BOX 1.2 Regional perspectives: Outlook and risks

Emerging market and developing economy (EMDE) regions proved more resilient to last year's trade tensions than expected, with trade supported by the temporary front-loading of exports and with domestic demand underpinned by easier global financial conditions. Nevertheless, prospects over 2026–27 are uneven across regions and remain generally subdued amid a less favorable global trade environment. The challenge of generating sufficient job opportunities for the 1.2 billion young people who will reach working age in EMDE regions by 2035 is set to intensify, particularly in regions where working-age populations continue to rise rapidly. Risks to the outlook remain tilted to the downside, including those from renewed trade frictions and policy uncertainty, tighter global financial conditions, elevated fiscal vulnerabilities, rising geopolitical tensions and conflict, and climate- and public-health-related shocks.

Introduction

Global economic conditions remain challenging amid ongoing trade tensions, but trade agreements between major economies, together with easier global financial conditions, have brought some relief in recent months. In 2026–27, growth is projected to diverge across EMDE regions. In EAP, growth is set to moderate over the forecast horizon, whereas in SAR it is expected to decelerate this year before picking up in 2027 as trade flows improve. Growth in ECA and LAC is forecast to remain the weakest among the regions this year, with activity relatively steady before improving in 2027. In contrast, growth is anticipated to firm in MNA and SSA over the forecast horizon. Yet, in most regions, projected growth remains slower than during 2000–19 and insufficient to support adequate job creation or sustained convergence in real per capita incomes with advanced economies. Risks to the growth outlook remain tilted to the downside.

Against this background, this box considers two questions:

- What are the cross-regional differences in the outlook for growth?
- What are the key risks to the outlook for EMDE regions?

Outlook

Growth trends in 2026–27 are set to diverge across EMDE regions. Growth over the forecast horizon is expected to slow in EAP, in tandem with China's growth trajectory; it is projected to decelerate in 2026 in SAR, largely owing to the increase in tariffs, and then rebound in 2027 as exports recover. In ECA and LAC, growth is expected to remain relatively steady this year before rising in 2027, as headwinds from elevated trade tensions and subdued external demand ease. Growth in both regions is anticipated to remain the lowest among the six regions, partly because of persistent structural constraints. In MNA and SSA, growth in 2026–27 is forecast to rise amid oil production increases, ongoing reforms in some large economies, solid domestic investment growth, a continued easing of inflation, and security improvements in several countries affected by fragility and conflict (refer to chapter 2). In most regions, growth is set to stay below 2000–19 averages, even as growth expectations have improved since June due partly to lower U.S. tariffs assumptions in some regions (refer to figures B1.2.1.A, B1.2.1.B, and B1.2.2.A; refer to chapter 1).

In EAP, the moderation in growth over 2026–27 partly reflects increased trade barriers, but it is also driven by the slowdown in China. In China, subdued consumer confidence, a prolonged property sector downturn, and a softer labor market are compounding the structural deceleration resulting from slowing productivity growth, high debt, and population aging. Excluding China, growth in the region is projected to moderate this year before picking up in 2027, reflecting the unwinding of front-loading, followed by a recovery in global trade, along with stronger investment growth in some countries owing to domestic policy support. In SAR, the projected slowdown in 2026 mainly reflects the impact of increased U.S. tariffs on India's goods exports. Growth in SAR is then set to rebound in 2027, as exports improve and domestic demand firms, aided by strong services activity as the effects of political uncertainty dissipate in several economies.

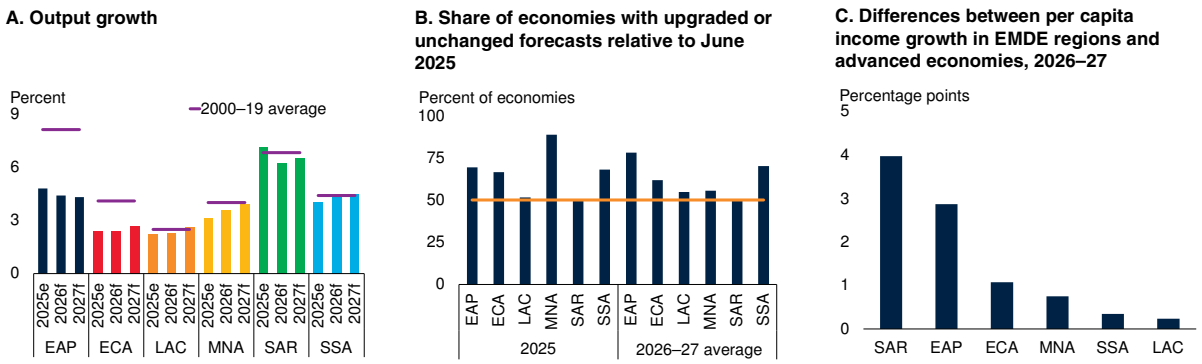
In ECA and LAC, growth is expected to stabilize somewhat in 2026 before improving in 2027, with both regions exposed to elevated trade tensions and uncertainty, albeit to differing degrees. In ECA, growth this year is set to be dampened by weak external

Note: This box was prepared by Shijie Shi and Collette Wheeler.

BOX 1.2 Regional perspectives: Outlook and risks (*continued*)

FIGURE B1.2.1 Regional outlooks

Growth prospects for 2026–27 differ across EMDE regions. Growth in East Asia and Pacific (EAP) is projected to slow further, mainly reflecting the outlook for China. In South Asia (SAR), growth is expected to moderate this year amid higher U.S. tariffs and then rebound in 2027 as exports recover. Growth in Europe and Central Asia (ECA) and Latin America and the Caribbean (LAC) is forecast to edge up, but only modestly, amid weak external demand and structural constraints. Growth in the Middle East, North Africa, Afghanistan and Pakistan (MNA) and Sub-Saharan Africa (SSA) is expected to strengthen, with these regions benefiting from rising oil production and improved security conditions, respectively. In many regions, growth is likely to remain slower than 2000–19 averages, even as growth expectations have increased since June. Whereas EAP and SAR are expected to make further meaningful progress in per capita income catch-up with advanced economies, other regions are expected to experience more limited progress—particularly SSA, where rates of extreme poverty are the highest.



Sources: UN World Population Prospects; World Bank.

Note: e = estimate; f = forecast. EAP = East Asia and Pacific; ECA = Europe and Central Asia; EMDE = emerging market and developing economy; LAC = Latin America and the Caribbean; MNA = Middle East, North Africa, Afghanistan and Pakistan; SAR = South Asia; SSA = Sub-Saharan Africa.

A. Aggregated growth rates are calculated using GDP weights at average 2010–19 prices and market exchange rates. The purple lines refer to period averages of regional growth rates.

B. Share of countries within each country group with forecast upgrades or no forecast changes for 2025 and 2026–27, compared with the June 2025 edition of the *Global Economic Prospects* report. Orange line indicates 50 percent.

C. Bars represent the annual average GDP per capita growth in EMDE regions minus the annual average GDP per capita growth in advanced economies, expressed in percentage points.

demand from the euro area and elevated trade policy uncertainty. These drags are expected to be partly offset by solid domestic demand, underpinned by easing inflationary pressures, improving financial conditions, and increased defense spending and funding from the European Union. In contrast, domestic demand is projected to remain sluggish in 2026 in LAC, somewhat countering the positive effect of easing financing conditions. Growth is anticipated to firm in LAC in 2027, as trade flows recover and domestic demand improves, with the latter aided by declines in monetary policy rates in some large economies.

Growth is expected to rise over the forecast horizon in MNA and SSA, owing to commodity-driven developments and idiosyncratic factors. In MNA, the acceleration is largely accounted for by oil exporters, with increasing oil production set to outweigh the impact of lower oil prices this year, alongside a steady expansion in non-oil activity. Growth in MNA is also expected to benefit from recovering export growth and strengthening investment growth. In SSA, the projected pick-up over 2026–27 assumes that security improves in several fragile and conflict-affected situations (FCS) and that ongoing reforms in some large economies, solid domestic investment growth, and continued easing of inflation support activity. Ongoing reforms should also help support growth in SSA, contributing to solid private investment and FDI inflows.

Relative to June projections, growth in 2026 is revised up for EAP and SSA, slightly revised down for LAC, ECA and MNA, and a bit more notably for SAR. The upgrade for EAP reflects a smaller-than-expected impact of higher trade barriers, as well as domestic policy support in some economies (refer to chapter 2). The

BOX 1.2 Regional perspectives: Outlook and risks (*continued*)

upward revision for SSA is largely due to upgrades in its largest economies—particularly Nigeria, where continued steady expansion in services and a rebound in agricultural output are set to support activity, and South Africa, where activity is expected to be underpinned by private consumption and investment. In both countries, ongoing reforms in the business environment and the public sector are expected to continue supporting growth.

The downward revision to growth in ECA in 2026 is accounted for mainly by the Russian Federation. This reflects weaker-than-expected activity in late 2025 and its negative carry-over effect on 2026, more restrictive credit conditions, and a tighter labor market. For MNA, the downgrade for 2026 largely reflects a larger-than-expected increase in oil production by member countries of the Organization of the Petroleum Exporting Countries and other affiliated oil producers (OPEC+) in 2025, suggesting less room for expansion in 2026–27. The downward revision for SAR is primarily due to higher U.S. tariffs than previously assumed.

Trade prospects across EMDE regions continue to be shaped by shifts in trade policy, with export growth constrained by higher tariffs, elevated uncertainty, and subdued global growth. In EAP, export growth is projected to slow in 2026, as earlier front-loading unwinds and as uncertainty continues around rules-of-origin and tariff exemptions. In ECA, export growth is expected to remain constrained by weak euro area growth. In LAC, increased tariffs are likely to weigh on export growth, while stronger export growth to other trading partners and elevated metal and food prices are expected to partially offset this effect.

In MNA, oil exports are projected to rise in member countries of the Gulf Cooperation Council (GCC) as OPEC+ production cuts are phased out, with activity further supported by resilient non-oil goods and services exports. However, oil exports are anticipated to remain subdued in non-GCC oil exporters. In SAR, strong growth of services exports is expected to continue, but high U.S. tariffs are set to dampen India's goods exports and weigh on overall growth. In SSA, limited exposure to U.S. markets is likely to limit the adverse impact of higher tariffs. However, unless extended, the expiration of United States' African Growth and Opportunity Act (AGOA) in late 2025 will significantly affect countries reliant on textiles and vehicles, even as continued African Continental Free Trade Area (AfCFTA) implementation deepens regional trade integration.

While inflation has moderated in some EMDE regions, it has been more persistent in others. In EAP and SAR, headline and core inflation have generally eased to within or below central bank targets, supported by moderating food and energy prices. By contrast, inflation in ECA has proved more persistent, with firm wage growth, rising utility costs, and food price pressures keeping inflation above official targets in several economies. Inflation is more mixed in LAC, MNA, and SSA. In LAC, inflation has eased across much of the region but is anticipated to remain near the upper end of central bank target bands in some countries. In MNA, core inflation remains high in oil-importing economies but moderate in oil exporters. In SSA, headline inflation has generally eased with food prices falling on the back of strong harvests, but disinflation has recently slowed and core inflation has picked up for the first time in two years.

Monetary policy prospects diverge across EMDE regions, reflecting differences in the inflation outlook. In EAP and SAR, moderating inflation has allowed central banks to either maintain accommodative stances (EAP) or begin gradual easing (SAR). In contrast, in ECA, above-target inflation in many economies limits the scope for monetary easing. In LAC, shifts in the stance of monetary policy are likely to be mixed, with modest monetary easing expected in the largest economies, but some increases in real policy rates elsewhere. In MNA, inflation remains contained in GCC economies, where monetary policies are generally tied to U.S. policy through the peg to the U.S. dollar. By contrast, rising inflationary pressures in some MNA non-GCC oil exporters point to continued tightening, while in oil importers monetary policies are set to ease as inflation moderates. In SSA, the recent slowing of disinflation, with core inflation remaining firm, has led most central banks to pause easing.

Fiscal positions differ across EMDE regions. In MNA, GCC countries' fiscal deficits—which are already small—are expected to narrow further as higher oil

BOX 1.2 Regional perspectives: Outlook and risks (*continued*)

output offsets lower prices, while non-GCC oil exporters and oil importers are anticipated to continue to face large deficits and spending pressures. In SAR, India's fiscal deficit is expected to be gradually reduced through consolidation policies, while Bangladesh is undertaking reforms to strengthen revenues amid tight fiscal constraints. In ECA, fiscal consolidation is expected to be modest, partly driven by higher defense expenditures in some countries. In LAC, fiscal policies are generally constrained by rising debt burdens and high borrowing costs, with broadly contractionary policy stances anticipated through 2026–27. Many countries in SSA are undergoing fiscal consolidation too, with public finances under pressure from high interest burdens, weakening commodity prices, and declining aid flows. The fiscal stance is broadly neutral in EAP, but expansionary in China.

Convergence of real per capita incomes toward advanced economy levels is projected for 2026–27 in all regions but at widely differing paces (refer to figure B1.2.1.C). In SAR, still-rapid growth led by India is expected to allow further significant convergence, accompanied by a notable drop in poverty rates. Despite China's growth slowdown, rapid convergence is expected to continue in EAP. In ECA and LAC, more modest economic growth implies little progress in convergence with advanced economies, leaving many countries at risk of stagnation in real per capita incomes. In MNA, stronger growth in oil exporters indicates some prospective improvement, while fragile recoveries elsewhere will limit convergence for the region as a whole. In SSA, the region with the lowest per capita incomes, convergence with advanced-economy living standards is expected to stagnate.

Job creation remains a critical priority in the six regions. With 1.2 billion young people reaching working age (ages 15–64) in the six EMDE regions by 2035, economies have an opportunity to seize a demographic dividend and reduce extreme poverty. The challenge of creating sufficient jobs differs among the regions, however. In SSA, young people entering the labor market are driving the region's largest increase in its working-age population, which will require strong economic growth to ensure solid job creation. In SAR, most jobs are in low-skill agriculture and manual work, leaving the workforce only moderately exposed to artificial intelligence (AI). Highly skilled workers are likely to benefit, while moderately educated younger workers are more vulnerable to automation. Yet, the share of working-age individuals in employment is among the lowest across the six regions. In MNA, youth unemployment remains high, and female participation in the labor force remains the lowest globally, largely because of restrictive barriers.

Elsewhere, EAP faces the largest cohort of youth entering labor markets among the six regions. Yet many economies are facing high youth unemployment. This reflects the region's attempts to transition from its historically successful model of export- and investment-led growth—facilitated by a large-scale shift of labor from agriculture into industry—to a new model of more consumption-led growth. In ECA, population aging, sluggish productivity growth, and stalled reforms are limiting competition and resource reallocation. Across the region, many young people do not participate in labor markets, discouraged by limited job opportunities and skill mismatches between education and labor market demand. Meanwhile, in LAC, entrepreneurship and job creation are constrained by barriers to the growth of firms, including from shallow financial markets and shortages of skilled workers (World Bank 2025c).

Overall, job creation remains an urgent priority across EMDE regions, with challenges including structural bottlenecks in labor markets, weak private sector dynamism, and demographic pressures stemming from both rapidly growing working-age populations and aging and declining populations. Creating a sufficient number of jobs will require policies to strengthen infrastructure—particularly in energy and digital projects—improve the business environment, foster private investment, enhance human capital, and promote inclusion, especially for women and youth.

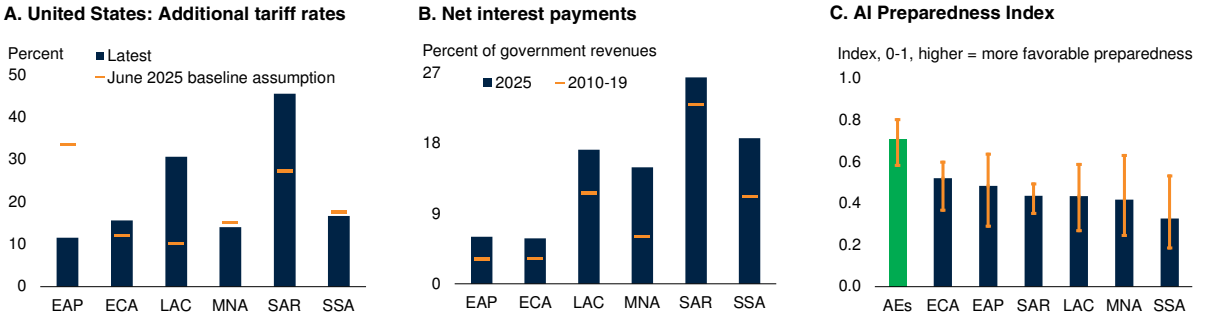
Risks

Risks to the growth outlook remain tilted to the downside across all EMDE regions. Although measures of uncertainty have receded somewhat from the record-high levels reached in 2025, further increases in U.S. tariffs or other trade restrictions, or a re-escalation of trade tensions, could lower growth prospects across

BOX 1.2 Regional perspectives: Outlook and risks (*continued*)

FIGURE B1.2.2 Regional risks

Although U.S. tariff rates are currently lower, on average, for some regions than assumed in the June 2025 baseline, renewed increases in tariffs, other trade restrictions, trade tensions, or policy uncertainty could weigh substantially on growth. The ratio of net interest payments to government revenues has risen markedly, with the EMDE average reaching its highest share since 2003 and every region facing higher shares than in the 2010s, highlighting fiscal vulnerabilities and the risk that tighter global financial conditions could further constrain already-limited fiscal space. Moreover, uneven AI preparedness across regions could concentrate productivity gains in a handful of economies, exacerbating productivity and income disparities between advanced economies and EMDEs, and among EMDEs themselves.



Sources: Cazzaniga et al. (2024); Kose et al. (2022); White House; World Economic Outlook (database); World Bank.

Note: AEs = advanced economies; AI = artificial intelligence; EAP = East Asia and Pacific; ECA = Europe and Central Asia; LAC = Latin America and the Caribbean; MNA = Middle East, North Africa, Afghanistan and Pakistan; SAR = South Asia; SSA = Sub-Saharan Africa.

A. Horizontal lines show the GDP-weighted averages of additional tariff rates specified in Annex I of Executive Order 14257 (issued April 2, 2025) and updated with subsequent modifications by the White House as of June 3, 2025. Bars show the GDP-weighted averages of additional tariff rates specified in Executive Order 14326 (issued July 31, 2025) and updated with subsequent modifications by the White House as of December 16, 2025.

B. Aggregates are computed as weighted averages, using government revenues in U.S. dollars as weights. Net interest payments are computed as differences between primary balances and overall fiscal balances. Data for 2025 are estimates.

C. Bars represent regional medians; whiskers show the minimum and maximum values within each country group. The index assesses the level of AI preparedness as of 2023 across 174 countries, covering four dimensions: digital infrastructure, human capital, technological innovation, and legal frameworks. Scores on the index range from 0 to 1, with higher values representing more favorable AI preparedness.

regions. The risk of financial stress also remains significant despite last year's easing in global financial conditions. Adverse shifts in risk appetite could trigger sharp market movements and lead to capital outflows and currency depreciations. Higher borrowing costs could add to fiscal pressures, especially given elevated debt levels. In several regions, the growth outlook hinges on assumed improvements in security conditions and reductions in violence and conflict; if such improvements do not materialize, growth could disappoint, especially in regions with a sizable number of fragile countries. All regions remain vulnerable to climate change-related extreme weather events and public health emergencies, especially in economies with limited buffers to respond.

A renewed escalation of trade tensions and policy uncertainty could weigh markedly on exports and investment. Recent increases in U.S. tariffs on imports from some large EMDEs have somewhat exceeded June expectations (refer to figure B1.2.2.A). A further escalation—for example, through the 2026 review of the United States–Mexico–Canada Agreement (USMCA)—could especially hit Mexico and Central America. Slower-than-expected growth in the United States would dampen exports in LAC, while weaker demand from China would reduce commodity revenues in regions with large commodity exporters, including ECA, LAC, MNA, and SSA.

Elevated government debt burdens and widening fiscal deficits increase the risk of upward pressure on borrowing costs, which have risen in recent years and remain high in regions such as LAC, SAR, and SSA (refer to figure B1.2.2.B). If financial conditions deteriorate, the combination of higher long-term interest rates, declining development aid, and already-narrow fiscal space could worsen debt sustainability

BOX 1.2 Regional perspectives: Outlook and risks (*continued*)

dynamics and amplify the risk of fiscal crises. Countries with high external financing needs are particularly vulnerable to tighter-than-expected global financial conditions. Economies heavily reliant on remittances face added risks from tighter financial conditions, reduced migration, or softer growth in host countries, which could reduce these inflows. The resulting pressures could weaken current account positions, strain exchange rates, slow consumption growth, and heighten fiscal and debt vulnerabilities.

Last year's appreciations of EMDE currencies against the U.S. dollar have helped support investor appetite, reduce existing dollar-denominated debt burdens, and dampen imported inflation. At the same time, however, these appreciations, if sustained, could weigh on the international competitiveness of the countries concerned. If they reverse sharply, several economies could experience renewed inflationary pressures and heightened concerns about debt sustainability.

An abrupt decline in risk appetite could lead to a tightening of global financial conditions relative to baseline assumptions. This could result in disorderly market shifts, capital outflows from EMDEs, and currency depreciations. Particularly in economies with inadequate macroprudential oversight, such shifts could destabilize financial systems. More-persistent-than-expected inflation could prompt major central banks to tighten monetary policies, dampening growth.

Several regions continue to experience varying degrees of violence, marked by high insecurity and conflict. A key downside risk to the growth outlook—given the baseline assumption that conflicts in several regions, especially MNA and SSA, de-escalate—is the possibility that they persist, intensify, or broaden. Given the large human and economic losses caused by armed conflict, this could substantially set back growth and the convergence of real per capita incomes with advanced economies. Regions where major armed conflicts persist, including ECA, MNA, and SSA, are particularly vulnerable to this risk. In EAP, recent political turmoil and social unrest in some economies illustrate how such instability can also put growth at risk, including by eroding investor and consumer confidence and discouraging tourism.

The rising trend in global temperatures and associated increase in the frequency of extreme weather events—such as droughts (ECA, MNA, SAR, SSA) and flooding (EAP, ECA, LAC, MNA, SAR, SSA)—pose risks to agricultural output, food security, external balances, and fiscal sustainability. The potential emergence of new public health crises remains another vulnerability, particularly for EMDEs with limited capacity to respond, including those in SSA. These constraints stem from weak health care systems, reduced foreign aid flows, limited fiscal resources, elevated conflict and violence, and often weak governance.

An upside risk to the growth outlook in all EMDE regions is greater-than-assumed benefits from the development and deployment of AI. This could raise productivity growth globally, presenting opportunities for EMDEs (refer to figure B1.2.2.C). Faster AI adoption—especially in some economies in EAP, ECA, and SAR with supportive regulatory frameworks, a well-equipped and skilled workforce, and strong investment in digital infrastructure—could boost productivity growth, spur innovation, and enable firms to scale up high-value activities (IMF 2025a).

However, the benefits from AI deployment are likely to be uneven: most EMDEs, including those in SSA, lag advanced economies in digital infrastructure, human capital, education and training, and legal frameworks, limiting their capacity to capture the productivity gains from AI. At the same time, accelerated automation could displace workers in labor-intensive sectors and exacerbate inequality in the absence of policies to facilitate reskilling and labor market transitions (World Bank 2025d). Overall, while AI offers significant long-term potential to boost growth, it also poses structural risks that could widen productivity and income gaps between advanced economies and EMDEs, and among EMDEs themselves, if adoption remains substantially uneven.