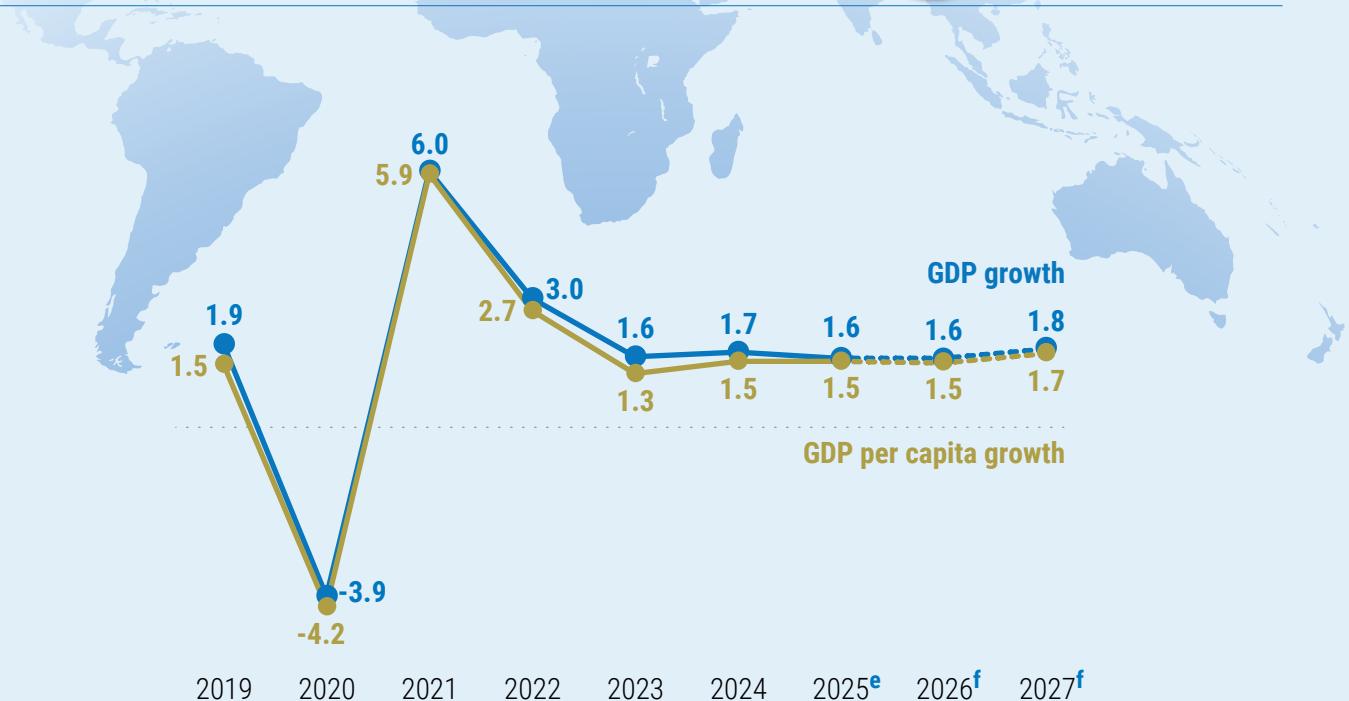


DEVELOPED ECONOMIES

World Economic Situation and Prospects 2026

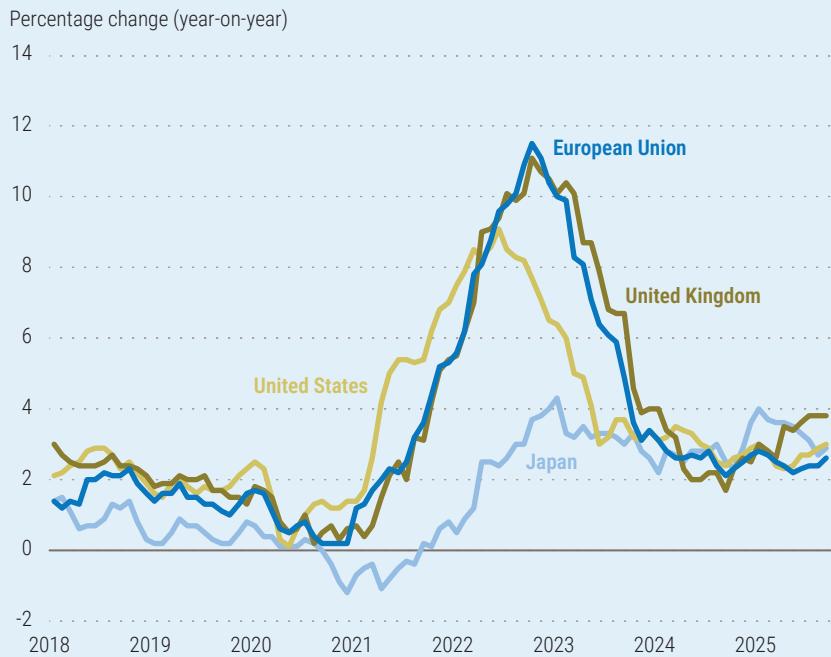


Note: ^e = estimates; ^f = forecasts.

HIGHLIGHTS

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

Headline inflation rates in selected developed economies



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

CHAPTER III

Regional Developments and Outlook

Developed economies

North America

United States of America

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

The Government announced its first tariff policy decision in February 2025, introducing

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

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

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

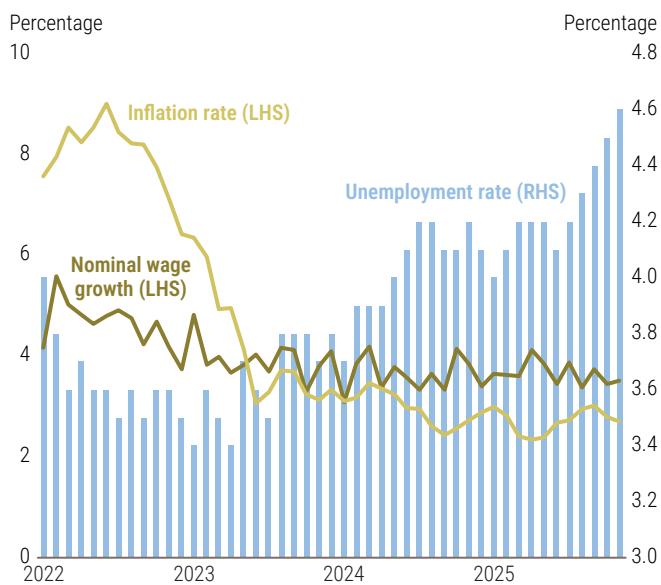
Private consumption growth has remained resilient despite earlier expectations of significant tariff-related impacts owing to two key factors. First, nominal wage growth has continued to outpace inflation on average, even as labour market conditions have weakened. Job creation has slowed sharply, with the unemployment rate rising to 4.6 per cent in November 2025 from 4.2 per cent a year earlier. Average weekly earnings increased by 3.5 per cent in November, exceeding consumer inflation of 2.7 per cent (see figure III.1a). Second, household balance sheets have strengthened in aggregate, with net worth up by 6.1 per cent year-on-year

in June 2025. While wealth distribution remains uneven, given that the top 20 per cent account for 71 per cent of total net worth, net worth rose across all income quintiles, with increases ranging from 3.6 per cent for the bottom 20 per cent to 7.5 per cent for the top 20 per cent (Federal Reserve, 2025a). Total wealth rose from 5.5 times GDP in 2005 to 6.5 times GDP by mid-2025 (an 18 per cent increase), while liabilities fell from 0.88 to 0.68 times GDP (a 23 per cent decline) during this period (see figure III.1b). This long-term improvement in household balance sheets does not necessarily indicate greater financial strength, however, as it largely reflects higher valuations of corporate equities in household asset portfolios. This leaves households vulnerable to potential share-price corrections, which could disproportionately

Figure III.1

Labour market and household financial health in the United States

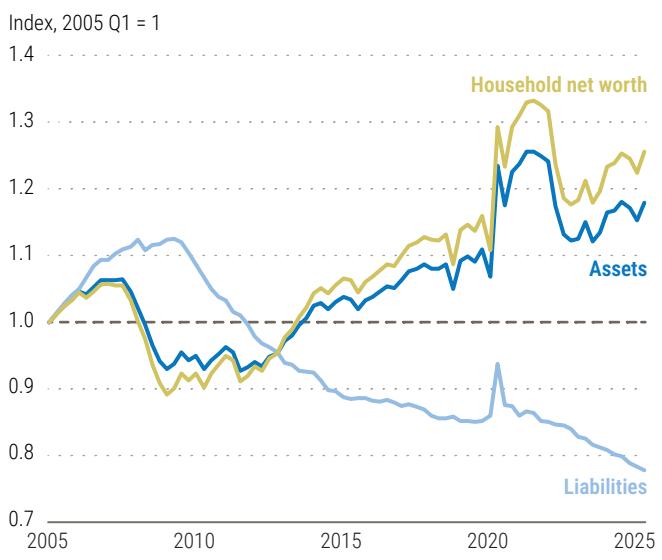
a) Wage growth, consumer price inflation, and unemployment rate



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

Note: LHS = left-hand scale; RHS = right-hand scale. October 2025 unemployment and inflation figures are estimated through interpolation due to the absence of official data.

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



Source: UN DESA, based on data from the Federal Reserve (2025b).

Notes: Household assets comprise financial assets (such as deposits, equities, and pension entitlements) and non-financial assets (primarily real estate), while liabilities mainly consist of mortgage debt and consumer credit. In 2005, assets amounted to 550 per cent of GDP and liabilities to 88 per cent of GDP.

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

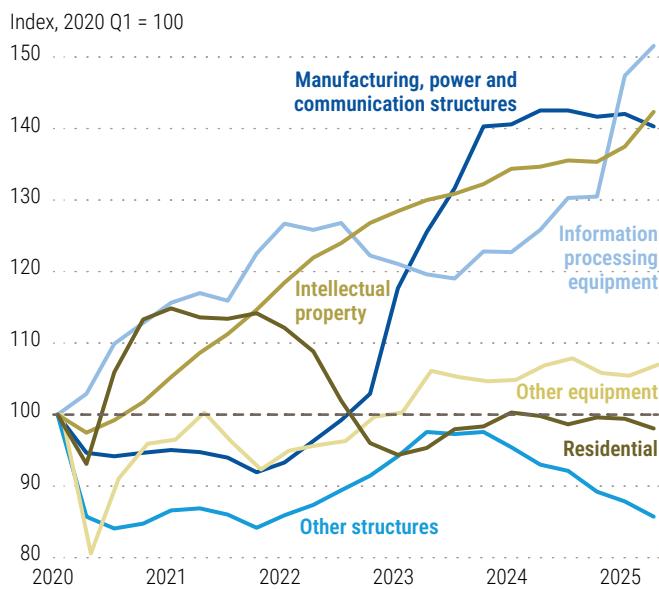
affect lower-income households due to their higher debt-to-asset ratios.²

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

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

Figure III.2

Real private fixed investment in the United States, by type



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

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

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

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

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

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

Canada

In Canada, real GDP growth is estimated at 1.4 per cent for 2025, down from 1.5 per cent in 2024. Growth is projected to pick up modestly to 1.5 per cent in 2026 and 1.9 per cent in 2027. The manufacturing sector has been adversely affected by the uncertainty stemming from United States tariff measures, discouraging business investment and hiring. The unemployment rate rose to 7.1 per cent in September 2025 from a recent trough of 4.8 per cent in July 2022, while nominal wage growth slowed to 3.1 per cent. Private consumption has remained resilient, partly because wage growth continues to outpace inflation, which is estimated at 2.0 per cent for 2025 and projected to ease further to 1.9 per cent in 2026. Amid lingering policy uncertainty, Canadian exports have exhibited considerable volatility. After front-running growth in the first quarter, when export volumes rose by 6 per cent compared with the same period in 2024, exports

fell sharply in the second quarter, dropping 5.1 per cent from a year earlier. Over the first eight months of 2025, export volumes edged down by 0.7 per cent. Increased compliance with the United States–Mexico–Canada Agreement (USMCA), which provides duty-free access for Canadian goods to the United States market, supported a gradual recovery in manufactured products. However, aluminium—one of the main exports from Canada—experienced a marked decline following the imposition of section 232 tariffs of 25 per cent in March and 50 per cent in June (Statistics Canada, 2025). The Bank of Canada has maintained an accommodative stance, cutting policy interest rates four times between January and November 2025. Fiscal policy also remains expansionary, combining the July 2025 federal income tax cut with substantial new measures announced in the November budget, including 280 billion Canadian dollars in infrastructure investment over five years. The Office of the Parliamentary Budget Officer projects the budget deficit to rise from 1.7 per cent of GDP in fiscal year 2024/25 to 2.2 per cent in 2025/26 (Canada, PBO, 2025).

Europe

Economic growth in Europe is projected to remain subdued in 2026, reflecting external headwinds and persistent structural challenges. Higher tariffs in the United States and geopolitical uncertainties are expected to dampen export performance and weigh on overall economic momentum, though resilient consumer spending—supported by monetary easing and robust labour markets—will provide some offset. In the European Union, GDP growth is forecast at 1.3 per cent in 2026 and 1.6 per cent in 2027, compared with estimated growth of 1.5 per cent in 2025.³ In the United Kingdom of Great Britain and Northern Ireland, growth is projected at 1.1 per cent in 2026 and 1.3 per cent in 2027, down from an estimated 1.4 per cent in 2025, with tighter fiscal policy and trade frictions expected

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

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

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

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

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

Figure III.3
Trends in services and manufacturing in the European Union

Index, January 2018 = 100

120

110

100

90

80

70

60

50

40

30

20

10

0

2018

2019

2020

2021

2022

2023

2024

2025

2026

2027

2028

2029

2030

2031

2032

2033

2034

2035

2036

2037

2038

2039

2040

2041

2042

2043

2044

2045

2046

2047

2048

2049

2050

2051

2052

2053

2054

2055

2056

2057

2058

2059

2060

2061

2062

2063

2064

2065

2066

2067

2068

2069

2070

2071

2072

2073

2074

2075

2076

2077

2078

2079

2080

2081

2082

2083

2084

2085

2086

2087

2088

2089

2090

2091

2092

2093

2094

2095

2096

2097

2098

2099

2000

2001

2002

2003

2004

2005

2006

2007

2008

2009

2010

2011

2012

2013

2014

2015

2016

2017

2018

2019

2020

2021

2022

2023

2024

2025

2026

2027

2028

2029

2030

2031

2032

2033

2034

2035

2036

2037

2038

2039

2040

2041

2042

2043

2044

2045

2046

2047

2048

2049

2050

2051

2052

2053

2054

2055

2056

2057

2058

2059

2060

2061

2062

2063

2064

2065

2066

2067

2068

2069

2070

2071

2072

2073

2074

2075

2076

2077

2078

2079

2080

2081

2082

2083

2084

2085

2086

2087

2088

2089

2090

2091

2092

2093

2094

2095

2096

2097

2098

2099

2000

2001

2002

2003

2004

2005

2006

2007

2008

2009

2010

2011

2012

2013

2014

2015

2016

2017

2018

2019

2020

2021

2022

2023

2024

2025

2026

2027

2028

2029

2030

2031

2032

2033

2034

2035

2036

2037

2038

2039

2040

2041

2042

2043

2044

2045

2046

2047

2048

2049

2050

2051

2052

2053

2054

2055

2056

2057

2058

2059

2060

2061

2062

2063

2064

2065

2066

2067

2068

2069

2070

2071

2072

2073

2074

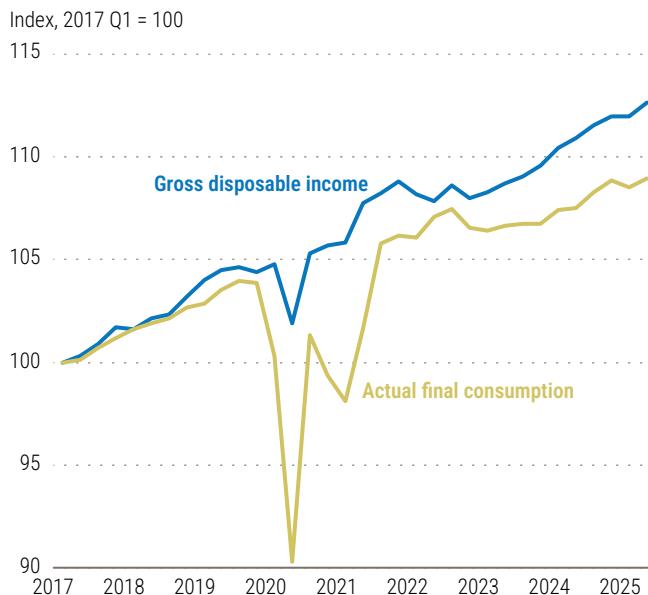
2075

2076

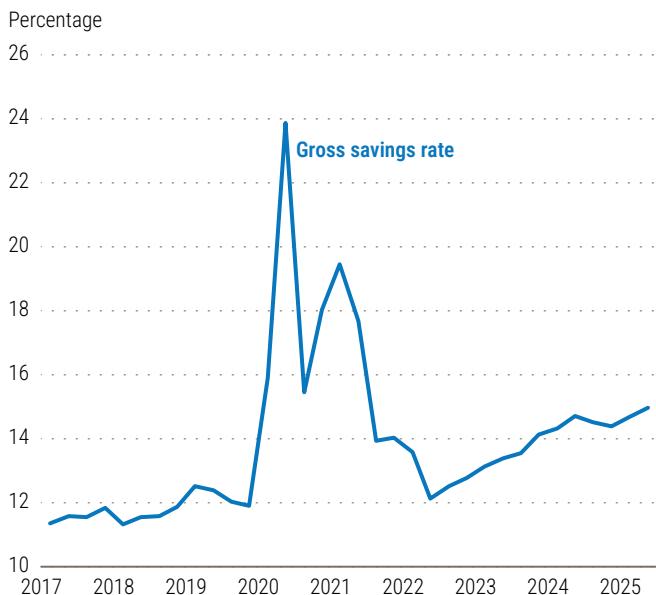
Figure III.4

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

a) Disposable income and consumption, per capita



b) Gross savings rate



Source: UN DESA, based on data from Eurostat.

Note: Data are quarterly (seasonally and calendar adjusted).

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

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

are projected to sustain robust growth through 2026, driven by resilient household consumption and continued inflows of European Union recovery funds.

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

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

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

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

European labour markets are expected to remain broadly resilient in 2026. In the European Union, employment continued to expand through 2025 amid higher participation among women and older workers. The unemployment rate remains near a record low and is projected to edge down

from 5.8 per cent in 2025 to 5.7 per cent in 2026. At the same time, labour market tightness has eased, signalling softer hiring demand.

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

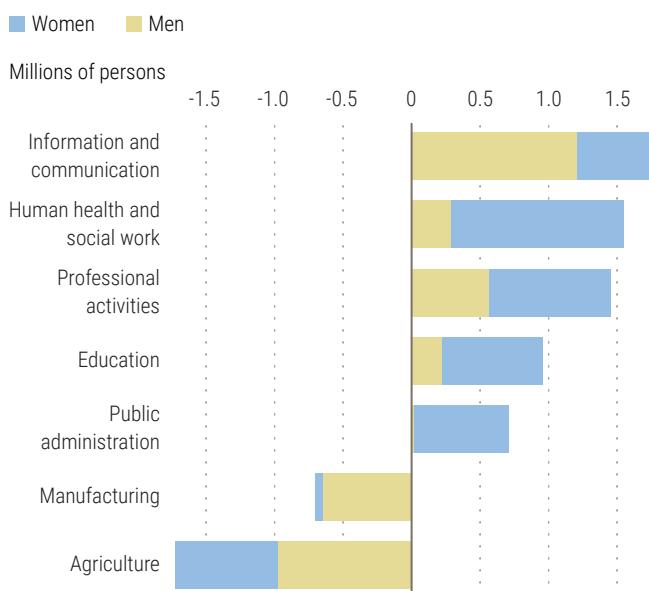
Real wages, which surged in 2024 as inflation receded, grew at a more moderate pace in 2025 and are expected to follow a similar path in 2026. Nominal wage growth in the European Union eased to about 4 per cent year-on-year by mid-2025, down from nearly 6 per cent in early 2024. Real labour productivity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

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

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

Figure III.5

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



Source: UN DESA, based on data from Eurostat.

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

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

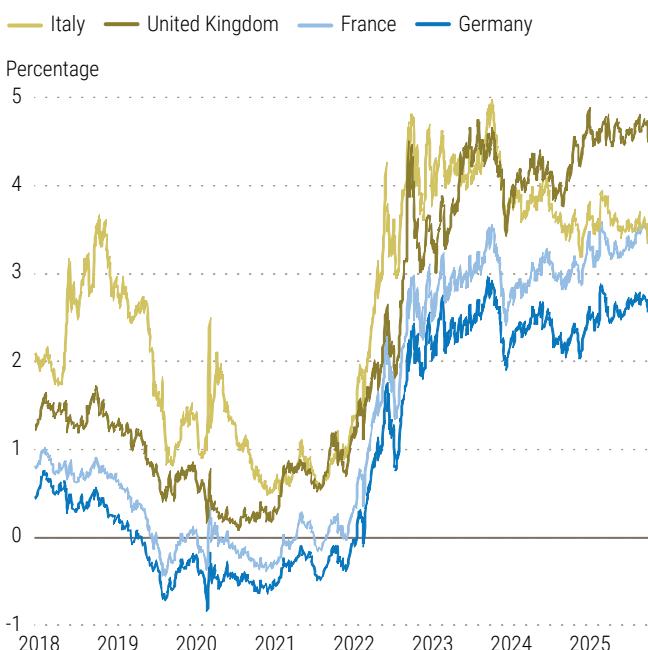
The European Central Bank lowered policy rates by a cumulative 100 basis points in the first half of 2025, bringing the deposit facility rate to 2.0 per cent. This monetary easing helped reduce bank lending rates to corporations to 3.5 per cent by the third quarter, down from 4.5 per cent in late 2024. Lower borrowing costs supported credit expansion, with loans to households and

firms growing at their fastest pace since early 2023. With average euro area inflation close to 2 per cent, the European Central Bank is expected to keep rates broadly unchanged through most of 2026 unless price pressures deviate significantly from target. In the United Kingdom, persistent inflationary pressures have kept monetary policy comparatively tight despite three rate cuts in 2025 that lowered the policy rate to 4.0 per cent. Elevated services inflation and strong wage growth continue to limit the scope for further easing, with any adjustments in 2026 likely to be gradual and contingent upon sustained progress towards the 2 per cent target.

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

Figure III.6

Ten-year government bond yields in selected European economies



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

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

Following a contractionary stance in 2024, aggregate fiscal policy in the euro area turned broadly neutral in 2025 and is expected to stay so through 2026.⁷ The average fiscal deficit is projected to rise slightly from an estimated 3.2 per cent of GDP in 2025 to 3.4 per cent in 2026, while general government gross debt is forecast to edge up to 88.9 per cent of GDP (IMF, 2025d). Beneath these aggregates, national trajectories diverge. Germany is set to adopt a more expansionary path in 2026, enabled by a constitutional change permitting unlimited debt financing for defence spending above 1 per cent of GDP and the creation of a €500 billion extrabudgetary fund (about 11 per cent of annual GDP, spread over twelve years) to support infrastructure investment (Zettelmeyer, Darvas and Welslau, 2025). France, by contrast, faces pressure to reduce a persistent fiscal deficit, estimated at 5.4 per cent of GDP in 2025, through gradual expenditure restraint and targeted revenue measures.

Nine European Union member States—Austria, Belgium, France, Hungary, Italy, Malta, Poland, Romania, and Slovakia—are subject to the excessive deficit procedure, mainly due to persistent budget deficits above the 3-per-cent-of-GDP threshold, requiring corrective measures under the European Union fiscal rules (Council of the European Union, 2025). In contrast, fiscal indicators have strengthened in economies at the centre of the euro area sovereign debt crisis of 2010–2013. Cyprus,

Greece, Ireland, and Portugal are projected to record sizable primary surpluses (fiscal balances excluding interest payments) in 2026, while Spain is expected to reach a broadly balanced primary position. In all five countries, debt-to-GDP ratios are projected to continue declining.

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

Developed economies in Asia and the Pacific

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

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

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

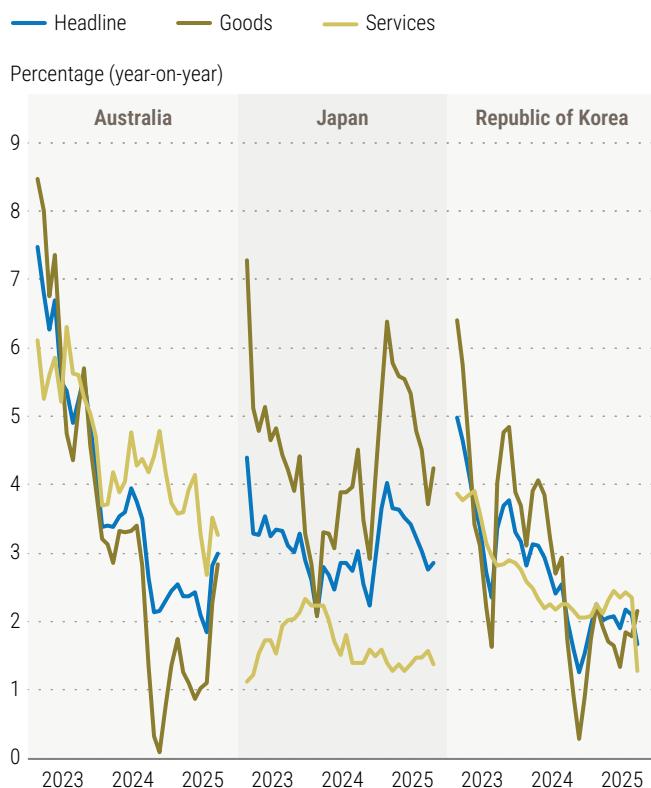
In Japan, real GDP growth is estimated at 1.2 per cent for 2025, up from -0.2 per cent in 2024. Growth is projected to reach 0.9 per cent in 2026 and 1.0 per cent in 2027. Private consumption has been gradually recovering since mid-2023, while residential investment shows signs of improvement after a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

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

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

Figure III.7

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



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

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

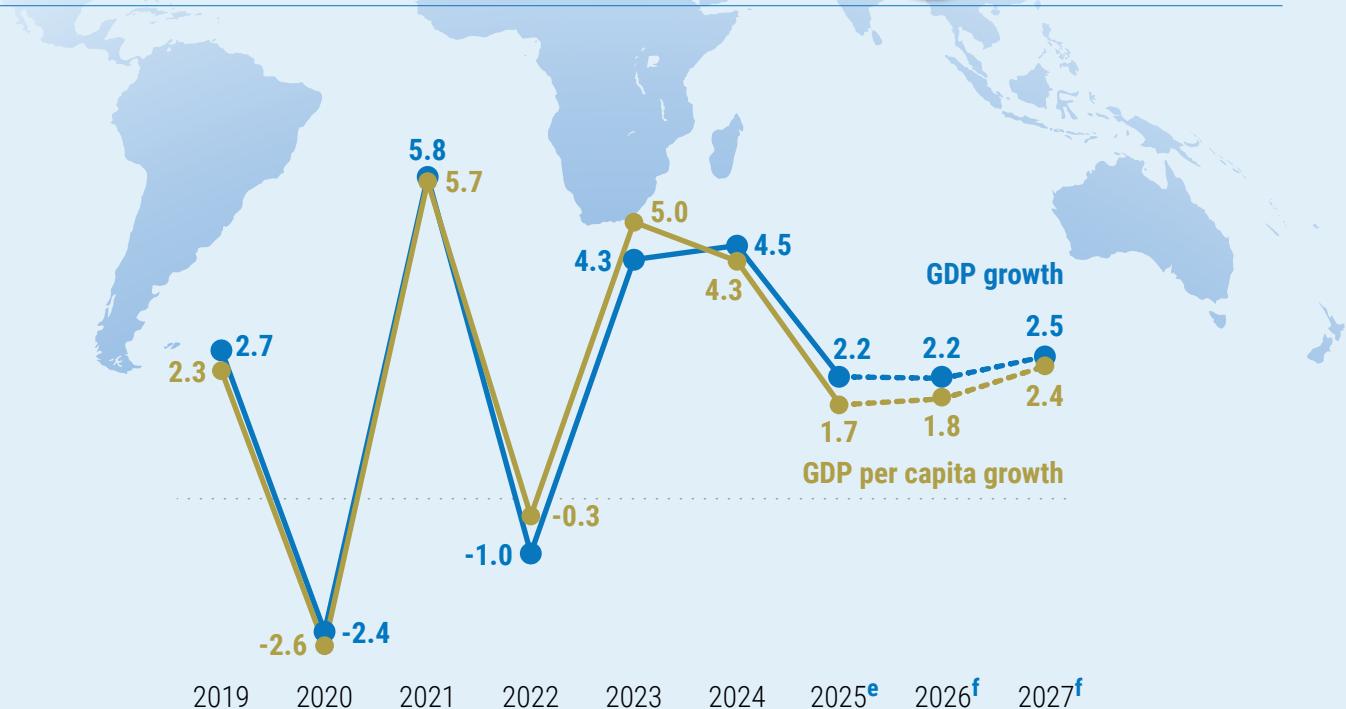
Strong wage growth has supported a recovery in private consumption, while private investment has remained relatively weak even in the wake of monetary easing by the Reserve Bank of Australia starting in February 2025. Goods exports are estimated to have stagnated

amid weakening external demand for key commodities, particularly coal.

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

In the Republic of Korea, real GDP growth declined from 2.0 per cent in 2024 to an estimated 1.1 per cent in 2025 but is forecast

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



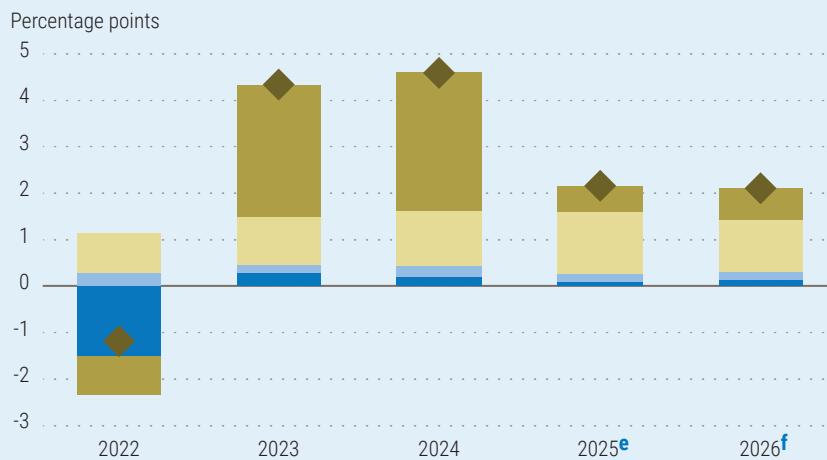
Note: ^e = estimates; ^f = forecasts.

HIGHLIGHTS

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

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

■ Russian Federation ■ Other European CIS countries ■ Caucasus ■ Central Asia
 ◆ Aggregate growth (percentage)



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

Notes: ^e = estimates; ^f = forecasts; CIS = Commonwealth of Independent States. European CIS countries include Belarus, the Republic of Moldova, and Ukraine. The Caucasus includes Armenia, Azerbaijan, and Georgia. Central Asia includes Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan.

Economies in transition

Commonwealth of Independent States and Georgia

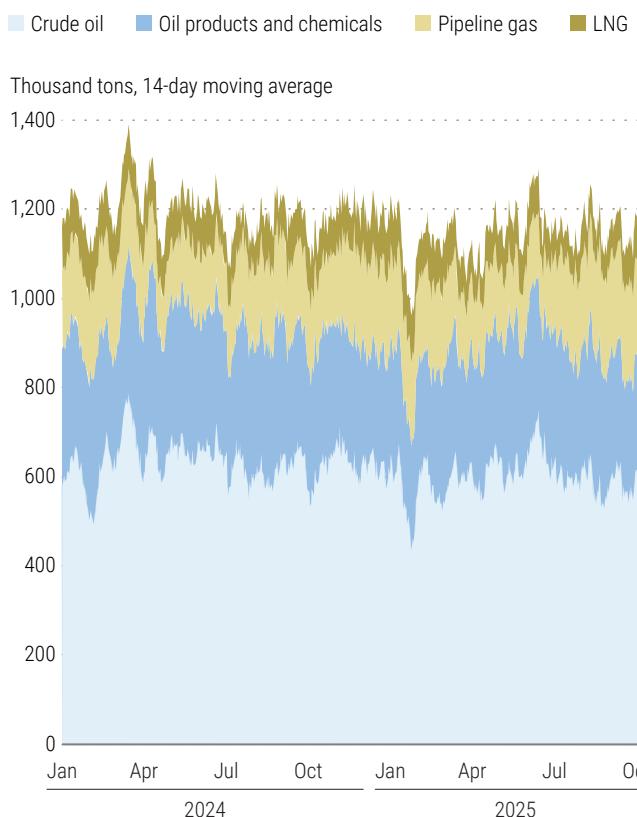
Aggregate GDP growth in the Commonwealth of Independent States (CIS) and Georgia moderated in 2025, largely due to a sharp slowdown in the economy of the Russian Federation. In contrast, most countries in the Caucasus and Central Asia have maintained strong economic momentum. This divergence is expected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

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

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

Figure III.8

Energy sector exports of the Russian Federation



Source: UN DESA, based on data from Russia Fossil Tracker.

Note: LNG = liquefied natural gas.

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

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

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

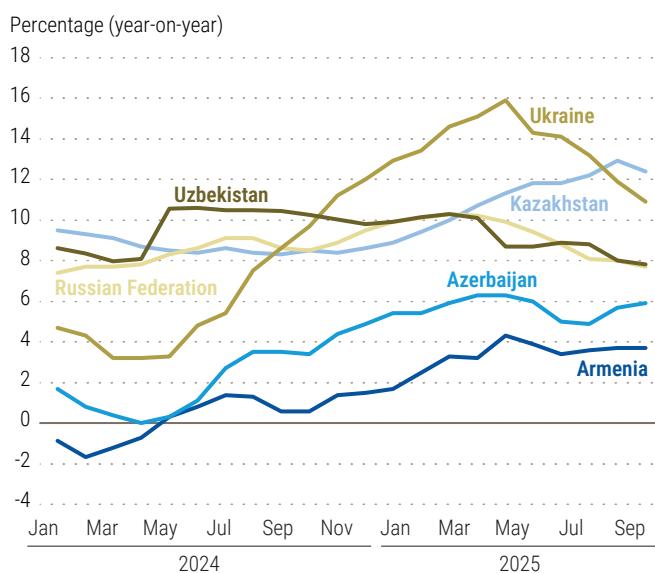
For the economies of the Caucasus and Central Asia, the benefits of serving as trans-shipment hubs for trade with the Russian Federation have gradually diminished. Nevertheless, robust economic growth persisted across most countries in these areas in 2025, supported by strong domestic drivers, including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

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

activity and private consumption. Kyrgyzstan, Tajikistan, and Uzbekistan continued to benefit from rising gold prices, large-scale infrastructure investment, and tourism sector expansion.

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

Figure III.9
Consumer price inflation in selected Commonwealth of Independent States economies



Source: UN DESA, based on national sources.

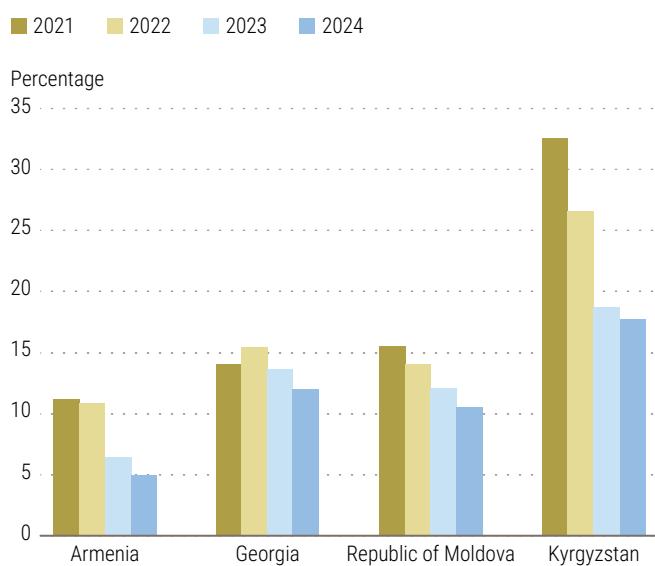
Monetary policy responses to inflation diverged, reflecting differences in deviations from target ranges, expectations for future inflation dynamics, and policy priorities. The Central Bank of the Russian Federation, which had maintained an extremely tight monetary stance since mid-2024, began easing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

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

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

Figure III.10

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



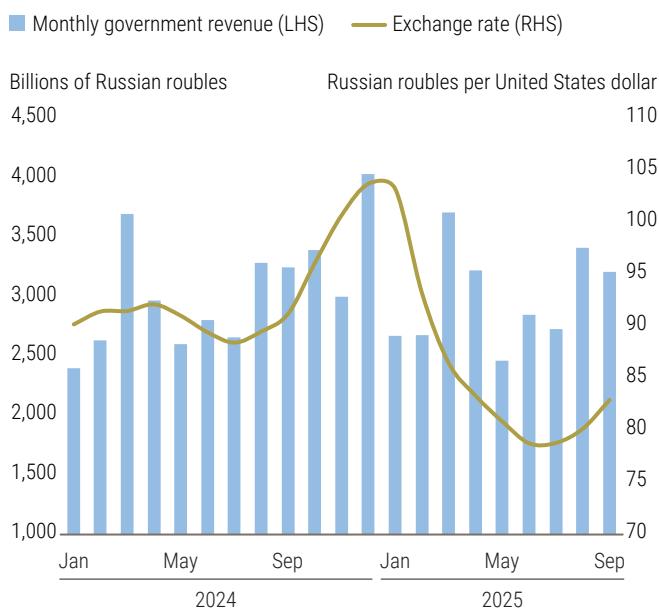
Source: UN DESA, based on data from World Bank World Development Indicators database.

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

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

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

Figure III.11
Monthly government revenue and exchange rate of the Russian Federation



Source: UN DESA, based on data from the Central Bank of the Russian Federation and Trading Economics.

Note: LHS = left-hand scale; RHS = right-hand scale.

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

South-Eastern Europe

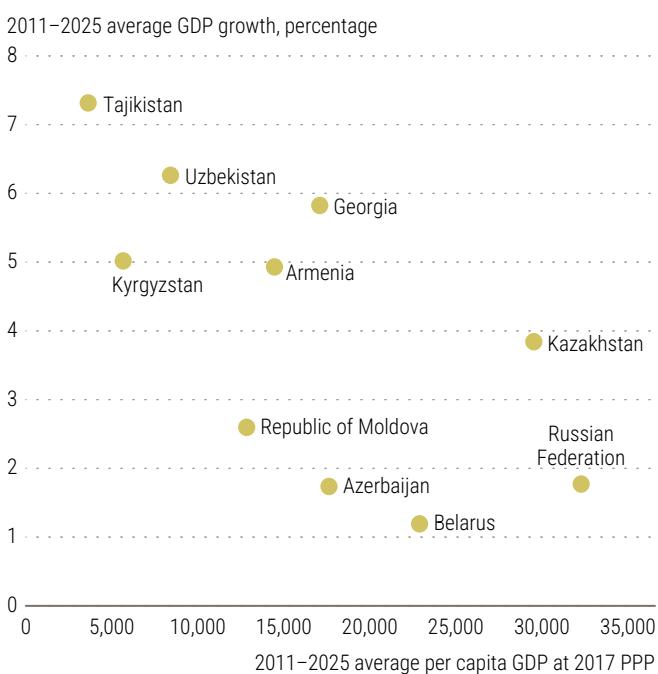
Aggregate GDP growth in South-Eastern Europe declined from 3.5 per cent in 2024 to an estimated 2.4 per cent in 2025 but is projected to bounce back to 3.4 per cent in 2026 and remain at that level in 2027. Sluggish economic growth in the European Union has been weighing on the region, especially on industrial exporters such as Bosnia and Herzegovina, North Macedonia, and Serbia. In Serbia, economic growth weakened in 2025 due to lower agricultural output, slower investment activity, and heightened political tensions despite

positive trends in the automotive and information technology sectors. A rebound in construction activity and overall growth is expected in 2026, supported by preparations for EXPO 2027 Belgrade.

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

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

Figure III.12
GDP per capita and GDP growth in selected Commonwealth of Independent States economies



Source: UN DESA, based on data from the IMF World Economic Outlook database, October 2025, and on estimates produced with the World Economic Forecasting Model.

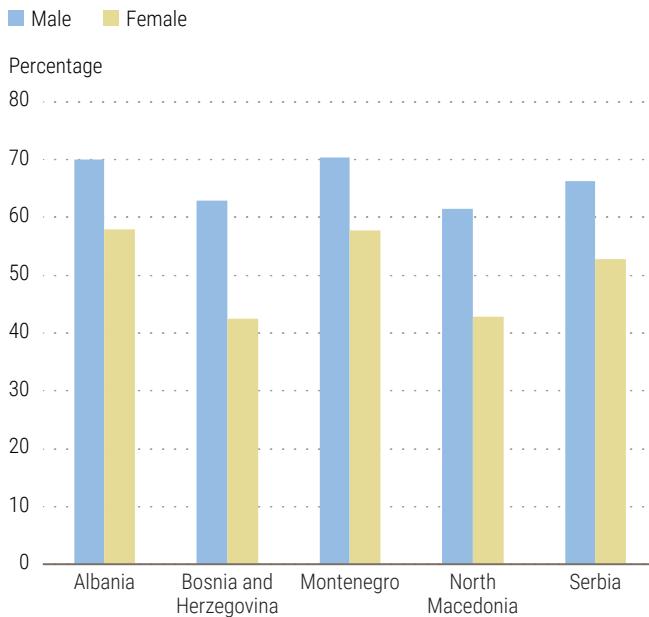
Note: PPP = purchasing power parity.

The outlook for South-Eastern Europe is subject to significant domestic and external risks. Global economic uncertainty continues to weigh on business confidence and investment flows. The region's development prospects remain constrained by structural challenges, notably a difficult business environment and

adverse demographic dynamics, including population ageing, outward migration, and a resulting decline in the working-age population (see figure III.13b). An additional risk stems from the increasing frequency of extreme climate events, particularly droughts, which could adversely affect hydropower generation.

Figure III.13
Labour force participation and working-age population in South-Eastern European economies

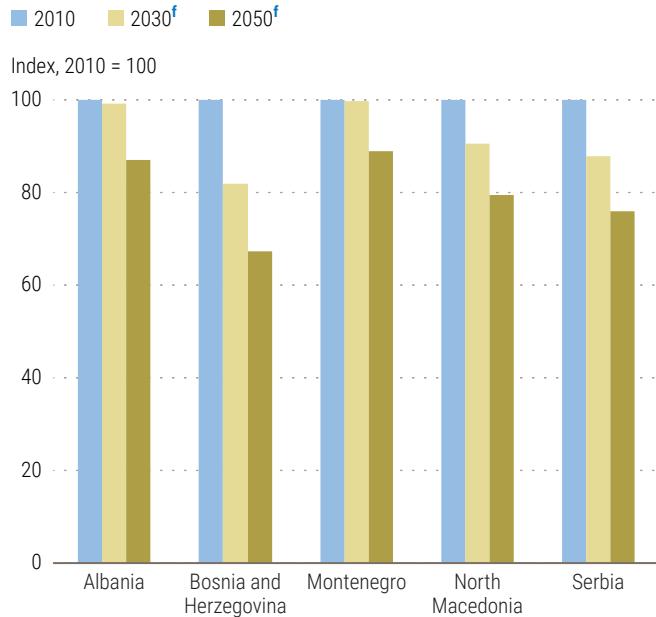
a) Labour force participation rates



Source: UN DESA, based on data from ILOSTAT.

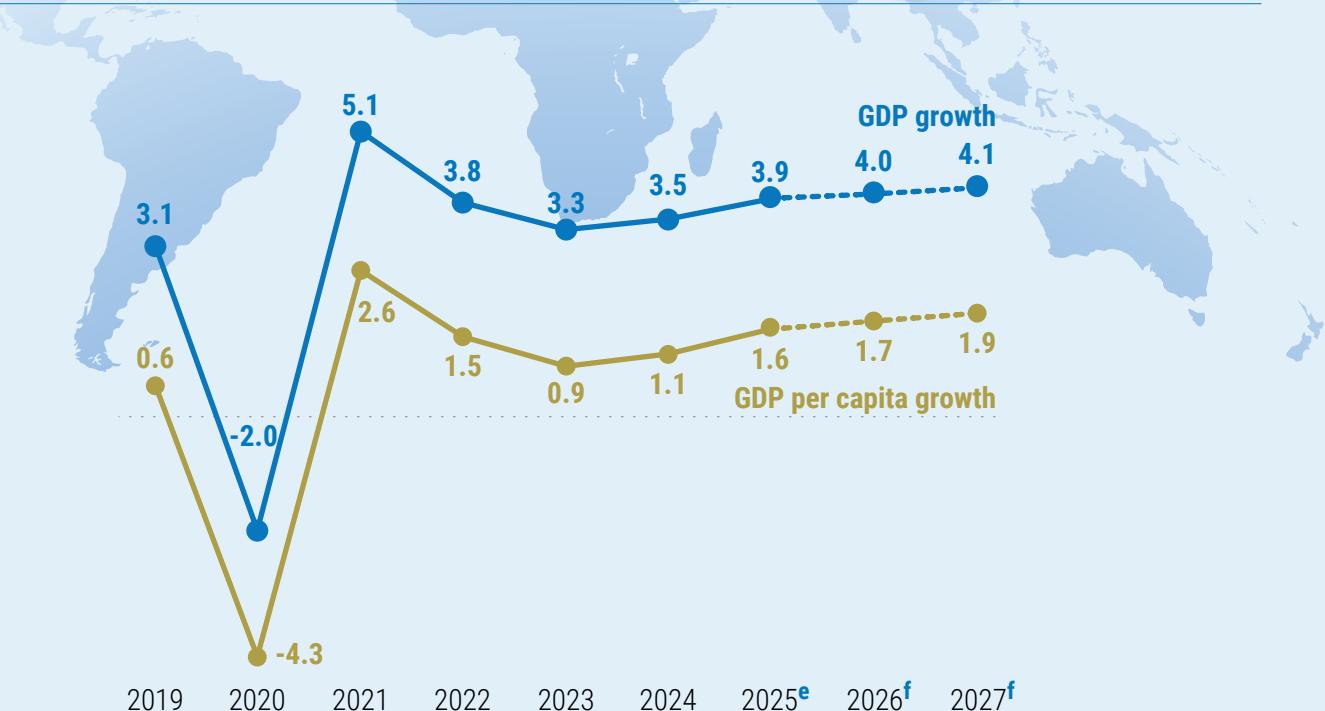
Note: Data are for 2024 for all countries except Albania and Montenegro, where data are for 2023.

b) Population aged 20 to 64 years



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

Note: ^f = forecasts.



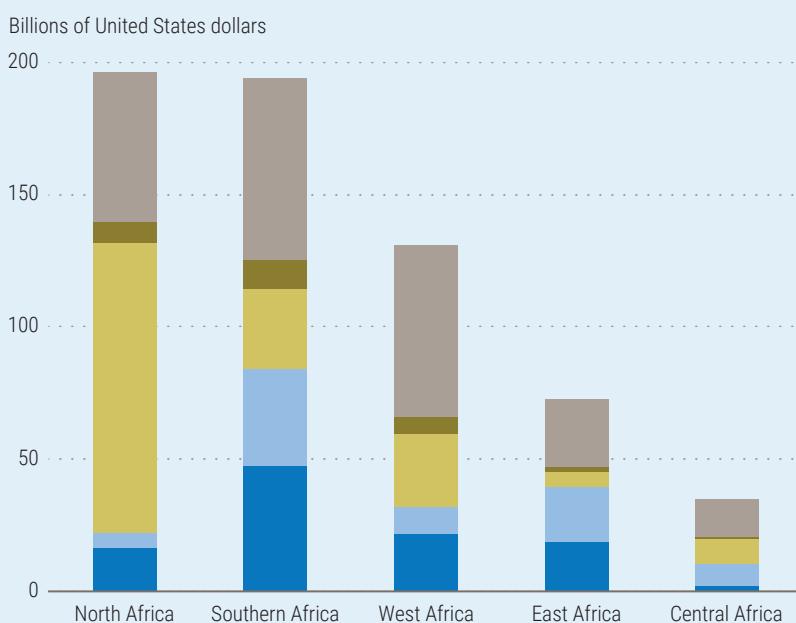
Note: ^e = estimates; ^f = forecasts. Aggregate data for Africa exclude Libya and Sudan.

HIGHLIGHTS

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

African merchandise exports by destination, 2024

■ Africa ■ China ■ European Union ■ United States ■ Rest of the world



Source: UN DESA, based on data from UNCTAD.

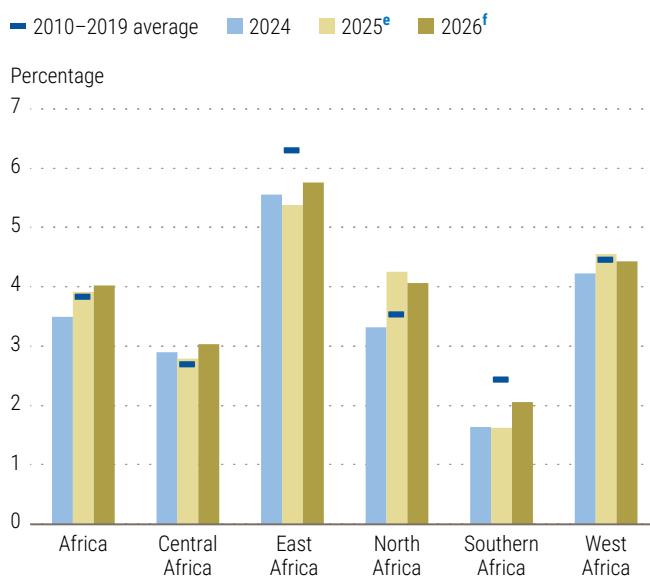
Africa

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

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

Figure III.14

Growth of economic output in Africa



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

Notes: ^e = estimates; ^f = forecasts. Africa and North Africa aggregates exclude Libya and Sudan.

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

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

⁹ Fiscal-year basis.

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

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

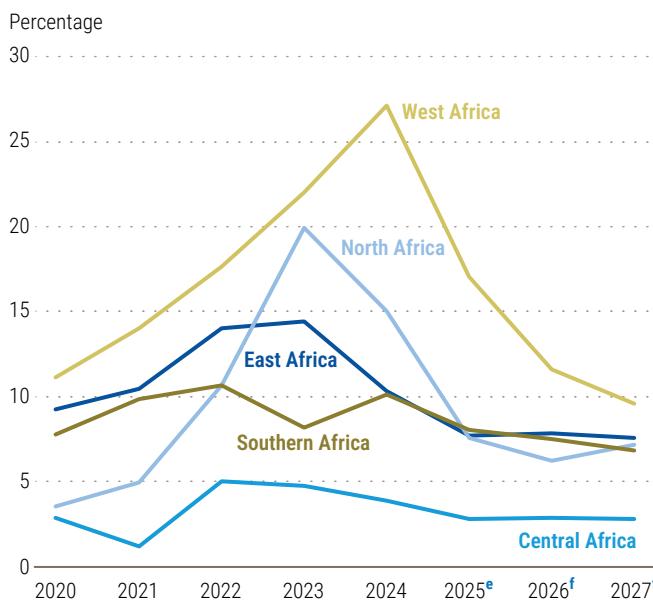
Central Africa continues to lag behind the continental average, with growth estimated at 2.8 per cent for 2025 and a slight acceleration to 3.0 per cent projected for 2026. Economic performance remains closely tied to commodity prices and extractive industries. Chad, Congo, Equatorial Guinea, and Gabon are especially vulnerable to the risks associated with falling oil prices (EIU, 2025). The Democratic Republic

of the Congo continues to depend on its mineral deposits as the main source of government revenue and economic activity. Armed conflict in the eastern part of the Democratic Republic of the Congo has contributed to disrupted livelihoods and the displacement of more than 3.5 million people, weighing on the country's economic outlook (UN Migration, 2025). The shift in October 2025 from a cobalt export ban to an export-quota system is expected to increase fiscal revenues. However, translating these gains into broader benefits will require stronger governance and greater investment in infrastructure and education (United Nations, 2025; Arezki, 2025).

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

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

Figure III.15
Annual consumer price inflation in Africa, by subregion



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

Notes: ^e = estimates; ^f = forecasts. Subregional aggregates reflect GDP weighted averages, excluding South Sudan, Sudan, and Zimbabwe.

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

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

Box III.1

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

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

Rapid urbanization has become a defining contributor to the rising cost of living in African cities. Migration increases pressure on housing, infrastructure, and essential services; when demand outpaces supply, costs rise, rendering

urban life increasingly unaffordable for many residents. Social tensions and discontent due to rising affordability challenges triggered several rounds of protests in 2024 and 2025, particularly in large cities in Ghana, Kenya, and Madagascar.

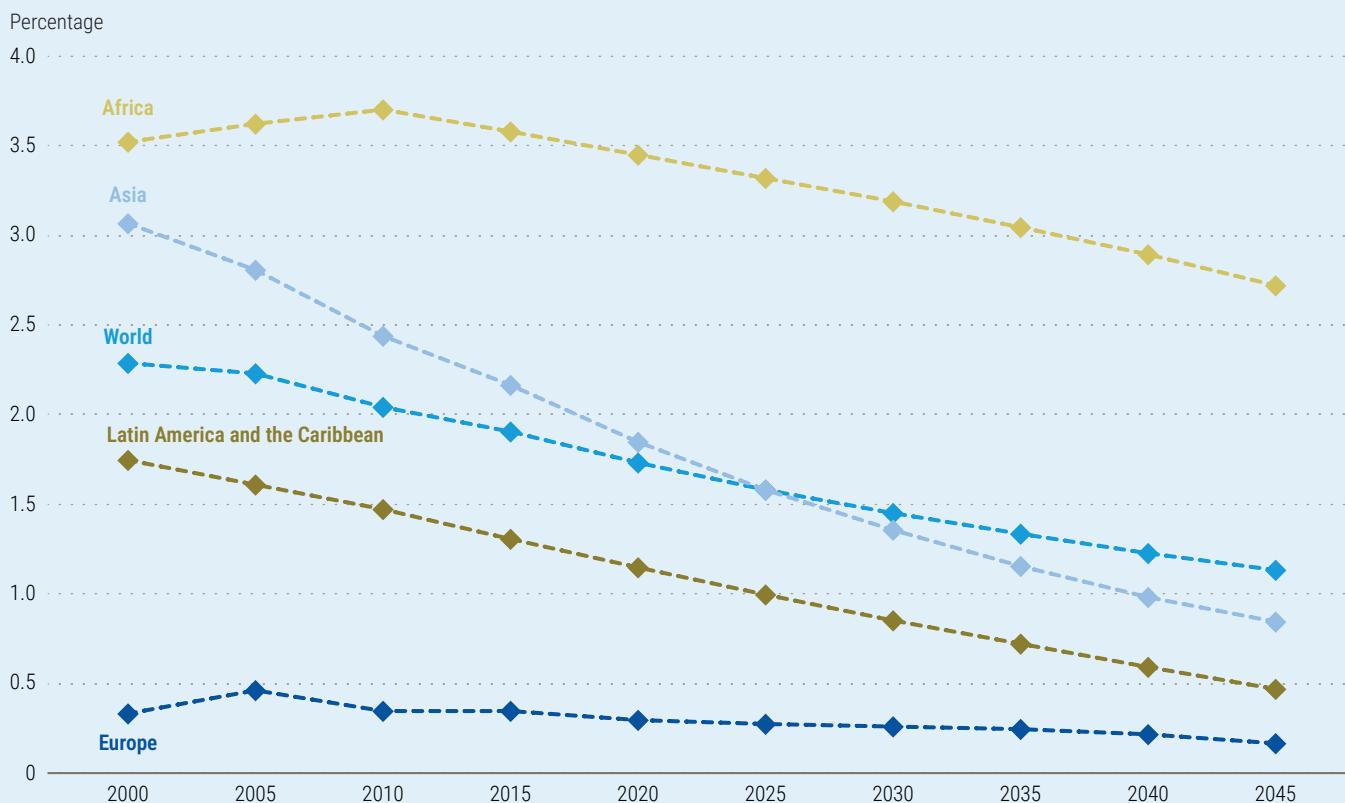
This expansion also has profound implications for food systems. Urban dwellers tend to consume more diverse and processed foods, often sourced through extended supply chains or imported from abroad. Weak infrastructure, limited storage, and high transport costs have left supply chains lagging, making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

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

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

Author: Giuseppe Tesoriere, United Nations Economic Commission for Africa

Figure III.1.1
Rate of change of the urban population

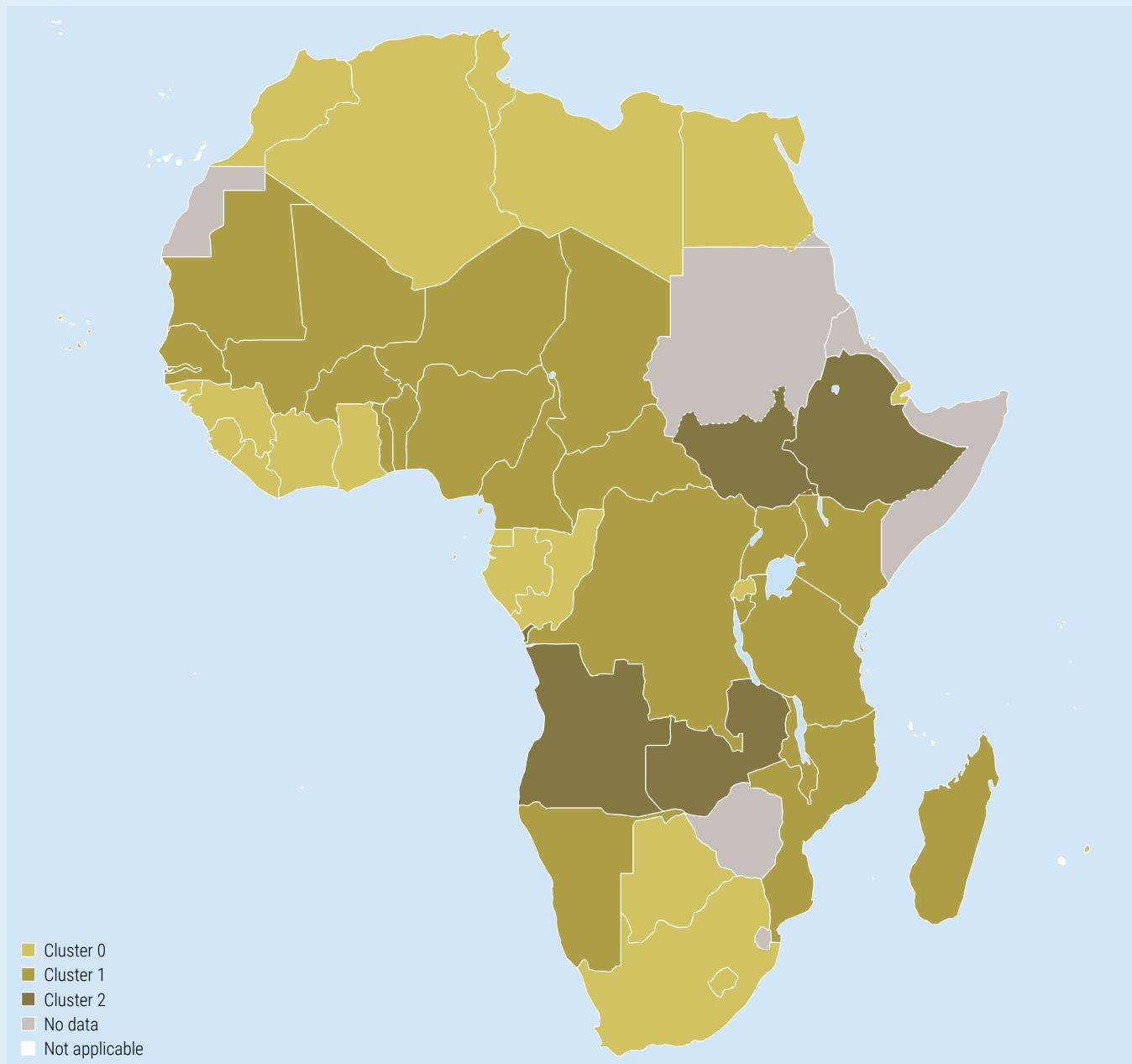


Source: ECA elaboration, based on United Nations, *World Urbanization Prospects 2025*.

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

Figure III.1.2

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



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

Source: ECA elaboration, based on data from FAO and the World Bank.

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

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

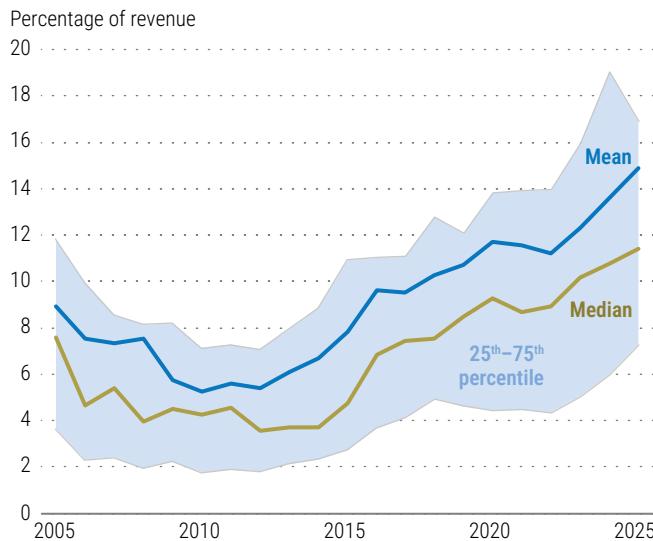
These headline indicators mask substantial cross-country variation, with fiscal space remaining severely constrained in several economies. On the one hand, Benin, Côte d'Ivoire, Kenya, and Senegal returned to international markets with new bond issuances in 2025, though at higher yields than in the past. On the other

hand, seven African countries remained in debt distress as at end 2025, and fourteen others were at high risk thereof. Chad, Ethiopia, Ghana, and Zambia have requested debt restructuring under the G20 Common Framework and are currently at different stages of implementation. Several other African countries, including Egypt and Nigeria, are pursuing reforms and fiscal consolidation as part of IMF-supported programmes.

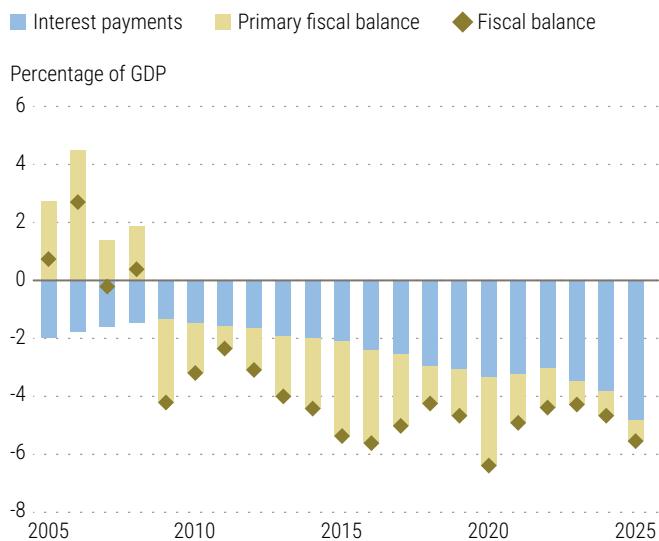
Global trade tensions have intensified, but for Africa direct exposure remains limited. Only twelve African countries export more than 5 per cent of their goods to the United States. The expiration of AGOA at the end of September 2025 removed preferential access to the United States market for many African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

Figure III.16
Key fiscal indicators in Africa

a) Government interest expenditure



b) Fiscal balance components



Source: UN DESA, based on data from the IMF World Economic Outlook database, October 2025.

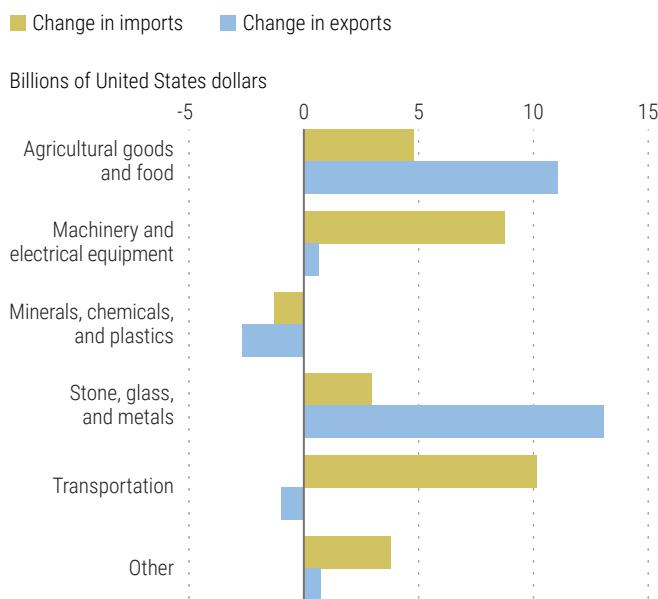
Notes: Panel b) The figure shows the GDP-weighted values of the indicators. The fiscal balance is defined as general government net lending or borrowing. It can be decomposed into the primary balance and interest payments.

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

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

Continued and coordinated policy efforts will be essential for accelerating progress towards eradicating extreme poverty, the first Goal of the 2030 Agenda for Sustainable Development. While some countries, such as Benin and Rwanda, have made considerable progress

Figure III.17
Change in African trade, by product category, 2024 H1–2025 H1

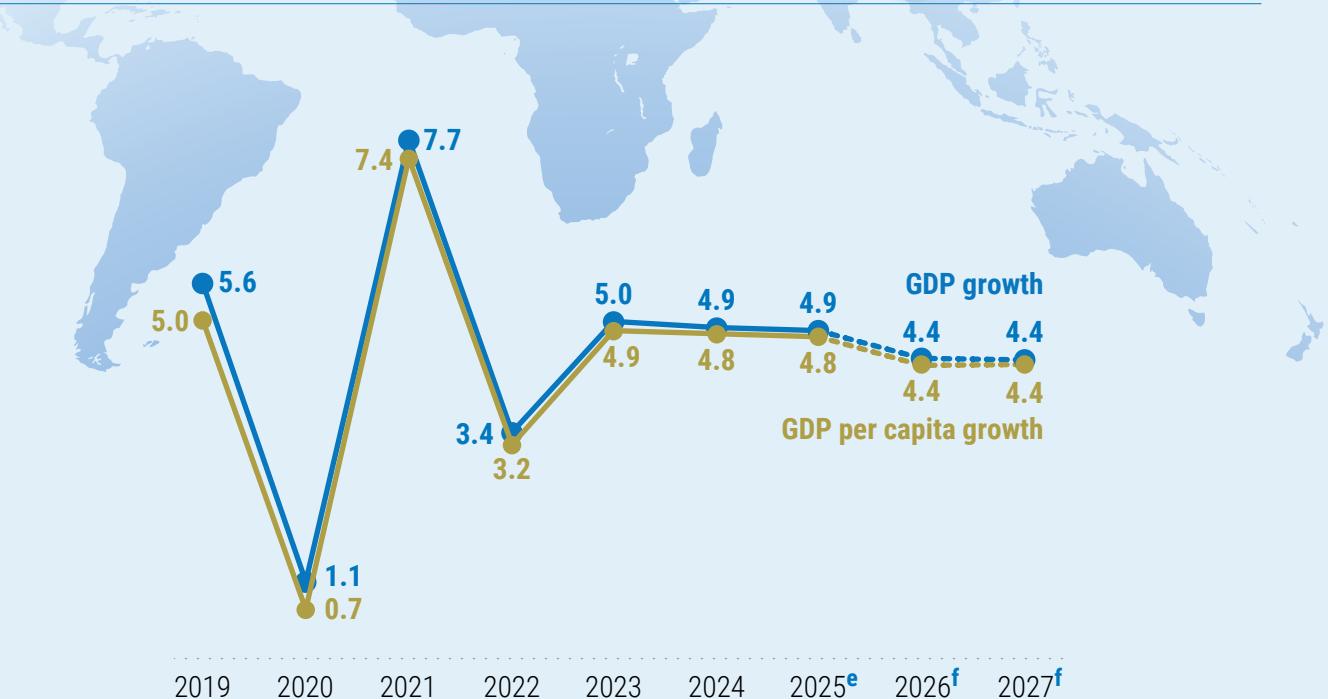


Source: UN DESA, based on data from the Trade Data Monitor.

Notes: H1 = first half of the year. Data are expressed in nominal values. Data represent mirror estimates based on world trade with Africa.

in reducing extreme poverty, others have experienced little change (World Bank, 2025e). In several large economies, including Angola, the Democratic Republic of the Congo, Ethiopia, and Nigeria, the incidence of extreme poverty has increased in recent years.

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



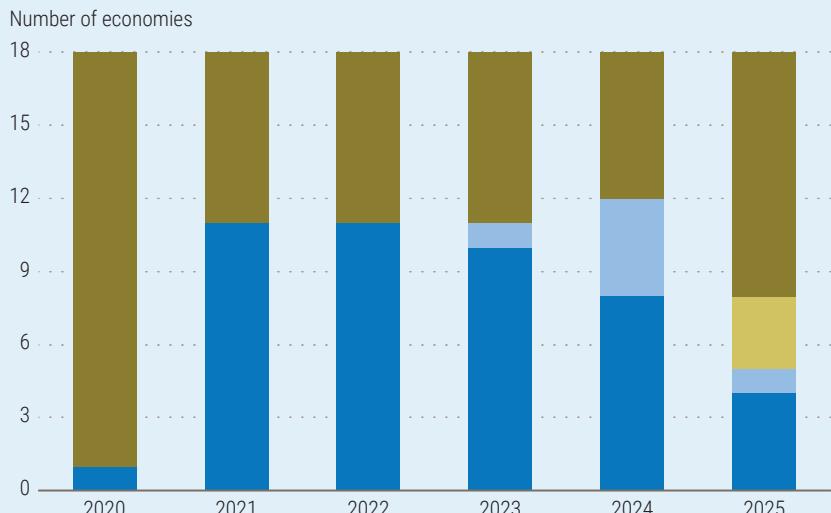
Note: ^e = estimates; ^f = forecasts.

HIGHLIGHTS

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

Fiscal policy stance in East Asian economies

■ Large fiscal tightening ■ Small fiscal tightening ■ Large fiscal loosening ■ Small fiscal loosening



Source: UN DESA, based on data and estimates from the IMF World Economic Outlook database, October 2025.

Note: Small easing/tightening is defined as a change in the primary fiscal balance of less than 0.5 per cent of GDP; large easing/tightening is a change of more than 0.5 per cent of GDP.

East Asia

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

During the first three quarters of 2025, the region's growth was boosted by the front-loading of exports to the United States ahead of higher tariffs, including shipments of AI-related semiconductors and electronics. A continued recovery in tourism, despite

temporary disruptions from natural disasters and security concerns in some economies, bolstered services exports. Private consumption also held up well across most economies, underpinned by steady labour market conditions and ongoing disinflation (see figure III.18). Investment growth remained positive in most economies, driven by targeted government support and sustained inflows of foreign direct investment (FDI).

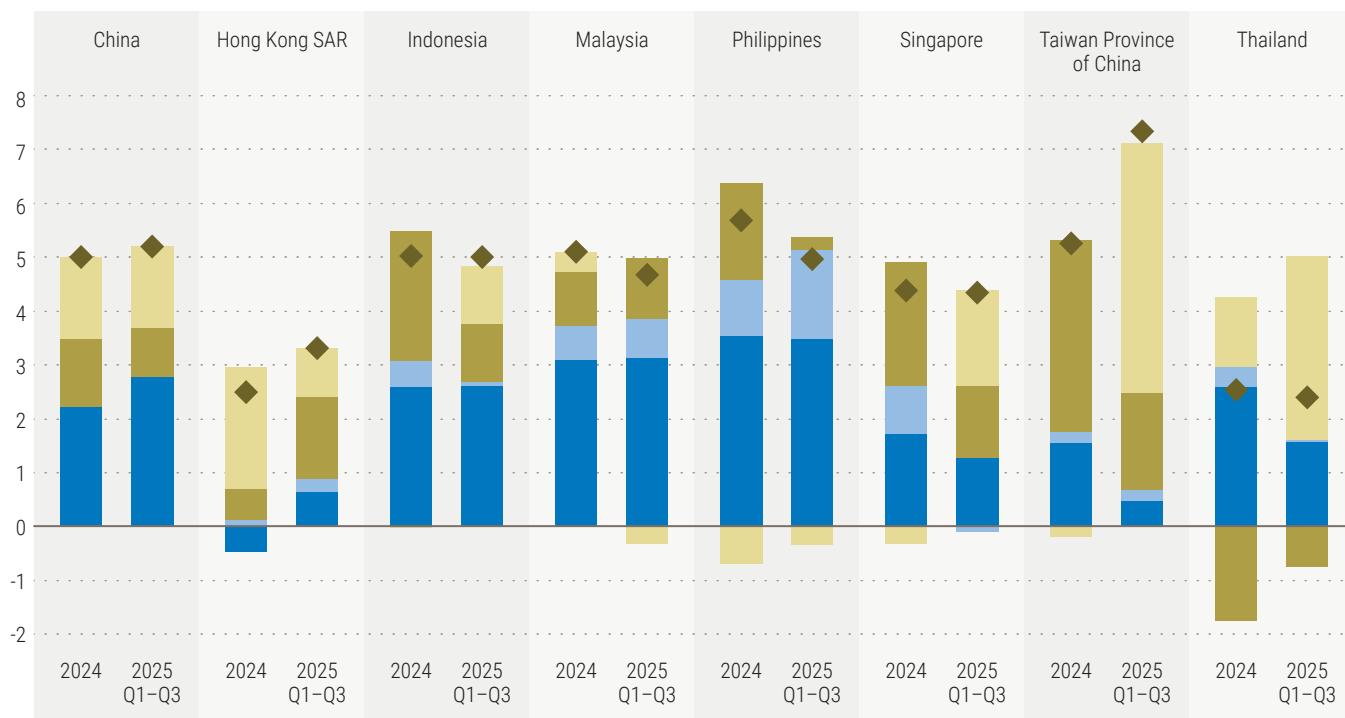
However, high-frequency indicators suggest a loss of growth momentum in the region. Industrial production has continued to expand, but at a slower pace since May 2025 (see figure III.19a). Manufacturing PMI readings have weakened across many economies since the beginning of 2025 (see figure III.19b).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

Figure III.18

Demand-side contributions to growth in selected East Asian economies

■ Private consumption ■ Government consumption ■ Investment ■ Net exports ■ GDP growth (percentage)

Percentage points



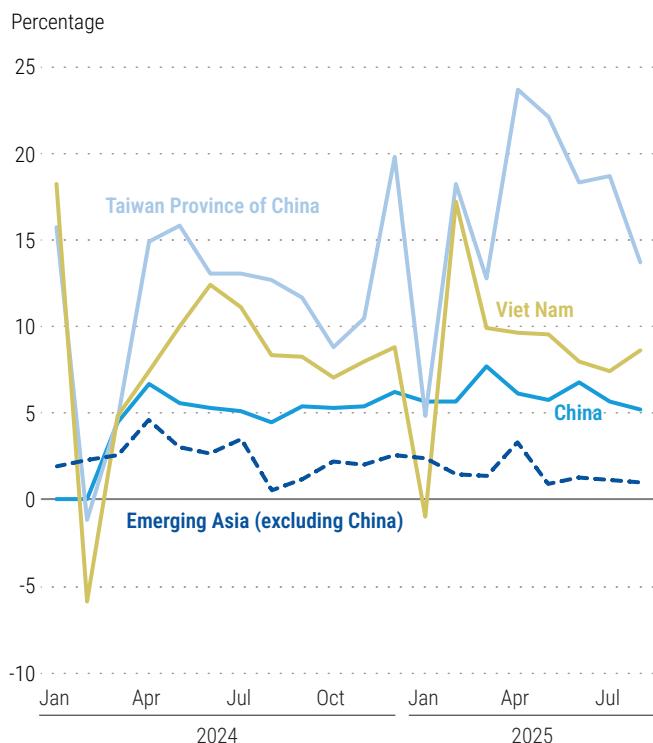
Source: UN DESA, based on data from CEIC.

Notes: SAR = Special Administrative Region. For China, the private consumption bar covers both the private and government sectors.

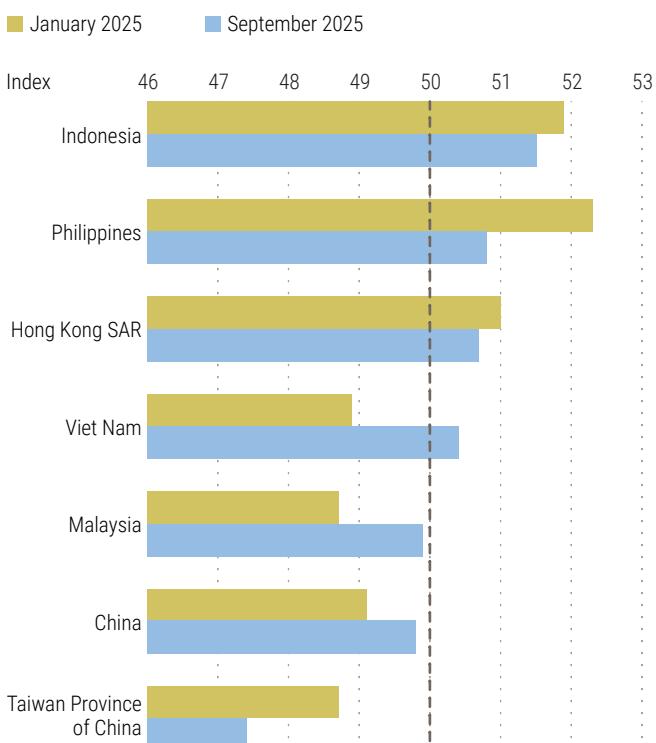
Figure III.19

High-frequency indicators in selected East Asian economies

a) Growth of industrial production



b) Manufacturing Purchasing Managers' Index



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

Notes: Panel b) SAR = Special Administrative Region. A Manufacturing Purchasing Managers' Index reading above 50 indicates an expansion in manufacturing activity compared with the previous month, while a reading below 50 signals a contraction.

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

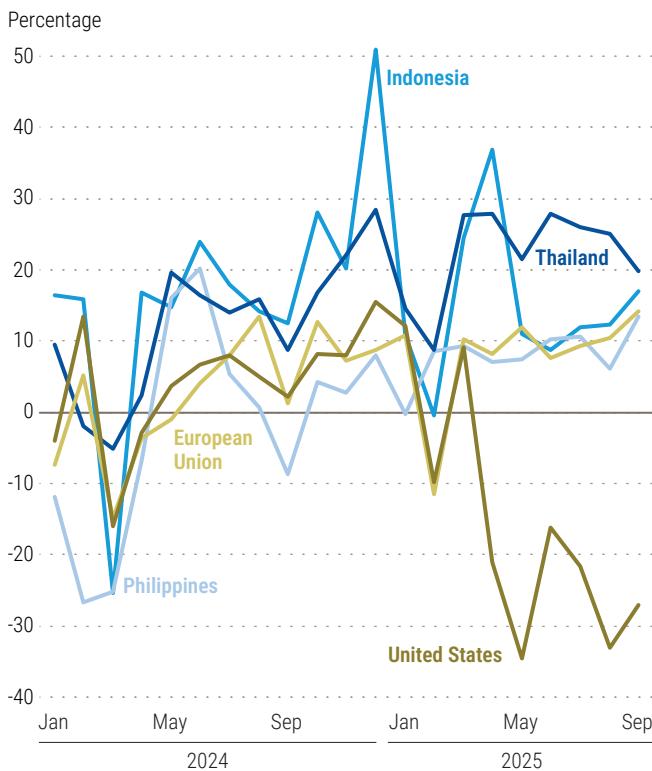
In China, GDP growth dipped from 5.0 per cent in 2024 to an estimated 4.9 per cent in 2025 and is projected to moderate to 4.6 per cent in 2026. In the first half of 2025, growth remained robust, supported by accelerated export shipments ahead of higher United States tariffs and stronger domestic consumption boosted by policy measures, notably the extended nationwide trade-in programmes (see figure III.18). However, momentum began to ease in the third quarter. In September, retail sales growth slowed to 3.0 per cent, down from a peak of 6.4 per cent

in May—the highest rate since January 2024. Fixed-asset investment—despite an expansion of 2.8 per cent year-on-year in the first half of 2025—contracted by 0.5 per cent in the first three quarters, suggesting significantly weaker investment activity in the third quarter. Policies to encourage equipment upgrades and the issuance of ultra-long government bonds for infrastructure and urban renewal have supported investment in manufacturing and infrastructure. However, these gains have been offset by the continued contraction of the property sector.

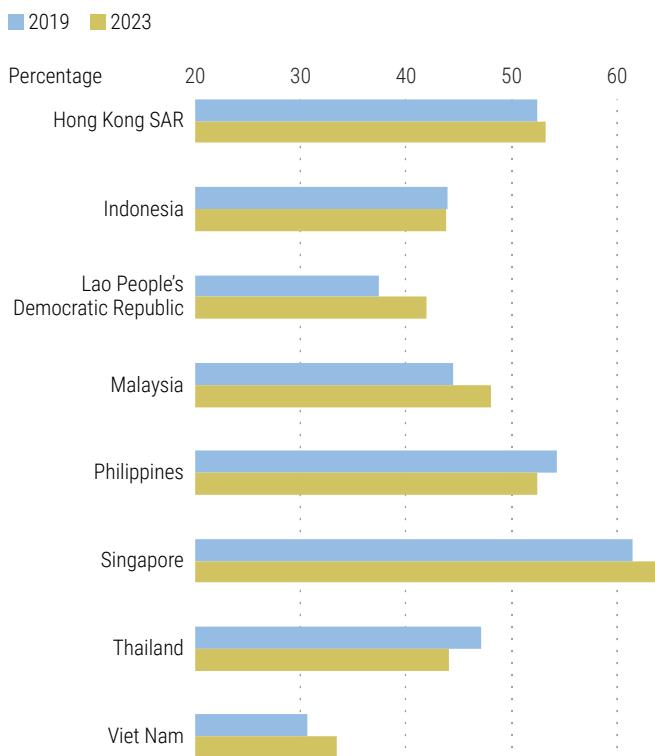
The economic outlook in China now faces both upside and downside risks. The key downside risks stem from a potential deterioration in China–United States trade relations, weaker global demand, and a further downturn in the property sector. However, increased

Figure III.20
Exports of China

a) Growth of exports by selected destination



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



Source: UN DESA, based on data from CEIC and OECD (2025a).

Notes: Panel a) Growth rates are based on nominal values. Panel b) SAR = Special Administrative Region.

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

In the medium term, the 15th Five-Year Plan for Economic and Social Development of

the People's Republic of China, released in October 2025 and covering the period 2026–2030, emphasizes innovation-driven industrial upgrading, green transition, digitalization, and the expansion of domestic demand, alongside a renewed focus on international cooperation through the promotion of trade and both FDI inflows into China and the country's outward investment.

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

investment bolster domestic activity. Indonesia remains on a steady course, with domestic demand supported by fiscal and monetary easing helping to cushion the adverse impact of lower commodity prices on exports.

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

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

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

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

11 Although the situation has improved somewhat since 2021, household debt in Thailand still stands at around 90 per cent of GDP (Deléchat, Kim and Xu, 2025).

12 The calculation is based on data from ILO (2025b).

13 Based on data from ILOSTAT.

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

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

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

Many Governments in East Asia shifted towards fiscal expansion in 2025 following fiscal consolidation the year before. The median fiscal deficit for the region grew from 3.7 per cent of GDP in 2024 to an estimated 5.2 per cent in 2025 and is projected to edge up to 5.3 per cent in 2026.¹⁴ Many fiscal packages aim to stimulate consumption and protect vulnerable groups in the near term while enhancing infrastructure investment to support long-term growth. Specific measures include cash handouts and targeted cash transfers (Malaysia and the Philippines);¹⁵ subsidies for food, transport, and wages (Indonesia, Malaysia, and the Philippines); initiatives to boost job creation (Indonesia and Thailand); and efforts to strengthen social services and social protection systems (China, Indonesia, and Malaysia). Additional stimulus

measures have been implemented to support vulnerable sectors and firms. Thailand, for instance, introduced personal tax rebates to encourage domestic travel and mitigate the impact of subdued international arrivals. At the same time, authorities are seeking to enhance revenue mobilization by leveraging digital platforms to increase tax compliance and raising tax rates on selected products and services (Malaysia).

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

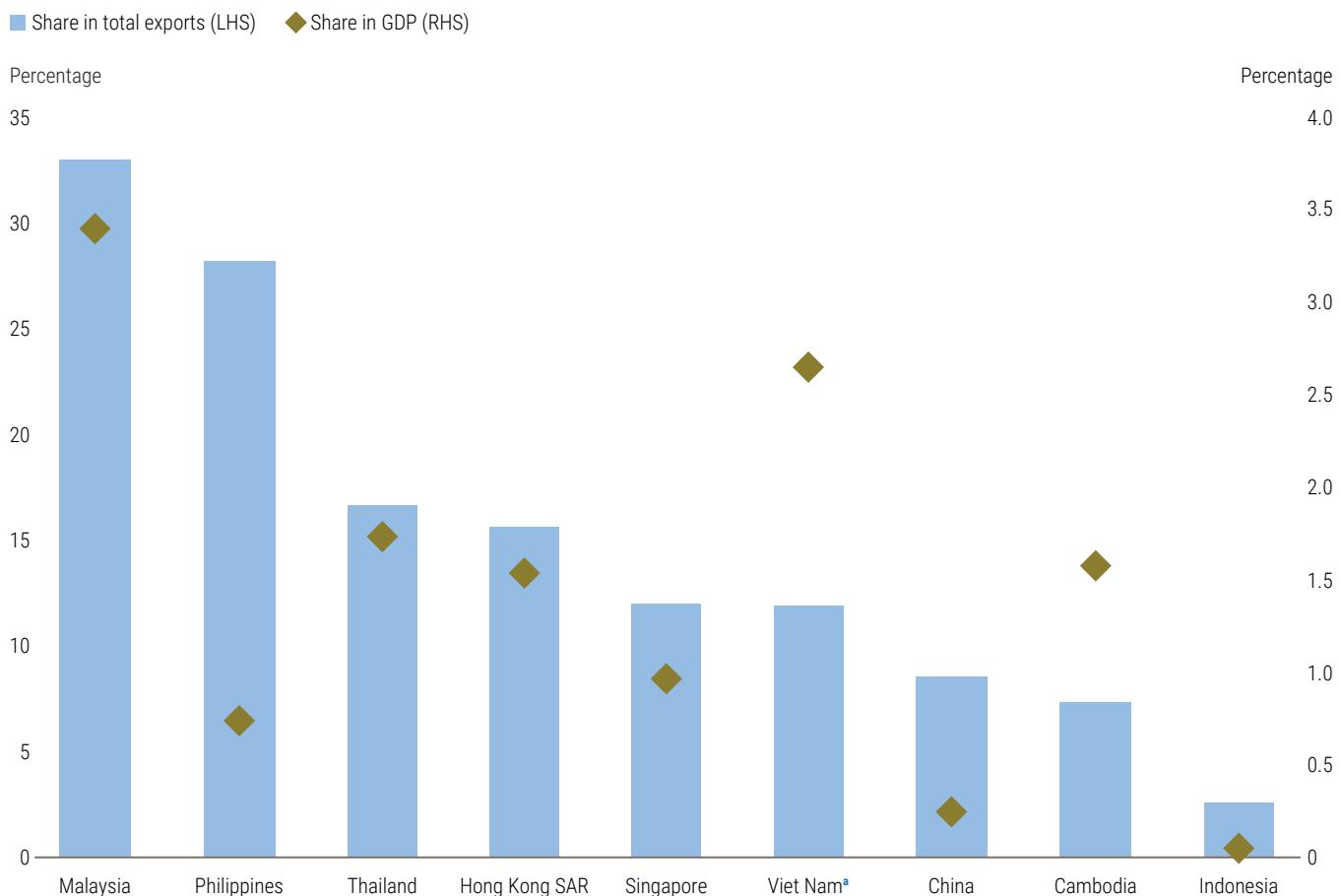
Risks to the outlook are largely tilted to the downside. The most significant near-term uncertainty stems from unpredictable trade policy shifts in the United States, a major trading partner for many regional economies. Although the additional United States tariffs on East Asian economies are lower than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

¹⁴ Fiscal and debt figures are based on data from the IMF World Economic Outlook database for October 2025.

¹⁵ In the Philippines, qualified persons with disabilities have received monthly cash assistance equivalent to about \$35 per person since August 2025.

Figure III.21

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



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

Notes: LHS = left-hand scale; RHS = right-hand scale; SAR = Special Administrative Region; HS = Harmonized Commodity Description and Coding System. Semiconductor-related products refer to automatic data processing machines and units thereof (HS code 8471), electronic integrated circuits (HS code 8451), and semiconductor devices (HS code 8452).

^a Data for Viet Nam are from 2023.

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

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

reigniting food price inflation and amplifying fiscal pressures.

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

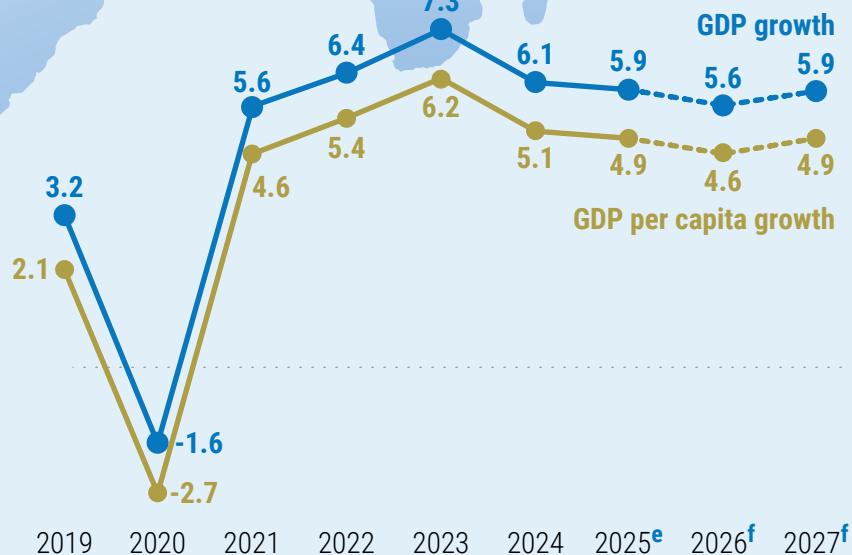
promote digitalization to strengthen logistics efficiency and competitiveness.

East Asian countries have continued to make progress towards the Sustainable Development Goals, supported by steady economic performance. According to the World Bank, the extreme poverty headcount ratio is estimated

at 1.9 per cent for 2025, an all-time low for the region. However, progress remains limited on several other Goals, particularly those related to environmental sustainability (ESCAP, 2025). Ongoing growth slowdowns and uncertainties also pose challenges to advancing decent work and inclusive growth.

SOUTH ASIA

World Economic Situation and Prospects 2026

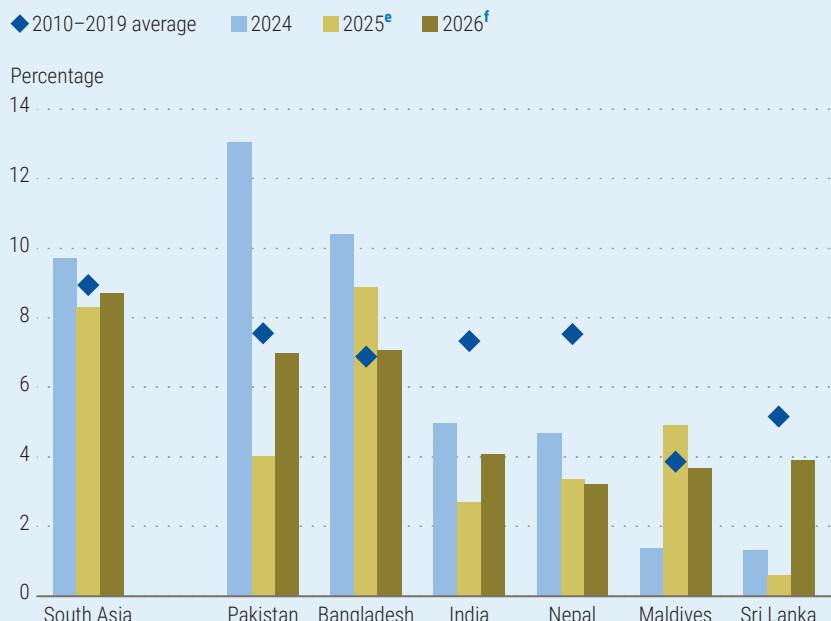


Notes: ^e = estimates; ^f = forecasts. Aggregate data for South Asia exclude Afghanistan.

HIGHLIGHTS

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

Inflation in selected South Asian countries



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

Notes: ^e = estimates; ^f = forecasts. The regional average is GDP-weighted and excludes Afghanistan.

South Asia

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

Economic growth in India is projected to moderate from an estimated 7.4 per cent in 2025 to 6.6 per cent in 2026.¹⁶ Resilient private consumption, strong public investment, recent tax reforms, and lower interest rates are expected to support near-term growth.¹⁷ However, higher United States tariffs could weigh on export performance in 2026 if current rates persist, as the United States market accounts for about 18 per cent of total exports from India.¹⁸ While tariffs may adversely affect some product categories, key exports such as electronics and smartphones are expected to remain exempt. Moreover, strong demand from other major markets, including Europe and the Middle East, is projected to partially offset the impact. On the supply side, continued expansion in manufacturing and services sectors

will remain a key driver of growth throughout the forecast period.

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

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

Looking ahead, average consumer price inflation for the region is projected to edge up from an estimated 8.3 per cent in 2025 to 8.7 per cent in 2026.¹⁹ In India, inflation is forecast at 4.1 per cent, close to the central bank's midpoint target. Among other South Asian economies, inflation in 2026 is expected to range from

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

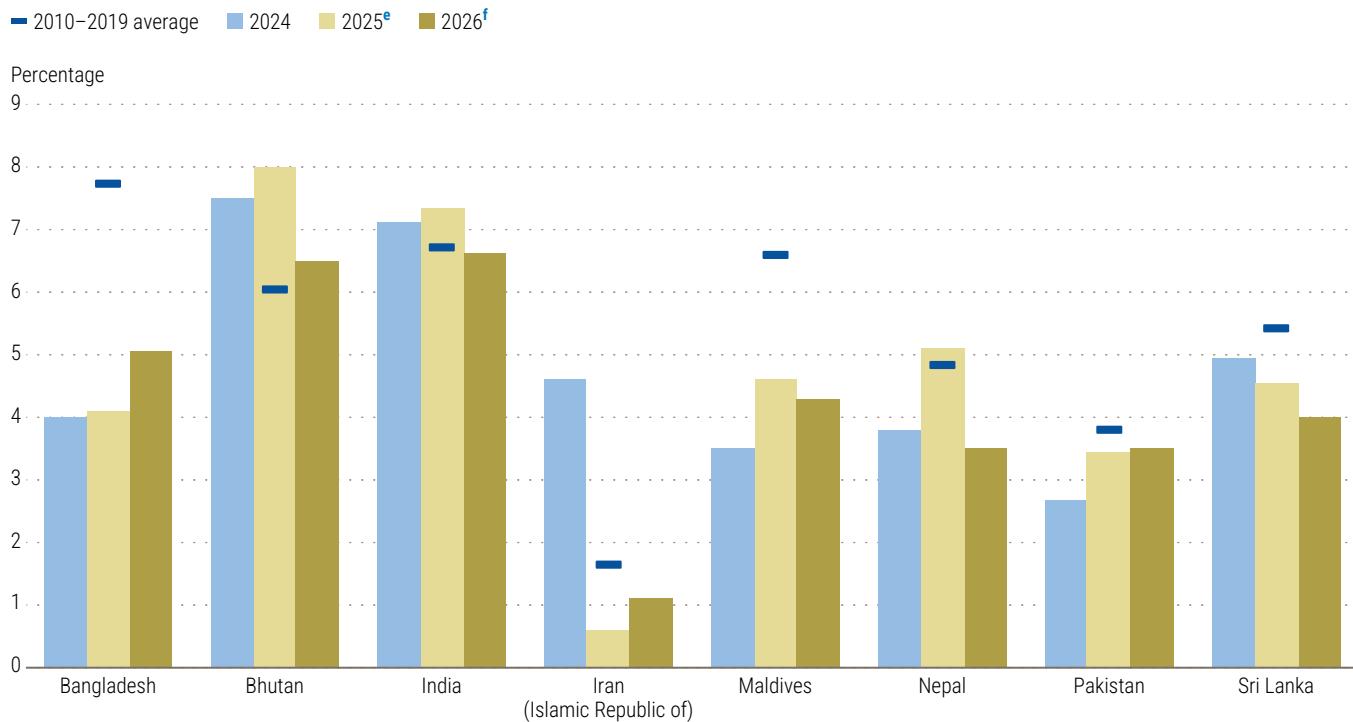
¹⁷ Major tax reforms include personal income tax cuts effective fiscal year 2025 and a simplified Goods and Services Tax structure with fewer tax brackets and lower rates.

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

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

Figure III.22

Growth of economic output in selected South Asian economies



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

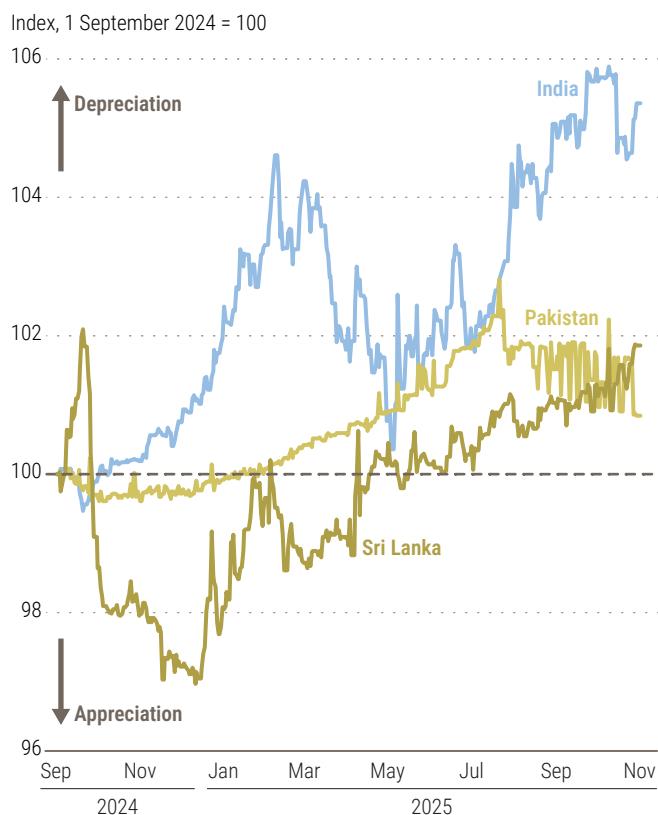
Note: ^e = estimates; ^f = forecasts.

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

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

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

Figure III.23
Exchange rate of selected South Asian currencies against the United States dollar



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

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

Labour markets in South Asia remained broadly resilient in 2025. The regional unemployment rate is projected to decline slightly from an estimated 4.8 per cent in 2025 to 4.6 per cent in 2026.²⁰ Informal employment remains a major challenge across the region, significantly exceeding the Asian average.²¹ Progress in labour formalization has slowed since the onset of recent global economic shocks, increasing pressure on policymakers to tackle persistent

informality.²² Additionally, higher United States tariffs could weaken employment conditions in certain sectors. Although less than 1 per cent of total employment in the region is directly linked to final demand in the United States, the share rises to 6.9 per cent in manufacturing, particularly in textiles and related industries such as apparel (ILO, 2025b). In India, labour market indicators remained steady in 2025, with the labour force participation rate improving in both rural and urban areas (Reserve Bank of India, 2025). The unemployment rate declined from 6.4 per cent in September 2024 to 5.2 per cent in September 2025.

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

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

20 ILO estimates.

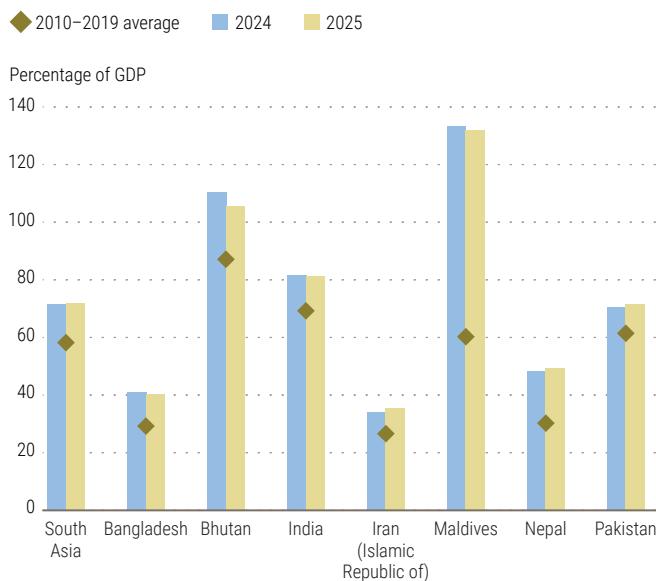
21 According to ILO estimates, the Asia-Pacific region is home to about 1.3 billion informal workers, accounting for roughly 66 per cent of total employment, with the share reaching nearly 87 per cent in South Asia.

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

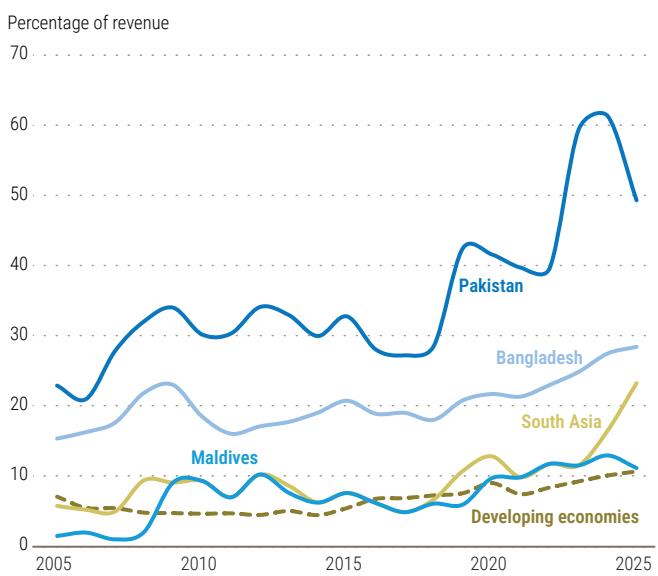
23 As at 30 September 2025, Afghanistan and the Maldives are at high risk of debt distress, while Bangladesh and Bhutan are at moderate risk (World Bank, 2025b).

Figure III.24
Fiscal indicators in selected South Asian economies

a) General government gross debt



b) Net government interest payments



Source: UN DESA, based on data from the IMF World Economic Outlook database, October 2025.

Notes: Panel a) The regional aggregate is calculated as the GDP-weighted average. Panel b) Regional values represent the median.

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

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

authorities have requested an augmentation and a six-month extension under the Extended Credit Facility and Extended Fund Facility arrangements.²⁴

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

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

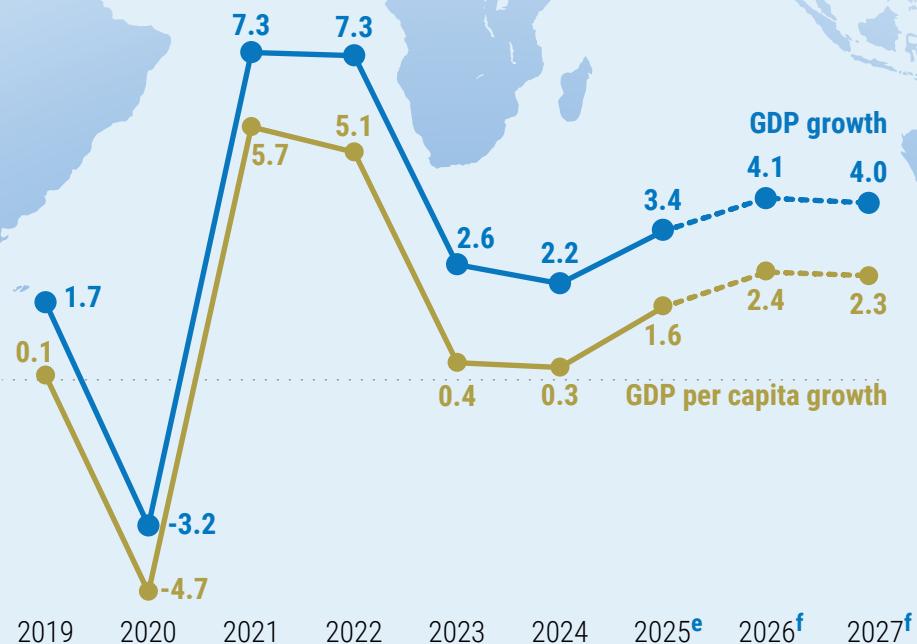
primary balance exceeded targets, inflation remained contained, and external buffers strengthened. In Sri Lanka, the fifth review of the Extended Fund Facility arrangement was completed, and formal approval of the review is expected to unlock an additional \$347 million in funding (IMF, 2025c). Ongoing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

still below pre-crisis levels and poverty significantly elevated.

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

WESTERN ASIA

World Economic Situation and Prospects 2026

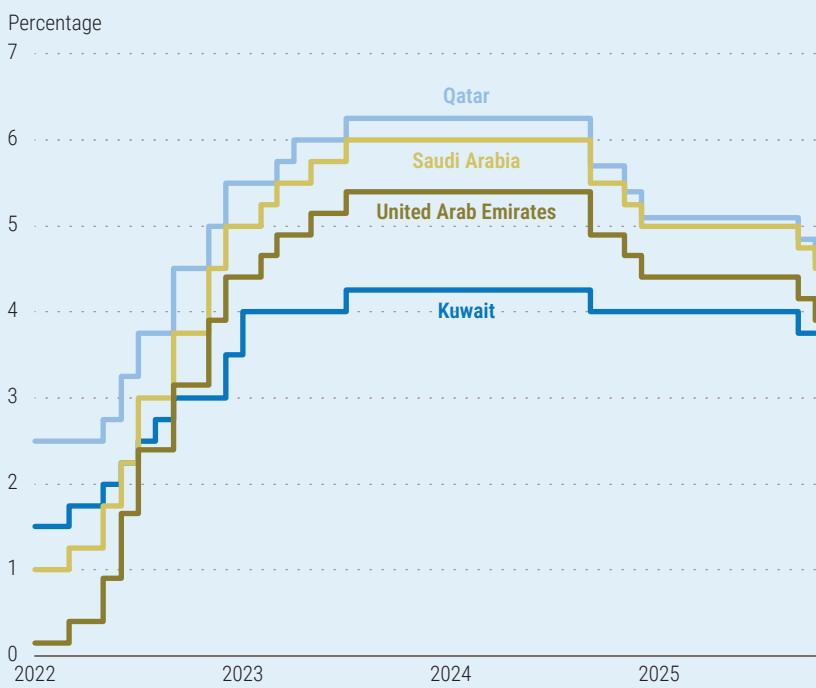


Notes: ^e = estimates; ^f = forecasts. Aggregate data for Western Asia exclude the State of Palestine.

HIGHLIGHTS

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

Policy interest rates in selected GCC countries



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

Note: GCC = Cooperation Council for the Arab States of the Gulf.

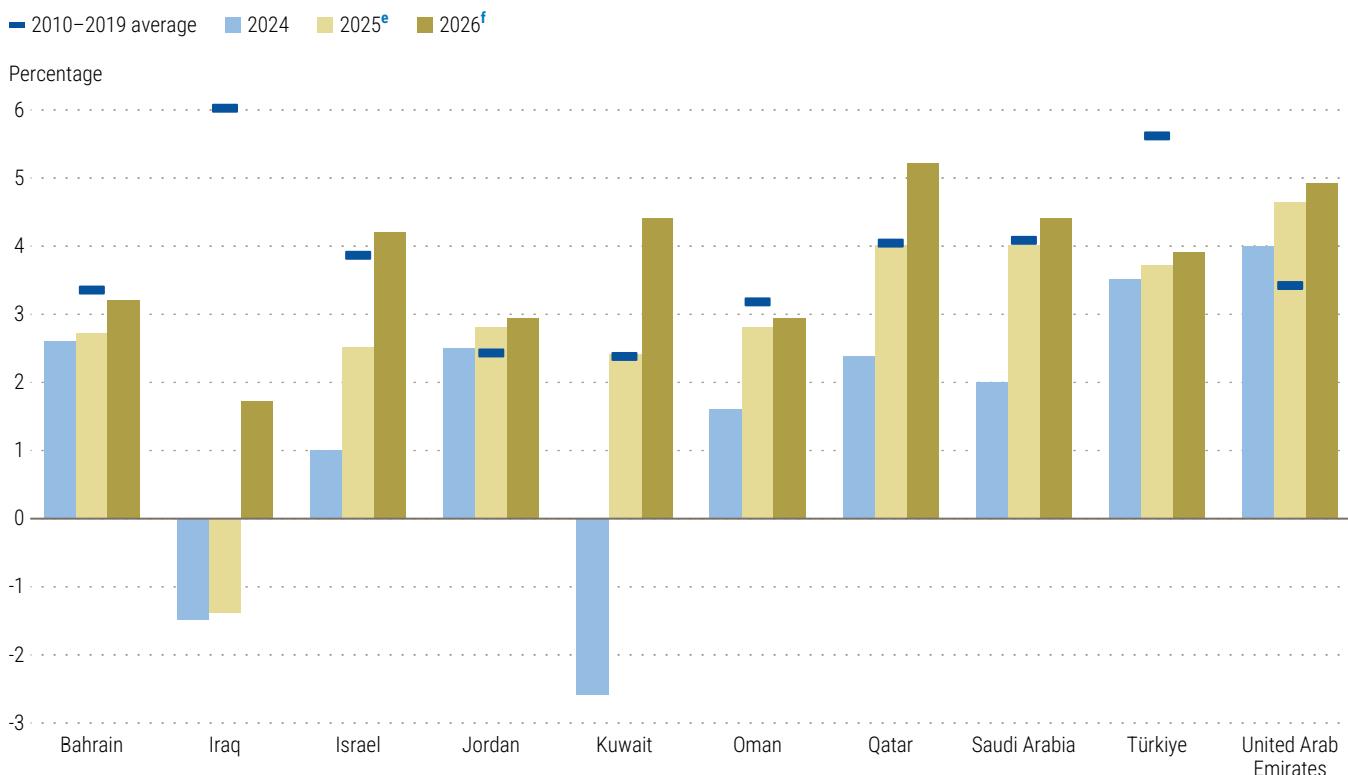
Western Asia

The economic outlook for Western Asia is strengthening, supported by a gradual improvement in external and domestic conditions. Real GDP growth rebounded from 2.2 per cent in 2024 to an estimated 3.4 per cent in 2025 and is projected to reach 4.1 per cent in 2026 and 4.0 per cent in 2027 (see figure III.25). A key driver of this recovery is the gradual unwinding of OPEC Plus voluntary oil production cuts,²⁵ initiated in April 2025, which has increased oil output in resource-rich economies. Lower oil prices could help reduce energy costs for oil-importing countries, supporting economic activity and improving fiscal positions. Nevertheless, the regional outlook remains vulnerable to geopolitical risks. Although recent developments—including the

ceasefire in Gaza and the formation of a new government in the Syrian Arab Republic (see box III.2)—signal some progress, these gains remain fragile. Persistent conflicts and security tensions in several Western Asian countries continue to erode confidence and disrupt trade and investment flows, weighing on the region's economic outlook.

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

Figure III.25
Growth of economic output in selected Western Asian economies



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

Note: ^e = estimates; ^f = forecasts.

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

Box III.2

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

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

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

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

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

staggering 36 per cent in 2030, despite having declined by a third in comparison with 2024. In the alternative "prolonged instability" scenario, GDP growth is minimal, and the socioeconomic situation remains dire; in the "conflict and fragmentation" scenario, GDP, population, and consumption decline further.

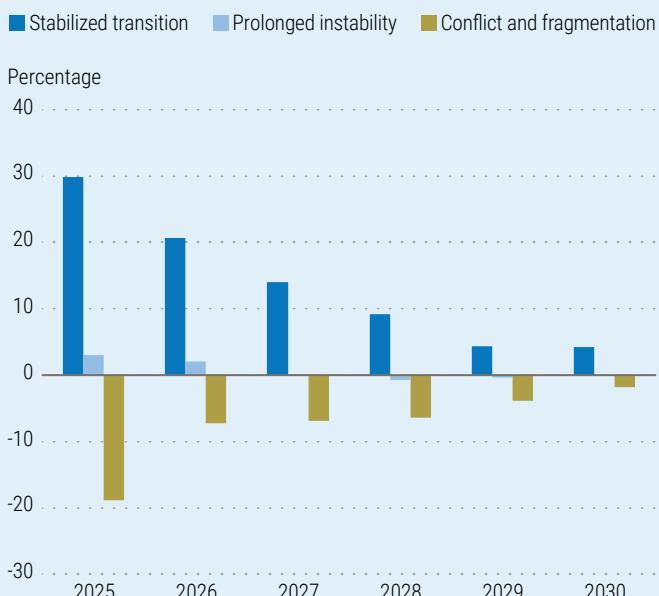
Developments in the Syrian Arab Republic carry profound regional implications. Peace in the country could generate a combined GDP boost of \$49 billion in Jordan, Lebanon, and Türkiye across 2025 and 2026, along with an additional \$13 billion in investment through improved trade, migration, and cross-border capital flows. The real effects may be even greater once tourism recovery, enhanced regional security, and reduced illicit trade (including drugs) are factored in.

Assessments from September 2025 indicate that while the situation appears to have stabilized and the outlook is broadly positive, financing reconstruction remains one of the greatest challenges. Effective recovery will require a hybrid strategy involving the mobilization of both domestic and external revenues. In this context, the development of a comprehensive revenue plan and the introduction of a temporary solidarity levy for reconstruction is required. Restoring oil production is also critical, as output has plummeted, declining from 400,000 barrels per day in 2008 to an estimated 40,000–80,000 in 2024. Equally important is resolving the issue of public debt. While the total external debt of the Syrian Arab Republic is relatively low, estimated at \$4.9 billion in 2023, legal and political complexities, along with the possibility of undisclosed external debt, may hinder the smooth resolution of external debt issues.

Resolving this debt is relatively difficult and sensitive from a political perspective. Negotiating development swaps with willing partners to channel savings into health, education, and climate-resilient infrastructure and reprofiling arrears with multilateral institutions could provide other potential sources of funds for reconstruction. In the early stages, grants and official development assistance will play a crucial role in jump-starting growth. To ensure a just and inclusive recovery, assistance should be structured around results-based tranches and linked to social protection reforms that combine temporary income support with

Figure III.2.1

Real annual GDP growth estimates and projections for the Syrian Arab Republic in three scenarios, 2025–2030



Source: ESCWA, based on forecasts produced with the World Economic Forecasting Model.

long-term human capital development. Unlocking private capital and tapping into diaspora financing also hold significant potential. A diaspora finance platform, including pilot diaspora bonds for visible community projects, could provide new resources. Blended finance facilities could help de-risk lending to small and medium-sized enterprises, while a transparent public-private partnership pipeline would support the delivery of essential public services.

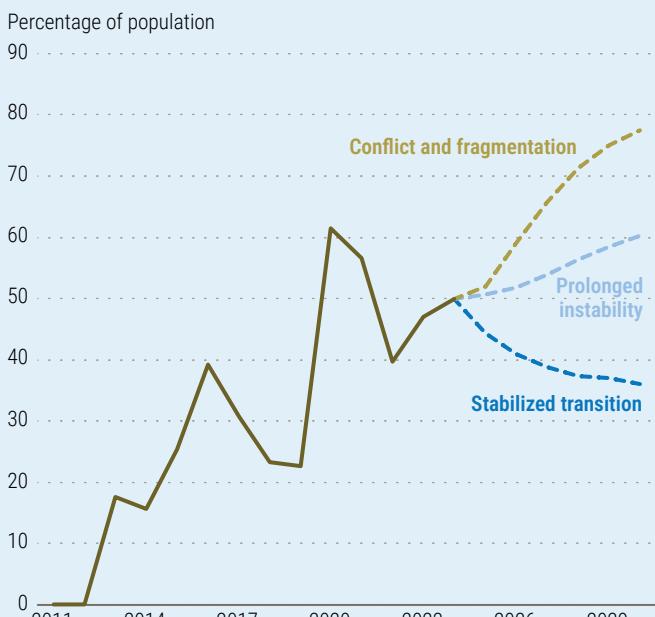
Overall, positive social sentiment and fragile stability in the Syrian Arab Republic form a solid foundation

stability, maintaining fiscal discipline, and achieving price stability (Türkiye, Presidency of Strategy and Budget, 2025). Disinflation will remain a policy priority during the forecast period, implying the continued tightening of monetary and fiscal policies.

Despite this tight policy stance, domestic demand in Türkiye remained resilient in 2025,

Figure III.2.2

Poverty rate below the \$2.15-per-day threshold in the Syrian Arab Republic and projections under three scenarios, 2011–2030



Source: ESCWA.

upon which reconstruction and recovery can begin. Achieving this will require a hybrid financing mix that includes modest but growing domestic revenues, selective debt relief, diaspora and Gulf capital, and, above all, large-scale, well-governed official development assistance. Such an approach would allow the Syrian Arab Republic to rebuild not only its infrastructure, but also the trust and resilience of its people, yielding profound benefits for both the country and the region.

Authors: Jan Gaska and Ahmed Moummi, United Nations Economic and Social Commission for Western Asia

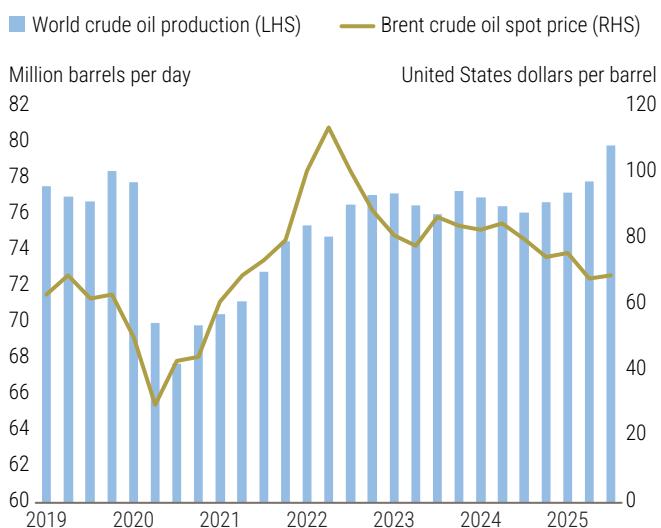
with consumer confidence reaching its highest level since the second quarter of 2023. Private consumption continued to expand, supported by robust spending on durable goods and services, while public consumption was weak. Investment also strengthened, driven by construction and spending on machinery and equipment. Growth was led by the services sector, notably tourism, trade, and transport, and supported

by a rebound in industrial production in the second quarter. However, the growth momentum is estimated to have weakened in the second half of the year. The Manufacturing PMI declined to 46.5 in October, indicating a slowdown in manufacturing activity and weak demand conditions. New orders and export demand remained subdued, leading to a marked slowdown in manufacturing output by the end of the third quarter of 2025 (Istanbul Chamber of Industry, 2025).

The gradual increase in oil production is expected to boost headline growth among the region's oil exporters. Global crude oil supply rose by 3.9 per cent year-on-year in the third quarter of 2025, reaching 79.7 million barrels per day, with Western Asia accounting for about one third of global output (see figure III.26). Real GDP growth in the Cooperation Council for the Arab States of the Gulf (GCC) economies—Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates—is projected to accelerate from an estimated 3.9 per cent in 2025 to 4.5 per cent in 2026. Continued investments in manufacturing, logistics, tourism, and digital transformation are expected to sustain robust non-oil activity, enhance resilience to oil price volatility, and promote more balanced and sustainable growth across the GCC economies.

Real GDP growth in Saudi Arabia accelerated from 2.0 per cent in 2024 to an estimated 4.0 per cent in 2025 and is expected to rise to 4.4 per cent in 2026, supported by a recovery in oil output and sustained momentum in the non-oil economy. Oil output is estimated to have grown by 5.5 per cent in 2025 (OPEC, 2025). However, lower oil prices are expected to weigh on export and fiscal revenues, tempering overall growth prospects despite higher production levels. Non-oil activity remains a key engine of growth, underpinned by the strong investment in and continued implementation of Saudi Vision 2030 initiatives (Saudi Arabia, 2025).

Figure III.26
Global crude oil production and oil price



Source: UN DESA, based on data from the United States Energy Information Administration.

Note: LHS = left-hand scale; RHS = right-hand scale.

In Israel, economic activity began to recover in early 2025, with real GDP growing by 3.4 per cent year-on-year in the first quarter. The ceasefire in Gaza could help ease labour and supply constraints and provide additional momentum to the recovery over the forecast period. However, the country faces a higher debt-to-GDP ratio due to elevated military spending, which will constrain fiscal space. Growth in 2026 is expected to be supported by stronger private consumption and investment, while exports are likely be affected by newly imposed tariffs as the United States accounts for 28 per cent of exports from Israel.

The two-year conflict in Gaza exacted a substantial humanitarian and economic toll. The *Gaza and West Bank Interim Rapid Damage and Needs Assessment, February 2025* estimated the cost of reconstruction at \$53.2 billion (World Bank, European Union and United Nations, 2025).²⁶ Economic activity in the State of Palestine showed modest signs of stabilization in early 2025 but remained about 30 per cent below the level recorded in the same period of 2023.

²⁶ The most recent estimate, released in October 2025, stands at \$68.8 billion (United Nations, 2025b).

The ceasefire is expected to gradually support economic recovery by enabling the resumption of humanitarian aid flows and the initiation of reconstruction activities.

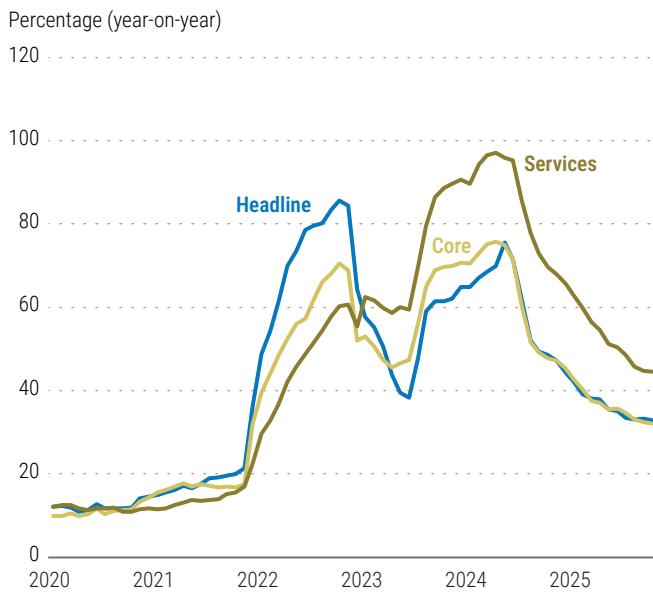
Other conflict-affected economies in the region, including Lebanon, the Syrian Arab Republic, and Yemen, are expected to experience weak economic activity and remain vulnerable to macroeconomic instability. In the Syrian Arab Republic, the transitional Government has taken steps to reduce economic uncertainty, while the lifting of the sanctions by the European Union and the United States is expected to attract foreign investment, support reconstruction, and help reintegrate the country's banking sector into the international financial system (United States Department of State, 2025). In Lebanon, the election of a new president in January 2025 ended a political deadlock and opened the way for long-awaited economic and financial reforms, including renewed engagement with the IMF. Although declining inflation and rising PMI values signal improving economic prospects, addressing the protracted

crisis in Lebanon will require sustained structural reforms and a comprehensive recovery plan.

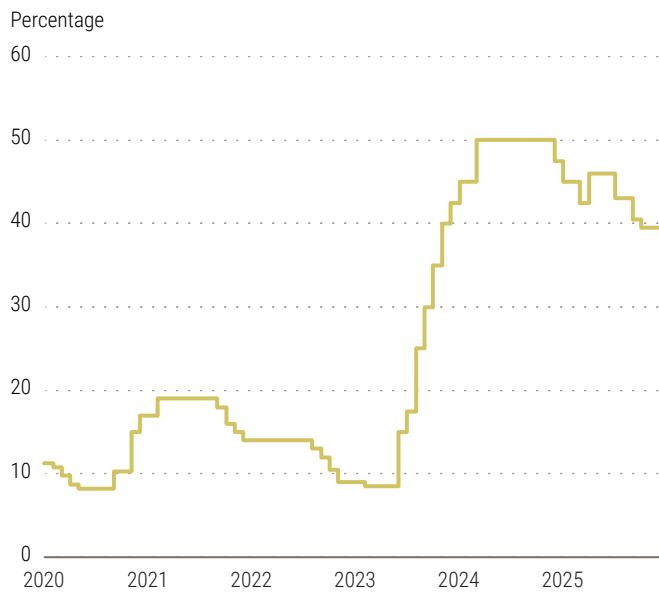
Consumer price inflation continues to moderate across the region, though trends vary by country. In the GCC economies, inflation is projected to remain subdued at around 2 per cent in 2026, driven mainly by easing price pressures in the areas of housing and utilities, food and beverages, and restaurant and accommodation services. To contain rental inflation and advance the Saudi Vision 2030 goals on housing affordability, Saudi Arabia has introduced a five-year rent freeze on all residential and commercial properties in its capital, Riyadh. In Türkiye, inflation is projected to continue declining but is likely to remain in double digits in 2026 (see figure III.27a). Headline inflation remained below expectations in November 2025, following an uptick in September, indicating that the country's disinflation process—under way since June 2024—has continued, albeit at a slower pace. Services inflation remains elevated, reflecting

Figure III.27
Consumer price inflation and policy rates in Türkiye

a) Inflation rate



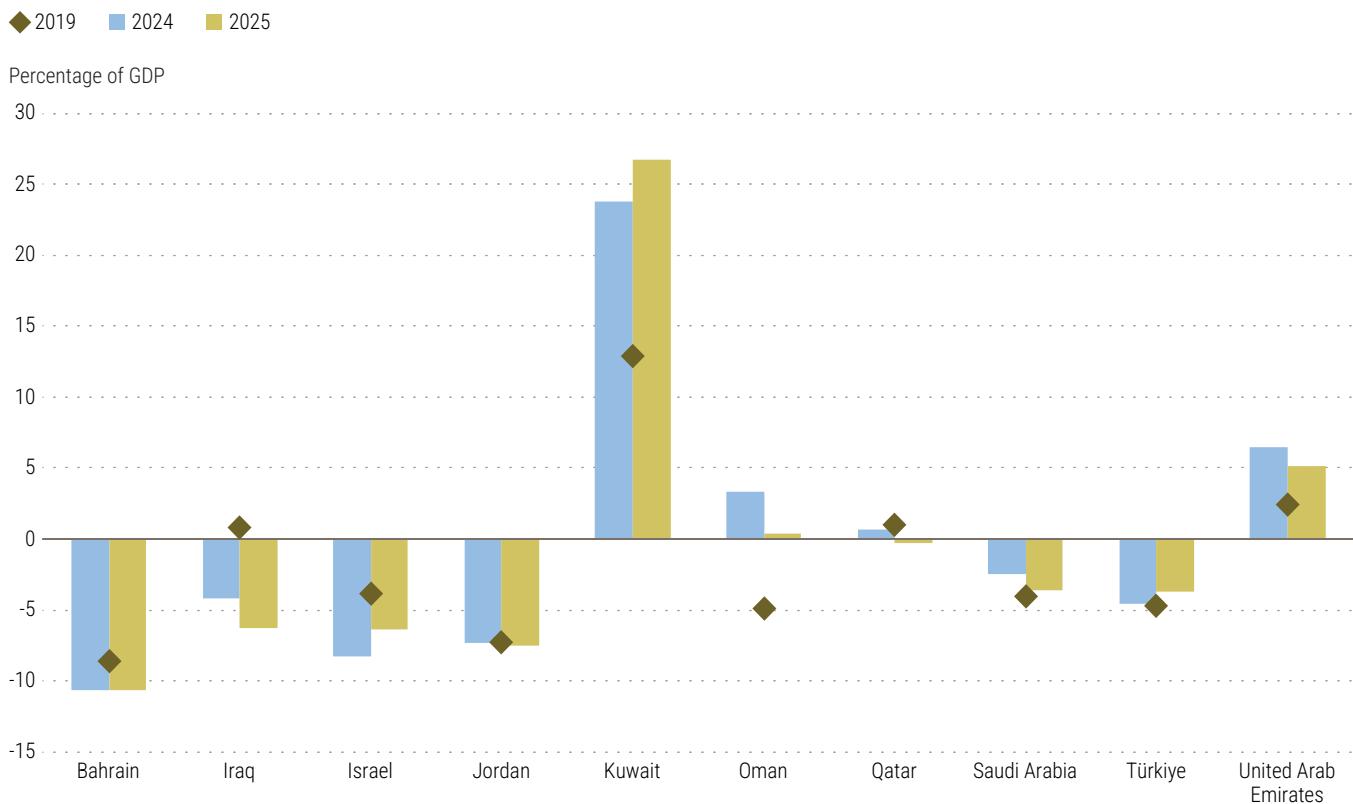
b) Policy rate



Source: UN DESA, based on data from TURKSTAT and the Central Bank of the Republic of Türkiye.

Figure III.28

General government fiscal balance in selected Western Asian economies



Source: UN DESA, based on data and estimates from the IMF World Economic Outlook database, October 2025.

rigidity in housing prices and notable increases in transportation and education costs.

Economies with currencies pegged to the United States dollar, namely the GCC economies and Jordan, reduced policy rates by 25 basis points in September in line with the interest rate cut by the United States Federal Reserve. The Central Bank of the Republic of Türkiye continued to lower policy rates despite still elevated inflationary pressures and rising macroeconomic risks (see figure III.27b).

Fiscal positions across the region are expected to improve over the forecast period. GCC economies will benefit from higher oil and gas production as well as continued expansion in non-hydrocarbon sectors. Kuwait, Oman, Qatar, and the United Arab Emirates are projected to maintain fiscal surpluses in 2026, while Bahrain and Saudi Arabia

are expected to reduce their fiscal deficits (see figure III.28). Despite ongoing consolidation measures, Bahrain continues to face high public debt. Elevated debt levels also persist in Jordan and Lebanon, constraining fiscal flexibility and weighing on growth prospects. In Türkiye, fiscal consolidation efforts are estimated to have narrowed the fiscal deficit from 4.6 per cent of GDP in 2024 to 3.7 per cent in 2025, reflecting improved revenue performance and tighter expenditure control.

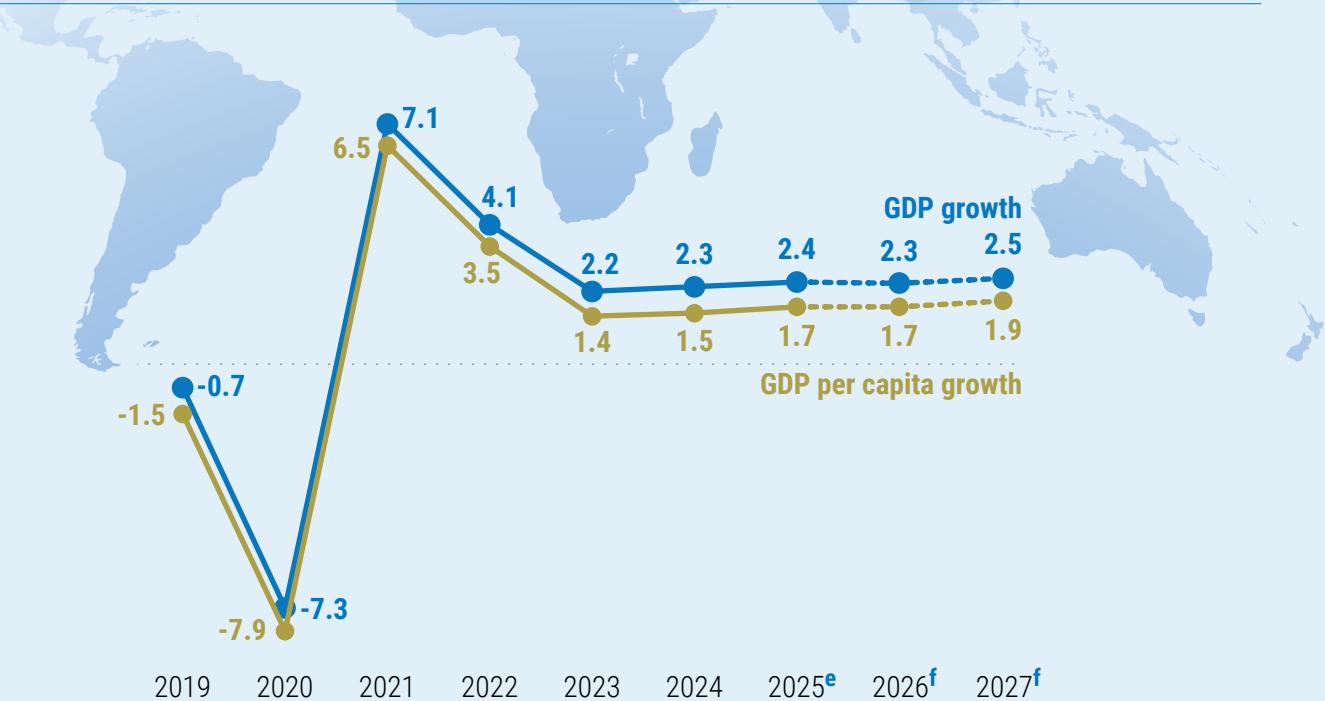
Labour market conditions across the region present a mixed picture. The regional unemployment rate (excluding Israel and Türkiye) is estimated to have averaged 9.4 per cent in 2025 (ILO, 2025a). In Türkiye, the slowdown in economic activity has led to weaker job creation, with the unemployment rate stabilizing at around 8.6 per cent since

the second quarter of 2024. Labour markets in the GCC economies continue to exhibit a pronounced divide between nationals and non-nationals, with nationals in some countries making up less than one third of the total workforce. While unemployment rates in these economies have fallen to historical lows, a significant factor behind this result is the strong

employment of non-nationals in the private sector. In Saudi Arabia, unemployment edged up in the second quarter of 2025 due to a modest increase among both men and women; however, the overall downward trend remains intact, reflecting continued progress in labour market reforms and private sector hiring.

LATIN AMERICA AND THE CARIBBEAN

World Economic Situation and Prospects 2026

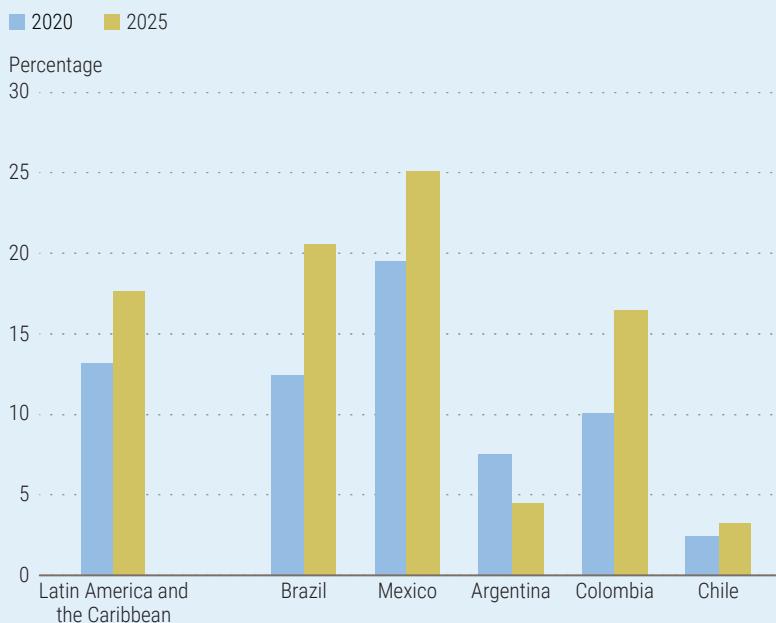


Note: ^e = estimates; ^f = forecasts.

HIGHLIGHTS

- The short-term outlook remains steady, supported by solid consumption and investment and milder-than-expected impacts from United States tariffs.
- Downside risks arise from a potential growth slowdown in major trading partners, tighter financial conditions, and global policy uncertainty.
- High debt, rising interest costs, and slow disinflation limit monetary and fiscal policy space.

Government interest expenditure as a share of revenue



Source: UN DESA, based on data from the IMF World Economic Outlook database, October 2025.

Note: Regional data reflect the GDP-weighted average of the indicators.

Latin America and the Caribbean

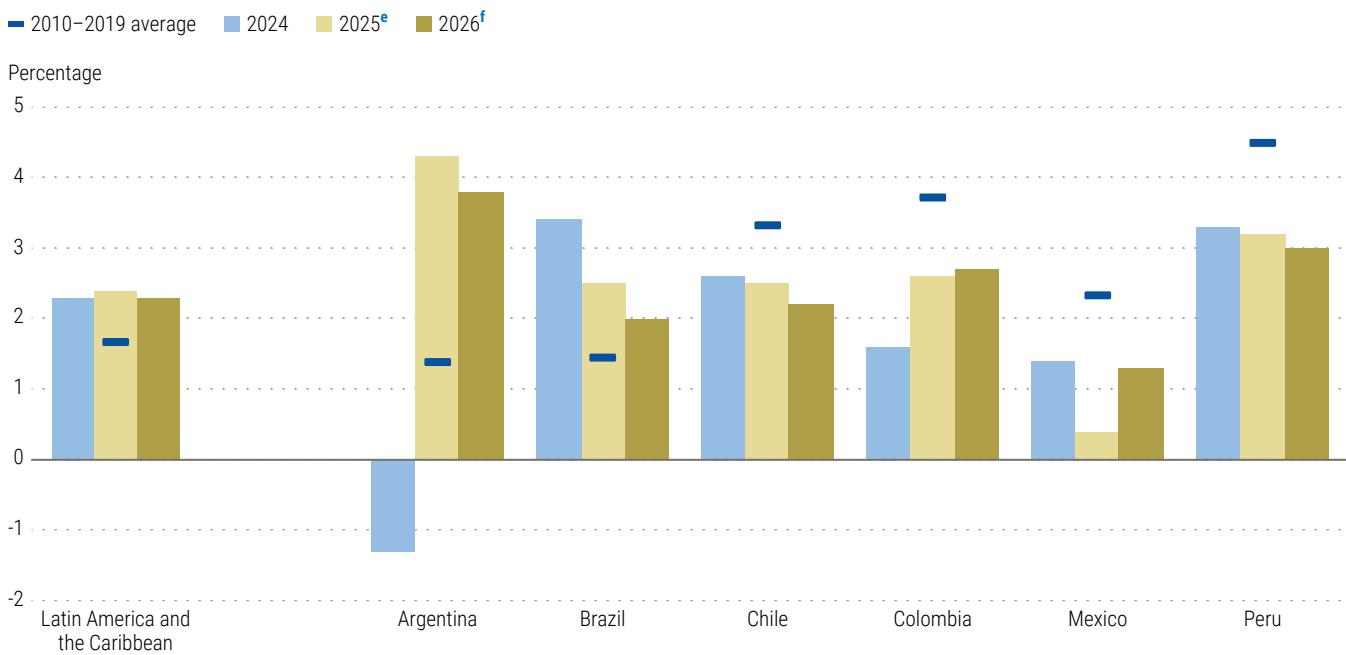
The short-term economic outlook for Latin America and the Caribbean remains broadly resilient, supported by firm private consumption and a gradual recovery in investment. Financial conditions became more favourable during 2025 amid relatively stable commodity prices, solid capital inflows, and narrowing sovereign spreads. However, new tariff measures and shifts in immigration policies in the United States, alongside elevated shipping costs, are generating uneven impacts across the region by affecting trade flows, supply chains, and remittances. The current account deficit remains moderate amid subdued export growth and slightly rising import demand. Against this backdrop, regional GDP growth, estimated at 2.4 per cent in 2025, is projected to ease slightly to 2.3 per cent in 2026 and to edge up to 2.5 per cent in 2027, remaining above the 2010–2019 average of 1.6 per cent (see figure III.29) yet still insufficient to meaningfully improve labour markets. Despite steady growth,

downside risks remain elevated. Persistent global policy uncertainty and the potential for deepening trade fragmentation could heighten macroeconomic volatility and undermine the region's growth path.

In Brazil, economic growth is expected to remain relatively firm, moderating from an estimated 2.5 per cent in 2025 to 2.0 per cent in 2026—well above the 2010–2019 average of 1.4 per cent. The projected deceleration reflects the lagged effects of monetary tightening, which lifted interest rates to multi-decade highs and continues to weigh on investment. Additional headwinds have emerged from recently imposed United States tariffs of up to 50 per cent on a wide range of Brazilian imports. However, the overall impact on Brazil is expected to be limited as the United States accounts for only about 12 per cent of its exports. A moderately expansionary fiscal stance is expected to partly offset the slowdown. Nonetheless, recent deviations from the fiscal framework—amid temporary tax exemptions, higher-than-planned expenditures, and the use of extraordinary credit lines—underscore ongoing

Figure III.29

Growth of economic output in selected Latin American and Caribbean economies



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

Note: ^e = estimates; ^f = forecasts.

challenges in reinforcing fiscal credibility, even as the authorities maintain a medium-term commitment to gradual consolidation.

In Mexico, the economy demonstrated resilience throughout 2025 despite restrictive macroeconomic policy stances, policy uncertainty, and higher and volatile United States tariffs on exports and sector-specific measures outside the USMCA. GDP growth is projected to accelerate from an estimated 0.4 per cent in 2025 to 1.3 per cent in 2026, reflecting a recovery in investment and private consumption as fiscal and monetary policies become more supportive. Key downside risks include the potential reimposition of United States tariffs on non-USMCA exports—recently postponed but not withdrawn—and the persistent uncertainty surrounding the future of the USMCA (Bitar and Pineda, 2025).

In Argentina, macroeconomic conditions have stabilized following the deep recession in 2023 and 2024. GDP growth is projected to ease from an estimated 4.3 per cent in 2025 to 3.8 per cent in 2026, reflecting a moderation after the strong rebound. The Government has advanced a comprehensive stabilization programme based on fiscal consolidation, exchange rate unification, and tighter monetary policy to restore confidence and curb inflation, albeit at a significant social cost. Price pressures have eased substantially from the extreme levels of 2024, though inflation remains elevated. The policy framework, anchored in the IMF Extended Fund Facility, aims to rebuild reserves and strengthen external sustainability, complemented by bilateral support mechanisms such as the United States–Argentina currency swap arrangement.²⁷ While uncertainty remains elevated and downside risks persist, improving confidence is supporting investment and a gradual recovery in economic activity.

In the Caribbean (excluding Guyana), economic growth is projected to remain subdued at 1.6 per cent in 2026, slightly down from an

estimated 1.8 per cent in 2025. This reflects persistent structural and external constraints, including elevated debt burdens and heightened climate vulnerabilities, which continue to weigh on investment and hinder progress towards the Sustainable Development Goals. By contrast, growth is expected to remain strong in Guyana, supported by the ongoing oil boom. Costa Rica, the Dominican Republic, Guatemala, Honduras, Panama, and Paraguay are also expected to experience a moderately robust expansion, with growth projected at more than 3.5 per cent for 2026.

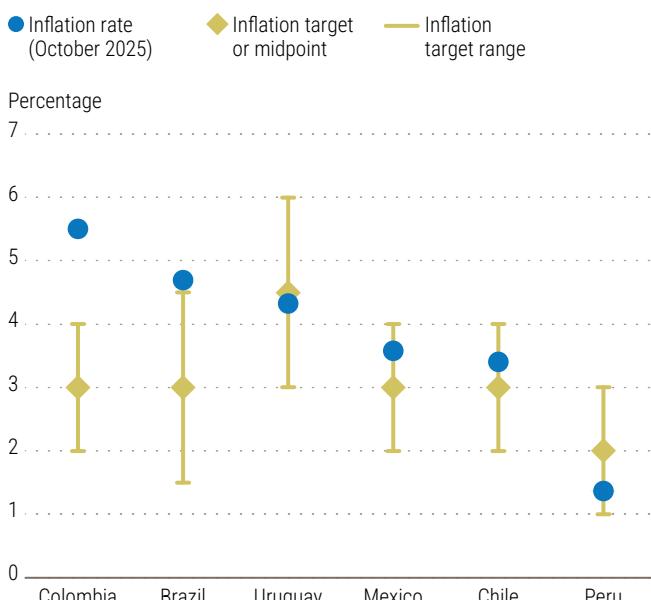
Regional inflation is expected to continue easing in 2026, albeit more slowly than in 2025. In the first half of 2025, around two thirds of the countries in Latin America and the Caribbean recorded declines in headline inflation, and several—including Argentina, Cuba, and Suriname—made substantial progress in addressing chronic price pressures. In Argentina, headline inflation fell from over 250 per cent in 2024 to about 31.3 per cent in October 2025. However, bringing inflation back to central bank target levels has proven challenging and is taking longer than expected in several economies, including Brazil and Colombia (see figure III.30). In Brazil, headline inflation remains stubbornly above the central bank target range despite policy interest rates being at multi-decade highs. By mid-2025, more than fifteen economies still had core inflation (which excludes volatile food and energy prices) above 3 per cent. The persistence of relatively high core inflation reflects wage adjustments, indexation mechanisms, and rising costs in regulated or semi-regulated services such as transport, healthcare, and housing. Looking ahead, headline inflation is projected to average 4.0 per cent in 2026, down from an estimated 4.5 per cent in 2025.²⁸ However, persistent services inflation, rising labour costs, and mounting climate-related disruptions could sustain or rekindle price pressures in some economies.

27 In late 2025, Argentina and the United States reached an agreement in principle on a bilateral currency-swap arrangement to bolster foreign exchange liquidity in Argentina. The specific terms, scope, and activation timeline remain to be clarified.

28 Argentina and the Bolivarian Republic of Venezuela are excluded from the regional inflation average.

Figure III.30

Consumer price inflation and inflation targets in selected Latin American economies



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

Amid subdued growth, labour market conditions have remained broadly stable. In 2025, unemployment declined or stayed low in several economies, including Brazil, Costa Rica, the Dominican Republic, Paraguay, and Uruguay. In Brazil, the unemployment rate fell to a multi-decade low of 5.6 per cent in August 2025. Nominal minimum wages have increased by more than 10 per cent in Jamaica, Mexico, and Trinidad and Tobago over the past two years (ECLAC, 2025a). Combined with continued disinflation, these higher wages have supported real wage gains in several economies, particularly in Brazil, Costa Rica, and Mexico.

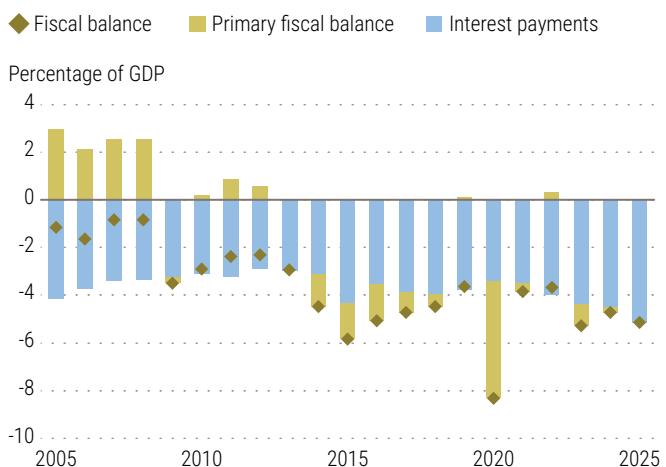
At the same time, many economies—including Costa Rica, Ecuador, Paraguay, and Peru—have yet to recover their pre-pandemic labour force participation rates and continue to face significant challenges in generating formal employment. In the first quarter of 2025, regional employment expanded further, but at a more moderate pace, with year-on-year growth of 1.7 per cent, compared with 1.9 per cent a year earlier (ECLAC, 2025a). In several countries,

labour market conditions remain particularly challenging. In Argentina, the unemployment rate rose to 7.6 per cent in the second quarter of 2025, the highest level in four years, while formal employment continued to decline; only 46 per cent of workers held registered salaried jobs, the lowest share in more than fifteen years. Beyond short-term fluctuations, slower labour force growth, coupled with population ageing, could constrain the region's potential output over the medium term.

Limited fiscal and monetary policy space continues to constrain the capacity of many economies to support growth and respond effectively to external or domestic shocks. Governments face the challenge of balancing fiscal consolidation with rising spending demands in health, education, and infrastructure. Fiscal deficits have persisted over the past decade, reflecting the cumulative impact of successive crises, higher interest burdens (estimated at over 5 per cent of regional GDP in 2025), and sluggish growth (see figure III.31). While recent years have brought some improvement from the record deficit levels

Figure III.31

Fiscal indicators in Latin America and the Caribbean

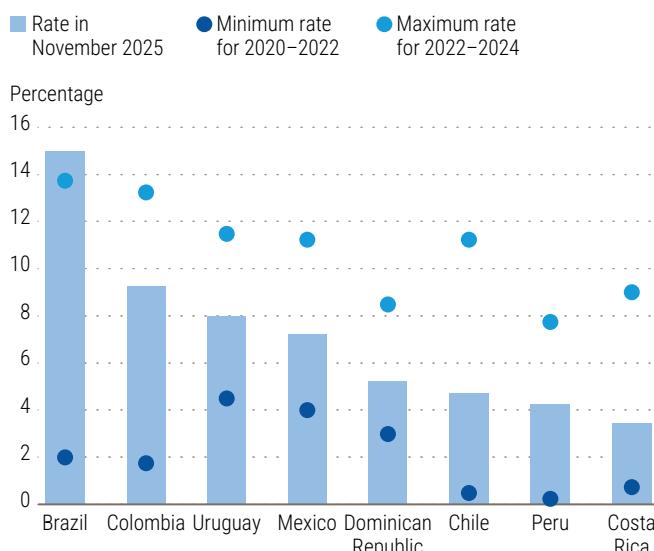


Source: UN DESA, based on data from the IMF World Economic Outlook database, October 2025.

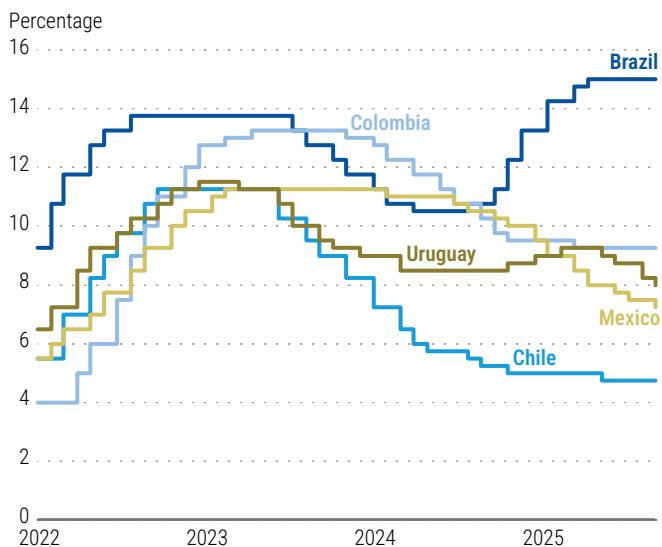
Notes: The figure shows GDP-weighted values of the indicators. The fiscal balance is defined as general government net lending or borrowing. It can be decomposed into the primary balance and interest payments.

Figure III.32
Policy interest rates in selected Latin American economies

a) Latest rates and historical benchmarks



b) Policy rates



Source: UN DESA, based on data from CEIC.

of 2020, helped by stronger revenues, expenditure restraint, and the phasing out of pandemic-related support measures, fiscal buffers remain thin across much of the region. In Latin America, gross public debt declined from 76.1 per cent of GDP in 2020 to an estimated 70.7 per cent in 2025, and in the Caribbean from 85.5 per cent to an estimated 57.5 per cent—both calculated as GDP-weighted regional averages.²⁹ Despite this progress, elevated debt burdens and structurally weak primary balances continue to leave many countries exposed to shocks, reflecting narrow tax bases, rigid expenditures, and persistent revenue volatility.

Several central banks cut interest rates further in 2025, though heightened global uncertainty prompted a more cautious pace of monetary easing. Policy rates remain well above their 2020–2022 lows—and in many cases above pre-pandemic levels—in both nominal and real terms, limiting support for investment and consumption (see figure III.32). Exchange rate dynamics have also constrained broader financial

easing (see box III.3). In Brazil, the Selic rate, the central bank's benchmark policy rate, stands at 15 per cent, its highest level in nearly two decades. With disinflation slowing across much of the region, terminal policy rates in the current easing cycle are expected to remain relatively high, further reinforced by uncertainty over the future path of interest rates in the United States.

Amid weak productivity growth, several major economies are adopting new industrial policy strategies to strengthen productive capacities (ECLAC, 2025b). In Brazil, for instance, the Nova Indústria Brasil initiative for the period 2024–2033 outlines six key missions ranging from sustainable agro-industries and health to digital transformation, low-carbon production, urban mobility, and strategic technologies, supported by substantial financing from national development banks. The plan combines credit, subsidies, tax incentives, and public procurement to spur innovation and strengthen local supply chains under a new governance framework to enhance coordination and monitoring. In Mexico,

²⁹ UN DESA calculations based on gross debt data from the International Monetary Fund (IMF, 2025d).

industrial policy has focused on deepening domestic linkages within export-oriented manufacturing and leveraging nearshoring opportunities. The strategy aims to raise domestic value added, expand financing for small

and medium-sized enterprises, and capitalize on the USMCA. The success of these initiatives will depend on coherent policy design, effective implementation, and sustained macroeconomic and political stability.

Box III.3

The evolution of monetary conditions in Latin America and the Caribbean

Since 2020, consumer price dynamics in Latin America and the Caribbean have been shaped by multiple global shocks, including the COVID-19 pandemic, supply chain disruptions, and the war in Ukraine. While inflationary pressures have declined from their 2022 peak, the “last mile” of returning inflation to target levels has proven more protracted and challenging than initially anticipated (see figure III.3.1).

This inflationary environment has significantly constrained monetary policy space in Latin America and the Caribbean, particularly given the influence of developed economies’ monetary policy stances on regional conditions.

Understanding these constraints requires examining how monetary policy operates through different transmission channels. In developed economies with

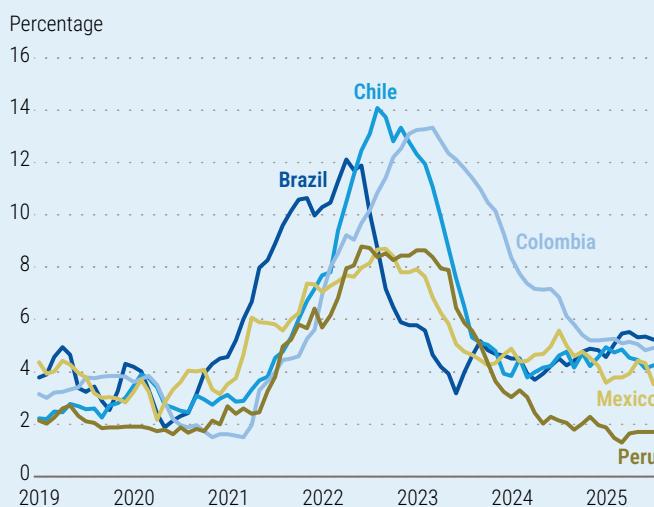
inflation-targeting regimes, the primary transmission mechanism operates through the interest rate channel. Given price rigidities, unexpected increases in nominal interest rates translate into higher real interest rates, which restrict aggregate demand and reduce inflationary pressures.

For developing small open economies with inflation-targeting frameworks, such as the larger Latin American and Caribbean economies, the exchange rate channel represents an additional important transmission mechanism. In principle, higher domestic nominal interest rates lead to currency appreciation through increased net capital inflows. This appreciation reduces inflationary pressures by lowering import prices for tradable goods and reducing aggregate demand through decreased net exports. However, the materialization of these capital flows depends on two critical factors: (1) the interest rate differential between the domestic economy and countries considered safe havens and (2) expectations regarding future inflation and exchange rate movements.

As illustrated above, the monetary policy stance of developed countries directly affects the region’s domestic monetary policy space. Changes in interest rate differentials between domestic and foreign markets influence inflation expectations through capital flow dynamics and corresponding exchange rate fluctuations. Developing countries’ monetary conditions thus depend on the complex, likely non-linear interaction between interest rates and exchange rates.

To analyse recent monetary conditions in the region’s five largest inflation-targeting economies (Brazil, Chile, Colombia, Mexico, and Peru), a monetary conditions index (MCI) that captures the joint evolution of changes in real monetary policy rates and real effective exchange rates has been constructed.

Figure III.3.1
Consumer price inflation in selected economies in Latin America and the Caribbean, January 2019–July 2025



Source: Authors’ calculations based on official statistics.

^a The real interest rate is obtained by deflating the nominal rate using 12-month-ahead inflation expectations.

The MCI at time t is defined as follows:

$$MCI_t = \theta_r (r_t - r_0) + \theta_q (q_t - q_0)$$

where:

r_t represents the real interest rate^a

q_t represents the real effective exchange rate

r_0 and q_0 are reference year values (coinciding with each country's national accounts base year)

θ_r and θ_q are weights reflecting the relative effects of interest rate and exchange rate changes on inflation

The weights for each country are derived from reaction function coefficients that measure the response of inflation to unexpected interest rate changes and their interaction with exchange rate movements.^a Each component is normalized and expressed in terms of standard deviations relative to its mean since 2010. The regional index represents the median of country-level MCIs.

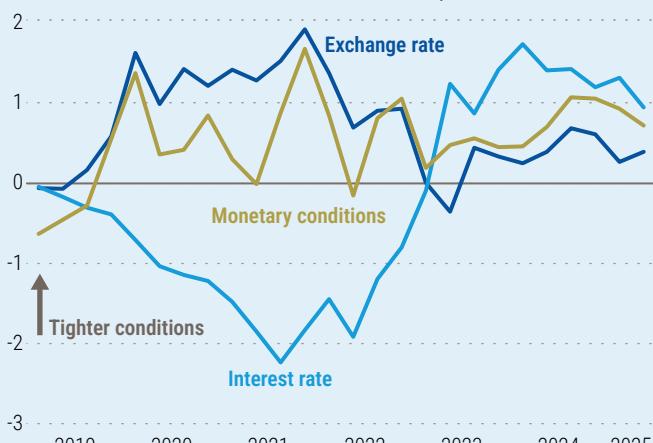
The regional evolution of the MCI and its interest rate and exchange rate components from 2019 Q1 through 2025 Q2 are illustrated in figure III.3.2. The real interest rate component shows a clear downward trend that accelerated in 2020 as countries relaxed monetary policy to address the pandemic-induced downturn. This trend reversed during the second half of 2021 as inflationary pressures mounted before stabilizing around 2023. The exchange rate component captures the depreciation trend through 2021 Q4, followed by appreciation until mid-2023, when a new period of mild depreciation began.

The evolution of the MCI components shows that regional monetary conditions are not only affected by the monetary policy stance reflected in interest rates but also significantly influenced by exchange rate dynamics. Despite substantial interest rate cuts during the pandemic, currency depreciation sustained relatively restrictive monetary conditions from late 2019 to late 2021. However, while currency depreciation pressures have subsided since the end of 2022, monetary conditions have remained tight due to relatively high real interest rates. It should be noted that the effects of currency depreciation are heterogeneous across countries, reflecting differences in the way they are integrated with global markets.

Figure III.3.2

Monetary conditions in selected economies in Latin America and the Caribbean, 2019 Q1–2025 Q2

Median of standardized index values for each country



Source: Authors' calculations.

This pattern highlights the challenges exchange rate fluctuations pose for monetary policy, particularly the narrow policy space resulting from reliance on a single policy instrument. The complementary use of exchange rate interventions and macroprudential tools can reduce monetary policy sensitivity to external shocks and allow a greater focus on domestic stabilization objectives (ECLAC, 2020; ECLAC, 2023; IMF, 2020).

In currency markets with limited liquidity, exchange rate interventions can reduce volatility, prevent abrupt capital flow reversals, and ease financing pressures during depreciation episodes. By limiting exchange rate pressures and their pass-through effects on inflation, such interventions allow monetary policy to concentrate more effectively on stabilizing domestic economic activity. The complementary use of macroprudential tools such as countercyclical capital requirements or temporary outflow restrictions can mitigate the impact of external shocks and support financial stability. The appropriate policy mix depends on the nature of the shocks faced, domestic financial development, the level of integration into global financial markets, debt composition, and the fiscal policy space.

Authors: Franciss Peñaloza and Francisco G. Villarreal, Economic Development Division, United Nations Economic Commission for Latin America and the Caribbean

^a Using the Romer and Romer methodology, country-level monetary policy shocks are identified using Taylor-type rules incorporating country-specific characteristics such as dollarization levels (Romer and Romer, 2004). These shocks are then used to estimate inflation response functions using local projections (Jordà, 2005). MCI weights are derived from response function coefficients cumulated over 24 months to approximate their effects on inflation over the medium term.