

INTERNATIONAL MONETARY FUND

# WORLD ECONOMIC OUTLOOK UPDATE

Global Economy:  
Steady amid Divergent Forces

2026  
JAN



## Global Economy: Steady amid Divergent Forces

*Global growth is projected to remain resilient at 3.3 percent in 2026 and at 3.2 percent in 2027: rates similar to the estimated 3.3 percent outturn in 2025. The forecast marks a small upward revision for 2026 and no change for 2027 compared with that in the October 2025 World Economic Outlook (WEO). This steady performance on the surface results from the balancing of divergent forces. Headwinds from shifting trade policies are offset by tailwinds from surging investment related to technology, including artificial intelligence (AI), more so in North America and Asia than in other regions, as well as fiscal and monetary support, broadly accommodative financial conditions, and adaptability of the private sector. Global headline inflation is expected to decline from an estimated 4.1 percent in 2025 to 3.8 percent in 2026 and further to 3.4 percent in 2027. The inflation projections are also broadly unchanged from those in October and envisage inflation returning to target more gradually in the United States than in other large economies.*

*Risks to the outlook remain tilted to the downside. Reevaluation of productivity growth expectations about AI could lead to a decline in investment and trigger an abrupt financial market correction, spreading from AI-linked companies to other segments and eroding household wealth. Trade tensions could flare up, prolonging uncertainty and weighing more heavily on activity. Domestic political tensions or geopolitical tensions could erupt, introducing new layers of uncertainty and disrupting the global economy through their impact on financial markets, supply chains, and commodity prices. Larger fiscal deficits and high public debt could put pressure on long-term interest rates and, in turn, on broader financial conditions. On the upside, activity could be further lifted by AI-related investment and eventually transform into sustainable growth if faster AI adoption translates into strong productivity gains and increased business dynamism. Activity could also be supported by a sustained easing in trade tensions. Policies to foster stability and sustainably lift medium-term growth prospects require a keen focus on restoring fiscal buffers, preserving price and financial stability, reducing uncertainty, and implementing structural reforms without further delay.*

## Momentum Is Uneven

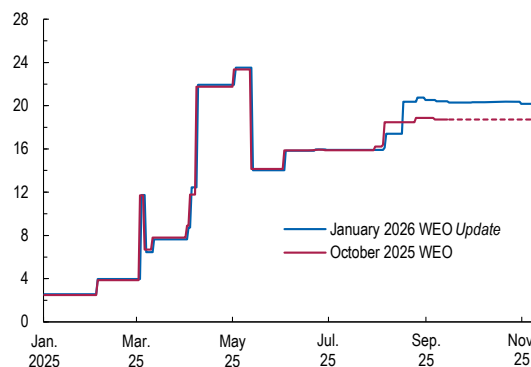
Since the October 2025 WEO, *trade tensions* have continued to abate but remain subject to occasional flare-ups. A dispute between China and the United States involving controls on exports of semiconductors and rare earth minerals was quickly followed by a truce that reduced bilateral tariffs until November 2026 and introduced a pause on export controls. US authorities also removed, for all countries, tariffs on some agricultural products, offsetting the higher tariffs on certain sectors that were previously announced and are now in effect. This leaves the overall US effective tariff rate at about the same level as assumed in the October 2025 WEO (Figure 1), but the changes for specific countries can be meaningful. The US Supreme Court is widely expected to deliver a decision in early 2026 on the president's use of the International Emergency Economic Powers Act. Newly signed bilateral trade and other agreements, often including significant investment and purchase commitments with limited public disclosure, also

add a layer of complexity. Policy uncertainty, although lower than it was in October, is still much higher than it was in January 2025.

*Global financial conditions* are still accommodative, despite some volatility and rising sovereign yields (Box 1). Stock prices of major technology companies pulled further apart from prices of other stocks (Figure 2). Financial conditions, overall, changed little or tightened only moderately. The US dollar recovered slightly as the momentum of investors' hedging of exposures slowed but came briefly under renewed pressure following the initiation of an investigation into the Federal Reserve chair.

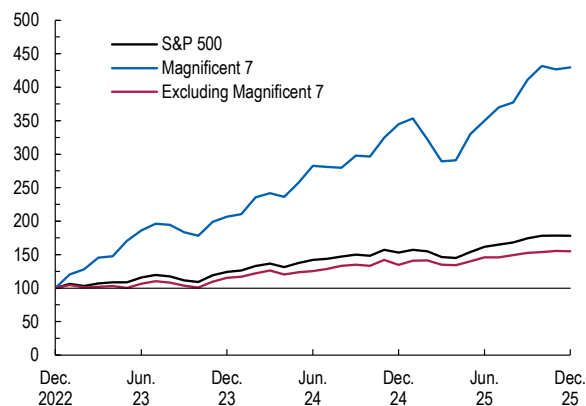
Against this backdrop of stabilizing trade tensions and supportive financial conditions, the global economy has continued to be remarkably resilient, adapting to the shifting landscape and with momentum varying across countries and sectors. In aggregate, *global growth* in the third quarter of 2025 decelerated to 2.4 percent on an annualized basis, above expectations but with upside surprises in some countries offset by downside surprises in others. A boost from aerospace exports lifted growth to 2.2 percent in France, whereas falling exports continued to weigh on activity in Germany, leaving real GDP unchanged from the second to the third quarters. Japan's economy contracted by 2.3 percent, with private and government consumption offsetting some of the contraction driven by private residential investment and exports. China's growth decelerated to 2.4 percent (as per staff estimates), with weak domestic demand, especially in the housing sector, partly offset by resilient exports. Growth in the United States accelerated to 4.3 percent, with a pickup in technology investment and expenditure estimated to add about 0.3 percentage point to average annualized GDP growth in the first three quarters of 2025, offsetting the drag from the federal government shutdown in the last quarter of the year. There are also signs that technology-related investment contributed to activity in Spain and the United Kingdom, though not at the same scale as in the United States. The mirror

**Figure 1. Removal of Some US Tariffs Offsets Recently Implemented Ones**  
(US effective tariff rate, percent)



Sources: WTO-IMF Tariff Tracker; and IMF staff calculations.  
Note: "Effective tariff rate" is a weighted average of announced statutory rates using pre-tariff (hence, pre-substitution) import weights. Calculations include only tariffs that are in effect at the time noted on the x-axis; measures that are not specified and implemented are not included. WEO = World Economic Outlook.

**Figure 2. Tech Companies Diverge Further from the Rest**  
(Index, Dec. 2022 = 100)



Sources: Bloomberg Finance L.P.; and IMF staff calculations.  
Note: The Magnificent 7 is an equal-dollar-weighted equity benchmark composed of Apple, Microsoft, Amazon, Alphabet, Tesla, Nvidia, and Meta. Although it includes several of the most influential leaders in artificial intelligence (AI), it does not cover all major AI-focused companies. For example, Oracle and Palantir are not part of the group.

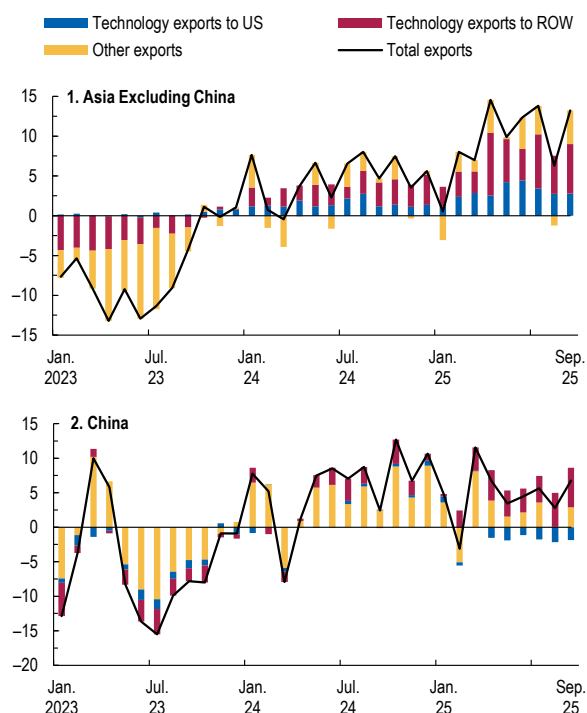
image of soaring investment in information and technology sectors showed up as strong performance in exports of semiconductors and other equipment in Asian economies. Even as signs of moderation have started to appear in high-frequency data, *global trade* has remained relatively robust, with brisk expansion in technology-related exports offsetting slowing momentum in exports in other product categories (Figure 3).

*Global inflation* has been largely steady. While the global median of sequential inflation has firmed slightly, for both headline and core rates, annual inflation has been stable, surprising mildly on the downside. That said, in the United States, the high cost of living continues to be the most important concern cited in household surveys, and household expectations for one-year-ahead inflation remain elevated, as do input prices in manufacturing purchasing managers' indexes.

## Growth and Inflation Outlooks Diverge

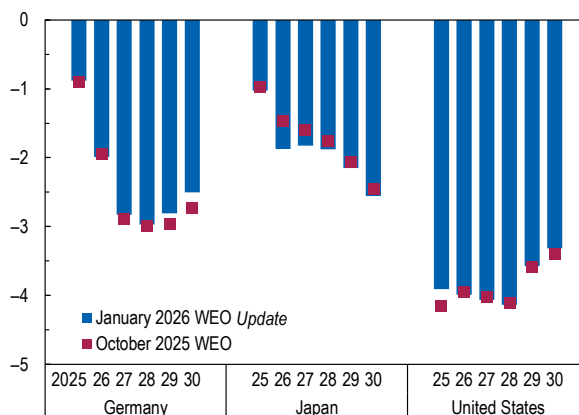
IMF staff projections remain based on real-time current trade policy; that is, they assume that policies as they stood at the end of December are permanent. This is so even in regard to measures framed as temporary or pending, meaning that pauses on higher tariffs are assumed to remain in place past their expiration dates, and higher rates are assumed not to take effect. The US effective tariff rate underlying the projections is 18.5 percent, compared with 18.7 percent in the October forecast. The corresponding effective tariff rate for the rest of the world is unchanged at 3.5 percent. Economic policy uncertainty is assumed to remain elevated through 2026. Prices for energy commodities are expected to fall by about 7 percent in 2026, more than projected in the October 2025 WEO. Oil prices remain low and are expected to decrease further

**Figure 3. Tech-Related Trade Flows Continue to Grow Briskly**  
(Percent, year over year)



Sources: Haver Analytics; International Trade Center, Trade Map; and IMF staff calculations.  
Note: "Technology" exports include those classified under Harmonized System codes 8419, 8470–8473, and 85. "Asia" includes Cambodia, China, India, Indonesia, Japan, Korea, Malaysia, Singapore, Taiwan Province of China, Thailand, and Vietnam. Data for Vietnam include computers, electronic products and parts; telephones, mobile phones and parts; and insulated wires and cables. ROW = rest of the world.

**Figure 4. Fiscal Stimulus Is Expected in Several Advanced Economies**  
(Structural primary balance, percent of potential GDP)



Source: IMF staff calculations.  
Note: The general government structural primary balance is the cyclically adjusted primary balance corrected for a broader range of noncyclical factors such as changes in asset and commodity prices. WEO = World Economic Outlook.

on account of tepid global demand growth and strong supply growth. However, a soft price floor is provided by higher-cost producers, Chinese strategic stockpiling, and the approach of OPEC+ (Organization of the Petroleum Exporting Countries plus selected nonmember countries) to avoid a price collapse. Natural gas prices are expected to remain relatively contained amid lower energy demand resulting from uncertainty, more flexible European Union (EU) storage targets, and the prospects of ample liquid natural gas supply in the medium term. Monetary policy rates in the United Kingdom and the United States are expected to continue to decline, though at varying speeds, whereas the IMF staff expects the policy rate in the euro area to remain unchanged and Japan to raise its policy rate gradually. Fiscal policy in advanced economies, particularly Germany, Japan, and the United States, is expected to be stimulative in the near term, pivoting from a tariff-driven mildly contractionary stance in the United States (Figure 4).

*Global growth* is expected to remain steady, with the momentum in high-tech sectors set to slow but to continue to partly offset the drag elsewhere. While tariffs and uncertainty are projected to continue to weigh on the level of activity, the effect on growth is expected to fade during 2026 and 2027. At 3.3 percent for 2026 and 3.2 percent for 2027, the forecasts mark a slight deceleration from the estimated 3.3 percent achieved in 2025. The forecast for 2026 is revised upward by 0.2 percentage point compared with that in the October 2025 WEO, while the forecast for 2027 is unchanged (Table 1; see also Annex Table 1). There are, however, significant revisions for some countries, with the changes in different directions.

Growth in *advanced economies* is projected to be 1.8 percent in 2026 and 1.7 percent in 2027. In the *United States*, the economy is projected to expand by 2.4 percent in 2026, supported by fiscal policy and a lower policy rate, while the impact of higher trade barriers also gradually wanes. This 0.3 percentage point upward revision from the October forecast reflects a stronger-than-expected GDP outturn in the third quarter of 2025, a rebound in activity in the first quarter of 2026 compared with that in the fourth quarter of 2025 following the end of the federal government shutdown, and the associated carryover. Growth is projected to remain solid at 2.0 percent in 2027, with a near-term fiscal boost from tax incentives for corporate investment under the One Big Beautiful Bill Act of 2025. Technology-driven momentum is expected to moderate but still provide some offset to lower immigration and moderating consumption. In the *euro area*, growth is expected to remain steady at 1.3 percent in 2026 and at 1.4 percent in 2027. The slightly faster growth in 2027 reflects projected increases in public spending, notably in Germany, alongside continued strong performance in Ireland and Spain. The forecast is broadly unchanged from that in October, with the subdued growth rate reflecting unresolved structural headwinds. The impact of the planned increase in defense spending is expected to materialize only in subsequent years, given commitments to reach target levels gradually by 2035. Compared with other regions, the euro area benefits less from the recent technology-driven investment boost. Lingering effects of the persistent rise in energy prices after Russia's invasion of Ukraine will continue to drag on manufacturing, with additional pressure from the real appreciation of the euro relative to currencies of countries exporting similar products. In *Japan*, growth is projected to moderate from 1.1 percent in 2025 to 0.7 percent in 2026 and to 0.6

percent in 2027. This marks a small upward revision relative to the October figure, reflecting in part the fiscal stimulus package announced by the new government.

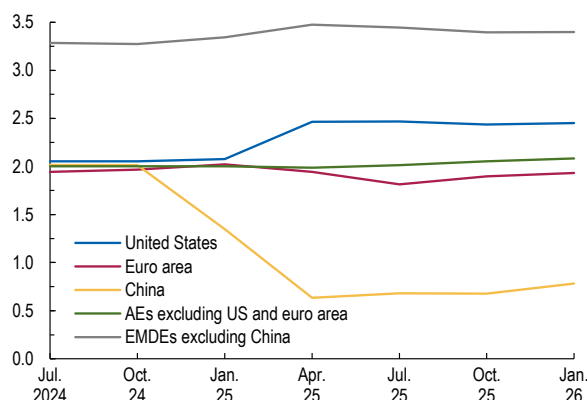
In *emerging market and developing economies*, growth is expected to continue to hover just above 4.0 percent in 2026 and 2027. Relative to the projection in October, growth in 2025 for *China* is revised upward by 0.2 percentage point to 5.0 percent. The revision reflects stimulus measures and additional policy bank lending for investment. Growth for 2026 is also revised upward by 0.3 percentage point to 4.5 percent, reflecting the lower US effective tariff rates on Chinese goods as a result of the yearlong trade truce agreed to in November and stimulus measures that are assumed to be implemented over two years. The economy's growth rate is expected to decelerate to 4.0 percent in 2027 as structural headwinds assert themselves. In *India*, growth is revised upward by 0.7 percentage point to 7.3 percent for 2025, reflecting the better-than-expected outturn in the third quarter of the year and strong momentum in the fourth quarter. Growth is projected to moderate to 6.4 percent in 2026 and 2027 as cyclical and temporary factors wane.

In the *Middle East and Central Asia*, growth is projected to accelerate from 3.7 percent in 2025 to 3.9 percent in 2026 and to 4.0 percent in 2027, supported by higher oil output, resilient local demand, and ongoing reforms. Growth is also expected to accelerate in *sub-Saharan Africa*, from 4.4 percent in 2025 to 4.6 percent in 2026 and 2027, supported by macroeconomic stabilization and reform efforts in key economies. In *Latin America and the Caribbean*, growth is projected to moderate to 2.2 percent in 2026 and bounce to 2.7 percent in 2027 as countries in the region approach potential from different cyclical positions. In *emerging and developing Europe*, a sharp slowdown in 2025 to a growth rate of 2.0 percent is expected to reverse, with economies in the region expanding at an average rate of 2.3 percent in 2026 and 2.4 percent in 2027. In most regions, the rebound also reflects the fading effect of shifting trade policies.

*World trade volume growth* is expected to decline from 4.1 percent in 2025 to 2.6 percent in 2026 and increase to 3.1 percent in 2027. These dynamics reflect patterns of front-loading and trade flow adjustments to new policies. Over the medium term, expansionary fiscal packages in economies with current account surpluses are expected to contribute to declining *global imbalances*. Countering this force is the technology-driven business investment surge, which is expected to continue to attract capital flows to the United States even as it moderates.

*Global inflation* is projected to continue its decline, with headline inflation falling to 3.8 percent in 2026 and 3.4 percent in 2027. This is virtually unchanged from that in the October 2025 WEO, with overarching trends of

**Figure 5. Inflation Dynamics Diverge**  
(2026 inflation forecasts, percent, year over year)



Source: IMF staff calculations.

Note: The x-axis shows the months the *World Economic Outlook* is published. The two aggregates are medians of respective groups. AEs = advanced economies; EMDEs = emerging market and developing economies.

softening demand and lower energy prices remaining intact. Divergence between the United States and most other countries lingers (Figure 5). With pass-through from higher tariffs gradually materializing, US core inflation is projected to return to the country's 2 percent target during 2027. Australia and Norway are also projected to see some drawn-out persistence in above-target inflation. In the United Kingdom, inflation, which increased last year partly due to one-off regulated price changes, is expected to return to target by the end of 2026 as a weakening labor market continues to exert downward pressure on wage growth. In Japan, inflation is expected to moderate in 2026 and converge toward the country's target in 2027, as food and commodity prices ease. In the euro area, headline inflation is projected to hover around 2 percent, with core inflation projected to decline to that level in 2027. Inflation in China is projected to start rising from low levels, whereas inflation in India is expected to go back to near target levels after a marked decline in 2025 driven by subdued food prices.

### Narrow Base of Drivers Makes Growth Vulnerable

Risks to the outlook for the global economy remain tilted to the downside. The resilience exhibited so far is driven largely by a few sectors and often supported by monetary and fiscal accommodation. It could be disrupted by either sectoral dynamics or shocks disseminating from long-standing broader risk factors.

Should expectations about AI-driven productivity gains turn out to be overly optimistic and outcomes disappoint, a sharp drop in real investment in the high-tech sector as well as in spending on AI adoption in other sectors and a more prolonged correction in stock market valuations—which have increasingly been lifted by only a few technology firms—could ensue. The rapid obsolescence of unused or misaligned assets, costly reallocation of capital and labor accompanied by a decline in business dynamism, and negative wealth effects would weigh on private consumption and investment. Spillovers would spread, directly through trade flows, to export-oriented economies specializing in technology products. These would radiate to the rest of the world through the tightening of global financial conditions. The impact on growth is highly uncertain and depends on how financial conditions react. As a reference, under a scenario presented in the October 2025 WEO which includes a moderate correction in AI stock valuations as part of a general tightening of financial conditions, global growth declines by 0.4 percent in 2026 relative to baseline.

The fragile balance of trade policy stances underlying the baseline could be disrupted. Additional sector-specific tariffs, especially if imposed on upstream industries, could create supply bottlenecks and impose an outsize impact on economic activity and prices. Nontariff measures targeting critical inputs such as rare earth minerals might also disrupt global supply chains. More countries could adopt a protectionist posture, especially if trade diversion and rerouting become disruptive. In such instances, decompression of profit margins could amplify and prolong any inflationary effects.

A significant escalation in geopolitical tensions, particularly in the Middle East or Ukraine but possibly also in Asia and Latin America, could trigger substantial negative supply shocks. Disruption to major shipping routes, critical supply chains, and air travel could occur, leading to

delays and increased costs. If key infrastructure were damaged, resulting supply constraints could drive commodity prices higher. Spikes in domestic political uncertainty, including but not limited to those around elections, could further elevate and broaden uncertainty, weighing on sentiment and holding back consumption and investment. Political interference in independent economic institutions could raise the risk of policy mistakes and erode public confidence and trust.

Combined with lingering fragilities in financial markets, fiscal vulnerabilities might become more pronounced, with implications for macrofinancial stability. A particular concern is elevated public debt levels in several major economies, especially those whose currencies and securities are systemically important in international financial markets. Fiscal sustainability worries in those economies could not only put pressure on their own borrowing costs but also tighten broader financial conditions and amplify financial market volatility. Increased reliance on price-sensitive investors such as money market funds and leveraged hedge funds heightens dislocation risks and may necessitate repeated provision of liquidity backstops by central banks, possibly generating moral hazard and financial dominance concerns. Interactions with geopolitical factors—for instance, events that would trigger a tightening of measures to combat money laundering and financing of terrorism—could be an additional amplifier. Foreign aid cuts add to the fiscal challenges in low-income developing countries. The sovereign-bank nexus could exacerbate the feedback loop between higher yields on public debt and tighter financial conditions for the private sector in a broader set of countries.

On the upside, rapid adoption of AI, possibly facilitated by the ongoing surge in AI-related investment in both hard and soft infrastructure, could significantly improve productivity and boost medium-term growth prospects sooner rather than later. The fast pace of innovations might foster creative destruction and revive business dynamism. As a result, global growth may be lifted by as much as 0.3 percentage points in 2026 and between 0.1 and 0.8 percentage points per year in the medium term, depending on the speed of adoption and improvements in AI readiness globally. The benefits could be shared across the economy, provided that complementary policies to contain the potential impact on energy prices by relaxing power supply constraints, initiatives to scale up the necessary critical intermediate inputs, and labor market programs to manage workforce transitions are in place.

More in the near term, tangible progress in trade talks would stand to lower tariffs, enhance policy predictability, and support global efficiency gains. The gains could be larger if strengthened cooperation extends to services trade, foreign direct investment, and international taxation, boosting investment and bolstering public finances.

Current challenges and the possibility of transformative technological changes could open a window of opportunity for structural reform efforts to gain momentum. Accelerated implementation of reforms that upskill the existing labor force, reduce barriers to labor mobility, streamline and rationalize business regulations, enhance competition, and promote innovation would make it possible to lift the growth potential of economies in a lasting manner while enhancing their resilience and capacity to adapt.

## Policies Can Foster Stability and Sustainable Growth

Rebuilding fiscal capacity and maintaining public debt sustainability are crucial, especially as pressing spending needs persist. At a minimum, commitment to credible medium-term fiscal consolidation is required. Efforts to replenish fiscal buffers should be anchored in realistic assumptions, including those regarding long-term spending pressures, and sound debt management practices while seeking to strike the right balance in regard to growth-friendly adjustment. Countries should aim to bolster fiscal revenues, rationalize expenditures, and strengthen expenditure efficiency by, among other things, crowding in private investment. Responses to negative demand shocks should be drawn up without deviating from medium-term fiscal sustainability objectives. They should leverage automatic stabilizers, applied symmetrically over the full business cycle to support macroeconomic smoothing in both downturns and upturns. Any discretionary fiscal interventions must be strictly targeted toward those firms and households most affected by adverse shocks and include explicit sunset provisions that make the actions temporary. Offsetting such measures through nonpriority spending reductions elsewhere or new revenue sources is paramount, particularly where there is limited fiscal space. Broad-based subsidies and other industrial policy measures can be both costly and disruptive. Even when appropriate to use, they should be handled with care. To avoid inefficient resource allocation, particularly given increasingly tighter fiscal constraints, industrial policies must be precisely targeted to address specific market failures and clearly defined externalities and be subject to periodic cost-benefit analyses.

Central banks must tailor monetary policy to uphold price stability amid ongoing shifts in the global economic landscape. Monetary policymakers in countries where inflation is at or close to target should rely on a forecast-centered approach and, if their countries are experiencing negative demand shocks, might consider a gradual reduction in policy rates to cushion economic activity, provided that risks to price stability objectives are contained. By contrast, where inflation is still above target, a more cautious approach that maintains data dependence is warranted. In economies experiencing adverse supply shocks, policymakers face complex trade-offs in balancing the risk of growth slowdown against the risk of persistent inflation. In such cases, further monetary easing should proceed only with robust evidence of inflation expectations remaining anchored and inflation returning toward target, with the need to remain focused on price stability being vital.

Clear, consistent communication from central banks is crucial to navigating this unpredictable environment. Central bank independence is paramount for macroeconomic stability and economic growth. Preserving the independence of central banks, both legal and operational, remains critical for avoiding the risk of fiscal dominance, anchoring inflation expectations, and enabling them to achieve their mandates.

Disparities in economic activity and price dynamics can complicate macroeconomic policy decisions across jurisdictions. The ongoing technology-related investment boom is likely to push real neutral interest rates upward at varying degrees given the differences in its strength across jurisdictions. This would raise the bar for policy rate cuts, more so in the United States than in

other economies. Meanwhile, better growth performance and prospects could increase fiscal room in some cases, such as that of the United States, while possibly reducing it in others because of the pressure on interest rates. This calls for even more discipline so that any windfalls are used wisely to put public debt on a decisively downward path where fiscal room opens up and so that realistic and robust fiscal consolidation is enacted without further delay where fiscal room shrinks.

Ordinarily, exchange rates should respond flexibly to market signals, thereby facilitating macroeconomic adjustment. Should significant fluctuations in foreign exchange or risk premiums arise, the IMF's Integrated Policy Framework offers guidance for tailored policy responses. In select cases, alongside appropriate monetary and fiscal policy stances, temporary foreign exchange interventions or capital flow management tools may be warranted.

With heightened uncertainty and fragilities in asset valuations, strong prudential oversight is needed to preserve financial stability. In periods of sustained uncertainty such as the current one, expanded use of scenario analysis can enhance macroeconomic policymaking. Readiness to deploy contingency plans for diverse risks ensures resilience should those risks materialize.

To stabilize expectations and encourage investment in a broader set of sectors, countries should make reducing policy-driven uncertainty a priority. They should establish and adhere to transparent and coherent trade policy frameworks, aided by pragmatic cooperation. This involves advancing multilateral efforts concerning key global commons, updating international regulations where feasible, and exploring regional or plurilateral solutions where appropriate. Bilateral dialogues should not adversely impact third-party nations. Efforts to ease trade frictions and lower barriers to trade and investment should be aligned with those aiming to address excessive external imbalances resulting from domestic policy decisions (see the 2025 *External Sector Report*). Achieving lasting resolutions requires reaching a common understanding of underlying distortions and taking action to address them.

Beyond the navigation of near-term trade-offs and challenges, elevating medium-term growth prospects remains the most effective strategy for resolving macroeconomic dilemmas. Structural reforms targeting labor markets, education, regulatory frameworks, and competition will drive productivity, potential output, and job creation. Moreover, harnessing technological progress—through digital transformation, AI adoption, and investment in renewables and energy-efficient systems, among other possibilities—can accelerate productivity gains and expand growth potential. These efforts should not jeopardize but rather be aligned with a rebalancing of the global economy, which is a crucial element of sustainability. Weaving in growth-enhancing measures together with efforts to fortify the EU single market, to chart a credible fiscal consolidation plan to put US public debt on a decisively downward path, and to advance China's reforms to strengthen the social protection system and scale back unwarranted industrial policy support would help diversify the sources of global growth.

# WORLD ECONOMIC OUTLOOK UPDATE

**Table 1. Overview of the World Economic Outlook Projections**  
(Percent change, unless noted otherwise)

|                                                           | Year over Year |            |             |            |                                                 |             | Q4 over Q4 2/ |             |            |
|-----------------------------------------------------------|----------------|------------|-------------|------------|-------------------------------------------------|-------------|---------------|-------------|------------|
|                                                           | Estimate       |            | Projections |            | Difference from October 2025 WEO Projections 1/ |             | Estimate      | Projections |            |
|                                                           | 2024           | 2025       | 2026        | 2027       | 2026                                            | 2027        | 2025          | 2026        | 2027       |
| <b>World Output</b>                                       | <b>3.3</b>     | <b>3.3</b> | <b>3.3</b>  | <b>3.2</b> | <b>0.2</b>                                      | <b>0.0</b>  | <b>2.9</b>    | <b>3.2</b>  | <b>3.2</b> |
| <b>Advanced Economies</b>                                 | <b>1.8</b>     | <b>1.7</b> | <b>1.8</b>  | <b>1.7</b> | <b>0.2</b>                                      | <b>0.0</b>  | <b>1.4</b>    | <b>1.9</b>  | <b>1.7</b> |
| United States                                             | 2.8            | 2.1        | 2.4         | 2.0        | 0.3                                             | -0.1        | 2.2           | 2.1         | 2.1        |
| Euro Area 3/                                              | 0.9            | 1.4        | 1.3         | 1.4        | 0.1                                             | 0.0         | 0.9           | 1.7         | 1.3        |
| Germany                                                   | -0.5           | 0.2        | 1.1         | 1.5        | 0.2                                             | 0.0         | 0.4           | 1.0         | 1.5        |
| France                                                    | 1.1            | 0.8        | 1.0         | 1.2        | 0.1                                             | 0.0         | 1.0           | 0.9         | 1.3        |
| Italy                                                     | 0.7            | 0.5        | 0.7         | 0.7        | -0.1                                            | 0.1         | 0.7           | 0.7         | 0.7        |
| Spain                                                     | 3.5            | 2.9        | 2.3         | 1.9        | 0.3                                             | 0.2         | 2.7           | 2.0         | 1.9        |
| Japan                                                     | -0.2           | 1.1        | 0.7         | 0.6        | 0.1                                             | 0.0         | 0.2           | 1.5         | 0.4        |
| United Kingdom                                            | 1.1            | 1.4        | 1.3         | 1.5        | 0.0                                             | 0.0         | 1.1           | 1.4         | 1.9        |
| Canada                                                    | 2.0            | 1.6        | 1.6         | 1.9        | 0.1                                             | 0.0         | 0.7           | 2.3         | 1.5        |
| Other Advanced Economies 4/                               | 2.3            | 1.8        | 2.0         | 2.1        | 0.0                                             | 0.0         | 1.3           | 2.8         | 2.7        |
| <b>Emerging Market and Developing Economies</b>           | <b>4.3</b>     | <b>4.4</b> | <b>4.2</b>  | <b>4.1</b> | <b>0.2</b>                                      | <b>-0.1</b> | <b>4.0</b>    | <b>4.3</b>  | <b>4.2</b> |
| Emerging and Developing Asia                              | 5.3            | 5.4        | 5.0         | 4.8        | 0.3                                             | 0.0         | 4.9           | 5.0         | 4.8        |
| China                                                     | 5.0            | 5.0        | 4.5         | 4.0        | 0.3                                             | -0.2        | 4.4           | 4.5         | 4.1        |
| India 5/                                                  | 6.5            | 7.3        | 6.4         | 6.4        | 0.2                                             | 0.0         | 6.2           | 6.5         | 6.5        |
| Emerging and Developing Europe                            | 3.5            | 2.0        | 2.3         | 2.4        | 0.1                                             | 0.0         | 1.6           | 2.1         | 2.4        |
| Russia                                                    | 4.3            | 0.6        | 0.8         | 1.0        | -0.2                                            | -0.1        | -0.5          | 0.6         | 1.1        |
| Latin America and the Caribbean                           | 2.4            | 2.4        | 2.2         | 2.7        | -0.1                                            | 0.1         | 1.9           | 2.8         | 2.4        |
| Brazil                                                    | 3.4            | 2.5        | 1.6         | 2.3        | -0.3                                            | 0.1         | 2.2           | 2.3         | 2.2        |
| Mexico                                                    | 1.4            | 0.6        | 1.5         | 2.1        | 0.0                                             | 0.1         | 0.7           | 2.2         | 2.1        |
| Middle East and Central Asia                              | 2.7            | 3.7        | 3.9         | 4.0        | 0.1                                             | 0.2         | ...           | ...         | ...        |
| Saudi Arabia                                              | 2.6            | 4.3        | 4.5         | 3.6        | 0.5                                             | 0.4         | 4.3           | 4.5         | 3.6        |
| Sub-Saharan Africa                                        | 4.1            | 4.4        | 4.6         | 4.6        | 0.2                                             | 0.1         | ...           | ...         | ...        |
| Nigeria                                                   | 4.1            | 4.2        | 4.4         | 4.1        | 0.2                                             | 0.1         | 3.9           | 4.3         | 6.5        |
| South Africa                                              | 0.5            | 1.3        | 1.4         | 1.5        | 0.2                                             | 0.0         | 1.8           | 1.2         | 1.7        |
| <i>Memorandum</i>                                         |                |            |             |            |                                                 |             |               |             |            |
| World Growth Based on Market Exchange Rates               | 2.8            | 2.8        | 2.8         | 2.6        | 0.2                                             | -0.1        | 2.4           | 2.7         | 2.6        |
| European Union                                            | 1.2            | 1.5        | 1.5         | 1.6        | 0.1                                             | 0.0         | 1.3           | 1.5         | 1.6        |
| ASEAN-5 6/                                                | 4.6            | 4.2        | 4.2         | 4.4        | 0.1                                             | 0.1         | 4.1           | 4.2         | 4.6        |
| Middle East and North Africa                              | 2.2            | 3.4        | 3.9         | 4.0        | 0.2                                             | 0.3         | ...           | ...         | ...        |
| Emerging Market and Middle-Income Economies               | 4.4            | 4.3        | 4.1         | 4.1        | 0.2                                             | 0.0         | 4.0           | 4.2         | 4.1        |
| Low-Income Developing Countries                           | 4.2            | 4.6        | 5.1         | 5.1        | 0.1                                             | -0.2        | ...           | ...         | ...        |
| <b>World Trade Volume (goods and services) 7/</b>         | <b>3.6</b>     | <b>4.1</b> | <b>2.6</b>  | <b>3.1</b> | <b>0.3</b>                                      | <b>0.0</b>  | ...           | ...         | ...        |
| Advanced Economies                                        | 2.0            | 3.0        | 1.9         | 2.4        | 0.4                                             | 0.2         | ...           | ...         | ...        |
| Emerging Market and Developing Economies                  | 6.3            | 5.7        | 3.6         | 4.4        | 0.0                                             | 0.0         | ...           | ...         | ...        |
| <b>Commodity Prices</b>                                   |                |            |             |            |                                                 |             |               |             |            |
| Oil 8/                                                    | -1.8           | -14.2      | -8.5        | 0.1        | -4.0                                            | 0.3         | -14.2         | -1.4        | 0.9        |
| Nonfuel (average based on world commodity import weights) | 3.7            | 9.4        | 7.5         | 0.9        | 3.4                                             | 0.3         | 13.3          | 0.8         | 0.6        |
| <b>World Consumer Prices 9/</b>                           | <b>5.8</b>     | <b>4.1</b> | <b>3.8</b>  | <b>3.4</b> | <b>0.1</b>                                      | <b>0.0</b>  | <b>3.4</b>    | <b>3.1</b>  | <b>3.0</b> |
| Advanced Economies 10/                                    | 2.6            | 2.5        | 2.2         | 2.1        | 0.0                                             | 0.0         | 2.5           | 2.1         | 2.1        |
| Emerging Market and Developing Economies 9/               | 7.9            | 5.2        | 4.8         | 4.3        | 0.1                                             | 0.1         | 4.2           | 3.9         | 3.6        |

Note: Real effective exchange rates are assumed to remain constant at the levels prevailing during October 21–November 18, 2025. Economies are listed on the basis of economic size. The aggregated quarterly data are seasonally adjusted. "..." indicates that data are not available or not applicable. WEO = *World Economic Outlook*.

1/ Difference based on rounded figures for the current and October 2025 WEO forecasts. Countries for which forecasts have been updated relative to October 2025 WEO forecasts account for approximately 90 percent of world GDP measured at purchasing-power-parity weights.

2/ For World Output (Emerging Market and Developing Economies), the quarterly estimates and projections account for approximately 90 percent (80 percent) of annual world (emerging market and developing economies) output at purchasing-power-parity weights.

3/ Quarterly GDP growth forecasts for euro area are based on six economies (France, Germany, Ireland, Italy, the Netherlands, and Spain) which account for approximately 85 percent of euro area GDP.

4/ Excludes the Group of Seven (Canada, France, Germany, Italy, Japan, United Kingdom, United States) and euro area countries. The projection for 2027 Q4 over Q4 GDP growth accounts for approximately 44 percent of group output at purchasing-power-parity weights.

5/ For India, data and projections are presented on a fiscal year (FY) basis, with FY 2024/25 (starting in April 2024) shown in the 2024 column. India's growth projections are 6.3 percent for 2026 and 6.5 percent for 2027 based on calendar year.

6/ Indonesia, Malaysia, Philippines, Singapore, Thailand. ASEAN = Association of Southeast Asian Nations.

7/ Simple average of growth rates for export and import volumes (goods and services).

8/ Simple average of prices of UK Brent, Dubai Fateh, and West Texas Intermediate crude oil. The average assumed price of oil in US dollars a barrel, based on futures markets (as of November 20, 2025), is \$62.13 for 2026 and \$62.17 for 2027.

9/ Excludes Venezuela.

10/ The assumed inflation rate for the euro area is 1.9 percent for 2026 and 2.0 percent for 2027, that for Japan is 2.3 percent for 2026 and 2.1 percent for 2027, and that for the United States is 2.4 percent for 2026 and 2.2 percent for 2027.

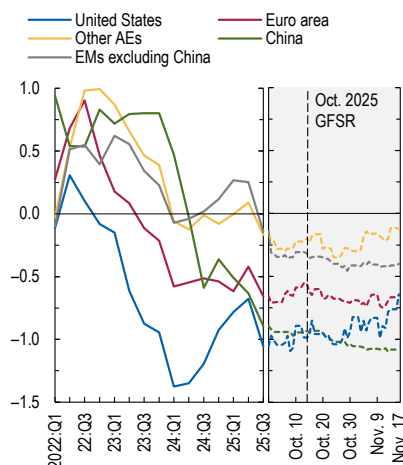
Global financial conditions have remained broadly accommodative since the October 2025 *Global Financial Stability Report* (GFSR) (Figure 1.1). Investor sentiment continues to support high equity prices and historically narrow credit spreads, driven by expectations of further monetary policy easing. Favorable financing conditions and subdued currency volatility have supported portfolio flows to emerging markets, with record international sovereign bond issuance and increased access for many lower-rated sovereigns, alongside steady inflows to local currency debt markets.

**Increased equity market volatility in November reflected market concerns about future returns in the artificial intelligence (AI) sector.** AI companies now account for a sizable share of stock market capitalization and drive much of corporate capital expenditure growth. Market participants are increasingly focused on whether these firms can deliver sustained AI revenue acceleration to justify lofty valuations. Rising reliance on debt financing, reflected in high debt ratios and widening credit default spreads of some firms, raises additional concerns. In addition, circular investment and procurement arrangements, in which firms invest in each other while securing future orders, among large AI players create opacity and concentration risk. These practices make ownership structures and valuations harder to assess.

**Heavy issuance and evolving investor appetite are pushing sovereign debt toward shorter maturities, reshaping market dynamics in major economies.** Global sovereign debt is projected to exceed 100 percent of GDP by the decade's end. Lower policy rates have helped steady longer-term yields, even as term premiums rise amid heavy issuance and shifting investor appetite away from long-duration assets. Dutch pension funds are shortening portfolio durations, and traditional UK buyers, such as pension funds, are ceding ground to hedge funds. In both the UK and the US, issuance now tilts toward shorter maturities. Meanwhile, short-term rates have been rising, with bouts of volatility, prompting periodic use of central bank liquidity and raising concerns about market functioning.

**Recent corporate defaults call attention to underwriting standards and transparency in credit markets.** Investors viewed the failures of Tricolor Holdings and First Brands as isolated, and other struggling firms have so far avoided defaults through restructurings with lenders, often at the cost of rating downgrades. Nevertheless, the defaults of these two companies have exposed several important weaknesses: opaque financing structures, weak governance, and lax underwriting standards. These issues have become more common with the rapid growth of nonbank lenders, especially private credit. Vulnerabilities in this sector could become more pronounced if market conditions tighten or investor risk appetite wanes.

**Figure 1.1. Financial Conditions Index**  
(Number of standard deviations over long-term averages)



Sources: Bloomberg Finance L.P.; and IMF staff calculations.  
Note: The IMF Financial Conditions Index (FCI) is designed to capture the pricing of risk. It incorporates various pricing indicators, including real house prices. Balance sheet or credit growth metrics are not included. A lower (higher) FCI score implies easier (tighter) financial conditions. The shaded area shows daily FCIs estimated using available high-frequency market data. AEs = advanced economies; EMs = emerging markets; GFSR = *Global Financial Stability Report*.

**Annex Table 1. Selected Economies: Real GDP Growth**  
(Percent change)

|                 | Estimate |      | Projections |      | Difference from October 2025<br>WEO Projections 1/ |      |
|-----------------|----------|------|-------------|------|----------------------------------------------------|------|
|                 | 2024     | 2025 | 2026        | 2027 | 2026                                               | 2027 |
| Argentina       | -1.3     | 4.5  | 4.0         | 4.0  | 0.0                                                | 0.0  |
| Australia       | 1.0      | 1.9  | 2.1         | 2.2  | 0.0                                                | 0.0  |
| Brazil          | 3.4      | 2.5  | 1.6         | 2.3  | -0.3                                               | 0.1  |
| Canada          | 2.0      | 1.6  | 1.6         | 1.9  | 0.1                                                | 0.0  |
| China           | 5.0      | 5.0  | 4.5         | 4.0  | 0.3                                                | -0.2 |
| Egypt 2/        | 2.4      | 4.4  | 4.7         | 5.4  | 0.2                                                | 0.7  |
| France          | 1.1      | 0.8  | 1.0         | 1.2  | 0.1                                                | 0.0  |
| Germany         | -0.5     | 0.2  | 1.1         | 1.5  | 0.2                                                | 0.0  |
| India 2/        | 6.5      | 7.3  | 6.4         | 6.4  | 0.2                                                | 0.0  |
| Indonesia       | 5.0      | 5.0  | 5.1         | 5.1  | 0.2                                                | 0.1  |
| Iran 2/         | 3.7      | 0.3  | 1.1         | 1.6  | 0.0                                                | 0.0  |
| Italy           | 0.7      | 0.5  | 0.7         | 0.7  | -0.1                                               | 0.1  |
| Japan           | -0.2     | 1.1  | 0.7         | 0.6  | 0.1                                                | 0.0  |
| Kazakhstan      | 5.0      | 6.2  | 4.4         | 4.2  | -0.4                                               | 0.0  |
| Korea           | 2.0      | 1.0  | 1.9         | 2.1  | 0.1                                                | -0.1 |
| Malaysia        | 5.1      | 4.6  | 4.3         | 4.3  | 0.3                                                | 0.3  |
| Mexico          | 1.4      | 0.6  | 1.5         | 2.1  | 0.0                                                | 0.1  |
| The Netherlands | 1.1      | 1.7  | 1.2         | 1.4  | 0.0                                                | 0.0  |
| Nigeria         | 4.1      | 4.2  | 4.4         | 4.1  | 0.2                                                | 0.1  |
| Pakistan 2/     | 2.6      | 3.0  | 3.2         | 4.1  | -0.4                                               | 0.0  |
| Philippines     | 5.7      | 5.1  | 5.6         | 5.8  | -0.1                                               | -0.2 |
| Poland          | 3.0      | 3.3  | 3.5         | 2.7  | 0.4                                                | -0.2 |
| Russia          | 4.3      | 0.6  | 0.8         | 1.0  | -0.2                                               | -0.1 |
| Saudi Arabia    | 2.6      | 4.3  | 4.5         | 3.6  | 0.5                                                | 0.4  |
| South Africa    | 0.5      | 1.3  | 1.4         | 1.5  | 0.2                                                | 0.0  |
| Spain           | 3.5      | 2.9  | 2.3         | 1.9  | 0.3                                                | 0.2  |
| Thailand        | 2.5      | 2.1  | 1.6         | 2.2  | 0.0                                                | 0.0  |
| Türkiye         | 3.3      | 4.1  | 4.2         | 4.1  | 0.5                                                | 0.4  |
| United Kingdom  | 1.1      | 1.4  | 1.3         | 1.5  | 0.0                                                | 0.0  |
| United States   | 2.8      | 2.1  | 2.4         | 2.0  | 0.3                                                | -0.1 |

Source: IMF staff calculations.

Note: The selected economies account for approximately 83 percent of world output. WEO = *World Economic Outlook*.

1/ Difference based on rounded figures for the current and October 2025 WEO forecasts.

2/ Data and forecasts are presented on a fiscal year basis.