A Global Economic Recovery Built on Shaky Foundations

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ITHACA—Despite heightened policy and geopolitical volatility, global growth has stabilized, with both advanced and emerging-market economies showing positive momentum. The October 2026 update of the Brookings-FT TIGER (Tracking Indexes for the Global Economic Recovery) reveals a world economy that, after a series of setbacks, looks set for a year of solid growth.



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But lurking in the background are potentially explosive issues, including trade and geopolitical tensions that show no signs of easing, persistent inflationary pressures, and rising public-debt levels in advanced economies. The latter two are already roiling France and threaten to do the same elsewhere.

In contrast to the promising growth trajectories of both developed and developing economies, equity markets have diverged, weakening in key emerging economies while performing surprisingly well in many advanced economies. Much hope seems to rest on surging investment in AI, which many expect will fuel a productivity boom that bolsters growth, eases concerns about debt sustainability, boosts corporate earnings, and justifies equity-market valuations. But the effects of an upsurge in productivity on net employment and labor income remain unclear, which might explain the recent divergence between business optimism and weaker household confidence in some advanced economies.

Despite soaring energy prices and the higher borrowing rates implied by rising bond yields, the United States continues to drive global growth. Inflation remains stuck above the Federal Reserve's target, but long-term inflation expectations are well anchored around it, even as widening budget deficits and mounting federal debt raise concerns about the country's fiscal trajectory. Business investment, driven by AI-related capital expenditures, has continued to expand, as has household consumption, despite signs of a softening labor market. With inflation edging down and slower job growth easing wage pressures, the Fed is less constrained by its price-stability mandate ahead of November's midterm elections, barring further energy shocks.

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Meanwhile, the eurozone remains beset by economic and political malaise. High energy costs and surging Chinese exports have restrained manufacturing growth in its core economies, even as some of the smaller, peripheral economies are performing better. Rising budget deficits and public-debt levels, lagging competitiveness, reduced innovation, and vulnerability to energy and other supply disruptions have further undermined the region's growth prospects, with the threat of populist parties gaining power only adding to the turmoil.

The other advanced economies are a mixed bag. The United Kingdom remains mired in low growth, partly owing to political instability and a fiscal squeeze, with industrial production declining and unemployment ticking up to 2021 levels. Japan has turned the corner from a long period of stagnation and deflation, with inflation hovering near 2% and GDP growth positive but weak. Even so, Japan's high public-debt levels, shrinking labor force, and weak productivity growth have battered the yen's value amid concerns about longer-term fiscal sustainability and an absence of growth drivers. A trade war with the US has hit Canada hard, and Prime Minister Mark Carney is seeking closer trade tries with other countries—like other long-standing American allies that want to reduce their dependence on the US.

The Chinese economy continues to grow in an unbalanced manner, with output expanding at a slower rate than in 2025 but still outstripping domestic demand, as consumer confidence remains depressed and nominal retail sales lag. As trade tensions with the US ease, and in the absence of pushback from other partners, China will likely continue to rely on exports to power growth. The government's recently announced infrastructure plan will lift public-sector investment and may accelerate the technological upgrading of China's manufacturing sector. But there has been little urgency to boost household consumption or undertake reforms that would help rebalance growth.

India stands out as a bright spot globally, with its economy firing on all cylinders. High oil prices, a weakening rupee, and falling stock prices could take some of the shine off, but structural and fiscal reforms seem to be making the economy more resilient to an unfavorable external environment. Strong growth in industrial production, household consumption, and exports contributed to real GDP growth of nearly 8% in the first half of 2026.

Indonesia and (to a lesser extent) Brazil are experiencing robust GDP growth, although political instability remains a risk in both countries. Argentina is noteworthy for lowering inflation and boosting growth through a combination of fiscal contraction (as required to move from an overall budget deficit to a small surplus) and market-oriented reforms. Despite high oil prices, Russia's economy is still on its knees, owing to Western financial sanctions and the costs of its war with Ukraine.

As persistent inflation and fiscal profligacy increase yields on government debt (and dampen private demand), policymakers' room for maneuver is shrinking. Constraints on monetary and fiscal policies leave governments with little choice but to push forward with structural reforms aimed at transforming labor, product, and financial markets, because unleashing productivity growth is the only viable path to fiscal sustainability and long-run prosperity.

ESWAR PRASAD

Eswar Prasad, Professor of Economics at Cornell University and a senior fellow at the Brookings Institution, is the author of *The Doom Loop: Why the World Economic Order Is Spiraling into Disorder* (Hurst & Company, 2026).

THOMAS RIVEROS

Thomas Riveros is an undergraduate at Cornell University.
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