CHAPTER 1

GLOBAL PROSPECTS AND POLICIES

A Split View of the Global Economy

Two major transformative forces—geopolitics and technology—are reshaping the global economy, with their short-term impact gradually coming into view and their longer-term impact still largely unknown.

Geopolitics has its latest and most acute manifestation in the war in the Middle East, while hostilities in other regions and tensions in international trade relations continue to cast a shadow on economic activity. The negative supply shock from the war is working its way through the economy through higher and more volatile energy prices and their impact on inflation dynamics. The private sector appears to have so far adjusted well to the geopolitical shocks of direct conflict and contestations over trade. But as brief pauses and bouts of attacks alternate in a prolonged and dragging conflict, some of the margins of adjustment that buffered the global economy at the onset under the assumption of short-lived hostility get narrower, and the possibility of larger economic costs becomes more palpable. Beyond the near term, the economic fallout from shifting political power balances and eroding stability and trust, both within the region and elsewhere, is highly uncertain.

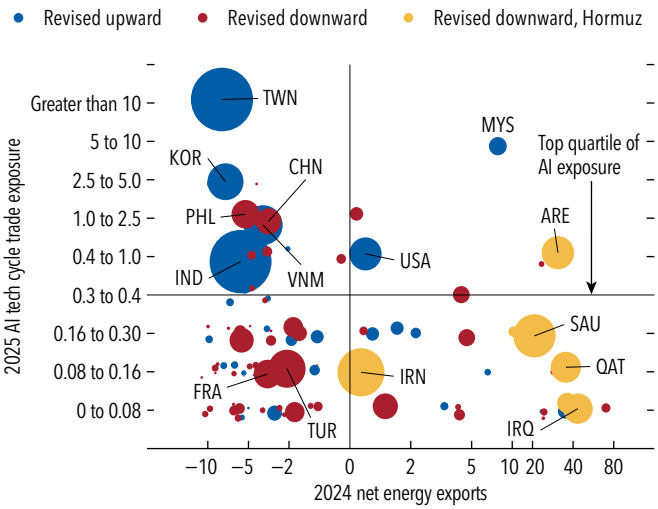
Technology is most recently playing out as a positive demand shock powered by investment in artificial intelligence (AI) and related hardware and infrastructure. Trade flows show this most strikingly. Whether this positive demand shock will transform into a positive supply shock in the long term by delivering faster productivity growth remains to be seen.

Other forces—fiscal policies and financial conditions, in particular—matter and, to some extent, are affected by the same two shocks. Fiscal support has been deployed to cushion households and firms from higher energy costs stemming from the war. Spending on defense is increasing in response to shifting geopolitical alignments. Financial conditions, which tightened sharply earlier in the year before easing again despite repeated large negative shocks and prolonged uncertainty, reflect concerns about war-induced inflation and public-spending pressures on the one hand and market enthusiasm and expectations around technology investment on the other.

Economies differ both in their exposure to the war shock—reflecting their proximity to and connections with the conflict zone, energy import dependence, and sensitivity to commodity price swings—and in their ability to benefit from the AI upturn, depending on their position in technology value chains, domestic investment capacity, and readiness to absorb new technologies. The consequence of these differences is a bifurcated outlook, rather than a uniform or synchronized one. Countries in the most favorable quadrant—limited exposure to the negative energy shock from the war and strong participation in the technology value chain, as either a producer or a final consumer of computing hardware—are seeing activity hold up or even strengthen (Figure 1.1). Energy exporters outside the conflict zone benefit from favorable terms of trade, even where their direct participation in the technology cycle is more limited. By contrast, energy importers with little connection to the technology value chain face the most difficult configuration: higher import bills and exchange rate pressures, weaker real incomes, more challenging policy trade-offs, and fewer offsetting demand impulses. Many low-income and vulnerable countries fall into this quadrant or closer to it than not, threatening to widen the gap between richer and poorer economies.

The fragmented outlook leaves the global economy vulnerable to setbacks from both directions. Headwinds from a prolonged war and persistent geopolitical tensions could revive inflationary pressures, strain fiscal and external positions, and hit energy-importing and low-income countries hardest. At the same time, the current technology tailwind could stop abruptly if expectations about AI-related profits and productivity gains are reassessed, weakening investment and tightening financial conditions. But the potential upside should not be dismissed: The constellation of accommodative financial conditions, robust private sector adjustment, and AI-related investment could carry activity through the war shock and begin to lift productivity.

Figure 1.1. Diverging Forces Are Shaping the Economy
(Percent of GDP)



Sources: CEPII BACI; Trade Data Monitor; and IMF staff calculations.

Note: Bubble sizes indicate each economy's absolute contribution to the world cumulative growth revision for 2026–27 between the January 2026 *World Economic Outlook* (WEO) Update and October 2026 WEO. "Net energy exports" are defined as exports minus imports of crude oil, refined oil, natural gas, coal, coke, and lignite. "AI tech cycle trade exposure" is measured as the absolute value of the 2025 trade balance of an AI hardware basket composed of Harmonized System codes 847150, 847170, 847180, 847330, 848610, 848620, 848640, 848690, 854231, and 854232. The figure uses own-reported data, except for MEX, MYS, THA, and VNM, for which it uses partner-reported data. The *y*-axis is banded, and the *x*-axis is shown on a signed-log scale. HKG, MAC,MLT, PAN, and SGP are excluded. Data labels and the economy list are based on International Organization for Standardization (ISO) codes. AI = artificial intelligence.

Policymakers need to do two things at once: Contain the immediate risks from inflation, debt, and financial fragility while putting in place the infrastructure, skills, and competitive environment needed for technological transformation to translate into broader and more balanced growth, with the gains distributed more evenly across and within countries.

Recent Developments: Resilient but Uneasy

Global growth in the first half of 2026 held up better than expected, although activity followed a divergent path across countries. In the United States, real GDP growth slowed to 2.2 percent at an annual rate in the second quarter of 2026, after reaching 2.5 percent in the first quarter, as business investment, stronger private consumption, and exports helped offset softer government spending and the drag from imports. Euro area activity rebounded from a flat GDP in the first quarter to an expansion of 2.6 percent in the second quarter. This expansion was driven mainly by a very strong recovery in Ireland and continued momentum in Spain, while growth was broadly stable elsewhere. Strong technology-related impulses continued in parts of Asia, as global trade flows remained robust. Japan's second-quarter GDP release was better than the IMF staff had expected. India's growth remained robust, underpinned by domestic demand and services, despite higher oil prices. China's second-quarter performance was weaker than expected, at 4.3 percent year over year. Sluggishness in domestic consumption and weakening investment amid continued property sector strains were only partly offset by robust export performance.

Global headline inflation rose in August, as energy prices bounced back following the short-lived ceasefire in the Middle East. Core inflation remained moderate, even though core-goods prices in some advanced economies started to reflect the rapidly rising cost of memory chips. US core inflation increased, mainly driven by a rebound in travel services prices.

Notwithstanding volatility driven by war and AI news, global financial conditions remain accommodative from a historical point of view (see the October 2026 *Global Financial Stability Report*). This, however, reflects strong equity valuations offsetting tightening elsewhere. A resurgence of inflation, the expected path for short-term policy rates, and concerns about fiscal sustainability have raised sovereign bond yields in many jurisdictions, with increased competition from qualified corporate borrowers—in particular, technology firms looking to finance AI investments—and actual and signaled scaling back of purchases by price-insensitive public sector buyers possibly adding to pressures. Advanced economy benchmark rates have climbed to multidecade highs, pushing up borrowing costs also for emerging markets. Exchange rates have experienced high volatility, especially those in Asia, prompting intervention by authorities, including a joint Japan-US operation.

Fiscal policy remains loose. Public debt is high and rising; deficits are historically large in several major economies. With the conflict dragging on, many countries have resorted to a variety of measures to protect households and firms from the fallout in commodity markets, not always following principles for designing such measures to be targeted, temporary, and nondistortionary. Windfalls in energy exporters outside the conflict zone and countries benefiting from the technology upturn have triggered supplemental spending rather than being saved. Monetary policy has

been cautious, weighing signals on domestic momentum against the possibility of a persistent inflationary impact from the war.

The Sources of Resilience

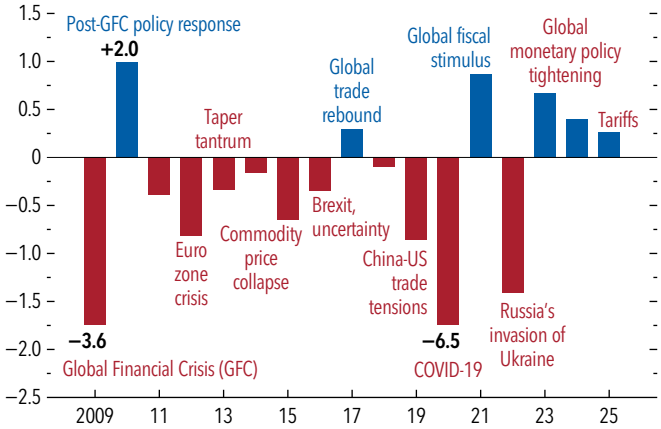
In the past few years, the global economy has exhibited a remarkable capacity to absorb shocks. Coming out of the Great Recession, *World Economic Outlook* (WEO) forecasts tended to overestimate global growth (Figure 1.2). The COVID-19 pandemic in 2020 and Russia's invasion of Ukraine in 2022 were unexpected events that led to large negative forecast errors. Other misses in either direction were in line with the sign of the shock the global economy faced at the time. Since 2023, WEO forecasts have underestimated global growth three years in a row—although the errors were small, especially considering the size of the recent shocks—raising questions about whether cyclical momentum has been stronger than foreseen or repeated shocks have ushered in structural improvements in economies' ability to cope with and adapt to new conditions.

Unpacking the drivers of the 2023–25 resilience points to a combination of circumstantial and institutional factors as well as offsetting forces. During the aggressive global monetary policy tightening, the global economy defied the historical experience of hard landings, thanks to the household and corporate cash cushions created by the massive fiscal response to the pandemic (see Chapter 1 of the April 2024 WEO); the long period of low interest rates preceding the pandemic that facilitated shifts toward longer-maturity, fixed-rate private debt (see Chapter 2 of the April 2024 WEO); the hard-earned credibility of central banks keeping inflation expectations anchored; and other improvements in monetary, fiscal, and financial policy frameworks (see Chapter 2 of the October 2025 WEO). In 2025, scaling back of originally announced tariff rates, adaptability of the private sector to higher trade barriers, accommodative financial conditions, fiscal stimulus, and a marked pickup in AI-related technology investment all contributed to the observed resilience (see Box 1.1 of the April 2026 WEO).

Supply Flexibility and Reduced Dependence on Oil

Similar dynamics have been in play following the outbreak of war in the Middle East. Although oil prices almost doubled in the early months of the conflict, they later settled at levels only 20 percent to 40 percent higher than those before the conflict, reflecting market assessment that a resolution would follow soon enough. In addition, resilience of activity in the first half of 2026 in some economies reflected a combination of the flexible supply adjustment, a drawdown of inventories, lower energy intensity than in previous decades, and the ability of households and firms to adapt to higher energy prices. The closure of the Strait of Hormuz resulted in a significant supply shock, disrupting a transit route through which about 20 million barrels of oil, or roughly a quarter of the world's maritime oil trade, flowed each day prior to the start of the war. However, the flexibility of supply limited how much volume was lost. Persian Gulf producers redirected some supply to other ports, while production outside the Gulf rose by 2 million barrels a day. The release of global inventories supplied a further 4 million barrels. Balancing of the market at the observed higher prices still implied demand compression of about 5 million barrels a day during the second quarter of 2026. China, the world's largest oil importer, helped absorb some of the adjustment in global oil markets by reducing the volume of its crude oil imports by 23 percent between March and June 2026 relative to the same period a year earlier,

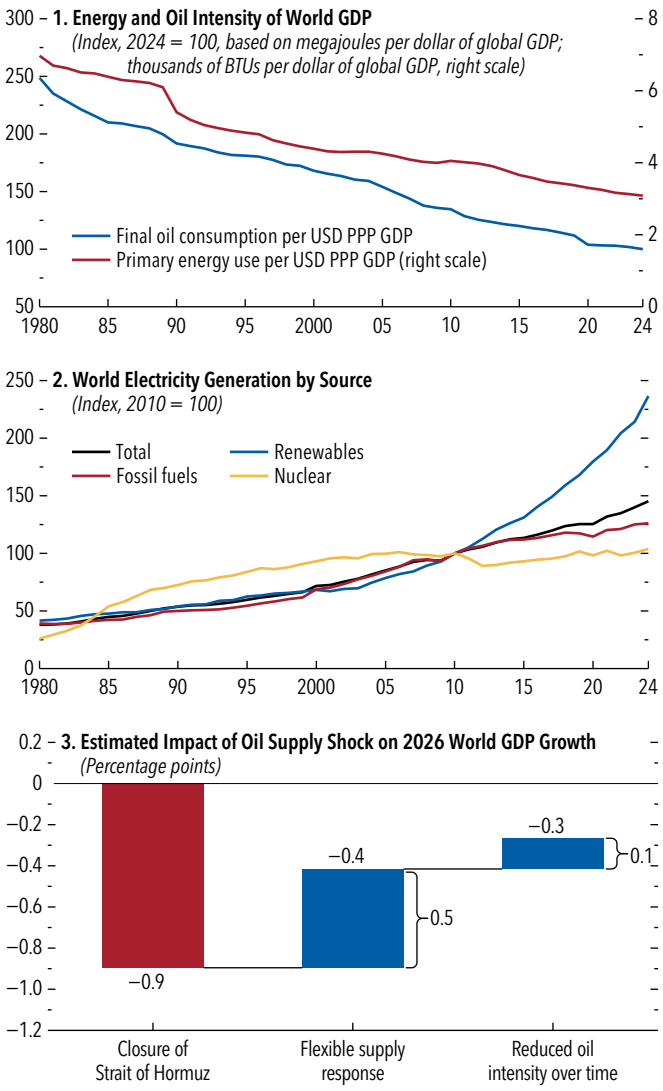
Figure 1.2. WEO Forecast versus Actual Outturn
(Percentage points, positive = better than expected)



Source: IMF staff calculations.

Note: The figure presents actual outturns minus one-year-ahead GDP growth forecasts from past October WEO reports. The *x*-axis labels denote years of outturns which are retrieved from one-year-ahead October WEO reports. For example, 2009 value is calculated using the 2009 forecast in October 2008 WEO and the 2009 outturn in October 2010 WEO. Blue labels denote positive shocks, and red labels denote negative shocks. WEO = *World Economic Outlook*.

Figure 1.3. Resilience to the Energy Shock



Sources: US Energy Information Administration (August 2026); and IMF staff calculations.

Note: In panel 3, the impact on global growth is estimated using a reduction in oil production in the IMF's Flexible System of Global Models. The impact of a reduction in the oil intensity of growth is estimated using simulations from the IMF's Global Dynamic Network Model (see Online Annex 2.4 of the October 2024 *World Economic Outlook* for details). BTU = British thermal unit; PPP = purchasing power parity; USD = US dollar.

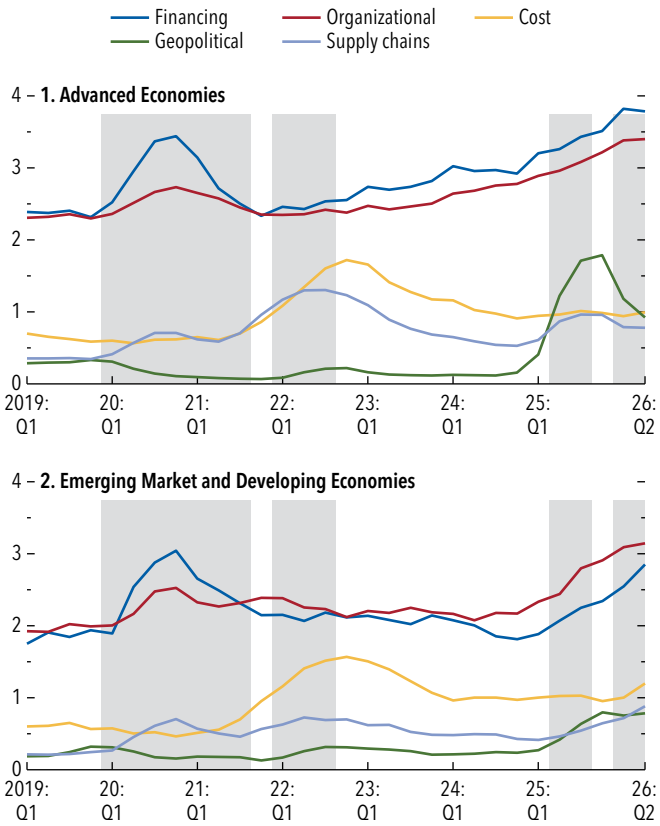
a reduction driven by both withdrawals from its large domestic inventories and a compression in its refined-oil consumption. At the same time, the dependence of the global economy on oil—while still significant—has fallen steadily over time (Figure 1.3, panel 1). This reflects greater energy efficiency and a shrinking share of energy-intensive activities in the economy—at least until recently—as well as a diversification of energy sources away from fossil fuels, driven primarily by electrification and greener electricity production (Figure 1.3, panel 2). Over the past two decades, energy usage per dollar of global GDP has fallen by 32 percent. Furthermore, since 2010, electricity generated by renewable sources has surged, while fossil fuel generation has stagnated, with renewables accounting for 60 percent of the total increase in electricity production. Reduced dependence on oil has likely lowered the sensitivity of growth to the oil price compared with past large shocks. It is unclear, however, whether the trend toward renewable electricity production will continue, with the demand pressures coming from AI data centers.

A closure of the Strait of Hormuz without the flexibility of supply responses would have resulted in a severe increase in oil prices and reduction in growth. Model-based estimates suggest that the initial loss in oil supply from the closure would have increased oil prices to an average of about $110 a barrel for the year, reducing global growth in 2026 by 0.9 percentage point (Figure 1.3, panel 3). The flexibility of supply, however—including rerouted production in the Gulf, increased production elsewhere, and drawdown of inventories—is estimated to have lowered the implied increase in oil prices to an average of $85 a barrel for the year, reducing the hit to global growth by 0.5 percentage point to 0.4 percentage point. Furthermore, the 20 percent reduction in the oil intensity of world GDP experienced since the mid-2010s has likely reduced the estimated impact of higher oil prices on global growth in 2026 by an additional 0.1 percentage point, bringing the net toll to 0.3 percentage point.

An Agile Private Sector

Private firms and producers not only absorb shocks through profit margins and short-term workarounds in inventory management but also adapt to geopolitical risks and policy shifts through a combination of engagement and adaptation strategies (de Souza and others 2025; Andrews, Puhr, and Knill 2026). Firms engage with policymakers and regulators to shape or anticipate policy outcomes while simultaneously adapting by diversifying supply chains, regionalizing production, restructuring ownership, searching for alternative markets, and investing in greater operational flexibility (Yang 2026). Firms respond not only to formal measures such as tariffs, sanctions, export controls, and investment restrictions, but also to informal pressure points, including policy uncertainty and changing stakeholder expectations.

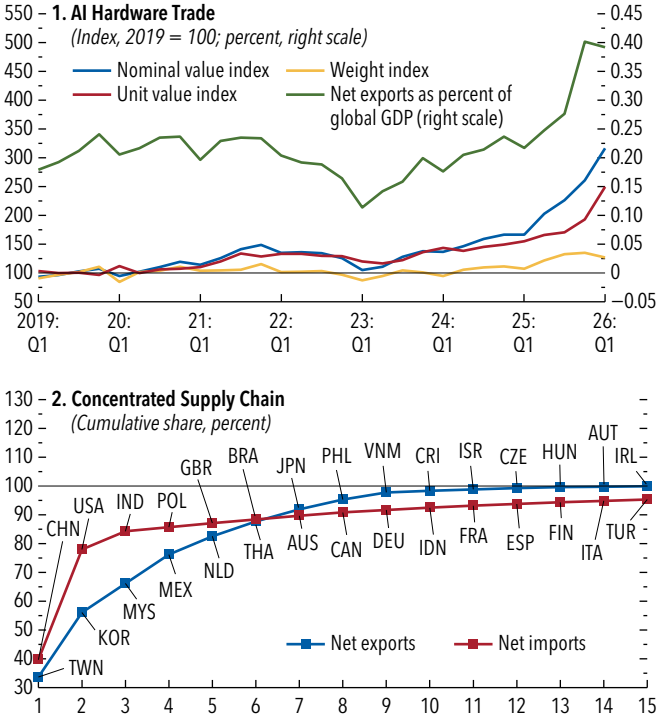
Figure 1.4. Corporate Talk about Resilience and Adaptation
(Index, three-quarter moving average)



Sources: London Stock Exchange Group transcripts; and IMF staff calculations.

Note: The figure shows indices of references to resilience or adaptation and their subcomponents in companies' earnings calls. The indices are computed as the number of sentences containing terms associated with "resilience" or "adaptation" and their respective subcomponents, based on a comprehensive dictionary, divided by the total number of sentences in earnings call transcripts. Shaded areas indicate periods associated with (from left to right) the pandemic, the energy shock, the tariff shock, and the war in the Middle East.

Figure 1.5. AI Trade: Boom, Concentration, and Magnitude



Sources: Trade Data Monitor; and IMF staff calculations.

Note: "AI Hardware" basket includes products classified under Harmonized System codes 847150, 847170, 847180, 847330, 848610, 848620, 848640, 848690, 854231, and 854232. In panel 1, "Net exports" are the sum of trade balances across economies with a surplus in the AI hardware basket. "Unit values" are measured in US dollars per kilogram, and the unit value and weight indices use reporting data from CHN, CZE, DEU, FRA, GBR, HUN, IRL, KOR, NLD, PHL, POL, and TWN. In panel 2, each economy's 2025 net exports (net imports) are expressed as a percentage of the sum of the 2025 trade balances across all economies with a surplus (deficit) in the AI hardware basket. *X*-axis labels show the respective rank by this share in descending order. The figure uses own-reported data, except for MEX, MYS, THA, and VNM, for which it uses partner-reported data. HKG and SGP are excluded. Data labels and the economy list are based on International Organization for Standardization (ISO) codes. AI = artificial intelligence.

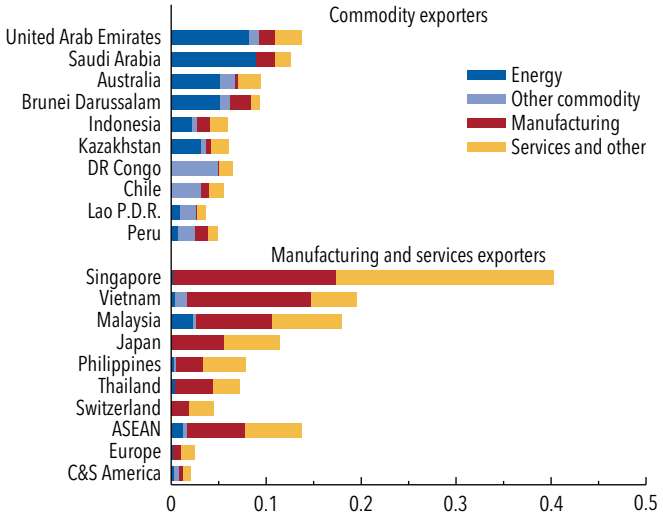
These behaviors have been at work in recent years. Discussions of resilience and adaptation strategies have been on the rise in corporate earnings calls (Figure 1.4). Firms have redirected a meaningful share of trade toward alternative destinations, helping cushion the aggregate trade impact of the bilateral China-US tariff shock (Box 1.1; see also Antràs and others 2026). In response to increasing fertilizer prices because of the war, US farmers have shifted from high-cost nitrogen-intensive grains like corn to less demanding or more profitable crops like soybeans, and they have reduced acreage or fertilizer application, although farmers in poorer countries have much more limited room to maneuver (Arita and others 2026; Kauffman and Kreitman 2026; USDA 2026).

An Offsetting Force

The AI-driven technology momentum provides an important offset to the geopolitical headwinds. In the short term, this comes in the form of increased exports and through higher investment and capital deepening. In the longer term, broader AI adoption could potentially change productivity profiles.

Net trade in AI hardware has increased exponentially as a share of world GDP, with the change driven by price effects rather than volumes (Figure 1.5, panel 1). But the AI momentum is unlikely to lift all economies equally. The global AI landscape remains highly concentrated in the upstream (computation hardware required for AI training and inference) as well as in the downstream (the development and

Figure 1.6. Value-Added Spillovers from Technology Exports from Korea and Taiwan Province of China
(Percent of domestic value added)



Sources: Organisation for Economic Co-operation and Development, Trade in Value-Added (TiVA) database (2022 data, 2025 edition); and IMF staff calculations.

Note: The figure shows the value-added impact through the value chain resulting from a 40 percent increase in computer, electronics, and optical products exports from Korea and Taiwan Province of China. The estimates assume no change in prices. ASEAN = Association of Southeast Asian Nations; C&S America = Central and South America; DR Congo = Democratic Republic of the Congo; Lao P.D.R. = Lao People's Democratic Republic.

running of frontier AI models). In the upstream, only a few economies produce advanced semiconductors at scale, with Taiwan Province of China and Korea sourcing 62 percent of the net trade in computing hardware related to AI (Figure 1.5, panel 2). Given the structure of supply chains for technology exports from these two economies, a handful of commodity exporters and other manufacturing hubs in east Asia are likely to see spillovers from this activity, although for Gulf oil exporters this will depend critically on the normalization of maritime trade (Figure 1.6). Similarly, the need for energy, core inputs, infrastructure, auxiliary services, and proprietary knowledge has concentrated the building of data centers and the training and running of AI models in just a few countries. China and the United States are responsible for more than 75 percent of the net imports of AI-related computing hardware in 2025 and 57 percent of newly built data centers since 2024.

In addition to highly concentrated short-term effects on demand, AI will also likely bring in supply effects, but it remains unclear when and by how much. There is a gap between studies showing large productivity gains for specific tasks and the relatively modest effects observed in economy-wide data (Imas 2026). Randomized and field experiments consistently find that generative AI improves performance in writing, coding, customer service, consulting, advertising, and health care. For example, customer support productivity is reported to increase by 14–15 percent, with gains of 30–35 percent for less experienced workers (Brynjolfsson, Li, and Raymond 2025), and software development output by 26 percent (Cui and others 2026). However, the micro-level evidence is not uniformly positive. Experienced open-source developers can become 19 percent slower when using AI (Becker and others 2025), and AI can impair learning and skill acquisition (Shen and Tamkin 2026). A jagged frontier featuring strong gains when tasks fit AI capabilities but worse outcomes when users rely too much on AI outside its competence range could reconcile the mixed findings (Dell'Acqua and others 2023). At the macro level, large surveys and administrative data show widespread adoption but limited effects on wages, hours worked, employment, or measured productivity (Humlum and Vestergaard 2026; Yotzov and others 2026). Yet recent revisions to US employment and activity data—downward revisions to total payroll growth with robust GDP growth—may be an early indication of an AI-driven boost showing up in macroeconomic statistics (Brynjolfsson 2026). It may be that adoption frictions, inadequate training, organizational bottlenecks, and investments in intangible capital delay the translation of task-level gains into aggregate productivity, in line with the idea of a "productivity J-curve" (Brynjolfsson, Rock, and Syverson 2021).

An Enabling Push

Financial markets have largely remained calm despite a succession of large negative shocks, from geopolitical conflict and energy disruptions to trade uncertainty and fiscal pressures. This resilience may partly reflect AI-related exuberance, but it could also point to markets' limited ability to price geopolitical tail risks (see Chapter 2 of the April 2025 *Global Financial Stability Report*) or to beliefs that policy support will cushion adverse outcomes. That said, fundamentals may have also played a role: Corporate earnings have been strong, and emerging markets have proved relatively resilient during recent shocks. Whatever the source, accommodative financial conditions have helped sustain activity in key jurisdictions, especially those benefiting from the technology cycle, with positive spillovers through investment, trade, wealth effects, and capital flows.

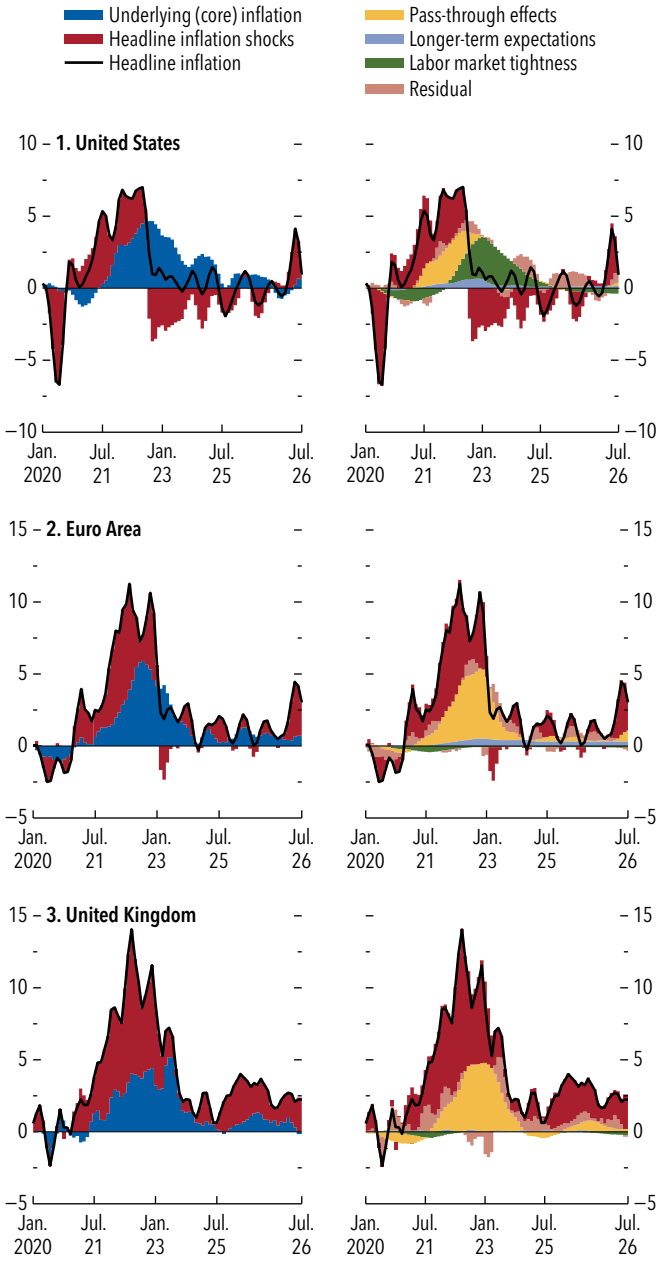
The Limits of Resilience

While supporting activity, the AI investment boom is contributing to inflationary pressures and financial fragility. This is a large, front-loaded demand shock exposing capacity constraints in several sectors at once. Spending on semiconductors, data centers, cloud infrastructure, electricity generation, grid connections, cooling systems, and specialized real estate raises demand for capital goods, construction services, land, energy, and skilled labor before any broad productivity gains have materialized. While spillovers to core inflation in major economies appear to be limited so far (Figure 1.7), in economies already operating near capacity, stronger demand can soon push up prices more broadly by, among other things, strengthening the pass-through effects from headline to core inflation. In the meantime, the rise in technology stocks has supported aggregate demand through wealth effects, but at the cost of more stretched equity valuations and greater market concentration, particularly among AI-related firms (April 2026 *Global Financial Stability Report*). The effects of favorable corporate valuations currently appear to outweigh those of higher interest rates, but sustainability of these conditions is not guaranteed.

The margins of adjustment are narrowing, and might have costs that will become apparent only with time. In energy markets, escalations in the Red Sea and the Black Sea threaten the margins provided by rerouting and non-Gulf production, as the depletion of global inventories continues, pushing inventories closer to stress levels that could lead to nonlinear price adjustments (see the Commodity Special Feature). Trouble in energy markets could also endanger the AI-led impetus, given the heavy energy needs of much of the infrastructure and operations (see the Commodity Special Feature in the April 2025 WEO). In goods trade, the reorientation of flows has mitigated the damage from higher trade barriers in the short term, but duplication and higher operating costs may reduce production efficiency in the long term.

More generally, the resilience of the global economy to the large shocks of the past few years has been closely linked to the use of fiscal space. Historical experience since the late 19th century shows that global public debt tends to rise following major shocks (Figure 1.8, panel 1). Consistent with this pattern, primary deficits during 2020–25 in the largest advanced and emerging market economies remained, on average, substantially larger than before the pandemic (Figure 1.8, panel 2). In most of these economies, with India an exception, stabilizing debt-to-GDP ratios at 2025 levels would require greater fiscal consolidation than currently envisaged under existing policies. At the same time, governments are finding it more challenging to refinance debt, with real long-term interest rates rising and

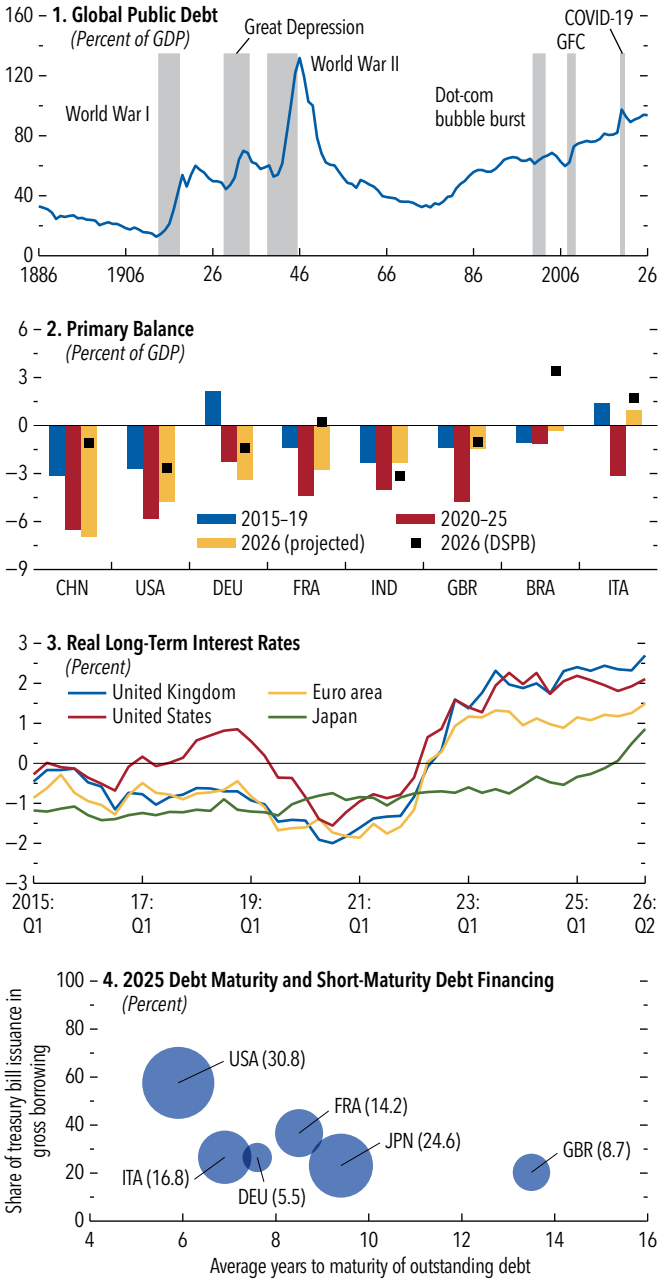
Figure 1.7. Decomposition of Inflation Drivers
(Percentage points; three-month annualized inflation; deviation from December 2019)



Source: IMF staff calculations.

Note: "Underlying (core) inflation" denotes weighted median inflation. "Headline inflation shocks" reflect large relative price changes across industries. "Pass-through effects" measure the transmission of those shocks to core inflation. "Labor market tightness" captures the contribution of the vacancy-to-unemployment ratio. Methodology is as in Dao and others (2024); and Ball, Leigh, and Mishra (2022).

Figure 1.8. Fiscal Policy



Sources: Consensus Economics; Eurostat; Organisation for Economic Co-operation and Development; and IMF staff calculations.

Note: In panel 1, global public debt is calculated as a purchasing-power-parity-GDP-weighted average of economy-level debt ratios. In panel 2, "debt-stabilizing primary balance" (DSPB) is the primary balance required to stabilize the debt-to-GDP ratio, given projected effective interest rates and GDP growth and with stock-flow adjustments accounted for. In panel 3, the real long-term interest rate is calculated as the nominal yield on 10-year government bonds minus 10-year-ahead expected inflation from Consensus Economics. Bubble sizes and labels in panel 4 indicate countries' refinancing requirements as a share of GDP. Data labels use International Organization for Standardization (ISO) codes. GFC = global financial crisis.

debt maturity shortening (Figure 1.8, panels 3 and 4). This further exposes governments to refinancing risks and fluctuations in short-term interest rates (see the April 2026 *Fiscal Monitor*), especially amid increasing pressures for spending, on defense, among other things (see Chapter 2 of the April 2026 WEO).

The Outlook: Divided amid Crosscurrents

Global economic prospects continue to be uneven, in both the short and the long term.

Global Assumptions

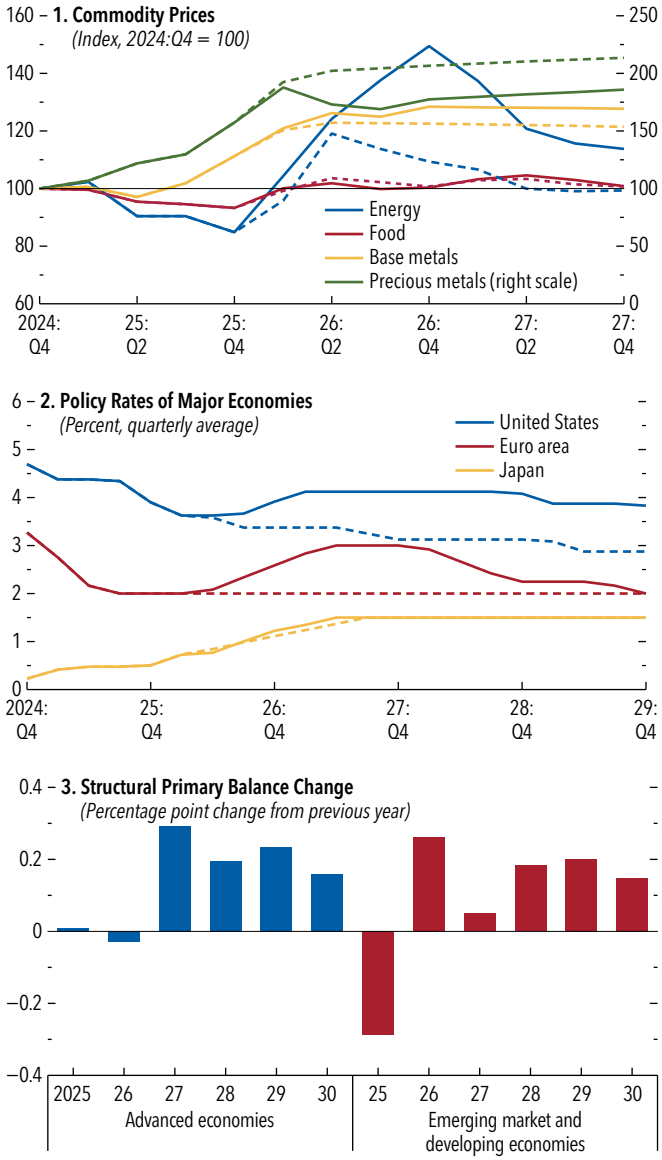
The baseline forecasts are predicated on several assumptions regarding the path of the Middle East war and the technology upturn, which are embedded in projections for global commodity prices, interest rates, and fiscal and trade policies (Figure 1.9).

The reopening of the Strait of Hormuz is assumed to resume in March 2027, with a return to prewar conditions broadly by October 2027. This assumption implies a gradual restoration of production, shipping, insurance, and payment arrangements rather than immediate normalization of energy flows. Severe shortages would generally be avoided through further inventory drawdowns, expanded use of alternative routes, and some additional supply from producers outside the conflict zone, but shortages are assumed to arise in some emerging market and developing economies that do not have stocks available and encounter strong competition from wealthier counterparts for available cargoes. Policy and geopolitical uncertainty are assumed to remain elevated through 2027.

Meanwhile, the AI-driven global technology cycle is assumed to moderate. Productivity growth is generally assumed to be steady and, in countries where it has seen a recent uptick, to converge gradually to approximately its long-term trend. There is no assumption of an additional exogenous boost to productivity growth from AI adoption over the forecast horizon.

- *Commodity price* projections are based on market pricing as of September 21, which is consistent with the assumed timeline for the war and with a futures curve that still embeds geopolitical risk premiums through the end of 2026 and into the first half of 2027. Energy prices are projected to remain higher than before the war. The average petroleum spot price index in 2026 is projected at $96 a barrel, 16 percent higher than assumed under the reference

Figure 1.9. Global Assumptions



Source: IMF staff calculations.

Note: In panels 1 and 2, solid lines denote assumptions from the October 2026 *World Economic Outlook* (WEO) and dashed lines those from the April 2026 WEO. In panel 3, year-over-year changes from the latest WEO are calculated by using general government structural primary balance as a percent of potential GDP. The "structural primary balance" is the cyclically adjusted balance excluding net interest payments and corrected for a broader range of noncyclical factors such as changes in asset and commodity prices.

forecast in the April 2026 WEO, and natural gas prices, measured using Title Transfer Facility futures, are projected at $20 a million British thermal units, or roughly 36 percent higher than the April reference forecast price. This corresponds to an increase of 41 percent in crude oil prices and 48 percent in natural gas prices in 2026 relative to those in 2025. Fertilizer prices are projected to rise by 10 percent in 2026. Reflecting higher energy and fertilizer costs and more expensive transport and insurance, food prices are expected to increase by 5 percent. Prices paid for commodities in different countries may deviate substantially from global benchmarks, depending on contract structures, fuel taxes and subsidies, shipping distances, access to inventories, sanctions, and the ability of governments and firms to secure long-term supply arrangements.

- *Monetary policy* is expected to be less supportive than assumed in April, given visible inflationary pressures combined with a muted slowdown in activity. Policy rates in the euro area and the United States are projected to increase in ex ante real terms, whereas the policy rate in Japan is expected to gradually move toward a neutral setting.
- *Fiscal policy* in advanced economies is expected to be broadly neutral in 2026 before tightening later. In emerging market and developing economies, fiscal policy is expected to tighten gradually. Public debt is projected to continue to climb: in advanced economies, from 108 percent of GDP in 2025 to 115 percent of GDP in 2031, and in emerging market and developing economies from 74 percent of GDP in 2025 to 84 percent of GDP in 2031.
- Current *trade policies* are assumed to be maintained through the forecast horizon, including measures presented as temporary. Both the effective US tariff rate underlying the forecast and the tariff rate imposed by the rest of the world on US imports are slightly higher than those in the April 2026 WEO. This reflects the expiring tariffs under Section 122 of the US Trade Act of 1974 being largely replaced by the introduction of new tariffs under Section 301 of that act and the introduction of additional tariffs between the United States and a few of its trading partners.

Growth Forecast

Global growth is projected to decelerate from 3.5 percent in 2025 to 3.1 percent in 2026 before recovering to 3.4 percent in 2027, unchanged from that in April for 2026 and revised upward by 0.2 percentage point for 2027 (Tables 1.1 and 1.2). But the stable aggregate masks large cross-country offsetting movements and a greater concentration of global growth: 32 economies now account for 95 percent of global growth, compared with 54 economies in April, while downward revisions have

Table 1.1. Overview of the *World Economic Outlook* Baseline

(Percent change, unless noted otherwise)

		Projections		Difference from July 2026 WEO *Update*[1]		Difference from April 2026 WEO[1]	
	2025	2026	2027	2026	2027	2026	2027
World Output	**3.5**	**3.1**	**3.4**	**0.1**	**0.0**	**0.0**	**0.2**
Advanced Economies	**2.0**	**2.1**	**1.8**	**0.4**	**0.0**	**0.3**	**0.1**
United States	2.3	2.3	2.3	0.0	0.1	0.0	0.2
Euro Area	1.2	1.1	1.2	0.2	0.0	0.0	0.0
Germany	0.2	1.3	1.1	0.6	0.1	0.5	–0.1
France	0.9	0.4	0.7	–0.2	–0.2	–0.5	–0.2
Italy[2]	0.5	0.8	0.6	0.3	0.1	0.3	0.1
Spain	2.6	2.5	1.8	0.4	0.0	0.4	0.0
Japan	1.2	0.7	0.7	0.1	0.0	0.0	0.1
United Kingdom	1.2	1.3	1.2	0.3	–0.1	0.5	–0.1
Canada	1.9	1.1	1.7	0.0	0.0	–0.4	–0.2
Other Advanced Economies[3]	3.1	4.2	2.7	1.4	0.4	1.6	0.5
Emerging Market and Developing Economies	**4.5**	**3.7**	**4.4**	**–0.1**	**–0.1**	**–0.2**	**0.2**
Emerging and Developing Asia	5.6	5.1	4.9	0.1	0.1	0.2	0.1
China	5.0	4.5	4.0	–0.1	–0.1	0.1	0.0
India[4]	7.8	7.0	7.0	0.6	0.3	0.5	0.5
Emerging and Developing Europe	2.0	1.7	2.1	–0.2	0.0	–0.3	0.0
Russia	1.0	0.9	0.9	–0.2	–0.2	–0.2	–0.2
Latin America and the Caribbean	2.5	2.3	2.5	–0.1	–0.2	0.0	–0.2
Brazil	2.3	2.2	1.9	–0.2	–0.3	0.3	–0.1
Mexico	0.5	1.5	1.8	0.3	–0.1	–0.1	–0.4
Middle East and Central Asia	3.7	–0.3	6.3	–1.0	–0.2	–2.2	1.7
Saudi Arabia	4.6	–3.3	7.9	–5.0	2.4	–6.4	3.4
Sub-Saharan Africa	4.5	4.5	4.5	0.2	0.0	0.2	0.1
Nigeria	4.0	4.2	4.3	0.1	0.0	0.1	0.0
South Africa	1.1	1.0	1.3	–0.1	0.0	0.0	0.0
Memorandum							
World Growth Based on Market Exchange Rates	2.9	2.5	2.8	0.1	0.0	–0.1	0.2
European Union	1.5	1.4	1.4	0.2	0.0	0.1	0.0
ASEAN-5[5]	4.5	4.4	4.3	0.3	0.0	0.3	–0.1
Middle East and North Africa	3.3	–2.0	7.0	–1.5	–0.3	–3.1	2.2
Emerging Market and Middle-Income Economies	4.5	3.6	4.4	–0.1	0.0	–0.2	0.3
Low-Income Developing Countries	4.8	4.8	4.8	0.0	–0.1	0.0	–0.1
World Trade Volume (goods and services)	**5.0**	**4.6**	**4.7**	**1.1**	**0.4**	**1.8**	**0.9**
Imports							
Advanced Economies	4.7	5.0	4.2	1.5	0.8	2.4	1.1
Emerging Market and Developing Economies	5.4	4.0	5.1	0.4	–0.2	1.3	0.2
Exports							
Advanced Economies	3.6	5.1	3.7	1.8	0.5	2.6	1.0
Emerging Market and Developing Economies	7.1	3.6	6.6	0.0	0.2	0.1	1.2
Commodity Prices							
Oil[6]	–14.4	41.3	–8.7	9.5	3.1	19.9	–1.1
Nonfuel (average based on world commodity import weights)	9.9	17.3	2.6	–1.3	1.3	–4.4	0.7
World Consumer Prices[7]	**4.1**	**4.7**	**4.1**	**0.0**	**0.2**	**0.3**	**0.4**
Advanced Economies[8]	2.5	3.1	2.7	0.1	0.3	0.3	0.5
Emerging Market and Developing Economies[7]	5.2	5.7	5.1	–0.1	0.3	0.2	0.5

Source: IMF staff estimates.

Note: Real effective exchange rates are assumed to remain constant at the levels prevailing from July 31, 2026, to August 28, 2026. Economies are listed on the basis of economic size. The aggregated quarterly data are seasonally adjusted. WEO = *World Economic Outlook*.

[1] Difference based on rounded figures for the current, July 2026 WEO *Update*, and April 2026 WEO forecasts.

[2] See the country-specific note for Italy in the "Country Notes" section of the Online Statistical Appendix.

[3] Excludes the Group of Seven (Canada, France, Germany, Italy, Japan, United Kingdom, United States) and euro area countries.

[4] For India, data and projections are presented on a fiscal year (FY) basis, with FY 2025/26 (starting in April 2025) shown in the 2025 column. India's growth projections are 7.4 percent for 2026 and 7.0 percent for 2027 on a calendar year basis.

[5] Indonesia, Malaysia, the Philippines, Singapore, and Thailand.

[6] Simple average of prices of UK Brent, Dubai Fateh, and West Texas Intermediate crude oil. The average price of oil in US dollars a barrel was $67.74 in 2025; the assumed price, based on futures markets, is $95.74 in 2026 and $87.39 in 2027.

[7] Excludes Venezuela. See the country-specific note for Venezuela in the "Country Notes" section of the Online Statistical Appendix.

[8] The assumed inflation rates for 2026 and 2027, respectively, are as follows: 3.1 percent and 2.8 percent for the euro area, 2.0 percent and 2.6 percent for Japan, and 3.6 percent and 2.8 percent for the United States.

Table 1.1. Overview of the *World Economic Outlook* Baseline *(continued)*
(Percent change, unless noted otherwise)

	Q4 over Q4[9]						
		Projections		Difference from July 2026 WEO *Update*[1]		Difference from April 2026 WEO[1]	
	2025	2026	2027	2026	2027	2026	2027
World Output	**3.4**	**3.1**	**3.3**	**0.2**	**–0.1**	**0.2**	**–0.2**
Advanced Economies	**1.9**	**2.0**	**1.9**	**0.4**	**0.0**	**0.5**	**0.0**
United States	2.0	2.5	2.1	0.2	0.0	0.3	0.0
Euro Area	1.1	1.4	1.2	0.4	–0.3	0.2	–0.3
Germany	0.3	1.3	0.8	0.8	–0.4	0.6	–0.5
France	1.1	0.1	0.9	–0.3	–0.1	–0.5	–0.1
Italy[2]	0.9	0.5	0.9	0.4	–0.1	0.7	–0.9
Spain	2.5	2.2	1.7	0.7	–0.5	0.6	–0.5
Japan	0.5	1.0	0.9	–0.1	0.1	0.0	0.2
United Kingdom	0.8	1.4	1.5	0.5	–0.6	0.4	–0.4
Canada	0.7	2.1	1.2	0.0	0.2	–0.2	–0.3
Other Advanced Economies[3]	4.3	2.8	3.2	1.2	0.5	1.3	0.7
Emerging Market and Developing Economies	**4.6**	**3.9**	**4.3**	**0.0**	**–0.2**	**–0.1**	**–0.3**
Emerging and Developing Asia	5.7	5.0	4.8	0.5	–0.6	0.3	–0.3
China	4.6	4.3	4.0	0.3	–0.9	0.4	–0.6
India[4]	8.6	6.9	7.1	1.1	0.3	–0.2	0.6
Emerging and Developing Europe	1.7	1.8	2.6	–0.5	0.7	0.0	0.4
Russia	0.7	0.9	0.7	–1.0	0.6	0.3	0.1
Latin America and the Caribbean	2.2	2.2	2.5	–0.8	0.3	–0.7	0.2
Brazil	2.0	2.3	2.4	–0.6	0.3	–0.3	0.5
Mexico	1.6	1.5	1.8	0.0	0.1	0.0	–0.6
Middle East and Central Asia	. . .	. . .	. . .	. . .	. . .	. . .	. . .
Saudi Arabia	5.2	–6.2	9.1	–8.0	3.5	–9.3	4.6
Sub-Saharan Africa	. . .	. . .	. . .	. . .	. . .	. . .	. . .
Nigeria	3.9	4.2	4.4	0.4	–0.1	0.4	–0.1
South Africa	1.5	0.6	2.2	0.1	0.2	–0.1	0.7
Memorandum							
World Growth Based on Market Exchange Rates	2.7	2.6	2.7	0.1	0.0	0.2	0.0
European Union	1.3	1.4	1.5	0.2	–0.1	0.3	–0.3
ASEAN-5[5]	4.7	4.1	4.3	0.6	–0.6	0.4	–0.4
Middle East and North Africa	. . .	. . .	. . .	. . .	. . .	. . .	. . .
Emerging Market and Middle-Income Economies	4.6	3.9	4.3	0.0	–0.2	0.0	0.0
Low-Income Developing Countries	. . .	. . .	. . .	. . .	. . .	. . .	. . .
Commodity Prices							
Oil[6]	–15.1	73.9	–24.6	35.4	–13.4	44.7	–17.9
Nonfuel (average based on world commodity import weights)	14.4	10.6	1.6	–0.2	0.3	–4.0	0.5
World Consumer Prices[7]	**3.5**	**4.4**	**3.1**	**0.1**	**0.2**	**0.5**	**0.1**
Advanced Economies[8]	2.5	3.6	2.1	0.3	0.1	0.7	0.1
Emerging Market and Developing Economies[7]	4.2	5.1	3.8	0.0	0.2	0.5	0.1

[9] For world output, the quarterly estimates and projections account for approximately 90 percent of annual world output at purchasing-power-parity weights. For emerging market and developing economies, the quarterly estimates and projections account for approximately 85 percent of annual emerging market and developing economies' output at purchasing-power-parity weights.

become more widespread, with about 47 percent of economies downgraded. The global economy is not simply slowing or accelerating; rather, growth is being reallocated across countries according to their exposure to the war-induced supply shock and AI-related demand strength.

Growth Forecast for Advanced Economies

Growth in *advanced economies* is expected to slightly rise from 2.0 percent in 2025 to 2.1 percent in 2026 before decelerating to 1.8 percent in 2027. Outcomes remain uneven within the group: Net energy exporters are partly cushioned by favorable terms-of-trade effects, whereas net energy importers experience a more pronounced drag from higher energy prices unless their economies are lifted by technology-related activity.

- In the *United States*, growth is projected at 2.3 percent in 2026 and in 2027, unchanged from April for 2026 and an upward revision of 0.2 percentage point for 2027. Activity is supported by robust private consumption, fiscal policy,

Table 1.2. Overview of the *World Economic Outlook* Baseline at Market Exchange Rate Weights
(Percent change)

		Projections		Difference from July 2026 WEO *Update*[1]		Difference from April 2026 WEO[1]	
	2025	2026	2027	2026	2027	2026	2027
World Output	**2.9**	**2.5**	**2.8**	**0.1**	**0.0**	**–0.1**	**0.2**
Advanced Economies	**1.9**	**2.0**	**1.9**	**0.3**	**0.1**	**0.2**	**0.2**
Emerging Market and Developing Economies	**4.3**	**3.3**	**4.2**	**–0.1**	**–0.1**	**–0.4**	**0.3**
Emerging and Developing Asia	5.3	4.8	4.5	0.0	0.0	0.1	0.0
Emerging and Developing Europe	2.1	1.8	2.2	–0.1	0.0	–0.3	0.0
Latin America and the Caribbean	2.3	2.2	2.4	–0.1	–0.2	–0.1	–0.2
Middle East and Central Asia	3.8	–2.2	7.2	–1.4	–0.5	–3.8	2.4
Sub-Saharan Africa	4.5	4.4	4.3	0.3	0.1	0.3	0.1
Memorandum							
European Union	1.4	1.3	1.4	0.2	0.1	0.0	0.0
Middle East and North Africa	3.6	–3.8	8.0	–1.7	–0.7	–4.8	3.1
Emerging Market and Middle-Income Economies	4.3	3.2	4.1	–0.2	–0.1	–0.4	0.2
Low-Income Developing Countries	4.9	4.8	4.8	0.0	–0.1	0.0	–0.1

Source: IMF staff estimates.

Note: The aggregate growth rates are calculated as a weighted average, in which a moving average of nominal GDP in US dollars for the preceding three years is used as the weight. WEO = *World Economic Outlook*.

[1] Difference based on rounded figures for the current, July 2026 WEO *Update*, and April 2026 WEO forecasts.

accommodative financial conditions, and continued technology-related business investment (net of its large import content) and productivity strength, with only limited direct impact from the war given the country's net energy exporter status.

- In the *euro area*, growth is projected at 1.1 percent in 2026 and 1.2 percent in 2027. The forecast is unchanged from the April WEO for both years, reflecting the continued drag from higher energy prices and weak consumer confidence.
- In the *United Kingdom*, growth is projected to remain stable at 1.3 percent in 2026, a 0.5 percentage point upward revision from the April WEO, and to edge down to 1.2 percent in 2027 as higher energy prices and long-term interest rates weigh on consumption and investment. Growth in *Japan* is projected to slow to 0.7 percent in 2026, with fiscal support measures partly cushioning the impact from higher energy prices, and to stabilize at that level in 2027 as the energy shock dissipates and monetary policy gradually normalizes. In *Korea*, growth is expected to increase to 3.3 percent in 2026 and 2.8 percent in 2027, buoyed by strong external demand for semiconductors, which supersedes the negative impact of the war. In *Canada*, growth is expected to ease to 1.1 percent in 2026 and rise to 1.7 percent in 2027, with supportive policies and positive terms-of-trade effects partly offsetting weaker momentum and elevated trade uncertainty.

Growth Forecast for Emerging Market and Developing Economies

In *emerging market and developing economies*, growth is projected to slow from 4.5 percent in 2025 to 3.7 percent in 2026 before recovering to 4.4 percent in 2027. The outlook is heterogeneous, reflecting differences in commodity dependence, geographic exposure to the Middle East conflict, remittances and tourism receipts, financial conditions, policy frameworks, and position in the global technology value chain. Those directly impacted by the war drive the V-shaped pattern, whereas other regions are expected to follow a more even growth path.

- Growth in *emerging and developing Asia* is expected to slow down a notch. *China*'s 2026 growth is projected to slow to 4.5 percent, as higher global oil prices, together with protracted uncertainty and structural headwinds, are expected to weigh on activity. Policy support is expected to prevent a sharper slowdown. *India* remains among the fastest-growing major economies, with growth in 2026 projected at 7.0 percent. This reflects stronger-than-expected momentum, supported by resilient domestic demand and robust services activity. Several southeast Asian economies are projected to benefit from data center activity and the upturn in the global technology cycle and in some cases from emergency fiscal measures. By contrast, small island developing states are expected to experience

slower growth because of higher energy costs as well as weaker tourism and remittances.

- In the *Middle East and Central Asia*, growth is projected to drop to –0.3 percent in 2026 before rebounding to 6.3 percent in 2027. Relative to the April projection, this is a downward revision of 2.2 percentage points for 2026 and an upward revision of 1.7 percentage points for 2027, consistent with a longer closure of the Strait of Hormuz, compared with the baseline assumptions in the April WEO, and a corresponding larger rebound after the Strait reopens. *Bahrain*, *Iraq*, *Kuwait*, and *Qatar*—commodity producers most affected by disruptions to energy output and transport—are projected to experience double-digit contractions of their economies in 2026, followed by double-digit expansions in 2027 as production, exports, and logistics normalize. *Saudi Arabia* is somewhat less affected, as an economy with more diversified export routes, with a projected contraction of 3.3 percent in 2026 and growth of 7.9 percent in 2027. Growth in *Iran* in 2026 is revised downward amid resumed military exchanges, the reimposition of the naval blockade, and enhanced sanctions. Commodity importers in the Middle East and North Africa are expected to remain relatively resilient to the negative terms-of-trade shock from higher energy and food prices, while countries in the Caucasus and Central Asia continue to experience favorable growth tailwinds from commodity prices, remittances, and reform momentum.
- Growth in *sub-Saharan Africa* is expected to remain stable at 4.5 percent in 2026, though this masks substantial divergence across countries, reflecting differences in policy space, reform implementation, commodity exposure, climate shocks, and access to external financing. Oil-importing, non-resource-intensive economies are more adversely affected by higher energy and food prices, whereas some larger economies continue to benefit from earlier stabilization and reform efforts, even though they are largely absent from the AI-driven global technology upswing and face headwinds from declines in official development assistance. *Nigeria* is supported by improved macroeconomic stability and favorable terms-of-trade effects, though higher prices for essentials are expected to further aggravate poverty and food insecurity. *South Africa*'s growth outlook is expected to remain stable in the near term and improve gradually over the medium term, underpinned by strengthened policy frameworks and ongoing structural reforms. Growth in the rest of the region is expected to slow from 5.6 percent in 2025 to 5.5 percent in 2026 and 5.3 percent in 2027.
- In *Latin America and the Caribbean*, growth is projected to edge down to 2.3 percent in 2026 and to pick up modestly to 2.5 percent in 2027. Across the region, the macroeconomic implication of the energy shock reflects the balance between gains for commodity exporters and losses for energy importers, as well as the credibility of inflation-targeting frameworks, whereas there is little offset from the technology upturn in most countries. Growth in *Brazil* is expected to slow somewhat from 2.2 percent in 2026 to 1.9 percent in 2027, reflecting still-restrictive monetary conditions aimed at returning inflation to target, withdrawal of fiscal policy support, and global uncertainty. In *Mexico*, growth is projected to accelerate modestly from 1.5 percent in 2026 to 1.8 percent in 2027 amid continued support from exports, including through AI value chains, and stabilizing investment, but trade and other uncertainties will continue to constrain activity.
- In *emerging and developing Europe*, growth is expected to slow from 2.0 percent in 2025 to 1.7 percent in 2026 and recover to 2.1 percent in 2027. The regional outlook is shaped by the interaction of higher energy costs, continuing security-related uncertainty, tighter financing conditions, and the reorientation of trade and investment patterns. Higher commodity prices provide some support to activity in *Russia* despite lower overall oil exports due to damage to oil infrastructure, whereas the prospects for energy-intensive economies and those that depend on fossil fuel imports are weaker, although the weakness is partly offset by tailwinds from increased defense spending.

Inflation Forecast

Global inflation is expected to pause its steady decline, primarily because of the war-induced negative supply shock. Headline inflation is projected to rise from 4.1 percent in 2025 to 4.7 percent in 2026 before easing to 4.1 percent in 2027, with the increase for 2026 driven mainly by higher energy and food prices. The forecast is unchanged for 2026 from that in the July WEO *Update*, but it is revised upward by

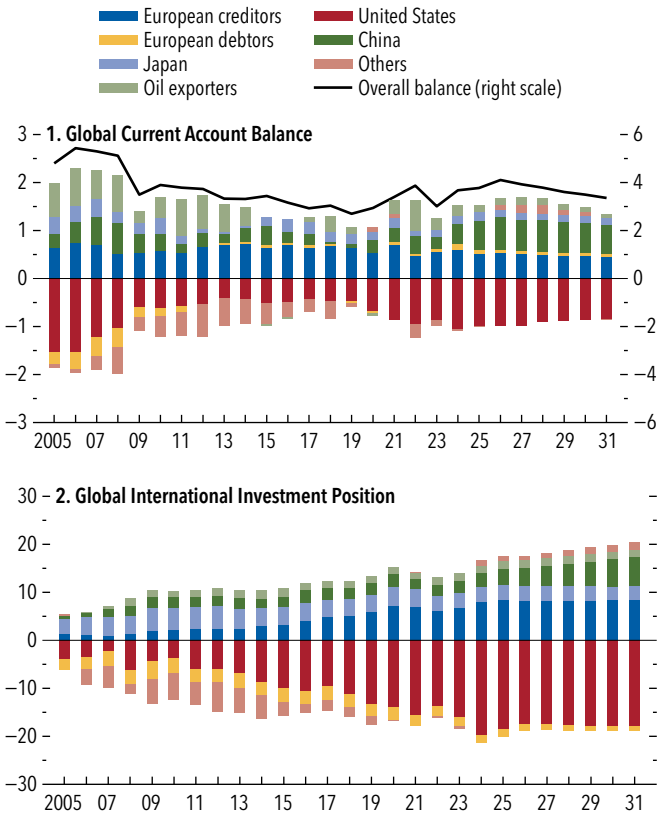
0.2 percentage point for 2027. The revision compared with that in the April 2026 WEO is a cumulative 0.7 percentage point. Inflation dynamics are expected to remain uneven across countries, reflecting differences in exchange rate pass-through, the persistence of services price inflation, labor market conditions, policy credibility, and administered price systems. Core inflation is expected to return to 2 percent only gradually in several major economies: by the end of 2027 in Japan and the United Kingdom and by mid-2028 in the euro area and the United States. Inflation in China is expected to rise from low levels.

World Trade Outlook and Global Imbalances

World trade volume growth is projected to slow from 5.0 percent in 2025 to 4.6 percent in 2026 and stabilize at 4.7 percent in 2027. These dynamics reflect the drag from tariffs alongside the gradual adjustment of trade linkages and production chains through trade reconfiguration and substitution of suppliers, as well as brisk growth in technology-related trade flows.

Global imbalances are projected to decline only modestly over the medium term (Figure 1.10). This limited narrowing might not materialize and, in recent years, the WEO forecasts for global current account balances have tended to exhibit a downward bias. Global current account balances increased further in 2025 to about 3.8 percent of world GDP, continuing the upward trend observed since the pandemic and reversing the decline following the global financial crisis (see the 2026 *External Sector Report*). The widening was driven primarily by a sharp increase in China's surplus, which increased to about 0.6 percent of world GDP (3.7 percent of China's GDP), alongside larger surpluses in several Asian economies, whereas the euro area surplus narrowed and oil exporters' surpluses declined. At the same time, the United States remained the world's largest deficit economy, with a current account deficit of about 1.0 percent of world GDP. Early 2026 trade data indicate that global imbalances are expected to increase slightly this year and are projected to remain elevated in 2027, with further increases in trade surpluses in China and other Asian exporters and weaker balances in the United States and the euro area. Persistent domestic saving-investment distortions in major economies continue to shape global imbalances. Expansionary fiscal policy in some economies with current account surpluses is expected to contribute to the projected cyclical decline. Partly offsetting this is

Figure 1.10. Current Account and International Investment Positions
(Percent of global GDP)

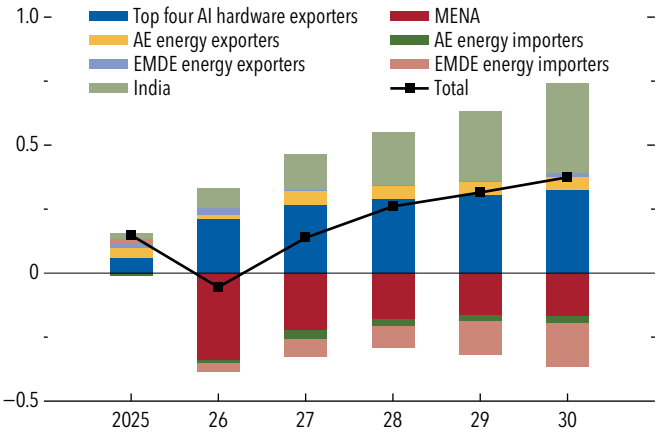


Source: IMF staff calculations.

Note: "European creditors" are Austria, Belgium, Denmark, Finland, Germany, Italy, Luxembourg, The Netherlands, Norway, Slovenia, Sweden, and Switzerland. "European debtors" are Cyprus, Greece, Ireland, Portugal, and Spain. "Oil exporters" are Algeria, Azerbaijan, Iran, Kazakhstan, Kuwait, Nigeria, Oman, Qatar, Russia, Saudi Arabia, United Arab Emirates, and Venezuela. Overall balance is the sum of absolute values of current account surpluses and deficits.

the surge in technology-driven business investment, which, even as it moderates, is expected to keep attracting capital to the United States and sustain large trade surpluses in several Asian economies. Stronger productivity growth in the United States could enhance US competitiveness in technology-related services and improve the country's trade balance. But positive wealth effects would boost domestic demand, complement capital inflows driven by higher returns, and keep the US current account deficit wider than that observed in the decade preceding the COVID-19 pandemic. Sustained large fiscal deficits in the United States and limited rebalancing to domestic consumption in China contribute to external imbalances in these two countries, which together account for about 40 percent of global current account balances.

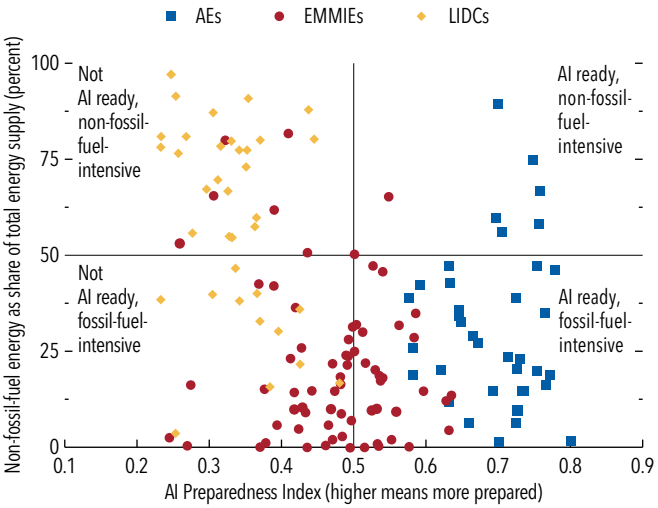
Figure 1.11. Medium-Term Scarring
(Percentage point deviation from cumulative growth in January 2026 WEO Update)



Source: IMF staff calculations.

Note: Bars show revisions to cumulative GDP growth between the January 2026 WEO *Update* and the October 2026 WEO. Economies are defined as energy exporters or importers based on 2024 oil, natural gas, and coal trade data. The "top four AI hardware exporters" are defined by their net exports of AI hardware as a share of GDP, and they are KOR, MYS, THA, and TWN. "EMDE energy exporters" exclude MENA, and "EMDE energy importers" exclude India. HKG and SGP are excluded. The economy list is based on International Organization for Standardization (ISO) codes. AE = advanced economy; AI = artificial intelligence; EMDE = emerging market and developing economy; MENA = Middle East and North Africa; WEO = *World Economic Outlook*.

Figure 1.12. AI Preparedness versus Energy Mix



Sources: International Energy Agency; and IMF staff calculations.

Note: The figure plots countries according to the IMF AI Preparedness Index and non-fossil-fuel energy as a share of total energy supply in 2024. Non-fossil-fuel energy includes renewable and nuclear sources. AEs = advanced economies; EMMIEs = emerging market and middle-income economies; LIDCs = low-income developing countries.

Medium-Term Outlook

Global output is projected to expand at an average annual pace of 3.2 percent in 2028–31, a persistently lackluster performance compared with the prepandemic (2000–19) historical average of 3.7 percent. Relative to that in January 2026, the medium-term outlook has become increasingly uneven, with downgrades concentrated among economies directly affected by the conflict in the Middle East and energy-importing emerging market and developing economies elsewhere, excluding India (Figure 1.11). India stands out with upward revisions, reflecting sustained momentum and growing evidence of stronger growth potential supported by favorable demographic dynamics, a large and expanding domestic market, and continued structural reforms.

As geopolitics and technology reshape the global economy, how well prepared each country is to adapt to the changes will determine its medium-term potential. Readiness to adopt AI and to reliably meet energy needs will be crucial. Countries that rely more heavily on fossil fuels for energy generation are more exposed to geopolitical shocks. Given their gaps along both dimensions, the world's poorest countries are likely to see their productivity and growth momentum decelerate and the gap in their per capita incomes relative to those in advanced economies widen (Figure 1.12).

Risks: Narrower Margins, Larger Stakes

As in April, risks to the outlook are tilted to the downside (see Box 1.2).

Downside Risks

Persistent conflicts, cyber threats, and extreme weather events. A prolonged stalemate or further escalation in the Middle East or Ukraine could make commodity prices higher and more volatile for longer, exacerbating inflationary pressures and raising term premiums (see the downside scenario on commodity and bond markets in Box 1.2). Energy markets are highly sensitive to further disruptions in major transit routes and supply chains generated by developments in the conflict regions. Moreover, the backwardation observed in oil markets—a situation in which the spot price is higher than prices for future deliveries—still suggests that markets continue to treat the supply disruptions as largely temporary. If tensions were to go on, expectations could shift toward the shock being more persistent, driving up prices not only for

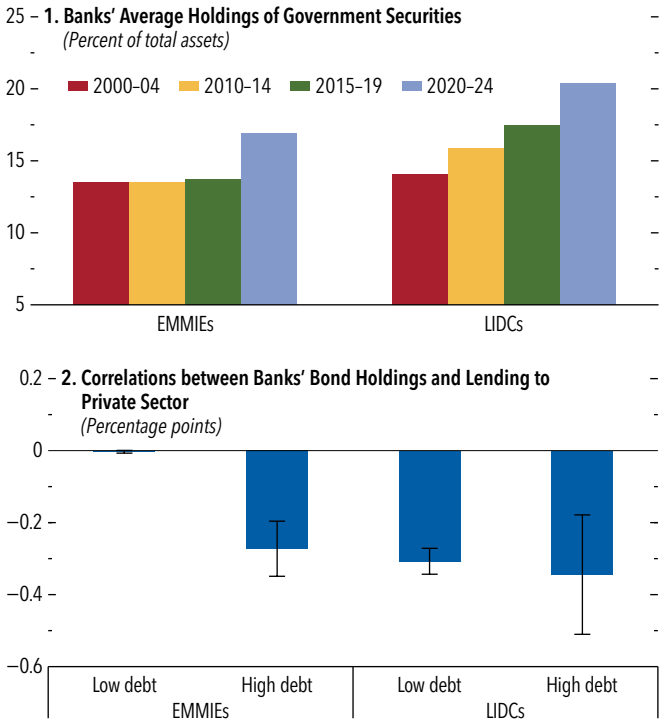
near-term delivery, but also further along the futures curve, unless planned adjustments for the longer term—such as building of new routes and activation of new supply—help ease concerns. At the same time, natural gas inventories remain below seasonal norms in parts of Europe, leaving gas market conditions vulnerable to adverse weather ahead of the winter heating season. Ongoing conflicts could also increase the risk of cyberattacks, with potential disruptions to critical infrastructure and financial services owing to digitalization, reliance on common technology providers, and the growing sophistication of cyberthreats, including those facilitated by AI models (Chapter 3 of the April 2024 *Global Financial Stability Report*). Moreover, extreme weather events—including flooding, prolonged drought, and water stress exacerbated by the ongoing El Niño episode—might further undermine commodity markets, compound the impact of elevated fertilizer prices, and disrupt other climate-sensitive sectors, such as transportation. Past episodes have shown that El Niño events typically put upward pressure on food and commodity prices while weighing on activity, especially in economies in which food represents a significant share of consumers' basket, including low-income countries (Cashin, Mohaddes, and Raissi 2017).

These risks would be particularly challenging for energy-importing countries and especially emerging market and developing economies with limited fiscal space and external buffers. Persistently higher commodity prices could widen current account deficits, increase external financing needs, and intensify exchange rate pressures. At the same time, higher inflation could require tighter monetary policy and add a drag to growth. Higher energy and food prices could have severe effects on poverty and food security and heighten the risk of social unrest and political instability, especially in the most vulnerable economies (see Chapter 1 of the April 2026 *Regional Economic Outlook: Sub-Saharan Africa*).

Reassessment of AI-related expectations. If expectations of AI-driven profitability and productivity gains prove overly optimistic, investment in AI-related infrastructure and technology could slow sharply. Investment could also slow should technology companies deliberately slow their pace in response to safety concerns or capacity constraints, including in energy markets (see scenario B in Box 1.2). Equity markets, particularly those with high concentrations of AI-related firms, could be vulnerable to a broad repricing, as illustrated by recent bouts of volatility in technology-related equities in some jurisdictions, including Korea and the United States, and its repercussions (see scenario C in Box 1.2 and the October 2026 *Global Financial Stability Report*). Spillovers could propagate through lower global demand for technology-related goods and services, reduced capital flows to economies integrated into the AI value chain, and losses on cross-border portfolio holdings. Risks could also arise from self-reinforcing circular financing arrangements and increased leverage within the AI ecosystem.

Financial market stress and fiscal vulnerabilities. A broad repricing of financial assets, driven by a reversal of the recent benign attitude in markets rather than triggered by particular news related to the war or AI, could test firms' resilience and weigh on household consumption through negative wealth effects. Market stress could lead to a flight to safety and affect particularly emerging market economies through wider sovereign spreads, exchange rate pressures, and tighter domestic financial conditions (Ahmed 2023). These effects could interact with already-elevated fiscal vulnerabilities. With long-term government borrowing costs on the rise in major advanced economies, elevated public debt and large refinancing needs leave sovereigns increasingly exposed to such abrupt changes in financial conditions. More persistent inflation and monetary policy remaining restrictive for longer than currently expected could further increase debt-service costs, crowd out other critical spending, constrain fiscal policy's ability to respond to future shocks, and place upward pressure on global interest rates. Higher long-term borrowing costs in major economies could themselves weigh on growth in those economies and, in turn, spill over to financing conditions elsewhere. In low-income countries, these challenges could be compounded by declining official development assistance, leaving fewer resources to cushion shocks and finance development needs. Financial vulnerabilities could also intensify through the sovereign-bank nexus, particularly in economies with limited fiscal space and high reliance on domestic banks (see Chui and Gambacorta 2026; Wezel, Barrail, and Dehmej 2026; and the April 2026 *Global Financial Stability Report*). The average bank's holdings of government bonds relative to total assets have increased significantly since the early 2000s: by about 25 percent in emerging market economies and 45 percent in low-income countries (Figure 1.13, panel 1). Bank-level evidence suggests that greater

Figure 1.13. Sovereign-Bank Nexus in Emerging Market and Developing Economies



Sources: Fitch Connect; and IMF staff calculations.

Note: In panel 2, the figure reports coefficients from bank-level regressions of the bond-holdings-to-assets ratio on the loans-to-assets ratio. Regressions control for a set of bank- and country-level variables, as well as country, year, and bank fixed effects. High- and low-debt countries are defined based on whether government debt to GDP is above or below the 75th percentile of the sample distribution within each country group. Bars denote point estimates; whiskers denote 90 percent confidence intervals. EMMIEs = emerging market and middle-income economies; LIDCs = low-income developing countries.

holdings of government securities are correlated with lower lending to the private sector, with the effect particularly pronounced in high-debt emerging market economies and low-income countries (Figure 1.13, panel 2). Such potential crowding out of private credit could further weaken domestic investment, reduce growth prospects, and reinforce adverse feedback loops among fiscal vulnerabilities, domestic financial systems, and private investment.

Renewed trade tensions. Trade tensions could reignite, particularly if they become increasingly intertwined with ongoing conflicts or if trade reallocation and rerouting become more disruptive. Prolonged disruptions to energy markets and strategic supply chains or unbalanced trade could prompt more countries to adopt protectionist measures in an effort to safeguard domestic supply, weighing on global activity. Additional tariffs and nontariff barriers introduced in response to shifting trade patterns or widening external imbalances would further dampen global growth, whereas restrictions affecting upstream industries—including energy, critical minerals, and other key production inputs—could amplify supply bottlenecks and inflationary pressures. These effects would be compounded if such measures triggered retaliatory trade actions.

Upside Risks

Continued momentum in the technology cycle and faster productivity gains from AI. The baseline forecast assumes that the current AI-driven technology cycle gradually moderates. However, the surge in AI-related investment and demand could prove more persistent than expected, sustaining global activity for longer. Continued investment in AI hardware and infrastructure could further boost external demand in economies integrated into the AI value chain, and increasing equity valuations could continue to support private consumption. A greater-than-expected AI build-out could increase world GDP by 0.6 percent by 2029, with larger effects in the United States and Asia (see scenario A in Box 1.2). The baseline also assumes no exogenous acceleration in productivity growth from AI, reflecting still-limited adoption across many sectors (see the April 2026 WEO). Faster diffusion of AI technologies, together with complementary investments in digital infrastructure and intangible capital, could generate larger productivity gains than those currently embedded in the forecast, increasing global growth by as much as 0.3 percentage point in the near term and by 0.1–0.8 percentage point over the medium term (see Box 1.3 of the October 2025 WEO). Such gains would be largest in economies with the capacity to facilitate AI adoption through complementary investments in energy infrastructure, digital connectivity, workforce skills, and the supply of critical intermediate inputs. In the United States, for example, stronger productivity growth could help sustain the elevated pace of labor productivity observed in recent years, providing an additional boost to domestic activity.

Reconfiguration of the international trading system. Tangible progress in trade arrangements could reduce trade costs, improve policy predictability, make trading relationships more sustainable, and support global activity. In this context, efforts to negotiate or deepen

new regional and bilateral trade agreements—such as the EU's recent trade agreements with India and MERCOSUR (the Southern Common Market) or the United Kingdom's agreement with India—could lower tariffs and nontariff barriers on traded goods and services among participating economies, facilitate adjustments to recent trade policy changes, and strengthen supply-chain resilience. The gains to global activity could be larger if such agreements cover services trade more extensively, foreign direct investment, and international taxation. Over time, the benefits of deeper economic integration among economies could encourage broader participation from other countries and further contribute to a more stable and predictable international trading system.

More resilient energy supply chains and an accelerated energy transition. Geopolitical tensions in the Middle East could accelerate efforts to diversify global energy supply routes away from traditional transit choke points. Increased investment in new pipelines, transport infrastructure, and alternative export corridors could provide a near-term boost to activity in economies undertaking these investments while strengthening the resilience of global energy markets to isolated shocks over the medium term. At the same time, higher and more volatile fossil fuel prices could further incentivize investment in renewable energy production, storage, and efficiency. Such investments would not only support short-term activity but also reduce vulnerability to future disruptions. That said, the benefits might not be even across countries: Under plausible global energy transition scenarios, high-cost coal exporters face early losses and low-cost producers potentially gain market share, while new growth opportunities emerge for countries with critical mineral endowments and green energy potential (Spray, Thube, and Zhang 2026).

Policies: Agility under Constraint

Policymakers are facing the same major forces but with different consequences. For a majority of countries, the war in the Middle East is acting mainly as an adverse supply shock, raising costs while weighing on confidence. For some, however, it is a positive terms-of-trade shock, lifting national real income and generating fiscal windfalls. At the same time, the AI-driven technology upturn is supporting investment, exports, and asset prices in economies connected to the global technology value chain, but it is also adding to demand pressures and increasing concentration and repricing risks in financial markets. In economies outside the chain, the short-term lift in activity may be absent, while the possibility of fallout from a potential market correction and of falling behind in an AI-driven global economy is still present.

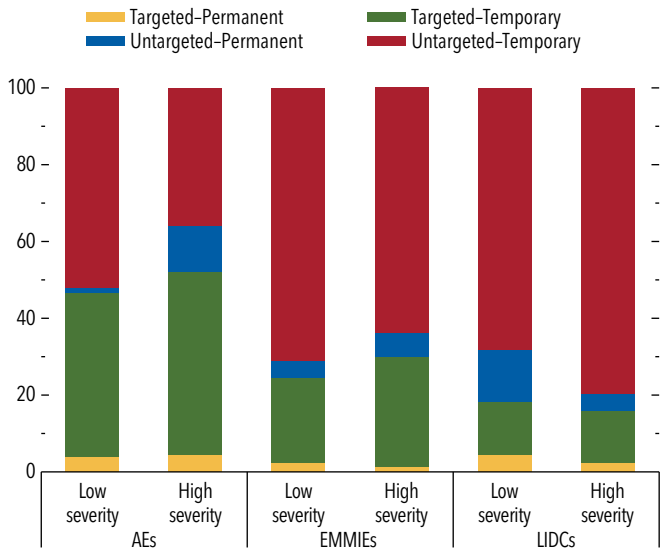
Fiscal Policy

A renewed focus on rebuilding fiscal space is urgent, given elevated debt, higher borrowing costs, multiplying demands on public budgets, and heightened uncertainty. Any new spending increases or tax cuts should be well funded to secure the necessary fiscal adjustment paths. Credible medium-term consolidation should rest on well-specified plans, including durable revenue measures, stronger tax administration, broader tax bases, better compliance, and greater spending efficiency, accompanied by meaningful up-front down payments and supported by institutional improvements. Adjustment should be designed to protect growth- and equity-enhancing spending, such as investment in infrastructure and skills and well-targeted social protection. In high-debt economies, the required adjustment may be larger than what has generally proved feasible in the past and may need to be complemented by deeper spending rationalization through, among other things, a rethinking of the scope of government activity and growth-enhancing structural reforms.

For countries with above-target inflation or elevated underlying inflationary pressures, fiscal consolidation can moderate demand and complement monetary policy efforts to maintain price stability. Prudent debt management and financial regulation would help reduce intertemporal borrowing costs, contain refinancing vulnerabilities, and limit currency mismatches and hence mitigate the risk of destabilizing feedback loops that could give way to fiscal dominance.

Economies benefiting from commodity windfalls or the technology upturn should resist procyclical spending pressures. There may be a case for commodity exporters in the conflict zone to use available fiscal space to temporarily support non-oil activity or build resilience-enhancing infrastructure, with medium-term consolidation to reinforce intergenerational equity. Otherwise, windfall revenues should be saved, used to rebuild buffers, or redeployed toward high-return investment. Credibility will be strongest where governments pair near-term discipline with reforms that

Figure 1.14. Duration and Targeting of Fiscal and Price-Based Policy Responses
(Percent)



Source: IMF staff calculations.

Note: Bars show fiscal and price-based policy responses to the war in the Middle East between February 2026 and June 9, 2026, based on the IMF Global Policy Tracker. "Fiscal policy responses" include measures affecting government spending, taxation, and below-the-line operations. "High-" and "low-severity" groups are defined based on the severity of the domestic fuel price shock within each income group, measured by the average increase in gasoline and diesel prices during March–July relative to January 2026. AEs = advanced economies; EMMIEs = emerging market and middle-income economies; LIDCs = low-income developing countries.

raise potential growth and where medium-term fiscal frameworks are supported by independent institutions, transparent reporting, realistic macroeconomic assumptions, and contingency planning.

Rebuilding fiscal space will have to be balanced with the task of cushioning the impact of current shocks on the most vulnerable. Many countries have turned to fiscal tools in response to another war shaking commodity markets, but they have not always followed the core tenets of making such fiscal measures targeted and temporary (Figure 1.14). The room to maneuver is more limited than during earlier crises because debt levels are elevated, borrowing costs are higher, and demands on public budgets have multiplied.

Fiscal support measures should be used sparingly, designed in a way not to complicate the task of monetary policy, and unwound rapidly as the shock dissipates. Broad-based fuel subsidies, generalized tax cuts, and price controls should be avoided. These measures are typically poorly targeted, fiscally costly, distortionary, and politically difficult to withdraw once introduced. They also weaken price signals that encourage energy conservation and substitution and investment in energy efficiency. If support is necessary to prevent severe hardship or social instability, it should be temporary, tightly targeted to vulnerable households, and delivered preferably through cash transfers or existing social protection systems (see Chapter 2 for more on the effectiveness of different fiscal measures in response to cost-of-living crises). Eligibility criteria, sunset clauses, and budgetary offsets should be specified up front, especially where fiscal space is constrained. The bar for supporting firms should be high. Assistance should be limited to viable firms facing temporary liquidity pressures from higher energy costs or supply disruptions. It should not entrench incumbents or delay necessary sectoral reallocation. When public support is justified, it should be transparent, subject to ex post evaluation, and consistent with medium-term fiscal objectives.

A key lesson from repeated shocks is that the capacity to deliver targeted support cannot be built overnight. Countries should invest in national registries, digital payment systems, interoperable administrative data, and delivery mechanisms that can be scaled rapidly when shocks hit. Committing in advance to principles for emergency support—temporary duration, narrow targeting, preservation of price signals, transparent eligibility, and identified financing—can help governments withstand calls for broad-based measures. In low-income countries and fragile states, where administrative capacity is weaker and food and fuel have a larger weight in household consumption, international assistance may be needed to support well-targeted transfers and protect critical health, education, and nutrition spending. But even where external financing is available, it should complement rather than replace domestic efforts to improve expenditure prioritization and revenue mobilization (IMF 2026a).

Monetary and Financial Policies

Monetary policy should remain firmly focused on central banks' mandates, including to preserve, or where necessary restore, price stability. The two forces shaping the global economy have heterogeneous inflationary effects across countries. While the energy disruption has put upward pressure on inflation globally, the exact dynamics vary substantially between energy importers and exporters. In parallel, AI-related activity

is putting pressure on prices in the subset of economies that are part of the technology value chain. Countries also differ in their initial conditions, with some having inflation still above target at the onset of the conflict. Taken together, these factors dictate the differences in monetary policy recommendations.

For energy importers, higher fuel prices present a stagflationary challenge by simultaneously raising headline inflation and depressing output. Monetary policy can look through the direct effects and possibly short-term indirect effects, but only if the shock is temporary—an assessment that could be informed by drawing a distinction between price increases driven by geopolitical risk premiums and those driven by actual supply disruptions (see the Commodity Special Feature)—and second-round effects, including any sign of de-anchoring inflation expectations, remain contained. These conditions are less likely to be satisfied when inflation is already above target and broader price pressures are expected to remain elevated, justifying a bias toward tightening. Even where looking through the shock is deemed the right path, maintaining an unchanged real policy stance over a given horizon may require increases in nominal policy rates if expected inflation rises. A passive stance could lower real interest rates, adding demand pressures at the wrong moment. For energy exporters not directly affected by the closure of the Strait of Hormuz, this is a positive terms-of-trade shock that pushes income and aggregate demand upward, which can kick off second-round effects. This in turn could make tightening appropriate, more cautiously if inflation is at target and more decisively if it is above target.

In economies integrated into the technology value chain, the case for tightening gets stronger, independent of their energy importer-versus-exporter status and with more urgency added to the case if inflation is already above target. For energy importers benefiting from the technology-driven offset to activity, the flip side is that there are not one but two forces imposing upward pressure on prices. For energy exporters plugged into the technology value chain, there needs to be vigilance to signs of overheating. Tightening would be a preemptive action if inflation is at target but the medium-term inflation outlook points to elevated price pressures, and a must if it is above target.

With economic conditions in flux, agility is at a premium. Central banks should avoid reacting too strongly to high-frequency movements in headline inflation, particularly when those movements are driven by volatile energy prices. They should, however, respond if higher inflation starts feeding into expectations or wage setting or if technology-driven activity starts strengthening pass-through from headline to core inflation. Where the postpandemic inflation episode may have weakened confidence in the monetary policy framework, central banks should be quicker to respond to signs of such feedback from inflation to expectations or stronger pass-through. Indeed, not arresting a drift in inflation expectations in response to the current shocks can be costly when shocks of similar nature arrive in the future because it puts the credibility of monetary policy on the line. Should the adverse demand effects from the war or materialization of financial risks eventually dominate—weakening growth materially, softening labor markets, and consequently reducing underlying inflationary pressures—scope for monetary policy to pivot toward easing could emerge. Any such easing should be gradual and data dependent and remain consistent with returning inflation to target.

Under elevated uncertainty, communication is itself a policy instrument, although not a substitute for action. Central banks should explain clearly how incoming data alter the balance of risks, what would justify a change in the policy path, and how they are distinguishing between first-round relative price effects and broader inflationary pressures. This can reduce the risk that households, firms, and financial markets will misread conditional policy guidance as unconditional promises. With fiscal costs rising and electoral pressures intensifying in many countries, central banks may face renewed calls to accommodate higher public borrowing or tolerate inflation above target. Ensuring legal and operational independence of central banks and shielding monetary policy from political interference and fiscal dominance are therefore essential.

Maintaining orderly adjustment and financial stability is vital while large shocks are unfolding. For countries with credible inflation targets or other domestic nominal anchors, exchange rate flexibility should generally remain the first line of defense, helping economies absorb external shocks, preserve relative price adjustment, and avoid costly depletion of reserves. But exchange rate flexibility does not imply indifference to disorderly market conditions. Where depreciation becomes self-reinforcing, market liquidity evaporates,

or currency movements threaten price stability through large pass-through or balance sheet stress, temporary foreign exchange intervention, macroprudential measures, or capital flow management measures may complement the broader policy mix, consistent with the IMF's Integrated Policy Framework. Such measures should not substitute for warranted macroeconomic adjustment, should be transparent and temporary, and should be deployed with due regard to reserve adequacy, institutional capacity, and multilateral spillovers. Supervisors should also intensify monitoring of sovereign-bank links, foreign currency exposures, nonbank financial institutions, and liquidity mismatches. The concentration of market capitalization and investor expectations around AI-related firms calls for close scrutiny of leverage, crowded positions, collateral valuations, and cross-border exposures. Stress tests should include scenarios combining commodity price spikes, currency depreciation, higher term premiums, tighter funding conditions, and a sharp correction in asset prices. Capital, liquidity, and reserve buffers should remain adequate in normal times and be released in a timely and well-communicated manner if financial conditions deteriorate and macrofinancial feedback loops emerge.

Structural and International Policies

Structural reforms can ease macroeconomic trade-offs by increasing flexibility, resilience, and supply capacity while lifting medium-term growth potential. Priorities should start with measures to enhance business dynamism: lowering barriers to entry and exit, improving competition, reducing regulatory uncertainty and complexity, strengthening insolvency frameworks, and facilitating labor mobility across firms and sectors. These reforms can help economies absorb relative price changes with less output loss and can accelerate reallocation toward sectors benefiting from new technologies. Energy security is another immediate priority. Faster deployment of renewable energy, improved grids, greater energy efficiency, and better storage and interconnection infrastructure can reduce vulnerability to future commodity shocks while supporting climate objectives. Such reforms are especially important for energy importers, but they also matter for economies benefiting from AI-related investment, since data centers and digital infrastructure require reliable and affordable electricity. The gains from AI and digitalization will be larger if supported by investment in human capital and infrastructure, as well as robust governance for data protection, cybersecurity, competition, and responsible use.

At the macroeconomic level, correcting domestic imbalances would improve global adjustment: Further rebalancing in China toward domestic consumption; credible fiscal consolidation in the United States; and deeper single-market integration, reforms, and investment in the European Union would help reduce external imbalances, strengthen demand composition, and raise medium-term growth.

Commonly agreed-upon international economic rules are essential for reducing uncertainty and limiting fragmentation. Trade policy frameworks that are clear, transparent, predictable, and mutually beneficial are essential to produce more sustainable growth and international economic integration. Trade measures that are implemented to address cross-border spillovers, including those arising from industrial policies, should be carefully targeted. Pragmatic cooperation is needed to safeguard key global commons and to update international rules to reflect structural shifts, such as the growing role of services, and align with policies that bolster job growth and supply-chain resilience. Trade negotiations at the bilateral, regional, and plurilateral levels should aim to reduce frictions and minimize distortive provisions, with a view to ensuring the durability of any agreement.

In a world shaped simultaneously by geopolitical shocks and rapid technological change, cooperative mechanisms that make adjustment less costly and more durable remain critical, particularly for managing spillovers from commodity market pressures, refugee flows, and debt vulnerabilities.

- Export bans and other beggar-thy-neighbor measures should be avoided (see Chapter 2 for an analysis demonstrating how price-suppressing measures to confront commodity price shocks could lead to unintended consequences when enacted at the same time by multiple countries). They may appear to protect domestic consumers in the short term, but they worsen shortages for trading partners, increase global price volatility, and distort domestic allocation by artificially depressing prices at home. Cooperation to keep energy, food, fertilizer, and critical transport routes open would reduce the risk that national stockpiling and trade restrictions amplify the shock.

- Conflict-driven displacement can transmit shocks well beyond the conflict zone, especially when large and sudden inflows strain housing, social welfare systems and infrastructure, and labor markets in transit and destination locations (Chapter 3 of the April 2025 WEO). Emerging market and developing economies host the bulk of displaced people and often face the largest short-term fiscal and administrative pressures to meet immediate service delivery demands. Well-managed inflows can increase labor supply, aggregate demand, and output over time. This requires policy frameworks that facilitate labor market access—for instance, through recognition of qualifications and language training—financial inclusion, and investment in schooling and other public services. By reducing informality, increasing fiscal contributions, and easing social tensions, such frameworks can turn displacement from a persistent drain on scarce resources into a source of resilience and growth. International burden sharing is essential because the costs are often concentrated in host countries, whereas the benefits of successful integration and regional stability are more widely shared.
- Multilateral financing, including emergency liquidity through IMF facilities, can provide an important backstop to countries facing liquidity strains, helping preserve essential imports and avoid abrupt compression of demand. But liquidity support is not a substitute for timely and orderly debt resolution when debt is unsustainable. Countries facing debt distress need timely and orderly restructuring, supported by continued progress under the Group of Twenty Common Framework and the Global Sovereign Debt Roundtable. More predictable creditor coordination, faster information sharing, and clearer comparability of treatment would reduce uncertainty and limit the economic and social costs—including those that cross borders—of delayed resolution.

Box 1.1. Where Did Displaced Trade Go? Evidence on Trade Reconfiguration and Export Resilience

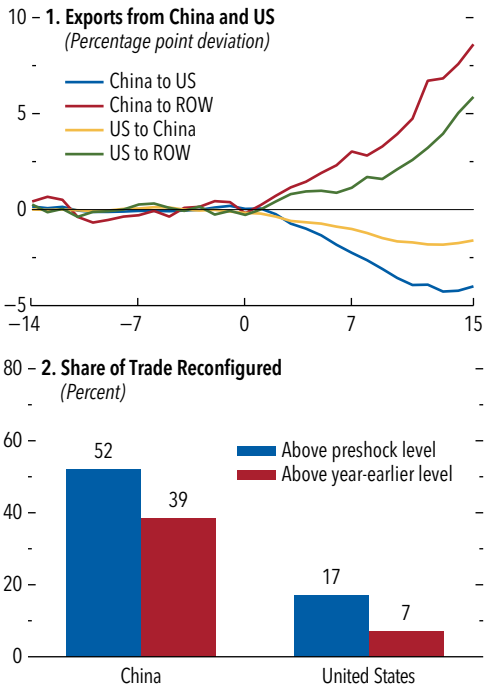
The tariffs introduced by the US administration in April 2025 altered the international economic landscape, yet world trade volume growth remained relatively robust. This box explores the role of the ensuing trade reconfiguration, with a focus on the bilateral relationship that has seen the largest increase in trade barriers, that is, the one between China and the United States. The reallocation of exports from a tariff-imposing market toward third-country destinations within the same product lines is also referred to as "trade deflection" in the literature (Bown and Crowley 2007).

Despite a sharp contraction in bilateral China-US trade following the imposition of the 2025 tariffs, overall exports from both economies remained broadly resilient, as trade was redirected toward third markets (Figure 1.1.1, panel 1). Chinese exports to the United States fell 22 percent between February 2025 and January 2026, and US exports to China fell 25 percent over that same period. That subtracted 3.3 and 1.7 percentage points from each economy's total export growth, respectively. Exports to third markets from the two countries grew faster than under their pretariff trends over the same period. By January 2026, Chinese exports to third markets stood at 4.7 percentage points and US exports to third markets at 2.6 percentage points above trend. These gains helped keep total exports for both economies within about 1 percentage point of their pretariff trends. Third-market gains widened through May 2026, while bilateral trade between China and the United States recovered part of its earlier decline.

Evidence suggests that a substantial share of tariff-affected trade was redirected to alternative destinations (Ruta and Sztajerowska, forthcoming). Looking first at Chinese exports that experienced losses in the US market in 2025, it is evident that exports of these products to third markets increased within a year to 52 percent of the trade at risk—that is, China's preshock exports of the same products to the United States. Because exports to third markets were already growing before the tariffs, however, part of this increase would have occurred even without the shock. Relative to the year-earlier level, trade reconfiguration attributable to the tariff shock amounts to 39 percent of trade at risk (Figure 1.1.1, panel 2). Applying this approach to US exports that experienced losses in the Chinese market following China's retaliatory tariffs points to smaller reconfiguration. Within a year, US exports of these products to third markets increased by 17 percent of the corresponding trade at risk—the preshock US exports of the same products to China—with about 7 percent attributable to the shock after preexisting trends are accounted for. This asymmetry reflects, among other factors, the greater exposure of Chinese exports to the tariff shock: Prior to tariff

The authors of this box are Hippolyte Balima and Monika Sztajerowska.

Figure 1.1.1. Trade Reconfiguration



Sources: Ruta and Sztajerowska, forthcoming; Trade Data Monitor; and IMF staff calculations.

Note: In panel 1, lines show total exports, excluding nonmonetary gold, relative to a linear pretariff trend estimated over the 14 months through January 2025 and extrapolated thereafter, using 12-month rolling sums. The horizontal axis shows months relative to February 2025. Data cover January 2023 to May 2026. Panel 2 shows Chinese and US exports to alternative destinations, excluding each other, as shares of their respective trade at risk. ROW = rest of the world.

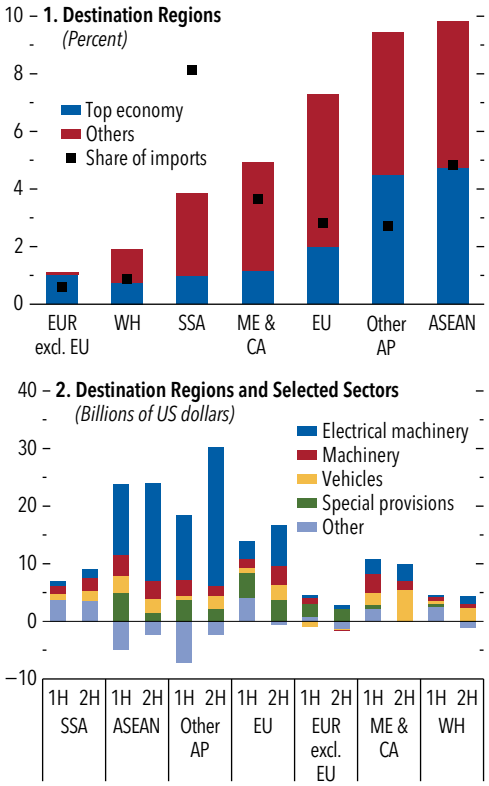
Box 1.1 *(continued)*

escalation, the United States accounted for a substantially larger share of China's exports than China did of US exports (15 percent versus 7 percent), leading to larger losses in absolute terms.

One question is which markets and products absorbed the gains (see also IMF 2026b). Emerging and advanced Asia together absorbed about half of the reallocated trade, followed by the European Union with close to one-fifth and progressively smaller shares absorbed by the Middle East and Central Asia, Africa, and the Western Hemisphere (Figure 1.1.2, panel 1). Relative to these destinations' own imports of the affected products, the redirected trade remained modest, with the largest shares in Africa, member countries of the Association of Southeast Asian Nations, and the Middle East and Central Asia. By product group, electrical machinery accounted for the bulk of the increase to Asia, vehicles to the Middle East and Central Asia, and special provisions to Europe (Figure 1.1.2, panel 2).

Overall, trade reconfiguration appears to have helped offset losses experienced by China and the United States. Firms were able to redirect a meaningful share of trade toward alternative destinations, helping cushion the aggregate trade impact of the bilateral trade shock. More broadly, the results point to the flexibility of global trade and production networks in dampening the effect of trade restrictions on aggregate trade flows. The mechanisms underlying this adjustment may include supply-chain reconfiguration (Alfaro and Chor 2023; Freund and others 2024; Graziano, Sztajerowska, and Volpe Martincus 2026) and rerouting (Freund and others 2025; Iyoha and others 2025), as well as broader supply and demand forces. Disentangling the relative importance of these channels remains an area for future work. At the same time, while trade reconfiguration has enhanced the resilience of trade flows in the short term, persistent trade frictions may entail efficiency costs that could accumulate over time.

Figure 1.1.2. Trade Reconfiguration by Destination Regions and Selected Sectors



Sources: Ruta and Sztajerowska, forthcoming; Trade Data Monitor; and IMF staff calculations.

Note: Panel 1 shows each region's contribution to total trade reconfiguration; blue bars denote the contribution of the largest recipient economy within each region. Squares show each region's trade reconfiguration relative to its annual imports of affected products. Panel 2 shows trade reconfiguration by product group over each half year (1H: February–July 2025; 2H: August 2025–January 2026); negative values indicate exports below year-earlier levels. Product groups correspond to Harmonized System chapters: electrical machinery (85), machinery (84), vehicles (87), special provisions (98), and other (all remaining products). ASEAN = Association of Southeast Asian Nations; EUR excl. EU = Europe excluding European Union; ME & CA = Middle East and Central Asia; Other AP = Other Asia and Pacific; SSA = sub-Saharan Africa; WH = Western Hemisphere.

Box 1.2. Risk Assessment Surrounding the Baseline Projection

This box uses the IMF's Group of Twenty (G20) and Global Integrated Monetary and Fiscal (GIMF) models to (1) derive confidence bands around the *World Economic Outlook* (WEO) baseline forecast, (2) produce a downside scenario in which incipient risks from commodity and bond markets materialize more prominently, and (3) assess three scenarios centered around artificial intelligence (AI) (strong payoffs, capacity constraints, and market correction).

Confidence Bands

The G20 model is used to generate distributions around the baseline by sampling shocks recovered from the underlying historical data (Andrle and Hunt 2020). As in the April 2026 WEO, oil price episodes of the 1970s have been sampled more often than other years to capture the risk of large negative supply shocks materializing over the WEO horizon. The distribution of risks remains skewed to the downside.

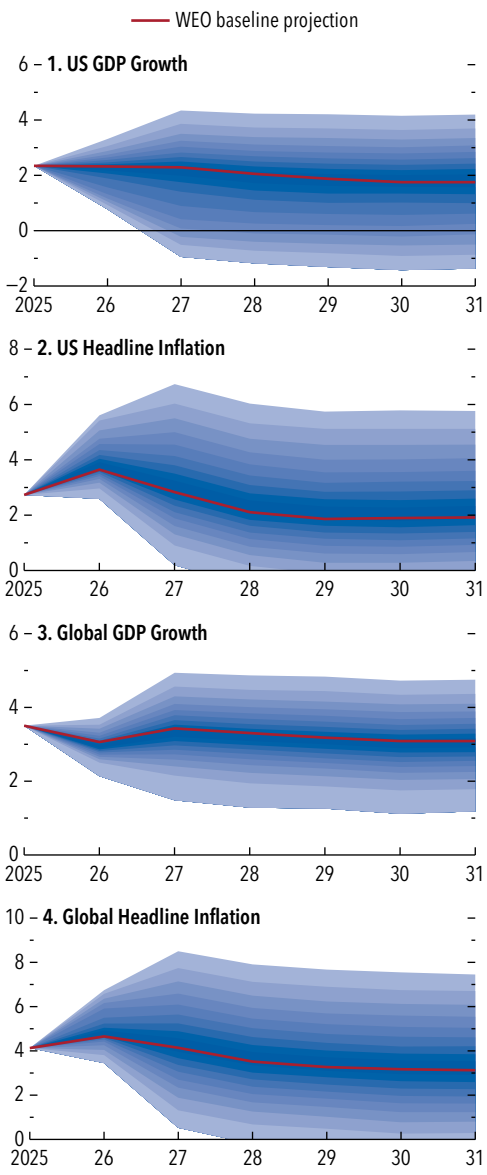
Panels 1 and 2 in Figure 1.2.1 show the distributions for US growth and headline inflation, respectively. The probability of annual growth falling below 1 percent in 2027, consistent with a relatively mild recession starting in the fourth quarter of 2026, is assessed at about 30 percent, somewhat lower than the recession probability estimated in April (35 percent). Regarding inflation, the probability that US headline inflation will increase above 4 percent in 2027 is about 30 percent, higher than in April (20 percent).

Panels 3 and 4 in Figure 1.2.1 show the distributions for global growth and headline inflation, respectively. The probability that global growth in 2027 will fall below 2 percent is about 10 percent, slightly lower than in April (20 percent). The probability that 2027 global headline inflation will rise above 5 percent is about 35 percent, higher than in April (30 percent).

Commodity and Bond Markets: A Clear and Present Danger

The G20 model is used to produce a scenario in which (1) the war in the Middle East lasts longer than assumed in the baseline and (2) long-term yields increase because of higher term premiums and a modest de-anchoring of medium-term inflation expectations. Relative to the version used in April to

Figure 1.2.1. Forecast Uncertainty around Global Growth and Inflation Projections
(Percent)



Source: IMF staff estimates.

Note: Each shade of blue represents a probability interval of 5 percentage points. WEO = *World Economic Outlook*.

The authors of this box are Jared Bebee, Benjamin Carton, Chris Jackson, Dirk Muir, and Rafael Portillo.

Box 1.2 *(continued)*

assess the impact of the conflict, the calibration of the G20 model has been revised to reflect up-to-date oil intensities and exposure to oil shocks across countries.

Extension of the conflict disrupts oil and natural gas markets. The conflict persists through the end of June 2027, keeping the Straits of Hormuz and Bab el Mandeb largely closed to commercial shipping, extending damages to oil infrastructures in the region, and delaying the recovery in oil supply to the end of 2027. Oil production in OPEC (Organization of the Petroleum Exporting Countries) is 10 and 22 percent lower than that in the baseline in 2026 and 2027, respectively, and it normalizes in 2028. With limited scope for further inventory drawdown, oil prices reach $130 from the fourth quarter of 2026 to the first quarter of 2027 and return to baseline by the fourth quarter of 2027. Oil prices are 17 and 40 percent higher on average in 2026 and 2027, respectively. The crack spread—the price difference between crude oil and refined products—which has been gradually increasing since the beginning of the conflict, takes longer to normalize than in the baseline. Production and trade of liquefied natural gas are also impacted, affecting natural gas prices in Africa, Asia, Europe, and the Middle East. Natural gas benchmarks for Asia and Europe are 17 and 26 percent higher than in the baseline in 2026 and 2027, respectively. Natural gas prices in the Americas do not increase.

The energy shock and concerns about the fiscal outlook lead to a reassessment of risks on long-term public borrowing, raising term premiums and medium-term inflation expectations. To align with recent developments in bond markets and despite historical evidence pointing to a greater tightening of financial conditions for emerging markets in the presence of negative shocks, this reassessment is assumed to increase term premiums equally in advanced economies and emerging markets excluding China (by 60 basis points relative to the baseline starting in the fourth quarter of 2026). This implies a more pronounced impact on advanced economies. China sees a smaller increase in the term premium (40 basis point increase). The increase in the premiums is persistent.

The scenario assumes no additional fiscal consolidation over the WEO horizon, relative to what is already incorporated in the baseline. Policy is assumed to adjust beyond 2031, with debt stabilizing at a permanently higher level as a result of higher interest payments by governments.

The recurrence of supply shocks, several years of above-target inflation, and fiscal concerns lead to a moderate de-anchoring of medium-term inflation expectations. Inflation expectations increase gradually over the WEO horizon, reaching about 30 basis points in advanced economies and 20 basis points in emerging markets excluding China by 2031. No upward drift in expectations is assumed for China. The de-anchoring fades once debt is stabilized.

The combined effect is a sizable decrease in global growth and increase in global inflation. Global growth is lower by 0.2 and 0.5 percentage point in 2026 and 2027, respectively (Table 1.2.1). The growth impact is broadly similar across advanced economies and emerging markets. About two-thirds of the global growth effect comes from the disruption in oil and gas markets, as higher energy costs reduce households' purchasing power and the returns to investment. Higher energy costs also account for most of the increase in global inflation, which is higher by 1.1 percentage points in 2027.

Table 1.2.1. Outlook in the Commodity and Bond Market Scenario
(Percentage point deviation from baseline)

	Impact on GDP Growth						Impact on Headline Inflation					
	2026			2027			2026			2027		
	Conflict	Term Premium	Total	Conflict	Term Premium	Total	Conflict	Term Premium	Total	Conflict	Term Premium	Total
World	–0.2	–0.1	–0.2	–0.4	–0.2	–0.5	0.4	0.0	0.4	1.0	0.1	1.1
AEs	–0.1	–0.1	–0.2	–0.3	–0.2	–0.5	0.4	0.1	0.5	1.1	0.1	1.2
EMDEs	–0.2	0.0	–0.3	–0.5	–0.1	–0.6	0.4	0.0	0.4	1.0	0.0	1.0

Source: IMF staff estimates.

Note: AEs = advanced economies; EMDEs = emerging market and developing economies.

Box 1.2 *(continued)*

Advanced economies are relatively more affected by higher premiums and inflation expectations, as these economies are more sensitive to changes in financial conditions and the increase in long-term rates is greater (100 basis points in advanced economies in 2027 versus 90 basis points in emerging markets). While higher term premiums should be disinflationary, global inflation increases by 0.1 percentage point in 2027 from the de-anchoring of expectations. The latter also accounts for most of the monetary policy tightening in the scenario: Policy rates increase by 50 basis points in advanced economies in 2027 (25 basis points in emerging markets), adding to the tightening in financial conditions. The impact on activity builds over time: The level of GDP in advanced economies falls by 0.7 percent relative to that in the baseline by 2031. A broader tightening in global financial conditions, extending beyond term premiums, would worsen the hit to global activity but is not considered here.

Public debt in advanced economies increases by more than 3 percentage points of GDP by 2031 (2 percentage points globally). Fiscal consolidation, not considered here, could limit the increase in debt but possibly at the cost of lower activity, depending on the instrument used and whether the consolidation is front-loaded.

Artificial Intelligence: Two-Sided Risks

The GIMF model is used to produce the AI scenarios. It features eight regions, including China, Japan, the rest of Asia, the euro area, and the United States. The scenarios build on AI-related shocks considered in the October 2025 and April 2026 WEO reports. As is standard, the scenarios assume that monetary policy responds endogenously, with floating exchange rates in most regions. China's currency is assumed to have some limited adjustment relative to the US dollar. Automatic stabilizers operate on the fiscal side.

Scenario A: Strong Payoffs

The AI build-out is greater than in the current baseline, with further spending on computing and AI-related infrastructure concentrated in the United States and to a lesser extent China. Total US investment increases by 2029 by 4 percent relative to that in the baseline from this component alone, and China's investment increases by 1 percent. The additional AI build-out fades beyond the WEO horizon. Because AI-related capital goods are largely sourced from Asian economies, such as Korea, the import intensity of US investment increases, producing larger spillovers than usual to Asia. Scenario A assumes Asian producers have the capacity to meet the increased external demand, limiting the increase in the region's export prices.

Productivity gains from the adoption of AI are higher and accrue early on. Deployment of AI tools increases global levels of total factor productivity by 0.8 percent over 10 years relative to those in the baseline, with two-thirds of the gains occurring in the first five years. This estimate is based on the lower bound from Cerutti and others (2025), with countries more exposed to gains in automation and better prepared for AI adoption experiencing larger productivity gains. Higher productivity adds to the investment surge while supporting consumption through wealth effects. Scenario A also assumes a gradual but permanent increase in demand for technology goods and software services to reap the benefits from the new technology, moderately increasing the share of global imports sourced from Asia, including China, and from the United States.

Scenario B: Capacity Constraints

The AI build-out runs into supply constraints in Asia. While nominal spending on AI is the same as that in scenario A, supply is slow to respond, triggering a significant increase in the price of high-end technology goods. This causes a large temporary increase in the terms of trade for exporters of these goods in Asia and a corresponding decrease for significant importers of AI capital and consumer goods, such as the United States and other advanced economies.

The productivity gains from the adoption of AI are more back-loaded than those in scenario A. While long-term productivity gains (and change in trade shares) are the same as in scenario A, the improvement starts to materialize only by the end of the WEO horizon.

Despite slower improvements in productivity, near-term demand is strong. Scenario B assumes wealth effects are similar to those in scenario A. Given strong demand, higher import prices, and several years of above-target inflation in the United States, the inflation response is assumed to be stronger than usual; that is, the US Phillips curve steepens and shifts upward. In addition, in anticipation of a monetary policy tightening in the United States, financial conditions tighten moderately in emerging markets not involved in the AI boom. Sovereign (corporate)

Box 1.2 *(continued)*

premiums in emerging markets outside Asia increase by 25 (50) basis points for two years.

Scenario C: Market Correction

The productivity gains from AI investment fail to materialize. This triggers a sharp decline in investment in the technology sector, concentrated in the United States. As in scenarios A and B, the import intensity of the reduced investment is higher than usual and skewed toward Asia, resulting in a decrease in external demand for that region and in the price of high-end technology goods.

The reappraisal triggers a sharp reduction in asset prices and tighter financial conditions. Equity prices in the United States fall by 20 percent in 2026 and 15 percent elsewhere. The correction leads to a loss of risk appetite. Corporate risk premiums temporarily increase by 75 basis points in the United States, 50 basis points in other advanced economies and China, and 75–100 basis points in other emerging markets.

Reduced risk appetite spills over to sovereign bond markets, leading to a moderate temporary increase in term premiums of 30–50 basis points in advanced economies and 75–100 basis points in emerging markets. The concentration of the investment and asset-price shocks in the United States manifests as less appetite for US assets and puts downward pressure on the US dollar. These shocks fade over the WEO horizon.

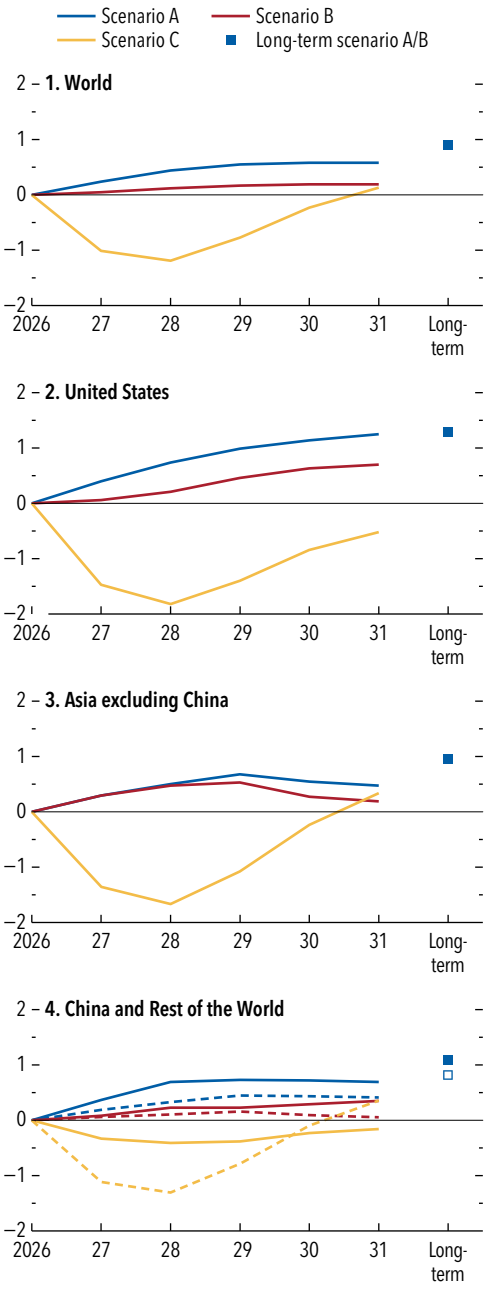
Impact on the World Economy

Figure 1.2.2 presents, for scenarios A, B, and C, the effects on the level of GDP during 2027–31 for the world, the United States, China, Asia excluding China, and remaining countries. Figure 1.2.3 shows results for selected variables: inflation and policy rates in the United States and in the rest of the world, and the real effective exchange rate and the current account in percent of GDP for the United States and Asia excluding China. Results are shown in deviation from baseline.

Scenario A: Strong Payoffs

The AI build-out increases world GDP by 0.6 percent by 2029, relative to that in the baseline. The impact is largest for the United States and Asia. US GDP increases by 0.4 percent in 2027 and keeps growing over the WEO horizon, reaching 1.3 percent by 2031. The direct impact of the AI build-out on the US economy is modest, as a large part of the

Figure 1.2.2. Impact of Scenarios on the Level of GDP
(Percent deviation from baseline)

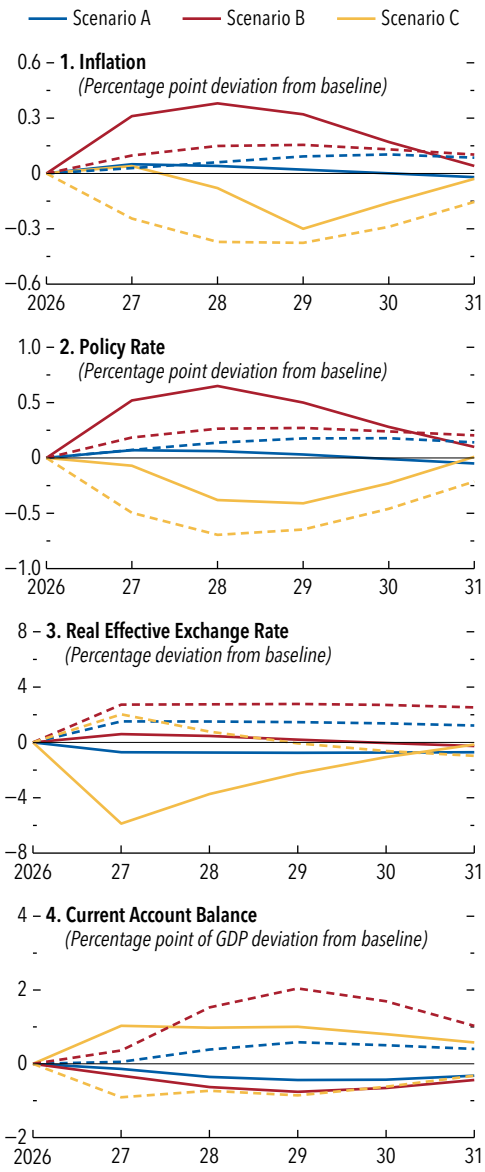


Source: IMF staff estimates.

Note: "Long-term" is at least 50 years ahead. In panel 4, solid lines and the solid marker represent China, and dashed lines and the hollow marker represent the rest of the world.

Box 1.2 *(continued)*

Figure 1.2.3. Impact of Scenarios on the Other Key Macroeconomic Variables



Source: IMF staff estimates.

Note: In all panels, solid lines represent the United States. In panels 1 and 2, dashed lines represent the rest of the world excluding the United States; in panels 3 and 4, they represent Asia excluding China.

investment impulse goes to imports, but the productivity gains are larger and more immediately visible than those in other countries. Higher investment results in a widening of the US current account deficit of 0.4 percentage point of baseline GDP by 2029 and a small real depreciation of the US dollar. Asia excluding China benefits in the short term from higher external demand. Over the WEO horizon, activity peaks at 0.8 percent of baseline by 2029, with most of the GDP gains occurring in high-end technology exporters. The region also experiences an increase in its current account balance, peaking at 0.7 percentage point of baseline GDP; an appreciation of its currencies (especially in technology-oriented economies); and a small increase in export prices. China's GDP increases by 0.7 percent by 2029, as the country benefits from the increase in domestic investment, its central position in Asian supply chains, and the renminbi depreciation in real effective terms in the short term. The near-term impact on other regions is smaller, as they are less involved in the AI build-out.

The impact on global inflation in this scenario is small, since increases in productivity largely keep pace with increases in demand. This is notably the case in the United States. The US policy rate does not increase relative to that in the baseline. The inflationary impact is modest in Asia as a whole, but it is concentrated in high-end technology exporters.

Global output increases in the long term by close to 1 percent. Although all regions benefit, the long-term impact is higher in the United States, because the latter is both highly exposed to the gains from automation and to the production of AI-related services, for which the scenario assumes a permanent increase in demand. Other advanced economies are highly exposed to productivity gains from AI but benefit less from the increased demand for technology goods and services, whereas Asia benefits from a persistent increase in demand for technology goods. The increase in GDP is smallest in other emerging markets least exposed to gains from automation and technology industries.

Scenario B: Capacity Constraints

While the long-term effect is the same, the increase in global GDP in the near term is smaller than that in scenario A. Global GDP increases by just 0.2 percent by 2029, relative to that in the baseline, in part because productivity gains are slower to materialize.

Box 1.2 *(continued)*

In addition, the AI-driven investment surge is more inflationary than that in scenario A, especially in the United States, where inflation increases by 0.4 percentage point by 2028. Two channels play a role. The steep rise in the price of technology goods increases export prices for Asia excluding China by 10 percent relative to those in the baseline (40 percent for high-end technology exporters), increasing imported inflation in other countries and weighing on demand. Domestic inflation also increases as wealth and anticipation effects bring forward consumption before productivity has increased, especially in the United States. This induces a tightening in monetary policy: US policy rates increase by about 70 basis points, further slowing activity in the near term.

For most economies, the increase in near-term GDP is smaller than that in scenario A, in some cases below that in the baseline. Emerging markets outside Asia are affected by the combination of a negative terms-of-trade shock and a tightening in financial conditions from the start of a tightening cycle in the United States. Asia excluding China is the only region that experiences an increase in activity similar to that in scenario A: Although the increase in export volumes is much smaller because of supply constraints in the technology sector, domestic demand benefits from the large, positive terms-of-trade shock.

The terms-of-trade swings lead to a greater widening of global imbalances. The US current account deficit widens by 0.8 percent of baseline by 2029, and the aggregate current account surplus in Asia excluding China now increases by 2.5 percent of baseline GDP. The appreciation of Asian currencies is also larger than that in scenario A, and the US dollar also appreciates in response to the tightening of US monetary policy.

Scenario C: Market Correction

The reevaluation of the productivity gains from AI causes AI-related investment to unwind, reducing US investment by 5 percent and US GDP by 0.8 percent from this layer alone. While the pullback is smaller in other economies, spillovers to Asia are sizable, reducing the region's GDP by about half a percent by 2029, relative to that in the baseline, and with GDP losses concentrated in the high-end technology exporters. Asian technology exporters experience a 20 percent decline in export prices, whereas others in the Asia region see a 4 percent decline. Overall, the unwinding of AI-related investment directly reduces global GDP by as much as 0.4 percent and investment by as much as 1.3 percent by 2028.

The correction in asset prices and tightening in financial conditions amplify the shock. Negative wealth effects cause a large contraction in consumption, particularly in the United States, with global consumption falling by 0.6 percent by 2028. The effect is amplified by a tightening in financial conditions, weighing on investment. Together these effects reduce global output by 0.6 percent and investment by 1 percent, relative to those in the baseline.

Spillovers to sovereign bond markets and demand for US assets subtract a further 0.3 percent from global output. Output in emerging market economies is affected by the increase in term premiums. In the United States, two channels broadly offset each other: A depreciation of the US dollar of about 6 percent supports demand for US exports, and a tightening of financial conditions weighs on domestic demand. China benefits in the short term from the depreciation of the US dollar. Other regions, however, experience a decrease in GDP from lower external demand.

The combined effect is a large decrease in global activity, which is 1.1 percent lower than that in the baseline by 2028, with larger losses in the United States (1.8 percent lower) and Asia (1.7 percent lower). Global and US inflation and policy rates are lower than those in the baseline—with US policy rates lower despite the depreciation of the US dollar—and global imbalances narrow.

Commodity Special Feature: Market Developments and the Real-Time Impact of Geopolitics on Energy Prices

Primary commodity prices decreased by 6.3 percent between March 2026 and August 2026. Prices of precious metals fell, driven by tighter monetary conditions, and energy prices retreated from highs reached following the escalation of conflict around the Strait of Hormuz. Agricultural price trends diverged across commodity groups, with prices of wheat, beverages, and cereals showing significant increases. This Commodity Special Feature proposes a new analytical framework for analyzing the transmission of geopolitical shocks in commodity markets and their macroeconomic implications in real time.

Commodity Market Developments

Oil prices have been volatile since the April 2026 World Economic Outlook *(WEO), reflecting the ebb and flow of the war in the Middle East.* As shipments through the Strait of Hormuz nearly halted, disrupting about 20 percent of global oil supply, oil prices peaked in late March at $126 a barrel, reflecting extreme tightness in the physical market, visible in the Dubai-Brent spread widening to $54. The market adjusted through increased production outside the Persian Gulf (notably in Brazil, Kazakhstan, the United States, and Venezuela); a drawdown of oil inventories, especially through the International Energy Agency (IEA) emergency stocks release, and of China's stocks; and a compression of crude oil demand, especially large in absolute terms, from China (see also Natal and Sadikov 2026). In early June, the market stabilized at about $100 a barrel, with a supply deficit of 1.9 million barrels a day (mb/d) being covered by rapidly depleting reserves. The mid-June signing of a memorandum of understanding between Iran and the United States led to a brief and sudden reopening of the Strait and the release of about 90 million barrels of oil accumulated in the Gulf during its closure. This created a temporary glut, which led to a collapse in prices to $68 a barrel. The short-lived ceasefire has now been replaced by a low-intensity conflict, which has expanded to the Red Sea and threatens additional exports from the region.

Refined petroleum product markets have been affected more than crude oil markets, with prices still between 70 percent and 95 percent above prewar levels. Refinery outages and damage in the Gulf and Russia have chipped away about 20 percent of the international supply of refined products, and export curbs have further tightened markets. Price pressures initially centered on jet fuel but are now most pronounced for diesel and gasoline, with impacts varying across regions according to their exposure to Gulf and Russian exports and domestic demand conditions.

Additional pressure on global crude oil and product markets has stemmed from attacks on Russian oil infrastructure on shore and in the Black Sea. The attacks have prevented exports of Kazakh crude oil through the Caspian Pipeline Consortium route and the Black Sea, while Russia's overall oil exports have declined owing to a sharp drop in diesel and other refined petroleum products. Because of these supply shortages, global reserves continue to be depleted by about 2.7 mb/d and are rapidly reaching stress levels that could lead to nonlinear price adjustments. Futures exhibit a steep backwardation, which is in line with a gradual resumption of flows from early 2027. Brent futures indicate a return to preconflict prices of $79 a barrel by the end of 2027.

While the Strait of Hormuz remained mostly closed for Gulf oil exports until the end of August, traffic picked up significantly in September. Exports of crude from the Gulf reached an average of 16.7 mb/d or 88 percent of prewar levels, and ended the month at 13.4 mb/d. Much of this increase reflects renewed traffic through the Strait of Hormuz, substituting for Red Sea bypass routes. Although risks, freight rates, and insurance costs remain elevated, recent attacks and threats against Red Sea–bound oil infrastructure by the Houthis and other Iran-aligned militias have prompted shipments to return to the Strait of Hormuz. Despite this favorable development, the crude market remains tight and the geopolitical risk premium remains high.

Natural gas prices have been even more volatile, reflecting market-specific features. Title Transfer Facility (TTF) trading hub prices increased by 18 percent between

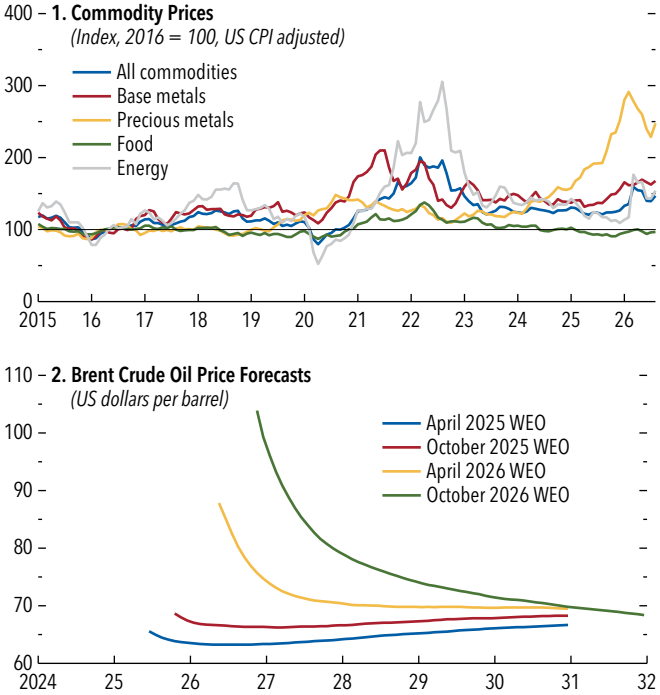
The contributors to this Special Feature are Patricia Gomez-Gonzalez (co-lead), Regis Kouassi, Jianhong Liu, Jorge Miranda-Pinto, Jean-Marc Natal (team lead), Andrea Paloschi, and Evgenia Weaver, with research assistance from Francis Cuadros Bloch, Maximiliano Jerez Osses, Joseph Moussa, and Chris Stumphius. This Special Feature is based on Gomez-Gonzalez and others (2026).

March 2026 and August 2026 to $20.9 a million British thermal units (MMBtu). Relative to oil markets, the European natural gas market displayed greater volatility, amplified by severe damage to the energy infrastructure of Qatar, the region's main exporter; historically low gas stockpiles in Europe, near 15-year lows; and repeated heat waves during the summer. Gas-to-coal substitution in Asian markets and stronger gas deliveries from non-Gulf sources have limited some of the impact on European prices. Meanwhile, the US natural gas market has remained insulated from the effects of the Middle East conflict, with Henry Hub prices falling by 9.2 percent to $2.8 a MMBtu amid robust domestic gas supplies and strong domestic underground storage inventories. Futures markets suggest that TTF prices will average $19.8 a MMBtu in 2026, steadily decreasing to $8.4 a MMBtu in 2031, owing to expectations of an end to current supply disruptions and the prospect that US export capacity will double. Henry Hub prices are expected to increase from $3.1 a MMBtu in 2026 to $3.6 a MMBtu in 2031 as foreign demand builds.

Inflationary risks and associated tightening of monetary conditions have driven demand away from precious metals, whereas supply disruptions in the Strait of Hormuz have put upward pressure on prices for a subgroup of base metals. The IMF's metals price index declined 4.5 percent between March and August 2026 (Figure 1.SF.1, panel 1). Prices of precious metals drove the drop, with the gold price losing 9.1 percent and the silver price decreasing 17 percent as higher interest rates increased the opportunity cost of holding nonyielding assets and investors shifted toward more liquid, interest-bearing alternatives. On the other hand, the base metals price index increased 4.9 percent, influenced by supply constraints from the closure of the Strait, through which a large share of aluminum and sulfur (a key input for nickel production) transit. Futures markets suggest a modest increase of 2.3 percent in 2027.

Agricultural prices have been driven higher by gains in prices for cereals and beverages, whereas fertilizer markets have remained mixed. Between March and August 2026, the IMF food and beverages price index *increased* by 0.8 percent, reflecting mixed developments across agricultural markets. Wheat and corn prices increased 22.7 percent and 3.8 percent, respectively, amid disruptions to Black Sea grain flows and heat waves across Europe, and soybean prices increased 5.3 percent on weather-related supply concerns and resilient demand. Higher fuel and transportation costs also added upward pressure across grain markets.

Figure 1.SF.1. Commodity Market Developments



Sources: Bloomberg Finance L.P.; Haver Analytics; IMF, Primary Commodity Price System; International Energy Agency; and IMF staff calculations.

Note: In panel 2, expiration dates are on the *x*-axis. CPI = consumer price index; WEO = *World Economic Outlook*.

In contrast, seafood prices fell sharply, led by a 16.0 percent decline in salmon prices as abundant farmed supply weighed heavily on spot markets, with prices for other fish and for shrimp also moving lower.

Beverage prices increased 19.2 percent, led by an 83.6 percent increase in cocoa prices as adverse weather in Côte d'Ivoire and Ghana renewed supply concerns. Coffee prices increased 8.0 percent after heavy rainfall in Brazil's Minas Gerais state delayed harvesting and increased concerns about crop quality. Although cocoa prices remained elevated, expectations of a market surplus this year are likely to limit further gains.

Fertilizer prices have diverged since March. While the IMF fertilizer index declined 10.5 percent, supply disruptions have kept the price of phosphate up by 22.4 percent. Prices of nitrogen-based fertilizers, on the other hand, have dropped 31.5 percent since March, as higher Chinese exports and weaker seasonal demand across the Northern Hemisphere have weighed on urea prices.

Food prices are projected to increase 5.0 percent in 2026 and 2.4 percent in 2027, whereas beverage prices are expected to fall 21.5 percent in 2026 and increase

3.2 percent in 2027 due to El Niño. Upside risks stem from elevated fertilizer prices ahead of the Southern Hemisphere planting season, which could reduce input use, lower yields, and tighten grain supplies in 2027. A stronger-than-expected El Niño event could further disrupt weather conditions in key producing regions, and tariffs and geopolitical tensions could put additional upward pressure on prices.

Pricing Geopolitical Risk: Real-Time Evidence from Oil and Gas Markets

Motivation

In March 2026, the war in the Middle East effectively closed the Strait of Hormuz, stranding in the Persian Gulf oil and liquefied gas equal to about 20 percent of world consumption. In episodes like this, policymakers naturally focus on the supply loss. But fears of supply disruptions can also exert upward price pressure. Indeed, in January and February, before the start of the war, oil prices increased by about 10 percent amid rumors of an impending US attack on Iran.

Energy prices are among the most important drivers of inflation and business cycles. But not all energy price increases have the same causes or require the same policy response. It is thus essential for policymakers, and especially central banks, to understand why energy prices are moving. The case for monetary tightening is clearest when oil prices increase on stronger *demand*: Higher energy prices signal broader demand pressures, and stabilizing inflation is consistent with stabilizing activity (Blanchard and Galí 2007). A policy trade-off arises only when prices increase because of *supply* disruption, actual or expected. When barrels are physically unavailable, headline inflation increases and real activity weakens. When tightening, central banks must balance the risk of an inflation spiral against the risk of deepening the output loss (Woodford 2003). Much will depend on the persistence of the shock and how it spills over to inflation expectations and broader price setting (Natal 2012). The case for tightening is more uncertain still when prices increase because of geopolitical supply risk—the threat of potential future supply disruption—which increases precautionary oil inventory demand and risk premiums. If the anticipated supply disruption does not materialize, the associated increase in energy prices may prove short-lived, making policy tightening unnecessary or even counterproductive (Caldara and others 2026). If the risk is realized, however, geopolitical tensions give way to actual supply disruptions, and the standard inflation-output trade-off reemerges.

Because multiple shocks often unfold simultaneously, identifying their relative importance, and doing so in real time, is critical for an appropriate policy response. Waiting for official data, which are available only with lags, can lead to costly mistakes. Despite substantial progress in disentangling demand and supply shocks in structural empirical models (among others, Kilian 2009, Baumeister and Hamilton 2019 for oil, and Nick and Thoenes 2014 for gas), the literature has paid relatively little attention to isolating the contribution of geopolitical risk separately from actual supply disruptions. With geopolitical risks at levels not seen in decades (see the April 2026 WEO), policymakers need new tools.

This Commodity Special Feature fills this need by developing a framework that separately identifies geopolitical risk shocks and supply shocks (alongside traditional demand shocks), providing policymakers with a tool—the Commodity Price Tracker—for assessing energy price movements as events unfold. It also addresses two key questions. First, what drives movements in oil and natural gas prices? In particular, what are the respective contributions of *current* and *expected* demand and supply conditions? Second, what are the *macroeconomic effects* of these different drivers of energy prices? Do these effects depend on the source of the shock, and do they differ between oil and natural gas markets?

Determining the Drivers of Oil and Gas Price Fluctuations: A New Analytical Framework

Economic shocks rarely occur in isolation, and to calibrate monetary and fiscal policy adequately, it is critical to disentangle the supply and demand drivers of energy prices in real time. In early April 2025, for example, energy markets faced two almost simultaneous surprise announcements: the US announcement of broad new trade tariffs on April 2 and the surprise unwinding of oil production cuts by OPEC+ (Organization of the Petroleum Exporting Countries, including Russia and other non-OPEC oil exporters) on April 3. Consequently, oil and European gas prices dropped, but a key question arises: How much of the oil price drop was driven by each announcement?

This Commodity Special Feature develops a high-frequency four-variable structural vector autoregression (SVAR) model (Gomez-Gonzalez and others 2026)—the Commodity Price Tracker—that builds on

Gazzani, Venditti, and Veronese (2024). The model decomposes oil and European gas (TTF) price fluctuations using daily financial and newspaper-based data, which unlike GDP data are not subject to revision. The sample covers June 1, 2007 (October 4, 2013, for gas), to May 29, 2026, and it is estimated using Bayesian methods with the European Central Bank's Bayesian Estimation, Analysis, and Regression (BEAR) toolbox (Dieppe, Legrand, and van Roye 2016).

The SVARs include the following daily variables—adjusted front-month energy price,[1] 13-month futures price, returns from an equity index (a world index for oil and a European index for gas), and the newspaper-based Geopolitical Risk Threats (GPRT) index from Caldara and Iacoviello (2022)[2] —to decompose energy price movements into four shocks: *current* demand, *forward-looking* demand, *current* supply disruption, and *forward-looking* supply disruption or geopolitical supply risk.[3]

The first innovation of the approach is distinguishing between realized supply disruptions and geopolitical supply risk—the possibility of future disruptions—in real time. This richer decomposition is relevant for policymakers, because these shocks can have markedly different macroeconomic effects and demand different policy responses. A second innovation is the extension of the framework to natural gas markets, recognizing the growing macroeconomic importance of gas, particularly in Europe.

Distinguishing between *current* and *forward-looking* oil *demand* shocks is important. Current demand shocks, typically characterized by cyclical changes in economic activity that affect energy demand, such as a slowdown in manufacturing, often have only temporary effects. Forward-looking demand shocks capture changes in expected future economic activity and therefore may signal more persistent macroeconomic developments (Gazzani, Venditti, and Veronese 2024) that require a stronger monetary policy response.

Similarly, disentangling *current supply* from *expected future supply* shocks (geopolitical supply risk) is key for policymakers, as geopolitical supply risk may have a more transient impact on prices and activity than current supply shocks. To disentangle these shocks, the SVAR combines an instrumental variable using stock and oil market volatility indices (the Chicago Board Options Exchange Volatility Index, or VIX, and the Crude Oil Volatility Index, or OVX), gold prices, and front-month oil prices with a set of parsimonious sign and relative magnitude restrictions based on economic theory.

The *natural gas* market is fragmented, with the US market largely disconnected from that in the rest of the world and European and Asian markets competing for the largest share of liquefied natural gas supply. Focusing on European prices, the identification strategy for gas closely mirrors that for oil on the supply side, with a few differences. The equity index considered is narrower and includes only European firms, reflecting the regional focus of the TTF. In addition, the SVAR is adapted to the specifics of gas markets when identifying demand-side shocks. Unlike oil markets, gas markets are less financialized: Whereas oil futures have long been traded as a financial asset, such trading is a relatively recent phenomenon in regard to the TTF. Instead, short-term gas demand is strongly influenced by weather conditions, particularly unexpected cold spells or heat waves that increase electricity demand for heating or cooling (Mu 2007). The SVAR therefore uses daily forecast temperature anomalies (Saha and others 2014) as an instrumental variable for current demand.[4]

Transmission of Shocks to Financial Markets and the Macroeconomy

Before historical episodes are decomposed into different shocks, it is important to understand how each individual shock affects energy prices and financial variables (Figure 1.SF.2, with shocks normalized to one standard deviation) and their implications for policy-relevant macroeconomic variables (Figure 1.SF.3, with shocks normalized so that the front-month price increases 1 percent on the shock's impact).

Daily oil SVAR impulse response functions (red lines in Figure 1.SF.2) show that both forward-looking

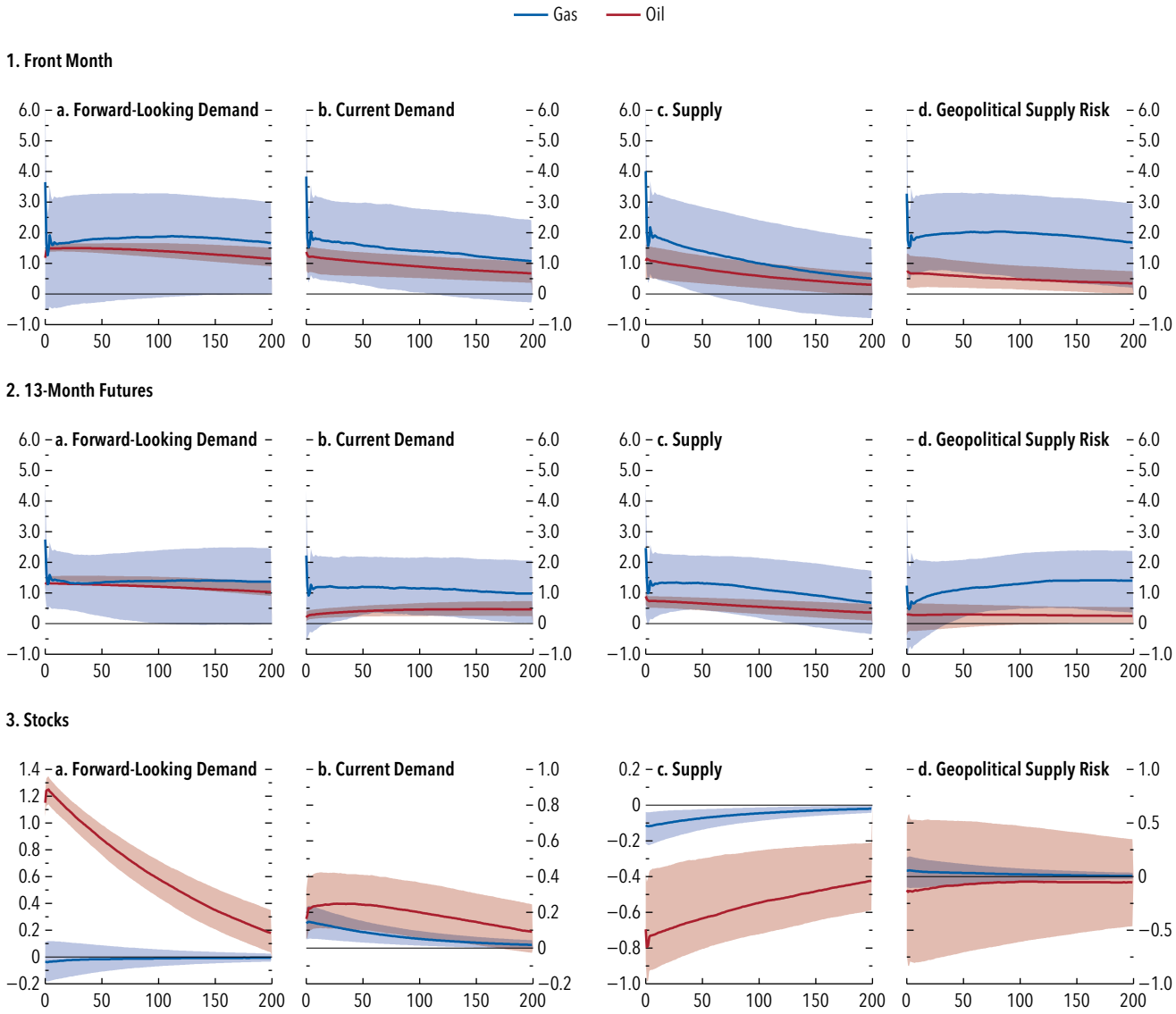
[1]For oil front-month prices, a weighted average of Front-Month Brent and Dated Brent is used, so that the resulting index always refers to a barrel to be delivered one month forward. For gas, front-month and 13-month futures prices are first adjusted to smooth changes in delivery dates from futures contracts and subsequently seasonally adjusted. See Gomez-Gonzalez and others (2026) for further details on the transformations.

[2]The Geopolitical Risk Threats index reports the share of articles from 10 US newspapers that include keywords related to war threats, imperiled peace agreements, military buildups, nuclear threats, and terror threats.

[3]The last shock can be interpreted as a change induced by geopolitical tensions in the expectation of future supply.

[4]The identification strategies for the oil and gas markets are discussed in more detail in Online Annex 1.1. All online annexes are available at www.imf.org/en/Publications/WEO.

Figure 1.SF.2. Impulse Response from Four-Variable High-Frequency VAR
(Percent change; days after the shock on the x-axis)



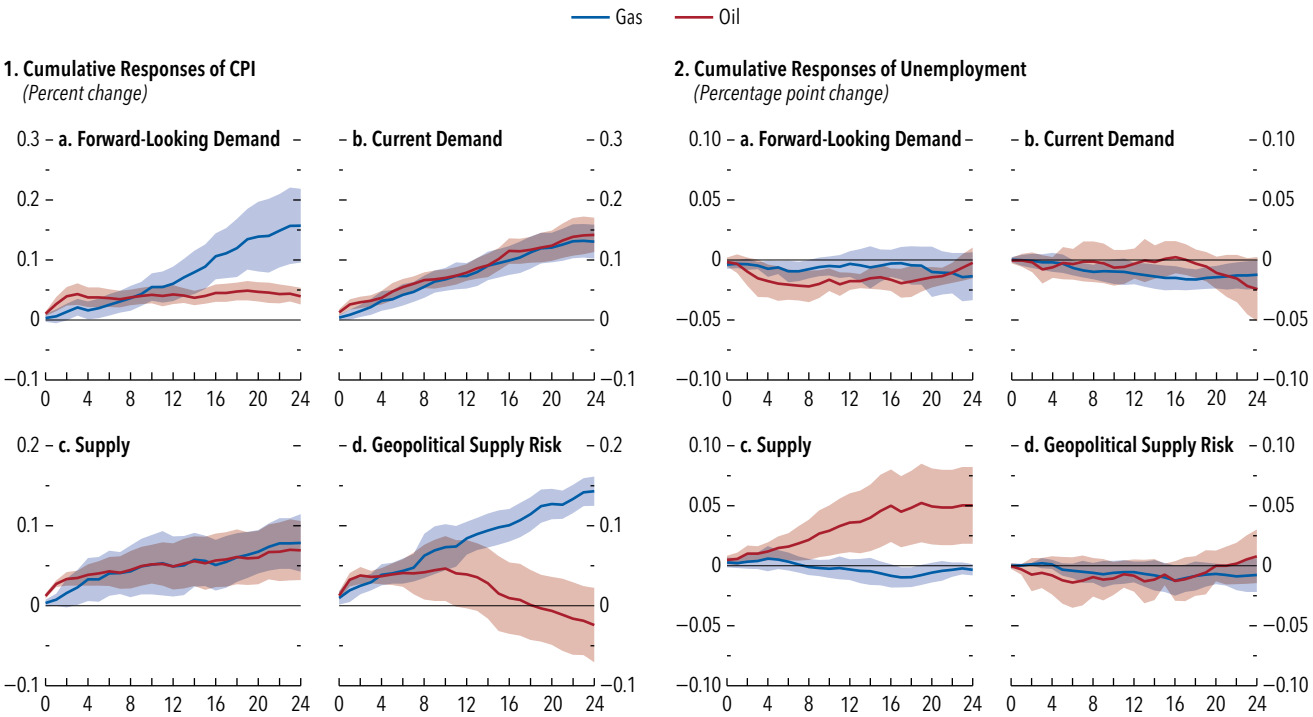
Sources: Bloomberg Finance L.P.; Caldara and Iacoviello 2022; MSCI; and IMF staff calculations.

Note: Rows show endogenous variables in VAR: "Front Month," "13-Month Futures," and "Stocks." Columns show structural shocks identified from VAR: "Forward-Looking Demand," "Current Demand," "Supply," and "Geopolitical Supply Risk." All responses are expressed as percent deviation from a no-shock baseline. "Front month" ("13-Month Futures") refers to the price of futures contracts for the nearest available maturity (13 months ahead); "Stocks" refers to the MSCI Global (Europe) Index in the oil (natural gas) analysis. Each shock is normalized to one standard deviation. Solid lines represent median responses, and shaded areas denote 68 percent confidence intervals. Red corresponds to oil (Brent), and blue corresponds to natural gas (Title Transfer Facility). Sample coverage: June 1, 2007, to May 29, 2026, for oil; October 4, 2013, to May 29, 2026, for natural gas, with daily frequency. VAR = vector autoregression.

and current demand shocks lead to increases in the prices of energy—front month and futures—and equities. However, whereas current demand promotes backwardation (a bigger increase of front-month than of 13-month futures) in line with the temporary nature of the shock, forward-looking demand causes an upward shift of the whole futures curve. Similarly to a current demand shock, a current supply shock promotes backwardation, as the physical market tightens. Equities fall after a supply shock, consistent with firms' lower profits.

The results for gas exhibit some important differences. First, current demand shocks do not affect European equities, as current demand is driven by

Figure 1.SF.3. Local Projections of Oil and Gas Shocks on the Consumer Price Index and Unemployment



Sources: Haver Analytics; and IMF staff calculations.

Note: Responses to oil shocks are estimated for advanced economies that are net oil importers; responses to gas shocks are estimated for the five largest European economies. Reported responses net out the effects of the COVID-19 pandemic. The figure plots the response of the log differences [(t+h)−(t−1)] in the log of the consumer price index (CPI, headline inflation) and in the unemployment rate at different monthly horizons (h) to shocks identified using high-frequency oil and gas structural vector autoregressions at time t. Shaded areas denote 90 percent confidence intervals. Daily shocks are aggregated to monthly frequency using averages and scaled such that, on impact, energy prices increase by 1 percent. The local projection specifications include country fixed effects, 12 lags of monthly inflation in the CPI equations, 12 lags of monthly unemployment in the unemployment equations, a COVID-19 dummy, and an interaction between the COVID-19 dummy and the shock. CPI = consumer price index.

weather conditions, which have little bearing on the broader European stock market. Second, the impact of future demand shocks on front-month TTF prices is not statistically significant, consistent with weather remaining the dominant driver of short-term fluctuations in gas prices. Finally, the response of gas prices (front month and futures) to current demand is more persistent than that for oil, highlighting the key role of gas inventories in smoothing the effect of shocks on prices.

Turning to the *geopolitical risk shock*, the main difference with the actual supply disruption concerns the response of equities. For both gas and oil, a supply shock decreases equity prices, and their response to the geopolitical supply risk shock is not different from zero, with statistical significance in line with earlier work (April 2025 *Global Financial Stability Report*). This suggests that although geopolitical tensions do impact energy prices, the effect on the real economy is bound to be quite small.

To gauge the macroeconomic impact of these shocks—and in particular the difference between geopolitical supply risk shocks and actual supply disruptions—daily shocks are aggregated to monthly frequency and their impact on inflation and unemployment analyzed using local projections (Jordà 2005). The results presented are for a panel of oil-importing advanced economies. When the impact of gas shocks is explored, the focus is on European countries only, given the regional importance of TTF.[5]

All oil shocks are inflationary, as expected, but the magnitude and persistence vary considerably depending on the shock (Figure 1.SF.3, panel 1). Although forward-looking demand, current demand, and actual supply shocks that increase front-month monthly oil prices by 1 percent all increase prices by

[5]Gomez-Gonzalez and others (2026) extend the sample to emerging market economies and low-income countries, when data availability allows.

roughly 0.06 percent[6] after one year, the effect of the geopolitical supply risk shock on inflation is short-lived, with prices back to their preshock levels within six months to a year.[7] For oil importers, demand-driven oil shocks, especially the forward-looking one, decrease the unemployment rate persistently, with unemployment below its preshock levels almost two years after the shock (Figure 1.SF.3, panel 2). Negative supply shocks that increase front-month oil prices by 1 percent increase the unemployment rate by 0.04 percentage point one year after the shock. The geopolitical supply risk shock has no statistically significant impact on the unemployment rate.[8] This exercise underscores the policy relevance of disentangling actual oil supply disruptions from geopolitical supply risk shocks, as the former have large and persistent effects on inflation and unemployment, whereas the latter do not.[9] It also highlights the benefit of isolating changes in the probability of future supply disruptions from (1) geopolitical shocks that increase macroeconomic uncertainty captured in forward-looking demand and (2) actual supply disruptions, since these two other shocks tend to have bigger macroeconomic effects (Kilian, Plante, and Richter 2026; Verduzco-Bustos and Zanetti 2026).

The inflationary pressures of gas shocks in Europe vary considerably across shocks (Figure 1.SF.3, panel 1). A shock, normalized so that the TTF price increases by 1 percent, increases the price level by about 0.05 percent after one year when driven by forward-looking demand or supply shocks and by roughly 0.08 percent when driven by current demand and geopolitical supply risk shocks.[10] All shocks, and particularly geopolitical supply risk, have more persistent effects on inflation than their oil counterparts. This difference reflects the greater persistence of natural gas prices following gas shocks, especially geopolitical supply risk shocks, compared with the response of oil prices to oil shocks, highlighting the role of inventories in smoothing fluctuations (Figure 1.SF.2). The responses of the unemployment rate to gas shocks are relatively muted (Figure 1.SF.3, panel 2), as natural gas is used mainly for heating and cooling, whereas oil is used primarily for transportation (IEA 2025).[11]

Revisiting Historical Energy Price Shocks

The analytical framework just presented is particularly useful during periods of multiple concurrent shocks and geopolitical escalations. To illustrate the model's ability to disentangle shocks in real time,[12] front-month oil and gas prices are decomposed into their main drivers during two relevant and recent conflicts with varying degrees of supply disruptions: Russia's invasion of Ukraine in 2022 and the 2026 war in the Middle East.[13] Russia's invasion of Ukraine entailed a major supply disruption for European gas markets, with TTF prices quadrupling in six months, whereas the oil disruption was minimal. Still, oil prices spiked. In contrast, both oil and gas supplies have been heavily disrupted during the 2026 war in the Middle East, and fears of a worsening geopolitical situation have been paramount.

The decompositions show that geopolitical supply risk exerted upward pressure on prices of energy, both oil and gas, before the wars began (Figure 1.SF.4),[14] reflecting increasing expectations of military escalation. Once the conflicts started, the decomposition of oil prices reveals notable differences across episodes.

[6]The inflationary effect of the oil shocks is broadly in line with other estimates found in the literature (Choi and others 2018; Känzig 2021), though slightly larger.

[7]The short-lived impact of geopolitical supply risk on inflation echoes the findings in Caldara and others (2026) and is consistent with the model in Ambrosino, Chan, and Tenreyro (2026).

[8]The response of the unemployment rate to geopolitical supply risk is also muted when the sample is restricted to before November 2022, when ChatGPT was launched (see Online Annex Figure 1.1.1). This ensures that the AI boom in US financial markets is not acting as a confounding factor during a period of high geopolitical risk and relatively strong labor markets.

[9]The relatively muted impact of geopolitical supply risk on activity is consistent with the model in Kilian, Plante, and Richter (2026), which shows that geopolitically induced changes in the probability of an oil production shortfall (higher geopolitical supply risk) are not a major driver of macroeconomic fluctuations.

[10]These magnitudes are very similar to the one found in López and others (2026) for gas supply shocks.

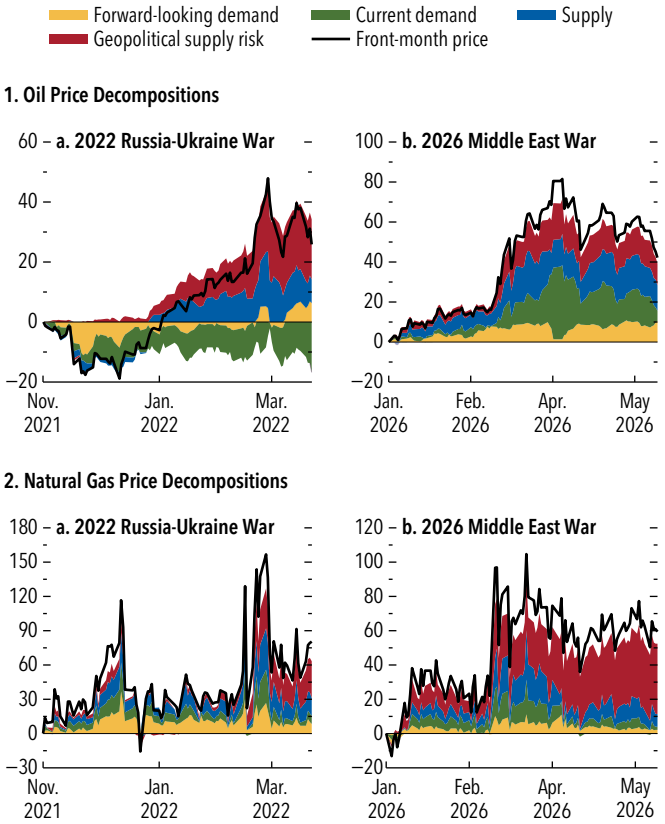
[11]The relatively muted effects on aggregate activity are consistent with previous work that highlights the power of substitution—geographic and of energy sources—in explaining very mild recessions after natural gas shocks (Moll, Schularick, and Zachmann 2023).

[12]To be sure, the analysis presented here is quasi–real time. Although the data used to estimate the SVAR are daily financial data and are not revised, the model is estimated over the whole sample. Robustness exercises in Gomez-Gonzalez and others (2026) show that the results are not different when only data available in real time are used to estimate the model.

[13]The decomposition of oil and gas prices at the time of the US announcement of tariffs in early April 2025, described earlier and an example of concurrent shocks, is in Gomez-Gonzalez and others (2026).

[14]The starting dates of these conflicts were February 24, 2022, for the conflict in Ukraine and February 27, 2026, for that in the Middle East.

Figure 1.SF.4. Front-Month Price Decompositions around Selected Episodes
(Percent change from value at beginning of period)



Sources: Bloomberg Finance L.P.; Caldara and Iacoviello 2022; and IMF staff calculations.

Note: The figure shows variance decompositions of front-month energy prices using four-variable structural vector autoregression models. Front-month price refers to the price of futures contracts for the nearest available maturity. Data used to estimate the models for oil are from June 2007 to May 29, 2026; those used to estimate the models for natural gas are from October 4, 2013, to May 29, 2026 (daily frequency).

During the war in Ukraine, the contribution of geopolitical supply risk has been more than twice as large as that of actual supply, whereas during the 2026 Middle East war, the two shocks have contributed roughly equally. This difference is consistent with the greater severity of the actual supply losses in the latter episode. In contrast, supply emerges as a key driver of gas price movements during the war in Ukraine, reflecting the prominent gas supply disruptions in that conflict. In the 2026 Middle East war, geopolitical supply risk has put substantial upward pressure on gas prices, followed by supply, again in line with the elevated uncertainty, shipping affected by the closure of the Strait of Hormuz, and damage to Qatari facilities. The contribution of demand, however, has been similar across oil and gas during the 2026 war. It exerted upward pressure on prices at the beginning of the war, as refineries and electrical firms likely competed for the scant crude and liquefied natural gas available. As the war has continued, the decomposition starts showing a lower demand contribution, signaling demand compression. A key takeaway from these decompositions is that realized energy shortages do not eliminate the influence of geopolitical risk. Even after supply disruptions materialize, heightened geopolitical supply risk continues to exert upward pressure on energy prices during geopolitical crises. Hence, not all the observed increase in energy prices during these crises should be interpreted as evidence of physical scarcity; part of the rise reflects elevated risk premiums associated with uncertainty about future disruptions.

Conclusion

The key takeaway from this Commodity Special Feature is that effective policy responses to energy-related shocks require identifying the source of energy price movements in real time. Because the macroeconomic implications are different, policymakers should be able to distinguish between price increases driven by demand shocks and those driven by supply shocks and, among the latter, between price increases as a result of geopolitical tensions and those caused by actual supply disruptions. For example, whereas oil-related geopolitical supply risk typically has only short-lived effects on prices and no measurable effect on unemployment, supply disruptions and forward-looking demand shocks generate larger and more persistent macroeconomic effects.

Policymakers' task is further complicated by the fact that shocks usually arise simultaneously. Recent events in the Middle East show that energy prices often increase in anticipation of supply disruptions and that geopolitical risk continues to influence prices even when shortages have already occurred. As a result, interpreting higher energy prices solely as evidence of physical scarcity can lead to inappropriate policy responses.

The Commodity Price Tracker offers a real-time framework for distinguishing among commodity price shocks, thereby supporting more timely and effective policy responses. Whereas the focus of this Commodity Special Feature is on oil and gas, the framework is flexible enough to be extended to other commodities of interest in the future.

Annex Table 1.1.1. European Economies: Real GDP, Consumer Prices, Current Account Balance, and Unemployment

(Annual percent change, unless noted otherwise)

	Real GDP			Consumer Prices[1]			Current Account Balance[2]			Unemployment[3]		
		Projections			Projections			Projections			Projections	
	2025	2026	2027	2025	2026	2027	2025	2026	2027	2025	2026	2027
Europe	**1.6**	**1.4**	**1.6**	**6.2**	**5.9**	**5.1**	**1.5**	**1.5**	**1.5**	**. . .**	**. . .**	**. . .**
Advanced Europe	**1.3**	**1.3**	**1.3**	**2.3**	**2.9**	**2.7**	**2.2**	**2.1**	**2.1**	**5.9**	**6.0**	**5.9**
Euro Area[4,5]	1.2	1.1	1.2	2.1	3.1	2.8	1.7	1.2	1.3	6.3	6.3	6.3
Germany	0.2	1.3	1.1	2.3	2.7	3.1	4.5	4.5	4.2	3.8	4.0	3.7
France	0.9	0.4	0.7	0.9	2.4	2.2	–0.4	–0.7	–0.2	7.7	8.4	8.3
Italy[6]	0.5	0.8	0.6	1.6	3.3	2.8	1.1	0.7	1.2	6.1	5.6	5.8
Spain	2.6	2.5	1.8	2.7	3.7	2.7	3.2	2.6	2.0	10.5	9.8	9.8
The Netherlands	1.6	1.5	1.3	3.0	2.9	2.8	7.6	8.3	8.2	3.9	4.0	4.1
Belgium	1.0	0.7	1.1	3.0	3.8	2.9	–1.9	–2.8	–2.6	6.2	6.2	6.1
Ireland	8.0	–1.0	3.7	2.1	3.4	2.8	8.0	7.4	7.5	4.7	5.0	5.0
Austria	0.8	0.6	0.9	3.6	3.1	3.3	1.9	1.4	1.6	5.7	5.7	5.6
Portugal	1.9	2.1	1.9	2.2	3.2	3.0	1.2	0.0	1.2	6.0	5.9	5.9
Greece	2.1	1.8	1.8	2.9	4.2	3.6	–5.7	–6.6	–5.9	8.9	8.0	7.6
Finland	0.8	1.7	1.4	1.8	2.4	1.6	1.0	0.3	0.3	9.7	10.2	9.6
Bulgaria	3.1	2.6	2.7	3.5	4.9	4.8	–6.1	–8.0	–6.6	3.6	3.4	3.3
Slovak Republic	0.8	0.8	1.6	4.2	3.6	3.5	–3.6	–3.4	–2.9	5.4	5.8	5.7
Croatia	3.4	2.2	2.3	4.4	4.5	3.3	–3.5	–4.4	–3.3	4.5	4.5	4.6
Lithuania	2.9	2.7	2.1	3.4	5.4	3.5	–1.0	–2.3	–2.1	6.9	6.8	6.6
Slovenia	1.5	3.2	2.2	2.5	3.5	2.5	4.1	2.9	2.4	3.9	3.9	4.0
Luxembourg	0.6	1.1	1.6	2.5	3.0	2.6	4.8	4.2	3.9	6.0	6.4	6.5
Latvia	2.1	2.3	1.8	3.8	3.6	3.9	–5.3	–5.9	–6.1	6.9	6.7	6.5
Estonia	1.3	2.1	2.2	4.8	3.0	3.3	0.3	–2.5	–3.6	7.4	6.8	6.6
Cyprus	3.8	2.9	3.2	0.8	3.7	1.9	–6.4	–7.7	–7.7	4.4	4.0	4.4
Malta	4.7	4.2	4.0	2.4	2.4	2.2	8.6	6.5	5.8	3.0	3.0	3.0
United Kingdom	1.2	1.3	1.2	3.4	3.3	2.8	–3.0	–3.3	–3.2	4.9	5.3	5.3
Switzerland	1.6	1.9	1.2	0.2	0.7	0.8	5.6	6.2	6.5	2.8	3.0	3.0
Sweden	1.4	2.5	2.2	2.6	1.1	1.9	6.7	7.3	6.4	8.9	8.5	8.1
Czech Republic	2.6	1.8	1.9	2.5	2.1	2.8	0.7	–1.9	–1.6	2.8	3.0	2.9
Norway	1.1	1.5	1.3	3.0	3.2	2.8	14.2	20.7	17.4	4.5	4.6	4.3
Israel	3.5	4.5	4.4	3.0	1.8	2.0	2.1	1.1	1.7	3.0	3.1	3.2
Denmark	3.5	3.7	2.0	1.8	1.8	2.5	12.3	11.2	10.3	2.9	3.0	3.1
Iceland	1.1	1.4	1.8	4.1	5.6	3.6	–4.0	–2.5	–1.4	4.3	4.8	4.5
Liechtenstein	0.0	1.0	1.0	0.2	0.7	0.8	16.2	16.6	16.5	2.0	2.3	2.2
Andorra	3.9	1.9	1.7	2.4	4.0	3.2	20.0	20.5	20.6	1.3	1.5	1.7
San Marino	1.5	1.3	1.0	2.2	2.8	2.6	17.1	17.0	16.7	4.5	4.4	4.4
Emerging and Developing Europe	**2.0**	**1.7**	**2.1**	**13.5**	**11.3**	**9.5**	**–1.3**	**–0.6**	**–0.6**	**. . .**	**. . .**	**. . .**
Russia	1.0	0.9	0.9	8.7	6.1	4.8	1.5	3.8	3.2	2.2	2.2	2.4
Türkiye	3.7	2.7	3.6	34.9	31.2	26.5	–1.9	–2.9	–2.4	8.3	8.2	8.3
Poland	3.7	3.4	2.5	3.6	3.2	2.8	–1.0	–1.9	–1.5	3.1	3.2	3.2
Romania	0.7	–0.5	2.2	7.3	8.2	4.1	–7.9	–7.0	–6.7	6.1	6.5	5.9
Ukraine[6]	1.8	1.0	3.5	12.7	8.9	8.7	–16.0	–11.0	–4.7	11.6	10.2	11.3
Hungary	0.5	1.9	2.1	4.4	1.9	2.8	1.7	–0.5	0.3	4.4	4.5	4.2
Belarus	1.3	1.9	1.2	6.6	5.1	5.1	–1.9	–3.2	–3.4	2.5	2.5	2.5
Serbia	2.0	3.3	4.0	3.9	3.1	4.2	–4.9	–4.6	–3.5	8.7	8.6	8.5
Bosnia and Herzegovina	2.4	2.3	2.6	4.0	5.0	3.3	–3.1	–4.9	–4.8	12.2	12.2	12.2
Albania	3.7	3.5	3.2	2.2	3.2	3.2	–0.7	–2.1	–2.5	8.7	8.7	8.7
North Macedonia	3.5	3.5	3.2	4.1	4.0	4.5	–4.4	–5.8	–5.1	11.5	11.5	11.4
Moldova	2.4	1.5	2.3	7.8	7.4	9.0	–19.7	–22.0	–22.8	3.8	3.8	3.6
Kosovo	3.6	3.5	3.6	3.9	6.8	4.5	–8.3	–9.3	–8.9	. . .	. . .	. . .
Montenegro, Rep. of	2.7	3.0	2.8	3.9	3.5	3.3	–20.6	–19.7	–19.0	. . .	. . .	. . .

Source: IMF staff estimates.

Note: Data for some countries are based on fiscal years. Please refer to Online Table F in the Online Statistical Appendix for a list of economies with exceptional reporting periods.

[1] Movements in consumer prices are shown as annual averages. Year-end to year-end changes can be found in Online Tables A6 and A7 in the Online Statistical Appendix.
[2] Percent of GDP.
[3] Percent. National definitions of unemployment may differ.
[4] Current account position corrected for reporting discrepancies in intra-area transactions.
[5] Based on Eurostat's harmonized index of consumer prices.
[6] See the country-specific notes for Italy and Ukraine in the "Country Notes" section of the Online Statistical Appendix.

Annex Table 1.1.2. Asian and Pacific Economies: Real GDP, Consumer Prices, Current Account Balance, and Unemployment

(Annual percent change, unless noted otherwise)

	Real GDP			Consumer Prices[1]			Current Account Balance[2]			Unemployment[3]		
		Projections			Projections			Projections			Projections	
	2025	2026	2027	2025	2026	2027	2025	2026	2027	2025	2026	2027
Asia	**5.0**	**4.8**	**4.4**	**1.4**	**2.6**	**2.6**	**3.6**	**4.2**	**4.1**	**. . .**	**. . .**	**. . .**
Advanced Asia	**2.5**	**3.2**	**2.0**	**2.5**	**2.4**	**2.4**	**6.2**	**8.7**	**8.3**	**2.9**	**3.0**	**3.0**
Japan	1.2	0.7	0.7	3.2	2.0	2.6	4.9	4.6	4.3	2.5	2.5	2.5
Korea	1.1	3.3	2.8	2.1	2.7	2.3	6.5	18.8	16.1	2.8	2.8	2.9
Australia	2.0	1.9	1.6	2.8	3.9	3.1	–2.6	–3.1	–2.7	4.2	4.4	4.7
Taiwan Province of China	8.8	10.7	4.3	1.7	2.0	1.8	20.0	22.0	23.1	3.4	3.4	3.4
Singapore	5.0	5.0	3.0	0.9	2.3	2.2	16.7	16.7	16.6	2.0	2.1	2.1
Hong Kong SAR	3.6	3.8	2.8	1.4	1.9	1.9	12.3	13.8	13.1	3.6	3.8	3.5
New Zealand	0.3	2.0	2.6	2.8	4.1	2.8	–3.0	–3.4	–3.4	5.3	5.4	5.1
Macao SAR	4.7	3.3	3.1	0.3	1.8	1.9	39.6	39.8	39.3	1.7	1.7	1.7
Emerging and Developing Asia	**5.6**	**5.1**	**4.9**	**1.1**	**2.7**	**2.7**	**2.7**	**2.5**	**2.6**	**. . .**	**. . .**	**. . .**
China	5.0	4.5	4.0	0.0	1.0	1.4	3.7	4.0	3.9	5.1	5.1	5.1
India[4]	7.8	7.0	7.0	2.0	5.0	4.4	–0.7	–1.5	–1.3	5.0	5.0	5.0
Indonesia	5.1	5.1	5.1	1.9	3.3	2.8	–0.1	–1.6	–1.0	4.9	4.7	4.7
Thailand	2.4	2.1	2.1	–0.1	2.1	1.7	3.0	–1.2	1.4	1.0	1.0	1.0
Vietnam	8.0	8.4	7.5	3.3	4.7	4.9	6.7	0.3	3.4	2.2	2.1	2.2
Malaysia	5.2	5.2	4.6	1.4	2.2	1.9	1.6	2.1	2.1	3.0	3.0	3.0
Philippines	4.4	3.4	5.1	1.7	5.6	4.1	–3.3	–4.8	–3.6	4.2	5.4	5.2
Other Emerging and Developing Asia	**3.5**	**3.5**	**3.3**	**8.4**	**8.5**	**9.5**	**1.1**	**0.5**	**–1.3**	**. . .**	**. . .**	**. . .**
Bangladesh	3.5	3.6	3.2	10.0	8.7	10.9	0.0	–0.3	–2.1	. . .	. . .	. . .
Myanmar	–2.0	2.0	2.0	21.1	20.0	16.0	1.8	–0.8	–1.1	. . .	. . .	. . .
Nepal	4.4	3.6	3.7	4.1	3.1	5.8	6.6	13.9	2.0	. . .	. . .	. . .
Cambodia	5.3	3.0	4.0	2.5	5.6	3.1	–3.7	–8.7	–7.6	. . .	. . .	. . .
Lao P.D.R.	4.8	4.5	4.5	7.7	9.2	9.8	12.0	5.1	1.4	. . .	. . .	. . .
Mongolia	6.8	6.2	5.9	8.6	11.0	10.7	–8.4	–2.2	–2.4	5.3	5.0	5.0
Papua New Guinea	6.2	3.1	4.0	4.4	4.8	5.1	14.3	14.1	12.3	. . .	. . .	. . .
Brunei Darussalam	1.0	1.9	1.3	–0.3	0.8	0.9	18.0	23.7	20.0	4.7	4.7	4.7
Fiji	2.5	1.9	2.3	–1.4	4.2	3.0	–7.7	–12.9	–11.8	5.0	5.0	4.5
Maldives	6.3	1.0	3.8	3.5	4.0	2.5	–6.1	–18.6	–14.8	. . .	. . .	. . .
Bhutan	8.2	7.0	6.9	2.6	5.6	6.5	–16.0	–16.3	–17.7	. . .	. . .	. . .
Timor-Leste[4]	4.5	4.0	3.7	0.5	2.1	2.2	–35.8	–38.5	–38.4	. . .	. . .	. . .
Solomon Islands	3.6	2.7	2.8	2.7	5.1	5.0	5.6	–3.2	–3.2	. . .	. . .	. . .
Samoa	4.2	0.4	1.7	1.8	1.4	5.7	5.7	5.6	–4.6	. . .	. . .	. . .
Vanuatu	3.7	3.5	3.2	0.7	2.8	3.5	–6.0	–6.3	–5.6	. . .	. . .	. . .
Tonga	4.4	1.8	1.9	3.1	3.8	7.5	–4.3	–7.2	–9.7	. . .	. . .	. . .
Kiribati	4.3	3.0	2.5	5.9	4.5	3.1	–15.2	–16.1	–16.0	. . .	. . .	. . .
Micronesia	2.1	1.4	1.7	2.8	3.2	4.5	3.7	0.0	–16.1	. . .	. . .	. . .
Palau	6.0	4.3	2.7	0.2	1.7	3.7	–11.6	–13.8	–14.0	. . .	. . .	. . .
Marshall Islands	1.8	3.0	2.2	4.1	8.6	5.8	33.8	10.7	13.1	. . .	. . .	. . .
Naoero	2.2	2.1	2.0	6.1	5.7	4.3	2.7	2.2	2.0	. . .	. . .	. . .
Tuvalu	5.2	3.4	2.8	2.9	4.3	3.0	21.1	4.7	–0.6	. . .	. . .	. . .
Sri Lanka	5.0	4.0	3.7	–0.5	5.3	5.4	1.6	–0.5	–0.3	3.9	3.9	3.9
Memorandum												
ASEAN-5[5]	4.5	4.4	4.3	1.4	3.2	2.6	3.0	1.8	2.5	. . .	. . .	. . .
Emerging Asia[6]	5.7	5.2	4.9	0.8	2.4	2.4	2.7	2.6	2.7	. . .	. . .	. . .

Source: IMF staff estimates.

Note: Data for some countries are based on fiscal years. Please refer to Online Table F in the Online Statistical Appendix for a list of economies with exceptional reporting periods.

[1] Movements in consumer prices are shown as annual averages. Year-end to year-end changes can be found in Online Tables A6 and A7 in the Online Statistical Appendix.
[2] Percent of GDP.
[3] Percent. National definitions of unemployment may differ.
[4] See the country-specific notes for India and Timor-Leste in the "Country Notes" section of the Online Statistical Appendix.
[5] Indonesia, Malaysia, the Philippines, Singapore, and Thailand.
[6] Emerging Asia comprises China, India, Indonesia, Malaysia, the Philippines, Thailand, and Vietnam.

Annex Table 1.1.3. Western Hemisphere Economies: Real GDP, Consumer Prices, Current Account Balance, and Unemployment

(Annual percent change, unless noted otherwise)

	Real GDP			Consumer Prices[1]			Current Account Balance[2]			Unemployment[3]		
		Projections			Projections			Projections			Projections	
	2025	2026	2027	2025	2026	2027	2025	2026	2027	2025	2026	2027
North America	**2.1**	**2.2**	**2.2**	**2.8**	**3.6**	**2.9**	**–3.5**	**–3.4**	**–3.4**	**. . .**	**. . .**	**. . .**
United States	2.3	2.3	2.3	2.7	3.6	2.8	–3.8	–3.9	–3.8	4.3	4.2	4.0
Mexico	0.5	1.5	1.8	3.8	3.8	3.6	–0.5	–0.3	–0.5	2.6	2.8	2.8
Canada	1.9	1.1	1.7	2.1	2.8	2.4	–0.9	–0.1	–0.2	6.9	6.5	6.3
Puerto Rico[4]	0.3	–0.1	1.0	1.5	3.1	3.6	. . .	. . .	. . .	5.6	5.4	5.3
South America[5]	**2.9**	**2.1**	**2.4**	**9.7**	**8.4**	**6.7**	**–1.6**	**–1.1**	**–1.2**	**. . .**	**. . .**	**. . .**
Brazil	2.3	2.2	1.9	5.0	4.4	4.1	–2.9	–2.4	–2.0	6.0	6.2	6.8
Argentina	4.5	2.1	3.5	41.9	32.5	21.2	–1.1	0.6	0.6	7.4	7.6	7.1
Colombia	2.6	2.2	2.3	5.1	6.0	5.7	–2.4	–2.6	–3.4	8.0	9.0	10.0
Chile	2.5	0.6	2.6	4.2	3.7	3.5	–1.2	–0.3	–1.5	8.5	9.5	9.6
Peru	3.4	3.0	2.9	1.5	3.8	2.6	3.5	4.0	3.0	5.9	5.0	5.2
Ecuador	3.7	2.7	2.5	0.7	2.0	2.1	5.9	4.6	4.6	3.1	3.1	3.1
Venezuela	9.0	5.0	7.0	252.0	467.9	174.7	0.6	–1.0	–3.4	. . .	. . .	. . .
Bolivia	–1.6	–3.0	–1.5	19.5	12.7	15.8	–1.9	1.6	1.0	3.3	4.5	5.2
Paraguay	6.6	4.5	4.0	4.0	3.1	3.3	–2.5	–2.8	–3.0	4.8	4.7	4.7
Uruguay	1.8	1.3	2.4	4.7	4.0	4.5	–0.5	–0.9	–1.0	7.5	7.5	7.5
Central America	**3.7**	**4.2**	**4.0**	**1.8**	**3.0**	**3.7**	**1.0**	**–0.3**	**–0.7**	**. . .**	**. . .**	**. . .**
Dominican Republic	2.1	4.6	4.4	3.9	5.1	5.3	–1.2	–1.5	–1.7	5.3	5.3	5.2
Guatemala	4.3	4.0	3.8	1.6	3.0	4.1	4.7	3.6	3.1	. . .	. . .	. . .
Panama	4.4	5.0	4.2	–0.1	1.8	2.2	–0.2	–1.5	–2.5	10.4	9.1	8.7
Costa Rica	4.6	3.3	3.5	–0.1	–0.8	2.2	–0.6	–1.5	–1.6	6.3	7.0	7.2
El Salvador	3.9	4.5	4.0	0.3	2.7	2.1	–3.5	–4.8	–3.0	4.2	4.3	4.4
Honduras	3.8	3.3	3.4	4.6	5.6	5.3	2.4	–2.0	–3.5	4.9	7.1	7.4
Nicaragua	4.9	3.8	3.8	2.1	3.5	3.2	9.5	6.4	4.0	2.7	3.1	2.7
Caribbean	**6.1**	**8.0**	**7.4**	**5.9**	**5.9**	**5.7**	**1.6**	**3.9**	**1.3**	**. . .**	**. . .**	**. . .**
Guyana	19.3	22.3	16.8	3.3	4.1	5.1	21.4	31.6	17.5	. . .	. . .	. . .
Trinidad and Tobago	–0.5	0.2	2.2	1.0	0.8	1.5	5.0	5.6	8.1	4.5	4.4	4.5
Jamaica	0.1	0.0	2.4	3.9	5.9	5.5	1.5	–5.1	–3.6	3.4	. . .	. . .
Haiti	–2.7	–1.7	–0.5	28.3	21.5	15.7	1.4	1.3	0.2	. . .	. . .	. . .
Bahamas, The	3.8	2.5	1.9	1.1	3.8	4.2	–8.3	–9.3	–8.7	9.4	9.3	9.1
Suriname	4.0	4.0	4.1	9.2	10.5	12.4	–53.3	–51.0	–51.4	9.5	9.0	8.0
Barbados	2.7	1.8	2.2	0.9	2.6	2.8	–5.9	–6.3	–6.2	7.2	7.3	7.3
Belize	2.6	1.9	2.0	1.1	3.5	2.4	–2.8	–5.2	–4.2	2.0	2.0	2.0
Aruba	6.3	3.7	2.7	0.1	1.8	2.2	11.6	10.5	9.9	4.0	3.9	4.0
St. Lucia	–0.6	1.2	1.8	0.7	2.9	2.5	–5.2	–5.8	–4.9	. . .	. . .	. . .
Antigua and Barbuda	3.0	2.4	2.5	1.4	3.6	3.1	–11.6	–12.7	–11.9	. . .	. . .	. . .
Grenada	4.8	3.9	3.0	0.6	1.7	1.8	–23.1	–22.8	–18.8	. . .	. . .	. . .
St. Vincent and the Grenadines	2.4	2.3	2.4	0.9	2.7	2.6	–16.4	–17.2	–15.2	. . .	. . .	. . .
St. Kitts and Nevis	1.5	1.8	2.3	0.8	3.6	3.2	–14.4	–16.2	–15.4	. . .	. . .	. . .
Dominica	4.5	3.1	2.8	0.9	2.7	1.1	–38.7	–35.7	–28.5	. . .	. . .	. . .
Memorandum												
Latin America and the Caribbean[6]	2.5	2.3	2.5	7.6	6.8	5.7	–1.0	–0.7	–0.9	. . .	. . .	. . .
Eastern Caribbean Currency Union[7]	2.1	2.4	2.4	0.9	2.8	2.5	–10.6	–10.9	–10.1	. . .	. . .	. . .

Source: IMF staff estimates.

Note: Data for some countries are based on fiscal years. Please refer to Online Table F in the Online Statistical Appendix for a list of economies with exceptional reporting periods.

[1] Movements in consumer prices are shown as annual averages. Year-end to year-end changes can be found in Online Tables A6 and A7 in the Online Statistical Appendix. Aggregates exclude Venezuela.

[2] Percent of GDP.

[3] Percent. National definitions of unemployment may differ.

[4] Puerto Rico is a territory of the United States, but its statistical data are maintained on a separate and independent basis.

[5] See the country-specific notes for Argentina, Uruguay, and Venezuela in the "Country Notes" section of the Online Statistical Appendix.

[6] Latin America and the Caribbean comprises Mexico and economies from the Caribbean, Central America, and South America. See the country-specific notes for Argentina and Venezuela in the "Country Notes" section of the Online Statistical Appendix.

[7] Eastern Caribbean Currency Union comprises Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines, as well as Anguilla and Montserrat, which are not IMF members.

Annex Table 1.1.4. Middle East and Central Asia Economies: Real GDP, Consumer Prices, Current Account Balance, and Unemployment

(Annual percent change, unless noted otherwise)

	Real GDP			Consumer Prices[1]			Current Account Balance[2]			Unemployment[3]		
		Projections			Projections			Projections			Projections	
	2025	2026	2027	2025	2026	2027	2025	2026	2027	2025	2026	2027
Middle East and Central Asia	**3.7**	**–0.3**	**6.3**	**11.2**	**13.0**	**10.2**	**0.6**	**–1.0**	**0.9**	**. . .**	**. . .**	**. . .**
Oil Exporters	**3.3**	**–3.8**	**7.4**	**10.6**	**15.4**	**9.7**	**2.4**	**0.4**	**3.1**	**. . .**	**. . .**	**. . .**
Saudi Arabia	4.6	–3.3	7.9	2.0	1.9	2.2	–2.6	–3.5	–1.3	3.2	. . .	. . .
Iran[4]	–0.9	–7.6	3.6	50.6	78.6	42.0	3.3	–1.2	1.2	7.5	9.2	9.0
United Arab Emirates	6.2	–3.9	7.7	1.3	4.5	2.5	13.3	4.8	7.8	. . .	. . .	. . .
Kazakhstan	6.5	4.4	4.9	11.4	10.3	8.2	–4.1	0.5	–0.7	4.6	4.6	4.5
Algeria	3.9	3.8	3.2	1.4	6.2	3.9	–8.9	–0.8	–1.8	. . .	. . .	. . .
Iraq	–0.4	–16.0	19.0	0.3	3.5	3.0	–3.8	–10.8	2.2	. . .	. . .	. . .
Qatar	1.8	–15.6	18.8	0.6	3.6	3.1	16.4	7.1	13.7	. . .	. . .	. . .
Kuwait	2.7	–16.7	17.1	2.4	2.2	2.4	22.7	18.3	24.9	. . .	. . .	. . .
Azerbaijan	1.4	1.7	2.3	5.6	5.8	5.6	4.6	11.3	9.8	5.3	5.3	5.2
Oman	2.4	4.1	2.2	1.0	3.2	2.7	–1.1	5.0	6.7	. . .	. . .	. . .
Turkmenistan[4]	3.6	2.4	2.5	2.7	5.6	4.3	1.7	1.4	1.8	. . .	. . .	. . .
Libya[4]	15.9	3.3	2.9	1.8	14.1	16.1	1.1	0.9	0.4	. . .	. . .	. . .
Bahrain	3.5	–11.3	13.9	–0.1	2.2	1.5	5.0	3.6	4.5	5.6	. . .	. . .
Oil Importers[5]	**4.3**	**4.7**	**4.7**	**12.1**	**9.4**	**11.0**	**–4.1**	**–4.4**	**–4.5**	**. . .**	**. . .**	**. . .**
Egypt	4.4	5.1	4.7	20.4	13.3	14.8	–4.2	–4.4	–4.9	7.3	. . .	. . .
Pakistan	3.2	3.6	3.5	4.5	7.1	9.9	0.5	0.0	–1.0	7.1	6.9	6.5
Uzbekistan	7.7	7.8	6.5	8.8	6.9	5.7	–3.9	–5.1	–4.6	4.8	4.3	3.8
Morocco	4.9	4.5	4.2	0.8	0.9	1.4	–2.4	–4.9	–4.1	13.0	12.2	11.3
Tunisia	2.7	2.4	2.0	5.3	5.5	6.3	–3.3	–4.9	–5.3	15.2	. . .	. . .
Jordan	2.8	2.7	3.1	1.8	2.5	2.3	–5.6	–7.5	–5.7	21.3	. . .	. . .
Sudan[4]	0.0	7.0	15.0	99.9	41.3	50.9	–8.6	–14.6	–13.0	61.2	59.5	54.7
Georgia	7.5	7.2	5.7	3.9	5.4	3.6	–2.6	–3.5	–3.7	13.9	13.9	13.9
Afghanistan[4]	1.5	. . .	. . .	3.6	. . .	. . .	–37.9	. . .	. . .	. . .	. . .	. . .
Armenia	7.1	5.5	5.5	3.3	4.6	3.6	–8.7	–8.2	–7.7	12.8	12.8	12.7
Lebanon[4]	4.0	. . .	. . .	14.6	. . .	. . .	–22.5	. . .	. . .	. . .	. . .	. . .
Kyrgyz Republic	11.1	9.0	7.0	8.2	12.7	14.3	–24.9	–9.0	–8.7	4.0	4.0	4.0
Tajikistan	8.4	7.3	6.8	3.4	4.1	4.8	17.2	8.2	3.5	. . .	. . .	. . .
Mauritania	3.6	4.4	4.4	1.6	8.0	7.2	–5.8	–7.8	–7.4	. . .	. . .	. . .
Somalia	3.1	2.3	2.7	3.7	6.3	5.5	–24.3	–25.4	–25.2	. . .	. . .	. . .
Yemen[4]	–0.5	–1.5	0.0	20.2	5.0	17.0	–6.8	–3.3	–4.1	. . .	. . .	. . .
Djibouti	4.9	5.6	5.0	–0.3	2.3	2.7	14.5	11.5	10.0	. . .	. . .	. . .
West Bank and Gaza[4]	4.3	. . .	. . .	10.5	. . .	. . .	–15.8	. . .	. . .	. . .	. . .	. . .
Memorandum												
Caucasus and Central Asia	6.2	5.2	5.0	8.4	8.0	6.7	–2.7	–0.1	–0.8	. . .	. . .	. . .
Middle East, North Africa, Afghanistan, and Pakistan[5]	3.3	–1.3	6.6	11.7	13.8	10.8	1.1	–1.2	1.2	. . .	. . .	. . .
Middle East and North Africa	3.3	–2.0	7.0	12.8	14.9	11.0	1.3	–1.3	1.4	. . .	. . .	. . .

Source: IMF staff estimates.

Note: Data for some countries are based on fiscal years. Please refer to Online Table F in the Online Statistical Appendix for a list of economies with exceptional reporting periods.

[1] Movements in consumer prices are shown as annual averages. Year-end to year-end changes can be found in Online Tables A6 and A7 in the Online Statistical Appendix.
[2] Percent of GDP.
[3] Percent. National definitions of unemployment may differ.
[4] See the country-specific notes for Afghanistan, Iran, Lebanon, Libya, Sudan, Turkmenistan, West Bank and Gaza, and Yemen in the "Country Notes" section of the Online Statistical Appendix.
[5] Excludes Afghanistan and Syria because of a lack of adequate data. See the country-specific notes in the "Country Notes" section of the Online Statistical Appendix.

Annex Table 1.1.5. Sub-Saharan African Economies: Real GDP, Consumer Prices, Current Account Balance, and Unemployment

(Annual percent change, unless noted otherwise)

	Real GDP			Consumer Prices[1]			Current Account Balance[2]			Unemployment[3]		
		Projections			Projections			Projections			Projections	
	2025	2026	2027	2025	2026	2027	2025	2026	2027	2025	2026	2027
Sub-Saharan Africa	**4.5**	**4.5**	**4.5**	**12.6**	**8.6**	**8.6**	**–0.8**	**–0.6**	**–0.9**	**. . .**	**. . .**	**. . .**
Oil Exporters	**4.0**	**4.2**	**4.1**	**21.3**	**13.9**	**13.4**	**2.3**	**5.3**	**2.8**	**. . .**	**. . .**	**. . .**
Nigeria[4]	4.0	4.2	4.3	23.0	15.6	14.7	4.8	7.0	4.4	. . .	. . .	. . .
Angola	3.1	4.4	3.3	20.2	10.6	10.2	0.3	2.8	–0.1	. . .	. . .	. . .
Chad	5.1	4.5	5.4	–2.6	–0.7	5.3	–0.6	1.3	–0.3	. . .	. . .	. . .
Gabon	3.2	3.0	2.9	1.8	0.8	1.9	–6.0	1.3	–2.2	. . .	. . .	. . .
Republic of Congo	2.4	3.5	3.6	2.6	4.0	3.4	–5.1	5.2	3.6	. . .	. . .	. . .
Equatorial Guinea	–5.8	–1.7	–1.0	2.3	3.3	2.9	–2.4	–0.1	–0.8	. . .	. . .	. . .
South Sudan	41.4	10.5	3.9	97.6	27.6	28.3	–6.4	8.2	5.0	. . .	. . .	. . .
Middle-Income Countries	**3.5**	**3.3**	**3.4**	**4.5**	**4.3**	**4.5**	**–0.5**	**–1.2**	**–1.3**	**. . .**	**. . .**	**. . .**
South Africa	1.1	1.0	1.3	3.2	4.4	3.9	–0.5	–0.7	–0.9	32.4	33.2	33.0
Kenya	4.6	4.5	4.7	4.1	6.0	5.0	–2.8	–4.5	–4.1	. . .	. . .	. . .
Ghana	6.0	5.7	5.2	14.2	4.8	7.8	8.1	6.0	5.6	. . .	. . .	. . .
Côte d'Ivoire	6.5	6.0	6.1	0.1	2.2	2.5	–0.6	–2.4	–3.2	. . .	. . .	. . .
Cameroon	3.5	3.2	3.6	3.5	3.4	4.3	–3.8	–4.8	–4.6	. . .	. . .	. . .
Senegal[4]	6.7	. . .	. . .	1.4	. . .	. . .	–1.2	. . .	. . .	. . .	. . .	. . .
Zambia	3.8	5.6	4.9	13.9	8.0	7.5	–5.5	2.3	3.9	. . .	. . .	. . .
Benin	8.1	7.0	6.8	1.1	0.8	2.0	–5.7	–5.6	–5.2	. . .	. . .	. . .
Botswana	–0.7	4.4	2.2	2.8	7.2	7.4	3.1	–1.0	–1.0	. . .	. . .	. . .
Mauritius	3.2	2.7	3.2	3.7	4.7	5.5	–7.0	–7.9	–5.8	5.7	6.0	5.9
Namibia	1.7	2.0	2.7	3.5	4.1	4.2	–13.1	–16.9	–14.4	. . .	. . .	. . .
Eswatini	4.9	3.7	3.4	3.1	2.9	3.2	2.4	1.8	1.9	. . .	. . .	. . .
Lesotho	1.5	1.1	0.8	4.0	4.6	3.9	–1.2	–2.5	–0.6	. . .	. . .	. . .
Cabo Verde	6.3	5.0	5.0	2.3	1.2	2.8	3.4	–1.9	–2.2	8.5	8.5	8.5
Seychelles	5.8	1.0	4.0	0.3	0.9	2.3	–7.7	–8.5	–5.3	2.6	2.6	2.6
Comoros	3.8	2.9	3.1	3.2	4.0	3.2	–0.5	–6.1	–4.8	. . .	. . .	. . .
São Tomé and Príncipe	1.0	0.4	1.9	0.9	11.0	9.6	–4.3	–6.1	–4.8	. . .	. . .	. . .
Low-Income Countries[5]	**6.7**	**6.4**	**6.4**	**11.6**	**6.7**	**7.4**	**–3.5**	**–4.8**	**–3.5**	**. . .**	**. . .**	**. . .**
Ethiopia	9.2	9.2	7.8	16.0	11.7	12.3	–0.8	–2.5	–1.3	. . .	. . .	. . .
Tanzania	5.9	6.0	5.9	3.3	4.0	4.2	–2.6	–2.7	–2.6	. . .	. . .	. . .
Democratic Republic of the Congo	5.7	5.2	5.7	7.4	4.3	7.4	–3.7	–1.9	–0.9	. . .	. . .	. . .
Uganda	6.7	6.2	9.9	3.6	4.2	5.3	–5.1	–7.3	–2.4	. . .	. . .	. . .
Zimbabwe	8.3	5.0	3.5	81.4	4.0	5.0	3.6	5.3	3.6	. . .	. . .	. . .
Mali	4.9	5.5	5.7	2.3	3.0	2.5	0.1	–3.4	–3.4	. . .	. . .	. . .
Guinea	6.9	7.2	7.8	3.1	6.3	5.8	–14.7	–10.7	–3.5	. . .	. . .	. . .
Burkina Faso	5.3	4.4	4.8	–0.5	2.1	2.2	5.8	–0.6	–1.7	. . .	. . .	. . .
Madagascar	3.1	3.8	4.5	8.0	8.4	8.0	–6.0	–8.7	–7.0	. . .	. . .	. . .
Niger	6.9	7.0	6.5	–4.7	–1.9	2.0	–3.7	–3.0	–3.3	. . .	. . .	. . .
Mozambique	–0.2	1.0	2.0	4.4	5.6	6.8	–13.5	–41.0	–37.8	. . .	. . .	. . .
Rwanda	9.4	7.4	7.2	7.0	12.3	7.9	–9.8	–10.5	–9.0	. . .	. . .	. . .
Malawi	2.5	2.6	2.3	28.4	21.9	25.0	–13.8	–12.2	–12.2	. . .	. . .	. . .
Togo	6.3	5.0	5.3	0.4	1.1	2.3	–2.8	–4.8	–3.4	. . .	. . .	. . .
Sierra Leone	4.8	4.0	4.4	7.6	13.8	13.0	–5.2	–4.7	–4.2	. . .	. . .	. . .
Burundi	4.2	3.6	4.7	34.0	10.5	12.2	–6.4	–6.8	–5.2	. . .	. . .	. . .
Liberia	5.1	5.5	5.1	8.3	5.9	7.1	–7.0	–19.9	–19.6	. . .	. . .	. . .
The Gambia	5.7	5.1	5.1	7.9	7.0	5.7	–4.1	–5.9	–5.2	. . .	. . .	. . .
Central African Republic[4]	5.8	2.7	3.3	1.0	3.5	3.0	–2.6	–3.3	–3.4	. . .	. . .	. . .
Guinea-Bissau	5.8	4.7	4.9	0.9	2.5	2.1	–6.2	–7.0	–5.7	. . .	. . .	. . .

Source: IMF staff estimates.

Note: Data for some countries are based on fiscal years. Please refer to Online Table F in the Online Statistical Appendix for a list of economies with exceptional reporting periods.

[1] Movements in consumer prices are shown as annual averages. Year-end to year-end changes can be found in Online Tables A6 and A7 in the Online Statistical Appendix.

[2] Percent of GDP.

[3] Percent. National definitions of unemployment may differ.

[4] See the country-specific notes for the Central African Republic, Nigeria, and Senegal in the "Country Notes" section of the Online Statistical Appendix

[5] Excludes Eritrea because of a lack of adequate data. See the country-specific note in the "Country Notes" section of the Online Statistical Appendix.

Annex Table 1.1.6. Summary of World Real per Capita Output

(Annual percent change; in constant 2021 international dollars at purchasing power parity)

	Average									Projections	
	2008–17	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
World	**1.8**	**2.5**	**1.8**	**–3.9**	**5.7**	**2.8**	**2.3**	**2.5**	**2.6**	**2.1**	**2.5**
Advanced Economies	**0.8**	**1.9**	**1.5**	**–4.4**	**6.0**	**2.5**	**0.9**	**1.4**	**1.7**	**1.9**	**1.7**
United States	0.8	2.4	2.1	–2.9	5.9	1.9	2.1	2.0	1.8	2.0	2.0
Euro Area[1]	0.4	1.6	1.5	–6.3	6.5	3.4	–0.1	0.8	1.0	1.0	1.1
Germany	1.2	1.1	1.0	–3.9	4.1	1.2	–1.9	–0.3	0.2	1.6	1.3
France	0.3	1.3	1.7	–7.9	6.4	2.3	1.3	1.1	0.6	0.1	0.5
Italy	–0.8	1.0	0.6	–8.6	9.7	5.2	1.0	0.8	0.6	0.9	0.7
Spain	0.1	1.8	1.1	–11.1	6.5	5.0	1.2	2.6	1.9	1.5	0.8
Japan	0.6	1.0	–0.1	–4.0	3.9	1.6	1.4	0.5	1.7	1.3	1.2
United Kingdom	0.6	1.1	0.9	–10.2	8.1	4.0	–0.9	0.0	0.9	0.7	0.9
Canada	0.5	1.3	0.4	–6.1	5.3	2.9	–0.8	–0.9	0.7	1.5	1.7
Other Advanced Economies[2]	1.7	2.1	1.3	–2.2	6.0	2.0	0.6	1.9	2.8	3.6	2.3
Emerging Market and Developing Economies	**3.3**	**3.3**	**2.5**	**–3.2**	**5.9**	**3.2**	**3.4**	**3.4**	**3.5**	**2.6**	**3.4**
Emerging and Developing Asia	6.1	5.6	4.5	–1.3	7.1	4.1	5.1	4.9	5.1	4.6	4.4
China	7.7	6.4	5.7	2.2	8.5	3.2	5.5	5.1	5.2	4.7	4.2
India[3]	5.3	5.3	2.8	–6.7	8.8	6.8	6.4	6.2	6.9	6.1	6.1
Emerging and Developing Europe	1.8	3.4	2.4	–1.9	7.6	1.7	3.8	4.3	2.4	1.9	2.0
Russia	1.0	2.6	2.1	–2.5	6.3	–1.3	4.2	5.4	1.6	1.3	1.2
Latin America and the Caribbean	0.8	0.0	–1.0	–8.0	6.7	3.6	1.5	1.6	1.7	1.6	1.8
Brazil	0.8	1.1	0.6	–3.9	4.3	2.6	2.8	3.0	1.9	1.8	1.5
Mexico	0.3	1.0	–1.3	–9.1	5.4	2.9	2.2	0.6	–0.3	0.7	1.0
Middle East and Central Asia	1.1	0.8	0.3	–4.5	3.0	4.2	0.5	1.0	1.9	–2.4	4.3
Saudi Arabia	0.5	5.9	2.1	–8.3	9.2	7.2	–4.0	–2.0	2.5	–5.2	5.8
Sub-Saharan Africa	1.5	0.6	0.3	–5.7	1.4	1.9	1.3	1.5	2.0	2.0	2.0
Nigeria[3]	2.1	–0.4	0.0	–8.3	–1.0	2.2	1.2	1.9	1.9	2.1	2.2
South Africa	0.2	0.0	–1.3	–7.5	3.8	0.9	–0.5	–0.8	1.0	–0.2	0.1
Memorandum											
European Union	0.7	2.1	1.9	–5.7	6.7	3.5	0.0	1.1	1.3	1.3	1.3
ASEAN-5[4]	3.5	3.8	3.2	–5.5	3.4	4.6	3.1	3.9	3.6	3.5	3.5
Middle East and North Africa	0.7	0.2	–0.1	–4.7	3.1	4.5	0.4	0.7	1.6	–4.1	5.0
Emerging Market and Middle-Income Economies	3.6	3.6	2.7	–2.9	6.6	3.5	3.8	3.8	3.8	2.9	3.7
Low-Income Developing Countries	2.7	2.2	2.2	–3.8	1.4	2.6	1.8	1.9	2.5	2.6	2.6

Source: IMF staff estimates.

Note: Data for some countries are based on fiscal years. Please refer to Online Table F in the Online Statistical Appendix for a list of economies with exceptional reporting periods.

[1] Data are calculated as the sum of data for individual euro area countries.
[2] Excludes the Group of Seven (Canada, France, Germany, Italy, Japan, United Kingdom, United States) and euro area countries.
[3] See the country-specific notes for India and Nigeria in the "Country Notes" section of the Online Statistical Appendix.
[4] Indonesia, Malaysia, the Philippines, Singapore, and Thailand.

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