United Nations | Department of Economic and Social Affairs

World Economic Situation and Prospects 2026

MID-YEAR UPDATE

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The *World Economic Situation and Prospects as of mid-2026* updates the *World Economic Situation and Prospects 2026* released on 8 January 2026. The report is prepared by the Global Economic Monitoring Branch in the Economic Analysis and Policy Division of the United Nations Department of Economic and Social Affairs.

United Nations

World Economic Situation and Prospects as of mid-2026

Summary

The global economy is under stress as the crisis in the Middle East clouds the growth outlook, stokes inflationary pressures, and adds to uncertainty across financial markets. Global growth is now projected at 2.5 per cent in 2026 and 2.8 per cent in 2027—downward revisions to an already subdued outlook. Although these revisions are modest, forecast uncertainty has risen considerably, as outcomes hinge on the conflict's duration and scale; a faster-than-expected resolution could restore confidence, while a prolonged disruption would deepen the downgrade.

The closure of the Strait of Hormuz—through which about one fifth of global oil and liquefied natural gas supplies pass—is driving fuel, fertilizer, and food prices higher and straining global supply chains. Global inflation is now expected to reach 3.9 per cent in 2026—0.8 percentage points above the January forecast—reversing a disinflationary trend and eroding household purchasing power. Financial market volatility has increased, with risks of renewed portfolio outflows and tighter external financing conditions if the conflict persists. Central banks are expected to hold rates higher for longer to curb inflation, while governments face rising fiscal pressures from weaker growth alongside necessary expenditures to cushion crisis impacts.

Resilient labour markets and artificial intelligence (AI)-driven trade and investment support global activity but are unlikely to fully offset widespread headwinds. The outlook is most challenging for fuel- and food-importing developing economies, where surging import costs risk widening fiscal deficits, straining external balances, and deepening food insecurity. Low-income households—which spend the largest share of their budgets on food and energy—bear the heaviest burden, with millions at risk of being pushed into poverty. Combined with declining aid flows and mounting debt-service costs, these pressures threaten to reverse hard-won development gains and further slow progress toward the Sustainable Development Goals.

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Global macroeconomic trends

Global overview

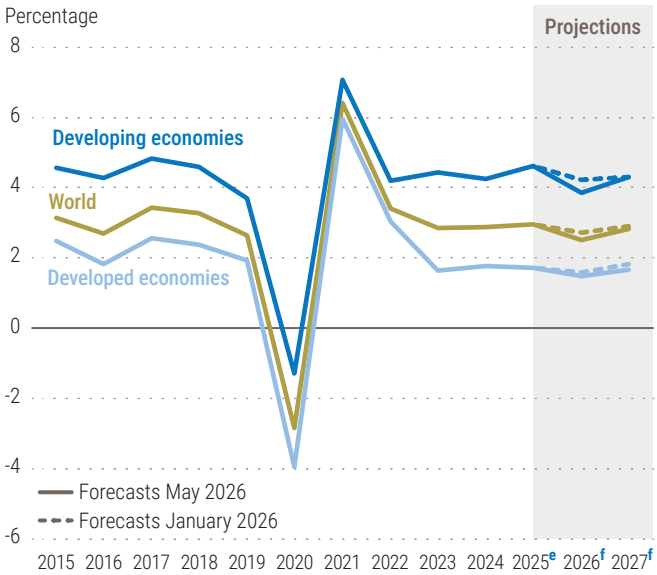
The crisis in the Middle East has delivered another major shock to the world economy, testing the resilience of global growth, stoking inflationary pressures and further challenging the prospects for sustainable development. Heading into 2026, economic activity was seen as being supported by firm labour markets, sustained consumer spending and robust trade growth, even as persistent trade tensions and geopolitical uncertainty were clouding the outlook. Commencing 28 February 2026, the Middle East conflict has triggered a severe energy shock, sending fuel, fertilizer and transport costs higher and causing far-reaching supply chain disruptions. As a result, the near-term outlook has shifted toward slower growth and heightened uncertainty, with significant implications for developing countries and progress toward the Sustainable Development Goals (SDGs).

Global growth is projected at 2.5 per cent in 2026 and 2.8 per cent in 2027 (0.2 and 0.1 percentage points below the January forecasts) (figure 1 and table 1) — a modest downward revision to an already subdued outlook, with growth in many regions further depressed below pre-pandemic trends. After three years of disinflation following the post-pandemic price surge, global inflation is now projected to rise again, reaching 3.9 per cent in 2026 before easing to 3.1 per cent in 2027 (0.8 and 0.2 percentage points above the January projections). This baseline scenario assumes that Brent crude oil prices remain above $100 per barrel through mid-2026, before easing gradually toward $80 per barrel in the second half of the year and declining modestly into 2027 amid gradually improving supply. Prices are expected to stay above pre-conflict levels as lingering uncertainty and unresolved infrastructure damage sustain a structural risk premium, consistent with current futures pricing (figure 2).

Besides direct damage to energy infrastructure, the closure of the Strait of Hormuz—through which normally around one fifth of global oil and liquefied natural gas (LNG) supplies

Figure 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 1

Growth of world output and gross domestic product

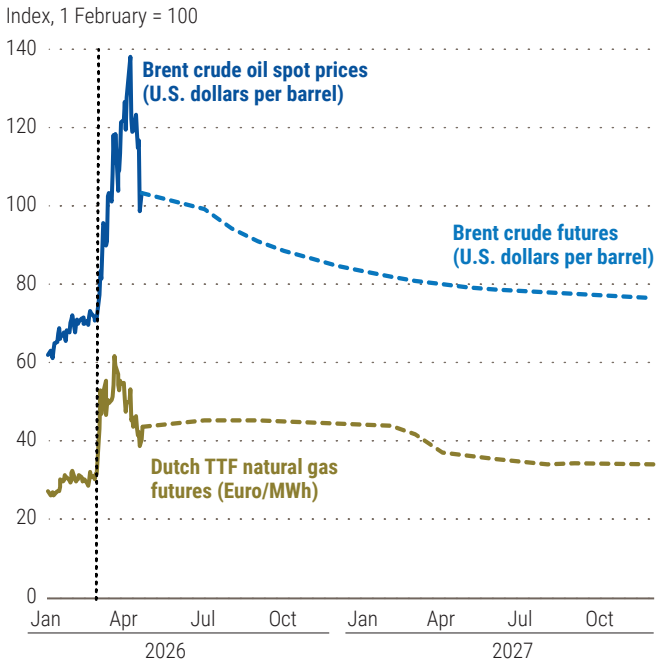
						Change from *World Economic Situation and Prospects 2026*	
Annual percentage change	**2010-2019 average**	**2024**	**2025[a]**	**2026[b]**	**2027[b]**	**2026**	**2027**
World	**3.2**	**2.9**	**3.0**	**2.5**	**2.8**	**-0.2**	**-0.1**
Developed economies	**2.0**	**1.8**	**1.7**	**1.5**	**1.7**	**-0.1**	**-0.1**
United States of America	2.4	2.8	2.1	2.0	2.0	0.0	-0.2
Japan	1.3	-0.2	1.2	0.8	1.1	-0.1	0.1
European Union	1.6	1.1	1.5	1.1	1.4	-0.2	-0.2
Euro area	1.4	0.9	1.4	0.9	1.2	-0.2	-0.2
United Kingdom of Great Britain and Northern Ireland	2.0	1.1	1.4	0.7	1.0	-0.4	-0.3
Other developed countries	2.6	1.6	1.4	1.6	1.9	0.0	0.0
Economies in transition	**2.4**	**4.5**	**2.4**	**2.2**	**2.4**	**0.0**	**-0.1**
South-Eastern Europe	2.0	3.5	2.4	3.0	3.5	-0.4	0.1
Commonwealth of Independent States and Georgia	2.4	4.6	2.4	2.1	2.3	0.0	-0.2
Russian Federation	1.9	4.3	1.0	1.0	1.2	0.0	-0.3
Developing economies	**5.2**	**4.3**	**4.6**	**3.9**	**4.3**	**-0.3**	**0.0**
Africa[c, d]	3.8	3.7	4.3	3.9	4.2	-0.1	0.1
North Africa[c, d]	3.5	3.3	4.6	3.7	3.9	-0.4	-0.1
East Africa	6.3	5.5	6.7	5.6	6.0	-0.2	0.3
Central Africa	2.7	3.3	2.9	3.4	3.2	0.4	-0.1
West Africa	4.5	4.7	4.8	4.7	4.8	0.3	0.1
Southern Africa	2.4	1.6	1.8	2.0	2.3	0.0	0.1
East and South Asia[e]	6.7	5.1	5.2	4.5	4.6	-0.1	-0.1
East Asia	7.0	5.0	5.0	4.4	4.4	0.0	0.0
China	7.7	5.0	5.0	4.6	4.5	0.0	0.0
South Asia[e,f]	5.7	6.0	6.1	4.6	5.6	-1.0	-0.3
India[f]	6.7	7.1	7.5	6.4	6.6	-0.2	-0.1
Western Asia[g]	4.2	2.1	3.6	1.4	4.3	-2.7	0.3
Latin America and the Caribbean	1.6	2.3	2.5	2.3	2.7	0.0	0.2
South America	1.2	2.3	3.0	2.5	2.6	0.0	0.1
Brazil	1.4	3.4	2.3	2.0	2.3	0.0	0.0
Mexico and Central America	2.7	1.8	1.3	1.7	2.6	-0.1	0.1
Caribbean[h]	0.4	2.2	1.4	1.1	2.4	-0.5	0.7
Least developed countries[d, e]	**5.3**	**4.3**	**4.6**	**4.4**	**4.4**	**-0.2**	**-0.6**
Landlocked developing countries[e]	**5.3**	**4.9**	**6.0**	**4.9**	**5.1**	**0.0**	**0.2**
Small island developing States	**3.9**	**5.0**	**3.8**	**2.6**	**3.4**	**-0.2**	**0.6**
Middle-income countries	**5.6**	**4.4**	**4.6**	**4.0**	**4.3**	**-0.3**	**-0.1**
Memorandum items							
World trade[i]	4.5	3.3	5.0	2.7	3.2	0.5	0.0
World output growth with purchasing power parity (PPP) weights[j]	3.6	3.3	3.4	2.9	3.3	-0.2	0.0

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 conflict; **d** excludes Sudan due to conflict; **e** excludes Afghanistan as no forecasts have been made for the economy; **f** growth rates are on a calendar-year basis; **g** excludes State of Palestine due to conflict; **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 May 2026.

Figure 2

Historic and futures prices of crude oil and natural gas



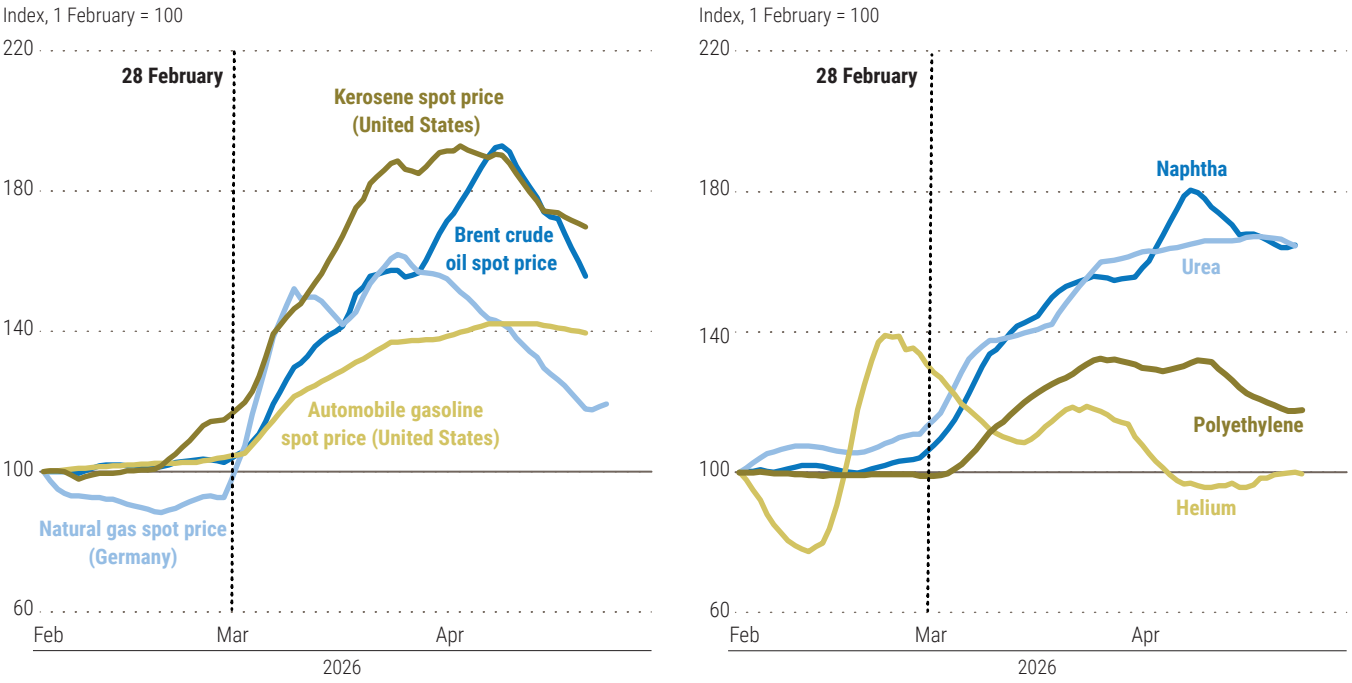
Source: UN DESA, based on data from Intercontinental Exchange and United States Energy Information Administration.
Note: **TTF** = Title Transfer Facility; **MWh** = megawatt hour.

pass—has severely curtailed energy supply, driving crude and natural gas prices sharply higher (figure 3). Downstream refined products, including gasoline and jet fuel, have followed a similar trajectory. Disruptions are also affecting adjacent commodity markets: around one third of global seaborne fertilizer trade normally transits the waterway, while the region's important role in supplying other critical inputs—including aluminium, helium, and naphtha—is intensifying supply chain vulnerabilities across industries and driving up input costs for importers.

The resulting oil supply shock risks being among the largest in modern history. Tanker transits through the Strait collapsed to near zero after March 5, cutting off around 20 million barrels per day (mb/d) of gross supply from a 100 mb/d global market. Alternative sources—other producers, alternative pipelines, sanctioned oil in transit and inventory drawdowns—have cushioned the blow to some extent since that time. The disruption is particularly acute for Asia, which receives around 80 per cent of all oil transiting the Strait. Inventory drawdowns are absorbing part of the

Figure 3

Price indices of selected commodities



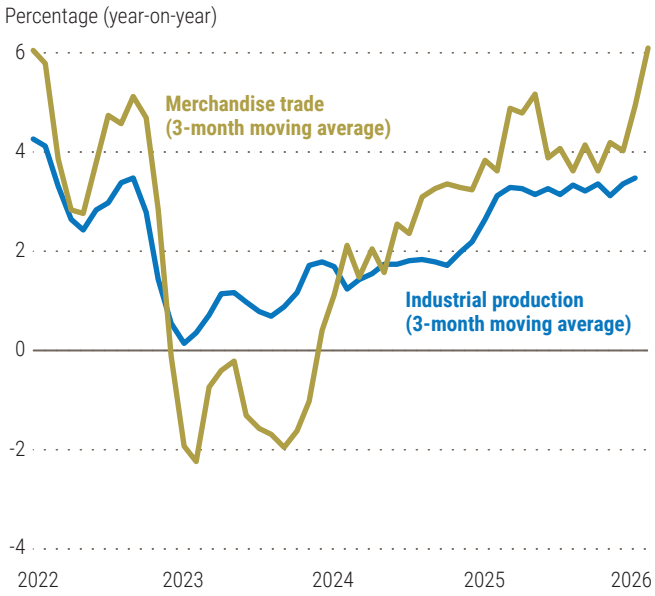
Source: UN DESA, based on data from CEIC, Trading Economics and Investing.com.
Note: The data series are based on a 7-day moving average.

shortfall for now, but as stocks are depleted, the full weight of the supply gap will increasingly work through supply chains.

The energy market shock is exerting broader macroeconomic pressure. Higher costs are eroding household purchasing power and compressing business margins, while heightened uncertainty is dampening business confidence and investment. With inflation rising, central banks are expected to hold rates higher than previously anticipated, contributing to increasing sovereign bond yields and tightening global financial conditions. Financial markets have become more volatile, though pressures have so far remained contained. While high-frequency indicators of actual activity— such as industrial production, merchandise trade, and retail sales—pointed to solid economic conditions in early 2026 (figure 4), the combined headwinds are already visible in more forward-looking survey data, including weakening purchasing managers' indices and consumer sentiment indicators.

Figure 4

Growth of global industrial production and merchandise trade



Source: UN DESA, based on data from CPB Netherlands Bureau for Economic Policy Analysis.

Country level impacts vary, shaped by differing exposure to the conflict's transmission channels as well as the capacity to respond. The relatively modest downgrade to global growth assumes that the scope and duration of the disruption are contained, and that impacts among the largest economies are partly mitigated by country specific factors. U.S. growth is expected to be supported by resilient consumer spending—buoyed by tax cuts—and strong artificial intelligence (AI)-driven investment. China, despite being an oil importer, is cushioned by its diversified energy mix, strategic reserves, and policy support, even as it navigates a protracted property sector adjustment and subdued domestic demand. In contrast, prospects in Europe—where exposure to global energy price volatility remains acute—have weakened, adding to an already sluggish pre-conflict growth trajectory.

Among other economies, the Islamic Republic of Iran and many Gulf states face the most severe disruptions, including infrastructure damage, lower oil and gas output, and weaker tourism revenues. While other energy exporters could temporarily benefit from higher export revenues, these gains may be partly offset by softening global demand. Energy-importing developing economies—particularly across Asia—face growth headwinds, inflationary pressures, and balance-of-payments strains from terms-of-trade losses, in some cases compounding elevated debt burdens and constrained policy space. These pressures are also giving rise to near-term output risks. Several economies have adopted shortened workweeks, school closures, or work-from-home mandates to conserve fuel—measures that, while easing demand, entail foregone output and income losses. In Africa, rising energy and food import costs risk exacerbating existing fiscal pressures, with limited buffers to cushion the impact on households. As a region, Latin America and the Caribbean, with several net energy-exporting economies, appears somewhat insulated though it remains on a low-growth trajectory.

Many vulnerable economies—including the least developed countries (LDCs), landlocked

developing countries (LLDCs) and small island developing States (SIDS)—entered 2026 with constrained fiscal space, elevated debt-service burdens and subdued growth, leaving limited room to absorb new shocks. The Middle East crisis has deepened these vulnerabilities, though transmission channels differ. The 2026 growth outlook is modestly revised downward for LDCs, where exposure runs through fuel supply chains: most countries lack domestic refining capacity and rely on imported fuel products, leaving them vulnerable to price spikes and supply disruptions. For LLDCs as a group, downward pressures are broadly offset by terms-of-trade gains of fuel-exporting countries, leaving the aggregate 2026 growth outlook broadly unchanged. For SIDS, growth in 2026 is also modestly revised downward. Tourism dependence is a key vulnerability: rising fuel costs push up airfares and dampen arrivals, while higher maritime transport costs add to broader inflationary pressure.

The duration and degree of disruption largely determine the extent of the downgrade to the global growth forecast. In an adverse scenario—where Brent crude temporarily surges above $150 per barrel before gradually declining to around $100 by end-2026—global growth would reach only 2.1 per cent in 2026 and 2.6 per cent in 2027, 0.4 and 0.2 percentage points below the baseline. Such a scenario could trigger a deterioration in financial market sentiment, tightening credit conditions and amplifying vulnerabilities in highly indebted economies. These pressures could be further exacerbated by lingering trade tensions. On the upside, a faster-than-expected resolution of the conflict and stabilization of energy markets could restore confidence, ease inflationary pressures, and improve growth prospects. Stronger-than-expected productivity gains from AI investment could provide an additional lift over the medium term though these benefits risk being concentrated in developed economies, leaving most developing countries behind and widening existing global inequalities.

The downgraded economic outlook understates the true scale of the setback—the conflict threatens to reverse hard-won development gains and further slow progress toward the SDGs. Estimates indicate that the current price shocks could push an additional 45 million people into acute food insecurity, bringing the global total to a record 363 million—more than double pre-pandemic levels.[1] Spillovers are falling disproportionately on fuel- and food-importing economies in sub-Saharan Africa and South Asia, where fiscal buffers are thinnest and vulnerability to terms-of-trade losses greatest. At the household level, low-income families, which devote a larger share of spending to food and energy and have the least capacity to absorb real income shocks, bear the heaviest burden, with poverty levels set to rise in consequence. Women and girls can be disproportionately affected—as they often have fewer economic resources, the disruptions can translate directly into increased poverty, hunger and unpaid care burdens, while their access to essential services could be curtailed.[2]

The renewed pressures compound an already acute development financing squeeze: the SDG financing and investment gap stands at $4 trillion annually,[3] aid flows are declining sharply, and debt-service costs are crowding out spending on health and education. On the environmental front, high energy prices risk driving a return to carbon-intensive fuels, even as over the longer term they may further strengthen the case for renewables, accelerating a structural shift away from fossil fuels. Higher-income countries that shield their populations from the shock—through consumption subsidies that sustain demand and drive global energy prices higher, or through export restrictions that tighten global supply—effectively concentrate the adjustment burden on less advantaged countries that lack resources to cushion the blow.

1 World Food Program (2026). *A Global Food Crisis*. Rome.
2 UN Women (2026). *Beyond the headlines: What the ongoing conflicts really mean for women and girls in the Middle East*.
3 United Nations (2026). *Financing for Sustainable Development Report 2026: Implementing the Sevilla Commitment*. New York.

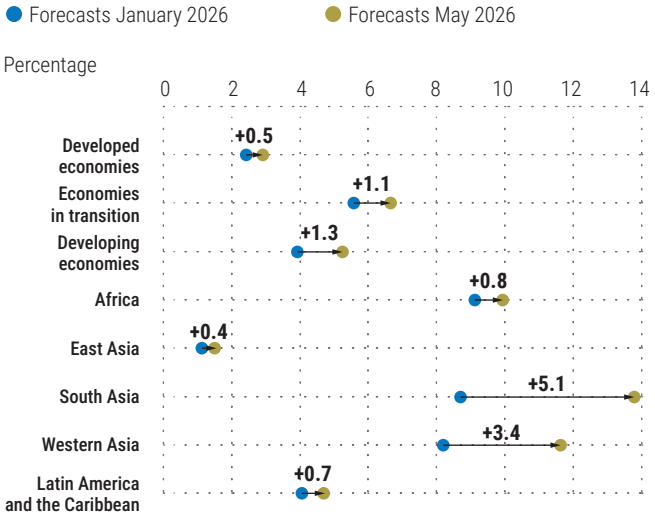
Inflation

The conflict has interrupted a global disinflationary trend even as inflation had yet to return to target in many economies.[4] The supply shock compounds pre-existing price pressures, with uneven effects across regions (figure 5). In developed economies, inflation is forecast to increase from 2.6 per cent in 2025 to 2.9 per cent in 2026, an upward revision of 0.5 percentage points from the January forecast. In several countries—including the United States of America and the United Kingdom of Great Britain and Northern Ireland—core inflation was still elevated when the energy price shock struck. Among developing economies, the rise is sharper, with inflation projected to accelerate from 4.2 per cent in 2025 to 5.2 per cent in 2026 (1.3 percentage points higher than projected in January), as many countries were already grappling with entrenched price pressures. The greatest strain falls on energy-importing countries in parts of South Asia and sub-Saharan Africa, where limited fiscal space and weaker monetary policy frameworks amplify pass-through to domestic prices. China, by contrast, is a notable exception: although inflation is projected to edge up from recent lows, subdued domestic demand is expected to keep price pressures contained.

The energy price shock risks aggravating acute food security vulnerabilities. Developing economies—particularly LDCs and LLDCs—have faced compounding food price increases over the past decade, leaving households with little resilience to absorb further pressure (figure 6). Food inflation, which had been moderating into early 2026, was already edging upward before the conflict and has since been reinforced by the energy price shock, with the FAO Food Price Index rising in March and April 2026. Moreover, pressures may prove persistent: unlike freight costs, higher fertiliser prices transmit with a lag, meaning food inflation could intensify well into the next planting season even as energy prices moderate.

Figure 5

Revisions to 2026 inflation forecasts between January and May 2026



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

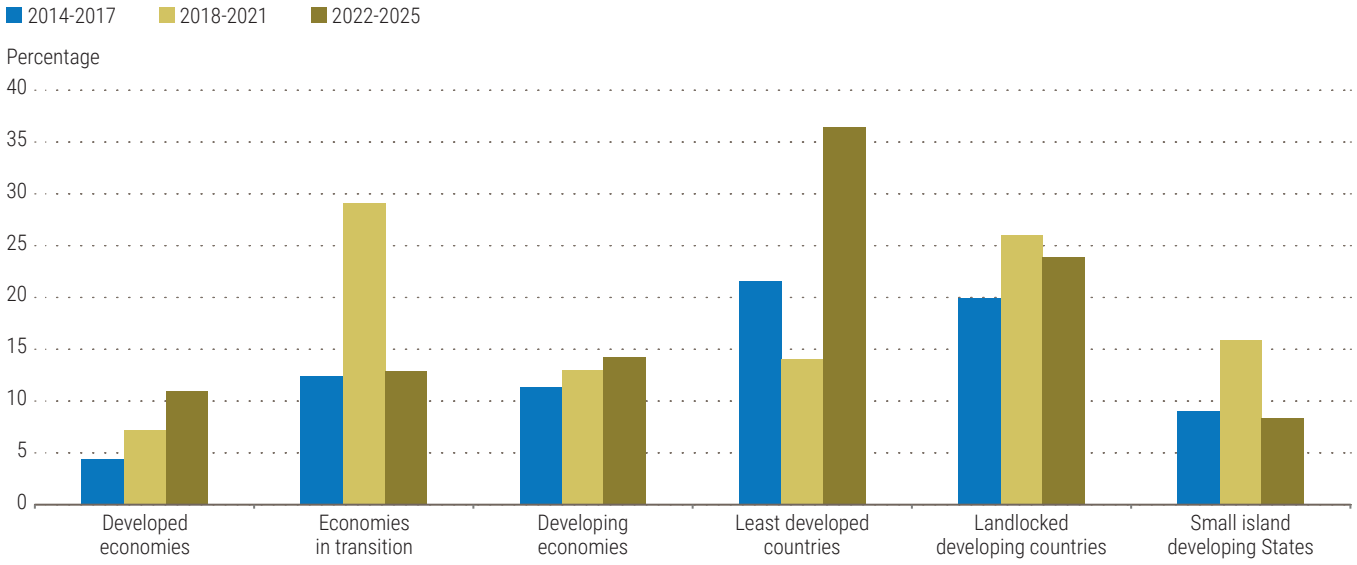
A key risk is that an energy price shock could trigger effects that prove difficult to contain. Firms facing higher input and freight costs may seek to protect or expand margins, embedding inflation into future pricing decisions while wage pressures add a further, albeit more gradual, risk. In this context, should inflation expectations become de-anchored from their target ranges, such dynamics would become harder to contain.

Unlike 2022—when a comparable energy shock hit an overheated global economy burdened with pandemic-era imbalances—demand today is more subdued, labour markets less tight, and supply chains more stable. Oil markets were also well-supplied before the conflict. These factors limit, though do not eliminate, the risk of a persistent inflation episode and support a gradual easing of price pressures into 2027, provided the disruption remains contained and the destruction of productive assets in the region is addressed. Yet even a scenario of moderating

4 United Nations (2026). *World Economic Situation and Prospects 2026*. New York.

Figure 6

Cumulative food price inflation in selected country groups



Source: UN DESA, based on data from Food and Agriculture Organization of the United Nations.
Notes: The figure shows median values for country groups. The sample covers 125 economies.

average inflation carries risks: the interaction of energy, food, and freight shocks is likely to keep price dynamics more volatile and less predictable than before 2021, complicating decision-making by households, firms, and governments.

International finance

Prior to the Middle East crisis, global financial markets were on a firmer footing than might have been expected: 2025 had ended on a stronger-than-anticipated note, supported by lower-than-announced tariffs, AI-driven investment momentum, and broadly favourable financial conditions. The conflict has interrupted that trajectory, reviving inflationary pressures, prompting renewed volatility (figure 7), and tightening financial conditions. While market functioning has remained intact, the risk of a sharper and more disorderly adjustment has risen.

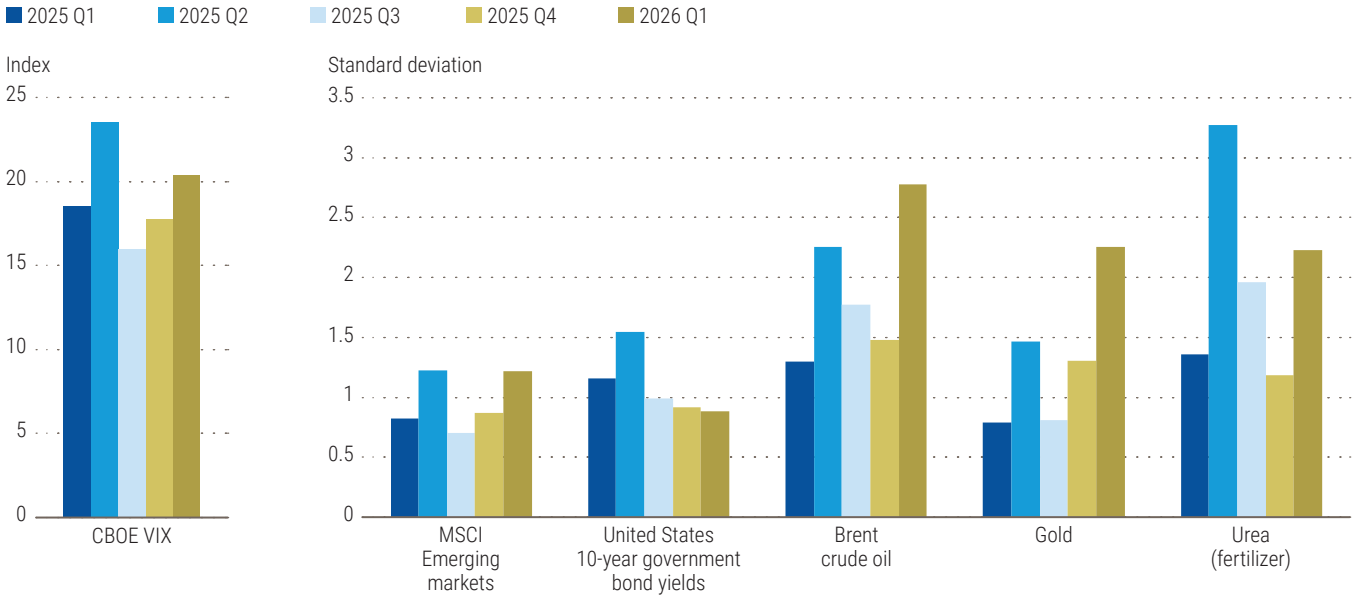
Across markets, impacts have tended to vary. Equity prices fell sharply at the outbreak—particularly in Europe and Asia, commensurate with their greater dependence on Middle Eastern energy—but have since broadly recovered. Currency markets and precious metals followed a similar course, reflecting shifting risk sentiment. Government bond yields, however, rose across both developed and developing economies, as higher energy prices boosted inflation expectations and led investors to reprice central bank policy paths. Yield curves flattened as short-term rates rose faster than long-term rates. Although the initial financial shock has been contained, an adverse turn could expose deeper structural fragilities—including elevated leverage in the nonbank financial sector, stretched valuations, and heavy concentration in AI-related stocks.

Non-resident portfolio flows to emerging economies swung from $22.4 billion in February to $70.3 billion in March 2026—the weakest monthly reading since the onset of the pandemic—with outflows across both equity and debt channels[5] (figure 8). While capital inflows

5 Fortun, J. (2026). *IIF Capital Flow Tracker, April 2026: Is Oil Causing a Sudden Stop in Flows?* Institute of International Finance.

Figure 7

Volatility of selected financial and commodity market indicators, quarterly average



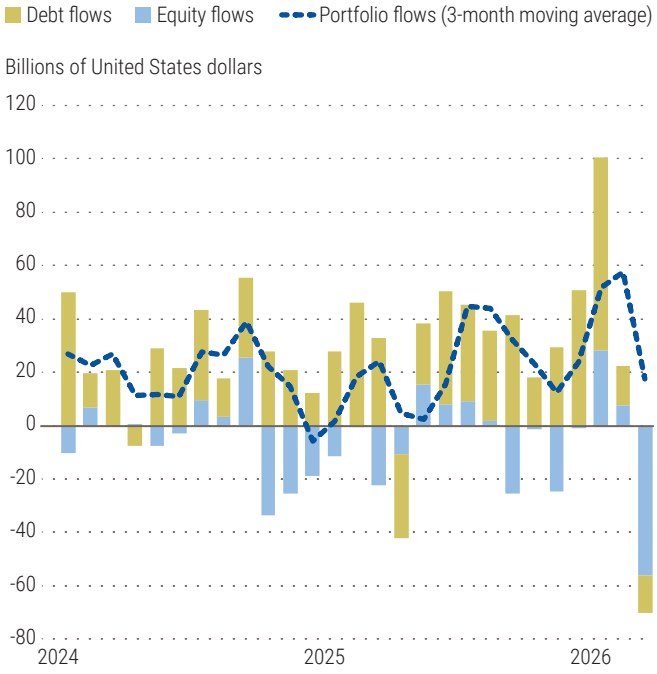
Source: UN DESA, based on data from Federal Reserve Economic Data database (FRED), Trading Economics, and MSCI.com.
Notes: CBOE VIX = Chicago Board Options Exchange volatility index. Volatility of the MSCI Emerging Markets Index, U.S. 10-year government bond yields, and Brent crude oil, gold and urea prices is measured as the 30-day rolling standard deviation of their daily percentage changes.

may recover quickly, as they did after the 2025 tariff shocks, a prolonged conflict could sustain outflows, tighten external financing conditions and heighten vulnerabilities in economies with limited reserves, high external financing needs, or restricted market access.

External financing through other channels is also constrained. Official development assistance from OECD Development Assistance Committee (DAC) countries decreased by 6.1 per cent in 2024 and 23.1 per cent in 2025, with a further projected decline of 5.8 per cent in 2026.[6] Personal remittances sent from the Gulf Cooperation Council (GCC) countries exceeded $142 billion in 2024, accounting for over a fifth of global remittances. The disruption of economic activity across these economies poses an additional risk to recipient countries, primarily in Africa and South Asia (figure 9), where the Middle East accounts for roughly a quarter and more than half of total remittance inflows, respectively.

Figure 8

Non-resident portfolio flows to emerging economies

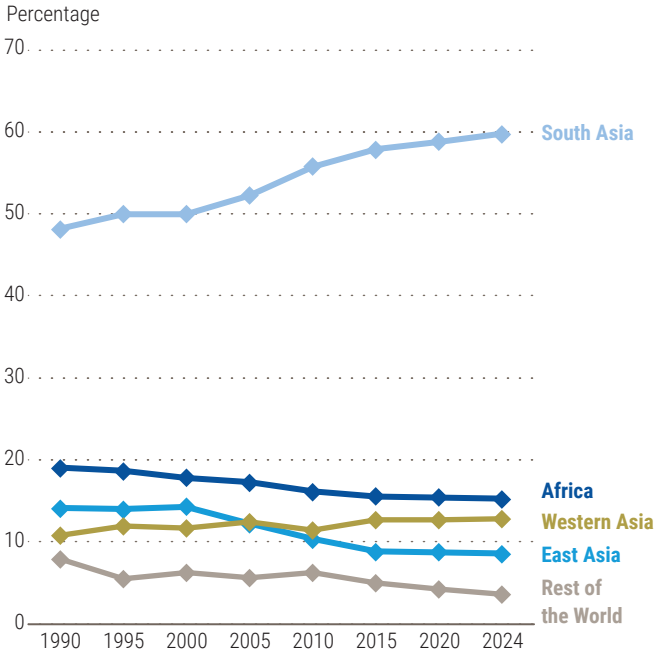


Source: UN DESA, based on data from the Institute of International Finance (IIF).
Note: The countries classified as emerging economies can be found on the IIF website.

6 Organisation for Economic Co-operation and Development (2026). *A historic decline in foreign aid: Preliminary 2025 ODA data*. Paris.

Figure 9

Share of migration stock in the Gulf Cooperation Council countries, by region of origin



Source: UN DESA.

International trade and development

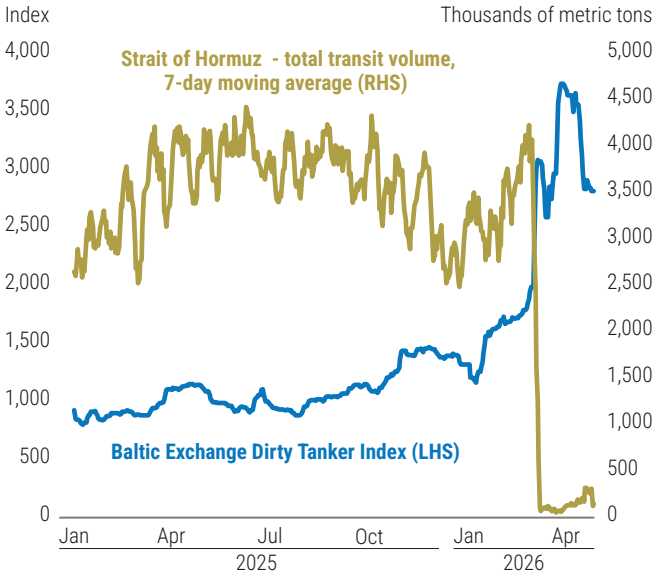
Global trade growth is projected to slow to 2.7 per cent in 2026, following an exceptionally strong 5.0 per cent in 2025. Last year's expansion was driven by front-loaded shipments ahead of United States tariff hikes, strong demand for AI-related goods, and resilient services trade—a combination unlikely to repeat at the same scale. The Middle East conflict has added a significant new source of disruption to an already uncertain outlook.

The conflict is reverberating through global trade via several interconnected channels. Traffic through the Strait of Hormuz has collapsed from an average of around 95 commercial vessels per day to almost zero, displacing the transit of an estimated 150 million metric tons of cargo in just 1.5 months (figure 10).[7] Insurance premiums rose by several multiples, from 0.1 to 0.25 per cent of estimated ship value to around 1 per cent at the end of March after peaking at 2.5 per cent.[8] The overall impact on shipping costs has so far been strongly concentrated on oil transport (figure 10), particularly on routes through the Gulf region, while global container and dry bulk (solid commodities) cargo rates have registered only slight increases.

Despite these headwinds, merchandise trade retains some carry-over momentum from 2025. AI-related trade—which accounted for nearly half of merchandise trade growth in value terms last year (figure 11)—has continued to support exports from China and other Asian economies into early 2026. Meanwhile, tariffs and trade tensions are reshaping trade patterns more broadly: Asian economies are increasingly redirecting exports toward intra-regional partners, the European Union, and countries in Latin America and Africa to offset reduced

Figure 10

Strait of Hormuz transit volume and Baltic Exchange Dirty Tanker Index

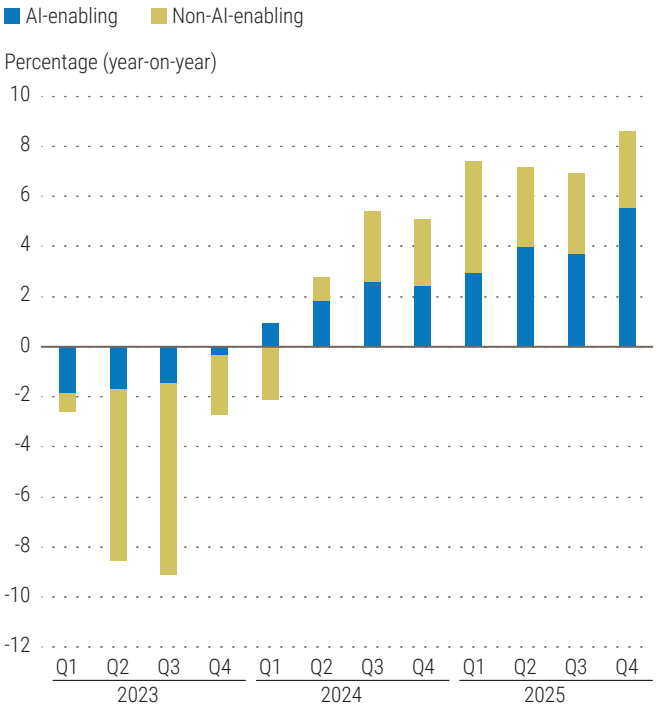


Source: UN DESA, based on data from CEIC and IMF PortWatch.
Notes: **LHS** = left-hand scale, **RHS** = right-hand scale. The Baltic Exchange Dirty Tanker Index tracks the average costs of shipping unrefined crude oil and fuel oil across major global routes.

7 International Monetary Fund (2026). *PortWatch. Strait of Hormuz.* Washington, D.C.
8 S&P Global (2026). *War risk insurance cost off highs but still elevated in Persian Gulf*.

Figure 11

World merchandise trade growth by category



Source: UN DESA, based on data from Trade Data Monitor.
Notes: Data are in value terms. AI-enabling goods follow the classification in WTO (2025). Growth rates are calculated based on total imports and exports of countries, accounting for about 95 per cent of world trade.

access to the United States. The United States tariff policy remains in flux, with the basis for global measures moving from the International Emergency Economic Powers Act to Section 122, Section 232 and Section 301 investigations. Regional instruments such as the United States-Mexico-Canada Agreement (USMCA) and the African Growth and Opportunity Act (AGOA) are expected to be reviewed in 2026.

Services trade presents a mixed picture. Digital, financial, and professional services—structurally insulated from both physical disruption and tariff measures—continue to expand. Tourism, by contrast, has started to soften: the Middle East, a major global tourism hub, is experiencing steep declines in travel demand, with regional arrivals projected to fall by 20–28 per cent in 2026 (equivalent to 2 per cent of global arrivals or more) amid airspace closures and safety concerns.[9] Higher airfares, primarily attributable to soaring jet fuel costs—which rose by about 60 per cent from end-February to mid-April—add to dampening travel demand more broadly, weighing on tourism-dependent economies well beyond the immediate conflict zone.

The global investment outlook remains broadly steady despite mounting downside risks from the Middle East conflict and lingering trade tensions, though the pace remains subpar relative to pre-pandemic trends. Elevated geopolitical uncertainty, higher input costs, shifting supply chains, and possible delays to monetary easing are all expected to weigh on investment. The AI-focused investment boom in some countries is also a source of fragility: a reassessment of AI-driven productivity expectations could trigger a sharp correction in technology-sector investments, as could conflict-related disruptions to inputs for AI-enabling electronics.

In developed economies, expansionary fiscal policies and sector-specific capital spending are providing support. In the United States, investment in AI-related categories—including data centres, information processing equipment, software, and research and development (R&D)—expanded rapidly in 2025 and continues into 2026. In the euro area, the August 2026 construction deadline for projects funded under the EU post-pandemic recovery framework is a key near-term driver, spurring activity in infrastructure, energy transition, and digitalization.[10]

Among developing economies, energy-importing countries face the sharpest exposure to the Middle East conflict, as rising import bills and additional spending toward energy subsidies and social protection widen fiscal deficits and crowd out productive investments. Energy exporters in Africa and Latin America, by contrast, may benefit from improved terms of trade, though broader uncertainty continues to weigh on

9 UN Tourism (2026). *Brief on the Impact of the Middle East Conflict on International Tourism in the Region*, 15 April.
10 European Commission (2025). *The Role of EU Funds over the Forecast Horizon*.

capital formation. Investment across much of Asia, including China and India, is supported by robust export performance and government incentives, while the conflict casts a direct shadow over investor confidence in Western Asia.

Labour markets

Labour markets entered 2026 on a resilient footing even as the Middle East conflict is starting to cloud the outlook. The global unemployment rate was estimated at a historic low of 4.9 per cent in 2025. The conflict's potential spillovers—including higher energy costs and interest rates, supply chain disruptions, risks for the tourism industry, and dampened business confidence—could test this situation in the coming quarters.

Beneath the headline figures, conditions are uneven. Among developed economies, hiring has slowed and labour force growth remains weak in the United States, even as unemployment remains relatively low. In Europe, participation rates are near record highs, but employment trends are diverging: manufacturing-intensive economies continue to face headwinds from high energy costs and weak external demand, while economies in the South are being buoyed by strong services activity and robust tourism, though rising travel costs have created a downside risk. Among developing economies, several have recorded historically low unemployment, including Brazil, Indonesia, and Mexico. However, progress in job quality has stalled: the global rate of informality has been on an increasing trend since 2015, with 2.1 billion workers projected to be informally employed by 2026, typically without access to social protection or job security.[11] The global share of informal employment among women rose from 54.8 per cent in 2015 to 55.9 per cent in 2025, while the corresponding share for men edged down over the same period.

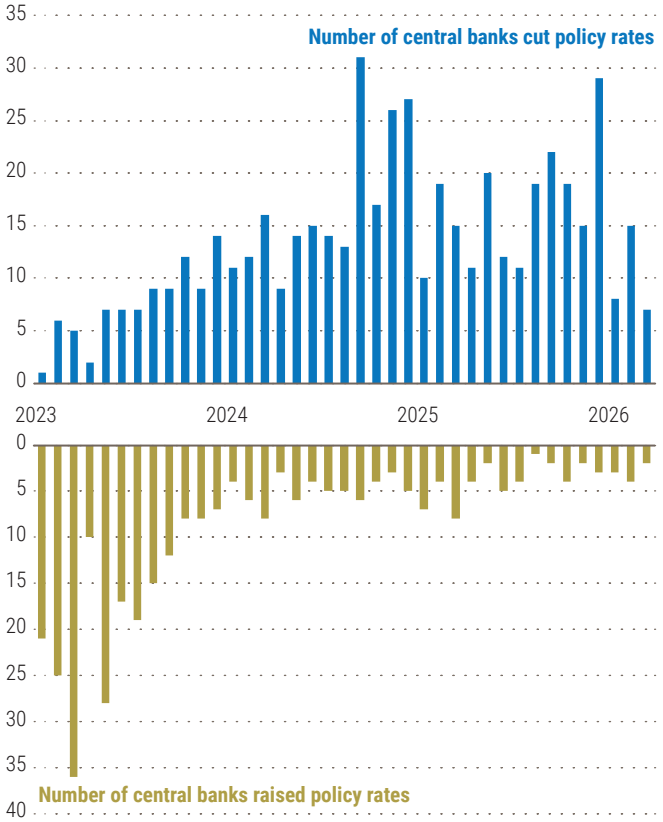
A medium- to longer-term layer of uncertainty arises from AI-adoption. As AI's labour market impact begins to unfold, the immediate risks may lie in slower entry-level hiring and widening skills gaps rather than outright job displacement—dynamics that risk deepening a generational divide, with youth unemployment standing at 12.4 per cent globally in 2025.[12]

Monetary policy

The broad easing cycle that characterised global monetary policy through much of 2025 began to slow in early 2026 even before the Middle East conflict confronted central banks with difficult policy trade-offs (figure 12). Rising energy prices

Figure 12

Central bank monetary policy stances



Source: UN DESA, based on data from CEIC.
Note: The figure includes data from 80 central banks.

11 International Labour Organization (2026). *Employment and Social Trends 2026*. Geneva.
12 Ibid.

are generating renewed cost pressures just as growth prospects weaken. With the shock primarily supply-driven, most central banks have avoided immediate tightening, assessing pass-through to broader inflation while remaining alert to credibility risks and maintaining a cautious, data-dependent stance.

In developed economies, the Federal Reserve, European Central Bank, and Bank of England kept rates unchanged in March and April, as higher energy-related costs threaten to reverse earlier disinflation. Rising inflation expectations have prompted markets to price in a steeper rate path, pushing long-term bond yields up and tightening broader financial conditions. The Bank of Japan, having lifted rates from near zero since 2024, faces a two-sided challenge: higher energy costs add inflation pressure yet risk dampening domestic demand, complicating further tightening.

Among developing economies, the picture is mixed, despite a clear change in tone. In early 2026, more than twenty central banks across Africa, Latin America, and economies in transition cut rates. That broad cycle has since given way to a more cautious posture. Sustained import price pressures risk weakening external balances and exchange rates, potentially forcing a shift toward tighter policy even where growth remains fragile. The People's Bank of China is expected to maintain a moderately accommodative stance, relying primarily on liquidity operations rather than policy rate moves.

The key uncertainty for policymakers is the persistence and scale of the energy price shock. If medium-term inflation expectations remain well anchored, central banks can afford a measured, flexible approach. Should those expectations deteriorate, however, restoring credibility would require a more forceful response—one that could impose especially severe adjustment costs on the most vulnerable.

Fiscal policy

Many governments are facing the energy price shock with limited options for fiscal policy. Sizeable deficits and elevated debt levels, reflecting only partial post-pandemic consolidation and persistently high spending commitments, had already been projected for 2026. The conflict is expected to compound these pressures by squeezing public revenues while simultaneously raising outlays. Despite these limitations, many governments have already rolled out fiscal support, including fuel and fertilizer subsidies, fuel tax cuts, and energy price caps. Recent experience from the onset of the war in Ukraine illustrates the potential fiscal scale of such measures: global direct budget outlays on fossil fuel subsidies more than doubled from around $0.5 trillion to $1.3 trillion between 2020 and 2022.

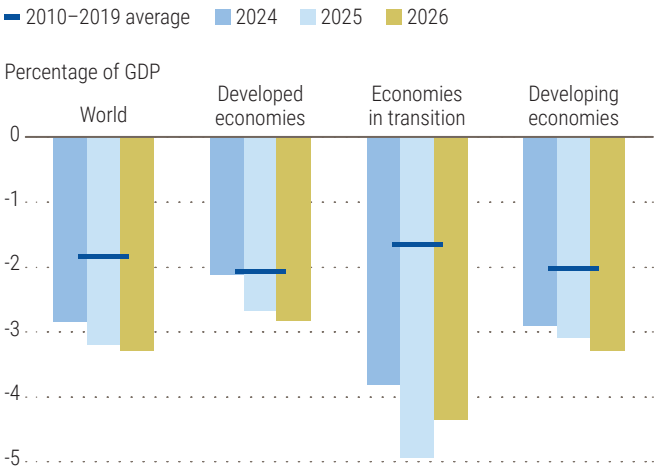
Fiscal priorities, meanwhile, encompass objectives well beyond cushioning the price shock. The United States maintains a supportive stance, underpinned by infrastructure investment, industrial policy, and rising defence expenditure. The European Union is moving in a more expansionary direction, with increased spending on defence, infrastructure and energy security, especially in Germany. China's fiscal stance is similarly supportive, channeling spending into infrastructure and domestic demand.

The average global fiscal deficit for 2026 has been revised up from 3.1 per cent to 3.3 per cent of GDP—with the increase most pronounced in Africa and South Asia—compared to the pre-pandemic (2010–2019) average of 1.8 per cent of GDP (figure 13).[13] In developing economies that lack fiscal space, some governments have implemented measures to constrain demand, such as daily limits on retail fuel sales.

13 Median values are used for fiscal deficits as a share of GDP based on data from the IMF's World Economic Outlook, April 2026.

Figure 13

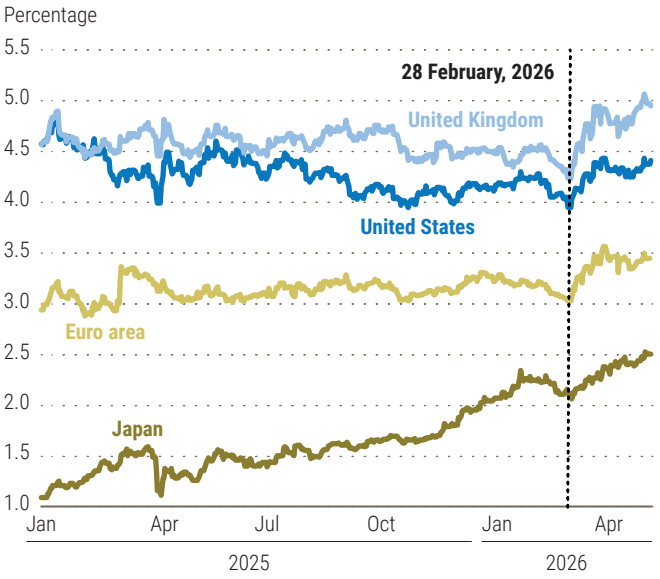
General government fiscal balance, by country group



Source: UN DESA, based on data from the IMF World Economic Outlook database, April 2026.
Notes: General government fiscal balance corresponds to general government net lending/borrowing. Country group averages reflect median values.

Figure 14

Ten-year government bond yields in selected developed economies



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

The conflict is also worsening debt dynamics and raising borrowing costs, with longer-term consequences. General government gross debt is projected to rise to 94 per cent of GDP in 2026,[14] up from 92.8 per cent in 2025, as spending pressures intensify and interest payments mount. Government bond yields have risen across major economies (figure 14) and interest rates are unlikely to fall as fast as previously anticipated, sustaining elevated borrowing costs and heightening roll-over risks for economies with large refinancing needs.

Industrial policy

Industrial policy frameworks across major economies are evolving, with governments broadening their toolkit beyond traditional subsidy-based approaches to include trade restrictions, export controls and investment screening—reflecting growing concerns around supply chain resilience, technological self-reliance and strategic autonomy. The Middle East conflict has added urgency to these concerns, particularly around energy security and critical supply chain dependencies, with emerging signs of fuel export restrictions and precautionary stockpiling in several economies further tightening global supply.

In the United States, trade-restrictive measures—including export controls on advanced chips—now exceed half of new industrial policy interventions, with domestic subsidies becoming relatively less dominant.[15] In the European Union, the Competitiveness Compass signals a stronger emphasis on strategic autonomy, with defence increasingly integrated into industrial strategy, while subsidies and state aid remain significant tools.[16] At the same time, many countries are expanding domestic manufacturing capacity

14 The global average is GDP-weighted, based on data from the IMF's World Economic Outlook, April 2026.
15 Martin, F. (2025). *Security First: How Industrial Policy Changed in 2025*. Global Trade Alert, Briefing No. 79.
16 European Commission (2025). *A Competitiveness Compass for the EU*. Brussels.

in clean energy technologies—including solar, wind and batteries— as part of broader efforts to reduce external dependencies and strengthen competitiveness in strategic value chains. Similarly, China has deepened its strategy of technological self-reliance, linking it with national security objectives and deploying export controls on selected critical minerals.

There are significant limitations to pursuing industrial policies in many other developing economies. Restricted fiscal space and institutional capacity constrain the scale and scope of interventions, while the tilt toward trade-restrictive instruments in developed economies can limit access to technologies and value chains. Despite these constraints, some countries are advancing ambitious strategies—for example, Brazil through Nova Indústria Brasil, drawing on development finance and targeted sectoral support, and Indonesia through downstream mineral processing to build battery and electric vehicle capabilities. More broadly, the geographical concentration of critical minerals across different developing economies represents a potential source of strategic leverage, though realising it will require investment in processing capacity, supportive policy frameworks, and deeper integration into global value chains.[17]

International cooperation

The conflict has both tested and, in some areas, demonstrated the value of international cooperation. The most visible response has come in energy markets, where the International Energy Agency coordinated an emergency release of strategic oil reserves—the largest collective action in the Agency's history—to ease supply pressures and contain price volatility. Multilateral efforts to keep trade flows and shipping corridors open, resist food export restrictions, and address growing disruptions to fertilizer supply will be equally important in preventing the energy shock from cascading into a wider food security crisis. Timely access to emergency and concessional financing, as well as continued progress on sovereign debt resolution mechanisms—including the G20 Common Framework—will be needed to support vulnerable developing countries if surging import bills and tightening access to external finance raise balance-of-payments pressures.

The conflict's far-reaching economic, social, and environmental impacts offer a pointed reminder of what GDP, as a measure of economic activity, cannot capture. In response to this longstanding recognition, and in keeping with SDG target 17.19, the United Nations Secretary-General's High-Level Expert Group on Beyond GDP has proposed a new conceptual framework with a dashboard of indicators spanning current well-being, equity and inclusion, and sustainability and resilience, with proposals for different stakeholders (including member-states) to contribute towards their advancement.[18]

17 United Nations (2025). *World Economic Situation and Prospects 2025*, New York.
18 *Counting What Counts: A Compass of Progress for People and Planet*. New York.

Productivity growth in a changing world

Productivity and the medium-term growth challenge

Growth in labour productivity—measured as output per hour worked—is a fundamental driver of living standards. It underpins higher wages and quality employment, and supports progress towards the Sustainable Development Goals. It is therefore of some concern that global labour productivity growth slowed from 3.8 per cent in 2005–2009 to 3.1 per cent in 2010–2014, declining further to 1.9 per cent in 2015–2019 and 1.8 per cent over 2021–2025.[19] Indeed, the slowdown is a significant contributor to a slower pace of economic growth seen across the world.[20]

Since the mid-2000s, the slowdown in productivity growth has been broadly synchronized across developed and developing economies (figure 15.a)—reflecting to some extent the immediate and legacy effects of global economic shocks such as the global financial crisis of 2007-09 and the COVID-19 pandemic—though its depth and persistence vary considerably across regions and countries. The growth data also suggests a cyclical dimension to productivity dynamics, with growth compressing around major downturns and recovering partially in upswings.

In level terms, the gap between developed and developing economies remains wide, having narrowed only modestly over the past two decades (figure 15.b): labour productivity in developing economies stands, on average, at around one quarter of that in developed economies—and substantially lower in low-income countries. Aggregate figures, moreover, mask substantial heterogeneity, with the overall picture shaped by the performance of large economies, most notably China and India.

Among developed economies, labour productivity growth has decelerated markedly over the past two decades, with significant divergence across countries: it has weakened visibly in Japan, the United Kingdom and more recently, the euro area, while tending to hold relatively steady in the United States (figure 16). The years following the global financial crisis were marked by a sustained slowdown in investment—particularly in intangible assets (such as software, research and development, and organisational capital)—with average growth in business investment declining from above 4 per cent per year in the decade before the crisis to below 2 per cent in the decade after.[21]

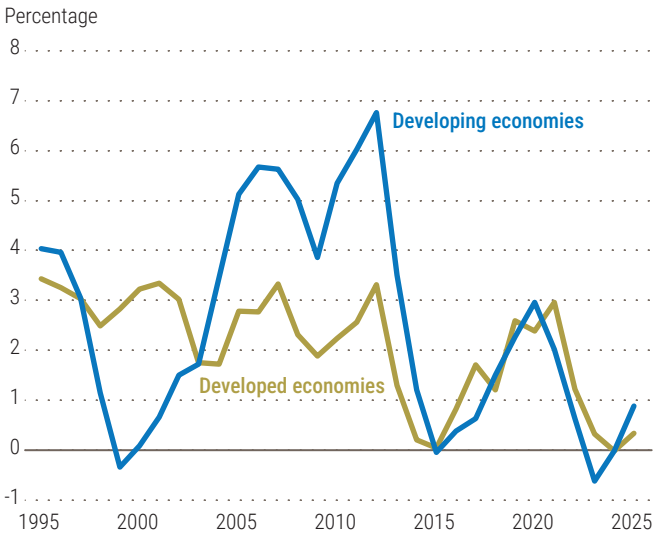
This investment slowdown contributed to a cumulative decline of about one percentage point in potential output growth.[22] The investment

19 Labour productivity is measured as output per hour worked, covering goods and services, and expressed in chained purchasing power parity-adjusted 2021 United States dollars. UN DESA calculations, based on data from Penn World Table (PWT) version 11.0; the Conference Board, Total Economy Database (TED).
20 A growth accounting decomposition confirms that the deceleration in labour productivity accounts for more than the entirety of the slowdown in global GDP growth over the past two decades, with a modest expansion in hours worked partially offsetting the productivity drag.
21 André, C. and P. Gal (2024). "Reviving productivity growth: A review of policies", *OECD Economics Department Working Papers*, No. 1822, OECD Publishing, Paris.
22 OECD (2025). The Global Forum on Productivity at 10: Past and Future Perspectives on Reviving Productivity Growth. OECD Publishing, Paris.

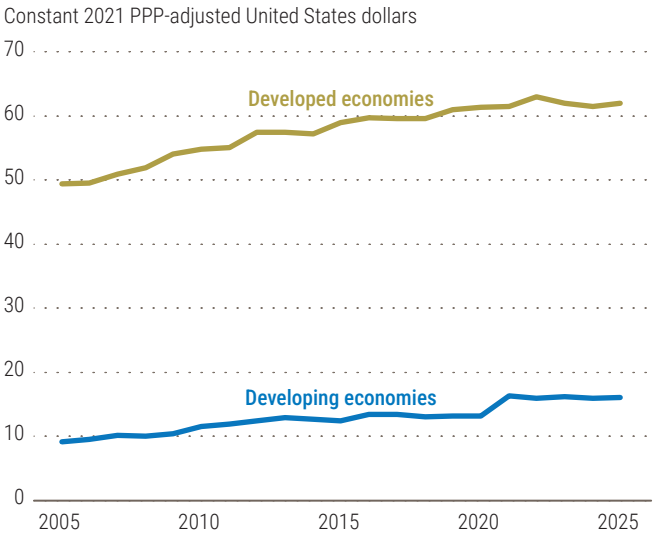
Figure 15

Labour productivity

a) Growth of labour productivity



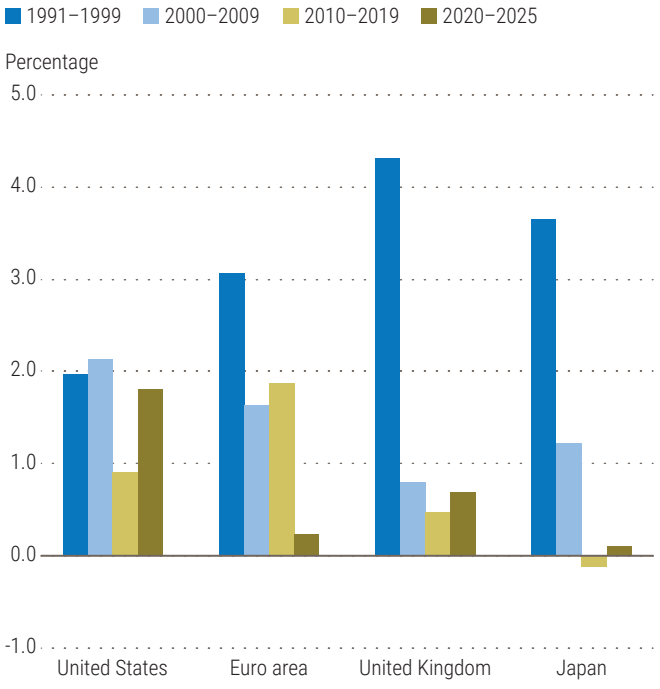
b) Labour productivity of developed and developing economies



Source: UN DESA, based on data from Penn World Table (PWT) version 11.0; the Conference Board, Total Economy Database (TED).
Notes: Panel a): The figure shows the 3-year moving average of median values for country groups. **Panel b):** PPP = purchasing power parity. The figure shows median values for country groups.

Figure 16

Growth of labour productivity in selected developed economies



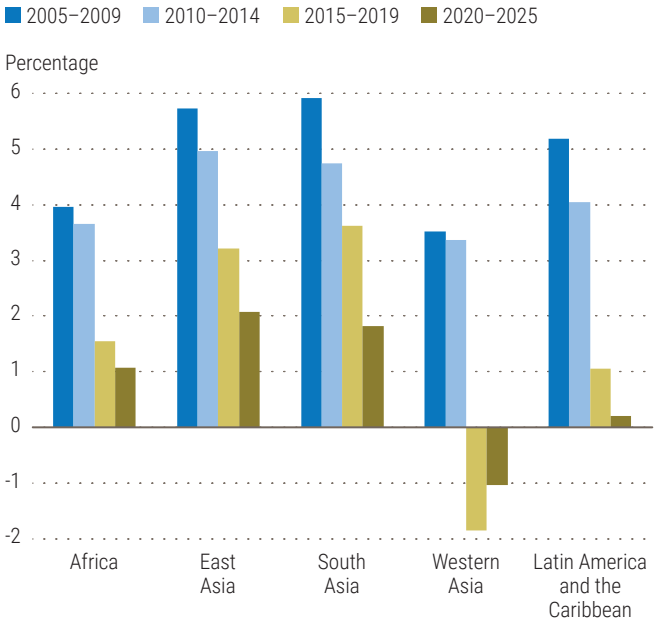
Source: UN DESA, based on data from Penn World Table (PWT) version 11.0; the Conference Board, Total Economy Database (TED).

weakness has been accompanied by growing divergence between frontier firms (defined as the top 5 per cent of firms by productivity level within each 2-digit ISIC sector and year) and the broad mass of lagging firms. The widening frontier-laggard gap points to a deceleration in technology diffusion that is particularly pronounced in ICT-intensive services such as computer programming, data storage and cloud services.

Across developing regions, the picture is similarly uneven. Prior to the global financial crisis, productivity growth was robust and widespread, with East Asia and South Asia leading at close to 6 per cent per annum (figure 17). Since then, performance has diverged sharply. East and South Asia, despite a marked deceleration, have maintained positive growth and remain the most resilient. Elsewhere, the deterioration has been more pronounced: in Western Asia, productivity growth has turned negative, in Latin America and the Caribbean it has nearly stalled, and in Africa, it has fallen to around

Figure 17

Growth of labour productivity of developing regions



Source: UN DESA, based on data from Penn World Table (PWT) version 11.0; the Conference Board, Total Economy Database (TED).
Note: The figure shows median values for developing regions.

1 per cent—positive, but far below what is needed to drive meaningful convergence.

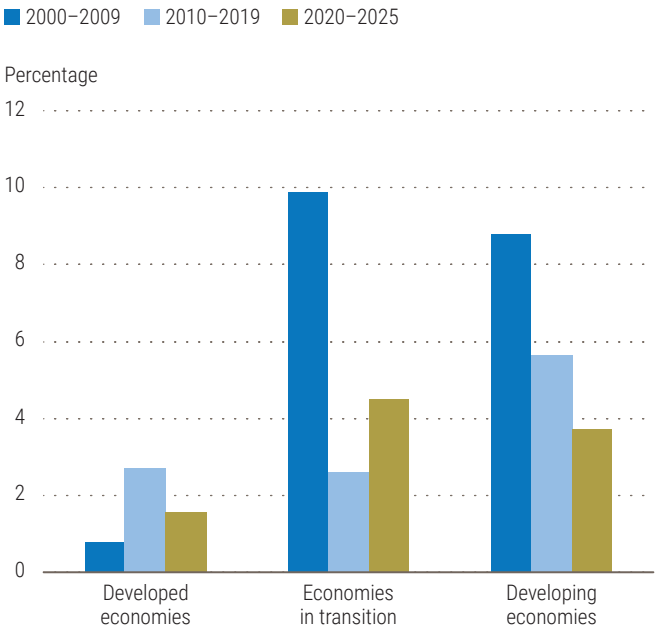
These divergences reflect the complex and idiosyncratic nature of productivity growth. Behind the regional patterns lies an interplay of investments (figure 18.a), structural changes in economies, institutional quality, technological absorption capacity and human capital development.

A stark divergence in private capital accumulation is a key feature: while East Asia has seen private investment expand more than sixfold since 2000, Latin America and the Caribbean and Africa have remained broadly stagnant (figure 18.b). This subdued investment performance is particularly challenging for lower-income economies, where basic infrastructure gaps constrain the foundations for productivity growth. Human capital quality compounds these constraints—rapid expansions in school enrolment across Africa and Latin America have not automatically translated into productivity-relevant skills.

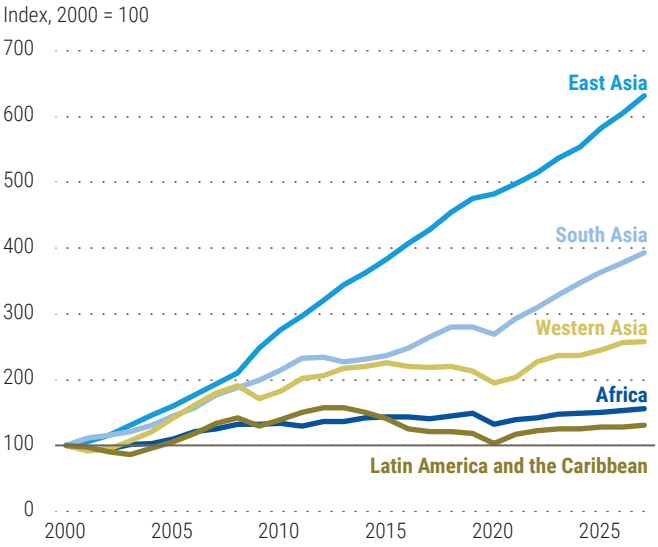
Figure 18

Growth in gross fixed capital formation

a) Total gross fixed capital formation by country groups



b) Per capita gross fixed capital formation by developing regions

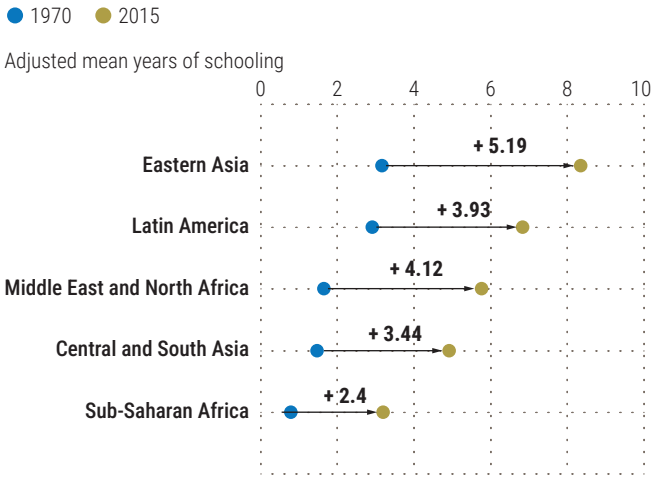


Source: UN DESA, based on estimates and forecasts produced with the World Economic Forecasting Model.

Skills-adjusted human capital indicators reveal a widening global gap: while enrolment gains have narrowed differences in mean years of schooling, the quality-adjusted skills gap between low- and high-performing countries has continued to widen, with sub-Saharan Africa's skill-adjusted attainment in 2015 remaining at roughly the level East Asia had reached in 1970 (figure 19).

Figure 19

Changes in skills-adjusted human capital in selected regions, 1970 vs. 2015



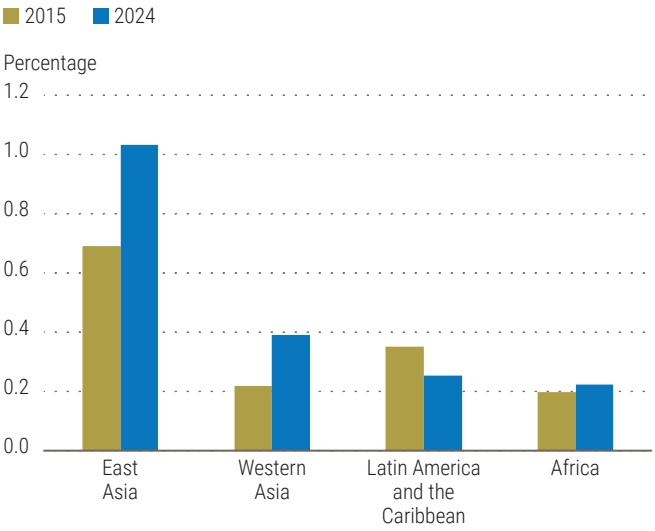
Source: UN DESA, based on Lutz, W. and others (2021), "Skills-adjusted human capital shows rising global gap", Proceedings of the National Academy of Sciences, vol. 118, no. 7.
Note: Country groups differ from the World Economic Situation and Prospects 2026 groups.

Changes in the structure of economies have compounded these challenges. In East Asia, significant shifts toward higher-productivity activities contributed positively to productivity growth—a pattern that other developing regions have been unable to replicate.[23] In Latin America and sub-Saharan Africa, labour has instead moved toward lower-productivity services—such as retail and wholesale trade, accommodation and food services, and personal services—rather than manufacturing and higher-productivity services. In sub-Saharan Africa, this dynamic has been particularly severe, limiting the scope for manufacturing-led convergence.

Innovation gaps add a further dimension to these divergences—particularly pronounced in Latin America and the Caribbean and Africa. R&D investment and technology diffusion have lagged significantly behind East Asia (figure 20).[24] Innovation output tells a similar story: resident patent applications per million inhabitants have declined in Latin America and the Caribbean since 2000 and remain negligible in Africa, while East Asia has seen a threefold increase over the same period. Research capacity reflects these gaps: East Asia's researcher base has expanded almost fivefold since 2000 to over 1,300 per million inhabitants, compared with about 650 in Latin America and the Caribbean and only 200 in sub-Saharan Africa.

Figure 20

R&D investments as a share of GDP



Source: UN DESA, based on data from UNESCO.
Notes: The figure shows median values for developing regions. Values refer to 2015 and 2024; where unavailable, the closest available year is used (2014 or 2016 for 2015; 2023 for 2024). Based on data availability, a constant sample of 27 countries is used across both years within each region: East Asia (4), Western Asia (5), Latin America and the Caribbean (11), and Africa (7).

23 McMillan, M., Rodrik, D. and Verduzco-Gallo, I. (2014). "Globalization, Structural Change, and Productivity Growth, with an Update on Africa," *World Development*, vol. 63.
24 Cirera, X., Comin, D., and M. Cruz (2022). *Bridging the Technological Divide: Technology Adoption by Firms in Developing Countries*. Washington, DC: World Bank.

At the firm level, capability gaps—in managerial know-how, skills and the capacity to integrate new technologies—constrain adoption in many economies. While adoption lags between developed and developing economies have narrowed, the relative success with which firms use adopted technologies has continued to diverge, with lower-income economies consistently deploying individual technologies less productively than higher-income ones.[25] These gaps are particularly pronounced in Latin America, where declining R&D investment points to persistent constraints on knowledge adoption. In Africa, domestic capacity to absorb and apply external technologies also represents a key constraint on efficiency gains.[26]

Productivity growth for shared prosperity and the SDGs

These divergent regional trajectories reflect two related but distinct dimensions of the productivity challenge. Productivity growth within countries has decelerated broadly across both developed and developing economies over the past two decades, eroding the basis for broadly shared gains in living standards. Convergence across countries—the narrowing of productivity gaps between developing and developed economies—has weakened, with gains increasingly concentrated in a small number of large economies in Asia and, within countries, in a narrow set of frontier firms, while many others continue to fall behind. Both dimensions have structural roots—such as investment weakness, capability gaps and the uneven diffusion of technologies— that have developed over time.[27] The medium-term outlook is now shaped by a further set of constraints that risk compounding these pre-existing factors.

The most immediate of these is the crisis in the Middle East. By driving energy and input costs sharply higher, disrupting critical trade routes, tightening global financial conditions and increasing uncertainty, the conflict is compressing business margins and dampening the investment in equipment, processes and capabilities that underpins productivity gains. Developing economies—particularly energy-importing countries in South Asia and sub-Saharan Africa—face the heaviest burden, as surging import costs strain external balances and crowd out productive investment at a time when fiscal buffers are already thin. The crisis thus risks deepening investment weakness in precisely the regions where the foundations for productivity growth are already most fragile. Beyond these pressures, the crisis has also curtailed productive activity in the region, as governments have implemented emergency measures—including reduced working hours and input rationing—that, while temporary, have weighed on labour productivity and capacity utilisation.

Over the medium term, geopolitical fragmentation poses a more gradual but potentially more enduring risk to the channels through which productivity has historically diffused across countries and firms. Trade, investment, and technology flows have been central to integration and productivity growth in recent decades. These channels are now increasingly shaped by geopolitical competition and security concerns, and the expanded use of trade-restrictive measures threatens to curtail the cross-border exchanges on which diffusion depends. Trade restrictions risk eroding efficiency gains from specialization and weakening competitive pressures, while limits on advanced technologies—in semiconductors, artificial intelligence (AI), clean energy and

25 Comin, D. and Mestieri, M. (2018). "If Technology Has Arrived Everywhere, Why Has Income Diverged?", *American Economic Journal: Macroeconomics*, vol. 10, no. 3.

26 Danquah, M., Ouattara, B. and Quartey, P. (2018). "Technology Transfer and National Efficiency: Does Absorptive Capacity Matter?", African Development Review, vol. 30, no. 2.

27 The structural drivers of productivity growth—including investment dynamics, human capital gaps, structural change and innovation capacity—will be examined in greater depth in the *World Economic Situation and Prospects 2027*.

biotech—may raise costs, fragment innovation ecosystems and weaken cross-border knowledge spillovers. Any gains from trade diversion and associated investments may be concentrated in economies with stronger productive capabilities and more robust institutional frameworks, with low-income countries—which rely heavily on external finance, market access and technology transfer—facing more structural exposure, compounding weak innovation systems and limited capacity to apply new technologies.[28]

These pressures are compounded by increasingly constrained fiscal space. Public investment plays an essential complementary role to private financing— providing the infrastructure, human capital and knowledge base on which business activity depends. Weaker revenue bases, higher borrowing costs and a deteriorating external financing environment—pressures the Middle East crisis is further intensifying—are constraining fiscal policy at a time when demand for productivity-enhancing investment is rising. Public capital formation is often among the first expenditures compressed when fiscal space narrows, eroding the public goods that underpin private investment and firms' capacity to adopt and deploy new technologies. In Latin America and the Caribbean, for instance, median public investment as a share of GDP has fallen by more than one percentage point since 2014, reaching the lowest levels among developing regions—a compression that has contributed to the region's persistently weak productivity performance.[29] Such adjustments tend to have persistent effects, as foregone investment today weakens the foundations for future productivity growth and can widen gaps in productive capabilities.

Advanced digital technologies and artificial intelligence present a more mixed picture, offering significant potential for boosting productivity, but with outcomes that remain highly uncertain and uneven. Micro-level evidence from developed economies points to meaningful efficiency gains in specific tasks and occupations such as customer support, writing, coding, and selected forms of knowledge work. But these gains will not automatically translate into aggregate productivity growth. Experience with earlier general-purpose technologies has shown their economy-wide impacts to depend on complementary investments in human capital skills, management, organizational redesign, and digital and energy infrastructure, and may take time to materialise in aggregate productivity statistics. Countries with stronger productive capabilities are better positioned to realize these gains; for many developing economies, especially lower-income ones, gaps in connectivity, electricity, computing infrastructure, skills, finance, and regulatory capacity remain significant barriers. However, outcomes vary widely within income groups and some middle-income economies are already showing rapid user adoption.[30] At the same time, AI's potential to increase job losses and exacerbate inequality remains a significant concern regarding its eventual impact on human well-being.

The more proximate factors described above place those economies where productive capacities are weakest and conditions for technology adoption least developed at greater risk. Where productivity gains do materialise, the evidence shows they may not be widely shared—in many economies, productivity growth has decoupled from median wage growth, with gains increasingly concentrated at the top of the income distribution.[31] The extent to which future gains translate into broadly shared wage growth, quality employment and progress towards the Sustainable Development Goals will depend on whether the labour market institutions and distributional mechanisms needed to transmit those gains equitably are in place.

28 Afonso, H. and Vergara, S. (2022). "Exporters in Africa: What Role for Trade Costs?", *Journal of African Trade*, vol 9, pp. 144-158.
29 UN ECLAC (2025). Fiscal Panorama of Latin America and the Caribbean 2025 (LC/PUB.2025/6-P).
30 Chaar, T. and others (2025). *AI and the global productivity divide: Fuel for the fast or a lift for the laggards?* OECD Artificial Intelligence Papers, No. 51.
31 Schwellnus, C., Kappeler, A. and Pionnier, P. (2017). "The Decoupling of Median Wages from Productivity in OECD Countries", *International Productivity Monitor*, vol. 32, pp. 44–60.

Addressing these challenges will require deliberate efforts to strengthen productive capacities. Preserving an open and predictable multilateral trading environment, expanding access to finance and deepening international cooperation on technology transfer and collaborative capability-building will be equally essential. In this context, the Sevilla Commitment—the outcome of the Fourth International Conference on Financing for Development—offers a way forward. It addresses key structural constraints on productivity growth by mobilising investment at scale, easing financing bottlenecks and strengthening the institutional foundations for technology adoption and long-term capability-building.[32]

32 United Nations, Inter-agency Task Force on Financing for Development, Financing for Sustainable Development Report 2026: Implementing the Sevilla Commitment. New York: United Nations, 2026.

Regional economic outlook

Developed economies

North America

The United States economy is projected to expand by 2.0 per cent in 2026, slowing from 2.1 per cent in 2025. Elevated mid- and long-term government bond yields—which have tempered the fall in consumer loan and mortgage rates—and higher energy prices due to the Middle East conflict are weighing on growth. Spending on durable goods has softened and residential investment has remained subdued. Overall investment is expected to stay weak, except for AI-related equipment and structures. However, because the hardware underpinning AI systems (including chips, servers and networking equipment) carries high import content, its net contribution to GDP growth is expected to be moderate. Private services consumption is projected to remain resilient, supported by an increase in real disposable income following tax cuts and modest real wage gains, despite weakening job creation and slowing labour force growth. The overall inflationary impact of the energy price shock is currently expected to be smaller than in 2022, with modest projected increases in natural gas and electricity prices. Shelter cost growth is expected to ease gradually, while the housing market recovery remains slow.

In Canada, GDP growth is forecast at 1.5 per cent in 2026, down from 1.7 per cent in 2025. While private consumption remains resilient, supported by positive but moderating real wage growth, the private investment recovery has remained subdued. Energy exports are projected to increase, but the scheduled 2026 review of the United States–Mexico–Canada Agreement introduces significant uncertainty to Canada's export outlook.

Europe

The Middle East conflict has delivered a significant terms-of-trade shock to Europe, a major net energy importer. Higher energy prices are eroding household purchasing power and raising production costs, weighing on consumer spending and business investment—a setback for an economy that had shown resilience in late 2025 and early 2026 despite ongoing trade tensions and macroeconomic uncertainty. GDP growth in the European Union is projected to slow to 1.1 per cent in 2026—0.2 percentage points below the January forecast and down from 1.5 per cent in 2025. In the United Kingdom, a sharper deceleration is forecast, from 1.4 per cent in 2025 to 0.7 per cent in 2026 (a downward revision of 0.4 percentage points), reflecting the economy's acute exposure to the energy shock and a weak domestic backdrop of subdued consumer spending and a cooling labour market.

Inflationary pressures due to higher energy costs are set to intensify. In the European Union, inflation is projected to rise from 2.3 per cent in 2025 to 2.7 per cent in 2026, while in the United Kingdom it is expected to remain elevated at 3.2 per cent. Consequently, monetary policy is set to be less accommodative than previously anticipated. Sovereign bond yields have surged to multi-year highs, tightening financial conditions more broadly.

Fiscal policy is expected to loosen in 2026 as governments deploy measures to offset the energy shock, alongside stepped-up public investment in infrastructure and defence, most notably in Germany. This easing, however, is likely to be uneven as several high-debt economies have limited room to borrow further without risking market pressure or breaching fiscal rules. The European Union labour market is expected to remain broadly resilient, with the unemployment rate staying near 6 per cent. Divergence across economies continues, however, with unemployment edging higher in manufacturing-driven countries while services- and tourism-oriented economies see firmer job creation.

Developed Asia and the Pacific

The domestic demand-led recovery in Australia, Japan, and the Republic of Korea has come under pressure from the energy supply shock triggered by the Middle East conflict. Growth in 2026 is projected at 2.0 per cent for Australia, 0.8 per cent for Japan, and 1.5 per cent for the Republic of Korea. While Australia is a major natural gas exporter, it remains dependent on imports of refined fuel products. Japan and the Republic of Korea rely heavily on crude oil from the Middle East for domestic refining, though both source a significant share of their LNG from Australia. In the Republic of Korea, supply chain disruptions and deteriorating terms of trade—notably rising prices of industrial inputs for semiconductor-related exports—are weighing on growth, moderating an upward trend that has otherwise held since 2025. In Japan, weakening consumer sentiment is expected to dampen the private consumption-led recovery. In Australia, wage-driven inflationary pressures have led the Reserve Bank to resume monetary tightening in early 2026, adding a further drag on growth.

Economies in transition

Economic growth across the Commonwealth of Independent States (CIS) and Georgia is expected to moderate in 2026. Regional GDP, which grew by 2.4 per cent in 2025, is projected to expand by 2.1 per cent in 2026. Alongside the ongoing war in Ukraine, the Middle East conflict has introduced further uncertainty to the region, including by disrupting trade logistics.

Preliminary data indicate that the Russian Federation's economy contracted in the first quarter of 2026, with full-year growth projected at 1.0 per cent. Stronger export earnings from hydrocarbons, fertilizers, and agricultural products are expected to be partially offset by structural constraints, including labour shortages, sluggish productivity growth, and subdued non-military investment. In Ukraine, the economy is expected to expand by 1.7 per cent in 2026, constrained by heavy damage to power generation and infrastructure. International financial assistance remains crucial, with post-conflict reconstruction cost estimates revised upwards to $588 billion.[33] Most countries of the Caucasus and Central Asia are projected to expand above the regional average, supported by exports and domestic growth drivers, including residential and infrastructure investment. However, for smaller energy-importing countries, higher costs will add to inflation, constrain private consumption, and exacerbate pressures on fiscal and current account balances, with limited policy space to respond.

In South-Eastern Europe, GDP growth is expected to accelerate from 2.4 per cent in 2025 to 3.0 per cent in 2026, mostly due to a rebound in Serbia. Downside risks include higher energy costs, weak external demand, and a softening tourism sector.

33 World Bank and others (2026). *Ukraine Fifth Rapid Damage and Needs Assessment*. Washington, D.C.

Developing economies

Africa

Africa's growth outlook has weakened amid shipping and energy market disruptions and heightened uncertainty from the Middle East conflict. Regional growth in 2026 is projected at 3.9 per cent, 0.1 percentage points below the January forecast. While higher commodity prices support domestic investment and growth in many resource-rich economies, rising import costs are expected to weigh on private consumption. Higher fuel and food prices are projected to push inflation to 9.9 per cent in 2026, an upward revision of 0.8 percentage points from January but still moderately below 11.3 per cent in 2025. Ten African central banks and the Central Bank of West African States continued easing monetary policy in early 2026; however, the easing cycle has since stalled amid upside inflation risks.

The Middle East conflict affects African economies unevenly. Fuel exporters such as Algeria, Angola and Nigeria, benefit from elevated prices, though gains are partially offset by imports of refined petroleum products. Fuel importers face higher import bills and broader inflationary pressures. These pressures are further amplified in Southern African economies such as Botswana, Eswatini, and Lesotho, which rely on supplies transshipped through South Africa—itself heavily dependent on refined fuel from the Gulf.

Rising fertilizer prices present a lagged but potentially severe risk with the potential to weigh on agricultural output, particularly in countries most dependent on Gulf-origin inputs.

Trade is likely to remain resilient in 2026, building on strong 2025 momentum, with export and import growth exceeding the global average. Primary commodities, including precious metals, drove export performance, while imports of vehicles and electronics surged. The ongoing diversification of global supply chains may open new opportunities through new trade partnerships and shifting shipping routes.

The trade relationship with the United States faces headwinds despite the reactivation of the African Growth and Opportunity Act, while African Continental Free Trade Area integration continues to advance slowly.

Remittances represent an immediate vulnerability: flows from GCC countries account for an estimated 73 per cent of inflows in Egypt and 20 per cent in Ethiopia, leaving both economies exposed to income shocks from tightening GCC labour markets.

East Asia

East Asia is forecast to grow by 4.4 per cent in 2026 (unchanged from January), moderating from 5.0 per cent in 2025. While much of the region entered 2026 with solid performance in exports and domestic demand, the Middle East conflict has clouded the near-term outlook. Heavy reliance on energy imports from the Middle East exposes many East Asian economies to a terms-of-trade shock, fuelling inflationary pressures. Excluding China, regional inflation is projected at 3.0 per cent in 2026, an upward revision of 0.8 percentage points from January. A prolonged conflict would threaten supplies of energy, fertilizers and petrochemical inputs critical to agricultural and manufacturing production. Despite easing global trade tensions in late 2025, the ongoing Section 301 investigations in the United States could lead to additional tariffs, dampening the region's export prospects.

China's growth is projected to moderate from 5.0 per cent in 2025 to 4.6 per cent in 2026. Policy support will continue to underpin private consumption and investment in manufacturing and infrastructure, yet weakness in the property sector persists and export growth may slow following the front-loaded shipments ahead of the United States tariff increases in 2025. Compared with regional peers, China is less immediately exposed to Middle East energy disruptions owing to its energy mix and strategic reserves. Oil and oil products account for less than 20 per cent of China's total

energy supply, and GCC countries supply less than a third of its crude imports.

Elsewhere in the region, economies heavily reliant on energy imports from the Middle East—such as the Philippines, Thailand, and Viet Nam—are particularly vulnerable to higher energy prices and supply disruptions. Higher transport and production costs squeeze margins for export-oriented economies. Surging jet fuel costs could curb air travel, affecting tourism-dependent economies, including Thailand and the Pacific SIDS. Nevertheless, growth projections for several economies exporting AI-related electronics have been revised up from January, including Singapore and Taiwan Province of China, where stronger-than-expected growth in the fourth quarter of 2025 implies a sizeable statistical carry-over into 2026.

Governments across the region have implemented measures to counter rising energy prices, including fuel subsidies, energy price controls, fuel excise tax cuts, energy conservation and remote-work policies. Central banks are expected to maintain a cautious policy stance; Indonesia, Malaysia, and the Philippines were among those holding key interest rates in March, citing heightened uncertainty. Some economies may also temporarily increase reliance on coal to offset energy supply disruptions.

South Asia

South Asia's growth is projected to moderate from 6.1 per cent in 2025 to 4.6 per cent in 2026. The 1.0 percentage point downward revision from January is driven primarily by a sharp contraction in the Islamic Republic of Iran. Risks to the outlook are tilted to the downside, contingent on the duration and severity of the Middle East conflict and its disruptions to oil and gas trade.

The Islamic Republic of Iran's economy is projected to contract by 6.4 per cent in 2026,[34] as the conflict exacerbates already severe macroeconomic imbalances accumulated under international sanctions. Disruption to oil exports has been compounded by energy infrastructure damage, accelerating currency depreciation, eroding household purchasing power, and driving inflation to a projected 68.4 per cent in 2026. Uncertainty surrounding this forecast is exceptionally high, reflecting the conflict's evolving nature and the difficulty of gauging its full economic impact.

India's economy is forecast to grow by 6.4 per cent in 2026[35]—a downward revision of 0.2 percentage points from the January forecast—supported by resilient private consumption and strong services exports. India's diversified energy sourcing and structural buffers, including its refining infrastructure, ample foreign exchange reserves, and fiscal space to manage fuel prices, may limit the direct pass-through of higher crude prices. Countries with heavy dependence on GCC energy imports, such as Pakistan and Sri Lanka, face sharper terms-of-trade deterioration. Downside risks also stem from softer investor sentiment and weaker remittance inflows from GCC economies—particularly for Bangladesh and Nepal, where they represent a substantial share of GDP.

Regional consumer price inflation is projected to rise to 13.8 per cent in 2026, up from 8.7 per cent in the January forecast, driven largely by soaring inflation in the Islamic Republic of Iran. In India, inflation is forecast at 4.9 per cent—within the Reserve Bank of India's target range—with the policy rate held at 5.25 per cent amid rising inflation risks. For Bangladesh, Pakistan, and Sri Lanka, rising energy costs and weaker remittances are pressuring balance of payments positions, with risks of reserve drawdowns and currency depreciation complicating stabilization efforts under IMF programmes.

34 On a calendar year basis.
35 On a calendar year basis.

Western Asia

The economic outlook for Western Asia has deteriorated significantly amid escalating regional conflict, disruptions to maritime trade, the effective closure of the Strait of Hormuz, and damage to critical infrastructure. GDP growth is projected to decline from an estimated 3.6 per cent in 2025 to 1.4 per cent in 2026, though the scale of the downturn remains highly uncertain, depending on the conflict's duration and intensity.

For the region's main energy exporters—Iraq and the GCC member States—economic activity has been constrained by prolonged restrictions on energy exports and inbound merchandise shipments, alongside rising transport and insurance costs. The impact, however, is uneven across countries, reflecting differences in export structure, reliance on transit through the Strait of Hormuz and infrastructure damage. Significant GDP contractions in 2026 are expected in Iraq owing to its heavy reliance on oil revenues, and in Qatar, whose LNG exports are overwhelmingly routed through the Strait of Hormuz. Saudi Arabia and the United Arab Emirates are projected to record positive, albeit subdued, growth, cushioned by greater economic diversification and, in Saudi Arabia's case, the ability to partially reroute energy exports via Red Sea terminals.

Beyond direct energy revenue losses, the drag on the non-energy sector—the primary engine of regional growth in recent years—is weighing on the outlook, with the sharp decline in non-oil purchasing managers' indices reflecting deteriorating business sentiment. Tourism and aviation are significant additional transmission channels, with inbound and transiting arrivals projected to fall sharply in 2026. In response, GCC central banks introduced financial stability measures in March and April.

Higher energy import costs are exacerbating external imbalances in the region's energy-importing economies, particularly Jordan, Lebanon, the Syrian Arab Republic, Türkiye, and Yemen, intensifying inflationary pressures more broadly. For Türkiye, while only 1.6 per cent of petroleum imports originate from GCC countries, broader price spillovers are significant, risking a slowdown in the disinflation process and prompting the central bank to pause rate cuts in March. Weaker demand from Western Asia and the Islamic Republic of Iran—accounting for around 15 per cent of Türkiye's exports—and slower European growth add further headwinds to the outlook.

Latin America and the Caribbean

Latin America and the Caribbean remains on a low-growth trajectory. Regional GDP is projected to expand by 2.3 per cent in 2026 (unchanged from the January forecast) following 2.5 per cent growth in 2025. Despite supportive commodity prices, economic activity continues to be constrained by a combination of structural weaknesses—notably weak investment and limited fiscal space—and other headwinds, including softer external demand and elevated borrowing costs. Compounding these challenges, the energy shock has reignited inflationary pressures and strained the external balances of oil-importing economies.

Brazil's growth is expected to decelerate from 2.3 per cent in 2025 to 2.0 per cent in 2026, reflecting still-restrictive monetary conditions. Expansionary measures, including minimum wage increases and higher income tax thresholds for lower-income households, will provide some support to domestic demand. Meanwhile, Mexico's outlook is gradually improving. After expanding by only 0.8 per cent in 2025, growth is projected to reach 1.5 per cent in 2026, supported by a recovery in private consumption, a modest pickup in investment, and higher public spending on infrastructure and social programmes. However, the renegotiation of the United States–Mexico–Canada Agreement introduces some uncertainty.

After three years of sustained disinflation, the energy shock has set back progress toward

central bank inflation targets across the region. Inflationary pressures are up, even in net energy exporters, with headline inflation rising in Brazil, Chile, Colombia, and Mexico and expectations edging up. In Argentina, inflation declined markedly over the past year, but the pace of disinflation has recently slowed, suggesting further reductions may prove harder to sustain. Central banks are adopting a more cautious approach to monetary easing, with some pausing rate cuts. Governments have introduced several measures, including fuel subsidies, to cushion the impact of the energy price shock but their scope remains constrained by tight fiscal positions.

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