CHAPTER I

Global Economic Outlook

Global economic environment and growth prospects

Stable but subdued global growth outlook

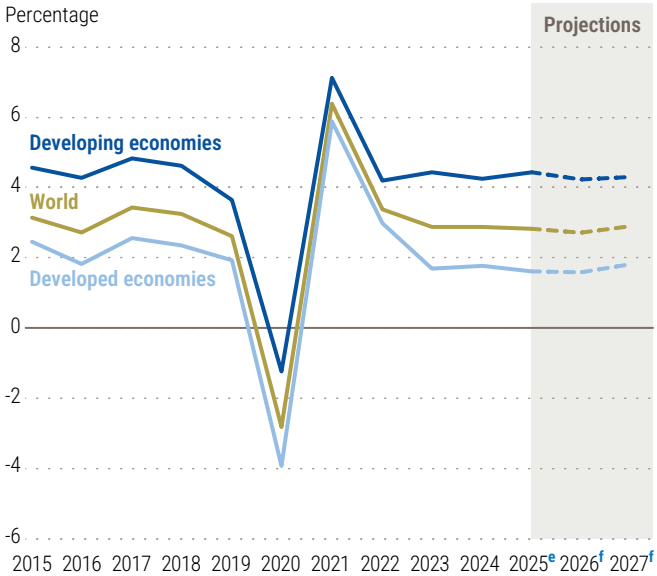
The global economic outlook remains clouded by elevated macroeconomic uncertainty, shifting trade policies, and fiscal challenges. Geopolitical tensions and financial risks add to these pressures, keeping the global economy fragile. In 2025, a sharp increase in United States tariffs created new trade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

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

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

Figure I.1

Growth of economic output



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

Table I.1

Growth of world output and gross domestic product

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

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

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

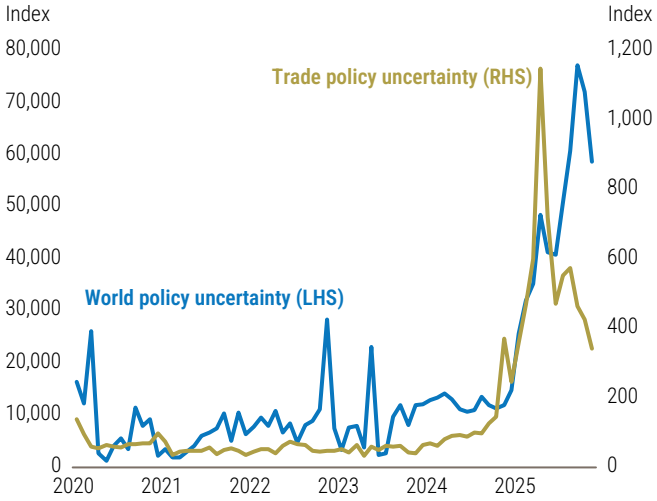
Recent global developments suggest a fragile outlook shaped by elevated policy uncertainty and softening industrial and trade activity. Although trade policy uncertainty has eased somewhat—reflecting partial tariff rollbacks in the United States and a wave of new trade agreements—it remains elevated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

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

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

Figure I.2

World policy uncertainty and trade policy uncertainty indices



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

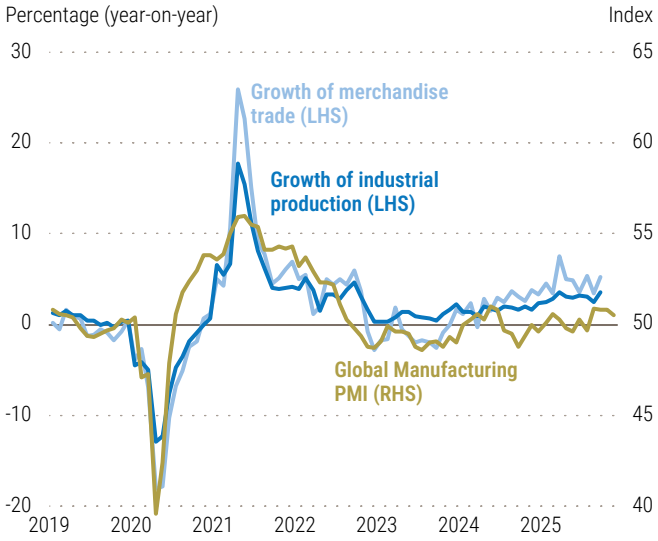
robust, strengthening external balances. Yet sovereign financing conditions remain sensitive to shifts in global risk sentiment, given the high public debt, persistent fiscal deficits, and still elevated long-term borrowing costs in many economies. In low-income developing countries, limited access to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

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

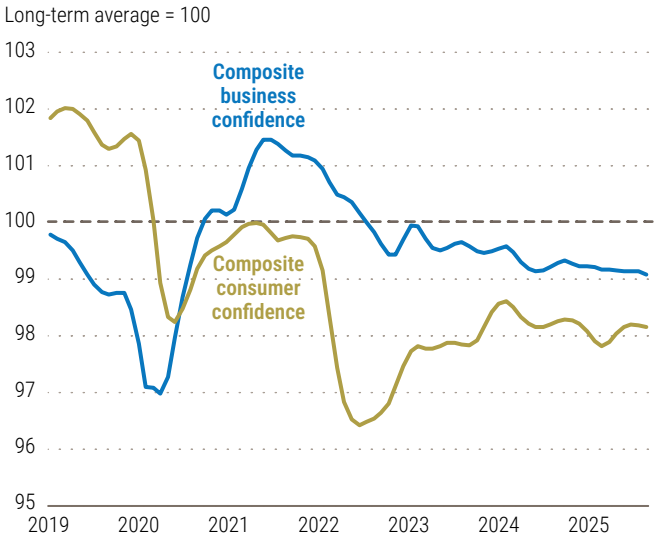
Figure I.3

High frequency indicators

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



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



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

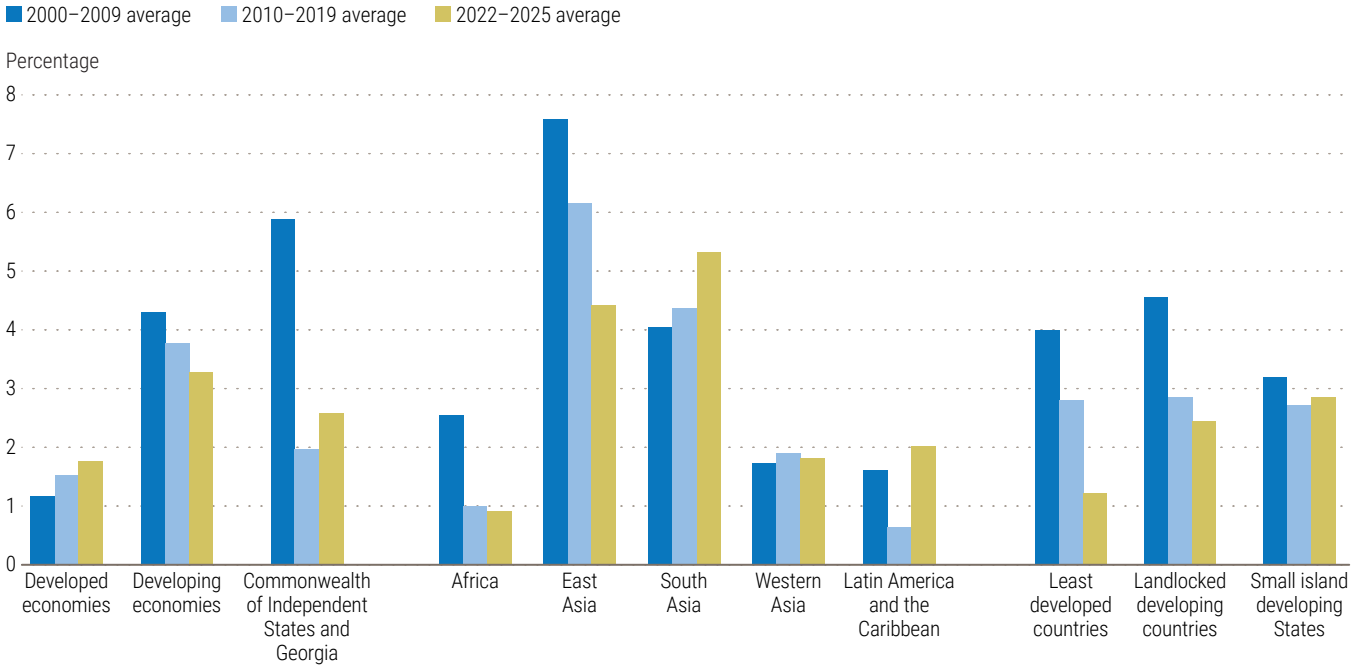
in 2025 are expected to rank among the highest on record, with a 70 per cent likelihood that the five-year average for 2025–2029 will exceed 1.5°C above pre-industrial levels (WMO, 2025). Weather- and climate-related extremes, from flooding and droughts to heatwaves and wildfires, are becoming more frequent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

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

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

Figure I.4

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



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

Regional economic prospects remaining broadly stable

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

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

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

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

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

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

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

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

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

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

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

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

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

Prospects for LDCs, LLDCs, and SIDS

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

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

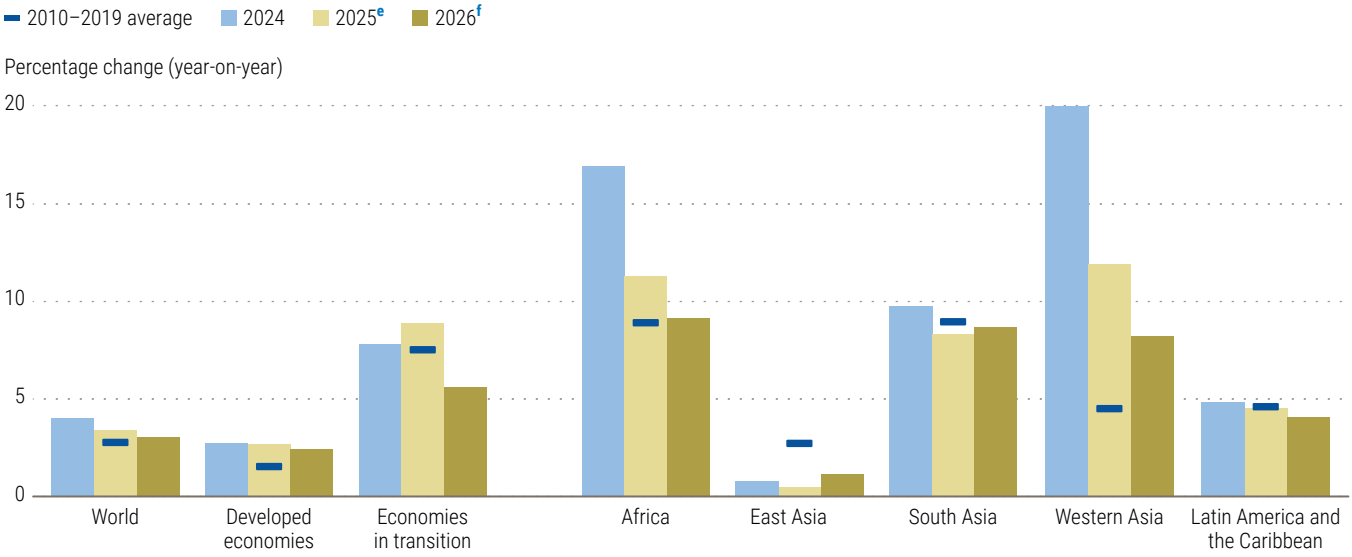
States—a market accounting for nearly 10 per cent of LDC exports—are expected to weigh on export performance (UNCTAD, 2025f). Several LDCs, including Lao People's Democratic Republic and Myanmar, are subject to particularly steep tariff increases, reaching around 40 per cent. Light manufacturing exports—especially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

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

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

Figure I.5

Global and regional inflation



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

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

Inflation

Continued global disinflation, yet uneven progress

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

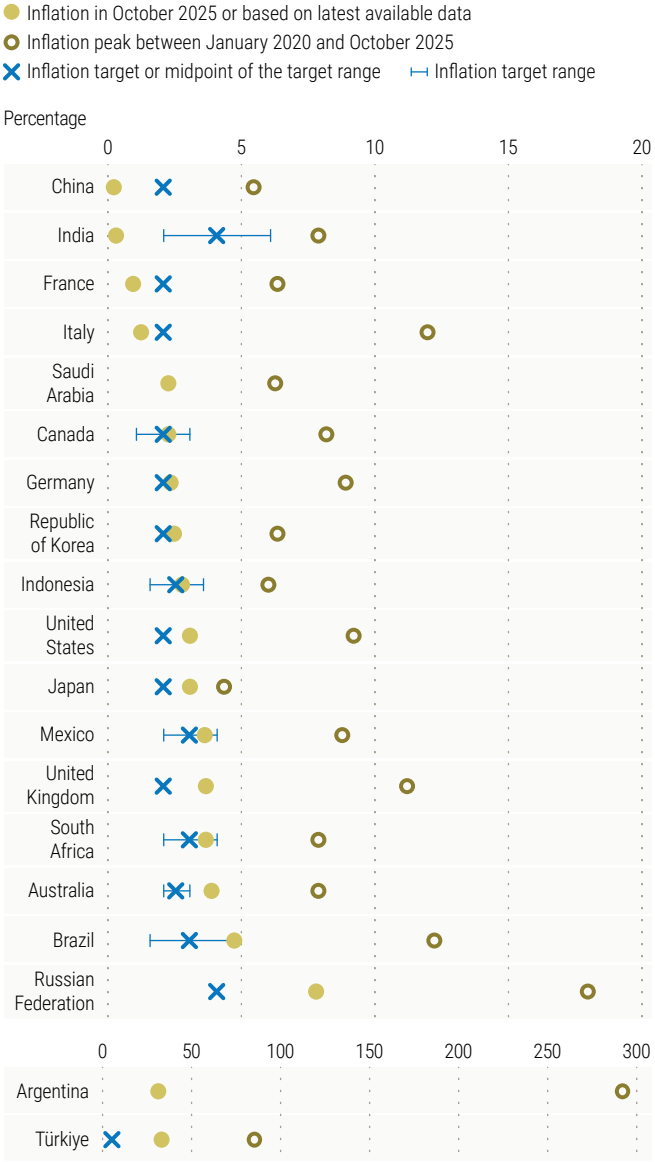
Although inflation is expected to ease over the forecast period, various factors could impede progress, including potential increases in energy prices linked to geopolitical tensions and conflicts, renewed supply chain disruptions, and adverse weather conditions that could constrain agricultural output—pushing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

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

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

Figure I.6

Inflation and inflation targets in Group of Twenty countries



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

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

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

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

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

International trade, commodities, and investment

Global trade showing resilience but momentum expected to soften

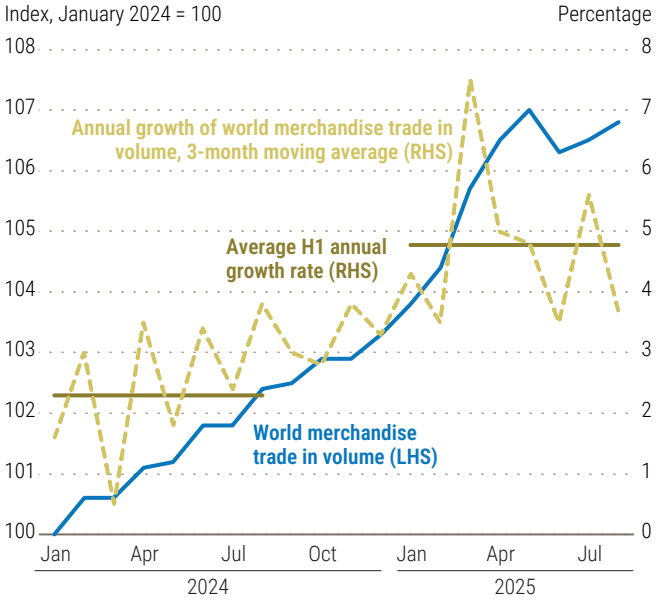
Global trade is estimated to have grown by 3.8 per cent in 2025, up from 3.5 per cent in 2024. This stronger-than-expected performance reflects the resilience of merchandise trade, which continued to strengthen despite significant headwinds and uncertainties, including heightened United States tariffs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

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

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

Figure I.7

World merchandise trade



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

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

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

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

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

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

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

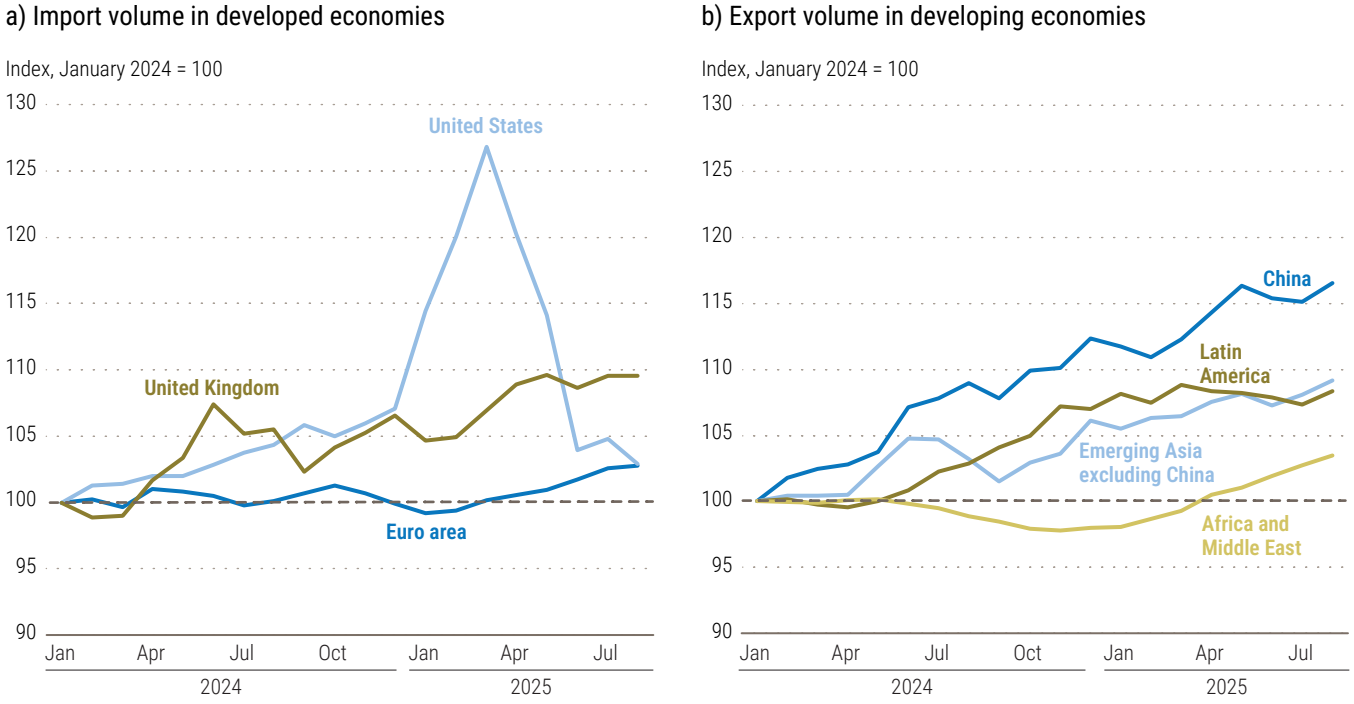
Trade in goods

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

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

Figure I.8

Merchandise imports and exports, selected regions



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

Box I.1

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

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

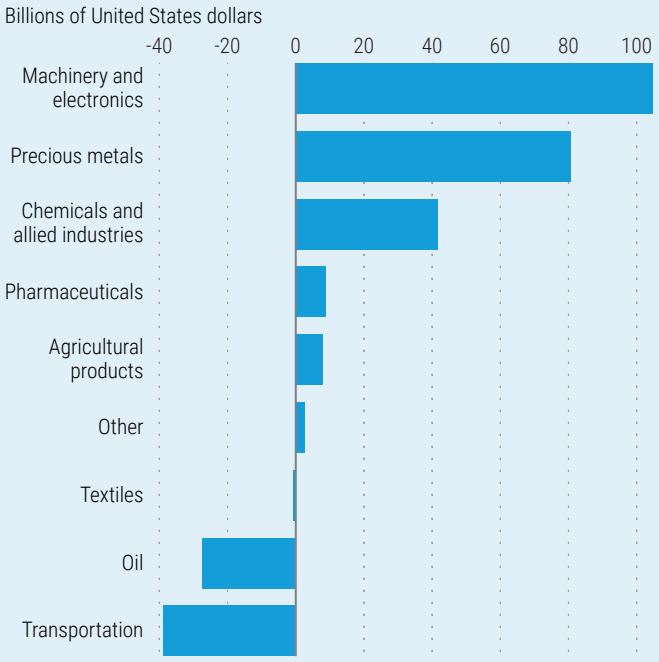
Throughout the first nine months of 2025,[a] United States imports grew by around 7 per cent year-on-year in nominal terms, partly due to the front-loading of imports before the implementation of new tariffs. Machinery and electronics recorded the strongest increase (see figure I.1.1a), driven by surging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

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

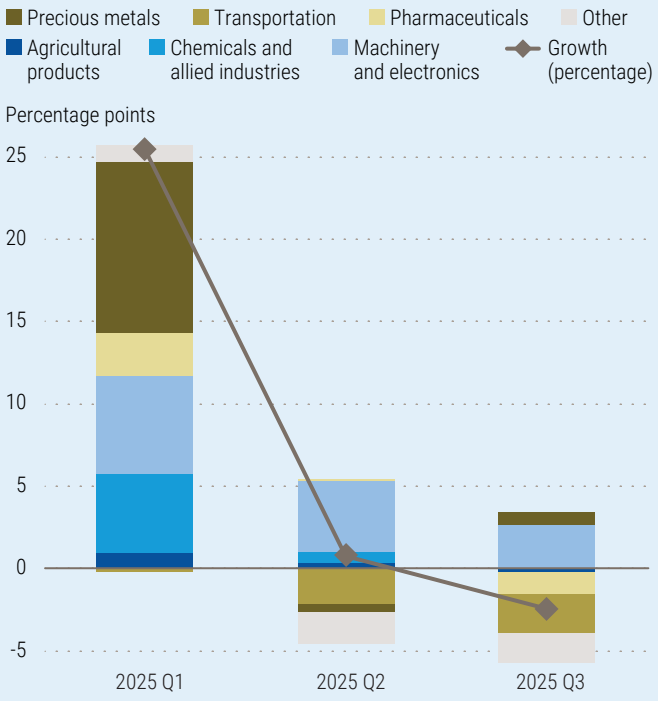
Figure I.1.1

United States merchandise imports

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



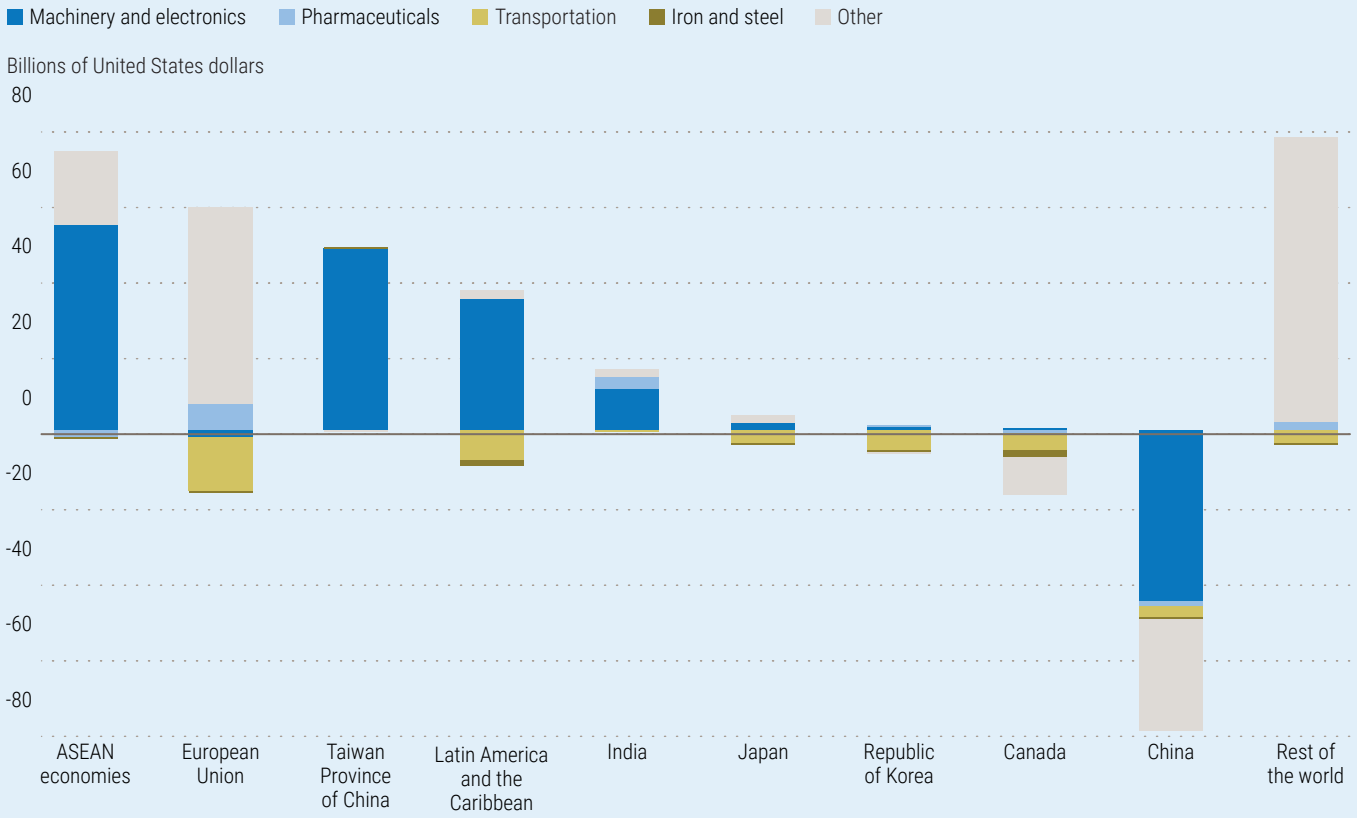
b) Annual growth and contributions, by product category



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

Figure I.1.2

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



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

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

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

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

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

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

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

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

Author: *Katarzyna Rokosz*

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

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

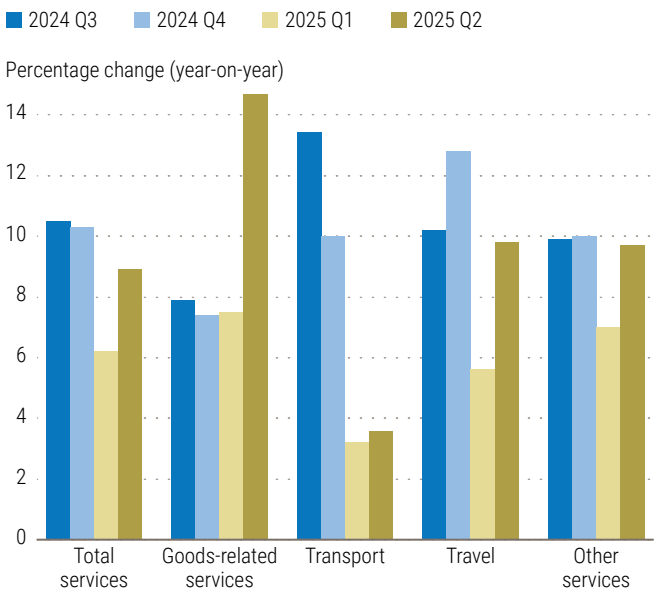
Trade in services

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

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

Figure I.9

Growth of services trade, by category



Source: UN DESA, based on data from UNCTADstat.

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

Emerging shifts in global trade

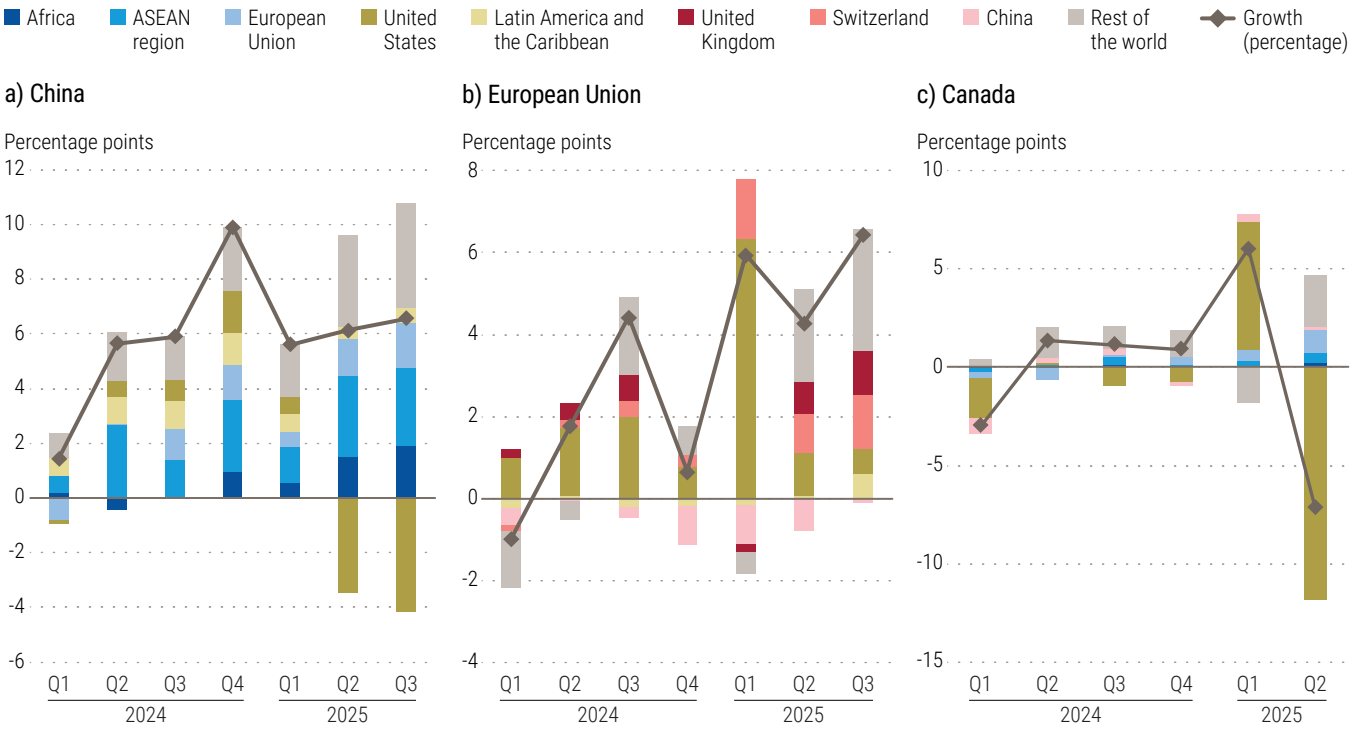
Higher United States tariffs and uncertainty over future market access prompted some realignment of global value chains in 2025. While impacts vary across product categories and trading partners, export market diversification has accelerated, particularly among the major trading partners of the United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

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

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

Figure I.10

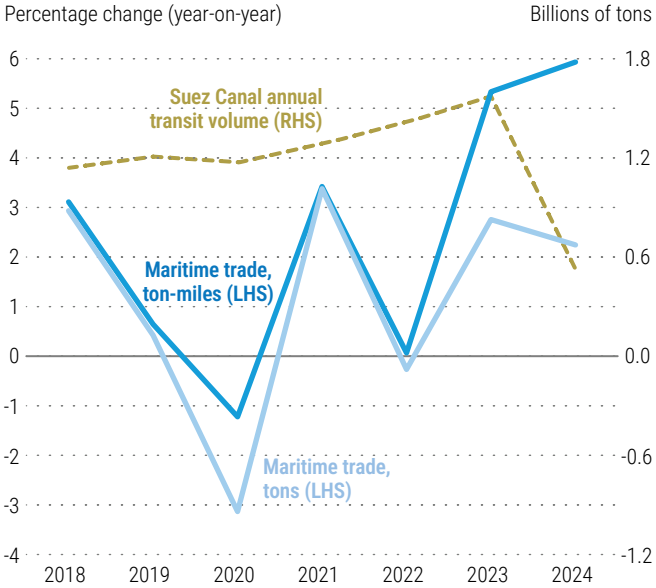
Annual growth of merchandise exports in selected economies and contributions, by destination



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

Figure I.11

Maritime trade and Suez Canal transit volume



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

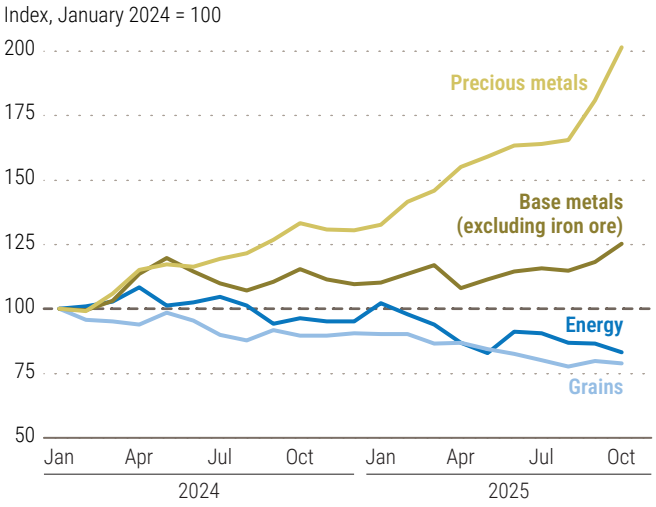
(UNCTAD, 2025g). While some of the effects of these adjustments are already visible in changing trade flows and shipping patterns, others will materialize gradually as long-term structural developments reshape value chains. This ongoing reconfiguration creates new opportunities for integration, particularly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

Diverging trends among commodity markets

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

Figure I.12

Commodity prices, selected indices



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

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

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

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

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

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

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

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

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

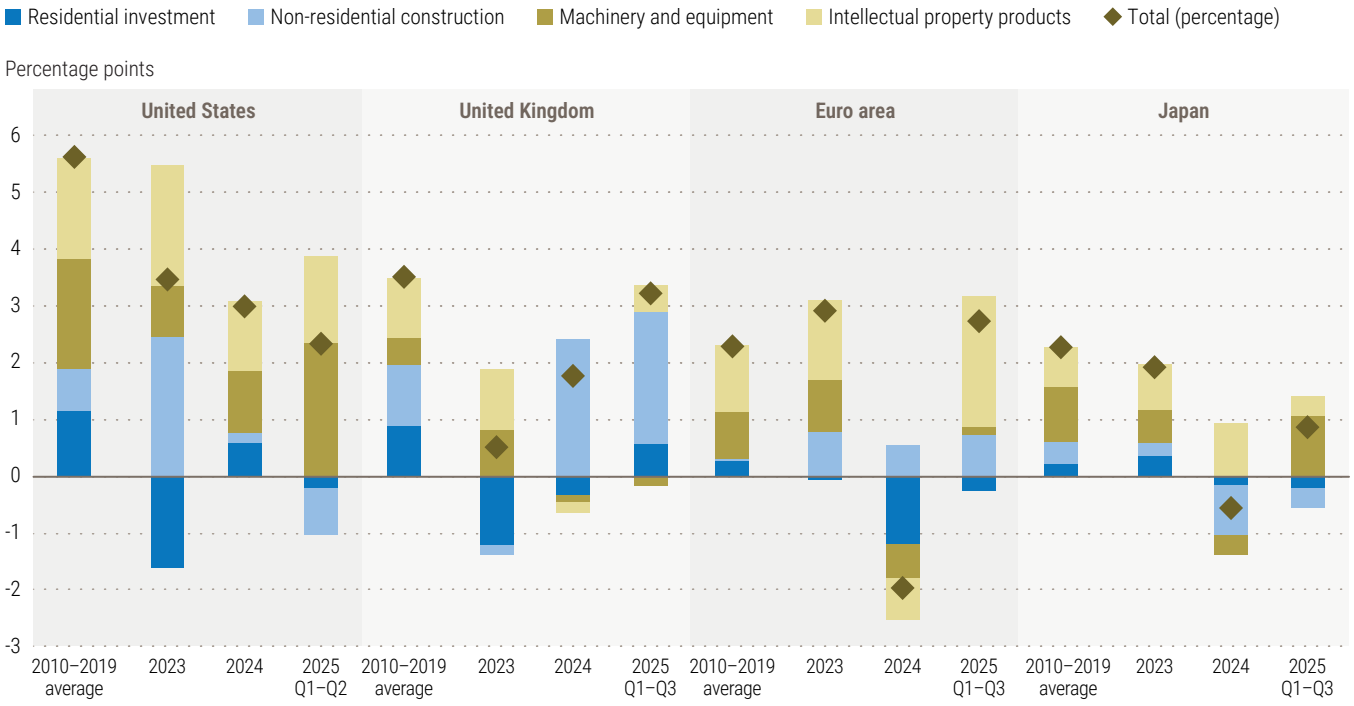
Economic uncertainty weighing on investment outlook

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

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

Figure I.13

Annual investment growth in selected developed economies, by asset type



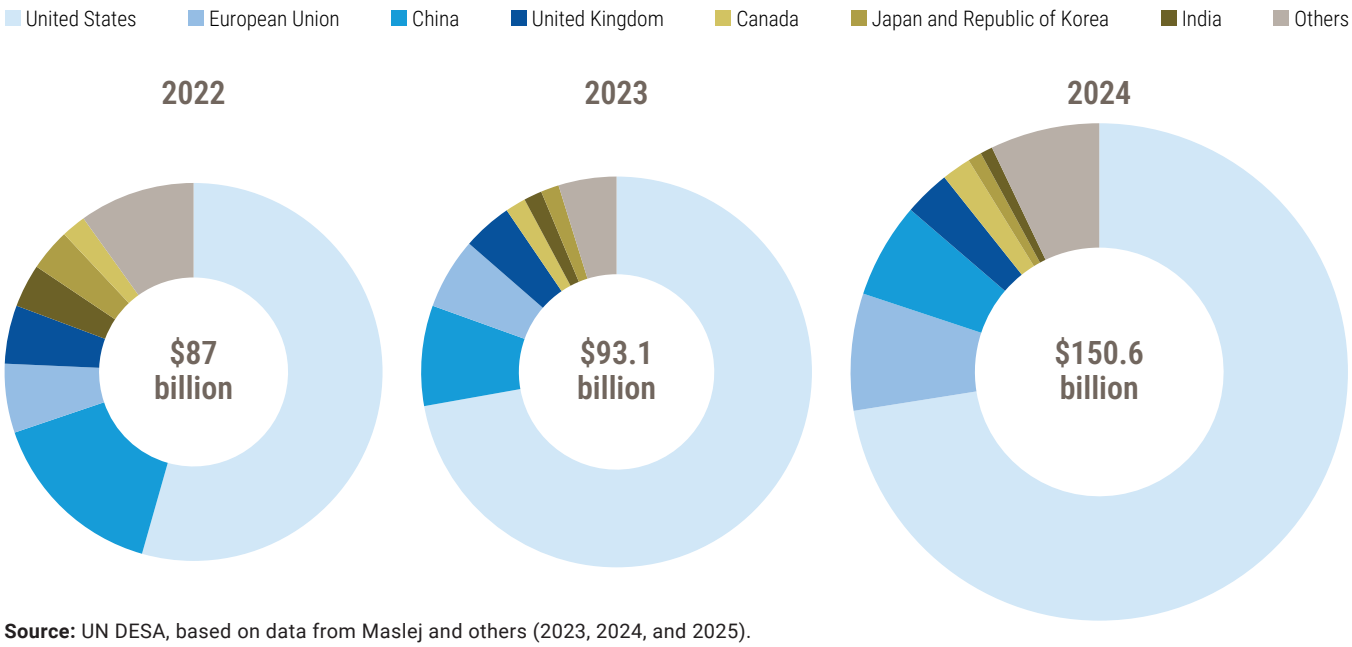
Source: UN DESA, based on data from CEIC, Eurostat, and national sources.
Notes: Figures are in constant prices. Data for the United Kingdom, the euro area, and Japan reflect total investments; data for the United States reflect private investments.

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

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

Figure I.14

Global corporate investment in artificial intelligence, by economy



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

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

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

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

Weakening foreign direct investment

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

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

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

Leveraging AI technologies to revive productivity growth

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

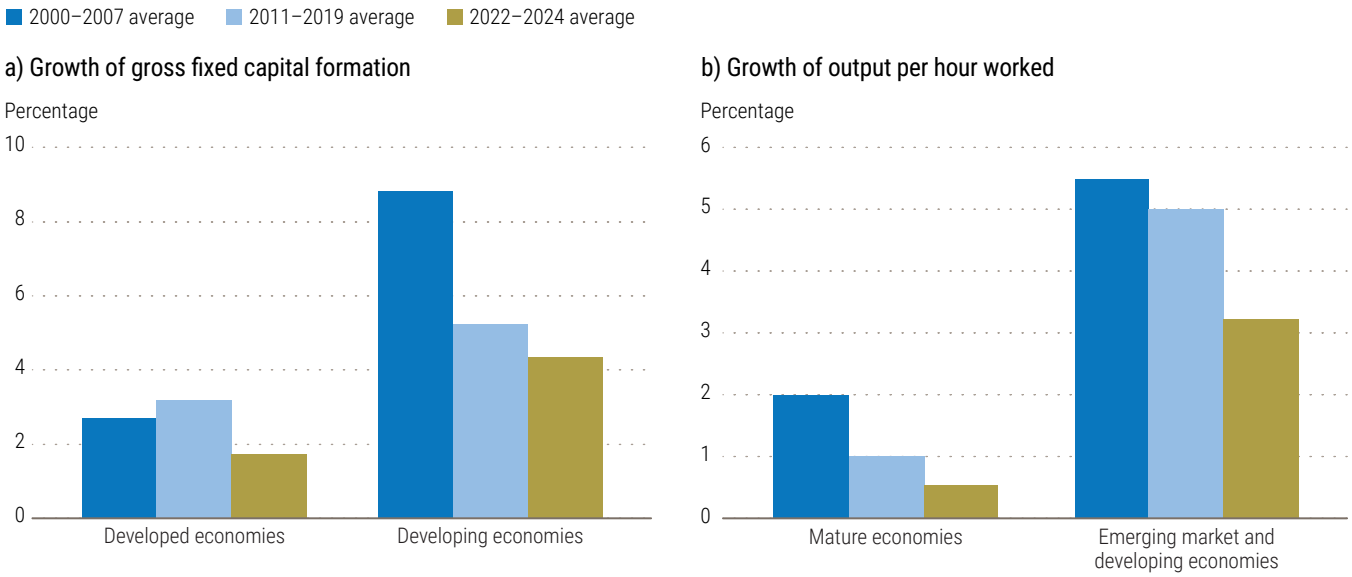
AI technologies have emerged as a potential catalyst for a revival in productivity growth, even as their short-term boost to electricity demand—driven by the need to power AI-related data centres—is expected to push electricity prices up sharply, leading to higher costs for businesses and households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

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

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

Figure I.15

Growth of investment and productivity



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

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

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

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

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

Box I.2

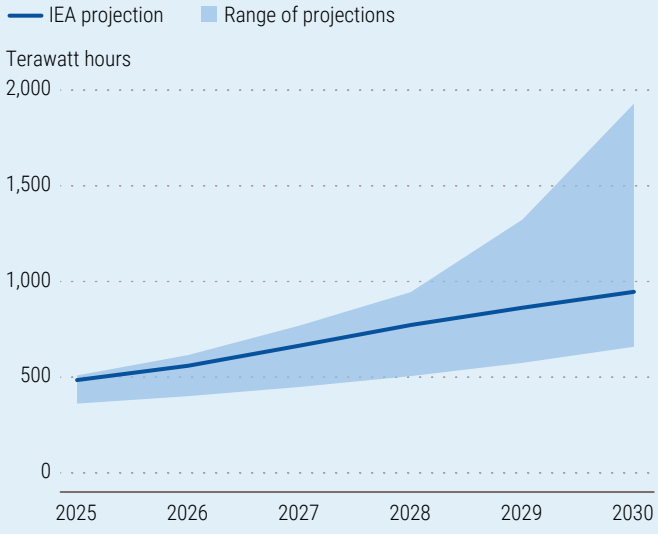
Hidden costs of artificial intelligence: economic implications of rapid growth in data centres

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

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

Figure I.2.1

Projected range of electricity demand for data centres



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

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

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

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

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

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

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

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

Author: *Marten Walk*

International finance

Robust cross-border financial flows, with risks looming

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

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

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

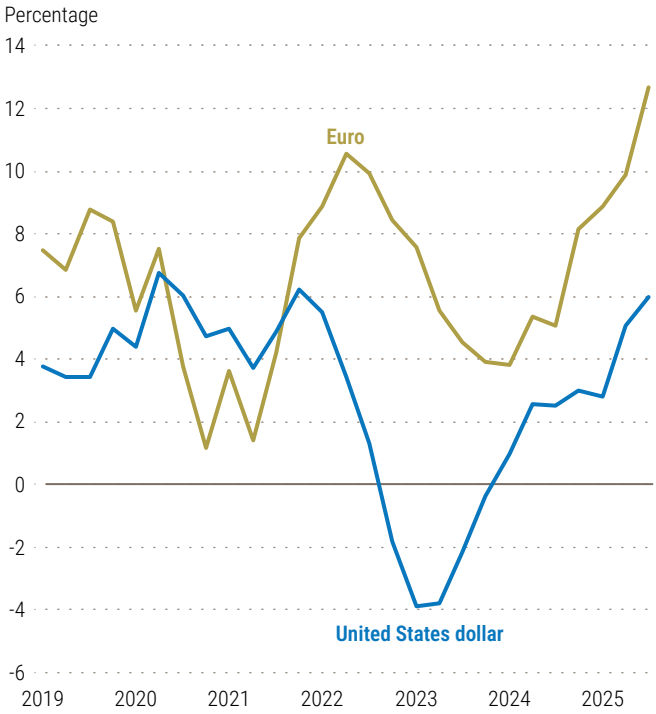
Global liquidity rose in 2025, underpinning the continued expansion of cross-border financial flows via both bank lending and portfolio channels. The growth of United States dollar credit to non-bank borrowers outside the United States[18]—a global liquidity indicator tracked by the Bank for International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

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

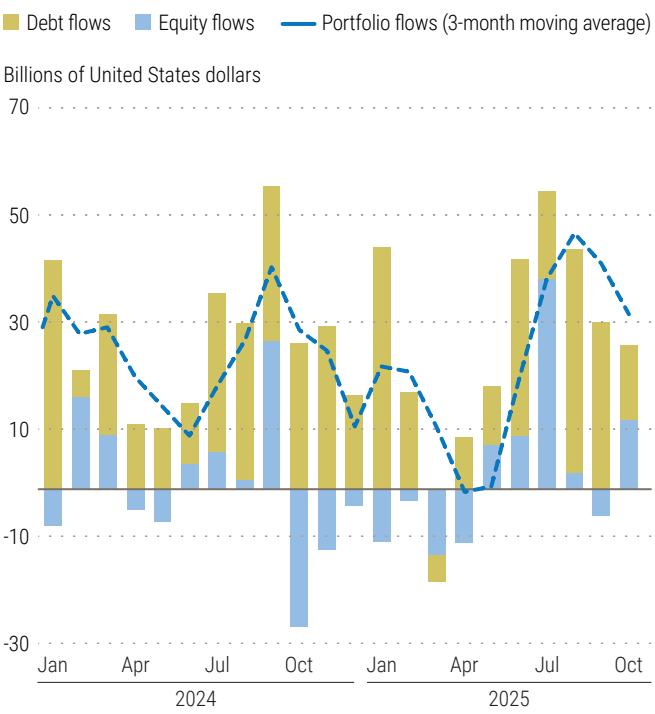
Figure I.16

Cross-border financial flows

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



b) Non-resident portfolio flows to emerging economies



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

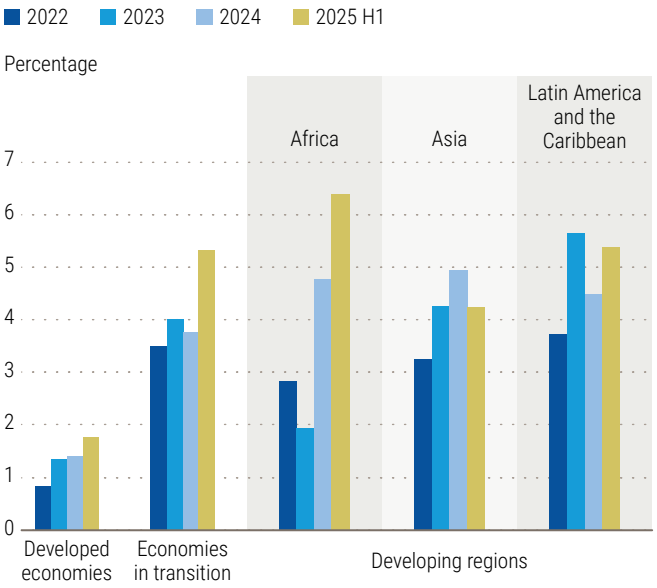
18 The indicator covers both loans extended by banks and funding from global bond markets through the issuance of international debt securities.
19 However, the implications of rising cross-border bank lending for debt sustainability will depend on the lending terms and the degree to which the financing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

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

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

Figure I.17

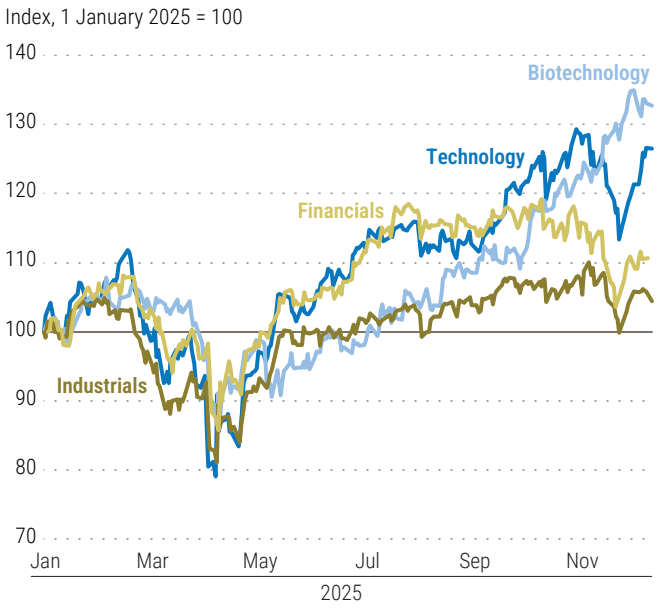
Average coupon rate of sovereign bond issuance in hard currencies, by country grouping or developing region



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

Figure I.18

Nasdaq index: selected sectors



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

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

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

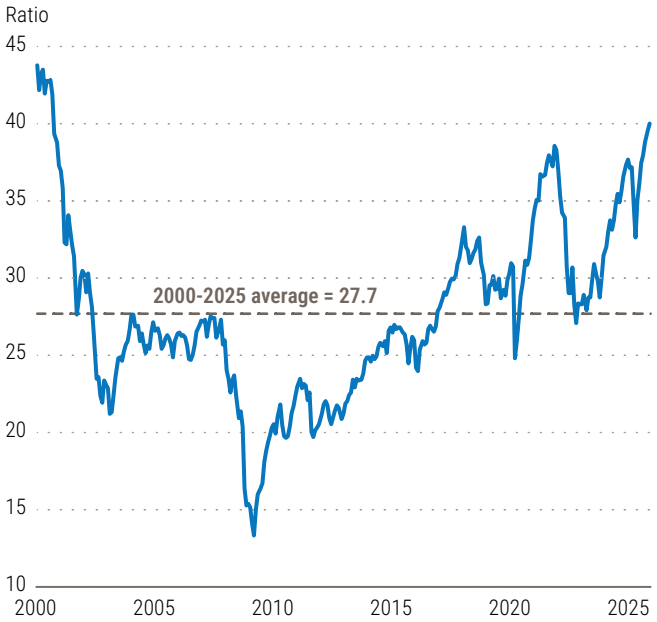
21 Calculation based on data from Trading Economics and MSCI (2025).

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

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

Figure I.19

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



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

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

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

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

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

Figure I.20

United States dollar index

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

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

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

Bleak outlook for official development assistance

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

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

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

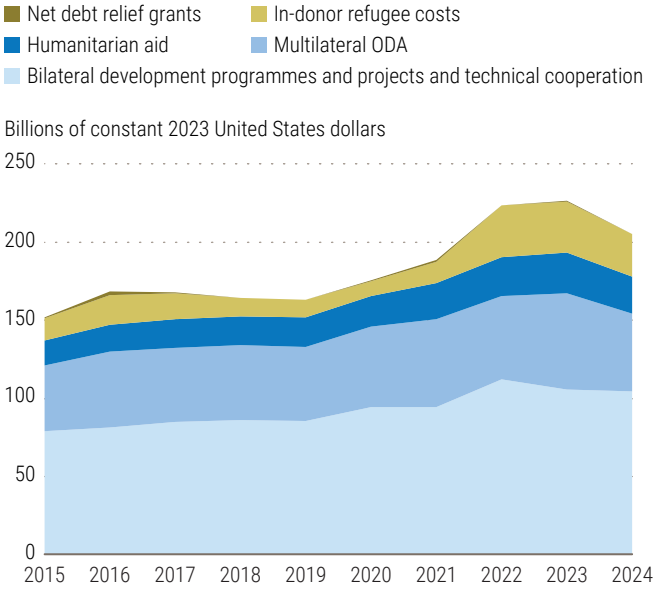
23 Conversely, several DAC members, including Australia, Denmark, Luxembourg, and Norway, are committed to meeting the target.

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

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

Figure I.21

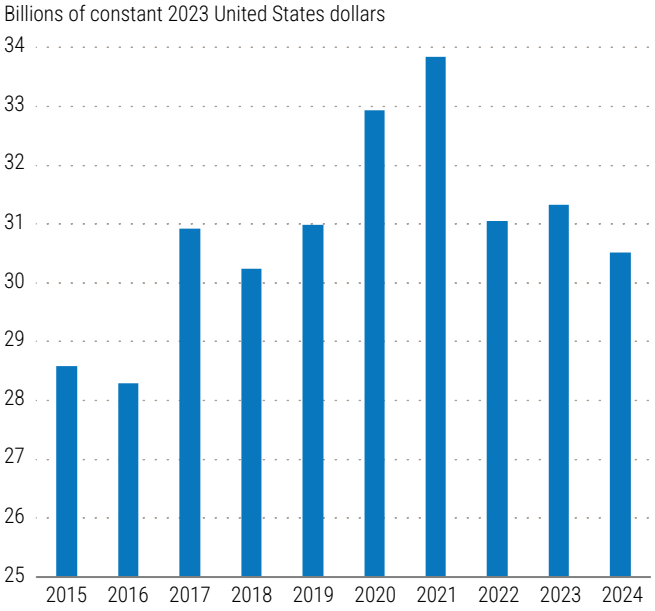
Official development assistance of DAC member countries, by component



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

Figure I.22

Official development assistance of DAC member countries to least developed countries



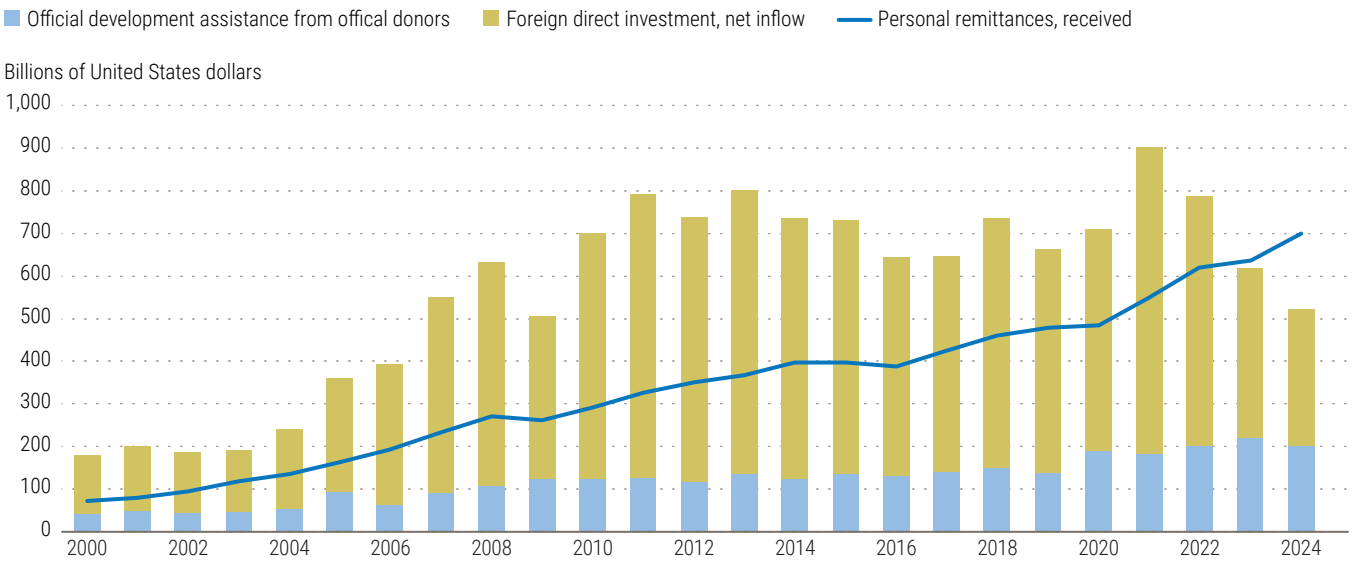
Source: UN DESA, based on data from OECD Data Explorer and OECD (2025).

Robust growth in remittances amid new challenges

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

Figure I.23

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



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

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

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

Labour market trends and challenges

Labour markets remaining largely stable

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

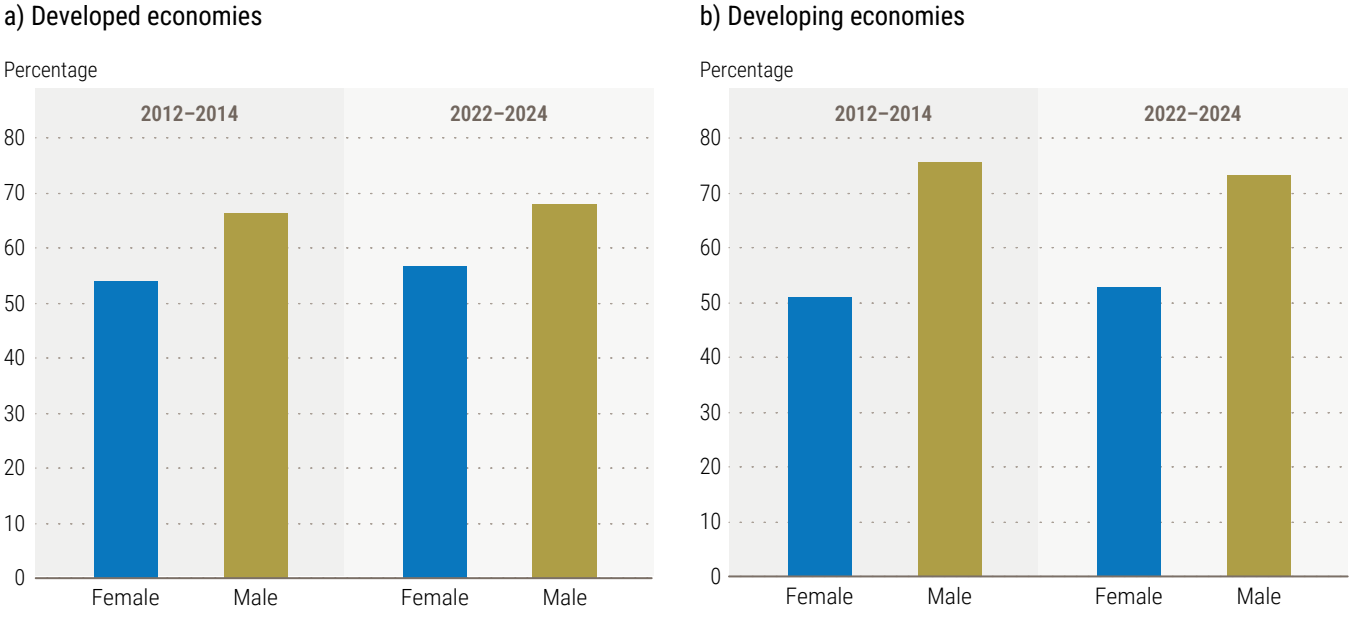
24 The United States instituted a 1 per cent tax on remittances effective 1 January 2026 (United States Internal Revenue Service, 2025). The tax is expected to affect several small Latin American and Caribbean economies most acutely given their heavy dependence on remittances from the United States.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

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

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

Figure I.24

Labour force participation, by gender



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

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

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

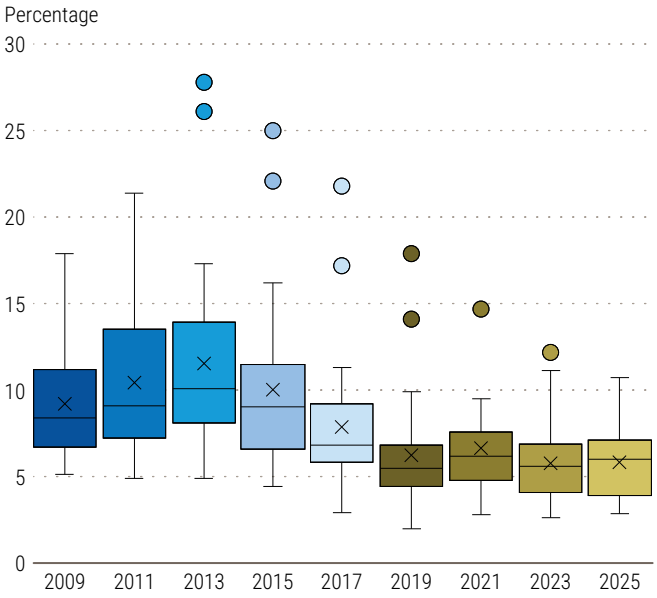
Developed economies

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

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

Figure I.25

Distribution of unemployment rates in the European Union



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

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

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

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

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

Developing economies

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

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

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

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

The impact of AI technologies on labour markets

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

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

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

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

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

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

Macroeconomic policy challenges

Monetary policy: continued easing amid moderating inflation

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

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

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

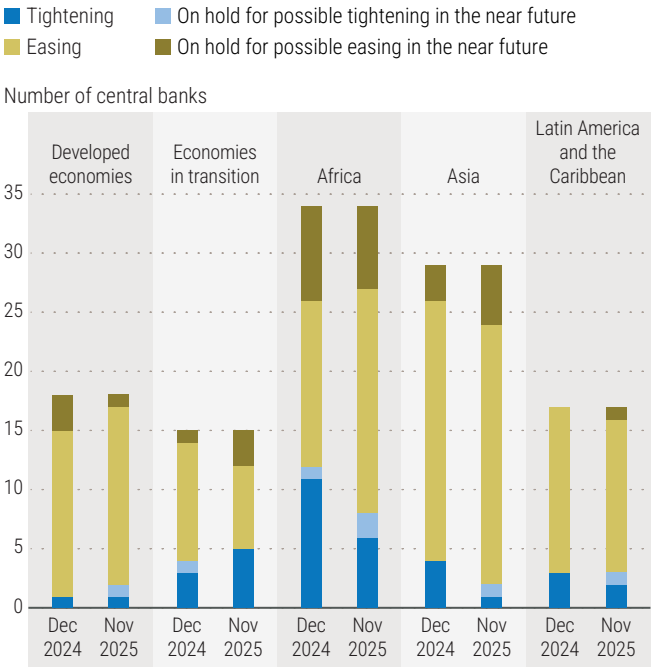
Among 113 central banks with available data,[29] 75 were in an easing cycle as at November 2025—up slightly from 74 in December 2024.[30] Meanwhile, 16 central banks were in a tightening cycle, down from 22 a year earlier. Another 22 central banks left policy rates unchanged between January and November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

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

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

Figure I.26

Monetary policy status in December 2024 and November 2025



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

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

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

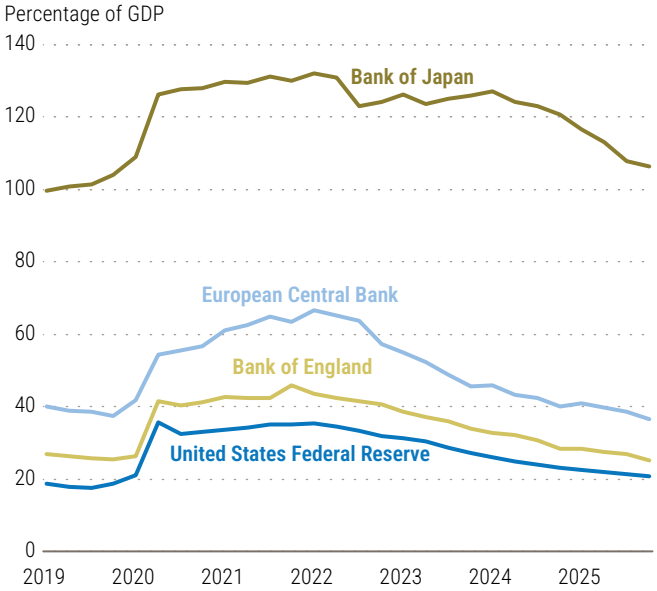
easing (QE) phases, with a shift towards holding shorter-term Treasury securities. At the end of 2025, the total assets of the Federal Reserve were estimated at about 21 per cent of GDP, compared to 19 per cent at the end of 2019 (see figure I.27). Through QT, the European Central Bank and the Bank of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

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

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

Figure I.27

Total assets of selected central banks



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

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

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

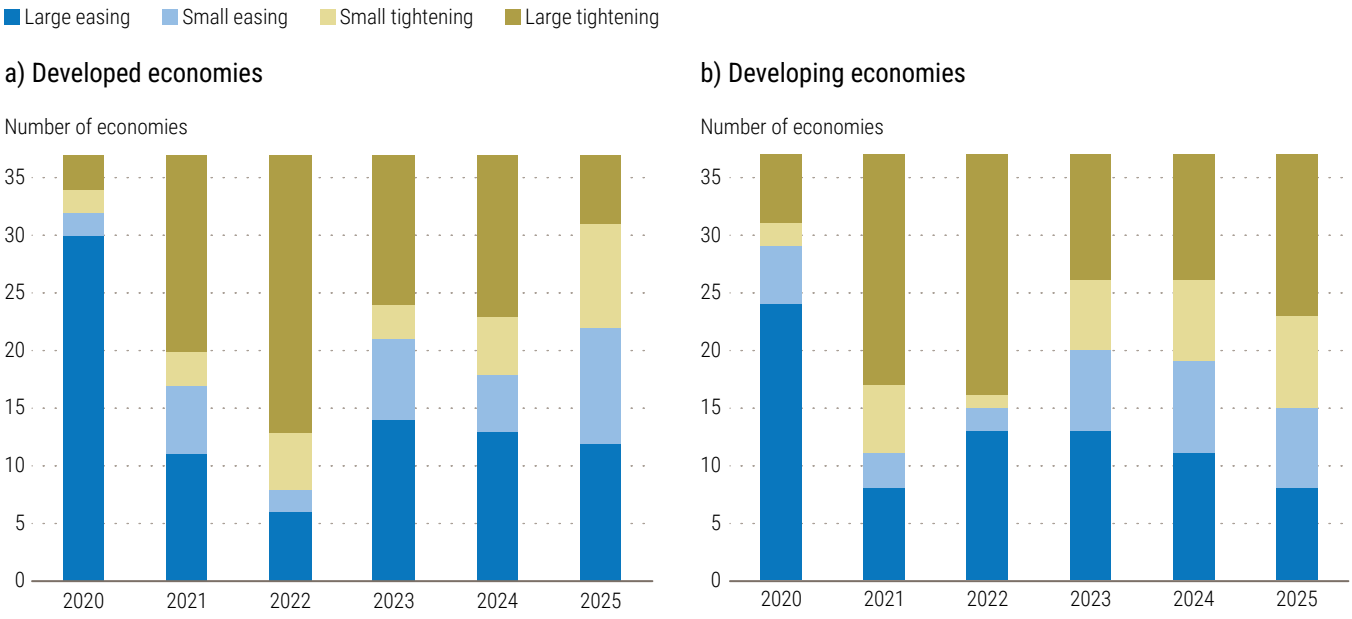
Two near-term challenges stand out for monetary authorities. First, with global growth remaining subdued, lingering supply-side constraints—including tariffs and trade frictions, elevated shipping costs, climate shocks, and labour market mismatches—may keep inflation volatile and prone to renewed upticks.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

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

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

Figure I.28

Fiscal policy stance, by country group



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

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

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

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

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

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

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

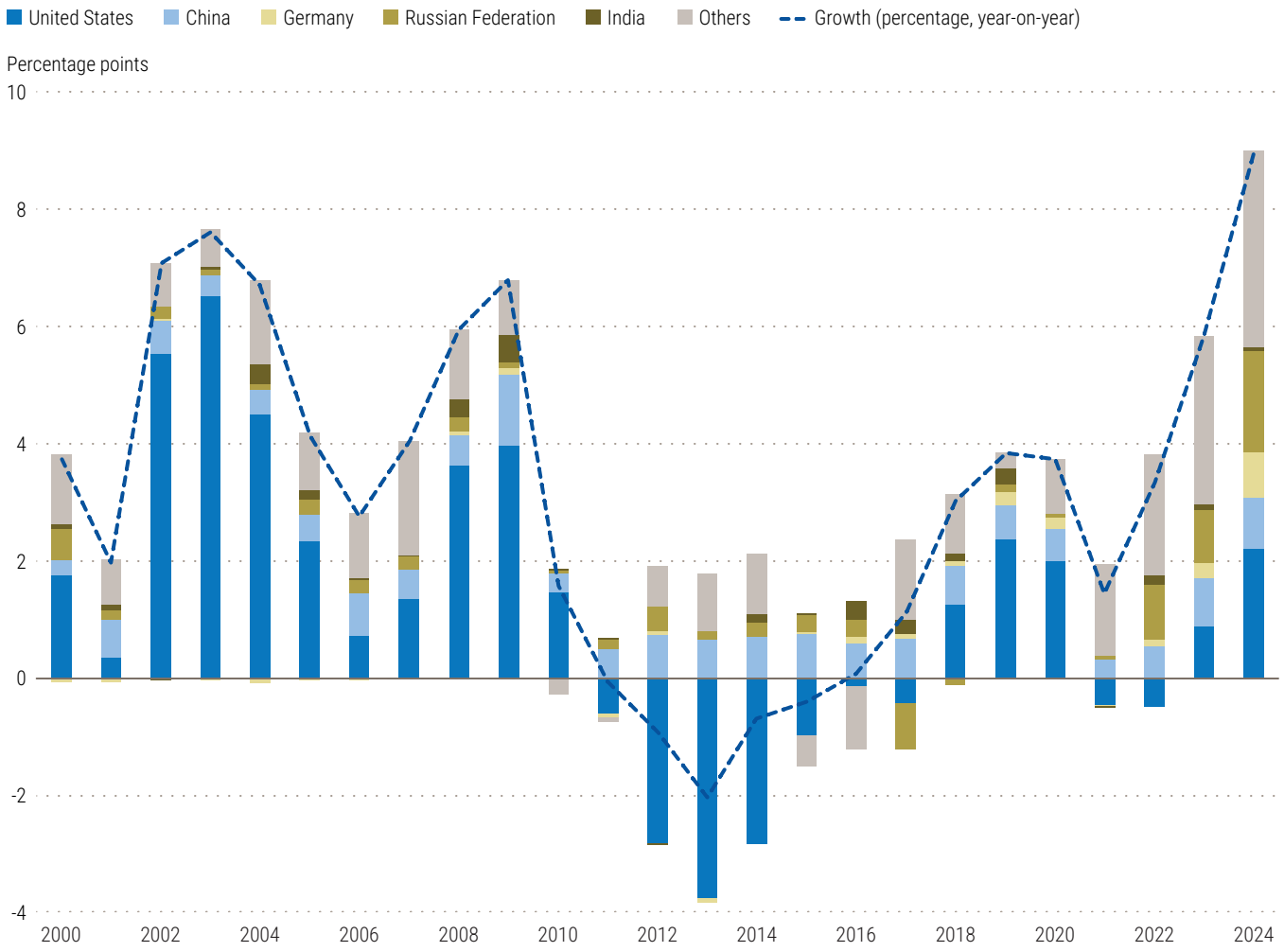
31 The United States Congressional Budget Office estimates that tariffs as at 15 November 2025 could reduce fiscal deficits by an average of $273 billion per year over the period 2025–2035, equivalent to about 0.9 per cent of GDP in 2024 (Swagel, 2025).

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

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

Figure I.29

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



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

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

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

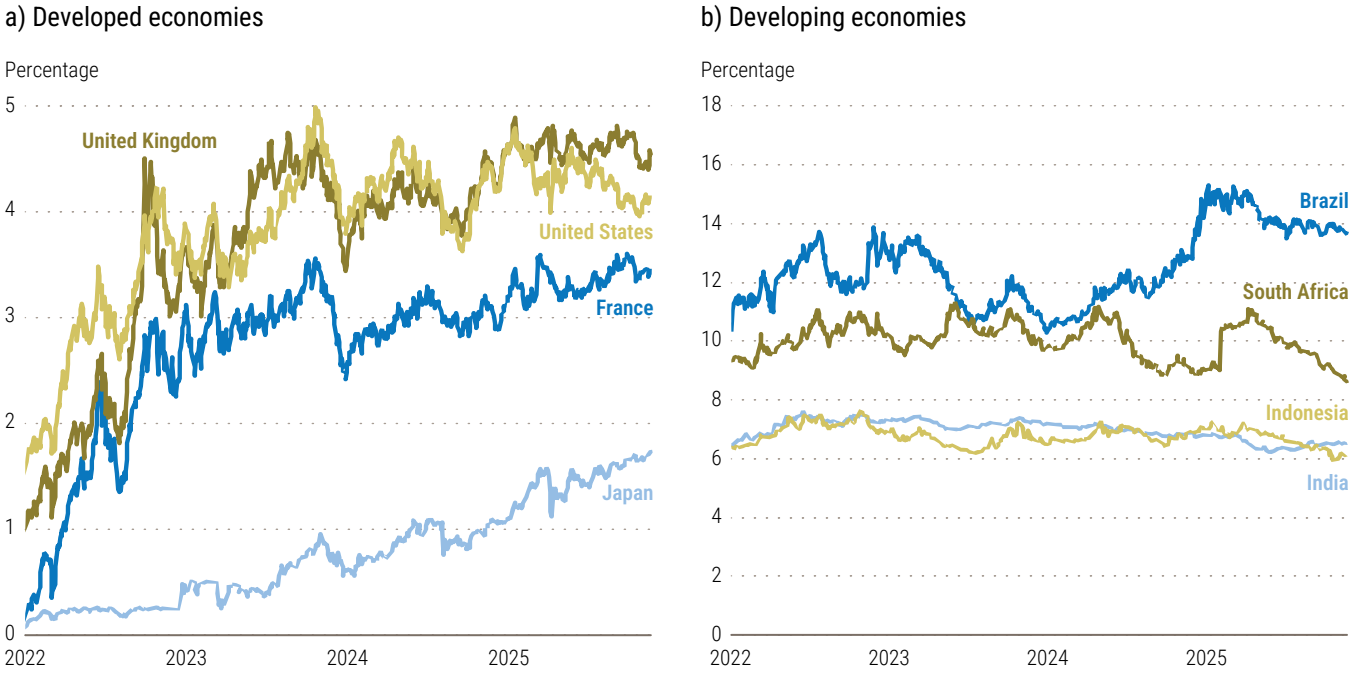
With fiscal deficits widening in many economies and revenues constrained by subdued growth, public debt ratios are set to rise further. Global general government gross debt is estimated at 95.7 per cent of world GDP for 2025, up from 93.5 per cent in 2024 and well above the 2010–2019 average of 79.4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

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

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

Figure I.30

Ten-year government bond yields in selected economies



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

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

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

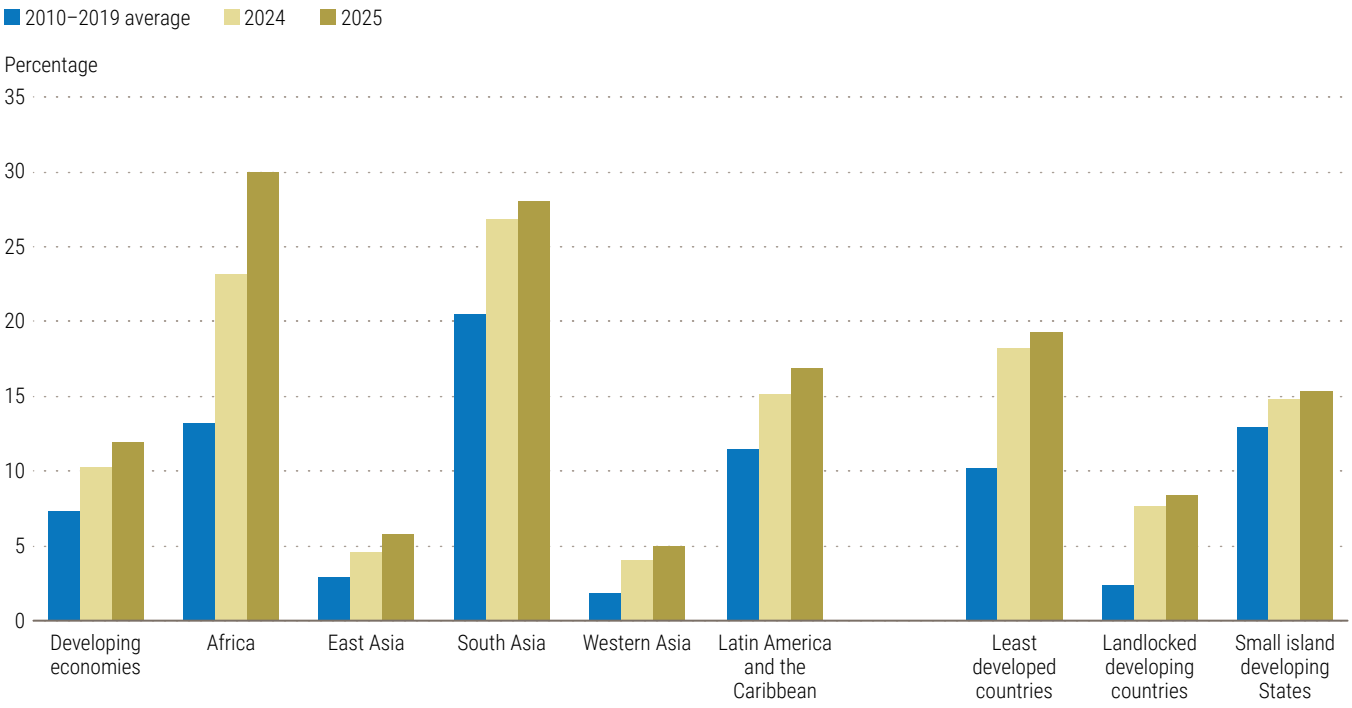
Looking ahead, interest payment burdens are expected to stabilize in 2026 and beyond as many developing countries advance fiscal consolidation. If sovereign bond yields continue to decline, as observed in some economies during 2025 (see figure I.30b), borrowing and refinancing costs could ease, though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

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

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

Figure I.31

Interest expenditure as a share of government revenues



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

Box I.3

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

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

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

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

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

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

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

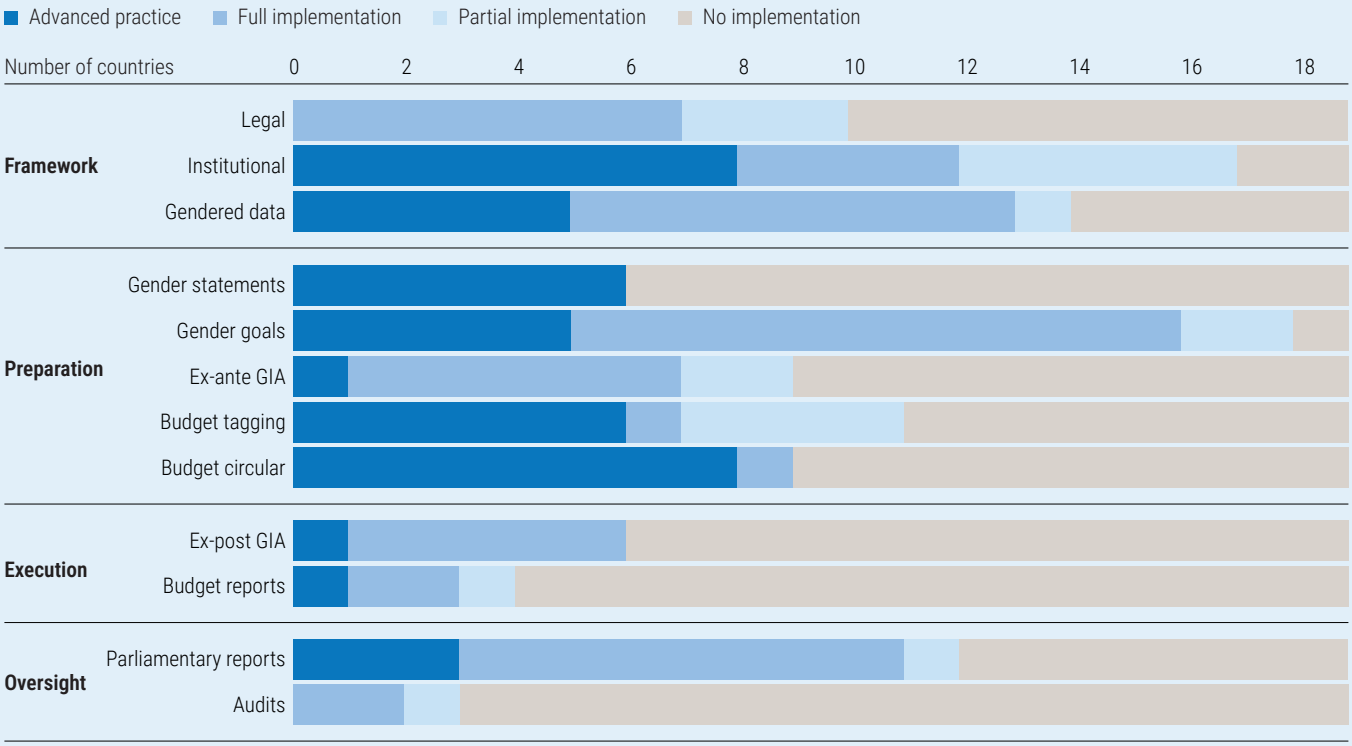
Experience from the COVID-19 pandemic demonstrates that gender-responsive budgeting can strengthen both the effectiveness and equity of crisis response. Countries that had gender-based budgeting mechanisms in place were more readily able to mitigate disproportionate social and economic impacts on women—for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

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

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

Figure I.3.1

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



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

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

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

Reinvigorating international cooperation for sustainable development

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

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

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

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

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

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

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

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

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