Global economic growth

'Worrying omens' stalk global economy despite resilient growth

Research for the FT shows major economies are withstanding the Iran shock but concerns about rising public debt will loom over IMF and World Bank meetings



The annual meetings of the IMF and World Bank will take place in Bangkok from October 12-18 © Athit Perawongmetha/Reuters

Sam Fleming and **Emily Herbert** in London

Published OCT 12 2026

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Major economies are defying the Middle East energy shock as surging AI spending helps sustain growth, according to research for the FT, but turmoil in sovereign debt markets will loom over this week's IMF and World Bank meetings.

Real activity in economies, including the US, China and India, is continuing to withstand high fuel prices, with indicators pointing to firm growth in output this year, according to the latest Brookings-FT Tracking Indexes for the Global Economic Recovery, or Tiger.

However, "worrying omens" lurk behind the surprisingly robust GDP indicators, the analysis found, given persistent inflationary pressures and rising public debt.

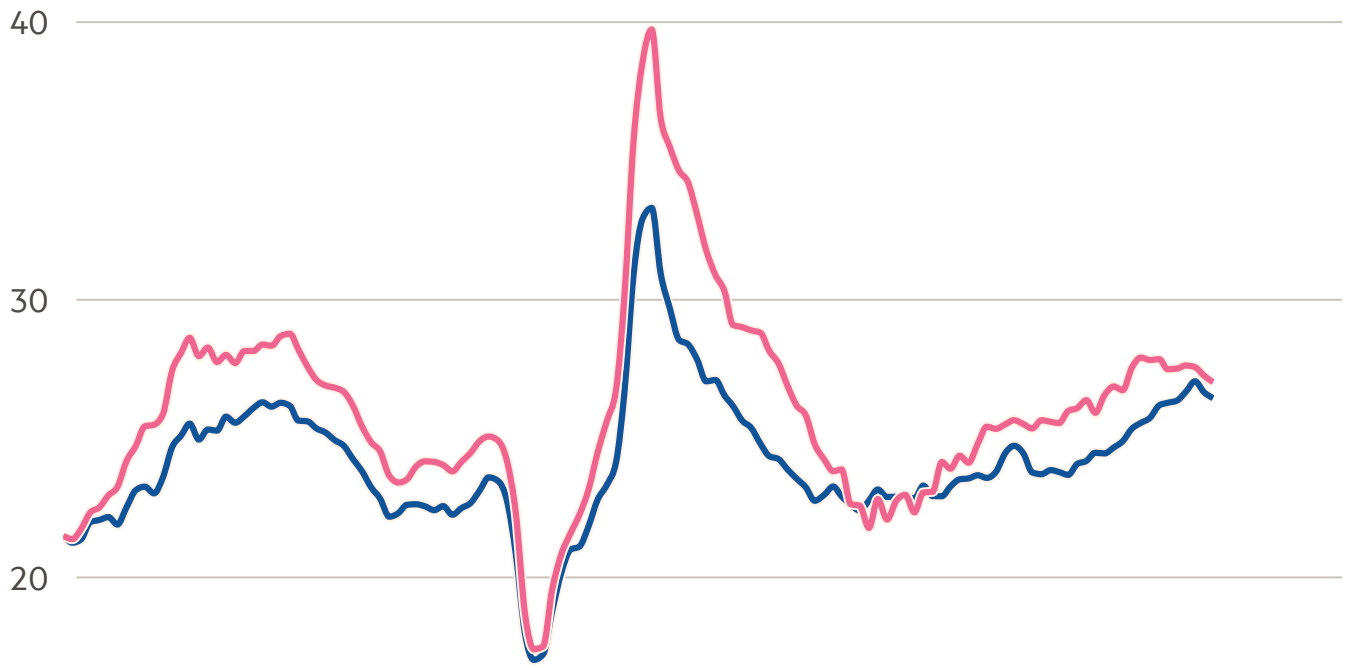
The findings come ahead of the annual meetings of the IMF and World Bank in Bangkok this week, where finance ministers and central bankers are likely to debate mounting concerns about sovereign debt stresses and AI-related hazards.

"The world economy has shaken off a series of setbacks and appears set for a year of solid growth," said Eswar Prasad, a professor at Cornell University and senior fellow at the Brookings Institution.

"The key challenge that policymakers around the world face is their shrinking room for manoeuvre as persistently high inflation and fiscal profligacy result in elevated yields on government debt securities, with both factors dampening private demand."

The global economy has largely held up despite AI fears and the Iran war

Composite index of the relative strength of a number of indicators



Spikes in oil prices above $100 a barrel in the months after the US-led attacks on Iran in February have reignited inflation in leading economies, but the drawdown of reserves has so far helped cushion businesses and households from the worst effects.

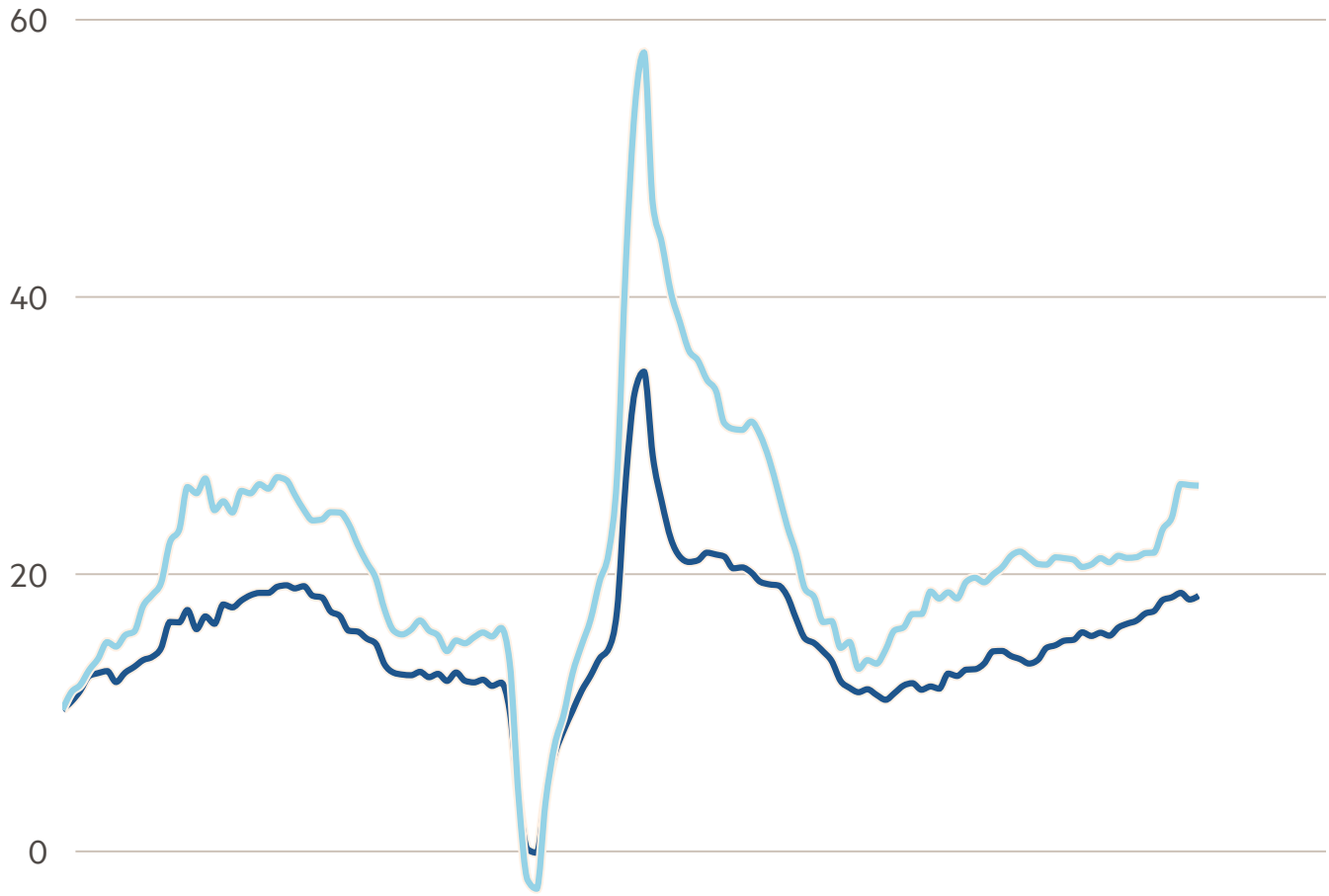
The economic expansion is being sustained by the US and its booming IT sector. In Europe, German growth has been firmer than expected because of the government's debt-fuelled infrastructure and military spending, while France is languishing amid debt sustainability concerns.

The IMF will on Tuesday update global growth forecasts that in July pointed to a global expansion of at least 3 per cent this year and next year, down modestly from 3.5 per cent in 2025.

India stands out among emerging economies with the central bank predicting growth of 7.1 per cent for the fiscal year, while China remains heavily reliant on external demand as growth in household spending sputters.

Emerging markets activity has climber higher this year

Real activity index of the relative strength of a number of indicators



However, poorer economies which are net importers of oil and gas are badly exposed to the impact of the energy shock — and even in the US surging petrol prices are intensifying political pressure on the Republicans ahead of the midterm elections next month.

US President Donald Trump sparked a backlash from Ukraine on Friday when he announced a deal with President Vladimir Putin for Russia to release diesel to the world.

On top of high fuel prices comes mounting anxiety about the sustainability of sovereign debt burdens in major economies — especially the US, Japan, the UK and parts of the EU, particularly France.

A brutal sell-off in global government bonds this year has sent borrowing costs soaring to multi-decade highs, as high energy prices and resilient economic growth have forced central banks to dump plans to cut interest rates and instead embark on a series of rate increases.

The sell-off, which gathered speed in September in what traders described as a "vicious loop" of selling, is putting pressure on government budgets by pushing interest costs higher.

The US's benchmark 10-year borrowing costs touched their highest level since 2002 last week, as did France's. UK borrowing costs were at their highest level since 2007 while Japanese yields are trading around their highest level this century. Bond yields rise when prices fall.

"Constraints on monetary and fiscal policies leave governments with little choice but to push forward with structural reforms to labour, product and financial markets that could help unleash productivity growth, which is the only viable path to fiscal sustainability," added Prasad.

Data visualisation by Maxine Kelly

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