN DESA, based on data from Trading Economics.

34 The figures are GDP-weighted averages, based on the IMF World Economic Outlook database, October 2025.

11.9 per cent of government revenue in 2025 (on a GDP-weighted basis), though regional disparities were wide, with proportions ranging from 5.8 per cent in East Asia to 29.9 per cent in Africa. LDCs devoted 19.3 per cent of government revenues to interest payments in 2025 (see figure I.31).

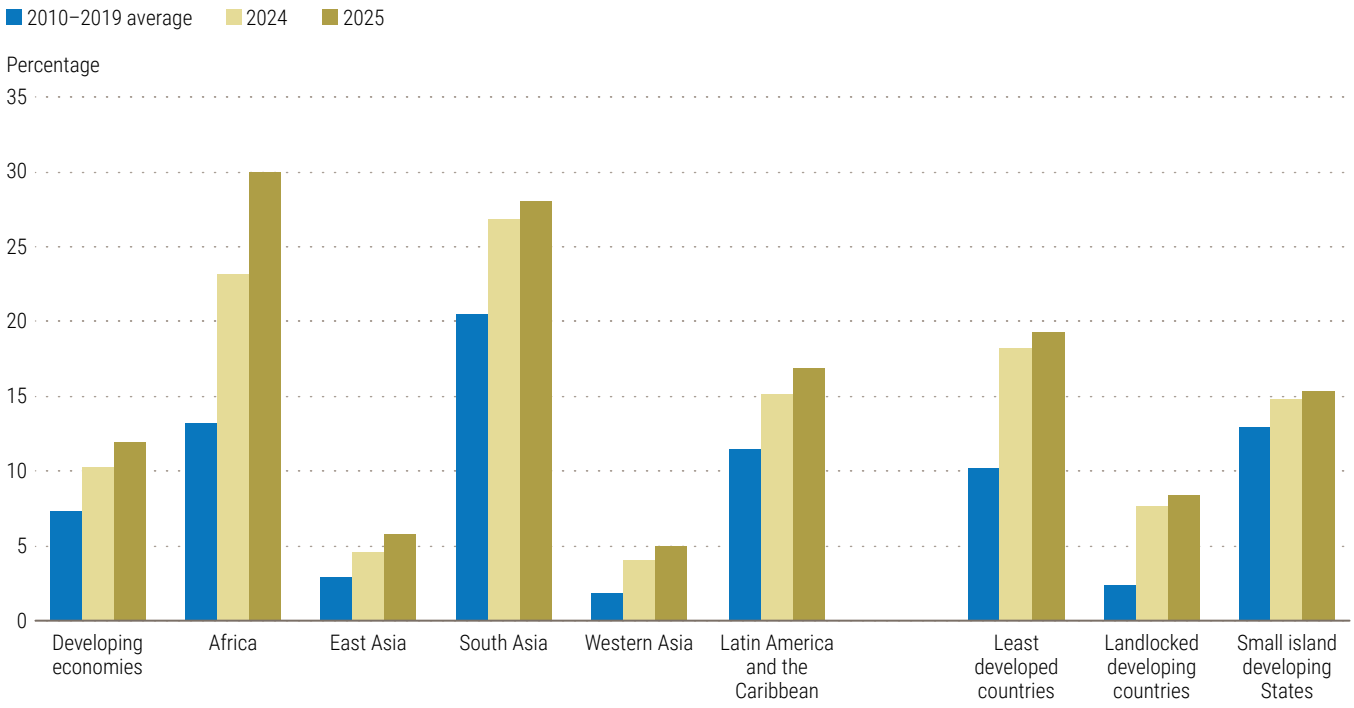
Looking ahead, interest payment burdens are expected to stabilize in 2026 and beyond as many developing countries advance fiscal consolidation. If sovereign bond yields continue to decline, as observed in some economies during 2025 (see figure I.30b), borrowing and refinancing costs could ease, though the extent of relief will depend on domestic economic fundamentals and global financial conditions. However, many vulnerable economies are likely to remain excluded from these gains due to weak credit ratings, limited market access, and persistent debt sustainability concerns.

Going forward, with fiscal space still tight and spending pressures mounting, Governments will need balanced adjustment strategies that combine expenditure rationalization with stronger revenue mobilization. Enhancing the efficiency and composition of public spending—while broadening tax bases, improving revenue administration, and reallocating resources towards high-impact investments such as infrastructure, skills development, and well-targeted social protection—will be critical to safeguard growth and crowd in private investment (see box I.3).

Ensuring debt sustainability will require robust fiscal frameworks anchored in credible consolidation paths, contingency plans, strong safeguards against monetary financing, and the efficient use of fiscal resources consistent with sustainable development objectives. For countries facing unsustainable debt, timely restructuring—facilitated by improved international mechanisms—will be essential to restore stability and reduce refinancing risks.

Figure I.31

Interest expenditure as a share of government revenues



Source: UN DESA, based on data from the IMF World Economic Outlook database, October 2025.
Note: The aggregate values for each region or country group are GDP-weighted.

Box I.3

Gender-responsive budgeting: improving women's lives through fiscal policy

Many Governments, particularly those in developing countries, face limited fiscal space and high debt burdens, while spending needs continue to grow. These pressures underscore the urgency of using public resources more efficiently and equitably. In this context, incorporating the disparate needs of vulnerable groups such as women, youth, older persons, and persons with disabilities into budgetary planning and decision-making processes is important for fostering inclusive public spending.

One promising approach is gender-responsive budgeting, a systematic method for integrating a gender perspective into the budget process. It enables policymakers to assess how fiscal measures affect women and men differently and to formulate policies that support more equitable outcomes. At the margin, such measures may also be more efficient.

Gender-responsive budgeting is not a new concept. Australia introduced the first Women's Budget Statement as early as 1984, and the Beijing Platform for Action (1995) recognized the importance of incorporating a gender perspective in budgetary policies (UN Women, 2024). By 2022, more than 100 countries had implemented some form of gender-responsive budgeting, though the scope of these efforts varied considerably (Deveaux and Dubrow, 2022).

Gender-responsive budgeting can take many forms and is often embedded in budget laws or broader fiscal frameworks. During the planning stage, it may involve ex-ante gender impact assessments of proposed policies, the classification of expenditures from a gender perspective, and the preparation of gender budget statements. It also extends to the implementation phase, including budget monitoring, ex-post evaluations of gender impacts, the integration of a gender lens in budget execution reports, and parliamentary oversight of gender-related objectives. Institutional leadership is typically provided by ministries of finance or dedicated budget oversight committees. Countries differ in the types of tools used and the extent of their application. For example, while many Group of Twenty members have integrated a gender perspective in their institutional frameworks and have begun linking gender goals with corresponding spending programmes, fewer have advanced gender budgeting practices to the execution and oversight stages (see figure I.3.1).

Among developing economies, Mexico stands out as an early adopter of gender-responsive budgeting. Initiated in 2000 and formalized into law in 2008, the integration of a gender perspective occurs throughout all stages of the budget process, including planning, execution, and oversight (Pérez Fragoso and Rodríguez Enríquez, 2016). By 2025, more than 5 per cent of the country's federal budget was being allocated to programmes promoting equality between men and women, up from less than 1 per cent a decade earlier (CEFP, 2024).

Empirical evidence indicates that gender-responsive budgeting is associated with measurable impacts. Quantitative analyses comparing States in India with and without such policy instruments show that their implementation is associated with greater gender equality in primary school enrolment (Stotsky and Zaman, 2016) and higher incomes for women (Pulikkamath and Sunny, 2025). In Canada, women-led small- and medium-sized enterprises (SMEs) have grown through promoting equal access to public procurement (Orser and others, 2021).

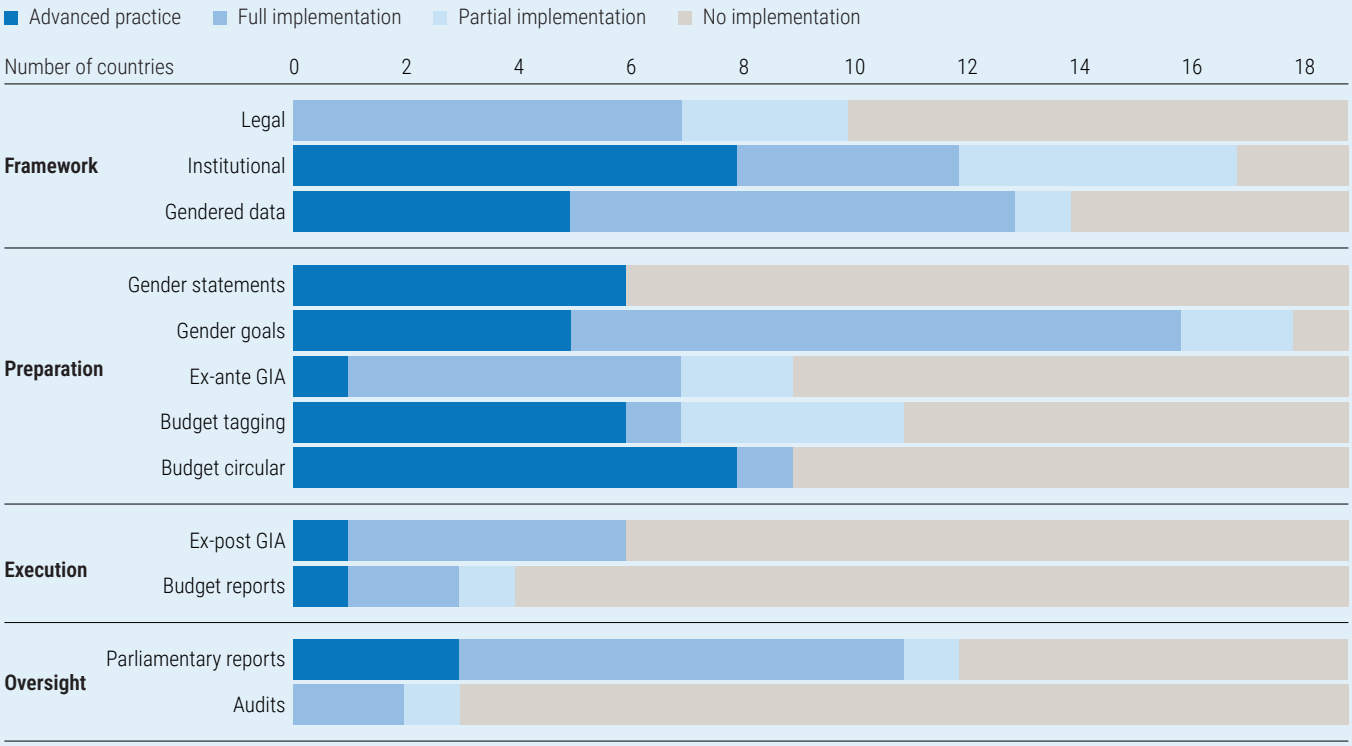
Experience from the COVID-19 pandemic demonstrates that gender-responsive budgeting can strengthen both the effectiveness and equity of crisis response. Countries that had gender-based budgeting mechanisms in place were more readily able to mitigate disproportionate social and economic impacts on women—for example, through expanding care-related services that ameliorated women's unpaid care burden and supported their continued participation in the labour market (Kolovich and Newiak, 2024; UN Women and UNDP, 2022).

Gender-responsive budgeting can also strengthen the budget process itself by increasing transparency and accountability. It enhances oversight, promotes evidence-based allocation of public resources, and often stimulates the creation of gender-disaggregated statistics, allowing for a more accurate assessment of Sustainable Development Goal outcomes (EIGE, 2019).

As fiscal space has narrowed and spending demands have risen, gender-responsive budgeting has become

Figure I.3.1

Implementation of gender-responsive budgeting tools in Group of Twenty countries



Source: UN DESA, based on Alonso-Albarran and others (2021).
Note: **GIA** = gender impact assessments.

a valuable instrument for promoting inclusive and resilient development. Countries that apply gender-responsive budgeting effectively integrate a gender perspective across all stages of the budget process, from gender circulars and ex-ante assessments to ex-post evaluations, supported by sufficient gender-disaggregated data. To have a lasting impact, gender-responsive budgeting requires sustained political commitment and an enabling environment that includes staff training, structured engagement with civil society, and robust oversight by accountability institutions.

Authors: *Marten Walk, Julian Rodrick Slotman, and Zhenqian Huang*

Reinvigorating international cooperation for sustainable development

The international community faces an increasingly fragmented global economic landscape marked by escalating geopolitical tensions, more inward-looking policies, prolonged conflicts, and weakening trust in multilateral solutions. Trade disputes and new forms of protectionism are eroding the rules-based multilateral trading system that has underpinned global prosperity. While financing needs for developing countries continue to rise, ODA is declining. At the same time, competition over technologies (such as AI) and resources (such as critical minerals) risks deepening global divisions. These challenges underscore the urgent need to reinvigorate international cooperation, rebuild trust, and renew the commitment to collective solutions for a shared future for all.

Several major international commitments and initiatives introduced in 2025 have injected fresh momentum into multilateral cooperation. The Sevilla Commitment, building on the Addis Ababa Action Agenda, was adopted as the outcome document of the Fourth International Conference on Financing for Development in mid-2025, representing a pivotal moment for financing for sustainable development. It presents a renewed agenda to mobilize investment at scale, reform the international financial architecture, and strengthen domestic resource mobilization and international tax cooperation. The outcome document includes commitments to improved global macroeconomic coordination and a stronger global financial safety net, with the latter manifested in a new playbook for special drawing rights that would strengthen their role during crises and shocks. The Sevilla Commitment also includes actions to enhance debt crisis prevention (for instance, through the more systematic use of state-contingent debt instruments that automatically pause debt service during shocks), to close gaps in the debt architecture, and to strengthen the voice of borrower countries in this architecture. In this context, the Sevilla Commitment mandates the establishment of a borrowers' platform to promote dialogue, information-sharing, and capacity-building among debtor countries, supported by a United Nations entity serving as its secretariat. By improving coordination and access to technical assistance, such mechanisms can help countries secure more stable and predictable financing conditions and reduce vulnerabilities to external shocks—particularly exchange rate fluctuations and imported inflation—that often amplify price volatility in developing economies. In addition, there are several actions to improve access to long-term, affordable finance, elevating the role of national development banks and encouraging multilateral development banks to triple their lending capacity. Together with provisions to enhance access to grant financing, doubling support to countries to enhance their capacity to mobilize resources domestically, these provisions should also help vulnerable countries retain fiscal space to invest in resilience and adaptation.

The Doha Political Declaration, the outcome document of the Second World Summit for Social Development, establishes a central commitment to accelerate action on the interconnected pillars of poverty eradication, social inclusion, and full and productive employment and decent work for all (United Nations, 2025a). The Declaration calls for greater policy coherence across economic, social, and environmental dimensions and stresses the need to bridge the digital and knowledge divides, recognizing accelerated social investment as a foundational, resilience-building element of long-term prosperity. It further recognizes that supporting the skills development needed to manage the transition to digital economies and AI and ensuring the empowerment of youth, women, older persons, Indigenous Peoples, and persons with disabilities are integral to overall resilience.

The 30th session of the Conference of the Parties to the United Nations Convention on Climate Change (COP30) in November 2025 concluded with the adoption of the Belém Package and the Mutirão Decision. These outcome instruments set out a commitment to triple adaptation finance by 2035, established the Just Transition Mechanism to help countries protect workers and communities as they shift to clean energy, and launched the Global Implementation Accelerator to close ambition and implementation gaps (COP30, 2025). While significant gaps persist—including in the pace of fossil-fuel phase-down (United Nations, 2025c)—the COP30 outcomes demonstrate that countries can still find common ground despite heightened geopolitical tensions.

In the realm of trade, countries are increasingly responding to current global headwinds by deepening regional integration and cooperation. Initiatives such as the Regional Comprehensive Economic Partnership (RCEP) in Asia and the Pacific, the African Continental Free Trade Area (AfCFTA), and the Southern Common Market (MERCOSUR) in Latin America are advancing

efforts to diversify trading partners, strengthen intraregional trade links, and enhance supply chain resilience. These frameworks are helping economies partially offset the effects of geopolitical fragmentation, trade restrictions, and shifting production patterns.

At the multilateral level, renewed attention is focusing on the capacity of the World Trade Organization to adapt to a more complex trading environment. In the lead-up to the 14th WTO Ministerial Conference, scheduled for 26–29 March 2026 in Yaoundé, Cameroon, discussions on institutional reform—including the restoration of a fully functional dispute-resolution mechanism, the modernization of trade rules, and a review of the consensus-based decision-making process—have gained momentum. Strengthening the ability of the WTO to mediate disputes, foster transparency, and integrate emerging trade issues such as digitalization and sustainability remains critical to ensuring that the multilateral trading system is fit for purpose in an evolving global economy.

The international community is also intensifying efforts to ensure that the benefits of AI are broadly shared, while its associated risks—related to equity, ethics, and security—are effectively managed. Despite growing recognition of the need for coordinated global action, the current AI governance landscape remains fragmented (United Nations, 2024b). Multiple multilateral initiatives are taking shape to provide guidance and address key concerns. The Recommendation on the Ethics of Artificial Intelligence, the first-ever global standard on AI ethics, was published by the United Nations Educational, Scientific and Cultural Organization (UNESCO) in 2021, and the multi-stakeholder High-level Advisory Body on Artificial Intelligence, initially proposed as a component of the United Nations Secretary-General's Roadmap for Digital Cooperation, was established in 2023 (UNESCO, 2022; United Nations, 2024b). Building on the recommendations of this Body, two new mechanisms—the United Nations Independent International Scientific Panel on Artificial Intelligence and the Global Dialogue on Artificial Intelligence Governance—were launched in 2025 to bridge cutting-edge research and policymaking and to provide an inclusive platform for all stakeholders. These new efforts, anchored in the Global Digital Compact adopted as part of the Pact for the Future, aim to foster responsible AI development and use, strengthen international coordination, and ensure that AI governance frameworks reflect diverse global perspectives (United Nations, General Assembly, 2024; United Nations, General Assembly, 2025).

These developments and renewed momentum in international cooperation offer opportunities to bridge divides, rebuild trust, and advance shared global objectives. In order to realize these gains, however, countries must transform ambition into action. Global commitments must be translated into concrete policies and investments that drive the transition towards resilient, inclusive, and sustainable economies.

CHAPTER II

Inflation and Price Dynamics in a Fragile Global Economy

Implications for Sustainable Development

Introduction

High prices and inflation remain defining concerns in countries across the world. While the inflationary surge between 2021 and 2023 has largely subsided, elevated price levels continue to impact household well-being, notably through the erosion of real incomes and purchasing power. In many countries, inflation remains above pre-pandemic averages and the pace of disinflation has slowed, further straining budgets. There may also be greater uncertainty about future trends as inflation forecasts are now spread over a greater range, and inflation expectations—important determinants of future inflation—have become more sensitive to sudden price changes.

The burdens of inflation and high prices have fallen unevenly across sectors and population groups. In many countries, nominal wages have not kept pace with rising prices, with the effect varying across income groups, resulting in declines in real incomes and widening inequality. Low-income households, women, and rural communities, whose consumption baskets are more heavily weighted towards essential goods and services, have often experienced the largest losses in purchasing power.

Inflation is also a societal and political issue. Across regions, surveys consistently show that rising prices and the cost of living rank among the top public concerns, shaping social mobilization and electoral outcomes. Yet much of the analysis continues to focus narrowly on headline aggregates and inflation rates rather than price levels—an approach that can fail to capture broader consequences for inequality, poverty, and sustainable development. Higher service delivery costs can also erode fiscal space and constrain long-term investment. In developing economies, inflation tends to exhibit larger and more persistent deviations from target, further limiting policy choices.

Some profound changes taking place are reshaping the inflation landscape. The pattern of globalization over the past three decades—when expanding trade and increasingly integrated supply chains helped realize efficiencies and lower costs, exerting a broadly tempering effect on inflation—has abruptly shifted. Rising production costs associated with trade fragmentation and realignments, together with the escalating impacts of climate change, are exerting upward pressure on prices and increasing their volatility. Increased uncertainty contributes to weaker investment, perpetuating price pressures in key sectors such as housing, energy, and services. These forces increase the risk of more frequent and disruptive supply shocks.

More fragmented markets and sustained tariff barriers can weaken competition and reduce incentives for innovation, slowing productivity growth over time. Demographic trends also play an increasingly important role, though their impacts may be less clear-cut. For example, population ageing may contribute to labour shortages that raise wages and production costs, while the lower consumption levels of older populations tend to dampen aggregate demand.

Unlike the inflationary episode between 2021 and 2023, when prices uniformly rose across countries, the period ahead may be marked by more localized disruptions that reverberate unevenly through economies with different capacities to absorb them. In this context, protecting and improving living standards while also strengthening the foundations of sustainable development will remain critical priorities worldwide.

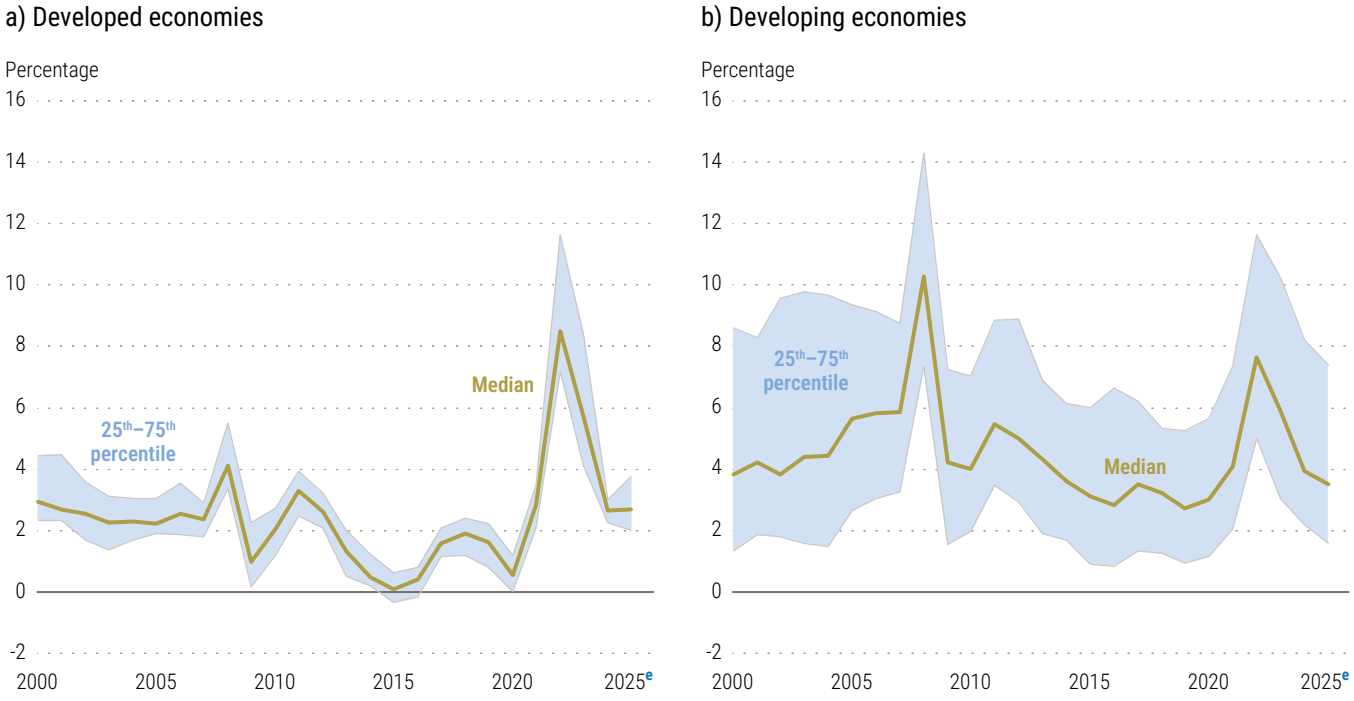
This chapter brings together lessons learned from the recent surge in inflation and offers an assessment of its evolving drivers to provide a better understanding of future trends, likely impacts, and appropriate policy responses.

The current inflation landscape

Retreating from highs, yet remaining elevated

After two decades of relative stability, inflation has re-emerged as a defining challenge. A series of cascading crises and shocks—including the COVID-19 pandemic, geopolitical conflicts, and intensifying climate-related disasters—pushed global inflation to 7.9 per cent in 2022, its highest level since 2000.[1] In some economies,

Figure II.1
Annual consumer price inflation



Source: UN DESA, based on national data and estimates from the World Economic Forecasting Model.
Note: e = estimates.

1 Argentina, Sudan, and the Bolivarian Republic of Venezuela are excluded from the global headline inflation figures, as their exceptionally high inflation rates (exceeding 100 per cent) would distort the overall trend.

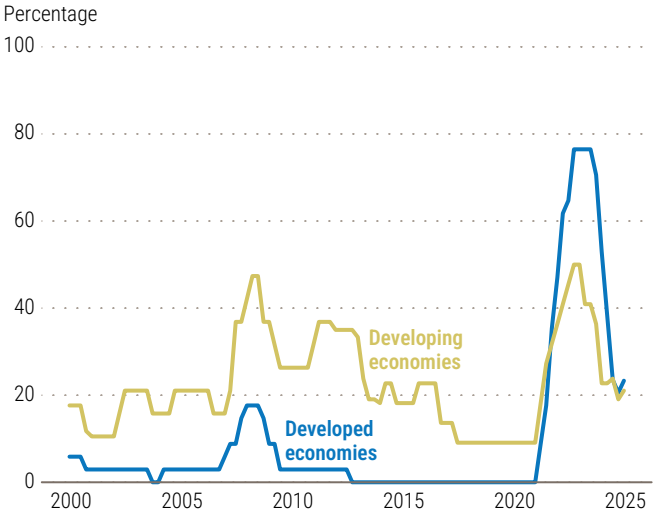
expansionary pandemic-era monetary and fiscal policy support and the surge of pent-up demand further amplified these pressures. Predictable inflation close to central bank targets supports investment, long-term contracts, and real income planning. Recent deviations from that path, as well as continuing inflationary pressures, have underscored the importance of credible policy frameworks and timely responses to supply shocks. Global inflation eased to 5.7 per cent in 2023 and 4.0 per cent in 2024 and is estimated to have declined further to 3.4 per cent in 2025—still notably above the pre-pandemic (2010–2019) average of 2.8 per cent.

Inflationary pressures over the past few years have been felt virtually worldwide (see figures II.1a and II.1b). More than 70 per cent of developed economies moved into high-inflation regimes in 2023, as did about 50 per cent of developing economies (see figure II.2). While global inflation is easing, the pace and extent of this decline vary significantly across regions. In many developed economies, headline inflation has moved closer to central bank targets, though underlying pressures persist in core components (see box II.1). For example, in the euro area, headline inflation has remained close to the 2 per cent target since May 2025, largely driven by falling energy prices. Conversely, in the United States, robust consumer demand has contributed to the stickiness of core inflation, despite emerging signs of labour market cooling.

Inflation in many developing economies remains well above pre-pandemic levels. While some have successfully brought inflation down to single digits, others continue to experience double-digit and even triple-digit inflation rates. More than 20 developing countries—including 5 in Latin America, 9 in sub-Saharan Africa, and 3 in Western Asia—are estimated to have faced inflation above 10 per cent in 2025, driven by a confluence of factors such as food and energy shocks, transport and logistics disruptions, conflicts, and currency weakness. In some cases, domestic demand factors—including expansionary fiscal policies—have also contributed to sustaining price pressures. Climate-related disruptions further amplify price pressures and hinder the transmission of easing global prices to domestic markets. As at September 2025, headline inflation was still above the target—or above the target range where applicable—in roughly 40 per cent of inflation-targeting economies. In Latin America, the pace of disinflation has moderated in countries such as Brazil and Colombia, where core and services inflation remain above target amid resilient domestic demand and wage pressures. In Nigeria, inflation has also eased from its 2022 peak but was still above 15 per cent by the end of the third quarter of 2025. These cases highlight that while the global inflation cycle has shifted, the path back to target levels remains uneven and protracted. By contrast, inflation in several East Asian economies has remained low, reflecting a combination of subdued domestic demand and declining commodity prices, while resilient intraregional trade links have supported growth without generating significant price pressures (see chapter III).

Figure II.2

Share of economies in a high-inflation regime



Source: UN DESA, based on data from Americo and others (2025).
Notes: A high-inflation regime starts when year-on-year inflation rises more than 2 percentage points above its 5-year moving average and remains at least 1 percentage point above that average for a minimum of five consecutive quarters; it ends once inflation falls back to within 1 percentage point of the 5-year moving average measured at the entry quarter. The sample includes 34 developed economies and 22 developing economies.

Box II.1

Inflation measures

Inflation is monitored using various indicators, each offering distinct insights. The Consumer Price Index (CPI) tracks the average change in prices paid by consumers for a predetermined basket of goods and services, which is periodically updated to reflect structural changes in consumption patterns.[a] The Producer Price Index (PPI) measures changes in prices received by domestic producers for their goods or services, which can signal future consumer inflation. The Personal Consumption Expenditures (PCE) Price Index, preferred by the United States Federal Reserve, differs from the CPI in two important ways: it includes indirect household expenditures (such as employer-paid health insurance) and accounts for consumer substitution between goods, which the fixed-weight CPI does not.

CPI component weights vary significantly across countries, as they reflect national household spending patterns. These weights represent the share of total household expenditure allocated to each category of goods and services and are derived from large-scale household surveys such as the Family Income and Expenditure Survey conducted by the Philippine Statistics Authority, the Income and Expenditure Survey produced by Statistics South Africa, and the Consumer Expenditure Survey put out by the United States Bureau of Labor Statistics.

In developed economies, CPI categories and weights are updated frequently to reflect changing consumption patterns. In Canada, the United Kingdom, the United States, and the European Union, CPI weights are updated annually. The weights are updated every three years in New Zealand and typically every five years in Japan.[b] Developing countries may rely on less frequent household surveys; they are generally carried out every 5–10 years due to resource limitations, providing less timely updates of weights and baskets. In countries where weights are updated less frequently, weights are often still monitored between survey periods and may be partially updated based on alternative data sources such as national accounts data or retail sales surveys (IMF and others, 2020).

Both developed and developing economies commonly rely on fixed-basket formulas—most often variations of the Laspeyres approach—to construct consumer price indices. Developed countries use either the standard Laspeyres price index (employed in Japan, New Zealand, and the United States) or the Lowe index (a modified Laspeyres index employed in Australia, Canada, the United Kingdom, and the European Union). While the Laspeyres index applies expenditure weights from the same base period, the Lowe index takes weights from an earlier period and updates them to base-year prices. The less-frequently-used Paasche index and Fisher index (the latter reflecting the geometric mean of the Laspeyres and Paasche indices) use current-period quantities, which reduces substitution bias but requires more timely data. Despite this difference, both methods share a key limitation in the form of upward bias, as they do not account for consumer substitution between goods. Many developing economies also rely on Laspeyres-type indices, typically deriving their expenditure weights from household budget surveys due to the lack of timely expenditure data.

Consumption categories in the CPI consumption basket, such as "food and non-alcoholic beverages" and "clothing and footwear", are typically aligned with the United Nations Classification of Individual Consumption According to Purpose to facilitate international comparison. Figure II.1.1 shows the variation in category weights across countries. "Food and non-alcoholic beverages" constitutes the largest component in the CPI basket for most countries, with a median share of 34 per cent of average household spending for developing countries and 17 per cent for developed countries. "Housing" accounts for a median weight of 18 per cent in developed countries and 15 per cent in developing countries. Other major components include "transportation" and "restaurants and hotels", which typically rank third and fourth, respectively, in most national CPI baskets.

a Eurostat also publishes an indicator called the Harmonised Index of Consumer Prices for European Union member States, which exists alongside national measures of CPI.
b Based on information from national statistics offices.

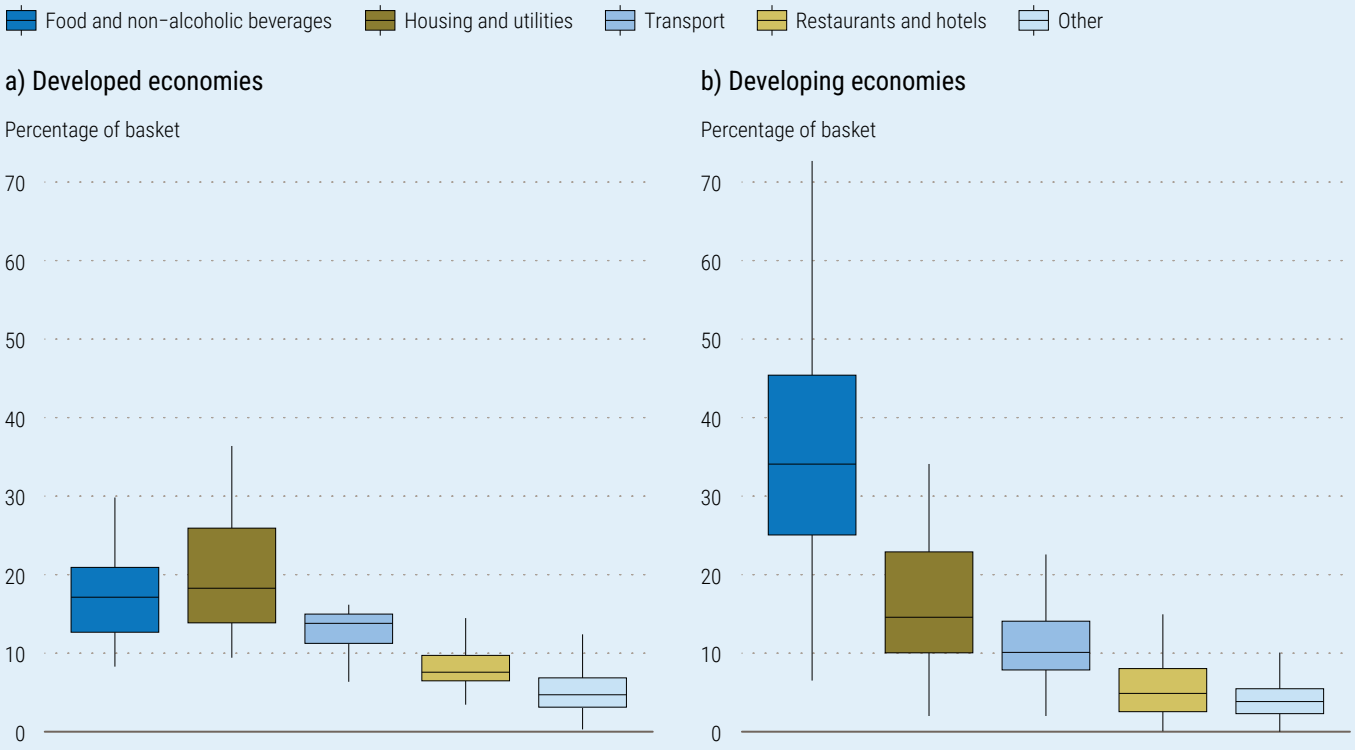
The divergence between developing countries and developed countries reflects the higher burden of essentials in developing-country household budgets and the relatively higher allocation among developed-country households to services and discretionary spending. The variation across countries is substantial; the share of food and non-alcoholic beverages, for example, ranges from 19 per cent at the lower quartile to 40 per cent at the upper quartile. Importantly, the higher a component's weight in the CPI basket, the greater its influence on headline inflation.

In contrast to the above measures of headline inflation, several CPI and PCE subindicators are designed to reduce the impact of volatile or unrepresentative price movements. Core inflation excludes food and energy prices, which tend to be the most volatile components. Trimmed mean inflation goes a step further by excluding categories with the largest upward and downward price changes, thereby minimizing the influence of outliers. These measures provide a more stable view of underlying inflation trends and are often analysed alongside headline inflation. An even more comprehensive inflation measure is the GDP deflator, which captures price changes across all domestically produced goods and services. While less commonly used for short-term inflation monitoring, it serves as an important tool for economists to adjust economic aggregates for price changes over time. Along with differences in methodology and scope, the purpose of various inflation measures may also differ depending on their use in policymaking. In the United States, for example, the Government uses the CPI to adjust certain benefits, including Social Security payments, while the Federal Open Market Committee of the Federal Reserve System focuses on PCE inflation in its quarterly economic projections and expresses its longer-run inflation target in terms of headline PCE. Both indexes, however, continue to be closely tracked as key measures of price stability.

Authors: *Berna Dogan, Danyira Perez, and Julian Rodrick Slotman*

Figure II.1.1

Distribution of Consumer Price Index basket weights, by sector and country group



Sources: UN DESA, based on data from the IMF Consumer Price Index (CPI) by Country and Component dashboard.
Notes: Calculations are based on the last available monthly values. The box-and-whisker plot displays summary measures of the data. The bottom of the box indicates the first quartile (25th percentile), and the top of the box represents the third quartile (75th percentile). The horizontal line through the box indicates the median (50th percentile). The whiskers indicate the minimum and maximum values, excluding outliers.

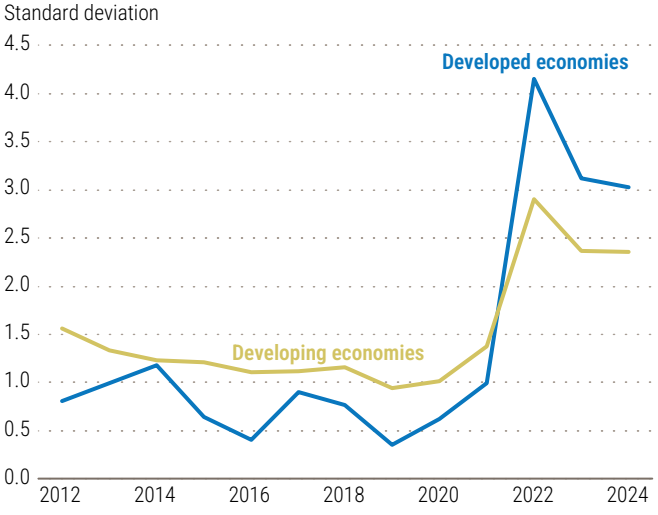
Navigating volatile and unpredictable price dynamics

Increased volatility has become a key feature of the current inflation environment. Inflation rates have exhibited greater short-term fluctuations, reflecting increasingly volatile price dynamics. As shown in figure II.3, the three-year rolling standard deviation of inflation rates—an indicator of short-term volatility—rose sharply after 2020. The stop-and-go nature of supply-chain adjustments, abrupt swings in energy markets, and climate-related disruptions have all contributed to this heightened volatility.

Heightened volatility makes inflation more unpredictable and increases price-level uncertainty. In economies where policy uncertainty or idiosyncratic shocks remain elevated, inflation uncertainty has increased, as reflected in the wider dispersion of inflation forecasts. In the United States, the dispersion of professional Consumer Price Index (CPI) forecasts for the next quarter widened sharply in 2022, narrowed as headline inflation moderated, then expanded again in 2025 amid renewed policy uncertainty (see figure II.4). While the increased dispersion is more apparent over shorter horizons (dispersion in year-ahead forecasts has remained more stable), it adds to the difficulties in managing inflation itself.

Figure II.3

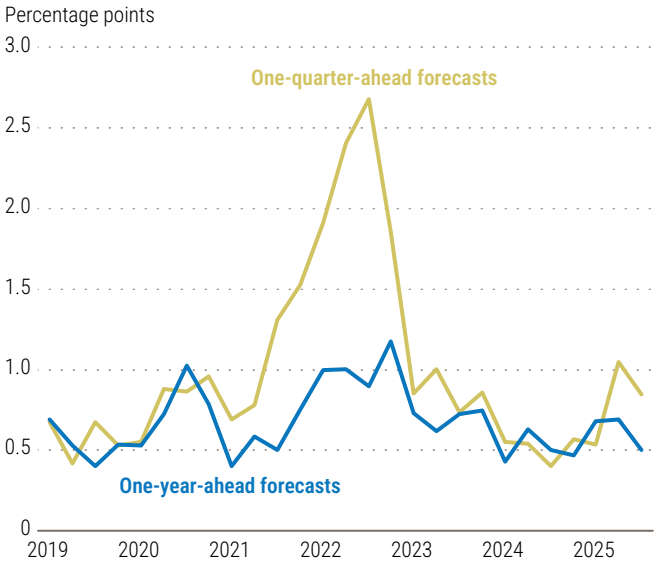
Volatility of consumer price inflation



Source: UN DESA, based on data from Ha, Kose and Ohnsorge (2023).
Note: Volatility is calculated by computing the 3-year rolling standard deviation of headline inflation for each country and taking the cross-country median of these values.

Figure II.4

Dispersion of Consumer Price Index forecasts in the United States



Source: UN DESA, based on data from the Survey of Professional Forecasters, Federal Reserve Bank of Philadelphia.
Note: The dispersion of inflation forecasts is measured as the difference between the 75th and 25th percentiles of professional forecasters' expectations.

In general, inflation volatility and forecast uncertainty tend to be more pronounced in developing economies, often due to their greater exposure to commodity and exchange rate shocks and to the institutional challenges they face in sustaining credible monetary and fiscal anchors. Consequently, inflation in these countries often exhibits larger inflation-cycle amplitudes and—when in high-inflation regimes—longer durations than in developed countries, even though average peak-to-peak cycle lengths are similar at about 6–7 years (Americo and others, 2025).

Disentangling the roots of stubborn inflation

While global forces were the primary drivers of the inflation surge between 2021 and 2023 and still exert considerable influence, individual country

vulnerabilities, policy priorities, and institutional credibility are now increasingly important in determining the pace and trajectory of disinflation.

Tracing global shocks and spillovers

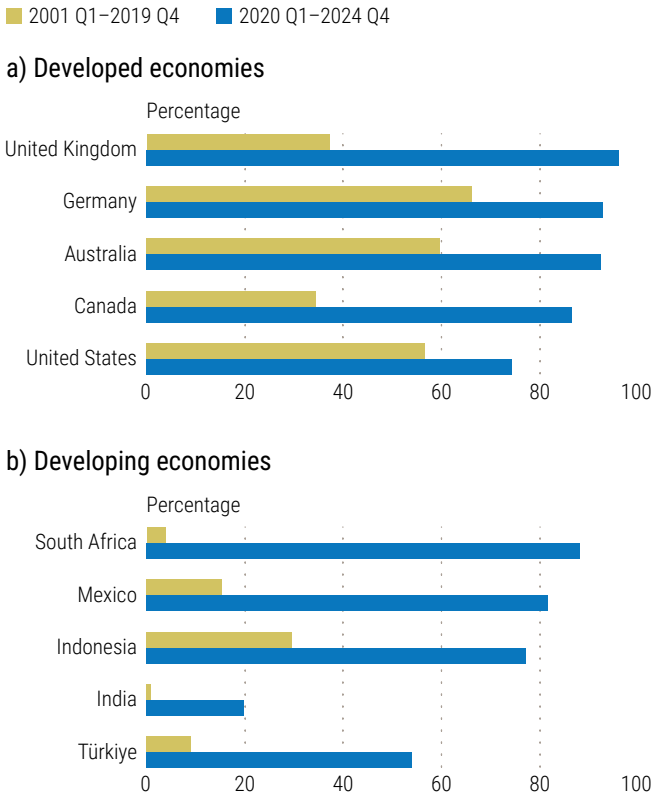
Common external factors have accounted for a substantial share of inflation variation in both developed and developing economies in recent years (see figure II.5). While the effects of these forces have differed according to economic structure, vulnerabilities, and policy frameworks, inflation movements have become increasingly synchronized in recent decades, particularly among developed economies (Americo and others, 2025). In developing countries, especially low- and middle-income economies, domestic drivers remain relatively more influential. Nevertheless, the recent surge underscores that global shocks are playing a larger role than in the past in shaping inflation dynamics.

The inflation surge stemmed from a combination of global supply- and demand-side disturbances, including abrupt shifts in consumption patterns during the pandemic, widespread supply-chain bottlenecks, and sharp increases in energy and food prices (Bergholt and others, 2024; Weber and others, 2024; Bernanke and Blanchard, 2025). The extent to which these global shocks were translated into domestic price pressures depended on country-specific factors such as exchange rate regimes, fiscal responses, labour market tightness, and market structures, highlighting the importance of domestic vulnerabilities and policy settings in shaping inflation outcomes and persistence.

Commodity markets, especially those for energy and food, remain central to the transmission of inflationary pressures. Fluctuations in oil and gas prices continue to feed through into input costs and consumer prices (see figure II.6a), particularly in energy-intensive sectors and in economies where energy constitutes a large share of household and production expenditure. Food prices also play a key role, as evidenced during the period 2021–2023 (see figure II.6b)—especially in developing countries, where they

Figure II.5

Share of inflation variance explained, by the global component in selected economies



Source: UN DESA, based on quarterly data from Ha, Kose and Ohnsorge (2023).
Note: The global component of inflation refers to the first principal component in a sample of 62 developed and developing economies, which reflects the common movements in inflation across countries and indicates how much of each country's inflation can be explained by global factors.

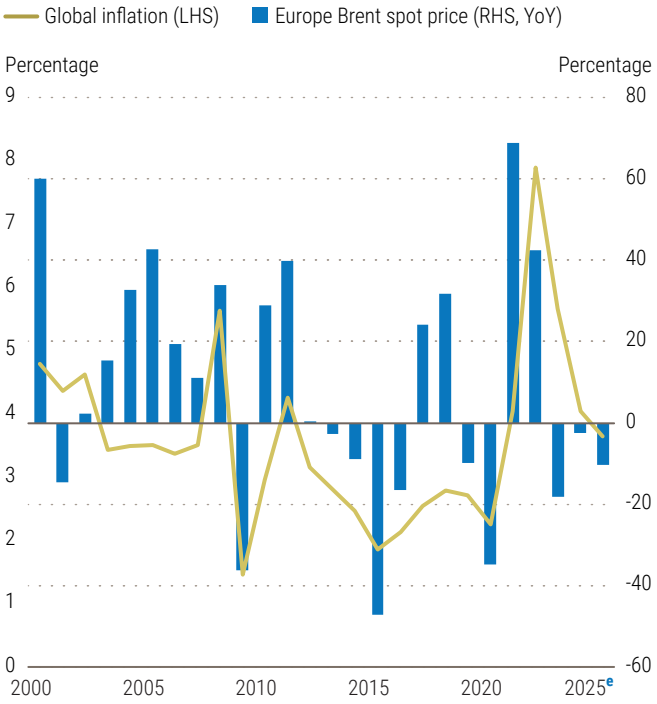
dominate consumption baskets and shape inflation expectations. However, recent declines in international food commodity prices have not consistently translated into lower domestic inflation, reflecting weak or asymmetric pass-through due to factors such as exchange rate depreciation, domestic supply bottlenecks, and elevated transport and distribution costs.

This central role of commodity markets in shaping business costs and household prices explains why supply shocks in key upstream sectors—such as energy, transport, and food—can quickly reverberate across entire economies. First-round effects are direct as higher fuel and food prices raise headline inflation. These are followed by

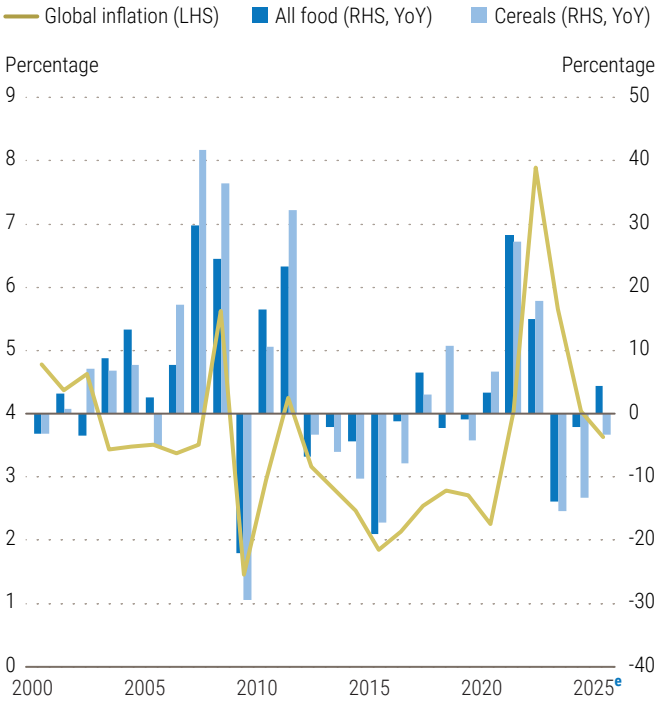
Figure II.6

Global inflation and changes in selected commodity prices

a) Consumer price inflation and change in oil prices



b) Consumer price inflation and change in international food prices



Source: UN DESA, based on data from the United States Energy Information Administration, the Food and Agriculture Organization of the United Nations, and estimates from the World Economic Forecasting Model.
Notes: e = estimates; **LHS** = left-hand scale; **RHS** = right-hand scale; **YoY** = year-on-year. Afghanistan, Argentina, the State of Palestine, Sudan, and the Bolivarian Republic of Venezuela are excluded from global inflation.

indirect effects as cost increases in energy- and transport-intensive industries feed through to other goods and services (Ha, Kose and Ohnsorge, 2023). Broader second-round effects can arise when workers seek to restore lost purchasing power and firms increase profit margins, potentially causing inflationary expectations to become unanchored. The extent of such spillovers into inflation depends on the weight of those sectors in household budgets, exposure to imported inputs, exchange rate movements, and the credibility of policy anchors. When these factors align, as they did during the period 2021–2023, sectoral shocks are more likely to generate widespread and persistent inflationary pressures.

There are also common characteristics across groups of countries or specific sectors that help account for inflation persistence in some parts of the world. In developed economies, services and housing are the main sources of stickiness; shelter costs adjust slowly, and regulated prices often lag wholesale market movements due to contract and regulatory structures. Consequently, electricity prices and insurance premiums have risen faster than overall inflation in several countries, keeping core inflation elevated and slowing disinflation (Bank of England, 2025; United States Department of the Treasury, 2025).[2] By contrast, in many developing regions, food and fuel remain the main inflation drivers, as global

2 Insurance and electricity costs illustrate how specific Consumer Price Index (CPI) components can influence both headline and core inflation. Insurance premiums are embedded in housing, transport, and health services, contributing to services inflation in several developed economies. Electricity shocks, beyond their direct impact on energy inflation, also spill over into housing and transport services, amplifying broader price pressures. Recent data indicate that in several developed economies, real electricity prices have risen faster than overall inflation, while insurance premiums in disaster-prone areas have outpaced CPI growth, reflecting heightened risk exposure and rising cost pressures.

commodity shocks are more rapidly transmitted to household consumption baskets. As an example of sector-specific persistence, tourism has recorded rapid price growth in recent years, driven by higher oil prices, labour shortages, and rising wages, together with strong post-pandemic travel demand. According to the United Nations World Tourism Organization, its proxy for tourism inflation peaked at about 14 per cent in 2022, eased to 8.0 per cent in 2024, and is estimated at around 6.8 per cent for 2025 (UN Tourism, 2025).

When global factors are the predominant drivers of inflation, expectations set at the national level can become aligned across countries, providing yet another channel through which prices move in step. During the 2021–2023 inflation surge, short-term inflation expectations rose sharply across most economies, often outpacing professional forecasts. In many cases, households and firms revised expectations upward more persistently than in previous episodes, reflecting both the unusual breadth of shocks and heightened media attention to prices. While longer-term expectations have remained broadly anchored, particularly in developed economies, this divergence between short- and long-term expectations has contributed to the uneven pace of disinflation, underscoring the importance of clear policy communication and institutional credibility in guiding inflation back to target (Binder and Kamdar, 2022; Weber and others, 2025; Coibion and Gorodnichenko, 2025).

Policy changes in major developed economies also induce spillovers across the rest of the world. Monetary policy shifts by the United States Federal Reserve, for example, continue to shape global inflation dynamics. Changes in United States interest rates influence capital flows, exchange rates, and financing conditions, with spillovers most pronounced in developing economies. The recent tightening cycle, which lifted policy rates to their highest level in two decades, triggered currency depreciation pressures, higher import costs, and rising debt-servicing burdens for many countries. Although ongoing disinflation in the United States has reduced expectations of further rate hikes, uncertainty over the timing and pace of future adjustments continues to affect global financial conditions and inflation trends (BIS, 2025). Major changes in United States trade policy are also having an effect; the impact is analysed in greater depth in other parts of this report.

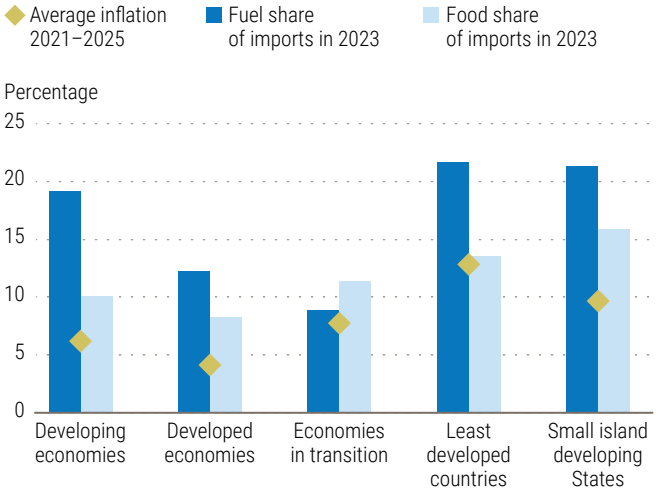
Country-specific determinants

While global shocks affect all, it is country characteristics—such as economic structure, policy frameworks, and the quality of institutions—that are critical in determining how these translate into local inflation. Some of these effects are relatively straightforward; economies where food and energy represent a large share of household spending or those heavily reliant on imports, for example, are especially vulnerable. The challenge is particularly acute for least developed countries and small island developing States (see figure II.7), where structural constraints and external dependence heighten exposure to global price volatility (Alleyne and Blagrave, 2025).

The transmission of these pressures also depends on sectoral and institutional characteristics. Industries with high energy intensity and flexible

Figure II.7

Inflation and the share of food and fuel in imports



Source: UN DESA, based on data from World Bank World Development Indicators and estimates produced with the World Economic Forecasting Model.
Notes: Regional and country group data are GDP-weighted averages. Afghanistan, Argentina, the State of Palestine, Sudan, and the Bolivarian Republic of Venezuela are excluded from country groups.

pricing practices, such as transport and utilities, tend to transmit shocks more rapidly (Alvarez and Kroen, 2025). Tight labour market conditions have contributed to inflation persistence in some economies, including the United States. In addition, in the context of geopolitical tensions and supply-chain disruptions, countries with diversified export markets and resilient trade arrangements are better positioned to spread risks, stabilize supply flows, and mitigate the impact of global price volatility (UNCTAD, 2025d).[3]

Exchange rate regimes play a significant role in shaping how global shocks are transmitted to domestic inflation. Under fixed-exchange-rate arrangements, price transmission tends to be more direct (Ilzetzki, Reinhart and Rogoff, 2019). With the currency pegged, import prices in local currency move almost one-for-one with world prices, and central banks have limited ability to offset these shocks while defending the peg. By contrast, flexible-exchange-rate systems may provide some buffer, as currency appreciation can mitigate external price increases. However, in volatile or depreciating currency environments, import costs can rise sharply in local terms, amplifying inflationary pressures—particularly in economies reliant on essential imports priced in foreign currencies in Africa, South Asia, and Western Asia. Empirical analyses suggest that in developing economies, a 10 per cent currency depreciation typically increases consumer prices by about 0.8 per cent within a year, though pass-through rates vary widely depending on policy credibility, trade structure, and the source of exchange rate shocks (Ha, Stocker and Yilmazkuday, 2020; Jašová, Moessner and Takáts, 2016). The impact tends to be larger in commodity-importing and low-income economies with limited foreign exchange reserves or export earnings buffers.

Institutional credibility in monetary and fiscal policy is a key determinant of inflation persistence (Bordo and Siklos, 2014; Bianchi, Faccini and Melosi, 2023). Global shocks tend to have a stronger impact in economies lacking credible inflation-targeting frameworks. An exacerbating factor is that large pandemic-era fiscal expansions and the cumulative impact of ageing-related spending have kept debt ratios at historically high levels, limiting fiscal flexibility and raising concerns about debt sustainability. In this context, monetary and fiscal policies may become more interdependent. High debt-service costs constrain fiscal consolidation, while tighter monetary stances increase refinancing risks. Although inflation itself can temporarily reduce debt ratios through higher nominal growth, sustained debt overhangs can undermine policy credibility and complicate the disinflation process (Blanchard, 2019). High fiscal deficits and reliance on central bank financing of government debt (debt monetization) further increase the likelihood that external shocks will translate into sustained domestic inflation.

Empirical evidence supports these dynamics. A recent study covering 41 developing economies between 2000 and 2020 reveals that a 10-percentage-point increase in the government debt-to-GDP ratio increases long-term inflation expectations by 20 basis points in the first year, peaking at 70 basis points in the second (Brandao Marques and others, 2023). The effect is particularly pronounced in economies without formal inflation-targeting regimes and limited central bank autonomy. By contrast, economies with stronger fiscal anchors and higher levels of institutional credibility tend to experience less persistent inflationary pressures when confronted with external shocks (Athanasopoulos, Masciandaro and Romelli, 2025).

Inflation expectations and pricing behaviour

Initial price shocks, even if due to transitory factors, can turn into more persistent inflationary pressures through channels such as inflationary expectations and pricing behaviour. Because they

3 Resilient trade arrangements are characterized by diversified export markets, participation in rules-based trade agreements with effective dispute-settlement mechanisms, and predictable, transparent trade policy practices.

both drive and are shaped by inflation, these transmission mechanisms are inherently endogenous and can become self-reinforcing. That makes them especially important to monitor—and particularly difficult to manage—for policymakers.

Inflation and inflation expectations (the rate at which consumers, businesses, and investors expect prices to rise in the future) reinforce each other. Rising inflation typically leads people to revise expectations upward, and if households and firms anticipate higher future inflation, they demand higher wages, raise prices, or accelerate spending. Such responses can push inflation higher still, making expectations self-fulfilling. The experience of 2021–2023 demonstrated this dynamic vividly, as short-term inflation expectations rose much faster than professional forecasts and remained elevated even after inflation began to recede (Binder and Kamdar, 2022).

The breadth and simultaneity of price increases also shape how expectations evolve. When cost shocks hit many sectors at once—especially intermediates such as steel and aluminium and a wide range of consumer goods—producer prices rise across a range of industries and inflation becomes more salient even if headline CPI changes are relatively modest. Evidence from the 2018–2019 United States tariff episode suggests that such broad-based cost shocks heightened the salience of inflation and temporarily lifted inflation expectations (Amiti, Redding and Weinstein, 2020; Cavallo and others, 2021).

Recent evidence confirms that the formation of inflation expectations is state-dependent. In low-inflation settings, expectations are well anchored to the central bank target or long-run price stability objective, with households and firms tending to pay little attention to inflation-related information. As a result, their expectations adjust only gradually to new data or policy signals, reflecting the low perceived cost of not tracking prices when inflation is stable (Weber and others, 2025). By contrast, in high-inflation environments, where inflation becomes more salient, attention rises sharply—but expectations also become harder to shift, even in the face of credible policy communication (Coibion and Gorodnichenko, 2025). This state dependence of inflation expectations underscores why policy communication is both powerful and fragile; when inflation is low, the challenge is to reach inattentive households and firms, and when inflation is high, the challenge is to re-anchor beliefs that have become deeply entrenched.

Recent experience underscores the volatility of inflation expectations. In the United States, one-year inflation expectations surged to 6.6 per cent and five-year expectations to 4.2 per cent in May 2025 before easing to 4.7 and 3.7 per cent, respectively, in September.[4] In the United Kingdom, five-year expectations climbed to 4.2 per cent, the highest level since late 2022, while one-year expectations hovered near 4.0 per cent through mid-2025, remaining elevated even as headline inflation moderated (United Kingdom, HM Treasury, 2025). Before the pandemic, expectations at both horizons were closer to 1–3 per cent in these economies, and past episodes suggest that it can take one to two years for expectations to return to target once inflation subsides. In many developing economies, inflation expectations have gradually stabilized over the past year, though levels remain above central bank targets in several cases. In Brazil and South Africa, for example, expectations remain broadly stable but still exceed the official targets. In Mexico, inflation expectations are stable and within the target range, while in India, household expectations remain elevated and less anchored despite recent declines in headline inflation.[5]

Corporate pricing behaviour is another channel through which inflation shocks can spread as inflationary expectations lead firms to raise

4 Data based on consumer surveys carried out by the University of Michigan Survey Research Center (May 2025 and September 2025 survey results).
5 Based on national central bank and institutional surveys of inflation expectations as at October 2025.

prices in anticipation of higher input costs. Such effects could be especially marked if they take place in upstream sectors such as energy or transport where a combination of inelastic demand and market power could allow firms to adjust prices more aggressively. In such settings, shocks can act as implicit coordination mechanisms: firms raise prices more and pass-through costs faster, protecting or expanding profit margins even when economy-wide markups remain broadly stable. Evidence from the 2021–2023 episode suggests that energy, transport, and parts of the food supply chain were among the sectors where market concentration, inelastic demand, and strategic importance may have amplified pass-through into headline inflation (Weber and Wasner, 2023). Complementary evidence points in a similar direction: industries in more concentrated markets tend to exhibit stronger pass-through of cost shocks during price surges, with leading firms often maintaining higher profit margins even as costs rise (Bräuning, Fillat and Joaquim, 2022).

Record fossil fuel profits during the 2022 energy crisis illustrate how large price shocks in essential inputs can simultaneously generate windfall corporate gains and broader inflationary pressures. In the euro area, profits rather than unit labour costs accounted for a larger share of price growth in this period, particularly in energy-intensive sectors (Arce, Hahn and Koester, 2023). These effects were especially pronounced in the energy industry itself, where soaring input prices and limited competition allowed for amplified margins.

While high profits do not in themselves cause inflation, they can reinforce it when firms in concentrated markets maintain elevated margins even after input costs ease. Such behaviour sustains high prices in key upstream sectors and prolongs the disinflation process. By reinforcing higher profitability and delaying investment diversification, such dynamics also heighten the risk of renewed energy-price volatility in the years ahead (Semieniuk and others, 2025).

Persistent supply-side factors reshaping inflation dynamics

Looking ahead, risks of renewed inflationary pressures remain, shaped by a complex interplay of current and emerging forces—particularly on the supply side. Geopolitical fragmentation, climate change, and demographic shifts are likely to persist as factors, potentially leading to recurrent disruptions in supply chains and trade flows, localized wage and price pressures, and volatility in food and energy markets. The overall impact of demographic trends will vary by context; in ageing societies, a shrinking labour force may exert upward pressure on wages and service prices, while slower population growth and higher savings rates can dampen aggregate demand and hold inflation down. All of these forces, explored in greater detail below, may complicate efforts to preserve the predictability and credibility that near-target inflation provides.

Heightened economic and policy uncertainty poses risks to investment and productive capacity growth, particularly in sectors with long planning horizons, such as energy, infrastructure, and advanced manufacturing. While global investment has so far remained relatively subdued (see chapter I), persistent uncertainty could further deter new projects or delay capital reallocation towards critical infrastructure. Over time, this may weaken supply responsiveness and increase vulnerability to renewed price shocks, complicating efforts to manage inflation and anchor expectations (Bloom, 2009; Baker, Bloom and Davis, 2016).

Advances in artificial intelligence (AI) are also influencing inflation dynamics through different mechanisms. On the one hand, AI adoption can enhance productivity, improve efficiency, and reduce unit costs, potentially contributing to disinflationary pressures, especially in sectors where digitalization is most advanced (Aldasoro and others, 2024). On the other hand, the transition to AI-intensive production requires substantial up-front investment in data infrastructure and electricity-intensive computing, raises

energy demand, and intensifies competition for specialized skills, all of which can generate short- to medium-term cost pressures and transitional bottlenecks. The scale and timing of these opposing effects remain somewhat uncertain. The net effect will depend on how rapidly productivity gains materialize and spread across firms relative to rising electricity costs, adjustment expenses, and infrastructure constraints.

Rising geopolitical fragmentation

Geopolitical fragmentation has intensified in recent years, leading to the erosion of trade, financial, and mobility interlinkages (Fernández-Villaverde, Mineyama and Song, 2024) (see figure II.8). Events such as Brexit, escalating trade disputes, the war in Ukraine, and conflicts in the Middle East have strained international relations and prompted a broad reassessment of national policies. These developments have already affected global supply chains and trade flows and could continue doing so, especially if future disruptions occur at key chokepoints, potentially driving up commodity prices, shipping costs, and price pressures.

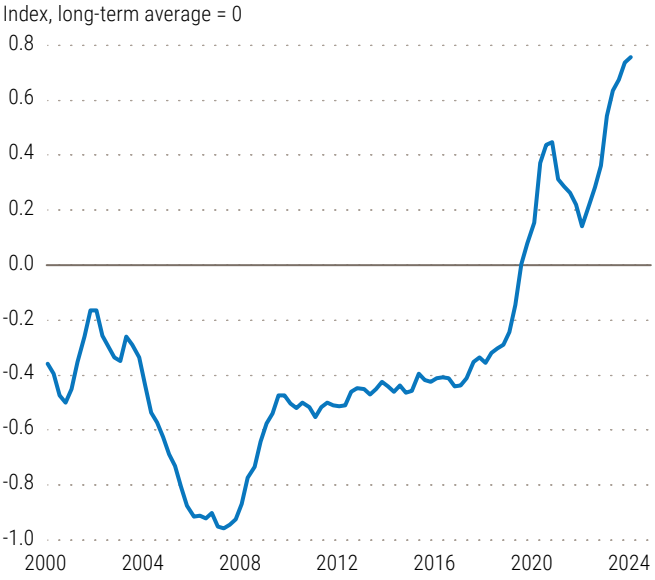
Conflicts impact commodity markets directly by constraining supply and indirectly by increasing risk premiums and uncertainty, driving up prices, inducing volatility, and affecting inflation expectations. For example, during the military escalation between Israel and the Islamic Republic of Iran in June 2025, the daily price of West Texas Intermediate crude oil rose from $67 to $76 per barrel within weeks, driven by fears of damage to oil infrastructure and potential closure of the Strait of Hormuz, a critical route for about 20 per cent of global oil flows. Although prices retreated following a ceasefire, the episode underscored how geopolitical shocks can rapidly reverberate through energy markets (Spellman and Zhou, 2025).

Maritime routes and shipping costs represent other transmission channels through which conflicts and geopolitical tensions impact prices; notably, these are also affected by climate-related disruptions. Recent events—from the war in Ukraine to historically low water levels in the Panama Canal and recurrent droughts along the waterways—have disrupted critical shipping corridors, forcing costly cargo diversion and delays. Within a month of the start of the war in Ukraine, the Baltic Dry Index—a benchmark that tracks the cost of shipping major raw materials such as coal, iron ore, and grain across global maritime routes—rose by about 25 per cent. Reduced grain shipments and longer transport distances pushed global food prices higher. Logistical bottlenecks also amplified pressures in energy markets as higher oil and gas prices drove up marine bunker fuel costs across shipping sectors.

Beyond these immediate effects, heightened security risks and rising war-risk insurance and rerouting costs can add to sustained freight-rate pressures (Carrière-Swallow and others, 2023; UNCTAD, 2024a).[6] These vulnerabilities

Figure II.8

World Geopolitical Fragmentation Index



Source: UN DESA, based on data from Fernández-Villaverde, Mineyama and Song (2024).
Notes: The Geopolitical Fragmentation Index captures the degree of global economic integration from four categories: trade, finance, mobility, and political. The data set ends by the first quarter of 2024.

6 The Baltic Dry Index has been trending upward since February 2025.

Box II.2

Tariffs and inflation in the United States

In 2025, the United States announced a series of tariff measures that were notable for their broad scope and relatively high rates. Following the announcement of the International Emergency Economic Powers Act (IEEPA) reciprocal tariff measures in April, household year-ahead inflation expectations in the United States surged, peaking at 6.6 per cent in May before easing to 4.7 per cent in September, according to University of Michigan consumer surveys. This sharp rise occurred despite stable Consumer Price Index (CPI) and Personal Consumption Expenditures (PCE) Price Index inflation readings during the first nine months of the year, suggesting that expectations were driven more by the impact of the trade policy announcements and by the sustained anticipation of accelerating inflation among consumers (Hsu, 2025).

Fluctuations in consumers' inflation expectations imply high uncertainty about the impact of new tariffs on consumer price inflation. One source of this uncertainty is the complexity of the new tariff structures. Although the announced rates are high and broad in scope, covering both goods-specific tariffs under section 232 and country-specific tariffs under the IEEPA, the actual application of these rates is partial. Many goods remain exempt due to their strategic importance, and a large share of imports from Canada and Mexico—the main origins of United States imports, along with China—are excluded under the United States-Mexico-Canada Agreement. A second source of uncertainty is the variation in import intensity across consumption goods. Some goods are highly import-reliant, with limited scope for substitution by domestic producers, while others have low import intensity. For goods with low import intensity, the tariff impact on domestic prices is smaller. A third source of uncertainty relates to differences in post-entry costs, such as transport, wholesale, and resale margins. Goods with higher post-entry margins experience a lower tariff impact, assuming mark-up values remain constant. Finally, differences in expenditure weights within the consumption basket affect the aggregate inflation rate. If a tariff-affected good has a small weight in the PCE Price Index, its impact on overall consumer prices will be limited.

To address these sources of uncertainty, this box maps the estimated tariff structure as at September 2025 to PCE. The mapping follows the approach of Barbiero and Stein (2025) and Hobijn and Nechio (2025), which extends the import-intensity-adjusted measure of aggregate demand proposed by Bussière and others (2013).[a] First, the tariff structure was estimated to calculate effective tariff rates for each commodity at the Harmonized Tariff Schedule of the United States (HTSUS) 8-digit level, averaged across countries using 2024 import data (United States International Trade Commission, 2025). The overall average effective tariff rate, weighted by 2024 import values across commodities and countries, reached 17 per cent in September 2025, an increase of 15 percentage points from the end of 2024. Second, import intensity, defined as the import share of final consumption, was estimated using the 2024 input–output table (BEA, 2025).[b] While import intensity varies across sectors, the overall estimate for total final consumption, including services, is 10.8 per cent. Third, to translate sector-level price shocks from tariffs on producers' prices into consumer price categories, the PCE Bridge Table (BEA, 2025) is used to calculate post-entry margins, including transport, wholesale, and retail costs for each PCE category. These margins—expressed as a ratio of consumer prices—vary widely, ranging from 0.18 for textiles to about 1.0 for most services.

The mapping exercise suggests that a 17 per cent effective tariff rate under the tariff structure as at

a The present analysis differs from previous studies in three ways. First, it uses the latest input–output table for 2024 (BEA, 2025). Second, it aggregates tariff rates from HTSUS 8-digit codes to the North American Industry Classification System (NAICS) 6-digit codes, using a weighted average based on 2024 import values rather than a simple average. Third, it applies different tariff rates across country–commodity combinations instead of using a uniform rate for all countries and commodities.

b The input–output table is used to estimate the import content of final demand. The portion of intermediate goods imported for domestic production is added as indirect import content and combined with the direct import content from final goods imports. The assumption is that this indirect portion is subject to the same tariff as the final goods. In this sense, the treatment of intermediate goods is an approximation. This approach differs from supply-side price input–output models such as that of Ghosh (1958), which trace tariff impacts on producers' prices through technical coefficients.

September 2025 could raise PCE inflation by about 1.2 percentage points. The results for the individual commodity levels are shown in figure II.2.1a. For example, the clothing and footwear sector faces a 33 per cent increase in the effective tariff rate and has an import share of 88 per cent. This results in an import-adjusted price increase of 27 per cent at the producers' price level. Given that the producers' price accounts for 30 per cent of the purchasers' price, the estimated PCE price increase for this category is 8.1 per cent. With an expenditure share of 2.6 per cent, the contribution of clothing and footwear to total PCE inflation is estimated at 0.21 percentage points. By contrast, the estimated impact on food inflation is modest, at 1.6 per cent, due to a lower effective tariff rate of 14 per cent and an import intensity of 21 per cent.

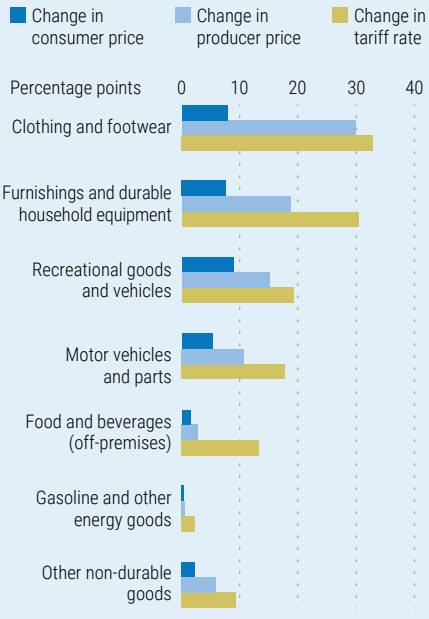
The estimated 1.2-percentage-point increase in PCE inflation, if realized, would be significant given its potential implications for the future course of monetary easing in the United States. Although this estimate is well below the level suggested by consumer inflation expectations, it remains notably higher than the stable PCE inflation readings observed through September 2025. Several factors may explain this gap. The actual initial impact could be smaller because exporters reduced their prices. The import price index for apparel, footwear, and household goods may be a case in point as it declined substantially by May 2025, which may have absorbed some of the early impact of tariffs on domestic prices (see figure II.2.1c). Importers may have substituted away from higher-tariff countries or goods. This may explain the difference between the estimated and actual effective tariff rates. The actual effective tariff rate, measured as the ratio of customs and duty revenues to import values in August 2025, was only 12 per cent (see figure II.2.1b). In addition, domestic sectors such as transportation, wholesale trade, and retail trade may have absorbed part of the additional costs in the initial stage. Another possibility is that the impact will materialize gradually. As seen in figure II.2.1b, there is a time lag between the tariff announcement and revenue realization. Moreover, price increases in tariff-impacted capital goods can also be reflected in consumer goods prices gradually, as it takes time for higher investment costs to pass through to consumer prices.

Author: *Yasuhisa Yamamoto*

Figure II.2.1

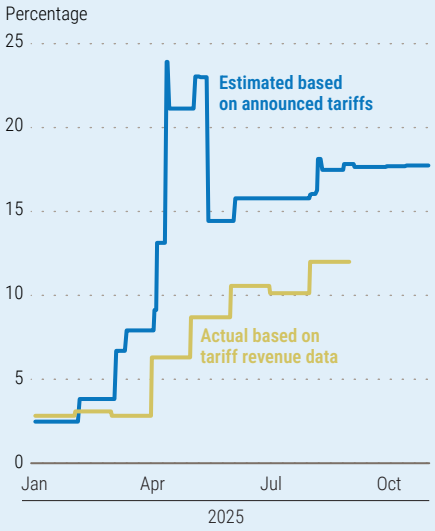
Tariffs and inflation in the United States

a) Potential changes in domestic prices following tariff hikes



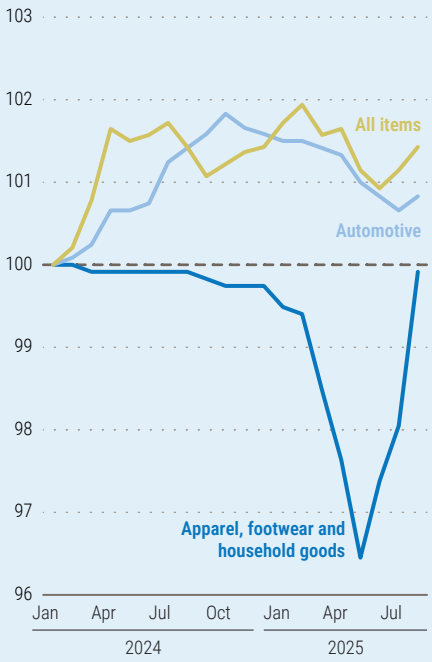
Source: UN DESA, based on data from the United States International Trade Commission and United States Bureau of Economic Analysis.

b) Average effective tariff rates



Source: UN DESA, based on data from the United States International Trade Commission, United States Bureau of Economic Analysis, United States Census Bureau, and United States Department of the Treasury.
Note: The estimated average effective tariff rate is based on weights derived from 2024 data.

c) Import prices



Source: UN DESA, based on data from the United States Bureau of Labor Statistics.

underscore the risk that future blockages at critical chokepoints—whether stemming from conflict, extreme weather, or drought-related disruptions to major waterways—could again trigger sharp increases in shipping costs, spilling over into global inflationary pressures.

Trade disputes increase inflationary pressures by raising costs through multiple channels. Tariffs translate into higher import costs and directly impact prices, but they also have indirect, longer-term impacts by reducing competition and increasing production costs. Evidence from recent United States tariff actions shows that prices rose not only for imported goods but also for domestically produced substitutes, reflecting spillovers along supply chains and anticipatory price adjustments (Cavallo, Llamas and Vazquez, 2025). These effects are primarily concentrated in the importing economy, though higher input costs can also be transmitted globally through production networks and trade in intermediate goods.

Whether tariff increases trigger one-off price-level effects in narrowly defined sectors or result in sustained inflationary pressures depends on several factors. For example, inflation in the United States remained subdued following the 2018–2019 tariff rounds as monetary and fiscal conditions contained second-round effects (Cavallo and others, 2021). The inflationary impact of newly introduced tariffs has remained relatively limited to date, but the situation continues to evolve (see box II.2 for a detailed analysis). In the short term, as supply chains adjust and trade diversion plays out, there are also likely to be impacts on prices in other countries, though their scale and scope remain to be determined.

Rising costs of intermediate inputs are particularly concerning, as their inflationary effects tend to last longer than those of tariffs on final goods (Cuba-Borda and others, 2025). Measures such as front-loading inventories, diversifying suppliers, or relocating production can temporarily cushion input cost pressures, though they often entail higher financing and logistical costs. Stronger intraregional trade integration through initiatives such as the Regional Comprehensive Economic Partnership (signed in 2020) and the Framework on ASEAN Supply Chain Efficiency and Resilience (established in 2024) has helped East Asian economies better cushion external pressures (Ehlers and others, 2025). By contrast, countries less embedded in regional blocs remain more exposed to global supply chain disruptions and have fewer buffers against trade shocks (Farrell and Newman, 2025; Posen, 2025).

Intensifying climate change impacts

In 2024, global temperatures reached a record high, accompanied by more intense tropical cyclones, devastating rainfall, storm surges, floods, prolonged droughts, and wildfires (WMO, 2025a). While the inflationary effects of individual climate events are often temporary, their increasing frequency and severity point to their becoming a more persistent driver of inflation. Kotz and others (2024), for example, estimate that food price inflation could rise by 1.5–1.8 percentage points annually, adding 0.8–0.9 percentage points to headline inflation by 2035.

The inflationary effects of climate events vary by type, intensity, and country income level. Evidence from 173 countries between 1970 and 2020 shows that droughts and storms tend to raise inflation, while the impact of extreme temperatures is relatively muted (Cevik and Jalles, 2023). The magnitude and persistence of these effects are generally larger for developing economies, especially for droughts and storms, reflecting structural and institutional constraints, including more limited fiscal space.

Measures to mitigate climate change, such as the transition to renewables for electricity generation, can also impact energy prices—and through them inflation—in different ways. On the one hand, the lower costs and more distributed nature of renewables exert downward

pressure on electricity prices and volatility. On the other hand, short-term inflationary pressures can arise as carbon pricing and energy subsidy reforms may raise production costs (NGFS, 2024). More broadly, global energy dynamics remain complex; oil prices moderated in 2025, but natural gas markets remain volatile, and electricity demand is rising sharply. In several economies, renewable generation and grid capacity are struggling to keep pace, leading to localized supply constraints and higher short-term prices (IEA, 2025).

Ageing, migration, and labour market pressures

Demographic trends and migration policy also shape inflation dynamics. Population ageing has become a global phenomenon, with the share of people aged 65 years and over projected to increase from an estimated 10.4 per cent in 2025 to 16.3 per cent by 2050 (United Nations, 2024). In the European Union and the United States, ageing is already constraining labour supply, heightening the risk of structurally tight labour markets and upward pressure on wages and prices (OECD, 2025d; Ernst and Feist, 2024). Migration has historically helped ease some of these demographic strains, but recent policy shifts may limit this mitigating effect.

The combination of ageing populations and tighter migration policies can have both short-term and long-term impacts on inflation. In the short term, a shrinking labour supply can push nominal wages higher, particularly in sectors such as healthcare and services where automation potential is limited (Shine and Whiting, 2023). On the supply side, restrictive migration policies may exacerbate skill shortages and reduce labour market flexibility, creating bottlenecks that raise costs and constrain output (Comin, Johnson and Jones, 2023). Over the longer term, however, demographic ageing and lower migration inflows can also dampen demand growth as consumption patterns shift and savings rates rise, exerting downward pressure on prices even as potential output growth slows. The overall impact will vary across economies depending on labour market rigidities, technological adaptation, and policy responses (Bound, Khanna and Morales, 2018).

Persistent supply-side risks are set to continue reshaping global inflation dynamics in the years ahead. These pressures risk making inflation more persistent, undermining monetary policy credibility and straining fiscal space. Crucially, the inflationary environment is not just an economic challenge but also carries far-reaching implications for poverty reduction, inequality, food security, and long-term sustainability—issues discussed in the next section.

The impact of inflation on sustainable development

Inflation poses significant challenges for sustainable development. Rising prices erode household purchasing power, especially for essential goods and services, significantly increasing the risk of households falling into poverty or experiencing deeper deprivation. In many developing countries, national poverty rates rose amid elevated inflation during and in the aftermath of the pandemic. The concern is not only that prices rise rapidly during periods of higher inflation, but also that they settle at persistently high levels many households can no longer afford. Even after inflation slows, these higher prices can leave lasting scars on living standards, hindering progress in poverty reduction and widening inequality. In addition, sustained inflation and heightened price volatility undermine macroeconomic stability by distorting price signals and discouraging productive investment, ultimately weighing on productivity growth and long-term sustainable development prospects. When these price pressures persist, the resulting erosion of living standards can heighten social tensions, promote disaffection, and increase the risk of instability.

The distributional impacts of inflation

Unequal impacts on households

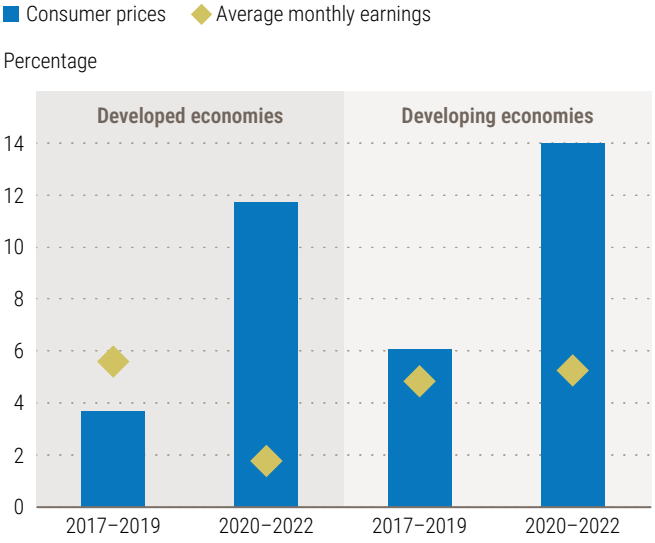
The recent periods of high inflation show that rising prices have unequal consequences across society; in many cases, low-income households and vulnerable groups—including rural residents, ethnic minorities, women, children, and youth—are disproportionately affected, widening existing socioeconomic divides and in some contexts translating into a broader affordability crisis. Such disparities reflect differences in household income sources, assets, and consumption baskets.

Low-income households often rely heavily on wages and welfare transfers, yet wages often rise more slowly than prices during inflationary episodes (ILO, 2022). As shown in figure II.9, the gap between wage growth and inflation widened from 2017–2019 to 2020–2022 in both developed and developing economies, indicating a decline in real wages. Social transfers can also lose value during inflationary episodes since benefit indexation is often incomplete, uneven across programmes, and subject to delays. Evidence from low- and middle-income economies shows that many social assistance programmes are only partially indexed, meaning benefits rise more slowly than prices, reducing their real value (Balasundharam, Kayastha and Poplawski-Ribeiro, 2023). At the same time, limited access to credit, financial services, and safety nets constrains the ability of vulnerable households to smooth consumption in the face of shocks (Uzel and others, 2025; Lee, 2022). Targeted assistance can provide temporary relief, but its effectiveness quickly erodes when benefits fail to keep pace with inflation (Drugge, 2025).[7]

The vulnerability of different groups to inflation also depends on their asset holdings. Low-income households tend to hold cash or low-yielding assets that offer little protection against inflation, while wealthier households

Figure II.9

Cumulative changes of prices and wages in developed and developing economies



Source: UN DESA, based on data from ILOSTAT and national sources.
Notes: The figure shows median values for country groups. For the average monthly earnings indicator, the sample covers 32 developed and 24 developing countries, selected based on data availability.

hold a larger share of financial assets, benefiting more from capital gains during periods of rising prices (Gill and Nagle, 2022). These differences in asset composition imply that higher-income households are less directly affected by wage dynamics and may sustain consumption even when real incomes stagnate. Inflation also redistributes wealth across generations, as it erodes the real value of accumulated assets while reducing the burden of nominal liabilities, favouring younger and middle-income households with fixed-rate debt (Chien and Dunn, 2022).

Vulnerable households often face higher effective inflation than wealthier ones because of differences in consumption patterns. Low-income households allocate a larger share of their income to essentials—such as food and energy—that tend to see faster price increases during inflationary periods. In euro-area countries, households in the lowest consumption

7 For example, simulations of the United States Child Tax Credit show that without indexation, its real value would erode by a quarter over a decade, reducing its poverty-reduction impact by almost half (Collyer, Wimer and Harris, 2022).

quintile faced the steepest increases in food and energy prices in 2021 and 2022, with these categories accounting for the bulk of their overall inflation exposure (Pallotti and others, 2023).

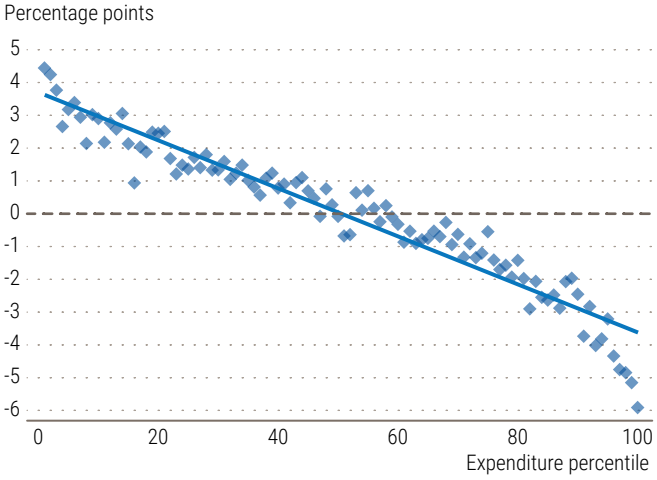
More nuanced evidence shows that poorer households are also more likely to consume lower-quality goods, which often experience proportionally larger price increases during inflation episodes—a phenomenon known as "cheapflation" (Chen, Levell and O'Connell, 2024). In the United Kingdom, prices for products on the bottom two rungs of the quality ladder rose by more than 30 per cent during the period 2021–2023, compared with less than 20 per cent for products at the top end. This widening gap explains why inflation rates were 5–6 percentage points higher for poorer than for richer households. One explanation is that firms selling higher-quality goods, supported by larger profit margins, are better able to absorb cost shocks, while producers of cheaper goods tend to pass them directly on to consumers (Cavallo and Kryvtsov, 2024). Wealthier households also have greater flexibility to adjust during downturns by substituting lower-quality goods, buying in bulk, or taking advantage of sales—options often out of reach for poorer households (Gill and Nagle, 2022). As illustrated in figure II.10, poorer households in the United Kingdom faced inflation higher than the average between 2021 and 2023, while richer households experienced below-average rates. Similar dynamics are observed for the United States, where lower-income households saw faster price increases between 2021 and 2025.

Geography also shapes how households experience inflation, independent of income or spending patterns. Rural households typically spend a larger share of their income on essentials, particularly food, fuel, and transport. Surging food and energy prices in 2021 and 2022 widened the purchasing power gap between rural and urban households, with rural households in countries such as Czechia, France, and Spain facing particularly steep declines due to their greater exposure to energy costs (Causa and others, 2022). In the United States, higher

Figure II.10

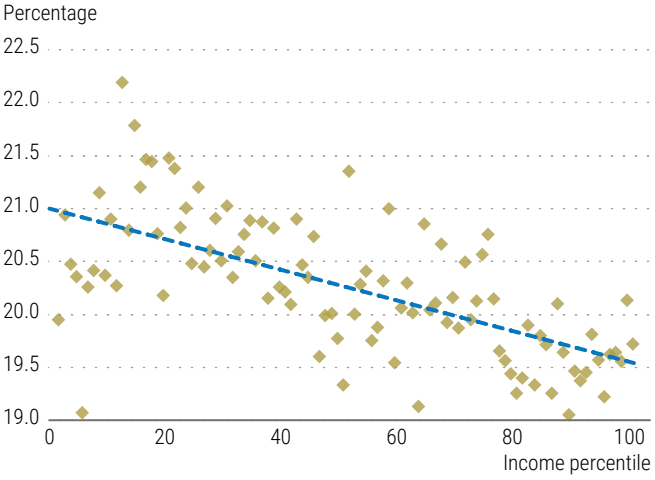
Inflation inequality in the United Kingdom and the United States

a) United Kingdom (2021 Q3–2023 Q3): deviation from mean inflation, by expenditure percentile



Source: Chen, Levell and O'Connell (2024).
Notes: The figure shows cumulative inflation for households in each expenditure percentile based on the percentage-point deviation from mean inflation. Households are assigned to expenditure percentiles based on spending at the beginning of the reference period.

b) United States (April 2021–May 2025): cumulative inflation, by income percentile



Source: UN DESA, based on data from Jaravel (2025).
Note: The figure shows cumulative inflation for households in each income percentile.

transportation costs weighed heavily on rural residents, who depend more on motor fuel for longer travel distances (Chakrabarti, Garcia and Pinkovskiy, 2023). These additional costs were only partially offset by lower housing and rental expenses (Lee, 2022).

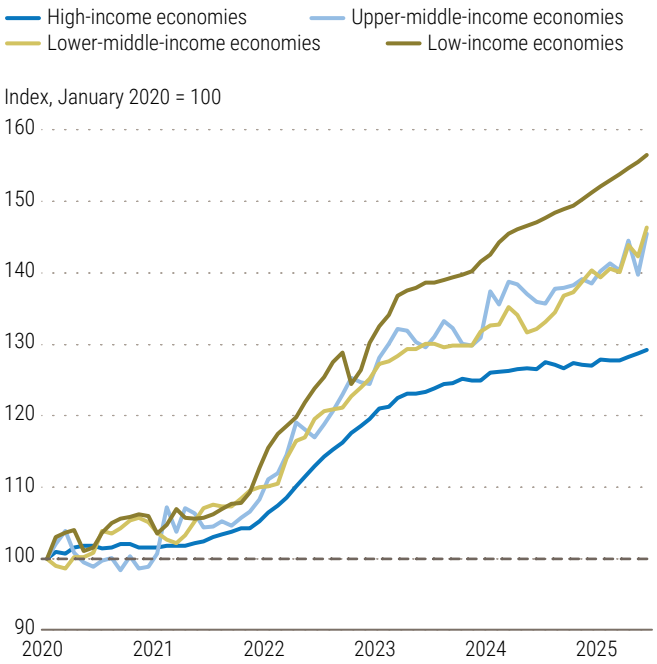
Food insecurity and gender inequality

High and persistent inflation can undermine nutrition, health, and overall well-being, with lasting effects on human capital development. Rising food prices particularly compel vulnerable households to reduce both the quality and quantity of their diets, with lasting consequences for health and human capital. According to an empirical study, a 1-percentage-point increase in food prices has been associated with a 0.15-percentage-point rise in undernourishment (Headey, 2013). These risks have intensified in recent years, with developing economies—especially low-income countries—experiencing faster food price increases than developed economies (see figure II.11).

Food inflation has particularly severe consequences for children, deepening disparities in long-term development outcomes. Young children are especially vulnerable to short-term shocks in food availability (diet quality or quantity), particularly during the first 1,000 days of life. A cross-country study of 44 low- and middle-income countries finds that a 5 per cent rise in real food prices raises the risk of wasting by 9 per cent and severe wasting by 14 per cent (Headey and Ruel, 2023). Country-level studies echo these findings, showing that even small increases in food price inflation significantly raise risks of stunting and wasting among children under five years of age in countries such as Bangladesh, Ethiopia, and Mozambique (Woldemichael, Kidane and Shimeles, 2022; Sadikeen and others, 2024; Arndt and others, 2016). Inadequate nutrition (including prenatal malnutrition) during these early years has been shown to impair children's physical and neurocognitive development, reduce educational attainment, and diminish human capital

Figure II.11

Food prices, by country groupings



Source: UN DESA, based on data from FAOSTAT.
Note: The figure shows median values for country groupings.

accumulation over the life course (Ampaabeng and Tan, 2013; Heckman, n.d.; Soliman and others, 2021). These early-life deficits reduce productivity and earnings in adulthood, with sizeable aggregate losses for potential output and growth (Hoddinott and others, 2013; Alderman, Behrman and Puett, 2017).

Elevated inflation also deepens gender inequalities by increasing income insecurity and reinforcing wage gaps. In some contexts, the prices of goods and services more frequently purchased by women have risen faster than average, reflecting gendered price disparities sometimes referred to as the "pink tax" (Wishart and others, 2024). In the United Kingdom, for example, prices of women's goods increased more rapidly than those of men's goods during the pandemic (Ferber, Swindelles and van der Merwe, 2022). In many developing countries, however, gendered vulnerability stems less from product-specific price differences than from unequal intra-household resource allocation, as men's consumption and

nutritional needs are often prioritized when prices rise. Inflation also amplifies unequal care responsibilities; as food, fuel, and caregiving services become more expensive, households often substitute away from paid services towards unpaid care—a burden that falls largely on women. During the recent energy crisis in Europe, for instance, women were overrepresented in energy-poor households, as lower earnings and care responsibilities constrained their capacity to absorb price shocks (Feenstra, Laryea and Stojilovska, 2024).

Beyond these household-level effects, labour market inequalities further magnify the impact of inflation on women. They remain overrepresented in lower-paying jobs, especially in developing countries (ILO, 2020), and globally continue to earn less than men (World Economic Forum, 2025). The median monthly earnings across 37 developing economies in 2023 were about 10 per cent lower for women than for men.[8] In addition, a recent United States survey found that women were 33 per cent less likely than men to have wages adjusted for inflation (Hunt, 2022). As a result, women have less capacity to absorb price increases and are more vulnerable when inflation accelerates. Older women face additional burdens from health expenses and a large pension gap; two thirds of people without a regular pension are women, and in Organisation for Economic Co-operation and Development (OECD) countries, pension benefits for women are on average 26 per cent lower than those for men (OECD, 2021b).

Long-term and structural effects

Productive investment and growth

Persistent and volatile inflation affects investment and productivity growth.[9] The magnitude and direction of the impact depend on sectoral composition, firm characteristics, and the broader economic cycle (Cevik, Fan and Naik, 2024). Evidence from the recent inflation episode indicates that rising input costs account for most of the negative relationship between inflation uncertainty and investment (Londono, Ma and Wilson, 2024). Volatile input prices make future cost trajectories difficult to predict, discouraging firms from undertaking long-term investments. While some large firms with strong market power can pass higher costs on to consumers, many others cannot (Schito, Klimavičiūtė and Pál, 2024).

Monetary tightening in response to inflation can itself generate additional pressures. Higher interest rates raise borrowing costs and reduce expected real returns. Moreover, contractionary shocks typically have negative effects on investment that are larger and more persistent than the positive effects of expansionary shocks (Debortoli and others, 2020; Perez-Orive, Timmer and van der Ghote, 2024). Rising policy uncertainty further adds to financing costs. As firms scale back investment, productivity growth slows, raising marginal costs and potentially placing renewed upward pressure on prices. This creates the risk of a self-reinforcing cycle in which monetary tightening—despite its short-term disinflationary effect—may ultimately increase price pressures over the medium term (Fornaro and Wolf, 2023). Major supply shocks can have similar scarring effects; by curbing investment and weakening productivity growth, they create a form of supply-side hysteresis that prolongs price pressures.

Domestic factors are the primary channel through which inflation uncertainty affects investment, but cross-border spillovers also matter. During the pandemic, for example, volatile commodity prices and supply disruptions were transmitted through trade, financial markets, and capital flows, generating synchronized inflation. Financial openness, while supporting the access of firms to external markets, can also heighten their exposure to volatility and uncertainty

8 Calculation based on data from ILOSTAT.

9 There is no consensus on what constitutes harmful inflation for investment and growth. Studies place the threshold between 15 and 40 per cent—typically lower for developed countries and higher for developing economies (Pappas and Boukas, 2025).

(Binder, Ozturk and Sheng, 2025), reflecting a broader trade-off that firms face when operating in globally integrated markets.

Inflation and the monetary policy measures to contain it can make firms more shortsighted and risk-averse, discouraging projects that require long horizons and high up-front costs. Research and development (R&D) investments are especially vulnerable. Higher interest rates tighten credit conditions, particularly for firms with limited collateral, while greater risk aversion among financial intermediaries further raises the cost of capital (Lin, Dong and Wang, 2021). Growing empirical evidence indicates that monetary policy is not neutral in this regard. In the United States, Ma and Zimmermann (2023) find that a 100-basis-point tightening reduces R&D investment by 1–3 per cent, venture capital by about 25 per cent, and patenting by up to 9 per cent in subsequent years, leading to cumulative output losses of around 1 per cent after five years. These findings suggest that contractionary monetary policy can inadvertently suppress innovation and R&D investment, with long-term consequences for productivity growth, even as unchecked inflation could entail broader and more persistent costs.

Fiscal space, debt, and macroeconomic stability

Persistent inflation can narrow fiscal space for public investment, particularly in economies with limited fiscal buffers or high debt burdens, reducing resources for infrastructure, basic services, human capital, and climate resilience over the medium term. Fiscal balances may show temporary improvement since revenues adjust quickly, particularly in progressive tax systems without bracket indexation, while many expenditures, such as transfers, remain fixed in nominal terms and catch up only with a lag. Additional revenue windfalls can also arise from higher collections on ad valorem consumption taxes, excises, and import duties as nominal prices rise. However, these gains are short-lived. In 2021 and 2022, government revenues rose by more than 1 percentage point of GDP in developed economies, but in many European countries this boost was largely offset by the cost of energy and other cost-of-living support measures introduced in 2022, which amounted to 1–2.5 per cent of GDP (Mihaljek, 2023). In Argentina, inflation in the early 2020s drove energy subsidies to around 2 per cent of GDP in 2023, straining fiscal accounts and limiting space for public investment (Barragan, 2023; EIA, 2024). Over time, inflation also raises the permanent cost of providing essential services such as health, education, and food subsidies, especially where public sector wages and transfers are indexed, effectively eroding fiscal capacity despite temporary revenue gains.[10]

The impact of inflation on debt management is multifaceted. Higher inflation boosts nominal GDP, lowering the debt-to-GDP ratio, while also eroding the real value of outstanding nominal debt, as fixed interest payments are made against a larger nominal economy. At the same time, inflation raises borrowing and debt-servicing costs for Governments. The direct effects are most visible in inflation-indexed bonds, where higher prices automatically increase interest payments. These instruments can reduce borrowing costs up front—evidence from Colombia for the period 2005–2020 shows that the issuance of long-term inflation-indexed debt reduced funding costs by up to 0.7 percentage points (Cardozo and Christensen, 2025); however, unexpected inflation later increases the fiscal burden. Indirectly, monetary tightening to curb inflation pushes up policy rates and bond yields, raising refinancing costs for Governments rolling over debt or issuing new bonds.

In developing countries, fiscal challenges are often compounded by exchange rate depreciation and heightened investor risk perceptions, which

10 If the cost of essential services does not adjust, elevated inflation erodes the real value of public spending. In the United Kingdom, post-pandemic inflation lowered forecasts for the real annual average growth of public-service funding from 3.3 per cent (projected in October 2021) to 2.8 per cent (projected in March 2022) for fiscal years 2021/22–2024/25 (Zaranko, 2022).

drive up borrowing costs, reduce market access, and worsen the debt-service burden. A weaker currency raises the domestic cost of imports and external debt, adding to inflationary pressures and subsidy spending. In Egypt, for instance, the devaluation of the pound significantly strained the local-currency debt market and increased borrowing costs as risk premiums rose alongside monetary tightening. The weaker currency also raised import costs—particularly for food—in 2023 and 2024, exacerbating inflation amid renewed supply-chain disruptions in the Red Sea. In Ghana, a 40 per cent depreciation of the cedi in 2022 sharply increased the local-currency cost of servicing external debt, contributing to sovereign default (IMF, 2024a).

These dynamics can erode fiscal space precisely when resources are most needed to protect vulnerable populations and sustain progress towards the Sustainable Development Goals—particularly those focused on eradicating poverty, ending hunger, and promoting decent work and economic growth. While the weakening of the United States dollar since the beginning of 2025 has temporarily eased exchange rate pressures, the underlying structural vulnerability—such as reliance on foreign-currency borrowings—leaves some developing economies exposed to renewed external shocks that could reignite fiscal and debt stress. Historical evidence further suggests that inflation shocks are especially likely to push up government debt when they are supply-driven since such shocks tend to be associated with a tightening of financial conditions (Valencia, Gamboa and Sanchez, 2023).

With fiscal and debt strains mounting, monetizing public debt can appear attractive, especially in countries with weaker fiscal institutions and less independent central banks. Yet this path risks fuelling fresh inflationary pressures. Evidence from developed economies indicates that deficits have up to five times greater inflationary impact where fiscal governance is weak (Banerjee and others, 2022). Even the expectation of future monetization can lift inflation expectations and borrowing costs, creating a vicious cycle of rising debt and prices and heightening the risk of fiscal dominance—an issue examined in the next section.[11]

Policy tools to manage inflation

As at early 2026, inflation dynamics remain mixed, with price levels still elevated across much of the world. Pressures on prices persist and remain unpredictable, while policy uncertainty continues to influence expectations. In this environment, coherent and well-coordinated policy action is essential to consolidate disinflation gains, safeguard macroeconomic stability, and mitigate the social consequences of high prices. Looking ahead, sustaining price stability amid ongoing structural transitions and heightened uncertainty will require policy strategies that are both adaptable and mutually reinforcing. This section examines how monetary, fiscal, and industrial policies can complement one another: monetary policy anchors expectations and financial conditions; fiscal policy provides targeted support within constrained space; and industrial measures address the structural and supply-side sources of price pressures.

Monetary policy in a world of recurrent supply shocks

The global inflation surge of 2021–2023 prompted the most synchronized monetary tightening in decades, helping to ease price pressures but leaving a challenging legacy. By mid-2025, most central banks had moved beyond their most aggressive tightening phases, yet the return to

11 Fiscal dominance refers to a situation in which monetary policy is constrained by the need to finance government deficits or manage public debt sustainability. In such contexts, central banks may be pressured to keep interest rates artificially low, monetize debt, or tolerate higher inflation to ease the fiscal burden, undermining their ability to pursue price stability independently.

target inflation remains incomplete. Despite sharp declines from 2022 peaks, inflation is still elevated in many countries (see figure II.12). At the same time, new headwinds risk pushing up prices in unexpected ways, adding uncertainty to the disinflation process. In economies where growth has slowed and debt burdens remain high, monetary authorities have particularly limited room for manoeuvre. The key policy challenge is now to preserve disinflation gains without derailing fragile economic prospects or unsettling financial stability.

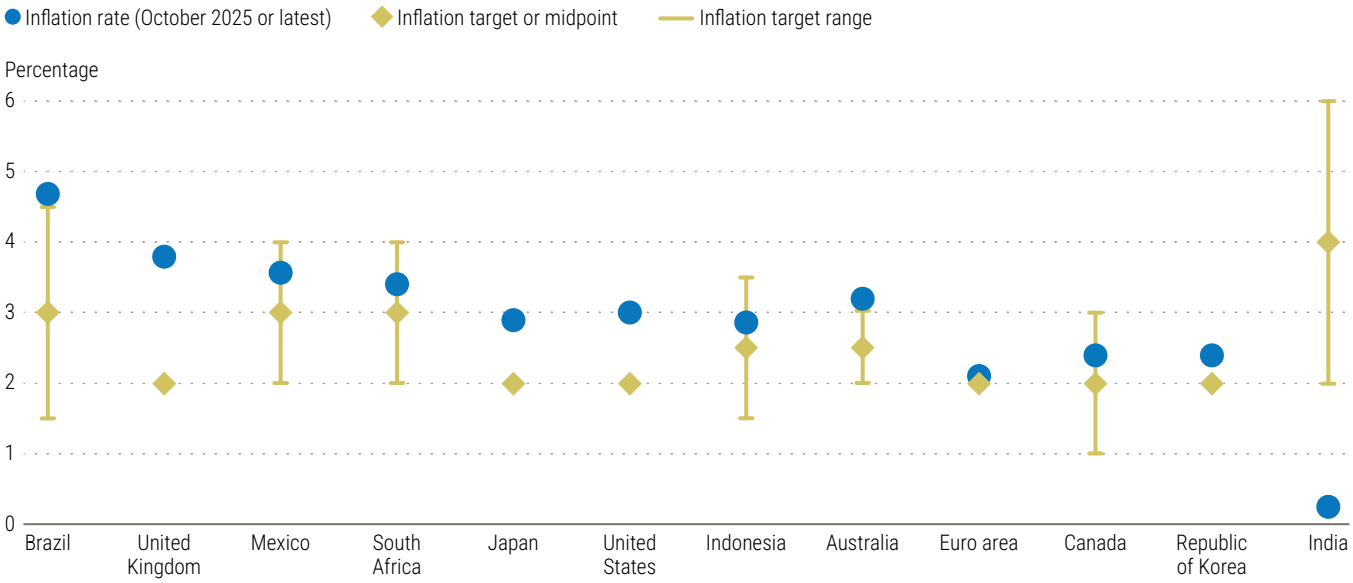
Shifting monetary policy trade-offs

The evolving supply-side landscape continues to complicate the anchoring of inflation expectations and create difficult trade-offs between price stability, growth, and financial resilience. While the acute trade disruptions have eased somewhat, the reconfiguration of global value chains and strategic industries still carries cost and efficiency implications that feed into prices. At the same time, monetary policy faces limits in addressing the root causes of such pressures; policy rate adjustments can curb demand but have only a limited impact on shortages of energy, food, or critical inputs. Moreover, households and firms now tend to adjust wages and prices more rapidly in response to repeated cost surges (Ha, Kose and Ohnsorge, 2022), amplifying second-round effects. Central banks are therefore operating in a more challenging environment, where overlapping supply-side pressures and heightened uncertainty make it harder to distinguish temporary fluctuations from persistent inflationary forces.

As global inflation receded in 2024, most central banks began to ease policy, but their paths quickly diverged (see figure II.13). The European Central Bank and the Bank of England continued reducing their benchmark rates in the first half of 2025, while in the United States, the Federal Reserve lowered its policy rate to 4.0–4.25 per cent in September 2025 after keeping it unchanged for the first eight months of the year. The Bank of Japan maintained its gradual monetary policy normalization, with cautious tightening measures expected to extend into 2026. Several developing economies—including India, Indonesia, and Mexico—were able to lower rates after front-loading aggressive hikes in 2021 and 2022. By contrast, a number of low-income and fragile economies—including Burundi, Haiti,

Figure II.12

Actual inflation and inflation targets in selected economies



Source: UN DESA, based on data from Trading Economics.

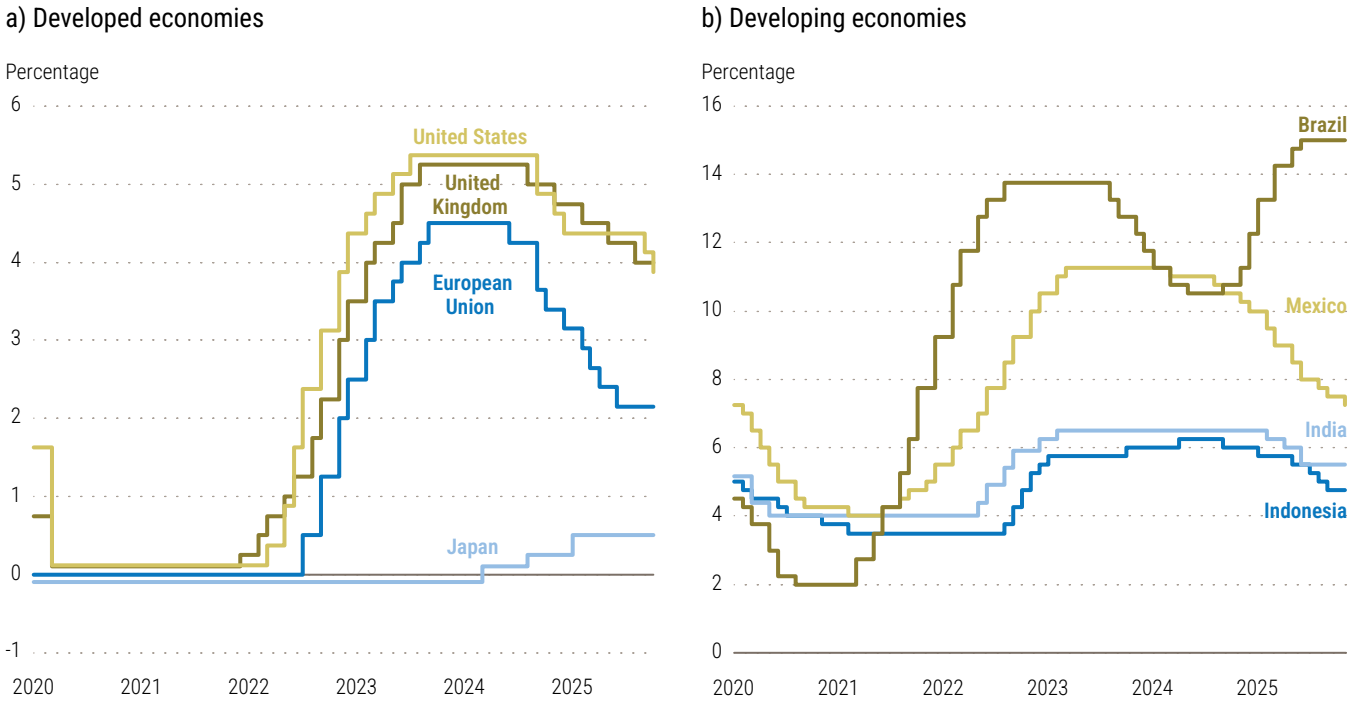
Myanmar, South Sudan, Sudan, and Yemen—remain trapped in double-digit inflation, sharp currency depreciations, and limited policy space.

The divergent positions of central banks in 2025 partly reflect differences in how countries managed earlier shocks and in their institutional resilience. In some developing economies, including Chile and Mexico, early and forceful tightening anchored expectations and created room to ease policy ahead of developed economies. Other countries, including India and Indonesia, relied on complementary tools—foreign exchange intervention and prudential measures—to cushion capital outflows. By contrast, economies with weaker institutions or heavier exposure to food and energy imports faced sharper exchange rate pass-through and remain more vulnerable to renewed shocks. This underscores the importance of robust prudential safeguards—such as capital and reserve requirements, borrowing and lending restrictions (especially in foreign exchange), and limits on interbank exposures—alongside monetary policy measures (IMF, 2025).[12]

A key dimension of resilience lies in the credibility and independence of central banks. While legal (de jure) independence is historically high (Romelli, 2024), actual (de facto) independence can be constrained by fiscal dominance (Dall'Orto Mas and others, 2020). In an environment with increasing deficit financing, central banks may face pressure to keep rates lower for longer, even at the cost of inflation control. Such pressures can intensify when supply constraints coincide with fiscal stress. In this evolving landscape, monetary policy faces increasingly complex trade-offs between inflation, economic growth, and financial stability, making the safeguarding of central bank credibility and independence more vital than ever.

Figure II.13

Policy interest rate in selected economies



Source: UN DESA, based on data from CEIC.

12 Turbulence has underscored the financial-stability constraints on monetary policy. Episodes such as the gilt turmoil in the United Kingdom in 2022 and stress in United States regional banks in 2023 show how rapid rate hikes can expose vulnerabilities. The weaker banking systems in some developing economies heighten such risks. These experiences underscore the need for strong macroprudential safeguards.

Anchoring expectations amid volatility

Maintaining price stability and anchoring inflation expectations remain core objectives of monetary policy, and in several economies central banks also have explicit mandates to support employment. Recent episodes show how quickly household expectations can shift when shocks are viewed as persistent rather than transitory. Empirical studies indicate that consumer inflation expectations are highly sensitive to changes in the prices of frequently purchased goods, particularly after substantial increases. Moreover, price shocks to essential items have a stronger and more persistent effect on consumer expectations than do other price changes (Anesti, Esady and Naylor, 2025). This persistence reflects the outsized role of essentials in shaping inflation as perceived at the household level, which in turn strongly influences short- and medium-term expectations. While central bank policy is generally designed to "look through" temporary supply-side shocks, this holds only insofar as inflation expectations remain anchored and second-round effects are contained. When such shocks threaten to de-anchor expectations or trigger sustained wage and price adjustments, central banks may intervene even if the original disturbance is considered transitory (Bodenstein, Erceg and Guerrieri, 2008).

Clear and consistent communication during high-inflation episodes helps reassure the public and lowers medium-term expectations (De Fiore and others, 2024). Broader efforts to promote financial literacy and showcase policy achievements further strengthen anchoring. Strong institutional frameworks, independence, and accountability enhance trust in monetary authorities, reducing inflation persistence and stabilizing expectations. Forward guidance became a key part of the monetary policy toolkit relatively recently, emerging after the global financial crisis as central banks sought new ways to influence expectations when policy rates approached the effective lower bound. Initially, it helped anchor expectations amid low and stable inflation, when central banks could credibly signal a predictable path for interest rates. However, in a world of recurrent supply shocks and heightened uncertainty, such commitments may be harder to sustain. When shocks alter the inflation outlook, previously issued guidance can quickly lose relevance, potentially undermining credibility. The challenge for policymakers is to balance transparency and flexibility, providing clear signals without creating expectations that are inconsistent with rapidly changing conditions (BIS, 2024; Coibion and Gorodnichenko, 2025).

Central banks have progressively refined their communication strategies, shifting from highly technical reports to more transparent and accessible mechanisms. They now rely more on formal statements, press conferences, policy reports, and social media to broaden outreach and engagement. In developed countries, several central banks—including the Bank of Canada, the Bank of England, and the Sveriges Riksbank in Sweden—also use forward guidance and have introduced scenarios and policy projections in their communications. At the same time, the recent inflationary spike has revealed the limitations of "looking through" supply shocks.[13] The 2021–2023 inflation surge illustrated how repeated shocks, interacting with tight capacity constraints, generated persistent inflation (Maechler, 2024). With shocks more frequent and lasting, expectation management has grown both harder and more essential; sustaining credibility now depends not only on interest rate moves but also on the ability to frame shocks, explain trade-offs, and maintain public confidence.

Adapting monetary policy frameworks

Central bank framework reviews seek to respond to changing contexts for monetary policy (see table II.1). These reviews typically cover a wide range of topics, such as the central

13 The "looking through" approach means central banks may initially tolerate temporary supply shocks without tightening policy, provided inflation expectations remain anchored and the shock is not persistent.

Table II.1

Reviews of central bank monetary policy frameworks in selected developed economies, 2000–2025

Institution	Latest review initiator	Reviewer(s)	Recurrence	Latest review and date	Prior reviews
Bank of Canada	Government and central bank	Internal and external (joint with Government)	5 years	December 2021	2001, 2006, 2011, 2015
Bank of England	Court of Directors of the Bank of England	External	None	April 2024	2012, 2015
Bank of Japan	Central bank	Internal	None	December 2024	2016, 2021
European Central Bank	Central bank	Internal	Periodic	June 2025	2003, 2021
Federal Reserve	Central bank	Internal	Roughly every 5 years	August 2025	2020
Reserve Bank of Australia	Government	External	5 years (recommended)	March 2023	N/A
Reserve Bank of New Zealand	Government and central bank	Internal and external	5 years	June 2023	2018
Norges Bank	Central bank	Internal	None	May 2024	2002
Sveriges Riksbank	Government	External	5 years	March 2022	2007, 2011, 2016

Source: UN DESA, based on data from Gordon, Ortiz and Silk (2025).

bank's recent performance, policy strategy, instruments, and communication practices. They also offer an opportunity to revisit or reaffirm inflation targets and evaluate whether other goals—such as employment and output—should be incorporated into the monetary policy framework. Recent reviews highlight the need to preserve policy flexibility, employ broader analytical approaches to better capture supply-side dynamics, and maintain readiness to deploy unconventional instruments such as asset purchases and targeted lending facilities (Carstens, 2025; Gordon, Ortiz and Silk, 2025). For instance, the 2021 review carried out by the Bank of Canada concluded that a flexible inflation-targeting framework allows timeline adjustments for restoring inflation while also maintaining stability, strengthening economic resilience to shocks, lowering volatility, and boosting overall economic performance.

A notable development among many central banks across the world is the consideration of climate change risks in their operational frameworks and public communications, reflecting a gradual expansion of focus beyond traditional monetary and financial stability objectives. For instance, the European Central Bank has integrated climate risks into its policy operations, identifying transition and physical risks as priorities for 2024 and 2025 (ECB, 2024).[14] The Bank of England and the Sveriges Riksbank have also incorporated climate risks into their risk assessments. Yet there is no consensus on how monetary policy should respond (Krogstrup and Oman, 2019). Most central banks recognize that they cannot mitigate climate shocks in isolation—highlighting the importance of coordinated action across monetary, fiscal, and industrial policy to contain second-round inflationary effects.

14 Transition risks are related to the process of adjustment towards a low-carbon economy. Physical risks from climate change include economic losses from acute events such as storms and wildfires, chronic impacts such as rising sea levels, and indirect effects such as ecosystem degradation and water scarcity.

Fiscal policies for the short and long terms

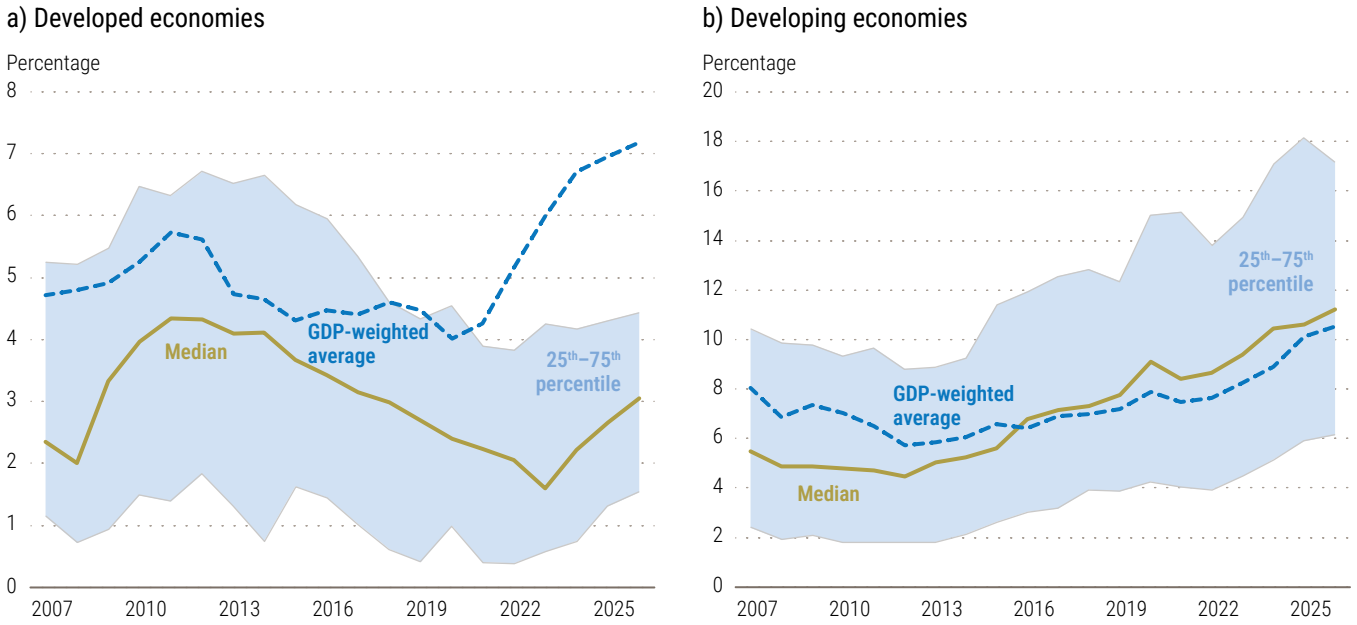
Fiscal policy plays an important role in inflation dynamics—not only as a potential source of price pressures and thus an instrument of macroeconomic stabilization, but also as a critical instrument for protecting vulnerable groups and investing in longer-term resilience. Social spending can help stabilize demand and shield vulnerable groups, while well-targeted public investment in areas such as energy, food systems, and logistics can ease supply constraints and reduce inflation risks over time. In contrast, broad-based subsidies or poorly targeted tax cuts often distort incentives, widen fiscal deficits, and undermine price stabilization efforts.

In periods of high inflation, fiscal restraint can complement monetary tightening by curbing demand and reducing the need for more aggressive interest rate hikes. A credible medium-term fiscal framework also helps anchor inflation expectations and prevents fiscal dominance—where unsustainable public finances undermine the effectiveness of monetary policy. While these principles apply broadly, their implementation varies across countries. Developed economies typically benefit from stronger automatic stabilizers, well-anchored expectations, and deeper financial markets. In contrast, developing economies often face tighter fiscal constraints, greater exposure to food and energy price shocks, and weaker institutional coordination. The appropriate fiscal stance also depends on the underlying drivers of inflation.

Being able to credibly commit to a responsible fiscal trajectory is essential. Even forceful monetary tightening may fail to anchor expectations if fiscal signals remain expansionary (Carvalho and Nechio, 2023). Risks of fiscal dominance are particularly acute where concerns over debt sustainability constrain central banks from raising interest rates. In many countries, rising interest payments are already consuming a growing share of fiscal revenues (see figure II.14), narrowing the space for countercyclical measures and constraining the fiscal–monetary coordination required to contain inflation. The steep rise in the GDP-weighted average also reflects the greater capacity of large developed economies to deploy

Figure II.14

Government interest expenditure as a share of revenue



Source: UN DESA, based on data from the IMF World Economic Outlook database, October 2025.
Note: Panel a) The recent increase in the GDP-weighted average for developed economies is driven by higher interest payments in the United States.

substantial fiscal stimulus—capacity that has in some cases contributed to persistently large fiscal deficits and elevated debt levels, including in the United States. Because large developed economies play a central role in shaping global financial conditions, prolonged fiscal imbalances in these economies could amplify inflationary pressures or trigger abrupt adjustments in capital markets, posing spillover risks and complicating monetary management elsewhere.

Country experiences highlight the complex trade-offs between fiscal sustainability and inflation control. In the United States, record deficits, rising safety-net spending, and mounting debt have raised concerns about long-term fiscal sustainability and inflationary risks—though institutional credibility and deep financial markets offer considerable buffers. Recent research indicates that even modest but persistent deficits can elevate inflation risks, with monetary tightening often shifting the burden to households and firms through higher borrowing costs (The Budget Lab at Yale, 2025). These risks have been especially acute in several developing economies, where fiscal imbalances have eroded policy credibility and contributed to persistent inflation over time.[15]

More broadly, high public debt has constrained fiscal space in many economies as episodes of sustained debt reduction have become increasingly rare. Jamaica stands out as a notable exception: through consistent primary surpluses, the adoption of fiscal rules, and broad-based reform consensus, the country successfully halved its debt-to-GDP ratio between 2012 and 2023 (Eichengreen, 2025).

The design of fiscal interventions is critical to both their effectiveness and their impact on inflation. Targeted transfers, time-bound tax relief, and measures to ease logistics bottlenecks tend to be more effective than broad subsidies, which distort prices and strain public finances. Governments have generally relied on a mix of price-based tools (such as tax cuts, subsidies, and price controls) and income-based tools (such as cash transfers and tax credits). To be effective, interventions should remain targeted, temporary, and data-driven—with automatic triggers, clear exit strategies, and robust monitoring to limit fiscal drift and safeguard credibility. Poorly designed or prolonged measures risk creating inefficiencies, eroding the fiscal space, and fuelling inflationary pressures.

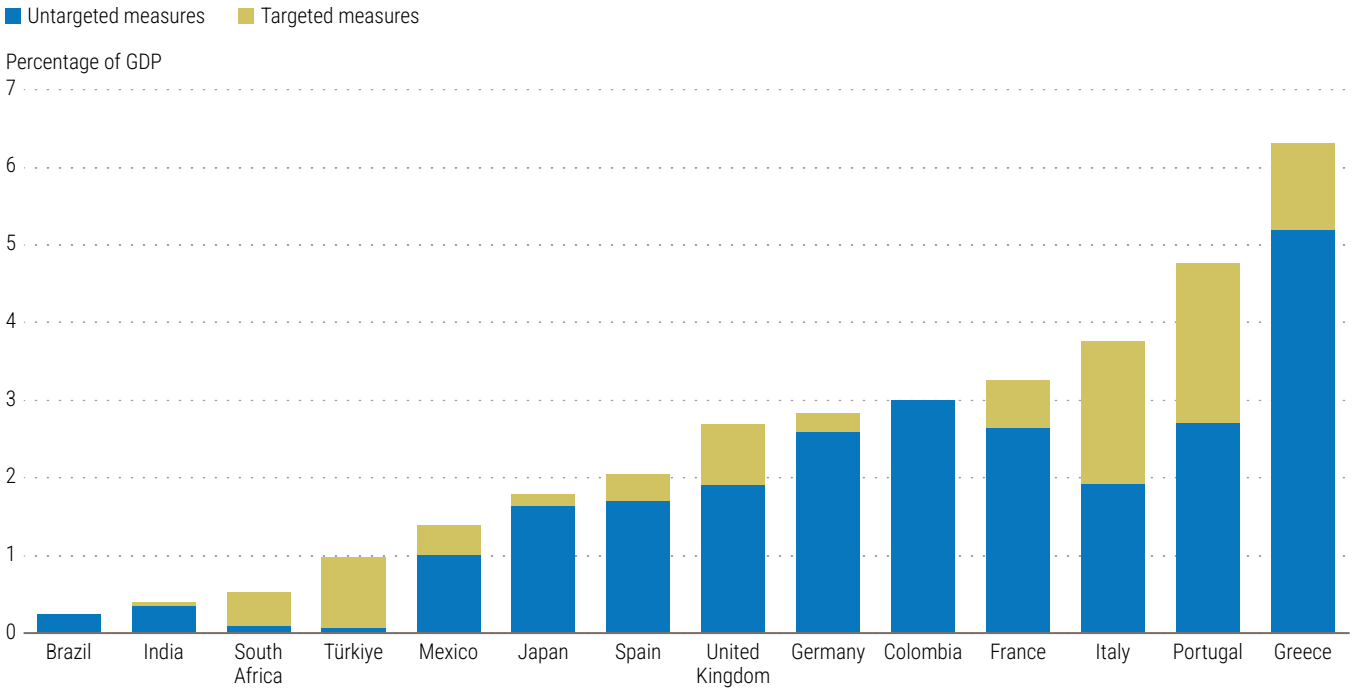
During the recent inflationary episode, developed economies were particularly proactive. Amaglobeli and others (2023) note that cash transfers, value added tax (VAT) cuts, and price subsidies were the most widely used tools across both developed and developing economies, with price freezes and customs duty reductions also common. However, cash transfers were rarely deployed in low-income countries. Backed by stronger fiscal positions, developed economies implemented larger and longer-lasting interventions. Most measures were aimed at easing the burden of rising prices on households and firms, though their inflationary impact varied. Broad subsidies and tax cuts risked fuelling demand and price pressures, while targeted transfers tended to be more neutral. These diverse effects underscore the trade-offs between providing relief and containing inflation.

In the European Union, energy-related fiscal support in 2022 and 2023 amounted to 3.2 per cent of GDP (Dao and others, 2024). Most measures were debt-financed, though some relied on windfall taxes levied on energy companies' excess profits (Duparc-Portier and Figus, 2024). Developing economies, constrained by limited fiscal space, adopted more modest and short-lived responses. Across OECD economies, price-based measures absorbed about two thirds of fiscal support and were often poorly targeted, especially in the case of energy subsidies (see figure II.15). Income-based measures, though smaller in scale, were generally better targeted—with 80–90 per cent of

15 Examples include Argentina, Ghana, Pakistan, and Sri Lanka, where repeated episodes of large fiscal deficits and rising debt burdens have undermined policy credibility and contributed to persistent inflation.

Figure II.15

Cost of energy-related policy support in 2022 and 2023 in selected economies



Source: UN DESA, based on Castle and others (2023).

benefits in some cases reaching the lowest income deciles (Amores and others, 2024).

Rising housing costs have become a significant driver of inflation as constrained supply has struggled to keep up with robust demand, particularly in urban areas. Higher rents and house prices have strained household budgets in both developed and developing economies (see box II.3), compounding the impact of food and energy inflation. Reducing barriers to expanding housing supply can be part of the solution; this might entail altering zoning rules or access to financing, exploring fiscal interventions such as tax relief for first-time buyers, or investing in affordable and social housing, for example.

Supporting vulnerable populations

Wide-ranging policy tools—including VAT cuts, price subsidies, and cash transfers—have been deployed to help mitigate the effect of inflation on the vulnerable. VAT cuts are politically attractive during inflation surges and easy to implement, but their broad nature makes them costly and poorly targeted. While earlier evidence pointed to incomplete pass-through to consumer prices (Benzarti and Carloni, 2019), recent experiences suggest that VAT reduction measures have been effective in curbing price pressures in some contexts. They were widely adopted in the European Union between 2021 and 2023, but far fewer low-income countries relied on them given their dependence on consumption taxes for revenue. In Portugal, a temporary VAT cut for food was fully passed through and reduced inflation by about 0.7 percentage points (Bernardino and others, 2025), while in Poland, the pass-through was initially partial but reached near-complete levels after several months (Jaworski and Olipra, 2025).

Price subsidies, especially for food and energy, are widely used. While they help contain immediate price pressures, they often disproportionately benefit higher-income households and carry high fiscal costs (Hemmerlé and others, 2023). Targeted cash transfers are

Box II.3

Housing prices and inflation dynamics in developed economies

Affordable housing is critical for individual well-being and broader socioeconomic development, playing a key role in labour mobility, employment choices, educational outcomes, and many other dimensions of human welfare. Insufficient affordable housing combined with rapid urbanization may drive millions of households into slums and informal settlements (UN-Habitat, 2022). Rising housing costs also exacerbate inequality, with disproportionate impacts on women, youth, and migrants (OECD, 2021a).

Housing costs, which include rent, imputed rent for owner-occupied housing, maintenance, and utilities, often represent the largest component of household consumption, accounting for 23 per cent of total spending across Organisation for Economic Co-operation and Development (OECD) countries (OECD, 2025b).[a] In the United States, housing makes up over one third of the consumption basket, making it a key driver of inflation (United States Bureau of Labor Statistics, 2025). One in three low-income households in the OECD economies—and more than half of low-income households in the United States—are overburdened by housing costs, spending more than 40 per cent of their disposable income on housing. Given their high weight in household budgets, elevated housing costs can have long-lasting effects, even after initial price shocks subside.

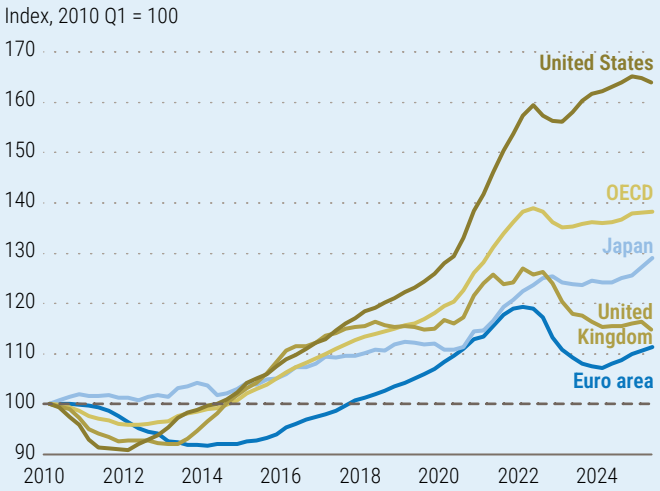
House prices have increased significantly in many countries over the past two decades, straining household budgets and complicating important life decisions (see figure II.3.1). Housing prices have risen sharply across the major economies, far surpassing their pre-global-financial-crisis peaks. Between the third quarter of 2015 and the second quarter of 2025, real house prices in the OECD countries increased by roughly one third, with some of the sharpest hikes occurring in the United States. Although housing prices declined in 2022 and 2023 amid aggressive monetary tightening, trends have since diverged. In many countries, prices have more than recovered, while in the euro area and the United Kingdom they remain below pre-tightening levels.

Key drivers of house price increases include supply constraints such as land-use regulations, local opposition to new developments (NIMBYism),[b] and limited construction capacity (Duca, Muellbauer and Murphy, 2021). Despite temporary declines in rental prices during lockdowns, the COVID-19 pandemic further strained affordability in many countries through supply chain disruptions and rising construction costs. Meanwhile, many developed-country Governments have scaled back the supply of subsidized housing, reducing an important buffer for low-income households (Lee, Kemp and Reina, 2022). Indeed, the share of social housing has decreased in nearly all OECD countries, falling from an OECD average of 8.5 per cent of rental dwellings around 2010 to 7 per cent around 2022.[c]

On the demand side, changing preferences have intensified pressures, particularly since the pandemic. Long-term drivers—such as urbanization, climate change, and ageing infrastructure—are likely to further challenge affordability, especially in fast-growing cities. Moreover, market inefficiencies—such as information asymmetries, high transaction costs, and limited

Figure II.3.1

Real house price indices



Source: UN DESA, based on data from the OECD House Price Tracker.
Note: The OECD house price indices include residential property price indices compiled by official statistical agencies.

a In developing countries, housing and utilities typically account for less than food and non-alcoholic beverages in the share of CPI baskets, though there is significant variation even between developing countries (see box II.1).
b NIMBY is an acronym for "not in my back yard", characterizing opposition by residents to proposed real estate and infrastructure developments in their local area, largely based on the anticipation of potential negative impacts.
c OECD (2025b), indicator PH4.2 (social rental dwellings stock).

substitution between owning and renting—create a mismatch between housing supply and demand and amplify house price speculation (Duca, Muellbauer and Murphy, 2021). Discrimination in housing markets adds further market friction, leading to suboptimal matching and higher housing costs (Lee, Kemp and Reina, 2022).

Although these challenges are widely recognized, effective policy responses are politically and economically complex. Infrastructure investments and demand-side subsidies often strain public budgets. Supply-side reforms, such as liberalizing zoning laws or promoting densification, frequently encounter political resistance (Glaeser and Gyourko, 2018). Nevertheless, some countries have bucked the trend; Finland, Poland, and Qatar have all seen notable improvements in housing affordability since 2008. Which policy levers are most effective depends on the country context, and success hinges on gradual implementation, robust governance, and targeted policies to maintain public support (OECD, 2021a). Ultimately, ensuring affordability requires a systemic, multisectoral approach combining fiscal, urban planning, and regulatory tools.

One example of successful housing policy is Finland, which has built its comprehensive Housing First model on the principle that decent, safe housing is a basic human right. Indeed, housing is not just an item in a consumption basket; it is a prerequisite for inclusive growth, resilient communities, and sustainable urban futures. Countries must therefore innovate, adapt, and learn from each other. The cost of inaction will be borne by those least able to move.

Author: *Julian Rodrick Slotman*

generally more efficient and equitable (Bonnet and others, 2025), directing support to those most affected. The expansion of the Auxílio Brasil programme to over 20 million families in Brazil and several one-off transfers in Europe during 2022 illustrate how such programmes can protect human welfare even in times of high inflation.

Each policy tool comes with distinct advantages and disadvantages (see table II.2). VAT cuts provide broad relief but erode revenues and may result in asymmetric price adjustments when withdrawn (Benzarti, Garriga and Tortarolo, 2024). Subsidies and transfers can be more efficient but have higher administrative costs and can stimulate extra demand, tending to drive inflation up (Erceg and others, 2024). The experience of France illustrates the importance of policy design; its 2022 fuel subsidy was almost fully passed through to consumers but fiscally costly and poorly targeted, while the 2023 shift to income-based transfers was more efficient though less generous. In Kenya, temporary fuel and maize-flour subsidies in 2022 helped contain price spikes but proved fiscally unsustainable; in line with commitments supported by the International Monetary Fund (IMF), the authorities phased them out by the end of the year and expanded targeted cash transfers under the Hunger Safety Net Programme and Inua Jamii umbrella (IMF, 2024b).

In Nigeria, the 2023 removal of fuel subsidies—part of a broader fiscal consolidation and reform agenda—was accompanied by targeted cash transfers to provide a cushion for low-income households, helping to restore fiscal sustainability while protecting the most vulnerable (IMF, 2024c). Technology is a key component of efficient delivery. In Latin America, digital payment platforms—most notably Pix in Brazil—have enabled the rapid scale-up of transfers. By contrast, gaps in identity systems and financial access continue to constrain effectiveness in many economies in sub-Saharan Africa and South Asia (World Bank, 2024).

Price stabilization and export controls

Price controls—especially as implemented in the past—have well-recognized negative effects, including supply shortages, distorted incentives, and weaker investment (Guénette, 2020). A further concern is that temporary controls can become politically difficult to withdraw, increasing the risk

Table II.2

Fiscal measures and industrial strategies, 2021–2023

Fiscal measures	Objectives (→) / Trade-offs and risks (⚠)	Country examples, 2021–2023
VAT cuts on essentials	→ Reduce headline inflation; risk higher core inflation if prolonged ⚠ High fiscal cost	Brazil, Türkiye, Viet Nam, several European Union countries
Price subsidies	→ Contain price spikes in food/energy; broad and immediate relief ⚠ Regressive, high fiscal cost, and may distort incentives	Chile, China, Egypt, Indonesia, Mexico, Nigeria, Pakistan, Senegal, Türkiye, several European Union countries
Cash transfers	→ Protect welfare and reduce inequality; more efficient and equitable ⚠ Require administrative capacity; risk of fuelling demand if prolonged	Argentina, Brazil, India, Jamaica, South Africa, United States, several European Union countries
Price stabilization	→ Limits headline inflation and second-round effects in essential goods (food/energy) ⚠ Temporary relief, risks inefficiency, distortions, weak enforcement	Bangladesh, Colombia, Germany, Mexico, Spain, several European Union countries
Export restrictions	→ Temporarily stabilize domestic supply and prices ⚠ Distort markets, invite retaliation, raise global prices, worsen food insecurity in importers	Argentina, Egypt, India, Indonesia, Russian Federation, Türkiye, Viet Nam
Industrial policy	**Objectives (→) / Trade-offs and risks (⚠)**	**Country examples, 2021–2023**
Industrial policy	→ Enhances supply resilience; supports domestic production of key goods (energy, fertilizers, food) ⚠ Fiscal cost, risk of misallocation, trade frictions	Brazil (Nova Indústria 2024), India (National Mission on Edible Oils), Egypt (Egypt Vision 2030 and the National Structural Reform Programme), South Africa (industrial master plans), United States (CHIPS and Science Act of 2022)
Buffer stocks/ strategic reserves	→ Smooth domestic supply, absorb shocks, and stabilize prices ⚠ Carrying costs, inefficiency or leakage	China, India, Ethiopia, several ASEAN countries, United States

Source: UN DESA.

that short-term measures will turn into permanent distortions. However, recent experiences present more nuanced outcomes. Spain, for example, capped the cost of gas for power generation during the electricity crisis in 2022 and 2023, funded by windfall taxes on lower-cost energy producers. This helped decouple electricity from gas prices and contributed to lower and faster-declining inflation than in much of the euro area. Price stabilization measures were also implemented in countries such as Bangladesh, Germany, Indonesia, and Mexico, often targeting energy or food. Importantly, most differed from the generalized, prolonged controls of past decades.

While targeted controls can provide some support, their effectiveness is far from guaranteed. Evidence from the Precios Cuidados programme in Argentina between 2007 and 2015 shows limited and short-lived effects: regulated prices fell slightly but rebounded once controls ended, while retailers introduced higher-priced alternatives that raised average prices (Aparicio and Cavallo, 2021). Weak enforcement and substitution further reduced effectiveness. This underscores that even targeted measures can provide temporary relief but require careful design and strong complementary policies to avoid distortions and ensure durability.

Export bans, quotas, and taxes—most commonly applied to food, energy, and fertilizer—limit the ability of producers to sell to external markets. While such measures can temporarily ease prices at home, they carry high costs—increasing inefficiencies, weakening incentives, inviting retaliation, and tightening global supply—that keep international prices elevated (IFPRI, 2024).[16]

16 Such restrictions are also generally discouraged under the GATT/WTO framework, as they are considered more trade-distorting than tariffs.

The burden falls heavily on poorer countries, which rely on imports and lack fiscal buffers. In countries imposing such restrictions, while consumers may be protected from price hikes, producers lose access to more lucrative markets and, over time, the incentive to invest. Export restrictions on grains, fertilizers, and other staples during the war in Ukraine fuelled global food inflation and by early 2022 had affected over 16 per cent of food imports for least developed countries (UNCTAD, 2022). While such measures may provide brief domestic relief, they tend to magnify global volatility, undermine food security, and deepen deprivation in importing countries (Martin, Mamun and Minot, 2024).

Diversifying and strengthening supply chains

Industrial policies to ease supply-side constraints

Industrial policy has returned to the forefront of economic debate. Industrial policies are government interventions intended to develop sectors deemed critical for a country's progress. They can advance structural transformation or strengthen national security, but they can also serve as a means to contain the risks of price shocks in selected sectors. While monetary and fiscal measures primarily influence demand or provide short-term relief to vulnerable groups, industrial policies can expand productive capacity, reduce vulnerabilities to external shocks, and stabilize markets for key inputs—thereby supporting price stability and lowering the risk of future price volatility.

The inflation surge of 2021–2023 exposed fragilities in food, energy, and fertilizer supply chains, prompting many Governments to adopt supply-side measures in their stabilization toolkit. By strengthening logistics, processing systems, and innovation, Governments can mitigate recurring shortages that fuel price spikes and volatility. Strategic reserves further enhance resilience to shocks (addressed in the next subsection). Unlike short-term subsidies or price controls, these measures target structural bottlenecks, aligning supply with demand and reducing external dependence. In this way, industrial policy complements fiscal and monetary tools by addressing the root causes of inflation and enhancing medium-term resilience (Juhász, Lane and Rodrik, 2024).

Developments in India and Brazil illustrate how industrial policies that address structural supply constraints can mitigate inflationary pressures. In India, programmes to expand the domestic production of edible oils and pulses, modernize fertilizer and storage infrastructure, and improve logistics—even if conceived mainly to boost rural incomes and food security—have reduced dependence on imports and exposure to global shocks (India, Ministry of Agriculture and Farmers Welfare, 2024; FAO, 2023). In Brazil, the Nova Indústria Brasil strategy aims to strengthen domestic manufacturing capacity, technological upgrading, and supply chain resilience across key sectors, helping reduce input costs and import dependence. Complementing these efforts, long-standing public R&D investments through Embrapa have enhanced agricultural productivity and self-sufficiency in key inputs, easing cost pressures along the food chain (Akerman and others, 2025). In these cases, inflation-proofing emerged as a side benefit of tackling the structural sources of price pressures—through investment, innovation, and supply diversification.

These experiences show how industrial policy can complement macroeconomic measures in managing inflation. Supply-side interventions tackle the structural sources of price pressures, particularly in food, energy, and fertilizer markets, where shocks are frequent and regressive. The main contribution of industrial policy lies in reducing supply and price volatility, strengthening self-sufficiency, and easing pressure on fiscal and monetary responses. Policy implementation requires sustained investment, careful targeting, and strong governance to avoid inefficiencies, with effects that are medium-term rather than immediate. In an uncertain global

environment, durable price stability ultimately rests on addressing structural vulnerabilities in essential sectors while also ensuring that industrial policy complements—rather than substitutes for—demand-side instruments.

Buffer stocks and strategic reserves

In the current context of recurring supply shocks, public stockholding of essential commodities has re-emerged as an important policy instrument (Manduna, 2024). Buffer stocks can help smooth domestic price volatility for a limited set of staples; however, they are not primarily instruments for broad inflation control and are often closely linked to agricultural support schemes and implicit subsidies. Typically accumulated in times of abundance and released during shortages, they help stabilize markets, while strategic reserves are earmarked for acute disruptions. Price bands are often used, with a procurement floor price that secures the incomes of farmers and a ceiling that triggers stock releases to shield consumers (Amaglobeli, Benson and Mogues, 2024). Evidence from Ethiopia and Ghana shows that even modest reserves can help stabilize grain markets when combined with broader supply measures (Abokyi, 2021; Rashid and Lemma, 2011). At the regional level, the ASEAN Plus Three Emergency Rice Reserve illustrates how cooperative schemes can help countries pool risks and reduce costs.

Several countries are now expanding long-standing strategic reserves, while others are establishing new ones in response to recent crises. The United States Strategic Petroleum Reserve exemplifies how publicly owned stockholdings can enhance energy security and mitigate price shocks; by releasing crude oil during supply disruptions in 2022, when gasoline prices were surging, the Strategic Petroleum Reserve helped anchor market expectations through its signalling effect as well as stabilizing refinery operations (United States Department of the Treasury, 2022). Similar holdings are maintained elsewhere. Egypt maintains at least six months of wheat reserves, and vast wheat holdings in China helped buffer domestic markets during the 2022 price spike. The European Union, which stabilizes food supply through its Common Agricultural Policy, has recently gone further by announcing plans for strategic stockpiles of essential goods—including food, medicines, and critical raw materials—as part of its 2025 resilience package. Renewed interest also reflects lessons from the past dismantling of reserves during structural adjustment (FAO, 2021), alongside improved monitoring and real-time data that could reduce mismanagement risks (Weber and Schulken, 2024).

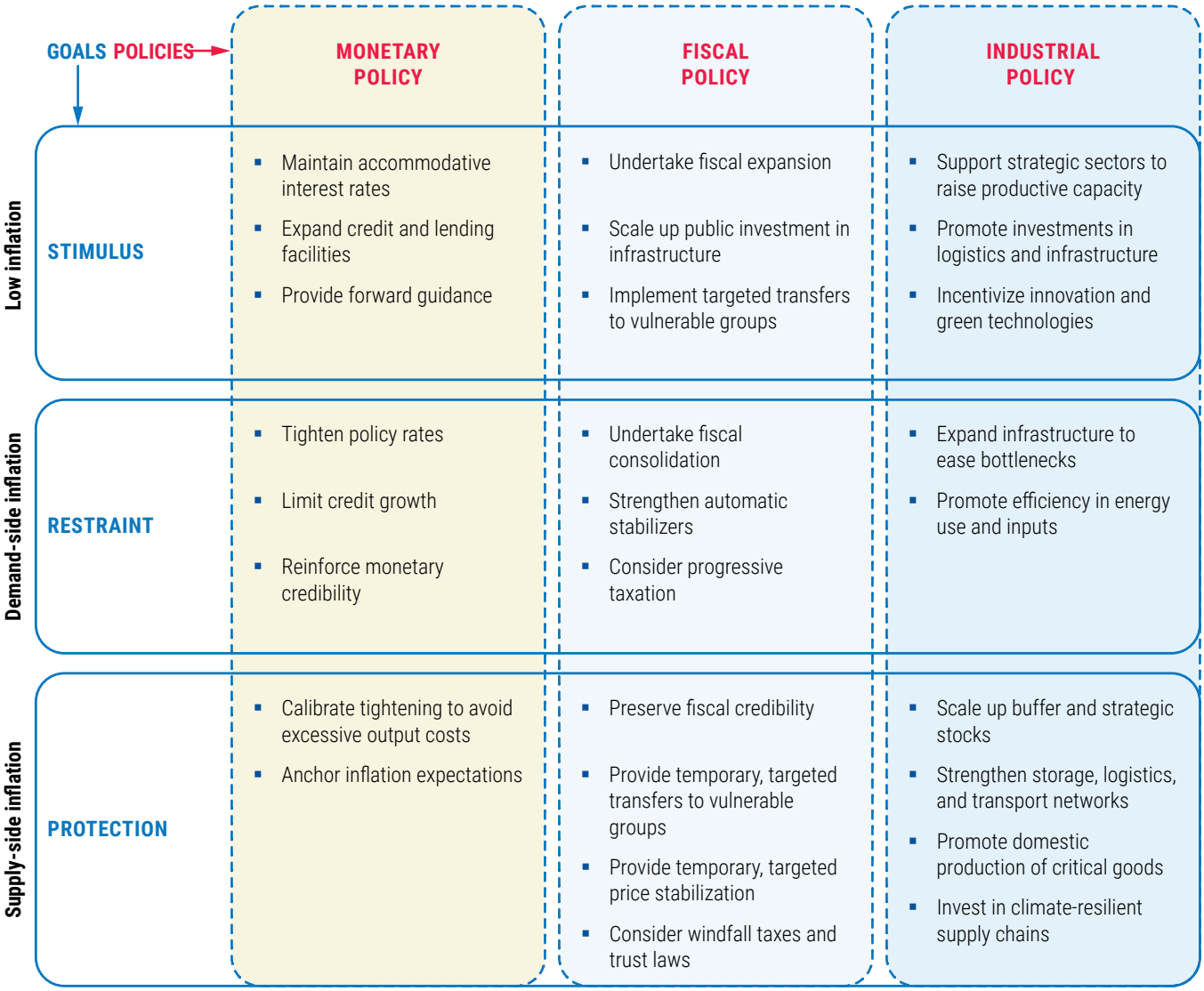
In terms of downsides, strategic reserves are costly, can crowd out private storage, and may be vulnerable to political capture (Gilbert, 2011; Williams and Wright, 1991). A balanced approach distinguishes between price buffers and crisis reserves, facilitates additional private storage, and enhances transparency and regulation (Beaujeu, 2016). The World Bank, Food and Agriculture Organization of the United Nations (FAO), and United Nations World Food Programme (2025) caution that stockholding should complement rather than replace markets, trade, and investment. Without parallel investments in production, storage, and trade, reserves risk becoming fiscally burdensome and distortive, ultimately undermining price stability.

Policy alignment

In keeping with the diverse set of factors that can set off inflationary episodes, the policies needed to manage them also come from different domains and must work in tandem (see figure II.16). Monetary policy by itself is less effective when inflation stems from supply constraints rather than excess demand. Aggressive tightening can impose heavy output and employment costs, and may even prove counterproductive if it raises borrowing costs and makes the investments needed to ease supply shortages more difficult. In such cases, fiscal policy can play a complementary role by being targeted, rules-based, and shock-responsive in the short run and investment-oriented in the

Figure II.16

The role of monetary, fiscal and industrial policy in managing inflation



Source: UN DESA, based on Prieg and others (2025).

medium run. This helps contain second-round effects, lower the fiscal bill of future shocks, and reinforce credibility. Industrial policy supports both by addressing structural drivers of inflation and expanding capacity and resilience in food, energy, and logistics.

Misalignment across policy instruments can undermine effectiveness. When fiscal policy is strongly expansionary while monetary policy tightens, inflation expectations may become unanchored and borrowing costs are likely to rise (BIS, 2023)—especially if fiscal dominance threatens central bank independence. Conversely, aggressive tightening of both monetary and fiscal policy can trigger a recession, underscoring the need for balance. Credibility is further eroded by time inconsistency, as political pressures can push Governments to prioritize short-term relief over long-term stability. The response of Mexico to the 2021–2023 inflation episode shows a well-aligned policy mix. The central bank raised rates early while the Government maintained fiscal discipline, complemented by significant

minimum-wage increases and targeted price controls on a basket of essential foods, negotiated with the private sector. This combination cushioned households, anchored expectations, and helped reduce food inflation, though growth remained modest as tighter financial conditions weighed on investment and consumption.

Coordination is essential to successful alignment. Fiscal measures can support monetary policy by cushioning vulnerable households while preserving credibility, and industrial strategies can reinforce stabilization by easing structural bottlenecks. Strong institutional arrangements are essential to sustain this alignment. Regular dialogue between central banks, finance ministries, and planning agencies enables joint assessments of trade-offs. In some contexts, independent coordination councils can formalize the process, strengthen accountability, and preserve autonomy (Prieg and others, 2025). Countries such as Finland and Japan have created independent fiscal or industrial strategy councils that help structure dialogue across policy domains while preserving institutional autonomy.

Time horizons are also central to effective alignment. One element of this is maintaining a strong policy commitment, as predictability can help reduce uncertainty, stabilize expectations, and strengthen the credibility of the policy mix. Another element is recognizing that monetary policy operates mainly in the short run, fiscal policy spans the immediate to medium term, and industrial policy is inherently long-term. Effective coordination ensures that short-term relief does not compromise sustainability, while long-term investment reinforces stabilization. In this way, a coherent mix allows central banks to anchor expectations, fiscal policy to cushion distributional impacts, and industrial policy to build capacity and reduce structural sources of volatility. Looking ahead, embedding industrial strategies within broader macroeconomic frameworks—aligned with fiscal discipline, sound monetary policy, and climate-resilient development—will be critical. International coordination can further amplify these benefits.

International cooperation amid inflationary pressures

Inflation is shaped not only by domestic factors but also by cross-border shocks and spillovers that can transmit inflationary pressures across economies. In this environment, domestic measures alone may be insufficient. Greater international cooperation is critical to cushion vulnerable economies, stabilize essential goods markets, and prevent protectionist spirals that exacerbate price surges and volatility.

Central bank actions

Monetary authorities face challenges shaped by both international and domestic forces. When central banks act in isolation, they risk miscalibrating policy, as globally driven shocks blur the line between domestic and external drivers of inflation (Bianchi and Coulibaly, 2024). The experiences of the past decade—when shifts in United States and euro area monetary policy repeatedly triggered large capital flow reversals and exchange rate pressures in developing economies—underscored the magnitude of these spillovers. Past episodes show that uncoordinated tightening can deepen downturns, worsen financial conditions, and slow disinflation (Obstfeld, 2022). As inflationary pressures with international spillovers become more frequent, cooperation among central banks will be increasingly important to anchor expectations and limit unnecessary currency fluctuations.

Central bank cooperation is most evident during crises. For example, during the 2008 global financial crisis, major central banks cut rates simultaneously and launched joint liquidity operations, and in March 2023, coordinated statements helped contain banking-sector stress. Cooperation can take many forms, including sharing inflation outlooks, liquidity support via swap lines and backstops, structured dialogue, and occasionally joint steps such as synchronized rate moves or coordinated emergency statements. Swap lines prevent reserve depletion and

exchange rate instability, mitigating spillbacks into domestic inflation. They proved critical in 2020 by easing United States dollar shortages during the COVID-19 shock (Albrizio and others, 2023). Yet participation in swap-line networks remains heavily concentrated among a small group of large economies (Steil, Harding and Zucker, 2024), leaving many vulnerable economies excluded—an imbalance that weakens the credibility of monetary policy cooperation.[17]

The Bank for International Settlements and the IMF serve as key platforms for dialogue, research, and joint policy forums on global inflationary challenges (BIS, 2024). The Innovation BIS 2025 initiative of the Bank for International Settlements fosters collaboration on digital finance and risk management, while the IMF and World Bank complement this through training and policy advice that strengthen institutional capacity. The Group of Twenty (G20) finance ministers and central bank governors track has also played a critical role, stepping in at key moments to enhance global policy coordination and help manage cross-border spillovers during periods of heightened financial stress. The IMF emphasizes that central bank independence, credible policy frameworks, and sound governance are vital for anchoring inflation expectations and strengthening global policy coordination. To this end, it introduced the Central Bank Transparency Code to assess and compare transparency practices across central banks (Adrian, Khan and Menand, 2024).

In parallel, the Network for Greening the Financial System brings central banks together to integrate climate-related risks into monetary operations, with several already adjusting collateral frameworks and asset purchases to support climate objectives (NGFS, 2024). It emphasizes the need for shared climate-risk modelling tools and common frameworks to better capture how climate shocks affect inflation and financial stability, further deepening the scope of international cooperation. These initiatives illustrate how cooperation is expanding beyond short-term stabilization to address structural challenges.[18] Going forward, entities facilitating and engaging in collaborative efforts could benefit from adopting a broader perspective that considers not only price and financial stability, but also the interplay between monetary, fiscal, and industrial policies.

Global and regional support: from immediate relief to long-term resilience

The most pressing inflationary concern for many countries is that related to food prices, as global price shocks often feed quickly into food inflation, particularly in low-income and food-import-dependent countries. Concessional finance (through grants, low-interest loans, and emergency facilities), technical assistance, and complementary investments can support countries in taking many of the necessary actions enumerated earlier. Together, these measures help countries absorb immediate shocks while building capacity to reduce volatility over time.

Concrete initiatives illustrate both the potential and the limits of current responses. The IMF Food Shock Window, launched in 2022, provided rapid support to countries facing acute balance-of-payments pressures—including a $105 million disbursement to Haiti in 2023—but operated for only 12 months and reached just six countries, highlighting the limits of ad hoc facilities (IMF, 2023). Regional mechanisms such as the ASEAN Plus Three Emergency Rice Reserve, the Early Warnings for All initiative implemented by the

17 Given the global reserve currency role of the United States dollar, the Federal Reserve has periodically extended currency swap lines to central banks in other countries, including both major developed economy counterparts (Australia, Canada, the European Central Bank, and Japan, among others) and selected developing economies (including Brazil, Mexico, and the Republic of Korea). The European Central Bank also provides euro liquidity to partner central banks, while the People's Bank of China has established nearly forty bilateral swap agreements with economies that include Egypt, Saudi Arabia, and Türkiye, among others.

18 It should be noted, however, that the Federal Reserve Board recently announced its decision to withdraw from the Network for Greening the Financial System.

World Meteorological Organization, and the FAO Agricultural Market Information System demonstrate the value of collective action. Strengthening such initiatives and establishing predictable investment frameworks could support the shift from short-term relief to lasting resilience.

Escalating structural pressures threaten to compound short-term shocks. The Intergovernmental Panel on Climate Change projects that cereal prices could rise significantly by 2050 (Mbow and others, 2019), while extreme weather already disrupts harvests. Meeting these challenges requires preventive investment, yet adaptation finance remains far below need. While multilateral development banks provided $26.1 billion for adaptation in 2024 to low- and middle-income economies (African Development Bank and others, 2025), modelling carried out by the United Nations Environment Programme (2024) indicates that developing countries require about $215 billion per year to meet total adaptation needs. Mobilizing long-term investment, both public and private, is therefore central to enhancing food system resilience. Beyond concessional loans, this calls for blended finance instruments, regional development funds, and investment guarantees capable of crowding in private capital for infrastructure, logistics, and climate-resilient technologies.

Regional initiatives illustrate how collective action can help fill gaps left by global efforts. The Economic Community of West African States operates the Regional Food Security Reserve and has harmonized agricultural input standards, improving price stability and reducing the duplication of national reserves (Kornher and Kalkuhl, 2019; Eruaga, 2024). The Senegal River Basin Development Organization, jointly managed by Guinea, Mali, Mauritania, and Senegal, shows how cross-border investment in water infrastructure can enhance agricultural productivity and food security. Such initiatives exemplify an emerging pattern: regional bodies are increasingly acting as first responders to crises, building functional mechanisms that complement (or, where global solutions falter, substitute for) multilateral efforts.

Safeguarding food systems from climate shocks, geopolitical risks, and supply disruptions requires sustained global and regional cooperation. Global platforms such as the UN Food Systems Summit and the Committee on World Food Security set norms and mobilize commitments, while regional institutions take the lead in implementing investment and policy responses. Initiatives such as the Feed Africa Strategy[19] developed by the African Development Bank and the Vision 2025 roadmap created by the Inter-American Development Bank mobilize financing and technical assistance for climate-resilient agriculture. Yet many such programmes remain underfunded, lack binding commitments and accountability, and involve limited participation by low-income and climate-vulnerable economies. Without stronger and better-coordinated investment and cooperation frameworks, the combined pressures of climate change, fragmentation, and recurrent shocks could again fuel inflationary pressures and volatility and hinder sustainable development.

The Sevilla Commitment: towards a more inclusive global financial system

The Sevilla Commitment, adopted as the outcome document of the Fourth International Conference on Financing for Development in mid-2025, underscores the urgency of addressing systemic challenges that have hindered progress towards the Sustainable Development Goals (see chapter I). It sets out an agenda to mobilize investment at scale, reform the international financial architecture, and strengthen domestic resource mobilization and international tax cooperation (United Nations, 2025f). While the Sevilla Commitment is not a macroeconomic

19 Formally known as the African Agricultural Transformation Strategy (2016-2025).

stabilization or price-targeting framework, several of its provisions—particularly those related to debt sustainability, concessional finance, and systemic financial reform—contribute to a global environment more conducive to macroeconomic stability, lower inflation, and reduced price volatility. These provisions include commitments to stronger global macroeconomic coordination and a reinforced global financial safety net, measures to enhance debt crisis prevention such as the use of state-contingent debt instruments, efforts to close gaps in the debt architecture, and initiatives to strengthen the voice of borrower countries. Reducing fiscal vulnerabilities, improving debt management, and fostering international monetary cooperation can help limit the spillovers of external shocks—such as exchange rate fluctuations and commodity-price swings—that frequently drive inflation and volatility in developing economies.

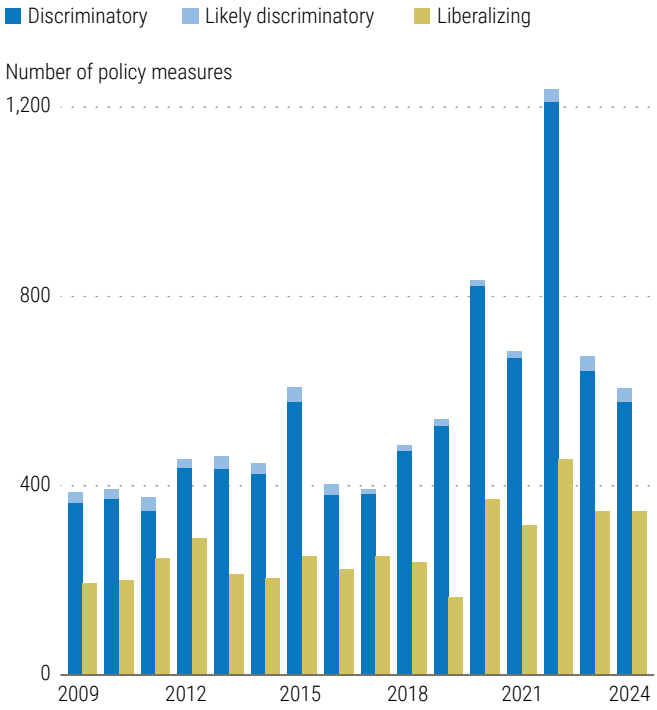
Strengthening the multilateral trading system

Under pressure for a number of years, the multilateral trading system remains a cornerstone of the global economy, helping to moderate inflationary pressures by promoting competition that lowers prices and by supporting flexible partnerships that strengthen resilience and diversification (Ossa, 2023; Kwark and Lim, 2020). However, it faces mounting pressure from rising protectionism, geopolitical tensions, and structural challenges within the World Trade Organization (WTO) (Drabek, 2024). In an era of heightened global uncertainty, a rules-based global framework for international trade remains essential to maintaining stable flows of goods, which, in turn, keeps prices low and predictable (United Nations, 2025).[20] Trade openness supports price stability by diversifying import sources and cushioning domestic markets against localized supply shocks.

In contrast, unilateral measures such as export bans, tariffs, and retaliatory actions often heighten inflation volatility, particularly in food, fertilizer, and energy markets. Such interventions have been growing in recent years. Figure II.17 illustrates the surge in trade interventions targeting food and fertilizer markets—sectors with the most direct and pervasive impact on food price inflation. More broadly, trade policy uncertainty—greatest when policy is set outside the established system—is in itself a contributor to inflationary risk. The erosion of multilateral trade norms has further reinforced these dynamics, with volatility rising both outside and within existing trade agreements (UNCTAD, 2025d). Rebuilding a predictable and equitable trading framework remains critical to reducing inflationary risks and strengthening the stability of global supply chains (Froman, 2025).

Figure II.17

Newly announced trade interventions in food and fertilizers



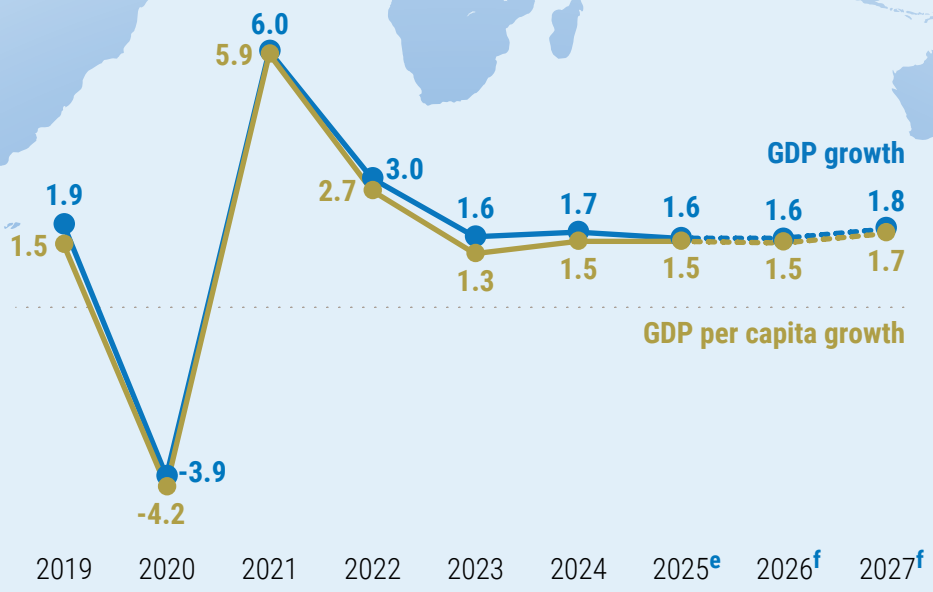
Source: UN DESA, based on data from Global Trade Alert.

20 The number of trade-restrictive measures has continued to rise in recent years, increasing from an annual average of about 3,000 discriminatory measures in the mid-2010s to more than 6,000 in 2020 and remaining above 4,000 per year thereafter.

A revitalized multilateral system could help mitigate these inflationary risks by lowering trade costs, improving predictability, and supporting broader market access. Initiatives that ease border procedures, reduce delays, and cut transaction costs improve connectivity and can directly reduce inflationary pressures while mitigating future supply shock risks and supporting diversification and long-term resilience. Yet tensions persist between domestic policy priorities and multilateral commitments. Across both developed and developing economies, Governments are reasserting the need for greater policy flexibility—to pursue industrial upgrading, strengthen strategic sectors, and secure critical supply chains. At the same time, global interdependence means that open markets and predictable rules remain essential to contain price pressures and support growth.

In this context, trade cooperation is increasingly taking more flexible and regional forms, aiming to preserve market access even as geopolitical rivalry intensifies. Although the global landscape has become more fragmented, recent experience shows that trade cooperation can adapt and endure, evolving towards greater flexibility and responsiveness to global shocks (Mattoo, Ruta and Staiger, 2024). The key challenge lies in reconciling legitimate national policy objectives with a coherent and predictable international framework. Striking this balance would allow the trading system—whether multilateral or regional—to remain an anchor of stability, helping to mitigate supply disruptions, contain inflation risks, and strengthen long-term resilience.

DEVELOPED ECONOMIES

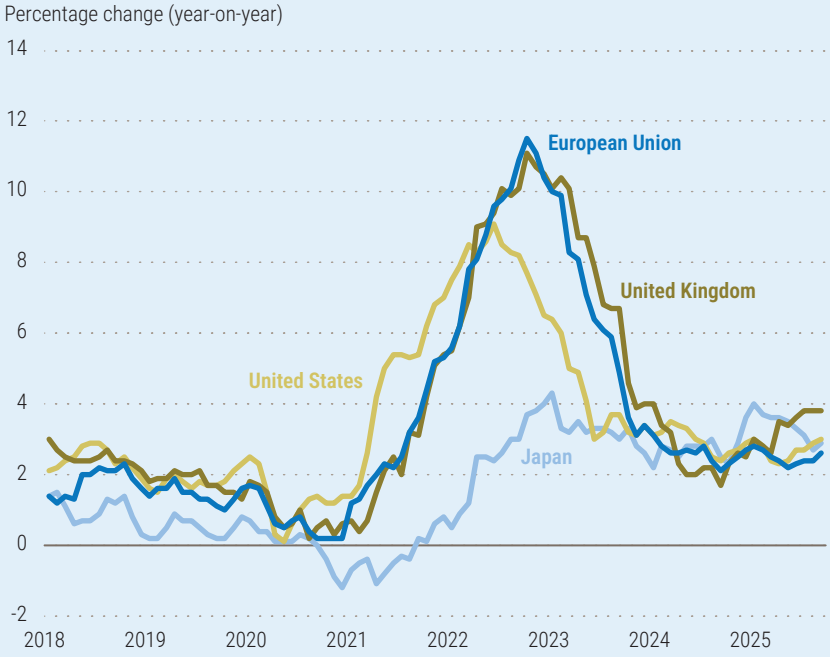


Note: e = estimates; f = forecasts.

HIGHLIGHTS

- Growth in Japan, the United States, and the European Union is expected to remain broadly stable in 2026.
- Inflation has eased sharply from recent highs but remains above pre-pandemic levels amid ongoing price pressures for services.
- Some divergence in monetary stances is expected in 2026, with fiscal loosening in select economies.

Headline inflation rates in selected developed economies



Source: UN DESA, based on data from Trading Economics.

CHAPTER III

Regional Developments and Outlook

Developed economies

North America

United States of America

Gross domestic product (GDP) growth in the United States is estimated to have slowed to 1.9 per cent in 2025, down from 2.8 per cent in 2024. This reflects resilient consumer spending and equipment investment despite emerging signs of weakness in other parts of the economy. Business sentiment and consumer confidence remain volatile, influenced by policy announcements and ongoing uncertainties, particularly with regard to tariffs and immigration. The growing role of artificial intelligence (AI) adds another layer of uncertainty, as its full economic impact remains difficult to assess. While AI-related investment supported strong growth in equipment spending in 2025, especially in the first quarter of the year, it is unclear whether the high equity valuations can be sustained over the longer term. With policy uncertainties expected to ease and the support of expansionary fiscal and monetary measures helping to offset a weakening labour market and slowing wage gains, economic growth is projected to pick up slightly to 2.0 per cent in 2026 and 2.2 per cent in 2027.

The Government announced its first tariff policy decision in February 2025, introducing additional tariffs on imports from Canada, China, and Mexico under the International Emergency Economic Powers Act (IEEPA) (The White House, 2025a); by the end of October, there had been 21 major policy actions affecting United States tariff rates. Based on the 2024 import composition, these measures raised the estimated average effective tariff rate from 2.5 per cent at the end of 2024 to 17.7 per cent by the last quarter of 2025.

In practice, the impact has been more moderate, with actual effective tariff rates—calculated from tariff revenues and import values—estimated at 12 per cent in August 2025. This reflects a time lag between tariff announcements and tariff revenue realization, as well as substitution towards lower-tariff origins and a proportional increase in tariff-exempt imports, including gold, pharmaceuticals, and semiconductor-related products. While microdata research indicates that new tariffs raised domestic prices (Cavallo, Llamas and Vazquez, 2025), inflationary pressures were milder than expected in 2025. In September 2025, consumer price inflation stood at 3.0 per cent, with goods inflation at 1.9 per cent and services inflation at 3.6 per cent. Looking ahead, gradual tariff pass-through is expected to push inflation to between 3.0 and 3.5 per cent in early 2026. Thereafter, inflation is projected to ease as tariff effects diminish and services inflation—particularly the shelter component—continues

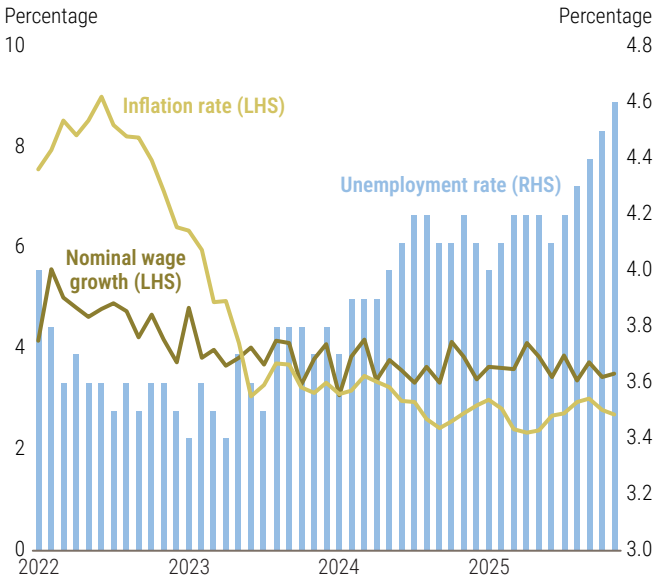
to decline amid weakening housing markets.[1] Annual inflation is projected to slow from an estimated 2.9 per cent in 2025 to 2.7 per cent in 2026 and 2.3 per cent in 2027.

Private consumption growth has remained resilient despite earlier expectations of significant tariff-related impacts owing to two key factors. First, nominal wage growth has continued to outpace inflation on average, even as labour market conditions have weakened. Job creation has slowed sharply, with the unemployment rate rising to 4.6 per cent in November 2025 from 4.2 per cent a year earlier. Average weekly earnings increased by 3.5 per cent in November, exceeding consumer inflation of 2.7 per cent (see figure III.1a). Second, household balance sheets have strengthened in aggregate, with net worth up by 6.1 per cent year-on-year in June 2025. While wealth distribution remains uneven, given that the top 20 per cent account for 71 per cent of total net worth, net worth rose across all income quintiles, with increases ranging from 3.6 per cent for the bottom 20 per cent to 7.5 per cent for the top 20 per cent (Federal Reserve, 2025a). Total wealth rose from 5.5 times GDP in 2005 to 6.5 times GDP by mid-2025 (an 18 per cent increase), while liabilities fell from 0.88 to 0.68 times GDP (a 23 per cent decline) during this period (see figure III.1b). This long-term improvement in household balance sheets does not necessarily indicate greater financial strength, however, as it largely reflects higher valuations of corporate equities in household asset portfolios. This leaves households vulnerable to potential share-price corrections, which could disproportionately

Figure III.1

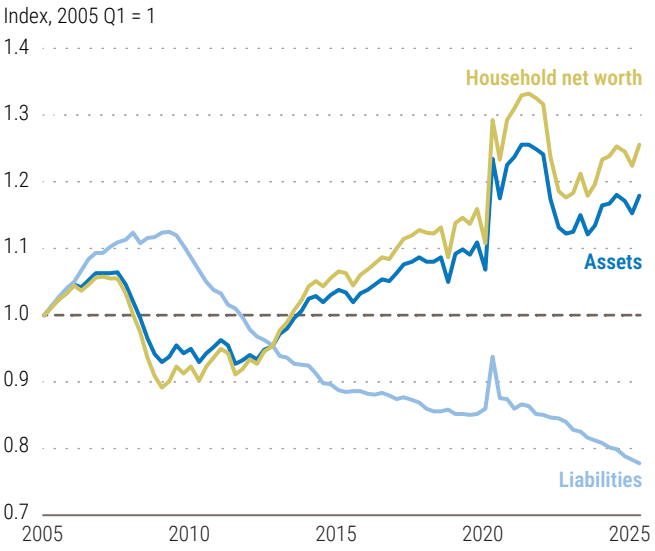
Labour market and household financial health in the United States

a) Wage growth, consumer price inflation, and unemployment rate



Source: UN DESA, based on data from the United States Bureau of Labor Statistics.
Note: **LHS** = left-hand scale; **RHS** = right-hand scale. October 2025 unemployment and inflation figures are estimated through interpolation due to the absence of official data.

b) Household assets, liabilities, and net worth relative to GDP



Source: UN DESA, based on data from the Federal Reserve (2025b).
Notes: Household assets comprise financial assets (such as deposits, equities, and pension entitlements) and non-financial assets (primarily real estate), while liabilities mainly consist of mortgage debt and consumer credit. In 2005, assets amounted to 550 per cent of GDP and liabilities to 88 per cent of GDP.

1 A price index for rent paid by new tenants, published as part of the research Consumer Price Index for new tenant rent (R-CPI-NTR) by the United States Bureau of Labor Statistics (2025a), recorded a year-on-year decline of 9.3 per cent in the second quarter of 2025. Rent prices for new tenants are widely regarded as a leading indicator for the shelter component of the Consumer Price Index, and recent trends point to a continued softening in shelter inflation throughout 2026.

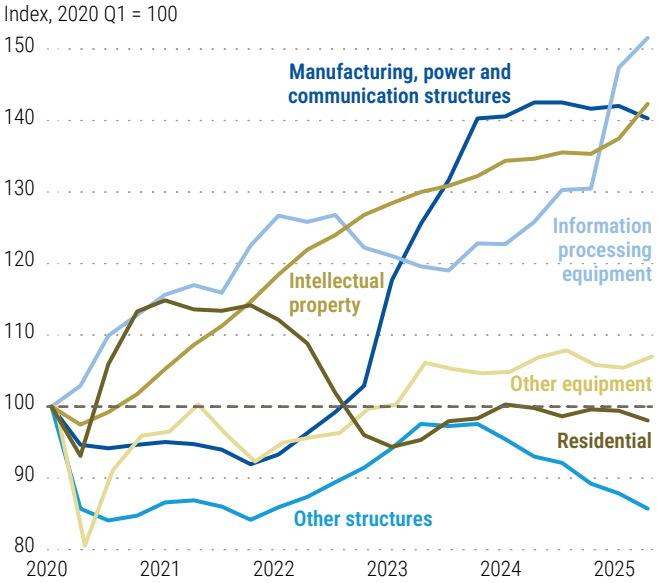
affect lower-income households due to their higher debt-to-asset ratios.[2]

Private investment in the United States in 2025 remained uneven, reflecting a continuation of recent patterns (see figure III.2). Growth has been concentrated in AI-related investment, with robust gains in equipment—particularly information processing hardware—and intellectual property products such as software. In contrast, investment in residential and business structures has contracted, reflecting persistent weakness in commercial real estate and housing markets. Investment in manufacturing, power, and communication structures, including data centres, has remained elevated, but growth has slowed. AI-related investments are expected to stay robust; however, equipment spending may have been front-loaded amid policy uncertainty, leaving it vulnerable to a temporary pullback in 2026. While goods commonly used in AI-related investments have been largely exempt from IEEPA tariffs, the anticipated section 232 tariffs on semiconductors could increase costs.

Fiscal policy remains expansionary, with its emphasis shifting from higher public spending to tax reductions as the main stimulus tool. The 2025 federal budget reconciliation law permanently extended the 2017 personal income tax cuts (Watson and Van Ness, 2025). The bill also amended the tax code to allow businesses to fully deduct qualifying capital expenditures from taxable income. According to the Congressional Budget Office (CBO, 2025), these measures are expected to stimulate private consumption and equipment investment. However, a potential rollback of enhanced health insurance premium tax credits would impact a broad range of households (Steinzor, 2025). The current fiscal measures are also likely to widen the fiscal deficit and increase public debt, supported by a higher federal debt ceiling. Tariff revenues increased from $8.3 billion in December 2024 to $34 billion

Figure III.2

Real private fixed investment in the United States, by type



Source: UN DESA, based on data from the United States Bureau of Economic Analysis.

in October 2025. On an annual basis, this corresponds to an estimated increase from about $99 billion (approximately 2 per cent of total revenues in 2024) to about $410 billion. However, the extent to which these additional tariff revenues will offset the revenue decline from the tax cuts remains uncertain. The Committee for a Responsible Federal Budget, in its CRFB Adjusted August 2025 Baseline (CRFB, 2025), projected that federal debt would rise from about 100 per cent of GDP at the end of 2025 to 107 per cent by 2028.

After holding rates steady for most of 2025, the Federal Reserve resumed policy easing with three 25-basis-point cuts in September, October, and December, citing growing risks to the labour market and moderating inflation while remaining attentive to tariff-related price pressures. The Federal Reserve concluded its quantitative tightening programme in December 2025, as bank reserves had declined to a level considered

2 In the second quarter of 2025, the average asset-to-debt ratio for households in the top 20 per cent of the income distribution was estimated at 8.1 per cent, compared with 16.9 per cent for households in the bottom 80 per cent (Federal Reserve, 2025a). The 80th-percentile cutoff (representing the top 20 per cent of household income) is estimated at around $160,000 for 2025, based on the latest Survey of Consumer Finances (Federal Reserve, 2023) and inflation adjustments.

minimally sufficient to maintain ample liquidity within the financial system. As at September 2025, the median projection of Federal Open Market Committee (FOMC) participants anticipated an additional rate cut for 2026, lowering the target range to between 3.25 and 3.5 per cent by year-end (Federal Reserve, 2025c).

The current account deficit widened in the first half of 2025, averaging 4.6 per cent of GDP, compared with 4.0 per cent in 2024. The extraordinary surge in imports during the first quarter—partly driven by front-loading ahead of the announcement of new tariff measures—contributed to a larger trade deficit. In addition, the current account has continued to deteriorate because net investment income has been declining, reflecting slower growth in United States holdings of foreign assets relative to the rapid increase in foreign investors' holdings of United States assets.

Canada

In Canada, real GDP growth is estimated at 1.4 per cent for 2025, down from 1.5 per cent in 2024. Growth is projected to pick up modestly to 1.5 per cent in 2026 and 1.9 per cent in 2027. The manufacturing sector has been adversely affected by the uncertainty stemming from United States tariff measures, discouraging business investment and hiring. The unemployment rate rose to 7.1 per cent in September 2025 from a recent trough of 4.8 per cent in July 2022, while nominal wage growth slowed to 3.1 per cent. Private consumption has remained resilient, partly because wage growth continues to outpace inflation, which is estimated at 2.0 per cent for 2025 and projected to ease further to 1.9 per cent in 2026. Amid lingering policy uncertainty, Canadian exports have exhibited considerable volatility. After front-running growth in the first quarter, when export volumes rose by 6 per cent compared with the same period in 2024, exports fell sharply in the second quarter, dropping 5.1 per cent from a year earlier. Over the first eight months of 2025, export volumes edged down by 0.7 per cent. Increased compliance with the United States–Mexico–Canada Agreement (USMCA), which provides duty-free access for Canadian goods to the United States market, supported a gradual recovery in manufactured products. However, aluminium—one of the main exports from Canada—experienced a marked decline following the imposition of section 232 tariffs of 25 per cent in March and 50 per cent in June (Statistics Canada, 2025). The Bank of Canada has maintained an accommodative stance, cutting policy interest rates four times between January and November 2025. Fiscal policy also remains expansionary, combining the July 2025 federal income tax cut with substantial new measures announced in the November budget, including 280 billion Canadian dollars in infrastructure investment over five years. The Office of the Parliamentary Budget Officer projects the budget deficit to rise from 1.7 per cent of GDP in fiscal year 2024/25 to 2.2 per cent in 2025/26 (Canada, PBO, 2025).

Europe

Economic growth in Europe is projected to remain subdued in 2026, reflecting external headwinds and persistent structural challenges. Higher tariffs in the United States and geopolitical uncertainties are expected to dampen export performance and weigh on overall economic momentum, though resilient consumer spending—supported by monetary easing and robust labour markets—will provide some offset. In the European Union, GDP growth is forecast at 1.3 per cent in 2026 and 1.6 per cent in 2027, compared with estimated growth of 1.5 per cent in 2025.[3] In the United Kingdom of Great Britain and Northern Ireland, growth is projected at 1.1 per cent in 2026 and 1.3 per cent in 2027, down from an estimated 1.4 per cent in 2025, with tighter fiscal policy and trade frictions expected

3 Aggregate growth in the European Union is affected by fluctuations in exports from Ireland and its investment linked to multinational enterprise activity; excluding Ireland, GDP growth is projected to rise from an estimated 1.2 per cent in 2025 to 1.3 per cent in 2026 and 1.5 per cent in 2027.

to constrain economic activity, while sticky inflation keeps monetary policy restrictive.

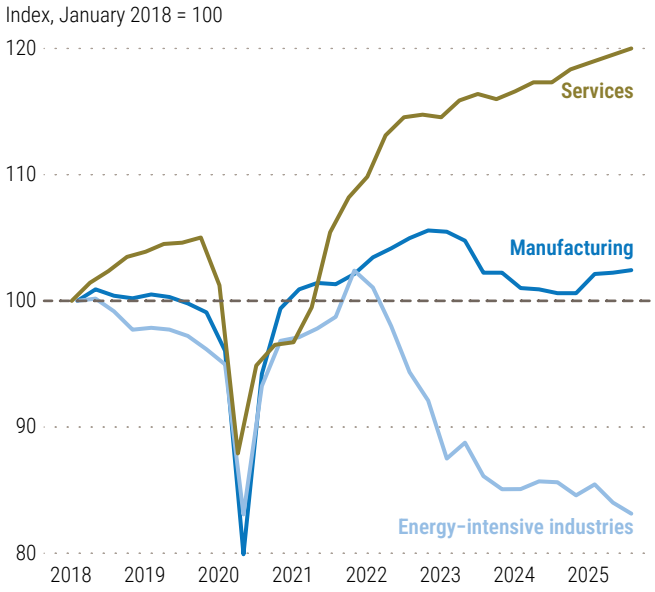
Economic activity across Europe received a temporary boost in early 2025 as exporters front-loaded shipments to the United States ahead of new tariffs. As this effect fades, export growth is projected to slow in 2026. Recent trade agreements by the European Union and the United Kingdom with the United States have reduced uncertainty but also entrench elevated tariff levels; in early November 2025, the trade-weighted effective tariff rate stood at 10.3 per cent for European Union exports to the United States and at 9.5 per cent for United Kingdom exports, compared with about 1 per cent in 2024 (UNCTAD, 2025e). In some cases, export competitiveness has been further constrained by currency appreciation, with the euro area's nominal effective exchange rate rising by roughly 6 per cent between January and November 2025.

Recent high-frequency indicators for the European Union indicate some improvement in near-term activity despite continuing structural headwinds. Business and consumer sentiment improved slightly in the third quarter of 2025, though both remain below long-term averages. The Manufacturing Purchasing Managers' Index (PMI) for the euro area is hovering around 50, signalling stabilization. Energy-intensive sectors remain under strain as electricity costs for industry are significantly higher than in the United States and other major economies.[4] With competitiveness challenges persisting, manufacturing production is likely to remain muted, leaving services as the main driver of growth in 2026 (Draghi, 2024) (see figure III.3).[5]

Consumer spending has continued to support growth in the European Union, underpinned by rising real wages, inflation near central bank targets, and sustained (though moderating)

Figure III.3

Trends in services and manufacturing in the European Union



Source: UN DESA, based on data from Eurostat.
Notes: The production index for energy-intensive industries is a weighted average of the five most energy-intensive manufacturing sectors. Data are quarterly (seasonally and calendar adjusted).

employment gains. However, consumption growth is constrained by elevated precautionary savings; real household incomes are rising faster than consumption, with the saving rate reaching 15.0 per cent in the second quarter of 2025—well above the 2010–2019 average of 11.8 per cent (see figure III.4).

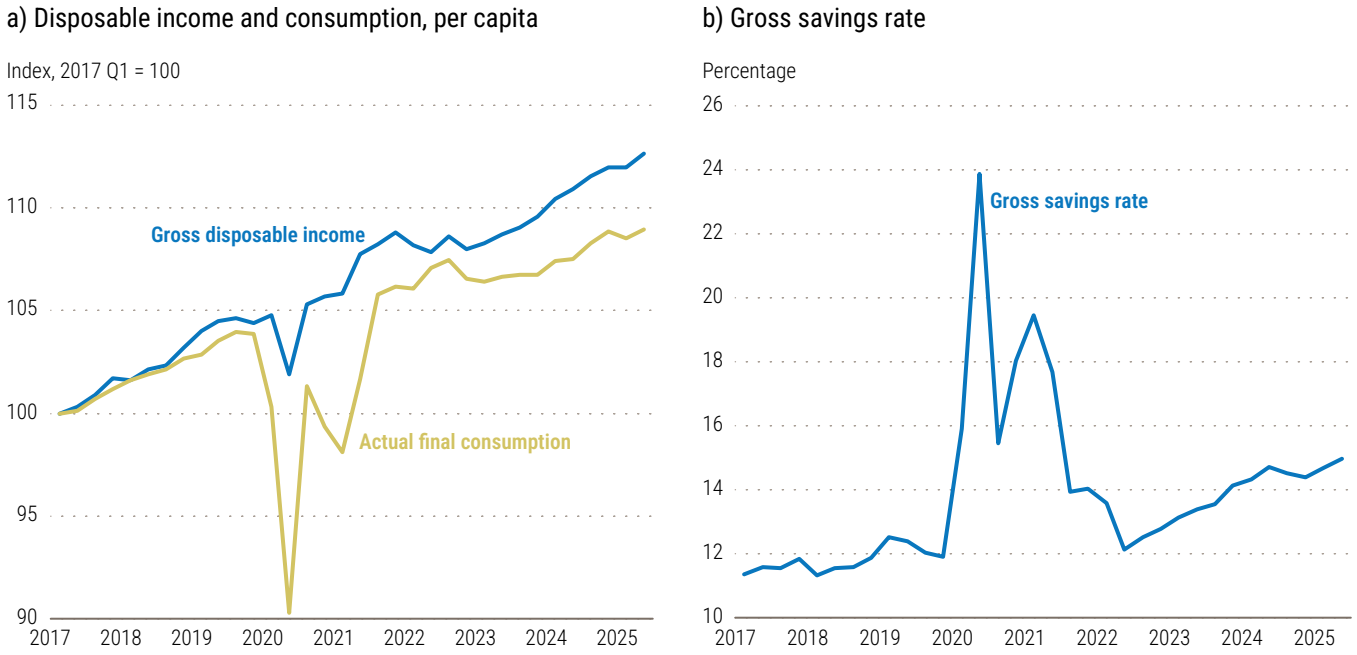
Gross fixed capital formation is projected to rise modestly in 2026, driven by lower interest rates, higher public investment in several European Union member States, and ongoing disbursements from the NextGenerationEU recovery programme (European Union, 2025). Reduced—though still elevated—policy uncertainty is expected to support private investment, particularly in technology-intensive and digital sectors. However, overall investment momentum remains subdued, with cross-country

4 Wholesale electricity prices in the European Union averaged about $90 per megawatt-hour in the first half of 2025—roughly twice the level in the United States. While they have eased from their 2023 peaks, prices remain significantly higher than before the COVID-19 pandemic.

5 The report identifies several competitiveness challenges for the European economy, including an innovation gap, fragmented capital markets, high energy costs, decarbonization pressures, regulatory burdens, and strategic dependencies.

Figure III.4

Household disposable income, consumption, and savings rate in the European Union



Source: UN DESA, based on data from Eurostat.
Note: Data are quarterly (seasonally and calendar adjusted).

differences reflecting uneven policy support, sector-specific conditions, and varying exposure to global factors.

Economic performance across Europe remains divergent, with service-oriented economies continuing to outpace those more reliant on manufacturing. In Germany, GDP growth is estimated at 0.2 per cent for 2025 but is projected to increase to 0.8 per cent in 2026. Industrial weakness, soft investment, and stagnant exports continue to weigh on activity, but a planned fiscal expansion focused on infrastructure and defence is expected to support a gradual recovery. France is projected to maintain its modest 2025 growth rate of 0.8 per cent in 2026, driven by recovering private investment and consumption, though political uncertainty and fiscal pressures may restrain momentum. Growth in Italy is projected at 0.6 per cent for 2026, the same rate as that estimated for 2025, with weak external demand and lingering uncertainty weighing on investment. Several European Union countries, including Poland, Portugal, and Spain, are projected to sustain robust growth through 2026, driven by resilient household consumption and continued inflows of European Union recovery funds.

The European economic outlook for 2026 remains uncertain, with broadly balanced upside and downside risks. Ongoing trade policy uncertainty and larger-than-anticipated effects from new United States tariffs could weigh on exports and investment. Fiscal strains in several large economies pose additional risks, as unclear consolidation paths may adversely affect confidence, while fiscal tightening could weaken public investment. On the upside, the lagged impact of monetary easing could stimulate domestic demand more than currently expected, while a faster resolution of trade tensions would help improve business and consumer sentiment.

Inflation across Europe is expected to ease further in 2026, reflecting lower energy costs, slower wage growth, and the disinflationary effect of currency appreciation. In the euro area,

headline inflation is projected to dip temporarily below the European Central Bank 2 per cent target as price pressures moderate across most components. Core inflation (which excludes food and energy) remained steady at 2.3 per cent in the third quarter of 2025, but underlying trends point to gradually declining pressures. Goods inflation has stayed low (below 1 per cent), while services inflation is expected to ease as nominal wage growth moderates. Food inflation, still near 3 per cent in late 2025, continues to exert some upward pressure, though this is expected to fade gradually. Overall, consumer price inflation in the euro area is forecast to decline from an estimated 2.1 per cent in 2025 to 1.9 per cent in 2026. While the inflation outlook appears more stable, it remains sensitive to geopolitical tensions and potential renewed energy price volatility or other supply-side constraints, including labour shortages in some sectors.

Inflationary pressures remain higher in the United Kingdom and several Eastern European economies than in the euro area. In the United Kingdom, consumer price inflation averaged 3.8 per cent in the third quarter of 2025, driven by rapid wage growth, recent tax changes, and higher costs in regulated sectors such as transport and utilities, keeping services inflation elevated (Harari, 2025).[6] While headline inflation is expected to ease gradually, it is projected to average 2.8 per cent in 2026, exceeding the 2 per cent target set by the Bank of England. In many of the European Union countries that joined after 2004, inflation in 2026 and 2027 is projected to stay above Western European levels, reflecting firmer domestic demand, faster wage growth, and more expansionary fiscal policy.

European labour markets are expected to remain broadly resilient in 2026. In the European Union, employment continued to expand through 2025 amid higher participation among women and older workers. The unemployment rate remains near a record low and is projected to edge down from 5.8 per cent in 2025 to 5.7 per cent in 2026. At the same time, labour market tightness has eased, signalling softer hiring demand.

Regional disparities in unemployment have continued to narrow. Southern European economies such as Greece, Italy, and Spain recorded further declines from historically high levels, supported by robust tourism, European Union recovery funds, and targeted labour market programmes. In contrast, some Central and Northern European countries saw modest increases in unemployment owing to weak domestic demand and a downturn in manufacturing. In the United Kingdom, labour market conditions have cooled noticeably, with unemployment rising to 4.8 per cent in August 2025—up from 4 per cent a year earlier—and projected to hover around 5.0 per cent in 2026.

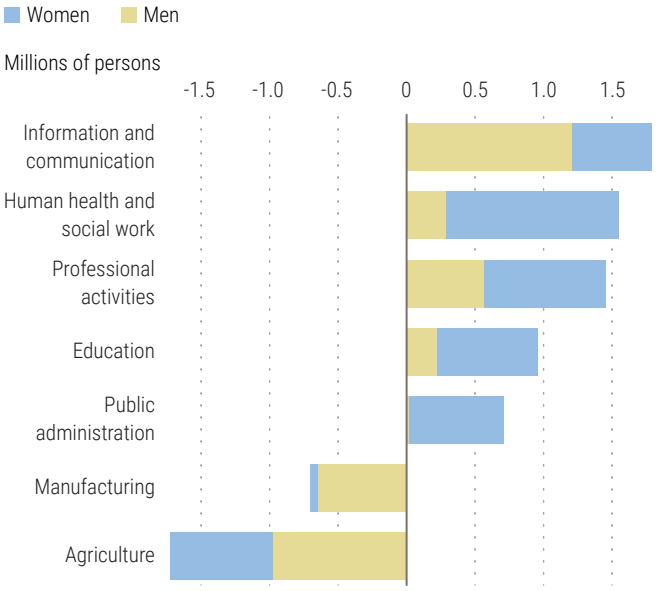
Real wages, which surged in 2024 as inflation receded, grew at a more moderate pace in 2025 and are expected to follow a similar path in 2026. Nominal wage growth in the European Union eased to about 4 per cent year-on-year by mid-2025, down from nearly 6 per cent in early 2024. Real labour productivity increased by 1.2 per cent in the first three quarters of 2025, following stagnation a year earlier. However, this improvement mainly reflects cyclical factors, while structural headwinds—such as shifts towards services, demographic ageing, and the slow diffusion of new technologies—continue to weigh on underlying productivity growth (OECD, 2025c).

After several years of expansion, total employment in the European Union stood at about 7 million above the pre-pandemic level by mid-2025. Job creation has been concentrated in information and communications technology, professional services (such as legal, accounting, and management consulting), healthcare, and education (see figure III.5). In contrast, employment in manufacturing and agriculture

6 In October 2024, the Government of the United Kingdom announced national minimum wage rates for 2025, including the national living wage. The new rates, which came into force on 1 April 2025, reflect a 6.7 per cent increase in the national living wage for workers aged 21 years and over and a 16.3 per cent increase in the national minimum wage for 18- to 20-year old (United Kingdom, Low Pay Commission, 2024).

Figure III.5

European Union sectoral employment level changes, by gender, 2019 Q4–2025 Q2



Source: UN DESA, based on data from Eurostat.

remains below 2019 levels, reflecting structural adjustments and competitiveness challenges. Women have accounted for roughly 60 per cent of all job gains since 2019, narrowing the gender employment gap to a record low.

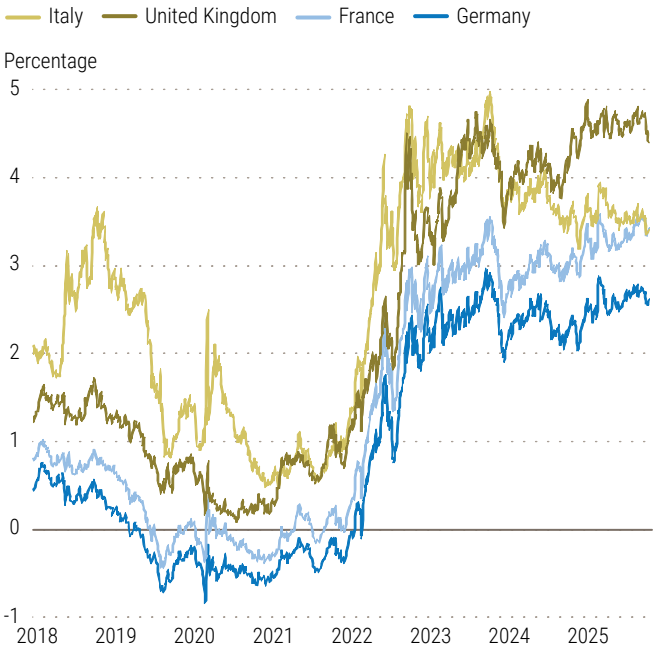
Against a backdrop of declining inflation and subdued economic growth, monetary policy in Europe continued to ease in 2025. Trade policy uncertainty and geopolitical tensions, combined with currency appreciation, shaped the policy environment, prompting decisive rate cuts early in the year. As inflation stabilized near central bank targets and external risks began to recede, many central banks adopted a more neutral policy stance in the second half of 2025, keeping interest rates broadly unchanged.

The European Central Bank lowered policy rates by a cumulative 100 basis points in the first half of 2025, bringing the deposit facility rate to 2.0 per cent. This monetary easing helped reduce bank lending rates to corporations to 3.5 per cent by the third quarter, down from 4.5 per cent in late 2024. Lower borrowing costs supported credit expansion, with loans to households and firms growing at their fastest pace since early 2023. With average euro area inflation close to 2 per cent, the European Central Bank is expected to keep rates broadly unchanged through most of 2026 unless price pressures deviate significantly from target. In the United Kingdom, persistent inflationary pressures have kept monetary policy comparatively tight despite three rate cuts in 2025 that lowered the policy rate to 4.0 per cent. Elevated services inflation and strong wage growth continue to limit the scope for further easing, with any adjustments in 2026 likely to be gradual and contingent upon sustained progress towards the 2 per cent target.

The fiscal outlook in Europe is shaped by the dual challenge of rebuilding fiscal buffers while meeting rising structural spending needs. Governments aim to achieve gradual fiscal consolidation to strengthen medium-term debt sustainability after pandemic-era stimulus and several years of weak growth left public finances strained. However, the scope for revenue gains is limited given the elevated tax burdens

Figure III.6

Ten-year government bond yields in selected European economies



Source: UN DESA, based on data from Trading Economics.

and subdued growth prospects. Meanwhile, expenditure pressures are growing as spending demands for defence, energy security, and the low-carbon and digital transitions coincide with demographic trends that raise pension and healthcare costs. Government borrowing costs are significantly higher than during the mid- to late 2010s, when interest rates were exceptionally low under prolonged monetary accommodation (see figure III.6).

Following a contractionary stance in 2024, aggregate fiscal policy in the euro area turned broadly neutral in 2025 and is expected to stay so through 2026.[7] The average fiscal deficit is projected to rise slightly from an estimated 3.2 per cent of GDP in 2025 to 3.4 per cent in 2026, while general government gross debt is forecast to edge up to 88.9 per cent of GDP (IMF, 2025d). Beneath these aggregates, national trajectories diverge. Germany is set to adopt a more expansionary path in 2026, enabled by a constitutional change permitting unlimited debt financing for defence spending above 1 per cent of GDP and the creation of a €500 billion extrabudgetary fund (about 11 per cent of annual GDP, spread over twelve years) to support infrastructure investment (Zettelmeyer, Darvas and Welslau, 2025). France, by contrast, faces pressure to reduce a persistent fiscal deficit, estimated at 5.4 per cent of GDP in 2025, through gradual expenditure restraint and targeted revenue measures.

Nine European Union member States—Austria, Belgium, France, Hungary, Italy, Malta, Poland, Romania, and Slovakia—are subject to the excessive deficit procedure, mainly due to persistent budget deficits above the 3-per-cent-of-GDP threshold, requiring corrective measures under the European Union fiscal rules (Council of the European Union, 2025). In contrast, fiscal indicators have strengthened in economies at the centre of the euro area sovereign debt crisis of 2010–2013. Cyprus, Greece, Ireland, and Portugal are projected to record sizable primary surpluses (fiscal balances excluding interest payments) in 2026, while Spain is expected to reach a broadly balanced primary position. In all five countries, debt-to-GDP ratios are projected to continue declining.

The fiscal outlook remains challenging in the United Kingdom amid lacklustre productivity growth, elevated debt, and significant spending pressures. Government borrowing exceeded official forecasts through much of 2025, reflecting weaker-than-expected revenues and rising debt-servicing costs. The budget deficit is estimated at 4.3 per cent of GDP for 2025, with general government debt approaching 103 per cent of GDP (IMF, 2025d). As fiscal space narrows, the Government faces difficult trade-offs between advancing fiscal consolidation and sustaining public investment and essential services.

Developed economies in Asia and the Pacific

Australia, Japan, and the Republic of Korea returned to a recovery path in 2025 following a sharp slowdown in domestic demand in 2024. In Australia and the Republic of Korea, monetary easing, combined with expansionary fiscal measures, has supported the rebound. Despite ongoing uncertainty and persistent global trade tensions, export growth in semiconductor-related sectors remained strong for Japan and the Republic of Korea in 2025. This resilience has helped offset declines in automotive and steel exports to the United States, which have been negatively affected by new tariff measures. At the end of October 2025, the estimated average effective tariff rate, based on 2024 trade data, reached 14.7 per cent for Japan and 14.5 per cent for the Republic of Korea, reflecting the reduction of the IEEPA reciprocal tariff baseline rate applied to the imports from both countries from 25 to 15 per cent. The estimated average effective

7 The euro area fiscal stance, measured as the change in the general government cyclically adjusted primary balance, is estimated at 0.1 per cent of potential GDP for 2025 and projected at -0.2 per cent for 2026.

tariff rate for Australia stood at 8.9 per cent, reflecting a low IEEPA reciprocal tariff baseline rate of 10 per cent, with its major exports to the United States, such as precious metals and gold, being exempt from tariffs.

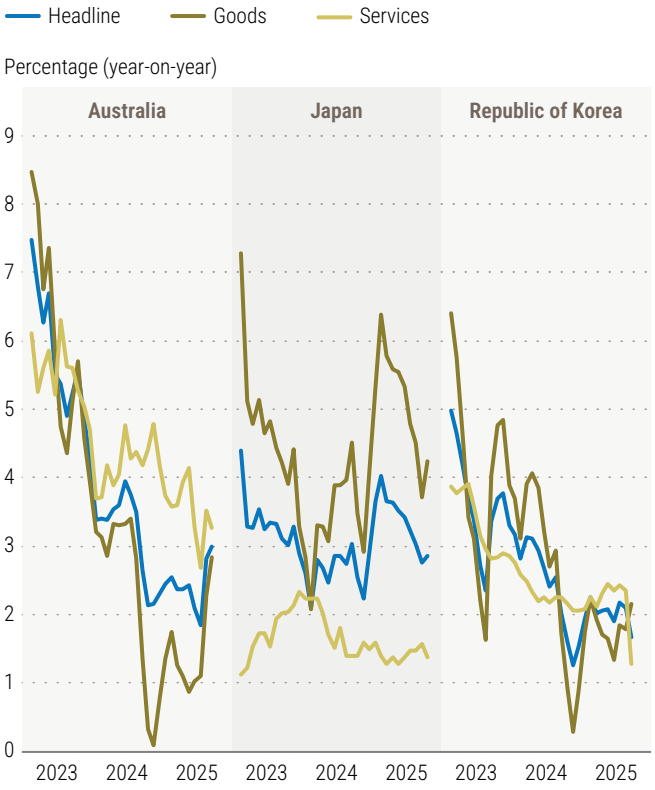
In Japan, real GDP growth is estimated at 1.2 per cent for 2025, up from -0.2 per cent in 2024. Growth is projected to reach 0.9 per cent in 2026 and 1.0 per cent in 2027. Private consumption has been gradually recovering since mid-2023, while residential investment shows signs of improvement after a prolonged slump, catching up with steady growth in equipment investment. The contribution of net exports to GDP growth remains limited, as automotive exports—the main export from Japan to the United States—have stagnated since early 2025 amid uncertainty over trade policy in the United States.

Consumer price inflation is estimated at 3.2 per cent for 2025, up from 2.7 per cent in 2024, but is projected to decline to 2.9 per cent in 2026. The recent acceleration in inflation is largely driven by rapidly rising food prices, led by a steep increase in rice, the national staple, but also spilling over into other food categories, including processed foods. Goods inflation has exhibited large fluctuations, while services inflation has remained low (see figure III.7). Having experienced inflation mostly from exchange rate pass-through of a weakened yen in past years, the country is expecting inflationary pressures to ease until wage growth, which has been negative since January 2025, outpaces inflation.

Since March 2024, the Bank of Japan has been tightening its monetary policy stance, though the pace remains measured due to persistently low services inflation, reflecting subdued wage growth. The Bank continues to face a policy dilemma: tightening too aggressively could suppress wage growth, a key driver of private consumption, while tightening too little or too late could prolong elevated inflation. The fiscal stance has shifted to accommodative, with a focus on cost-of-living relief and measures to strengthen economic security.

Figure III.7

Headline, goods, and services inflation in Australia, Japan, and the Republic of Korea



Source: UN DESA, based on data from the Australian Bureau of Statistics, Statistics Bureau of Japan, and Korean Statistical Information Service.

In Australia, real GDP growth is estimated at 1.8 per cent for 2025, compared with 1.1 per cent in 2024. The economy is projected to expand by 2.2 per cent in 2026 and 2.4 per cent in 2027. The unemployment rate has risen gradually, increasing to 4.5 per cent in September 2025 from its recent trough of 3.4 per cent in October 2022. Despite this, wage growth has remained robust, standing at 3.4 per cent in June 2025—well above the headline inflation rate of 1.9 per cent the same month.

Strong wage growth has supported a recovery in private consumption, while private investment has remained relatively weak even in the wake of monetary easing by the Reserve Bank of Australia starting in February 2025. Goods exports are estimated to have stagnated

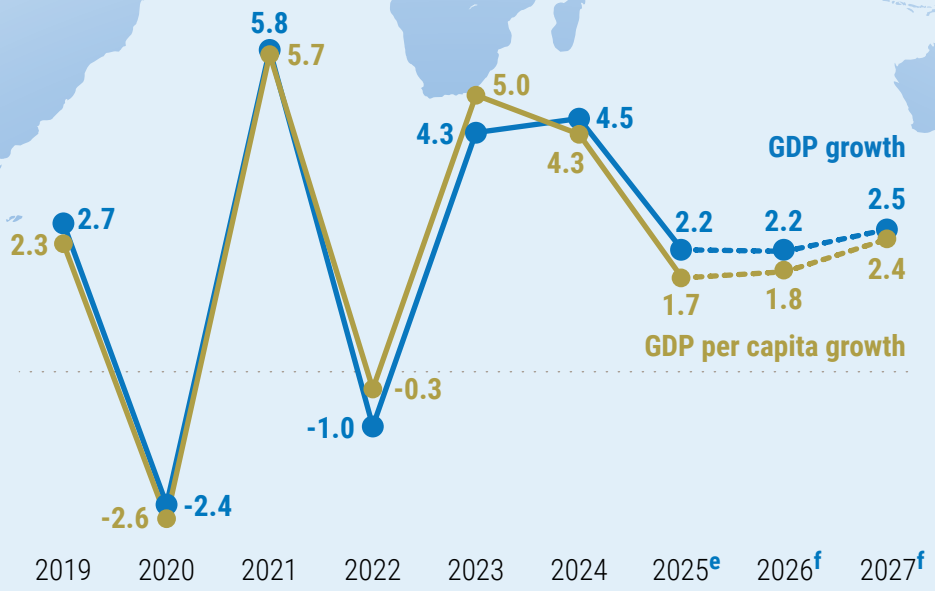
amid weakening external demand for key commodities, particularly coal.

Consumer price inflation slowed to an estimated 2.6 per cent in 2025 from 3.2 per cent in 2024 but is projected to rise to 3.0 per cent in 2026, reflecting higher expected services inflation on the back of persistently strong wage growth (see figure III.7). This could present a policy challenge for the Reserve Bank of Australia in determining the appropriate pace of further interest rate cuts in 2026. Fiscal policy remains expansionary, with a new round of personal income tax cuts scheduled to be phased in over two years starting in July 2026.

In the Republic of Korea, real GDP growth declined from 2.0 per cent in 2024 to an estimated 1.1 per cent in 2025 but is forecast to reach 1.8 per cent in 2026 and 2.0 per cent in 2027. After growth in 2024 was driven by unusually strong export demand, the economic expansion in 2025 was marked by a recovery of domestic demand growth, particularly in private consumption. Consumer price inflation eased from 2.3 per cent in 2024 to an estimated 2.2 per cent in 2025 and is expected to remain at that level in 2026. A reduction in mobile phone service fees in August 2025 caused a one-off drop in services inflation (see figure III.7), and subdued price pressures are likely to give the Bank of Korea scope for additional rate cuts. The proposed Government budget for 2026 signals a more expansionary fiscal stance, with total expenditure set to rise by 8.1 per cent, compared with a 3.2 per cent increase in 2025.

ECONOMIES IN TRANSITION

World Economic Situation and Prospects 2026

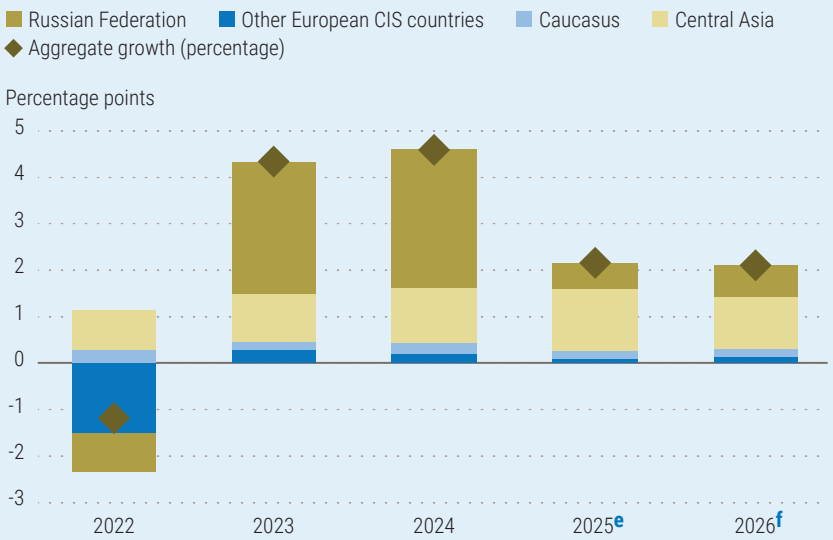


Note: e = estimates; f = forecasts.

HIGHLIGHTS

- Economic growth across the region has remained uneven—a trend expected to persist in 2026.
- The prevalence of intermediary trade with the Russian Federation has weakened among smaller regional economies.
- Inflation accelerated in 2025, with monetary policy responses diverging across countries.

Contribution to GDP growth in the Commonwealth of Independent States and Georgia



Source: UN DESA, based on estimates and forecasts produced with the World Economic Forecasting Model.
Notes: e = estimates; f = forecasts; **CIS** = Commonwealth of Independent States. European CIS countries include Belarus, the Republic of Moldova, and Ukraine. The Caucasus includes Armenia, Azerbaijan, and Georgia. Central Asia includes Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan.

Economies in transition

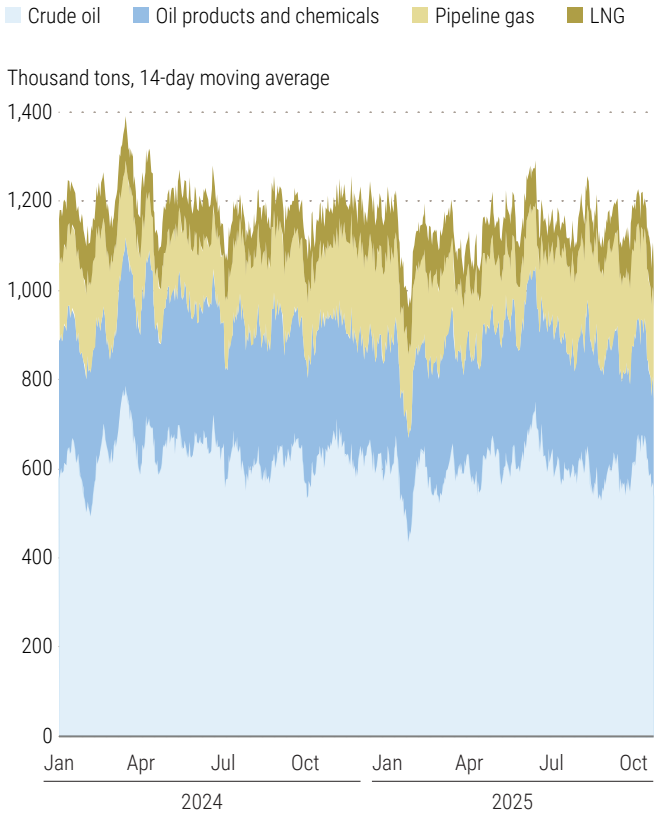
Commonwealth of Independent States and Georgia

Aggregate GDP growth in the Commonwealth of Independent States (CIS) and Georgia moderated in 2025, largely due to a sharp slowdown in the economy of the Russian Federation. In contrast, most countries in the Caucasus and Central Asia have maintained strong economic momentum. This divergence is expected to continue in 2026. Following 4.6 per cent growth in 2024, the region's GDP is estimated to have expanded by only 2.2 per cent in 2025. Growth is forecast at 2.1 per cent in 2026 and 2.5 per cent in 2027 amid ongoing geopolitical uncertainties.

The prolonged war in Ukraine and the progressive tightening of economic sanctions against the Russian Federation continue to influence macroeconomic developments in the region. By contrast, the introduction of higher United States import tariffs is expected to have only a limited direct impact on the CIS economies given their minimal exposure to the United States market. However, these countries remain vulnerable to potential indirect effects, including weaker commodity prices and lower demand from China and the European Union.

The economy of the Russian Federation is estimated to have grown by 0.8 per cent in 2025. Economic activity gradually lost momentum over the course of the year as the effects of earlier growth drivers—including large-scale investment in the military sector, import substitution programmes, and substantial payments to military personnel and their families—diminished. The country remains subject to wide-ranging sanctions that primarily target oil exports and restrict imports of high-technology goods. Nevertheless, energy exports have remained relatively stable (see figure III.8), and access to imports has been largely maintained, reflecting ongoing adjustments in trade relationships and financing channels that have helped limit the overall economic impact of the sanctions.

Figure III.8
Energy sector exports of the Russian Federation



Source: UN DESA, based on data from Russia Fossil Tracker.
Note: LNG = liquefied natural gas.

With the imposition of additional sanctions by the European Union and the United States in 2025, prospects for energy exports from the Russian Federation depend on the country's ability to continue selling oil to non-European Union markets. Despite a modest easing of monetary policy, the economy of the Russian Federation is projected to grow by only 1.0 per cent in 2026. Growth is expected to be held back by severe labour shortages, weaker private consumption amid elevated household indebtedness, and fiscal measures—including a planned increase in the value-added tax (VAT) rate from 20 to 22 per cent and higher corporate taxes—that weigh on business activity.

The economy of Ukraine experienced significant setbacks in 2025 following repeated attacks on the country's energy infrastructure that

damaged power generation capacity. GDP growth in 2025 is estimated at 1.5 per cent. The outlook for 2026 depends on progress in ending the war and initiating reconstruction activities, which are projected to cost around $524 billion over the next decade (European Union and others, 2025). In Belarus, economic growth weakened in 2025, constrained by the slowing economy in the Russian Federation and subdued global trade. The country is expected to remain on a low-growth trajectory in 2026 despite expected financial support from the Russian Federation.

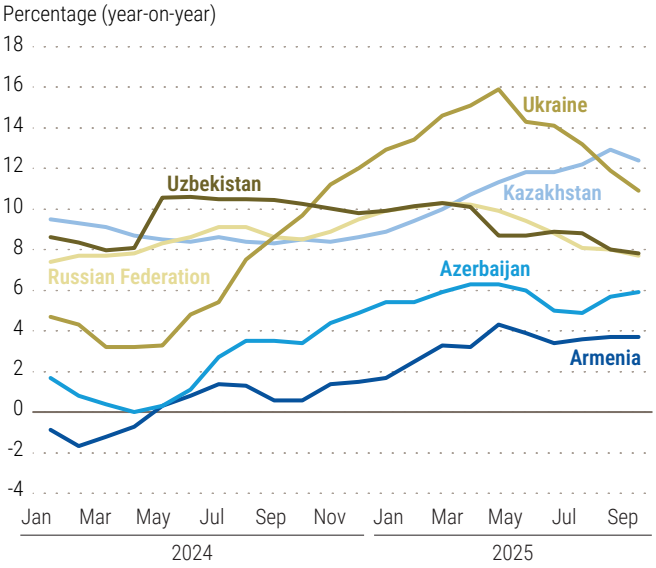
For the economies of the Caucasus and Central Asia, the benefits of serving as trans-shipment hubs for trade with the Russian Federation have gradually diminished. Nevertheless, robust economic growth persisted across most countries in these areas in 2025, supported by strong domestic drivers, including buoyant private consumption underpinned by rising real incomes, declining unemployment, solid remittance inflows, and rapid household credit growth. Fiscal policy remained supportive, with public spending directed towards domestic investment, including regional infrastructure projects developed in cooperation with China.

In Armenia, despite the suspension of re-exports of processed gold from the Russian Federation, GDP growth continued, driven by construction and services. Public investment in infrastructure is expected to support growth in 2026. In Azerbaijan, stagnating oil output constrained economic activity in 2025, while the non-oil sector performed more strongly. Growth is expected to pick up in 2026, boosted by increased natural gas production and exports and further growth in the non-oil sector. In Georgia, robust growth continued in 2025, supported by the construction and tourism sectors. The economy in Kazakhstan expanded by an estimated 6.1 per cent in 2025, fuelled by higher oil production and robust domestic demand. Oil output is expected to increase further in 2026 and 2027. However, higher taxes may moderate business activity and private consumption. Kyrgyzstan, Tajikistan, and Uzbekistan continued to benefit from rising gold prices, large-scale infrastructure investment, and tourism sector expansion.

Headline inflation continued to accelerate in many CIS economies in 2025 due to a combination of common factors, such as resurgent food prices and large fiscal spending, and country-specific pressures, including second-round effects from tight labour markets and entrenched inflation expectations (see figure III.9). In the Russian Federation, annual inflation exceeded 10 per cent in early 2025, and Ukraine and several Central Asian countries also experienced double-digit inflation rates. In Kazakhstan, rapid credit expansion (including subsidized loans), currency depreciation, and increases in regulated utility tariffs pushed inflation upward. During the second half of the year, inflation dynamics diverged across countries. Although inflation is expected to moderate across the region in 2026, planned tax increases may temporarily lift headline inflation in Kazakhstan and the Russian Federation.

Figure III.9

Consumer price inflation in selected Commonwealth of Independent States economies



Source: UN DESA, based on national sources.

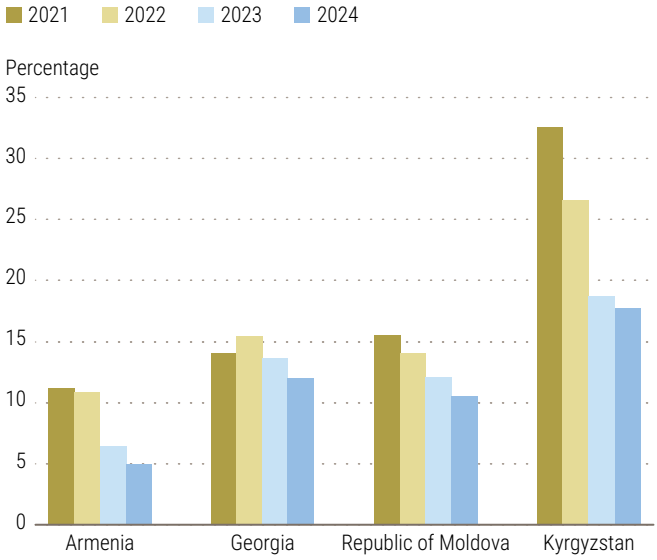
Monetary policy responses to inflation diverged, reflecting differences in deviations from target ranges, expectations for future inflation dynamics, and policy priorities. The Central Bank of the Russian Federation, which had maintained an extremely tight monetary stance since mid-2024, began easing policy in June in response to moderating inflation, even though price growth remained well above the 4 per cent target. Additional rate cuts are likely, but the Central Bank faces the challenge of balancing efforts to curb persistent inflationary pressures with the need to support economic activity. By contrast, many other central banks, particularly the National Bank of Kazakhstan, tightened monetary policy in 2025. However, the large volume of subsidized loans in Kazakhstan continues to limit the effectiveness of monetary transmission.

Labour shortages in the Russian Federation, mainly caused by conscription and outward migration, pushed the unemployment rate down to a record low of 2.1 per cent in the second half of 2025. However, early signs of cooling are emerging in parts of the labour market. In many Central Asian countries, which traditionally send migrant workers to the Russian Federation, domestic job creation strengthened in 2025. Despite tighter employment conditions for migrants in the Russian Federation, remittances reached record levels in dollar terms during the first half of 2025. While remittances remain a key income source for many households across the region, their relative importance has gradually declined in several countries (see figure III.10).

While public finances remain under pressure across much of the CIS region, fiscal consolidation is expected to advance gradually. In the Russian Federation, lower-than-expected oil prices and a stronger rouble weighed on fiscal revenues in the first half of 2025 (see figure III.11).[8] To narrow the budget gap, the Government has announced plans to increase corporate taxes, raise the VAT rate, and lower the

Figure III.10

Remittances as a percentage of GDP in selected Commonwealth of Independent States economies



Source: UN DESA, based on data from World Bank World Development Indicators database.

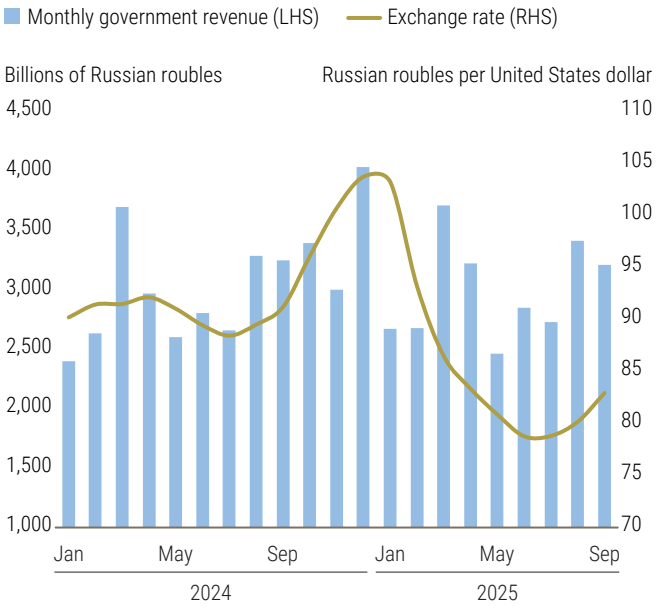
VAT exemption threshold for small businesses. In Ukraine, estimates indicate a fiscal deficit exceeding 20 per cent of GDP for 2025, driven by high military and social spending, with revenue generation remaining constrained by a weak tax base. The provision of external financial assistance—pledged by the European Union, the United States, the Group of Seven (G7) countries, and multilateral institutions—remains essential, given the country's severely limited access to private capital markets. The government gross debt in Ukraine is estimated to have exceeded 100 per cent of GDP in 2025. In Kazakhstan, large-scale government spending and weaker-than-expected revenues have weighed on the budget. Extensive tax reforms adopted in July 2025 are planned for implementation in 2026.

Although many CIS economies are expected to grow by at least 5–6 per cent in 2026 and 2027, with lower-income countries expanding at a faster pace (see figure III.12), the region faces significant long-term development

8 The stronger exchange rate has undermined the rouble value of dollar-denominated oil and natural gas revenues.

Figure III.11

Monthly government revenue and exchange rate of the Russian Federation



Source: UN DESA, based on data from the Central Bank of the Russian Federation and Trading Economics.
Note: **LHS** = left-hand scale; **RHS** = right-hand scale.

challenges. These include high dependence on commodity exports (even for energy-importing economies), inadequate digital infrastructure, low agricultural productivity, persistent labour market mismatches, and increasing vulnerability to extreme weather events. In the European part of the CIS, adverse demographic trends such as declining birth rates, emigration, and population ageing continue to weigh on growth prospects.

South-Eastern Europe

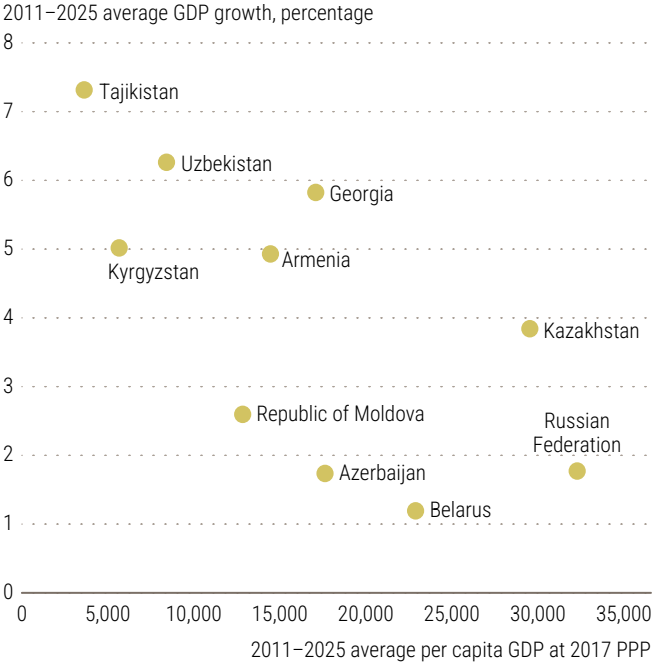
Aggregate GDP growth in South-Eastern Europe declined from 3.5 per cent in 2024 to an estimated 2.4 per cent in 2025 but is projected to bounce back to 3.4 per cent in 2026 and remain at that level in 2027. Sluggish economic growth in the European Union has been weighing on the region, especially on industrial exporters such as Bosnia and Herzegovina, North Macedonia, and Serbia. In Serbia, economic growth weakened in 2025 due to lower agricultural output, slower investment activity, and heightened political tensions despite positive trends in the automotive and information technology sectors. A rebound in construction activity and overall growth is expected in 2026, supported by preparations for EXPO 2027 Belgrade.

The service-oriented economies of Albania and Montenegro benefited from a strong tourism season, with tourist arrivals reaching an all-time high in August 2025. The construction sector also contributed significantly to growth in Albania.

The region has experienced steady improvement in labour market conditions in recent years, reflected in resilient employment growth and rising real wages. However, unemployment in Bosnia and Herzegovina remains very high, and elevated youth unemployment continues to be a widespread challenge across the region. Despite recent progress, the region still has a relatively low labour force participation rate, particularly among women (see figure III.13a).

Figure III.12

GDP per capita and GDP growth in selected Commonwealth of Independent States economies



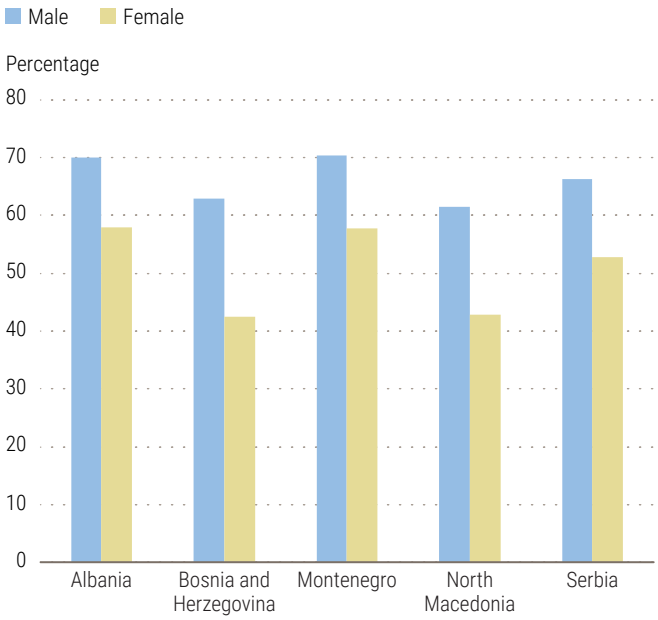
Source: UN DESA, based on data from the IMF World Economic Outlook database, October 2025, and on estimates produced with the World Economic Forecasting Model.
Note: **PPP** = purchasing power parity.

The outlook for South-Eastern Europe is subject to significant domestic and external risks. Global economic uncertainty continues to weigh on business confidence and investment flows. The region's development prospects remain constrained by structural challenges, notably a difficult business environment and adverse demographic dynamics, including population ageing, outward migration, and a resulting decline in the working-age population (see figure III.13b). An additional risk stems from the increasing frequency of extreme climate events, particularly droughts, which could adversely affect hydropower generation.

Figure III.13

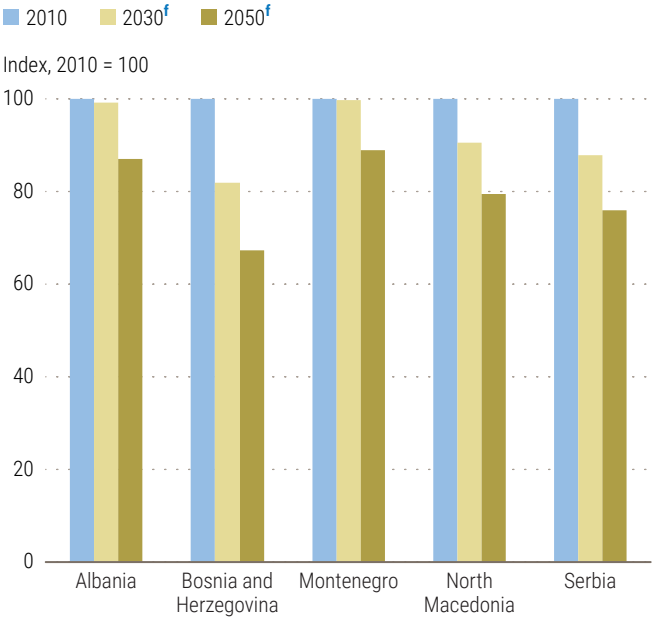
Labour force participation and working-age population in South-Eastern European economies

a) Labour force participation rates



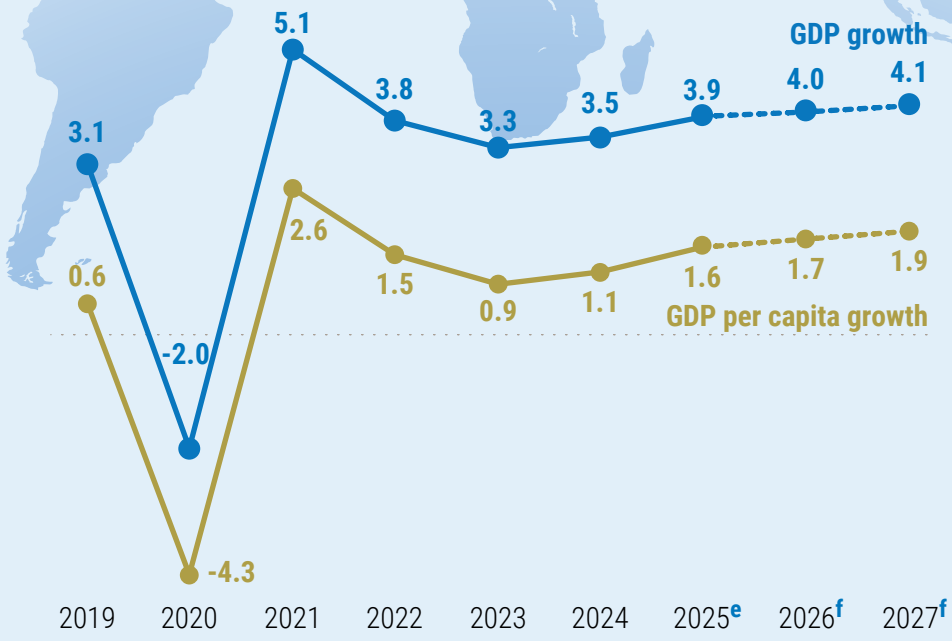
Source: UN DESA, based on data from ILOSTAT.
Note: Data are for 2024 for all countries except Albania and Montenegro, where data are for 2023.

b) Population aged 20 to 64 years



Source: UN DESA, based on data from United Nations, *World Population Prospects 2024*.
Note: f = forecasts.

AFRICA

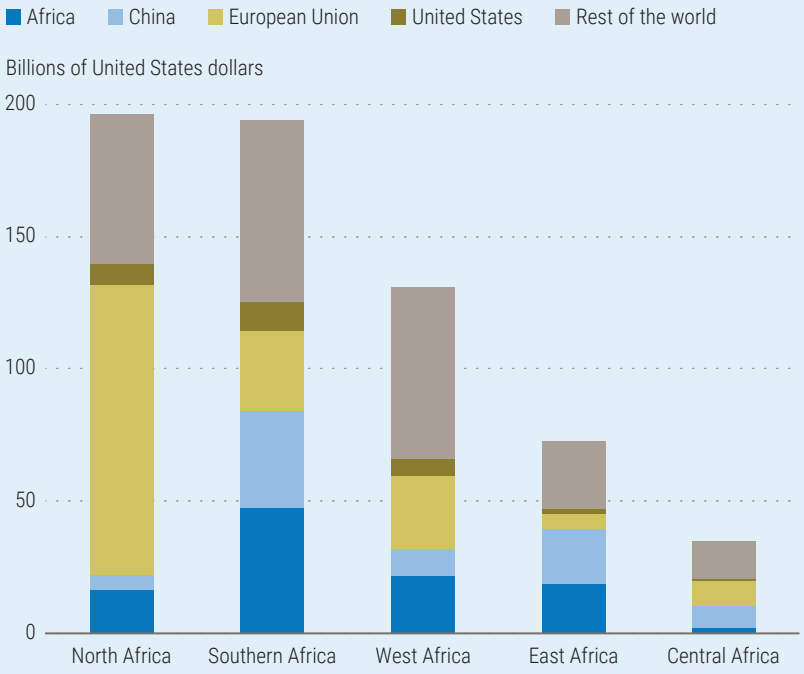


Note: e = estimates; f = forecasts. Aggregate data for Africa exclude Libya and Sudan.

HIGHLIGHTS

- Growth in Africa remains steady, but subregional disparities persist as commodity price trends and the performance of large economies diverge.
- The exposure of Africa to global trade tensions is mitigated by the diversification of export partners.
- Inflation has eased but remains elevated; high debt-service costs continue to constrain development spending.

African merchandise exports by destination, 2024



Source: UN DESA, based on data from UNCTAD.

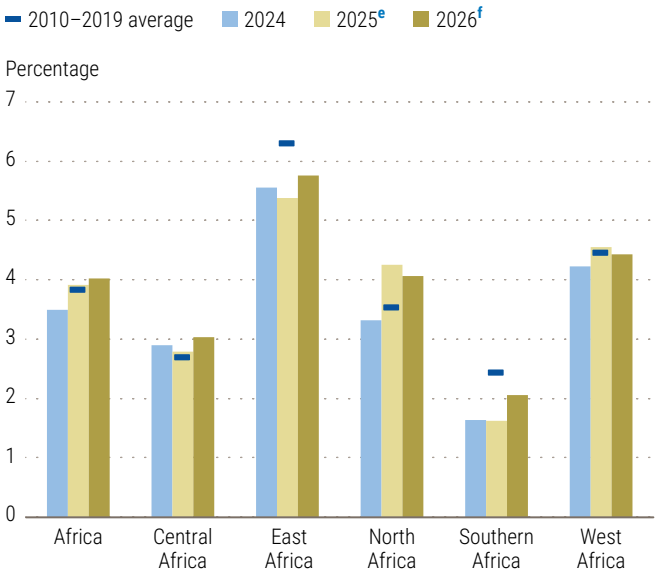
Africa

Economic growth in Africa remains resilient, though significant disparities persist across subregions (see figure III.14). Regional GDP growth is projected to rise to 4.0 per cent in 2026 and 4.1 per cent in 2027, continuing to trend gradually upward from the 3.5 per cent growth recorded in 2024 and 3.9 per cent growth estimated for 2025. This acceleration reflects improved macroeconomic stability in several large economies, supporting stronger investment and consumer spending. However, divergent commodity price trends continue to shape uneven growth trajectories across the region. While inflation has moderated from its post-pandemic peak, it remains elevated in many economies, limiting the scope for monetary policy easing. High debt-servicing costs constrain fiscal space for development spending, while fiscal consolidation and debt restructuring are progressing in several heavily indebted economies. At the same time, reduced official development assistance from major donors and rising trade barriers weigh on growth prospects, while an evolving global trade and financial environment adds uncertainties.

GDP growth in North Africa is estimated to have reached 4.3 per cent in 2025, up from 3.3 per cent in 2024. The upturn in growth has been driven by improved balance-of-payments conditions and more stable exchange rates, which have enabled a robust expansion in domestic demand. This dynamic is especially evident in Egypt and Tunisia, where external vulnerabilities had raised concerns in early 2024. Successful external debt repayments in 2024 and 2025 have eased short-term risks in both countries, though high public-debt-to-GDP ratios continue to pose structural challenges. Growth has been further supported by services exports, particularly by the resurgence of tourism in Egypt, Morocco, and Tunisia. The impact of United States tariff measures has remained limited, as exports to the United States—primarily raw materials—are

Figure III.14

Growth of economic output in Africa



Source: UN DESA, based on estimates and forecasts produced with the World Economic Forecasting Model.
Notes: e = estimates; f = forecasts. Africa and North Africa aggregates exclude Libya and Sudan.

largely exempt, while exports to the European Union continue to grow steadily. Growth is projected to ease to 4.1 per cent in 2026, as slightly tighter balance-of-payments conditions are expected to constrain domestic demand growth. In Egypt, GDP is forecast to grow by 4.5 per cent in 2026 and 4.7 per cent in 2027,[9] supported by economic reform measures aimed at attracting foreign financial inflows.

East Africa continues to outperform other African subregions, even with the slight decline in GDP growth from 5.6 per cent in 2024 to an estimated 5.4 per cent in 2025. Growth is forecast to accelerate to 5.8 per cent in 2026, driven by robust growth in Ethiopia and Kenya, the subregion's two largest economies, which are projected to grow by 6.3 and 5.1 per cent, respectively. While strong, subregional growth nonetheless remains below the 2010-2019 average of 6.3 per cent per year, with only Rwanda and Uganda surpassing their pre-pandemic performance. In South Sudan, internal conflict continues to severely disrupt

9 Fiscal-year basis.

economic activity and displace large segments of the population. East Africa is benefiting from deepening regional integration and the rapid expansion of renewable energy, notably following the inauguration of the Grand Ethiopian Renaissance Dam in September 2025. Risks for the subregion are tilted to the downside. Fiscal space remains limited, with several countries, including Ethiopia, in debt distress or at high risk thereof. Meanwhile, the conflict in South Sudan and ongoing security challenges in other East African countries remain significant risk factors.

In West Africa, GDP growth is estimated at 4.6 per cent for 2025, with a slight deceleration to 4.4 per cent projected for 2026, consistent with the 2010-2019 annual average. Subregional growth has primarily been driven by stronger economic activity in Nigeria, where growth increased from 3.3 per cent in 2024 to an estimated 3.9 per cent in 2025, with a slight drop to 3.8 per cent projected for 2026. The economy of Nigeria, which accounts for about two thirds of subregional output, is benefiting from the increased production of refined oil—supporting the trade balance—and from the positive effects of macroeconomic reforms, including the deregulation of petrol prices and the move from multiple official exchange rates to a single, more market-based rate. High prices for precious metals, particularly gold, are boosting nominal GDP in metal-exporting countries, which in turn indirectly supports real growth through improved balance-of-payments positions and higher fiscal revenues. At the same time, continued weakness in oil prices weighs on nominal GDP and fiscal revenues in the subregion's fuel-exporting countries.

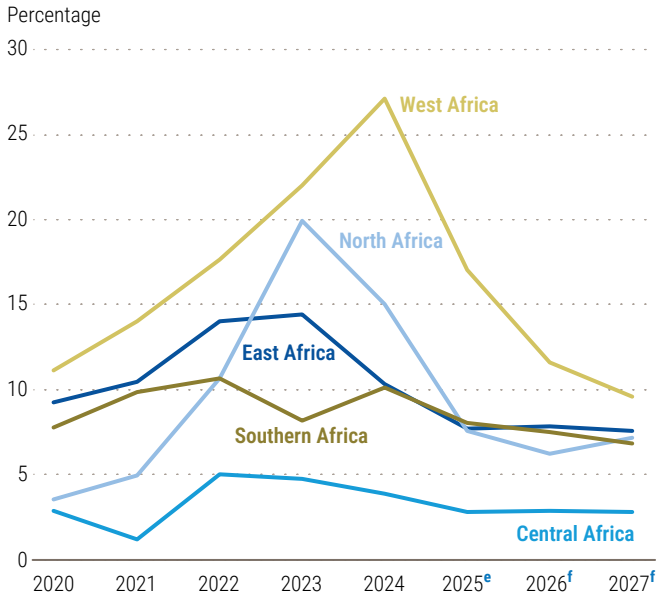
Central Africa continues to lag behind the continental average, with growth estimated at 2.8 per cent for 2025 and a slight acceleration to 3.0 per cent projected for 2026. Economic performance remains closely tied to commodity prices and extractive industries. Chad, Congo, Equatorial Guinea, and Gabon are especially vulnerable to the risks associated with falling oil prices (EIU, 2025). The Democratic Republic of the Congo continues to depend on its mineral deposits as the main source of government revenue and economic activity. Armed conflict in the eastern part of the Democratic Republic of the Congo has contributed to disrupted livelihoods and the displacement of more than 3.5 million people, weighing on the country's economic outlook (UN Migration, 2025). The shift in October 2025 from a cobalt export ban to an export-quota system is expected to increase fiscal revenues. However, translating these gains into broader benefits will require stronger governance and greater investment in infrastructure and education (United Nations, 2025; Arezki, 2025).

Growth in Southern Africa remains subdued, with GDP growth estimated at 1.6 per cent for 2025 and projected at 2.0 per cent for 2026. This sluggish performance reflects a combination of structural constraints and external headwinds. South Africa continues to weigh on subregional growth as deep-rooted challenges—including inadequate power supply, high unemployment, and the underperformance of mining and manufacturing—offset the benefits of elevated gold prices. Economic momentum in Botswana and Namibia has faltered amid declining diamond prices, with Botswana slipping into recession in early 2025. The apparel industry in Lesotho remains highly exposed to trade shocks; with the higher United States tariffs and the expiration of the African Growth and Opportunity Act (AGOA), the effective United States tariff rate now exceeds 30 per cent. Inflationary dynamics are diverging across the region. Angola, Malawi, Zambia, and Zimbabwe are grappling with double-digit inflation, prompting central banks to maintain tight monetary policies. In contrast, Namibia and South Africa have begun to ease their monetary policy stance, reflecting subsiding inflation and subdued domestic demand.

In 2025, headline inflation rates continued to decline from recent peaks across most African countries (see figure III.15). The disinflation trend has been supported by the stabilization of exchange rates following a period of widespread

Figure III.15

Annual consumer price inflation in Africa, by subregion



Source: UN DESA, based on estimates and forecasts produced with the World Economic Forecasting Model.
Notes: e = estimates; f = forecasts. Subregional aggregates reflect GDP weighted averages, excluding South Sudan, Sudan, and Zimbabwe.

currency depreciation between 2022 and 2024. Many African central banks, including the Central Bank of West African States (BCEAO) and the Bank of Central African States (BEAC), maintain exchange rate stability with the euro due to historical and trade ties. With the strengthening of the euro, several countries saw their currencies appreciate against the United States dollar. Against this backdrop, most African central banks, including the BCEAO, the BEAC, and those of Egypt, Kenya, Nigeria, and South Africa, eased monetary policy in 2025 by lowering policy interest rates. In contrast, tightening measures were implemented in Botswana, Madagascar, Mauritius, and Rwanda.

Despite lower global grain prices and more stable exchange rates, food inflation has remained high in many African countries. In Angola, Burundi, Ethiopia, Ghana, Malawi, Mozambique, Nigeria, Rwanda, Zambia, and Zimbabwe, annual food inflation stayed above 10 per cent as at September 2025, highlighting structural cost-of-living challenges (see box III.1).

Box III.1

The cost of rapid urbanization in Africa: inflation and food affordability challenges in the region's urban transition

Africa is undergoing urbanization at an unprecedented pace. The continent's urban population is expanding by more than 3.5 per cent annually (ECA, 2025), the fastest rate of urban growth worldwide, and this trend is projected to persist in the coming decades (see figure III.1.1). The two key factors driving this expansion are persistently high fertility rates and rural-to-urban migration. In 2020, the fertility rate for Africa averaged 4.1 children per woman, with rates as high as 5.8 in countries with urban growth exceeding 3.5 per cent (Flückiger and Ludwig, 2017; Donald and others, 2024).

Rapid urbanization has become a defining contributor to the rising cost of living in African cities. Migration increases pressure on housing, infrastructure, and essential services; when demand outpaces supply, costs rise, rendering urban life increasingly unaffordable for many residents. Social tensions and discontent due to rising affordability challenges triggered several rounds of protests in 2024 and 2025, particularly in large cities in Ghana, Kenya, and Madagascar.

This expansion also has profound implications for food systems. Urban dwellers tend to consume more diverse and processed foods, often sourced through extended supply chains or imported from abroad. Weak infrastructure, limited storage, and high transport costs have left supply chains lagging, making urban food markets highly vulnerable to shocks (Abu Hatab and others, 2019; Kunaka and others, 2025). These inefficiencies, combined with global commodity shocks, have driven food prices sharply upward, feeding directly into headline inflation (Gizaw and Myrland, 2025).

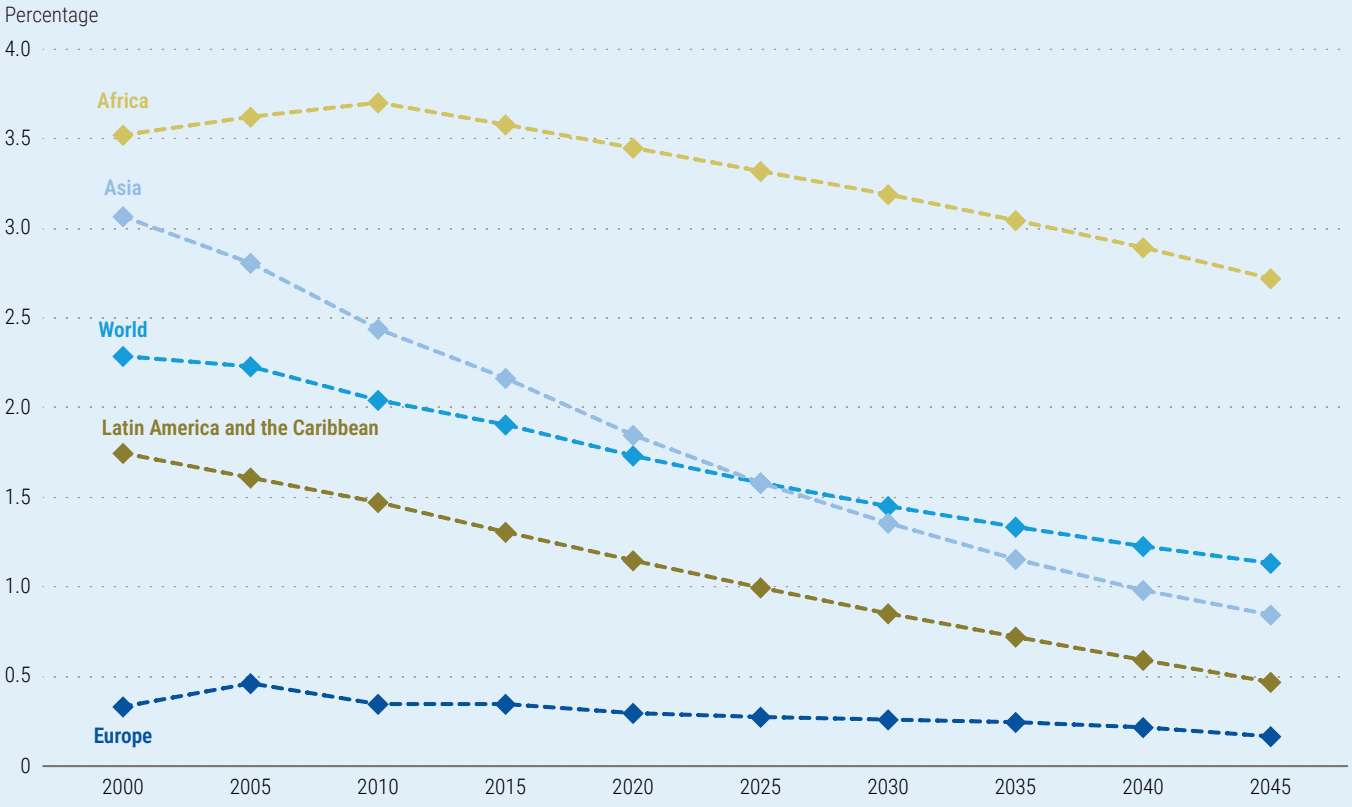
In macroeconomic terms, countries experiencing an increasing rate of their population residing in urban areas tend to exhibit higher levels of food price inflation.[a] The impact is particularly acute in Africa, where food accounts for 40–50 per cent of household spending—a rate much higher than that in other regions. In such circumstances, rising food costs erode incomes and effectively limit access to essential services (Olufemi-Phillips and others, 2024). A detailed cluster analysis underscores the close intersection of rapid urbanization and food inflation. The results indicate that the highest levels of food price inflation over the past two decades have been concentrated in countries experiencing both accelerated urban growth and a large share of the population living below the poverty line (see figure III.1.2).

Together, these dynamics create a vicious cycle: cities expand and consumption patterns shift while food systems struggle to keep pace as the rural agrarian base weakens due to urban migration. Without significant improvements in agricultural productivity, infrastructure modernization, and the removal of regional trade barriers, rapid urbanization will continue to intensify inflationary pressures. The risks are profound not only because of the persistence of high food prices, but also because of widening inequality, deepening food insecurity, and escalating social tensions in the very places that should be engines of African prosperity.

Author: *Giuseppe Tesoriere, United Nations Economic Commission for Africa*

Figure III.1.1

Rate of change of the urban population

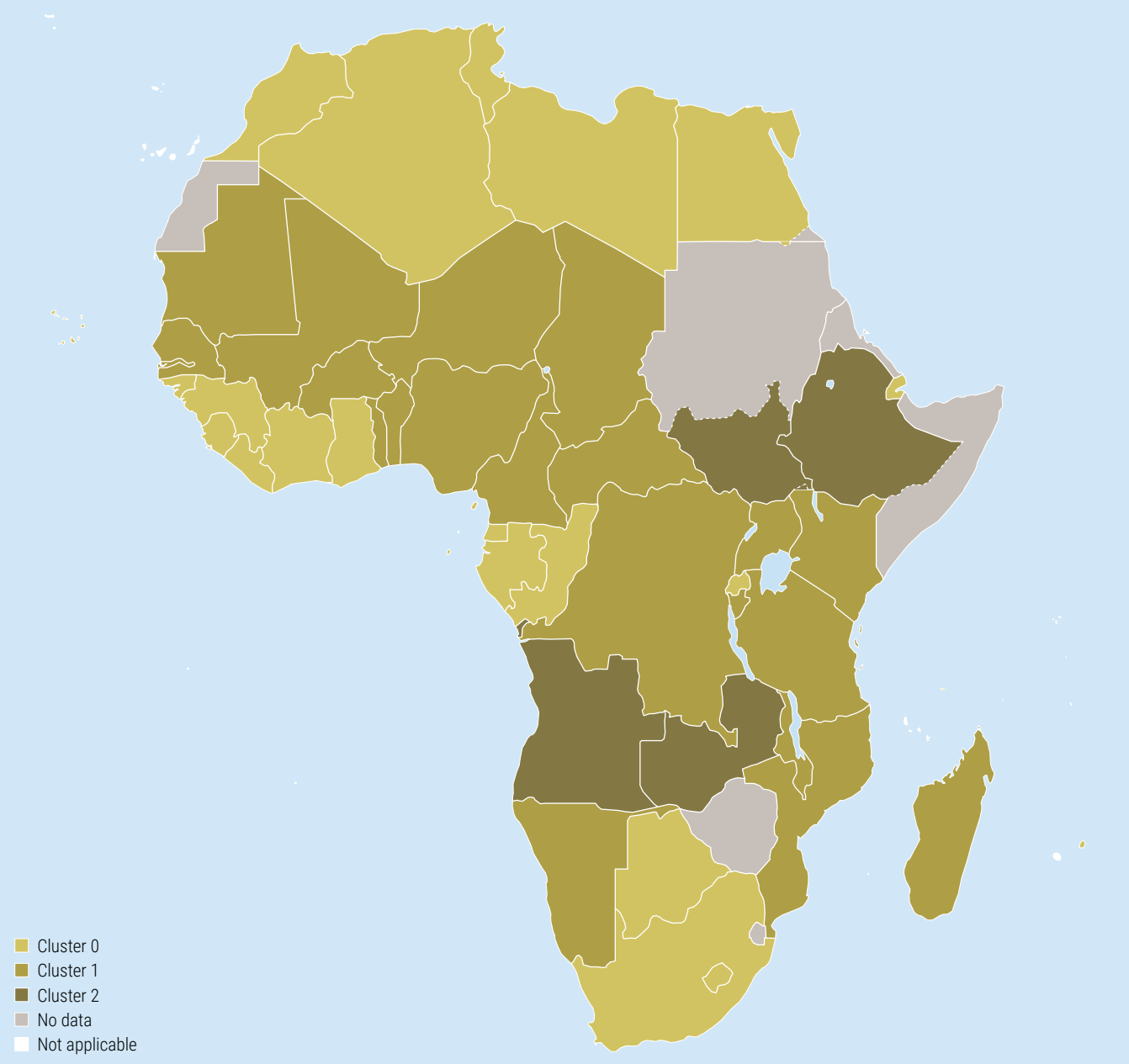


Source: ECA elaboration, based on United Nations, *World Urbanization Prospects 2025*.

a In extreme cases, when urban population growth exceeds the African average, food price inflation (FPI) is around 2.5 times higher. Specifically, FPI averages 13.10 per cent in rapidly urbanizing countries, compared with 5.46 per cent in countries where urbanization is below the average.

Figure III.1.2

Cluster analysis of urban population growth, food price inflation, and poverty headcount ratio in Africa, 2000–2020 average



	Cluster 0	Cluster 1	Cluster 2
Urban population growth	**Moderate** ~2.32 per cent, below the African average	**Fast** ~4.59 per cent, above the African average	**Fast** ~3.86 per cent, above the African average
Food price inflation	**Lowest** ~4.16 per cent	**Moderate** ~4.87 per cent	**Highest** ~23.58 per cent
Poverty headcount ratio (national poverty lines)	**Lowest** ~0.27	**Moderate** ~0.42	**Highest** ~0.48

Source: ECA elaboration, based on data from FAO and the World Bank.
Notes: 1) Map was created by Economic Commission for Africa/African Centre for Statistics/Geospatial Information Management Systems. The boundaries and names shown and the designations used on this map do not imply official endorsement or acceptance by the United Nations. Final boundary between the Republic of Sudan and the Republic of South Sudan has not yet been determined. 2) The cluster analysis employed the K-means algorithm, an unsupervised (data-driven) machine learning method that groups data points into a specified number of clusters.

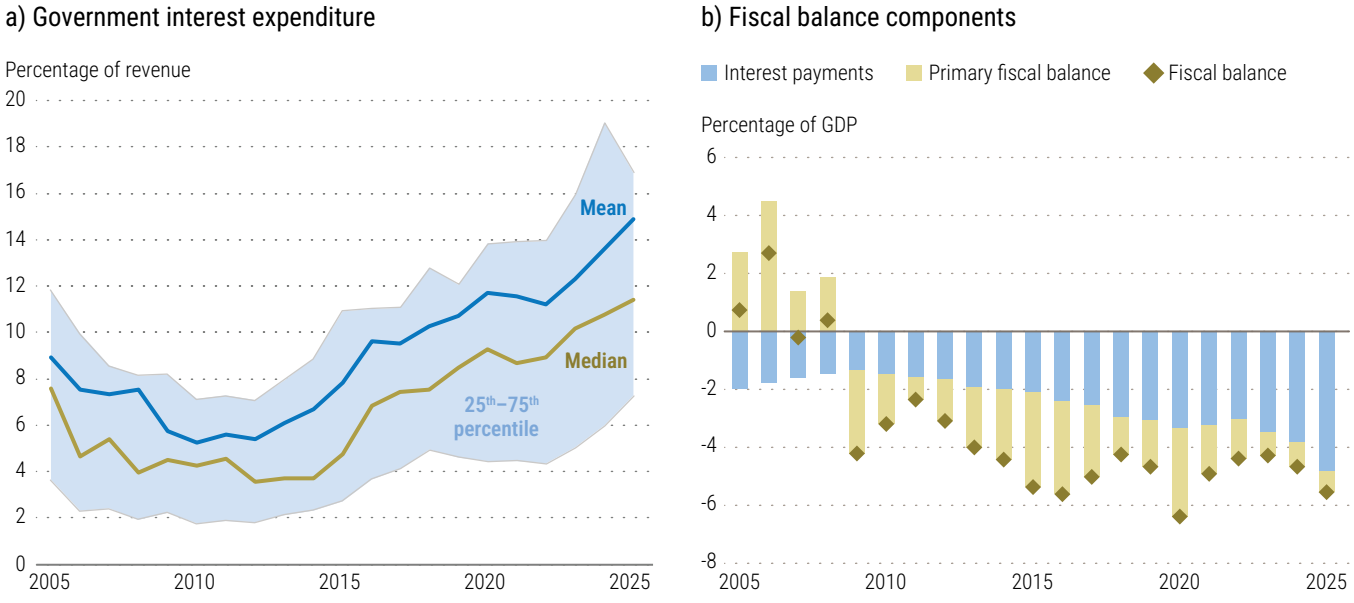
The average fiscal deficit in Africa is estimated at 3.6 per cent of GDP for 2025, unchanged from 2024. High inflation during the period 2022–2024 helped reduce the real government debt burden as nominal GDP grew faster than the nominal stock of debt. Consequently, the average public debt-to-GDP ratio is estimated to have declined to 63.0 per cent of GDP in 2025, though it remains well above the 2010–2019 average of 43.8 per cent. Debt-service obligations remain elevated by both historical and global standards, with average interest payments amounting to 14.7 per cent of government revenue in 2025 (see figure III.16a). Since 2022, the primary balance has been roughly in balance, so the fiscal deficit is entirely due to interest payments (see figure III.16b).

These headline indicators mask substantial cross-country variation, with fiscal space remaining severely constrained in several economies. On the one hand, Benin, Côte d'Ivoire, Kenya, and Senegal returned to international markets with new bond issuances in 2025, though at higher yields than in the past. On the other hand, seven African countries remained in debt distress as at end 2025, and fourteen others were at high risk thereof. Chad, Ethiopia, Ghana, and Zambia have requested debt restructuring under the G20 Common Framework and are currently at different stages of implementation. Several other African countries, including Egypt and Nigeria, are pursuing reforms and fiscal consolidation as part of IMF-supported programmes.

Global trade tensions have intensified, but for Africa direct exposure remains limited. Only twelve African countries export more than 5 per cent of their goods to the United States. The expiration of AGOA at the end of September 2025 removed preferential access to the United States market for many African economies; however, the impact is largely concentrated among countries reliant on labour-intensive manufacturing—particularly apparel exporters such as Lesotho, Kenya, and Madagascar (UNCTAD, 2025). Major African exports such as crude oil, gold, platinum, and certain precious stones are exempt from new United States tariffs (The White House, 2025c).

Figure III.16

Key fiscal indicators in Africa



Source: UN DESA, based on data from the IMF World Economic Outlook database, October 2025.
Notes: Panel b) The figure shows the GDP-weighted values of the indicators. The fiscal balance is defined as general government net lending or borrowing. It can be decomposed into the primary balance and interest payments.

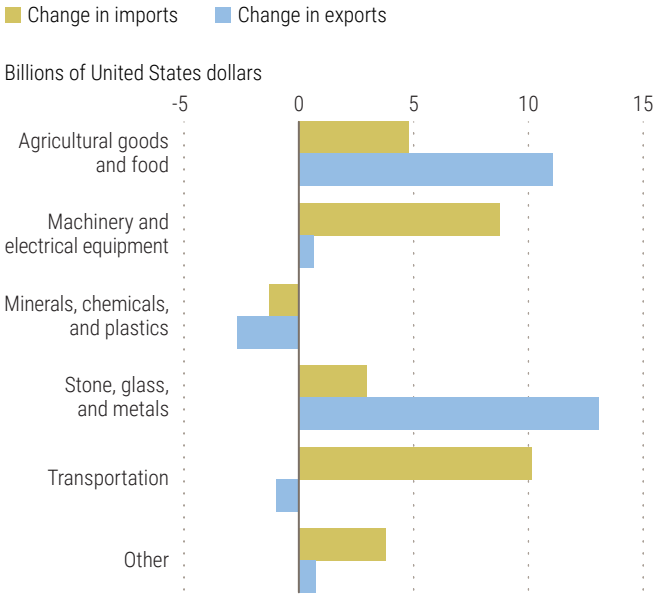
Meanwhile, imports to Africa expanded by more than 10 per cent year-on-year in the first half of 2025 (WTO, 2025c). Imports of transportation equipment, including cars, grew by over 25 per cent in value terms (see figure III.17). This sharp increase likely includes spillover effects from global trade realignments as major exporting countries redirect goods to African markets amid shifting supply chains (Naidoo, 2025). African exports also strengthened, led by precious metals and agricultural commodities such as coffee, whose prices rose over this period.

Five years after the Agreement Establishing the African Continental Free Trade Area (AfCFTA) entered into force, the new trade rules are not yet widely applied to intra-African commerce. As at January 2025, 54 countries had signed the Agreement, and several AfCFTA protocols had been successfully adopted. However, many countries only shipped limited first-time consignments under AfCFTA provisions in 2025,[10] revealing both the potential and the slow onset of the change.

Continued and coordinated policy efforts will be essential for accelerating progress towards eradicating extreme poverty, the first Goal of the 2030 Agenda for Sustainable Development. While some countries, such as Benin and Rwanda, have made considerable progress in reducing extreme poverty, others have experienced little change (World Bank, 2025e). In several large economies, including Angola, the Democratic Republic of the Congo, Ethiopia, and Nigeria, the incidence of extreme poverty has increased in recent years.

Figure III.17

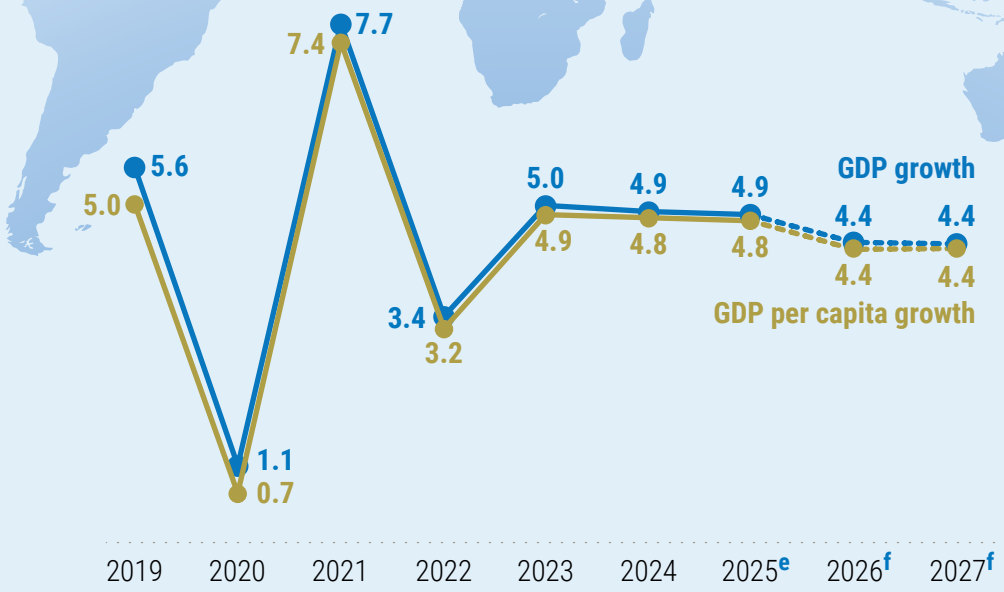
Change in African trade, by product category, 2024 H1–2025 H1



Source: UN DESA, based on data from the Trade Data Monitor.
Notes: **H1** = first half of the year. Data are expressed in nominal values. Data represent mirror estimates based on world trade with Africa.

10 Examples include Ethiopia (Salad, 2025) and Nigeria (Nigeria AfCFTA Coordination Office, 2025).

EAST ASIA

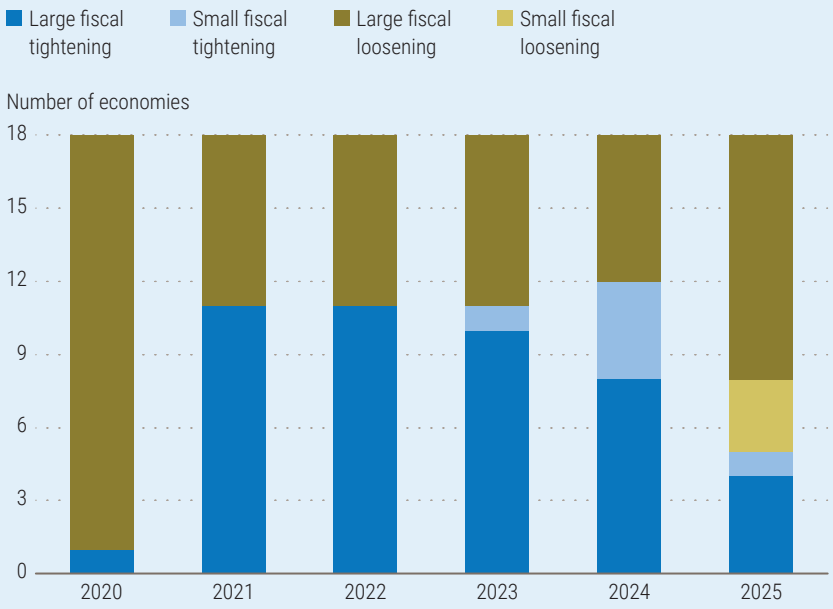


Note: e = estimates; f = forecasts.

HIGHLIGHTS

- Growth in East Asia remained steady in 2025 but is projected to moderate amid prolonged global uncertainties.
- Monetary and fiscal easing have supported domestic demand and employment growth.
- East Asian economies are deepening regional integration and advancing reforms to strengthen resilience to external shocks.

Fiscal policy stance in East Asian economies



Source: UN DESA, based on data and estimates from the IMF World Economic Outlook database, October 2025.
Note: Small easing/tightening is defined as a change in the primary fiscal balance of less than 0.5 per cent of GDP; large easing/tightening is a change of more than 0.5 per cent of GDP.

East Asia

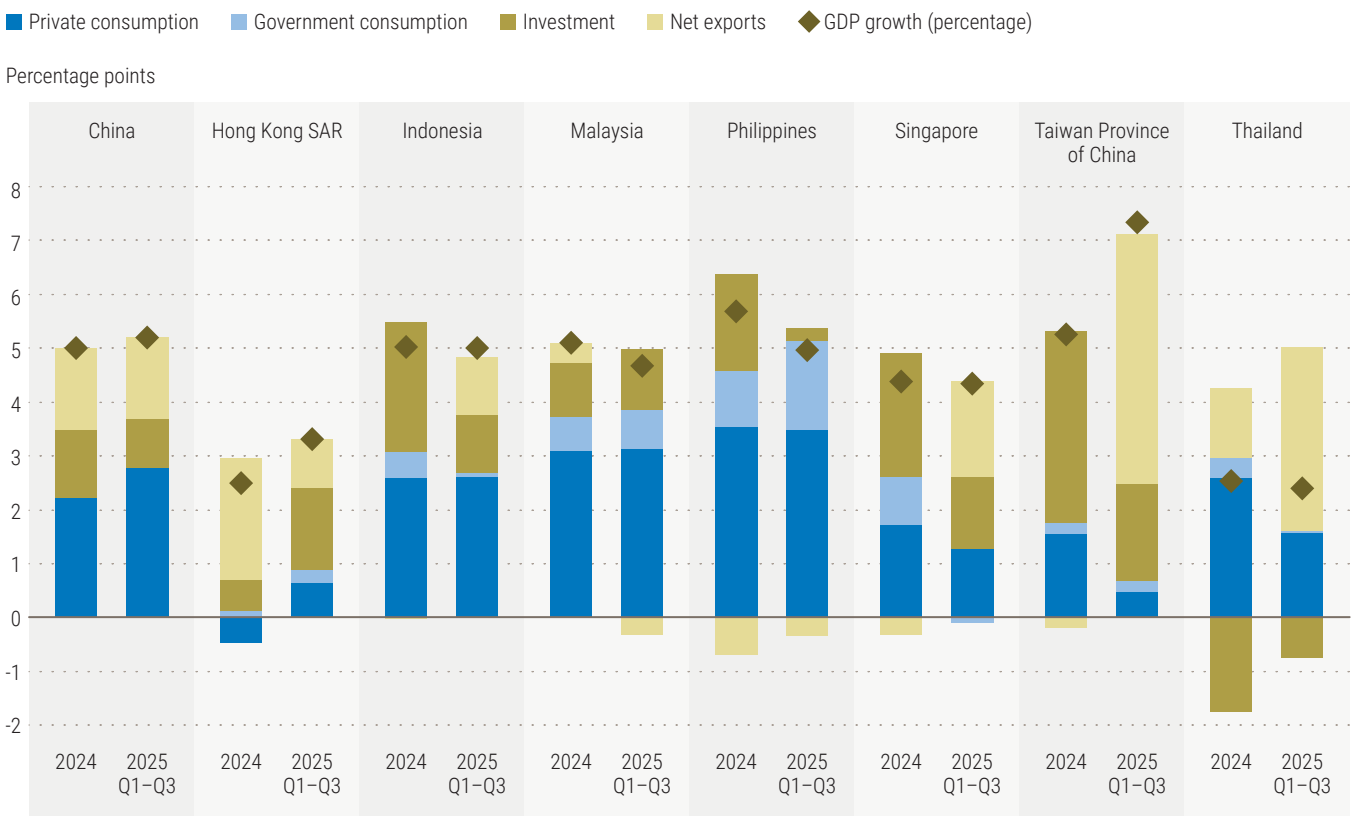
Economic performance in East Asia has remained steady, with growth in 2025 continuing to exceed that in most other developing regions. However, growth is projected to moderate in 2026 amid persistent geopolitical tensions, the impact of higher United States tariffs, and slowing growth among major trading partners. Regional GDP growth is estimated at 4.9 per cent for 2025, unchanged from 2024, and is forecast to moderate to 4.4 per cent in both 2026 and 2027.

During the first three quarters of 2025, the region's growth was boosted by the front-loading of exports to the United States ahead of higher tariffs, including shipments of AI-related semiconductors and electronics. A continued recovery in tourism, despite temporary disruptions from natural disasters and security concerns in some economies, bolstered services exports. Private consumption also held up well across most economies, underpinned by steady labour market conditions and ongoing disinflation (see figure III.18). Investment growth remained positive in most economies, driven by targeted government support and sustained inflows of foreign direct investment (FDI).

However, high-frequency indicators suggest a loss of growth momentum in the region. Industrial production has continued to expand, but at a slower pace since May 2025 (see figure III.19a). Manufacturing PMI readings have weakened across many economies since the beginning of 2025 (see figure III.19b). In particular, PMI readings for new export orders in many export-oriented economies—including

Figure III.18

Demand-side contributions to growth in selected East Asian economies

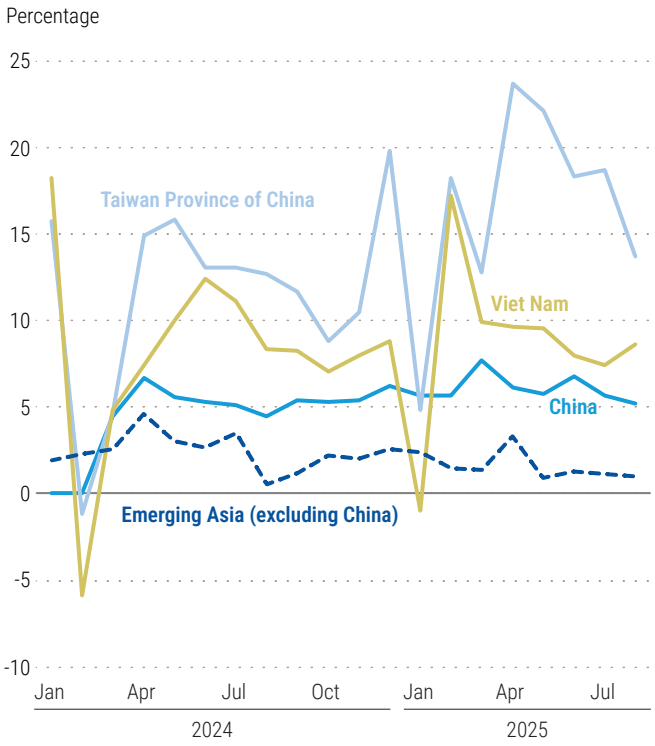


Source: UN DESA, based on data from CEIC.
Notes: **SAR** = Special Administrative Region. For China, the private consumption bar covers both the private and government sectors.

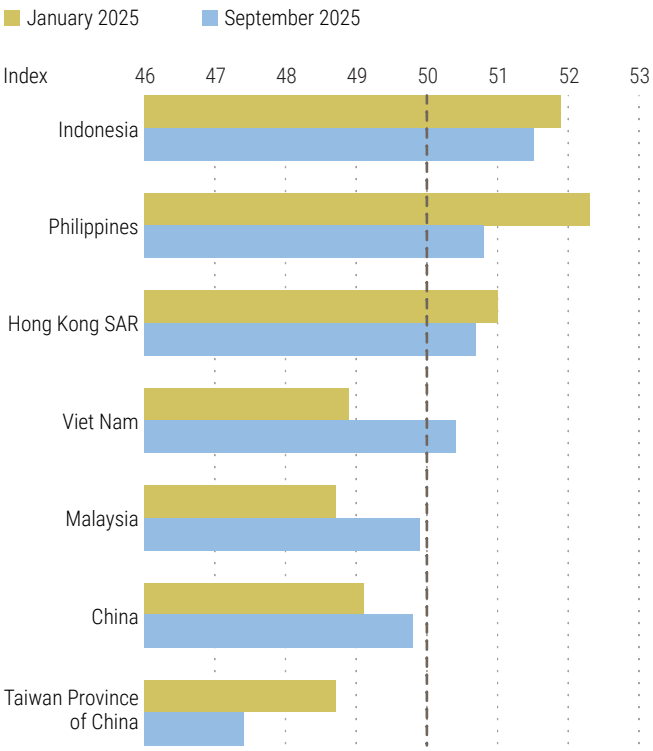
Figure III.19

High-frequency indicators in selected East Asian economies

a) Growth of industrial production



b) Manufacturing Purchasing Managers' Index



Source: UN DESA, based on data from CPB Netherlands Bureau for Economic Policy Analysis, CEIC, and national sources.
Notes: Panel b) SAR = Special Administrative Region. A Manufacturing Purchasing Managers' Index reading above 50 indicates an expansion in manufacturing activity compared with the previous month, while a reading below 50 signals a contraction.

China, Malaysia, Taiwan Province of China, and Viet Nam—were in contraction territory in September 2025, signalling weaker manufacturing activity ahead. Consumer confidence has also remained subdued across much of the region despite continued private consumption growth.

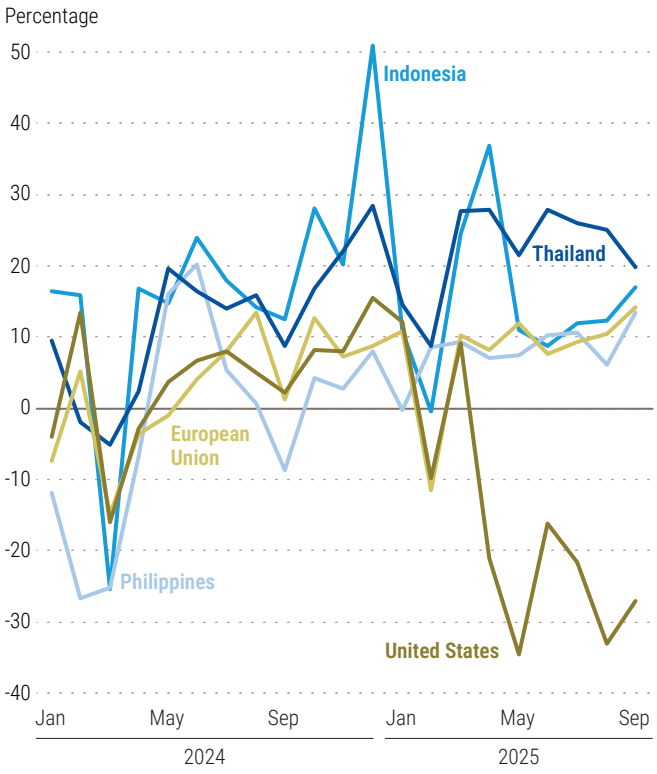
In China, GDP growth dipped from 5.0 per cent in 2024 to an estimated 4.9 per cent in 2025 and is projected to moderate to 4.6 per cent in 2026. In the first half of 2025, growth remained robust, supported by accelerated export shipments ahead of higher United States tariffs and stronger domestic consumption boosted by policy measures, notably the extended nationwide trade-in programmes (see figure III.18). However, momentum began to ease in the third quarter. In September, retail sales growth slowed to 3.0 per cent, down from a peak of 6.4 per cent in May—the highest rate since January 2024. Fixed-asset investment—despite an expansion of 2.8 per cent year-on-year in the first half of 2025—contracted by 0.5 per cent in the first three quarters, suggesting significantly weaker investment activity in the third quarter. Policies to encourage equipment upgrades and the issuance of ultra-long government bonds for infrastructure and urban renewal have supported investment in manufacturing and infrastructure. However, these gains have been offset by the continued contraction of the property sector.

The economic outlook in China now faces both upside and downside risks. The key downside risks stem from a potential deterioration in China–United States trade relations, weaker global demand, and a further downturn in the property sector. However, increased

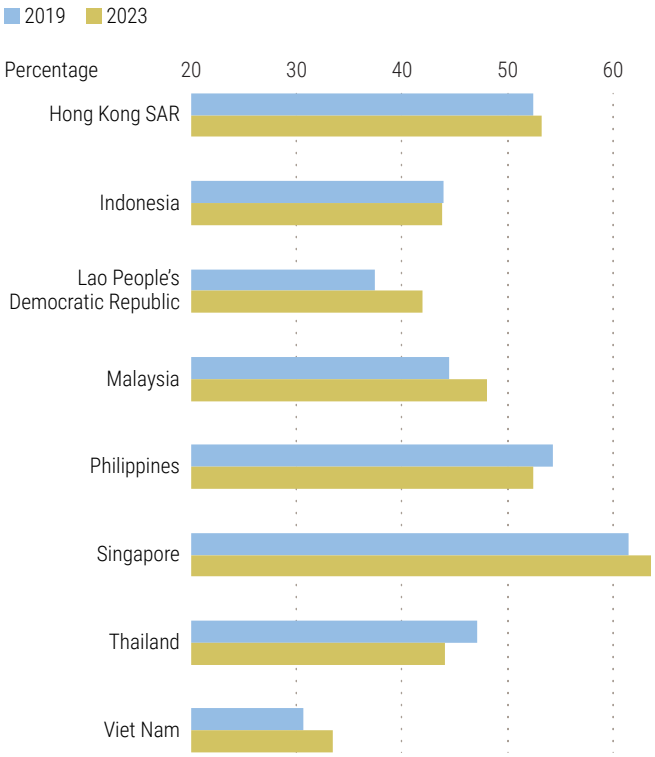
Figure III.20

Exports of China

a) Growth of exports by selected destination



b) Share of final goods in total exports to selected East Asian economies



Source: UN DESA, based on data from CEIC and OECD (2025a).
Notes: Panel a) Growth rates are based on nominal values. Panel b) **SAR** = Special Administrative Region.

policy support is expected to cushion some of these risks. Recent bilateral talks—including a one-year trade truce (until 10 November 2026)—have provided temporary stability. At the same time, efforts by China to diversify its trading partners are helping to offset the impact of trade disruptions. While Chinese exports to the United States have declined since April, shipments to Europe and other Asian economies have expanded at a solid pace (see figure III.20a). Exports to Africa have also surged (by 19.5 per cent in the first nine months of 2025), albeit from a low base. Meanwhile, the share of final goods in total exports from China to several regional economies has increased in recent years (see figure III.20b).

In the medium term, the 15th Five-Year Plan for Economic and Social Development of the People's Republic of China, released in October 2025 and covering the period 2026-2030, emphasizes innovation-driven industrial upgrading, green transition, digitalization, and the expansion of domestic demand, alongside a renewed focus on international cooperation through the promotion of trade and both FDI inflows into China and the country's outward investment.

Economic conditions across Association of Southeast Asian Nations (ASEAN) economies are becoming increasingly divergent. Viet Nam remains a bright spot, with growth projected at 6.0 per cent in 2026, moderating from an estimated 6.7 per cent in 2025. Despite headwinds from global policy uncertainty, the country is expected to maintain solid growth momentum as renewed policy support and infrastructure

investment bolster domestic activity. Indonesia remains on a steady course, with domestic demand supported by fiscal and monetary easing helping to cushion the adverse impact of lower commodity prices on exports. Growth is projected at 5.0 per cent for 2026, the same as that estimated for 2025. In the Philippines, low inflation, robust labour market conditions, and steady remittance inflows have buoyed consumer spending, while government spending and investment have further supported growth. The economy in Malaysia has also benefited from resilient private consumption and strong investment (particularly in construction), which have offset the drag from weaker net exports. Other ASEAN members face significant challenges. In Thailand, private consumption moderated during 2025 as households grappled with high levels of debt.[11] Services exports are expected to soften amid slowing growth in key tourist source countries (such as China) and increased competition from other regional destinations. Growth prospects in Lao People's Democratic Republic remain constrained by high debt vulnerability, while Myanmar continues to struggle with conflict, economic instability, and recurrent natural disasters.

Elsewhere in East Asia, countries are also experiencing economic slackening. GDP growth in Hong Kong SAR is projected to slow in 2026 as lingering trade uncertainty weighs on logistics and trade-related financial services. Taiwan Province of China, which benefited strongly in 2025 from surging demand for AI-related products, is also expected to see growth moderate in 2026 as global demand softens. The outlook for Mongolia is affected by lower commodity prices and the risk of weaker demand from key trading partners. Growth among the Pacific economies is forecast to ease in 2026, reflecting slower tourism demand from major source markets and ongoing climate-related vulnerabilities.

The employment outlook is expected to weaken. While unemployment rates remained largely stable across countries in 2025, elevated global trade policy uncertainty and higher United States tariffs could increasingly weigh on employment in export-oriented economies. In East Asia, about 2 per cent of total employment—equivalent to more than 39 million jobs—is linked to final demand in the United States through trade and supply chains.[12] Workers in labour-intensive, trade-exposed sectors, such as garments and footwear, face heightened risks of job losses or wage declines. Many of these jobs are concentrated in countries with large informal sectors and limited social protection, leaving affected workers particularly vulnerable. At the same time, the challenge of youth unemployment persists. In several East Asian economies, including China, Indonesia, Malaysia, and Mongolia, the youth unemployment rate remains more than twice the overall unemployment rate.[13] Rapid technological change and automation further threaten to constrain job opportunities for young workers (World Bank, 2025d).

Inflation in East Asia is projected to remain subdued. Average regional headline inflation is estimated at 0.5 per cent for 2025, down from 0.8 per cent in 2024, and is projected to edge up to 1.1 per cent in 2026. In most East Asian economies, cost-push inflation drivers—particularly food and fuel prices—have continued to ease, supported by generally favourable weather conditions and improved oil supplies. Subdued domestic demand, notably in China and Thailand, has also dampened domestic price pressures. Mongolia, however, is expected to see inflation remain above the central bank's target throughout 2025, driven by monetary and fiscal easing in 2023 and 2024 and currency depreciation in early 2025. Looking ahead, weaker external demand, partly owing to higher United States tariffs,

11 Although the situation has improved somewhat since 2021, household debt in Thailand still stands at around 90 per cent of GDP (Deléchat, Kim and Xu, 2025).
12 The calculation is based on data from ILO (2025b).
13 Based on data from ILOSTAT.

could exert additional downward pressure on prices in export-oriented economies, while adverse weather conditions could disrupt crop production and push up food prices.

Financial conditions in East Asia have remained broadly accommodative amid monetary easing and a weaker dollar. Equity markets generally strengthened in 2025, while 10-year government bond yields declined, reflecting resilient economic performance and sustained investor confidence.

Amid external headwinds and heightened global policy uncertainty, policymakers in East Asia have stepped up supportive measures. Many central banks across the region continued or introduced monetary easing in 2025, taking advantage of subdued inflation and rate cuts by the United States Federal Reserve. Other monetary policy tools were also deployed to support credit growth, such as the reduction of reserve requirement ratios in China. Taiwan Province of China and Viet Nam kept rates unchanged in the first nine months, while Mongolia raised rates in March to contain inflation and has held them steady since.

Many Governments in East Asia shifted towards fiscal expansion in 2025 following fiscal consolidation the year before. The median fiscal deficit for the region grew from 3.7 per cent of GDP in 2024 to an estimated 5.2 per cent in 2025 and is projected to edge up to 5.3 per cent in 2026.[14] Many fiscal packages aim to stimulate consumption and protect vulnerable groups in the near term while enhancing infrastructure investment to support long-term growth. Specific measures include cash handouts and targeted cash transfers (Malaysia and the Philippines);[15] subsidies for food, transport, and wages (Indonesia, Malaysia, and the Philippines); initiatives to boost job creation (Indonesia and Thailand); and efforts to strengthen social services and social protection systems (China, Indonesia, and Malaysia). Additional stimulus measures have been implemented to support vulnerable sectors and firms. Thailand, for instance, introduced personal tax rebates to encourage domestic travel and mitigate the impact of subdued international arrivals. At the same time, authorities are seeking to enhance revenue mobilization by leveraging digital platforms to increase tax compliance and raising tax rates on selected products and services (Malaysia).

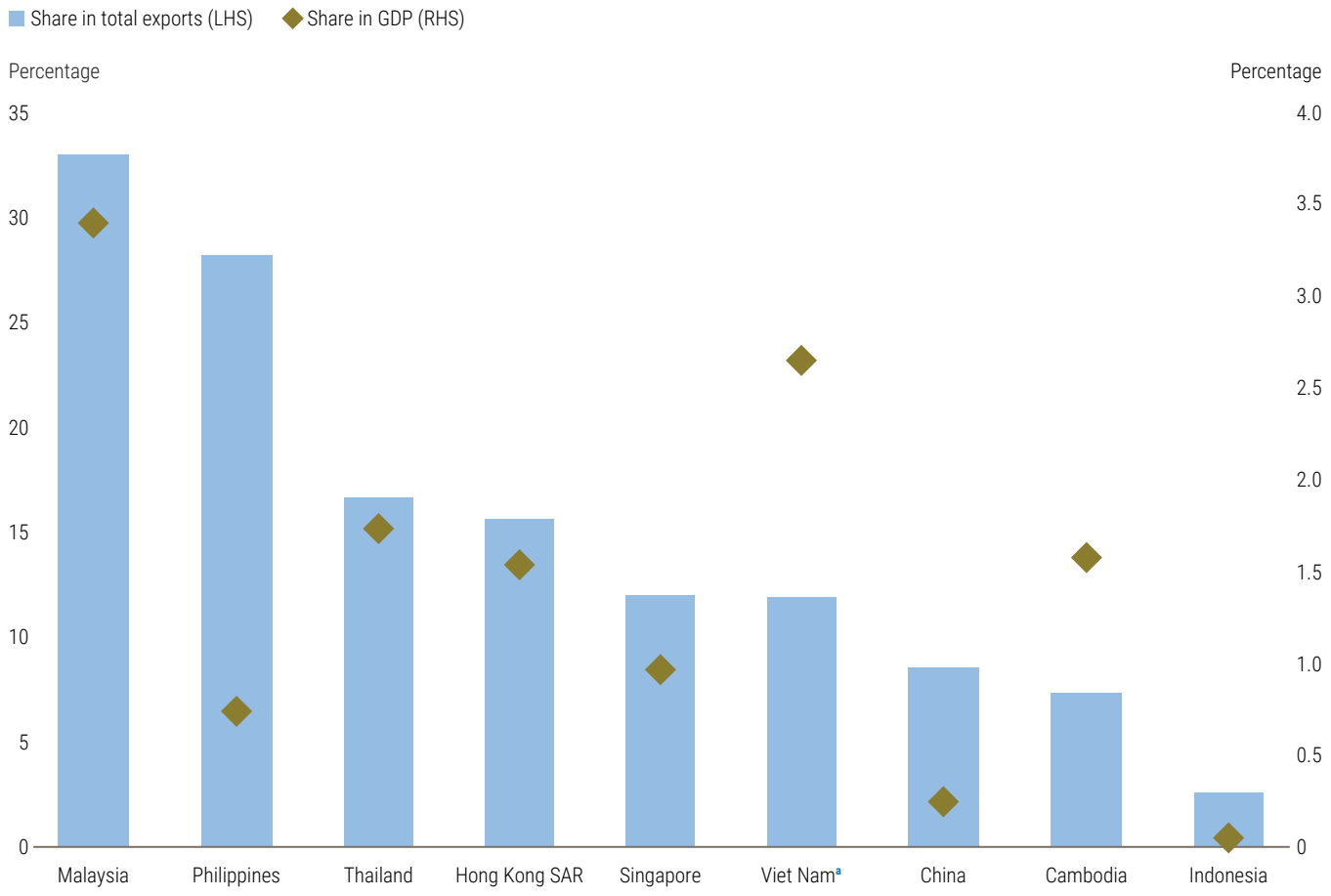
The public debt situation in East Asia has remained broadly stable. The median general government gross debt accounted for an estimated 46.6 per cent of GDP in 2025, slightly higher than the 44.1 per cent ratio recorded in 2024 and still well above the pre-pandemic (2015–2019) average of 38.6 per cent. Debt-servicing expenses remain a challenge for some economies; Lao People's Democratic Republic and Myanmar are estimated to have spent over 15 per cent of government revenues on interest payments in 2025. As at September 2025, Lao People's Democratic Republic remained in debt distress, while Kiribati and Papua New Guinea were at high risk of debt distress (World Bank, 2025b).

Risks to the outlook are largely tilted to the downside. The most significant near-term uncertainty stems from unpredictable trade policy shifts in the United States, a major trading partner for many regional economies. Although the additional United States tariffs on East Asian economies are lower than initially announced in April and several economies have since reached trade agreements, trade policy uncertainty persists. Several countries remain in negotiations with the United States, and there is a risk that tariffs could be extended to currently exempt sectors, particularly semiconductors (see figure III.21). Many economies also face the possibility of "trans-shipment" tariffs imposed by the United States, given the central role of China in regional supply chains. The uneven United States tariff structure could reshape

14 Fiscal and debt figures are based on data from the IMF World Economic Outlook database for October 2025.
15 In the Philippines, qualified persons with disabilities have received monthly cash assistance equivalent to about $35 per person since August 2025.

Figure III.21

Semiconductor-related exports to the United States from selected East Asian economies, 2024



Source: UN DESA, based on data from the United Nations Comtrade database and World Bank World Development Indicators database.
Notes: **LHS** = left-hand scale; **RHS** = right-hand scale; **SAR** = Special Administrative Region; **HS** = Harmonized Commodity Description and Coding System. Semiconductor-related products refer to automatic data processing machines and units thereof (HS code 8471), electronic integrated circuits (HS code 8451), and semiconductor devices (HS code 8452).
a Data for Viet Nam are from 2023.

export competitiveness across East Asian economies, but the scope and pace of supply chain adjustments remain uncertain amid ongoing policy shifts, potentially delaying investment decisions.

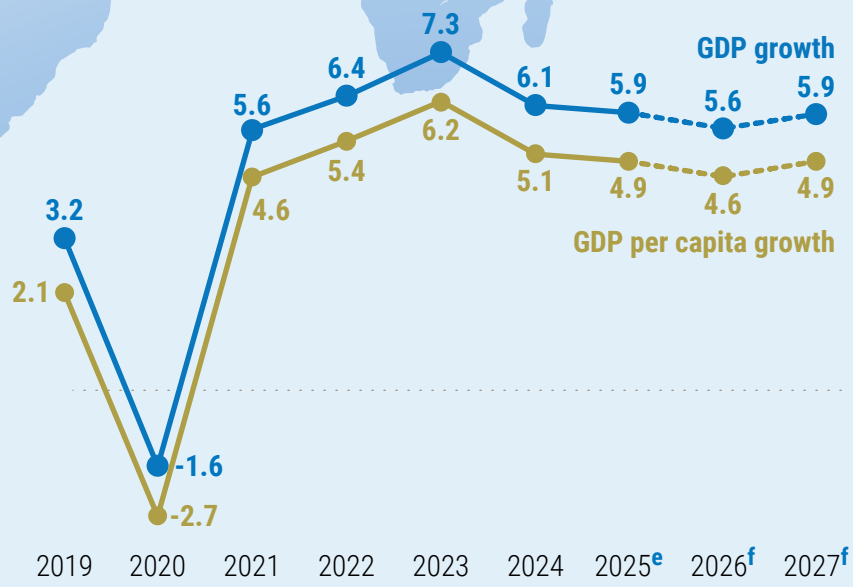
In addition, a potential growth slowdown in the major economies—including China, the European Union, and the United States—amid geopolitical tensions could weigh on the region's merchandise trade, investment, and tourism. Compounding these risks, more frequent extreme weather events pose increasing threats to agricultural production, infrastructure, and livelihoods across the region, potentially reigniting food price inflation and amplifying fiscal pressures.

To mitigate ongoing global trade policy uncertainty, East Asian economies are deepening regional integration through initiatives such as the Regional Comprehensive Economic Partnership (RCEP) and the ASEAN Framework on Supply Chain Efficiency and Resilience. These efforts aim to lower or eliminate tariffs, harmonize regulations, and streamline customs procedures. At the national level, Governments are implementing policies to upgrade infrastructure, advance manufacturing technologies, diversify production bases, and

promote digitalization to strengthen logistics efficiency and competitiveness.

East Asian countries have continued to make progress towards the Sustainable Development Goals, supported by steady economic performance. According to the World Bank, the extreme poverty headcount ratio is estimated at 1.9 per cent for 2025, an all-time low for the region. However, progress remains limited on several other Goals, particularly those related to environmental sustainability (ESCAP, 2025). Ongoing growth slowdowns and uncertainties also pose challenges to advancing decent work and inclusive growth.

SOUTH ASIA

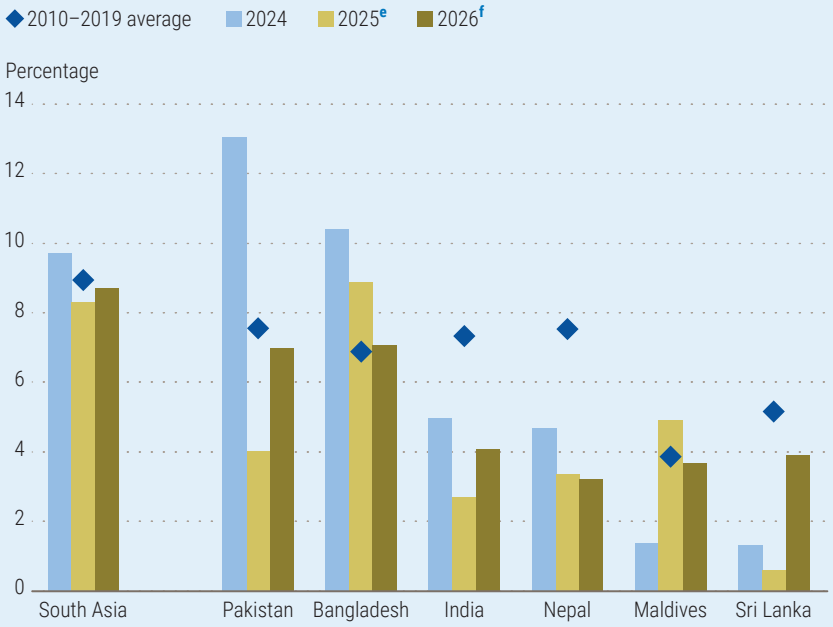


Notes: e = estimates; f = forecasts. Aggregate data for South Asia exclude Afghanistan.

HIGHLIGHTS

- The economic outlook remains resilient, though risks persist from higher United States tariffs, elevated debt levels, and climate-related shocks.
- Inflation eased in 2025, staying within target ranges and allowing for monetary easing.
- Fiscal policy remains tight as Governments advance reforms and pursue consolidation efforts.

Inflation in selected South Asian countries



Source: UN DESA, based on estimates and forecasts produced with the World Economic Forecasting Model.
Notes: e = estimates; f = forecasts. The regional average is GDP-weighted and excludes Afghanistan.

South Asia

The near-term economic outlook for South Asia is expected to remain resilient. Regional growth is projected at 5.6 per cent for 2026 and 5.9 per cent for 2027 following an estimated expansion of 5.9 per cent in 2025, driven by robust private consumption and strong public investment. However, risks to the outlook are tilted to the downside. Trade policy uncertainty, including ongoing negotiations over United States tariffs, continues to weigh on regional prospects, with potential adverse effects on manufacturing activity and employment. High public debt levels in several countries are constraining fiscal space and increasing exposure to economic and financial shocks. Extreme weather events and climate-related shocks pose additional threats, reflecting the region's high vulnerability, with agricultural output, food prices, and infrastructure exposed to particularly severe impacts.

Economic growth in India is projected to moderate from an estimated 7.4 per cent in 2025 to 6.6 per cent in 2026.[16] Resilient private consumption, strong public investment, recent tax reforms, and lower interest rates are expected to support near-term growth.[17] However, higher United States tariffs could weigh on export performance in 2026 if current rates persist, as the United States market accounts for about 18 per cent of total exports from India.[18] While tariffs may adversely affect some product categories, key exports such as electronics and smartphones are expected to remain exempt. Moreover, strong demand from other major markets, including Europe and the Middle East, is projected to partially offset the impact. On the supply side, continued expansion in manufacturing and services sectors will remain a key driver of growth throughout the forecast period.

For other countries in the region, the economic outlook for 2026 remains mixed (see figure III.22). Bangladesh is expected to continue recovering, with economic growth projected at 5.1 per cent. Bhutan is projected to maintain growth above 6 per cent in the near term, driven by strong government spending and the ongoing recovery of agriculture and tourism. Economic growth in the Maldives and Sri Lanka is forecast to moderate to around 4.3 and 4.0 per cent, respectively, in 2026. In both Nepal and Pakistan, the economy is expected to expand by a modest 3.5 per cent, while growth in the Islamic Republic of Iran is projected to slow to 1.1 per cent, reflecting macroeconomic challenges amid tight public finances, elevated inflation, restricted access to foreign exchange, and subdued foreign investment.

Inflation across South Asia declined significantly in 2025, with rates in most economies at or below central bank targets and long-term averages. In India, consumer price inflation fell more than expected, averaging 3.0 per cent in the first nine months of the year amid favourable base effects and lower food prices. Sri Lanka remained in deflationary territory for most of the year before inflation rose to 2.1 per cent in October, largely due to stronger domestic demand and higher electricity costs.

Looking ahead, average consumer price inflation for the region is projected to edge up from an estimated 8.3 per cent in 2025 to 8.7 per cent in 2026.[19] In India, inflation is forecast at 4.1 per cent, close to the central bank's midpoint target. Among other South Asian economies, inflation in 2026 is expected to range from

16 Economic growth for India and the other regional economies is reported on a calendar-year basis. For projections on a fiscal-year basis, refer to annex table A.3.

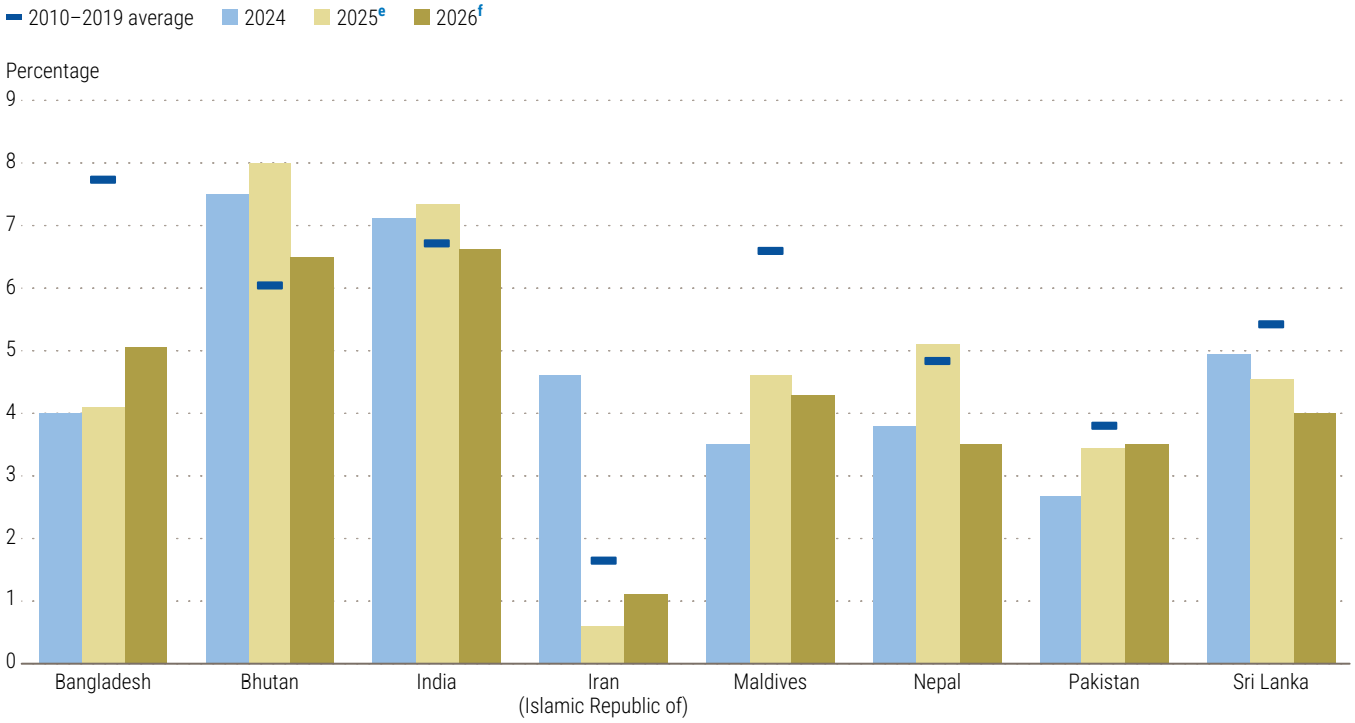
17 Major tax reforms include personal income tax cuts effective fiscal year 2025 and a simplified Goods and Services Tax structure with fewer tax brackets and lower rates.

18 On 27 August 2025, an additional 25 per cent tariff was imposed under the IEEPA on top of the existing reciprocal tariff of 25 per cent on United States imports from India in connection with the continued Indian imports of oil from the Russian Federation.

19 The regional average is GDP-weighted and excludes Afghanistan.

Figure III.22

Growth of economic output in selected South Asian economies



Source: UN DESA, based on estimates and forecasts produced with the World Economic Forecasting Model.
Note: e = estimates; f = forecasts.

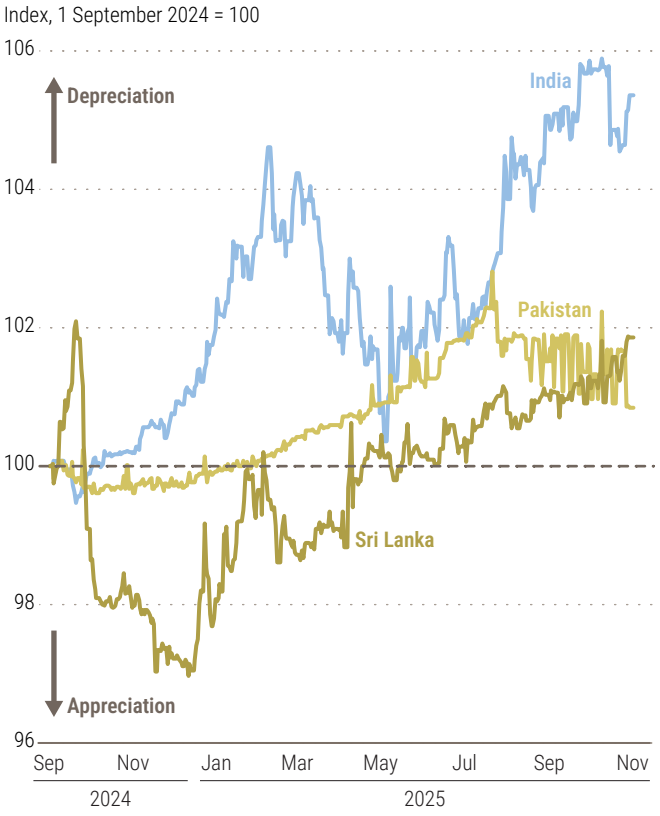
3.2 per cent in Nepal to 35.4 per cent in the Islamic Republic of Iran.

With inflation easing in most countries, central banks across the region were able to commence or continue monetary policy easing in 2025. The Reserve Bank of India began its easing cycle in February 2025, lowering the policy rate four times by early December, from 6.5 to 5.25 per cent. Similarly, the central banks of Pakistan and Sri Lanka reduced their key policy rates to support economic recovery. In contrast, the central bank of Bangladesh maintained a tight monetary stance amid persistent inflationary pressures and continued currency weakness. In 2026, the region is expected to continue its monetary easing trajectory, with inflation remaining relatively mild across most economies. However, the extent of rate cuts will vary, partly reflecting differences in foreign exchange management and growth dynamics.

South Asian currencies exhibited divergent trends against the United States dollar in 2025 (see figure III.23). The Indian rupee stabilized against the United States dollar in the first half of the year, supported by broad dollar weakness. However, in the second half, the Indian rupee edged lower following stronger-than-expected growth in the United States and ongoing trade negotiations. Portfolio outflows and higher United States tariffs added to depreciation pressures on the Indian rupee. Nonetheless, robust economic performance in India is expected to provide support for the country's currency in the near term. The Sri Lanka rupee remained stable against the dollar during the first quarter before experiencing a slight depreciation thereafter. In contrast, the Pakistani rupee maintained relative stability over the first eight months of the year, supported by macroeconomic stabilization efforts, stronger external buffers, and foreign

Figure III.23

Exchange rate of selected South Asian currencies against the United States dollar



Source: UN DESA, based on data from Trading Economics.

exchange market reforms, before exhibiting some volatility between September and October.

Labour markets in South Asia remained broadly resilient in 2025. The regional unemployment rate is projected to decline slightly from an estimated 4.8 per cent in 2025 to 4.6 per cent in 2026.[20] Informal employment remains a major challenge across the region, significantly exceeding the Asian average.[21] Progress in labour formalization has slowed since the onset of recent global economic shocks, increasing pressure on policymakers to tackle persistent informality.[22] Additionally, higher United States tariffs could weaken employment conditions in certain sectors. Although less than 1 per cent of total employment in the region is directly linked to final demand in the United States, the share rises to 6.9 per cent in manufacturing, particularly in textiles and related industries such as apparel (ILO, 2025b). In India, labour market indicators remained steady in 2025, with the labour force participation rate improving in both rural and urban areas (Reserve Bank of India, 2025). The unemployment rate declined from 6.4 per cent in September 2024 to 5.2 per cent in September 2025.

Climate-related events, such as floods, extreme heatwaves, and droughts, continued to negatively affect the region in 2025. In Pakistan, severe flooding in August and September caused widespread loss of life, destroyed critical infrastructure (including roads, bridges, and homes), and damaged livestock and agricultural assets (UNOCHA, 2025). These impacts severely disrupted mobility, livelihoods, and access to essential services. The full socioeconomic consequences remain uncertain and could worsen owing to delays in recovery efforts and heightened food insecurity among vulnerable rural households with limited savings and weak coping capacities (World Bank, 2025f).

Several economies in the region continue to face fragile fiscal positions due to high debt levels (see figure III.24a). General government debt in South Asia remains significantly above its long-term average and continues to rank as the highest among developing regions. Some countries remain at risk of debt distress, with persistent concerns about debt sustainability.[23] Fiscal stances are expected to stay restrictive across the region over the forecast period. Despite recent improvements, debt-servicing

20 ILO estimates.

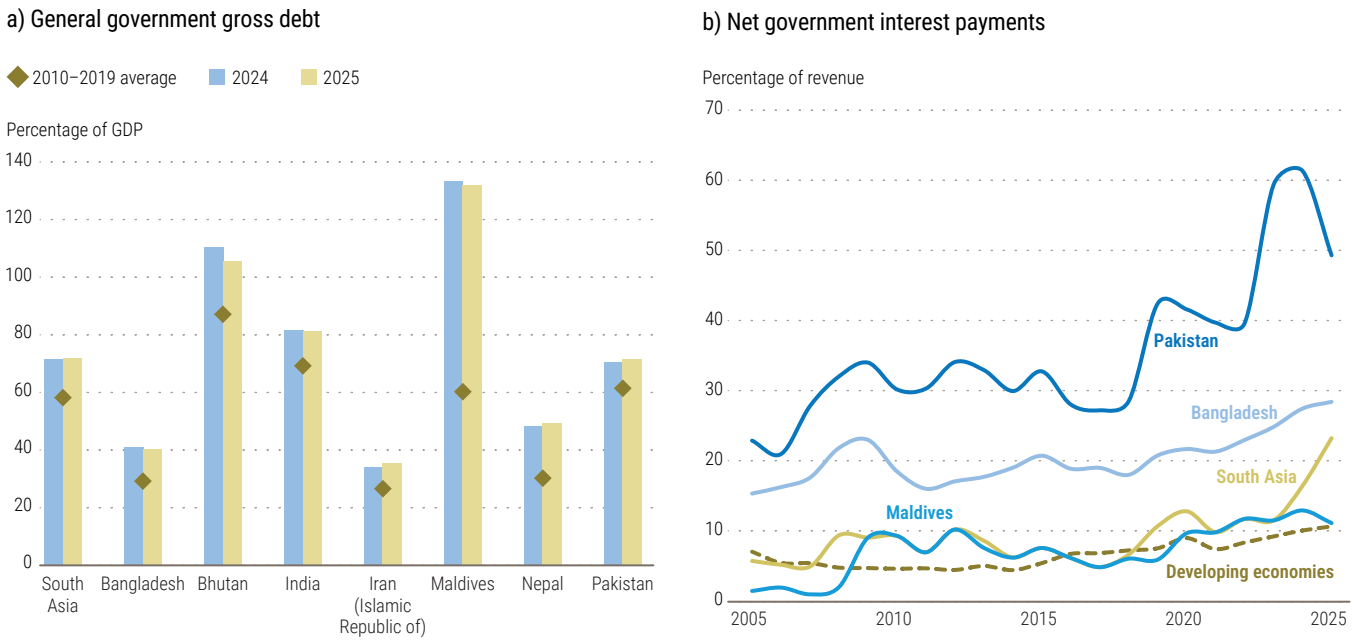
21 According to ILO estimates, the Asia-Pacific region is home to about 1.3 billion informal workers, accounting for roughly 66 per cent of total employment, with the share reaching nearly 87 per cent in South Asia.

22 Labour formalization integrates enterprises and workers into regulatory, fiscal, and social protection systems, ensuring legal recognition, compliance, and adequate labour and social security coverage for all sectors and employment types.

23 As at 30 September 2025, Afghanistan and the Maldives are at high risk of debt distress, while Bangladesh and Bhutan are at moderate risk (World Bank, 2025b).

Figure III.24

Fiscal indicators in selected South Asian economies



Source: UN DESA, based on data from the IMF World Economic Outlook database, October 2025.
Notes: Panel a) The regional aggregate is calculated as the GDP-weighted average. Panel b) Regional values represent the median.

burdens remain elevated in many countries, increasing vulnerabilities and limiting resilience to shocks. Government interest payments on public debt as a share of fiscal revenues are above the developing-economy median (see figure III.24b).

In the near term, Governments in the region are expected to continue implementing policy reforms and advancing fiscal consolidation, including through IMF-supported programmes. In June 2025, the IMF Executive Board concluded the combined third and fourth reviews of the Extended Credit Facility, Extended Fund Facility, and Resilience and Sustainability Facility arrangements for Bangladesh (IMF, 2025a). The country's programme performance has remained broadly on track. However, to address substantial macroeconomic challenges amid rising trade barriers, heightened global uncertainty, and slowing domestic growth, the authorities have requested an augmentation and a six-month extension under the Extended Credit Facility and Extended Fund Facility arrangements.[24]

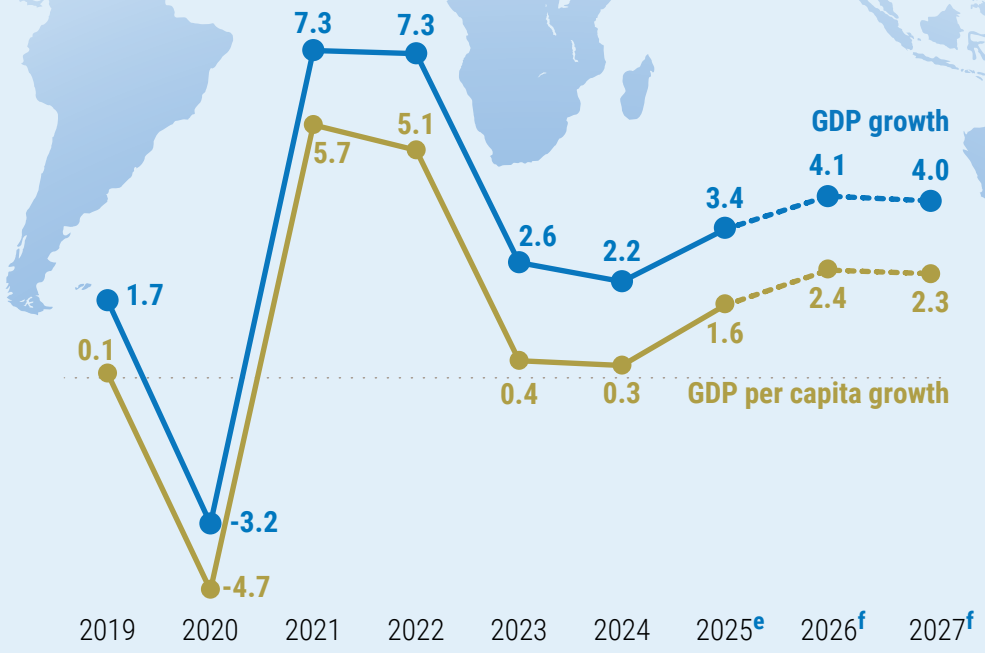
In October 2025, Pakistan and Sri Lanka reached staff-level agreements on their reform programmes, though at the time of writing, formal approval of the countries' respective reviews (and the disbursement of associated financing) was pending. In Pakistan, the second review of the Extended Fund Facility arrangement and the first review of the Resilience and Sustainability Facility arrangement were carried out; formal approval of the review by the IMF Executive Board will give Pakistan access to around $1.2 billion in additional funding (IMF, 2025b). Programme implementation remains robust, with the economic recovery on track; the current account posted a surplus for fiscal year 2025, the fiscal

24 The requested augmentation amounts to 567.19 million Special Drawing Rights, representing 53.2 per cent of quota.

primary balance exceeded targets, inflation remained contained, and external buffers strengthened. In Sri Lanka, the fifth review of the Extended Fund Facility arrangement was completed, and formal approval of the review is expected to unlock an additional $347 million in funding (IMF, 2025c). Ongoing economic reforms have supported the recovery, with solid progress made in aligning inflation with targets, rebuilding foreign reserves, and improving revenue mobilization, while the debt restructuring process is nearing completion. Despite these efforts, the recovery remains partial, with economic growth still below pre-crisis levels and poverty significantly elevated.

Programme implementation across the three countries may face risks from limited policy flexibility and capacity constraints. Heightened trade policy uncertainty and tighter global financial conditions amplify these vulnerabilities. Moreover, adverse shocks—such as the recent floods in Pakistan—pose significant threats to economic and development progress, increasing risks to economic growth, fiscal consolidation, and poverty reduction efforts.

WESTERN ASIA

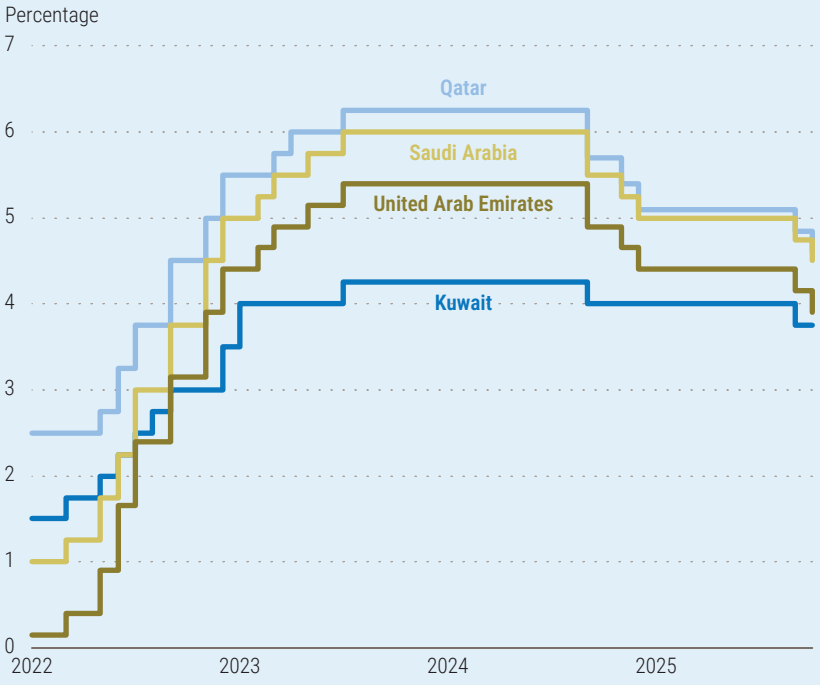


Notes: e = estimates; f = forecasts. Aggregate data for Western Asia exclude the State of Palestine.

HIGHLIGHTS

- The gradual unwinding of OPEC Plus oil production cuts will support economic growth in 2026.
- Macroeconomic conditions are improving as inflation moderates, fiscal positions strengthen, and monetary policy loosens.
- Outlook risks remain high due to subdued oil prices, geopolitical tensions, and fragile post-conflict recoveries in parts of the region.

Policy interest rates in selected GCC countries



Source: UN DESA, based on data from Trading Economics.
Note: GCC = Cooperation Council for the Arab States of the Gulf.

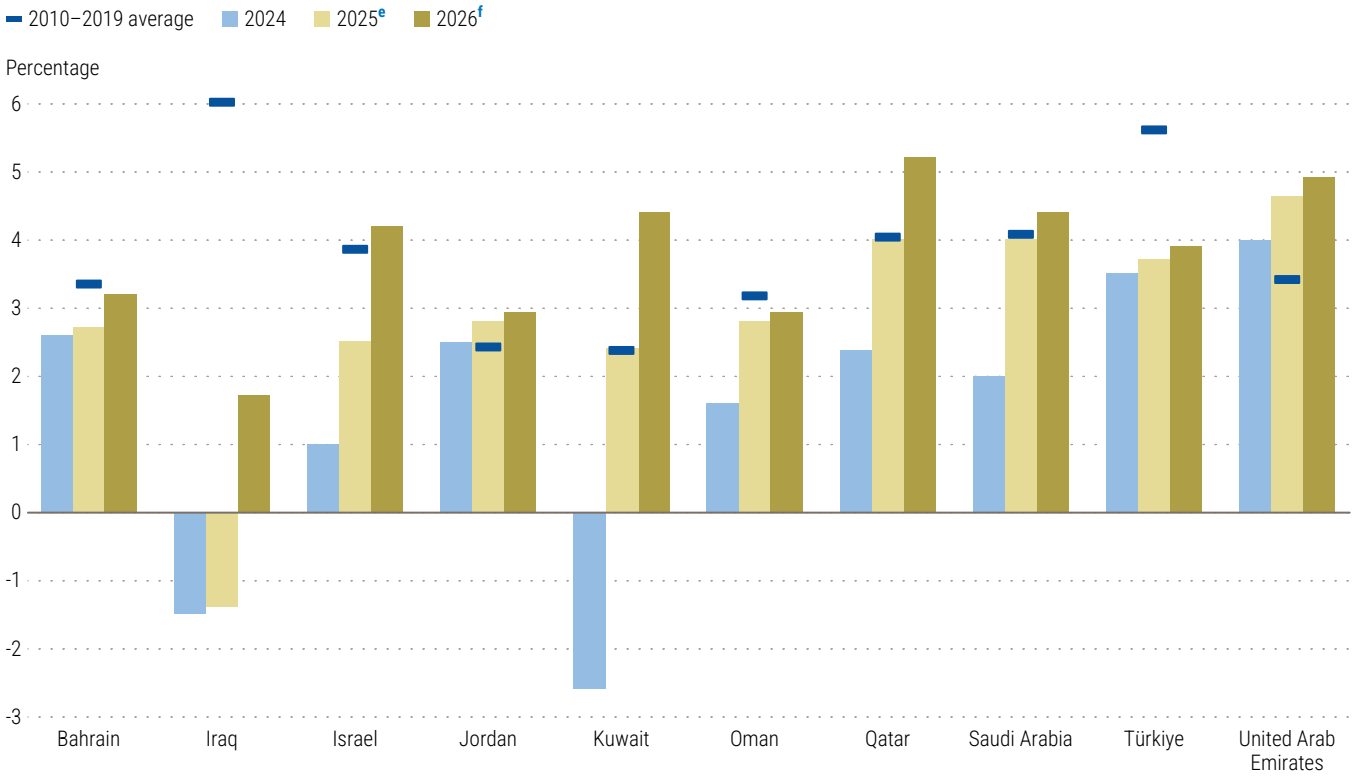
Western Asia

The economic outlook for Western Asia is strengthening, supported by a gradual improvement in external and domestic conditions. Real GDP growth rebounded from 2.2 per cent in 2024 to an estimated 3.4 per cent in 2025 and is projected to reach 4.1 per cent in 2026 and 4.0 per cent in 2027 (see figure III.25). A key driver of this recovery is the gradual unwinding of OPEC Plus voluntary oil production cuts,[25] initiated in April 2025, which has increased oil output in resource-rich economies. Lower oil prices could help reduce energy costs for oil-importing countries, supporting economic activity and improving fiscal positions. Nevertheless, the regional outlook remains vulnerable to geopolitical risks. Although recent developments—including the ceasefire in Gaza and the formation of a new government in the Syrian Arab Republic (see box III.2)—signal some progress, these gains remain fragile. Persistent conflicts and security tensions in several Western Asian countries continue to erode confidence and disrupt trade and investment flows, weighing on the region's economic outlook.

Economic growth in Türkiye, the region's largest economy, is estimated to have stabilized at 3.7 per cent in 2025 and is projected to rise slightly to 3.9 per cent in 2026 amid robust private domestic demand, elevated inflation, fiscal policy tightening, and large external financing needs. Under the Government's Medium-Term Program (2026–2028), authorities have identified key policy objectives, including strengthening macroeconomic and financial

Figure III.25

Growth of economic output in selected Western Asian economies



Source: UN DESA, based on estimates and forecasts produced with the World Economic Forecasting Model.
Note: e = estimates; f = forecasts.

25 OPEC Plus comprises the twelve members of the Organization of the Petroleum Exporting Countries as well as ten non-OPEC oil producers.

Box III.2

Conflict resolution and reconstruction scenarios for the Syrian Arab Republic and their macroeconomic consequences

Over the course of the 14-year conflict in the Syrian Arab Republic, GDP contracted by 64 per cent, and fiscal revenues fell to just 10 per cent of GDP. The country slipped into the low-income category, and more than half of the population is facing food insecurity. By 2024, nearly half of the population in the Syrian Arab Republic were living below the $2.15-per-day poverty threshold, with chronic malnutrition and failing public services deepening the humanitarian crisis.

The collapse of the previous regime and the formation of a new government at the turn of 2024/25 brought renewed hope to Syrians for stability and recovery. In the first half of 2025, those expectations were only partially fulfilled, as tensions and clashes persisted in Sweida and other regions. Nevertheless, as at September 2025, the overall sentiment was overwhelmingly positive, fuelled by the lifting of European Union and United States sanctions in June and July 2025.

The task ahead is unprecedentedly difficult, however, as it involves not only rebuilding roads and bridges but also restoring institutions, social trust, and the social contract itself. With a population of 25 million in 2024, the Syrian Arab Republic is the seventh-largest Arab country. According to the United Nations Development Programme, the destruction of physical capital between 2010 and 2025 totalled $123 billion, while the loss of GDP amounted to $800 billion (UNDP, 2025). These figures illustrate the immense scale of the challenges that will shape the future of the Syrian Arab Republic and the region's stability.

While the future remains uncertain, the Economic and Social Commission for Western Asia, in collaboration with the United Nations Conference on Trade and Development, has released a report outlining potential scenarios for the Syrian Arab Republic and their macroeconomic consequences (ESCWA, 2025). In the most optimistic "stabilized transition" scenario, GDP would grow at an annual rate of 13.4 per cent between 2025 and 2030. Even at this pace, GDP in the Syrian Arab Republic would only recover to 80 per cent of its 2010 level by 2030. Achieving pre-conflict (2010) GDP levels would require an additional five years of steady growth at around 5 per cent annually. Furthermore, even under this optimistic scenario, the poverty rate would still be a staggering 36 per cent in 2030, despite having declined by a third in comparison with 2024. In the alternative "prolonged instability" scenario, GDP growth is minimal, and the socioeconomic situation remains dire; in the "conflict and fragmentation" scenario, GDP, population, and consumption decline further.

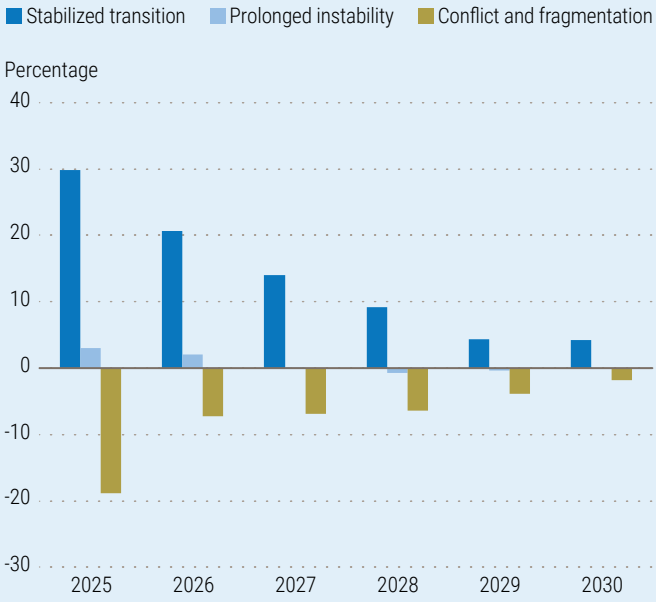
Developments in the Syrian Arab Republic carry profound regional implications. Peace in the country could generate a combined GDP boost of $49 billion in Jordan, Lebanon, and Türkiye across 2025 and 2026, along with an additional $13 billion in investment through improved trade, migration, and cross-border capital flows. The real effects may be even greater once tourism recovery, enhanced regional security, and reduced illicit trade (including drugs) are factored in.

Assessments from September 2025 indicate that while the situation appears to have stabilized and the outlook is broadly positive, financing reconstruction remains one of the greatest challenges. Effective recovery will require a hybrid strategy involving the mobilization of both domestic and external revenues. In this context, the development of a comprehensive revenue plan and the introduction of a temporary solidarity levy for reconstruction is required. Restoring oil production is also critical, as output has plummeted, declining from 400,000 barrels per day in 2008 to an estimated 40,000–80,000 in 2024. Equally important is resolving the issue of public debt. While the total external debt of the Syrian Arab Republic is relatively low, estimated at $4.9 billion in 2023, legal and political complexities, along with the possibility of undisclosed external debt, may hinder the smooth resolution of external debt issues.

Resolving this debt is relatively difficult and sensitive from a political perspective. Negotiating development swaps with willing partners to channel savings into health, education, and climate-resilient infrastructure and reprofiling arrears with multilateral institutions could provide other potential sources of funds for reconstruction. In the early stages, grants and official development assistance will play a crucial role in jump-starting growth. To ensure a just and inclusive recovery, assistance should be structured around results-based tranches and linked to social protection reforms that combine temporary income support with

Figure III.2.1

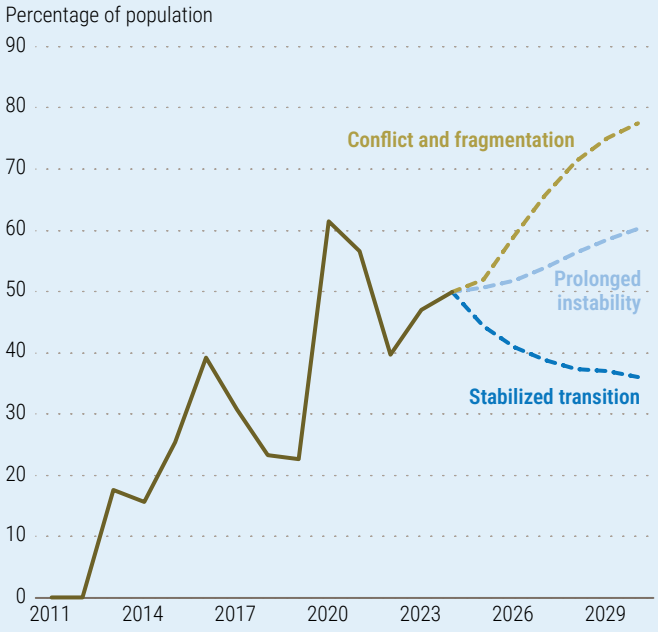
Real annual GDP growth estimates and projections for the Syrian Arab Republic in three scenarios, 2025–2030



Source: ESCWA, based on forecasts produced with the World Economic Forecasting Model.

Figure III.2.2

Poverty rate below the $2.15-per-day threshold in the Syrian Arab Republic and projections under three scenarios, 2011–2030



Source: ESCWA.

long-term human capital development. Unlocking private capital and tapping into diaspora financing also hold significant potential. A diaspora finance platform, including pilot diaspora bonds for visible community projects, could provide new resources. Blended finance facilities could help de-risk lending to small and medium-sized enterprises, while a transparent public-private partnership pipeline would support the delivery of essential public services.

Overall, positive social sentiment and fragile stability in the Syrian Arab Republic form a solid foundation upon which reconstruction and recovery can begin. Achieving this will require a hybrid financing mix that includes modest but growing domestic revenues, selective debt relief, diaspora and Gulf capital, and, above all, large-scale, well-governed official development assistance. Such an approach would allow the Syrian Arab Republic to rebuild not only its infrastructure, but also the trust and resilience of its people, yielding profound benefits for both the country and the region.

Authors: *Jan Gaska and Ahmed Moummi, United Nations Economic and Social Commission for Western Asia*

stability, maintaining fiscal discipline, and achieving price stability (Türkiye, Presidency of Strategy and Budget, 2025). Disinflation will remain a policy priority during the forecast period, implying the continued tightening of monetary and fiscal policies.

Despite this tight policy stance, domestic demand in Türkiye remained resilient in 2025, with consumer confidence reaching its highest level since the second quarter of 2023. Private consumption continued to expand, supported by robust spending on durable goods and services, while public consumption was weak. Investment also strengthened, driven by construction and spending on machinery and equipment. Growth was led by the services sector, notably tourism, trade, and transport, and supported

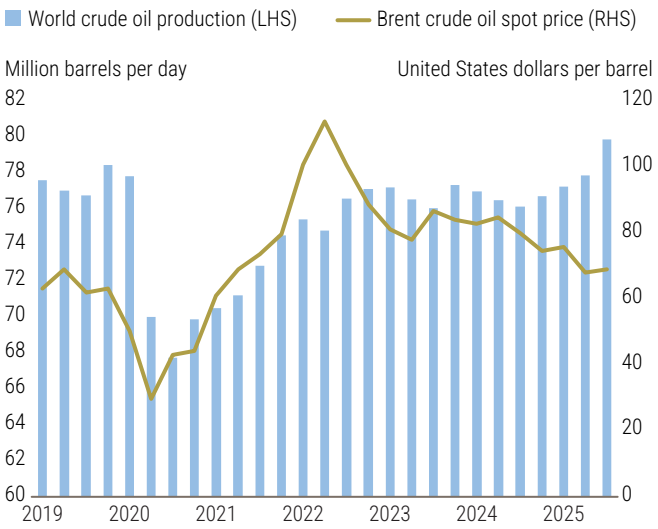
by a rebound in industrial production in the second quarter. However, the growth momentum is estimated to have weakened in the second half of the year. The Manufacturing PMI declined to 46.5 in October, indicating a slowdown in manufacturing activity and weak demand conditions. New orders and export demand remained subdued, leading to a marked slowdown in manufacturing output by the end of the third quarter of 2025 (Istanbul Chamber of Industry, 2025).

The gradual increase in oil production is expected to boost headline growth among the region's oil exporters. Global crude oil supply rose by 3.9 per cent year-on-year in the third quarter of 2025, reaching 79.7 million barrels per day, with Western Asia accounting for about one third of global output (see figure III.26). Real GDP growth in the Cooperation Council for the Arab States of the Gulf (GCC) economies—Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates—is projected to accelerate from an estimated 3.9 per cent in 2025 to 4.5 per cent in 2026. Continued investments in manufacturing, logistics, tourism, and digital transformation are expected to sustain robust non-oil activity, enhance resilience to oil price volatility, and promote more balanced and sustainable growth across the GCC economies.

Real GDP growth in Saudi Arabia accelerated from 2.0 per cent in 2024 to an estimated 4.0 per cent in 2025 and is expected to rise to 4.4 per cent in 2026, supported by a recovery in oil output and sustained momentum in the non-oil economy. Oil output is estimated to have grown by 5.5 per cent in 2025 (OPEC, 2025). However, lower oil prices are expected to weigh on export and fiscal revenues, tempering overall growth prospects despite higher production levels. Non-oil activity remains a key engine of growth, underpinned by the strong investment in and continued implementation of Saudi Vision 2030 initiatives (Saudi Arabia, 2025).

Figure III.26

Global crude oil production and oil price



Source: UN DESA, based on data from the United States Energy Information Administration.
Note: **LHS** = left-hand scale; **RHS** = right-hand scale.

In Israel, economic activity began to recover in early 2025, with real GDP growing by 3.4 per cent year-on-year in the first quarter. The ceasefire in Gaza could help ease labour and supply constraints and provide additional momentum to the recovery over the forecast period. However, the country faces a higher debt-to-GDP ratio due to elevated military spending, which will constrain fiscal space. Growth in 2026 is expected to be supported by stronger private consumption and investment, while exports are likely be affected by newly imposed tariffs as the United States accounts for 28 per cent of exports from Israel.

The two-year conflict in Gaza exacted a substantial humanitarian and economic toll. The *Gaza and West Bank Interim Rapid Damage and Needs Assessment, February 2025* estimated the cost of reconstruction at $53.2 billion (World Bank, European Union and United Nations, 2025).[26] Economic activity in the State of Palestine showed modest signs of stabilization in early 2025 but remained about 30 per cent below the level recorded in the same period of 2023.

26 The most recent estimate, released in October 2025, stands at $68.8 billion (United Nations, 2025b).

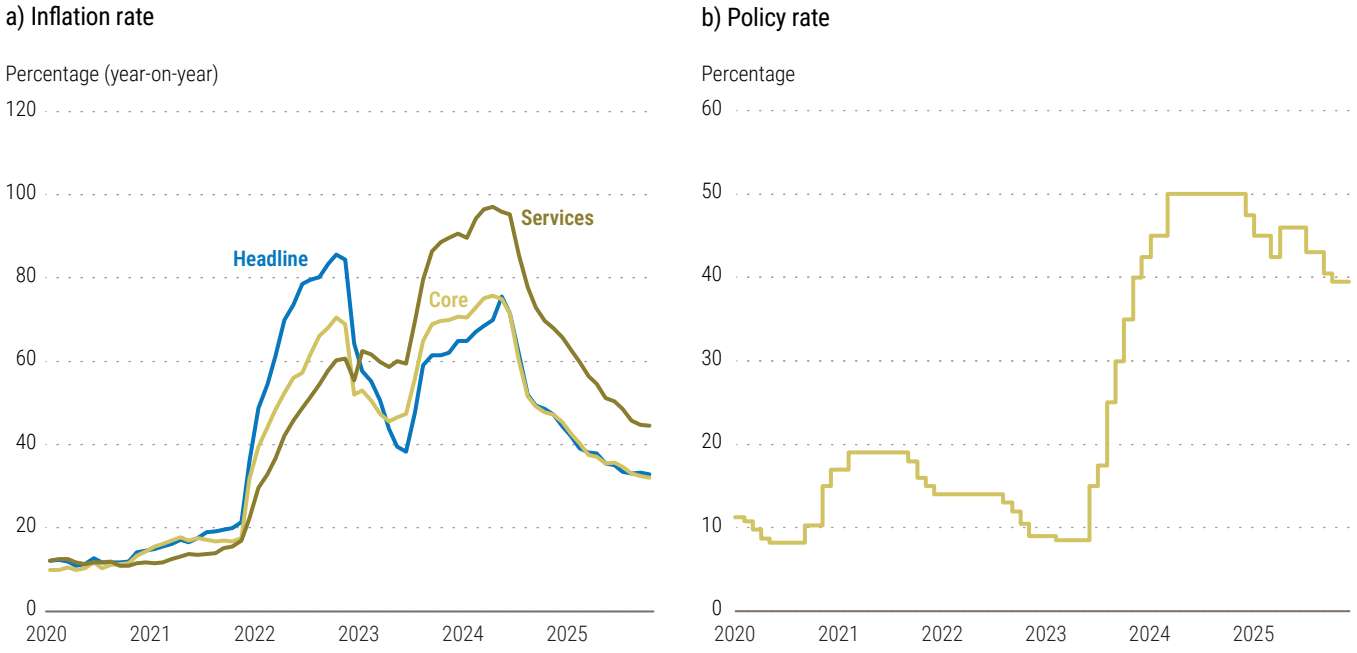
The ceasefire is expected to gradually support economic recovery by enabling the resumption of humanitarian aid flows and the initiation of reconstruction activities.

Other conflict-affected economies in the region, including Lebanon, the Syrian Arab Republic, and Yemen, are expected to experience weak economic activity and remain vulnerable to macroeconomic instability. In the Syrian Arab Republic, the transitional Government has taken steps to reduce economic uncertainty, while the lifting of the sanctions by the European Union and the United States is expected to attract foreign investment, support reconstruction, and help reintegrate the country's banking sector into the international financial system (United States Department of State, 2025). In Lebanon, the election of a new president in January 2025 ended a political deadlock and opened the way for long-awaited economic and financial reforms, including renewed engagement with the IMF. Although declining inflation and rising PMI values signal improving economic prospects, addressing the protracted crisis in Lebanon will require sustained structural reforms and a comprehensive recovery plan.

Consumer price inflation continues to moderate across the region, though trends vary by country. In the GCC economies, inflation is projected to remain subdued at around 2 per cent in 2026, driven mainly by easing price pressures in the areas of housing and utilities, food and beverages, and restaurant and accommodation services. To contain rental inflation and advance the Saudi Vision 2030 goals on housing affordability, Saudi Arabia has introduced a five-year rent freeze on all residential and commercial properties in its capital, Riyadh. In Türkiye, inflation is projected to continue declining but is likely to remain in double digits in 2026 (see figure III.27a). Headline inflation remained below expectations in November 2025, following an uptick in September, indicating that the country's disinflation process—under way since June 2024—has continued, albeit at a slower pace. Services inflation remains elevated, reflecting

Figure III.27

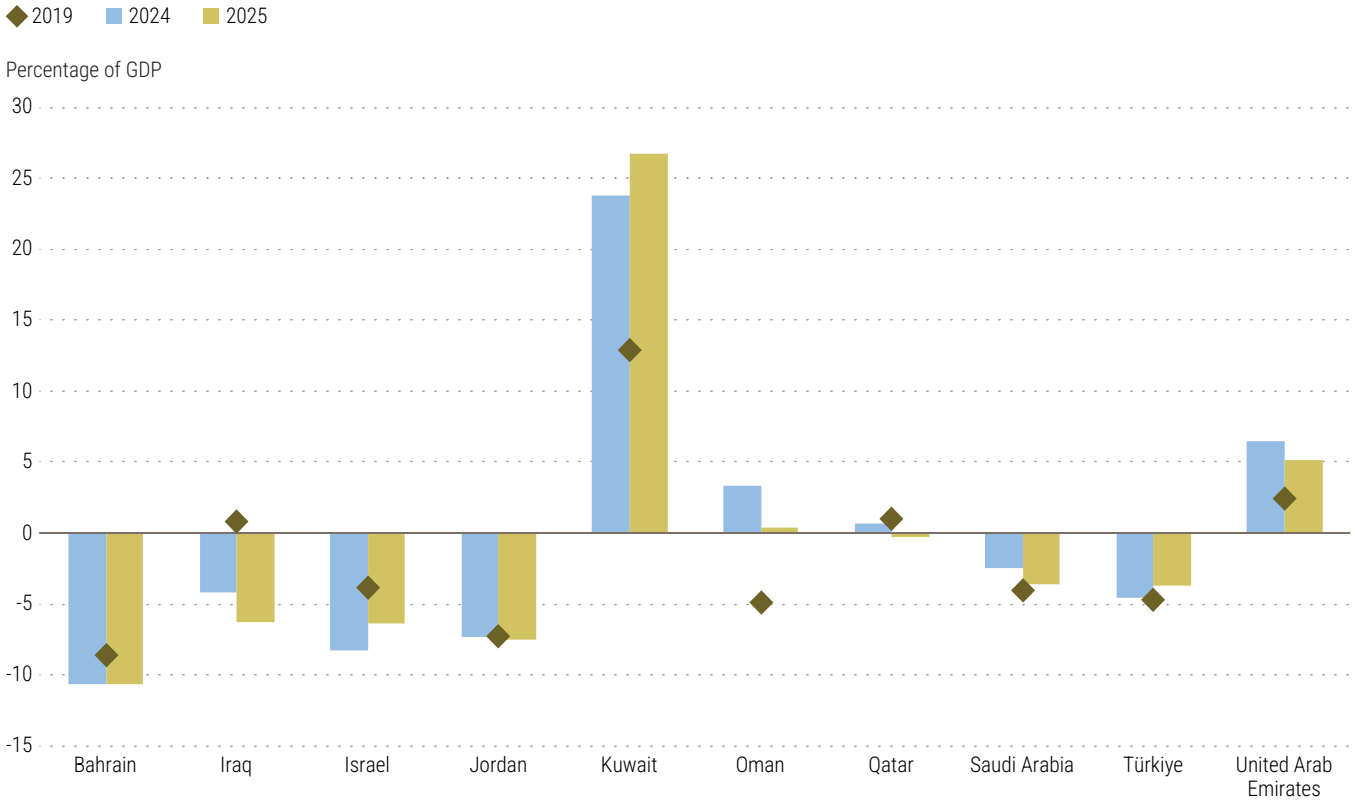
Consumer price inflation and policy rates in Türkiye



Source: UN DESA, based on data from TURKSTAT and the Central Bank of the Republic of Türkiye.

Figure III.28

General government fiscal balance in selected Western Asian economies



Source: UN DESA, based on data and estimates from the IMF World Economic Outlook database, October 2025.

rigidity in housing prices and notable increases in transportation and education costs.

Economies with currencies pegged to the United States dollar, namely the GCC economies and Jordan, reduced policy rates by 25 basis points in September in line with the interest rate cut by the United States Federal Reserve. The Central Bank of the Republic of Türkiye continued to lower policy rates despite still elevated inflationary pressures and rising macroeconomic risks (see figure III.27b).

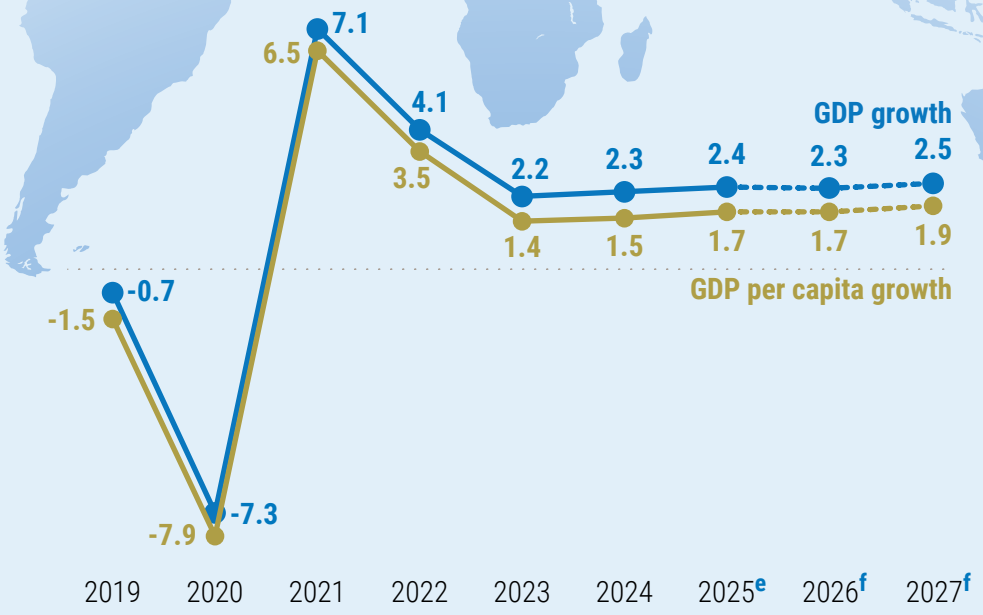
Fiscal positions across the region are expected to improve over the forecast period. GCC economies will benefit from higher oil and gas production as well as continued expansion in non-hydrocarbon sectors. Kuwait, Oman, Qatar, and the United Arab Emirates are projected to maintain fiscal surpluses in 2026, while Bahrain and Saudi Arabia are expected to reduce their fiscal deficits (see figure III.28). Despite ongoing consolidation measures, Bahrain continues to face high public debt. Elevated debt levels also persist in Jordan and Lebanon, constraining fiscal flexibility and weighing on growth prospects. In Türkiye, fiscal consolidation efforts are estimated to have narrowed the fiscal deficit from 4.6 per cent of GDP in 2024 to 3.7 per cent in 2025, reflecting improved revenue performance and tighter expenditure control.

Labour market conditions across the region present a mixed picture. The regional unemployment rate (excluding Israel and Türkiye) is estimated to have averaged 9.4 per cent in 2025 (ILO, 2025a). In Türkiye, the slowdown in economic activity has led to weaker job creation, with the unemployment rate stabilizing at around 8.6 per cent since

the second quarter of 2024. Labour markets in the GCC economies continue to exhibit a pronounced divide between nationals and non-nationals, with nationals in some countries making up less than one third of the total workforce. While unemployment rates in these economies have fallen to historical lows, a significant factor behind this result is the strong employment of non-nationals in the private sector. In Saudi Arabia, unemployment edged up in the second quarter of 2025 due to a modest increase among both men and women; however, the overall downward trend remains intact, reflecting continued progress in labour market reforms and private sector hiring.

LATIN AMERICA AND THE CARIBBEAN

World Economic Situation and Prospects 2026

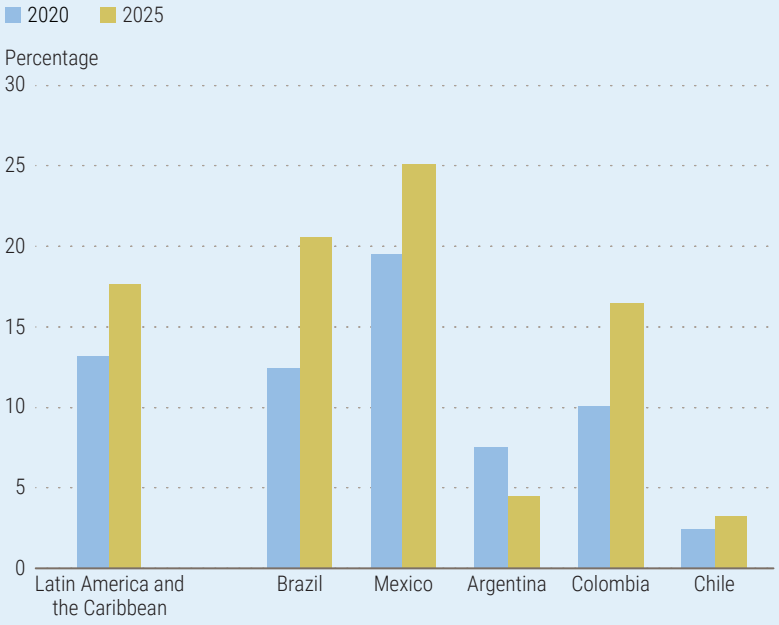


Note: e = estimates; f = forecasts.

HIGHLIGHTS

- The short-term outlook remains steady, supported by solid consumption and investment and milder-than-expected impacts from United States tariffs.
- Downside risks arise from a potential growth slowdown in major trading partners, tighter financial conditions, and global policy uncertainty.
- High debt, rising interest costs, and slow disinflation limit monetary and fiscal policy space.

Government interest expenditure as a share of revenue



Source: UN DESA, based on data from the IMF World Economic Outlook database, October 2025.
Note: Regional data reflect the GDP-weighted average of the indicators.

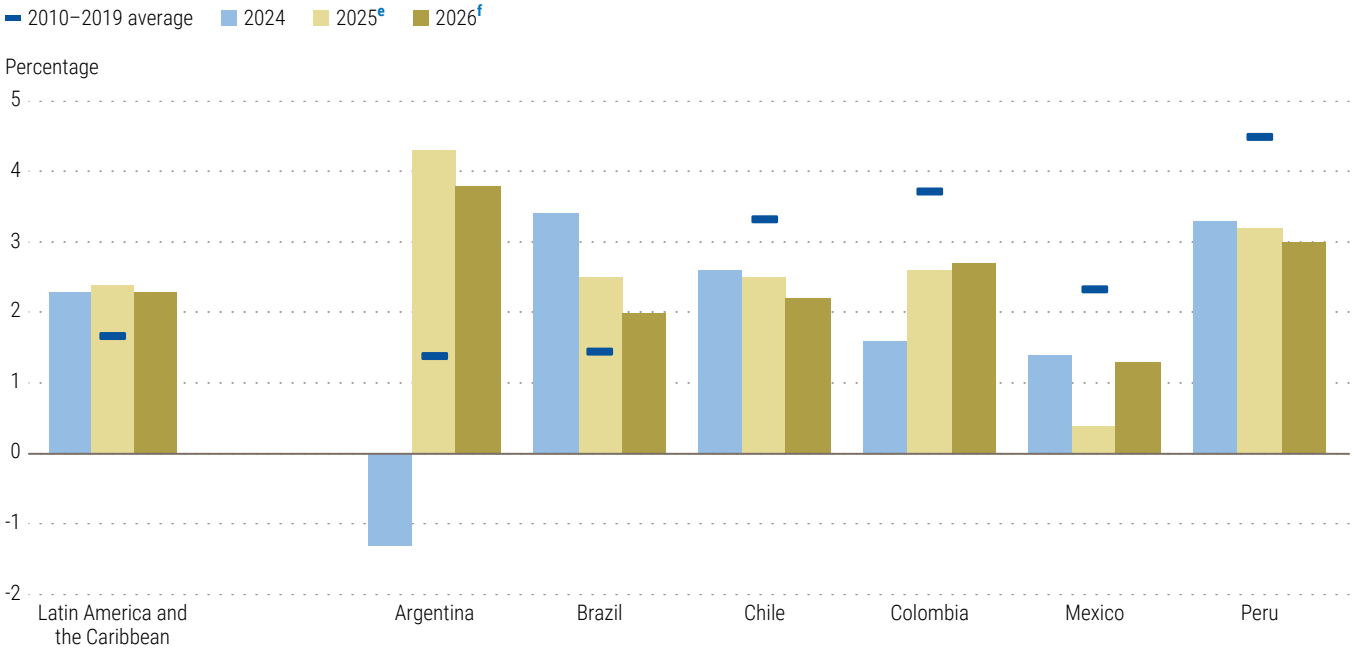
Latin America and the Caribbean

The short-term economic outlook for Latin America and the Caribbean remains broadly resilient, supported by firm private consumption and a gradual recovery in investment. Financial conditions became more favourable during 2025 amid relatively stable commodity prices, solid capital inflows, and narrowing sovereign spreads. However, new tariff measures and shifts in immigration policies in the United States, alongside elevated shipping costs, are generating uneven impacts across the region by affecting trade flows, supply chains, and remittances. The current account deficit remains moderate amid subdued export growth and slightly rising import demand. Against this backdrop, regional GDP growth, estimated at 2.4 per cent in 2025, is projected to ease slightly to 2.3 per cent in 2026 and to edge up to 2.5 per cent in 2027, remaining above the 2010–2019 average of 1.6 per cent (see figure III.29) yet still insufficient to meaningfully improve labour markets. Despite steady growth, downside risks remain elevated. Persistent global policy uncertainty and the potential for deepening trade fragmentation could heighten macroeconomic volatility and undermine the region's growth path.

In Brazil, economic growth is expected to remain relatively firm, moderating from an estimated 2.5 per cent in 2025 to 2.0 per cent in 2026—well above the 2010–2019 average of 1.4 per cent. The projected deceleration reflects the lagged effects of monetary tightening, which lifted interest rates to multi-decade highs and continues to weigh on investment. Additional headwinds have emerged from recently imposed United States tariffs of up to 50 per cent on a wide range of Brazilian imports. However, the overall impact on Brazil is expected to be limited as the United States accounts for only about 12 per cent of its exports. A moderately expansionary fiscal stance is expected to partly offset the slowdown. Nonetheless, recent deviations from the fiscal framework—amid temporary tax exemptions, higher-than-planned expenditures, and the use of extraordinary credit lines—underscore ongoing

Figure III.29

Growth of economic output in selected Latin American and Caribbean economies



Source: UN DESA, based on estimates and forecasts produced with the World Economic Forecasting Model.
Note: e = estimates; f = forecasts.

challenges in reinforcing fiscal credibility, even as the authorities maintain a medium-term commitment to gradual consolidation.

In Mexico, the economy demonstrated resilience throughout 2025 despite restrictive macroeconomic policy stances, policy uncertainty, and higher and volatile United States tariffs on exports and sector-specific measures outside the USMCA. GDP growth is projected to accelerate from an estimated 0.4 per cent in 2025 to 1.3 per cent in 2026, reflecting a recovery in investment and private consumption as fiscal and monetary policies become more supportive. Key downside risks include the potential reimposition of United States tariffs on non–USMCA exports—recently postponed but not withdrawn—and the persistent uncertainty surrounding the future of the USMCA (Bitar and Pineda, 2025).

In Argentina, macroeconomic conditions have stabilized following the deep recession in 2023 and 2024. GDP growth is projected to ease from an estimated 4.3 per cent in 2025 to 3.8 per cent in 2026, reflecting a moderation after the strong rebound. The Government has advanced a comprehensive stabilization programme based on fiscal consolidation, exchange rate unification, and tighter monetary policy to restore confidence and curb inflation, albeit at a significant social cost. Price pressures have eased substantially from the extreme levels of 2024, though inflation remains elevated. The policy framework, anchored in the IMF Extended Fund Facility, aims to rebuild reserves and strengthen external sustainability, complemented by bilateral support mechanisms such as the United States–Argentina currency swap arrangement.[27] While uncertainty remains elevated and downside risks persist, improving confidence is supporting investment and a gradual recovery in economic activity.

In the Caribbean (excluding Guyana), economic growth is projected to remain subdued at 1.6 per cent in 2026, slightly down from an estimated 1.8 per cent in 2025. This reflects persistent structural and external constraints, including elevated debt burdens and heightened climate vulnerabilities, which continue to weigh on investment and hinder progress towards the Sustainable Development Goals. By contrast, growth is expected to remain strong in Guyana, supported by the ongoing oil boom. Costa Rica, the Dominican Republic, Guatemala, Honduras, Panama, and Paraguay are also expected to experience a moderately robust expansion, with growth projected at more than 3.5 per cent for 2026.

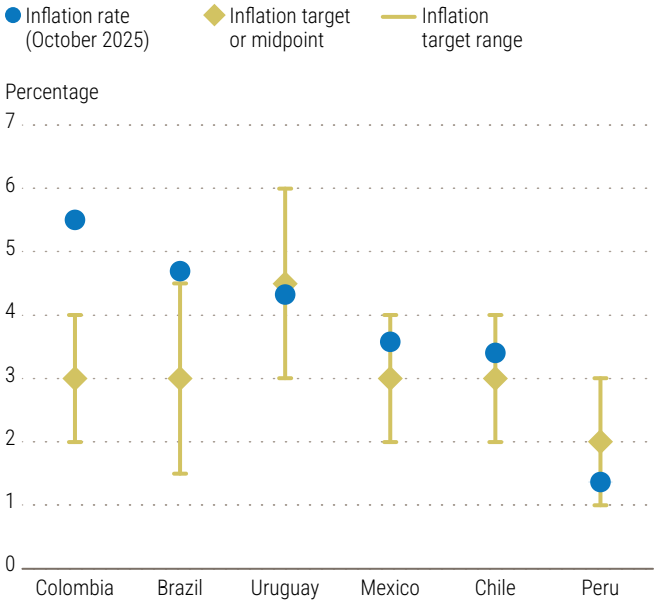
Regional inflation is expected to continue easing in 2026, albeit more slowly than in 2025. In the first half of 2025, around two thirds of the countries in Latin America and the Caribbean recorded declines in headline inflation, and several—including Argentina, Cuba, and Suriname—made substantial progress in addressing chronic price pressures. In Argentina, headline inflation fell from over 250 per cent in 2024 to about 31.3 per cent in October 2025. However, bringing inflation back to central bank target levels has proven challenging and is taking longer than expected in several economies, including Brazil and Colombia (see figure III.30). In Brazil, headline inflation remains stubbornly above the central bank target range despite policy interest rates being at multi-decade highs. By mid-2025, more than fifteen economies still had core inflation (which excludes volatile food and energy prices) above 3 per cent. The persistence of relatively high core inflation reflects wage adjustments, indexation mechanisms, and rising costs in regulated or semi-regulated services such as transport, healthcare, and housing. Looking ahead, headline inflation is projected to average 4.0 per cent in 2026, down from an estimated 4.5 per cent in 2025.[28] However, persistent services inflation, rising labour costs, and mounting climate-related disruptions could sustain or rekindle price pressures in some economies.

27 In late 2025, Argentina and the United States reached an agreement in principle on a bilateral currency-swap arrangement to bolster foreign exchange liquidity in Argentina. The specific terms, scope, and activation timeline remain to be clarified.

28 Argentina and the Bolivarian Republic of Venezuela are excluded from the regional inflation average.

Figure III.30

Consumer price inflation and inflation targets in selected Latin American economies



Source: UN DESA, based on data from national sources and Trading Economics.

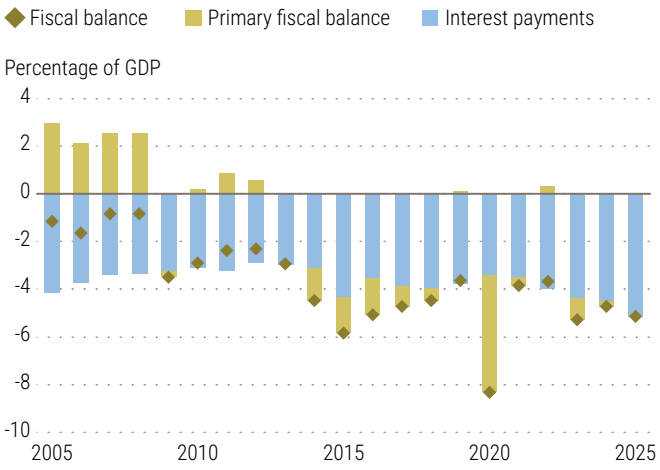
Amid subdued growth, labour market conditions have remained broadly stable. In 2025, unemployment declined or stayed low in several economies, including Brazil, Costa Rica, the Dominican Republic, Paraguay, and Uruguay. In Brazil, the unemployment rate fell to a multi-decade low of 5.6 per cent in August 2025. Nominal minimum wages have increased by more than 10 per cent in Jamaica, Mexico, and Trinidad and Tobago over the past two years (ECLAC, 2025a). Combined with continued disinflation, these higher wages have supported real wage gains in several economies, particularly in Brazil, Costa Rica, and Mexico.

At the same time, many economies—including Costa Rica, Ecuador, Paraguay, and Peru—have yet to recover their pre-pandemic labour force participation rates and continue to face significant challenges in generating formal employment. In the first quarter of 2025, regional employment expanded further, but at a more moderate pace, with year-on-year growth of 1.7 per cent, compared with 1.9 per cent a year earlier (ECLAC, 2025a). In several countries, labour market conditions remain particularly challenging. In Argentina, the unemployment rate rose to 7.6 per cent in the second quarter of 2025, the highest level in four years, while formal employment continued to decline; only 46 per cent of workers held registered salaried jobs, the lowest share in more than fifteen years. Beyond short-term fluctuations, slower labour force growth, coupled with population ageing, could constrain the region's potential output over the medium term.

Limited fiscal and monetary policy space continues to constrain the capacity of many economies to support growth and respond effectively to external or domestic shocks. Governments face the challenge of balancing fiscal consolidation with rising spending demands in health, education, and infrastructure. Fiscal deficits have persisted over the past decade, reflecting the cumulative impact of successive crises, higher interest burdens (estimated at over 5 per cent of regional GDP in 2025), and sluggish growth (see figure III.31). While recent years have brought some improvement from the record deficit levels

Figure III.31

Fiscal indicators in Latin America and the Caribbean

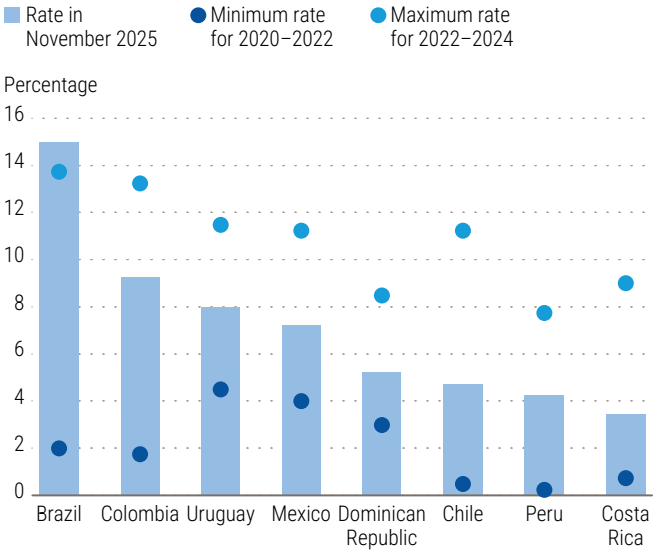


Source: UN DESA, based on data from the IMF World Economic Outlook database, October 2025.
Notes: The figure shows GDP-weighted values of the indicators. The fiscal balance is defined as general government net lending or borrowing. It can be decomposed into the primary balance and interest payments.

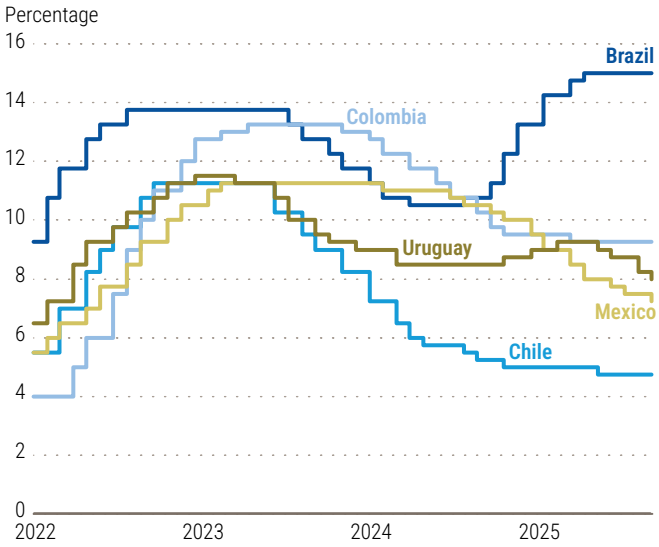
Figure III.32

Policy interest rates in selected Latin American economies

a) Latest rates and historical benchmarks



b) Policy rates



Source: UN DESA, based on data from CEIC.

of 2020, helped by stronger revenues, expenditure restraint, and the phasing out of pandemic-related support measures, fiscal buffers remain thin across much of the region. In Latin America, gross public debt declined from 76.1 per cent of GDP in 2020 to an estimated 70.7 per cent in 2025, and in the Caribbean from 85.5 per cent to an estimated 57.5 per cent—both calculated as GDP-weighted regional averages.[29] Despite this progress, elevated debt burdens and structurally weak primary balances continue to leave many countries exposed to shocks, reflecting narrow tax bases, rigid expenditures, and persistent revenue volatility.

Several central banks cut interest rates further in 2025, though heightened global uncertainty prompted a more cautious pace of monetary easing. Policy rates remain well above their 2020–2022 lows—and in many cases above pre-pandemic levels—in both nominal and real terms, limiting support for investment and consumption (see figure III.32). Exchange rate dynamics have also constrained broader financial easing (see box III.3). In Brazil, the Selic rate, the central bank's benchmark policy rate, stands at 15 per cent, its highest level in nearly two decades. With disinflation slowing across much of the region, terminal policy rates in the current easing cycle are expected to remain relatively high, further reinforced by uncertainty over the future path of interest rates in the United States.

Amid weak productivity growth, several major economies are adopting new industrial policy strategies to strengthen productive capacities (ECLAC, 2025b). In Brazil, for instance, the Nova Indústria Brasil initiative for the period 2024–2033 outlines six key missions ranging from sustainable agro-industries and health to digital transformation, low-carbon production, urban mobility, and strategic technologies, supported by substantial financing from national development banks. The plan combines credit, subsidies, tax incentives, and public procurement to spur innovation and strengthen local supply chains under a new governance framework to enhance coordination and monitoring. In Mexico,

29 UN DESA calculations based on gross debt data from the International Monetary Fund (IMF, 2025d).

industrial policy has focused on deepening domestic linkages within export-oriented manufacturing and leveraging nearshoring opportunities. The strategy aims to raise domestic value added, expand financing for small and medium-sized enterprises, and capitalize on the USMCA. The success of these initiatives will depend on coherent policy design, effective implementation, and sustained macroeconomic and political stability.

Box III.3

The evolution of monetary conditions in Latin America and the Caribbean

Since 2020, consumer price dynamics in Latin America and the Caribbean have been shaped by multiple global shocks, including the COVID-19 pandemic, supply chain disruptions, and the war in Ukraine. While inflationary pressures have declined from their 2022 peak, the "last mile" of returning inflation to target levels has proven more protracted and challenging than initially anticipated (see figure III.3.1).

This inflationary environment has significantly constrained monetary policy space in Latin America and the Caribbean, particularly given the influence of developed economies' monetary policy stances on regional conditions.

Understanding these constraints requires examining how monetary policy operates through different transmission channels. In developed economies with inflation-targeting regimes, the primary transmission mechanism operates through the interest rate channel. Given price rigidities, unexpected increases in nominal interest rates translate into higher real interest rates, which restrict aggregate demand and reduce inflationary pressures.

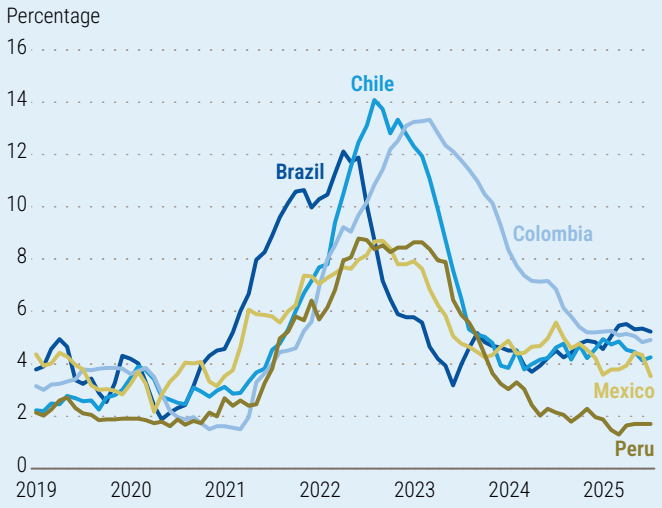
For developing small open economies with inflation-targeting frameworks, such as the larger Latin American and Caribbean economies, the exchange rate channel represents an additional important transmission mechanism. In principle, higher domestic nominal interest rates lead to currency appreciation through increased net capital inflows. This appreciation reduces inflationary pressures by lowering import prices for tradable goods and reducing aggregate demand through decreased net exports. However, the materialization of these capital flows depends on two critical factors: (1) the interest rate differential between the domestic economy and countries considered safe havens and (2) expectations regarding future inflation and exchange rate movements.

As illustrated above, the monetary policy stance of developed countries directly affects the region's domestic monetary policy space. Changes in interest rate differentials between domestic and foreign markets influence inflation expectations through capital flow dynamics and corresponding exchange rate fluctuations. Developing countries' monetary conditions thus depend on the complex, likely non-linear interaction between interest rates and exchange rates.

To analyse recent monetary conditions in the region's five largest inflation-targeting economies (Brazil, Chile, Colombia, Mexico, and Peru), a monetary conditions index (MCI) that captures the joint evolution of changes in real monetary policy rates and real effective exchange rates has been constructed.

Figure III.3.1

Consumer price inflation in selected economies in Latin America and the Caribbean, January 2019–July 2025



Source: Authors' calculations based on official statistics.

a The real interest rate is obtained by deflating the nominal rate using 12-month-ahead inflation expectations.

The MCI at time t is defined as follows:

$MCI_t = \theta_r (r_t - r_0) + \theta_q (q_t - q_0)$

where:

r_t represents the real interest rate[a]

q_t represents the real effective exchange rate

r_0 and q_0 are reference year values (coinciding with each country's national accounts base year)

θ_r and θ_q are weights reflecting the relative effects of interest rate and exchange rate changes on inflation

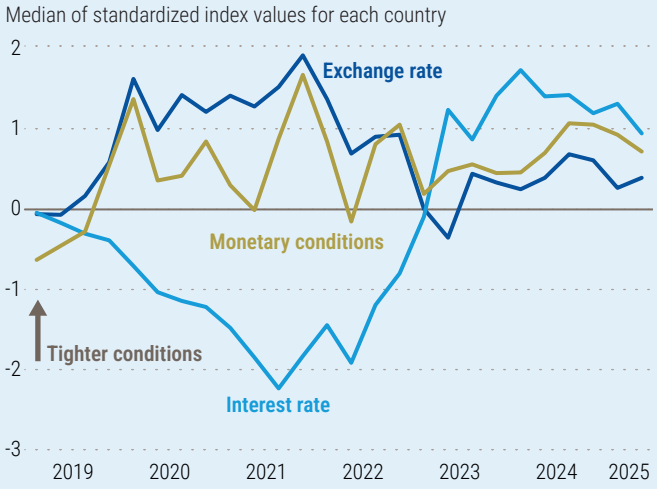
The weights for each country are derived from reaction function coefficients that measure the response of inflation to unexpected interest rate changes and their interaction with exchange rate movements.[a] Each component is normalized and expressed in terms of standard deviations relative to its mean since 2010. The regional index represents the median of country-level MCIs.

The regional evolution of the MCI and its interest rate and exchange rate components from 2019 Q1 through 2025 Q2 are illustrated in figure III.3.2. The real interest rate component shows a clear downward trend that accelerated in 2020 as countries relaxed monetary policy to address the pandemic-induced downturn. This trend reversed during the second half of 2021 as inflationary pressures mounted before stabilizing around 2023. The exchange rate component captures the depreciation trend through 2021 Q4, followed by appreciation until mid-2023, when a new period of mild depreciation began.

The evolution of the MCI components shows that regional monetary conditions are not only affected by the monetary policy stance reflected in interest rates but also significantly influenced by exchange rate dynamics. Despite substantial interest rate cuts during the pandemic, currency depreciation sustained relatively restrictive monetary conditions from late 2019 to late 2021. However, while currency depreciation pressures have subsided since the end of 2022, monetary conditions have remained tight due to relatively high real interest rates. It should be noted that the effects of currency depreciation are heterogeneous across countries, reflecting differences in the way they are integrated with global markets.

Figure III.3.2

Monetary conditions in selected economies in Latin America and the Caribbean, 2019 Q1–2025 Q2



Source: Authors' calculations.

This pattern highlights the challenges exchange rate fluctuations pose for monetary policy, particularly the narrow policy space resulting from reliance on a single policy instrument. The complementary use of exchange rate interventions and macroprudential tools can reduce monetary policy sensitivity to external shocks and allow a greater focus on domestic stabilization objectives (ECLAC, 2020; ECLAC, 2023; IMF, 2020).

In currency markets with limited liquidity, exchange rate interventions can reduce volatility, prevent abrupt capital flow reversals, and ease financing pressures during depreciation episodes. By limiting exchange rate pressures and their pass-through effects on inflation, such interventions allow monetary policy to concentrate more effectively on stabilizing domestic economic activity. The complementary use of macroprudential tools such as countercyclical capital requirements or temporary outflow restrictions can mitigate the impact of external shocks and support financial stability. The appropriate policy mix depends on the nature of the shocks faced, domestic financial development, the level of integration into global financial markets, debt composition, and the fiscal policy space.

Authors: *Franciss Peñaloza and Francisco G. Villarreal, Economic Development Division, United Nations Economic Commission for Latin America and the Caribbean*

b Using the Romer and Romer methodology, country-level monetary policy shocks are identified using Taylor-type rules incorporating country-specific characteristics such as dollarization levels (Romer and Romer, 2004). These shocks are then used to estimate inflation response functions using local projections (Jordà, 2005). MCI weights are derived from response function coefficients cumulated over 24 months to approximate their effects on inflation over the medium term.

Statistical Annex

Country classifications

Data sources, country classifications, and aggregation methodology

The statistical annex contains a set of data used in the *World Economic Situation and Prospects 2026* to delineate trends in various dimensions of the world economy.

Data sources

The annex was prepared by the Economic Analysis and Policy Division (EAPD) of the Department of Economic and Social Affairs of the United Nations Secretariat (UN DESA). It is based on information obtained from the Statistics Division and the Population Division of UN DESA, as well as from the five United Nations regional commissions, the United Nations Conference on Trade and Development (UNCTAD), the International Monetary Fund (IMF), the World Bank, the Organisation for Economic Co-operation and Development (OECD), Eurostat, and national sources. Estimates for 2025 and forecasts for 2026 and 2027 were produced by EAPD in consultation with the regional commissions and UNCTAD, partly guided by the UN DESA World Economic Forecasting Model (WEFM) (see Altshuler and others, 2016). Longer-term projections are based on a technical model-based extension of the WEFM. Data presented in the *World Economic Situation and Prospects 2026* may differ from those published by other organizations for several reasons, including differences in timing, sample composition, and aggregation method. Historical data may differ from those in previous editions of the present publication because of updating and changes in the availability of data for individual countries.

Country classifications

For analytical purposes, the *World Economic Situation and Prospects 2026* classifies all countries of the world into three broad categories: developed economies, economies in transition, and developing economies.[1] The composition of these analytical groupings, specified in tables A, B and C, is intended to reflect basic economic country conditions. The geographical groupings are not strictly aligned with the regional classifications (M49 standard) published by the Statistics Division of UN DESA.[2] Table A.4 reports estimates for regional gross domestic product (GDP) growth according to the M49 definitions for comparison. Several countries (in particular the economies in transition) have characteristics that could place them in more than one category; however, for purposes of analysis, the groupings have been made mutually exclusive. Subgroups within each broad category are defined based on geographical location or ad hoc criteria; an example of the latter is the "major developed economies" subgroup, which is based on the membership of the Group of Seven.

In parts of the analysis, a distinction is made between fuel exporters and fuel importers.

1 These analytical groupings are not aligned with the geographic groupings designated by the Statistics Division of UN DESA.
2 Detailed information on the M49 standard can be found on the UN DESA Statistics Division website.

An economy is classified as a fuel exporter if the share of fuel exports in its total merchandise exports is greater than 20 per cent and the level of fuel exports is at least 20 per cent higher than that of the country's fuel imports (see table D). Fuels include coal, oil, and natural gas.

For other parts of the analysis, countries have been grouped according to their level of development as measured by per capita gross national income (GNI) and are classified as high-income, upper-middle-income, lower-middle-income or low-income countries (see table E). To maintain compatibility with similar classifications used elsewhere, the threshold levels of GNI per capita are those established by the World Bank. Countries with GNI per capita of $1,135 or less are classified as low-income countries, those with between $1,136 and $4,495 as lower-middle-income countries, those with between $4,496 and $13,935 as upper-middle-income countries, and those with per capita GNI exceeding $13,935 as high-income countries. GNI per capita in dollar terms is estimated using the World Bank Atlas method,[3] and the classification in table E is based on data for 2024.

The list of least developed countries (LDCs) is determined by the United Nations Economic and Social Council—and ultimately by the General Assembly—based on recommendations made by the Committee for Development Policy. The basic criterion for inclusion is that certain thresholds are met with regard to per capita GNI, a human assets index, and an economic and environmental vulnerability index (United Nations, 2024c). As at December 2025, there were 44 LDCs (see table F).

At the 1992 United Nations Conference on Environment and Development,[4] small island developing States (SIDS) were recognized as a distinct group of developing countries facing specific social, economic, and environmental vulnerabilities. This group comprises 37 States and 20 Associate Members of United Nations regional commissions (see table G).

There are 32 landlocked developing countries, among which are some of the poorest countries in the world, including 16 LDCs (see table H).

Aggregation methodology

Aggregate data are either sums or weighted averages of individual country data. Unless otherwise indicated, multi-year averages of growth rates are expressed as compound annual percentage rates of change. The convention followed is to omit the base year in a multi-year growth rate. For example, the 10-year average growth rate for the decade of the 2000s would be identified as the average annual growth rate for the period 2001–2010.

The *World Economic Situation and Prospects 2026* utilizes market exchange rate conversions of national data to aggregate the output of individual countries into regional and global totals. The growth of output in each group of countries is calculated from the sum of the GDP of individual countries measured at 2015 prices and exchange rates. This method supplies a reasonable set of aggregate growth rates for a period of about 18 years, starting from 2010. The exchange-rate-based aggregation method differs from the one used by the IMF in its estimates of global and regional economic growth, which is based on purchasing power parity (PPP) weights. This latter approach accounts for differences in the cost of living and purchasing power across countries. Over the past three decades, the growth of gross world product (GWP) based on the exchange-rate-based approach has generally been below that based on PPP weights. One reason is that developing countries, in the aggregate, have seen significantly higher economic growth than the rest of the world since the 1990s, and another is that the share of developing countries in GWP is larger when PPP measurements are used than when market exchange rates are used. Table I.1 in chapter I reports world output growth based on PPP weights as a comparator.

3 See http://data.worldbank.org/about/country-classifications.
4 The United Nations Conference on Environment and Development, also known as the Earth Summit, was held in Rio de Janeiro from 3 to 14 June 1992.

Table A

Developed economies

Northern America	Europe			Major developed economies (G7)
	European Union		Other Europe	
Canada United States	Austria[a] Belgium[a] Bulgaria[a] Croatia[a] Cyprus[a] Czechia Denmark Estonia[a] Finland[a] France[a] Germany[a] Greece[a] Hungary Ireland[a]	Italy[a] Latvia[a] Lithuania[a] Luxembourg[a] Malta[a] Netherlands (Kingdom of the)[a] Poland Portugal[a] Romania Slovakia[a] Slovenia[a] Spain[a] Sweden	Iceland Norway Switzerland United Kingdom[b]	Canada France Germany Italy Japan United Kingdom United States
Developed Asia and the Pacific				
Australia Japan New Zealand Republic of Korea				

a Member of the euro area. Bulgaria became the twenty-first member of the euro area on 1 January 2026. In this report, economic indicators for the euro area refer to the twenty countries that joined before that date.

b The United Kingdom withdrew from the European Union on 31 January 2020 and is therefore excluded from all European Union aggregations.

Table B

Economies in transition

South-Eastern Europe	Commonwealth of Independent States and Georgia[a]		
Albania	Armenia	Kazakhstan	Tajikistan
Bosnia and Herzegovina	Azerbaijan	Kyrgyzstan	Turkmenistan
Montenegro	Belarus	Republic of Moldova	Ukraine[b]
North Macedonia	Georgia[a]	Russian Federation	Uzbekistan
Serbia			

a Georgia officially left the Commonwealth of Independent States on 18 August 2009. However, its performance is discussed in the context of this group of countries for reasons of geographic proximity and similarities in economic structure.

b The Government of Ukraine has advised the United Nations that it is not in a position to provide statistical data concerning the Autonomous Republic of Crimea and the city of Sevastopol.

Table C

Developing economies, by region[a]

Africa

East Africa

Burundi
Comoros
Democratic Republic of the Congo
Djibouti
Eritrea
Ethiopia
Kenya
Madagascar
Rwanda
Somalia
South Sudan
Uganda
United Republic of Tanzania

West Africa

Benin
Burkina Faso
Cabo Verde
Côte d'Ivoire
Gambia
Ghana
Guinea
Guinea-Bissau
Liberia
Mali
Niger
Nigeria
Senegal
Sierra Leone
Togo

North Africa

Algeria
Egypt
Libya
Mauritania
Morocco
Sudan
Tunisia

Central Africa

Cameroon
Central African Republic
Chad
Congo
Equatorial Guinea
Gabon
Sao Tome and Principe

Southern Africa

Angola
Botswana
Eswatini
Lesotho
Malawi
Mauritius
Mozambique
Namibia
South Africa
Zambia
Zimbabwe

Asia

East Asia[b]

Brunei Darussalam
Cambodia
China
Democratic People's Republic of Korea
Fiji
Hong Kong SAR[c]
Indonesia
Kiribati
Lao People's Democratic Republic
Malaysia
Mongolia
Myanmar
Papua New Guinea
Philippines
Samoa
Singapore
Solomon Islands
Taiwan Province of China
Thailand
Timor-Leste
Vanuatu
Viet Nam

South Asia

Afghanistan
Bangladesh
Bhutan
India
Iran (Islamic Republic of)
Maldives
Nepal
Pakistan
Sri Lanka

Western Asia

Bahrain
Iraq
Israel
Jordan
Kuwait
Lebanon
Oman
Qatar
Saudi Arabia
State of Palestine
Syrian Arab Repuplic
Türkiye
United Arab Emirates
Yemen

Latin America and the Caribbean

Caribbean

Bahamas
Barbados
Belize
Guyana
Jamaica
Suriname
Trinidad and Tobago

Mexico and Central America

Costa Rica
Cuba
Dominican Republic
El Salvador
Guatemala
Haiti
Honduras
Mexico
Nicaragua
Panama

South America

Argentina
Bolivia (Plurinational State of)
Brazil
Chile
Colombia
Ecuador
Paraguay
Peru
Uruguay
Venezuela (Bolivarian Republic of)

a Economies systematically monitored for the *World Economic Situation and Prospects* report. These analytical groupings differ from the geographical aggregations defined according to M49.
b Throughout the report, the term "East Asia" is used in reference to this set of developing economies and excludes Japan and Republic of Korea.
c SAR = Special Administrative Region of China.

Table D

Fuel-exporting countries

Developed countries	Developing countries			
	Africa	**East Asia**	**Western Asia**	**Latin America and the Caribbean**
Australia Canada Norway	Algeria Angola Cameroon Chad Congo Equatorial Guinea Gabon Ghana Libya Mozambique Nigeria South Sudan	Brunei Darussalam Indonesia Mongolia Papua New Guinea Timor-Leste	Bahrain Iraq Kuwait Oman Qatar Saudi Arabia United Arab Emirates	Colombia Ecuador Guyana Trinidad and Tobago Venezuela (Bolivarian Republic of)
Economies in transition		**South Asia**		
Azerbaijan Kazakhstan Russian Federation Turkmenistan		Iran (Islamic Republic of)		

Source: UN DESA, based on data from UNCTAD.

Table E

Economies, by per capita GNI (as at 1 July 2025)[a]

High-income		Upper-middle-income		Lower-middle-income		Low-income
Australia	Lithuania	Albania	Iran (Islamic Republic of)	Angola	Lesotho	Afghanistan
Austria	Luxembourg	Algeria	Iraq	Bangladesh	Mauritania	Burkina Faso
Bahamas	Malta	Argentina	Jamaica	Benin	Morocco	Burundi
Bahrain	Netherlands (Kingdom of the)	Armenia	Kazakhstan	Bhutan	Myanmar	Central African Republic
Barbados	New Zealand	Azerbaijan	Libya	Bolivia (Plurinational State of)	Namibia[c]	Chad
Belgium	Norway	Belarus	Malaysia	Cambodia	Nepal	Democratic People's Republic of Korea
Brunei Darussalam	Oman	Belize	Maldives	Cameroon	Nicaragua	Democratic Republic of the Congo
Bulgaria	Panama	Bosnia and Herzegovina	Mauritius	Comoros	Nigeria	Eritrea
Canada	Poland	Botswana	Mexico	Congo	Pakistan	Gambia
Chile	Portugal	Brazil	Mongolia	Côte d'Ivoire	Papua New Guinea	Guinea-Bissau
Costa Rica[b]	Qatar	Cabo Verde[b]	Montenegro	Djibouti	Philippines	Liberia
Croatia	Republic of Korea	China	North Macedonia	Egypt	Sao Tome and Principe	Madagascar
Cyprus	Romania	Colombia	Paraguay	Eswatini	Senegal	Malawi
Czechia	Russian Federation	Cuba	Peru	Ghana	Solomon Islands	Mali
Denmark	Saudi Arabia	Dominican Republic	Republic of Moldova	Guinea	Sri Lanka	Mozambique
Estonia	Singapore	Ecuador	Samoa[b]	Haiti	State of Palestine	Niger
Finland	Slovakia	El Salvador	Serbia	Honduras	Tajikistan	Rwanda
France	Slovenia	Equatorial Guinea	South Africa	India	Timor-Leste	Sierra Leone
Germany	Spain	Fiji	Suriname	Jordan	Tunisia	Somalia
Greece	Sweden	Gabon	Thailand	Kenya	United Republic of Tanzania	South Sudan
Guyana	Switzerland	Georgia	Türkiye	Kiribati	Uzbekistan	Sudan
Hong Kong SAR[d]	Taiwan Province of China	Guatemala	Turkmenistan	Kyrgyzstan	Vanuatu	Syrian Arab Republic
Hungary	Trinidad and Tobago	Indonesia	Ukraine	Lao People's Democratic Republic	Viet Nam	Togo
Iceland	United Arab Emirates			Lebanon	Zambia	Uganda
Ireland	United Kingdom				Zimbabwe	Yemen
Israel	United States					
Italy	Uruguay					
Japan						
Kuwait						
Latvia						

Source: World Bank, country classification by income.

Note: The Bolivarian Republic of Venezuela was temporarily unclassified in July 2021 pending release of revised national accounts statistics. Ethiopia is in a temporary status of unclassification from July 2025.

a Economies systematically monitored for the *World Economic Situation and Prospects* report, based on World Bank country classification by income.

b Indicates the country has been shifted upward by one category from the previous year's classification.

c Indicates the country has been shifted downward by one category from the previous year's classification.

d SAR = Special Administrative Region of China.

Table F

Least developed countries (as at December 2025)

Africa			East Asia	South Asia	Western Asia	Latin America and the Caribbean
Angola	Gambia	Rwanda	Cambodia	Afghanistan	Yemen	Haiti
Benin	Guinea	Senegal	Kiribati	Bangladesh		
Burkina Faso	Guinea-Bissau	Sierra Leone	Lao People's Democratic Republic	Nepal		
Burundi	Lesotho	Somalia	Myanmar			
Central African Republic	Liberia	South Sudan	Solomon Islands			
Chad	Madagascar	Sudan	Timor-Leste			
Comoros	Malawi	Togo	Tuvalu[a]			
Democratic Republic of the Congo	Mali	Uganda				
Djibouti	Mauritania	United Republic of Tanzania				
Eritrea	Mozambique	Zambia				
Ethiopia	Niger					

Source: UN DESA.

a Economies not systematically monitored for the *World Economic Situation and Prospects* report.

Table G

Small island developing States

United Nations members			Non-United Nations members/Associate members of the Regional Commissions[a]	
Antigua and Barbuda[a]	Guyana	Saint Vincent and the Grenadines[a]	American Samoa	Guadeloupe
Bahamas	Haiti	Samoa	Anguilla	Guam
Barbados	Jamaica	Sao Tome and Príncipe	Aruba	Martinique
Belize	Kiribati	Seychelles[a]	Bermuda	Montserrat
Cabo Verde	Maldives	Singapore	British Virgin Islands	New Caledonia
Comoros	Marshall Islands[a]	Solomon Islands	Cayman Islands	Niue
Cuba	Mauritius	Suriname	Commonwealth of Northern Marianas	Puerto Rico
Dominica[a]	Nauru[a]	Timor-Leste	Cook Islands	Sint Maarten
Dominican Republic	Palau[a]	Tonga[a]	Curaçao	Turks and Caicos Islands
Federated States of Micronesia[a]	Papua New Guinea	Trinidad and Tobago	French Polynesia	U.S. Virgin Islands
Fiji	Saint Kitts and Nevis[a]	Tuvalu[a]		
Grenada[a]	Saint Lucia[a]	Vanuatu		
Guinea-Bissau				

Source: UN DESA.

a Economies not systematically monitored for the *World Economic Situation and Prospects* report.

Table H

Landlocked developing countries

Landlocked developing countries			
Afghanistan	Central African Republic	Malawi	Rwanda
Armenia	Chad	Mali	South Sudan
Azerbaijan	Eswatini	Mongolia	Tajikistan
Bhutan	Ethiopia	Nepal	Turkmenistan
Bolivia (Plurinational State of)	Kazakhstan	Niger	Uganda
Botswana	Kyrgyzstan	North Macedonia	Uzbekistan
Burkina Faso	Lao People's Democratic Republic	Paraguay	Zambia
Burundi	Lesotho	Republic of Moldova	Zimbabwe

Source: UN-OHRLLS.

Table I

International Organization for Standardization of country codes

ISO Code	Country	ISO Code	Country	ISO Code	Country	ISO Code	Country
AFG	Afghanistan	DOM	Dominican Republic	LBN	Lebanon	ROU	Romania
AGO	Angola	DZA	Algeria	LBR	Liberia	RUS	Russian Federation
AIA	Anguilla	ECU	Ecuador	LBY	Libya	RWA	Rwanda
ALB	Albania	EGY	Egypt	LCA	Saint Lucia	SAU	Saudi Arabia
AND	Andorra	ERI	Eritrea	LIE	Liechtenstein	SDN	Sudan
ARE	United Arab Emirates	ESP	Spain	LKA	Sri Lanka	SEN	Senegal
ARG	Argentina	EST	Estonia	LSO	Lesotho	SGP	Singapore
ARM	Armenia	ETH	Ethiopia	LTU	Lithuania	SLB	Solomon Islands
ATG	Antigua and Barbuda	FIN	Finland	LUX	Luxembourg	SLE	Sierra Leone
AUS	Australia	FJI	Fiji	LVA	Latvia	SLV	El Salvador
AUT	Austria	FRA	France	MAR	Morocco	SMR	San Marino
AZE	Azerbaijan	FSM	Micronesia (Federated States of)	MCO	Monaco	SOM	Somalia
BDI	Burundi			MDA	Republic of Moldova	SRB	Serbia
BEL	Belgium	GAB	Gabon	MDG	Madagascar	SSD	South Sudan
BEN	Benin	GBR	United Kingdom of Great Britain and Northern Ireland	MDV	Maldives	STP	Sao Tome and Principe
BFA	Burkina Faso			MEX	Mexico		
BGD	Bangladesh			MHL	Marshall Islands	SUR	Suriname
BGR	Bulgaria	GEO	Georgia	MKD	North Macedonia	SVK	Slovakia
BHR	Bahrain	GHA	Ghana	MLI	Mali	SVN	Slovenia
BHS	Bahamas	GIN	Guinea	MLT	Malta	SWE	Sweden
BIH	Bosnia and Herzegovina	GMB	Gambia	MMR	Myanmar	SWZ	Eswatini
		GNB	Guinea-Bissau	MNE	Montenegro	SYC	Seychelles
BLR	Belarus	GNQ	Equatorial Guinea	MNG	Mongolia	SYR	Syrian Arab Republic
BLZ	Belize	GRC	Greece	MOZ	Mozambique	TCD	Chad
BOL	Bolivia (Plurinational State of)	GRD	Grenada	MRT	Mauritania	TGO	Togo
		GTM	Guatemala	MSR	Montserrat	THA	Thailand
BRA	Brazil	GUY	Guyana	MUS	Mauritius	TJK	Tajikistan
BRB	Barbados	HND	Honduras	MWI	Malawi	TKM	Turkmenistan
BRN	Brunei Darussalam	HRV	Croatia	MYS	Malaysia	TLS	Timor-Leste
BTN	Bhutan	HTI	Haiti	NAM	Namibia	TON	Tonga
BWA	Botswana	HUN	Hungary	NER	Niger	TTO	Trinidad and Tobago
CAF	Central African Republic	IDN	Indonesia	NGA	Nigeria	TUN	Tunisia
		IND	India	NIC	Nicaragua	TUR	Türkiye
CAN	Canada	IRL	Ireland	NLD	Netherlands (Kingdom of the)	TUV	Tuvalu
CHE	Switzerland	IRN	Iran (Islamic Republic of)			TZA	United Republic of Tanzania
CHL	Chile			NOR	Norway		
CHN	China	IRQ	Iraq	NPL	Nepal	UGA	Uganda
CIV	Côte d'Ivoire	ISL	Iceland	NRU	Nauru	UKR	Ukraine
CMR	Cameroon	ISR	Israel	NZL	New Zealand	URY	Uruguay
COD	Democratic Republic of the Congo	ITA	Italy	OMN	Oman	USA	United States of America
		JAM	Jamaica	PAK	Pakistan		
COG	Congo	JOR	Jordan	PAN	Panama	UZB	Uzbekistan
COL	Colombia	JPN	Japan	PER	Peru	VCT	Saint Vincent and the Grenadines
COM	Comoros	KAZ	Kazakhstan	PHL	Philippines		
CPV	Cabo Verde	KEN	Kenya	PLW	Palau	VEN	Venezuela (Bolivarian Republic of)
CRI	Costa Rica	KGZ	Kyrgyzstan	PNG	Papua New Guinea		
CUB	Cuba	KHM	Cambodia	POL	Poland	VNM	Viet Nam
CYP	Cyprus	KIR	Kiribati	PRK	Democratic People's Republic of Korea	VUT	Vanuatu
CZE	Czechia	KNA	Saint Kitts and Nevis			WSM	Samoa
DEU	Germany	KOR	Republic of Korea	PRT	Portugal	YEM	Yemen
DJI	Djibouti	KWT	Kuwait	PRY	Paraguay	ZAF	South Africa
DMA	Dominica	LAO	Lao People's Democratic Republic	PSE	State of Palestine	ZMB	Zambia
DNK	Denmark			QAT	Qatar	ZWE	Zimbabwe

Annex Tables

Table A.1

Developed economies: growth of real GDP

Annual percentage change

	2003–2017[a]	2018	2019	2020	2021	2022	2023	2024	2025[b]	2026[c]	2027[c]
Developed economies	**1.8**	**2.4**	**1.9**	**-3.9**	**6.0**	**3.0**	**1.6**	**1.7**	**1.6**	**1.6**	**1.8**
United States	2.0	3.0	2.6	-2.2	6.1	2.5	2.9	2.8	1.9	2.0	2.2
Canada	1.9	2.7	1.9	-5.0	6.0	4.2	1.5	1.5	1.4	1.5	1.9
Japan	0.9	0.8	-0.3	-4.3	3.6	1.3	0.7	-0.2	1.2	0.9	1.0
Republic of Korea	3.8	3.2	2.3	-0.7	4.6	2.7	1.6	2.0	1.1	1.8	2.0
Australia	2.9	2.8	1.9	-2.0	5.4	4.1	2.0	1.1	1.8	2.2	2.4
New Zealand	2.8	4.1	3.3	-1.0	5.8	3.3	1.8	-0.4	0.7	1.6	2.2
European Union	**1.4**	**2.1**	**1.9**	**-5.6**	**6.4**	**3.6**	**0.5**	**1.1**	**1.5**	**1.3**	**1.6**
Austria	1.5	2.5	1.8	-6.3	4.8	5.3	-0.8	-0.7	0.4	0.8	1.1
Belgium	1.5	1.9	2.4	-4.8	6.2	4.0	1.7	1.1	1.1	1.0	1.2
Bulgaria	3.2	2.5	3.8	-3.2	7.8	4.0	1.9	3.4	3.4	2.9	2.7
Croatia	1.5	2.9	3.1	-8.3	12.6	7.3	3.3	3.9	3.0	3.0	3.0
Cyprus	2.0	6.3	5.9	-3.2	11.4	8.3	3.6	3.9	3.5	2.9	2.7
Czechia	2.8	2.8	3.6	-5.3	4.0	2.8	0.0	1.2	2.5	2.3	2.2
Denmark	1.2	1.9	1.7	-1.8	6.5	0.4	0.6	3.5	2.5	1.9	2.1
Estonia	3.2	3.7	3.7	-2.9	7.2	0.1	-3.0	-0.3	0.6	2.1	2.5
Finland	1.3	1.2	1.3	-2.5	2.7	0.8	-0.9	0.4	0.1	0.9	1.1
France	1.3	1.6	2.0	-7.4	6.9	2.7	1.4	1.2	0.8	0.8	1.1
Germany	1.4	1.1	1.0	-4.1	3.9	1.8	-0.9	-0.5	0.2	0.8	1.4
Greece	-0.5	2.1	2.3	-9.2	8.7	5.5	2.1	2.1	2.1	2.3	2.0
Hungary	2.0	5.6	5.1	-4.3	7.2	4.3	-0.8	0.5	0.4	2.6	2.6
Ireland	4.2	7.7	5.0	7.2	16.3	7.5	-2.5	2.6	11.5	0.5	2.8
Italy	0.0	0.8	0.4	-8.9	8.9	4.8	1.0	0.7	0.6	0.6	0.7
Latvia	3.3	4.3	0.7	-3.5	6.9	1.8	2.9	-0.4	1.6	1.7	2.1
Lithuania	3.8	4.9	4.7	0.0	6.4	2.5	0.3	3.0	2.6	3.2	2.5

Table A.1

Developed economies: growth of real GDP (*continued*)

Annual percentage change

	2003–2017[a]	2018	2019	2020	2021	2022	2023	2024	2025[b]	2026[c]	2027[c]
Luxembourg	2.7	1.6	2.7	-0.5	6.9	-1.1	0.1	0.4	0.7	1.5	1.7
Malta	4.6	7.2	4.1	-3.5	13.4	2.5	10.6	6.8	3.0	3.1	3.2
Netherlands (Kingdom of the)	1.4	2.3	2.3	-3.9	6.3	5.0	-0.6	1.1	1.7	1.2	1.5
Poland	3.9	6.2	4.6	-2.0	6.9	5.3	0.2	2.9	3.5	3.2	3.0
Portugal	0.4	2.9	2.7	-8.2	5.6	7.0	3.1	2.1	1.9	2.1	2.0
Romania	3.7	6.1	3.9	-3.7	5.5	4.0	2.4	0.8	1.0	1.9	2.1
Slovakia	4.0	4.1	2.3	-2.6	5.7	0.4	2.2	2.1	0.9	1.8	2.0
Slovenia	2.1	4.4	3.5	-4.1	8.4	2.7	2.1	1.6	1.0	2.3	2.3
Spain	1.4	2.4	2.0	-10.9	6.7	6.4	2.5	3.5	2.9	2.3	2.2
Sweden	2.1	1.8	2.6	-1.9	5.2	1.3	-0.2	0.8	1.6	2.4	2.2
Other Europe	**1.7**	**1.8**	**1.3**	**-7.8**	**7.5**	**4.6**	**0.4**	**1.2**	**1.3**	**1.0**	**1.3**
Iceland	3.0	5.1	1.2	-6.6	5.2	8.8	5.2	-1.0	1.0	1.6	2.1
Norway	1.6	0.8	1.1	-1.3	3.9	3.2	0.1	2.1	0.3	0.9	1.1
Switzerland	1.9	2.9	1.1	-2.1	5.6	3.0	0.7	1.3	1.2	0.8	1.4
United Kingdom[d]	1.7	1.6	1.3	-10.0	8.5	5.1	0.3	1.1	1.4	1.1	1.3
Memorandum items:											
Northern America	2.0	2.9	2.5	-2.4	6.0	2.6	2.8	2.7	1.9	2.0	2.2
Developed Asia and the Pacific	1.8	1.7	0.7	-3.0	4.2	2.2	1.2	0.5	1.3	1.4	1.5
Europe	1.4	2.0	1.7	-6.1	6.6	3.8	0.4	1.1	1.4	1.2	1.5
Major developed economies	1.6	2.2	1.8	-4.1	5.9	2.7	1.8	1.7	1.5	1.5	1.8
Euro area[e]	1.2	1.8	1.6	-6.1	6.4	3.7	0.5	0.9	1.4	1.1	1.4

Source: UN DESA, based on data from national sources and estimates and forecasts produced with the World Economic Forecasting Model.
Notes: GDP = gross domestic product. Regional aggregates calculated at 2015 prices and exchange rates.

a Average percentage change.
b Partly estimated.
c Baseline scenario forecasts, based on the UN DESA World Economic Forecasting Model.
d The United Kingdom withdrew from the European Union on 31 January 2020 and is therefore excluded from all European Union aggregations.
e Bulgaria became the twenty-first member of the euro area on 1 January 2026. In this report, economic indicators for the euro area refer to the twenty countries that joined before that date.

Table A.2

Economies in transition: growth of real GDP

Annual percentage change

	2003–2017[a]	2018	2019	2020	2021	2022	2023	2024	2025[b]	2026[c]	2027[c]
Economies in transition	**3.7**	**3.3**	**2.7**	**-2.4**	**5.8**	**-1.0**	**4.3**	**4.5**	**2.2**	**2.2**	**2.5**
South-Eastern Europe	**2.9**	**4.2**	**3.9**	**-2.9**	**7.8**	**3.4**	**3.4**	**3.5**	**2.4**	**3.4**	**3.4**
Albania	4.0	3.7	2.1	-3.3	9.0	4.8	4.0	4.0	3.6	3.5	3.2
Bosnia and Herzegovina	2.8	3.8	2.9	-3.0	7.4	4.2	2.0	2.5	1.9	2.7	2.5
Montenegro	3.1	5.1	4.1	-15.3	13.0	6.4	6.3	3.0	3.2	3.2	3.1
North Macedonia	3.2	2.9	3.9	-4.7	4.5	2.8	2.1	3.0	3.4	3.1	3.0
Serbia	2.6	4.6	4.8	-1.0	7.9	2.6	3.8	3.9	2.0	3.8	4.0
Commonwealth of Independent States and Georgia[d]	**3.8**	**3.3**	**2.6**	**-2.4**	**5.7**	**-1.2**	**4.3**	**4.6**	**2.2**	**2.1**	**2.5**
Commonwealth of Independent States and Georgia - net fuel exporters	**3.7**	**3.0**	**2.3**	**-2.5**	**5.7**	**-0.3**	**4.1**	**4.4**	**1.7**	**1.7**	**2.1**
Azerbaijan	8.9	1.5	2.5	-4.2	5.6	4.7	1.1	4.1	1.6	2.7	2.6
Kazakhstan	6.1	4.1	4.5	-2.5	4.3	3.2	4.3	5.0	6.1	4.6	4.8
Russian Federation	3.2	2.9	1.9	-2.7	5.9	-1.2	4.1	4.3	0.8	1.0	1.5
Turkmenistan	7.3	6.2	6.3	5.9	6.2	6.2	6.3	6.3	6.2	6.0	5.8
Commonwealth of Independent States and Georgia - net fuel importers[d]	**4.1**	**4.6**	**4.3**	**-1.5**	**5.6**	**-6.0**	**5.7**	**5.4**	**5.0**	**4.4**	**4.4**
Armenia	5.8	5.2	7.6	-7.2	5.8	12.6	8.7	5.9	5.9	4.8	4.8
Belarus	4.6	3.2	1.4	-0.7	2.4	-4.7	3.9	4.0	1.5	2.1	2.1
Georgia[d]	5.9	6.1	5.4	-6.3	10.6	11.0	7.5	9.4	7.5	5.4	5.0
Kyrgyzstan	4.9	4.9	5.8	-7.1	5.5	9.0	9.0	9.1	10.9	5.9	6.1
Republic of Moldova	4.3	4.1	3.6	-8.3	13.9	-4.6	1.0	0.1	1.5	2.5	2.9
Tajikistan	7.0	7.6	7.4	4.4	9.4	8.0	8.3	8.4	8.0	6.1	5.1
Ukraine[e]	1.2	3.5	3.2	-3.8	3.4	-28.8	5.3	2.9	1.5	2.3	3.0
Uzbekistan	7.6	5.9	6.0	2.0	7.4	5.7	6.0	6.5	7.3	6.0	5.9

Source: UN DESA, based on data from national sources and estimates and forecasts produced with the World Economic Forecasting Model.
Notes: GDP = gross domestic product. Regional aggregates calculated at 2015 prices and exchange rates.

a Average percentage change.
b Partly estimated.
c Baseline scenario forecasts, based in part on the UN DESA World Economic Forecasting Model.
d Georgia officially left the Commonwealth of Independent States on 18 August 2009. However, its performance is discussed in the context of this group of countries for reasons of geographic proximity and similarities in economic structure.
e The Government of Ukraine has advised the United Nations that it is not in a position to provide statistical data concerning the Autonomous Republic of Crimea and the city of Sevastopol.

Table A.3

Developing economies: growth of real GDP

Annual percentage change

	2003–2017[a]	2018	2019	2020	2021	2022	2023	2024	2025[b]	2026[c]	2027[c]
Developing countries[d]	**6.0**	**4.6**	**3.6**	**-1.2**	**7.1**	**4.2**	**4.4**	**4.2**	**4.4**	**4.2**	**4.3**
Africa	**4.6**	**3.4**	**2.7**	**-2.6**	**5.2**	**3.4**	**2.7**	**2.8**	**4.0**	**4.0**	**4.1**
North Africa	**4.0**	**4.1**	**2.5**	**-3.8**	**6.5**	**2.5**	**1.4**	**1.1**	**4.6**	**4.1**	**4.0**
Algeria	3.4	1.4	0.9	-5.0	3.8	3.6	4.1	3.6	4.0	3.6	3.2
Egypt[e]	4.3	5.3	5.6	3.6	3.3	6.7	3.8	2.4	4.4	4.5	4.7
Libya	1.1	7.9	-11.2	-29.5	28.3	-8.3	10.2	-2.6	12.6	3.4	3.0
Mauritania	4.5	4.8	3.1	-0.4	0.7	6.8	6.8	6.3	4.7	4.5	4.5
Morocco	5.3	3.1	2.9	-7.2	8.2	1.8	3.7	3.8	4.7	4.2	4.0
Sudan[e]	5.1	2.8	1.3	-3.6	-1.9	-1.0	-12.0	-29.4	-2.0	4.9	5.0
Tunisia	3.3	2.6	1.6	-9.0	4.7	2.7	0.1	1.6	2.5	2.0	2.0
East Africa	**6.4**	**6.3**	**6.1**	**2.2**	**5.6**	**5.4**	**6.2**	**5.6**	**5.4**	**5.8**	**5.7**
Burundi	2.6	1.6	1.8	0.3	3.1	1.8	2.7	3.5	4.3	4.0	4.0
Comoros	2.8	4.1	3.6	4.0	2.8	3.0	3.0	3.4	3.7	4.2	4.1
Democratic Republic of the Congo	6.1	5.8	4.4	1.7	6.2	8.9	8.6	6.7	4.9	4.7	5.5
Djibouti	6.3	4.8	5.5	1.2	4.4	5.2	7.5	5.9	5.1	5.1	6.0
Eritrea	1.1	13.0	3.8	-0.5	2.9	2.6	2.8	2.8	3.1	3.4	3.5
Ethiopia	10.1	7.6	7.2	5.9	5.5	6.0	7.3	7.4	6.6	6.3	6.2
Kenya	5.0	5.6	5.2	-0.3	7.6	4.9	5.6	4.7	4.9	5.1	5.3
Madagascar	3.7	3.2	4.4	-7.1	4.7	4.2	4.2	4.3	4.1	4.4	3.9
Rwanda	7.1	8.5	9.4	-3.4	10.9	8.2	8.2	8.9	7.0	7.2	7.3
Somalia	8.6	3.0	2.8	-2.8	3.5	2.7	4.2	4.0	3.1	3.5	3.9
South Sudan	1.3	3.8	11.4	-3.4	-2.4	-5.2	2.5	-26.1	-25.0	26.2	8.3
Uganda	6.3	6.3	6.4	3.0	3.5	4.6	5.3	6.1	6.2	6.4	6.4
United Republic of Tanzania	6.6	7.0	6.9	4.5	4.8	4.7	5.1	5.5	6.2	5.8	5.3
Central Africa	**4.0**	**1.7**	**2.4**	**-1.5**	**2.0**	**3.2**	**2.2**	**2.9**	**2.8**	**3.0**	**3.3**
Cameroon	4.2	4.0	3.5	0.3	3.3	3.7	3.2	3.5	3.9	4.0	4.1
Central African Republic	-0.4	3.8	3.1	0.9	1.0	0.5	0.9	1.6	2.2	2.5	2.7
Chad	8.9	6.0	4.5	-0.4	0.3	4.1	4.0	2.8	2.9	3.4	3.5
Congo	2.7	-2.3	1.7	-6.3	1.4	0.8	2.0	1.8	3.1	3.2	2.8
Equatorial Guinea	3.8	-6.2	-5.5	-4.8	0.9	3.2	-5.1	0.9	-1.9	-1.5	0.4
Gabon	2.6	0.8	3.9	-1.8	1.5	3.0	2.4	3.5	2.4	2.5	2.7
Sao Tome and Principe	5.2	2.9	2.2	3.1	1.9	0.2	0.4	0.9	2.5	3.2	3.4
West Africa	**5.5**	**3.0**	**3.3**	**-0.9**	**4.3**	**3.8**	**3.4**	**4.2**	**4.6**	**4.4**	**4.7**
Benin	4.1	6.7	6.9	3.8	7.2	6.3	6.4	7.4	6.3	6.3	6.2
Burkina Faso	5.8	6.6	5.9	2.0	6.9	1.5	3.0	5.1	4.8	4.3	3.5
Cabo Verde	4.2	3.7	6.9	-20.8	7.0	15.8	5.4	7.3	5.0	3.5	3.4
Côte d'Ivoire	6.2	4.8	6.7	0.7	7.1	6.2	6.5	6.0	6.2	6.3	6.8
Gambia	2.6	7.2	6.2	0.6	5.3	5.5	4.8	5.5	5.2	4.8	4.8
Ghana	6.3	6.2	6.5	0.5	5.1	3.8	2.9	5.7	5.1	5.3	5.2
Guinea	4.3	6.4	5.6	4.7	5.6	4.0	5.5	5.7	6.6	6.5	6.2

Table A.3

Developing economies: growth of real GDP (*continued*)

Annual percentage change

	2003–2017[a]	2018	2019	2020	2021	2022	2023	2024	2025[b]	2026[c]	2027[c]
Guinea-Bissau	3.4	3.8	5.6	1.8	5.7	5.6	4.5	4.8	4.6	3.4	4.4
Liberia	4.7	1.2	-2.5	-3.0	5.0	4.8	4.7	4.8	4.4	5.0	5.0
Mali	6.3	4.9	5.0	-1.2	3.1	3.5	4.7	5.0	3.9	3.5	3.7
Niger	4.8	7.2	5.9	3.6	1.4	11.9	2.1	8.4	7.4	6.7	5.6
Nigeria	5.5	1.9	2.2	-1.8	3.6	3.3	2.9	3.3	3.9	3.8	4.3
Senegal	4.2	6.2	4.6	1.3	6.5	3.8	4.3	6.9	8.4	6.5	5.7
Sierra Leone	5.1	2.9	5.5	-1.3	5.9	5.3	5.7	4.0	4.3	4.7	4.2
Togo	6.1	4.8	4.9	2.2	6.0	5.8	6.4	5.1	5.2	5.1	4.5
Southern Africa	**3.7**	**1.5**	**0.3**	**-5.7**	**4.5**	**3.1**	**1.7**	**1.6**	**1.6**	**2.0**	**2.2**
Angola	6.0	-0.6	-0.2	-4.0	2.1	4.2	1.3	4.4	2.1	2.4	2.3
Botswana	3.4	4.2	3.0	-8.7	11.9	5.5	3.2	-3.0	-1.3	1.5	2.4
Eswatini	3.2	0.3	6.1	-2.9	3.4	1.1	3.4	2.6	3.4	3.2	3.6
Lesotho	3.6	-1.5	-1.4	-8.2	2.3	2.4	1.8	2.8	1.3	0.7	1.0
Malawi	6.6	4.4	5.7	0.8	4.6	1.2	1.9	1.8	2.5	2.6	3.2
Mauritius	4.2	4.0	2.9	-14.5	3.4	8.3	4.7	4.9	3.6	3.4	3.6
Mozambique	6.8	3.5	2.3	-1.2	2.4	4.4	5.5	2.1	2.5	3.2	3.6
Namibia	4.3	1.1	-0.8	-8.1	3.6	5.3	4.4	3.7	3.3	3.7	3.9
South Africa	2.7	1.6	0.3	-6.2	4.9	2.1	0.8	0.5	1.0	1.4	1.7
Zambia	6.5	4.0	1.4	-2.8	6.2	5.2	5.4	4.0	4.7	4.9	5.1
Zimbabwe	5.3	4.7	-6.1	-7.8	8.5	6.5	5.4	2.0	3.8	4.2	4.4
Africa - net fuel exporters	**4.7**	**2.2**	**1.2**	**-4.0**	**4.4**	**2.8**	**3.2**	**3.1**	**4.0**	**3.7**	**3.8**
Africa - net fuel importers	**4.5**	**4.3**	**3.7**	**-1.6**	**5.7**	**3.8**	**2.5**	**2.6**	**4.1**	**4.2**	**4.3**
East and South Asia[f]	**7.8**	**6.1**	**5.1**	**0.7**	**7.3**	**3.9**	**5.4**	**5.1**	**5.1**	**4.6**	**4.7**
East Asia	**8.1**	**6.3**	**5.6**	**1.1**	**7.7**	**3.4**	**5.0**	**4.9**	**4.9**	**4.4**	**4.4**
Brunei Darussalam	0.4	0.1	3.9	1.1	-1.6	-1.6	1.1	4.1	1.2	1.5	2.1
Cambodia	8.3	8.8	7.9	-3.6	3.1	5.1	5.5	6.0	5.0	5.1	5.5
China	9.4	6.8	6.1	2.3	8.6	3.1	5.4	5.0	4.9	4.6	4.5
Democratic People's Republic of Korea	0.7	-4.1	0.4	-4.5	-0.1	-0.2	3.1	0.5	0.7	0.8	0.8
Fiji	2.5	3.8	-0.6	-17.2	-4.3	17.7	9.4	3.5	3.2	3.1	3.0
Hong Kong SAR[g]	4.0	2.8	-1.7	-6.5	6.5	-3.7	3.2	2.5	2.8	2.1	2.2
Indonesia	5.5	5.2	5.0	-2.1	3.7	5.3	5.0	5.0	5.0	5.0	5.2
Kiribati	3.1	3.5	3.3	-1.5	8.5	4.6	2.7	5.3	3.9	3.3	3.5
Lao People's Democratic Republic	7.5	6.3	5.5	3.3	3.5	4.4	4.2	4.3	3.7	3.8	4.0
Malaysia	5.1	4.8	4.4	-5.5	3.3	9.0	3.5	5.1	4.5	4.0	4.5
Mongolia	7.6	7.6	5.5	-4.6	1.6	5.0	7.2	5.0	5.3	5.5	5.5
Myanmar[e]	9.2	6.3	6.6	-9.0	-12.0	4.0	1.0	-1.1	-2.7	3.0	3.0
Papua New Guinea	4.9	-0.3	4.5	-3.2	-0.8	5.2	2.7	3.8	4.5	3.7	3.8
Philippines	5.7	6.3	6.1	-9.5	5.7	7.6	5.5	5.7	5.0	5.7	6.1
Samoa	2.3	2.9	2.8	-10.1	-2.3	0.0	10.2	4.6	4.5	3.3	3.4

Table A.3

Developing economies: growth of real GDP (*continued*)

Annual percentage change

	2003–2017[a]	2018	2019	2020	2021	2022	2023	2024	2025[b]	2026[c]	2027[c]
Singapore	5.7	3.5	1.3	-3.8	9.8	4.1	1.8	4.4	4.3	1.8	2.0
Solomon Islands	5.1	2.7	1.7	-3.4	2.6	2.4	2.7	2.5	2.6	3.0	3.3
Taiwan Province of China	3.9	2.9	3.1	3.4	6.7	2.7	1.1	4.8	6.9	2.6	2.8
Thailand	3.9	4.2	2.1	-6.1	1.6	2.6	2.0	2.5	2.2	2.0	2.6
Timor-Leste	3.9	-0.7	23.4	32.0	5.4	-20.6	-15.5	-7.3	3.9	3.3	3.2
Vanuatu	3.5	2.9	3.2	-5.0	-1.6	1.9	2.2	0.9	1.5	2.8	3.3
Viet Nam	8.3	7.5	7.4	2.9	2.6	8.5	5.0	7.1	6.7	6.0	6.2
South Asia[f]	**6.3**	**5.3**	**3.2**	**-1.6**	**5.5**	**6.3**	**7.2**	**6.1**	**5.9**	**5.6**	**5.9**
Afghanistan[e,f]	5.9	1.8	10.7	-2.1	-20.7	-6.2	2.3	1.7	..	..	..
Bangladesh[e]	7.5	7.3	7.9	3.4	6.9	7.1	5.8	4.2	4.1	4.6	5.4
Bhutan	6.9	3.5	5.8	-10.2	4.4	5.2	4.6	7.5	8.0	6.5	6.1
India[e]	7.1	6.5	3.9	-5.8	9.7	7.0	9.2	6.5	7.2	6.6	6.8
Iran (Islamic Republic of)[e]	3.6	-1.8	-3.1	3.3	4.7	3.8	5.0	3.7	0.7	1.3	2.4
Maldives	5.7	8.7	7.3	-32.9	37.5	13.8	4.9	3.5	4.6	4.3	4.0
Nepal[e]	5.2	7.6	6.7	-2.4	4.8	5.6	2.0	3.7	4.4	4.3	4.3
Pakistan[e]	4.5	6.2	2.5	-1.3	6.5	4.8	-0.2	2.6	3.1	3.5	4.0
Sri Lanka	6.4	2.3	-0.2	-4.6	4.2	-7.3	-2.3	5.0	4.5	4.0	4.2
East and South Asia - net fuel exporters	**4.8**	**3.2**	**2.6**	**-0.9**	**3.8**	**4.8**	**4.9**	**4.9**	**3.7**	**3.8**	**4.3**
East and South Asia - net fuel importers[f]	**8.1**	**6.4**	**5.3**	**0.8**	**7.6**	**3.8**	**5.4**	**5.2**	**5.2**	**4.7**	**4.7**
Western Asia[h]	**4.8**	**2.8**	**1.7**	**-3.3**	**7.3**	**7.3**	**2.6**	**2.1**	**3.4**	**4.1**	**4.0**
Western Asia - net fuel exporters	**4.9**	**2.3**	**1.8**	**-5.9**	**4.5**	**9.1**	**1.4**	**1.8**	**3.4**	**4.2**	**4.0**
Bahrain	4.9	2.1	2.2	-4.8	4.3	5.1	2.6	2.6	2.7	3.2	2.5
Iraq	5.0	2.6	5.6	-12.4	1.4	7.7	0.9	-1.5	-1.4	1.7	3.6
Kuwait	3.9	2.7	2.3	-4.8	1.7	6.8	-1.7	-2.6	2.4	4.4	3.0
Oman	3.8	1.3	-1.1	-3.4	2.6	8.0	1.2	1.6	2.8	2.9	2.6
Qatar	10.1	1.2	0.7	-3.6	1.6	4.2	1.5	2.4	4.0	5.2	3.7
Saudi Arabia	4.7	3.2	1.7	-3.8	6.5	12.0	0.5	2.0	4.0	4.4	4.3
United Arab Emirates	4.5	1.5	1.3	-8.7	4.8	7.5	4.3	4.0	4.6	4.9	4.5
Western Asia - net fuel importers[h]	**4.7**	**3.3**	**1.6**	**-0.1**	**10.4**	**5.3**	**3.9**	**2.3**	**3.3**	**3.9**	**3.9**
Israel	3.9	4.1	3.8	-1.9	9.4	6.3	2.1	1.0	2.5	4.2	3.5
Jordan	4.6	1.9	1.8	-1.1	3.7	2.6	2.9	2.5	2.8	2.9	3.0
Lebanon	4.1	-1.9	-6.8	-24.6	2.0	1.0	-0.7	-7.1	2.1	3.8	4.3
State of Palestine[h]	6.9	1.2	1.4	-11.3	7.0	4.1	-4.6	-26.6	..	..	..
Syrian Arab Republic	-2.6	3.0	2.8	1.4	1.9	0.7	-4.0	-2.6	2.4	6.3	5.3
Türkiye	5.7	3.5	1.3	1.8	11.8	5.4	5.0	3.5	3.7	3.9	4.1
Yemen	-4.2	-0.8	1.4	1.2	-1.0	1.5	-2.0	-1.5	-1.5	-0.9	-0.8

Table A.3

Developing economies: growth of real GDP (*continued*)

Annual percentage change

	2003–2017[a]	2018	2019	2020	2021	2022	2023	2024	2025[b]	2026[c]	2027[c]
Latin America and the Caribbean	**2.8**	**0.7**	**-0.7**	**-7.3**	**7.1**	**4.1**	**2.2**	**2.3**	**2.4**	**2.3**	**2.5**
South America	**2.9**	**-0.1**	**-1.2**	**-6.7**	**7.3**	**4.0**	**1.5**	**2.3**	**3.0**	**2.5**	**2.5**
Argentina	3.9	-2.6	-2.0	-9.9	10.4	5.3	-1.6	-1.3	4.3	3.8	2.8
Bolivia (Plurinational State of)	4.7	4.2	2.2	-8.7	6.1	3.6	3.1	-1.1	0.5	0.5	2.1
Brazil	2.4	1.8	1.2	-3.3	4.8	3.0	3.2	3.4	2.5	2.0	2.3
Chile	4.0	4.0	0.6	-6.1	11.3	2.1	0.2	2.6	2.5	2.2	2.6
Colombia	4.2	2.6	3.2	-7.2	10.8	7.3	0.8	1.6	2.6	2.7	2.6
Ecuador	4.2	1.0	0.2	-9.2	9.8	6.2	2.4	-2.0	3.2	2.2	2.3
Paraguay	4.4	3.2	-0.4	-0.8	4.0	0.2	4.7	4.2	5.5	4.5	4.0
Peru	5.3	4.0	2.2	-10.9	13.4	2.7	-0.6	3.3	3.2	3.0	3.0
Uruguay	4.8	0.2	0.9	-7.4	5.6	4.7	0.4	3.1	2.2	2.1	2.4
Venezuela (Bolivarian Republic of)	0.1	-19.6	-35.0	-32.0	0.5	12.0	-1.2	8.5	6.5	3.0	2.7
Mexico and Central America	**2.5**	**2.4**	**0.3**	**-8.2**	**6.8**	**3.9**	**3.2**	**1.8**	**1.0**	**1.8**	**2.5**
Costa Rica	4.3	2.6	2.4	-4.3	7.9	4.6	5.1	4.3	4.0	3.9	3.8
Cuba	4.2	2.2	-0.2	-10.9	1.3	1.8	-1.9	-1.1	-1.5	0.1	1.1
Dominican Republic	5.2	7.0	5.1	-6.7	12.3	4.9	2.4	5.0	2.9	3.6	4.1
El Salvador	2.1	2.4	2.4	-7.9	11.9	2.8	3.5	2.6	3.5	3.4	2.9
Guatemala	3.5	3.4	4.0	-1.8	8.0	4.2	3.5	3.7	3.9	3.8	3.5
Haiti[e]	2.5	1.7	-1.7	-3.3	-1.8	-1.7	-1.9	-4.2	-2.3	-1.2	0.5
Honduras	4.1	3.8	2.6	-9.0	12.6	4.1	3.6	3.6	3.8	3.9	3.5
Mexico	2.0	2.0	-0.4	-8.4	6.0	3.7	3.3	1.4	0.4	1.3	2.2
Nicaragua	4.1	-3.4	-2.9	-1.8	10.3	3.8	4.6	3.6	3.5	3.4	3.8
Panama	7.3	4.0	3.3	-17.7	15.8	10.8	7.3	2.7	3.8	3.7	3.9
Caribbean	**1.9**	**1.1**	**0.8**	**-8.6**	**5.7**	**13.3**	**8.0**	**11.9**	**5.8**	**8.9**	**5.6**
Bahamas	0.5	2.6	-1.4	-21.4	15.4	10.8	2.6	3.4	2.1	2.0	1.8
Barbados	1.4	-1.2	0.7	-15.1	-0.3	17.8	4.1	4.0	2.9	2.1	2.0
Belize	2.6	1.0	4.2	-13.9	17.9	8.7	1.1	3.5	1.6	2.6	1.8
Guyana	5.3	4.4	5.4	43.5	20.1	63.3	33.0	43.6	15.2	24.0	12.2
Jamaica	0.6	1.9	0.9	-9.9	4.6	5.2	2.2	-0.5	1.5	1.4	1.6
Suriname	3.5	4.9	1.2	-16.0	-2.4	2.4	2.1	3.0	3.2	3.4	3.1
Trinidad and Tobago	2.8	-1.0	0.5	-8.9	-0.9	1.1	1.4	2.5	1.3	0.9	1.4
Latin America and the Caribbean - net fuel exporters	**2.3**	**-5.9**	**-9.4**	**-12.8**	**8.5**	**8.5**	**1.5**	**3.4**	**3.9**	**3.6**	**3.1**
Latin America and the Caribbean - net fuel importers	**2.9**	**1.6**	**0.5**	**-6.6**	**6.9**	**3.6**	**2.2**	**2.1**	**2.2**	**2.2**	**2.5**

Table A.3

Developing economies: growth of real GDP (*continued*)

Annual percentage change

	2003–2017[a]	2018	2019	2020	2021	2022	2023	2024	2025[b]	2026[c]	2027[c]
Memorandum items:											
Least developed countries[f, i]	6.1	5.4	4.7	1.4	3.2	4.3	3.0	2.9	3.9	4.6	5.0
Least developed countries (excluding Afghanistan and Sudan)	6.1	5.5	4.6	1.4	3.5	4.5	3.1	2.9	3.9	4.6	5.0
Small island developing States	4.7	3.3	1.7	-6.1	7.8	4.9	2.2	4.5	3.5	2.8	2.8
Landlocked developing countries[f]	6.4	5.0	4.6	-0.7	4.8	4.2	4.8	4.8	5.3	4.9	4.9
Landlocked developing countries (excluding Afghanistan)	6.4	5.0	4.5	-0.7	5.4	4.5	4.9	4.8	5.3	4.9	4.9
Middle-income countries[h]	6.3	5.1	4.2	-0.9	7.2	3.9	4.8	4.4	4.5	4.3	4.4
Africa (excluding Libya and Sudan)	4.7	3.3	3.1	-2.0	5.1	3.8	3.3	3.5	3.9	4.0	4.1
North Africa (excluding Libya and Sudan)	4.2	3.9	3.8	-2.1	6.4	3.6	3.2	3.3	4.3	4.1	4.0
East and South Asia (excluding Afghanistan)	7.8	6.1	5.1	0.7	7.3	3.9	5.4	5.1	5.1	4.6	4.7
East Asia (excluding China)	5.1	4.6	3.7	-2.9	4.4	4.4	3.5	4.6	4.7	3.8	4.1
South Asia (excluding Afghanistan)	6.3	5.4	3.2	-1.6	5.6	6.4	7.3	6.1	5.9	5.6	5.9
South Asia (excluding India)[f]	4.9	3.0	0.7	2.2	5.2	3.6	4.3	3.9	2.7	3.1	4.0
Western Asia (excluding the State of Palestine)	4.8	2.8	1.7	-3.2	7.3	7.3	2.6	2.2	3.4	4.1	4.0
Western Asia (excluding Israel and Türkiye)[h]	4.6	2.1	1.6	-6.2	4.4	8.6	1.3	1.4	3.3	4.2	4.0
Arab States[h, j]	4.4	2.8	1.9	-5.4	5.1	6.5	1.3	1.3	3.7	4.1	4.0
Caribbean (excluding Guyana)	1.7	0.9	0.4	-12.8	3.8	5.7	2.1	2.2	1.8	1.6	1.7

Source: UN DESA, based on data from national sources and estimates and forecasts produced with the World Economic Forecasting Model.
Notes: GDP = gross domestic product. Regional aggregates calculated at 2015 prices and exchange rates.

a Average percentage change.
b Partly estimated.
c Baseline scenario forecasts, based in part on the UN DESA World Economic Forecasting Model.
d Covering countries that account for 98 per cent of the population of all developing countries.
e Fiscal year basis.
f Afghanistan is excluded from individual and regional group estimates and forecasts for the period 2025–2027.
g SAR = Special Administrative Region of China.
h The State of Palestine is excluded from individual and regional group estimates and forecasts for the period 2025–2027.
i Regional aggregates exclude Sudan for the period 2025–2027.
j Currently includes data for Algeria, Bahrain, Comoros, Djibouti, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Mauritania, Morocco, Oman, Qatar, Saudi Arabia, Somalia, the State of Palestine, Sudan, Syrian Arab Republic, Tunisia, United Arab Emirates, and Yemen.

Table A.4

Growth of world output and gross domestic product, by SDG region

Annual percentage change

	2023	2024	2025[a]	2026[b]	2027[b]
World	**2.8**	**2.9**	**2.8**	**2.7**	**2.9**
Africa	**2.7**	**2.8**	**4.0**	**4.0**	**4.1**
Northern Africa	1.3	1.1	4.6	4.1	4.0
Eastern Africa	5.7	5.4	5.4	5.4	5.3
Middle Africa	3.0	4.4	2.9	3.1	3.3
Southern Africa	1.0	0.5	1.0	1.5	1.8
Western Africa	3.5	4.2	4.6	4.4	4.7
Americas	**2.7**	**2.6**	**2.0**	**2.0**	**2.3**
Northern America	2.8	2.7	1.9	2.0	2.2
Latin America and the Caribbean	2.2	2.3	2.4	2.4	2.6
Caribbean	0.6	1.9	1.0	1.8	2.5
Central America	3.6	1.8	1.0	1.8	2.5
South America	1.7	2.5	3.1	2.7	2.6
Asia	**4.4**	**4.0**	**4.2**	**4.1**	**4.1**
Central Asia	5.3	5.8	6.6	5.3	5.3
Eastern Asia	4.1	3.7	3.9	3.7	3.7
Southern Asia	7.2	6.1	5.9	5.6	5.9
South-eastern Asia	4.0	4.8	4.5	4.2	4.6
Western Asia	2.6	2.2	3.4	4.1	4.0
Europe	**0.7**	**1.3**	**1.4**	**1.2**	**1.5**
Eastern Europe	2.5	3.2	1.6	1.8	2.1
Northern Europe	-0.1	1.4	2.3	1.2	1.6
Southern Europe	1.8	2.0	1.7	1.5	1.5
Western Europe	0.1	0.4	0.7	0.9	1.3
Oceania	**2.0**	**1.0**	**1.7**	**2.2**	**2.4**

Source: UN DESA, based on data from national sources and estimates and forecasts produced with the World Economic Forecasting Model.
Notes: SDG = Sustainable Development Goals. Regional aggregates in this Table follow geographic regions defined under the Standard Country or Area Codes for Statistical Use (known as M49) and are not strictly comparable to those in the *World Economic Situation and Prospects* (WESP) report. Full details on the M49 standard can be found on the United Nations Statistics Division website. Calculated at 2015 prices and exchange rates. Figures are based on the countries actively monitored for the WESP.

a Partly estimated.

b Baseline scenario forecasts, based in part on the UN DESA World Economic Forecasting Model.

Table A.5

Developed economies: consumer price inflation

Annual percentage change[a]

	2017	2018	2019	2020	2021	2022	2023	2024	2025[b]	2026[c]	2027[c]
Developed economies	**1.8**	**2.0**	**1.5**	**0.8**	**3.2**	**7.5**	**4.8**	**2.7**	**2.7**	**2.4**	**2.2**
United States	2.1	2.4	1.8	1.3	4.7	8.0	4.1	3.0	2.9	2.7	2.3
Canada	1.6	2.3	1.9	0.7	3.4	6.8	3.9	2.4	2.0	1.9	1.7
Japan	0.5	1.0	0.5	0.0	-0.3	2.4	3.3	2.7	3.2	2.9	2.6
Republic of Korea	1.9	1.5	0.4	0.5	2.5	5.1	3.6	2.3	2.2	2.2	2.0
Australia	1.9	1.9	1.6	0.8	2.9	6.6	5.6	3.2	2.6	3.0	3.1
New Zealand	1.9	1.6	1.6	1.7	3.9	7.2	5.7	2.9	2.7	2.5	2.2
European Union	**1.5**	**1.8**	**1.4**	**0.5**	**2.7**	**8.8**	**5.8**	**2.4**	**2.3**	**2.0**	**2.1**
Austria	2.2	2.1	1.5	1.4	2.8	8.6	7.7	2.9	3.6	2.5	2.2
Belgium	2.2	2.3	1.2	0.4	3.2	10.3	2.3	4.3	3.1	2.2	2.3
Bulgaria	1.2	2.6	2.4	1.2	2.9	13.0	8.6	2.6	4.2	2.8	2.3
Croatia	1.3	1.5	0.8	0.0	2.7	10.7	8.4	3.0	3.8	3.0	2.9
Cyprus	0.7	0.8	0.5	-1.1	2.3	8.1	3.9	2.3	1.0	1.4	1.6
Czechia	2.4	1.9	2.6	3.3	3.3	14.8	12.0	2.7	2.3	2.3	2.1
Denmark	1.1	0.7	0.7	0.4	1.9	8.5	3.4	1.3	1.9	1.7	1.9
Estonia	3.7	3.4	2.3	-0.6	4.5	19.4	9.1	3.7	4.8	3.0	2.6
Finland	0.8	1.2	1.1	0.4	2.1	7.2	4.3	1.0	1.9	1.8	1.9
France	1.2	2.1	1.3	0.5	2.1	5.9	5.7	2.3	1.0	1.4	1.7
Germany	1.7	1.9	1.4	0.3	3.2	8.7	6.0	2.5	2.2	1.9	2.3
Greece	1.1	0.8	0.5	-1.3	0.6	9.3	4.2	3.0	2.7	2.1	2.2
Hungary	2.4	2.9	3.4	3.4	5.2	15.3	17.0	3.7	4.5	3.5	3.2
Ireland	0.3	0.7	0.9	-0.5	2.4	8.1	5.2	1.3	1.9	1.6	1.6
Italy	1.4	1.2	0.7	-0.2	1.9	8.8	5.9	1.1	1.7	1.6	1.9
Latvia	2.9	2.6	2.7	0.1	3.2	17.2	9.1	1.4	3.9	2.5	2.3
Lithuania	3.7	2.5	2.2	1.1	4.6	18.9	8.7	0.8	3.9	2.5	2.1
Luxembourg	2.1	2.0	1.7	0.0	3.5	8.2	2.9	2.3	2.4	1.7	1.9
Malta	1.3	1.7	1.5	0.8	0.7	6.1	5.6	2.4	2.4	2.2	2.1
Netherlands (Kingdom of the)	1.3	1.6	2.7	1.1	2.8	11.6	4.1	3.2	3.1	2.3	2.0
Poland	1.6	1.2	2.1	3.6	5.2	13.2	10.9	3.6	3.8	3.0	2.7
Portugal	1.6	1.2	0.3	-0.1	0.9	8.1	5.3	2.7	2.2	2.2	2.0
Romania	1.1	4.1	3.9	2.3	4.1	12.0	9.7	5.8	7.1	6.1	4.3
Slovakia	1.4	2.5	2.8	2.0	2.8	12.1	11.0	3.2	4.0	3.2	2.5
Slovenia	1.6	1.9	1.7	-0.3	2.1	9.3	7.2	2.0	2.6	2.3	2.1

Table A.5

Developed economies: consumer price inflation (*continued*)

Annual percentage change[a]

	2017	2018	2019	2020	2021	2022	2023	2024	2025[b]	2026[c]	2027[c]
Spain	2.0	1.7	0.8	-0.3	3.0	8.3	3.4	2.9	2.7	2.2	2.2
Sweden	1.9	2.0	1.7	0.7	2.7	8.1	5.9	2.0	2.8	1.4	1.8
Other European countries	**2.2**	**2.2**	**1.6**	**0.6**	**2.4**	**7.7**	**6.3**	**2.3**	**2.8**	**2.4**	**2.1**
Iceland	-1.6	0.7	2.0	1.2	3.7	5.7	8.0	4.5	3.7	3.2	2.7
Norway	1.8	3.0	2.3	1.2	3.9	6.2	5.7	2.9	2.9	2.5	2.2
Switzerland	0.6	0.9	0.4	-0.8	0.5	2.7	2.3	1.1	0.1	0.4	0.7
United Kingdom[d]	2.7	2.4	1.8	0.9	2.6	9.1	7.3	2.5	3.5	2.8	2.5
Memorandum items:											
Northern America	2.1	2.4	1.8	1.3	4.6	7.9	4.1	3.0	2.8	2.6	2.2
Developed Asia and the Pacific	1.1	1.3	0.7	0.3	0.9	3.8	3.8	2.7	2.9	2.8	2.6
Europe	1.7	1.9	1.4	0.5	2.6	8.5	5.9	2.4	2.4	2.0	2.1
Major developed economies	1.8	2.1	1.5	0.8	3.3	7.3	4.6	2.7	2.7	2.5	2.3
Euro area[e]	1.5	1.7	1.3	0.2	2.6	8.4	5.4	2.3	2.1	1.9	2.0

Source: UN DESA, based on data from national sources and estimates and forecasts produced with the World Economic Forecasting Model.

a Data for country groups are weighted averages, where weights for each year are based on 2015 GDP in United States dollars.

b Partly estimated.

c Baseline scenario forecasts, based on the UN DESA World Economic Forecasting Model.

d The United Kingdom withdrew from the European Union on 31 January 2020 and is therefore excluded from all European Union aggregations.

e Bulgaria became the twenty-first member of the euro area on 1 January 2026. In this report, economic indicators for the euro area refer to the twenty countries that joined before that date.

Table A.6

Economies in transition: consumer price inflation

Annual percentage change[a]

	2017	2018	2019	2020	2021	2022	2023	2024	2025[b]	2026[c]	2027[c]
Economies in transition	**5.3**	**4.4**	**5.0**	**13.4**	**7.3**	**7.1**	**7.5**	**7.8**	**8.9**	**5.6**	**4.7**
South-Eastern Europe	**2.6**	**1.9**	**1.4**	**1.1**	**3.2**	**11.8**	**9.4**	**3.6**	**4.1**	**3.4**	**3.0**
Albania	3.2	1.7	1.7	2.2	2.3	6.6	5.3	2.2	2.4	2.5	2.5
Bosnia and Herzegovina	0.8	1.4	0.6	-1.1	2.0	14.0	6.1	1.5	3.6	2.7	2.1
Montenegro	2.8	2.6	0.5	-0.5	2.5	11.9	8.7	3.6	4.3	2.8	2.2
North Macedonia	2.1	2.3	0.7	1.2	3.4	14.0	9.0	4.2	4.2	3.4	3.0
Serbia	3.4	2.0	1.9	1.7	4.1	11.7	12.0	4.8	4.7	4.1	3.6
Commonwealth of Independent States and Georgia[d]	**5.4**	**4.5**	**5.2**	**13.9**	**7.5**	**6.9**	**7.4**	**8.0**	**9.1**	**5.7**	**4.8**
Commonwealth of Independent States and Georgia - net fuel exporters	**4.5**	**3.5**	**4.5**	**15.1**	**7.1**	**5.5**	**7.1**	**8.2**	**9.1**	**5.6**	**4.8**
Azerbaijan	12.9	2.3	2.6	2.8	6.7	13.9	8.8	2.2	5.6	4.0	3.5
Kazakhstan	7.4	6.2	5.3	107.3	7.9	15.2	14.7	9.0	11.4	9.9	8.1
Russian Federation	3.7	2.9	4.5	3.4	6.7	3.7	6.1	8.4	8.9	5.1	4.4
Turkmenistan	8.0	13.3	5.1	6.1	19.5	11.2	5.9	5.5	6.8	5.9	3.9
Commonwealth of Independent States and Georgia - net fuel importers[d]	**10.9**	**10.3**	**8.8**	**6.8**	**9.7**	**15.3**	**9.1**	**6.7**	**9.4**	**6.1**	**4.9**
Armenia	1.0	2.5	1.4	1.2	7.2	8.6	2.0	0.4	3.6	3.1	2.7
Belarus	6.0	4.9	5.6	5.5	9.5	15.2	5.0	5.8	6.5	5.1	4.1
Georgia[d]	6.0	2.6	4.9	5.2	9.6	11.9	2.5	1.1	3.7	3.0	3.0
Kyrgyzstan	3.2	1.5	1.1	6.3	11.9	13.9	10.8	5.0	7.5	6.0	5.7
Republic of Moldova	6.6	3.0	4.8	3.8	5.1	28.7	13.4	4.7	8.2	4.6	4.3
Tajikistan	7.3	3.8	7.8	8.6	9.0	6.6	3.7	3.6	3.8	4.3	3.6
Ukraine[e]	14.4	11.0	7.9	2.7	9.4	20.2	12.8	6.9	14.0	6.9	5.3
Uzbekistan	13.9	17.5	14.5	12.9	10.8	11.4	10.0	9.3	9.0	7.1	5.6

Source: UN DESA, based on data from national sources and estimates and forecasts produced with the World Economic Forecasting Model.

a Average percentage change.

b Partly estimated.

c Baseline scenario forecasts, based in part on the UN DESA World Economic Forecasting Model.

d Georgia officially left the Commonwealth of Independent States on 18 August 2009. However, its performance is discussed in the context of this group of countries for reasons of geographic proximity and similarities in economic structure.

e The Government of Ukraine has advised the United Nations that it is not in a position to provide statistical data concerning the Autonomous Republic of Crimea and the city of Sevastopol.

Table A.7

Developing economies: consumer price inflation

Annual percentage change[a]

	2017	2018	2019	2020	2021	2022	2023	2024	2025[b]	2026[c]	2027[c]
Developing countries[d]	**3.6**	**4.0**	**4.6**	**4.5**	**5.1**	**8.7**	**7.0**	**5.9**	**4.2**	**3.9**	**3.7**
Africa[e]	**13.7**	**9.2**	**9.2**	**12.2**	**10.1**	**13.6**	**16.5**	**16.9**	**11.3**	**9.1**	**8.2**
North Africa[e]	**17.5**	**9.5**	**5.1**	**3.5**	**4.9**	**10.7**	**19.9**	**15.1**	**7.6**	**6.3**	**7.2**
Algeria	5.6	4.3	2.0	2.4	7.2	9.3	9.3	4.1	1.4	2.7	3.1
Egypt	29.5	14.4	9.2	5.0	5.2	13.9	33.9	28.2	14.1	10.4	12.0
Libya	25.8	13.2	-2.2	1.4	2.9	4.5	2.4	2.1	1.4	2.0	2.2
Mauritania	2.3	3.1	2.3	2.4	3.6	9.5	5.0	2.5	1.5	3.2	2.8
Morocco	0.8	1.8	0.3	0.7	1.4	6.6	6.1	1.0	1.0	1.4	1.7
Sudan	32.4	63.3	51.0	163.3	359.1	164.3	80.7	170.0	114.6	87.0	41.6
Tunisia	5.3	7.3	6.7	5.6	5.7	8.3	9.3	7.0	5.3	5.5	5.5
East Africa	**15.7**	**11.3**	**8.9**	**9.7**	**10.4**	**13.5**	**14.2**	**12.3**	**10.2**	**8.4**	**7.6**
Burundi	16.1	-2.8	-0.7	7.3	8.4	18.8	26.9	20.2	38.8	21.3	12.8
Comoros	0.1	1.7	3.7	0.8	0.0	12.4	8.5	5.0	4.0	3.4	2.5
Democratic Republic of the Congo	35.7	29.3	4.7	11.4	9.0	9.3	19.9	17.7	10.3	8.6	8.5
Djibouti	0.6	0.1	3.3	1.8	1.2	5.2	1.5	2.1	1.5	2.1	2.2
Eritrea	-13.3	-14.4	1.3	4.8	4.5	7.5	8.1	7.5	5.3	4.8	4.9
Ethiopia	10.7	13.8	15.8	20.4	26.8	33.9	30.2	21.3	13.7	16.1	14.9
Kenya	8.0	4.7	5.2	5.4	6.1	7.7	7.7	4.5	4.6	4.8	5.0
Madagascar	8.6	8.6	5.6	4.2	5.8	8.2	9.9	7.5	8.5	6.2	5.4
Rwanda	8.3	-0.3	3.3	9.9	-0.4	17.7	19.8	6.3	4.7	4.5	5.0
Somalia	4.0	4.3	4.7	4.1	4.6	6.8	6.2	5.6	3.8	3.5	3.4
South Sudan	187.9	83.5	87.2	29.7	10.5	-6.7	2.4	91.4	109.0	30.2	10.8
Uganda	5.6	2.5	2.1	2.8	2.2	7.2	5.4	3.3	3.9	4.5	5.0
United Republic of Tanzania	5.3	3.5	3.5	3.3	3.7	4.4	3.8	3.0	3.3	2.8	3.1
Central Africa	**0.7**	**2.2**	**1.7**	**2.9**	**1.2**	**5.0**	**4.7**	**3.9**	**2.8**	**2.9**	**2.8**
Cameroon	0.6	1.1	2.5	2.4	2.3	6.2	7.4	4.5	3.7	3.5	3.2
Central African Republic	4.2	1.6	2.7	1.7	4.3	5.6	3.0	1.5	1.4	2.3	2.1
Chad	-1.5	4.3	-1.0	4.5	-0.8	4.8	1.8	5.7	1.0	1.2	1.6
Congo	0.5	1.2	2.2	1.8	1.7	3.0	4.3	3.4	3.8	3.7	3.4
Equatorial Guinea	0.7	1.1	1.5	4.8	-0.1	4.8	2.9	4.0	3.5	3.6	3.4
Gabon	2.7	4.7	2.5	1.4	1.1	4.2	3.6	1.1	1.2	1.8	2.3
Sao Tome and Principe	5.7	7.9	7.7	9.8	8.1	18.0	21.3	14.5	6.1	4.6	4.2
West Africa	**13.5**	**9.9**	**9.1**	**11.1**	**14.0**	**17.6**	**22.0**	**27.1**	**17.1**	**11.6**	**9.6**
Benin	0.0	0.9	0.7	3.0	1.7	1.4	2.7	3.3	2.1	1.1	0.9
Burkina Faso	1.5	2.0	-3.2	1.9	3.7	14.3	0.7	4.2	2.2	2.0	1.8
Cabo Verde	0.8	1.3	1.1	0.6	1.9	7.9	3.7	2.6	2.2	1.7	1.8
Côte d'Ivoire	0.7	0.4	-1.1	2.4	4.1	5.3	4.4	3.3	2.8	2.3	2.4
Gambia	8.0	6.5	7.1	5.9	7.4	11.5	17.0	11.6	7.5	6.0	4.5
Ghana	12.4	7.8	7.1	9.9	10.0	31.3	38.1	25.0	9.4	9.7	8.8

Table A.7

Developing economies: consumer price inflation (*continued*)

Annual percentage change[a]

	2017	2018	2019	2020	2021	2022	2023	2024	2025[b]	2026[c]	2027[c]
Guinea	8.9	9.8	9.5	10.6	12.6	10.5	7.8	8.1	3.7	4.4	5.3
Guinea-Bissau	1.7	0.4	0.2	1.1	2.2	9.4	7.1	3.7	1.0	1.9	1.9
Liberia	12.4	23.6	27.0	17.0	7.8	7.6	10.1	8.2	5.6	7.2	7.0
Mali	2.4	1.9	-3.0	0.4	3.9	9.6	2.1	3.2	4.8	2.1	1.9
Niger	2.8	3.0	-2.5	2.9	3.8	4.2	3.7	9.0	4.0	3.4	2.9
Nigeria	16.5	12.1	11.4	13.2	17.0	18.8	24.7	33.2	21.5	14.2	11.5
Senegal	1.3	0.5	1.8	2.5	2.2	9.7	5.9	1.0	2.2	1.7	1.7
Sierra Leone	18.2	16.0	14.8	13.4	11.9	27.2	47.6	28.6	8.4	9.5	10.3
Togo	-1.0	0.9	0.7	1.7	4.6	7.6	5.5	2.9	2.3	2.0	2.1
Southern Africa	**10.4**	**7.9**	**15.6**	**27.0**	**13.0**	**14.0**	**8.9**	**11.5**	**10.7**	**11.1**	**9.0**
Angola	29.8	19.6	17.1	22.3	25.8	21.4	13.6	28.2	21.5	18.1	16.3
Botswana	3.3	3.2	2.8	1.9	7.2	12.2	5.1	2.8	2.9	2.7	3.3
Eswatini	6.2	4.8	2.6	3.9	3.7	4.8	4.9	4.0	3.5	3.8	4.2
Lesotho	4.4	4.8	5.2	5.0	6.0	8.3	6.3	6.1	3.7	3.2	2.8
Malawi	11.5	12.4	9.4	8.6	9.3	21.0	28.8	32.3	27.8	24.2	18.0
Mauritius	3.7	3.2	0.4	2.6	4.0	10.8	7.1	3.6	3.3	3.4	3.3
Mozambique	15.1	3.9	2.8	3.5	6.4	10.3	7.1	3.2	4.6	4.7	3.8
Namibia	6.1	4.3	3.7	2.2	3.6	6.1	5.9	4.2	3.7	4.0	4.4
South Africa	5.2	4.5	4.1	3.2	4.6	7.0	6.1	4.4	3.4	3.7	3.6
Zambia	6.6	7.5	9.2	15.7	22.0	11.0	10.9	15.0	15.2	16.4	12.3
Zimbabwe	0.9	10.6	255.3	557.2	98.5	104.7	28.3	48.8	85.3	109.8	69.9
Africa - net fuel exporters	**16.3**	**11.0**	**9.2**	**10.8**	**13.7**	**15.9**	**18.2**	**23.2**	**15.3**	**10.9**	**9.2**
Africa - net fuel importers[e]	**11.9**	**7.8**	**9.2**	**13.2**	**7.4**	**12.0**	**15.4**	**12.3**	**8.3**	**7.9**	**7.5**
East and South Asia[f]	**2.1**	**3.0**	**4.3**	**3.4**	**2.9**	**4.7**	**3.4**	**2.4**	**1.9**	**2.5**	**2.6**
East Asia	**1.8**	**2.2**	**2.7**	**2.1**	**1.3**	**2.6**	**1.1**	**0.8**	**0.5**	**1.1**	**1.3**
Brunei Darussalam	-1.3	1.0	-0.4	1.9	1.7	3.7	0.4	-0.4	-0.3	0.5	0.8
Cambodia	2.9	2.5	1.9	2.9	2.9	5.3	2.1	0.8	2.7	2.0	3.0
China	1.6	2.1	2.9	2.4	1.0	2.0	0.2	0.2	0.0	0.8	1.0
Democratic People's Republic of Korea	7.2	2.3	-4.6	1.1	5.7	-7.9	6.6	4.9	5.1	4.6	4.7
Fiji	3.3	4.1	1.8	-2.6	0.2	4.3	3.0	3.9	-1.2	1.8	1.9
Hong Kong SAR[g]	1.5	2.4	2.9	0.3	1.6	1.9	2.1	1.7	1.8	1.8	1.9
Indonesia	3.8	3.2	2.8	2.0	1.6	4.2	3.7	2.3	1.8	2.2	2.4
Kiribati	0.4	0.6	-1.8	2.6	2.1	5.3	9.3	2.5	7.4	3.7	3.4
Lao People's Democratic Republic	0.8	2.0	3.3	5.1	3.8	23.0	31.2	23.1	7.6	5.3	5.5
Malaysia	3.9	0.9	0.7	-1.1	2.5	3.4	2.5	1.8	1.3	1.7	2.0
Mongolia	4.3	6.8	7.3	3.7	7.4	15.2	10.4	6.8	8.8	7.4	6.5
Myanmar	4.6	6.9	8.8	2.2	9.6	28.0	25.5	27.8	29.9	22.9	13.0
Papua New Guinea	5.4	4.4	3.9	4.9	4.5	5.3	2.3	0.6	4.4	3.9	3.7

Table A.7

Developing economies: consumer price inflation (*continued*)

Annual percentage change[a]

	2017	2018	2019	2020	2021	2022	2023	2024	2025[b]	2026[c]	2027[c]
Philippines	2.9	5.3	2.4	2.4	3.9	5.8	6.0	3.2	1.6	2.3	2.8
Samoa	1.7	4.2	1.0	-1.6	3.1	11.0	7.9	2.2	2.5	2.3	2.2
Singapore	0.6	0.4	0.6	-0.2	2.3	6.1	4.8	2.4	0.8	1.1	1.6
Solomon Islands	0.5	3.5	1.6	3.0	-0.1	5.5	5.9	4.1	3.9	3.2	3.0
Taiwan Province of China	1.1	1.5	0.5	-0.2	1.8	3.0	2.4	2.2	1.6	1.7	1.6
Thailand	0.7	1.1	0.7	-0.8	1.2	6.1	1.3	0.4	0.0	0.6	0.9
Timor-Leste	0.6	2.6	1.0	0.5	3.7	7.0	8.4	2.1	0.3	0.9	0.9
Vanuatu	3.1	2.3	2.8	5.3	2.3	6.7	11.2	1.2	1.5	2.1	2.3
Viet Nam	3.5	3.5	2.8	3.2	1.8	3.2	3.3	3.6	3.2	3.2	3.5
South Asia[f]	**3.8**	**6.5**	**11.8**	**9.2**	**10.5**	**14.0**	**13.8**	**9.6**	**8.3**	**8.7**	**8.3**
Afghanistan[f]	5.0	0.6	2.3	5.6	5.1	13.7	-4.6	-6.6	..	..	..
Bangladesh	5.7	5.5	5.6	5.7	5.5	7.7	9.9	10.4	8.9	7.1	6.0
Bhutan	5.0	2.7	2.7	5.6	7.3	5.6	4.2	2.8	3.4	3.5	4.0
India	2.5	4.9	7.7	5.6	4.9	6.7	5.7	4.9	2.7	4.1	4.3
Iran (Islamic Republic of)	8.0	18.0	39.9	30.6	43.4	43.5	44.6	32.9	41.0	35.4	32.5
Maldives	2.8	-0.1	0.2	-1.4	0.5	2.3	2.9	1.4	4.9	3.7	3.2
Nepal	3.6	4.1	5.6	5.1	4.1	7.7	7.1	4.7	3.4	3.2	2.9
Pakistan	4.1	5.1	10.6	9.7	9.5	19.9	30.8	13.1	4.0	7.0	6.2
Sri Lanka	7.7	2.1	3.5	6.2	7.0	49.7	20.5	1.3	0.6	3.9	4.0
East and South Asia - net fuel exporters	**5.1**	**7.9**	**14.5**	**11.1**	**14.8**	**16.7**	**16.6**	**11.9**	**14.2**	**12.7**	**11.9**
East and South Asia - net fuel importers[f]	**1.9**	**2.6**	**3.5**	**2.7**	**2.0**	**3.7**	**2.3**	**1.6**	**0.9**	**1.7**	**1.8**
Western Asia[h]	**4.0**	**6.4**	**4.1**	**6.9**	**10.9**	**27.9**	**22.4**	**20.2**	**11.9**	**8.2**	**7.3**
Net fuel exporters	**0.4**	**1.9**	**-1.3**	**0.9**	**2.5**	**3.7**	**2.4**	**1.7**	**1.5**	**1.7**	**1.6**
Bahrain	1.4	2.1	1.0	-2.3	-0.6	3.6	0.1	0.9	-0.1	1.2	1.8
Iraq	0.2	0.4	-0.2	0.6	6.0	5.0	4.4	2.6	0.6	1.5	2.2
Kuwait	2.2	0.6	1.1	2.1	3.4	4.0	3.6	2.9	2.1	2.3	2.1
Oman	1.6	0.9	0.5	-0.4	1.7	2.5	1.0	0.6	1.1	1.5	1.0
Qatar	0.4	0.3	-0.7	-2.5	2.3	5.0	3.0	1.2	0.5	1.7	2.1
Saudi Arabia	-0.8	2.5	-2.1	3.4	3.1	2.5	2.3	1.7	2.1	1.5	1.2
United Arab Emirates	2.0	3.1	-1.9	-2.1	0.2	4.8	1.6	1.7	1.1	1.8	1.7
Net fuel importers[h]	**8.5**	**11.9**	**10.8**	**14.3**	**21.3**	**57.8**	**47.1**	**43.0**	**24.9**	**16.3**	**14.5**
Israel	0.2	0.8	0.8	-0.6	1.5	4.4	4.2	3.1	3.0	2.2	3.0
Jordan	3.3	4.5	0.8	0.3	1.3	4.2	2.1	1.6	1.8	1.9	1.8
Lebanon	4.3	6.1	3.0	84.9	154.8	171.2	221.3	45.2	14.8	8.6	4.2
State of Palestine[h]	0.2	-0.2	1.6	-0.7	1.2	3.7	5.9	53.7	..	..	..
Syrian Arab Republic	18.1	0.9	13.4	175.9	101.8	134.7	138.0	55.3	6.9	5.9	5.2
Türkiye	11.1	16.3	15.2	12.3	19.6	72.3	54.0	58.5	34.8	22.4	19.8
Yemen	30.4	33.6	15.7	21.7	31.5	29.5	0.9	33.9	20.4	24.1	21.7

Table A.7

Developing economies: consumer price inflation (*continued*)

Annual percentage change[a]

	2017	2018	2019	2020	2021	2022	2023	2024	2025[b]	2026[c]	2027[c]
Latin America and the Caribbean[i,j]	**4.0**	**3.7**	**3.4**	**3.2**	**7.6**	**9.2**	**6.3**	**4.9**	**4.5**	**4.0**	**3.7**
South America[i,j]	**3.3**	**3.3**	**3.4**	**3.0**	**6.7**	**9.2**	**5.7**	**4.4**	**4.7**	**4.1**	**3.7**
Argentina	25.7	34.2	52.8	40.5	47.1	73.1	134.0	219.1	42.3	18.5	11.9
Bolivia (Plurinational State of)	2.8	2.3	1.8	0.9	0.7	1.7	2.6	5.2	20.0	21.1	10.3
Brazil	3.4	3.7	3.7	3.2	8.2	9.3	4.6	4.4	5.0	4.3	4.0
Chile	2.2	2.4	2.6	3.0	4.5	11.6	7.6	3.9	4.3	2.9	3.0
Colombia	4.3	3.2	3.5	2.5	3.5	10.2	11.7	6.6	5.0	3.6	3.0
Ecuador	0.4	-0.2	0.3	-0.3	0.1	3.5	2.2	1.5	0.6	1.3	1.8
Paraguay	3.6	4.0	2.8	1.8	4.8	9.8	4.6	3.8	4.1	3.7	3.6
Peru	2.8	1.3	2.1	1.8	4.0	7.9	6.3	2.4	1.6	2.6	2.5
Uruguay	6.2	7.6	7.9	9.8	7.7	9.1	5.9	4.8	4.6	4.1	4.4
Venezuela (Bolivarian Republic of)	438.1	65,374.0	19,905.9	2,355.0	1,588.5	186.7	337.0	48.8	169.1	129.9	87.7
Mexico and Central America	**5.1**	**4.4**	**3.4**	**3.4**	**9.2**	**9.3**	**7.4**	**5.8**	**4.4**	**4.1**	**3.8**
Costa Rica	1.6	2.2	2.1	0.7	1.7	8.3	0.5	-0.4	-0.3	0.2	1.8
Cuba	-1.1	1.9	1.6	5.5	73.7	31.1	39.9	29.9	17.4	12.4	10.1
Dominican Republic	3.3	3.6	1.8	3.8	8.2	8.8	4.8	3.3	3.7	4.2	4.1
El Salvador	1.0	1.1	0.1	-0.4	3.5	7.2	4.0	0.9	0.2	1.3	1.2
Guatemala	4.4	3.8	3.7	3.2	4.3	6.9	6.2	2.9	1.8	3.2	3.3
Haiti	14.7	14.0	19.1	22.8	16.7	34.0	36.8	28.6	27.7	29.0	29.1
Honduras	3.9	4.3	4.4	3.5	4.5	9.1	6.7	4.6	4.6	4.0	3.8
Mexico	6.0	4.9	3.6	3.4	5.7	7.9	5.5	4.7	3.8	3.6	3.3
Nicaragua	4.0	4.8	5.3	3.7	5.0	10.3	7.9	4.6	2.1	2.6	3.5
Panama	0.9	0.8	-0.4	-1.6	1.7	2.8	1.5	0.7	0.4	1.5	2.0
Caribbean	**4.0**	**2.4**	**2.4**	**4.0**	**7.4**	**10.5**	**8.7**	**3.1**	**2.3**	**2.7**	**2.9**
Bahamas	1.5	2.3	2.5	0.0	2.9	5.6	4.0	0.4	0.8	1.7	1.9
Barbados	4.4	3.7	4.1	2.9	3.1	9.4	10.2	2.5	0.9	1.3	1.2
Belize	1.1	0.3	0.2	0.1	3.2	6.3	4.4	3.3	1.4	2.0	1.8
Guyana	1.9	1.3	2.1	1.0	4.8	6.4	2.8	2.9	4.2	6.0	4.9
Jamaica	4.4	3.7	3.9	4.7	5.7	10.3	6.5	5.5	3.6	3.9	5.2
Suriname	21.5	6.9	4.4	34.9	59.1	52.4	51.6	16.2	8.9	7.7	6.5
Trinidad and Tobago	1.9	1.0	1.0	0.6	2.1	5.8	4.6	0.5	1.1	1.4	1.5
Latin America and the Caribbean - net fuel exporters[j]	**3.2**	**2.3**	**2.6**	**1.7**	**2.6**	**8.3**	**9.0**	**5.0**	**3.7**	**2.9**	**2.6**
Latin America and the Caribbean - net fuel importers[i]	**4.1**	**3.8**	**3.5**	**3.3**	**8.2**	**9.4**	**6.1**	**4.8**	**4.5**	**4.0**	**3.8**

Table A.7

Developing economies: consumer price inflation (*continued*)

Annual percentage change[a]

	2017	2018	2019	2020	2021	2022	2023	2024	2025[b]	2026[c]	2027[c]
Memorandum items:											
Least developed countries[e, f]	12.1	9.8	8.2	9.5	10.8	14.2	12.4	14.7	20.6	16.6	11.4
Least developed countries (excluding Afghanistan and Sudan)	13.9	14.3	11.8	22.0	39.0	26.3	18.3	27.6	20.6	16.6	11.4
Small island developing States	1.7	1.8	1.7	2.4	14.4	11.3	11.1	7.2	4.6	4.2	4.1
Landlocked developing countries[f]	8.9	7.9	13.3	45.6	11.7	16.4	11.9	10.1	12.1	11.3	8.5
Landlocked developing countries (excluding Afghanistan)	9.0	8.0	13.5	46.6	11.8	16.4	12.3	10.5	12.1	11.3	8.5
Middle-income countries (excluding Argentina)[h]	4.0	4.2	5.1	5.5	5.5	9.2	7.5	6.3	4.5	4.2	4.0
East Asia (excluding China)	2.4	2.4	1.9	0.9	2.2	4.7	3.7	2.6	2.0	2.2	2.3
South Asia (excluding India)[f]	6.2	9.7	19.7	16.2	21.0	27.9	29.3	18.5	19.1	17.6	16.0
Western Asia (excluding the State of Palestine)	4.0	6.4	4.1	6.9	11.0	28.0	22.5	20.0	11.9	8.2	7.3
Western Asia (excluding Israel and Türkiye)[h]	1.2	2.5	-0.7	5.5	8.3	10.3	10.2	4.4	2.2	2.2	2.0
Arab States[e, h, k]	5.9	4.5	1.0	5.0	7.3	10.4	12.9	7.5	3.7	3.4	3.5

Source: UN DESA, based on data from national sources and estimates and forecasts produced with the World Economic Forecasting Model.

a Data for country groups are weighted averages, where weights for each year are based on 2015 GDP in United States dollars.
b Partly estimated.
c Baseline scenario forecasts, based in part on the UN DESA World Economic Forecasting Model.
d Regional aggregates exclude Afghanistan, Argentina, the State of Palestine, Sudan and Venezuela (Bolivarian Republic of).
e Regional aggregates exclude Sudan.
f Afghanistan is excluded for the 2025–2027 individual and regional group estimates and forecasts.
g SAR = Special Administrative Region of China.
h The State of Palestine is excluded for the 2025–2027 individual and regional group estimates and forecasts.
i Regional aggregates exclude Argentina.
j Regional aggregates exclude Venezuela (Bolivarian Republic of).
k Includes data for Algeria, Bahrain, Comoros, Djibouti, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Mauritania, Morocco, Oman, Qatar, Saudi Arabia, Somalia, the State of Palestine, Sudan, Syrian Arab Republic, Tunisia, United Arab Emirates, and Yemen.

Table A.8

Selected economies: real effective exchange rates, broad measurement[a]

Index, 2012 = 100

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025[b]
Developed economies										
Australia	82.0	84.8	81.6	77.7	76.8	81.8	82.1	82.1	84.6	83.5
Austria	102.6	103.4	104.4	103.0	104.5	104.3	102.6	104.7	105.2	106.0
Belgium	100.1	101.4	103.1	101.1	101.9	102.3	102.0	100.8	102.7	103.6
Bulgaria	96.8	96.6	100.3	100.2	102.8	104.4	106.2	111.1	110.5	110.8
Canada	80.4	81.8	80.9	79.6	78.4	81.7	79.6	77.1	76.4	75.5
Croatia	99.6	99.8	101.3	99.9	98.3	99.4	99.4	102.1	108.6	108.9
Czechia	93.8	96.8	100.8	101.0	101.3	105.3	114.5	124.8	119.2	119.4
Denmark	98.4	98.6	99.6	97.5	98.7	97.5	95.9	97.3	96.3	96.3
Finland	103.3	102.2	104.3	102.6	104.0	102.7	99.2	102.7	101.6	100.2
France	97.6	97.8	99.4	97.4	98.2	97.4	92.6	94.9	94.8	94.8
Germany	99.9	100.6	102.3	100.5	101.3	101.8	99.6	102.1	102.2	102.7
Greece	93.2	92.9	91.2	86.2	84.6	82.5	80.2	80.5	81.1	81.9
Hungary	93.1	94.4	93.5	92.5	88.7	89.0	84.9	97.2	94.8	95.6
Ireland	94.4	94.7	95.5	92.8	92.9	92.6	88.9	91.2	90.2	91.0
Italy	98.1	98.3	98.9	95.8	95.5	95.1	92.8	94.8	93.5	92.4
Japan	78.9	75.1	74.7	76.5	77.4	71.2	59.4	57.1	54.4	56.0
Netherlands (Kingdom of the)	99.6	99.8	100.9	100.2	101.9	101.7	102.3	103.6	104.7	106.0
New Zealand	97.1	98.2	92.4	89.0	87.3	91.8	88.5	88.7	88.6	84.8
Norway	86.3	87.0	87.6	85.7	79.9	84.9	82.7	75.8	75.0	75.0
Poland	94.8	96.8	97.4	96.0	96.4	95.9	95.4	105.2	112.7	114.5
Portugal	98.4	97.5	96.1	92.5	92.4	89.2	85.8	87.2	87.3	87.0
Republic of Korea	106.6	109.6	111.1	104.9	103.0	103.3	96.3	97.6	94.9	90.7
Romania	101.3	99.1	101.2	100.8	101.3	101.6	102.9	106.8	109.5	110.0
Slovakia	100.0	99.1	100.4	100.9	103.5	103.0	104.1	108.3	109.4	110.6
Spain	96.4	97.1	96.1	91.9	91.1	90.4	87.9	86.9	87.1	87.7
Sweden	91.8	90.8	86.5	82.9	84.6	87.0	81.1	77.7	77.7	80.4
Switzerland	102.7	100.7	97.6	97.7	100.9	98.1	96.8	99.7	100.7	102.2
United Kingdom	98.6	93.7	95.2	94.3	94.2	97.6	96.0	99.2	102.6	102.6
United States	114.0	111.6	102.8	99.0	96.8	92.3	99.3	96.3	96.8	94.8
Economies in transition										
Azerbaijan	70.2	71.1	73.0	76.1	78.7	80.2	90.9	95.6	94.7	91.4
Belarus	101.4	98.9	97.1	98.5	91.1	90.2	94.4	90.6	87.9	86.1
Kazakhstan	71.0	76.8	76.3	73.1	141.3	139.9	147.5	171.6	179.3	160.4
Russian Federation	74.3	86.2	78.9	80.1	72.1	70.9	79.4	64.5	63.0	71.6
Ukraine[c]	70.2	73.6	78.3	89.7	87.9	90.4	90.3	87.8	83.9	83.9
Developing economies										
Algeria	94.6	95.5	92.1	93.8	90.4	85.9	89.8	98.5	101.8	99.7
Argentina	76.0	79.3	52.8	41.7	38.6	37.1	43.8	41.6	30.5	38.6

Table A.8

Selected economies: real effective exchange rates, broad measurement[a] (*continued*)

Index, 2012 = 100

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025[b]
Bangladesh	143.6	144.5	142.0	148.4	154.5	152.8	153.2	141.8	141.4	139.5
Brazil	79.1	85.4	67.9	60.4	45.1	41.7	45.6	46.7	45.2	42.1
Chile	88.3	90.9	88.8	81.5	73.5	74.6	71.1	77.2	71.7	72.3
China	109.0	105.4	105.3	101.9	102.8	105.1	101.8	93.8	91.1	88.4
Colombia	70.8	71.8	58.0	45.2	37.2	32.5	29.3	29.3	32.1	32.1
Dominican Republic	96.1	92.0	80.6	72.9	65.0	62.2	65.9	63.5	60.0	57.9
Egypt	98.6	69.6	78.4	92.2	103.2	105.2	96.9	79.4	68.3	71.4
Ethiopia	109.4	107.2	109.4	122.0	117.4	110.9	124.1	156.2	123.7	83.5
Guatemala	122.0	128.2	121.2	117.8	118.5	114.6	115.8	114.6	117.8	121.0
Hong Kong SAR[d]	117.5	117.4	115.4	119.9	119.4	113.6	117.0	120.6	123.5	123.0
India	108.5	111.8	107.2	110.2	109.0	108.3	105.8	103.3	104.7	100.9
Indonesia	94.3	95.7	90.1	93.8	92.3	91.0	92.7	92.3	90.3	86.9
Iran, Islamic Republic of	78.1	77.2	43.4	47.6	43.7	40.2	41.4	43.5	51.7	42.8
Israel	108.3	113.1	111.4	113.7	116.6	119.8	119.1	110.0	108.2	114.9
Kuwait	108.4	108.6	106.8	107.8	108.4	108.5	112.1	113.8	117.2	116.8
Malaysia	86.7	85.3	89.0	87.2	84.3	83.4	81.8	79.2	80.2	84.3
Mexico	81.0	82.6	80.7	81.2	73.8	77.3	79.1	91.3	90.1	81.9
Morocco	104.0	102.9	103.3	102.8	104.0	105.2	100.6	101.4	105.1	108.1
Nigeria	98.1	91.7	99.6	111.2	107.6	105.7	119.0	98.9	57.0	65.9
Pakistan	113.1	114.7	101.5	91.9	92.7	96.1	91.3	86.1	97.9	100.9
Peru	94.0	96.7	91.6	90.5	87.0	75.7	80.9	85.0	86.4	89.2
Philippines	101.9	97.1	94.9	99.1	104.9	105.0	102.6	105.4	106.0	105.8
Qatar	118.7	117.2	114.0	114.1	110.6	108.5	116.8	117.7	118.6	116.2
Saudi Arabia	115.0	111.8	111.7	110.3	113.6	111.8	115.9	117.0	118.1	116.1
Singapore	98.3	96.8	95.9	95.1	92.6	92.5	97.3	103.5	105.7	106.0
South Africa	76.6	85.9	87.0	81.1	69.8	74.8	70.5	64.9	67.2	66.9
Sri Lanka	107.9	107.9	99.8	92.5	93.5	88.3	80.9	90.8	97.7	98.6
Taiwan Province of China	99.1	104.5	103.8	102.0	105.7	108.6	106.4	103.4	103.1	105.8
Thailand	97.1	100.2	103.5	108.7	105.9	100.0	98.6	99.3	97.4	102.0
Türkiye	91.1	80.9	69.9	69.3	62.5	56.3	51.6	53.3	59.7	68.5
United Arab Emirates	115.3	115.5	120.7	118.0	114.9	110.9	117.6	117.1	116.3	114.9
Uruguay	103.8	106.9	88.4	71.6	62.5	55.7	58.9	60.7	62.2	59.2
Viet Nam	114.7	113.9	113.2	115.1	117.1	113.4	118.2	118.1	120.1	116.8

Source: UN DESA, based on data from the Bank for International Settlements and IMF International Financial Statistics.

a CPI-based indices. The real effective exchange rate gauges the effect on international price competitiveness of currency changes and inflation differentials. A rise in the index implies a fall in competitiveness and vice versa.

b Average for the first ten months.

c The Government of Ukraine has advised the United Nations that it is not in a position to provide statistical data concerning the Autonomous Republic of Crimea and the city of Sevastopol.

d SAR = Special Administrative Region of China.

Table A.9

Free market commodity price indices

Index, 2015 = 100

	Non-fuel commodities					All groups	All groups excluding fuels	Fuels
	Food	Tropical beverages	Vegetable oilseeds and oils	Agricultural raw materials	Minerals and metals			
2016	108	96	107	102	102	91	103	83
2017	107	97	106	109	112	106	109	104
2018	102	87	100	103	114	124	108	133
2019	102	80	93	100	121	114	110	116
2020	105	80	106	99	140	96	123	79
2021	124	99	158	110	171	149	151	148
2022	136	114	181	105	164	210	152	245
2023	141	118	146	98	165	157	149	161
2024	131	188	127	111	184	155	162	151
2022								
Q1	133	120	190	114	180	199	163	221
Q2	142	115	205	114	176	221	163	256
Q3	134	116	170	99	150	229	142	282
Q4	135	106	161	94	151	191	141	222
2023								
Q1	136	109	156	99	167	162	150	169
Q2	145	120	145	97	166	151	150	151
Q3	141	119	147	97	163	157	148	163
Q4	140	124	135	99	165	157	148	162
2024								
Q1	138	150	130	107	168	151	152	151
Q2	133	191	126	108	186	159	163	157
Q3	126	197	120	112	186	155	162	151
Q4	126	215	130	114	196	155	170	147
2025								
Q1	125	249	124	113	205	162	176	154
Q2	118	228	125	112	222	153	183	134
Q3	113	202	128	110	234	155	187	136

Source: UN DESA, based on data from UNCTADstat.

Table A.10

World oil supply and demand

	2017	2018	2019	2020	2021	2022	2023	2024	2025[a]
World oil supply[b, c] (millions of barrels per day)	**95.5**	**98.2**	**97.6**	**95.0**	**91.9**	**96.8**	**98.3**	**99.6**	**98.3**
Developed economies	22.0	24.7	26.5	26.0	26.3	27.6	29.0	29.9	27.1
Economies in transition	14.4	14.7	15.0	13.5	13.9	13.8	13.9	13.6	13.7
Developing economies	56.8	56.5	53.8	53.1	49.4	53.2	53.0	53.7	55.2
OPEC	39.5	39.5	37.2	33.0	30.9	34.2	32.1	32.8	33.9
Non-OPEC	17.2	16.9	16.5	20.1	18.5	19.0	20.9	20.9	21.3
Processing gains[d]	2.3	2.3	2.4	2.4	2.3	2.3	2.4	2.4	2.4
Global biofuels[e]	2.4	2.6	2.8	2.8	2.8	2.9	3.1	3.4	3.5
World total demand[f] (millions of barrels per day)	**97.9**	**99.2**	**100.5**	**92.1**	**97.7**	**99.7**	**102.1**	**103.0**	**103.7**
Oil prices (United States dollars per barrel)									
OPEC basket[g]	52.4	69.8	64.0	41.5	69.9	100.1	82.9	79.9	70.9
Brent oil	54.2	71.2	64.3	41.7	70.9	100.9	82.4	80.6	68.9

Source: UN DESA, based on data from the International Energy Agency, United States Energy Information Administration and OPEC.
Note: OPEC = Organization of Petroleum Exporting Countries.

a Partly estimated.
b Including global biofuels, crude oil, condensates, natural gas liquids (NGLs), oil from non-conventional sources and other sources of supply.
c Totals may not add up because of rounding.
d Net volumetric gains and losses in the refining process and marine transportation losses.
e Global biofuels comprise all world biofuel production including fuel ethanol from Brazil and the United States.
f Measured as deliveries from refineries and primary stocks. Comprises inland deliveries, international marine bunkers, refinery fuel, crude for direct burning, oil from non-conventional sources and other sources of supply. Includes biofuels.
g As at January 2024: The basket price excludes the Angolan crude "Girassol".

Table A.11

World trade:[a] Changes in value and volume of exports and imports, by major country group

Annual percentage change

	2017	2018	2019	2020	2021	2022	2023	2024	2025[b]	2026[c]	2027[c]
Dollar value of exports											
World	**10.7**	**8.9**	**-1.4**	**-9.5**	**25.5**	**12.7**	**-1.4**	**4.0**	**5.7**	**1.0**	**4.9**
Developed economies	**8.8**	**8.8**	**-1.4**	**-9.7**	**22.0**	**11.2**	**0.7**	**2.1**	**5.5**	**1.9**	**4.3**
Northern America	7.0	6.5	0.2	-15.0	20.7	18.1	0.5	3.8	3.0	1.9	4.3
Europe	9.1	9.8	-1.2	-7.8	22.4	10.0	1.5	1.9	6.7	1.9	3.8
Developed Asia and the Pacific	10.4	7.7	-4.3	-10.4	21.9	6.4	-2.8	0.3	3.5	2.3	6.3
Economies in transition	**21.5**	**21.1**	**-2.3**	**-18.3**	**48.6**	**23.4**	**-10.7**	**0.0**	**0.8**	**-4.2**	**7.3**
South-Eastern Europe	15.0	17.3	1.2	-10.3	39.2	17.4	10.3	4.9	6.2	3.2	5.7
Commonwealth of Independent States and Georgia[d]	22.0	21.3	-2.5	-18.8	49.2	23.9	-12.1	-0.4	0.3	-4.8	7.5
Developing economies	**12.8**	**8.2**	**-1.4**	**-8.4**	**28.8**	**13.9**	**-3.5**	**7.0**	**6.5**	**0.2**	**5.6**
Africa	19.4	15.1	-2.4	-22.0	33.3	22.4	-5.2	0.5	5.9	0.7	6.2
East Asia	10.5	8.9	-1.3	-2.2	27.1	6.8	-4.3	9.8	8.1	-0.2	4.9
South Asia[e]	12.4	4.7	-2.3	-7.6	26.1	18.7	0.9	6.1	4.5	3.0	6.5
Western Asia[f]	12.9	16.0	-2.6	-22.5	37.5	33.6	-5.9	0.9	2.2	-1.4	6.5
Latin America and the Caribbean	19.8	-3.6	0.6	-13.9	27.9	20.7	1.3	5.2	5.3	1.5	7.0
Dollar value of imports											
World	**14.3**	**10.2**	**411.5**	**-34.2**	**4.0**	**9.1**	**6.6**	**5.7**	**-2.8**	**-9.1**	**2.3**
Developed economies	**9.1**	**9.6**	**-0.9**	**-9.7**	**21.8**	**14.7**	**-1.9**	**1.7**	**6.6**	**-0.1**	**4.9**
Northern America	7.1	6.8	-0.4	-10.9	22.5	16.3	-2.6	5.7	5.2	-0.7	6.4
Europe	9.5	10.8	-0.4	-8.6	21.5	13.7	-0.7	0.6	7.8	0.5	4.2
Developed Asia and the Pacific	11.8	10.1	-3.7	-12.1	22.2	16.7	-6.1	-1.2	3.8	-1.7	4.8
Economies in transition	**18.9**	**9.6**	**4.3**	**-13.5**	**31.1**	**1.6**	**14.4**	**9.2**	**5.9**	**1.8**	**5.9**
South-Eastern Europe	14.5	17.0	2.4	-8.9	31.9	18.4	2.8	6.9	10.1	3.8	6.2
Commonwealth of Independent States and Georgia[d]	19.4	8.9	4.5	-14.0	31.0	-0.2	15.9	9.4	5.5	1.6	5.8
Developing economies	**21.9**	**10.9**	**987.6**	**-37.3**	**0.6**	**8.0**	**8.4**	**6.5**	**-4.7**	**-11.1**	**1.6**
Africa	6.8	10.7	0.8	-14.0	17.3	18.2	-1.1	10.8	4.7	1.2	8.1
East Asia	12.2	12.7	-2.8	-7.0	28.3	6.0	-1.8	8.8	4.2	0.2	6.4
South Asia[e]	17.7	7.2	-3.1	-11.3	28.5	19.4	-0.9	4.4	2.3	-1.2	9.0
Western Asia[f]	7.5	3.0	1.3	-9.6	18.8	24.5	4.9	7.0	8.4	3.0	7.3
Latin America and the Caribbean	72.8	12.6	4,073.4	-39.4	-2.2	7.6	9.8	6.3	-6.0	-12.9	0.6
Volume of exports											
World	**5.6**	**4.0**	**1.2**	**-7.4**	**11.1**	**6.4**	**1.1**	**3.8**	**3.9**	**1.9**	**3.0**
Developed economies	**4.9**	**3.4**	**2.1**	**-9.1**	**9.3**	**7.3**	**0.8**	**1.4**	**2.2**	**1.3**	**2.3**
Northern America	3.6	3.0	0.8	-12.4	5.9	7.0	3.2	3.1	0.9	1.5	2.1

Table A.11

World trade:[a] Changes in value and volume of exports and imports, by major country group (*continued*)

Annual percentage change

	2017	2018	2019	2020	2021	2022	2023	2024	2025[b]	2026[c]	2027[c]
Europe	5.4	3.4	3.1	-8.4	10.5	8.0	-0.6	0.9	2.5	0.9	2.1
Developed Asia and the Pacific	4.5	4.0	-0.2	-7.8	9.0	4.4	3.8	1.8	2.9	2.9	3.7
Economies in transition	**5.3**	**5.4**	**2.3**	**-6.2**	**7.4**	**3.0**	**4.4**	**2.0**	**3.0**	**2.7**	**3.3**
South-Eastern Europe	8.8	8.7	5.8	-11.3	24.2	15.5	2.4	2.5	5.7	5.1	4.2
Commonwealth of Independent States and Georgia[d]	5.1	5.2	2.1	-5.9	6.3	2.1	4.5	1.9	2.8	2.5	3.2
Developing economies	**6.7**	**4.8**	**-0.1**	**-4.9**	**13.8**	**5.3**	**1.2**	**7.2**	**6.3**	**2.6**	**3.7**
Africa	14.5	4.1	1.5	-16.5	6.6	15.4	6.3	2.5	5.3	4.1	4.9
East Asia	7.7	4.7	-0.3	-1.8	16.1	1.2	0.9	10.0	7.3	1.9	3.6
South Asia[e]	4.9	8.2	-2.2	-7.6	16.9	14.9	5.5	4.8	4.6	3.5	4.2
Western Asia[f]	3.0	5.0	0.5	-7.7	10.3	12.1	-0.4	1.8	4.0	5.0	3.7
Latin America and the Caribbean	3.6	3.8	0.1	-8.9	8.2	8.8	-0.7	3.3	5.4	2.4	3.8
Volume of imports											
World	**5.8**	**4.5**	**1.1**	**-7.8**	**11.1**	**6.9**	**1.4**	**3.2**	**3.7**	**2.5**	**3.5**
Developed economies	**5.0**	**3.8**	**2.8**	**-8.3**	**9.9**	**8.6**	**-0.9**	**2.0**	**3.2**	**1.6**	**2.7**
Northern America	4.7	4.0	1.0	-9.0	13.7	8.3	-0.7	5.0	3.4	1.3	3.9
Europe	4.9	3.9	4.4	-8.3	8.9	8.9	-1.5	0.6	3.2	1.5	2.1
Developed Asia and the Pacific	5.8	3.3	-0.3	-6.8	7.2	7.6	1.7	1.7	2.6	2.9	2.6
Economies in transition	**12.1**	**5.2**	**5.4**	**-10.8**	**15.6**	**-5.8**	**14.4**	**6.9**	**4.5**	**3.9**	**3.4**
South-Eastern Europe	8.4	8.5	7.1	-9.3	18.8	13.8	-1.6	5.7	6.7	4.9	4.3
Commonwealth of Independent States and Georgia[d]	12.4	4.9	5.2	-10.9	15.3	-7.8	16.5	7.0	4.3	3.8	3.3
Developing economies	**6.6**	**5.5**	**-1.7**	**-6.9**	**12.4**	**5.4**	**4.1**	**4.7**	**4.2**	**3.7**	**4.6**
Africa	7.6	5.6	3.0	-12.2	9.1	13.2	5.6	1.2	2.9	4.3	5.0
East Asia	7.5	6.9	-2.9	-4.3	12.9	0.6	2.6	6.9	4.5	3.2	4.1
South Asia[e]	13.3	7.2	-2.1	-9.2	12.8	11.1	10.1	0.5	3.1	4.1	6.1
Western Asia[f]	4.4	0.3	2.6	-5.6	7.0	15.4	8.8	3.4	5.8	5.8	4.7
Latin America and the Caribbean	1.3	3.8	-2.9	-13.1	17.6	7.9	0.7	2.7	3.4	2.4	4.9

Source: UN DESA, based on data from national sources and estimates and forecasts produced with the World Economic Forecasting Model.

a Includes goods and services.

b Partly estimated.

c Baseline scenario forecasts, based in part on UN DESA World Economic Forecasting Model.

d Georgia officially left the Commonwealth of Independent States on 18 August 2009. However, its performance is discussed in the context of this group of countries for reasons of geographic proximity and similarities in economic structure.

e Regional aggregates exclude Afghanistan for the period 2025–2027.

f Regional aggregates exclude the State of Palestine for the period 2025–2027.

Table A.12

Balance of payments on current accounts, by country or country group, summary table

Billions of United States dollars

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025[a]
Developed economies	**216.6**	**283.0**	**214.4**	**184.1**	**-74.5**	**143.1**	**-577.4**	**-285.8**	**-276.6**	**-409.0**
Japan	197.8	203.5	177.8	176.3	149.9	196.2	89.9	155.9	193.7	166.9
Republic of Korea	97.9	75.2	77.5	59.7	75.9	85.2	25.8	32.8	99.0	89.3
United States	-396.2	-367.6	-439.0	-442.0	-593.5	-858.6	-993.1	-928.0	-1185.3	-1220.8
European Union	487.9	493.2	512.3	460.2	375.7	572.9	135.0	471.0	621.4	604.0
Other Europe[b]	-76.1	-30.1	-27.9	-29.7	-70.5	123.0	187.4	17.7	55.5	30.2
Other developed economies	-94.6	-91.2	-86.3	-40.4	-12.0	24.4	-22.4	-35.2	-60.9	-78.5
Economies in transition	**-3.6**	**14.9**	**105.4**	**44.9**	**17.1**	**116.7**	**265.6**	**19.2**	**27.0**	**-19.1**
South-Eastern Europe	-3.9	-5.0	-5.0	-6.4	-5.7	-5.4	-8.2	-3.6	-7.9	-9.7
Commonwealth of Independent States and Georgia[c]	0.3	20.0	110.5	51.3	22.8	122.1	273.8	22.8	34.8	-9.5
Developing economies	**58.6**	**159.0**	**38.3**	**148.7**	**349.1**	**568.5**	**740.3**	**539.1**	**726.2**	**843.5**
Net fuel exporters	-108.5	35.5	162.4	38.9	-90.4	169.0	464.3	252.8	198.6	107.9
Net fuel importers	167.1	123.5	-124.1	109.8	439.4	399.5	275.9	286.3	527.7	735.6
Africa	**-117.6**	**-77.1**	**-62.5**	**-88.0**	**-88.9**	**-43.0**	**-45.6**	**-46.4**	**-58.7**	**-72.2**
Net fuel exporters	-46.3	-12.8	3.9	-25.6	-46.5	1.9	37.9	19.8	15.3	-4.4
Net fuel importers	-71.3	-64.3	-66.4	-62.4	-42.5	-44.9	-83.5	-66.2	-74.0	-67.8
East and South Asia	**360.5**	**331.2**	**101.8**	**225.9**	**501.2**	**543.3**	**563.2**	**483.4**	**694.6**	**886.9**
Net fuel exporters	-0.7	2.9	-2.6	-29.2	-4.3	19.1	33.3	11.2	8.6	-7.0
Net fuel importers	361.1	328.3	104.4	255.1	505.5	524.2	529.8	472.1	686.0	893.9
Western Asia	**-75.7**	**3.0**	**143.8**	**119.0**	**-54.8**	**159.3**	**350.1**	**179.3**	**153.7**	**105.9**
Net fuel exporters	-45.3	45.9	167.9	107.3	-28.7	162.8	399.4	217.1	163.8	116.1
Net fuel importers	-30.5	-42.9	-24.1	11.7	-26.2	-3.5	-49.2	-37.8	-10.0	-10.3
Latin America and the Caribbean	**-108.5**	**-98.1**	**-144.8**	**-108.1**	**-8.4**	**-91.1**	**-127.4**	**-77.1**	**-63.4**	**-77.2**
Net fuel exporters	-16.3	-0.4	-6.8	-13.6	-10.9	-14.8	-6.2	4.7	10.9	3.1
Net fuel importers	-92.2	-97.6	-138.0	-94.5	2.6	-76.3	-121.2	-81.8	-74.3	-80.3
World residual[d]	**271.7**	**456.9**	**358.1**	**377.8**	**291.6**	**828.2**	**428.5**	**272.5**	**476.6**	**415.3**

Source: UN DESA, based on data from the International Monetary Fund, World Economic Outlook database, October 2025.

a Partially estimated.

b Other Europe consists of Iceland, Norway, Switzerland and the United Kingdom (see Table A in the country classifications section of the present publication).

c Georgia officially left the Commonwealth of Independent States on 18 August 2009. However, its performance is discussed in the context of this group of countries for reasons of geographic proximity and similarities in economic structure.

d Statistical discrepancy.

Table A.13

Net ODA disbursements from major sources, by type

Donor group or country	Growth rate of ODA (2023 prices and exchange rates)					ODA as a percentage of GNI	Total ODA (millions of United States dollars)	Percentage distribution of ODA by type, 2024			
								Bilateral	Multilateral		
	2003–2013	2013–2021	2022	2023	2024	2024	2024	Total	Total (United Nations & other)	United Nations	Other
Total DAC countries[a]	**4.1**	**3.8**	**18.9**	**1.1**	**-9.3**	**0.33**	**209,666**	**75.7**	**24.3**	**3.6**	**20.7**
Total EU	**2.2**	**5.2**	**22.7**	**-5.6**	**-12.4**	**0.47**	**88,049**	**62.6**	**37.4**	**4.2**	**33.3**
Austria	2.5	2.5	32.1	-9.1	-8.3	0.32	1,723	49.0	51.0	2.9	48.1
Belgium	2.0	0.8	6.8	-0.8	11.3	0.49	3,254	46.3	53.7	5.7	48.0
Denmark	0.1	0.6	-2.1	9.4	-0.1	0.68	3,026	66.8	33.2	09.4	23.8
Finland	5.7	0.8	15.0	-4.8	-18.4	0.46	1,368	55.0	45.0	9.1	35.9
France[b]	2.1	3.5	14.4	-16.7	-7.0	0.47	15,101	55.7	44.3	3.5	40.8
Germany	4.7	9.7	19.0	3.7	-22.8	0.68	32,917	75.6	24.4	2.1	22.3
Greece	-6.1	1.8	11.7	-14.8	7.5	0.15	372	17.7	82.3	1.8	80.5
Ireland	3.0	3.2	119.6	9.3	-14.0	0.57	2,469	69.6	30.4	6.1	24.4
Italy	-1.6	9.5	16.1	-17.5	8.4	0.28	6,660	44.7	55.3	2.4	52.9
Luxembourg	3.2	2.1	4.1	2.8	-0.3	1.00	597	70.8	29.2	9.0	20.2
Netherlands	-0.2	-1.3	29.7	2.1	-2.4	0.61	7,454	68.7	31.3	7.9	23.4
Portugal	-1.2	-3.7	5.0	-5.8	20.5	0.19	572	17.7	82.3	5.8	76.5
Spain	-2.3	5.7	29.4	-17.4	10.0	0.24	4,130	35.2	64.8	4.4	60.4
Sweden	4.6	2.0	2.6	-0.8	-14.3	0.76	4,832	65.9	34.1	11.1	23.0
Australia	6.0	-3.0	-13.1	6.4	-0.9	0.19	3,279	79.9	20.1	6.2	13.9
Canada	2.1	1.7	43.0	-0.1	-4.4	0.40	8,795	84.0	16.0	3.2	12.8
Japan	0.7	7.7	26.7	14.7	-12.7	0.36	15,539	84.0	16.0	2.9	13.0
Republic of Korea	14.4	5.8	7.5	12.6	25.8	0.22	4,145	81.8	18.2	6.6	11.6
New Zealand	4.4	4.1	-20.6	45.3	0.5	0.32	781	89.8	10.2	6.1	4.1
Norway	3.4	1.5	-3.8	26.7	-4.5	0.97	4,908	78.9	21.1	8.9	12.2
Switzerland	5.8	2.7	16.5	7.7	-15.5	0.50	4,547	78.6	21.4	5.8	15.7
United Kingdom	9.4	1.5	2.5	9.2	-17.1	0.45	16,319	78.0	22.0	4.5	17.5
United States	5.9	3.1	18.5	3.1	-4.3	0.22	63,193	88.8	11.2	2.0	9.2

Source: UN DESA, based on ODA datasets from OECD Data Explorer (accessed on 1 December 2025).
Note: ODA = official development assistance; DAC = OECD Development Assistance Committee; OECD = Organisation for Economic Co-operation and Development; EU = European Union.
a DAC stands for OECD's Development Assistance Committee.
b Excluding flows from France to the Overseas Departments, namely Guadeloupe, French Guiana, Martinique and Réunion.

Table A.14

Total net ODA flows from OECD Development Assistance Committee countries, by type

Billions of United States dollars

	Net disbursements at current prices and exchange rates									
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024[b, c]
Official Development Assistance	**131.6**	**145.1**	**147.3**	**150.2**	**146.6**	**162.7**	**185.0**	**213.5**	**226.2**	**209.7**
Bilateral official development assistance	**94.2**	**103.2**	**105.6**	**105.2**	**103.5**	**114.8**	**129.3**	**163.1**	**165.0**	**158.6**
in the form of:										
Technical cooperation	14.9	15.7	16.5	15.8	16.9	17.1	18.9	19.5	18.8	…
Humanitarian aid	13.4	14.4	16.1	16.0	16.6	17.2	21.9	23.9	26.2	…
Debt forgiveness	0.3	2.1	0.4	0.3	0.1	0.8	0.7	0.2	0.2	…
Bilateral loans	6.0	5.8	6.6	6.3	6.2	14.3	13.3	18.9	13.6	…
Contributions to multilateral institutions[a]	**37.4**	**41.9**	**41.7**	**45.0**	**43.1**	**47.9**	**55.7**	**50.4**	**61.1**	**51.0**
of which are:										
UN agencies	6.1	5.9	6.2	6.6	7.6	8.1	8.4	8.8	8.0	7.6
EU institutions	12.0	13.8	14.0	15.3	15.6	16.5	17.6	17.9	18.2	20.8
World Bank	8.6	8.8	8.2	11.4	9.3	8.6	8.6	8.4	14.2	…
Regional development banks	3.2	4.6	4.2	4.2	3.9	3.0	3.8	3.5	2.8	2.7
Others	6.8	7.8	8.1	6.3	5.8	11.0	16.4	11.1	16.3	…
Memorandum item:										
Bilateral ODA to least developed countries	24.8	24.4	27.3	27.7	28.1	30.9	33.3	30.6	31.3	…

Source: UN DESA, based on ODA datasets from OECD Data Explorer (accessed on 1 December 2025).
Note: ODA = official development assistance; OECD = Organisation for Economic Co-operation and Development; UN = United Nations; EU = European Union.
a Grants and capital subscriptions. Does not include concessional lending to multilateral agencies.
b Not all data for 2024 are available (as at 1 December 2025).
c Preliminary data.

Table A.15

Commitments and net flows of financial resources, selected multilateral institutions

Billions of United States dollars

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Resource commitments[a]	**121.1**	**246.2**	**258.0**	**226.1**	**226.6**	**247.9**	**293.0**	**494.7**	**563.2**	**353.8**
Financial institutions, excluding International Monetary Fund	**101.2**	**107.6**	**109.3**	**115.9**	**130.9**	**144.5**	**153.3**	**323.2**	**398.1**	**214.7**
Regional development banks[b]	46.9	49.8	54.0	56.0	59.8	56.5	59.3	221.8	297.3	60.2
World Bank Group[c]	53.0	57.0	54.0	58.6	69.5	87.2	93.0	100.5	100.3	152.4
International Bank for Reconstruction and Development	23.5	29.7	22.6	23.0	28.0	30.5	33.1	38.6	37.6	40.9
International Development Association	19.0	16.2	19.5	24.0	30.4	36.0	37.7	34.2	31.2	39.9
International Financial Corporation	10.5	11.1	11.9	11.6	11.1	20.7	22.2	27.7	31.6	71.7
International Fund for Agricultural Development	1.3	0.8	1.3	1.3	1.7	0.8	1.0	0.9	0.5	2.1
International Monetary Fund	6.2	123.9	132.9	89.9	75.6	73.5	65.1	95.6	82.7	41.6
United Nations operational agencies[d]	13.7	14.7	15.8	20.4	20.1	29.8	74.5	75.9	82.3	97.4
Net flows	**17.8**	**32.5**	**36.6**	**82.9**	**63.1**	**84.6**	**62.8**	**64.3**	**37.3**	**45.7**
Financial institutions, excluding International Monetary Fund	35.7	34.0	36.9	47.1	49.6	61.3	58.4	59.3	45.2	44.6
Regional development banks[b]	15.4	14.2	13.1	14.2	15.2	24.0	15.2	17.9	11.0	-2.6
World Bank Group[c]	20.1	19.6	23.6	32.7	34.2	37.1	42.9	41.1	34.0	46.9
International Bank for Reconstruction and Development	9.0	10.0	13.2	17.4	17.4	16.9	18.2	25.8	17.5	26.1
International Development Association	9.9	8.8	8.8	14.7	15.3	19.6	23.3	14.3	11.1	15.6
International Financial Corporation	1.3	0.8	1.6	0.6	1.6	0.6	1.4	1.0	5.4	5.2
International Fund for Agricultural Development	0.2	0.2	0.3	0.3	0.3	0.2	0.3	0.3	0.2	0.3
International Monetary Fund	-17.9	-1.5	-0.4	35.8	13.4	23.3	4.3	5.0	-7.8	1.1

Source: UN DESA, based on annual reports of the relevant multilateral institutions, various issues.

a Loans, grants, technical assistance and equity participation, as appropriate; all data are on a calendar-year basis.

b African Development Bank (AfDB), Asian Development Bank (ADB), Caribbean Development Bank (CDB), European Bank for Reconstruction and Development (EBRD), Inter-American Development Bank (IDB) and the International Fund for Agricultural Development (IFAD).

c Data are for fiscal year.

d United Nations Development Program (UNDP), United Nations Population Fund (UNFPA), United Nations Children's Fund (UNICEF), and the World Food Programme (WFP).

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