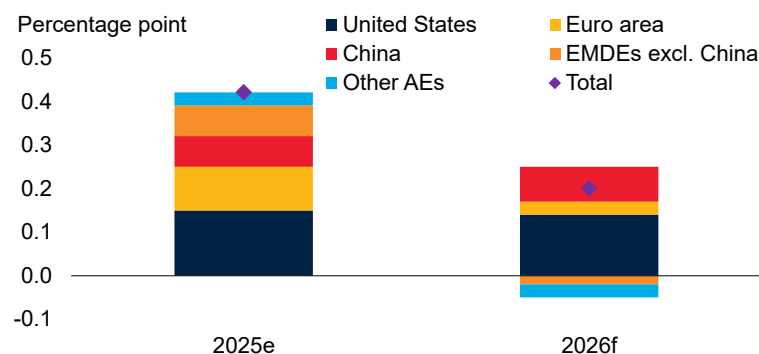


## Overview

- According to the January 2026 *Global Economic Prospects* report, the global economy has been markedly resilient to trade policy shifts and heightened policy uncertainty, with only a modest slowdown expected this year.
- Global trade benefited from front-loading of traded goods in 2025 in advance of the imposition of tariffs, but this tailwind is expected to wane with trade decelerating substantially in 2026.
- Global financial conditions eased in the second half of 2025, bolstered by strong risk appetite and monetary policy easing in the United States.

### Contributions to global growth revisions



Sources: World Bank.  
 Note: e = estimate; f = forecast. AEs = advanced economies; EMDEs = emerging market and developing economies; excl. = excluding. GDP aggregates calculated using real U.S. dollar GDP weights at average 2010-19 prices and market exchange rates. Panel shows contributions to global growth forecast revisions from the June 2025 edition of the *Global Economic Prospects* report.

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## Chart of the Month

- Global growth is estimated to have averaged 2.7 percent in 2025, 0.4 percentage point above expectations in June. Three-quarters of the upgrade reflects better-than-expected growth in the United States, the euro area, and China.
- For 2026, the global economy is forecast to grow 2.6 percent, an upgrade of 0.2 percentage point, mainly accounted for by improved prospects for U.S. activity.

## Special Focus: The Use of Fiscal Rules in EMDEs

- Fiscal rules have been rapidly adopted in many emerging market and developing economies (EMDEs) since 2000. As of 2024, 55 percent of economies had at least one rule.
- Fiscal rule frameworks have evolved over time, changing from mainly deficit and debt constraints to a wider array of approaches to address multiple fiscal objectives.
- Fiscal rule design changes have improved the enforceability and flexibility of rules, but effectiveness of rules still hinges on institutional capacity and alignment with domestic policy needs.



## Monthly Highlights

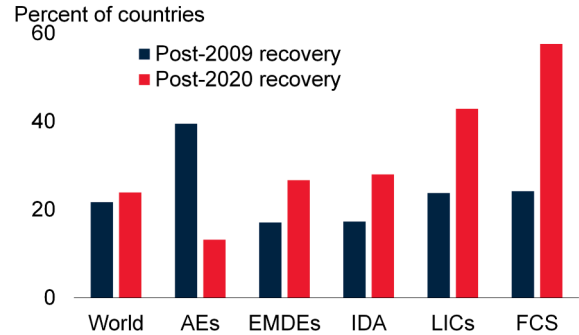
### Global activity: resilience in the face of policy headwinds.

According to the January 2026 *Global Economic Prospects* report, the global economy has remained markedly resilient, despite last year's historic escalation in trade tensions and policy uncertainty. Stable global growth in 2025 capped the strongest five-year recovery from a global recession in more than six decades, although one that was disappointingly uneven between advanced economies and emerging market and developing economies (EMDEs; figure 1.A). Global growth is estimated to have averaged 2.7 percent in 2025, 0.4 percentage point above June projections, supported by significant front-loading of traded goods, supply-chain adjustments, limited tariff pass-through, easier global financial conditions, and a surge in AI-related investment, particularly in the US. As several supportive factors fade, growth is forecast to edge down to 2.6 percent in 2026, driven by a notable slowdown in demand for traded goods and softening domestic demand in many major economies (figure 1.B).

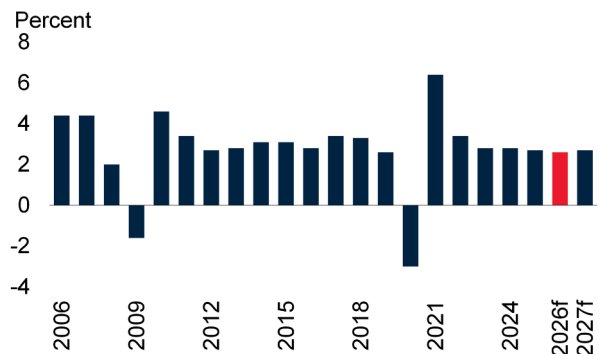
**Global trade: expected deceleration.** The outlook for global trade continues to be dampened by elevated trade tensions and policy uncertainty associated with higher tariffs. By late 2025 the average effective U.S. tariff rate measured at about 17 percent—the highest level since the 1930s aside from the mid-April peak of about 28 percent (figure 1.C). Ahead of tariff increases last year, anticipation of rising U.S. tariffs led to a sizable front-loading of imports, particularly from countries facing higher tariffs compared with their competitors in the U.S. market. Global trade growth in 2025 is estimated to have been 1.6 percentage points higher than June expectations, reflecting extensive stockpiling. With the impact of front-loading fading, growth in global goods and services trade is expected to slow this year to 2.2 percent, from 3.4 percent in 2025. In 2027, trade growth is expected to firm to 2.7 percent, broadly in line with global output growth, as the impact of tariff hikes diminishes.

**Global inflation: closing in on targets.** Inflation has moderated in most economies, moving closer to central bank targets. While higher tariff rates contributed to a modest rise in U.S. goods inflation, the impact was attenuated by stockpiling of goods, among other mitigating factors. Going forward, global inflation is projected to edge down further to 2.6 percent, 0.3 percentage point lower than previously expected. This outlook reflects various disinflationary forces including the impact of softening labor markets in many economies, subdued demand for tradable goods, and declining energy prices.

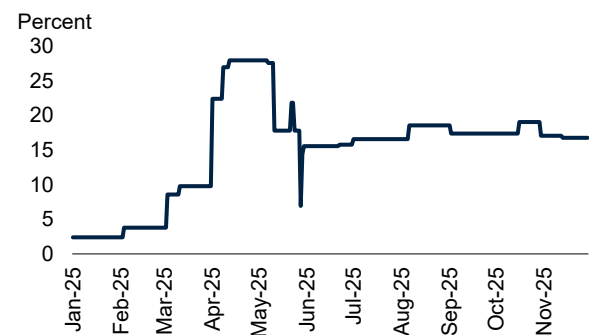
**FIGURE 1.A Countries with lower per capita GDP five years after global recessions**



**FIGURE 1.B Global output growth**



**FIGURE 1.C Average effective U.S. tariff rate**



Sources: The Budget Lab; UN World Population Prospects (database); World Bank.  
 Note: AEs = advanced economies; EMDEs = emerging market and developing economies; FCS = fragile and conflict-affected situations; f = forecast; IDA = countries eligible for International Development Association support; LICs = low-income countries.  
 A. FCS country group based on current World Bank FCS classification. Each bar represents the share of economies whose per capita GDP remains below its pre-recession level five years after the recession. For the 2009 recession, the comparison is between 2008 and 2014; for the 2020 recession, it is between 2019 and 2025.  
 B. Data for 2025 are estimates. GDP aggregates calculated using real U.S. dollar GDP weights at average 2010-19 prices and market exchange rates.  
 C. Estimated U.S. average effective tariff rate, with the last observation (November 30, 2025) assuming the published policy stance as of November 17, 2025.

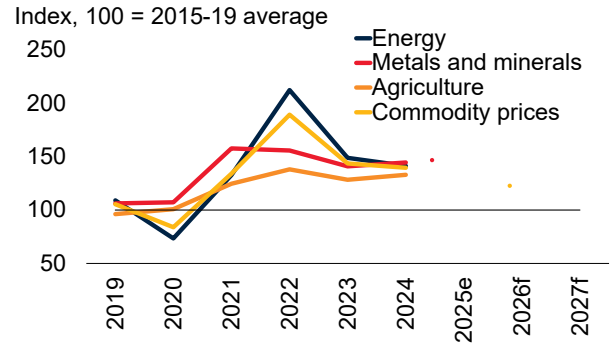


**Commodity markets: falling prices.** Subdued economic activity—including slowing growth in China—and fading front-loading of commodities trade are expected to weigh on demand for energy and industrial commodities in 2026. Commodity prices are projected to decline by 7 percent in 2026, before edging up by 4 percent in 2027, with much of the pickup reflecting supply rebalancing in the oil market (figure 2.A). The price of Brent crude oil averaged \$69 per barrel in 2025 and is projected to fall to \$60 per barrel in 2026. Metal prices are envisaged to remain broadly stable in 2026–27, with growing demand for materials to support the green energy transition offsetting weak industrial activity in some major economies. Agricultural prices are expected to decline modestly in 2026 and ease further in 2027, as supply growth for key food commodities converges toward long-term trends and beverage prices ease following weather-driven supply shocks.

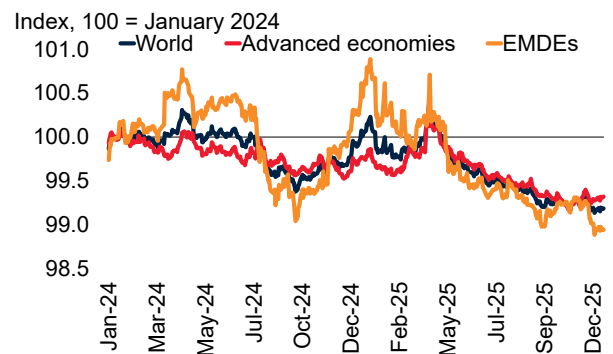
**Global financial conditions: easing amid robust risk appetite.** Global financial conditions became more supportive in the second half of 2025, fueled by strong risk appetite and monetary policy easing in the United States (figure 2.B). The depreciation of the U.S. dollar and resulting appreciation of many EMDE currencies contributed to broadly moderating inflation which, alongside expectations of looser U.S. monetary policy, led many EMDE central banks to leave policy rates unchanged. These factors supported debt-related inflows to EMDEs and lifted local currency bond returns, alongside a pickup in EMDE bond issuance. Meanwhile, equity markets have been buoyant globally, reflecting expectations of AI-related gains. However, these developments have raised concerns of stretched valuations, increasing the risk of sudden asset price declines.

**United States: softening labor market but firm business investment.** Labor market conditions softened further over 2025, evidenced by the sudden stall in net hiring in the second and third quarters and the unemployment rate edging up through the year (figure 2.C), partly driven by reduced labor supply. The weaker hiring prospects, together with persistent inflation—which was partly due to the modest but growing tariff pass-through—weighed on consumer sentiment. By contrast, business investment remained strong, driven largely by AI-related investment in equipment and intellectual property. Looking ahead, following an estimated expansion of 2.1 percent in 2025, growth is projected to hold broadly steady at 2.2 percent in 2026, as the accumulating drag from tariffs is partly offset by the extension of tax breaks and other measures adopted in the mid-2025 U.S. budget. Thereafter, growth is expected to ease to 1.9

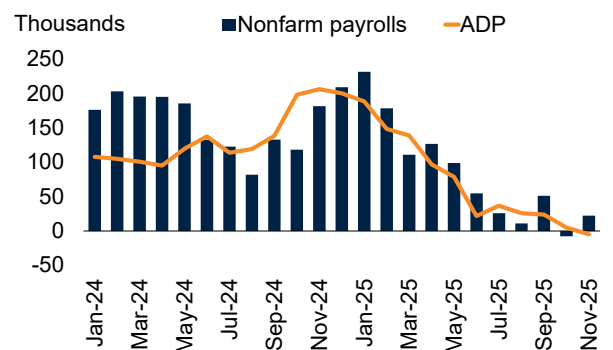
**FIGURE 2.A Commodity price forecasts**



**FIGURE 2.B Financial conditions index**



**FIGURE 2.C U.S. employment change**



Sources: ADP, Inc.; Bloomberg; Federal Reserve Economic Data (FRED); database); U.S. Bureau of Labor Statistics; World Bank.

Note: e = estimate; EMDEs = emerging market and developing economies; f = forecast.

A. Commodity prices line refers to the World Bank commodity price index, excluding precious metals. Dashed lines indicate forecasts.

B. Lines show financial conditions indexes for world, advanced economies, and EMDEs, computed as weighted averages using nominal GDP in U.S. dollars as weights. Higher index values represent tighter financial conditions. Index base is the average for January 2024. Last observation is December 16, 2025.

C. Panel shows 3-month moving average changes in nonfarm payrolls and ADP, Inc. private employment.



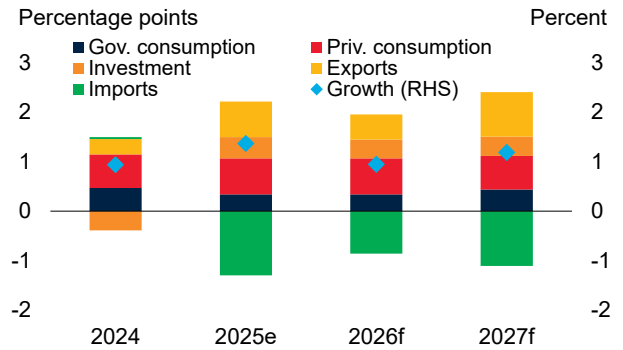
percent in 2027, slightly below estimates of potential growth, due to the continued impact of trade tensions and policy uncertainty and as the boost from past monetary easing and supportive fiscal measures wanes.

**Other advanced economies: growth slowing as tariff impact intensifies.** In the euro area, growth picked up to an estimated 1.4 percent in 2025, reflecting upward revisions due to export front-loading, and the postponement of U.S. tariffs, as well as stronger-than-expected domestic demand (figure 3.A). Growth is expected to slow to 0.9 percent in 2026, as the drag from tariffs intensifies, but is projected to firm to 1.2 percent in 2027 as exports stage a recovery alongside a step up in defense and infrastructure investments in some large economies. In Japan, growth is estimated to have firmed to 1.3 percent in 2025, amid a rebound in domestic demand and export front-loading. Growth is projected to decelerate to 0.8 percent in 2026–27, as external demand slows.

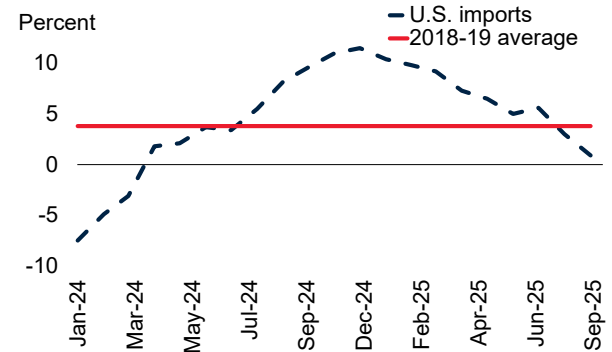
**China: policy support amid subdued domestic demand.** China’s growth is expected to decelerate from an estimated 4.9 percent in 2025 to 4.4 percent this year, reflecting subdued consumer confidence, the prolonged property sector downturn, and a softer labor market. Accommodative monetary and fiscal policies are expected to provide a partial offset, albeit constrained by high debt levels. The projected policy support, along with the continued resilience of exports and improved investor sentiment due to partial tariff relief, have contributed to a firmer outlook for 2026 than envisioned in June. In 2027, growth is projected to ease to 4.2 percent amid structural challenges such as moderating productivity growth, high debt levels, and demographic headwinds.

**Other EMDEs: steady growth.** EMDEs excluding China are estimated to have grown 3.7 percent in 2025, as exports performed better than expected and services activity remained resilient (figure 3.B). Growth is projected to remain steady at 3.7 percent in 2026. Elevated U.S. tariffs and the payback from front-loading are expected to weigh on goods export growth, as evidenced by forward-looking indicators, such as new export orders PMIs, remaining in contractionary territory in recent months (figure 3.C). At the same time, easier global financial conditions will boost domestic demand, with investment progressively gaining momentum in 2026. In 2027, growth is anticipated to accelerate to 4 percent, as firming global growth momentum boosts exports, manufacturing activity, and investment. Nevertheless, this growth profile implies a very slow pace of convergence with advanced economy living standards.

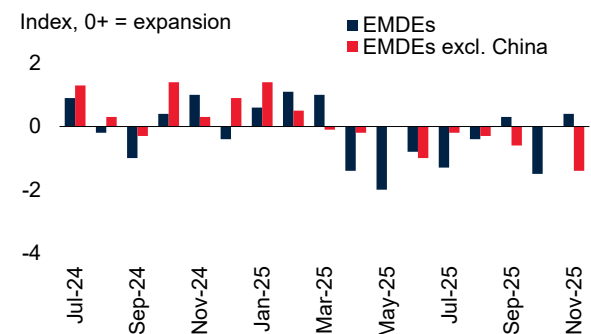
**FIGURE 3.A Contributions to euro area GDP growth**



**FIGURE 3.B Growth in U.S. imports from EMDEs**



**FIGURE 3.C Manufacturing PMIs: New export orders**



Sources: Haver Analytics; United States International Trade Commission (USITC); World Bank. Note: e = estimate; EMDEs = emerging market and developing economies; excl. = excluding; f = forecast; Gov. = government; PMI = purchasing managers' index; Priv. = private; RHS = right-hand scale. A. Panel shows the annual real GDP growth contribution for each expenditure-side component. Discrepancies between GDP growth and the sum of its components reflect inventories and residuals. B. Year-over-year growth of import values of merchandise from foreign countries in U.S. dollars for up to 153 EMDEs. Dashed line shows 3-month moving average of the median, and red line shows the average of the 2018-19 median for up to 152 EMDEs. Last observation is September 2025. C. Panel shows the 2024 GDP-weighted average of PMI for up to 17 EMDEs. PMI scores above (below) zero indicate expansion (contraction). Monthly scores are centered on 50, the expansionary threshold. Last observation is November 2025.



## Special Focus: The Use of Fiscal Rules in EMDEs

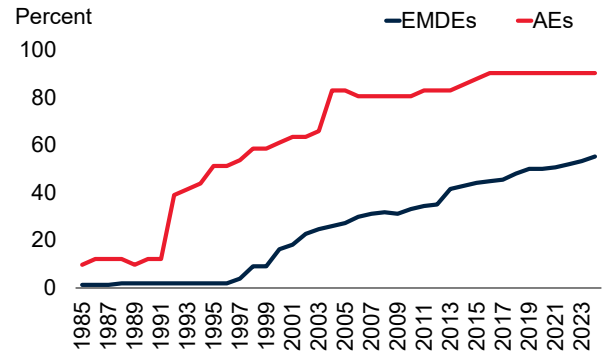
**Fiscal rules have been rapidly adopted in many EMDEs since 2000.** These rules are part of broader policy frameworks to build buffers, enhance resilience, and improve economic outcomes. Many EMDEs have turned to fiscal rules to make credible commitments to fiscal discipline. Fiscal rules set numerical constraints on key fiscal variables, helping steer fiscal policy toward prudence. Drawing on the analysis presented in chapter 3 of the January 2026 *Global Economic Prospects* report, as of 2024, 55 percent of EMDEs (85 economies) had at least one fiscal rule in place, up from about 15 percent in 2000 (figure 4.A).

**Fiscal rules typically target one of four fiscal aggregates, and the mix has shifted over time.** Four main types of rules are identified: deficit (or budget balance), debt, expenditure, and revenue rules. In the early 2000s, most countries relied primarily on deficit and debt constraints (figure 4.B). After the global financial crisis of 2008-09, expenditure rules became more widespread as governments sought tools to provide operational guidance on how to achieve fiscal targets. Across EMDEs with fiscal rules, debt and deficit rules are now the most prevalent (used in 71 and 66 economies, respectively), while expenditure rules are used in 32 economies and revenue rules in 17 economies. Revenue rules remain relatively uncommon because revenues are highly cyclical and less directly controlled by policy action than spending.

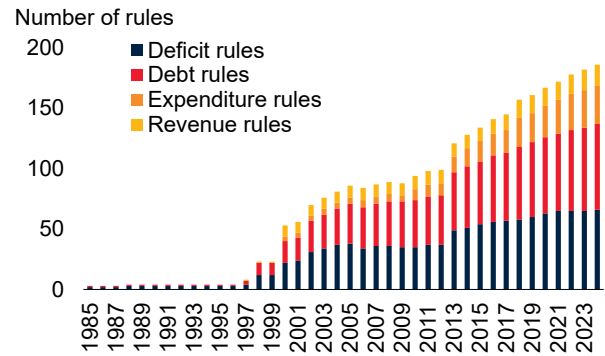
**Multi-rule frameworks have become increasingly common.** As no single rule can achieve all objectives, countries have increasingly adopted more than one rule. The most common combination is a deficit constraint with a debt ceiling. Advanced economies—prominently, those in the European Union (EU)—pioneered this approach under the Stability and Growth Pact, and EMDEs have increasingly followed suit. By 2024, 44 EMDEs had adopted two fiscal rules, and 27 had three or more rules in place (figure 4.C).

**Beyond rule type, the functioning of fiscal rules depends heavily on design features.** Three common design dimensions include institutional anchoring, enforceability, and flexibility. Institutional anchoring reflects a framework’s public-sector coverage (from central to general government) and its legal basis (ranging from political commitments to legislation to constitutional provisions). Enforcement mechanisms determine how rules are implemented and monitored, including operational provisions—such as triggers, timelines, and required corrective

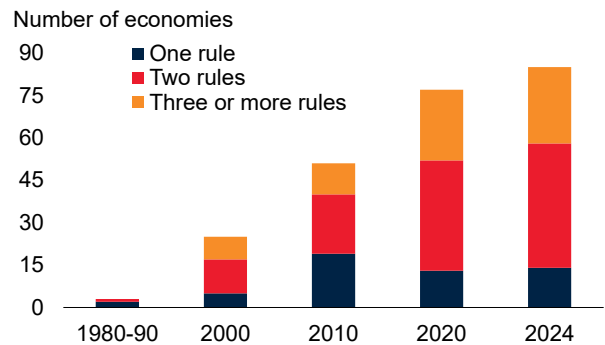
**FIGURE 4.A Economies with a fiscal rule in place**



**FIGURE 4.B Types of fiscal rules in EMDEs**



**FIGURE 4.C Multi-rule frameworks in EMDEs**



Sources: International Monetary Fund; World Bank.

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

A. Sample includes 154 EMDEs and 41 advanced economies.

B. Number of fiscal rules in use in EMDEs. Sample includes 85 EMDEs with fiscal rules.

C. Number of EMDEs with fiscal rules, by number of fiscal rules. Sample includes up to 85 EMDEs.



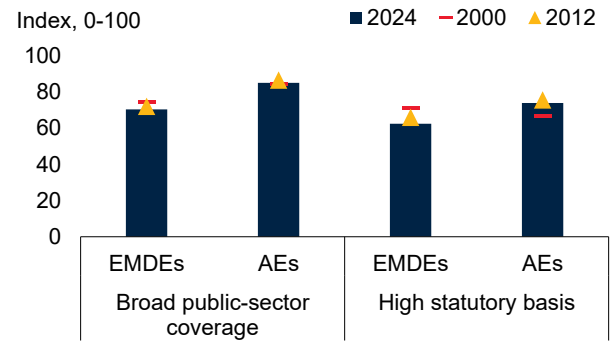
actions after breaches—as well as standards for independent oversight. Flexibility features allow rules to accommodate shocks and changing conditions—for example, through well-defined escape clauses, cyclically adjusted deficit targets, and specific carve-outs for priority spending such as public investment.

**Enforcement provisions of fiscal rules have strengthened over time.** While the institutional anchoring of fiscal rules has remained broadly stable since 2000, enforceability has strengthened—particularly in advanced economies, where the EU framework was tightened in 2005 and again in 2012 (figures 5.A and 5.B). In EMDEs, explicit corrective mechanisms have increased more modestly, while broader enforcement upgrades have lagged, partly reflecting the difficulty of establishing independent fiscal councils with the capacity and authority to oversee compliance.

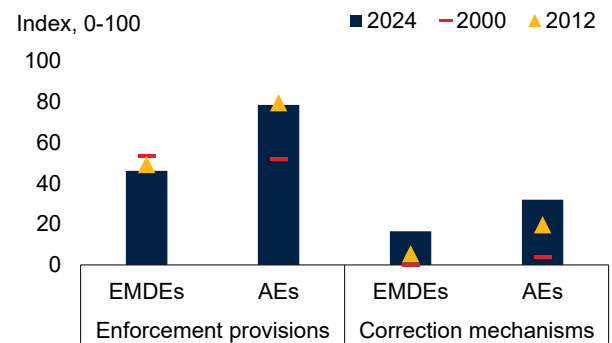
**Flexibility features of fiscal rules have expanded markedly.** Policy makers have increasingly incorporated flexibility features into their rule frameworks, especially through greater use of escape clauses (figure 5.C). By 2024, 55 percent of EMDEs and 75 percent of advanced economies with fiscal rules had incorporated such clauses. Many advanced economies have also moved toward cyclically adjusted deficit targets, while such targets remain far less common in EMDEs, where data and modeling constraints are more binding. As of 2024, 21 percent of EMDEs with deficit rules used cyclically adjusted targets, compared with 78 percent of advanced economies. Rules that permit priority spending exemptions, including “golden rules” excluding public investment from deficit and expenditure constraints, remain limited in both groups and have become less common among EMDEs since the global financial crisis.

**The design of fiscal rules involves trade-offs.** Combining multiple rules can cover more objectives, while stronger enforcement and added flexibility introduce provisions to bolster compliance and accommodate shocks. But these gains come with trade-offs. More complex frameworks require careful calibration, timely data, and strong institutional coordination—capabilities that are often more limited in EMDEs. As a result, design upgrades do not necessarily translate into more effective rules in practice. Future revisions to fiscal rule design should prioritize alignment with domestic fiscal challenges and policy needs, rather than simply adopting international templates.

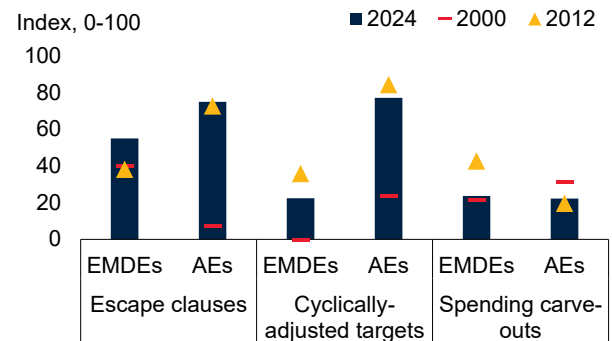
**FIGURE 5.A Institutional anchoring in rule design**



**FIGURE 5.B Enforceability in rule design**



**FIGURE 5.C Flexibility in rule design**



Sources: International Monetary Fund; World Bank.  
Note: AEs = advanced economies; EMDEs = emerging market and developing economies.  
A-C: Lines show average index scores of fiscal rule design features, derived from IMF data and normalized on a 0–100 scale (100 = best). Higher values indicate greater use or sophistication of each feature. Sample includes 85 EMDEs and 37 advanced economies.



## Recent Prospects Group Publications

Global Economic Prospects—January 2026

Frontier Market Economies: Promise, Performance, and Prospects

Commodity Markets Outlook—October 2025

Fiscal Vulnerabilities in Low-Income Countries: Evolution, Drivers, and Policies

Accelerating Investment: Challenges and Policies

From Tailwinds to Headwinds: Emerging and Developing Economies in the Twenty-First Century

## Recent World Bank Working Papers

Not All Shocks Are Shared Equally: Commodity Exporters and International Risk Sharing

How Much Do Commodity Exporters Share Risk?

Investment in Emerging and Developing Economies

Institutional Capacity for Policy Implementation

Climate and Social Sustainability in Fragility, Conflict, and Violence Contexts

## Recent World Bank Reports

Business Ready 2025

World Development Report 2025: Standards for Development

International Debt Report 2025

The Global Index 2025

A Healthy Future: Primary Health Care and the Chronic Disease Epidemic in East Asia and Pacific

## Table: Major Data Releases

Recent releases: December 26, 2025 - January 26, 2026						Upcoming releases: January 27, 2026 - February 27, 2026				
Country	Date	Indicator	Period	Actual	Previous	Country	Date	Indicator	Period	Previous
China	01/21/26	GDP	Q4	4.5%	4.8%	Argentina	02/06/26	IP	DEC	-8.7%
Euro area	01/15/26	IP	NOV	2.5%	1.7%	Australia	01/27/26	CPI	Q4	3.2%
Euro area	01/19/26	CPI	DEC	1.9%	2.1%	Brazil	02/03/26	IP	DEC	-1.2%
Euro area	01/20/26	GDP	Q3	1.4%	1.5%	Canada	02/16/26	CPI	JAN	2.4%
France	01/15/26	CPI	DEC	0.8%	0.9%	Canada	02/27/26	GDP	Q4	1.4%
Germany	01/06/26	CPI	DEC	1.8%	2.3%	Euro area	02/16/26	IP	DEC	2.5%
India	01/12/26	CPI	DEC	1.3%	0.7%	Germany	02/06/26	IP	DEC	0.8%
Indonesia	01/04/26	CPI	DEC	2.9%	2.7%	India	01/28/26	IP	DEC	6.7%
Italy	01/07/26	CPI	DEC	1.2%	1.1%	India	02/12/26	CPI	JAN	1.3%
Japan	01/22/26	CPI	DEC	2.1%	2.9%	India	02/27/26	GDP	Q4	8.2%
Korea, Rep.	12/30/25	CPI	DEC	2.3%	2.4%	Indonesia	02/03/26	GDP	Q4	5.0%
Korea, Rep.	01/21/26	GDP	Q4	1.5%	1.8%	Italy	02/11/26	IP	DEC	1.4%
Mexico	01/08/26	CPI	DEC	3.7%	3.8%	Japan	02/19/26	CPI	JAN	2.1%
Russian Federation	01/16/26	CPI	DEC	5.6%	6.6%	Mexico	02/09/26	CPI	JAN	3.7%
Saudi Arabia	01/15/26	CPI	DEC	2.1%	1.9%	Mexico	02/11/26	IP	DEC	-0.8%
South Africa	01/21/26	CPI	DEC	3.6%	3.5%	Netherlands	02/10/26	IP	DEC	2%
Türkiye	01/05/26	CPI	DEC	30.90%	31.1%	Russian Federation	02/04/26	IP	DEC	-0.7%
United Kingdom	01/21/26	CPI	DEC	3.6%	3.5%	Saudi Arabia	02/15/26	CPI	JAN	2.1%
United States	01/13/26	CPI	DEC	2.7%	2.7%	South Africa	02/18/26	CPI	JAN	3.6%
United States	01/16/26	IP	DEC	2.0%	2.7%	Thailand	01/29/26	IP	DEC	-4.2%
United States	01/22/26	GDP	Q3	2.3%	2.1%	United Kingdom	02/12/26	IP	DEC	2.3%

Sources: Haver Analytics; Trading Economics; World Bank.