mastercard economics institute

# Economic Outlook 2026

## An adaptive economy: tariffs, technology, transformation

ECONOMIC OUTLOOK
DECEMBER 2025

# Contents

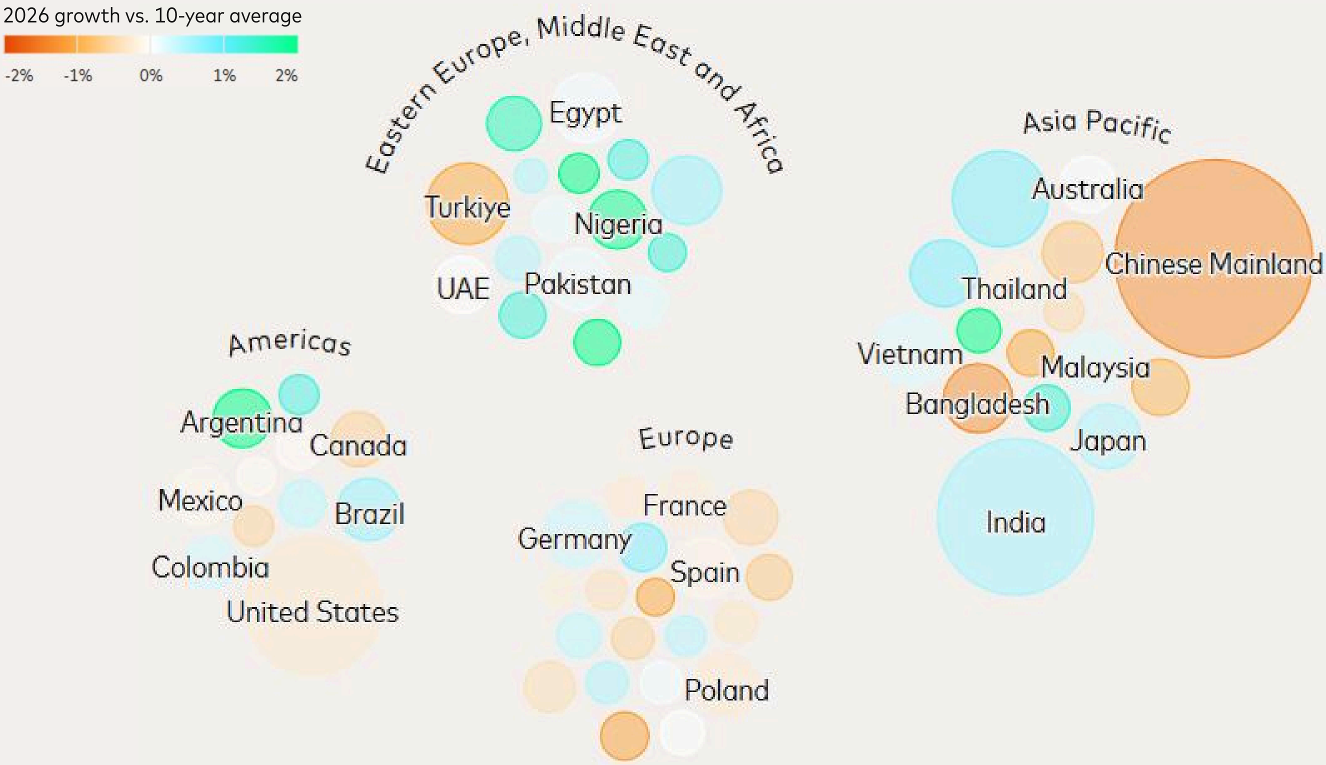
# Introduction

In 2026, the policy changes that grabbed headlines in 2025 will exert their force on economies around the world. While deepening global fragmentation presents challenges, increasing AI adoption presents opportunities. Over the next year, the data will unveil how the global economy has adapted to these accelerating forces.

- The Mastercard Economics Institute (MEI) expects global real GDP growth to moderate to 3.1% in 2026 from an expected 3.2% in 2025; the global expansion is set to continue, underpinned by technological adaptation and flexible economies. MEI expects moderately stronger growth in the US but a deceleration in the Chinese Mainland and across Latin America with Europe continuing to reveal a bifurcated story, this time along the lines of fiscal policy.
- On the inflation front, MEI expects an easing of global inflation to 3.4% in 2026 from the expected 3.9% in 2025. The critical factor remains tariffs, with the US navigating upward price pressures while other economies will experience lower inflation due to a shift in Chinese imports, lower commodity prices and currency shifts.
- The global consumer will remain savvy, focusing on international, tech-enabled and value-conscious spending. MEI expects consumers to prioritize "meaningful moments" such as travel and live events while remaining price sensitive for many necessary goods.

There are risks in both directions. The global economy will need to continue to adapt supply chains and production, creating challenges for some and opportunities for others. Meanwhile, technological advancement — especially in AI — could boost productivity and growth, but the benefits are likely to be unevenly distributed. Advanced economies and sectors with high digital readiness may reap disproportionate gains, while other markets risk falling short, creating new policy challenges. In today's rapidly evolving world, staying alert to the data to catch real-time shifts has never been more crucial, which we showcase throughout this report.

## Global growth: real GDP growth across major economies




Note: Size of each bubble represents contribution to world GDP, PPP*, color of the bubble signifies relative growth per country.
*PPP refers to Purchasing Power Parity, a method of converting currencies that equalizes the purchasing power of different currencies by eliminating differences in price levels between countries. Under PPP, GDP is expressed in international dollars.
Source: Oxford Economics, Mastercard Economics Institute

# The new rules for trade

## Tariffs realign trade relationships

In 2025, a wave of tariff announcements reshaped global trade. Amid policy uncertainty, multinational firms quickly reconfigured supply chains, diversified sourcing and reallocated investment. The trade architecture proved flexible and resilient, though the repercussions of rapid changes in trade policies rippled across the global economy.

Looking ahead to 2026, MEI expects that this reorganization of global trade will continue to reshape trade flows, inflation dynamics and consumer spending. At the center of these changes is the Chinese Mainland, the world's largest exporter and a dominant force in global e-commerce. Chinese e-commerce firms have rapidly expanded into international markets in recent years, more than doubling their market share in overall e-commerce beyond the Chinese Mainland since 2019. Because they connect consumers more directly with Chinese manufacturers, these marketplaces can offer relatively lower prices.

However, when the U.S. raised tariffs on Chinese imports in the spring and removed the de minimis exemption – which had allowed parcels under $800 to enter duty-free without formal customs procedures - it removed a key advantage for Chinese e-commerce retailers, causing a notable reduction in Chinese exports to the U.S.

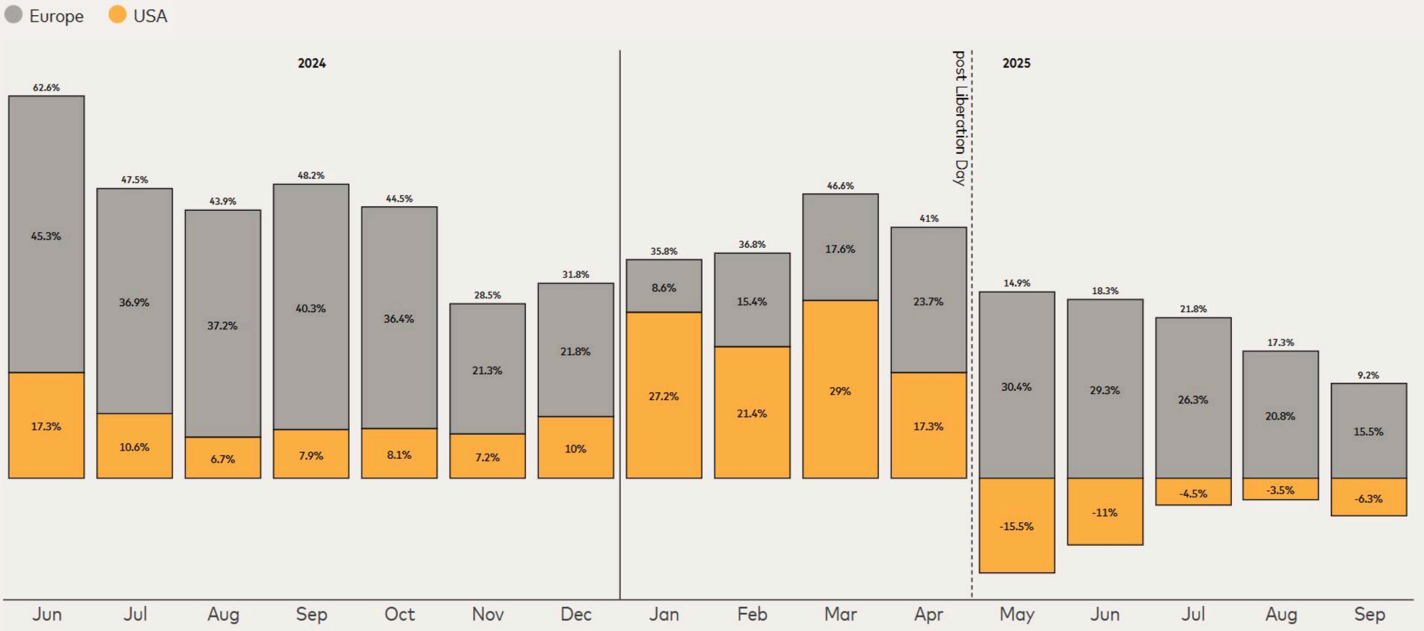
To capture this shift, MEI used aggregated and anonymized transaction data to measure the share of spending at Chinese e-commerce merchants across major economies. MEI observed that in 2024 the U.S. was the largest market for Chinese e-commerce merchants, accounting for 28% of global sales. U.S. spending on Chinese e-commerce sites rose by an annual average of 35% in 2024. However, as trade tensions escalated in 2025, after a brief rise in purchases — likely driven by pre-tariff purchases — consumer spending declined year over year from May onward. By August, the U.S. share of Chinese merchant sales had dropped to 24%, signaling a notable shift in trade flows and consumer behavior. As U.S. tariffs have dampened the volume of Chinese exports to America, other economies have increased their engagement with Chinese suppliers. In particular, MEI found an observable increase in the share of Chinese e-commerce spending in Europe.

The removal of the de minimis exemption appears to be a key factor driving this diversification, particularly for Chinese e-commerce. As evidence, Mastercard's aggregated and anonymized transaction data show that before May 2025, just over 5.0% of the sub-$800 purchases in the US were from major Asia-based marketplaces; the share peaked at around 6.2% in mid-2024. After the exemption was removed, the share fell below 3.5%, the lowest point in the series, only party recovering to nearly 4.0% as of September 2025. This sharp and sustained decline underscores how rapidly tariff policy changes can reshape cross-border trade flows.

This reorganization of trade flows has macroeconomic consequences. Goods from the Chinese Mainland are fueling disinflation in countries that have ramped up imports from mainland China, while the U.S. faces inflationary pressures due to costlier sourcing alternatives. MEI believes these trends will persist in 2026 and potentially deepen. By strengthening ties with emerging markets, the Chinese Mainland may be reinforcing its role as a key global supplier. Overall, the shift in trade relationships is likely to impact inflation outcomes, consumer behavior and monetary policy across regions in 2026, marking a pivotal moment in the post-globalization era.

## Cross-border e-commerce with the Chinese Mainland, in the U.S. vs. Europe

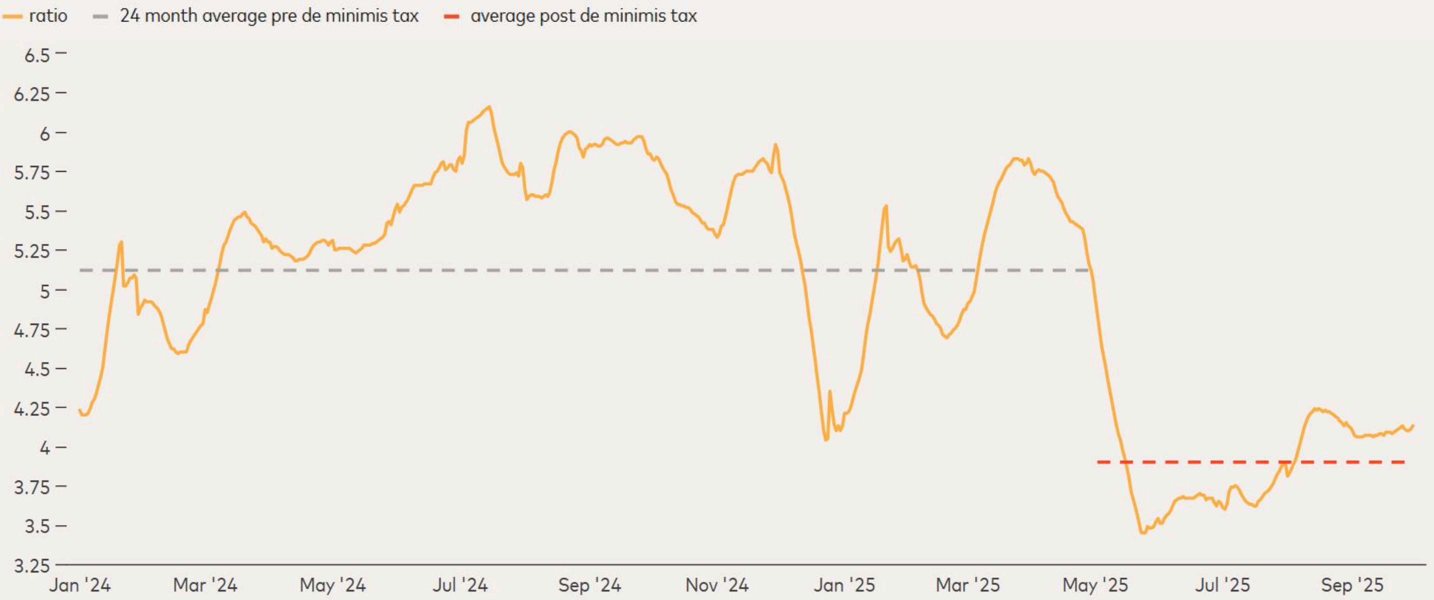
Percentage YoY change in cross-border e-commerce




Source: Mastercard Economics Institute

## End of de minimis exemption led to reduction in share of small purchases at Asian marketplaces by U.S. buyers

Share of small purchases (under $800) on U.S. issued cards at major Asian marketplaces (% 28 day m.a.)




Source: Mastercard Economics Institute

# AI and fiscal tailwinds

## AI adoption and fiscal expansion will be tailwinds for many economies

Two important secular tailwinds will hit the global economy in 2026: digital transformation, particularly due to the adoption of AI, and fiscal expansion.

Businesses have rapidly progressed from experimenting with AI to integrating it into their processes, investing significantly in the infrastructure needed to support its development. In the U.S., investment in information processing equipment grew by more than 20% year over year in the first half of 2025, driven by strong corporate demand and favorable tax treatments. Similarly, the share of tech-related construction (such as data centers and computer, electronic and electrical manufacturing units) in total non-residential construction has increased from an average of 2.3% between 2010 and 2019 to an average of 20.2% since 2024.[1] With new incentives — including full first-year depreciation for manufacturers — set to take effect in 2026, capital expenditure is expected to remain elevated.

To capture AI adoption across the globe, MEI has created the "MEI AI Enthusiasm Index", which is an aggregate of the country's global share of AI spend, AI's share of total software spending and per capita spend on AI tools in key countries. Leveraging Mastercard's aggregated and anonymized transaction data, MEI identified a significant number of companies in the generative AI space — spanning model providers, chatbots, transcription tools, image and video generators, industry-specific software and AI-driven SaaS platforms — to establish this comparative framework.

The U.S. and Denmark top the index. The U.S., which accounts for 54.6% of global software spending according to the World Intellectual Property Organization, has an even larger share of AI spending, though the gap has narrowed since 2023. Within the U.S., counties with a high concentration of tech businesses dominate AI spending, but consumer and corporate adoption is spreading. In Denmark, the growth is led by corporate adoption; Eurostat data show that 27.6% of Danish enterprises used at least one AI technology in 2024, double the EU average. In the Chinese Mainland, AI adoption is widespread, but the MEI index shows that spending remains comparatively muted, due to data limitations. Recent momentum has been strongest in South Korea, Turkiye, Italy, Japan, Colombia, Spain, India, Hong Kong and Brazil.

Alongside technological transformation, fiscal stimulus is expected to support global growth, particularly in countries with lower borrowing costs. In 2025, major economies expanded public investment, with a clear pivot toward strategic infrastructure and industrial policy. The U.S. continues with fiscal expansion, in part through the implementation of the Big Beautiful Bill; the fiscal deficit is expected to expand by approximately half a percentage point of GDP in 2026, based on the International Monetary Fund's (IMF's) estimates. Similarly, Government of Canada projections show that borrowing will increase by half a percentage point from 2025 to 2026, to 2.5% of GDP, driven by increased spending on defense, infrastructure and housing.

The IMF projects that Germany's new spending plans and exemptions from the debt brake will widen the fiscal deficit by 0.8% of GDP, enabling investment in defense, digital infrastructure and green tech. The EU's Recovery and Resilience Facility remains vital for southern, central and eastern member states advancing digital and climate goals, with deployment accelerating ahead of its 2026 expiry. Additionally, countries are tapping into the ReArm Europe program, offering up to 800 billion euros over four years to support NATO defence commitments.

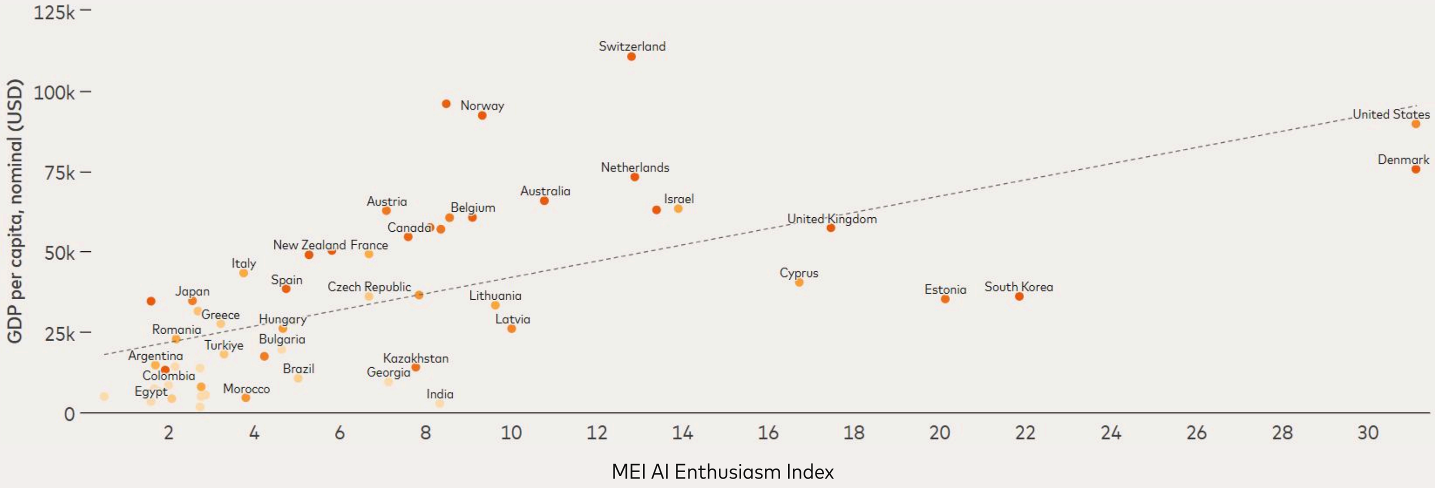
In the Chinese Mainland, infrastructure momentum continues, with rising investment in high-speed rail, smart cities and AI hubs, supported by special local government bonds. Nevertheless, the fiscal deficit is expected to remain stable as a share of GDP when compared with other economies. Meanwhile, the Middle East is expanding fiscally through major investments in digital infrastructure and renewables — financed primarily by sovereign wealth funds and driven by long-term strategies like Saudi Arabia's Vision 2030 and the UAE's AI Strategy 2031 — that are reshaping global supply chains and capital flows.

There are risks: while fiscal stimulus is expected to fuel global growth, in some instances excessive spending could prompt an overheating of the economy, fuelling inflation and undermining debt sustainability.

Looking ahead to 2026, MEI anticipates that deeper AI integration and targeted fiscal stimulus will be key drivers of global growth. Diverging policy paths and investment priorities may influence inflation dynamics, consumer behavior and monetary policy responses — marking a pivotal moment in the evolving macroeconomic landscape.

## Positive relationship between AI enthusiasm and GDP per capita: US and Denmark rank at the top

MEI AI Enthusiasm Index vs. GDP per capita: top right quadrant reveals countries with greatest AI enthusiasm and largest GDP per capita




Note: MEI Enthusiasm Index is based on consumer and corporate spending on AI tool providers (ex: generative models, chatbots, enterprise software, developer tools, excluding large diversified tech companies and free AI usage tools). The index aggregates total spending on these providers per country, spending per capita and the AI share of software spending. The countries presented represent the top 57 based on the index.

Source: World Bank, Mastercard Economics Institute

# The shift in small businesses

## Coping with tariffs, small businesses get a boost from digital tools

Globally, small and medium-sized enterprises (SMEs) are navigating trade disruptions, inflation and interest rate pressures along with technological shifts. While SMEs may be more vulnerable in the current economic environment, their agility and focus could position them to adapt and thrive.

MEI finds that tariffs are disproportionately affecting U.S. SMEs as compared to larger businesses. Based on Mastercard's aggregated and anonymized data, U.S. spending at SMEs softened in mid-2025 after the announcement of the spring tariffs, while demand at large businesses was more stable. This divergence is particularly evident in import-sensitive sectors such as consumer electronics, toys and apparel; 2025 saw a widening in the spending gap for these sectors relative to 2024, with small businesses exhibiting deeper underperformance compared to large businesses. For example, MEI found that annual spending growth at SMEs was 20 percentage points below that of large companies in the consumer electronics sector in 2025, compared to just 6.6 percentage points in 2024. In these tariff-sensitive goods sectors, SMEs do not benefit from the economies of scale that allow larger firms to shift supply chains or front-load inventory. Conversely, SMEs that benefit from niche demand, such as florists and specialty food stores, have experienced stronger spending than their larger counterparts; consequently, spending at these SMEs continued to outperform larger retailers in 2025.

Looking ahead, MEI is optimistic that broader technological access and adoption will buoy small businesses. Digital tools are increasingly helping SMEs streamline operations, reduce costs and compete more effectively. The rise of online-only SMEs illustrates this shift: According to Mastercard's aggregated and anonymized data, 44% of new card-accepting U.S. businesses in 2024 were online–only, up 20 percentage points since 2019 (classified as businesses receiving only e-commerce transactions at the start of operations). Services-related businesses lead this transition; for example, over 85% of new travel agencies and professional service firms launching as digital-first operations.

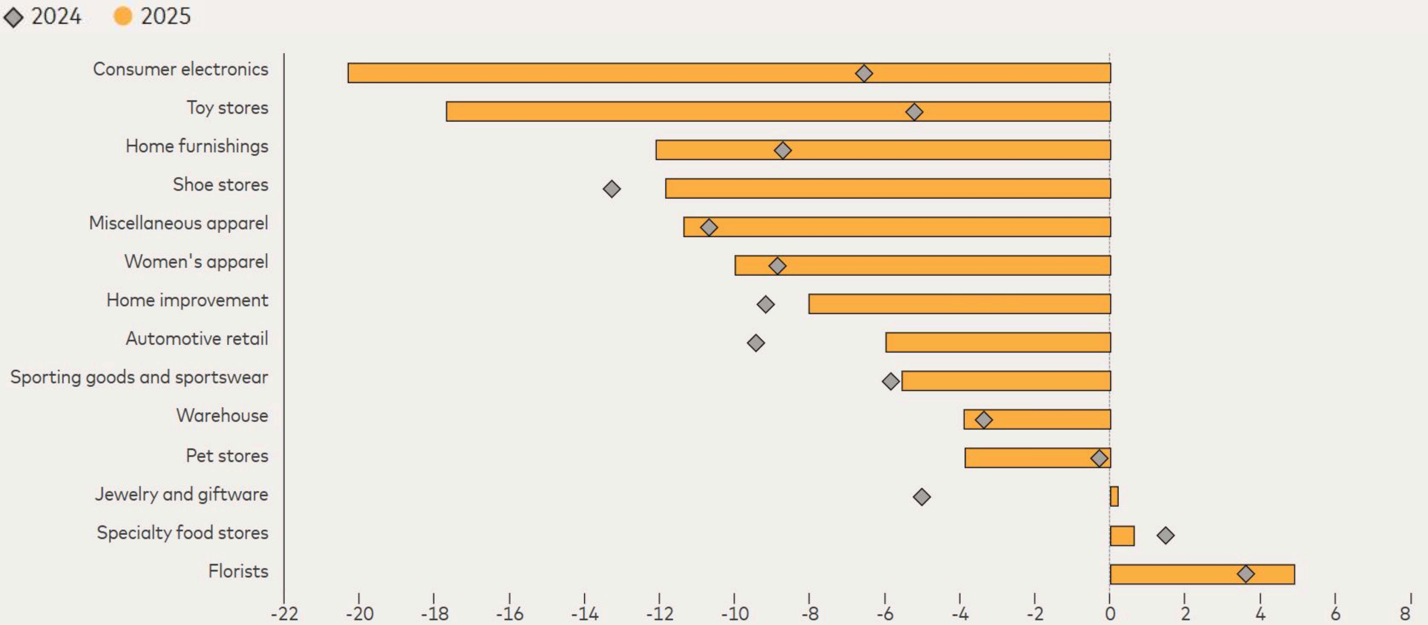
The digitalization of SMEs extends beyond the U.S. but is not uniform across the globe. In the chart to follow, we measure both the SME share of retail spending for a selected country along with the growth in the share that is online (from August 2024 to 2025). At the higher end, Hong Kong-based SMEs have seen a strong gain of 10 percentage points in the e-commerce share of spending at SMEs. The UAE also stands out with a similar-sized gain on the year of e-commerce share in an economy where SMEs make up just over 35% of retail spending. On the other hand, in Latin America, where customers and merchants tend to transact in cash, SMEs rely more heavily on physical locations. The SME share of e-commerce spending in Mexico, Peru and Chile has declined over the year.

MEI sees an opportunity for SMEs to continue to gain share in tech-driven services. There is a growing demand for local tech solutions and a more specialized offering. This expansion into high-value services suggests that SMEs can compete more effectively in sectors traditionally dominated by larger firms.

SMEs remain vital to the global economy; to succeed, they require strategic agility, digital readiness and policy alignment. The SMEs that are most flexible and tech-forward are likely to be best positioned to recognize growth.

## Difference in spending growth for SMEs vs. large businesses across major sectors

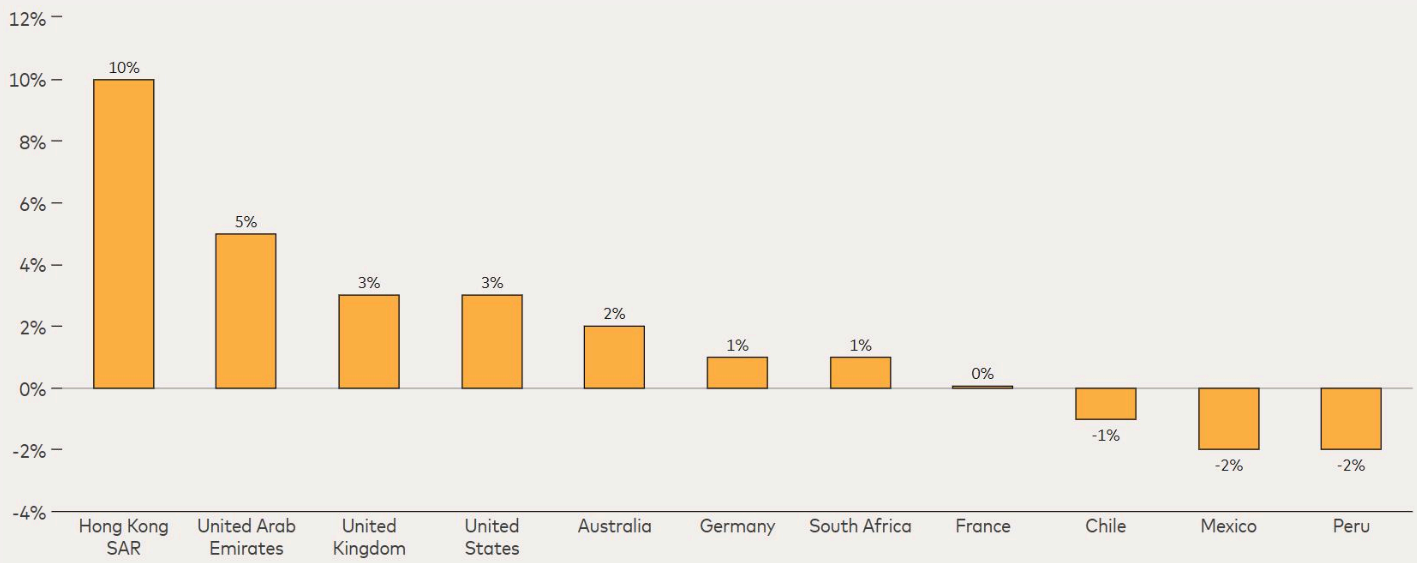
Differential in spending based on indexed spending, bars represent 2025 gap, dots represent 2024 gap




Source: Mastercard Economics Institute

## E-commerce share of retail spending at SMEs has increased for many countries except the LAC region

Change in the share of total retail spending at SMEs that is online from 2024 to 2025 YTD




Note: This data does not capture small businesses selling through large e-commerce platforms. 2025 is represented as the average from Jan- Aug 2025.

Source: Mastercard Economics Institute

# The U.S. economy in transition

## Tariffs, tax cuts and AI to shape U.S. growth in 2026, creating differential outcomes

- MEI forecasts real GDP growth of 2.2% in 2026 and expects inflation to remain elevated at 2.9% due to tariffs, with nominal GDP growth at 5.0%. The Fed is likely to cut its policy interest rate to 3.1%.
- Real goods spending accelerated in 2025, especially for bigger-ticket, durable items. Real services spending moderated in 2025 but may reaccelerate in 2026 and outperform real goods spending, especially if goods inflation persists.
- According to MEI, economic growth is more likely to surpass the base case forecast of 2.2% than to stay below that rate. The outcome hinges on labor market dynamics, financial conditions and the trajectory of AI investment and policy.

Following 2025's policy shocks, MEI expects the dust to settle in the U.S. economy in 2026. MEI forecasts 2.2% growth in real GDP in 2026, up from the estimated 2.0% in 2025 While this is below the outsized approximately 3% growth rates observed in 2023 and 2024, it is closer to estimates of the economy's longer-run potential. MEI expects inflation to remain somewhat elevated at 2.9% due to tariffs, resulting in nominal GDP growth of 5.0%. The Federal Reserve is likely to cut its policy rate to 3.1% in 2026.

The 2025 policy changes are expected to manifest in 2026. Businesses may gain greater clarity on how tariffs affect operations. The net result could be a reallocation of spending patterns with demand for lower-cost substitute goods and services rising. Smaller businesses are likely more vulnerable, as discussed in the dedicated section above. Separately, tax cuts signed into law in July are expected to provide a tailwind to domestic R&D and manufacturing, alongside continued AI-related investment. Optimism about AI is already reflected in robust investment in technological equipment and data centers, contributing to a significant rally in equity markets. The resulting increase in household wealth is supporting consumer spending.

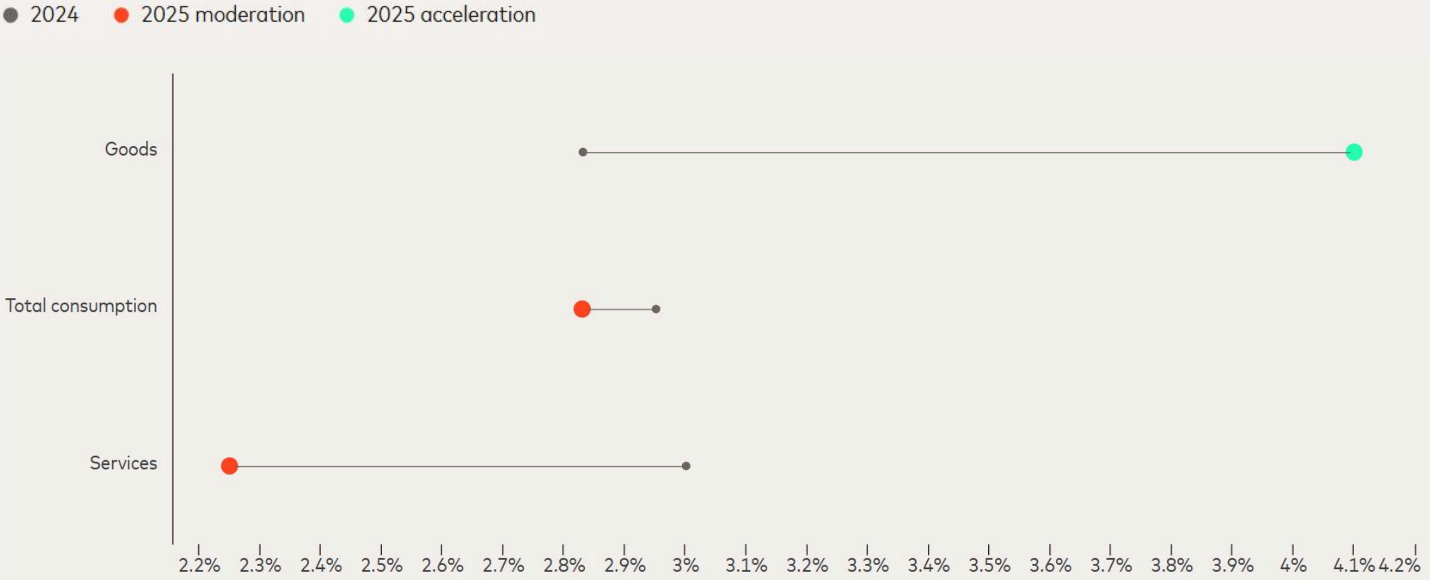
MEI's analysis of real consumer spending shows an acceleration in many goods categories in 2025 relative to 2024, alongside a moderation of growth in several services categories. Notably, the acceleration in goods spending appears concentrated in bigger-ticket, durable goods such as vehicles — potentially indicative of a pull-forward in spending ahead of tariff implementation. Conversely, the pace of growth in spending on toys and electronics — items facing higher effective tariffs and considered smaller discretionary purchases — has moderated, though spending on these categories continues to flourish.

On the services side, the slowing growth of travel spending, particularly on cruises and air travel, partly reflects a high base of spending from the prior year. Overall, this sets the stage for a potential reacceleration in real services spending in 2026, which may outperform real goods spending, especially if tariffs continue to magnify goods inflation. Travel accelerated during the summer, offering an early signal of the shift.

MEI forecasts that economic growth is more likely to surpass the base case forecast of 2.2% than to stay below that rate. Waning uncertainty may allow the labor market to stabilize, and AI investment — combined with supportive fiscal and monetary policy — could spur more robust growth. However, in a less optimistic scenario, continued labor market weakness could weigh on wage growth and consumer spending as financial conditions deteriorate.

## Consumer spending on many goods categories accelerated in 2025

Real (inflation-adjusted) spending growth for 2025 ytd vs. 2024 by major PCE category




Note: Clothing and footwear services consists of tailoring, laundry, clothing rental and shoe repair. Recreational services includes spending on movies, sports events, cable and streaming services, pet services etc.

Source: Bureau of Economic Analysis, Mastercard Economics Institute

# Canada at a crossroads

## Easing inflation and the review of the USMCA could offer opportunities, but slower job growth weighs on consumer spending

- MEI forecasts real GDP growth of 1.3% in 2026, down from 1.7% in 2025, with growth momentum improving from 0.8% YoY in Q4 2025 to 1.7% YoY in Q4 2026. Inflation is projected to ease to 2.0% from 2.1% as the Bank of Canada holds its rate at 2.25% through 2026.
- MEI's analysis of SpendingPulse data indicates a strong positive relationship between labor market conditions and household demand, with discretionary categories such as restaurants and apparel showing the clearest link.
- Looking ahead to 2026, renewed trade tensions or slower-than-expected population growth could weigh on activity, while labor-market resilience and clearer direction from the United States-Mexico-Canada Agreement (USMCA) review would support more robust growth.

MEI forecasts real GDP growth of 1.3% in 2026, down from 1.7% in 2025. Although the annual averages suggest slower growth, economic growth has been volatile in 2025. After contracting in Q2, GDP will likely grow 0.8% YoY in Q4 2025. MEI expects acceleration throughout 2026, translating to 1.8% YoY growth in Q4 2026.

Inflation is projected to ease to 2.0% in 2026 from 2.1% in 2025. However, with core measures hovering near the upper end of the Bank of Canada's 1%–3% target range, MEI expects the Bank to hold the policy rate steady at its current level — 2.25% — through 2026. Higher public expenditures announced in the new budget will reduce the need for supportive monetary policy.

The review of the USMCA may prove pivotal. Greater policy clarity is likely needed to unlock investment, stabilize the labor market and sustain consumer spending. Tariffs have driven sharp regional divergences in job growth, with employment slowing the most in provinces more acutely impacted by tariffs.

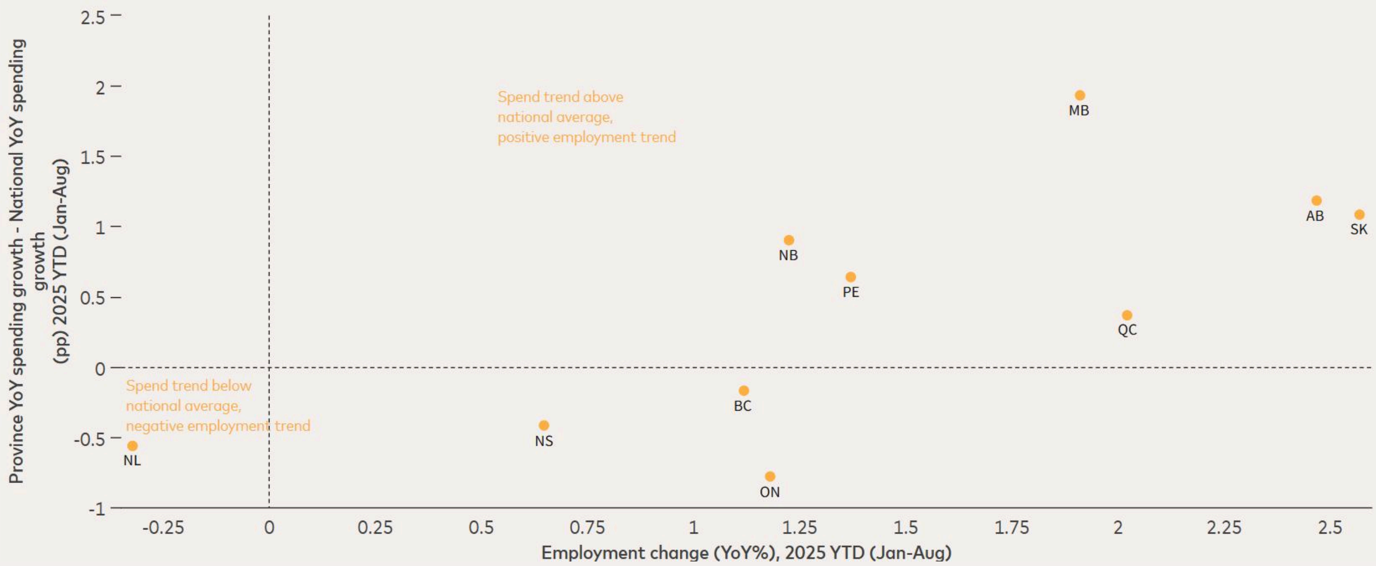
MEI's analysis of Mastercard SpendingPulse data highlights the link between labor markets and consumer spending. Spending has softened in provinces with weaker job growth, while those with healthier employment trends have posted above-average gains. Discretionary categories such as restaurants and apparel show the clearest relationship, serving as a warning that weaknesses in trade-sensitive sectors could spill into broader demand.

MEI is also monitoring the influence of slower population growth, which may dampen overall demand. However, if shelter inflation eases as a result, household costs could fall and improve per capita spending.

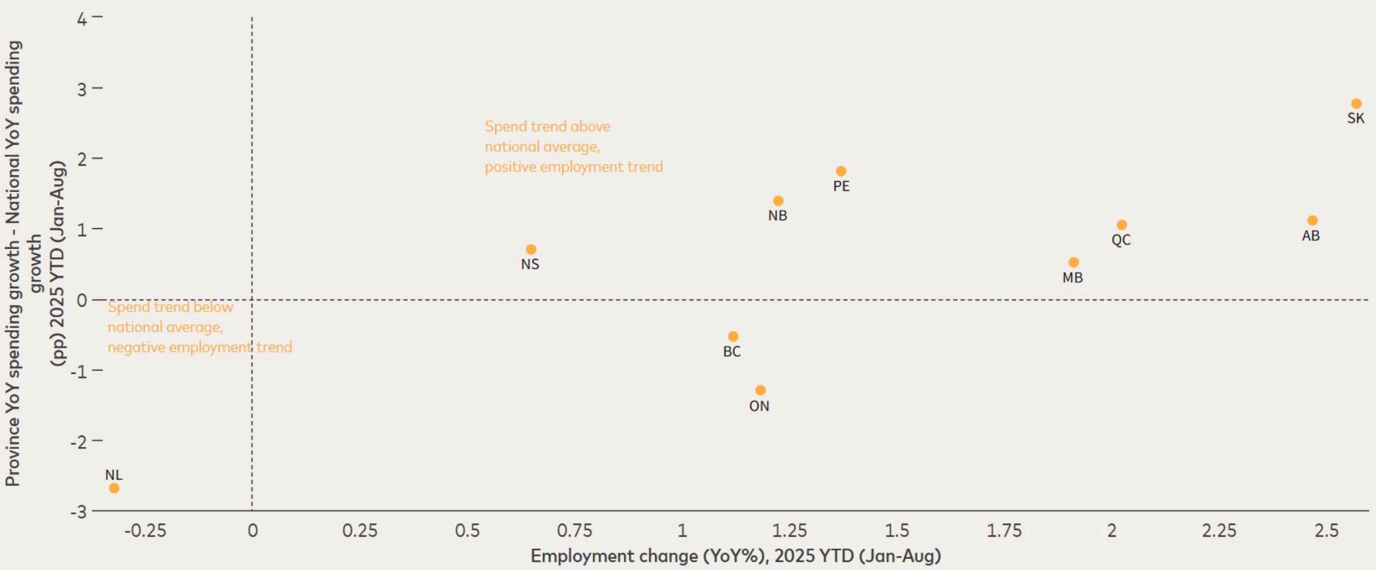
Looking ahead, MEI foresees opportunity and risk in 2026. On the upside, a successful review of the USMCA could lead to increased investment and hiring. On the downside, the existing shock from trade-exposed sectors may extend into the broader economy.

## Household demand is strongest where job growth is firmest

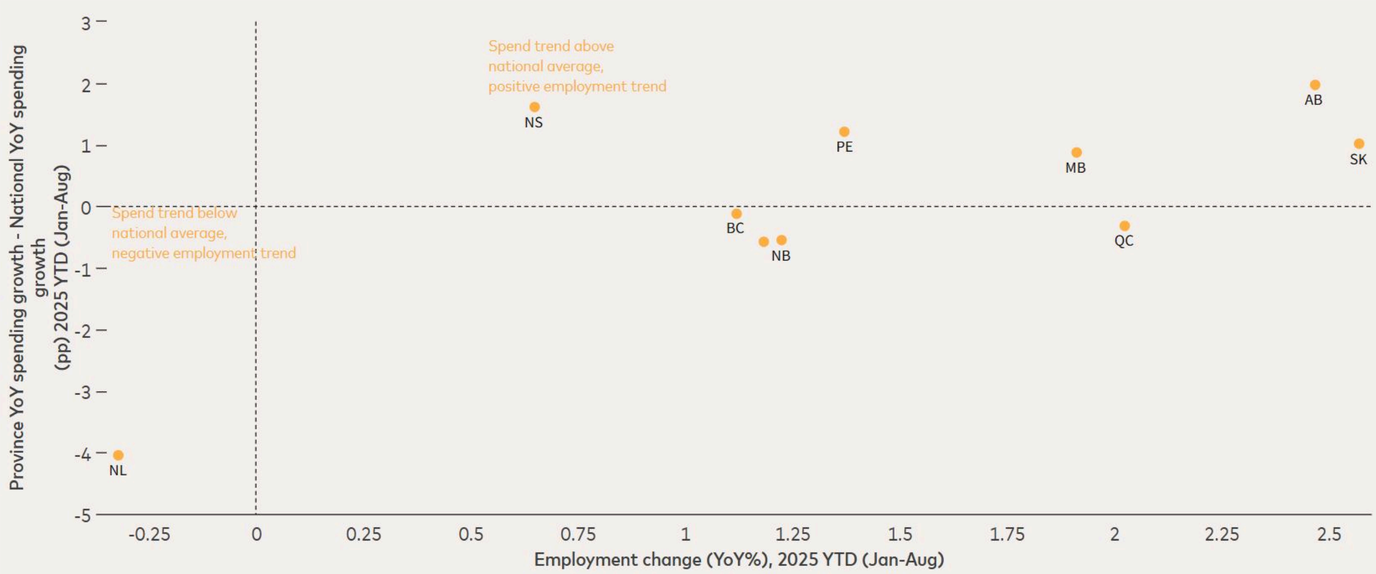
YoY total retail (excl. auto) spending difference against national vs. YoY employment change, January–August 2025




YoY restaurant spending difference against national vs. YoY employment change, January–August 2025




YoY apparel spending difference against national vs. YoY employment change, January–August 2025




Source: Mastercard SpendingPulse, Statistics Canada, Mastercard Economics Institute

# Mexico beyond the border

## U.S. ties and World Cup spending will shape Mexico's economy in 2026

- GDP growth is expected to rebound in 2026, supported by World Cup-related investment and consumption.
- The inflation outlook remains uncertain amid trade disruptions and input cost pressures.
- U.S.-Mexico trade and remittances remain key but face policy-driven vulnerabilities.

MEI projects a modest recovery for Mexico's economy in 2026, with baseline GDP growth expected to reach 1.3%, up from the 0.2% forecast for 2025. This improvement reflects a gradual rebound, though the pace remains cautious amid persistent global and domestic headwinds.

The inflation outlook remains nuanced. While economic softness has helped ease pressure on stubborn services inflation, notable upside risks persist, such as ongoing trade policy disruptions and elevated input costs, such as salaries. Additionally, the 2026 FIFA World Cup may provide a temporary but meaningful boost to private consumption, supporting domestic demand in the short term. However, this surge could also boost prices. According to MEI's baseline scenario, inflation will reach approximately 3.8% at the end of 2026.

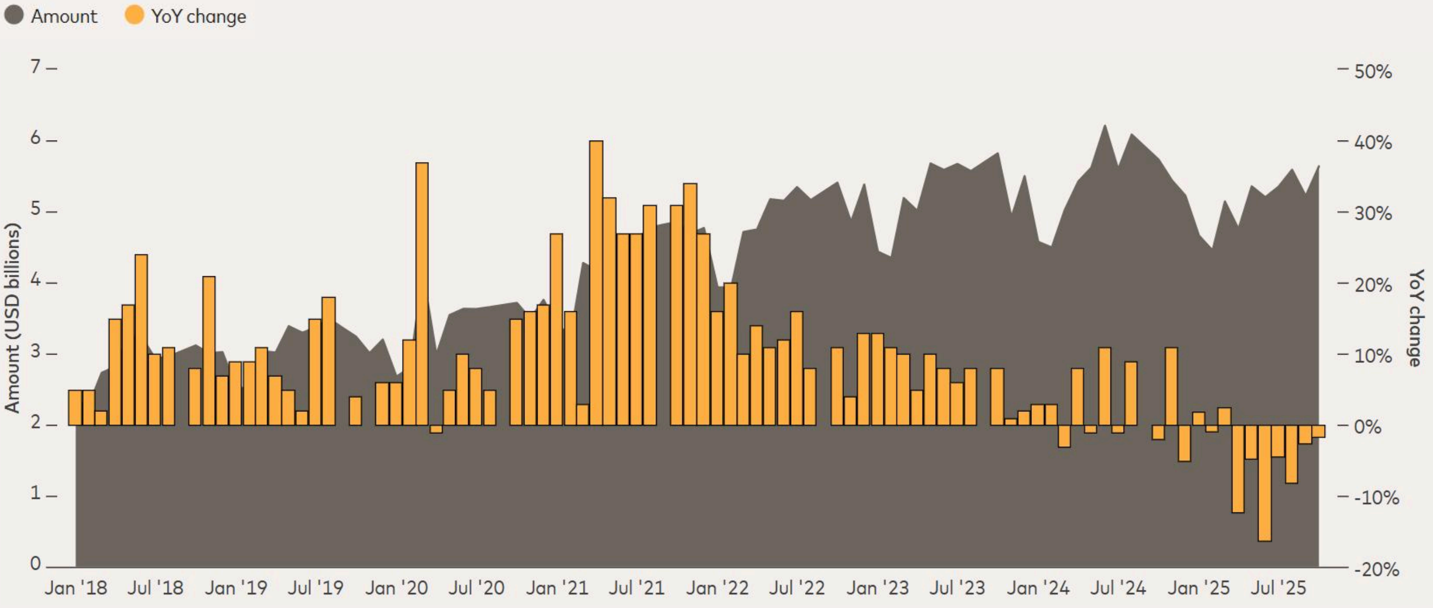
Mexico's economic ties with the U.S. remain central to its growth trajectory. As of 2025, Mexico is the United States' top trading partner, accounting for nearly 16% of total U.S. trade. In turn, more than 80% of Mexico's exports go to the U.S.

This integration extends beyond trade to financial flows, particularly remittances. In 2024, Mexican households received nearly $65 billion in remittances, more than any other country in Latin America or the Caribbean. These funds support households across income levels, with a disproportionate impact on lower-income families. However, remittance flows are highly sensitive to shifts in U.S. migration, labor markets, and policies. Recent data show a cooling trend, with inflows declining by 5.1% in 2025 to $51 billion.[2]

The outlook hinges on several key factors. A favorable United States-Mexico-Canada Agreement (USMCA) review outcome and deeper regional integration could restore investor confidence and reignite nearshoring. Conversely, rising trade tensions, weak domestic investment and softer U.S. demand may constrain growth and limit the recovery's momentum.

### Remittance inflows have continued to decline in recent months

Monthly remittance flows in Mexico, millions of USD, NSA




Source: Central Bank of Mexico, Mastercard Economics Institute

# Balancing demand and doubt

## Monetary easing, fiscal measures and resilient consumption partially offset uncertainty in 2026

- Growth is expected to slow to 1.5% as investment weakens.
- Private consumption will remain resilient, supported by public spending and social transfers.
- Inflation will stay near the target ceiling.

MEI forecasts that Brazil's real GDP growth will slow to 1.5% in 2026, down from 2.2% in 2025 and 3.4% in 2024. Activity data confirm a softer trajectory heading into the end of 2025, characterized by modest but healthy private consumption and weaker investment than in earlier quarters. In 2026, MEI expects mixed to soft performance across GDP components. Fiscal measures may support private-sector spending, while businesses will likely continue to feel the effects of past monetary tightening and heightened election-year uncertainty.

As 2026 is a presidential election year, MEI anticipates a slowdown in investment due to typical electoral uncertainty, contributing to the overall deceleration. Although the Monetary Policy Committee will probably ease monetary policy, interest rates are expected to stay elevated, potentially delaying capital expenditure decisions.

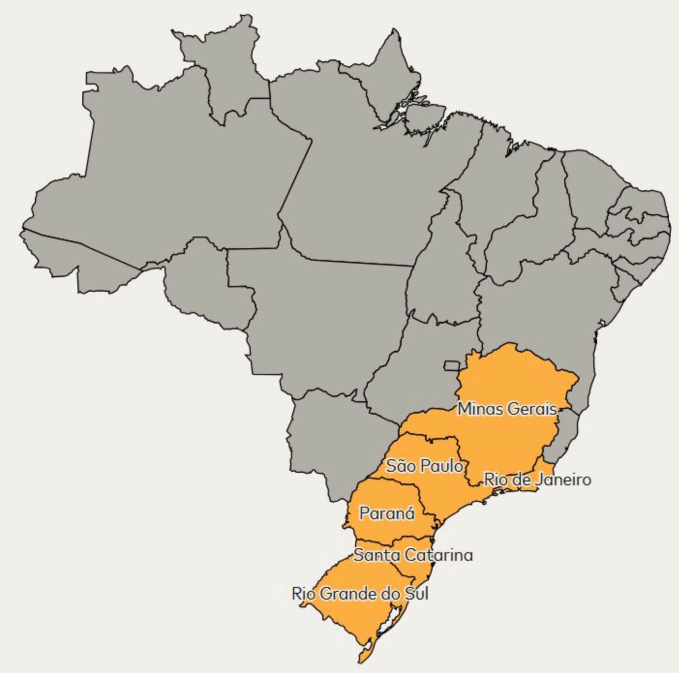
Real private consumption is projected to grow 2.2% in 2026, outpacing overall GDP. This reflects strong momentum from 2024 and resilience through 2025. Although moderating from earlier peaks, public spending and social transfers — alongside a still-solid labor market — are expected to cushion household demand. Consumption is likely to shift modestly toward services, while durables may remain sensitive to financing conditions. Supporting consumer spending will be the labor market, even with MEI's expectation of a slight deceleration in job growth. Wage dynamics should continue supporting consumption but may also continue to add upward pressure on prices. MEI forecasts 2026 inflation at 4.5%, at the upper limit of Brazil's target range. Agribusiness stands out as a bright spot and a source of regional divergence. MEI expects decent growth in this sector, especially in agricultural hubs such as the Central-West and parts of the South and Southeast. Gains are likely to be more modest in urban, services-heavy regions.

In response to softer growth and better-than-expected inflation, the Central Bank is expected to cut rates throughout 2026. MEI projects that the year-end policy rate will be 12%. Communication is likely to remain cautious; the pace of easing will depend on services and core inflation, inflation expectations and currency conditions.

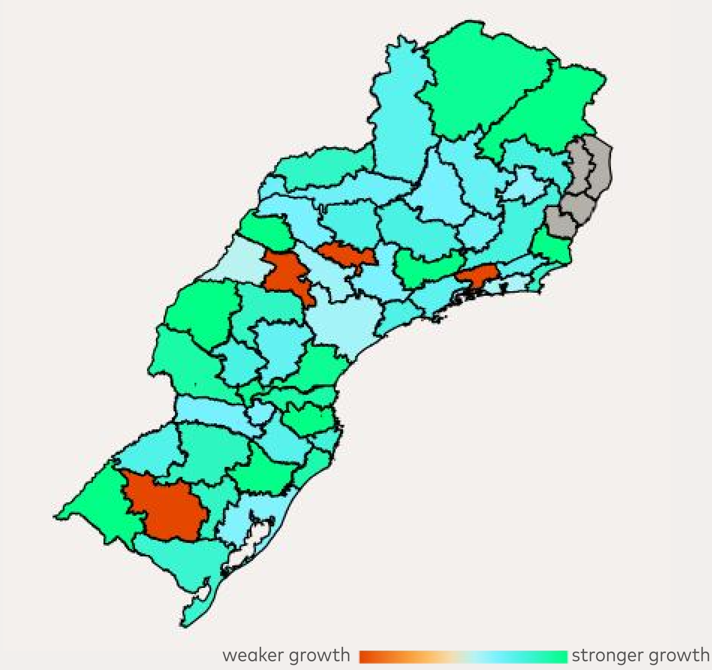
On the fiscal front, in an election year, the government typically concentrates its spending during the first six months, likely with a focus on social transfers to support household income. The fragile fiscal situation may feature prominently in the election agenda, and candidates are likely to propose solutions. Historically, election cycles heighten policy uncertainty, increase risk and postpone private investment. MEI expects a similar pattern in 2026.

## Consumption has been robust in agricultural hubs

Brazil map featuring highlighted southeastern states




Yearly growth for October 2025 - Total




Source:Mastercard SpendingPulse, Mastercard Economics Institute

# Steady growth amid political uncertainty

## Regional growth faces political and external tests

- Regional growth will remain resilient despite political transitions and policy uncertainty.
- U.S. and Chinese Mainland demand continue to be key to export momentum and commodity prices.
- Election cycles may shape fiscal signals, inflation paths and investment sentiment.

In Southern Cone and Andean economies, GDP growth is expected to slow but remain resilient. Election dynamics may influence policy signals and risk premia, while external demand remains pivotal for exports.

### Argentina

After a rebound in 2025, MEI forecasts 3.5% GDP growth in 2026 and 20% year-end inflation, with a downside bias if disinflation continues. Investment sentiment will hinge on post-election reform execution. Household demand should normalize from 2025's surge, supported by improving confidence and gradual policy easing.

### Chile

MEI projects 2.0% GDP growth and inflation converging toward 3.5%. Following 2025 rate cuts, the central bank is likely to remain cautious, balancing softer core goods inflation against persistent services inflation. New government policies will be closely watched, while demand remains a swing factor for metals and forestry exports. The president and congress take office in March.

### Colombia

MEI expects a rebound to 2.8% growth, inflation at 4.3% and a policy rate of 8.50% under gradual easing. As 2026 is an election year, fiscal and inflation uncertainty may rise. Leaders could reduce volatility by showing clear signs of responsibility. Private consumption remains the main growth driver, though capital expenditure may be delayed. Congress convenes in July, and the presidential inauguration is scheduled to take place in August.

### Peru

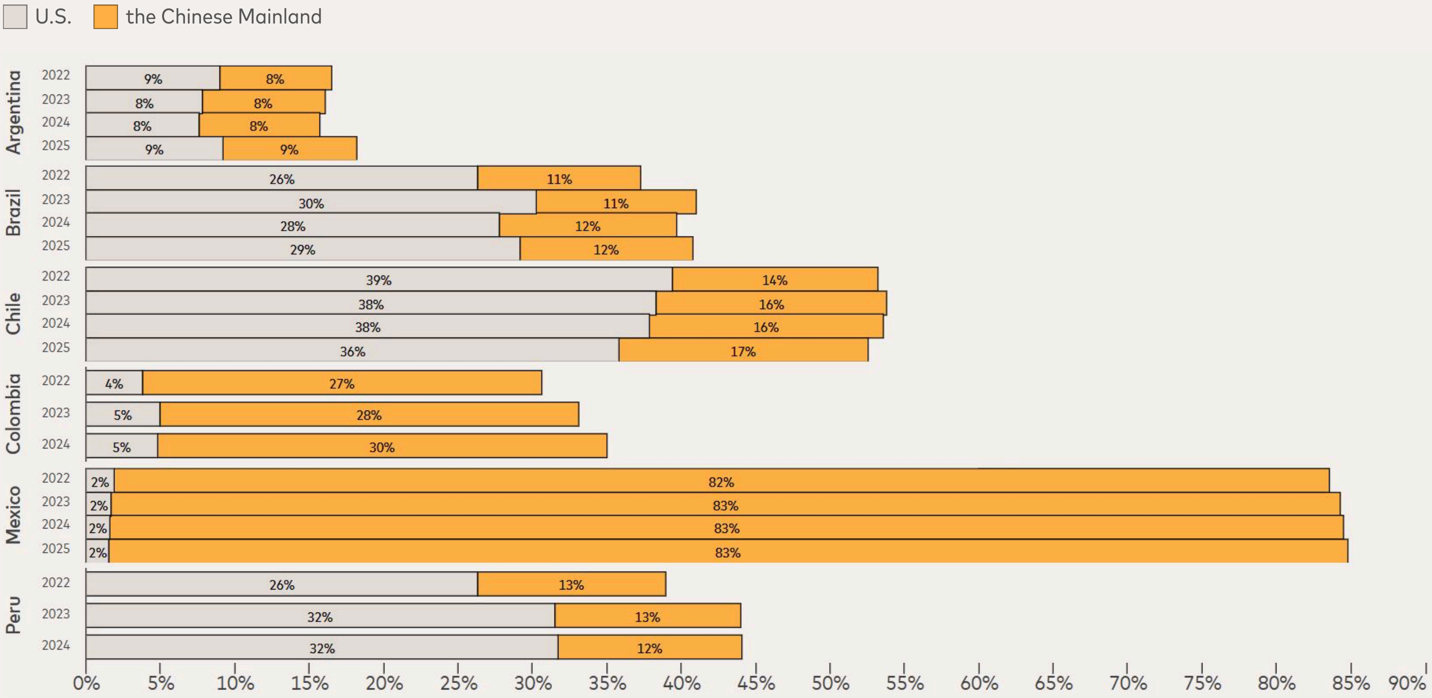
MEI forecasts 2.8% GDP growth, inflation at 2.2% and an easing bias in rates. The April election may introduce currency volatility and business uncertainty, though targeted public investment and strong mining pipelines could provide a buffer. Trade ties with the Chinese Mainland present a double-edged sword for metals prices and volumes. The president and congress assume office in July.

### Risks

Upside risks include stronger-than-expected demand from the U.S. and the Chinese Mainland and faster policy execution. Downside risks stem from political uncertainty, fiscal slippage and external shocks — particularly commodity price volatility and global financial tightening.

## Countries' external demand tends to rely on U.S. and the Chinese Mainland

Share of export to U.S. and the Chinese Mainland




Source: IMF, Oxford Economics, Mastercard Economics Institute

# Domestic and external headwinds prevail

## Inflation, interest rates and uncertainty to decline gradually but remain elevated, and labor market to cool

- MEI expects U.K. GDP growth to moderate to 0.9% in 2026, from 1.5% in 2025.
- High interest rates, fiscal tightening and elevated global uncertainty will weigh on growth.
- MEI forecasts inflation to fall back to 2.2% by the end of 2026.

MEI expects U.K. GDP growth to moderate in 2026 relative to 2025 as domestic and external headwinds weigh on the economy. Domestically, inflation is proving persistent, and MEI expects it to ease, but remain above target throughout 2026, which means that interest rates, though likely to come down, will remain elevated. Additionally, fiscal policy is turning more restrictive, which will likely dampen growth. Externally, tariffs, elevated global uncertainty and geopolitical tensions pose risks to the growth outlook.

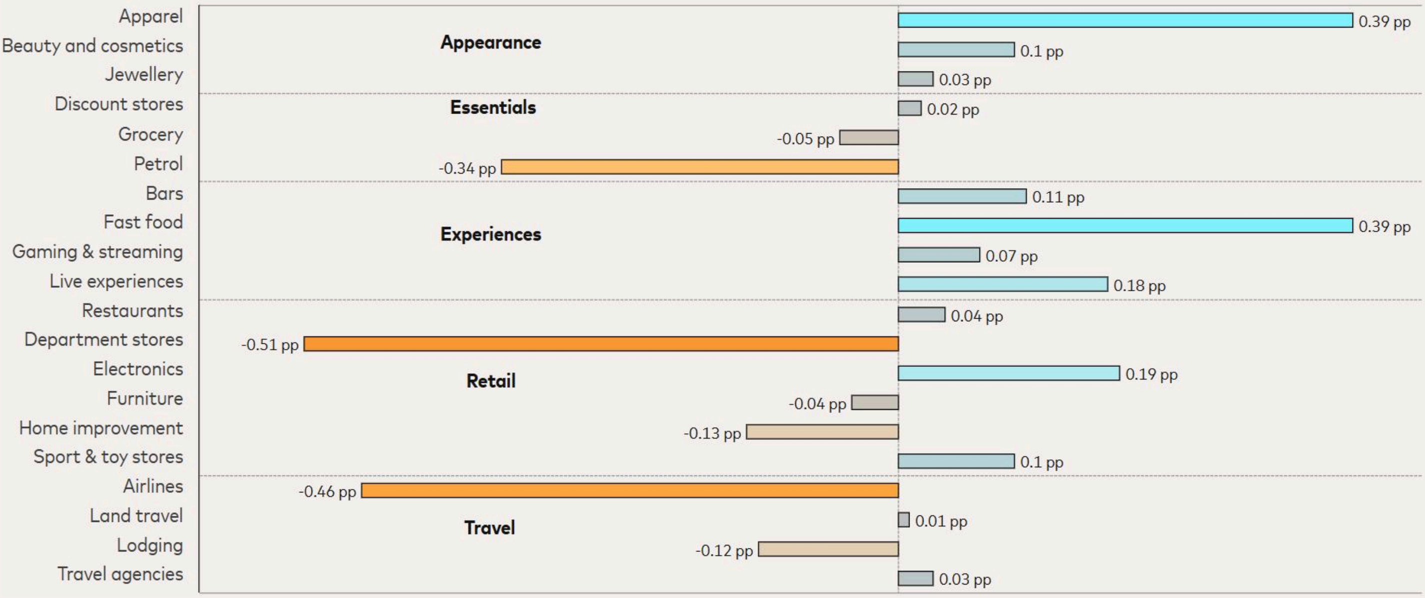
MEI expects inflation to decline gradually throughout 2026, after a peak in Q3 2025. The disinflation process is expected to be driven by easing services prices — particularly as wage growth moderates amid a loosening labor market and the impact of 2025 employer tax rises fades — and by falling food inflation. Furthermore, one-off energy price hikes are anticipated to drop out of the 12-month calculation next year. However, MEI expects headline inflation to remain above the Bank of England's (BoE's) target throughout 2026.

MEI expects two more BoE rate cuts in 2026 to reach the somewhat elevated terminal bank rate of 3.25%. The BoE has expressed concern that higher prices could increase inflation expectations, which could in turn influence wage and price-setting behavior.

MEI expects a broadly stable outlook for consumers, with only a modest deceleration in real household consumption. While lower inflation and looser monetary policy should support consumers next year, a softening labor market, cooling wage growth and cautious consumer confidence act as headwinds. The unemployment rate has ticked up steadily this year, to 5.1% in September, from 4.5% at the start of the year and may pick up slightly still as businesses pull back on hiring amid weaker demand and higher labor costs. In turn, weaker labor market activity should weigh on wage growth next year. Additionally, confidence remains subdued, so households are still saving more than they historically did despite rising real incomes and lower interest rates that should disincentivize saving.

### The British are dedicating a larger share of their spending to experiences, electronics and looking good

Change in share of consumer spending by category in Q3 2025 as compared to last year




Transaction volumes on UK consumer cards
Source: Mastercard Economics Institute

# Eurozone picks up speed

## Government spending, lower interest rates and slower inflation jump-start recovery across the Eurozone

- MEI expects the Eurozone economy to grow by 1.2% in 2026.
- As the external sector adjusts to tariffs, easing inflation — expected to average 1.8% in 2026 — lower interest rates and resilient labor markets will bolster the domestic economy.
- Fiscal expansion, led by Germany, will drive a meaningful acceleration in growth.

In 2026, MEI expects the headwinds from tariffs to give way to domestic tailwinds from slowing inflation, lower interest rates, strong labor markets and fiscal easing.

In most countries, inflation is already near the European Central Bank's (ECB's) 2% target and should ease further due to lower energy prices, a stronger euro and the influx of low-cost goods from the Chinese Mainland. MEI forecasts that headline inflation will average 1.8% in 2026.

While MEI expects the ECB to maintain rates at 2%, past cuts are still feeding through. The credit impulse is improving, supporting investment and consumption. Household savings rates are normalizing too as lower interest rates reduce the incentive to keep money in the bank.

Labor markets remain resilient. While vacancies have moderated, employment is still growing, and unemployment rates are historically low, even in countries where unemployment has edged up, such as Germany.

Finally, fiscal policy is becoming much more supportive. Germany has started to implement its plan to spend 1 trillion euros (20% of GDP) on infrastructure and defense over the next decade. The front-loaded execution will likely lift German growth above potential by end-2026. While other EU countries do not benefit from the same fiscal environment — in fact, fiscal policy will remain restrictive in France and to some extent in Italy and Spain — German spending should have some spillover effects (assuming it will not be inflationary and thus force the ECB to increase rates).

In addition, defense spending is set to rise to NATO's target of 5% of GDP by 2030. While some countries may be unwilling or unable to follow through, others will take advantage of the ReArm Europe program, which provides up to 800 billion euros over four years to help meet the commitments. The initial economic impact will be limited, as the bulk of the funds will be spent on equipment from abroad.

Also, Next Generation EU funds are set to expire at the end of 2026. Only half of the available envelope has been disbursed, so deployment is speeding up and will spur public investment in Italy, Spain, Greece and Portugal.

MEI expects the Eurozone economy to gradually gather pace and expand by 1.2% in 2026. However, growth will remain heterogenous, with the strongest acceleration expected in Germany (from 0.3% in 2025 to 1.2% in 2026), followed by southern Europe (2.1% in Spain), while France is likely to face challenges due to political and fiscal uncertainty (1.0%).

### Mindful consumers prioritize smaller indulgences

Change in the share of spend of consumer basket in Q3 2025 compared to last year by ticket size

| | Grocery | Petrol | Big ticket | Small ticket |
|---|---|---|---|---|
| Austria | -0.7 | -1 | -0.2 | 1.8 |
| Belgium | 1.3 | -0.7 | -0.6 | -0.1 |
| France | 1.5 | -0.1 | -0.7 | -0.8 |
| Germany | 2.3 | -0.8 | -2.6 | 1 |
| Greece | 0.5 | -0.9 | -0.6 | 1 |
| Ireland | 0.4 | -0.2 | -0.9 | 0.7 |
| Italy | 0.5 | -0.4 | -1 | 0.9 |
| Netherlands | 2.9 | -0.8 | -0.6 | -1.5 |
| Portugal | -0.7 | 0.1 | -0.1 | 0.7 |
| Spain | 0 | -1.1 | -0.9 | 2.1 |

YoY percentage point change in wallet share

-2 0 2

NOTE: Transaction volumes on consumer cards by issuing country. Small-ticket categories include apparel, cosmetics, discount stores, digital & in-person entertainment, land travel and restaurants. Big-ticket includes home goods (department stores, furniture, electronics, jewelry) and big-ticket travel (airlines, lodging, travel agencies).
Source: Mastercard Economics Institute

# Growth on the horizon for Nordic countries

## Denmark, Norway, Sweden and Switzerland show resilience amid tariffs and inflation; Finland lags behind

- MEI projects Nordic growth to accelerate in 2026, while growth will slow in Switzerland due to tariff pressures.
- Easing monetary policy and increasing government spending will pass through to consumers.
- Tourism in the Nordics and Switzerland is growing fastest in the luxury segment, with high-end hotels receiving a growing share of tourist spending on hotels.

In 2025, the Nordic economies and Switzerland largely showed resilience amid global challenges thanks to strong domestic demand, except for Finland which continues to be held back by weak labor markets and low confidence.

Inflation trends have diverged. Higher food and services prices in Denmark, Norway and Sweden pushed up headline inflation, while in Finland they remained more contained. Inflation hovered near zero in Switzerland, supported by a strong franc. MEI expects inflation to ease further in 2026 due to a diversion of discounted goods from the Chinese Mainland, stronger currencies and lower energy prices.

Interest rates trajectories are also diverging. Norway, which has only cut interest rates by 50bps in the current cycle, will likely resume gradual cuts in early 2026. MEI expects Sweden and Denmark, who cut by 225bps and 200bps, respectively, to stay on hold. Rates are also unlikely to change in Switzerland. Falling rates have boosted lending throughout the region, except in Finland, which should provide further tailwind to recovery. Fiscal policy also remains expansionary, most notably in Sweden and Denmark, where defense spending is rising but governments are also cutting taxes on food and electricity.

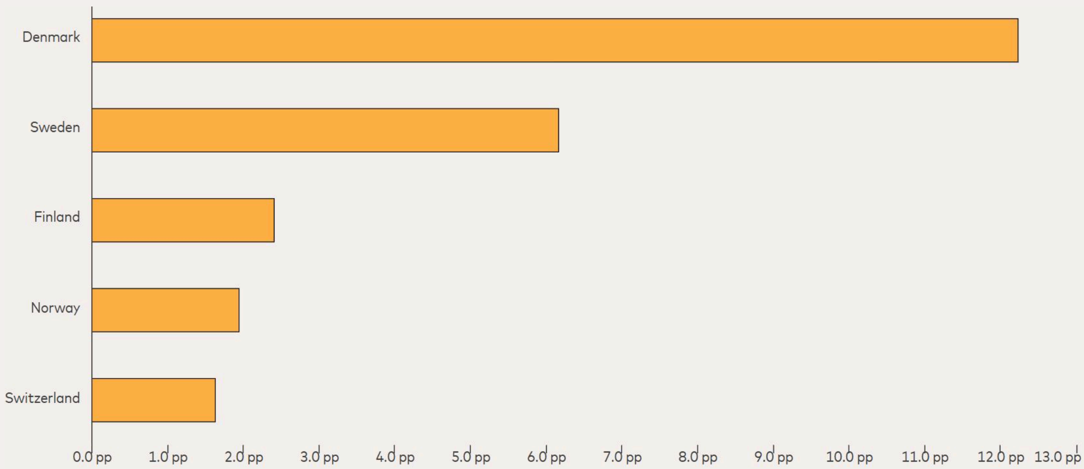
While tariffs remain a key risk for these small, open economies in 2026, especially if they extend to pharmaceuticals that represent a large share of exports to the US for Switzerland, Denmark and Finland. However, domestic tailwinds from lower inflation, lower interest rates and easier fiscal stance should prevail in the Nordics and mitigate the downside in Switzerland.

Tourism is also increasingly important for the region. Luxury tourists are visiting the Nordics and Switzerland in growing numbers. Mastercard's aggregated and anonymized transaction data show that Denmark and Sweden have recorded the strongest gains in luxury travel spending. Switzerland and Norway have also benefited from this trend, reinforcing their reputations for unique experiences. However, Finland's share of high-end hotel spending has increased only modestly, likely reflecting its subdued economic environment.

This rise in premium travel highlights the region's evolving tourism profile. As travel patterns adjust in response to climate and lifestyle shifts, MEI believes the Nordics and Switzerland are well positioned to capitalize on their natural appeal and growing status as luxury destinations.

### Tourism spending in the Nordics and Switzerland shifts up-market

Change in the share of cross-border in-person spending on high-end hotels | 2025 vs. 2019 | percentage points




Source: Mastercard Economics Institute

# Household spending to power GDP growth

## Rising credit growth and strong consumer fundamentals in CEE fuel growth despite manufacturing and fiscal challenges

- MEI expects GDP growth in 2026 to recover in Hungary and Romania, and to remain solid in the rest of Central and Eastern Europe.
- Household consumption and lower interest rates are poised to drive GDP growth in 2026.
- The main risks to GDP growth are budget deficits and manufacturing headwinds.

In 2026, MEI expects GDP to grow at a solid pace in Central and Eastern Europe (CEE). With 3.4% GDP growth, Poland is likely to continue leading the way, followed by Czechia, Hungary and Romania, with growth slightly above 2%.

MEI expects CEE household spending to be the key driver of GDP growth, supported by solid consumer fundamentals. Unemployment rates remain historically low, and CEE economies feature the strongest real (inflation-adjusted) wage growth in Europe, in the range of 4%–7% year over year.

Alongside household spending, MEI expects lower interest rates to bolster GDP growth. CEE inflation in 2025 was already near central bank targets (except in Romania), which enabled CEE central banks to cut interest rates. Previous rate cuts have stimulated a recovery in credit growth, with consumer, mortgage and corporate lending broadly trending upward. In 2026, MEI expects inflation in CEE to slow further and central banks to continue lowering rates, except in Czechia where the central bank has likely reached a terminal level at 3.5%.

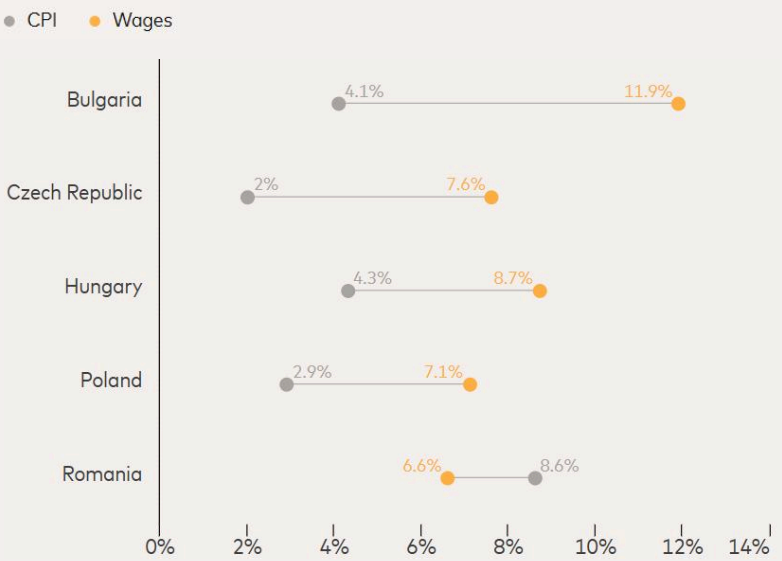
The main risks to CEE GDP growth — either upward or downward — are budget deficits and manufacturing headwinds.

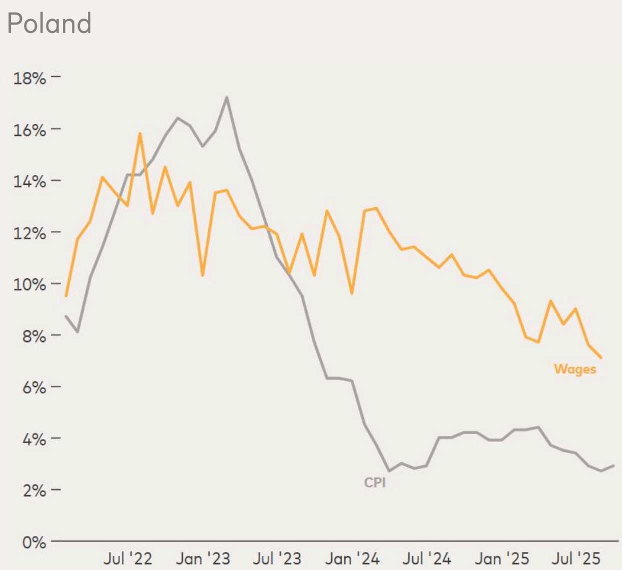
Government budget plans remain loose in the CEE (except in Czechia). Romania faces a challenging fiscal outlook; its budget deficit exceeded 9% of GDP in 2024 and is projected to narrow only slightly in 2025. Hungary and Poland also feature wide budget deficits, which are expected to persist in 2026. EU funds may also boost CEE fiscal spending, but deployment depends on meeting policy conditions.

In manufacturing, CEE has faced headwinds from weak German and global demand, high interest rates and elevated energy costs. CEE countries have limited direct exposure to U.S. tariffs (1–2% of GDP) but are subject to significant indirect effects via Germany, the region's top export market. Germany's planned defense and infrastructure spending should boost demand in 2026, benefiting CEE through spillover effects.

### CEE purchasing power is growing strongly

Nominal wage growth and inflation as compared to last year




Source: EUROSTAT, CSO, STATEC , NBS, NSO, ONS, Mastercard Economics Institute

# Solid but uneven growth across the region

## Investments help diversify MENA economies in the face of tariffs and geopolitical tensions

- MEI forecasts MENA GDP will grow by 3.6% in 2026, though rates will be uneven across the region. Inflation should remain stable at around 2% in the Gulf Cooperation Council (GCC) and slow to an average of 6.7% in oil-importing economies.
- Investment, including in renewables, will remain a key driver of growth. The region is diversifying its trade with other emerging markets.
- Regional geopolitical risks remain elevated, posing downside risks to investment.

The 2026 economic outlook for the MENA region remains broadly positive, underpinned by cyclical factors and structural reforms. For oil exporters, easing financial conditions will support non-oil activity as interest rates decline alongside the U.S. Lower borrowing costs and contained inflation should benefit consumers, boosting demand in key sectors such as real estate, tourism and retail. Oil-sector growth may slow as oil production rises more gradually.

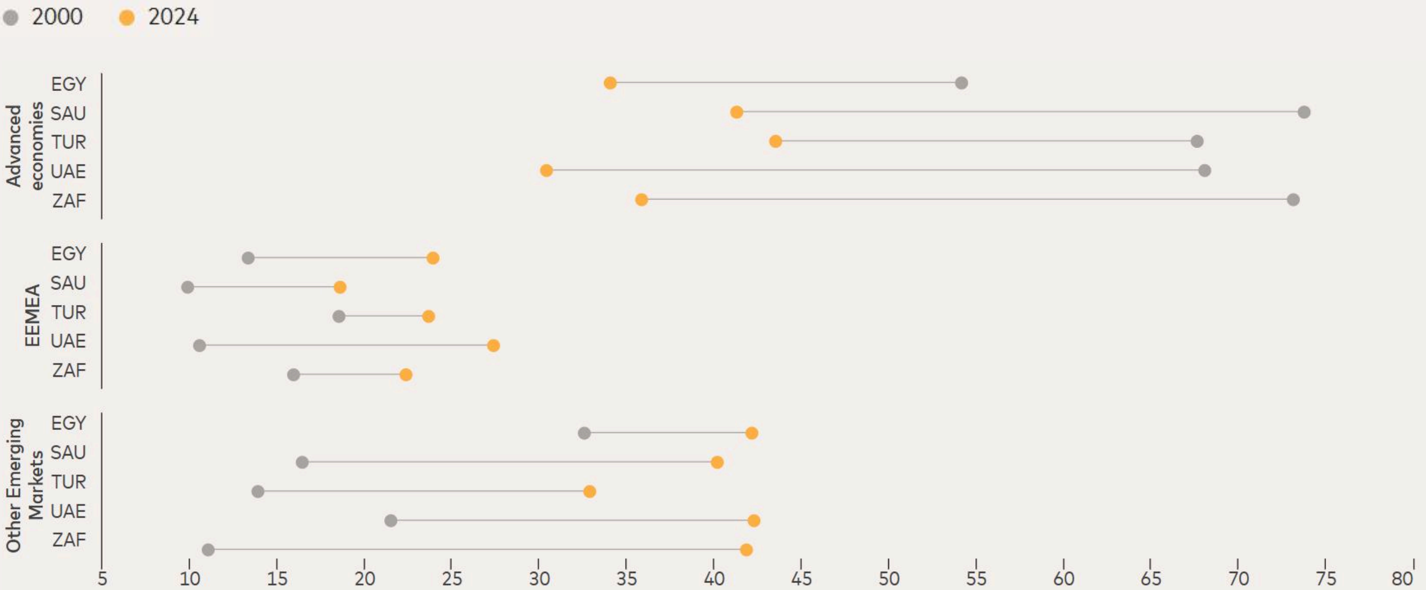
For oil importers, MEI expects growth to moderate after a robust rebound in 2025. Government spending and resilient consumption will underpin economic activity. Disinflation, aided by a weaker U.S. dollar and lower energy prices, may allow central banks to lower rates.

Investment will remain central to growth across the region. GCC governments are channeling substantial resources into renewables, construction and technology. Aligned with long-term national visions, investments are expected to support non-oil growth, creating jobs and attracting talent to the region. Meanwhile, oil importers are seeking foreign direct investment (FDI), particularly in renewable energy. Morocco and Egypt are emerging as regional hubs for green hydrogen and solar energy, leveraging favorable geography and climate.

Risks are tilted to the downside. Global trade tensions could indirectly hurt MENA by reducing oil prices and FDI. The region has shifted trade away from advanced economies and toward emerging markets and EEMEA over the past 25 years, but higher tariffs remain a threat. Additional risks include regional geopolitical tensions and climate-related challenges, which may disrupt investment and economic activity.

### MENA economies are trading more with other emerging markets

Share of total trade with major blocs 2000-2024 (%)




Note: Trade directions - import
Source: International Monetary Fund, Haver Analytics, Mastercard Economics Institute

# Inflation remains a challenge

## Consumer demand and infrastructure investment provide stability

- MEI expects growth in Turkiye to accelerate to 4% in 2026, while rates in Central Asia moderate to 4.5%. Inflation trends vary, with disinflation expected to continue across most markets.
- Resilient consumer demand and infrastructure investment will underpin growth across the region.
- Risks from weaker global trade persist, as do potential disruptions to FDI and financial flows and — for commodity exporters — lower energy and metal prices.

Turkiye's economy continues to stabilize, with growth forecast at nearly 4% — an improvement over 2025, but below trend. Private consumption should recover, but it may be constrained by still-tight financial conditions and slowing real wage gains. High inflation in essentials may limit households' discretionary spending. MEI expects inflation in Turkiye to moderate but remain high, averaging about 27% in 2026, as resilient demand and elevated expectations slow progress. The central bank will likely lower rates gradually amid persistent inflation and financial stability concerns.

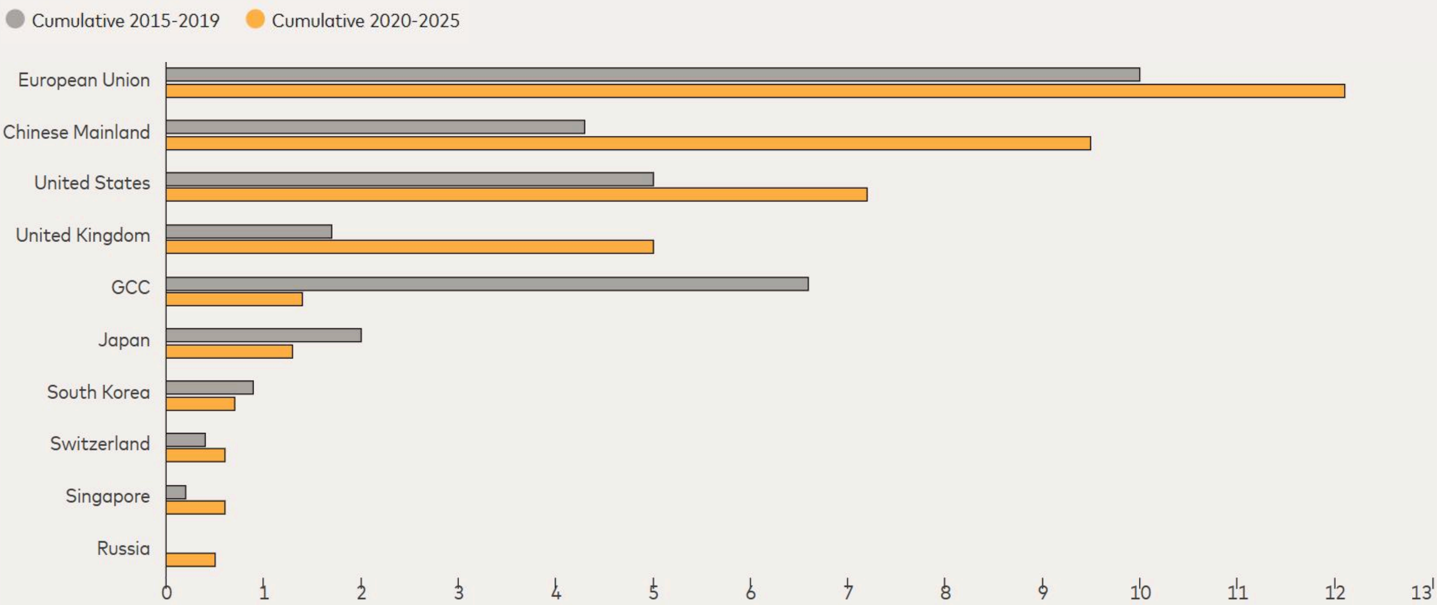
Central Asia's growth is expected to moderate to 4.5%, underpinned by solid domestic demand and investment. Households should remain resilient, though inflationary pressures and a potential slowdown in remittance inflows could weigh on consumption. Among oil exporters, Kazakhstan's 2025 boom in oil production will likely taper off, while Azerbaijan's output continues to decline, tempering growth. Inflation should ease in most markets but remain elevated in Kazakhstan, where higher utility prices and a VAT hike are adding to underlying pressures.

Investment in infrastructure projects will likely be a key growth driver. Greenfield FDI announcements signal a shift from hydrocarbons toward renewables, logistics and digital sectors, with rising investment from the Chinese Mainland and the GCC reflecting the region's growing strategic importance.

Direct exposure to U.S. tariffs is limited, but spillovers from weaker global trade, disruptions to FDI and financial flows and — for commodity exporters —lower energy and metal prices pose downside risks.

### Energy (new and old) attracts the most foreign investment in Turkiye and Central Asia

Greenfield FDI inflows over five years (in USD billions)




Note: Turkiye by source country

Source: FDI Markets, Mastercard Economics Institute

# Faster growth, but risks remain

## Buoyed by easing interest rates and slower inflation, consumers drive accelerating growth

- MEI expects growth to accelerate to 4.4%, supported by consumer demand and infrastructure investment. A weaker U.S. dollar and lower energy prices should drive disinflation.
- Household purchasing power is likely to improve in South Africa as wage growth outpaces inflation.
- Trade tensions and lower commodity prices pose downside risks to growth. High debt levels limit the scope for fiscal stimulus.

MEI expects GDP growth in sub-Saharan Africa to accelerate to 4.4% in 2026, up from an estimated 4.1% in 2025 — even as the region grapples with the impact of U.S. tariffs on key exports, including automobiles, textiles and agricultural products. Europe and Asia buy most of the exports from Africa, but some countries — such as Ethiopia, Kenya and South Africa — sell a significant amount to the U.S. The Chinese Mainland's removal of import duties on most African goods could offset some tariff effects as exporters seek new markets.

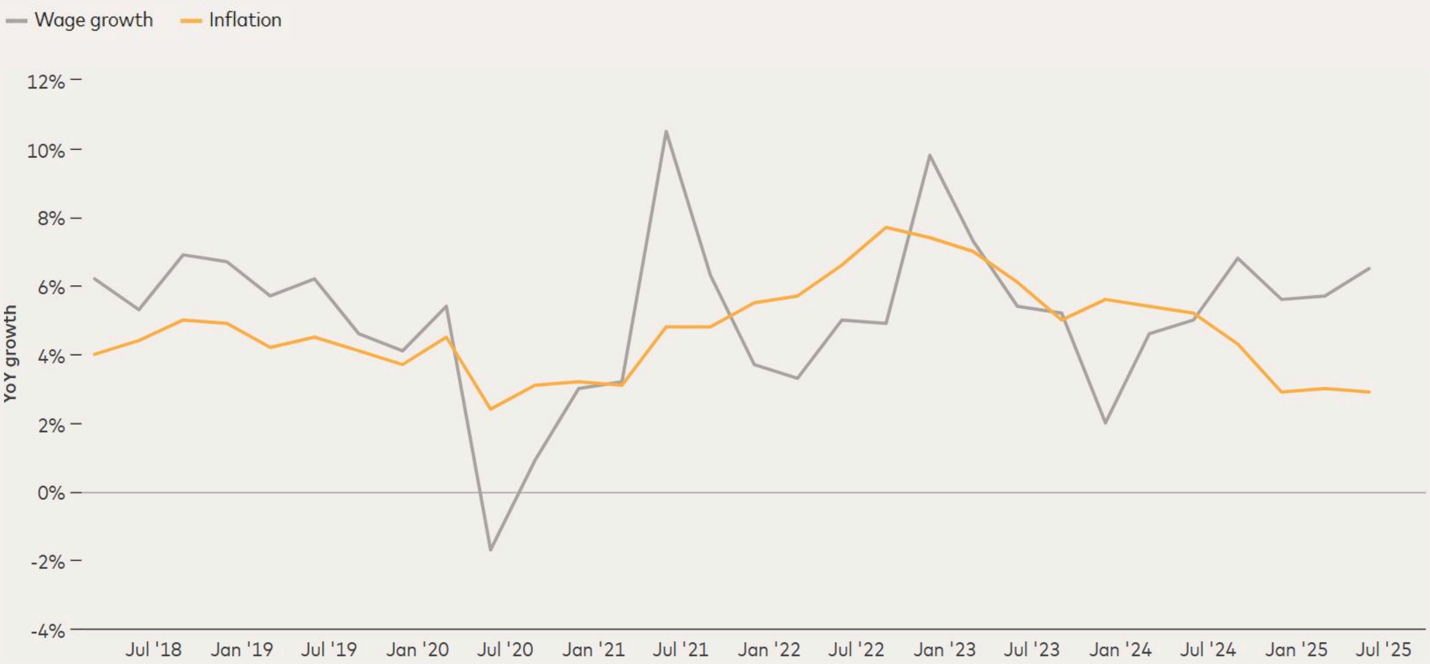
Consumers are likely to remain a key growth driver in the region's largest economies. In South Africa, MEI expects lower interest rates and contained inflation to support consumption. Purchasing power has improved since mid-2024 as wage growth has outpaced inflation, as illustrated by Mastercard data that shows an increase in discretionary spending in the first half of 2025.

In Nigeria, fiscal reforms are likely to ease pressures on households, although inflation remains high by global standards. A weaker U.S. dollar and lower energy prices may support disinflation, opening the door for further rate cuts. Mastercard data suggest that consumers in Nigeria have already increased their discretionary spending in the first half of 2025, on travel in particular.

Investments in renewable energy, transport and logistics infrastructure, natural resources and urban development should bolster growth. Gulf countries are financing major projects to deepen economic and trade ties. However, commodity price volatility and weaker global growth pose risks. High debt levels limit fiscal stimulus, while infrastructure gaps, unreliable energy supply and structural challenges remain significant constraints.

### Households have greater purchasing power when wage growth outpaces inflation

Nominal wage growth and CPI inflation (% YoY) | South Africa




Source: Statistics South Africa, Mastercard Economics Institute

# New retail frontiers support growth in the Chinese Mainland

## Evolution of the economy reveals new consumer preferences, retail channels and centers of growth

- In 2026, MEI forecasts that the Chinese Mainland real GDP growth will ease to 4.5%, from 4.8% in 2025.
- Consumers are focusing on quality and the emotional resonance of purchases.
- Key risks continue to stem from the weakness of the property sector and subdued external demand.

MEI forecasts that the Chinese Mainland real GDP growth will ease to 4.5% in 2026, as compared with an estimated 4.8% in 2025. While the headline figure suggests a modest slowdown, growth dynamics are expected to remain uneven across sectors. A weaker property sector and subdued external demand may weigh on activity in early 2026, but a gradual recovery in household consumption and selective policy support should help build momentum in the second half of the year. MEI expects two policy rate cuts in the first half of 2026, of 10 basis points each, bringing the 7-day reverse repo rate to 1.1%. Inflation is projected to edge up to 0.5% in 2026 from 0.2% in 2025, lifted by ongoing structural reforms and targeted fiscal measures under the government's anti-involution campaign.

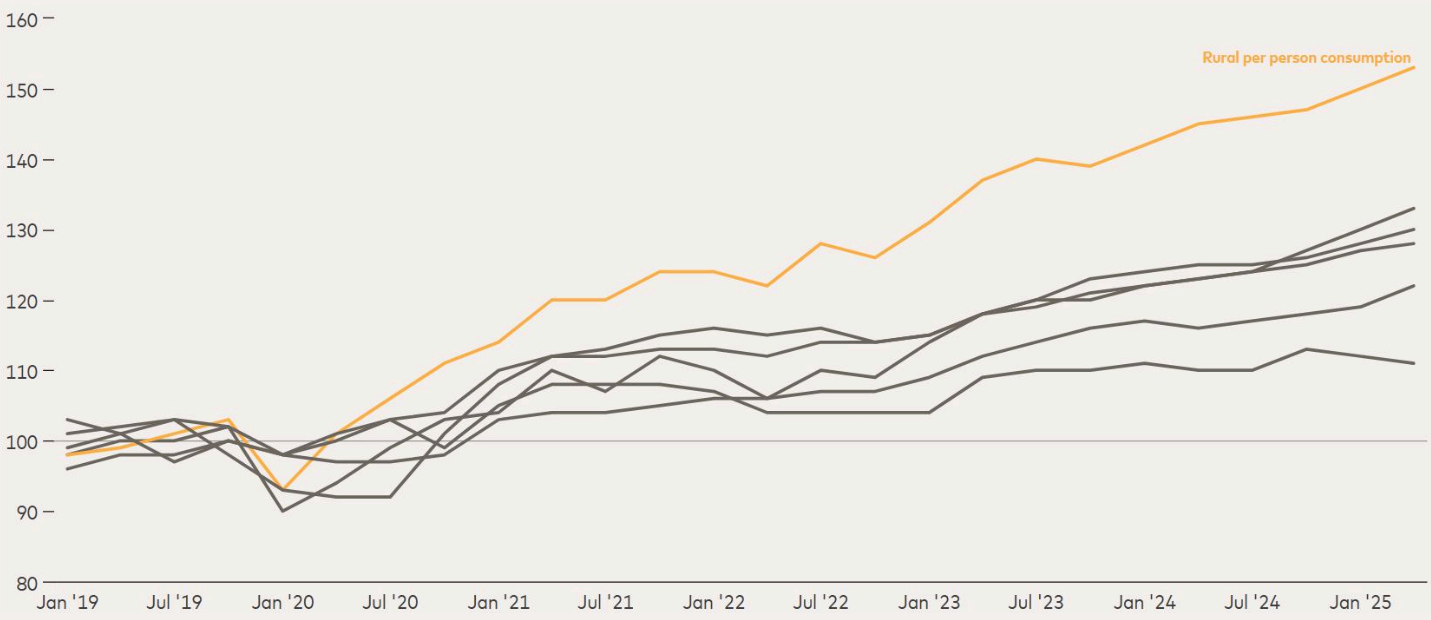
Consumption in the Chinese Mainland is expected to play an increasingly central role in sustaining growth. The broad-based spending boom that characterized the 2000s has given way to more resilient patterns of demand. Rather than trading down, households are increasingly "trading smart," carefully balancing affordability with selective premium purchases. Within this evolving landscape, the strongest momentum lies in "new consumption" — categories that offer emotional value and instant gratification, including beauty, wellness and lifestyle upgrades, as well as pop collectibles and fandom-driven entertainment. This reflects a more mature stage of development, where quantity matters less than quality, and value is defined not only by functionality but also by emotional resonance. As a result, companies must navigate a more fragmented, discerning consumer base — in which women, seniors and pet owners hold expanding influence — that grows by differentiating rather than scaling.

Retail channels are also transforming rapidly. Membership-based discounters and content-driven e-commerce platforms are capturing consumer attention, while livestreaming and short-form video are driving impulsive yet powerful purchasing decisions. Importantly, growth is no longer concentrated in Tier 1–2 cities. Younger, digital-native households in Tier 3–4 markets are fueling demand in autos, healthcare, education and lifestyle services, marking these areas as the new frontier of consumption growth.

Under the upcoming 15th Five-Year Plan (2026–2030), common prosperity is expected to remain a guiding principle, with emphasis on expanding the middle class, improving healthcare and education access and raising labor's share of income. For policymakers, the challenge lies in translating these structural initiatives into stronger household demand, setting the tone for the country's next stage of economic development.

**Consumption is becoming more emotional and experiential, with "new consumption" increasingly driven by lower-tier-city consumers**

Consumption growth by category and region, seasonally adjusted, indexed 2019 = 100




Note: Rural per person consumption

Source: National Bureau of Statistics, Mastercard Economics Institute

# From boom to balance: Uneven growth landscape in ASEAN-5

## Diverging economic narratives but travel remains strong throughout the region

- In 2026, the growth trajectories of the ASEAN-5 nations are expected to diverge as the economy expands steadily in Indonesia and the Philippines and moderates in Malaysia, Singapore and Thailand.
- Travel, both domestic and outbound international, continues to grow in most of the region.
- Key risks include geopolitical tensions that could drive energy price volatility and softening of external demand, which may impact employment.

In 2026, the growth trajectories of the ASEAN-5 nations are expected to diverge. GDP is projected to expand steadily in Indonesia and the Philippines, while Malaysia, Singapore and Thailand may grow more slowly.

Travel remains an important economic driver. Domestic travel demand is rising in Malaysia and Indonesia, while outbound travel spending continues to grow in Singapore, Malaysia, Indonesia and the Philippines, according to official sources.[3] Singapore, the region's largest outbound travel spender, recorded a US$2.7 billion increase in spending in the first half of 2025 compared to the same period in 2019. Indonesia and the Philippines led in growth rates, with outbound travel spending up 40% and 28%, respectively, over the same period.

### Indonesia

MEI expects 5% real GDP growth in 2026, supported by easier monetary policy and fiscal support. Inflation is forecast to rise to 2.6%, remaining within the central bank's target range, allowing for further monetary easing. MEI expects the policy rate to end the year at 4.25%. Household spending resilience will probably be concentrated among higher-income groups, as food inflation weighs on broader consumption.

### Philippines

MEI forecasts real GDP growth of 5.6% in 2026, with inflation rising to 2.8%. Because that is within the target range, further monetary policy easing may be possible; interest rates are expected to fall to 4.50% by the end of 2026. Strong borrowing momentum continues to support household spending, and lower interest rates may help sustain this trend.

### Malaysia

MEI projects real GDP growth to moderate to 4.2% in 2026, following robust post-pandemic performance. The deceleration reflects a normalization in domestic demand rather than economic weakness. A strong labor market and government subsidies are expected to continue to support household spending. Inflation is projected to be 2.1% in 2026, with the central bank unlikely to change rates.

### Singapore

MEI forecasts real GDP growth to consolidate to 2.2% in 2026, following two strong years. Inflation is expected to edge up to 1.3% in 2026 from a low base in 2025 caused by reduced global commodity prices. Domestic-driven economic resilience has prompted the central bank to pause easing unless external conditions deteriorate.

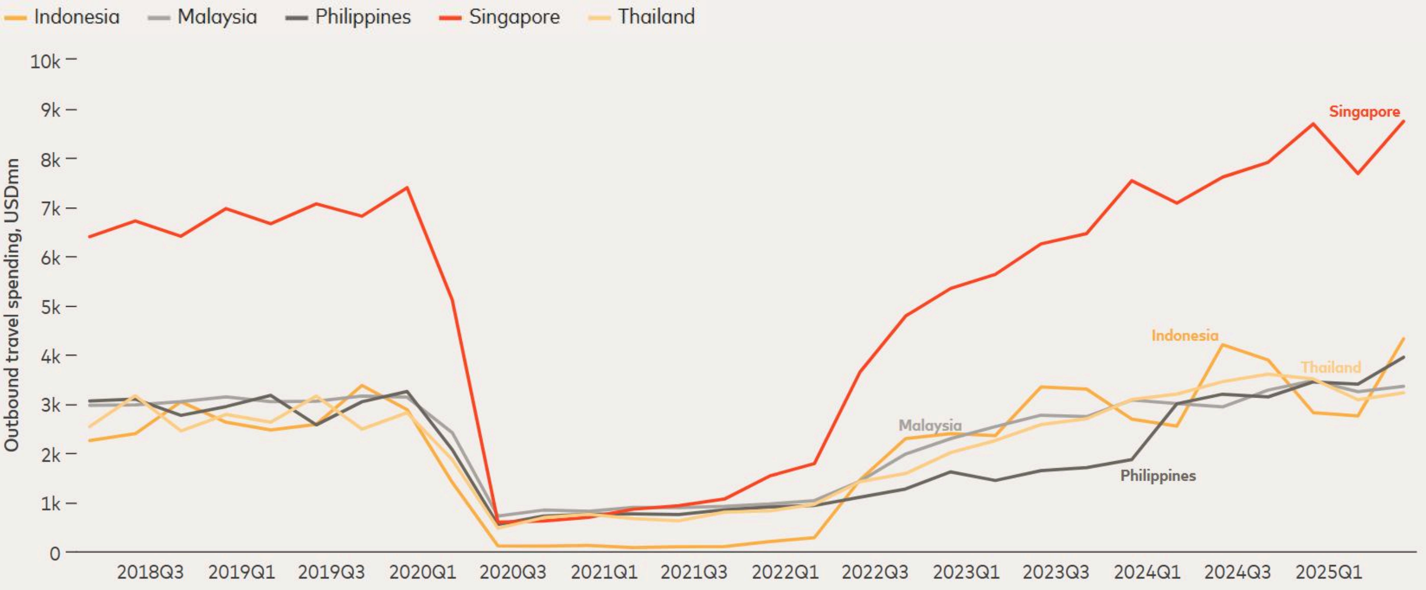
### Thailand

MEI forecasts real GDP growth will slow to 1.8%, with downside risks. Despite a tight labor market, weak real wage growth and population decline are expected to dampen domestic demand. As a result, inflation is forecast to fall to 0.8%. A strong baht, buoyed by high gold prices, is also eroding export competitiveness. MEI expects further monetary easing; the policy rate will end 2026 at 1.25%, and the cut might materialize in late 2025.

Key risks include geopolitical tensions that could drive energy price volatility and softening of external demand, which may impact employment.

## Outbound travel spending still has room to grow in most of ASEAN

Outbound travel spending by source market (millions USD)




Source: Bangko Sentral ng Pilipinas, Bank Indonesia, International Monetary Fund, Malaysia Department of Statistics, Thailand Office of the National Economic and Social Development Council, Mastercard Economics Institute

# From tourism to wages: Japan's growth engine shifts inward

## Japan transitions to a more balanced growth cycle, with domestic forces in the lead

- MEI forecasts that Japan's economy will remain resilient in 2026, growing by 1.0%.
- Real income growth revival is laying the foundation for a more sustainable cycle of household spending and corporate investment.
- Key risks are the impact of U.S. tariffs on Japanese exports and the diminishing incremental contribution of tourism to Japan's economic growth.

MEI expects Japan's economy to remain resilient, growing 1.0% in 2026 — marginally slower than an estimated 1.2% in 2025 — as the impact of U.S. tariffs weighs on exports and domestic demand gains traction. Inflation is projected to ease slightly, from 1.9% to 1.7%, converging toward the Bank of Japan's 2% target amid rising wages and firmer corporate pricing power.

Prime Minister Sanae Takaichi's "responsible active" fiscal policy combines selective tax relief with strategic investments in semiconductors, AI and energy security. Monetary policy is likely to stay accommodative, with close coordination between the cabinet and the Bank of Japan. MEI expects one rate hike in 2026, bringing the policy rate to 1%.

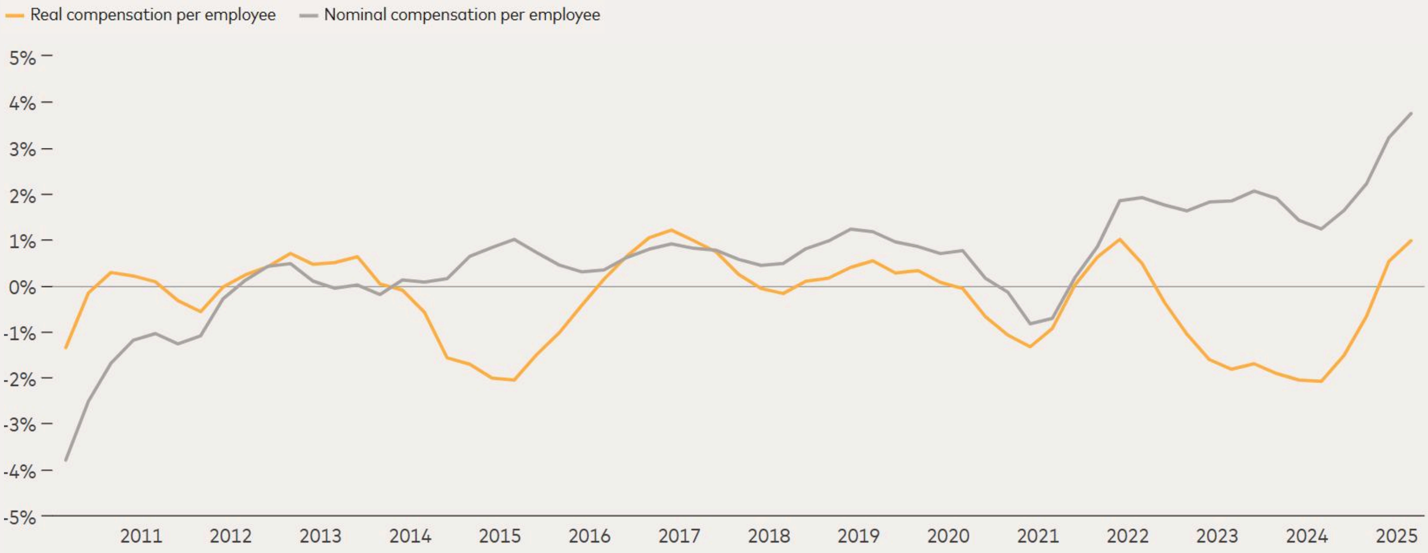
Together, these factors suggest that Japan is transitioning toward a more balanced, wage-driven growth cycle. A central element in this transition is the revival of wage growth. After a long period of subdued pay and muted inflation, recent Shuntō wage negotiations indicate that firms are more willing to raise compensation to secure and retain workers in a tight labor market. Importantly, wages are now outpacing prices, boosting real incomes and laying the foundation for a more sustainable cycle in which household spending and corporate investment reinforce each other.

Household confidence is recovering. Surveys show that the propensity to consume climbed to 64% in mid-2025, while spending on services and recreation continues to normalize toward pre-pandemic levels. The housing market also signals renewed optimism: Prices have risen steadily since 2009 and growth has accelerated in recent years. Credit growth has resumed as well, with household debt still modest by international standards, leaving room for expansion. These trends suggest that households may be positioned to sustain stronger consumption in the years ahead.

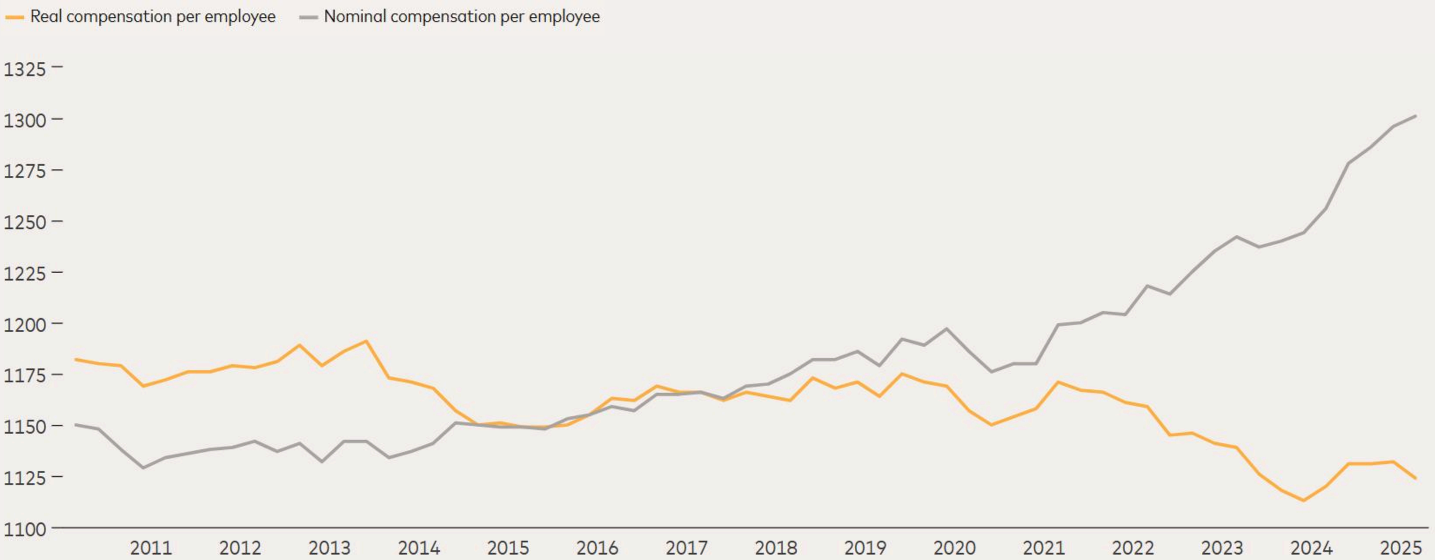
Tourism's role as a growth driver is receding, but this reflects a healthier balance in the economy. The extraordinary rebound in inbound travel has largely stabilized, with visitor arrivals holding above pre-pandemic levels. Yet the incremental contribution to GDP is diminishing, creating space for domestic forces to take the lead.

## A tight labor market underpins solid wage growth

Compensation per employee in Japan, year-on-year




Compensation per employee in Japan, JPY




Source: Ministry of Health, Labour and Welfare, Mastercard Economics Institute

# Tourism and policy support spark new growth in South Asia

## India supported by policy, demographics and digitalization; Sri Lanka boosted by tourism

- MEI forecasts that India's real GDP growth will consolidate toward long-term trends at 6.6% and Sri Lanka's will moderate to 3.7%, with inflation at 4.2% and 4.5%, respectively, in 2026. Bangladesh's economy is likely to grow at 5%, with inflation at 7.5%.
- Tourism beyond the traditional hubs may be a critical growth lever for the region.
- Global disruptions that affect supply chains and external market stability, along with climate-related volatility, especially in food prices, pose downside risks.

MEI expects India's economy to consolidate toward long-term trends in 2026. GDP growth will likely moderate to 6.6% and inflation will rise to 4.2%, following strong performance in 2025 (7.8% growth, 2.2% inflation). Domestic policy support — through front-loaded monetary easing, income tax reforms and rationalization of goods and services tax (GST) rates — may bolster personal consumption, while targeted export support may mitigate downside risks.

Disinflationary impulses from lower commodity and global goods prices may support India's growth resilience. Structural drivers, such as digitization, technological advancements and favorable demographics, may continue to position India among the fastest-growing major economies.

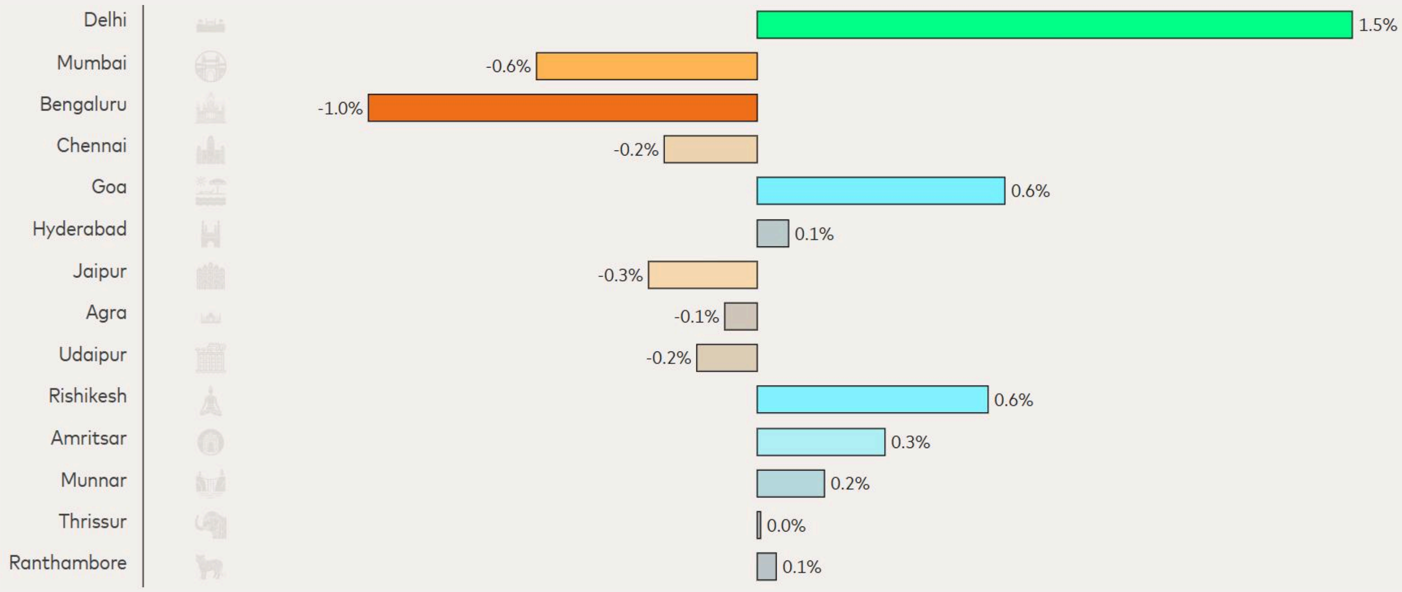
External headwinds persist. High U.S. tariffs may challenge labor-intensive sectors like textiles, gems and jewelry, while tightening immigration norms could impact IT services through reduced labor mobility, travel flows and remittances. The progress on the ongoing US-India trade deal will be closely watched. These shifts also present opportunities for India to diversify supply chains and expand goods trade through bilateral and regional agreements — fueling growth in global capability centers and Tier 2–3 cities.

MEI expects Sri Lanka's GDP growth to moderate to 3.7% in 2026 from 4.4% in 2025. Nonetheless, the underlying economic momentum remains robust, supported by private consumption, investment, low inflation, strong remittances, rising tourism receipts and accommodative monetary policy. Bangladesh's economy shows signs of recovery, aided by easing inflation and remittance inflows, though structural challenges and policy uncertainty persist.

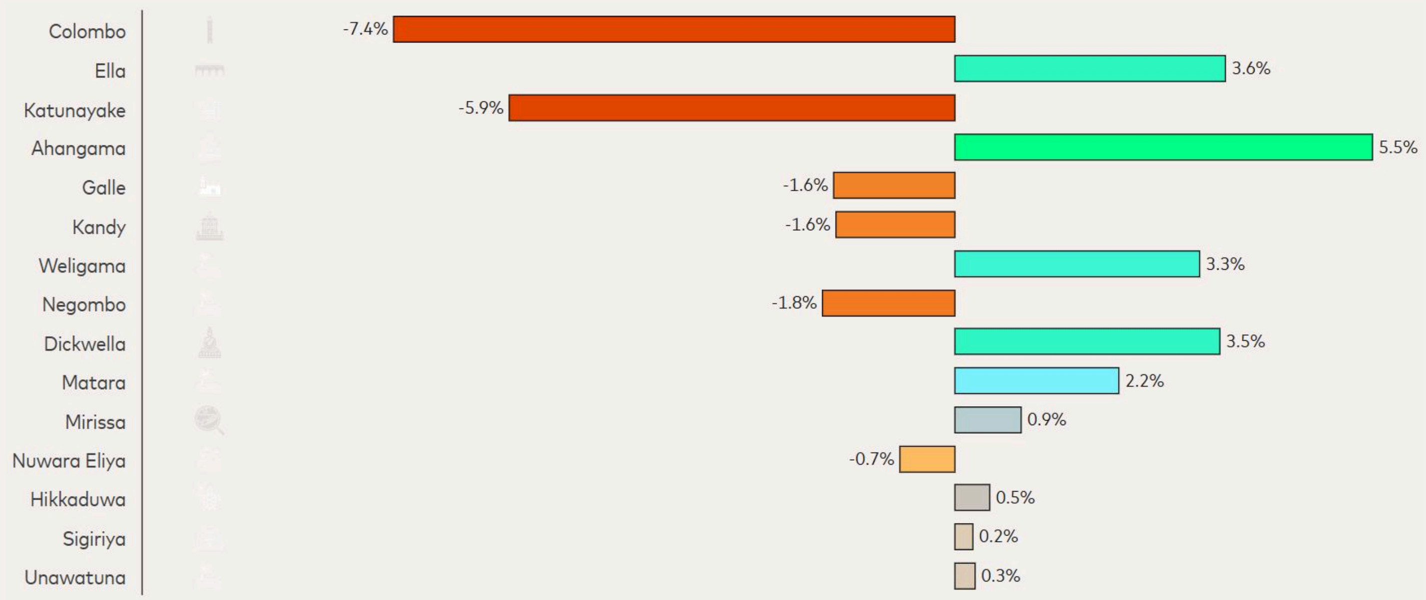
In this context, tourism is emerging as a critical growth lever for the region — enhancing external stability and supporting small businesses, local communities and consumption. Tourism is growing beyond traditional urban centers; for example, in India, the beaches of Goa, the wellness retreats of Rishikesh and the Golden Temple in Amritsar are attracting tourists; the same is true of the leisure-led southern tip of the island nation of Sri Lanka.

## Inbound tourism is expanding beyond the traditional hubs

India: City share of total transactions | Percentage point difference 2025 vs. 2019




Sri Lanka: City share of total transactions | Percentage point difference 2025 vs. 2019




Note: City order is by share of transactions in 2025
Source: Mastercard Economics Institute

# Households Drive Oceania's Recovery

## Reinvigorated consumer demand kick-starts growth in Australia and New Zealand

- MEI forecasts real GDP growth to improve to 2.3% in Australia and 2.4% in New Zealand as easing cost of living pressures improve domestic demand.
- Higher disposable incomes and lower-cost essentials are encouraging improved discretionary spending.
- Global uncertainty and supply chain disruptions pose downside risks to our growth outlook.

MEI forecasts improved economic conditions in Australia and New Zealand in 2026 as lower interest rates and contained inflation reinvigorate domestic demand after a challenging two years. GDP growth is projected to reach 2.3% in Australia and 2.4% in New Zealand. Improved household consumption is expected to drive the initial phase of recovery.

In both countries, the household spending recovery is likely to be uneven across income groups. Affluent households have largely absorbed the inflationary shock and maintained robust spending patterns. In contrast, middle-income households are only now beginning to regain purchasing power as inflation moderates and interest rates ease.

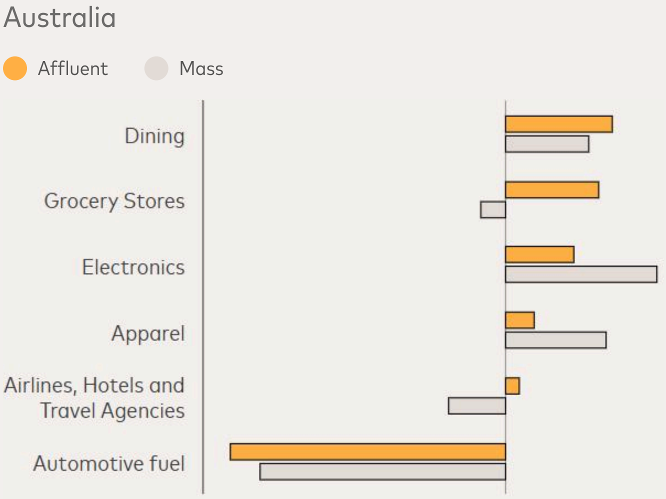
While inflation in Australia and New Zealand has retreated and is forecast to remain relatively contained in 2026, at 2.5% and 2.1%, respectively, the overall price level for essential goods and services — including groceries, insurance and healthcare — remains elevated. As a result, many households continue to feel the pinch, perpetuating their focus on affordability and trading down.

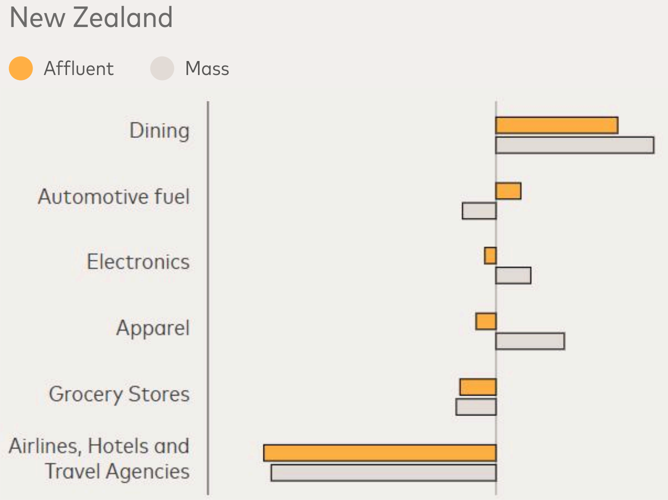
Despite these constraints, households across the income spectrum are prioritizing experiences in their discretionary spending. Affluent consumers, with greater financial flexibility, are more likely to book high-cost experiences such as travel, which remains a desirable but premium category. Meanwhile, mass-market consumers are gravitating toward lower-cost experiential spending — such as local leisure, dining and entertainment — where value and accessibility are key.

Australia's recovery is further along than New Zealand's. New Zealand's economy was hit hard by more aggressive interest rate hikes, and rate cuts typically take longer to filter through the economy due to the prevalence of fixed-term mortgages.

## Consumers have increased discretionary spending capacity

Percentage point change in year-over-year growth by category as compared to the industry average, H1 2025 | Spend




Note: Outperformance is calculated as ppt change in year-over-year growth in total domestic spending of consumer

Source: Mastercard Economics Institute

# Notes and Disclaimer

## Footnotes

[1] Bureau of Economic Analysis.
[2] Based on data from January-October 2025. Year-over-year changes compare January-October 2024 with January-October 2025. Source: Central Bank of Mexico.
[3] Bangko Sentral ng Pilipinas, Bank Indonesia, International Monetary Fund, Malaysia Department on Statistics, Thailand Office of National Economic and Social Development Council, Mastercard Economics Institute.

## About the Mastercard Economics Institute

The Mastercard Economics Institute provides insights into global and local economic trends using advanced analytics and Mastercard's proprietary data assets. Established in 2020, MEI supports businesses, governments, and policymakers with economic monitoring services and timely analysis on economic themes including consumer spending, retail and travel trends, and other local and global barometers of economic performance. MEI offers valuable perspectives to inform decision-making and promote sustainable growth worldwide through our thought leadership series, and through Mastercard's specialized product offerings.

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