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Inflation Relief Meets New Global Risks



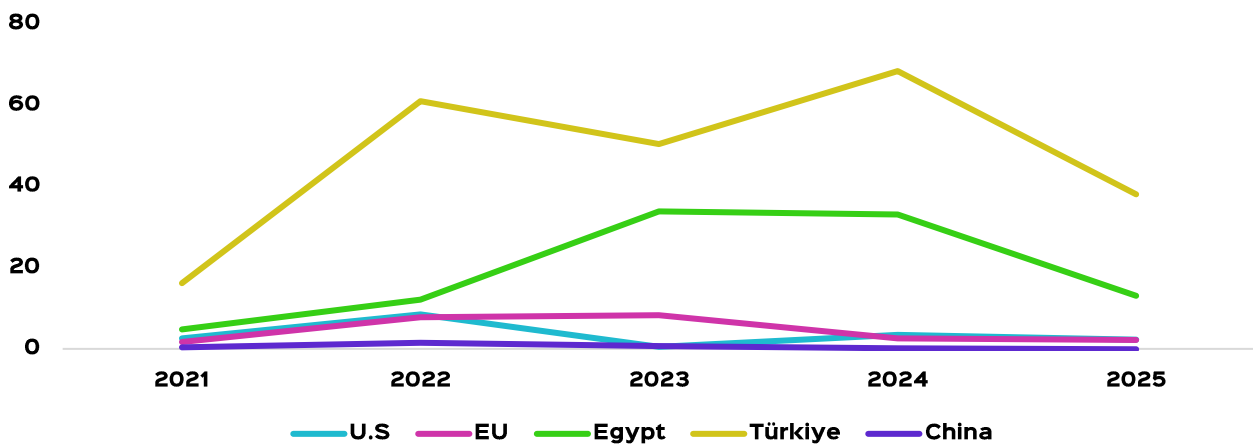
Background

Inflation again and again...

After years of relatively stable inflation, the global economy experienced a sharp surge in price pressures following the COVID-19 pandemic. Supply chain disruptions, rising shipping costs, labor shortages, and strong post-pandemic demand pushed inflation to multi-year highs across many economies. Inflation accelerated further after the Russia–Ukraine war, which drove sharp increases in global food, energy, and transportation costs, particularly during 2022 and 2023.

As inflation climbed to historically elevated levels reaching above 9% in the U.S. and double-digit levels across several emerging economies (as illustrated in the figure below), central banks responded with one of the fastest monetary tightening cycles in decades. Interest rates increased sharply across major economies in an effort to slow demand, stabilize expectations, and contain price growth. These measures gradually contributed to easing inflation during 2024 and 2025, leading markets to increasingly expect interest-rate cuts and a broader shift toward monetary easing.

Figure 1. The Global Inflation Cooldown



Source: Financial Markets Snapshot – Issue 28

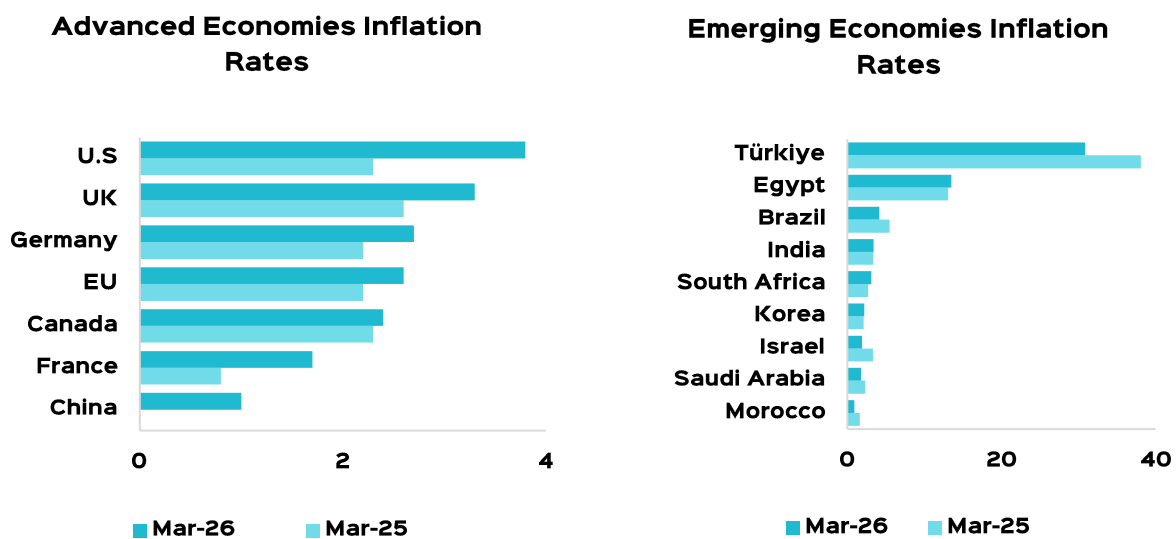
What is happening?

As shown in the charts below, inflation rates across many economies declined significantly from their post pandemic peaks, with conditions improving through 2025. However, 2026 has marked a clear and broad-based reversal, with inflation rising sharply across all economies tracked. This resurgence has been driven by two compounding forces: escalating geopolitical tensions in the Middle East disrupting key oil shipping routes and pushing energy prices markedly higher, and the ongoing inflationary effects of U.S. trade tariffs continuing to feed into import costs and supply chains globally.

Unlike the post pandemic inflation wave – which was largely supply side and temporary in nature – the current pressures in 2026 reflect a more complex mix of geopolitical risk, trade policy, and still-elevated services inflation in advanced economies such as the U.S. and the UK. This combination suggests that inflation may prove more persistent and harder to contain than markets had previously anticipated.

Emerging markets face a particularly acute version of this challenge. Higher oil prices place additional pressure on import bills, exchange rates, and domestic prices in countries heavily dependent on imported energy and unlike advanced economies, they have significantly less policy room to absorb these shocks. Economies such as Egypt and Türkiye therefore remain more exposed to renewed inflationary pressures compared to several advanced economies.

Figure 2. Inflation Rates Across Advanced and Emerging Economies



Source: Financial Markets Snapshot – Issue 28

What this means

The developments of 2026 have placed central banks in a position few had expected to face at this stage of the cycle. Until recently, the sharp inflation shock following the pandemic had largely been expected to be under control, with central banks widely projected to begin lowering interest rates through 2025 and 2026.

This shift has created a genuine dilemma for central banks, and particularly so for those in emerging markets. Cutting interest rates too quickly risks reigniting inflationary pressures, while keeping rates elevated for longer places additional strain on economic growth, borrowing costs, and investment activity. For emerging markets,



this dilemma goes beyond monetary policy alone – higher oil prices simultaneously drive up import bills and weaken local currencies, amplifying domestic inflation at a time when fiscal buffers are already stretched and growth is fragile.

Rather than converging toward a shared recovery path, economies now appear to be diverging. Advanced economies with stronger labor markets and deeper financial buffers face a slower and more manageable adjustment, while energy-importing emerging markets face a sharper and more painful tradeoff. This suggests that the path toward global inflation stabilization may become slower and more uneven than previously expected.

In simple terms:

While inflation improved significantly following aggressive interest-rate hikes during 2022–2024 and many economies were on track toward lower interest rates, rising oil prices, trade-related costs, and renewed geopolitical tensions are now raising the risk that inflation picks up again, placing central banks, especially in emerging markets, in a difficult position between controlling inflation and protecting economic growth.