CHAPTER II

Inflation and Price Dynamics in a Fragile Global Economy

Implications for Sustainable Development

Introduction

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

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

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

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

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

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

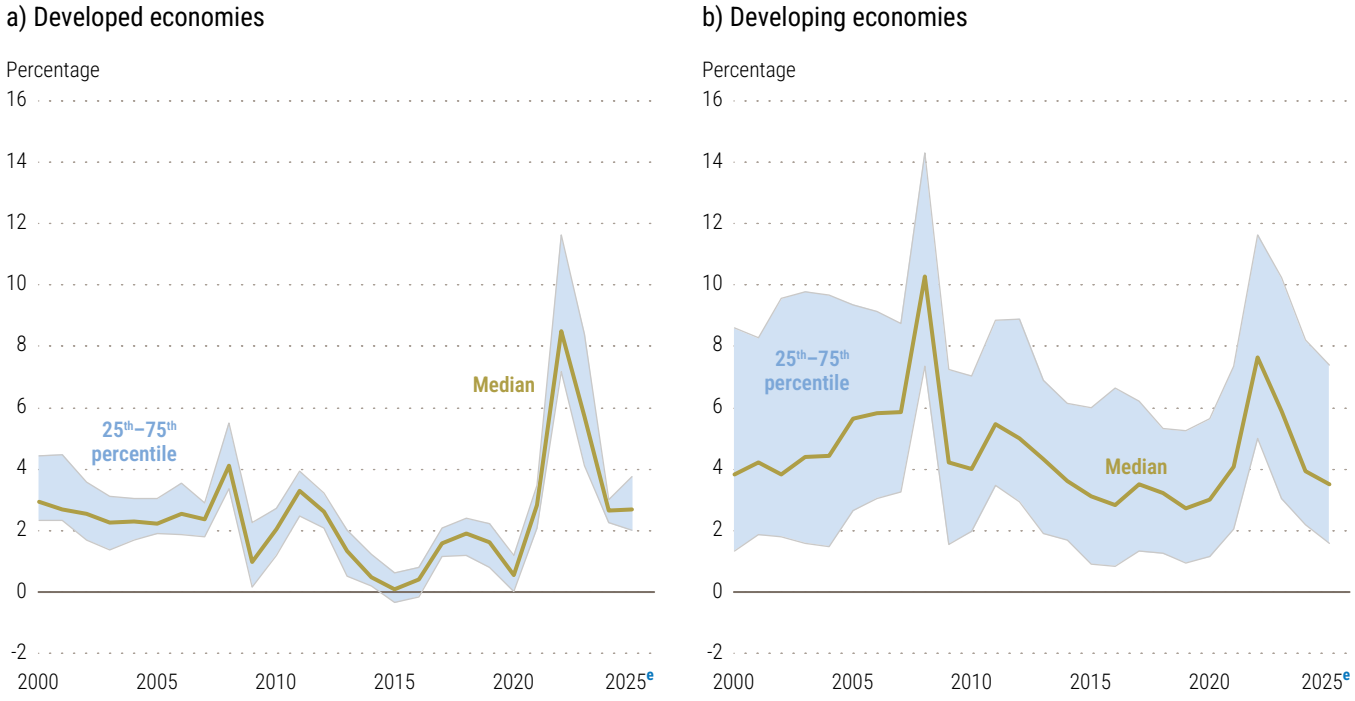
This chapter brings together lessons learned from the recent surge in inflation and offers an assessment of its evolving drivers to provide a better understanding of future trends, likely impacts, and appropriate policy responses.

The current inflation landscape

Retreating from highs, yet remaining elevated

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

Figure II.1
Annual consumer price inflation



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

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

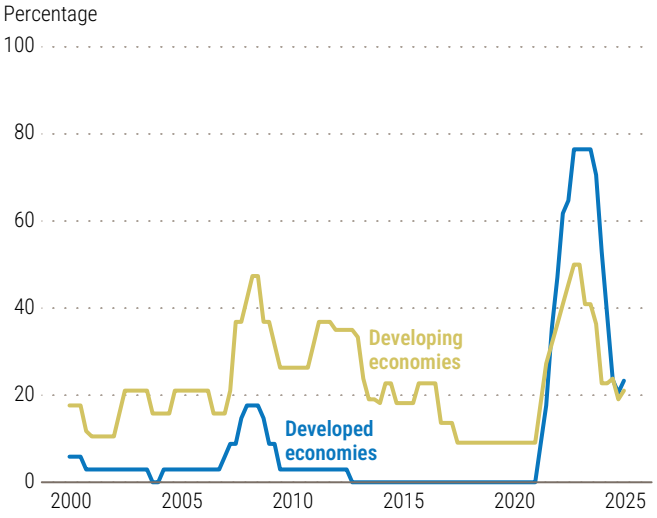
expansionary pandemic-era monetary and fiscal policy support and the surge of pent-up demand further amplified these pressures. Predictable inflation close to central bank targets supports investment, long-term contracts, and real income planning. Recent deviations from that path, as well as continuing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

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

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

Figure II.2

Share of economies in a high-inflation regime



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

Box II.1

Inflation measures

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

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

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

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

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

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

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

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

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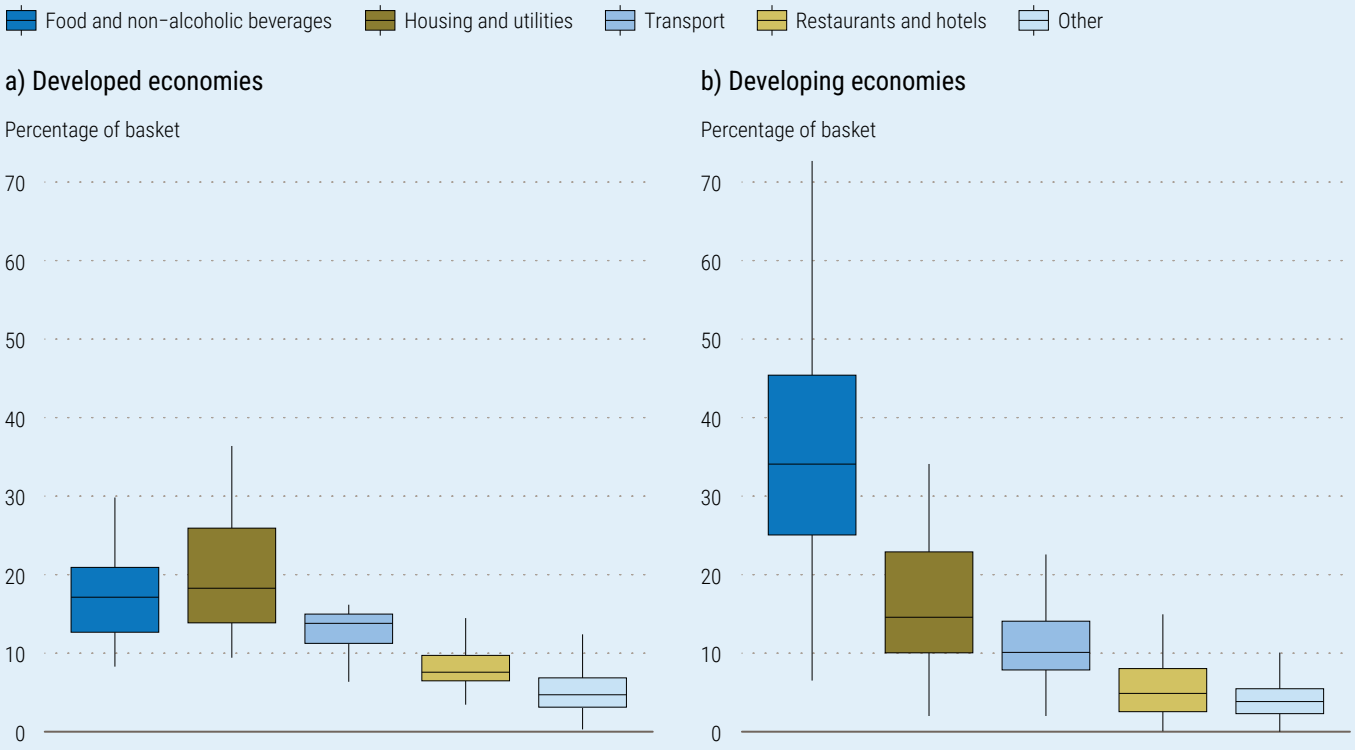
Figure II.1.1

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



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

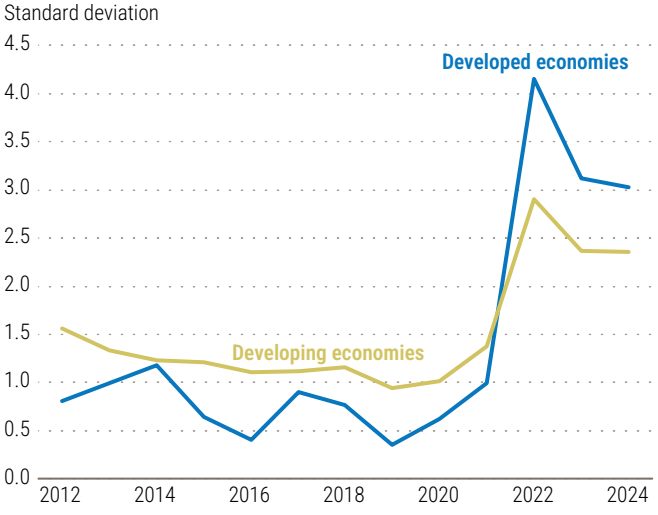
Navigating volatile and unpredictable price dynamics

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

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

Figure II.3

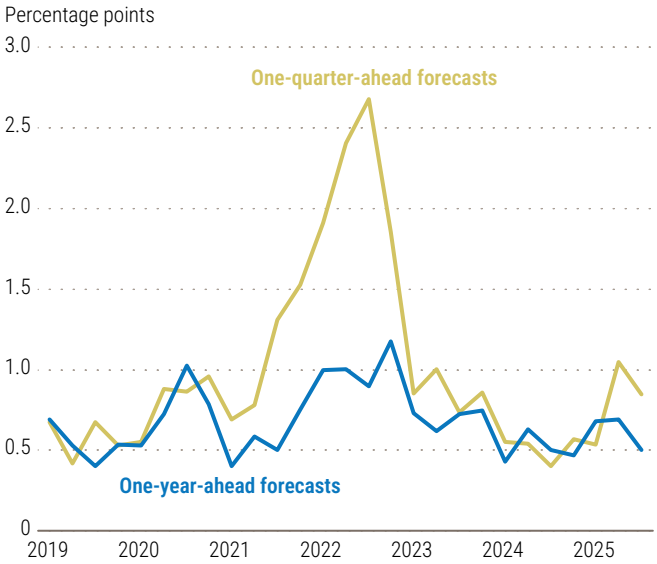
Volatility of consumer price inflation



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

Figure II.4

Dispersion of Consumer Price Index forecasts in the United States



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

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

Disentangling the roots of stubborn inflation

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

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

Tracing global shocks and spillovers

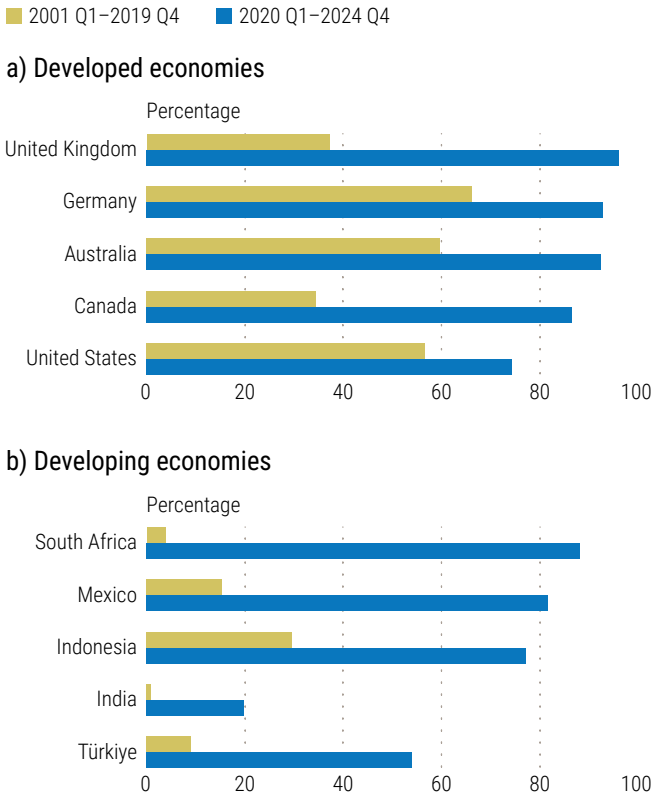
Common external factors have accounted for a substantial share of inflation variation in both developed and developing economies in recent years (see figure II.5). While the effects of these forces have differed according to economic structure, vulnerabilities, and policy frameworks, inflation movements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

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

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

Figure II.5

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



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

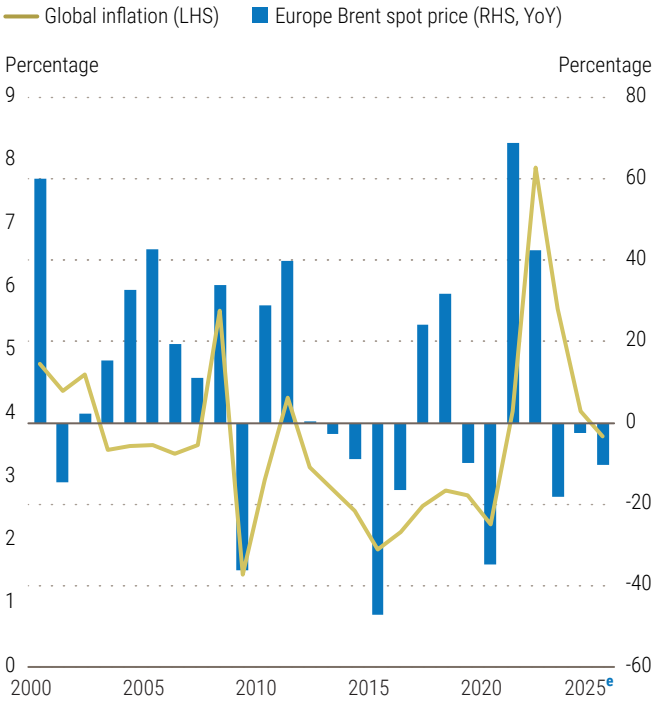
dominate consumption baskets and shape inflation expectations. However, recent declines in international food commodity prices have not consistently translated into lower domestic inflation, reflecting weak or asymmetric pass-through due to factors such as exchange rate depreciation, domestic supply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

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

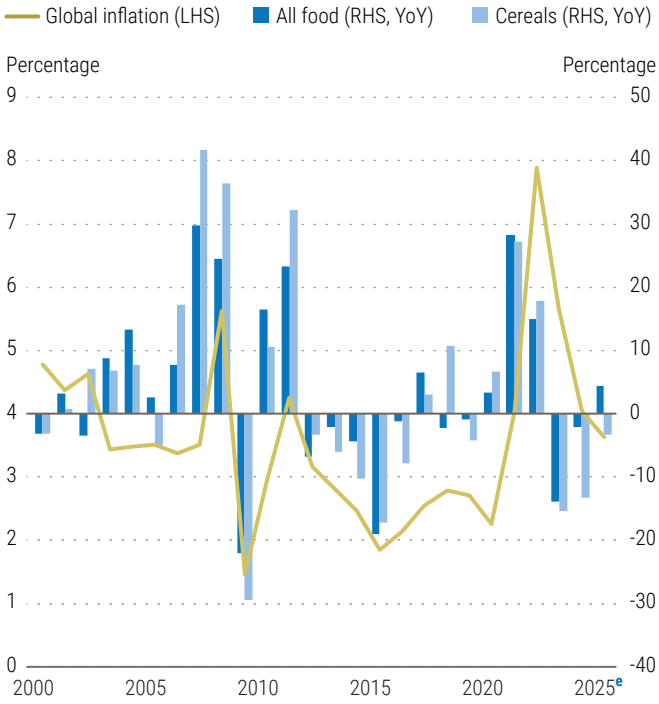
Figure II.6

Global inflation and changes in selected commodity prices

a) Consumer price inflation and change in oil prices



b) Consumer price inflation and change in international food prices



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

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

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

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

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

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

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

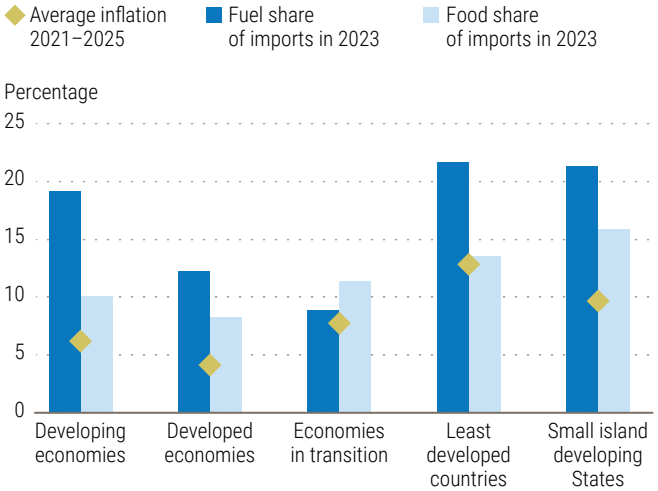
Country-specific determinants

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

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

Figure II.7

Inflation and the share of food and fuel in imports



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

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

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

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

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

Inflation expectations and pricing behaviour

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

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

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

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

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

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

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

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

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

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

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

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

Persistent supply-side factors reshaping inflation dynamics

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

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

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

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

Rising geopolitical fragmentation

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

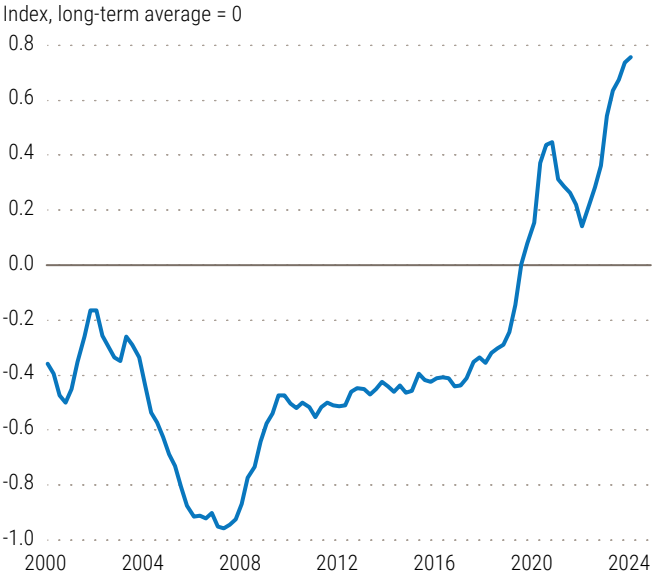
Conflicts impact commodity markets directly by constraining supply and indirectly by increasing risk premiums and uncertainty, driving up prices, inducing volatility, and affecting inflation expectations. For example, during the military escalation between Israel and the Islamic Republic of Iran in June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

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

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

Figure II.8

World Geopolitical Fragmentation Index



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

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

Box II.2

Tariffs and inflation in the United States

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

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

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

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

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

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

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

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

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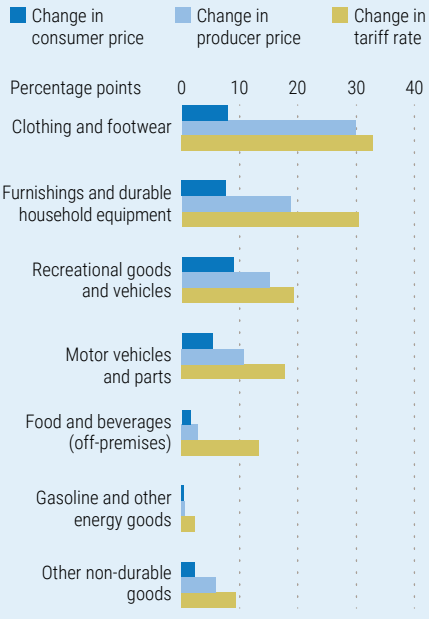
Figure II.2.1

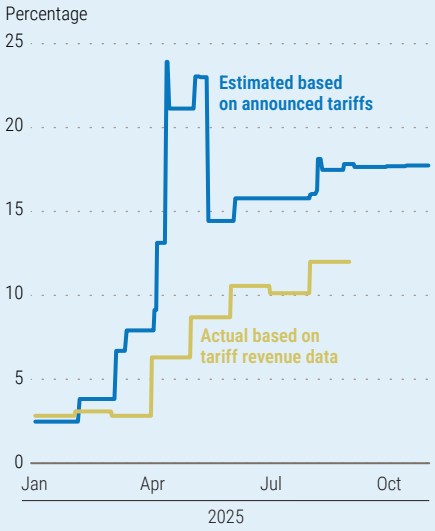
Tariffs and inflation in the United States

a) Potential changes in domestic prices following tariff hikes



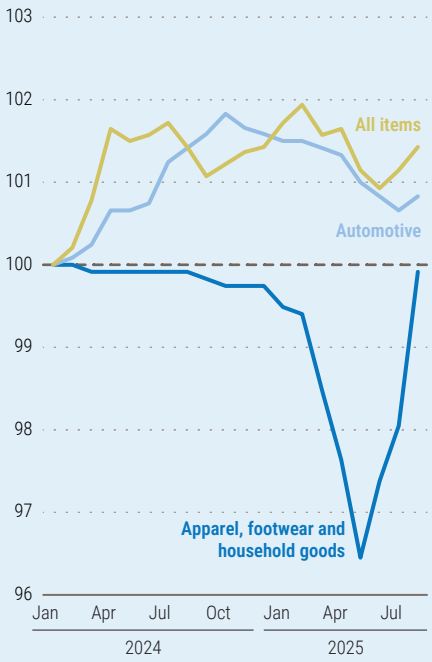
Source: UN DESA, based on data from the United States International Trade Commission and United States Bureau of Economic Analysis.

b) Average effective tariff rates



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

c) Import prices



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

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

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

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

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

Intensifying climate change impacts

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

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

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

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

Ageing, migration, and labour market pressures

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

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

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

The impact of inflation on sustainable development

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

The distributional impacts of inflation

Unequal impacts on households

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

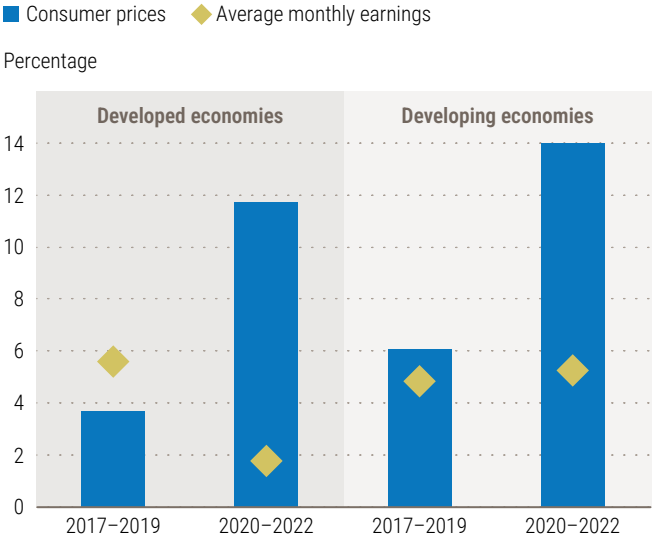
Low-income households often rely heavily on wages and welfare transfers, yet wages often rise more slowly than prices during inflationary episodes (ILO, 2022). As shown in figure II.9, the gap between wage growth and inflation widened from 2017–2019 to 2020–2022 in both developed and developing economies,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

The vulnerability of different groups to inflation also depends on their asset holdings. Low-income households tend to hold cash or low-yielding assets that offer little protection against inflation, while wealthier households hold a larger share of financial assets, benefiting more from capital gains during periods of rising prices (Gill and Nagle, 2022). These differences in asset composition imply that higher-income households are less directly affected by wage dynamics and may sustain consumption even when real incomes stagnate. Inflation also redistributes wealth across generations, as it erodes the real value of accumulated assets while reducing the burden of nominal liabilities, favouring younger and middle-income households with fixed-rate debt (Chien and Dunn, 2022).

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

Figure II.9

Cumulative changes of prices and wages in developed and developing economies



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

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

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

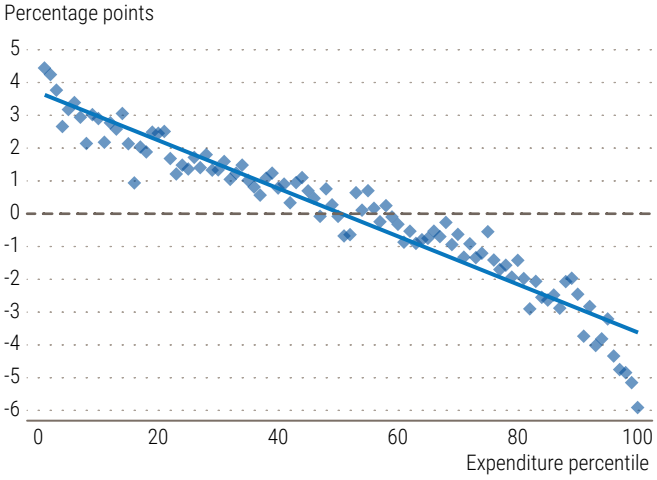
More nuanced evidence shows that poorer households are also more likely to consume lower-quality goods, which often experience proportionally larger price increases during inflation episodes—a phenomenon known as "cheapflation" (Chen, Levell and O'Connell, 2024). In the United Kingdom, prices for products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

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

Figure II.10

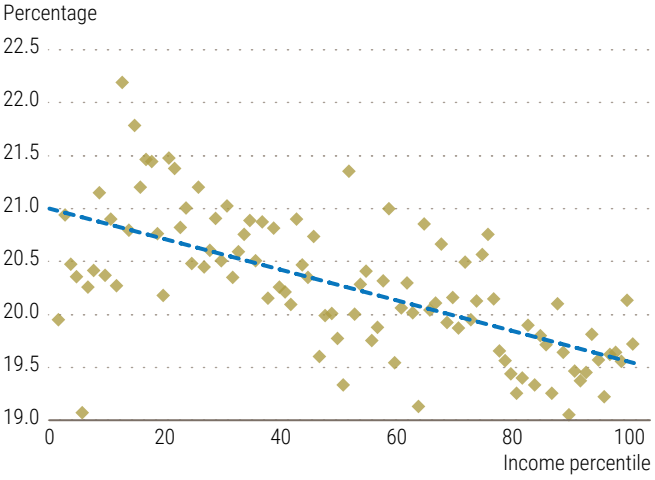
Inflation inequality in the United Kingdom and the United States

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



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

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



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

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

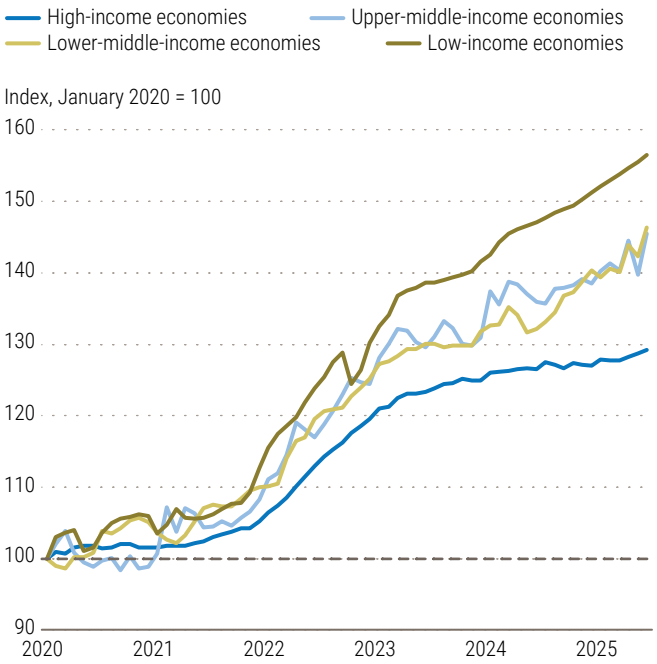
Food insecurity and gender inequality

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

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

Figure II.11

Food prices, by country groupings



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

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

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

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

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

Long-term and structural effects

Productive investment and growth

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

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

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

8 Calculation based on data from ILOSTAT.

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

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

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

Fiscal space, debt, and macroeconomic stability

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

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

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

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

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

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

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

Policy tools to manage inflation

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

Monetary policy in a world of recurrent supply shocks

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

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

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

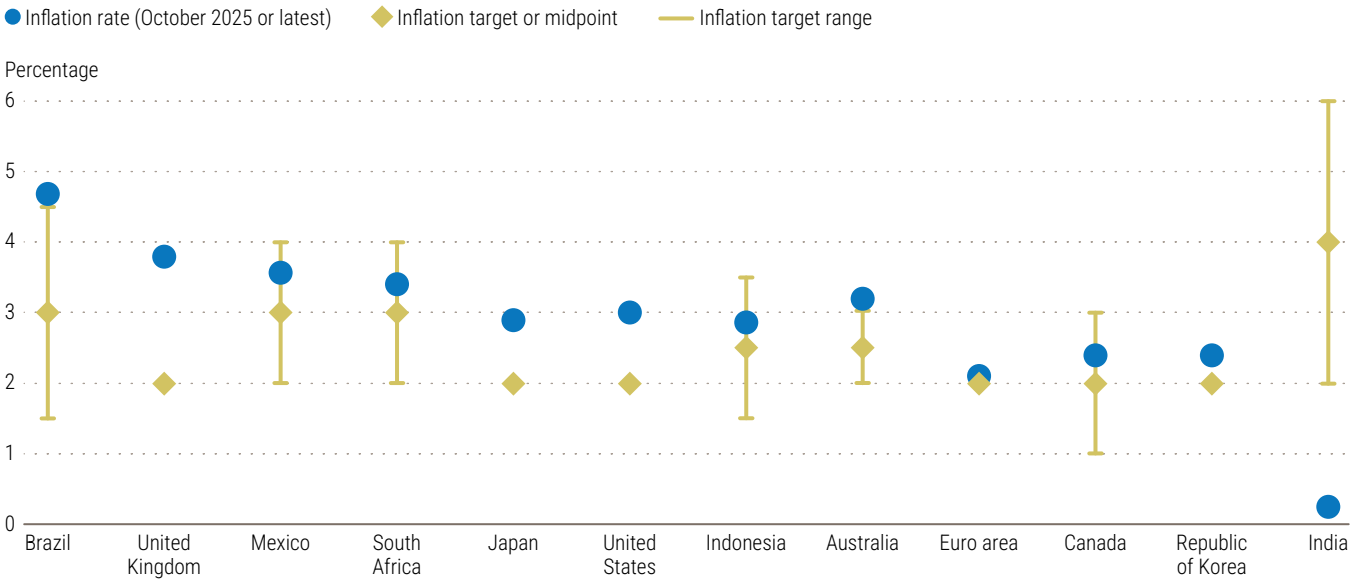
Shifting monetary policy trade-offs

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

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

Figure II.12

Actual inflation and inflation targets in selected economies



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

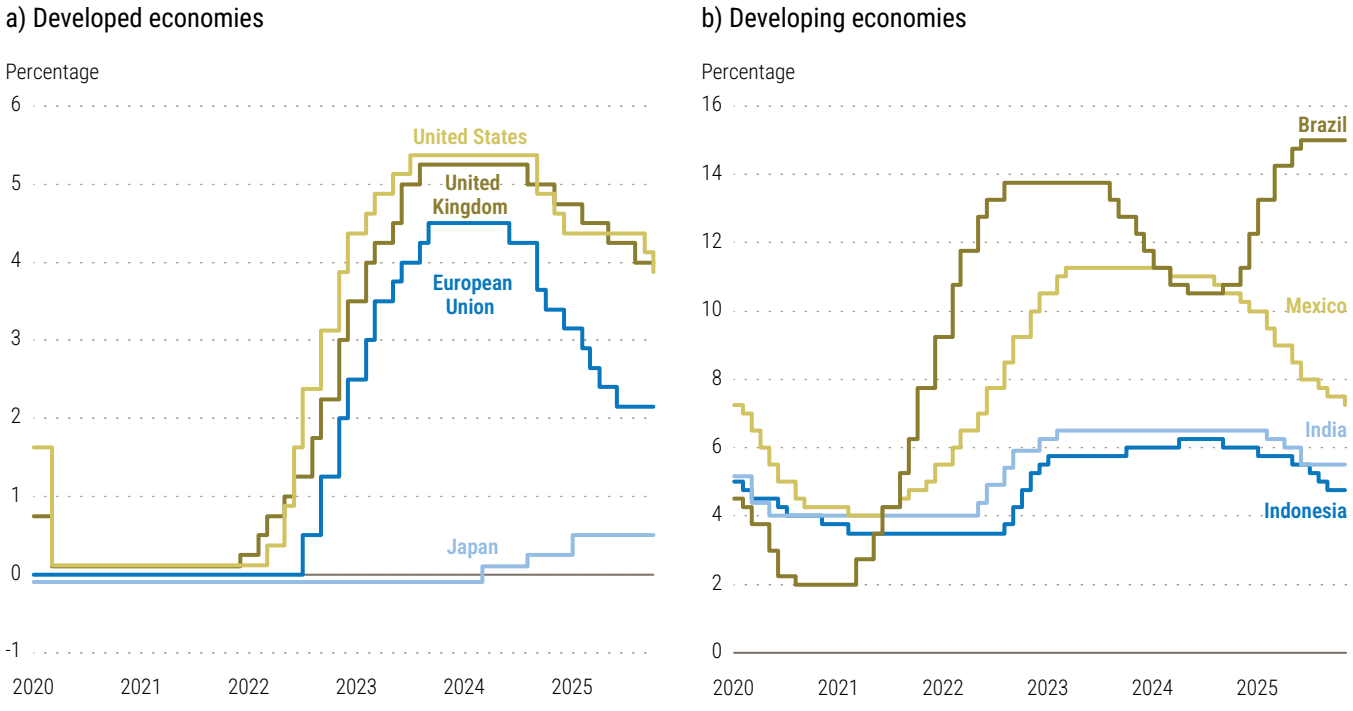
Myanmar, South Sudan, Sudan, and Yemen—remain trapped in double-digit inflation, sharp currency depreciations, and limited policy space.

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

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

Figure II.13

Policy interest rate in selected economies



Source: UN DESA, based on data from CEIC.

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

Anchoring expectations amid volatility

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

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

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

Adapting monetary policy frameworks

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

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

Table II.1

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

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

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

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

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

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

Fiscal policies for the short and long terms

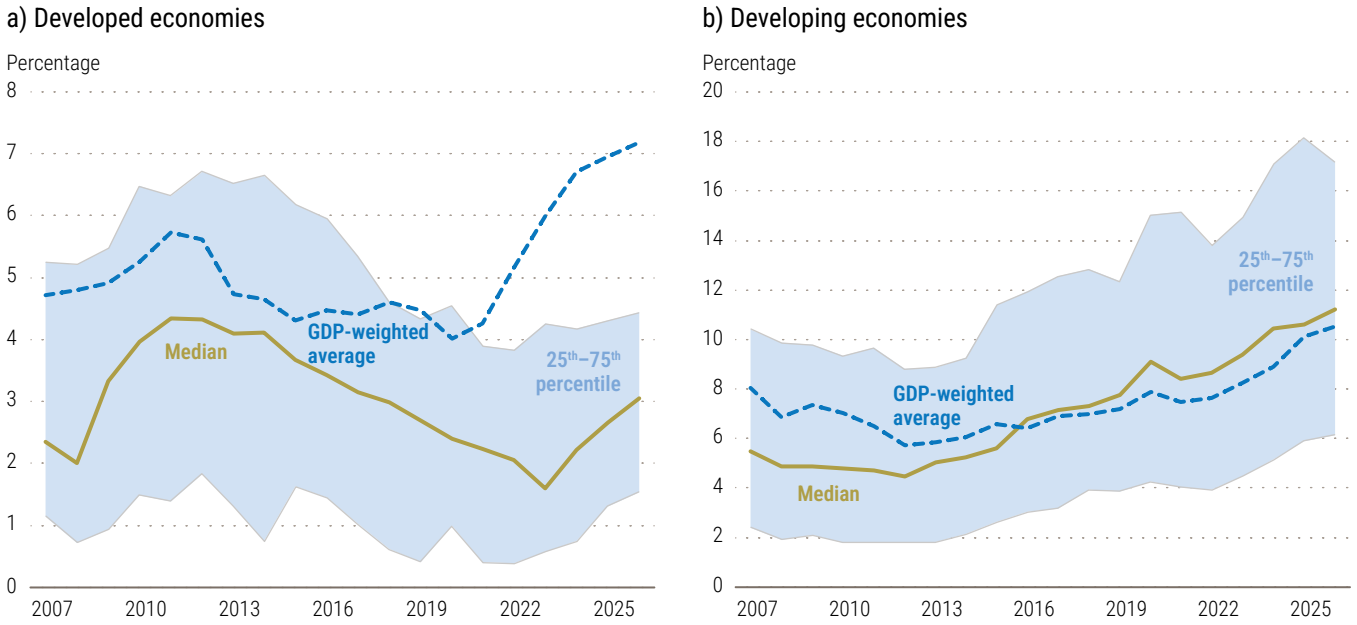
Fiscal policy plays an important role in inflation dynamics—not only as a potential source of price pressures and thus an instrument of macroeconomic stabilization, but also as a critical instrument for protecting vulnerable groups and investing in longer-term resilience. Social spending can help stabilize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

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

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

Figure II.14

Government interest expenditure as a share of revenue



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

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

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

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

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

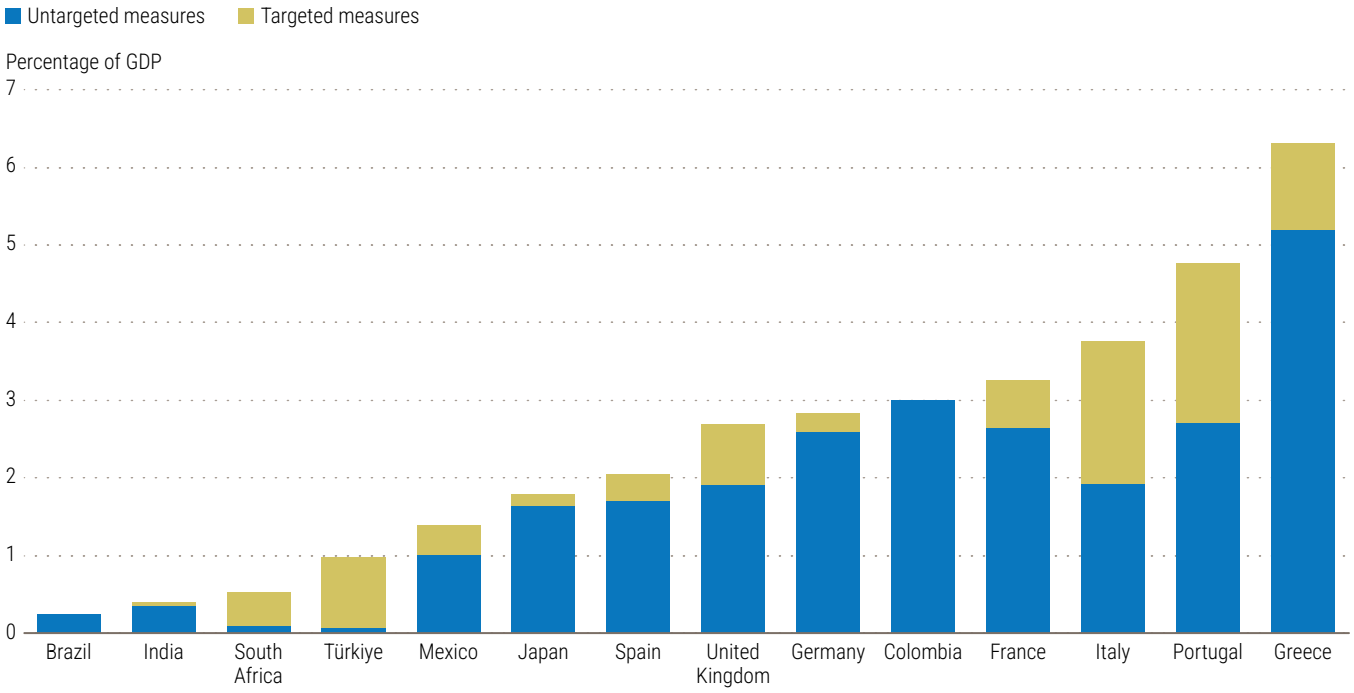
During the recent inflationary episode, developed economies were particularly proactive. Amaglobeli and others (2023) note that cash transfers, value added tax (VAT) cuts, and price subsidies were the most widely used tools across both developed and developing economies, with price freezes and customs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

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

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

Figure II.15

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



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

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

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

Supporting vulnerable populations

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

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

Box II.3

Housing prices and inflation dynamics in developed economies

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

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

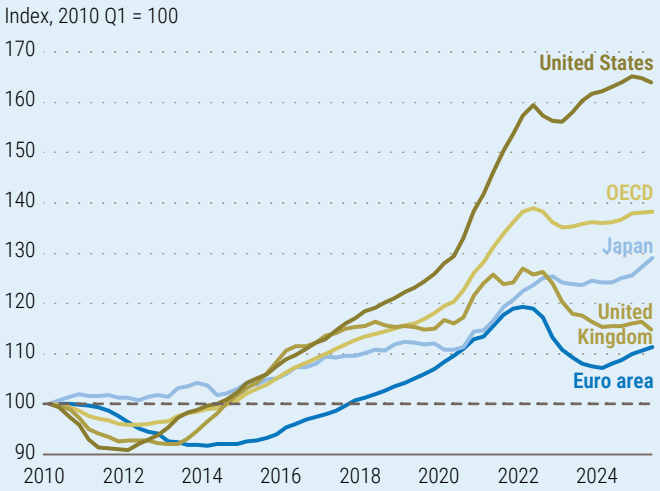
House prices have increased significantly in many countries over the past two decades, straining household budgets and complicating important life decisions (see figure II.3.1). Housing prices have risen sharply across the major economies, far surpassing their pre-global-financial-crisis peaks. Between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

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

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

Figure II.3.1

Real house price indices



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

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

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

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

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

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

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

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

Price stabilization and export controls

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

Table II.2

Fiscal measures and industrial strategies, 2021–2023

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

Source: UN DESA.

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

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

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

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

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

Diversifying and strengthening supply chains

Industrial policies to ease supply-side constraints

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

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

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

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

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

Buffer stocks and strategic reserves

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

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

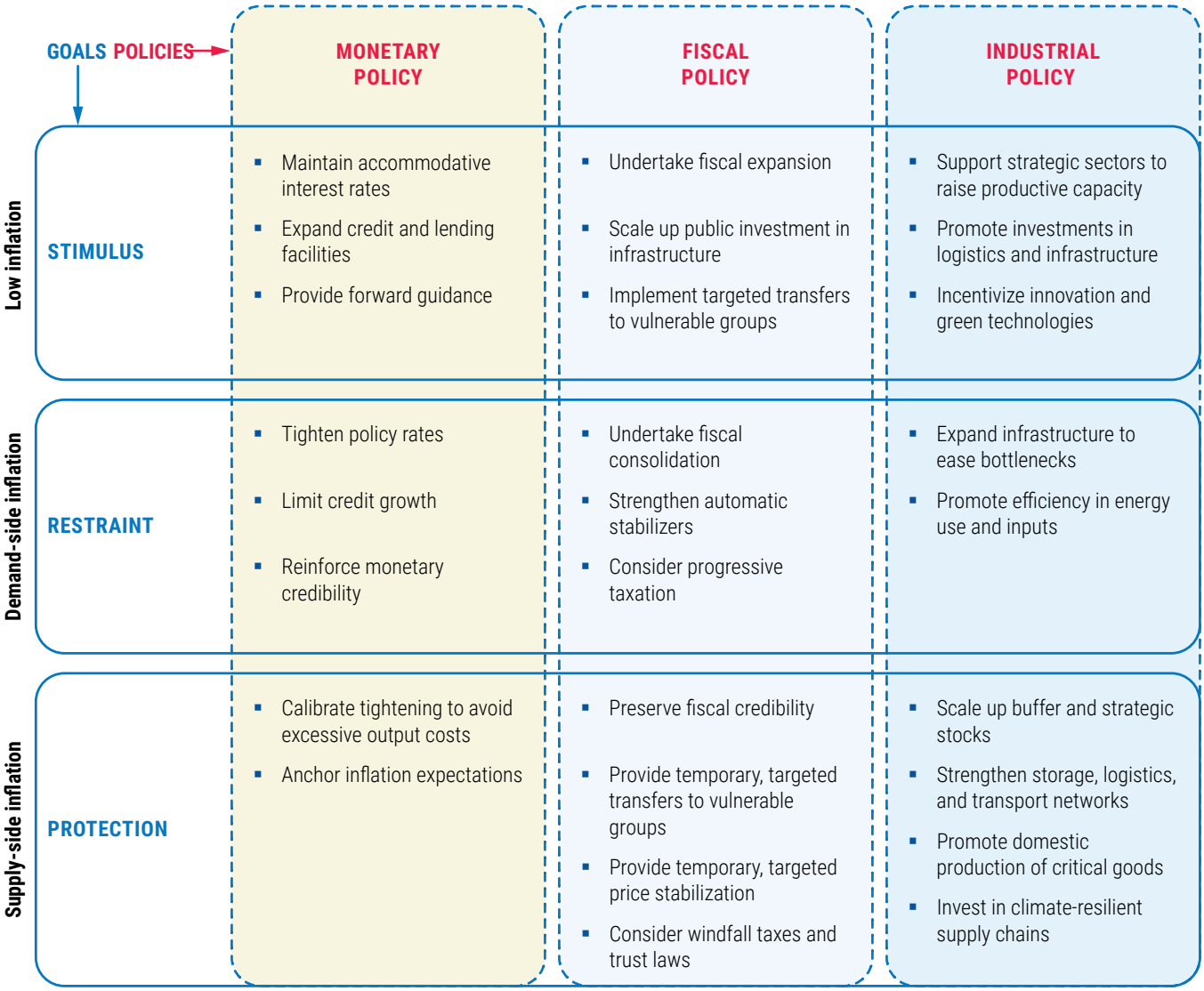
In terms of downsides, strategic reserves are costly, can crowd out private storage, and may be vulnerable to political capture (Gilbert, 2011; Williams and Wright, 1991). A balanced approach distinguishes between price buffers and crisis reserves, facilitates additional private storage, and enhances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

Policy alignment

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

Figure II.16

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



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

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

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

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

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

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

International cooperation amid inflationary pressures

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

Central bank actions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Sevilla Commitment: towards a more inclusive global financial system

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

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

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

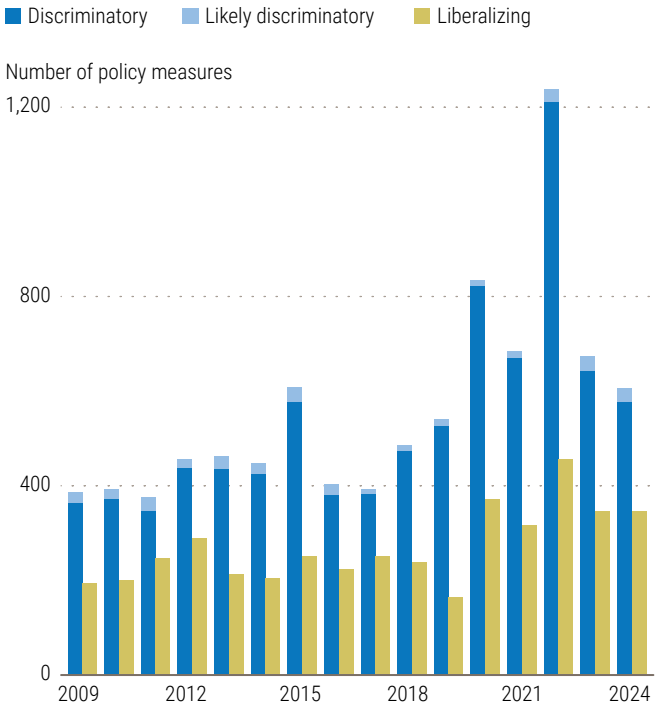
Strengthening the multilateral trading system

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

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

Figure II.17

Newly announced trade interventions in food and fertilizers



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

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

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

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