5. World Economic Situation and Prospects 2026 – I R

The United Nations' World Economic Situation and Prospects (WESP) 2026 has projected India's GDP growth to 6.6 percent in 2026 from 7.4 percent in 2025, largely due to tariffs imposed by the US on India's exports. The report was produced by the United Nations Department of Economic and Social Affairs (UN DESA)

Overview of the Report and Its Significance

The report provides a medium-term assessment of global economic prospects, highlighting slowing growth, persistent vulnerabilities, and rising fragmentation in the world economy. It underscores that the post-pandemic recovery remains uneven, with advanced economies stabilising faster than developing economies.

The findings are particularly relevant for policy debates on -

1. Global growth slowdown
2. Inflation management
3. Debt sustainability
4. Multilateral cooperation

Global Growth Outlook

World output is projected to slow to 2.7% in 2026, before a modest recovery to 2.9% in 2027. This growth rate remains below the pre-pandemic average, indicating a structurally weaker global economy.

Regional Growth Patterns

United States and parts of Asia - Domestic demand remains resilient. Policy easing and strong labour markets are supporting consumption and investment.

Europe - Growth remains weak due to -

1. Tight financial conditions
2. Energy transition costs
3. Geopolitical uncertainty

Developing and emerging economies

Growth is constrained by -

1. High public and external debt
2. Limited fiscal space
3. Climate-related shocks such as droughts and floods

Trade and Investment Trends

Global trade performed better than expected in 2025, supported by -

1. Front-loading of exports ahead of anticipated tariff hikes
2. Strong growth in services exports, particularly digital and financial services

However, trade growth is projected to slow in 2026 due to -

1. Rising protectionist measures
2. Weak global demand
3. Supply chain reconfiguration and fragmentation

Investment growth remains subdued in many developing economies due to -

1. High borrowing costs
2. Policy uncertainty
3. Weak investor confidence

Inflation and Cost-of-Living Pressures

Global headline inflation is projected to decline to 3.1% in 2026, from 3.4% in 2025.

Despite easing inflation -

1. Price levels remain high
2. Real incomes, especially of low-income households, continue to be eroded

Distributional Impact

Low-income and vulnerable households face -

1. Higher food and energy costs
2. Reduced purchasing power

This has implications for -

1. Poverty reduction
2. Social stability
3. Political economy of reforms

Financial Conditions and Emerging Risks

Lower interest rates and improved market sentiment have helped revive capital flows, especially to advanced and some emerging economies. However, risks persist -

1. Elevated asset valuations increase the risk of market corrections
2. Borrowing costs remain high relative to historical norms

Many developing economies continue to face -

1. Heavy debt servicing burdens
2. Limited access to affordable long-term finance
3. Exposure to exchange rate volatility

Reasons for the Global Economic Slowdown

Persistent Inflationary Pressures

Although headline inflation has cooled, core inflation remains sticky, particularly in -

1. Services
2. Housing

This constrains central banks' ability to ease monetary policy aggressively.

Rising Trade Protectionism

Increasing use of -

1. Tariffs
2. Non-tariff barriers
3. Industrial subsidies

These measures -

1. Disrupt global supply chains
2. Reduce trade efficiency
3. Increase costs for consumers and producers

Structural Challenges

Long-term growth is weighed down by -

1. Ageing populations in advanced and some emerging economies
2. Low productivity growth
3. Slow diffusion of new technologies across borders

Weak Multilateral Cooperation

Fragmentation of global governance frameworks has led to -

1. Reduced policy coordination

2. Erosion of trust in global institutions

This weakens collective responses to -

1. Debt crises
2. Climate change
3. Financial instability

Key Policy Recommendations of the Report

Coordinated Macroeconomic Policies

Monetary policy alone is insufficient to manage persistent inflation and growth challenges. Better coordination is needed between -

1. Monetary policy
2. Fiscal policy
3. Industrial and structural policies

This helps -

1. Stabilise inflation
2. Support productive investment
3. Protect vulnerable groups

Strategic and Credible Use of Fiscal Policy

Governments should adopt -

1. Credible medium-term fiscal frameworks
2. Transparent debt management strategies

Objectives include -

1. Rebuilding fiscal space
2. Ensuring debt sustainability
3. Maintaining investor confidence

Strengthening Multilateral Cooperation and Development Finance

The report emphasises implementing commitments under the Sevilla Commitment, including -

1. Debt restructuring mechanisms
2. Expanded concessional finance
3. Scaling up climate finance

These measures are critical to -

1. Closing investment gaps
2. Supporting green transitions
3. Reducing systemic global risks

Preserving an Open, Rules-Based Trading System

Strengthening global trade requires -

1. Greater transparency
2. Predictable trade policies
3. Cooperation through multilateral institutions

An open trading system is essential to -

4. Sustain long-term growth
5. Prevent excessive economic fragmentation
6. Support developing economies' integration into global value chains

Concluding Assessment

The global economy is entering a phase of slower and more fragile growth, shaped by inflation persistence, debt stress, climate risks, and geopolitical fragmentation. Without coordinated policy action and renewed multilateralism -

1. Growth prospects may weaken further
2. Inequality between and within countries may widen

The report makes a strong case for collective global action, balanced macroeconomic management, and structural reforms to ensure a more resilient and inclusive global economy.

Source - https -//unctad.org/publication/world-economic-situation-and-prospects-2026