RESEARCH

# Resilience Under Strain, Urgent Choices

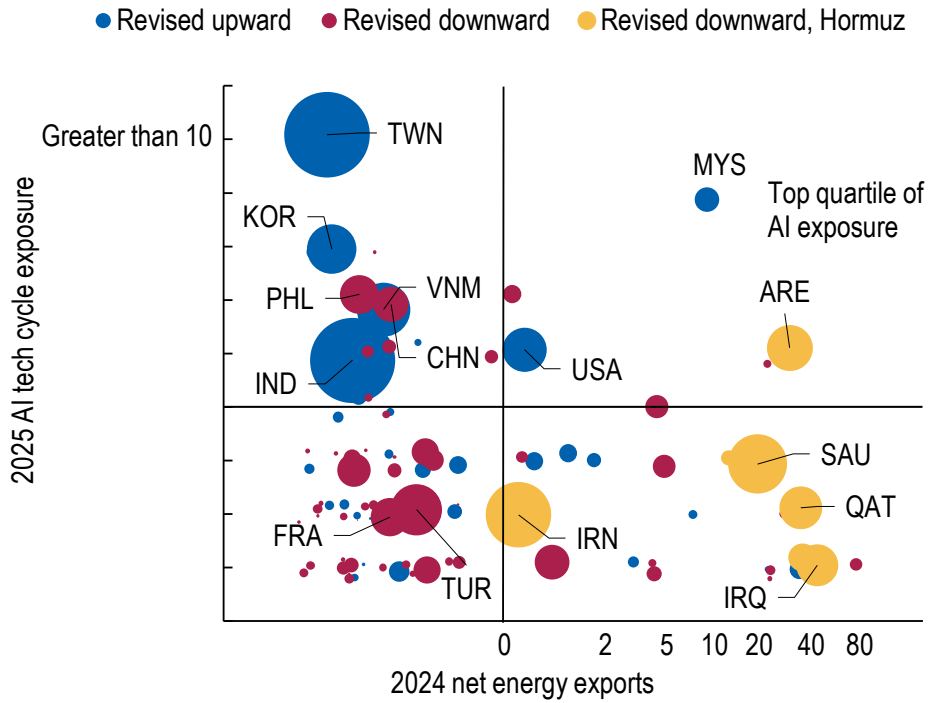
## WORLD ECONOMIC OUTLOOK
## OCTOBER 2026

Deniz Igan

October 27, 2026

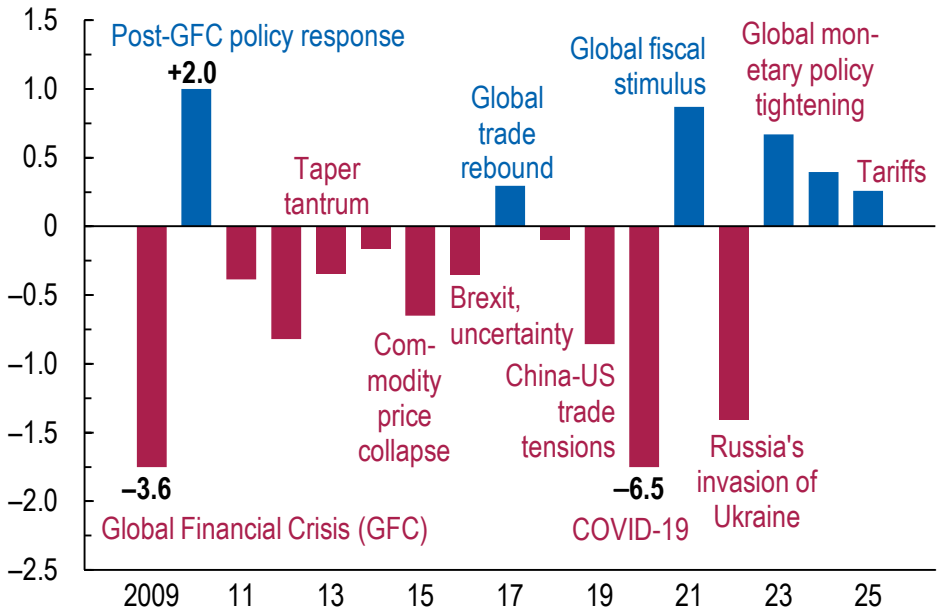
# A Split View of a Resilient Global Economy

## Diverging Forces Are Shaping the Economy
*(Percent of GDP)*




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

## WEO Forecast versus Actual Outturn
*(Percentage points, positive = better than expected)*

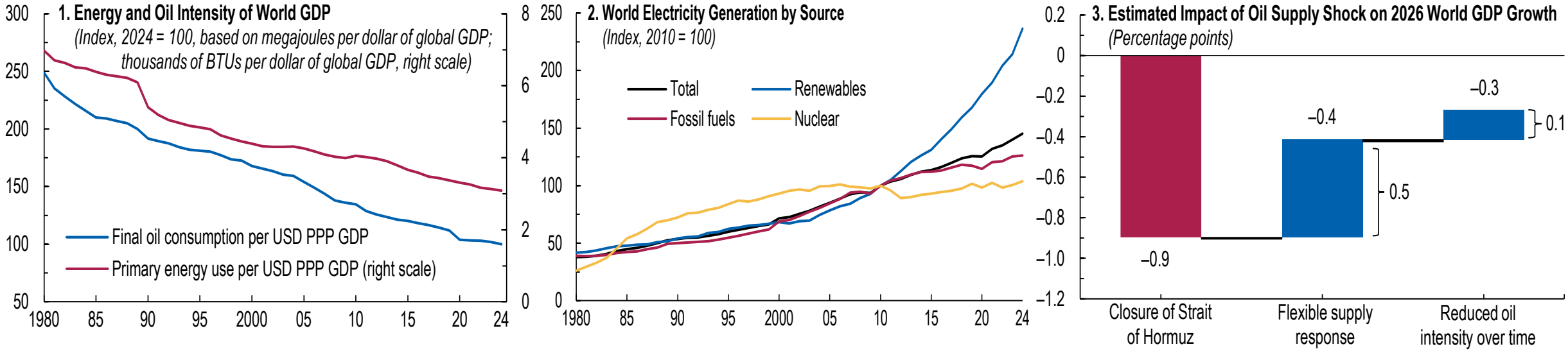



Source: IMF staff calculations.
Note: The figure presents actual outturns minus one-year-ahead GDP growth forecasts from past October WEO reports. The *x*-axis labels denote years of outturns which are retrieved from one-year-ahead October WEO reports. For example, 2009 value is calculated using 2009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

# Recent Developments:
# The Sources of Resilience

# Supply Flexibility and Reduced Dependence on Oil

## Resilience to the Energy Shock

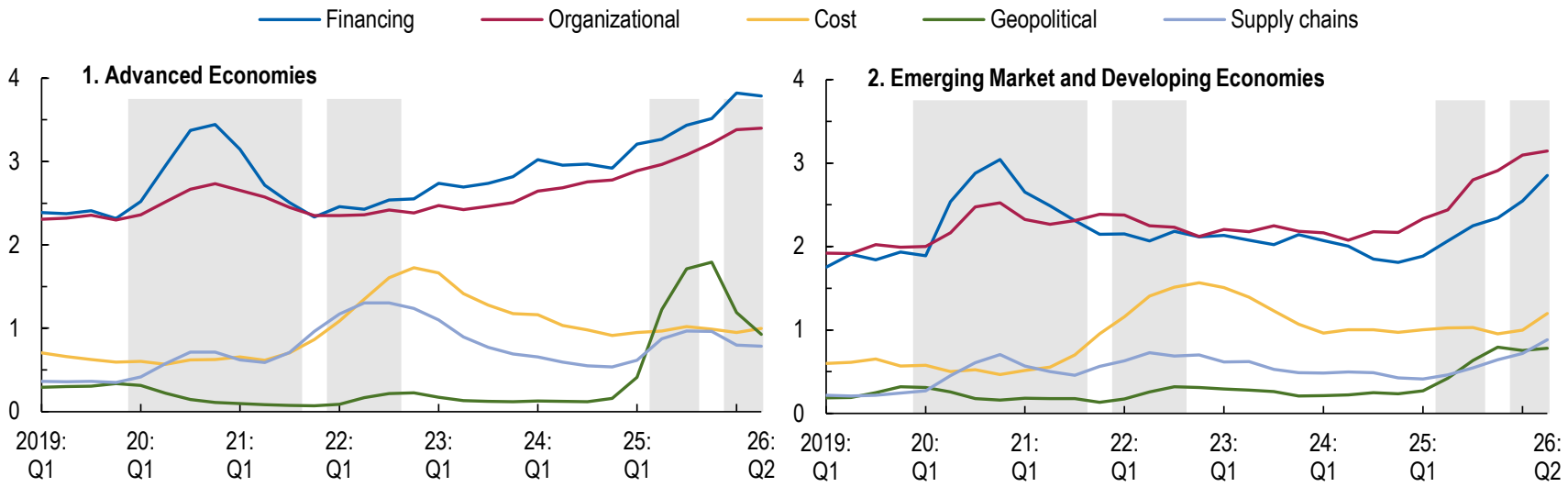



Sources: US Energy Information Administration (August 2026); and IMF staff calculations.
Note: In panel 3, the impact on global growth is estimated using a reduction in oil production in the IMF's Flexible System of Global Models. The impact of a reduction in the oil intensity of growth is estimated using simulations from the IMF's Global Dynamic Network Model (see Online Annex 2.4 of the October 2024 *World Economic Outlook*). BTU = British thermal unit; PPP = purchasing power parity; USD = US dollar.

# An Agile Private Sector

## Corporate Talk about Resilience and Adaptation

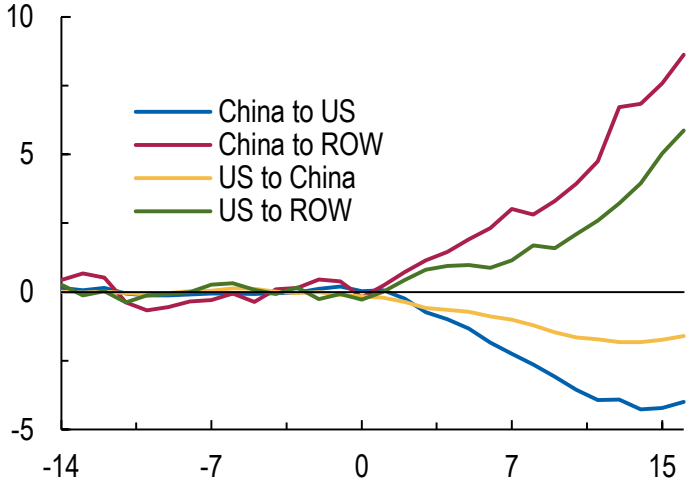
*(Index, three-quarter moving average)*




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

## Exports from China and US

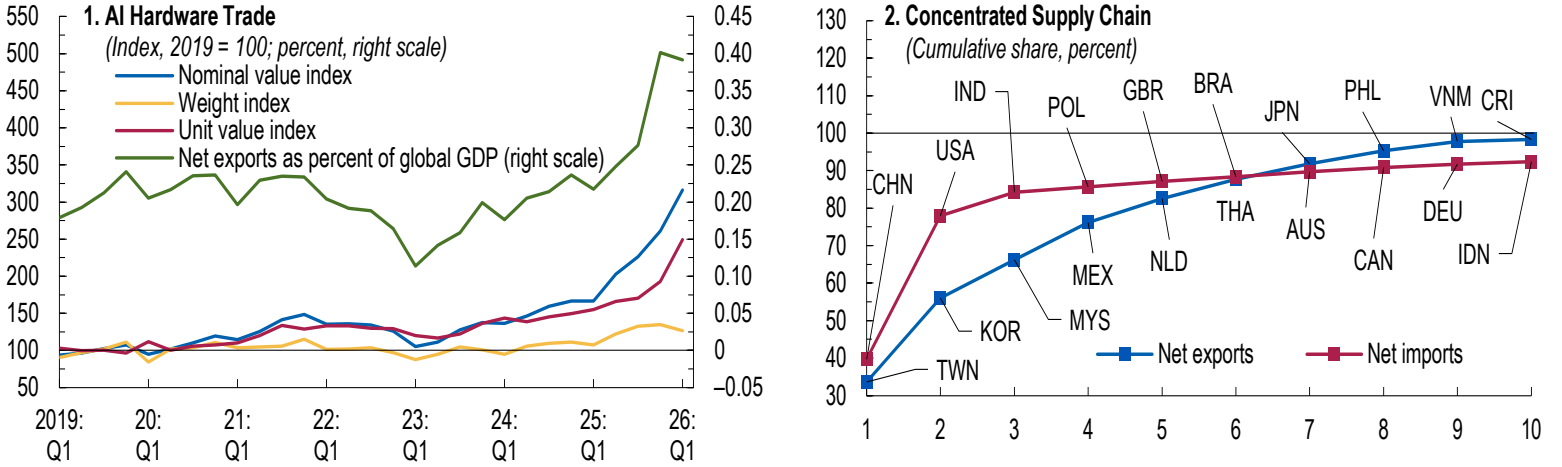
*(Percentage point deviation)*




Sources: Ruta and Sztajerowska, forthcoming; Trade Data Monitor; and IMF staff calculations.
Note: In panel 1, lines show total exports, excluding nonmonetary gold, relative to a linear pretariff trend estimated over the 14 months through January 2025 and extrapolated thereafter, using 12-month rolling sums. The horizontal axis shows months relative to February 2025. Data cover January 2023 to May 2026. ROW = rest of the world.

# An Offsetting Force from AI Momentum, and An Enabling Push

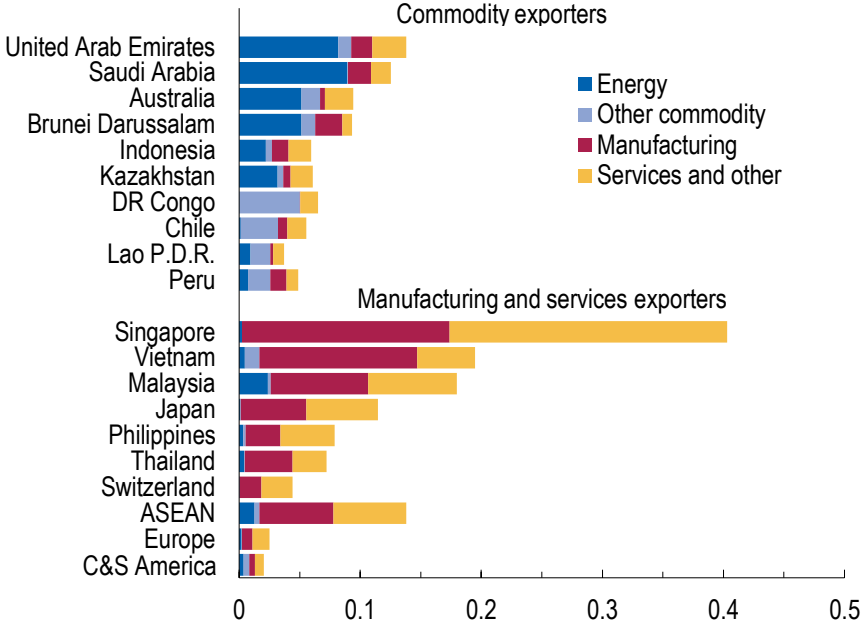
## AI Trade: Boom, Concentration, and Magnitude




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

## Value-Added Spillovers from Technology Exports from Korea and Taiwan Province of China

*(Percent of domestic value added)*

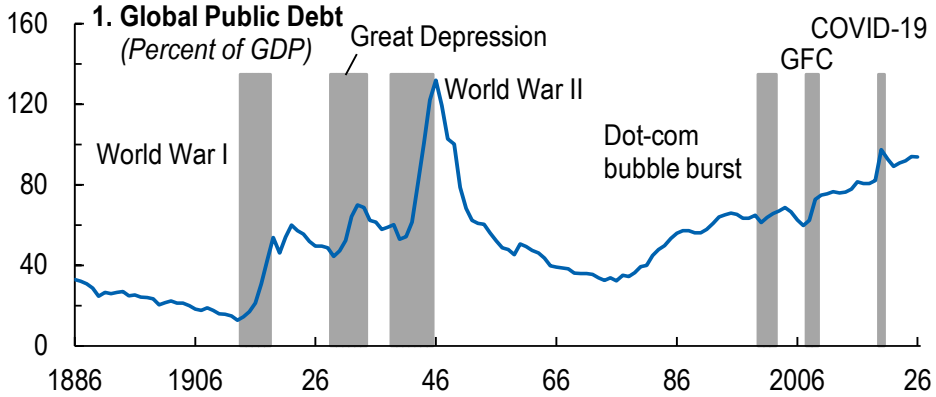


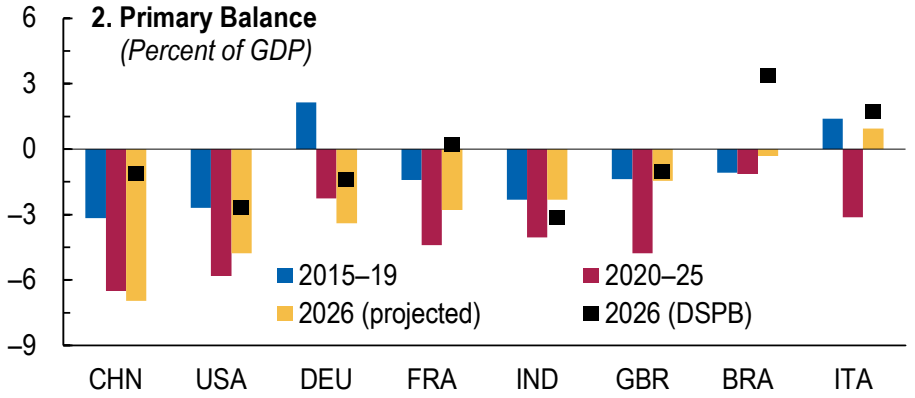

Sources: Organisation for Economic Co-operation and Development, Trade in Value-Added (TiVA) database (2022 data, 2025 edition); and IMF staff calculations.
Note: The figure shows the value-added impact through the value chain resulting from a 40 percent increase in computer, electronics, and optical products exports from Korea and Taiwan Province of China. The estimates assume no change in prices. ASEAN = Association of Southeast Asian Nations; C&S America = Central and South America; DR Congo = Democratic Republic of the Congo; Lao P.D.R. = Lao People`s Democratic Republic.

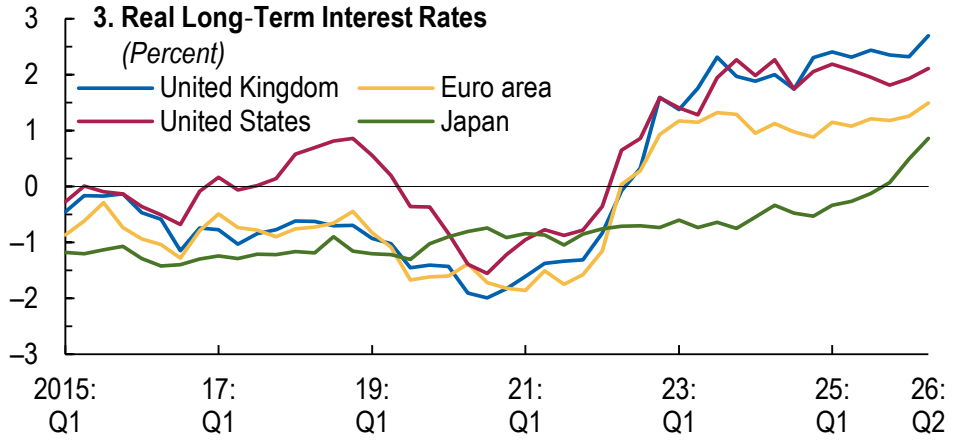
# Recent Developments:
# The Limits of Resilience

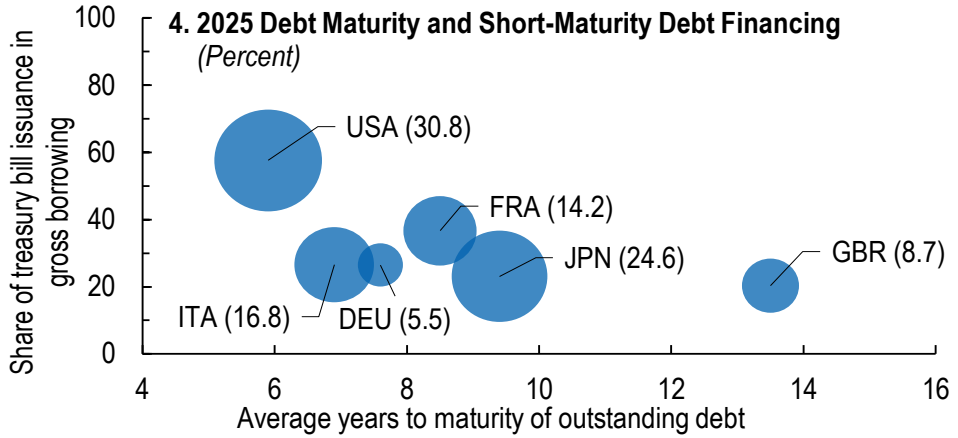
# More Limited Fiscal Space

## Fiscal Policy




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

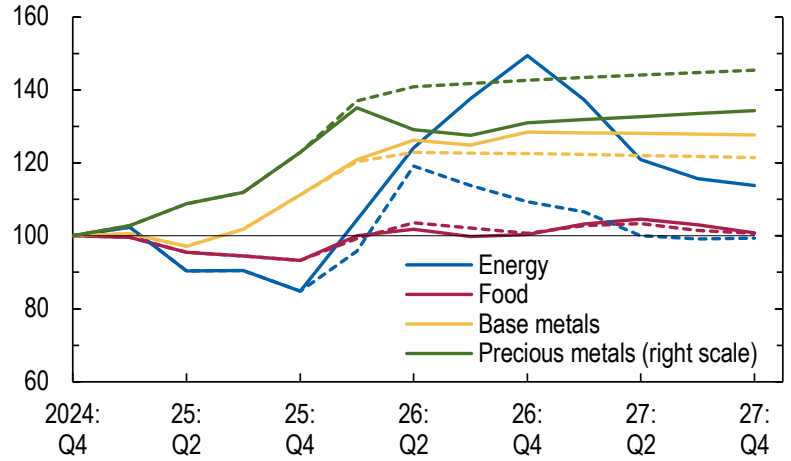
# Additional Limits to Resilience

- Ai investment
  - Adding to inflationary pressures, with potential spillovers to core inflation
  - Supporting demand through wealth effects, but also contributing to stretched equity valuations and increased market concentration
- Energy markets
  - Continued depletion of global oil inventories pushing stocks closer to stress levels
  - Trouble in energy markets endangering the AI-led impetus
- Goods trade
  - Trade reconfiguration may improve resilience but could entail longer-term efficiency costs

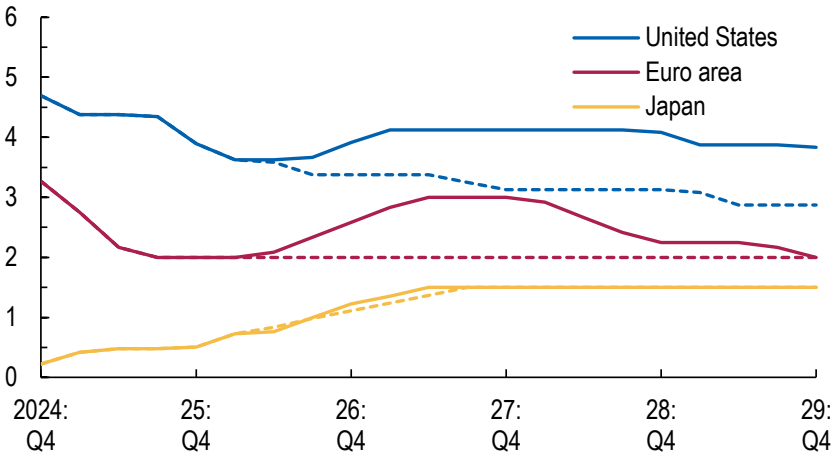
# The Outlook:
# Divided Amid Crosscurrents

# Assumptions Underlying the Baseline

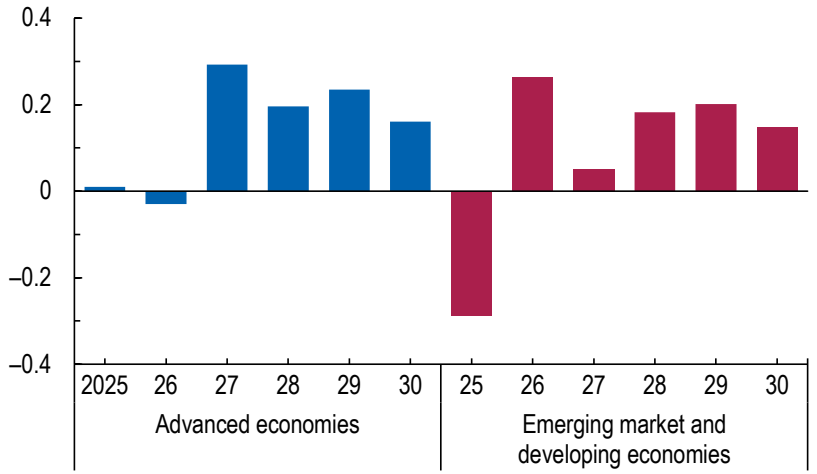
## Commodity Prices
*(Index, 2024:Q4 = 100)*




## Monetary Policy Projections
*(Percent, quarterly average)*




## Fiscal Policy Projections
*(Percentage points, change in fiscal balance)*



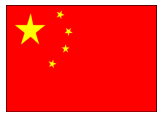

Source: IMF staff calculations.
Note: In panels 1 and 2, solid lines denote assumptions from the October 2026 *World Economic Outlook* (WEO) and dashed lines those from the April 2026 WEO. In panel 3, year-over-year changes from the latest WEO are calculated by using general government structural primary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

# GROWTH PROJECTIONS: ADVANCED ECONOMIES
## (PERCENT CHANGE FROM A YEAR EARLIER)

| | World | Advanced Economies | United States | Euro Area | Japan | United Kingdom | Canada | Other Advanced Asia |
|---|---|---|---|---|---|---|---|---|
| 2025 | 3.5 | 2.0 | 2.3 | 1.2 | 1.2 | 1.2 | 1.9 | 3.6 |
| Revision from Jul. 2026 | 0.0 | 0.1 | 0.2 | -0.2 | 0.1 | -0.2 | 0.0 | 0.1 |
| 2026 | 3.1 | 2.1 | 2.3 | 1.1 | 0.7 | 1.3 | 1.1 | 5.0 |
| Revision from Jul. 2026 | 0.1 | 0.4 | 0.0 | 0.2 | 0.1 | 0.3 | 0.0 | 1.8 |
| 2027 | 3.4 | 1.8 | 2.3 | 1.2 | 0.7 | 1.2 | 1.7 | 2.9 |
| Revision from Jul. 2026 | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 | -0.1 | 0.0 | 0.4 |

Source: IMF, *World Economic Outlook* October 2026.

# GROWTH PROJECTIONS: EMERGING MARKETS AND LIDCS
## (PERCENT CHANGE FROM A YEAR EARLIER)

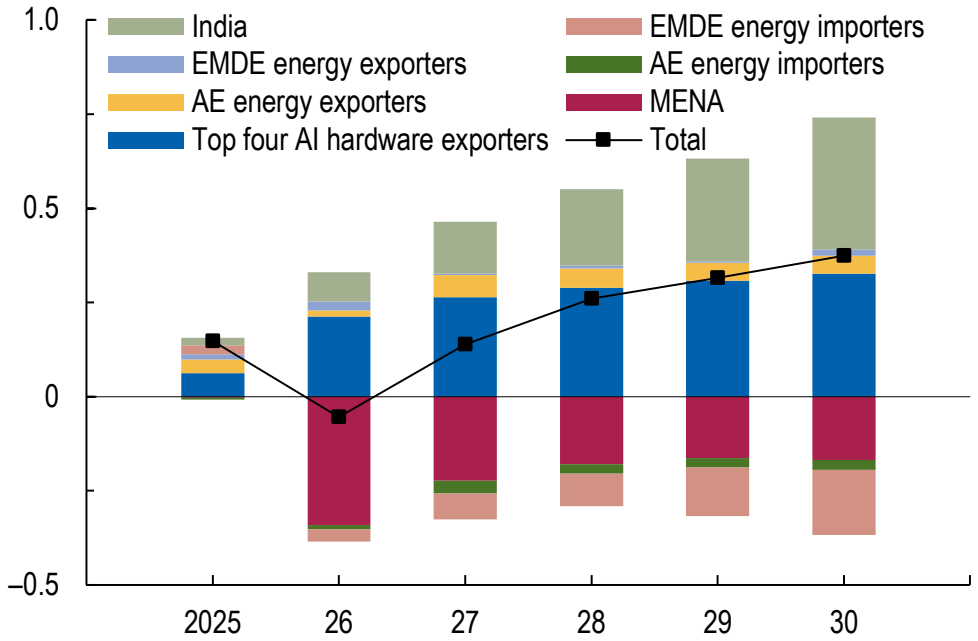
| |  World |  Emerging Market and Developing Economies |  China |  India |  Brazil |  Russia |  Commodity Exporting Economies |  Low Income Developing Countries |
|---|---|---|---|---|---|---|---|---|
| **2025** | **3.5** | **4.5** | **5.0** | **7.8** | **2.3** | **1.0** | **3.3** | **4.8** |
| **Revision from Jul. 2026** | **0.0** | **0.0** | **0.0** | **0.1** | **0.0** | **0.0** | **0.1** | **0.0** |
| **2026** | **3.1** | **3.7** | **4.5** | **7.0** | **2.2** | **0.9** | **1.7** | **4.8** |
| **Revision from Jul. 2026** | **0.1** | **-0.1** | **-0.1** | **0.6** | **-0.2** | **-0.2** | **-0.5** | **0.0** |
| **2027** | **3.4** | **4.4** | **4.0** | **7.0** | **1.9** | **0.9** | **3.9** | **4.8** |
| **Revision from Jul. 2026** | **0.0** | **-0.1** | **-0.1** | **0.3** | **-0.3** | **-0.2** | **-0.1** | **-0.1** |

Source: IMF, *World Economic Outlook* October 2026.

# Medium-Term Outlook

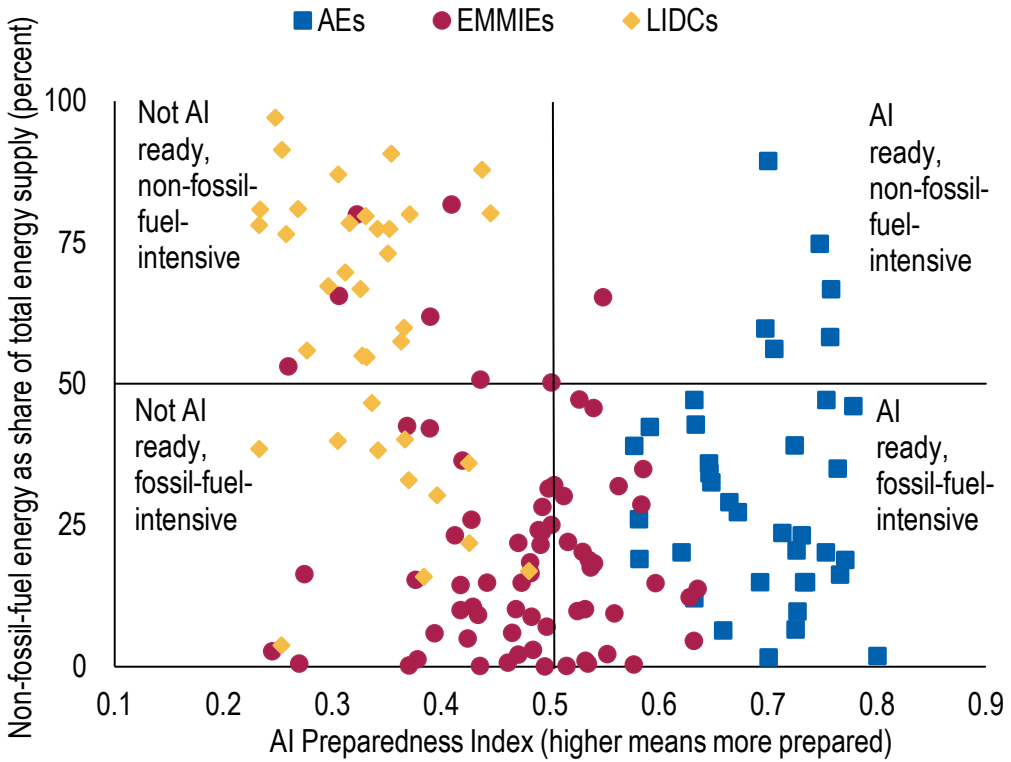
## Medium-Term Scarring

*(Percentage point deviation from cumulative growth in January 2026 WEO Update)*




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

## AI Preparedness versus Energy Mix

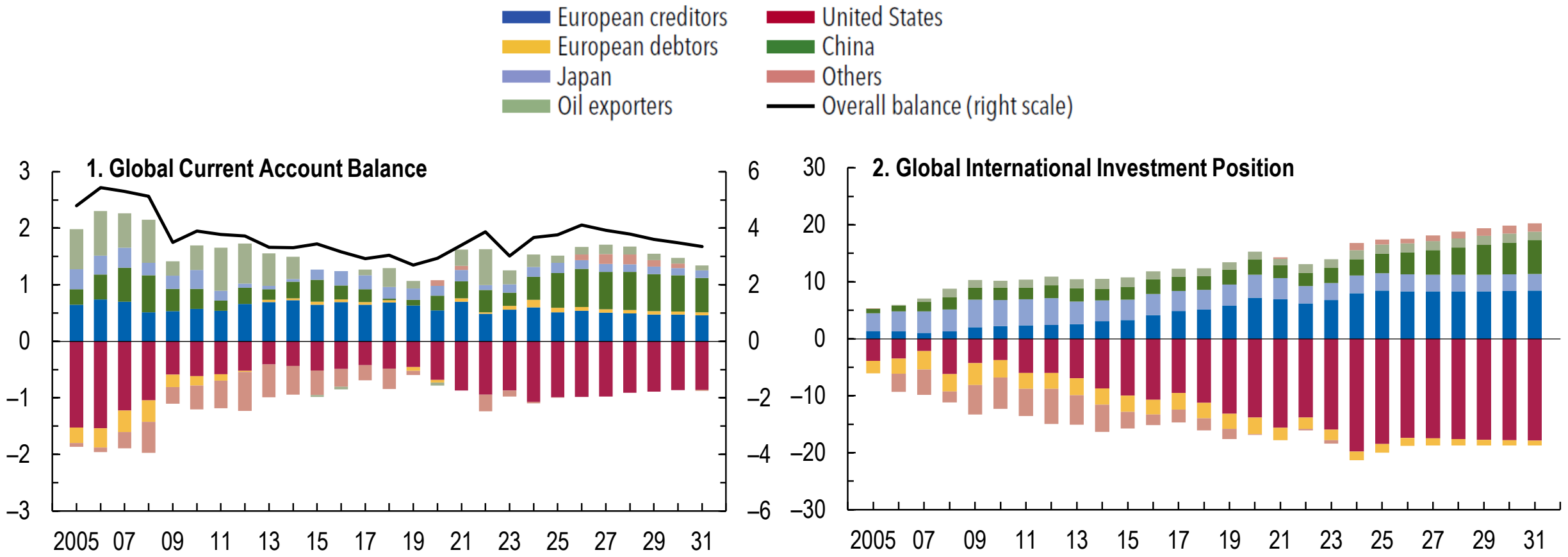



Sources: International Energy Agency; and IMF staff calculations.
Note: The figure plots countries according to the IMF AI Preparedness Index and non-fossil-fuel energy as a share of total energy supply in 2024. Non-fossil-fuel energy includes renewable and nuclear sources. Data labels in the figure use International Organization for Standardization (ISO) codes. AEs = advanced economies; EMMIEs = emerging market and middle-income economies; LIDCs = low-income developing countries.

# World Trade Outlook and Global Imbalances

## Current Account and International Investment Positions

*(Percent of global GDP)*




Source: IMF staff calculations.

Note: "European creditors" are Austria, Belgium, Denmark, Finland, Germany, Italy, Luxembourg, The Netherlands, Norway, Slovenia, Sweden, and Switzerland. "European debtors" are Cyprus, Greece, Ireland, Portugal, and Spain. "Oil exporters" are Algeria, Azerbaijan, Iran, Kazakhstan, Kuwait, Nigeria, Oman, Qatar, Russia, Saudi Arabia, United Arab Emirates, and Venezuela.

# Risks:
# Narrower Margins, Larger Stakes

# Risks to the Outlook

## Downside

- Persistent conflicts and cyberthreats
- Extreme weather events and El Niño
- Reassessment of AI-related expectations
- Financial market stress and fiscal vulnerabilities
- Renewed trade tensions

## Upside

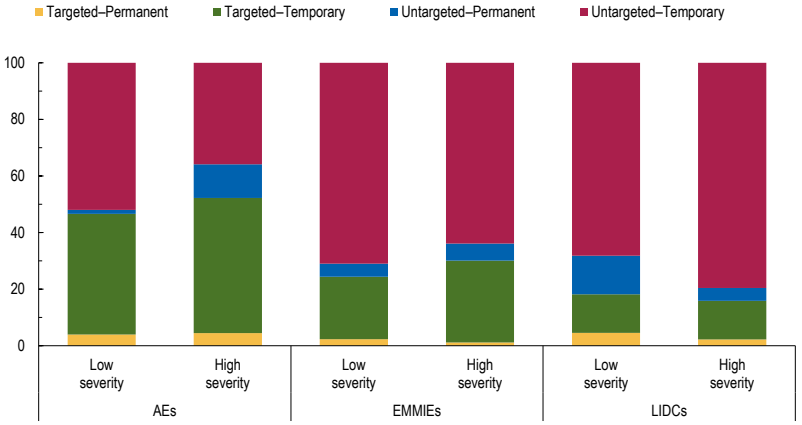
- Continued momentum in the technology cycle
- Faster than anticipated productivity gains from AI
- Reconfiguration of the international trading system
- More resilient energy supply and an accelerated energy transition

# Policies:
# Agility Under Constraint

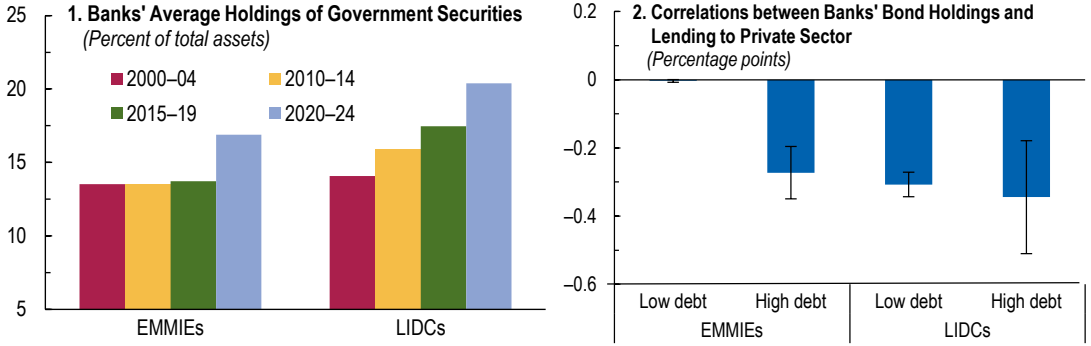
# Fiscal Policy

## Duration and Targeting of Fiscal and Price-Based Policy Responses

*(Percent)*




## Sovereign-Bank Nexus in Emerging Market and Developing Economies




Sources: Fitch Connect; and IMF staff calculations.
Note: In the top panel, bars show fiscal and price-based policy responses to the war in the Middle East between February 2026 and June 9, 2026, based on the IMF Global Policy Tracker. "Fiscal policy responses" include measures affecting government spending, taxation, and below-the-line operations. "High-" and "low-severity" groups are defined based on the severity of the domestic fuel price shock within each income group, measured by the average increase in gasoline and diesel prices during March–July relative to January 2026. In the bottom panels, the right figure reports coefficients from bank-level regressions of the bond-holdings-to-assets ratio on the loans-to-assets ratio. Regressions control for a set of bank- and country-level variables, as well as country, year, and bank fixed effects. High- and low-debt countries are defined based on whether government debt to GDP is above or below the 75th percentile of the sample distribution within each country group. Bars denote point estimates; whiskers denote 90 percent confidence intervals. AEs = advanced economies; EMMIEs = emerging market and middle-income economies; LIDCs = low-income developing countries..

## Rebuilding Fiscal Buffers

- A renewed focus on rebuilding fiscal space is urgent
- Credible consolidation should rely on durable revenue measures, greater spending efficiency, and stronger fiscal institutions
- Economies benefiting from commodity windfalls or the technology upturn should resist procyclical spending pressures
- Fiscal support should be temporary, targeted and consistent with macro policy mix

# Monetary, Financial, Structural, and International Policies

## Preserving Price and Financial Stability

- Calibrate response
  - Energy importer or exporter
  - Linked to tech upturn or not
  - Inflation above or below target at conflict onset
- Look through temporary energy-price shocks only if second-round effects remain contained
- Tighten if broader price pressures emerge
- Communicate clearly
- Maintain orderly adjustment in financial markets
- Intensify monitoring

## Increasing Flexibility and Capacity

- Enhance business dynamism
- Accelerate adoption of renewable and energy-efficient technologies
- Foster digital transformation by investing in skills and infrastructure
- Correct domestic imbalances

## Agreeing on International Economic Rules

- Transparent, predictable, mutually beneficial trade policy frameworks
- International cooperation to manage spillovers, including commodity market pressures, refugee flows, and debt vulnerabilities

RESEARCH

# Resilience Under Strain, Urgent Choices

## WORLD ECONOMIC OUTLOOK
## OCTOBER 2026

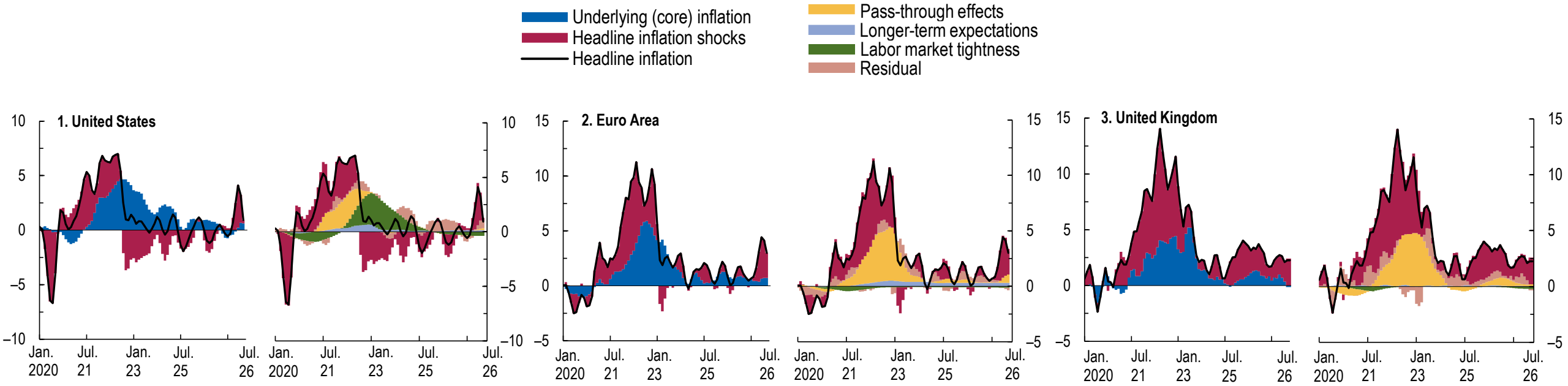
Available for download at IMF.ORG

# Extra Slides

# Core Disinflation Stopped

## Decomposition of Inflation Drivers

*(Percentage points; three-month annualized inflation; deviation from December 2019)*



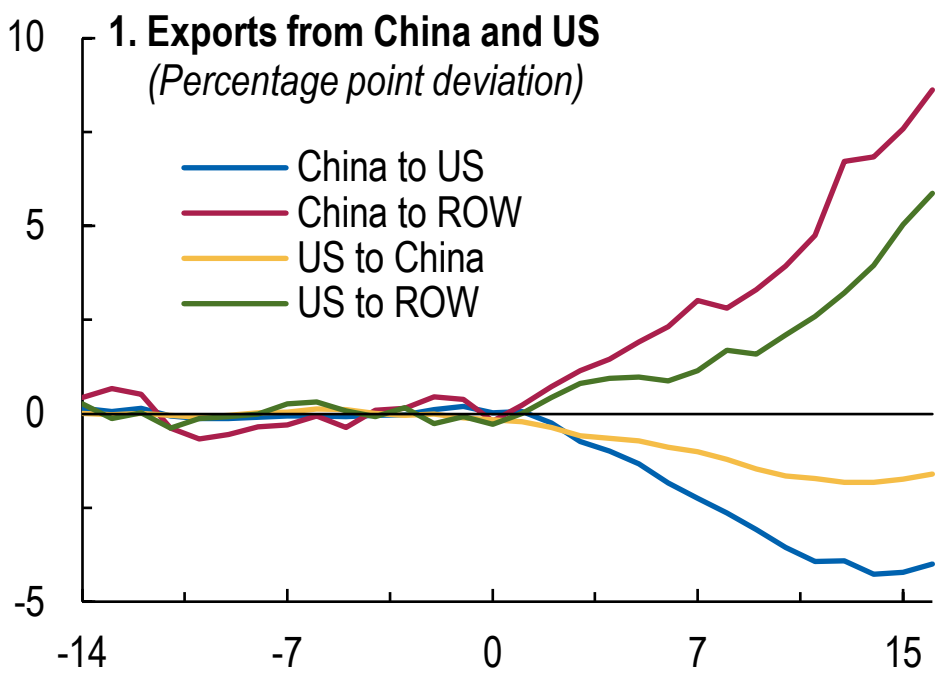

Source: IMF staff calculations.

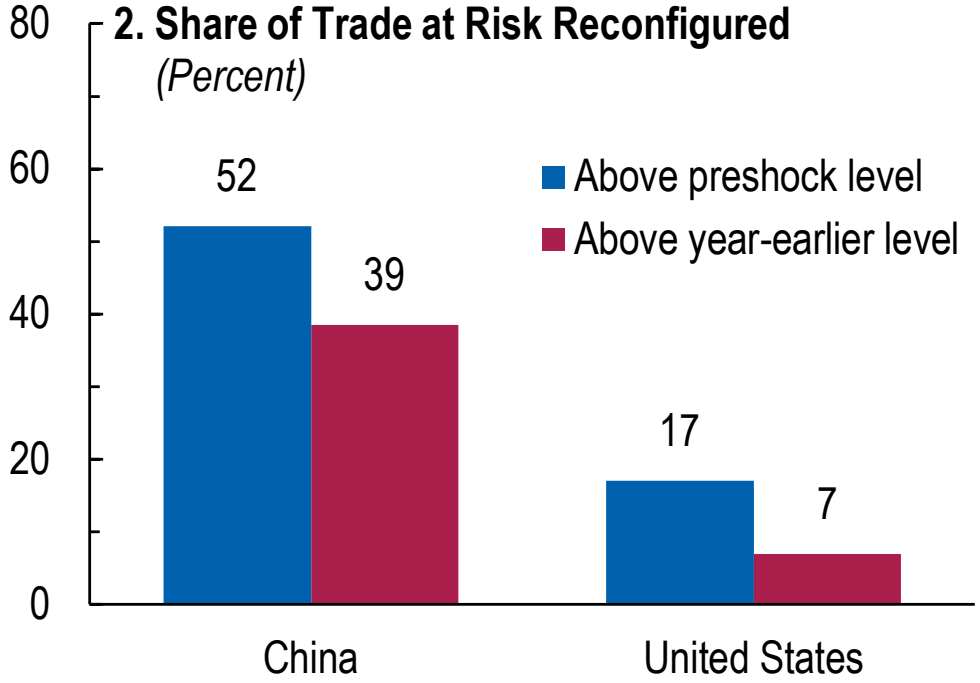
Note: "Underlying (core) inflation" denotes weighted median inflation. "Headline inflation shocks" reflect large relative price changes across industries. "Pass-through effects" measure the transmission of those shocks to core inflation. "Labor market tightness" captures the contribution of the vacancy-to-unemployment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

# Where Did Displaced Trade Go?
# Evidence on Trade Reconfiguration and Export Resilience

# Trade Reconfiguration

## Export Reconfiguration

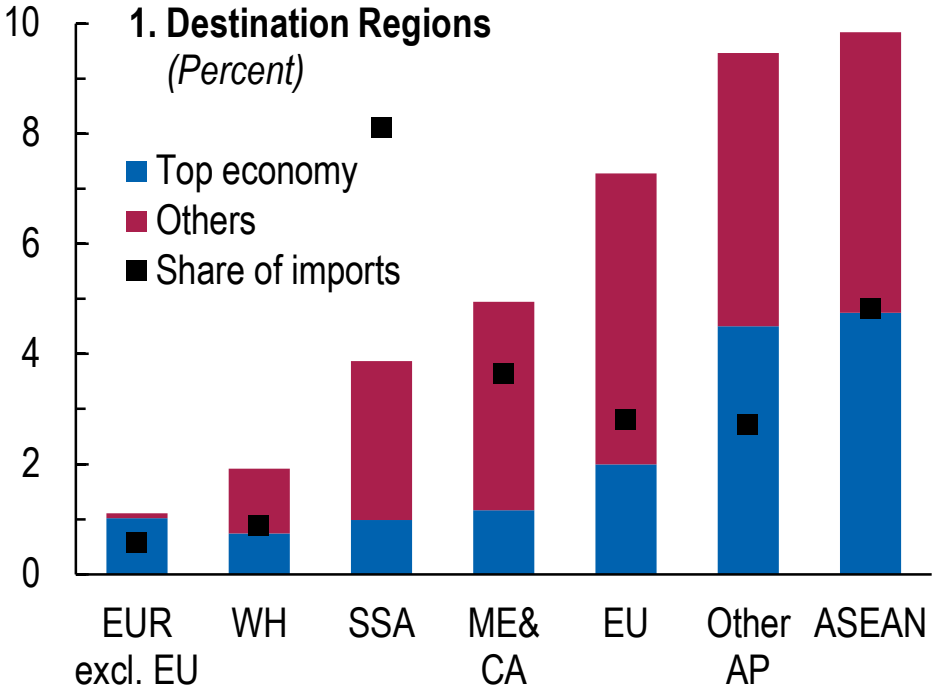


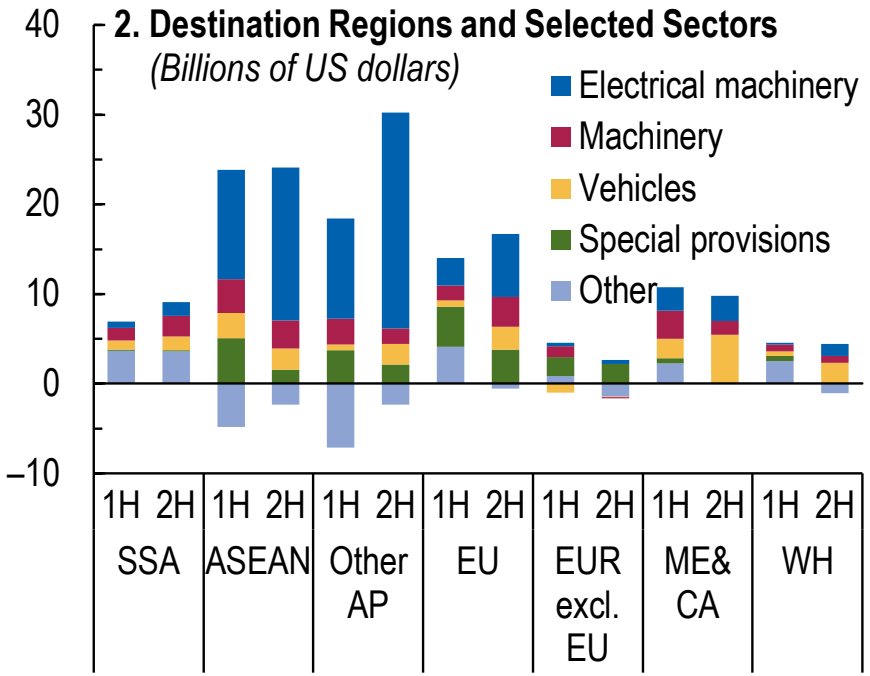




Sources: Ruta and Sztajerowska, forthcoming; Trade Data Monitor; and IMF staff calculations.
Note: In panel 1, lines show total exports, excluding nonmonetary gold, relative to a linear pretariff trend estimated over the 14 months through January 2025 and extrapolated thereafter, using 12-month rolling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

# Trade Reconfiguration by Destination and Sector

## Trade Reconfiguration by Destination Regions and Selected Sectors



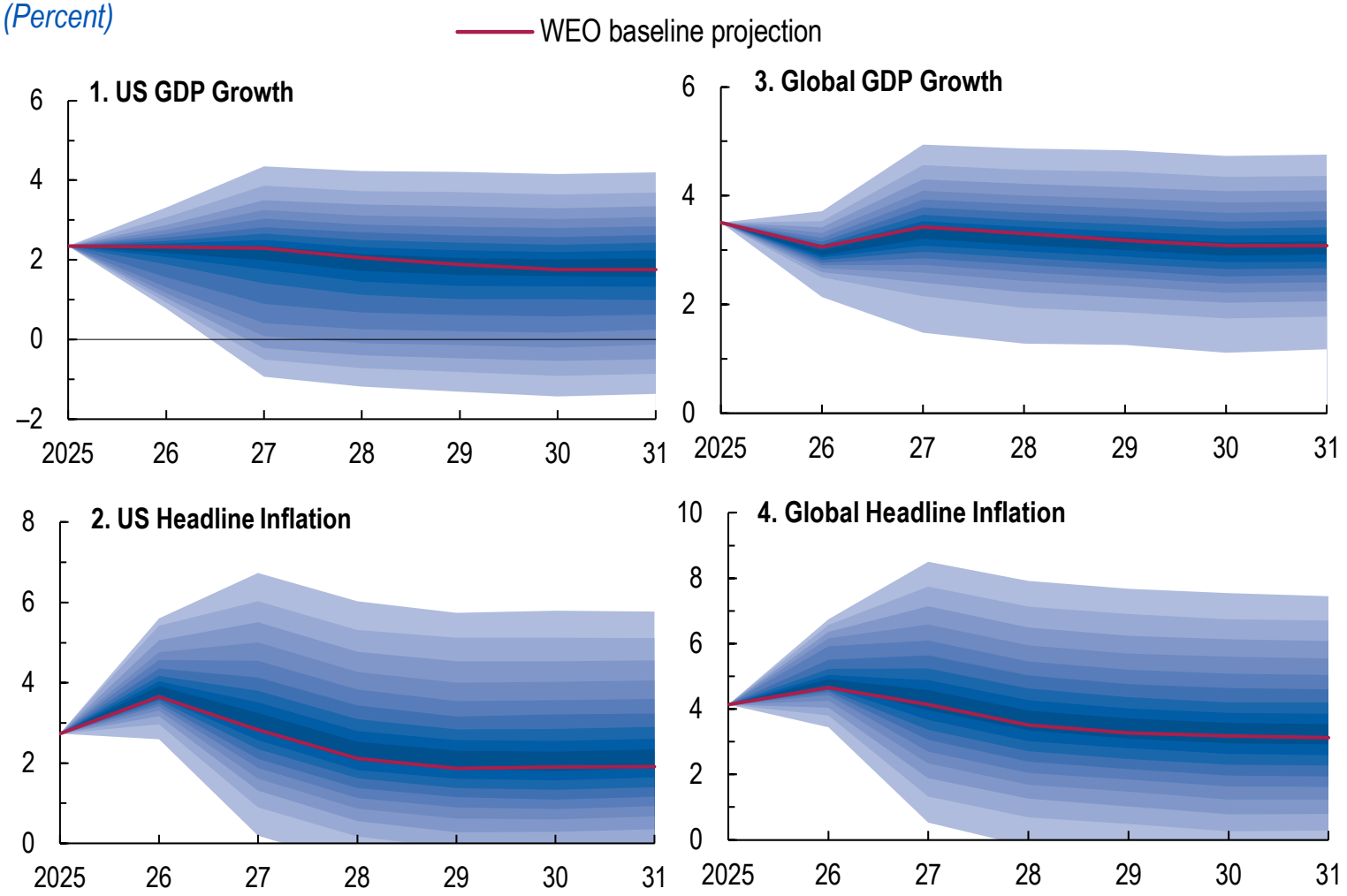

Sources: Ruta and Sztajerowska, forthcoming; Trade Data Monitor; and IMF staff calculations.
Note: Panel 1 shows each region's contribution to total trade reconfiguration; blue bars denote the contribution of the largest recipient economy within each region. Sqaures show each region's trade reconfiguration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

# Risk Assessment Surrounding the Baseline Projection

# Confidence Bands

## Forecast Uncertainty around Global Growth and Inflation Projections

*(Percent)*




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

# Commodity and Bond Markets: A Clear and Present Danger

**Alternative downside scenario:**

- The war in the Middle East last longer than assumed in the baseline
- Long-term yields increase because of higher term premiums and modest de-anchoring of inflation

**Outlook in the Commodity and Bond Market Scenario**
*(Percentage point deviation from baseline)*

| | Impact on GDP growth | | | | | | Impact on Headline Inflation | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2026 | | | 2027 | | | 2026 | | | 2027 | | |
| | Conflict | Term premium | Total | Conflict | Term premium | Total | Conflict | Term premium | Total | Conflict | Term premium | Total |
| World | -0.2 | -0.1 | -0.2 | -0.4 | -0.2 | -0.5 | 0.4 | 0.0 | 0.4 | 1.0 | 0.1 | 1.1 |
| AEs | -0.1 | -0.1 | -0.2 | -0.3 | -0.2 | -0.5 | 0.4 | 0.1 | 0.5 | 1.1 | 0.1 | 1.2 |
| EMDEs | -0.2 | 0.0 | -0.3 | -0.5 | -0.1 | -0.6 | 0.4 | 0.0 | 0.4 | 1.0 | 0.0 | 1.0 |

Source: IMF staff estimates.
Note: AEs = advanced economies; EMDEs = emerging market and developing economies.

# Artificial Intelligence: Two-Sided Risks

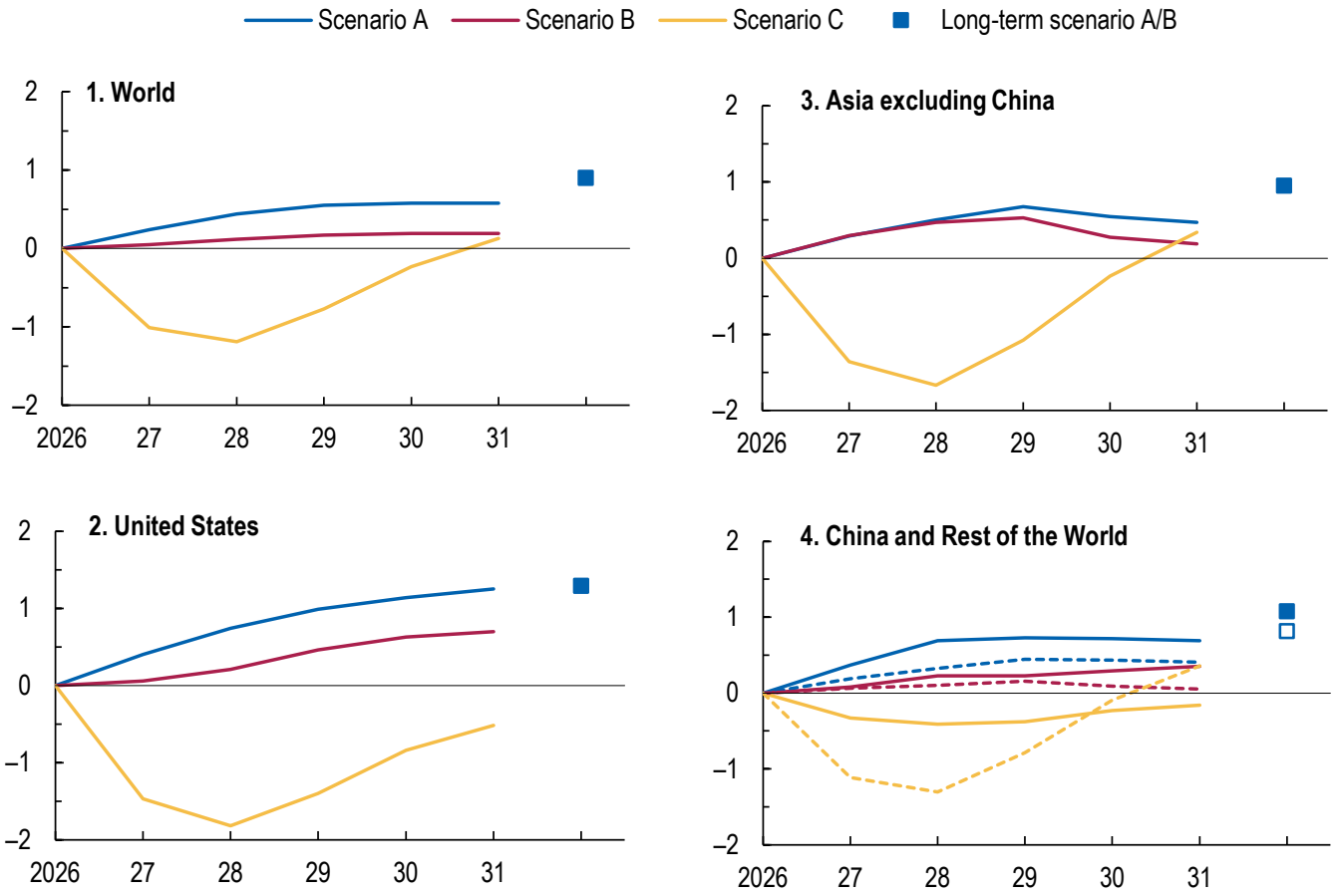
**Scenario A: Strong Payoffs**
- Larger AI build-out than expected, with large effect on US investment
- Higher and faster adoption and productivity gains from AI

**Scenario B: Capacity Constraints**
- AI build-out affected by supply constraints
- Slower adoption of AI, but still strong near-term demand through wealth effects, with larger inflation pressures

**Scenario C: Market Correction**
- AI productivity gains do not materialize
- Market correction
- Increases in term premium

## Impact of Scenarios on the Level of GDP

*(Percent deviation from baseline)*




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

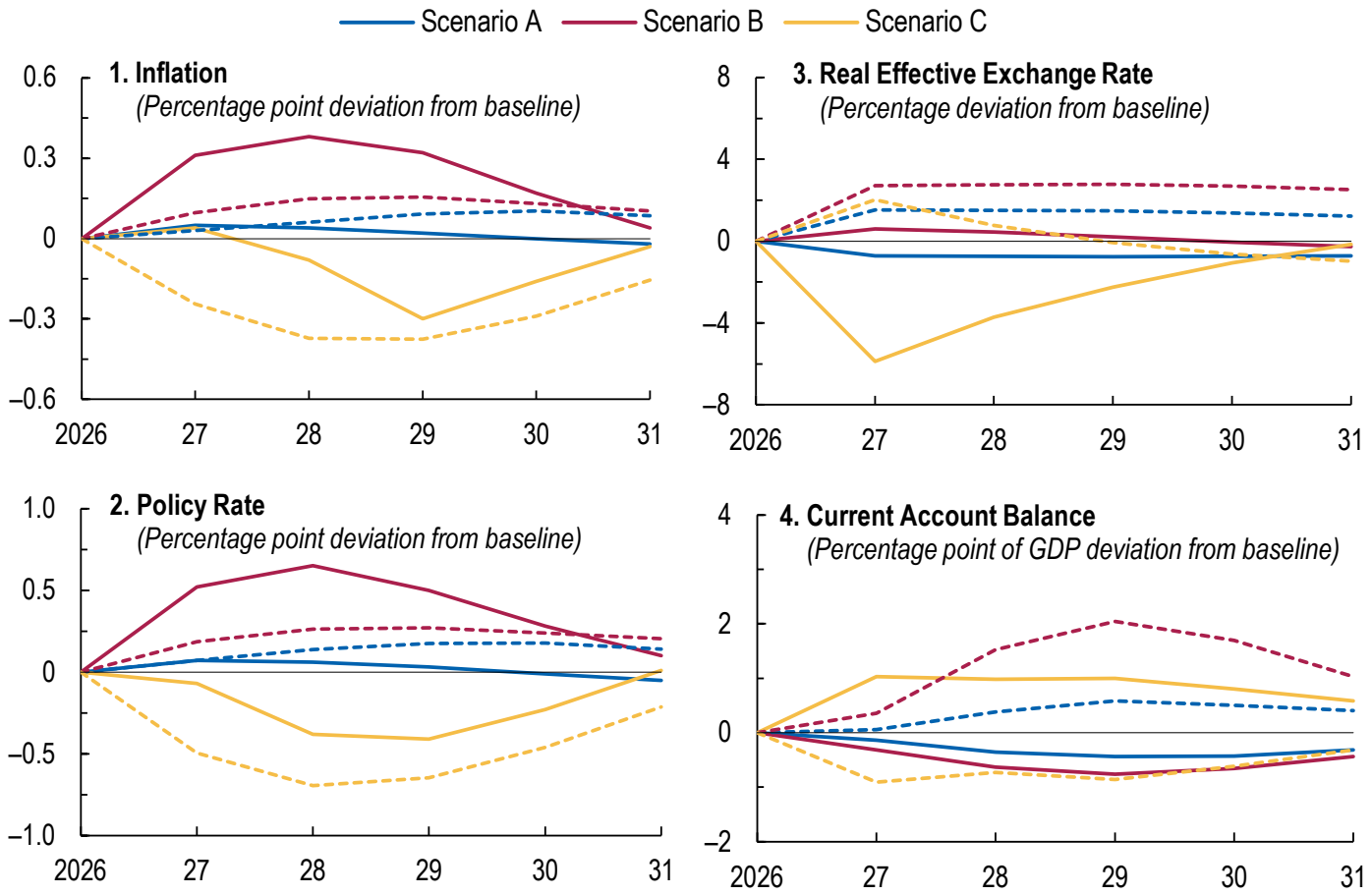
# Three scenarios

**Scenario A: Strong Payoffs**
- Larger AI build-out than expected, with large effect on US investment
- Higher and faster adoption and productivity gains from AI

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**Scenario C: Market Correction**
- AI productivity gains do not materialize
- Market correction
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## Impact of Scenarios on the Other Key Macroeconomic Variables

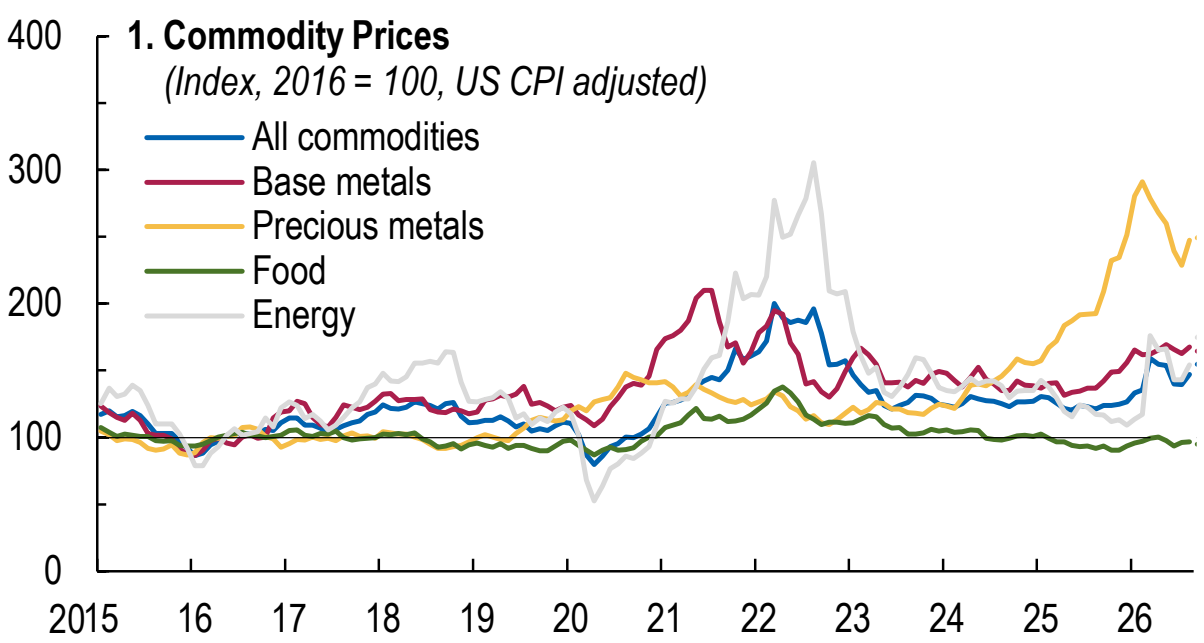


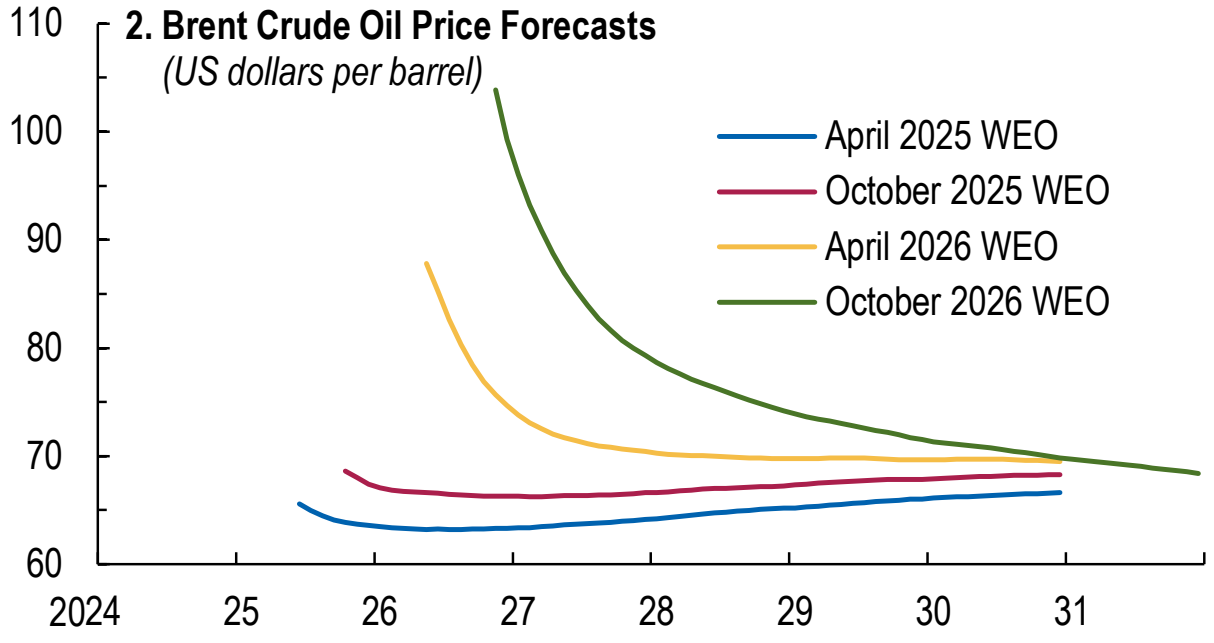

Source: IMF staff estimates.
Note: In all panels, solid lines represent the United States. In panels 1 and 2, dashed lines represent the rest of the world excluding the United States; in panels 3 and 4, they represent Asia excluding China.

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

# Commodity Special Feature (1)

## Commodity Market Developments

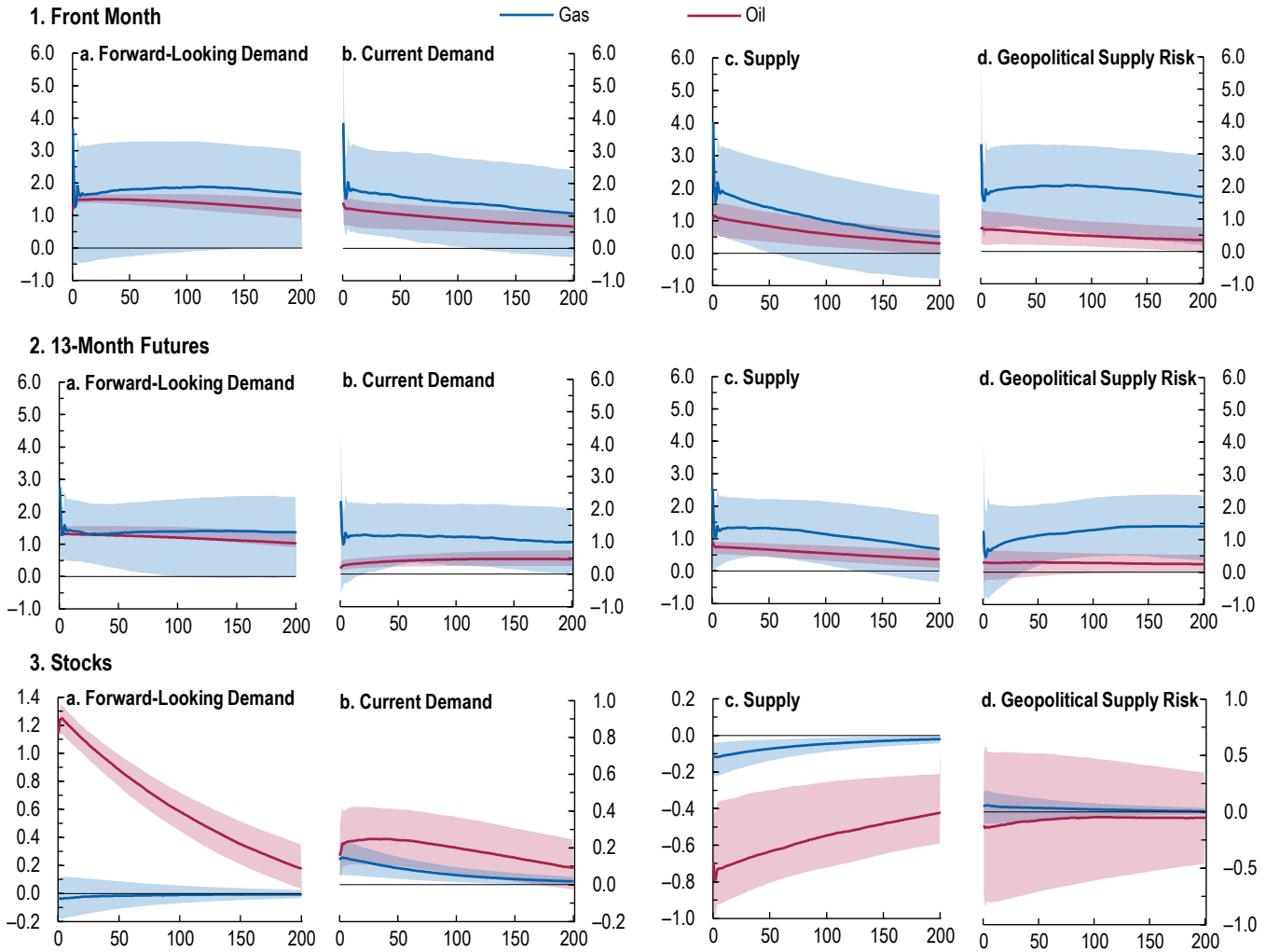



Sources: Bloomberg Finance L.P.; Haver Analytics; IMF, Primary Commodity Price System; International Energy Agency; and IMF staff calculations.
Note: In panel 2, expiration dates are on the *x*-axis. CPI = consumer price index. *WEO* = *World Economic Outlook*.

# Commodity Special Feature (2)

## Commodity Market Developments

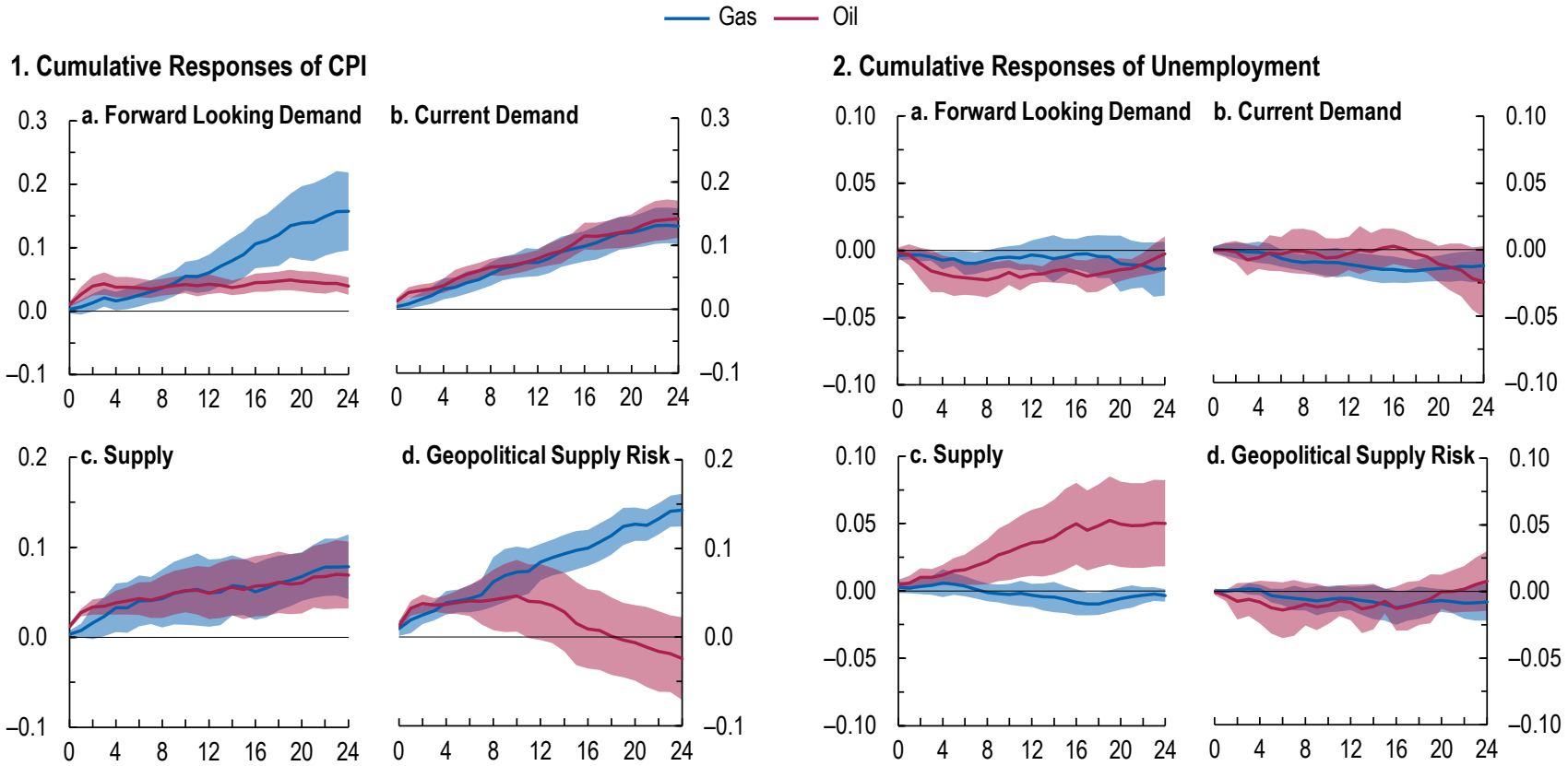



Sources: Bloomberg Finance L.P; Caldara and Iacoviello 2022; MSCI; and IMF staff calculations.
Notes: In rows, endogenous variables in VAR: "Front-month," "13-Month futures," and "Stocks". In columns, structural shocks identified from VAR: "Forward-Looking demand," "Current Demand," "Supply," "Geopolitical Supply Risk". All responses are expressed as percent deviations from a no-shock baseline. "Front-month" ("13-Month Futures") refers to the price of futures contracts for the nearest available maturity (13 months ahead); "Stocks" refers to the MSCI Global (Europe) Index in the oil (natural gas) analysis. Each shock is normalized to one standard deviation. Solid lines represent median responses, and shaded areas denote 68 percent confidence intervals. Red corresponds to oil (Brent), and blue corresponds to natural gas (Title Transfer Facility). Sample coverage: June 1, 2007, to May 29, 2026, for oil; October 4, 2013, to May 29, 2026, for natural gas, with daily frequency. VAR = Vector autoregression.

# Commodity Special Feature (3)

## Local Projections of Oil and Gas Shocks on the Consumer Price Index and Unemployment

*(Percent change; monthly horizon on the x-axis)*



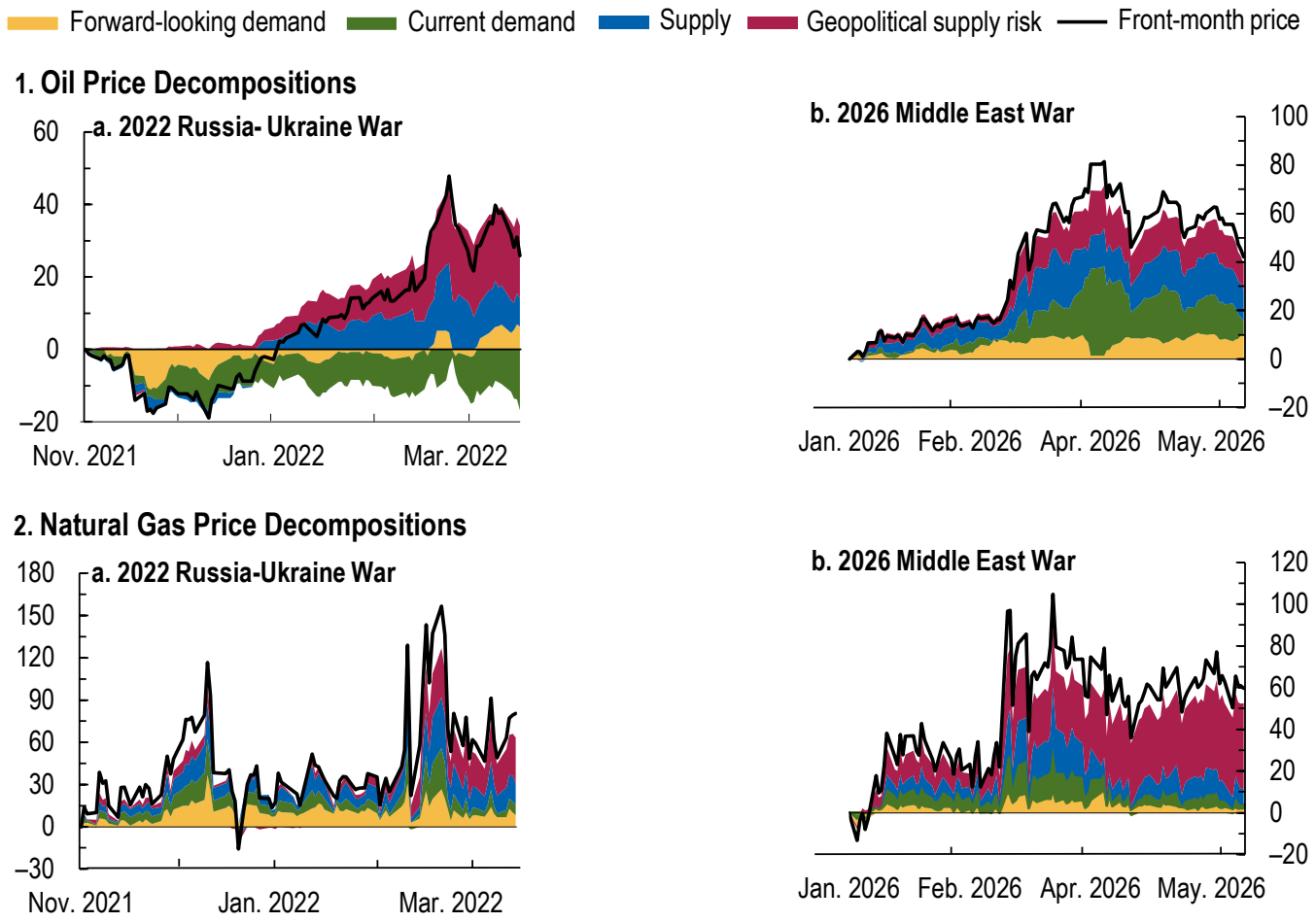

Sources: Haver Analytics; and IMF staff calculations.

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

# Commodity Special Feature (4)

## Front-Month Price Decompositions around Selected Episodes

*(Percent change from value at beginning of period)*




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

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