World Economic Situation and Prospects

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Bent crude has risen by about 40% since February to around $100 per barrel, while diesel and jet fuel prices have increased even more sharply.

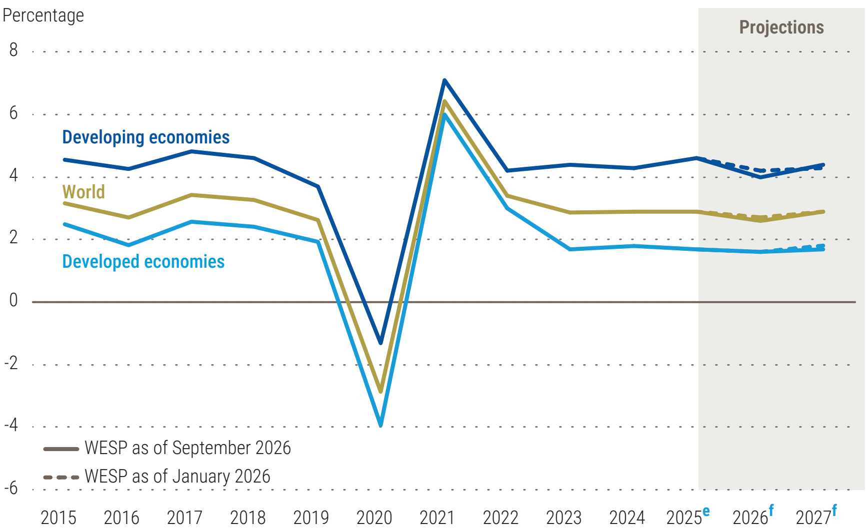
JOY KAHASHI/PEXELS

Global economic overview

The Middle East conflict has delivered another major shock to a world economy already contending with the aftermath of recent crises, heightened geopolitical and trade tensions, shrinking fiscal space, and continuing climate-related shocks. Nevertheless, a severe downturn in global growth has so far been averted. The world economy has done better than many early projections had suggested, though the pace of growth remains subdued, performance is uneven across countries and significant risks remain.

Global growth is projected at 2.6% in 2026 and 2.9% in 2027, each 0.1 percentage points above the May forecasts, but below expectations at the start of the year (figure 1) and well below the pre-pandemic average of 3.2% during 2010–2019. Inflation, which had been declining steadily since early 2024, has risen again following the surge in energy prices. In early September, Brent crude traded around $100 per barrel—about 40% above pre-conflict levels—while prices of downstream petroleum products such as diesel and jet fuel have risen even more sharply.

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.

Merchandise trade expanded strongly in the first half of 2026, partly driven by surging demand for artificial intelligence infrastructure.

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Several factors have cushioned the impact of the energy shock. The global economy is significantly less oil-intensive than in past decades, limiting the pass-through of the price shock to broader activity. In some economies, existing inventories and diversification of energy supplies have provided additional temporary buffers, while many governments have deployed fiscal support measures to shield households and firms from higher energy costs. Labour markets have remained broadly resilient, sustaining household incomes and consumer demand across many economies. In addition, AI-driven demand for hardware, data infrastructure, and digital services has lifted trade and investment, though benefits remain concentrated in developed economies and a few East Asian exporters.

Nonetheless, downside risks remain substantial and the outlook is highly uncertain as coping capacities become increasingly constrained. The trajectory of the Middle East conflict has been marked by intermittent ceasefire negotiations and renewed escalations, adding a significant layer of uncertainty and volatility to the outlook (see box 1 for an update on energy and fertilizer disruptions linked to the crisis). Renewed disruptions to energy and food supply chains remain a key risk. Financial vulnerabilities

Box 1

The Middle East Conflict: Energy and Food Supply Disruptions

The conflict that began on 28 February 2026 severely disrupted the economies of the region—particularly the Islamic Republic of Iran, the Gulf Cooperation Council member States, and Iraq—and sent shockwaves through global commodity markets via the closure of the Strait of Hormuz. A ceasefire took effect on 8 April, culminating in the signing of the Islamabad Memorandum of Understanding between the United States and the Islamic Republic of Iran on 17 June 2026. The Memorandum established a framework for de-escalation, but many of its provisions remained unimplemented when it expired on 17 August. The ceasefire remains fragile, with renewed hostilities since early July.

The number of daily ship transits through the Strait of Hormuz fell from an average of 85 per day in 2025 to low single digits in April and May (figure 1.1a). A partial recovery in late June and early July, when daily transits reached around 25, proved short-lived; by mid-July traffic had fallen back to around 10 vessels per day, and by early September to only 5.

In September, escalating conflict along Yemen's Red Sea coast—with strategic islands near the Bab el-Mandeb Strait now contested—has further heightened risks to global shipping and energy flows, compounding disruptions from restricted passage through the Strait of Hormuz. About 15% of global maritime traffic normally transits through the Bab el-Mandeb Strait.[a] In June, petroleum flows through the strait amounted to roughly 7% of global oil production.[b]

Energy supply

The loss of Middle Eastern energy supply was partially offset by inventory drawdowns and increased output elsewhere. International Energy Agency (IEA) estimates put the average Middle East supply loss at around 10.7 million barrels per day between March and July 2026. Global oil inventories fell by 410 million barrels between the start of the conflict and end-July—an average reduction of 2.7 million barrels per day—leaving total observed stocks at just below 7.9 billion barrels.[c] Supply growth from the Americas, forecast at 1.4 million barrels per day in 2026, provided a partial offset.[d]

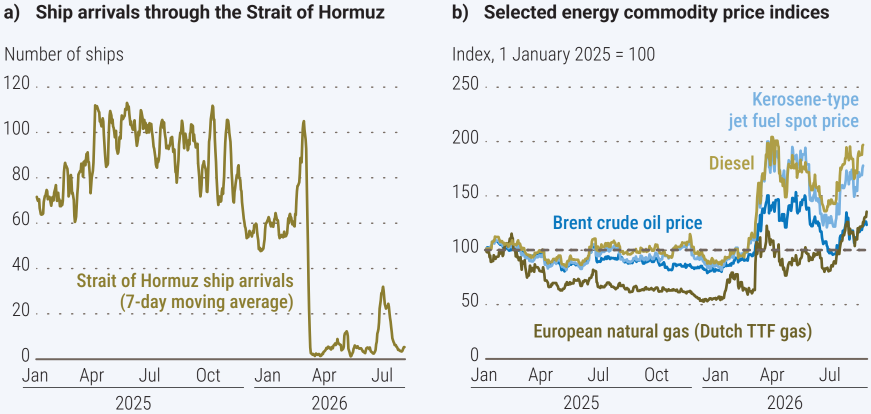
Shortfalls in crude oil availability resulted in sharply lower refinery activity. Global refinery runs fell by an estimated 4.7 million barrels per day year-on-year in the second quarter and remained nearly 5 million barrels per day below year-earlier levels in July, reflecting both conflict-related constraints on crude availability and planned seasonal maintenance.[e] The resulting constraint on refined product supply contributed to exceptionally tight middle-distillate markets:[f] in August, Atlantic Basin diesel refining margins exceeded $100 per barrel—an all-time high—while diesel exports from the Russian Federation, the Middle East and Asia were 1.3 million barrels per day below year-earlier levels, equivalent to around one-fifth of global seaborne diesel trade. Crude oil prices have generally trended downward since April, but with significant volatility, while fuel product prices—particularly diesel—remain near historically high levels and are projected to stay elevated through 2026 (figure 1.1b).[g]

a International Monetary Fund (IMF), PortWatch.
b Abdallah, N. (2026), Explainer: Why is the Bab el-Mandeb Strait so important? Reuters.
c Bosoni, Martin and Schulz (2026), How global oil supplies have readjusted to help fill the huge gap left by the Strait of Hormuz shock, Paris: International Energy Agency.
d International Energy Agency (IEA) (2026), Oil Market Report – August 2026, Paris.
e International Energy Agency (IEA) (2026), Oil Market Report – June 2026; and Oil Market Report – August 2026, Paris.
f Middle distillates are refined petroleum products derived from the middle boiling range of the crude oil distillation process, including diesel, heating oil, and jet fuel.
g Jet fuel prices also experienced a sharp increase, roughly doubling between February and April 2026, before easing through June and subsequently trending up again from early July.

Despite the near-complete halt in Qatari LNG exports, global gas prices remain significantly below their 2022 peaks, though spot prices in Europe and East Asia have risen substantially above pre-crisis levels. The United States sharply increased LNG exports, which rose by 23% year-on-year in the first six months of 2026.[h]

Figure 1.1

Energy market developments and shipping activity in the Strait of Hormuz



Source: UN DESA, based on data from IMF PortWatch, Trading Economics and the United States Energy Information Administration.
Note: The kerosene-type jet fuel series refers to the U.S. Gulf Coast kerosene-type jet fuel spot price (FOB) and the diesel series refers to the U.S. Gulf Coast ultra-low sulfur No. 2 diesel spot price.

Fertilizer and food

Damage to the Ras Laffan complex triggered the suspension of urea, ammonia and sulfur exports from Qatar from March 2026, causing pronounced increases in fertilizer prices. While urea prices declined sharply in the second quarter, sulfur prices stayed elevated, raising the cost of diammonium phosphate (DAP) production. Combined with higher energy costs, these developments have influenced planting decisions for the 2026/27 winter crop season.

As with energy, however, production declines among major exporters are expected to be partly offset by gains elsewhere, keeping the aggregate impact contained. Australia's wheat production is expected to fall by 26% to 26.7 million tons in 2026/27 and U.S. production by 22% to 41.6 million tons, reflecting reduced planted area and lower expected yields due to elevated input costs.[i] Despite these declines, global wheat production is projected to fall by only 2.8% to 819.3 million tons, with lower output among major exporters partly offset by robust production in major importing countries such as China and India and an expected recovery in North Africa due to recently favourable weather conditions. Production declines are also projected for coarse grains (2.2%), maize (2.3%) and rice (1.5%), pointing to gradual but persistent upward pressure on food prices—though from levels well below the peaks of 2008, 2012 and 2022—with disproportionate impacts likely on small-scale farmers and local food security.

h United States, Energy Information Administration (EIA) (2026), Natural Gas – Liquefied U.S Natural Gas exports. The loss of LNG supplies resulting from the closure of the Strait of Hormuz is estimated at approximately 10 billion cubic feet per day (Bcf/d), whereas the increase in U.S. LNG exports averaged about 3 Bcf/d year-on-year during the first half of 2026.

i Australia, Department of Agriculture, Fisheries and Forestry (2026), Australian Crop Report June 2026; and United States, Department of Agriculture (2026), The World Agricultural Supply and Demand Estimates (WASDE) August 2026.

Projected production declines in coarse grains, maize and rice are likely to exert upward pressure on food prices.

DARLA HUESKE/UNSPLASH

could intensify if borrowing costs stay elevated or rise further, financing conditions tighten, or asset prices, particularly in AI-related sectors, adjust abruptly. Climate-related shocks, including El Niño, pose additional risks, especially for agriculture-dependent developing economies. Meanwhile, mounting fiscal pressures—amid high and rising government borrowing costs—risk constraining public investment in infrastructure, education, digitalization and climate resilience, weighing on long-term productivity and potential growth, while widening gaps in progress towards the Sustainable Development Goals.[1]

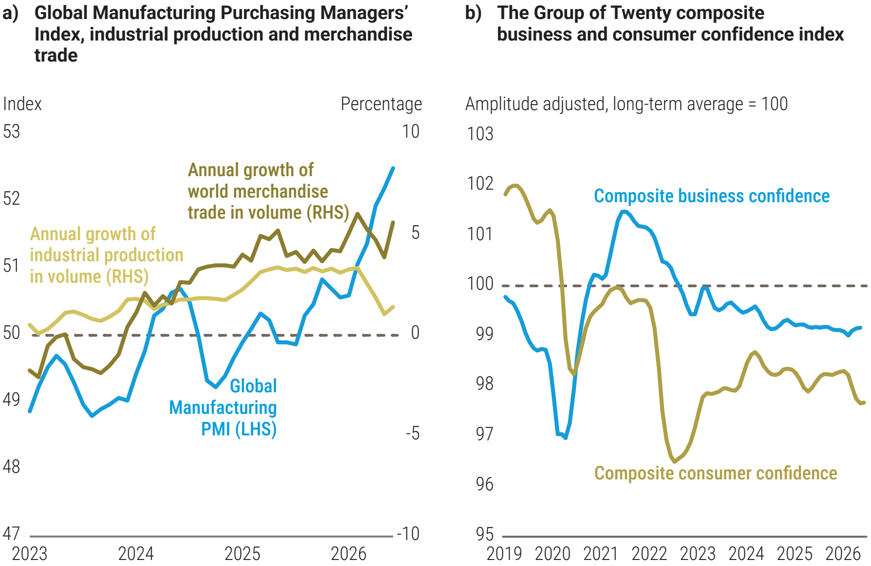
Modest revisions to 2026 and 2027 growth forecasts

Against this backdrop, revisions to growth forecasts since May are modest overall, with the outlook remaining below the expectations published in January 2026. For China, Japan, and the United States,

1 The *World Economic Situation and Prospects 2027* will provide an analysis of recent trends and drivers of productivity growth and the implications for inequality and development.

Figure 2

High-frequency macroeconomic indicators



Source: UN DESA, based on data from OECD, J.P. Morgan, CPB Netherlands Bureau for Economic Policy Analysis, CEIC and Trading Economics.
Notes: Panel a): LHS = left-hand scale; RHS = right-hand scale. All indicators are calculated using a three-month moving average.

projections are unchanged from May. Upgrades are concentrated in Europe and parts of Asia: the euro area and the United Kingdom recorded slightly stronger-than-expected growth in the first half of 2026 despite higher energy prices, supported by solid labour markets and government spending; the Republic of Korea, Singapore and other technology-intensive exporters benefited from surging demand for AI-related goods; and upward revisions for India and Indonesia reflect resilient domestic demand and stronger investment. By contrast, growth prospects have weakened in several Latin American economies—including Argentina, Brazil, and Mexico—amid tight financial conditions and constrained fiscal space, while Western Asia faces a marked deterioration in the short-term outlook owing to conflict-related infrastructure damage and disruptions to energy production, trade and tourism.

High-frequency data point to continued global economic momentum (figure 2a). Merchandise trade expanded strongly in the first half of 2026. The global manufacturing purchasing managers' index (PMI) remained above the neutral 50 threshold during the first seven months of the year, signalling sustained expansion. Global industrial production continued to grow, though at a softer pace than at the start of the year. Business sentiment has slightly improved across most large economies in recent months, but remains below its long-term trend, while consumer confidence has fallen notably since the outbreak of the conflict (figure 2b). This divergence reflects the disproportionate burden of cost-of-living pressures—particularly elevated energy and food prices—on lower- and middle-income households, compounded by heightened geopolitical uncertainty.

Energy price shock pushes inflation higher

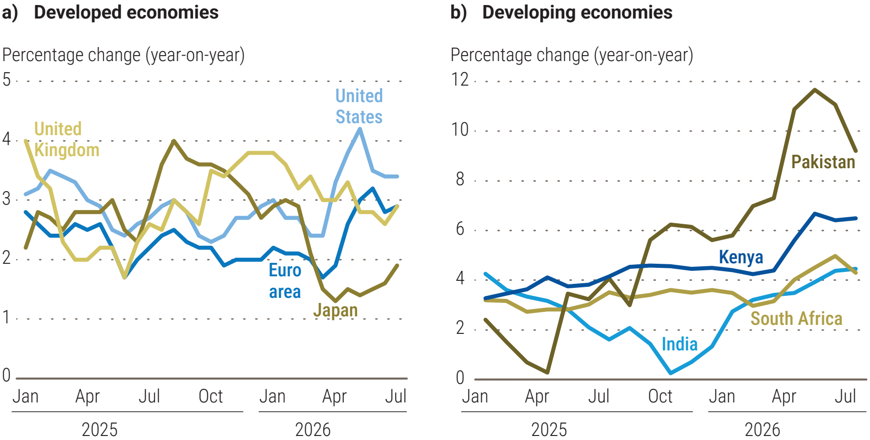
The Middle East energy shock has interrupted the global disinflation trend that began in 2023. Headline inflation is projected to rise in 2026, exceeding the January projections in most developed and developing economies. Inflationary pressures remain largely concentrated in components most exposed to energy costs, particularly transport and food, with broader pass-through contained so far. Unlike in 2021–2022, when post-pandemic pent-up demand amplified supply shortages, the current shock is unfolding in a softer demand environment, limiting the scope for a broader inflation surge. Second-round effects have so far been limited and there is no clear sign of broad de-anchoring of inflation expectations. However, upside risks to inflation remain significant, reflecting persistent services inflation in some economies, renewed food price pressures, and higher trade costs, all of which could intensify if energy prices stay elevated for longer.

Across developed economies, the energy price shock has pushed headline inflation higher, although the magnitude of the increase and broader pass-through have varied (figure 3a). In the United States, headline inflation rose markedly in the second quarter before easing to 3.4% in July, while core inflation remained sticky. In the euro area, headline inflation reached 2.9% in July, but inflation excluding energy remained contained, suggesting limited pass-through to broader prices. Across Europe, food inflation has moderated compared to a year ago amid favourable supply conditions, partly offsetting the impact of higher energy prices on headline inflation.

Among developing economies, inflation outcomes have varied widely, reflecting differences in energy import dependence, exchange rate movements, and domestic pricing policies for fuel and electricity (figure 3b). Inflation has remained low in China—at 0.5% year-on-year

Figure 3

Consumer price inflation in selected economies



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

in July—amid subdued domestic demand, while rising food and energy prices have increased inflationary pressures in many South Asian and African economies (figure 3b). Pass-through has also depended on domestic fuel-pricing regimes: countries with more market-based pricing have generally experienced stronger increases in transport and food costs, while administered prices and subsidies have cushioned the impact in others. In Latin America and the Caribbean, inflationary pressures have remained relatively contained, partly reflecting measures to limit the pass-through of higher global energy prices.

Robust global trade growth continues, driven by AI demand

Global trade continued to expand at a robust pace in the first half of 2026 despite the fallout from the Middle East crisis. Merchandise trade rose by 5.4% year-on-year in real terms over the January–May period, surpassing both the 4.3% recorded in 2025 and earlier expectations.

Merchandise trade growth was driven primarily by surging demand for artificial intelligence infrastructure, fuelling an extraordinary expansion in technology-intensive goods, including semiconductors, ICT equipment, electrical machinery and related components. Production and trade remained concentrated in East Asia, with the Republic of Korea, Singapore, and Taiwan Province of China recording real export growth exceeding 20% during January–May 2026. China's strong export growth in the first half of 2026 was driven by electronics, electrical vehicles, and battery shipments. By contrast, trade growth remained weak in several traditional industrial sectors, including chemicals and iron and steel.

Services trade also continued to expand at a robust pace in the first half of 2026.[2] Growth was led by digitally deliverable services, including ICT, financial, and intellectual property-related services. International tourism, a key driver of service exports, remained resilient but lost momentum, with tourist arrivals increasing by only 2% year-on-year in the first quarter of 2026 as the Middle East conflict weighed on travel demand.[3] Higher fuel costs raised air fares and reduced flight capacity in several markets, constraining growth in travel-related services.

These developments unfolded against a backdrop of continued shifts in United States trade policy, with new and existing tariffs affecting a broad range of trading partners and products and adding to uncertainty in the trade outlook. Together, these measures have accelerated the restructuring of bilateral trading relationships. Trade between China and the United States fell by roughly one quarter in 2025, while a growing share of trade was channelled through connector economies, including Indonesia, Mexico and Viet Nam, which have emerged as important manufacturing, assembly and logistics hubs.[4]

Financial market volatility and rising sovereign borrowing costs

Financial markets in mid-2026 have been marked by heightened volatility amid the ongoing Middle East conflict, oil price swings, and renewed inflationary pressures. Nonetheless, equity markets registered gains across developed and developing economies, supported by robust corporate earnings and, in some cases, continued optimism about AI technologies. Valuations remain elevated relative

2 Services trade is estimated to have grown by 10.5% in nominal terms during the first six months of 2026 (See, United Nations Conference on Trade and Development (UNCTAD) (2026), Global trade continues to expand amid rising price pressures, Global Trade Update, July–August 2026, Geneva).

3 UN Tourism (2026), International tourism up 2% in Q1 2026 amid growing uncertainty, World Tourism Barometer, June.

4 Rokosz, Katarzyna (2026), Shifting merchandise trade relationships amid geopolitical tensions, Monthly Briefing on the World Economic Situation and Prospects, No. 199 (August), New York: UN DESA.

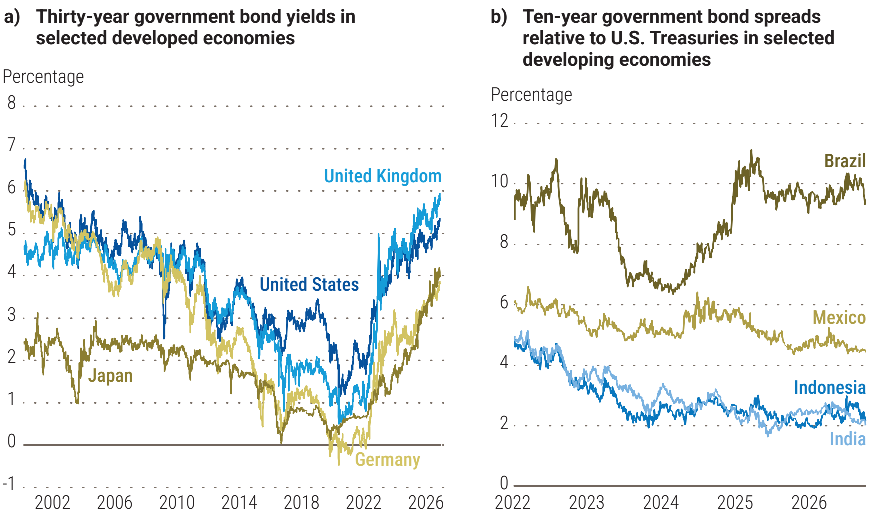
to historical averages—especially in the United States—while corporate credit risk premia are compressed. This heightens financial vulnerabilities and raises the risk of abrupt market corrections.

Long-term government borrowing costs across major developed economies reached multi-year highs in September 2026, with 10-year yields increasing markedly and 30-year yields posting even larger gains (figure 4a). The 30-year United States Treasury yield rose to 5.31%, its highest level since 2007, while the United Kingdom's touched levels last seen in 1998, and yields in Germany and France climbed to roughly 15-year highs.

Two structural forces have sustained upward pressure on long-term interest rates. Renewed inflation concerns—amplified by energy price volatility linked to the Middle East conflict—have reinforced expectations that monetary policy will remain tighter for longer. At the same time, trajectories of rising public debt and large fiscal deficits have heightened concerns about fiscal sustainability in some developed economies (figure 5).

While no economy is insulated from higher long-term interest rates, the effects differ across country groups. In developed economies, higher sovereign yields feed directly into borrowing costs faced by

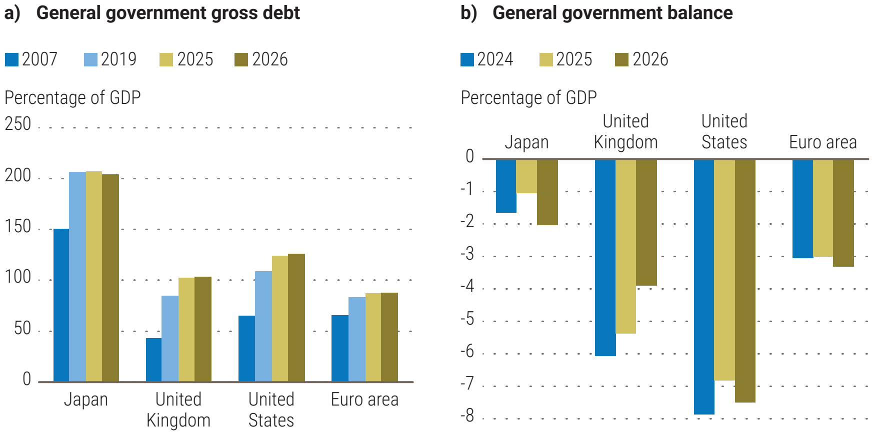
Figure 4
Government borrowing costs



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

Figure 5

Key fiscal indicators in selected developed economies



Source: UN DESA, based on data from the IMF World Economic Outlook database, April 2026.
Note: Panel b): The fiscal balance is defined as general government net lending or borrowing.

households: mortgage rates have risen significantly, while consumer credit has become more expensive. Governments also face rising debt-servicing burdens, with interest payments consuming a growing share of public resources and constraining investment and social spending.[5] This creates a feedback loop: concerns about fiscal trajectories push borrowing costs higher, while higher borrowing costs tend to further weaken fiscal positions.

Higher benchmark rates raise borrowing costs for developing countries at a time when fiscal space is already severely constrained. Against this backdrop, sovereign spreads—the premium developing countries pay over benchmark rates when borrowing internationally—widened at the outbreak of the conflict before narrowing through the second quarter and into July as capital inflows strengthened (figure 4b). This easing, however, was concentrated among larger borrowers with stronger credit profiles and deeper market access. Lower-income and vulnerable economies continue to face acute pressures, compounded by a structural shortening of debt maturities, from around 17 years before 2021 to just 9.5 years in 2025.[6] Around 36% of

5 In 2026, the U.S. government is projected to spend approximately $1.0 trillion—or about 3.3% of GDP and 18.6% of federal tax revenues—on net interest payments for the national debt.

6 United Nations Conference on Trade and Development (UNCTAD) (2026), Financing development: External flows of financial capital to developing countries and their cost, Technical and Statistical Report, Geneva.

outstanding bonds in emerging and developing economies and 52% in low-income countries mature within three years.[7]

Monetary easing cycle interrupted by renewed inflationary pressures

Renewed inflationary pressures have led central banks across much of the world to pause—and in some cases reverse—the monetary easing cycle that began in 2024, although the pace of easing had already moderated before the Middle East crisis as disinflation slowed. While broader pass-through from higher energy prices has remained relatively contained so far, the renewed inflation risks have narrowed the scope for lowering policy rates, emphasizing once again the trade-off between containing inflation and supporting growth. The near-term outlook will depend largely on whether higher energy prices prove temporary or trigger broader second-round effects through wages and inflation expectations.

Among developed economies, monetary policy has remained broadly restrictive, with some central banks tightening further (figure 6a). The U.S. Federal Reserve raised interest rates by 25 basis points to 3.75-4.00% in September, marking its first rate hike since 2023 amid persistent inflationary pressures. Meanwhile, the European Central Bank increased interest rates in June and September, bringing its key policy rate to 2.5%. The Bank of Japan has continued to tighten policy, lifting its main rate to 1.00% by mid-September, the highest level since the mid-1990s. Nevertheless, the U.S.–Japan interest rate differential, despite some narrowing, continued to weigh on the yen, which in July fell to its weakest level against the dollar since 1986, prompting a joint United States–Japan intervention in foreign exchange markets. The yen has since recovered notably, trading in early September at its strongest level in seven months.

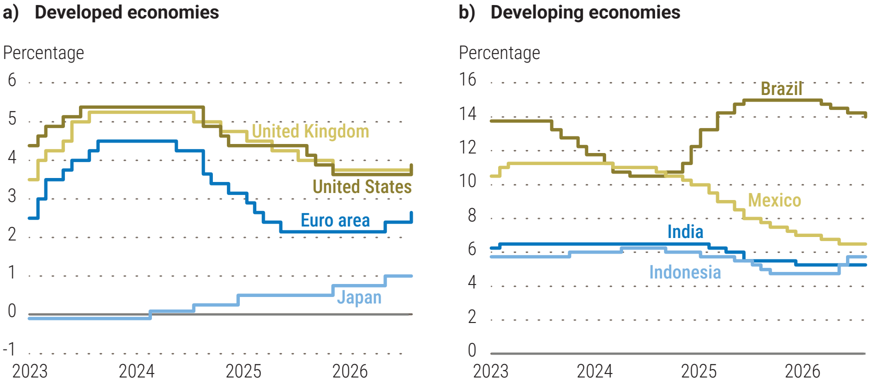
Among developing economies, policy stances remain heterogeneous (figure 6b), reflecting differences in inflation, domestic demand, and exchange-rate pressures. China has maintained a moderately accommodative stance amid subdued domestic demand. Elsewhere, several other central banks have faced more limited room to ease or have tightened monetary policy to counter renewed inflation and currency pressures.[8]

7 Organisation for Economic Co-operation and Development (OECD) (2026), Global Debt Report 2026: Sustaining Debt Market Resilience Under Growing Pressure. Paris.

8 For example, Indonesia's central bank hiked rates in May, while Mexico's entered a policy pause.

Figure 6

Central bank policy interest rates in selected economies



Source: UN DESA, based on CEIC data.
Note: The figure reflects information available up to 16 September 2026.

Mounting fiscal pressures amid energy shock and elevated debt

The Middle East energy shock has intensified already substantial fiscal pressures. Global public debt, which had risen sharply during the pandemic, reached nearly 94% of GDP in 2025, up from 82% in 2019, leaving limited room to absorb new shocks. Higher fuel costs have dampened growth and eroded public revenues, while raising the fiscal cost of supporting households and firms—pressures felt most acutely in energy-importing countries. At the same time, higher borrowing costs have added to debt-servicing burdens and refinancing risks.

By end-July 2026, about 110 governments had responded with support measures, including tax reductions, targeted subsidies and price caps on energy charges, to cushion households and firms.[9] As conditions stabilized relative to the initial spike, many of these measures have expired or are being phased out. Comprehensive estimates of the fiscal cost of the 2026 response are not yet available but appear considerably more limited in scale than in 2022. The capacity to cushion the shock varies considerably, with limited fiscal space constraining policy responses particularly in parts of Africa, South Asia and Pacific small island developing States.

Fiscal pressures, however, extend well beyond the current energy shock. Rising spending demands related to defence, infrastructure,

9 International Energy Agency (IEA) (2026), Energy Crisis Policy Response Tracker.

industrial policy, energy security and population ageing are adding to already strained public finances. Balancing these competing demands while rebuilding fiscal buffers will be increasingly challenging in an environment of subdued growth and persistently elevated borrowing costs.

Macroeconomic trends in developed economies and economies in transition

United States of America and Canada

For the **United States**, GDP growth is forecast at 2.0% in 2026 and 2027, unchanged from May. The underlying outlook remains broadly intact, supported by resilient but moderating consumer spending amid near-zero real wage growth and persistently high borrowing costs. Inflation remains well above the Federal Reserve's target of 2%, with the Personal Consumption Expenditures Price Index (PCE) rising by 3.7% year-on-year in July and one-year-ahead inflation expectations standing at 3.6% in September.[10] Employment growth has slowed sharply, with the labour force participation rate falling to a five-year low in July. Strong growth in AI-related investment, particularly in equipment and intellectual property products, continues to support fixed capital formation. The main change from the previous forecast is an improvement in net exports, driven by stronger exports of crude oil and refined fuel products. On the import side, rapid growth in AI-related equipment was broadly offset by declines across most other goods categories, leaving total imports little changed. The positive contribution from net exports is, however, largely undermined by continued weakness in residential and building investment.

For **Canada**, GDP growth for 2026 has been revised down from 1.5% to 1.0%, reflecting weaker-than-expected domestic demand, with investment remaining soft across most categories except intellectual property products.

European Union and United Kingdom

The **European Union's** economy is projected to grow by 1.3% in 2026, 0.2 percentage points above the May projections, and 1.4% in 2027.

10 Federal Reserve Bank of New York (2026), Medium-Term Inflation Expectations Tick Down; Unemployment Expectations Deteriorate.

The region has proved more resilient to the Middle East energy shock than expected, supported by a stable labour market, sustained real wage growth, and rising government spending on defence and infrastructure. Business and consumer sentiment have been recovering, though both remain below their long-term averages. In the euro area, inflation remains close to 3%, driven by energy prices and still-elevated services inflation. The European Central Bank has responded by raising rates, with further tightening possible if energy prices remain elevated. Risks to the outlook are tilted to the downside, including a further escalation of the Middle East conflict and renewed trade tensions.

Germany's 2026 growth forecast has been upgraded to 1.2%, with rising public spending and recovering exports and industrial production providing momentum, while **Italy's** has been lifted to 1%, supported by robust investment and exports. By contrast, **France's** growth forecast has been lowered to 0.5%, weighed down by fiscal constraints and subdued investment.

The **United Kingdom's** economy has outperformed expectations in the first half of the year. Growth is now forecast at 1.2% in 2026 and 1.1% in 2027, both above the May projections. The upgrade reflects resilient services activity and solid consumer spending, though above-target inflation and pressures on the public finances continue to weigh on the outlook.

Developed Asia and the Pacific

Japan's 2026 growth forecast remains unchanged at 0.8%. While higher energy prices continue to erode the terms of trade and weigh on domestic demand, sustained real wage growth is expected to support modest consumption growth. The **Republic of Korea's** forecast, by contrast, has been revised sharply upward, from 1.5% to 3.2%, driven by rapid growth in net exports and a significant improvement in the terms of trade. Rising semiconductor and related export prices have substantially outpaced increases in energy import prices. Uncertainty remains, however, about the extent to which these gains will spill over beyond the technology sector.

Australia's 2026 growth forecast has been revised down slightly to 1.8%, as persistent inflationary pressures and monetary tightening are expected to weigh on domestic demand for longer than previously anticipated.

Commonwealth of Independent States (CIS) and Georgia

Economic growth in the **CIS and Georgia** region is projected at 1.8% in 2026 and 2.2% in 2027, reflecting mixed performance across the region. Growth in the Russian Federation and Ukraine remains sluggish, in contrast to continued robust momentum across the Caucasus and Central Asia. The economy of the **Russian Federation**, which grew by 1.0% in 2025, remains on a low-growth trajectory, with GDP projected to expand by only 0.5% in 2026. Conflict-related disruptions to domestic fuel supply as well as oil and grain export capacity, alongside tighter sanctions, persistent labour shortages and a still-restrictive monetary policy, continue to weigh on economic activity. In **Ukraine**, power shortages and damage to port infrastructure suppress economic activity, with GDP growth projected to remain below 1.0% in 2026. By contrast, most economies in the Caucasus and Central Asia have maintained strong momentum in the first half of 2026, despite higher fuel import costs and some disruption to regional logistics stemming from the Middle East conflict and fuel supply pressures in the Russian Federation.

Macroeconomic trends in developing economies

Africa

The African region is projected to grow by 4.0% in 2026, slightly up from the May forecast, with growth expected to edge up to 4.2% in 2027. Fuel supply chain disruptions, stemming from restricted energy shipments through the Strait of Hormuz and bottlenecks in global refining capacity, led to fuel shortages in many African countries, including several crude oil exporters While inflationary pressures from higher energy prices have persisted, many countries have continued to benefit from growth in the mining sector, helping them avoid balance-of-payment crises. Despite some moderation, fertilizer prices remain elevated and, combined with the rapidly intensifying El Niño phenomenon, continue to pose significant risks to agricultural production and food security. Meanwhile, uncertainty surrounding United States tariff policy is weighing on Africa's export prospects, while the diversion of trade flows into African markets risks crowding out domestic producers.

Among the large African economies, growth in **Nigeria** and **South Africa** is projected at 4.3% and 1.3% respectively in 2026, unchanged

AI-driven demand has fuelled strong export growth, particularly in East Asian economies deeply integrated into global technology supply chains.

from May. **Egypt's** growth projection for fiscal year 2026 has been revised up to 4.6% on the back of improved macroeconomic conditions and expansion in manufacturing, tourism and ICT sectors.

East Asia

East Asia's growth forecast has been revised up to 4.6% in 2026 and 4.4% in 2027. Economic performance across the region has remained broadly resilient despite external headwinds, including energy market disruptions and persistent uncertainty over United States trade policies. Strong export growth, fuelled by AI-driven demand for semiconductors and electronics, has underpinned this resilience—most notably in economies deeply integrated into global technology supply chains. Meanwhile, the impact of higher energy prices in many East Asian economies has been temporarily cushioned by measures to contain domestic energy prices and efforts to secure alternative supplies, although such support is adding to fiscal pressures in some economies. Downside risks stem from ongoing geopolitical tensions, supply chain disruptions, and weaker external demand, while a severe El Niño could adversely affect agricultural production and increase food price pressures.

China's economy is forecast to grow by 4.6% in 2026, unchanged from the May forecast. Robust export growth has continued to support economic activity, but domestic demand remains subdued, reflecting weak consumer confidence and ongoing adjustments in the property sector. **Indonesia's** growth forecast has been raised to 5.0% in 2026, supported by government transfers and subsidies that are helping to sustain household spending even as consumer confidence and retail sales weaken.

South Asia

South Asia remains one of the world's fastest-growing regions, though the Middle East conflict is weighing on the outlook by pushing up energy import costs and disrupting shipping routes. Real GDP growth is projected to ease to 5.6% in 2026, before recovering to 6.0% in 2027, with energy markets expected to stabilize.

India's economy has remained resilient despite the challenging external environment. Growth is forecast to moderate slightly from 7.8% in fiscal year 2025/26 to 7.6% in 2026/27, underpinned by robust private consumption, public capital expenditure and strengthening private investment. Headline inflation accelerated to 4.5% in mid-2026, as the energy price shock transmitted through supply chains into food and transport costs, while currency depreciation added further import cost pressures. Inflation nonetheless remains within the central bank's tolerance band of 2 percentage points around the 4% target. **The Islamic Republic of Iran**, at the centre of the conflict, is projected to record a sharp decline in output, trade and investment in 2026, while inflation accelerated to 88% in July. Elsewhere in the region, **Bangladesh** and **Pakistan**—both significant net oil importers—are feeling the strain of higher energy costs, with inflation running above target and economic growth under pressure in both economies.

Western Asia

The economic outlook for **Western Asia** has further deteriorated since the May forecast. The prolonged regional conflict—disrupting energy production, maritime transport and trade and weighing on non-oil activities such as tourism—is dampening growth, while higher energy prices amplify inflationary pressures. Regional GDP growth is now projected at only 0.8% in 2026, a downward revision of 0.6 percentage points from May. In 2027, GDP is forecast to expand by 5.1%, supported by an expected recovery in energy production.

In **Saudi Arabia**, disruption to oil exports, combined with weaker external demand, is expected to result in GDP growth of only 0.5% in 2026. Non-oil activities grew 0.6% year-on-year in the second quarter of 2026, slowing from a 2.9% increase in the previous quarter.

In **Türkiye**, higher energy costs and tighter financial conditions are expected to weigh on domestic demand, while weaker regional trade adds to growth headwinds. As a result, the growth forecast has been revised down to 2.5% in 2026. Persistent inflation, running above 30%, remains a key constraint on the recovery.

Latin America and the Caribbean

Latin America and the Caribbean continues to face a subdued economic outlook, with growth constrained by long-standing structural challenges and a more difficult external environment. Regional GDP is projected to expand by 2.2% in 2026 and 2.5% in 2027, 0.1 and 0.2 percentage points respectively below the May forecasts. Weak investment, limited fiscal space, and subdued external demand continue to weigh on economic activity. The sharp increase in energy prices has interrupted the region's disinflation process, increasing inflationary pressures, especially in net fuel importers. As a result, central banks have paused or slowed their rate-cutting cycles, holding policy rates at restrictive levels.

Among the largest economies, **Brazil's** growth is projected to slow to 2.0% in 2026 amid still-elevated borrowing costs and softening private consumption. **Mexico's** 2026 growth forecast has been revised down to 1.3% as persistent trade uncertainty and weak investment continue to weigh on activity. **Argentina's** outlook has also been marked down, with growth forecast to moderate to 3.0% in 2026, as the post-recession rebound gradually loses momentum.

Least developed countries, landlocked developing countries and small island developing States

The Middle East conflict has reshaped the socio-economic outlook for LDCs, LLDCs and SIDS in 2026, as the energy price shock feeds through to food and consumer price inflation, eroding fiscal space and compounding a sharp contraction in official development assistance. In LDCs, growth is projected to slow from 4.5% in 2025 to 4.3% in 2026, and in LLDCs from 6.0% to 5.0%. Average growth in SIDS (excluding Singapore) is expected to slow from 2.1% in 2025 to just 1.7% in 2026, a downward revision from the May forecast.[11]

The energy shock has had acute consequences across all three country groups. Fuel shortages and supply uncertainty were particularly severe in several Pacific SIDS, prompting leaders of the Pacific Islands Forum to invoke the Biketawa Declaration in May to coordinate a regional response.[12] More broadly, rising energy prices and inflationary pressures have led to a renewed turn towards monetary tightening, with several central banks across Africa (such as Botswana, Ethiopia, Lesotho, Mauritius, Rwanda and Tanzania) raising policy interest rates between April and July 2026.

11 Average growth in SIDS (including Singapore) is projected at 3.6% in 2026, a significant upward revision from May driven by stronger-than-expected growth in Singapore, which accounts for about 54% of the group's total GDP.

12 Pacific Islands Forum (2026), Special FFMM Session Endorses Regional Response Mechanism under the Biketawa Declaration, Press release, 23 May.

Annex I

Growth of world output and gross domestic product, 2024 to 2027

Annual percentage change						Change from *World Economic Situation and Prospects as of mid-2026*		Change from *World Economic Situation and Prospects 2026*	
	2010-2019 average	2024	2025[a]	2026[b]	2027[b]	2026	2027	2026	2027
World	**3.2**	**2.9**	**2.9**	**2.6**	**2.9**	**0.1**	**0.1**	**-0.1**	**0.0**
Developed economies	**2.0**	**1.8**	**1.7**	**1.6**	**1.7**	**0.1**	**0.0**	**0.0**	**-0.1**
United States of America	2.4	2.8	2.1	2.0	2.0	0.0	0.0	0.0	-0.2
Japan	1.3	-0.2	1.1	0.8	1.1	0.0	0.0	-0.1	0.1
European Union	1.6	1.1	1.5	1.3	1.4	0.2	0.0	0.0	-0.2
Euro area	1.4	0.9	1.4	1.1	1.2	0.2	0.0	0.0	-0.2
United Kingdom of Great Britain and Northern Ireland	2.0	1.1	1.4	1.2	1.1	0.5	0.1	0.1	-0.2
Other developed countries	2.6	1.6	1.5	1.9	1.7	0.3	-0.2	0.3	-0.2
Economies in transition	**2.4**	**4.5**	**2.4**	**1.8**	**2.2**	**-0.4**	**-0.2**	**-0.4**	**-0.3**
South-Eastern Europe	2.0	3.5	2.4	3.0	3.6	0.0	0.1	-0.4	0.2
Commonwealth of Independent States and Georgia[c]	2.4	4.6	2.4	1.8	2.2	-0.3	-0.1	-0.3	-0.3
Russian Federation	1.9	4.3	1.0	0.5	1.0	-0.5	-0.2	-0.5	-0.5
Developing economies	**5.2**	**4.3**	**4.6**	**4.0**	**4.4**	**0.1**	**0.1**	**-0.2**	**0.1**
Africa[d, e]	3.8	3.7	4.4	4.0	4.2	0.1	0.0	0.0	0.1
East Asia	7.0	5.0	5.0	4.6	4.4	0.1	0.0	0.2	0.0
China	7.7	5.0	5.0	4.6	4.5	0.0	0.0	0.0	0.0
South Asia[f, g]	5.7	6.2	5.8	5.6	6.0	1.0	0.2	0.0	-0.1
India[g]	6.7	7.4	7.3	7.8	7.1	1.4	0.5	1.2	0.4
Western Asia[h]	4.2	2.1	3.7	0.8	5.1	-0.6	0.8	-3.3	1.1
Latin America and the Caribbean	1.6	2.3	2.4	2.2	2.5	-0.1	-0.2	-0.1	0.0
Brazil	1.4	3.4	2.3	2.0	2.1	0.0	-0.2	0.0	-0.2
Mexico	2.3	1.4	0.5	1.3	1.9	-0.2	-0.4	0.0	-0.3
Least developed countries[e, f]	**5.4**	**4.4**	**4.5**	**4.3**	**4.5**	**-0.1**	**0.0**	**-0.3**	**-0.5**
Landlocked developing countries[f]	**5.3**	**4.9**	**6.0**	**5.0**	**5.2**	**0.1**	**0.1**	**0.1**	**0.3**
Small island developing States	**3.9**	**5.0**	**3.7**	**3.6**	**3.6**	**1.0**	**0.2**	**0.8**	**0.8**
Middle-income countries	**5.6**	**4.5**	**4.5**	**4.1**	**4.4**	**0.1**	**0.1**	**-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** includes Ukraine for statistical classification purposes; **d** excludes Libya due to conflict; **e** excludes Sudan due to conflict; **f** excludes Afghanistan due to lack of data; **g** calendar-year basis; **h** excludes State of Palestine due to conflict. Estimates and forecasts are based on data and information available up to 24 August 2026. Countries for which forecasts have been updated relative to the *World Economic Situation and Prospects as of mid-2026* account for over 90% of world GDP at market exchange rate weights, including 83% of developed economies and 73% of developing economies.

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