Global Economic Outlook 2026

Slowing global economy amid persistent supply shocks

December 15, 2025

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Agenda

- **Executive summary**
- Five global themes
- Country and regional outlooks
- Translating macro insights into action
- Meet the team and explore resources

Global economic resilience into 2026 amid shifting trade patterns, moderate consumer spending, AI-fueled investment, demographic headwinds and labor market transitions

Resilience but easing growth

- The global economy remains resilient but is increasingly shaped by complex crosscurrents: shifting trade alignments, demographic pressures, evolving labor dynamics and an accelerating artificial intelligence (AI) investment cycle. These forces create both stabilizers and vulnerabilities, leaving global expansion dependent on a narrow set of supports. Despite recent tariffs, global trade has held up due to carve-outs and supply chain reconfiguration, but a more disruptive phase remains a meaningful risk heading into 2026 as geo-economic fragmentation deepens.
- We expect global real GDP growth to ease from 3.3% in 2025 to 3.1% in 2026.

Slower growth in developed markets

- Developed markets continue to face a convergence of structural and cyclical headwinds. Aging populations, chronic underinvestment, immigration constraints and rising protectionism are weighing on potential output. At the same time, AI-driven investment provides an important counterforce, with the prospect of productivity gains and modest disinflationary effects over the medium term. Growth is expected to slow further in 2026 across the major advanced economies, including the US, euro area and Japan.
- We anticipate developed market growth to ease from 1.7% in 2025 to 1.5% in 2026.

Uneven growth in emerging markets

- Emerging markets (EMs) display uneven but generally firmer momentum, supported by resilient domestic demand in India and targeted policy support in parts of Asia. China faces intensifying structural headwinds, including demographic drag, underconsumption and deflationary pressure, while Latin America contends with fiscal fragility and inflation stickiness. Overall, aggregate EM growth is expected to hold near 4% in 2026.
- We anticipate emerging markets growth to ease from 4.5% in 2025 to 4.1% in 2026.

Tariff-driven inflation divergence

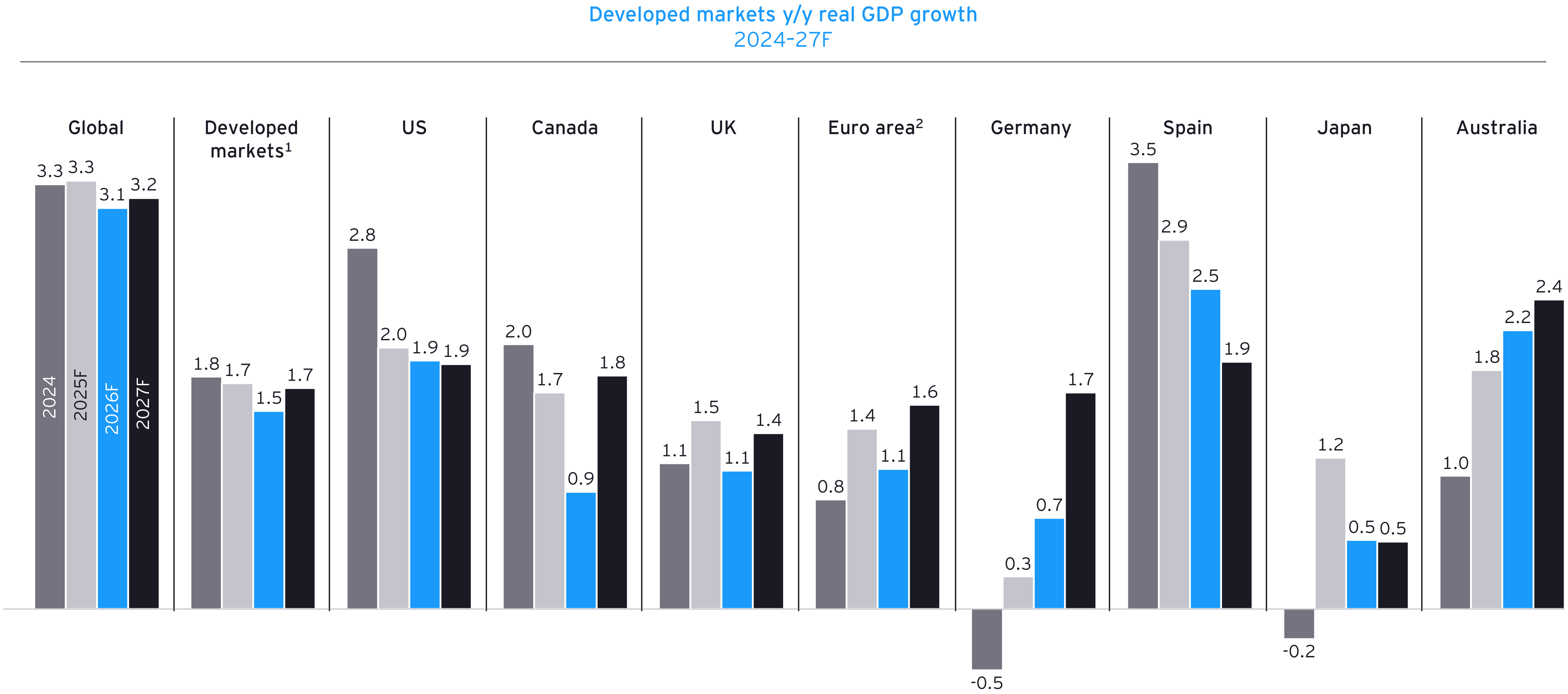
- Global inflation continues to ease but remains highly divergent. Tariff-imposing economies are seeing higher import costs and renewed price pressures, while targeted economies continue to experience demand and commodity price-driven disinflation. In this context, US inflation is reaccelerating amid tariff and immigration effects, the euro area has largely returned to its 2% target, Japan is drifting towards 2% as cost pressures fade, and China remains in a deflationary environment. Services inflation remains a key source of stickiness across several developed markets.
- We anticipate global headline inflation to average 2.8% in 2026 after 3.3% in 2025.

Bifurcated central bank policy

- Monetary policy remains bifurcated. Major developed market central banks are proceeding cautiously amid inflation uncertainty. The Fed and the Bank of England are expected to ease policy very gradually in 2026, and the European Central Bank (ECB) is likely to remain on hold. In Japan, policy normalization is anticipated to proceed with a slow tightening. Across EMs, some central banks are trimming rates while others remain defensive to contain inflation volatility and currency pressures.

Source: EY analysis

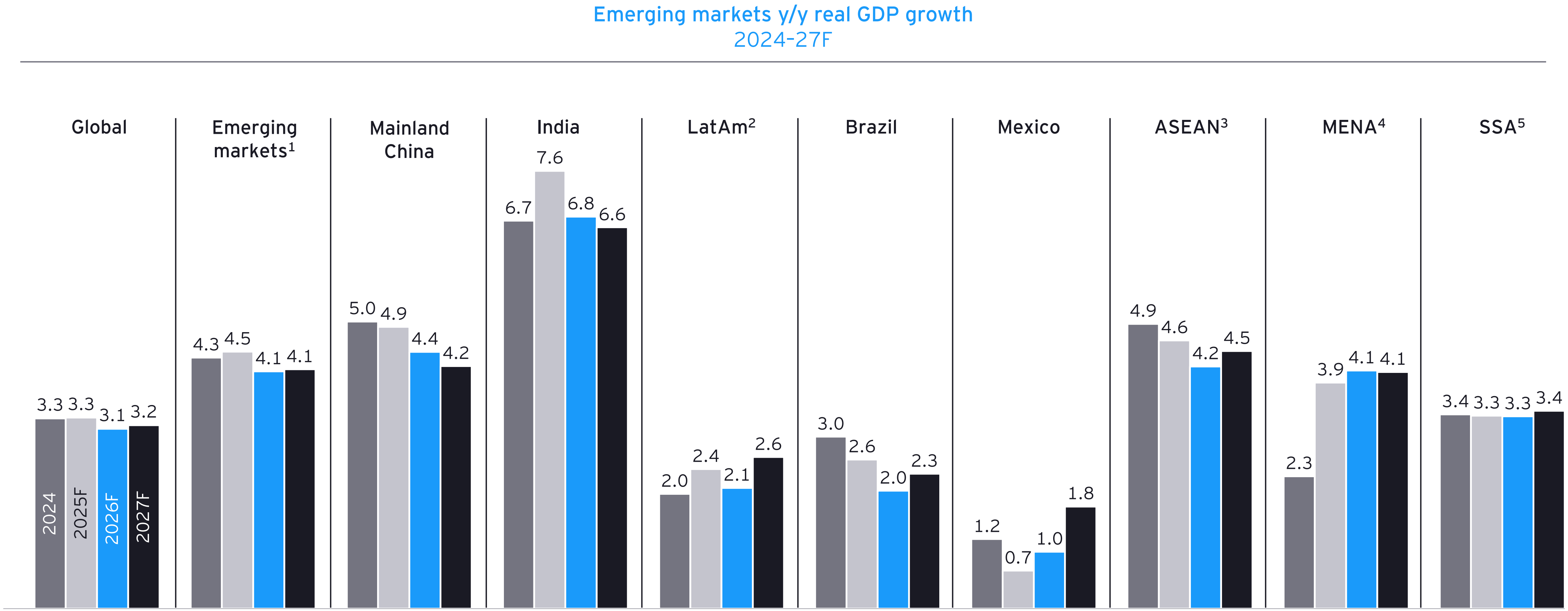
Growth across advanced economies is expected to ease as structural drags, policy frictions and aging populations weigh on momentum, partially offset by an AI-driven investment boost



1. Developed markets according to definition of advanced economies from the International Monetary Fund (IMF).
2. Euro area includes 20 countries.

Source: EY analysis

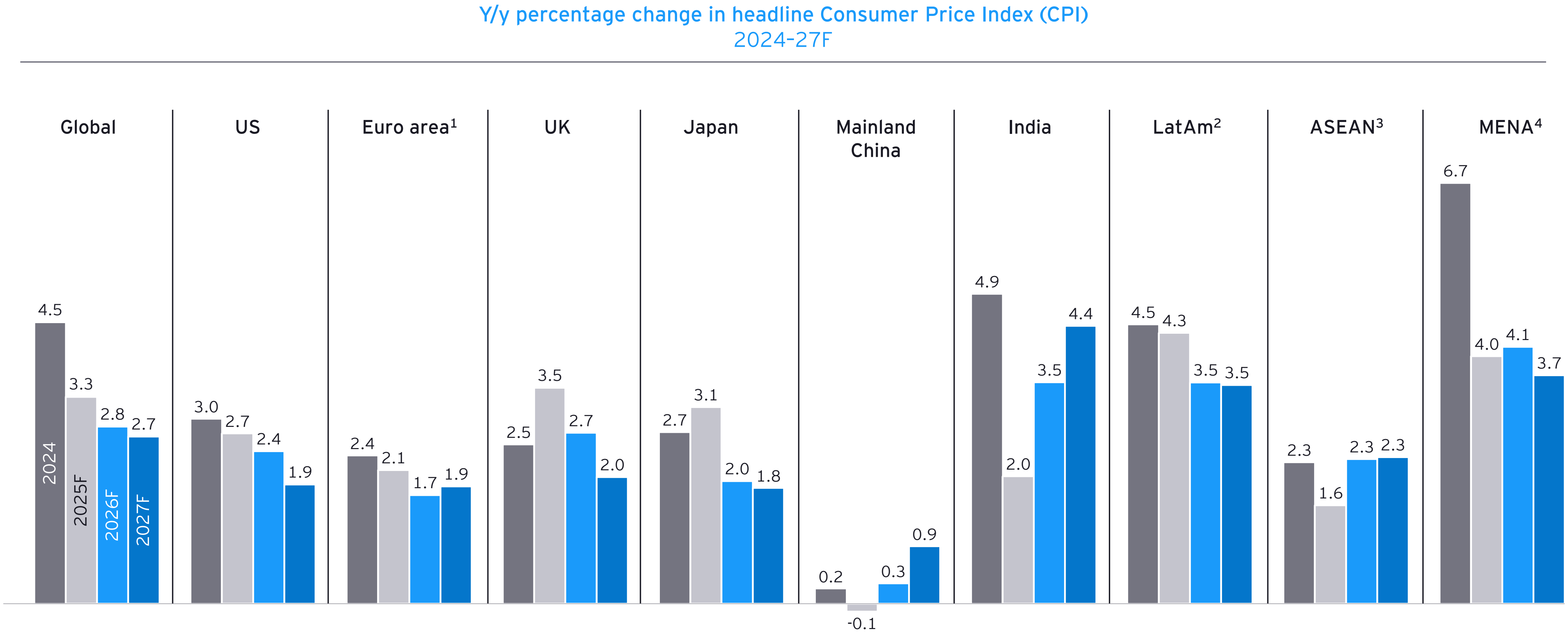
Growth across emerging markets is expected to hold near 4% in 2026 amid uneven resilience, with India's strength offset by China's mounting structural headwinds



1. Emerging markets includes all economies apart from advanced economies as defined by the IMF.
2. LatAm (Latin America) includes Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Mexico, Panama, Paraguay, Peru and Uruguay.
3. ASEAN (Association of Southeast Asian Nations) includes Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam.
4. MENA (Middle East, North Africa) includes Algeria, Bahrain, Egypt, Iraq, Kuwait, Morocco, Oman, Qatar, Saudi Arabia, Tunisia and the UAE.
5. SSA (Sub-Saharan Africa) includes Angola, Botswana, Ghana, Kenya, Mauritius, Mozambique, Namibia, Nigeria, Seychelles, South Africa, Tanzania, Uganda, Zambia and Zimbabwe.

Source: EY analysis

Global inflation is expected to ease toward 3% in 2026 amid widening divergence between cost-pressured tariff-imposing economies and demand-driven disinflating economies



1. Euro area includes 20 countries.
2. LatAm is a GDP-weighted average for Brazil, Chile, Colombia, Ecuador, Mexico, Peru and Uruguay.
3. ASEAN includes Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam.
4. MENA (Middle East, North Africa) includes Algeria, Bahrain, Egypt, Iraq, Kuwait, Morocco, Oman, Qatar, Saudi Arabia, Tunisia and the UAE.

Source: EY analysis

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- **Five global themes**
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Five themes of a new supply-driven economic paradigm

1	Trade: policy-driven geo-economic disruptions
2	AI revolution: innovation, investment and labor transformation
3	Markets in flux: shifting rates, currencies and commodities
4	Debt and deficits: competing fiscal priorities
5	Demographics: evolving talent dynamics and shifting immigration patterns

Trade policy is expected to remain a key driver of global supply-side dynamics in 2026, with continued disruptions to trade flows and inflation volatility

US tariff actions and statements *(as of November 20, 2025)*

Trade partner	Tariff	Status
China	10% IEEPA "fentanyl" tariff on goods	Effective 20% on March 4, adjusted to 10% on November 10
	IEEPA 34% on goods (with some exceptions)	Effective at least until November 2026
	Additional tariff hike in response to China's rare earths export controls	Threatened, not effective
Canada, Mexico	35%/25% IEEPA "fentanyl" tariff on goods from Canada/Mexico not covered by the USMCA; 10% on Canada energy; 10% on Canada and Mexico potash	Effective March 4 (35% on Canada implemented August 1)
Brazil	40% IEEPA "free speech" tariff on most goods[1]	Effective August 6, adjusted on November 20
All nations	50% on steel and aluminum (25% on the UK)	Effective March 12, adjusted on June 4
	25% on cars and auto parts (15% on the EU, Japan, and Korea; 10% on the UK)	Effective May 3, adjusted on August 7
	50% on semi-finished copper products and intensive copper derivative products	Effective August 1
	10% on lumber and 25% on wooden furniture (10% on the UK, 15% on the EU)	Effective October 14, to be raised in January
	25% on trucks and truck parts, 10% on buses, 100% on maritime cargo handling equipment	Effective from November 1
	Tariffs on pharmaceutical, semiconductors, commercial aircraft, wind turbines	Investigated under Section 232, not effective
	IEEPA 40% on shipments rerouted to avoid tariffs	Effective August 7
All nations importing Venezuelan, Iranian or Russian oil	IEEPA 25%-50% on all goods	Threatened, effective for India on August 23
All nations but Canada and Mexico	April 2 country-specific IEEPA tariffs (rates of 10%-41%, based on trade deficit) on most goods[2]; tariff on Switzerland lowered to 15% as a result of bilateral deal	Effective August 7, adjusted on November 20

Trade partner actions and statements – to US *(as of November 20, 2025)*

Trade partner	Tariff	Status
China	10% on goods (with some exceptions)	Effective May 13
	34% on goods (with some exceptions)	Paused until November 2026
	Non-tariff countermeasures	Paused until November 2026
	Rare-earth export controls	Paused until November 2026
Canada	25% on United States-Mexico-Canada Agreement (USMCA) noncompliant goods	Removed on September 1
	25% on steel and aluminum, and USMCA noncompliant vehicles	Effective March 12
EU	Threats on retaliatory tariffs on various goods	Withdrawn
Mexico	Threats on retaliatory tariffs (without details)	Threatened, not effective
Brazil	50% on goods	Threatened, not effective

Note: The US Supreme Powers Court ruling on the legality of tariffs imposed via the International Economic Emergency Act (IEEPA) could affect half of the US-imposed tariffs, leading to renewed trade policy uncertainty regarding alternative tariff measures.

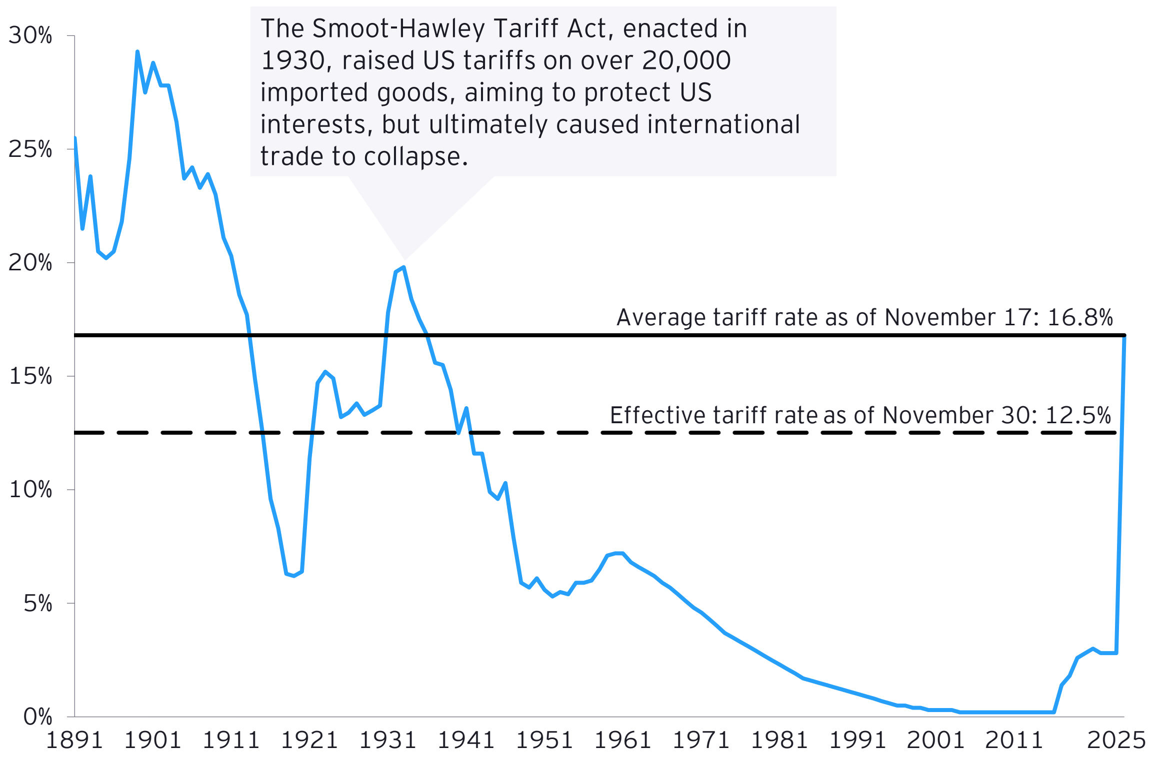
Effective | Paused | Threatened | Removed/withdrawn

1. Tariff does not apply to energy, aviation, industrial materials, and certain food products.
2. Country-specific tariffs do not apply to pharmaceuticals, semiconductors, lumber, copper, electronics, and certain food products and goods covered by sectoral tariffs.

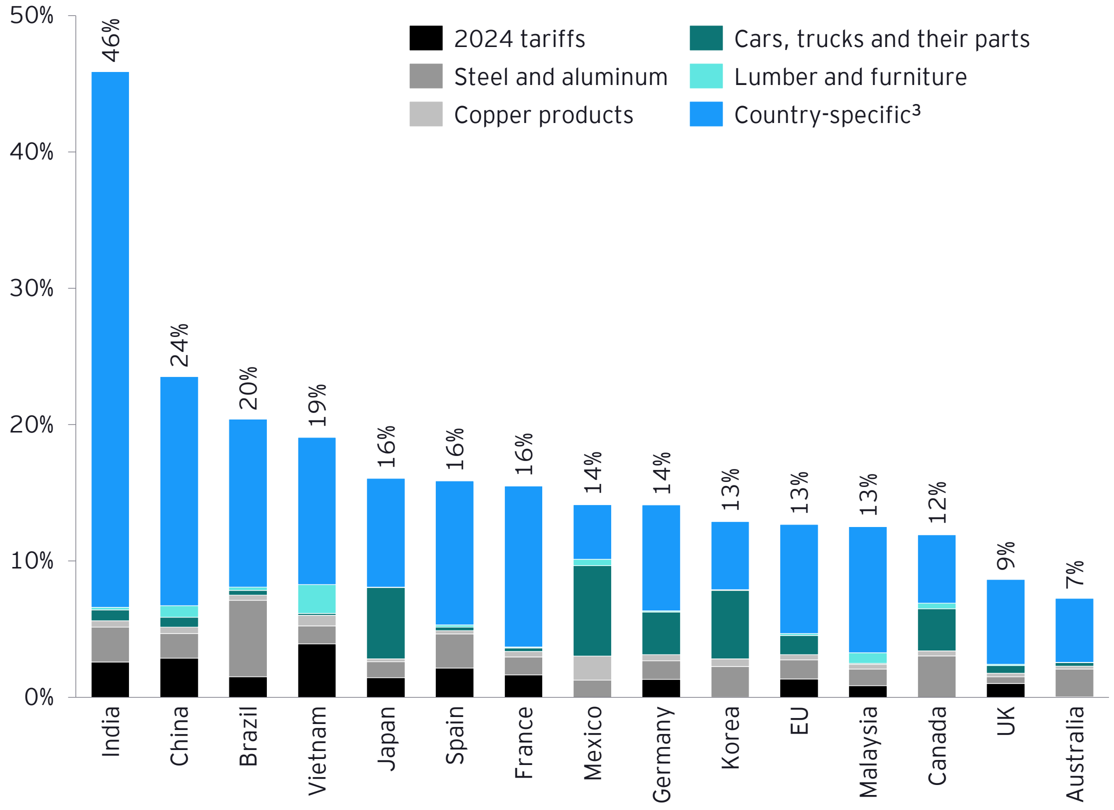
Source: Government websites; EY analysis

The cost of trading with the US has surged, with the average US tariff rate rising from roughly 2.4% at the end of 2024 to nearly 17% by late 2025

Average US tariff rate and effective tariff rate[1, 2]
1891-2025



Average effective tariff rate for US exports (percentage)
November 26, 2025

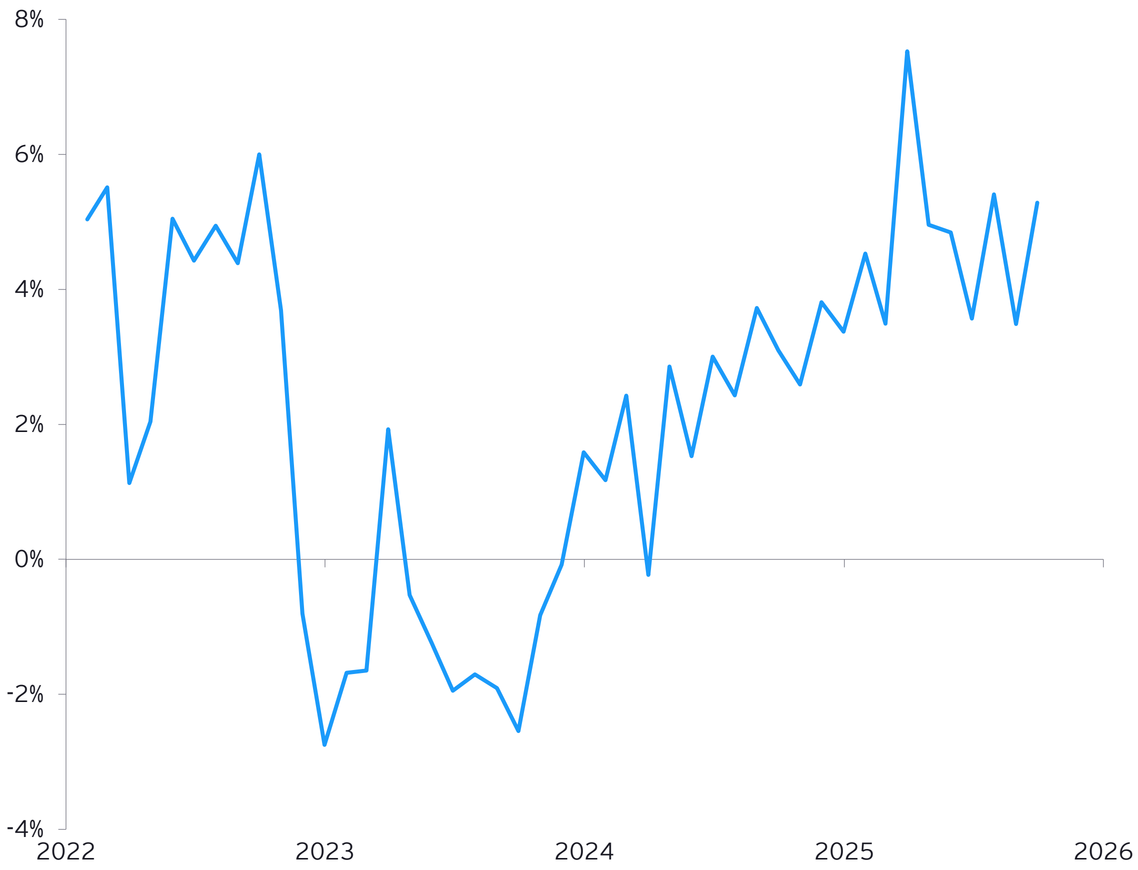


1. Average tariff rate equates to the weighted average of tariffs across trading partners based on 2024 US imports.
2. Effective tariff rate equates to collected customs duties from October 2025 relative to total merchandise imports value from August 2025, the latest available data.
3. Includes retaliatory actions in response to tariff measures implemented by the US on July 31, 2025, and the responsive action from some trade partners.

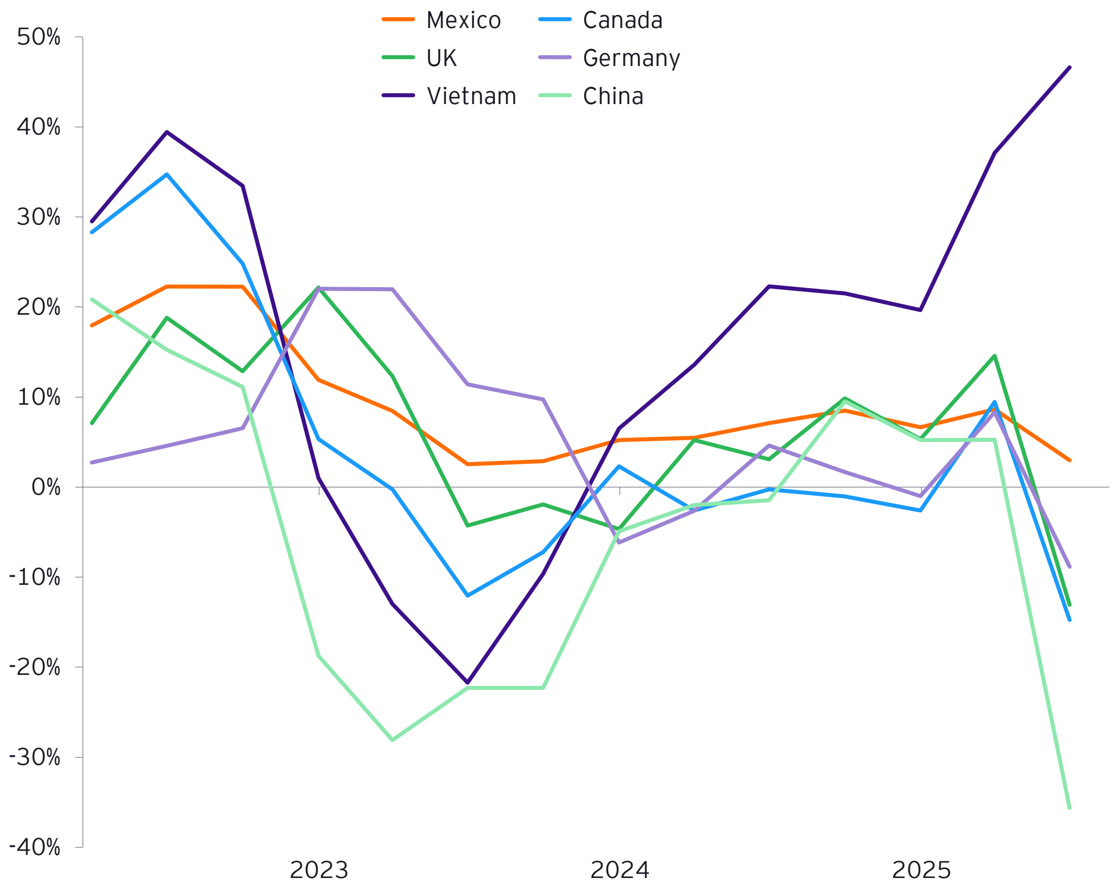
Source: U.S. International Trade Commission; Daily Treasury Statement; Yale Budget Lab; EY analysis

Tariff-induced disruption is evident in shifting trade volumes, with higher duties and persistent policy uncertainty expected to slow global trade flows in 2026

Y/y growth in real total world trade
January 2022-September 2025



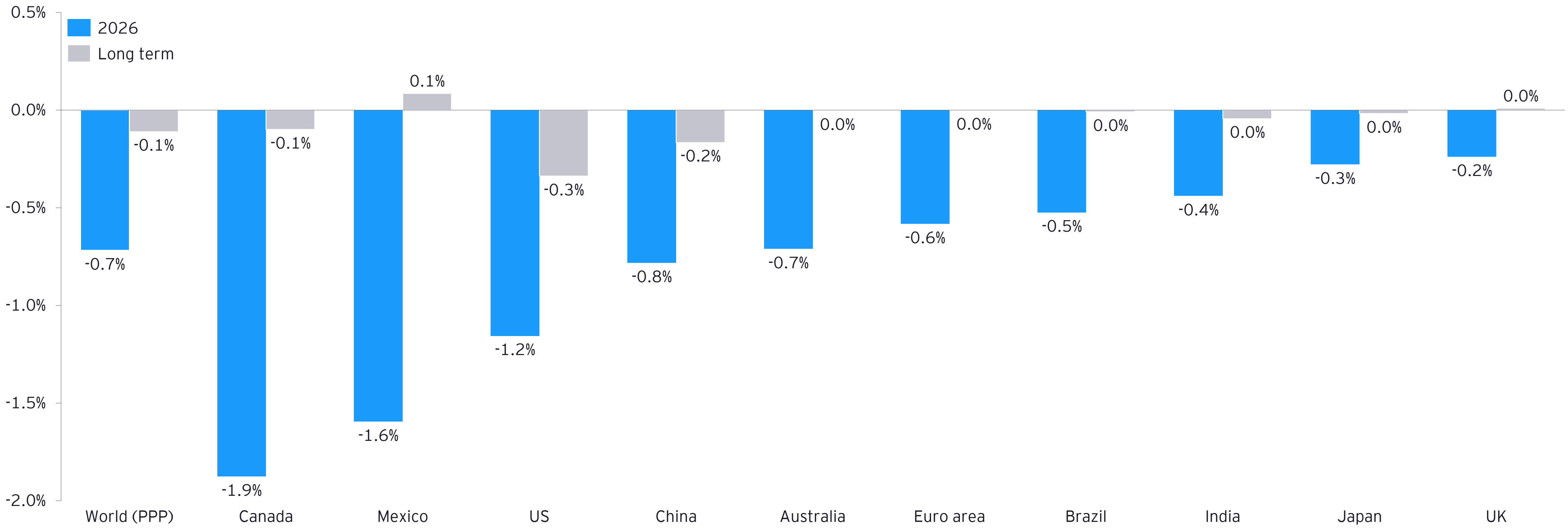
Y/y growth in nominal US imports by country of origin
Q1 2022-Q2 2025



Source: Netherlands Bureau for Economic Policy Analysis; U.S. Census Bureau; EY analysis

We estimate that the US tariff regime and retaliation will reduce global GDP by around 0.7% by 2026, excluding any offsets, signaling ongoing downside risks to the economic outlook

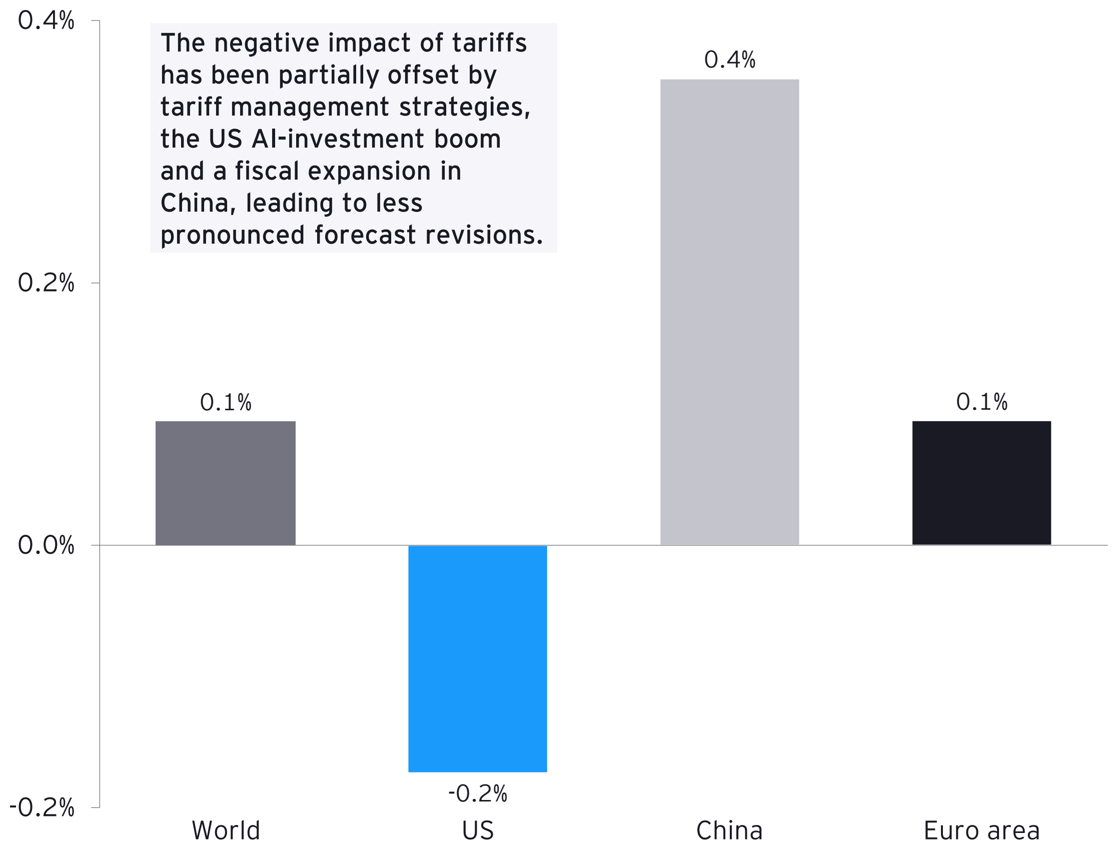
Real GDP level — deviation from the no-tariff scenario
2026F



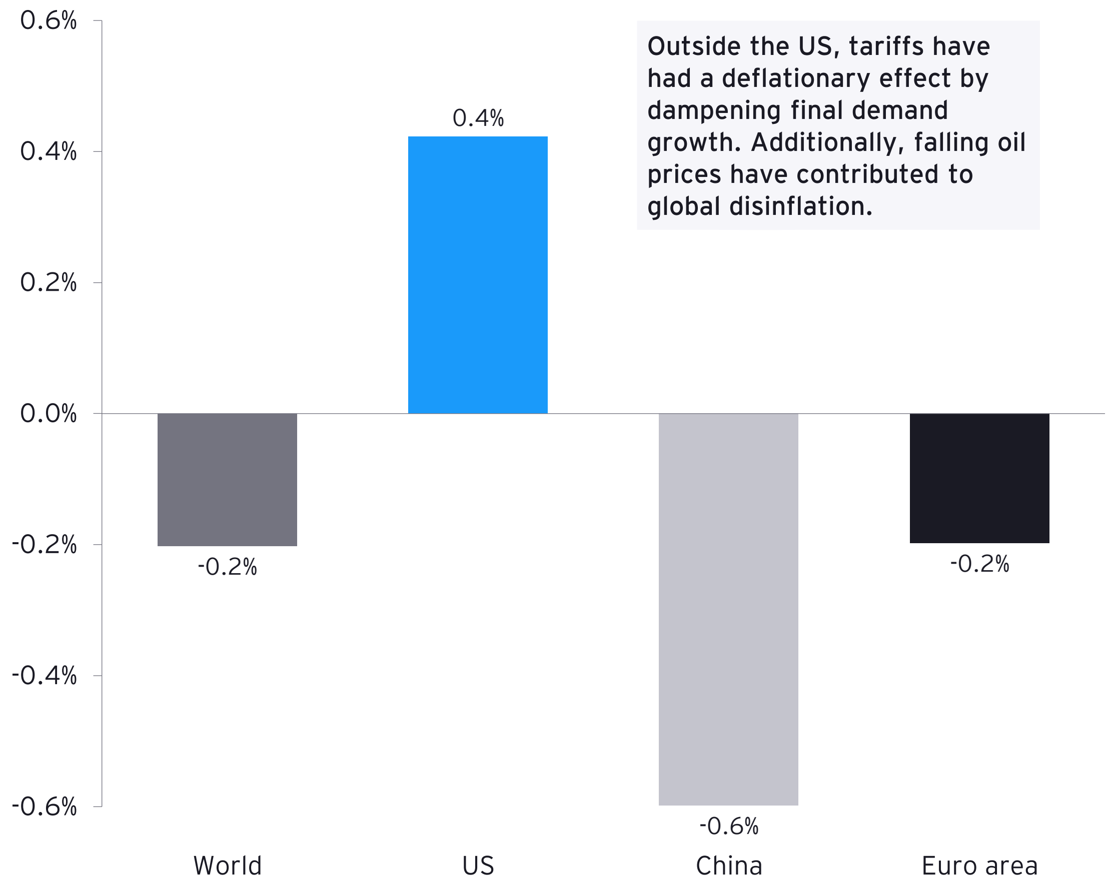
Source: EY analysis

The global impact of tariffs has been more modest, cushioned by corporate strategies to limit the trade shock, supportive fiscal policy, AI investment and subdued oil prices

Real GDP growth in 2025
December 2025 vs. January 2025 projection



CPI inflation in 2025
December 2025 vs. January 2025 projection



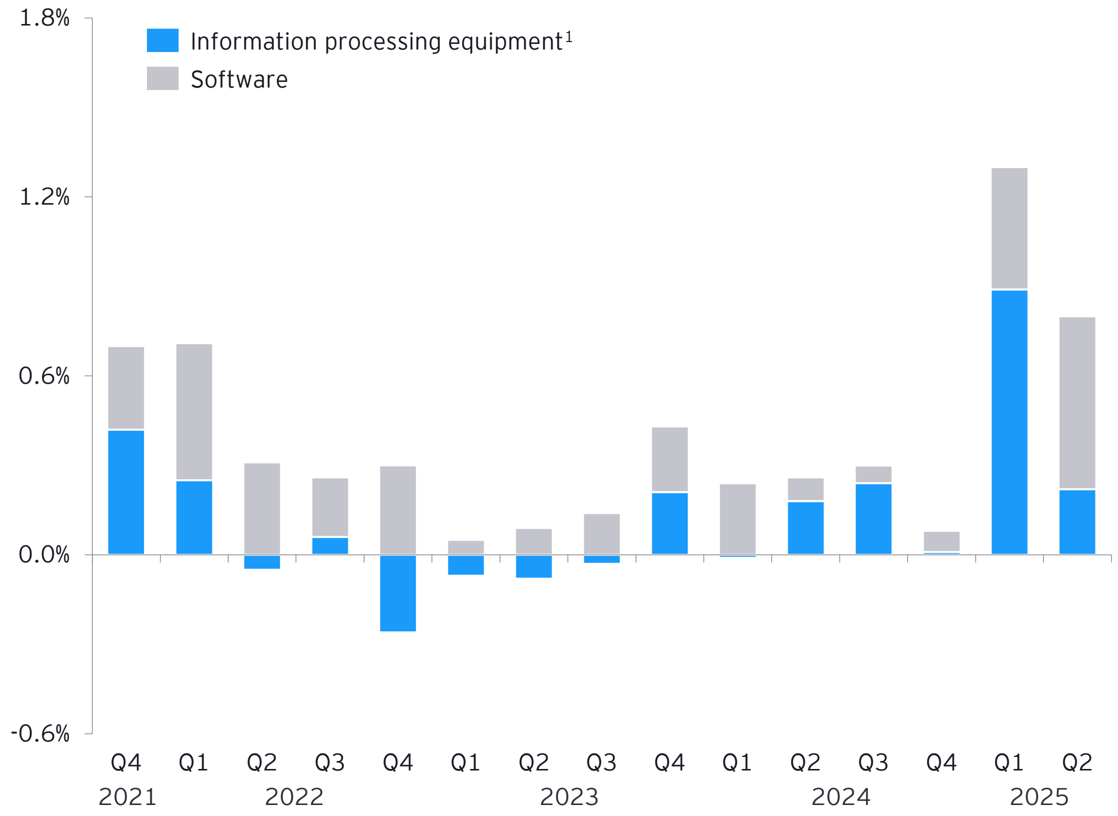
Source: EY analysis

Five themes of a new supply-driven economic paradigm

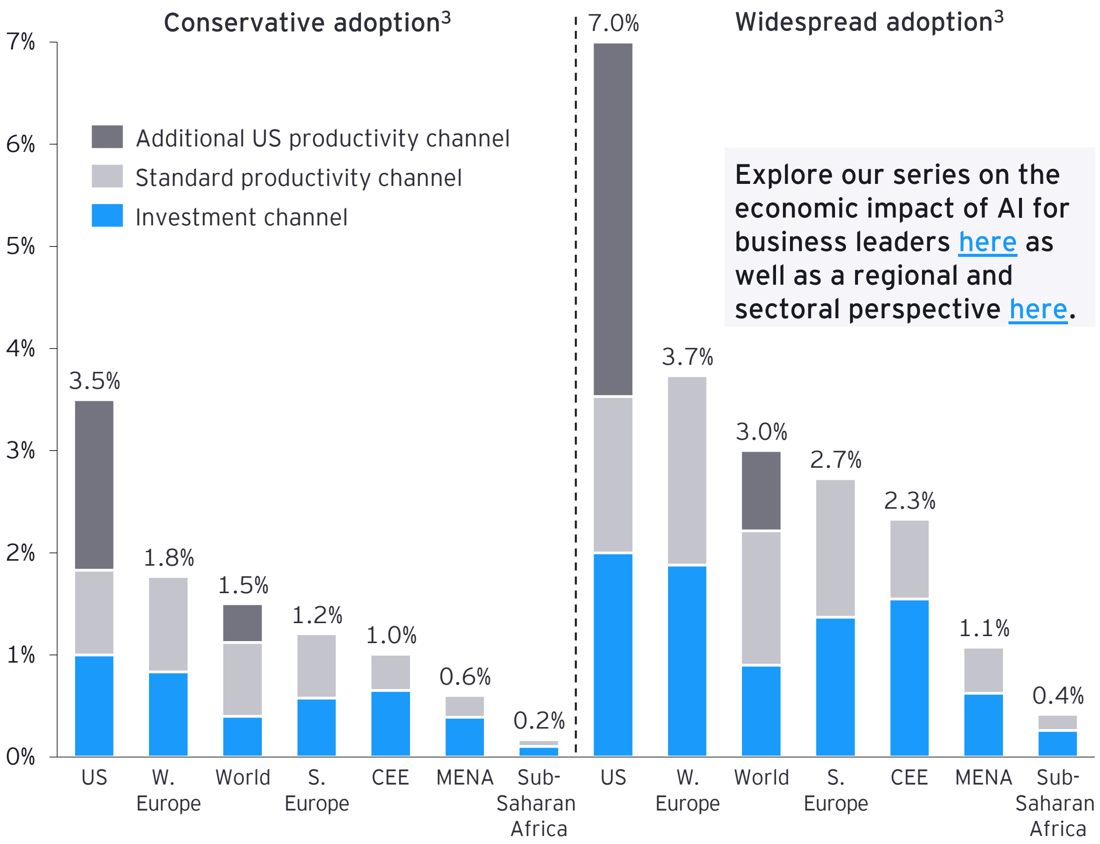
1. Trade: policy-driven geo-economic disruptions
2. **AI revolution: innovation, investment and labor transformation**
3. Markets in flux: shifting rates, currencies and commodities
4. Debt and deficits: competing fiscal priorities
5. Demographics: evolving talent dynamics and shifting immigration patterns

AI is emerging as the strongest supply-side counterweight to a slowing global economy, with notable prospects for faster global growth

US information processing and software investment contribution to real GDP growth (quarter over quarter (q/q) annualized) Q4 2021-Q2 2025



Impact of artificial intelligence (AI) on real GDP level relative to no-AI scenario (percentage) 2033F[2]



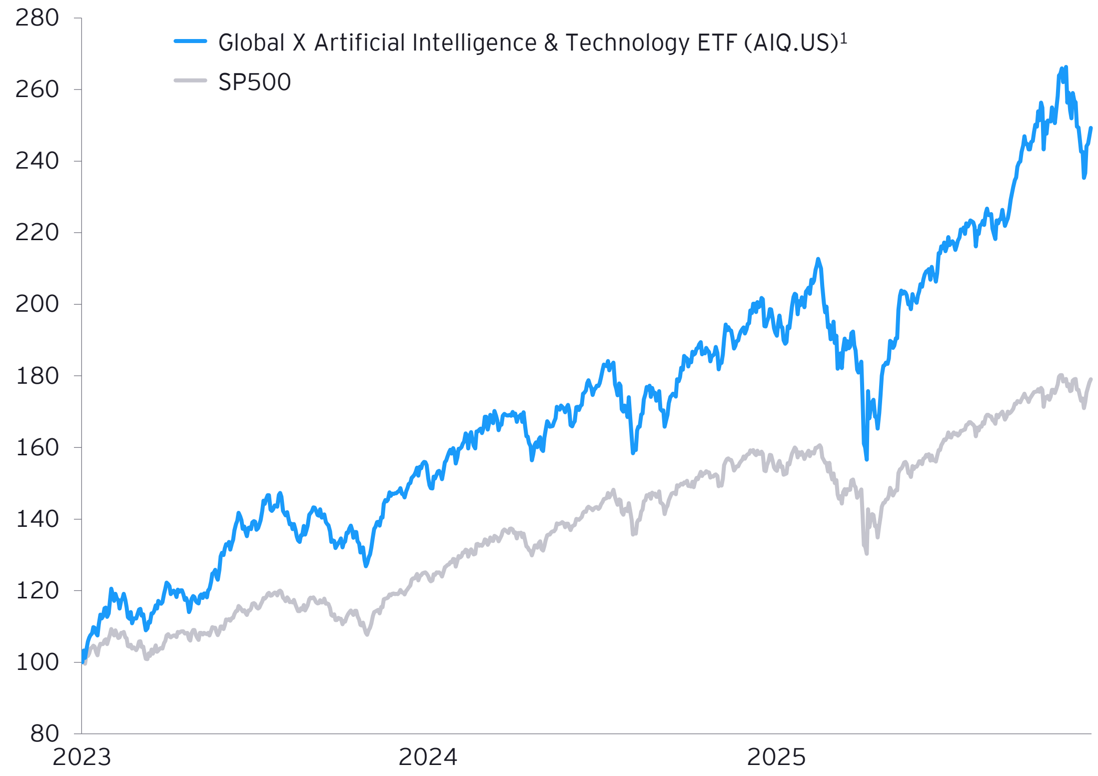
Explore our series on the economic impact of AI for business leaders here as well as a regional and sectoral perspective here.

1. Includes net exports of semiconductors, telecommunication, and computer products.
2. The widespread AI adoption scenario follows the 1990s-2000s adoption rate of information and communications technology (ICT). The conservative scenario assumes 60% slower integration, based on existing relationship between AI and ICT adoptions.
3. The standard productivity channel is computed using a refined approach of Acemoglu (2024) as described here. The US productivity impact is computed by analogy to the ICT revolution as described here. The additional US productivity channel denotes the difference between the latter and former approach.

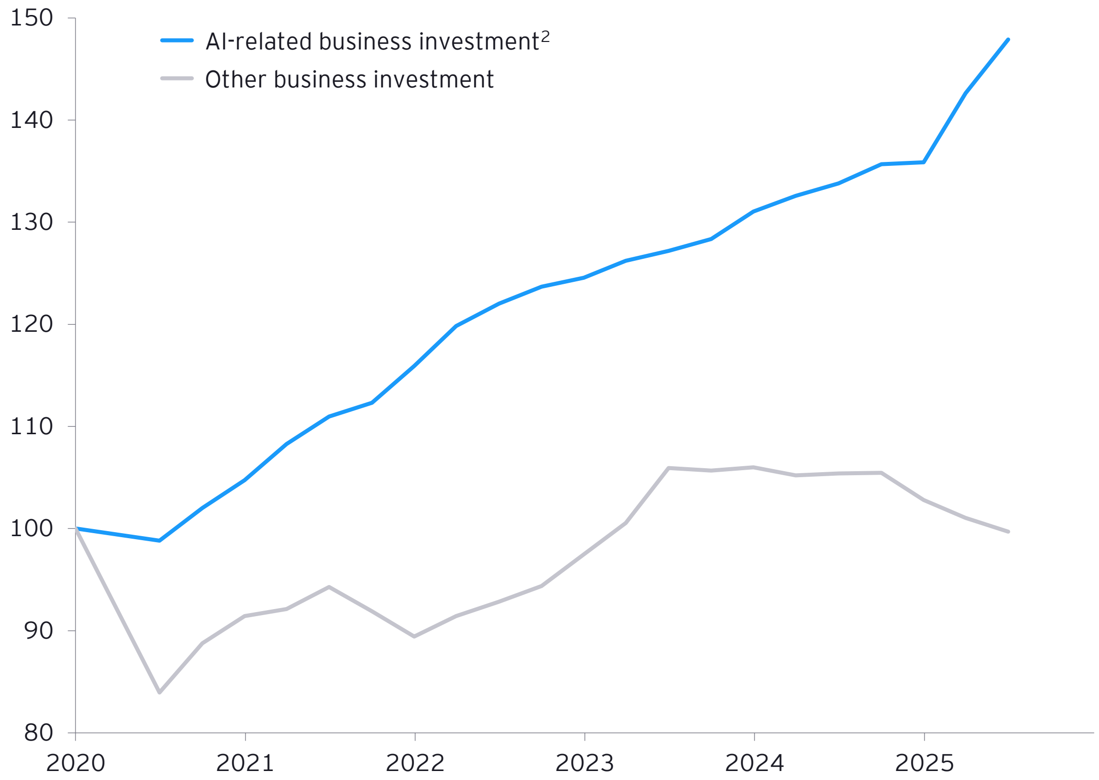
Source: U.S. Bureau of Economic Analysis; EY UPGRADE CGE model; EY analysis

AI is creating a more bifurcated macro-strategic outlook, with AI-intensive firms driving equity market performance and AI investment fueling broader capital spending

US stock prices: AI-related stocks vs. total market (January 3, 2023 = 100)
January 2023-November 2025



US real nonresidential fixed investment (Q1 2020 = 100)
Q1 2020-Q2 2025

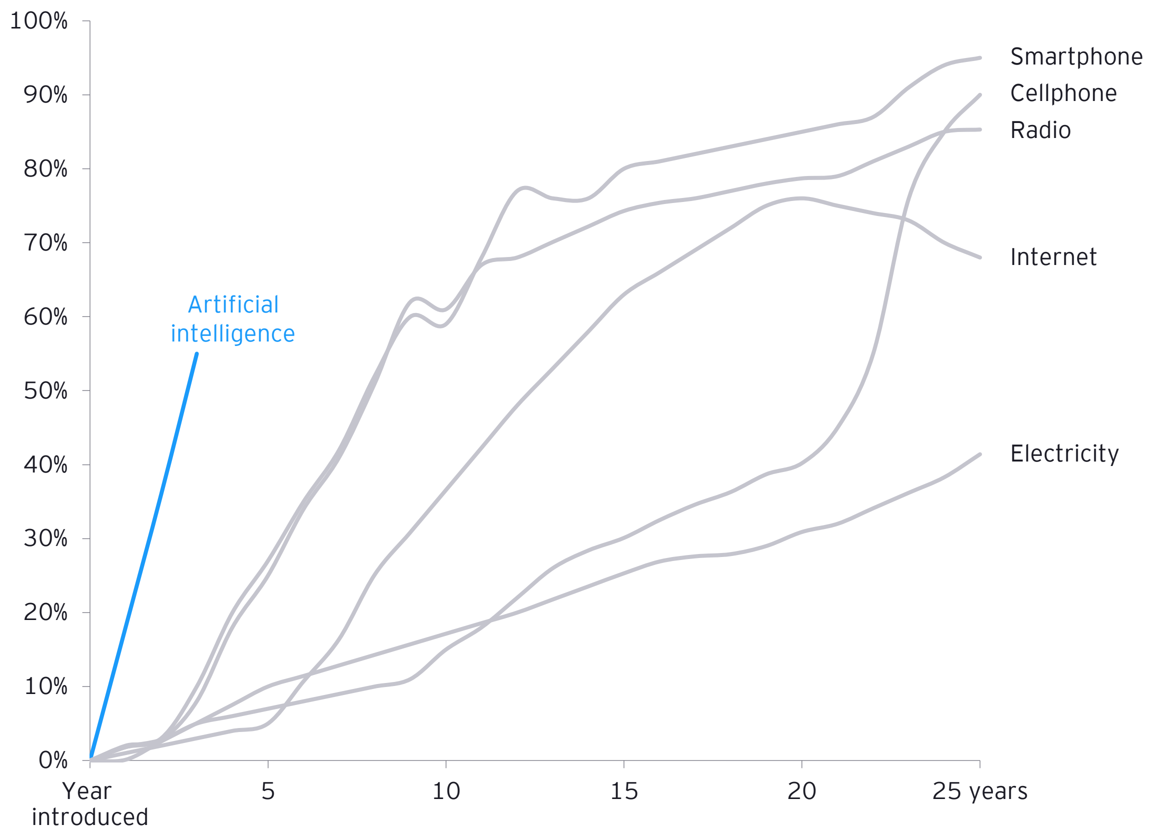


1. Tracks the stock performance of companies that heavily leverage and benefit from the use of AI across all sectors.
2. Includes investment in software, R&D, computer and peripheral equipment, communication equipment, data centers and power infrastructure.

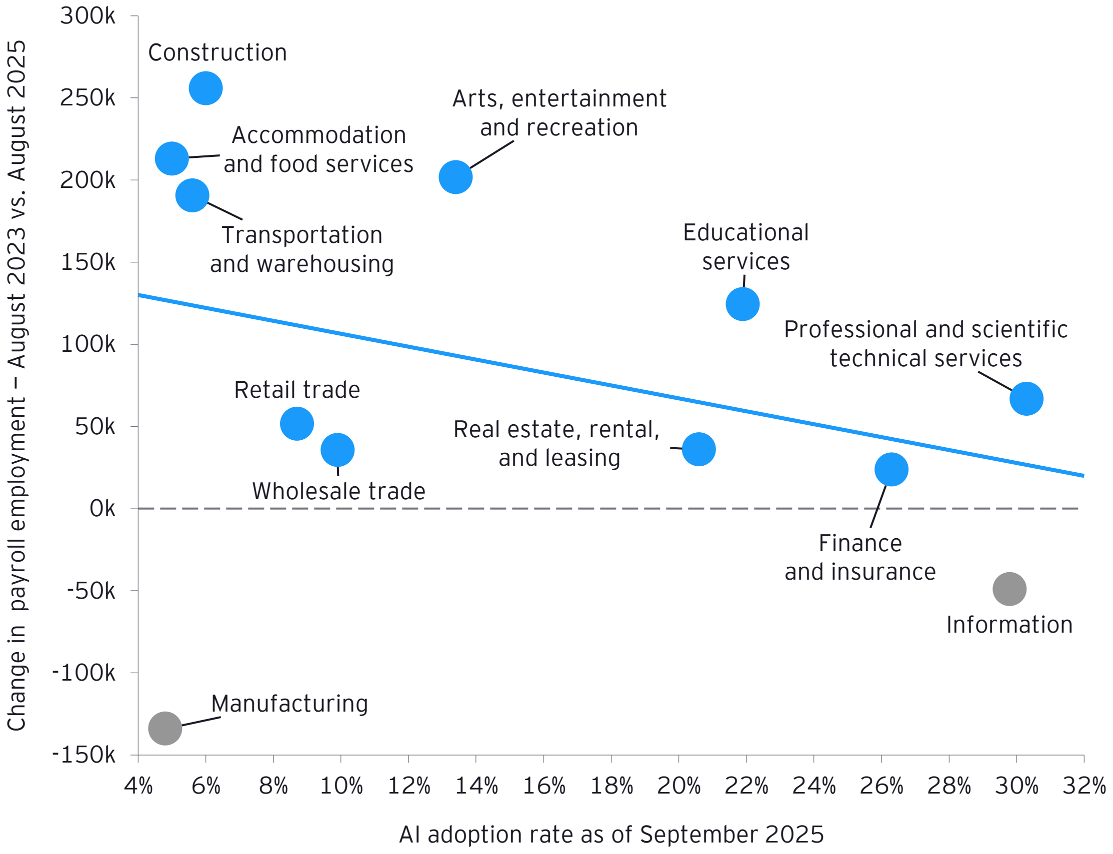
Source: stooq.pl; S&P Global; Nasdaq; U.S. Census Bureau; U.S. Bureau of Economic Analysis; EY analysis

AI is moving toward mass adoption at unprecedented speed, while business uptake remains uneven and talent disruptions begin to emerge

US household adoption of AI vs. previous technologies
(Percentage, years after first introduction)



US AI adoption rate and change in total payroll employment by industry[1]
August 2023 vs. August 2025

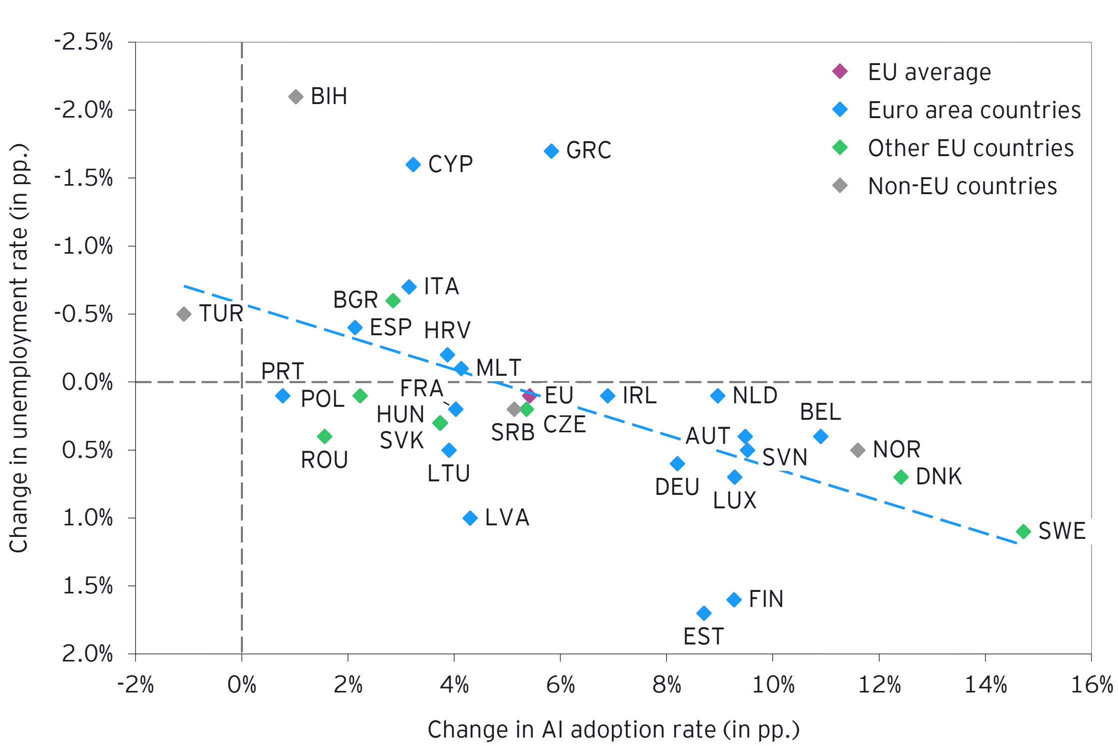


1. The healthcare sector added 1.8 million jobs between August 2023 and August 2025, with an AI adoption rate of 15.4%. For clarity, this sector is excluded from the chart.

Source: The New York Times; Our World in Data; Microsoft; U.S. Census Bureau; U.S. Bureau of Labor Statistics; EY analysis

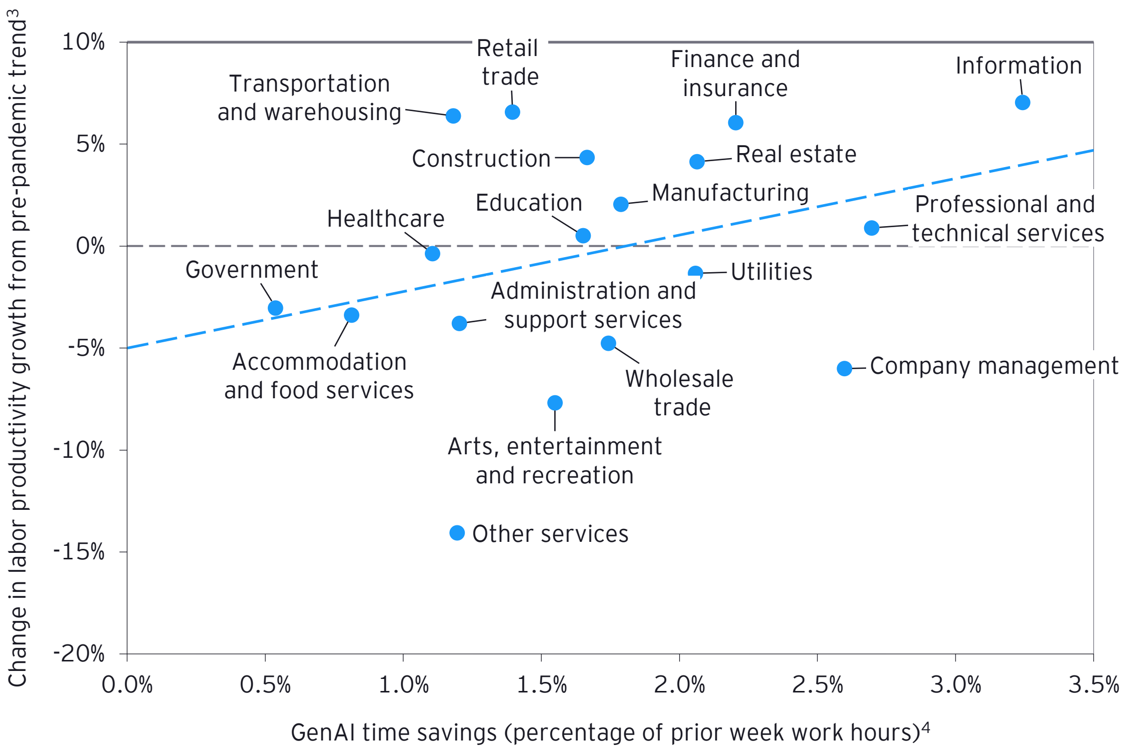
AI is already delivering productivity gains in sectors with high digital-task intensity and strong early adoption, while early signs of talent disruptions are beginning to emerge

Change in AI adoption rate[1] compared to change in unemployment rate among young educated adults[2]
2024 y/y



Cyclical headwinds, such as slow economic growth and weaker demand across labor-intensive sectors, can also exert pressure on youth unemployment by reducing entry-level job opportunities.

US usage of generative AI (GenAI) and change in annualized labor productivity growth across industries
Post-pandemic vs. pre-pandemic trend[3]



Sectors reporting higher AI usage and time savings are also showing stronger labor productivity gains more broadly.

1. Enterprises with 10 or more employed persons using at least one AI technology.
2. Persons with tertiary education aged 25-34 for the US, 15-39 elsewhere.
3. Reflects the change in annualized labor productivity growth from Q4 2022 to Q2 2025 relative to 2015-19.
4. GenAI time savings reflect pooled Real-Time Population Survey data from February, May, and August 2025.

Source: Eurostat; U.S. Bureau of Labor Statistics; U.S. Census Bureau; U.S. Bureau of Economic Analysis; Federal Reserve Bank of Dallas; Federal Reserve Bank of St. Louis; EY analysis

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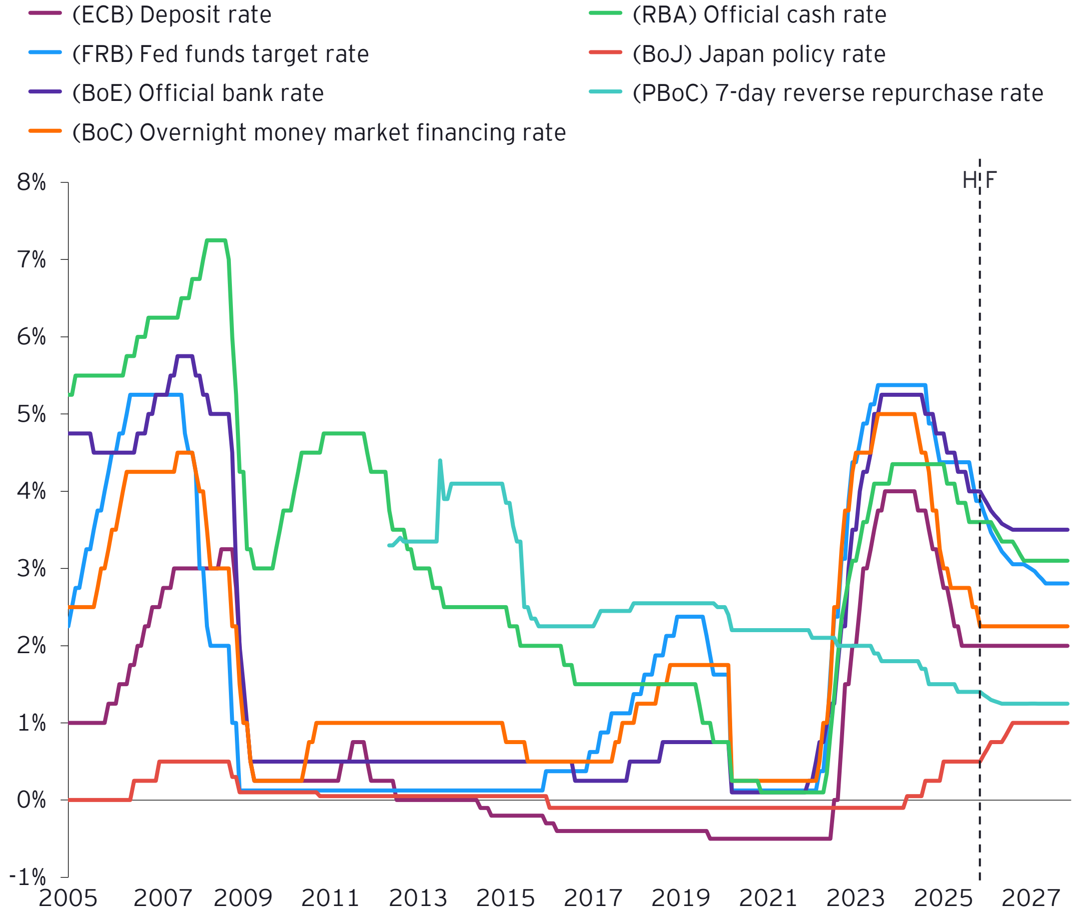
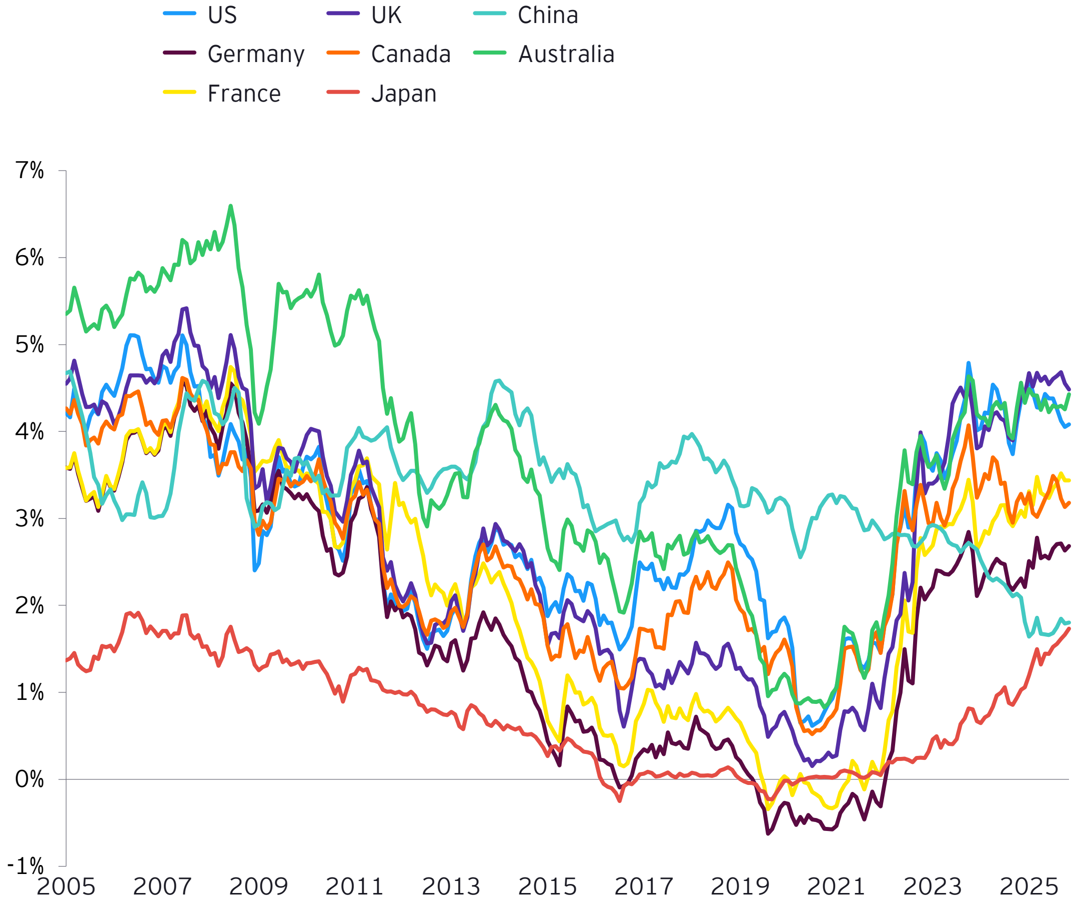
While most central banks continue to ease monetary policy, this has not necessarily resulted in lower costs of capital, as fiscal and trade policy pressures have pushed up bond prices

Central bank rates
2005–27F



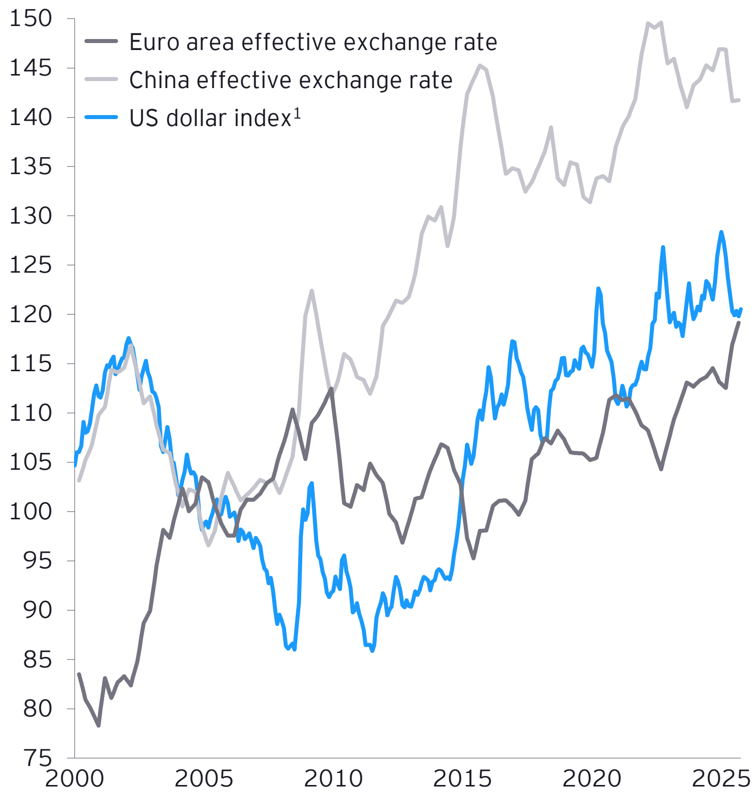
10-year government bond yield
2005–25



Source: Respective country or jurisdiction central banks, e.g., Reserve Bank of Australia (RBA); Oxford Economics; Investing.com; EY analysis

Shifting currency markets, soft oil prices, and the rise of cryptocurrencies and precious metals are set to play a central role in the global economic narrative in 2026

Effective exchange rates (2005 = 100)
January 2000-October 2025



Brent oil price (USD/bbl)
January 2000-November 2025

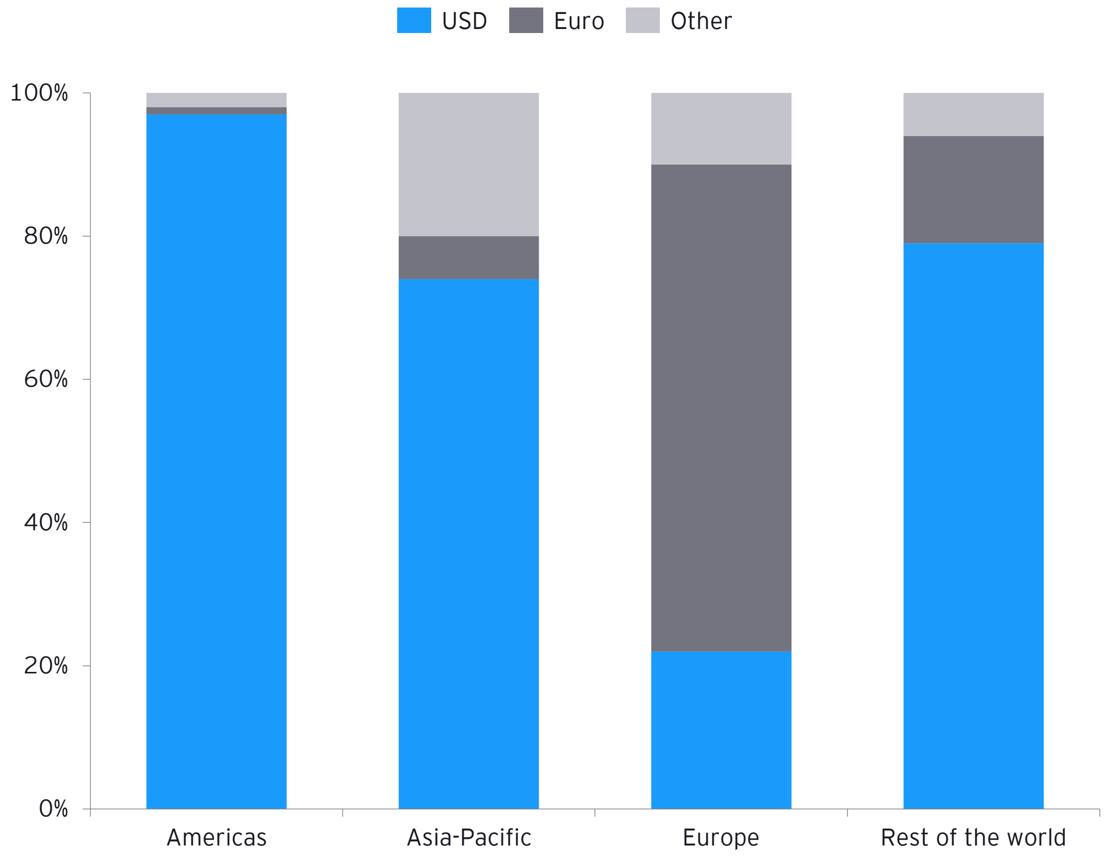
Gold and silver prices (USD/troy oz)
January 2000-November 2025

1. The trade-weighted dollar is a weighted average of the foreign exchange value of the US dollar against the currencies of a broad group of major US trading partners.

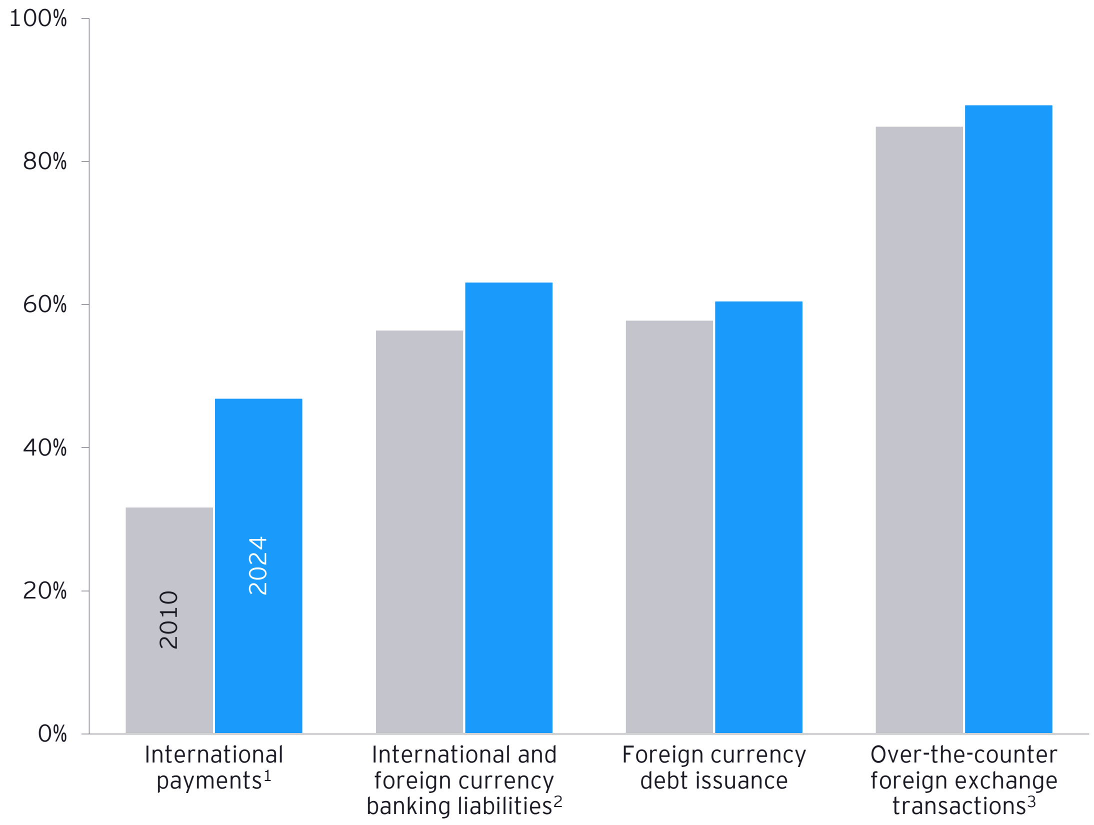
Source: Federal Reserve Board (FRB); World Bank Commodity Prices; Oxford Economics; EY analysis

Despite growing concerns over fiscal sustainability, central bank independence and the potential for manipulation of the US dollar, the greenback retains its dominance

Share of export invoicing by currency
Average 2020-23



US dollar share of international payments, banking liabilities, debt issuance and foreign exchange transactions
2010 vs. 2024[3]



1. SWIFT customer initiated and institutional payments, not including intra-euro area payments.
2. Loans and deposits only, including repurchase agreements, across national borders or denominated in a foreign currency (except for related offices and central banks). Excludes intra-euro area liabilities.
3. Over-the-counter foreign exchange transactions reflect 2022 data, the latest available.

Source: SWIFT; BIS Statistics; LSEG Data & Analytics; Board of Governors of the Federal Reserve System; International Monetary Fund; Boz, et al. (2020); Institute of International Finance (IIF); EY analysis

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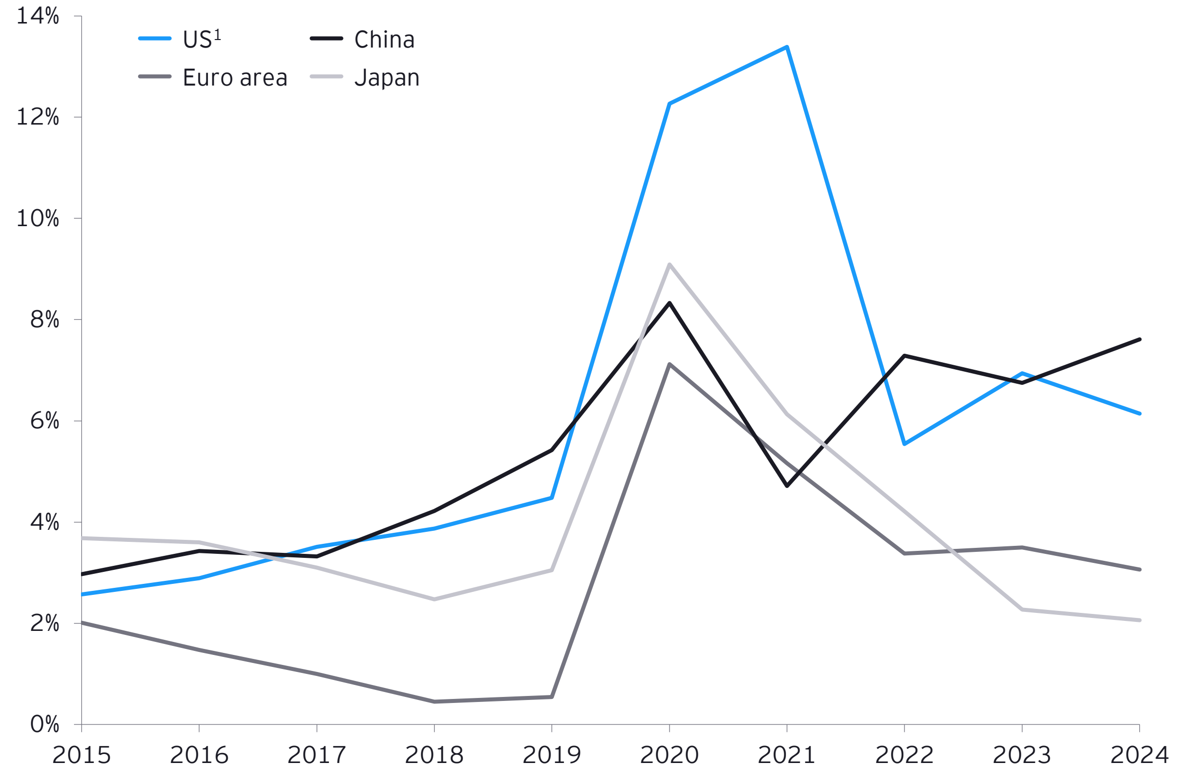
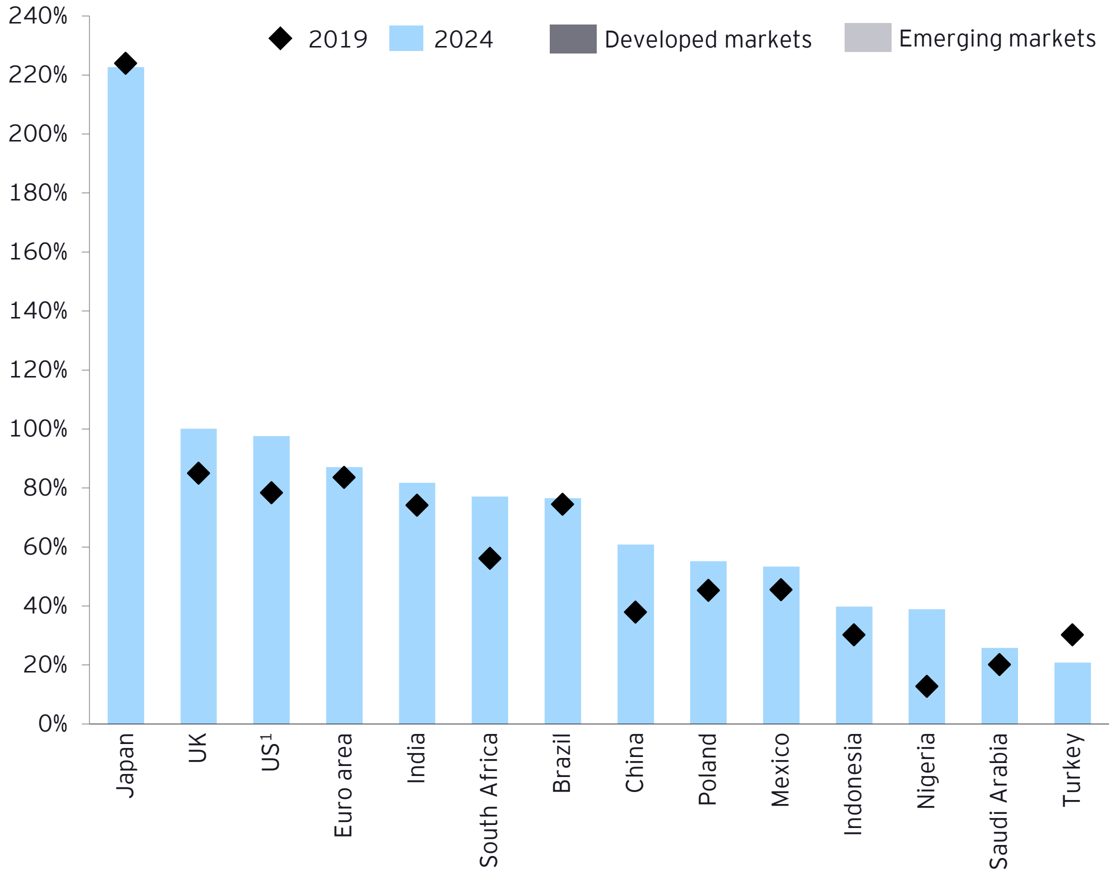
Fiscal policy is entering a more constrained phase as high debt levels, elevated interest rates, and rising strategic and structural spending needs converge

Government deficit (percentage of GDP) 2015-24



Gross government debt (percentage of GDP) 2019 vs. 2024

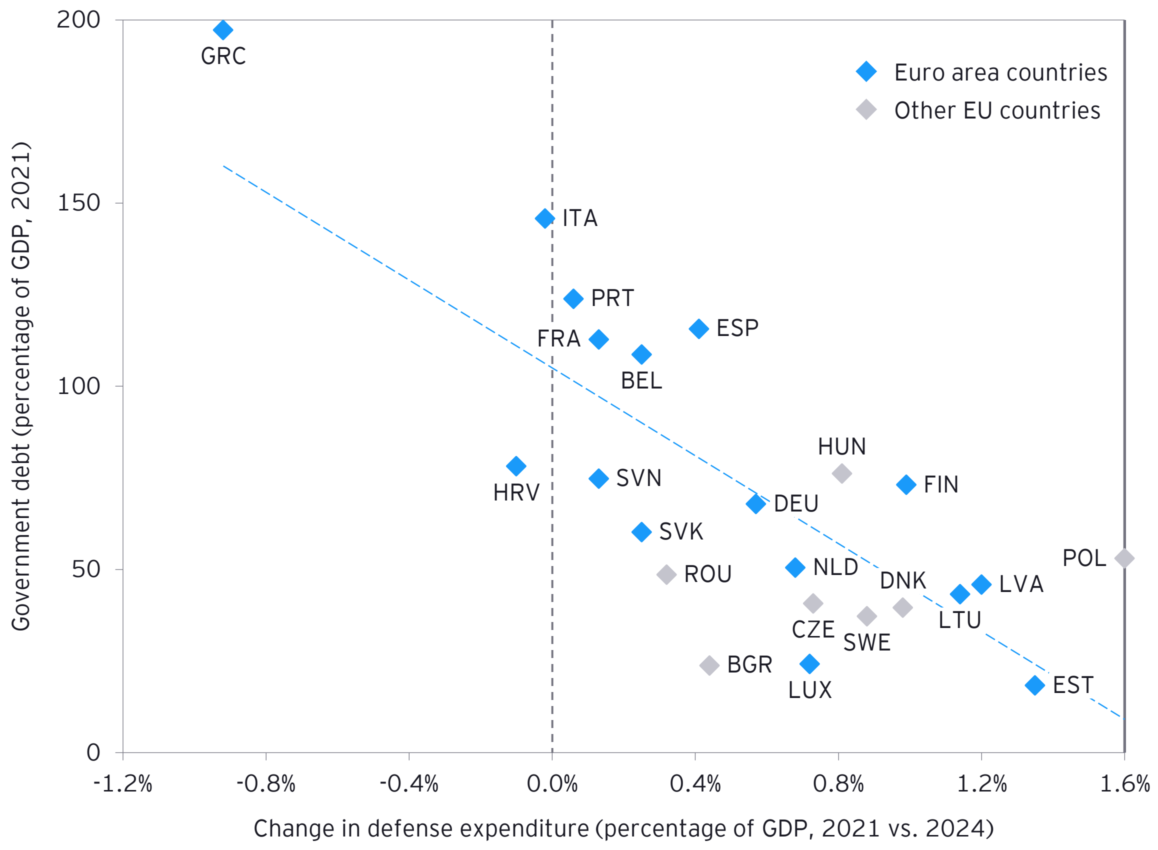


1. Represents the US federal budget deficit and US federal publicly held debt.

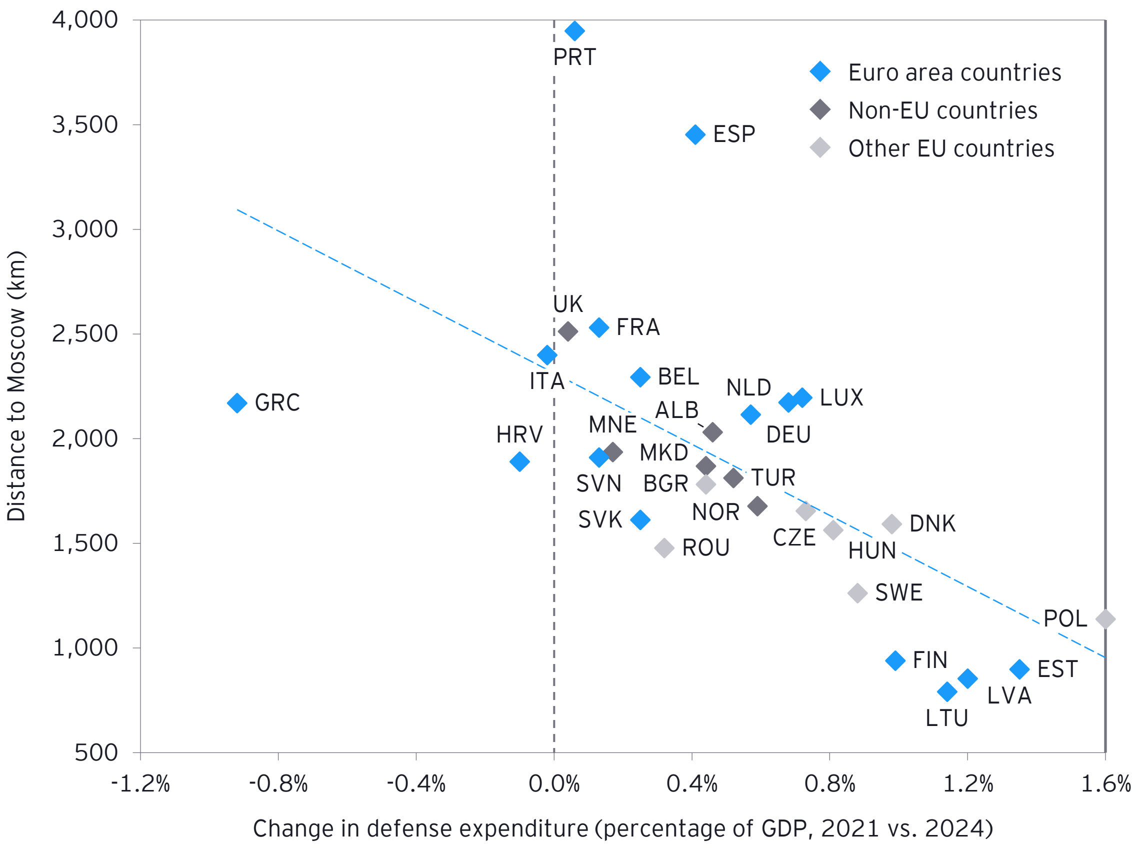
Source: Oxford Economics; EY analysis

While proximity to Russia is strongly correlated with defense spending across Europe, highly indebted economies are less likely to increase defense outlays

Government debt of EU NATO members and defense expenditures (percentage change relative to GDP) 2021 vs. 2024



Proximity of European NATO member capitals to Moscow and defense expenditures (percentage change relative to GDP) 2021 vs. 2024



Source: NATO; SIPRI Military Expenditure Database; Oxford Economics; EY analysis

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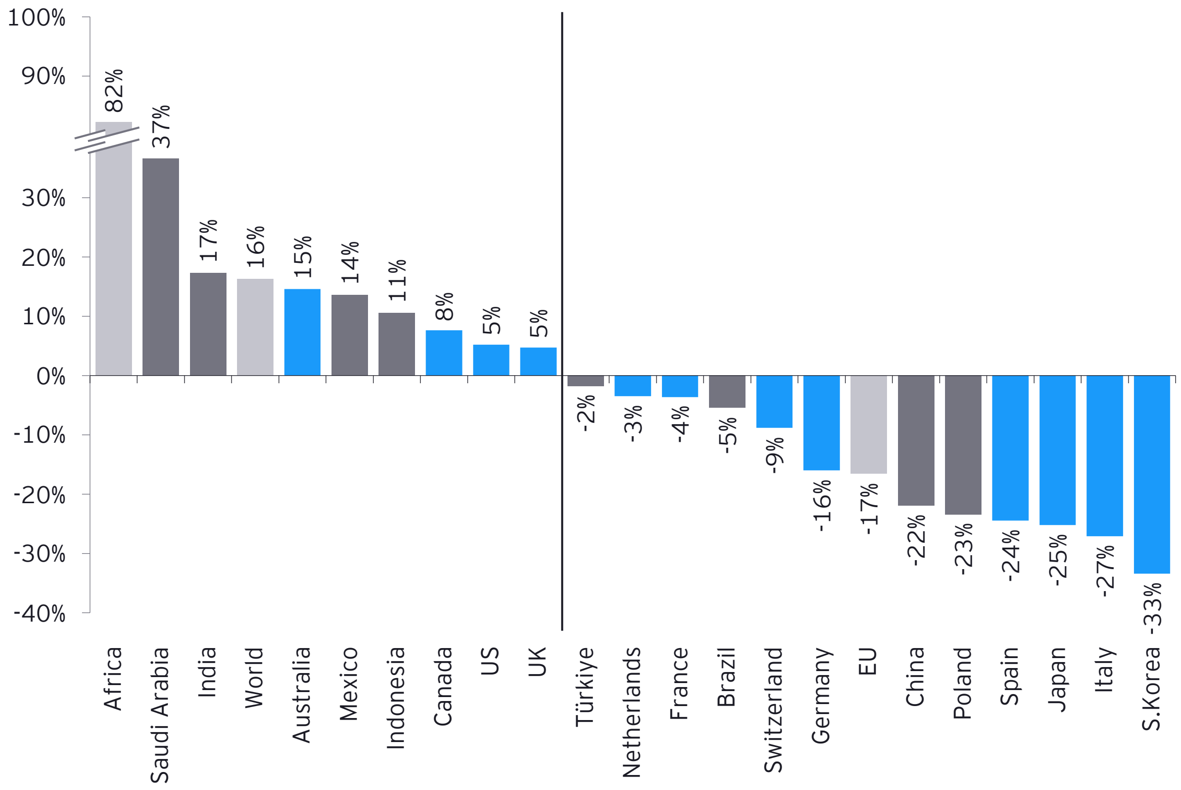
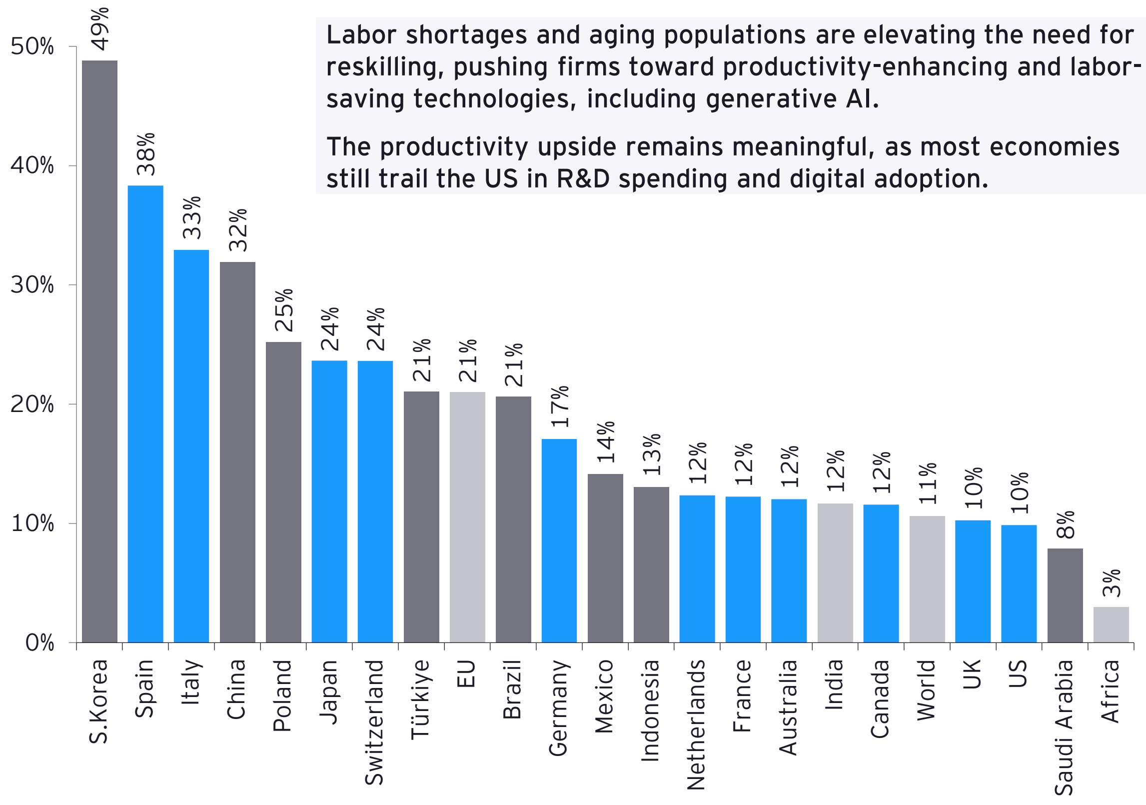
Demographic shifts are reshaping the global economy, as aging populations and declining birth rates lead to reduced labor supply and rising dependency ratios

Regional aggregates | Developed markets | Emerging markets

Projected percent change in working-age[1] population between 2025 and 2050



Projected percentage-point change in old-age dependency ratio[2] between 2025 and 2050



Labor shortages and aging populations are elevating the need for reskilling, pushing firms toward productivity-enhancing and labor-saving technologies, including generative AI.

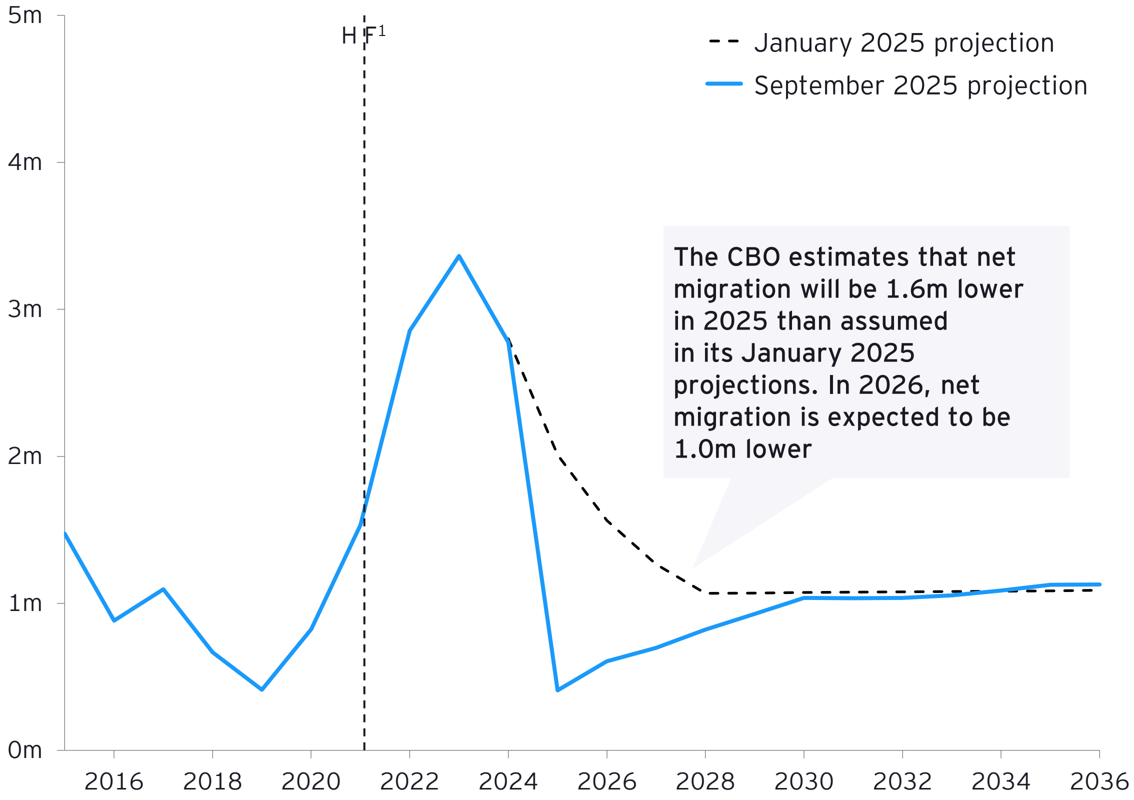
The productivity upside remains meaningful, as most economies still trail the US in R&D spending and digital adoption.

1. Population aged 20–64.
2. Measures the ratio of individuals ages 65+ per 100 working age individuals.

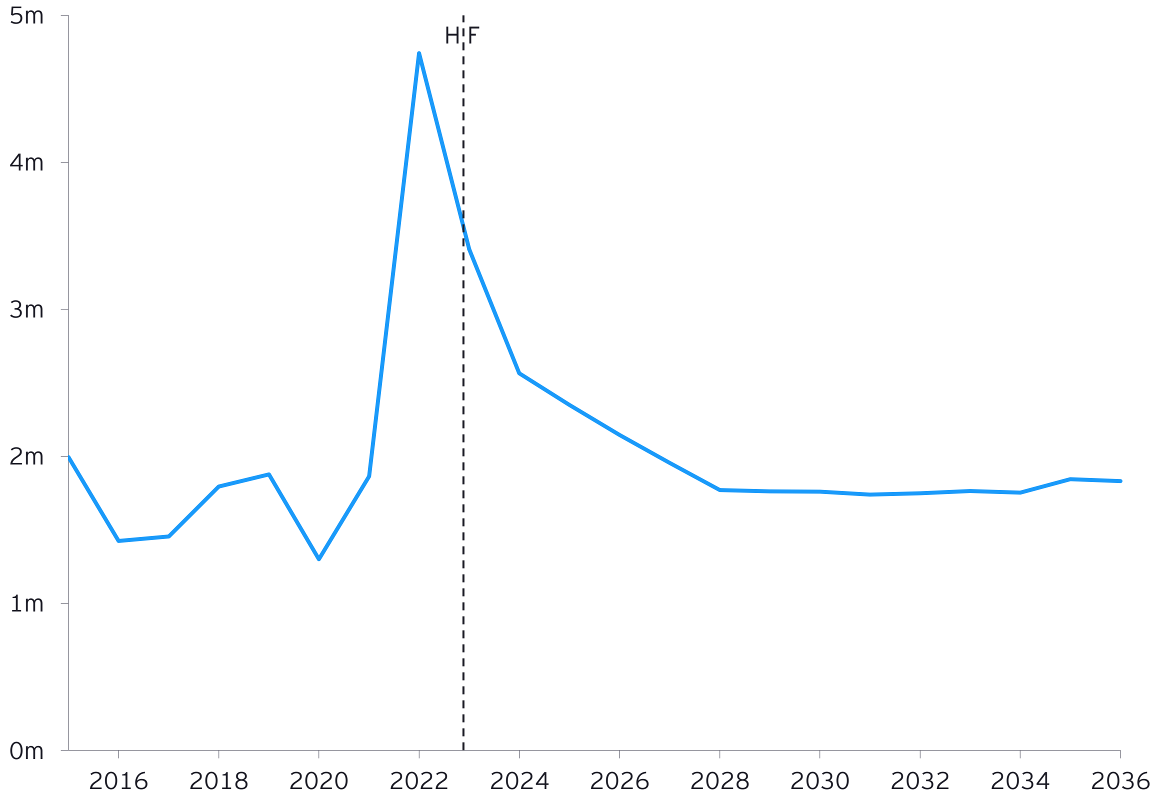
Source: United Nations (World Population Prospects 2024); EY analysis

Immigration, once a reliable source of labor force growth, is becoming less effective at offsetting these pressures as many economies tighten immigration rules

US net migration in the CBO's January 2025 and September 2025 projections
2015-36F



EU and UK net migration[2]
2015-36F



1. The Congressional Budget Office (CBO) Demographic Outlook report shows projections for net immigration beginning in 2021.
2. EU projections: Eurostat EUROPOP; UK projections: UN World Population Prospects. Values combined to produce EU and UK totals.

Source: CBO; U.S. Customs and Border Protection; U.S. Census Bureau; Eurostat; United Nations (World Population Prospects 2024); EY analysis

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- Meet the team and explore resources

The US economy remains robust, powered by high-income household spending and an AI investment boom, but the outlook is softer heading into 2026

Narrow pillars of growth

- The US economy's three narrow A-pillars of growth – affluent consumers, AI-driven investment and asset-price strength – are becoming more fragile. Consumer activity will remain uneven, with high-income households continuing to drive outlays while lower-income families struggle amid a growing affordability crisis induced by higher prices from tariffs, reduced wage growth and elevated borrowing costs. Business investment will remain bifurcated, with AI-related capital investment and operational spending strong, but non-tech spending held back by elevated tariff costs, policy uncertainty, and only partial support from deregulation and fiscal measures.
- The US economy is projected to cool with real GDP slowing from 2.0% in 2025 to 1.9% in 2026.

Labor pressures

- Assessing labor-market weakness is always challenging, particularly amid a historic negative supply shock shaped by sharply lower immigration and an aging workforce. Even so, the evidence has become clearer. Most indicators now signal a softening labor market after two years of gradual deterioration, reflected in higher unemployment, a decade-low hiring rate, rising continuing claims for unemployment benefits, elevated layoff announcements, and mounting job cuts among small businesses. In this context, labor-market cooling is set to deepen, with unemployment drifting higher and demographic and immigration trends lowering the breakeven pace of monthly job creation toward zero.
- We anticipate the unemployment rate to finish 2025 at 4.7% and have a similar reading throughout H1 2026 before edging lower to 4.6% by Q4 2026.

K-shaped consumers

- Consumer spending remains sharply K-shaped, with higher-income households supported by wealth gains and steady wages while lower-income families face mounting strain. Overall outlays have been resilient, yet we expect a mild slowdown in 2026 as employment and income soften. With spending and income now rising nearly in sync, the savings rate has slipped, underscoring greater reliance on savings to manage higher costs.
- We expect real PCE to register 1.7% y/y growth in 2025 Q4 and 1.5% in 2026 Q4.

Affordability crisis

- Tariff pass-through is steadily worsening the affordability squeeze, with headline and core personal consumption expenditures (PCE) inflation both running near 2.8% y/y in September. Broad-based price pressures – from vehicles and furniture to groceries, gas, travel and restaurants – continue to strain household budgets. While many firms have cushioned the impact using pre-tariff inventories and narrower margins, those buffers are eroding. We expect core PCE, the Fed's preferred gauge, to drift higher toward 3% in early 2026, and only gradually fall below 2.5% in the second half of the year.
- We anticipate headline inflation to register 3.0% y/y growth in 2025 Q4 and 2.4% in 2026 Q4.

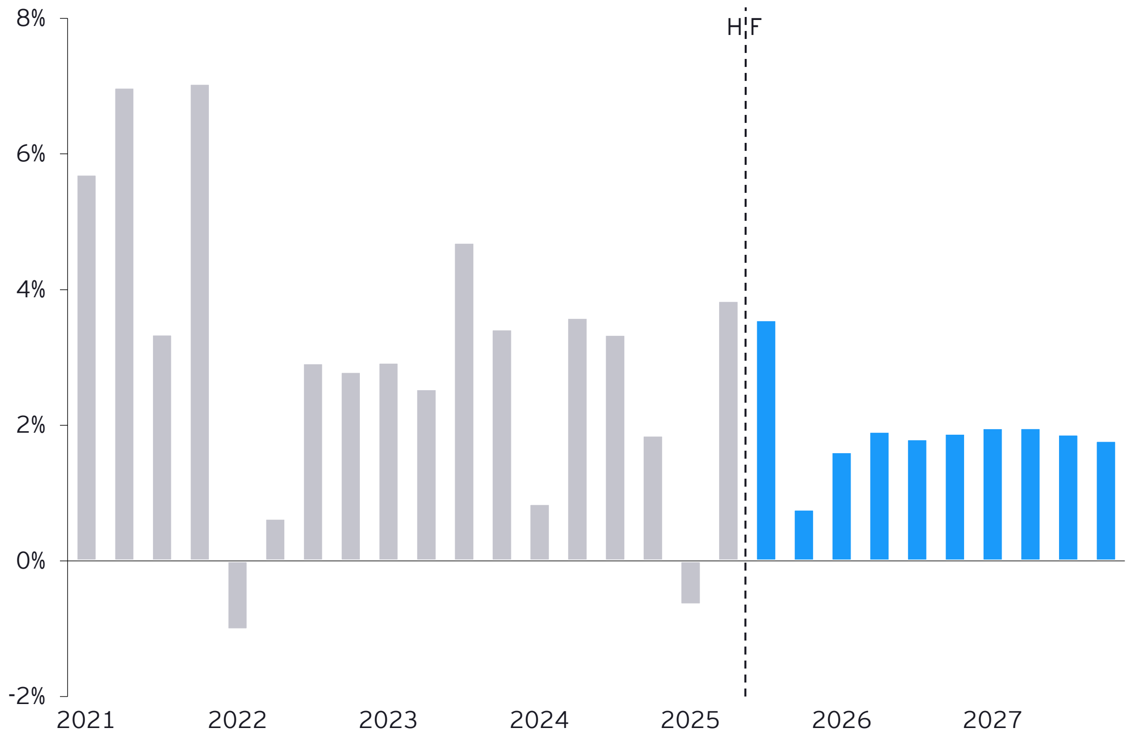
Polarized and cautious Fed

- Following 100 basis points (bps) of easing in 2024 and 75bps in 2025, we expect the Fed to pause its easing cycle in January 2026 and deliver a modest 50bps of additional cuts in 2026, likely in March and June. These moves will hinge on further labor-market cooling and on core PCE inflation not straying too far from the 2% target. The 2026 rotation of voters and the potential appointment of Kevin Hassett as Chair will widen internal divergences, suggesting that polarization will increasingly define the Fed's policy landscape.
- We expect 50bps of cuts through the course of 2026, bringing the fed funds rate target range to 3.00%-3.25% by year-end.

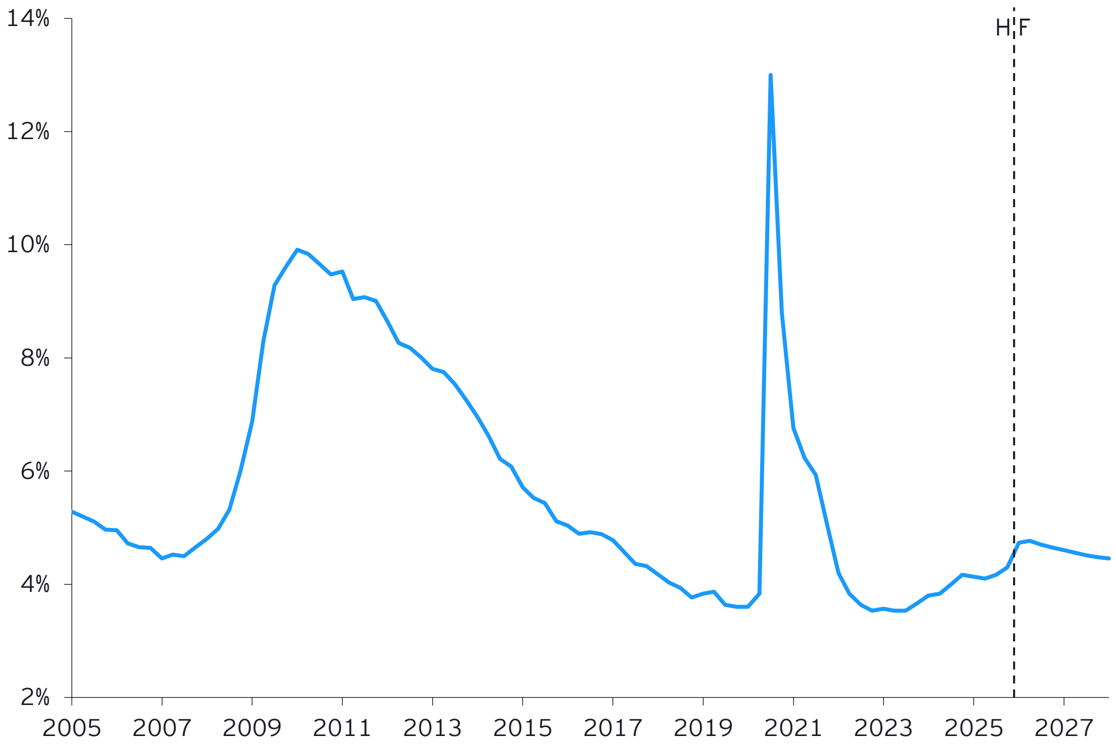
Source: EY analysis

Soft employment and tariff-induced inflation will hinder economic growth in early 2026, while AI investment and a modest fiscal impulse will support a gradual pickup

US real GDP growth (q/q annualized rate)
2021-27F



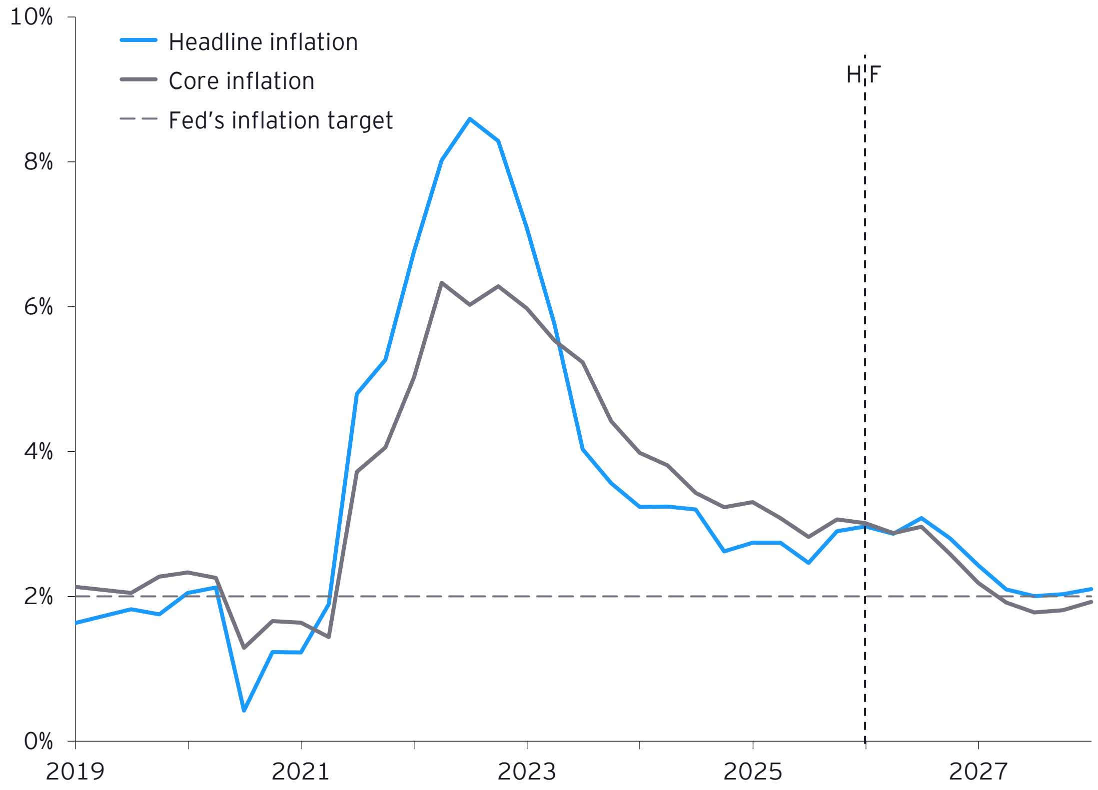
US unemployment rate
2005-27F



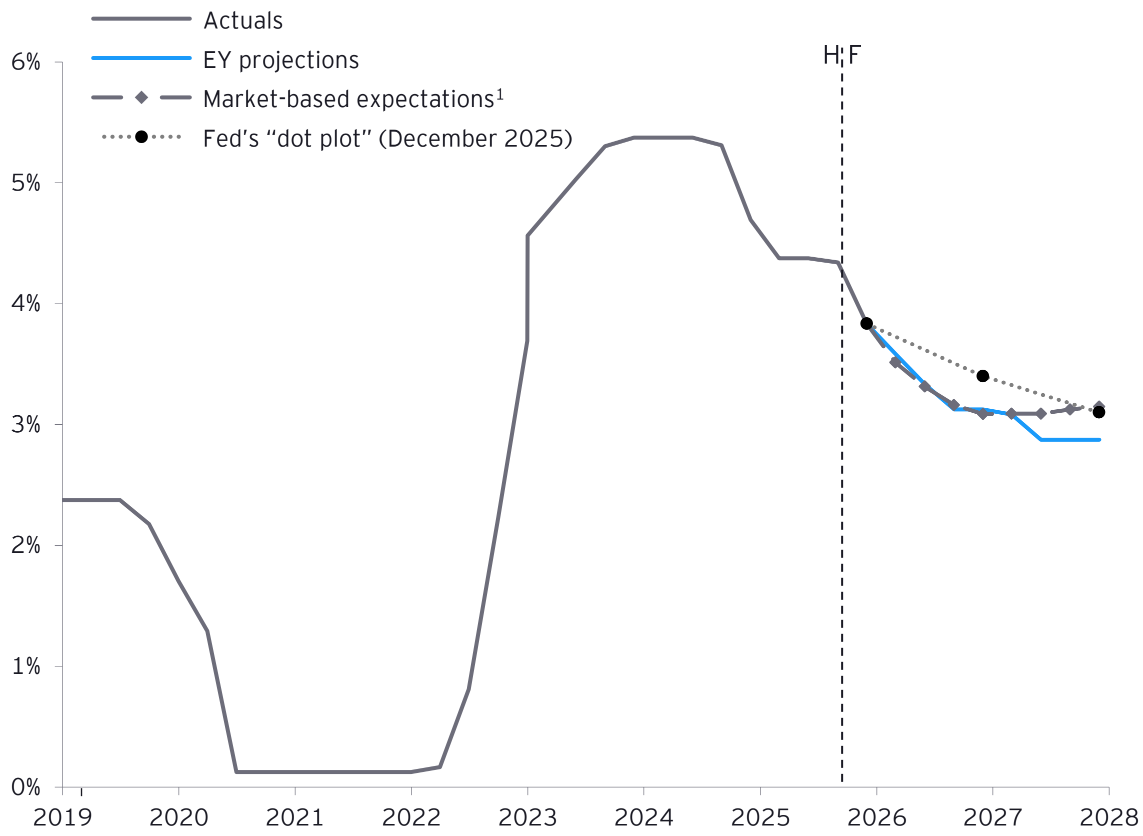
Source: U.S. Bureau of Economic Analysis; U.S. Bureau of Labor Statistics; EY analysis

With tariff-related price pressures fading, disinflation is expected to re-emerge in late 2026, creating space for a more divided FOMC to neutralize its monetary policy stance

US y/y percentage change in headline and core CPI
2019–2027F



US federal funds rate projections
2019–2027F



1. Based on Bloomberg analysis, as of December 5, 2025.

Source: U.S. Bureau of Labor Statistics; EY analysis

Canada's economy is losing momentum as trade pressures deepen and investment weakens, keeping growth subdued into 2026

Sluggish growth amid trade strains

- After a strong start to the year, Canada's economy lost momentum in Q2 as falling exports and softer business investment weighed on activity. Trade-related pressures have added to the uncertainty and continue to cloud the near-term outlook. And while recent monetary policy easing and federal initiatives helped deliver an unexpected rebound in Q3, the broader trajectory still points to a restrained expansion, with limited room for meaningful acceleration. The path forward will depend on improving the country's competitive footing and advancing priority public projects, even as evolving tariff actions and a shifting global trade environment leave the outlook vulnerable.
- We expect real GDP growth to cool from 1.7% in 2025 to 0.9% in 2026.

Labor market under pressure

- Canada's labor market is showing signs of strain, with unemployment rising to 6.9% in Q2 and expected to increase further amid geopolitical tensions, trade uncertainty and disruptions from emerging technologies. These pressures have reduced labor demand and limited real wage growth as firms contend with higher costs and elevated uncertainty. Although lower interest rates and a more growth-oriented fiscal environment may offer some support, conditions are likely to remain challenging in the near term, with structural pressures weighing on the medium-term outlook.
- We expect the unemployment rate to reach 7.2% by Q4 2025, and gradually decline to 6.5% by the end of 2026.

Consumer confidence up

- Consumer confidence surged by 23% in Q2 2025, marking the largest quarterly increase in two years, as households adjusted to improving conditions and slowing inflation. This rebound reflects stronger economic performance earlier in the year and shifting expectations amid geopolitical uncertainty. Business sentiment, while still subdued, has shown signs of stabilization after sharp declines earlier in the year.
- We expect real household consumption expenditures to register 0.9% growth in 2026, following an expected 2.0% advance in 2025.

Elevated inflation expectations

- Consumer inflation expectations have remained elevated, likely reflecting anticipated impacts of retaliatory tariffs. While headline inflation has moderated from the elevated levels of 2022, it continues to hover slightly above the Bank of Canada's 2% target. Inflation is expected to remain slightly above the 2% target through mid-2026 due to pressure from energy prices, but core inflationary pressures should remain under control.
- We anticipate that headline inflation will average 2.4% in 2026 vs. 2.2% in 2025.

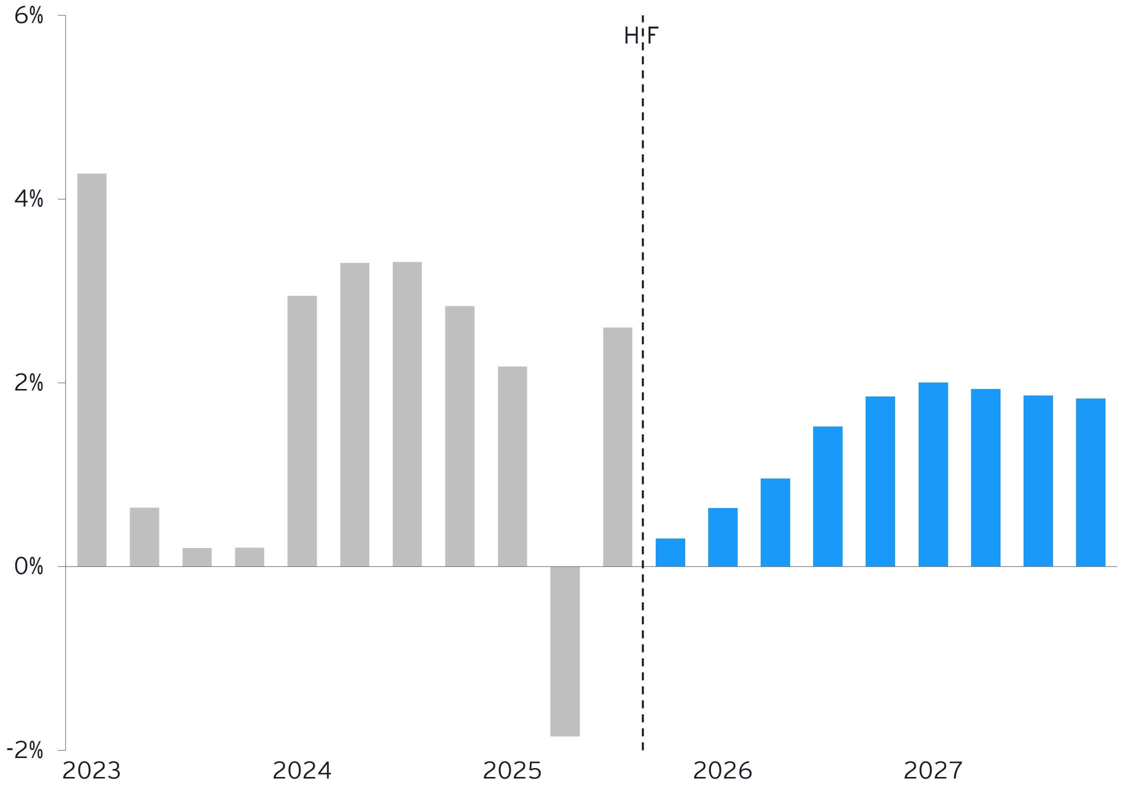
Bank of Canada turns cautious

- Following September's 25bps rate cut to 2.25%, the Bank of Canada believes monetary policy is "on the stimulative side" of neutral. The central bank is expected to balance inflation dynamics with labor-market conditions, aiming to support growth and ease financial conditions amid lingering uncertainties.
- We believe the Bank of Canada will maintain the policy rate steady at 2.25% through 2026.

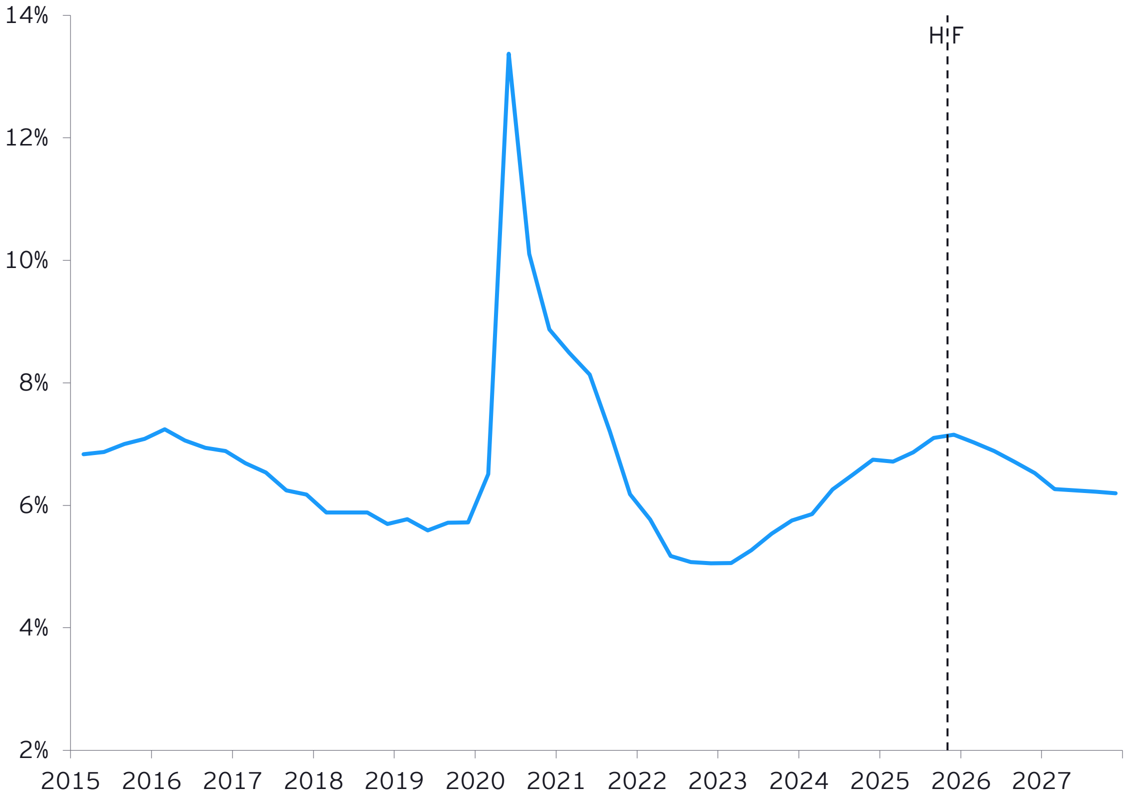
Source: EY analysis

Canada's growth outlook should stay subdued in 2026, with unemployment drifting higher as trade and investment headwinds persist and inflation converging toward 2%

Canada real GDP growth (q/q annualized rate)
2023-27F



Canada unemployment rate
2015-27F



Source: Statistics Canada; EY analysis

We expect moderate EU growth in 2026 as tariffs weigh on activity, followed by faster expansion in 2027 supported by Germany's fiscal push, while inflation stays near target

Uneven growth

- Euro area real GDP is expected to grow by 1.4% in 2025, up from 0.8% in 2024. The headline figure is boosted by Ireland, where GDP jumped ahead of anticipated US pharmaceutical tariffs. Excluding Ireland, growth likely remained steady at 0.9% in 2025, supported by rising real wages, solid government spending and a reversal of the inventory cycle. GDP growth is projected to ease to 1.1% in 2026 as Ireland experiences a sharp slowdown, before accelerating to 1.6% in 2027, helped by fiscal expansion in Germany, lower interest rates and continued increases in military spending.
- Economic momentum remains uneven across EU countries, with Germany and Italy lagging, while Poland and Spain stand among the top performers. These divergences are expected to gradually narrow as Germany's growth rises from 0.3% in 2025 to 1.7% by 2027, supported by fiscal expansion, while Spain's momentum eases from 2.9% in 2025 to 1.9% in 2027. Poland is expected to remain a leading performer, with growth of 3.4%-3.5% in 2025-26 and 3% in 2027.

Labor market stabilization

- Labor market conditions in the euro area are expected to continue stabilizing. Employment growth should remain modest at around 0.5%, constrained by demographic pressures. After holding at 6.4% in 2025, the unemployment rate is expected to resume a slow but steady decline as GDP growth strengthens. Wage growth is projected to ease from 3.9% in 2025 toward 3.2% in 2026-27, remaining above pre-pandemic norms amid a structurally tighter labor market.

Divergent fiscal policy

- Fiscal stances vary widely across the EU. Some governments are using favorable fiscal positions to support additional spending (e.g., Ireland, Denmark, Netherlands), while others continue to raise military and social outlays despite high deficits (e.g., Poland). By contrast, several countries are cutting spending or increasing taxes in response to large deficits and financial-market pressures (e.g., Hungary, Romania).
- Germany is currently pursuing fiscal expansion, having created a €500b fund focused on defense and infrastructure, complemented by federal corporate income tax cuts aimed at stimulating the economy.

Inflation convergence

- Euro area headline inflation is close to the ECB target, with HICP[1] inflation at 2.2% y/y in November. Core inflation remains slightly higher at 2.4%, driven largely by rising service prices. In contrast, energy prices are exerting a disinflationary pull due to lower oil prices and a stronger euro. In 2026, headline inflation is forecast to ease to 1.7%, reflecting a slowdown in food inflation, while core inflation is expected to decline gradually, reaching 2% by 2027.
- Inflation disparities within the EU remain pronounced, with rates ranging from 8.4% in Romania to nearly 4% in several CEE economies, around 3% in Spain and just 0.8% in France. These gaps are projected to narrow gradually by 2027.

Monetary easing on hold

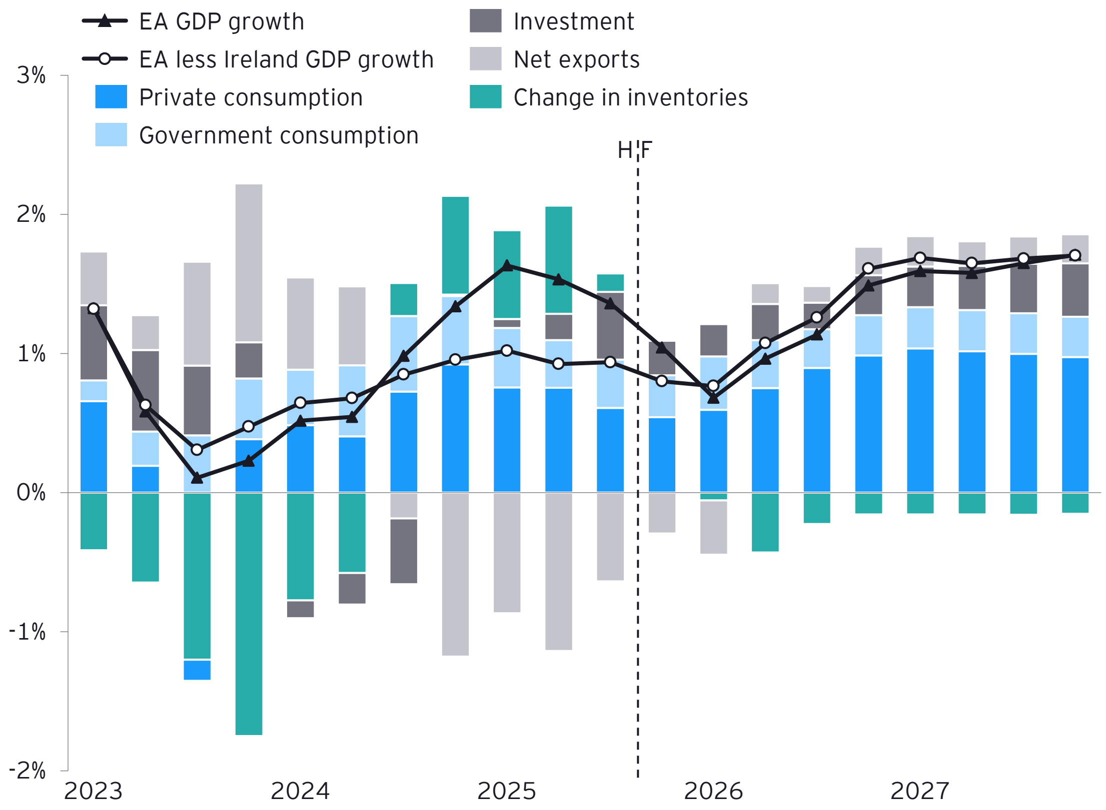
- The European Central Bank (ECB) has lowered the deposit rate by a cumulative 200bps from its 2024 peak to 2.0% in June. With inflation near target and GDP growth holding steady, we expect the ECB to keep rates unchanged through 2027, though risks are tilted to the downside if growth weakens or inflation falls materially below target.
- Meanwhile, the National Bank of Poland is expected to continue easing, reducing the current 4% policy rate by a further 50bps by March 2026.

1. Harmonised Index of Consumer Prices.

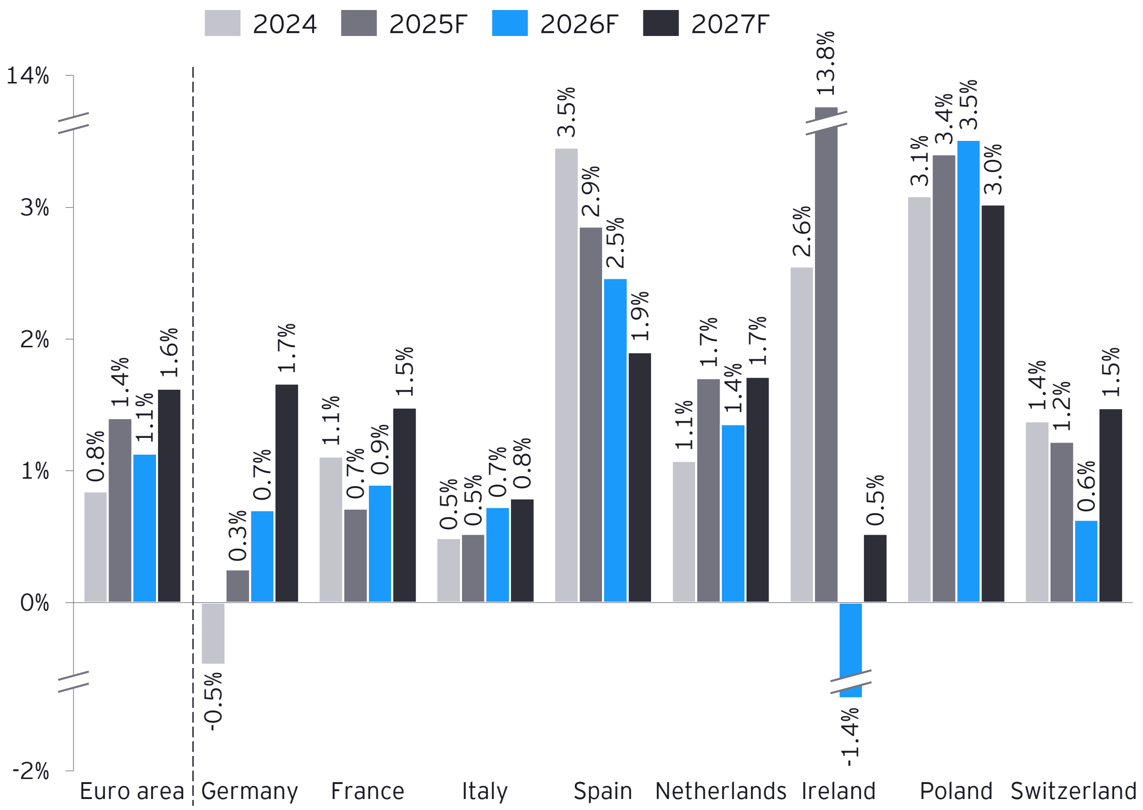
Source: EY analysis

Euro area growth is expected to slow in early 2026 but accelerate thereafter, driven by strong consumption and improving exports, particularly in Germany and France

Euro area less Ireland y/y real GDP growth decomposition
Q1 2023-Q4 2027F



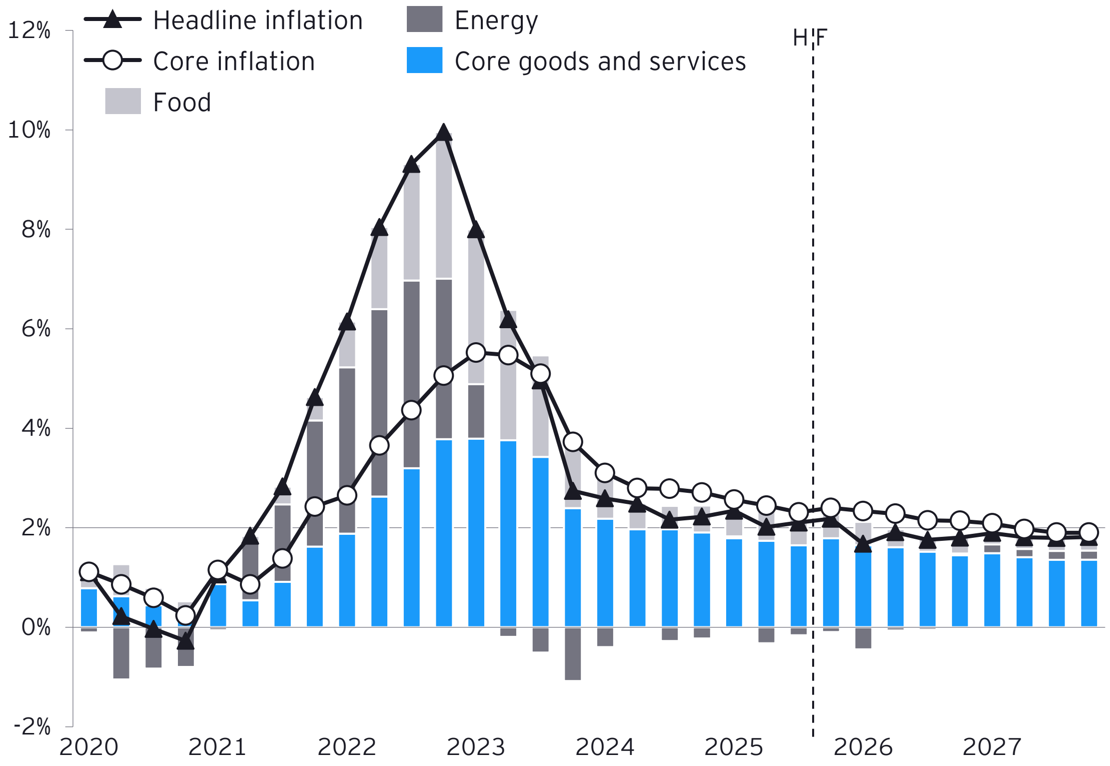
Europe y/y real GDP growth
2024-27F



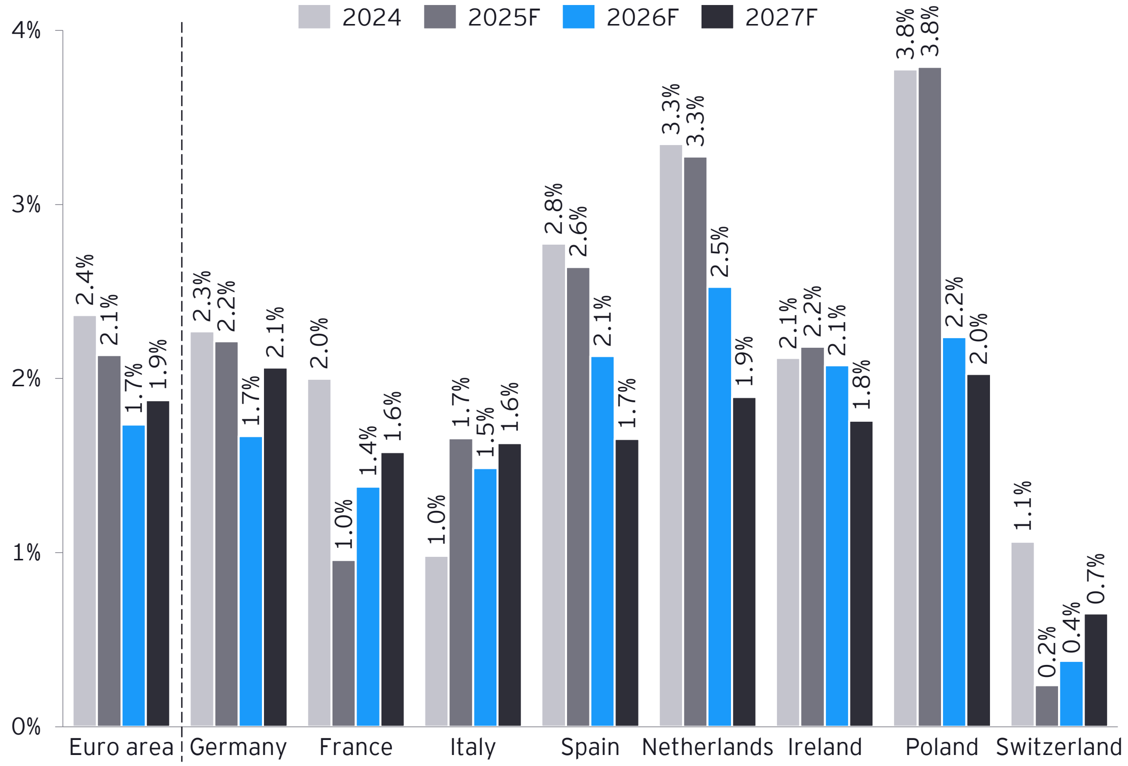
Source: Eurostat; EY analysis

Inflation in the euro area is on track to stabilize near the ECB target as food prices and wage pressures ease, with country differences expected to narrow

Euro area y/y percentage change in headline CPI
Q1 2020-Q4 2027F



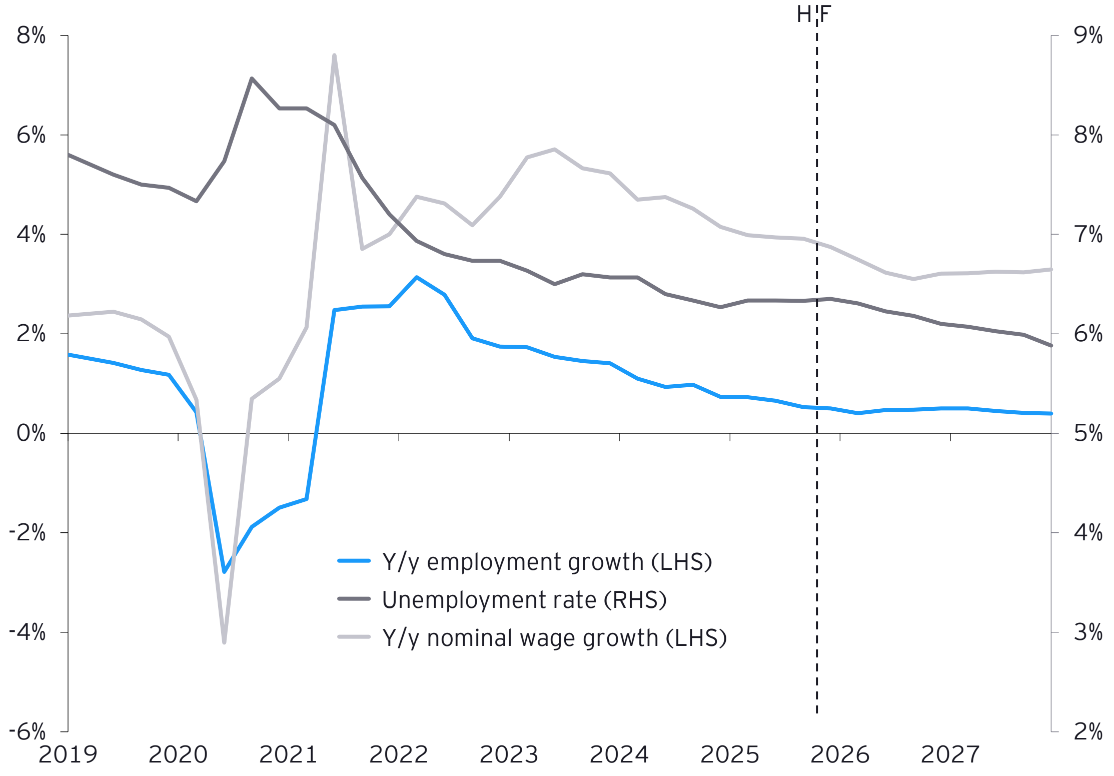
Europe y/y percentage change in headline CPI
2024-27F



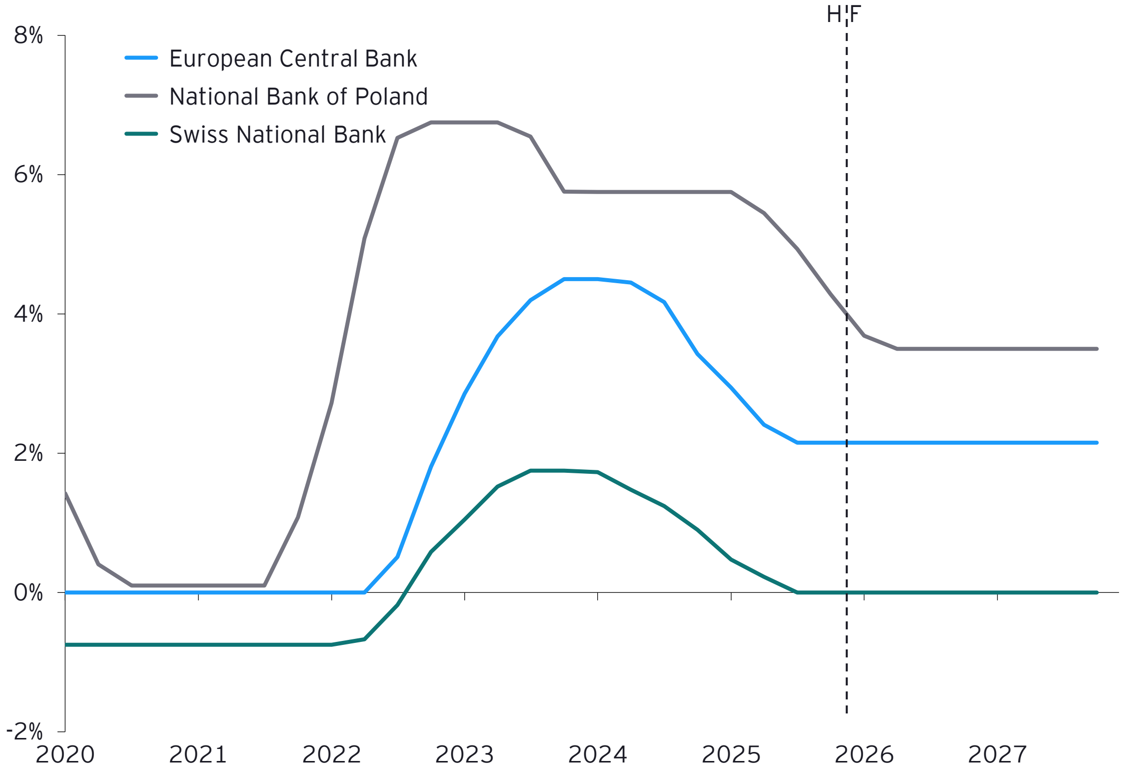
Source: Eurostat; EY analysis

With modest employment gains, wage growth near 3% and inflation around 2%, the ECB is likely to stay on hold, while cuts are expected in Poland

Key labor market indicators in the euro area
Q1 2019–Q4 2027F



Europe central bank policy rates
Q1 2020–Q4 2027F



Source: Eurostat; European Central Bank; National Bank of Poland; Swiss National Bank; EY analysis

UK growth slowed ahead of a budget announcing additional tax increases — momentum will remain modest next year, though lower inflation should spur further rate cuts

Modest growth ahead

- The UK economy saw a clear loss of momentum ahead of a much-anticipated and politically noisy Budget. After strong growth through the first half of the year, real GDP is estimated to have expanded by just 0.1% in Q3 2025, down from 0.3% in the previous quarter (in part reflecting the disruption from a major cyber attack). Ongoing uncertainty and US tariffs are expected to continue weighing on activity into early 2026. Slightly looser near-term fiscal policy will partly offset these pressures and support growth in 2026, before tax increases begin to weigh on the medium-term outlook.
- We expect real GDP growth in 2025 to come in at 1.5% and slow to 1.1% in 2026.

Softening labor market

- Unemployment is expected to remain near 5.0% before very gradually falling to around 4.1% by the end of the decade, reflecting weak labor demand and modest job losses, in part driven by higher employment taxes that were introduced in last year's Budget.
- We anticipate the unemployment rate to finish 2025 Q4 at 4.9% and have a similar readings in 2026 Q4 of 4.8%.

A tax-raising Budget

- The recent autumn Budget saw series of measures announced by the UK chancellor aimed at spending more now and then building greater fiscal space by raising taxes later. The better-than-expected fiscal forecast meant the chancellor was already meeting her fiscal rule by £4b going into the Budget. On top of this, taxes raise a further £26b annually by 2029/30, of which around £8b is spent — mostly on welfare increases and policies to cut energy bills.
- The OBR[1] now expects total public sector net borrowing to fall to 1.9% of GDP by 2029-30, down from 5.1% in 2024-25.

Inflation has peaked

- After remaining stubbornly high, the recent uptick in UK inflation looks to have peaked at just below 4%. Inflation remains above the 2% target in the near term due to continued food and services price pressures, though softness in the labor market is expected slow wage growth and reduce inflationary pressure. Additionally, recently announced policies that aim to cut energy bills next year will reduce inflation in 2026.
- We anticipate headline inflation to register 3.7% y/y growth in 2025 Q4 and 2.3% in 2026 Q4.

Slightly faster rate cuts

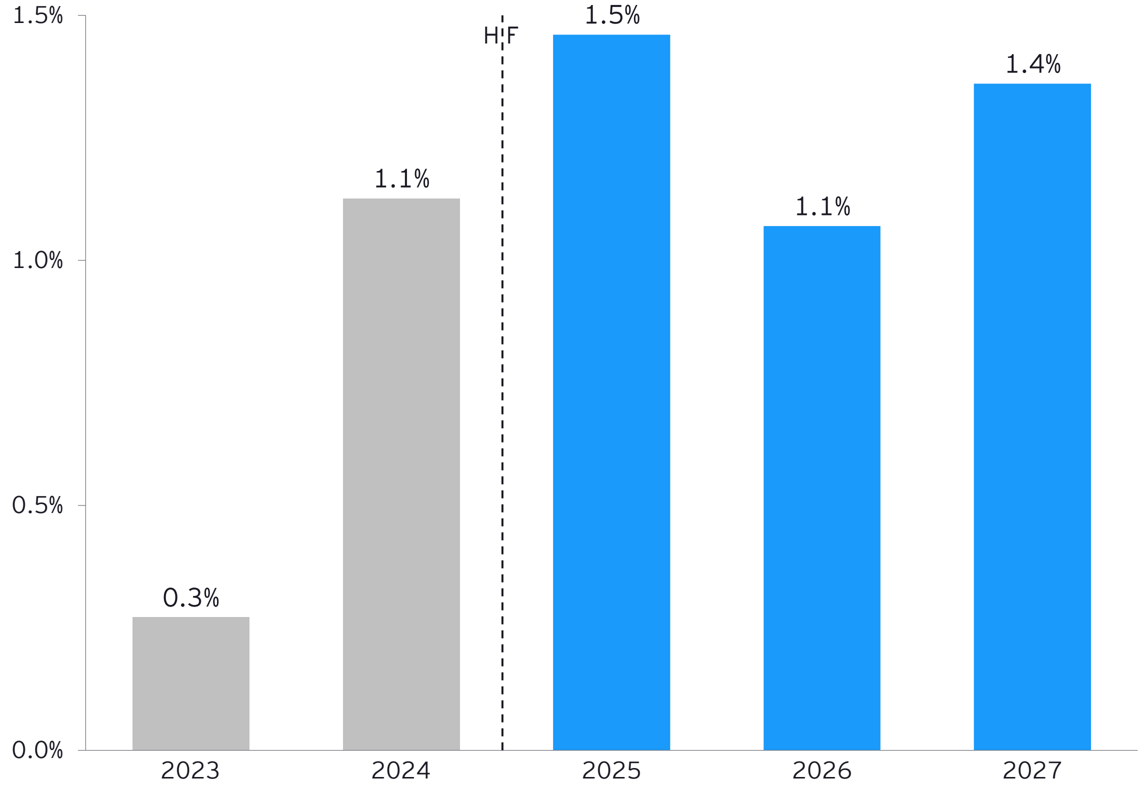
- Recent downside surprises in CPI data, combined with the Budget's new energy bill measures, likely imply lower inflation than the Bank of England (BoE) had anticipated. As a result, markets have brought forward easing expectations.
- We expect a 25bps of cut in December at the BoE's final meeting of 2025, followed by a further 25bps cut in early 2026 before rates are then held at 3.5%.

1. The OBR is the UK's Office for Budget Responsibility.

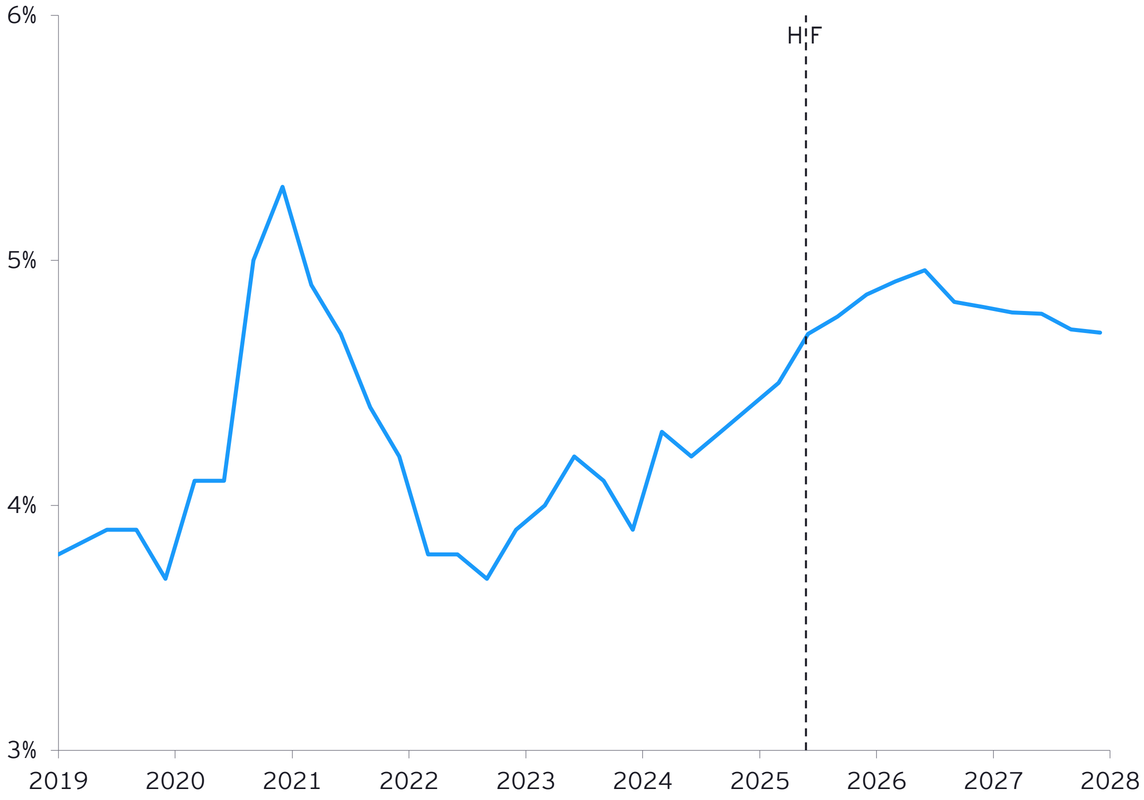
Source: EY analysis

UK growth is set to slow in 2026 as uncertainty and new US tariffs weigh on activity, while rising labor costs and softer demand push unemployment toward 5%

UK y/y real GDP growth
2023-27F



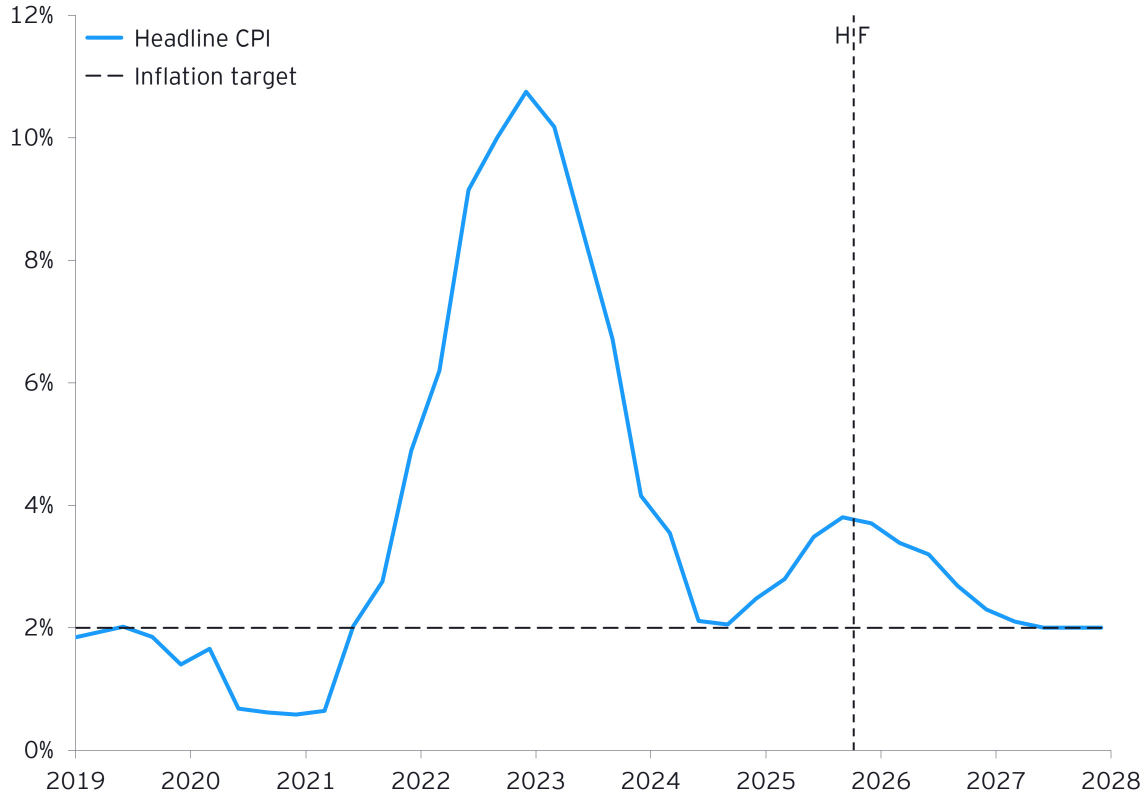
UK unemployment rate
2019-27F



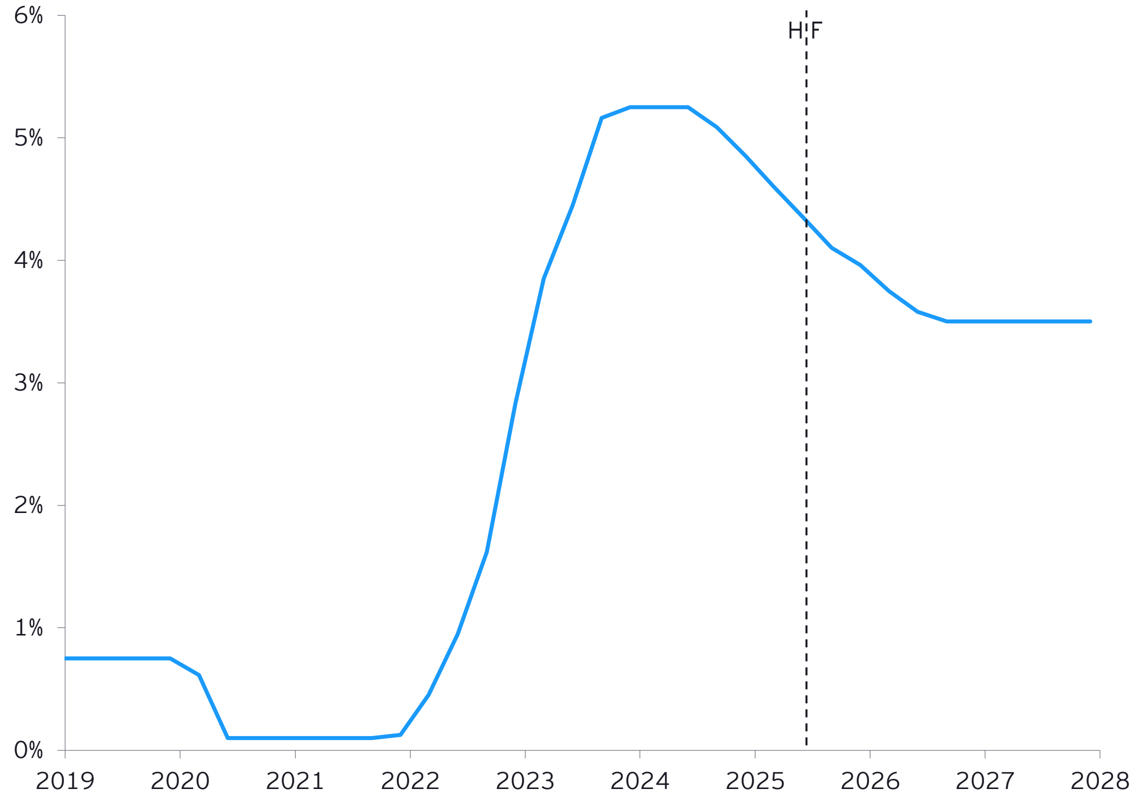
Source: Office for National Statistics; EY analysis

Falling UK inflation, helped by government measures to cut energy costs, should pave the way for a further 50bps of BoE rate cuts over the next six months

UK y/y growth in headline CPI
2019-27F



Bank of England base policy rate
2019-27F



Source: Office for National Statistics; Bank of England; EY analysis

Japan's economy moves from short-term softness to gradual recovery as inflation eases, demand stabilizes and the Bank of Japan's policy normalization advances

Modest growth outlook

- Japan's economy hit a soft patch in late 2025, reflecting weaker domestic demand and export headwinds. The slowdown is linked to high inflation and global trade frictions, but the medium-term outlook still suggests a gradual recovery as external pressures ease and investments stabilize. Export conditions should improve as tariff impacts fade and global growth holds up, while domestic spending benefits from better real wage dynamics. Risks persist from policy uncertainty and fragile global trade, but the overall trend points to modest, steady growth rather than a deep downturn.
- Real GDP growth should ease from 1.2% in 2025 to 0.5% in 2026, following a late-2025 GDP contraction.

Tight job conditions

- Japan's labor market remains structurally tight, driven by demographic constraints and firm labor demand. Wage growth has accelerated, signaling progress toward a more balanced income environment, though inflation has temporarily eroded real purchasing power. Over time, easing price pressures and sustained wage gains should restore household confidence. The main challenge lies in whether smaller firms can maintain wage hikes amid cost pressures, but overall labor strength remains a stabilizing force for the economy.
- We anticipate the unemployment rate near 2.5% in 2025 and 2.4% in 2026.

Subdued spending trend

- Household spending is recovering slowly after a period of weakness, constrained by high living costs, soft real income and depressed sentiment. Elevated savings reflect uncertainty, but as inflation moderates and wages rise, real incomes should stabilize, allowing consumption to edge higher. The rebound will be gradual, with risks tied to persistent inflation or precautionary saving behavior. Overall, consumer demand is expected to improve modestly, reinforcing a slow but steady recovery.
- Real private consumption is projected to grow 1.0% in 2025 and 0.7% in 2026.

Gradual price moderation

- Inflation remains above target but is on a downward trajectory. Cost-push factors such as food and import prices have dominated, yet signs of moderation are emerging as supply shocks fade. The outlook points to inflation settling closer to target over the next year, though wage dynamics could slow the pace of disinflation. Policy will need to balance this gradual cooling with growth considerations.
- Consumer price inflation should slow toward 2% in 2026.

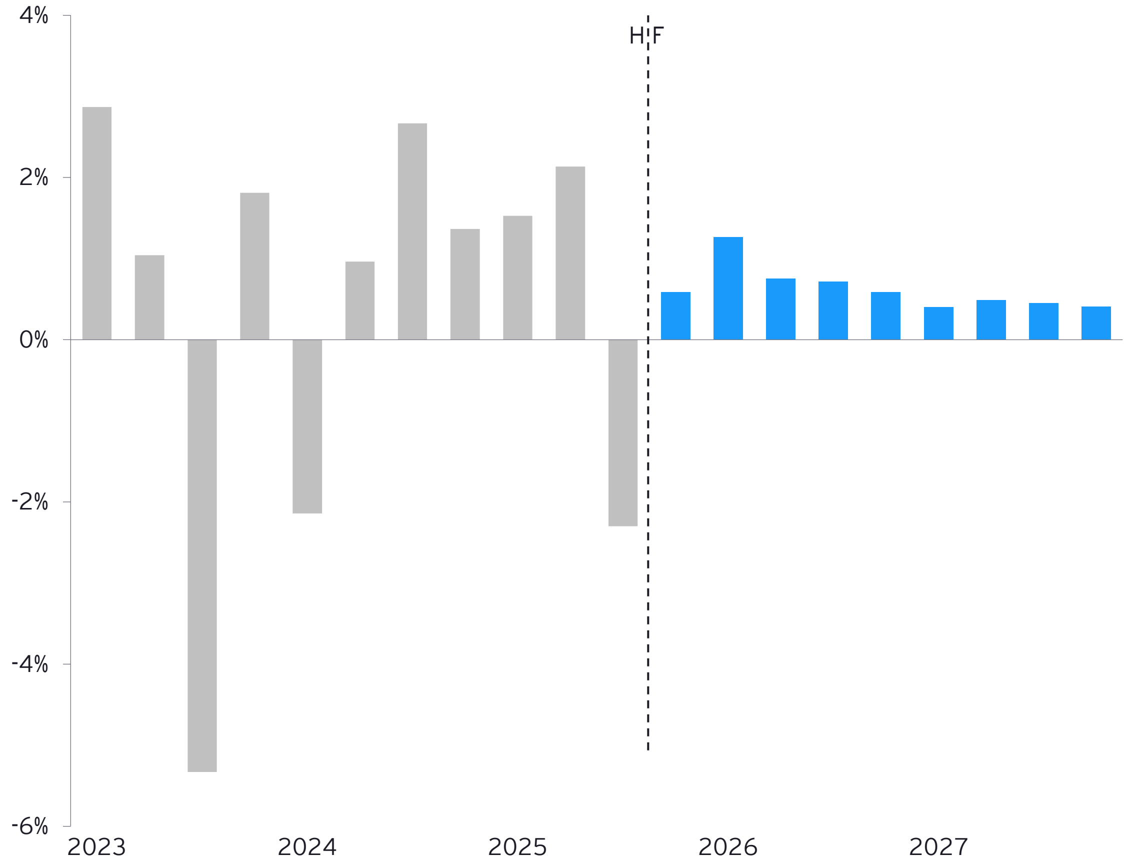
Cautious rate hikes

- Japan is moving toward cautious monetary policy normalization after years of ultra-low rates. The Bank of Japan (BoJ) has held its policy rate at 0.5% since early 2025 but is expected to raise it to 0.75% by early 2026 and around 1.00% by mid- to late 2026. Inflation above target and stronger wage trends support gradual tightening, though global risks and political pressure for accommodative policy could slow the pace. If inflation cools faster than expected, hikes may pause; if price pressures persist or the yen weakens, more forceful action could follow.

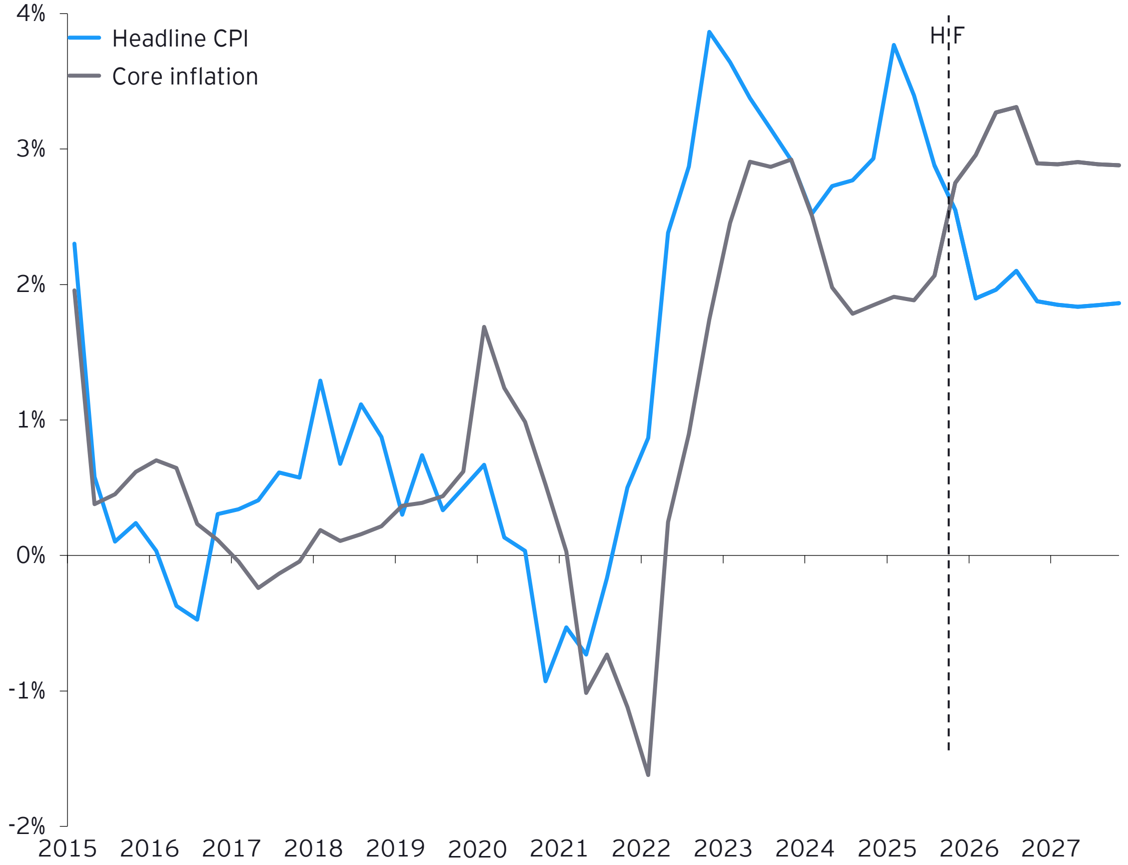
Source: EY analysis

Japan's outlook should improve in 2026 as inflation moves lower and real incomes begin to recover, supporting gradual growth

Japan real GDP growth (q/q annualized rate)
2023-27F



Japan y/y change in CPI
2005-27F



Source: Cabinet Office of Japan; Statistics Bureau of Japan; EY analysis

The Australian economy should accelerate modestly into 2026, helped by business investment, household consumption and public demand, but inflation risks loom

Recovery continues

- The Australian economy grew a moderate 2.1% y/y in Q3 2025, but growth was below expectations. Private investment experienced a solid increase, mainly driven by business investment in machinery and equipment related to data centers, along with higher dwelling investment. There was also a reasonable rise in household consumption and public demand, which also contributed to growth. In contrast, net trade and falling inventories detracted from growth. Inflation risks loom as unit labor costs remain elevated and productivity growth continues to lag.
- We expect real GDP growth will pick up from 1.8% in 2025 to 2.2% in 2026.

Labor pressures remain

- The labor market is in relatively good shape. The unemployment rate remained historically low at 4.3% in October. Workforce participation and the employment-to-population ratio remain close to record high levels. Employment growth has continued to ease, but labor market conditions remain a little tight as job vacancies remain elevated and firms continue to report difficulties in finding suitable labor. Indicators of labor demand point to a broadly stable outlook, consistent with the recovery in GDP.
- We anticipate the unemployment rate to finish 2025 at 4.4% and have a similar reading in 2026 Q4.

Consumption on the rise

- Household demand regained momentum in Q3 2025, although the pace of recovery moderated as consumers continued to rotate away from discretionary categories and even pared back some essentials. Even so, a 2.5% y/y increase in spending marked the strongest outturn since Q2 2023 and sat only marginally below the 10-year pre-pandemic trend of 2.6%. The recovery reflects the gradual lift in real disposable income as inflation receded. Confidence has improved from depressed levels, yet households remain cautious, selective and acutely price sensitive, suggesting the rebound is still fragile.
- The recovery in household consumption could be limited given the uptick in inflation, which has reduced the chances of further rate cuts.

Inflation reaccelerating

- Headline and trimmed mean inflation both reaccelerated in Q3 2025, moving further from the midpoint of the Reserve Bank's 2%-3% target. October CPI confirmed the shift, with headline inflation lifting to 3.8% y/y, driven by essentials such as housing and food. Underlying inflation also rose to 3.2%, pointing to broad-based price pressures. The Reserve Bank remains focused on housing and services inflation, which continued to run hot and stay sticky, heightening the risk of more persistent above-target inflation.
- We anticipate headline inflation to reach 3.5% y/y growth in 2025 Q4 and 2.5% in 2026 Q4.

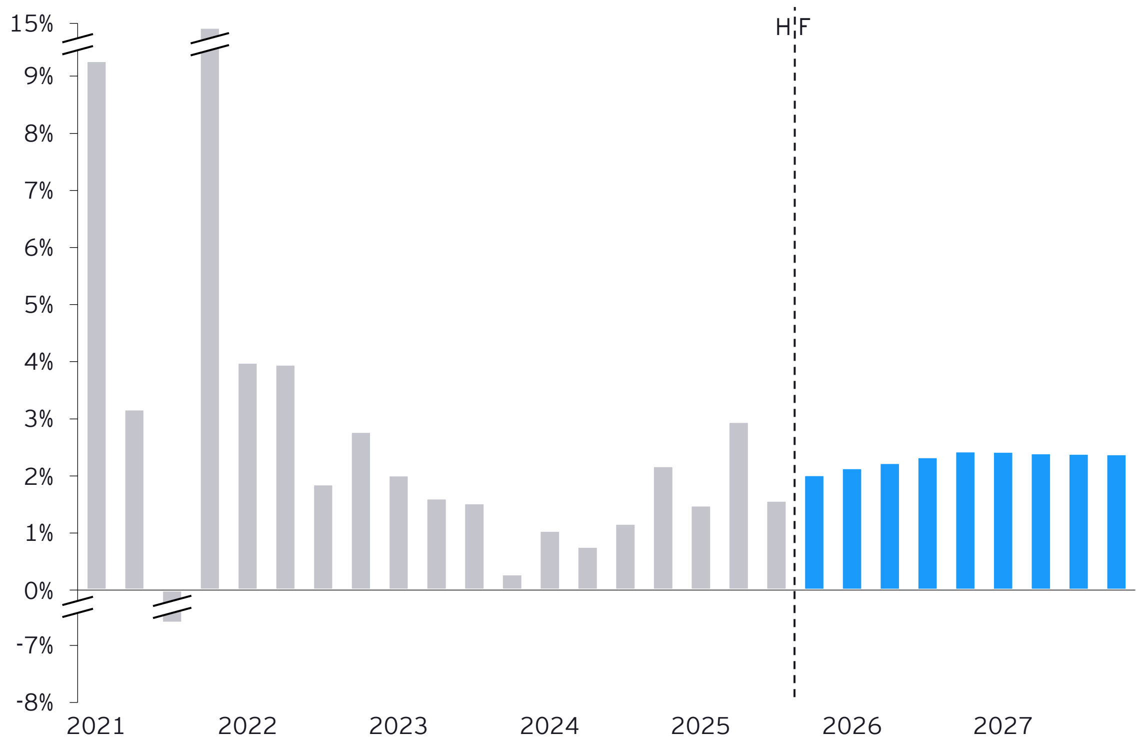
RBA easing over

- With the reacceleration in headline and trimmed mean inflation and a pickup in domestic activity, the Reserve Bank of Australia (RBA) did not lower rates at its meeting on December 9. The central bank governor said no further interest rate cuts would be necessary in the near future and its focus had turned to renew upside risks to inflation. The RBA is aiming to pull inflation back toward the midpoint of the 2%-3% target, even as the impact of the three 25bps cuts delivered this year has yet to fully flow through. Should the inflation reacceleration continue into early 2026, the risk profile shifts toward renewed rate hikes rather than further easing.
- We expect no further interest rate cuts in the foreseeable future, given the surprise uptick in inflation and the persistence of a tight labor market.

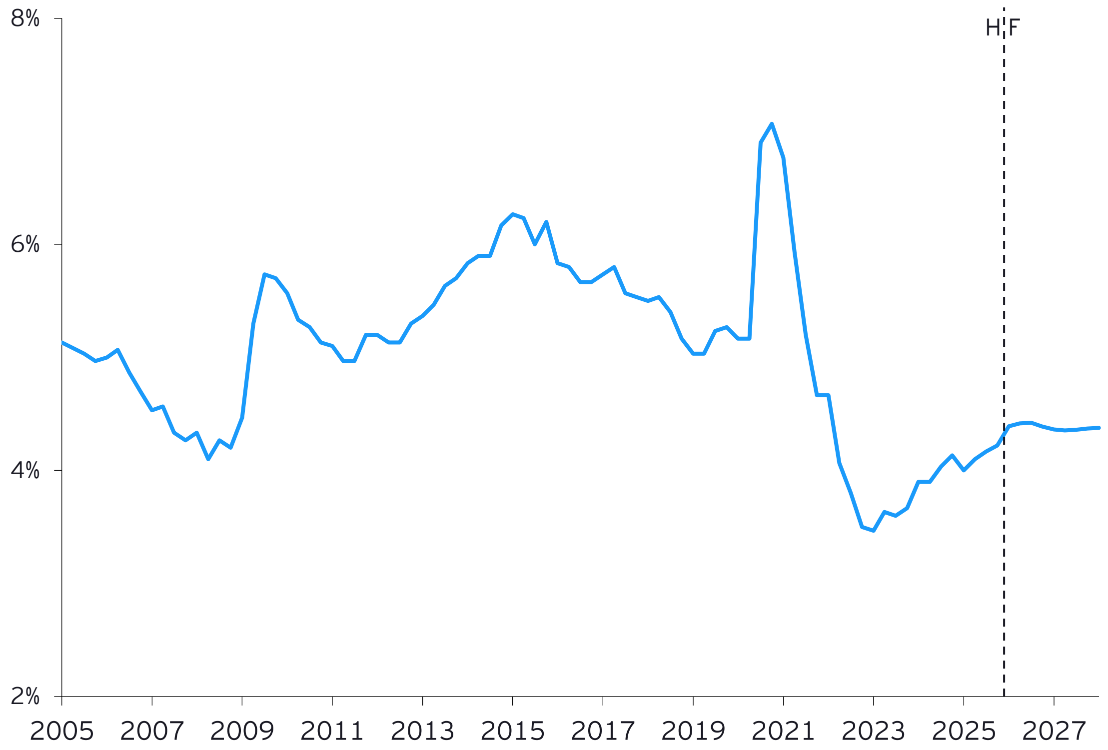
Source: EY analysis

The Australian economy is set to grow below trend over the next few years as productivity growth lags and labor market conditions remain tight

Australia real GDP growth (q/q annualized rate)
2021–27F



Australia unemployment rate
2005–27F



Source: Australian Bureau of Statistics; Macrobond; EY analysis

Growth targets remain central for China, with stimulus aimed at bolstering consumption and strategic sectors alongside continued export reliance

Growth targets maintained

- The 15th Five-Year Plan, set for approval in early 2026, is poised to lock in a medium-term growth objective of roughly 4%–5%, anchoring China's path toward its 2035 income goals. Policymakers appear determined to keep expansion above the 4% mark despite soft private investment, ongoing real estate strains and an uncertain global backdrop — a clear signal that supportive measures will remain central to the strategy for the coming decade. The plan is expected to channel state-backed resources into advanced manufacturing, green technologies and industrial modernization, complemented by targeted steps to lift household demand. Together, these priorities underscore Beijing's intent to rely on a reinforced manufacturing base and gradually stronger domestic consumption to sustain momentum in the years ahead.
- We expect real GDP growth will slow from 4.9% in 2025 to 4.4% in 2026.

Trade uncertainties

- China's shipments to the US could edge higher over the next year if bilateral ties remain steady and trade negotiations progress, supported by firm demand for key inputs and strategic goods (including rare earths and other export-controlled items). At the same time, the ongoing pivot toward broader market diversification is set to deepen, with momentum into Europe and fast-growing emerging markets — including ASEAN and parts of Latin America — helping Chinese firms limit exposure to any single trade partner. The main hazard to this trajectory remains the possibility of renewed tension with major economic blocs, particularly Europe, where tougher scrutiny and the prospect of new targeted levies could restrain export gains in 2026.
- We expect real export growth will cool from around 8% in 2025 to around 4% in 2026.

Consumption and stimulus

- Supporting consumption remains a key government target over the next year; recent figures suggest moderate recovery in goods purchases and significant growth in services. Nevertheless, policymakers have not indicated intent for substantial structural reforms targeting consumption growth in the short term.
- Current policy indicates stimulus targeting social welfare, basic public services and infrastructure investment in strategic sectors, and local governments have indicated continued campaigns around bring forward consumption demand.

Addressing deflation

- While recent figures point to recovering Producer Price Index (PPI) and core Consumer Price Index, deflationary pressures remain a key macroeconomic challenge driven by subdued household demand, industrial overcapacity and external uncertainties. Policymaker's strategic "anti-involution" campaign, aimed at curbing excess capacity and severe price competition, will serve as a key tool for price stabilization in 2026 through supply-side consolidation and supporting quality-led competition in higher-value sectors.
- We foresee CPI inflation firming from -0.1% in 2025 to 0.3% in 2026.

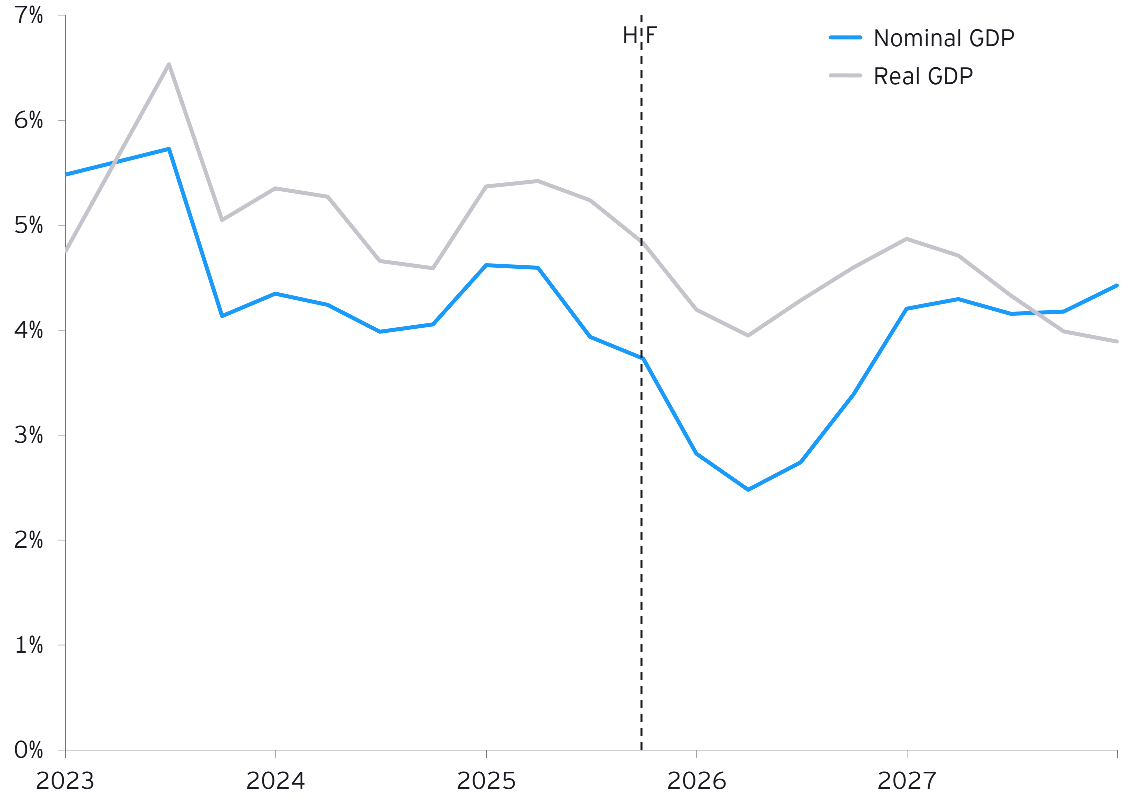
Accommodative monetary policy

- The central bank is signaling a measured approach to monetary support, aiming to steady near-term conditions while backing the economy's broader shift toward more advanced industrial capacity. Recent guidance points to selective easing that improves financing access for consumer-oriented sectors and infrastructure. At the same time, authorities are committed to keeping the currency broadly steady, emphasizing stability over depreciation as global financial conditions tighten and external risks, including the US policy cycle and trade tensions, remain elevated.

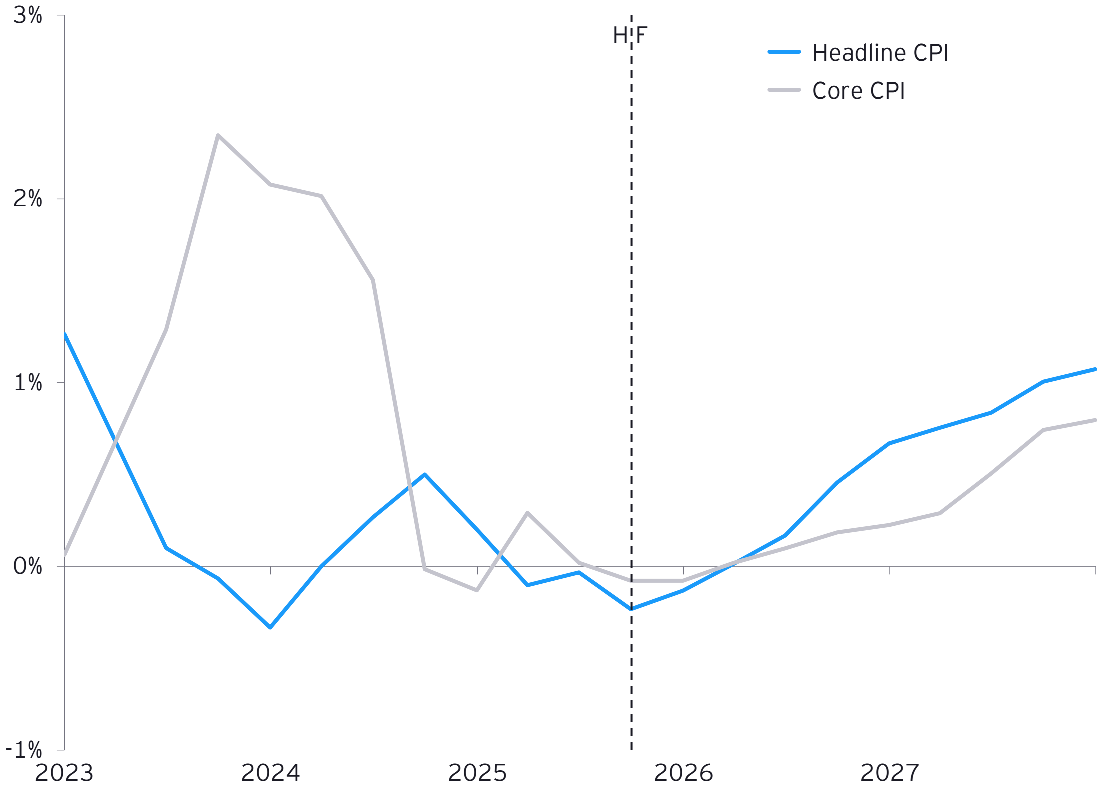
Source: EY analysis

Nominal GDP continues to lag real GDP, highlighting deflationary tendencies and continued pressure on corporate profits, wage and local government tax revenue

China y/y real and nominal GDP growth
2023–27F



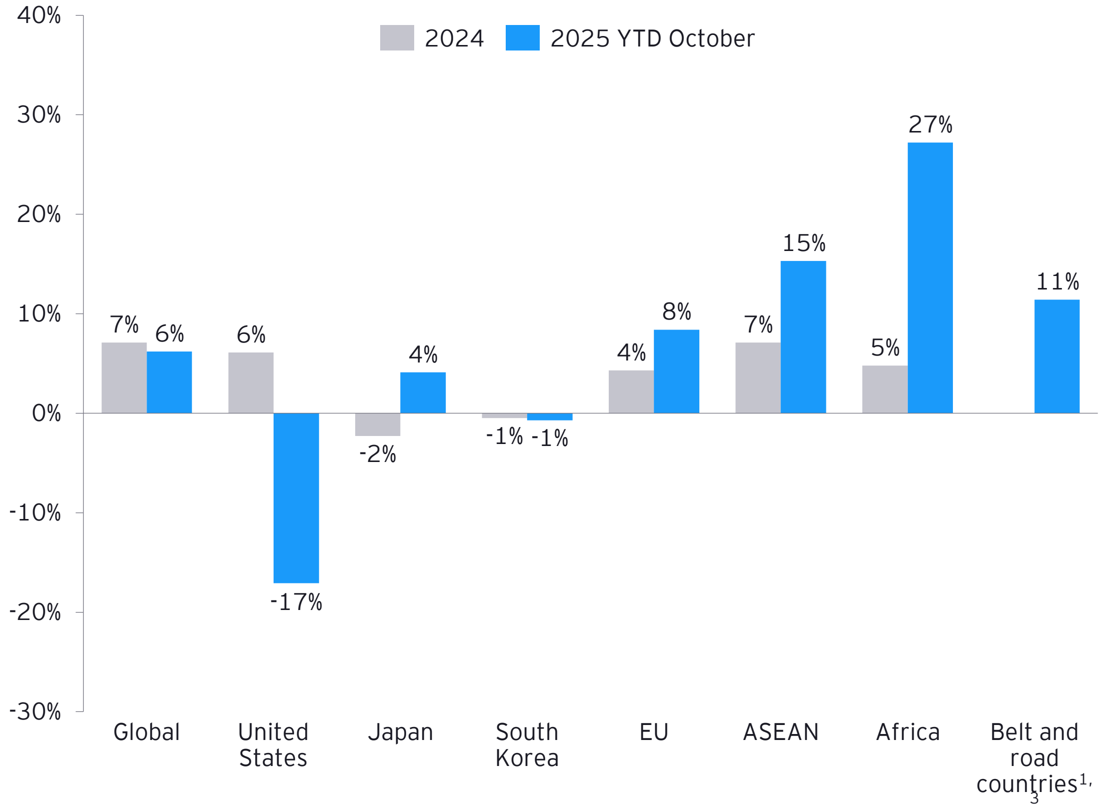
China y/y headline and core CPI growth
2023–27F



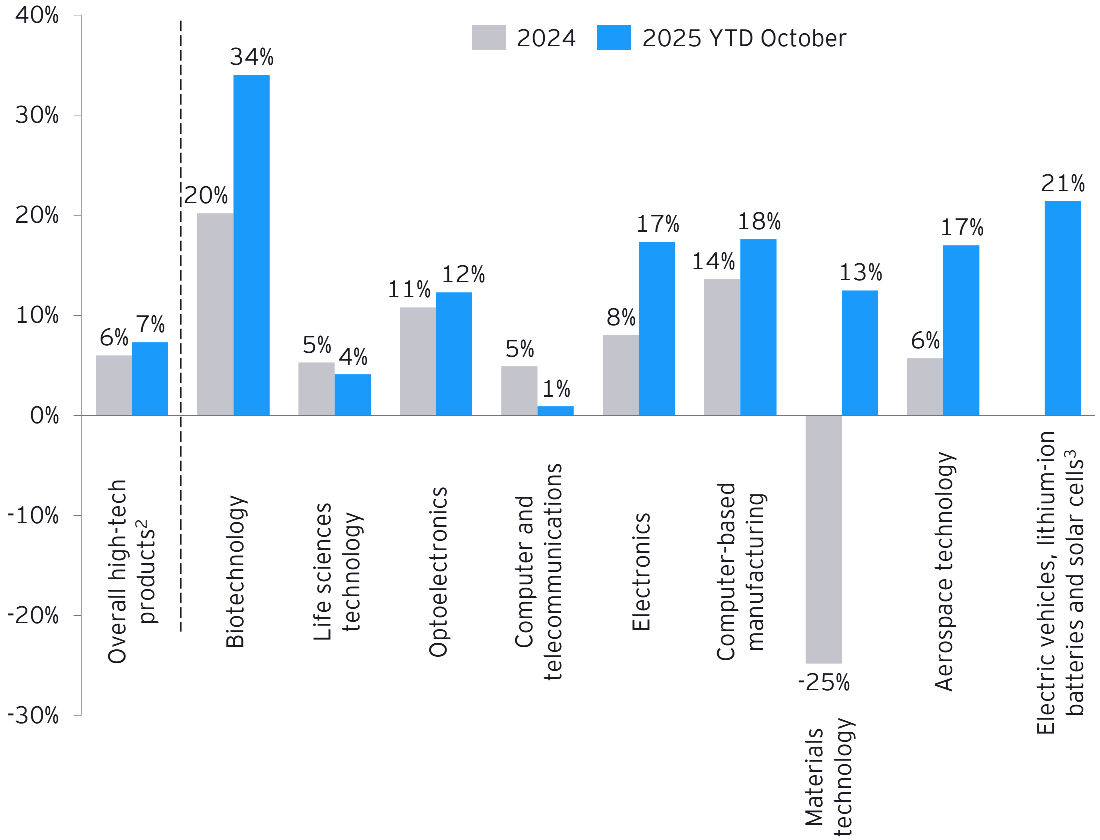
Source: National Bureau of Statistics of China; EY analysis

China's export sector has remained robust despite trade challenges with the US — this appears driven by trade diversion and strong demand for Chinese tech exports

Y/y change in China's exports to major trading partners
2024 vs. 2025 year-to-date (YTD) October



Y/y change in China's exports of technology and advanced manufacturing products
2024 vs. 2025 YTD October



1. Includes 138 countries across Sub-Saharan Africa, Middle East, East and Southeast Asia, Europe, and Central Asia who have signed China's Belt and Road Initiative.
2. High-tech products represents the overall growth in China's exports across all technology and advanced manufacturing exports. Also includes an "Other technologies" category not included in chart.
3. 2024 data unavailable for comparison.

Source: China Customs; EY analysis

India's economy remains resilient, supported by domestic demand and infrastructure-led investment, though trade headwinds could temper growth in 2026

Resilience but growing risks

- Growth is projected to remain robust through FY26 (fiscal year ending March 2026), building on the strong momentum of Q3 2025 when GDP expanded by 8.2% y/y. Domestic demand is expected to hold firm, underpinned by resilient services activity, while recent goods and services tax (GST) cuts should keep consumption buoyant, even with a likely moderation in H2 FY26 due to high tariffs. Private capex is gradually strengthening, supported by solid investment intentions and healthy credit flows, though its durability will hinge on how tariff-related demand risks unfold. Sluggish export growth, driven by a downturn in shipments to the US, underscores rising risks, especially with a trade agreement still pending.
- We expect real GDP growth will moderate from 7.6% in 2025 to 6.8% in 2026.

Trade pressures

- The goods trade deficit widened to a record $42b in October 2025, driven by an 11.8% y/y drop in exports and a 16.9% y/y surge in imports. While the spike partly reflects seasonal factors and elevated gold purchases, the broader export trend remains weak. Tariffs are increasingly weighing on shipments to the US, and the contraction in goods exports to the US is likely to intensify in the coming quarters. In contrast, the services trade surplus reached a record $19b and is expected to remain a crucial buffer, helping offset some of the pressure from the widening goods deficit.
- We expect the trade deficit to remain elevated through FY26 and to ease only gradually in FY27.

Managed fiscal risks

- India's fiscal deficit stood at 53% of the fiscal year annual target by October, driven by strong capital expenditure and slower tax inflows. Capex has already crossed 55% of the yearly goal, while tax receipts remain below 45%. Tax revenues have been impacted by the income tax rebate announced in the budget, while recent GST cuts will weigh on indirect tax collections. Meeting the target will require a sharp rebound in collections, but higher nontax revenues and the RBI dividend should help prevent significant fiscal slippage.
- We expect the fiscal deficit in FY26 at around 4.5% of GDP, a mild slippage from the 4.4% target announced in the budget.

Record low inflation

- Inflation remains benign, with October CPI at a record low of 0.3% y/y, well below the Reserve Bank of India (RBI) forecasts. Soft food prices, aided by a good monsoon, and subdued core inflation point to weak underlying momentum. GST rate cuts are being passed through, keeping near-term inflation contained. Overall, headline and core inflation are expected to remain below RBI projections, with downside risks from policy-driven price reductions.
- We project headline inflation to average 1.7% in fiscal year (FY) 2026, rising to around 4.2% in FY27, broadly in line with the RBI's midpoint target of 4%.

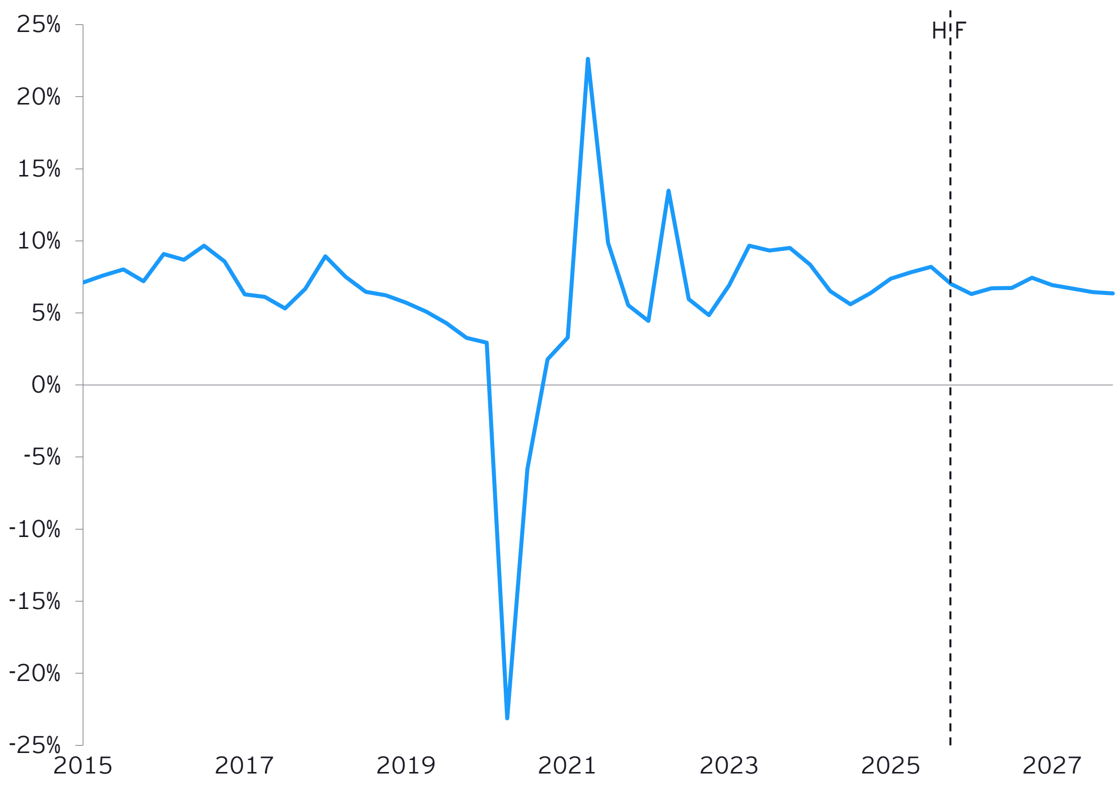
RBI poised for easing

- The Monetary Policy Committee unanimously cut the repo rate by 25bp to 5.25% in December meeting and retained a neutral stance, while also announcing government bond purchases and foreign exchange (FX) swaps to inject durable liquidity. The central bank also revised inflation forecasts lower and upgraded growth projections following recent GDP surprises, noting that momentum may moderate into FY27 and that subdued inflation has created space for policy support.
- If growth tracks RBI's expected path, further rate cuts appear unlikely. However, support to the economy via liquidity measures is likely to continue.

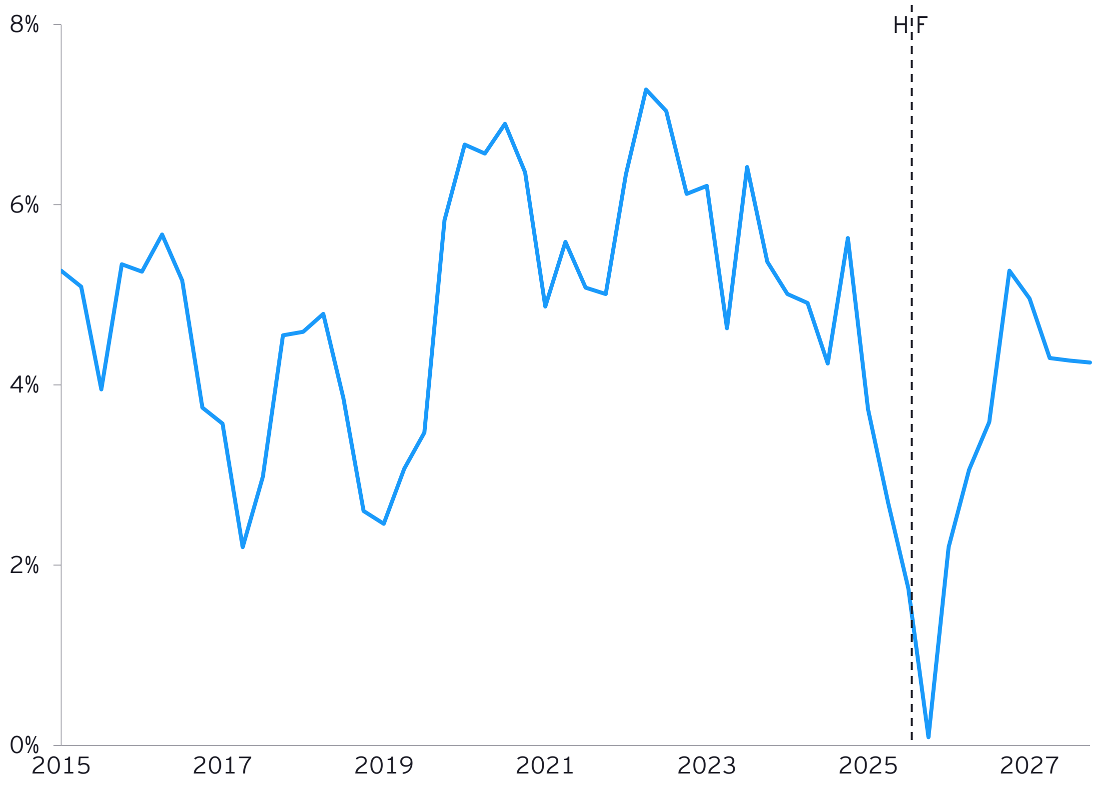
Source: EY analysis

India's robust GDP growth appears to be peaking amid tariff headwinds, while inflation is expected to stay benign on soft food prices

India y/y real GDP growth
2015–27F



India y/y percentage change in headline CPI
2015–27F



Source: Reserve Bank of India; Ministry of Statistics and Programme Implementation; EY analysis

LatAm growth is set to slow in 2026 as tariffs weigh on exports, though easing inflation and lower interest rates should help support economic activity

Moderate growth

- With the notable exception of Mexico, real GDP growth in Latin America has been relatively resilient in 2025. We estimate the region expanded by 2.4%, up from 2.0% in 2024, supported by a recovery in Argentina. Other South American economies, including Brazil, grew at a 2.5%-3.5% pace, broadly in line with 2024. Investment has remained robust across the region. In Brazil, fiscal policy eased further, and exports held up despite US tariffs, helped by strong agricultural output. In Mexico, however, investment weakened as the earlier nearshoring boom unwound and consumers delayed spending amid tariff-related uncertainty, leaving GDP growth to slow to an estimated 0.7%, supported mainly by exports.
- Momentum now appears to be softening, particularly in Argentina and Brazil, where consumer spending and investment are slowing. Export growth is also likely to cool heading into 2026. As a result, we expect regional growth to ease to 2.1% next year, despite a modest recovery in Mexico.

Front-loaded exports

- US trade policy has materially affected Latin America, a key supplier of steel, aluminum, cars and food products to the US. Brazil faces the highest tariffs for political reasons, while Mexico is most exposed given its deep economic integration with the US.
- Rising tariffs have triggered a wave of front-loaded exports across the region, but this is likely to unwind in 2026, with weaker shipments posing an economic drag. Mexico is expected to be hit hardest, with exports projected to fall by around 2.0%.
- On a more positive note, the renegotiation of the USMCA and recent exemptions for beef, coffee and fruits could help cushion some of the disruption.

Fiscal policy

- Fiscal policy stances vary widely across Latin America, ranging from a surplus in Argentina to significant deficits of 8.7% and 7.3% of GDP in Brazil and Colombia, respectively. Fiscal profligacy is particularly concerning in Brazil, where the upcoming 2026 presidential election is likely to drive further fiscal expansion, heightening risks to fiscal sustainability.

Falling inflation

- Headline inflation remains above central bank targets across most of the region, ranging from 3.5% in Mexico to around 5% in Brazil and Colombia, driven by strong wage growth, food price shocks and past exchange rate depreciation. Peru is a notable exception, with inflation at just 1.4% in November, supported by lower food prices and currency appreciation. Argentina has also seen continued disinflation due to fiscal adjustments and currency-management policies, although price growth remains above 30%.
- The recent FX appreciation across the region, together with moderating wage growth, lower oil prices and fading food shocks, should help bring headline inflation down in 2026. Even so, we expect inflation in Brazil, Mexico and Colombia to remain slightly above the 3% target midpoint.

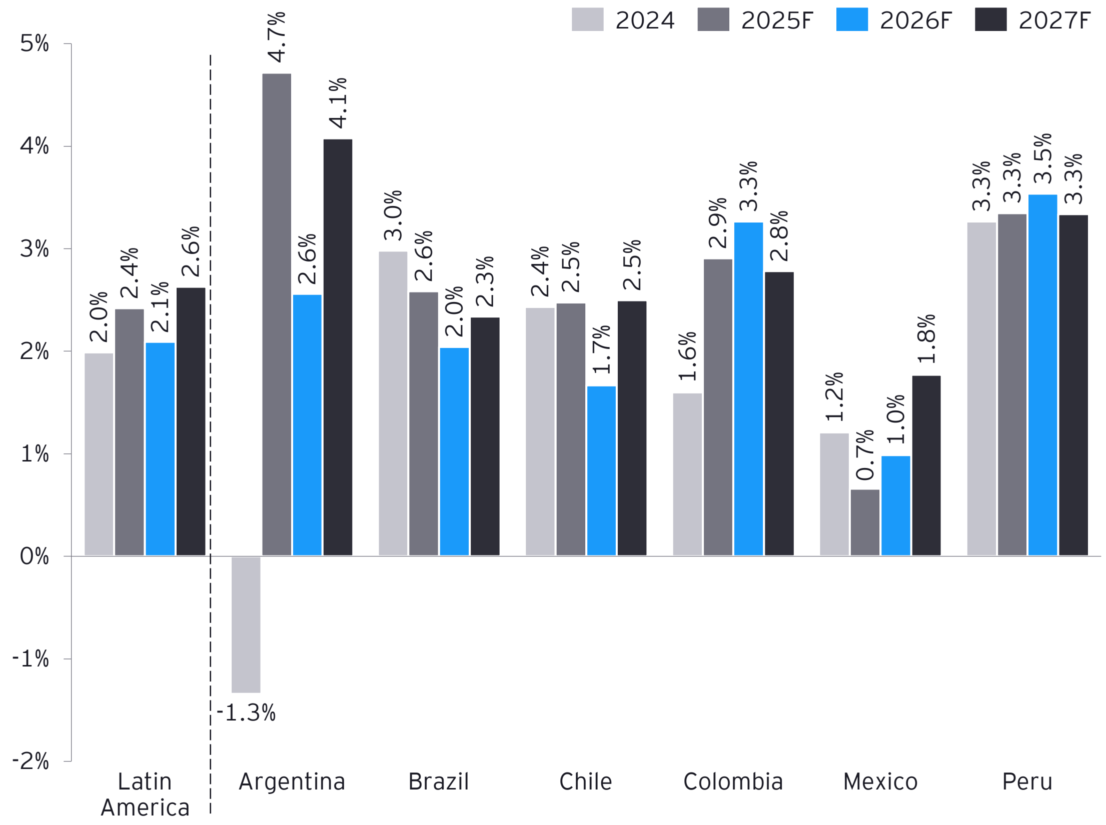
Monetary policy easing

- Monetary policy stances vary widely across Latin America, with policy rates ranging from 4.25% in Peru to 15% in Brazil. Most central banks, except Brazil, have been reducing interest rates in 2025, with Mexico posting the most pronounced easing of 275bps.
- Except for Peru, which has already reached its terminal rate of 4.25%, we expect central banks to cut rates in 2026 as inflation recedes. Easing should be most pronounced in Brazil (300bps) and Colombia (200bps), where rates remain elevated. Mexico and Chile are likely to reduce rates more gradually, with 50bps of easing expected, and Chile reaching its terminal rate of 4.0%.

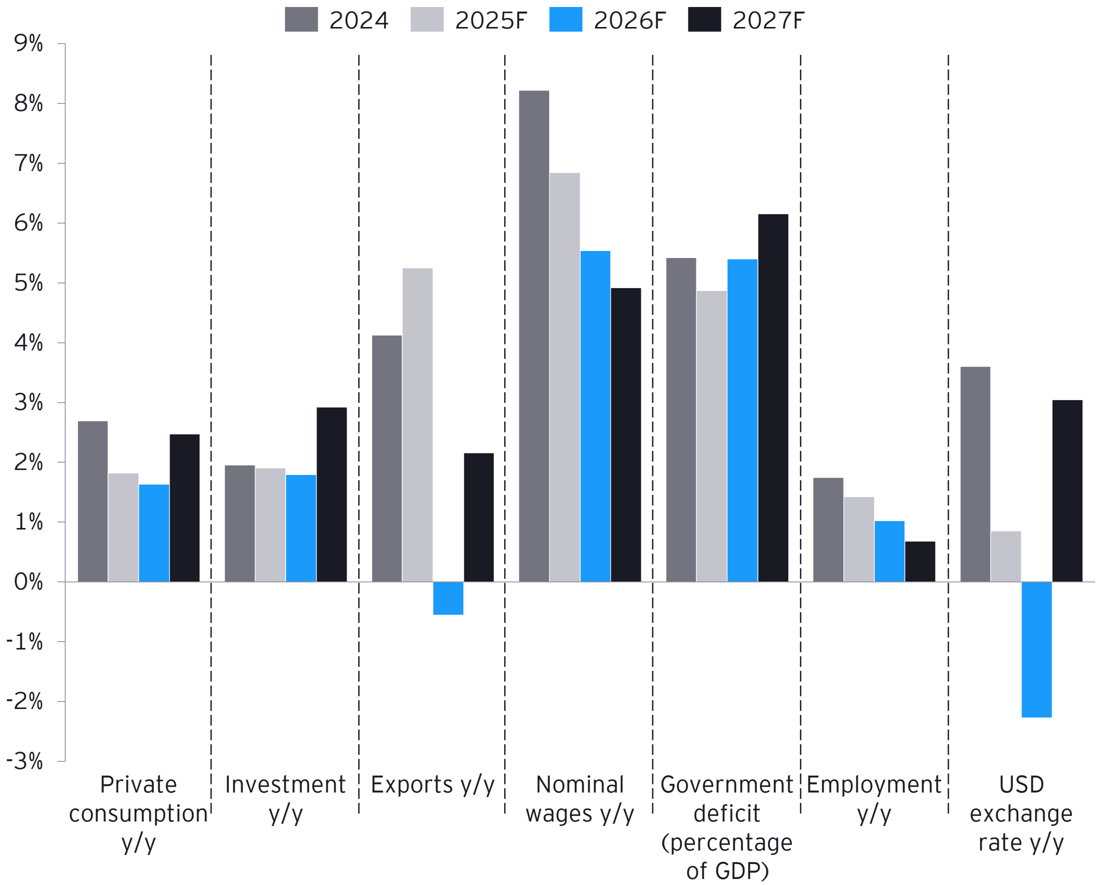
Source: EY analysis

LatAm economies are set to slow in 2026, driven mainly by a decline in exports as the earlier front-loading effect unwinds and private sector demand remains moderate

LatAm y/y real GDP growth 2024–27F



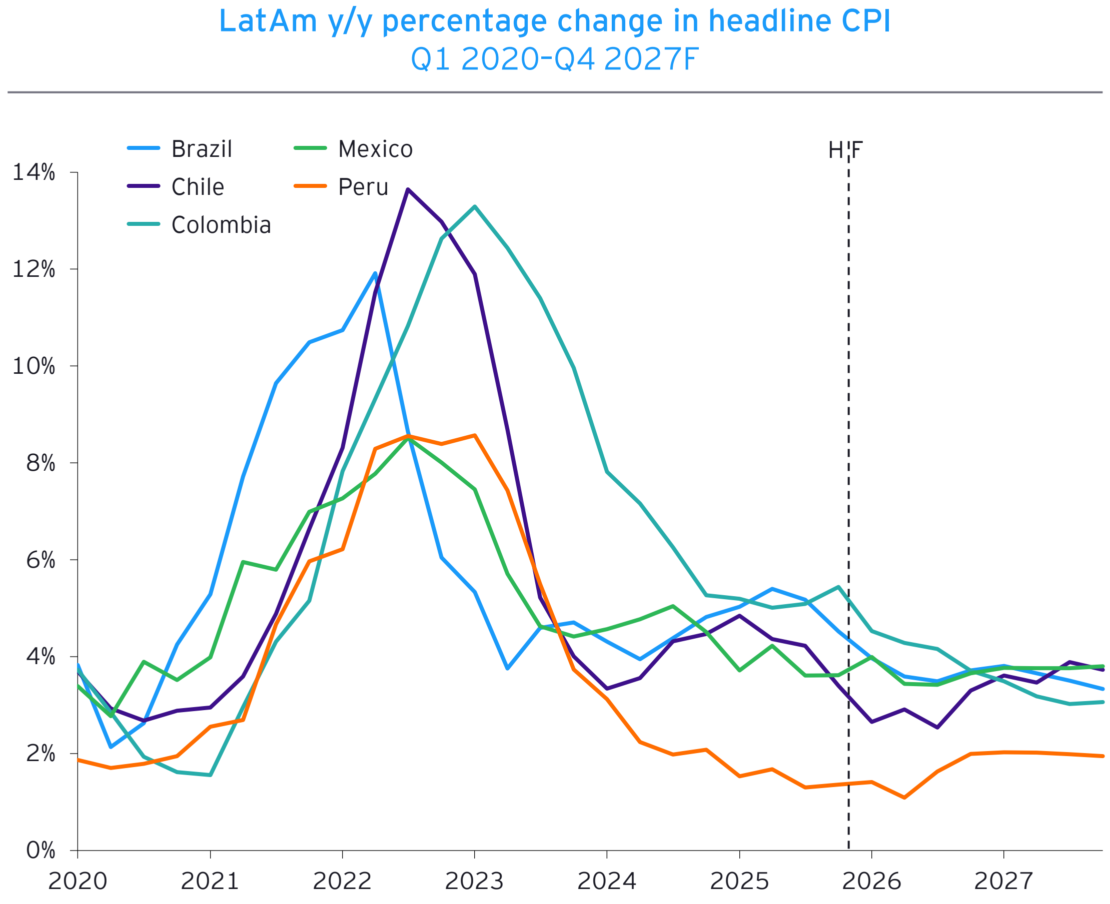
Selected economic activity indicators for LatAm-6[1] 2024–27F

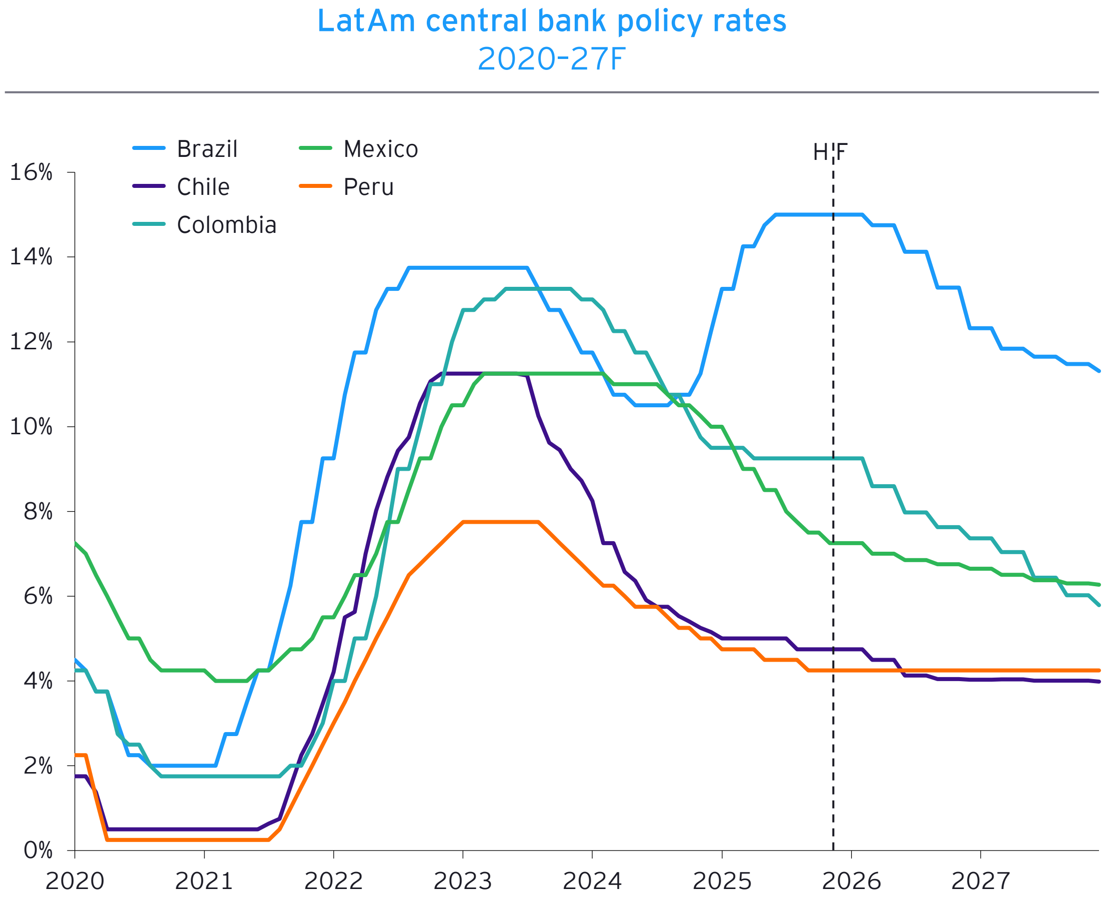


1. Weighted average of Brazil, Mexico, Argentina, Chile, Colombia and Peru. For wages and USD exchange rate, simple arithmetic average excluding Argentina.

Source: Oxford Economics; EY analysis

LatAm central banks are expected to continue lowering interest rates as inflation nears their target ranges





Source: Oxford Economics; EY analysis

ASEAN growth is expected to slow in 2026 on softer external demand, though domestic demand and AI-related exports should help cushion the moderation

Slower growth amid US tariffs

- GDP growth in the ASEAN[1] region is projected to moderate from 4.9% in 2024 to 4.6% in 2025 and 4.2% in 2026, driven by softer external demand amid higher US tariffs. Even so, domestic demand is expected to remain resilient, supported by firm private consumption underpinned by steady labor markets, sustained investment and supportive government policies.
- Risks to the outlook remain tilted to the downside, arising from continued US policy uncertainty, a sharper-than-expected slowdown in major member economies, escalating geopolitical tensions and heightened financial market volatility.

Soft external demand

- Although ASEAN growth was stronger than expected in H1 2025 due to front-loaded export orders, higher US tariffs that took effect in August 2025 are now weighing on export momentum, with recent indicators beginning to reflect this shift.
- Given the region's highly open economies, export growth is expected to be constrained not only by the direct impact of US tariffs but also by slower demand from key trading partners, including China, Europe and neighboring Southeast Asian economies.
- From a sectoral perspective, the pressure is likely to fall on manufacturing (excluding AI-related segments) and trade-related services.

Sustained AI-related demand

- The exemption of semiconductors from US tariffs has been significant for the ASEAN region. Electronics and digital services continue to support growth in several economies, particularly Malaysia, Singapore and Vietnam. Foreign direct investment (FDI) into these sectors has strengthened investment activity, underpinned by expectations of sustained AI-related demand. AI-driven semiconductor exports have also remained robust, supported by rising global electronics orders and improving forecasts for global semiconductor sales.

Low and stable inflation

- Inflation is forecast to edge slightly higher in 2026 but remain contained within a low 1%–3% range across ASEAN economies. This reflects softer global commodity prices and subdued global demand. The expected modest uptick in 2026 is driven mainly by the normalization of price dynamics and subsidy rationalization in several economies.
- Risks to the inflation outlook are tilted to the downside, primarily from a sharper-than-expected weakening in global demand and a further decline in commodity prices. That said, upside risks remain should an escalation in geopolitical tensions trigger renewed spikes in energy prices.

Accommodative policy stance

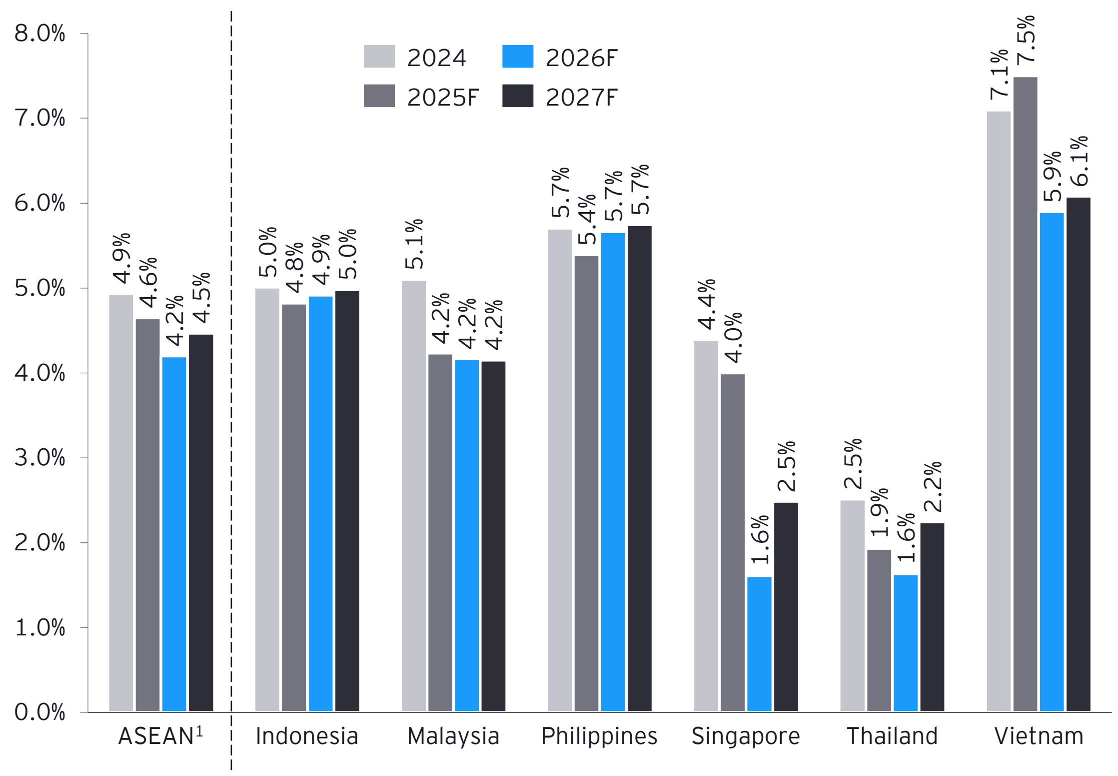
- Central banks across ASEAN eased monetary policy in 2025 to support demand. Indonesia, Malaysia, the Philippines and Thailand cut policy rates; Singapore slowed the pace of exchange-rate appreciation; and Vietnam raised credit-growth quotas for commercial banks to stimulate activity.
- The policy stance is expected to remain accommodative in 2026, with inflation likely to stay low and stable and risks to growth still tilted to the downside.

1. The Association of Southeast Asian Nations (ASEAN) comprises economies in Southeast Asia. This analysis focuses on six ASEAN economies (Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam), considering the relatively smaller size of the remaining economies (Brunei Darussalam, Cambodia, Lao PDR, Myanmar and Timor-Leste).

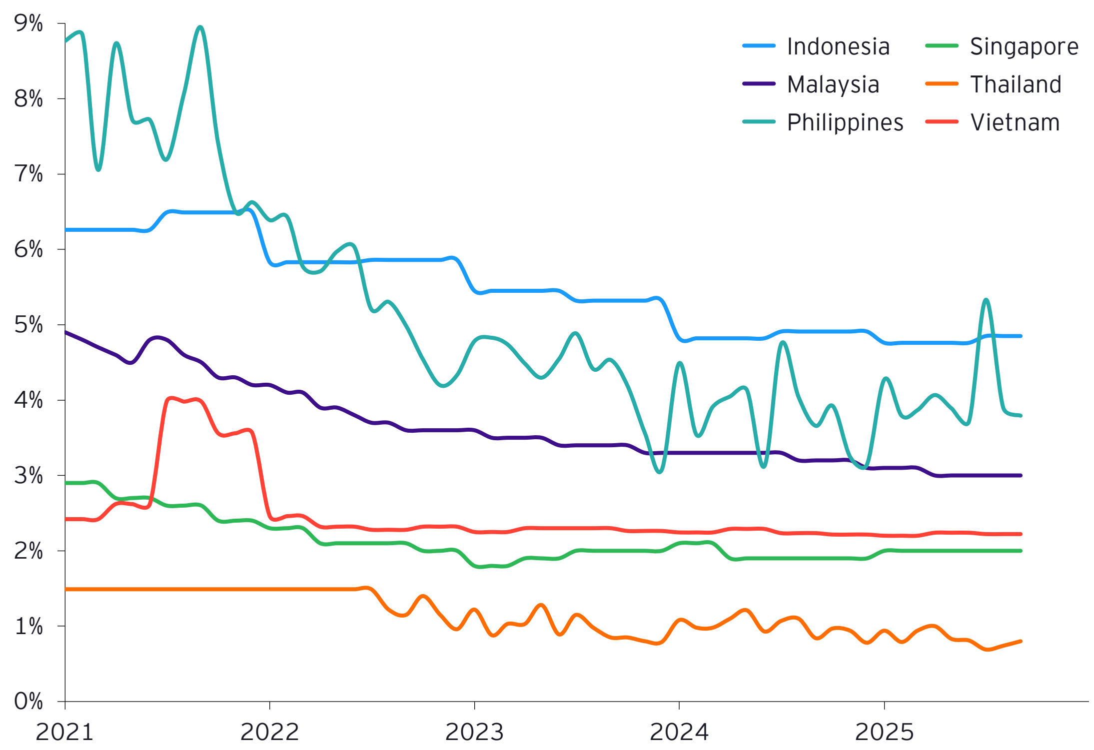
Source: EY analysis

Amid tariff pressures, domestic demand will remain the main growth driver, supported by fundamentals and government policies that has kept unemployment low

ASEAN[1] y/y real GDP growth rate
Q1 2024-4Q 2025F



ASEAN unemployment rate
January 2021-September 2025

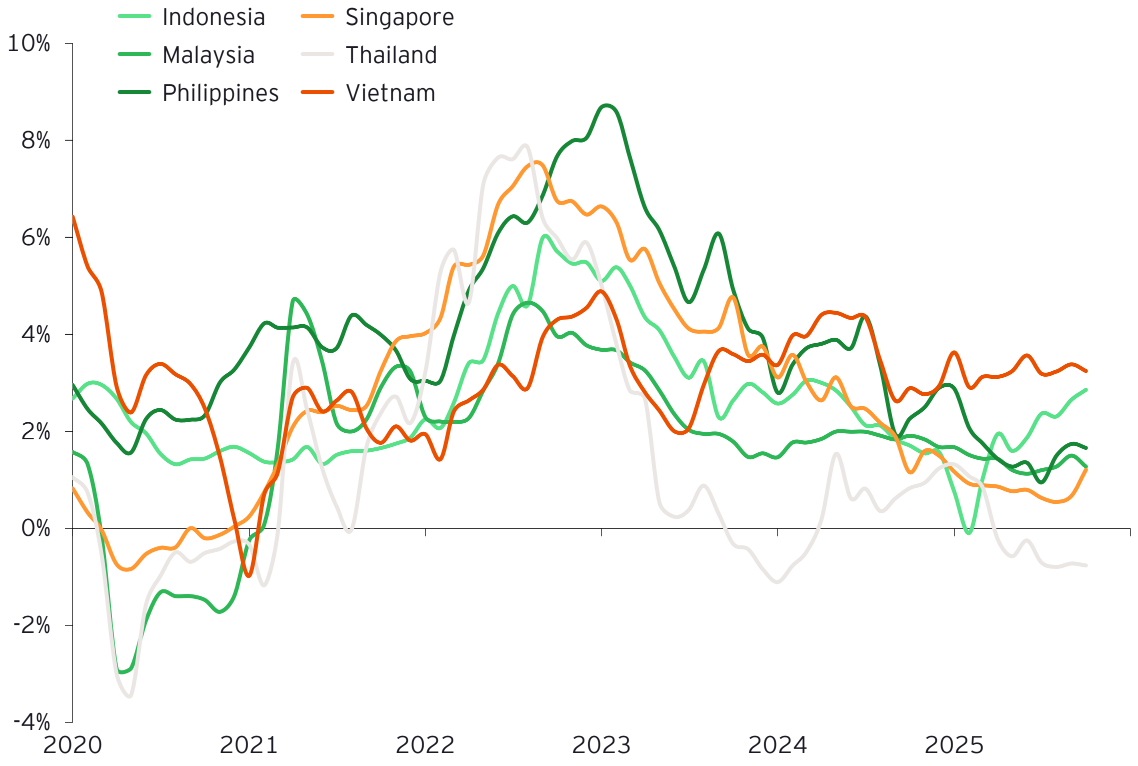


1. The Association of Southeast Asian Nations (ASEAN) comprises economies in Southeast Asia. This analysis focuses on six ASEAN economies (Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam), considering the relatively smaller size of the remaining economies (Brunei Darussalam, Cambodia, Lao PDR, Myanmar and Timor-Leste).

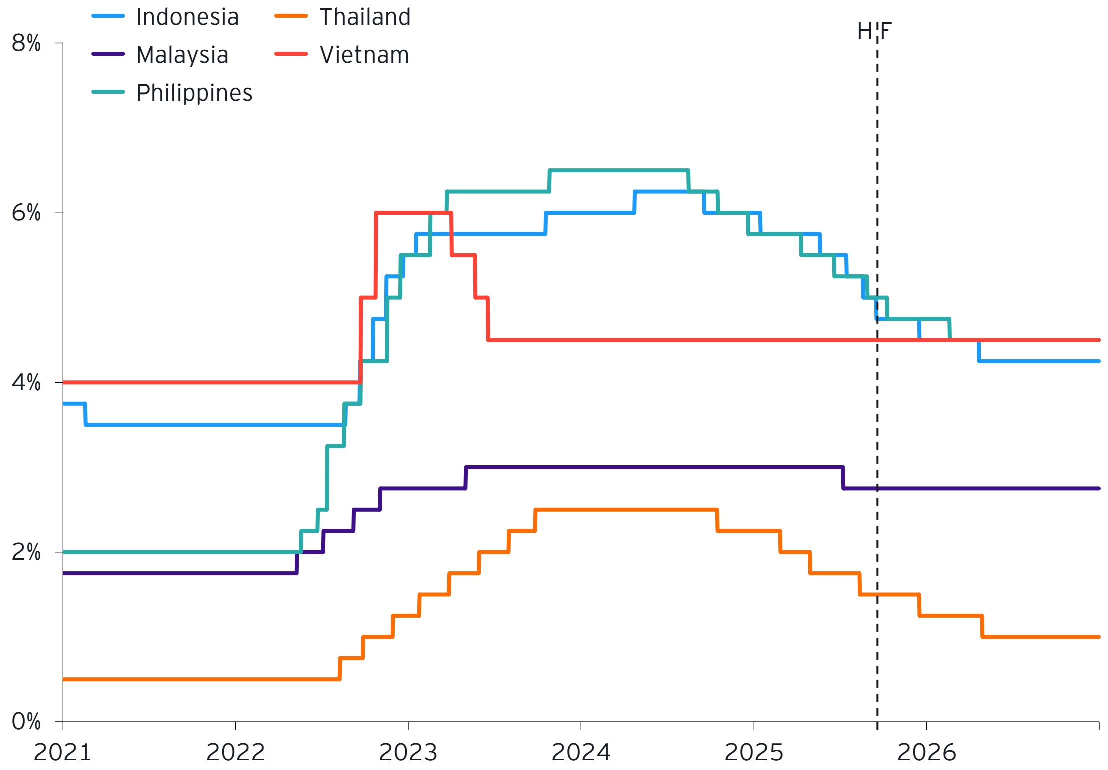
Source: EY analysis

ASEAN central banks have eased monetary policy in 2025 amid low inflation and are largely expected to maintain a neutral stance in 2026

ASEAN[1] y/y percentage change in headline CPI
January 2020–October 2025



ASEAN central bank policy rates[2]
2021–26F



1. The Association of Southeast Asian Nations (ASEAN) comprises economies in Southeast Asia. This analysis focuses on six ASEAN economies (Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam), considering the relatively smaller size of the remaining economies (Brunei Darussalam, Cambodia, Lao PDR, Myanmar and Timor-Leste).
2. The Monetary Authority of Singapore (MAS) conducts monetary policy by managing the Singapore dollar nominal effective exchange rate (NEER). MAS does not manage domestic interest rates.

Source: EY analysis

The MENA region's growth outlook remains strong, driven by higher oil production, continued non-oil sector expansion and broadly supportive economic policies

Accelerating growth

- The MENA[1] region is expected to strengthen in 2026, supported by rising oil production, robust non-oil activity and solid domestic demand across major Gulf Cooperation Council (GCC[2]) economies. Expansion in services, particularly logistics and tourism, and continued investment in Saudi Arabia, the UAE and Qatar reinforce the region's momentum. Easing inflation and improving external conditions should also benefit economies such as Egypt and Morocco. Syria's real GDP growth is projected to surge from 4.9% in 2025 to 11.4% in 2026 as political conditions stabilize and regional reintegration advances.
- We expect MENA's real GDP growth to rise from 3.9% in 2025 to 4.1% in 2026, with GCC growth strengthening from 4.1% to 4.4%.

Stable inflation

- Regional inflation is projected to remain stable in 2026, reflecting disinflation in high-inflation economies alongside a modest pickup in the GCC. Egypt is expected to see the sharpest moderation as improved FX stability unwinds earlier price spikes, while the GCC should maintain one of the lowest inflation profiles globally, supported by currency pegs, contained housing costs and targeted price measures. These dynamics should create a more predictable cost environment for both oil and non-oil producers, reinforcing macroeconomic stability across the region.
- We expect regional inflation to edge up from 4.0% in 2025 to 4.1% in 2026, with GCC inflation rising from 1.9% to 2.5%.

Monetary easing

- Regional monetary conditions are expected to ease in 2026 as disinflation gains traction and currency markets stabilize, particularly in Egypt. A sharp reduction in Egypt's benchmark rate reflects improving inflation dynamics and greater FX stability, creating room for stronger credit growth and a gradual recovery in domestic demand. In the GCC, policy rates are likely to move lower in line with global easing, with Saudi Arabia and the UAE positioned to adopt more accommodative stances as US financial conditions soften, consistent with their currency pegs.
- We expect regional monetary policy to shift broadly toward easing in 2026, led by Egypt's interest rate decline from 24.3% to 18.0%, while GCC central banks continue to mirror the Fed's movements.

Balanced fiscal prospects

- Fiscal positions across the region are expected to remain broadly unchanged in 2026, supported by steady oil revenues and expanding non-oil activity. OPEC+ is to pause output expansion in early 2026, helping stabilize prices and preserve fiscal space for GCC public investment. Saudi Arabia's deficit-to-GDP ratio is projected to exceed 5% amid accelerated Vision 2030 spending, though debt levels remain relatively low. Fiscal positions in the UAE, Qatar and Oman are more favorable, benefiting from higher hydrocarbon output and growing non-oil revenues. In North Africa, fiscal conditions are more fragile, with elevated debt and deficit ratios, particularly in Algeria and Egypt.
- We expect regional fiscal balances in 2026 to remain broadly stable, supported by oil export revenues and non-oil growth.

Resilient trade activity

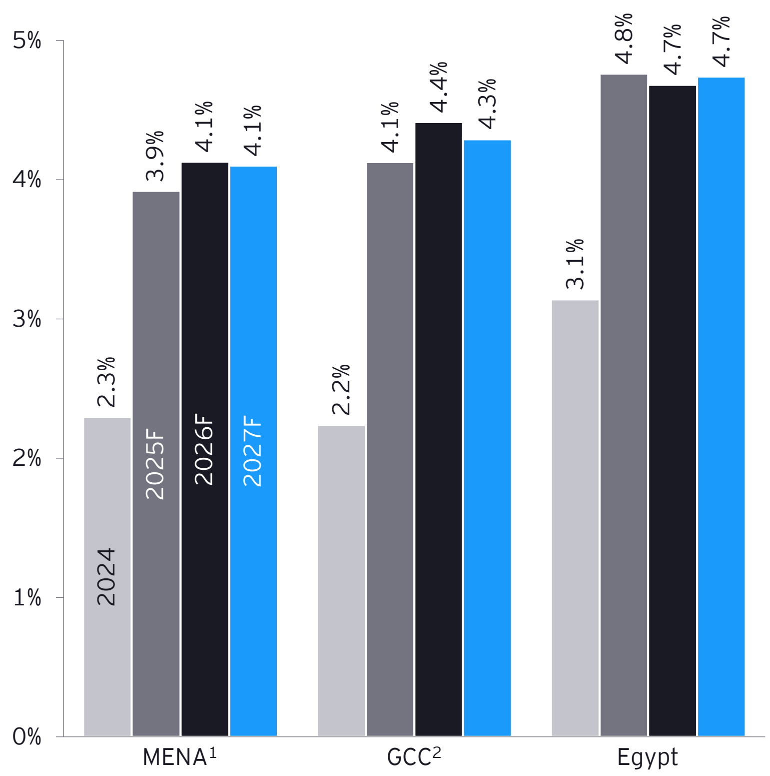
- Regional trade in 2026 is expected to be supported by the unwinding of OPEC+ production cuts in 2025, continued expansion of the UAE's trade and re-export activities, and increased LNG production in Qatar. Morocco is likely to benefit from domestic production gains and an agricultural recovery, while Egypt should see higher Suez Canal shipping volumes and improved tourist inflows as macroeconomic stability takes hold.
- We expect steady regional trade growth in 2026, driven by rising oil and gas output alongside robust services and logistics activity.

1. MENA region includes Algeria, Bahrain, Egypt, Iraq, Kuwait, Morocco, Oman, Qatar, Saudi Arabia, Tunisia and the UAE.
2. GCC includes Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates.

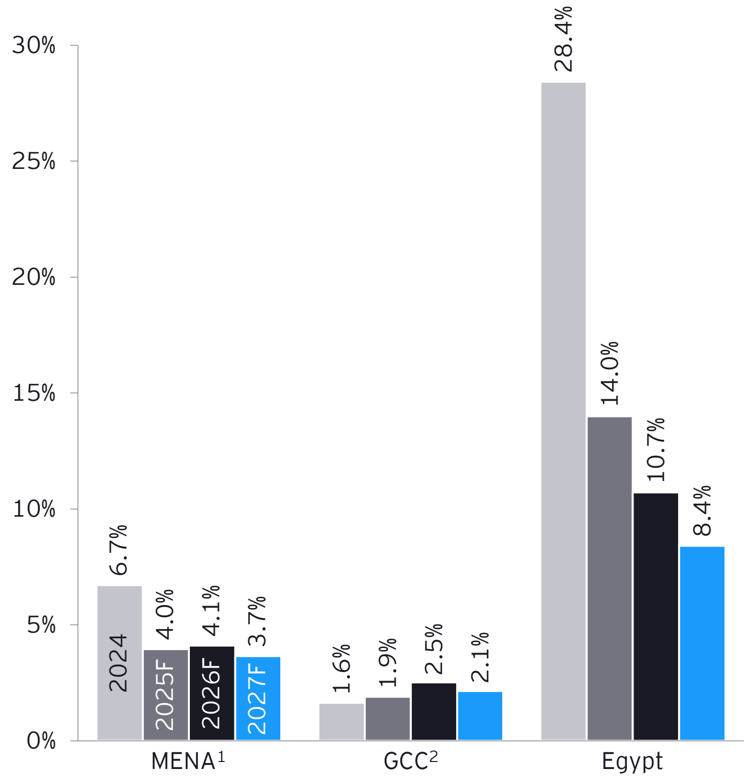
Source: EY analysis

The MENA economic outlook remains positive despite the challenging geopolitical backdrop, and interest rates are likely to continue trending lower

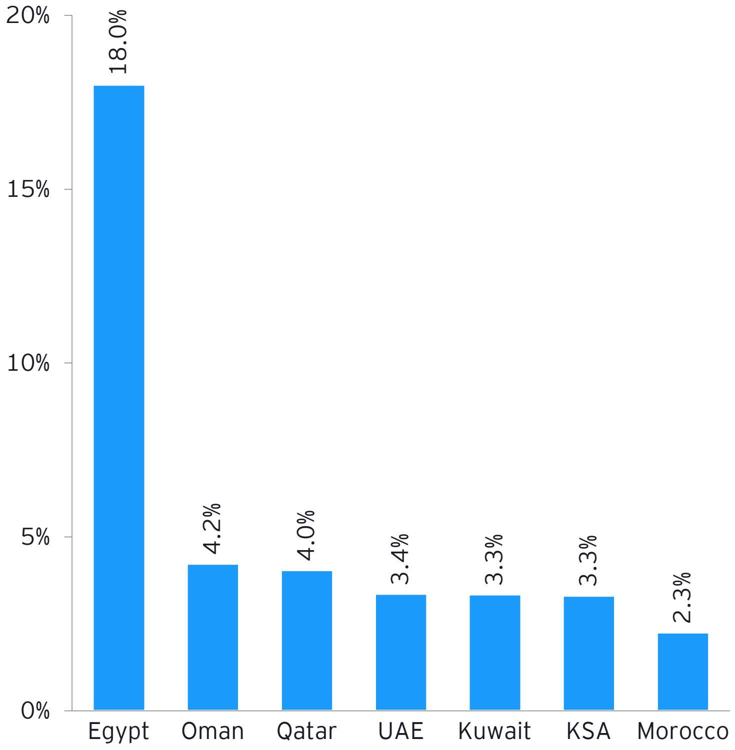
MENA y/y real GDP
2024-27F



MENA y/y headline inflation growth
2024-27F



Central bank interest rates for select MENA countries (annual average)
2026F

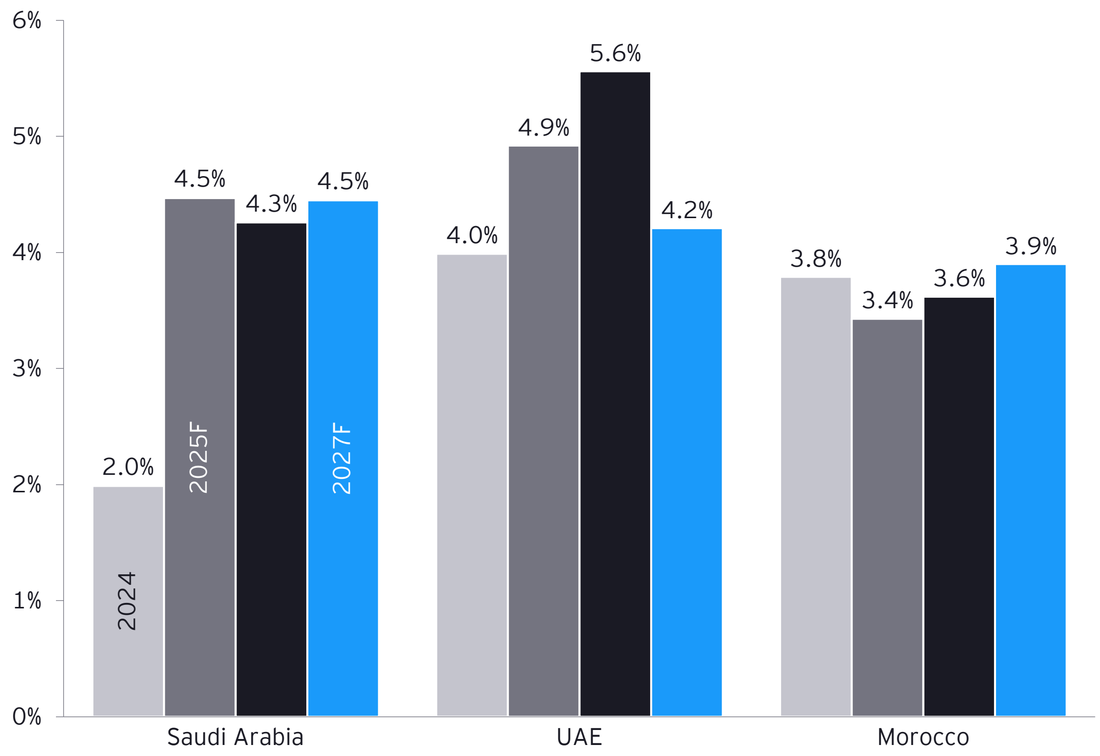


1. MENA region includes Algeria, Bahrain, Egypt, Iraq, Kuwait, Morocco, Oman, Qatar, Saudi Arabia, Tunisia and the UAE.
2. GCC includes Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates.

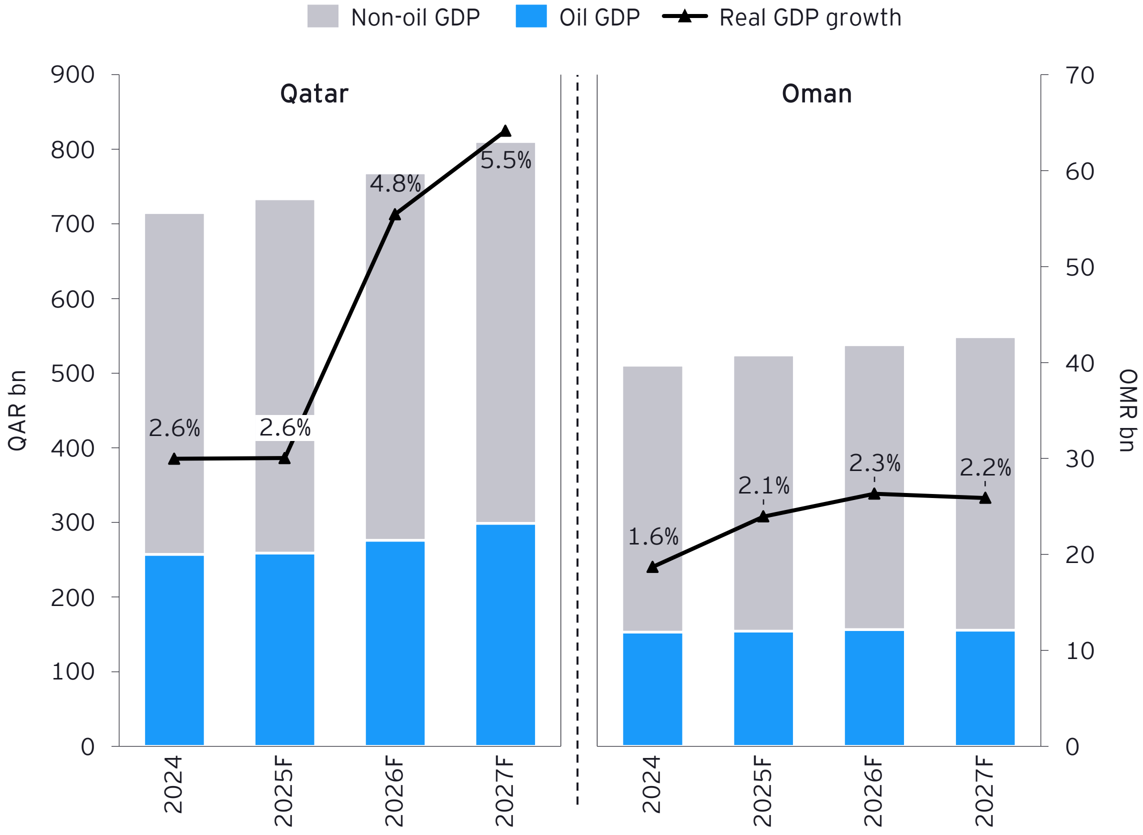
Source: Oxford Economics; IMF; EY analysis

The 2026 growth outlook for the GCC has strengthened as oil production increases, while Egypt and Morocco continue to see gradual but steady improvement

Saudi Arabia, UAE and Morocco y/y real GDP
2024–27F



Qatar and Oman real GDP and y/y growth
2024–27F



Source: Oxford Economics; IMF; World Bank; EY analysis

Sub-Saharan Africa shows resilience, supported by easing inflation, cautious monetary recalibration, and steady growth despite fiscal and trade headwinds

Resilient growth amid headwinds

Growth across Sub-Saharan Africa (SSA) is positive but uneven, supported by reforms and sectoral diversification despite external risks:
- **South Africa**: GDP growth revised down to 1.0% for 2025, rebounding to 1.2% in 2026 on infrastructure and energy reforms.
- **Nigeria**: Real GDP growth projected at 3.9% in 2025, softening to 3.7% in 2026, driven by oil output and fiscal reforms.
- **Ghana**: Growth anticipated to reach 5.8% in 2025, led by services, agriculture and gradual industrial recovery.

Easing pressures, fragile stability

Inflation is moderating across most markets, aided by currency stability and monetary tightening, though risks persist from global shocks:
- **South Africa**: Inflation moderated from 4.4% in 2024 to 3.3% in 2025, with inflation expectations anchored around 3.5% going forward in the midst of a target revision to 3%, from a band of 3%-6%.
- **Nigeria**: Inflation peaked above 30% in 2024 and eased to 16.1% by October 2025 due to currency stability and a strong harvest supporting food prices.
- **Angola**: Inflation fell to 17.4% in October 2025, its lowest level since October 2023, aided by currency stability and tight monetary policy.

Cautious easing, guarded optimism

Central banks are cautiously easing policy rates as inflation declines, balancing growth support with price stability:
- **South Africa**: The South African Reserve Bank cut the policy rate to 7.0% in July and by a further 25bps in October 2025. Rates are expected to remain unchanged through early 2026 to stave off inflation beyond the 3.5% mark.
- **Nigeria**: The central bank cut policy rate by 50bps to 27.0% in September. This marks the first cut since 2020. A gradual cutting cycle is anticipated to continue through to 2027 given moderating inflation outcomes.
- **Kenya**: The central bank cut the policy rate by a cumulative 375bps to 9.25% by October, the lowest levels since 2023.

Consolidation under strain

Fiscal consolidation is underway, with most governments targeting deficit reduction and debt stabilization despite spending pressures:
- **South Africa**: Debt is expected to stabilize at 78% of GDP, with the budget deficit narrowing from 4.7% to 3.3% by 2028. The focus going forward is on infrastructure expenditure in a fiscally responsible manner.
- **Nigeria**: The budget deficit widened to 2.1% of GDP in 2025; notwithstanding a GDP rebasing that improved the debt-GDP ratio, nominal debt is increasing.
- **Mozambique**: The budget deficit is projected to widen to 9.0% of GDP in 2025, with public debt rising to 106% of GDP, indicating some distress.

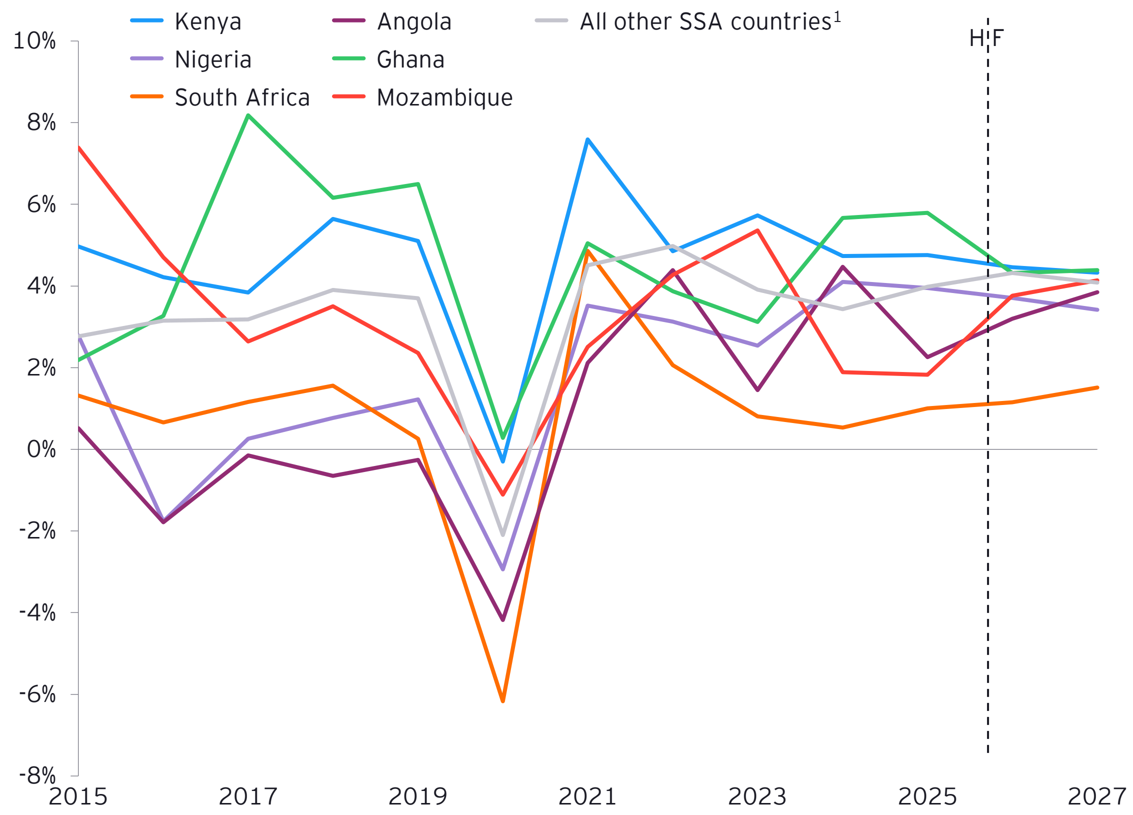
Stronger flows despite external balancing

FX reforms, reserve accumulation and improved cross-border flows support external stability, though trade balances remain prone to external shocks:
- **South Africa**: The rand strengthened near R17. 2/$, supported by a trade surplus and robust mineral exports, offsetting tariff-related declines in automotive shipments. Cross-border transactions and investor confidence remain strong.
- **Nigeria**: The naira firmed as FX reforms and tariff adjustments eased import pressure; reserves rose to $46.7b, improving external buffers. External flows were bolstered by oil receipts and rising non-oil exports.
- **Ghana**: The cedi appreciated 30% YTD, driven by surging gold exports and gold-for-reserves initiative, lifting reserves above $11b.

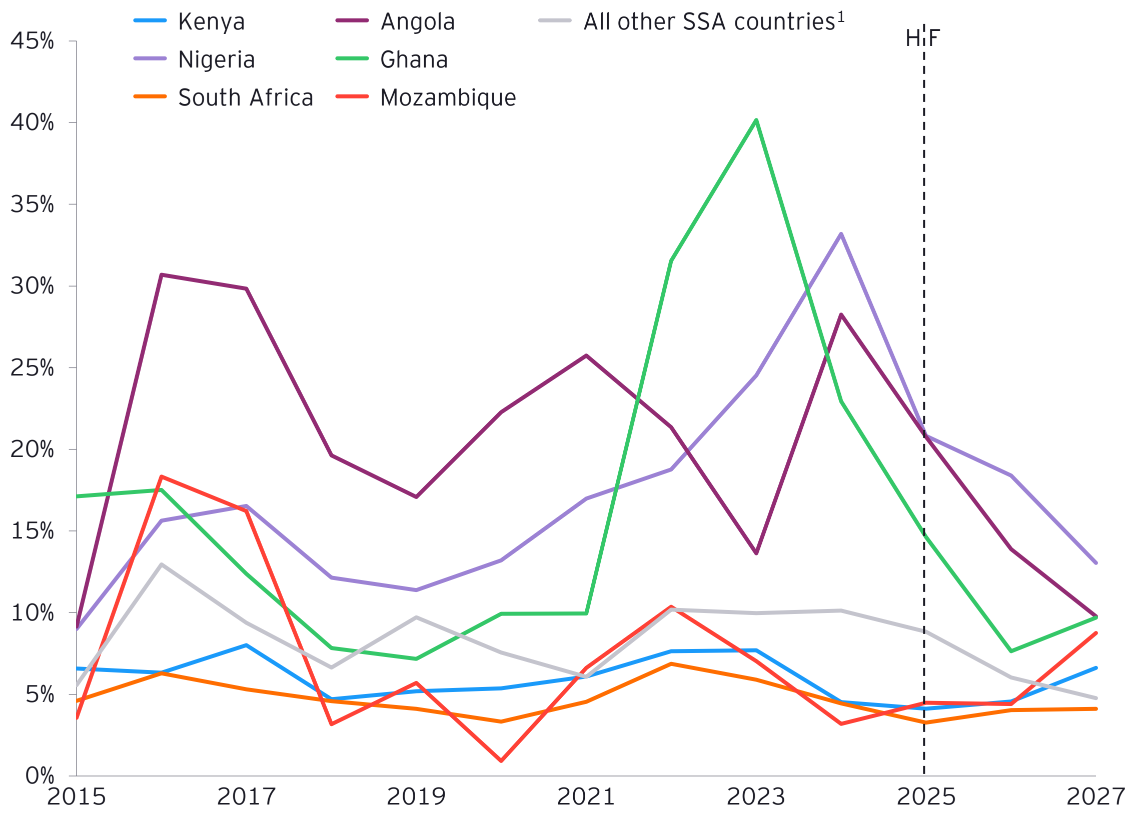
Source: EY analysis

Growth across SSA is positive but uneven, supported by reforms and sectoral diversification despite external risks; inflation is moderating across most markets

SSA y/y real GDP growth
2015–27F



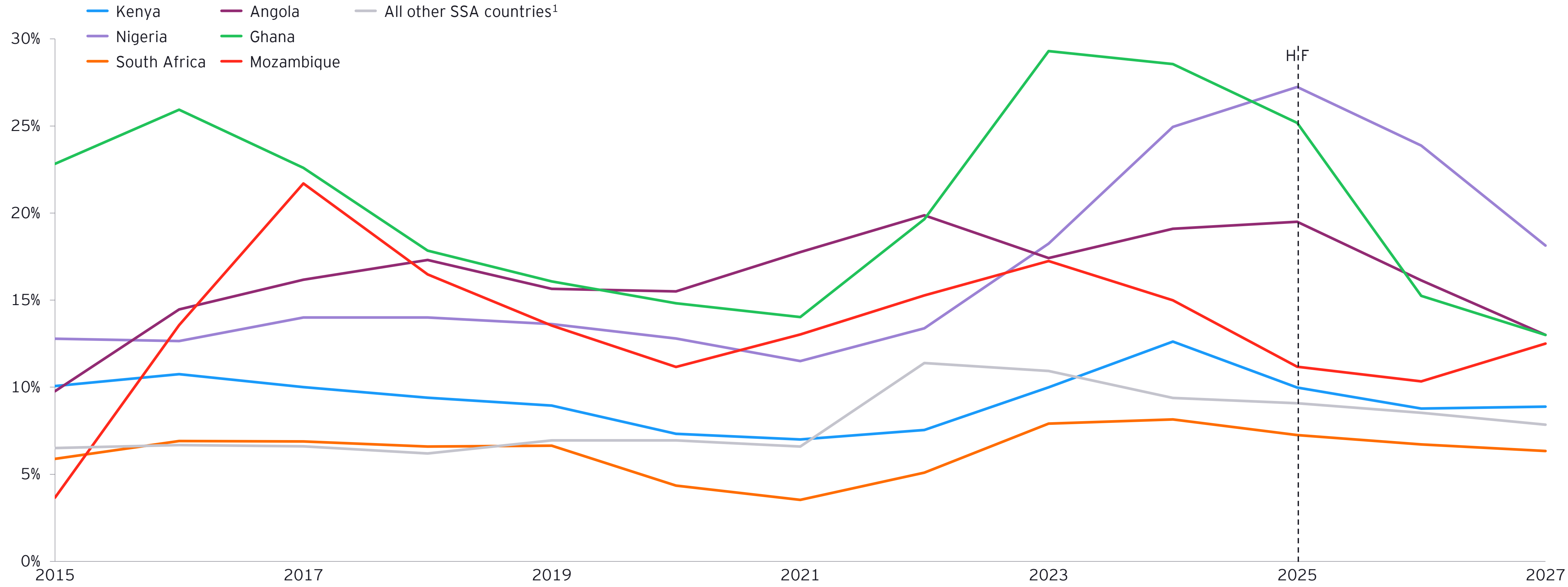
SSA y/y headline CPI growth
2015–27F



1. Represents an arithmetic average of 41 additional SSA countries not shown separately.
Source: Country-specific economics departments; Oxford Economics

Central banks are cautiously easing policy rates as inflation declines, balancing growth support with price stability

SSA repo rate
2015–27F



1. Represents an arithmetic average of 36 additional SSA countries not shown separately for the repo rate.
Source: Country-specific economics departments; Oxford Economics

Agenda

- Executive summary
- Five global themes
- Country and regional outlooks
- **Translating macro insights into action**
- Meet the team and explore resources

To thrive in a new economic paradigm where business activity will be influenced supply side dynamics, business leaders should prioritize two core imperatives: resilience and robustness

Resilience and robustness

Strategic resilience

- Flexible planning frameworks that allow for rapid recalibration
- Scenario-based strategies that incorporate geopolitical shifts, trade disruptions and regulatory swings
- Modular operations, responsive pricing and cross-functional coordination to adjust to diverging market conditions across regions and sectors

Structural robustness

- Strong supply networks, diversified input sources, and robust digital and operational infrastructure
- Clean balance sheets, cost discipline and liquidity management
- Integrate AI in a holistic way to drive stronger productivity while focusing on talent resilience

Source: EY analysis

Agenda

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- **Meet the team and explore resources**

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