

INTERNATIONAL MONETARY FUND

WORLD ECONOMIC OUTLOOK

Global Economy in Flux,
Prospects Remain Dim

2025
OCT



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Errata

October 22, 2025

This web version of the WEO has been updated to reflect the following changes to the version published online on October 14, 2025:

- Chapter 1, Commodity Special Feature, page 35: “Vida Maver” was added to the contributor list footnote.
- Chapter 2, section titled “The Contribution of Policy Frameworks to Macroeconomic Stabilization,” page 62: “Easterly and others (1993)” was added to the first sentence. The full reference was added to the reference list on page 72.
- Chapter 2, Figure 2.3.1, panel 2, page 70: “(Percent)” was corrected to “(Percentage points).”
- Statistical Appendix, Table A2, page 125: The data for the first 12 columns for the Czech Republic and Norway were corrected.



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ASSUMPTIONS AND CONVENTIONS

A number of assumptions have been adopted for the projections presented in the *World Economic Outlook* (WEO). It has been assumed that real effective exchange rates remained constant at their average levels during August 1–August 29, 2025, except for those for the currencies participating in the European exchange rate mechanism II, which are assumed to have remained constant in nominal terms relative to the euro; that established policies of national authorities will be maintained (for specific assumptions about fiscal and monetary policies for selected economies, see Box A1 in the Statistical Appendix); that the average price of oil will be \$68.92 a barrel in 2025 and \$65.84 a barrel in 2026; that the three-month government bond yield for the United States will average 4.3 percent in 2025 and 3.7 percent in 2026, that for the euro area will average 2.0 percent in 2025 and 2.1 percent in 2026, and that for Japan will average 0.4 percent in 2025 and 0.8 percent in 2026; and that the 10-year government bond yield for the United States will average 4.3 percent in 2025 and 4.1 percent in 2026, that for the euro area will average 2.5 percent in 2025 and 2.6 percent in 2026, and that for Japan will average 1.5 percent in 2025 and 1.7 percent in 2026. These are, of course, working hypotheses rather than forecasts, and the uncertainties surrounding them add to the margin of error that would, in any event, be involved in the projections. The estimates and projections are based on statistical information available through September 30, 2025, but may not reflect the latest published data in all cases. For the date of the last data update for each economy, please refer to the notes provided in the online WEO database.

The following conventions are used throughout the WEO:

- . . . to indicate that data are not available or not applicable;
- – between years or months (for example, 2024–25 or January–June) to indicate the years or months covered, including the beginning and ending years or months; and
- / between years or months (for example, 2024/25) to indicate a fiscal or financial year.
- “Billion” means a thousand million; “trillion” means a thousand billion.
- “Basis points” refers to hundredths of 1 percentage point (for example, 25 basis points are equivalent to ¼ of 1 percentage point).
- Data refer to calendar years, except in the case of a few countries that use fiscal years. Please refer to Table F in the Statistical Appendix, which lists the economies with exceptional reporting periods for national accounts and government finance data.
- For some countries, the figures for 2024 and earlier are based on estimates rather than actual outturns. Please refer to Table G in the Statistical Appendix, which lists the latest actual outturns for the indicators in the national accounts, prices, government finance, and balance of payments for each country.

What is new in this publication:

- Data for Liechtenstein have been added to the database and are included in the advanced economies group composites.

In the tables and figures, the following conventions apply:

- Tables and figures in this report that list their source as “IMF staff calculations” or “IMF staff estimates” draw on data from the WEO database.
- When countries are not listed alphabetically, they are ordered on the basis of economic size.
- Minor discrepancies between sums of constituent figures and totals shown reflect rounding.

- Composite data are provided for various groups of countries organized according to economic characteristics or region. Unless noted otherwise, country group composites represent calculations based on 90 percent or more of the weighted group data.
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FURTHER INFORMATION

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The data and analysis appearing in the *World Economic Outlook* (WEO) are compiled by the IMF staff at the time of publication. Every effort is made to ensure their timeliness, accuracy, and completeness. When errors are discovered, corrections and revisions are incorporated into the digital editions available from the IMF website and on the IMF eLibrary (see below). All substantive changes are listed in the online table of contents.

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World Economic Studies Division
Research Department
International Monetary Fund
700 19th Street, NW
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PREFACE

The analysis and projections contained in the *World Economic Outlook* are integral elements of the IMF's surveillance of economic developments and policies in its member countries, of developments in international financial markets, and of the global economic system. The survey of prospects and policies is the product of a comprehensive interdepartmental review of world economic developments, which draws primarily on information the IMF staff gathers through its consultations with member countries. These consultations are carried out in particular by the IMF's area departments—namely, the African Department, Asia and Pacific Department, European Department, Middle East and Central Asia Department, and Western Hemisphere Department—together with the Strategy, Policy, and Review Department; the Monetary and Capital Markets Department; and the Fiscal Affairs Department.

The analysis in this report was coordinated in the Research Department under the general direction of Pierre-Olivier Gourinchas, Economic Counsellor and Director of Research. The project was directed by Petya Koeva Brooks, Deputy Director, Research Department, and Deniz Igan, Division Chief, Research Department.

The primary contributors to this report are Shekhar Aiyar, Hippolyte Balima, Mehdi Benatiya Andaloussi, Christian Bogmans, Marijn Arend Bolhuis, Patricia Gomez-Gonzalez, Francesco Grigoli, Thomas Kroen, Toh Kuan, Rafael Machado Parente, Chiara Maggi, Vida Maver, Jorge Miranda Pinto, Jean-Marc Natal, Diaa Noureldin, Galip Kemal Ozhan, Andrea Paloschi, Andrea F. Presbitero, Yu Shi, Sebastian Wende, and Zhao Zhang.

Other contributors include Maryam Abdou, Gavin Asdorian, Pedro de Barros Gagliardi, Jared Bebee, Francis Cuadros Bloch, Luis Brandao-Marques, Thomas J. Carter, Wenbo Chen, Owen Desberg, Angela Espiritu, Ganchimeg Ganpurev, Sarah Garcia, Daniel Garcia-Macia, Bertrand Gruss, Gee Hee Hong, Adam Jakubik, Maximiliano Jerez Osses, Marcin Kolasa, Siddharth Kothari, Jungjin Lee, Weili Lin, Jesper Linde, Giulio Lisi, Barry Liu, Rui Mano, Roland Meeks, Joseph Moussa, Dirk Muir, Emory Oakes, Clarita Phillips, Rafael Portillo, Sofia Quinonez, Shrihari Ramachandra, Lorenzo Rotunno, Isabela Rozario, Ilgim Simnick, Monika Sztajerowska, Hedda Thorell, Nicholas Tong, Hasan Toprak, Riya Varghese, Simon Voigts, Xinyi Wang, Evgenia Weaver, Yarou Xu, and Dian Zhi.

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The analysis has benefited from comments and suggestions by staff members from other IMF departments, as well as by Executive Directors following their discussion of the report on September 29, 2025. However, estimates, projections, and policy considerations are those of the IMF staff and should not be attributed to Executive Directors or to their national authorities.

FOREWORD

An Unchanged Outlook Masks Complex Forces as the Policy Landscape Shifts

In April of this year, the United States announced the imposition of sizable tariffs against most of its trading partners, in a major departure from trade policy rules and norms. Given the complexity and fluidity of the moment, as well as the lack of certainty about announced policies, the April 2025 *World Economic Outlook* (WEO) offered a range of estimates of the downward revision in global growth, from modest to significant, depending on the ultimate severity of the trade shock.

Six months later, where do we stand? The good news is that the negative impact on the global economy is at the modest end of the range. Thanks to the agility of the private sector, which front-loaded imports in the first half of the year and speedily reorganized supply chains to redirect trade flows, the negotiation of trade deals between various countries and the US and the overall restraint from the rest of the world, which by and large kept the trading system open, global growth is now projected at 3.2 percent this year and 3.1 percent next year.

Should we conclude that the shock triggered by the tariff surge had no effect on global growth? That would be both premature and incorrect.

Premature because the US effective tariff rate remains high (at about 19 percent), and trade tensions continue to cast a shadow over the global economy, with trade policy uncertainty remaining high. The effect of these tensions could well increase over time as firms gradually pass the tariffs on to customers as trade is rerouted more permanently and the global economy gradually becomes less efficient. Past experience suggests that it may take a long time before the full picture emerges.

Incorrect because other important forces, besides trade policy, are shaping a complex outlook. In the United States, stricter immigration policies are reducing the labor supplied by foreign-born workers, another negative supply shock. Yet, so far, this has been offset by a roughly equivalent decline in labor demand,

coming from a cyclical cooling after many years of strong job growth. This leaves the labor market in a precarious balance, with a mostly unchanged unemployment rate. Second, financial conditions remain very accommodative, with a dollar that has lost some of its strength. And third, we are witnessing a strong boom in artificial intelligence (AI)-related investment coupled with a modestly expansionary fiscal policy in 2026. These demand forces are supporting output while adding to the price pressures from the tariffs.

In the rest of the world, other drivers besides tariffs—both temporary and structural—are at play too. In China, the country hardest hit by US tariffs, growth is projected to decline only modestly, owing to a sharp depreciation of the real effective exchange rate, a front-loaded surge in exports toward Asian and European partners, and some fiscal expansion. In the euro area, fiscal expansion in Germany has played a role in boosting growth in 2025. Emerging market and developing economies have benefited from easier financial conditions, on the back of a depreciated dollar. They have also continued to demonstrate significant resilience, in part because of strong and improving policy frameworks, a theme explored in Chapter 2.

Incorrect also because, despite the offsets from other drivers, the tariff shock is dimming lackluster growth prospects. Global growth is projected to slow in the second half of this year, with only a partial recovery next year. Compared with the projections in the October 2024 WEO, this results in a cumulative global output loss of about 0.2 percent by the end of 2026. In the US, growth is revised down and inflation is revised up compared with last year's projections, clearly suggesting a negative supply shock.

Thus, despite a steady first half, the outlook remains insufficiently bright, with risks tilted to the downside. These are some of the risks that are key to the balance of the evolving outlook:

First, the current AI boom presents some parallels with the dot-com boom of the late 1990s. Market optimism about a new technology—the internet then, AI now—is pushing up stock valuations, fueling

a tech-centered investment boom, and sustaining consumption on the back of strong capital gains. This could push the neutral interest rate up. Should the AI boom continue unabated, the risk is that demand pressures accentuate further, requiring tighter policies. Indeed, between June 1999 and May 2000, the Federal Reserve needed to raise its policy rate by a cumulative 175 basis points to contain inflationary pressures. But the risk is also that lofty profit expectations will ultimately be unmet—as often happens when new general-purpose technologies are introduced. A significant market repricing, explored in more detail in the October 2025 *Global Financial Stability Report*, could impact aggregate wealth and consumption and spill over to broader financial markets.

Second, China's prospects remain weak. More than four years after the property bubble burst, the sector has still not been put on a firm footing. Real estate investment continues to shrink while the economy teeters on the verge of a debt-deflation cycle. Even more concerning, it is difficult to see how the strong contribution of manufacturing exports to the country's growth can be sustained. The signs are mounting that large-scale subsidies to the manufacturing sector have reached their limit and are contributing to significant misallocation of resources in the economy. This is evident in the contrast between strong productivity gains in some key industrial sectors, such as electric vehicles and solar panels, and the absence of *aggregate* productivity gains. As documented in Chapter 3, while industrial policy is increasingly used by countries to reshape their economies, this often comes with many fiscal and hidden costs.

Third, countries need to seriously address the strains on their public finances. With lower growth prospects, higher real interest rates, more elevated debt levels, and new spending needs for some countries on items such as defense or national security, the fiscal equation is becoming more challenging to solve and leaves countries vulnerable, should a large external shock occur. All major advanced economies saw their spreads rise during the April sell-off, and only a handful of safe haven countries, such as Switzerland, experienced a pronounced fall in longer-term yields—reflecting broader fiscal concerns in core bond markets. Low-income countries are even more vulnerable, given reduced official aid flows. For a rising number of countries, the lack of job opportunities could quickly translate into rising social unrest,

especially among an unemployed and disenfranchised young population.

Fourth, we are witnessing increased pressure on policy-setting institutions such as central banks. Should these pressures succeed, many of the hard-won credibility gains achieved in policymaking over many decades could be lost. Trust in central banks and in their ability to deliver price stability allows inflation expectations to remain well anchored even when the economy is hit by large shocks, such as during the recent cost-of-living crisis, as previous WEO reports have documented.

While downside risks dominate, all is not gloomy. A few important upside risks could quickly brighten the outlook. First, resolving and reducing policy uncertainty would provide a significant lift to the global economy. The October 2025 WEO shows that a material decrease in global economic policy uncertainty as a result of clearer and more stable bilateral and multilateral trade agreements can raise global output by 0.4 percent in the very near term. Lowering tariffs based on these agreements adds even more upside, of about 0.3 percent. Second, AI, beyond its effects on investment, could well improve total factor productivity. This WEO report finds that, under modest assumptions, this factor could add another 0.4 percent to global output in the near term.

This reiterates that policies can and should help restore confidence and predictability, which would improve growth prospects. For trade policy, the objective should be to update trade rules to reflect the changing nature of trade relations, looking to deepen trade relations where possible.

Fiscal policy should aim to reduce fiscal vulnerabilities gradually and credibly. Improving the efficiency of public spending is key and can help address crowding in private investment, as discussed in the October 2025 *Fiscal Monitor*. Monetary policy should remain tailored and transparent. Preserving the independence of monetary policy institutions is a precondition for macroeconomic stability. Technocratic institutions should be allowed to focus on their core mandate and provided with the tools to do so, including in terms of data provision.

Efforts to improve longer-term prospects must continue. While macroeconomic stability is a necessary precondition, governments should ensure that private entrepreneurs can innovate, thrive, and generate the growth of tomorrow. While it might be tempting to

implement sectoral industrial policies, the evidence suggests that their effectiveness can be very limited and the side effects considerable. The use of horizontal policies should instead be preferred: investment in education, public research, public infrastructure, good governance, financial and macroeconomic stability, and a regulatory environment that balances carefully the need for flexibility and innovation in the private sector and the need to contain risks.

Finally, work to strengthen the multilateral frameworks and institutions that have helped deliver considerable gains over the past decades must continue. If anything, an important reason for global resilience

so far is also that most countries have exercised restraint in trade policy retaliation, have sought to forge better trade deals, and are still operating under well-established global trading norms. The recent geopolitical tensions highlight how the need for an adaptive and pragmatic multilateral system is even greater than before. Because while it is easy to focus on the short-term costs and interests, cooperation in the face of global challenges remains the bedrock upon which to build a more prosperous and resilient global economy.

Pierre-Olivier Gourinchas
Economic Counsellor

EXECUTIVE SUMMARY

The rules of the global economy are in flux. Details of newly introduced policy measures are slowly coming into focus, and growth prospects are shifting along with them. After the United States introduced higher tariffs starting in February, subsequent deals and resets have tempered some extremes. But uncertainty about the stability and trajectory of the global economy remains acute. Meanwhile, substantial cuts to international development aid and new restrictions on immigration have been rolled out in some advanced economies. Several major economies have adopted a more stimulative fiscal stance, raising concerns about the sustainability of public finances and possible cross-border spillovers. The world's economies, institutions, and markets have been adjusting to a landscape marked by greater protectionism and fragmentation, with dim medium-term growth prospects and calling for a recalibration of macroeconomic policies.

At the onset of trade policy shifts and the surge in uncertainty, the April 2025 *World Economic Outlook* (WEO) revised the 2025 global growth projection downward by 0.5 percentage point to 2.8 percent. This was predicated on tariffs being supply shocks for tariff-imposing countries and demand shocks for the targeted, with uncertainty being a negative demand shock all around. By July, announcements that lowered tariffs from their April highs prompted a modest upward revision to 3.0 percent. Inflation projections, while little changed overall, went up for the United States and down for many other economies.

After a resilient start, the global economy is showing signs of a moderate slowdown, as predicted. Incoming data in the first half of 2025 showed robust activity. Inflation in Asian economies was subdued, while it remained steady in the United States. This apparent resilience, however, seems to be largely attributable to temporary factors—such as front-loading of trade and investment and inventory management strategies—rather than to fundamental strength. As these factors fade, weaker data are surfacing. The front-loading is unwinding, and labor markets are softening. Pass-through of tariffs to US consumer prices, previously muted, appears increasingly likely. Advanced

economies, traditionally reliant on immigration, are seeing sharp declines in net labor inflows, with implications for potential output.

Global growth is projected to slow from 3.3 percent in 2024 to 3.2 percent in 2025 and to 3.1 percent in 2026. This is an improvement relative to the July WEO *Update*—but cumulatively 0.2 percentage point below forecasts made before the policy shifts in the October 2024 WEO, with the slowdown reflecting headwinds from uncertainty and protectionism, even though the tariff shock is smaller than originally announced. On an end-of-year basis, global growth is projected to slow down from 3.6 percent in 2024 to 2.6 percent in 2025. Advanced economies are forecast to grow about 1½ percent in 2025–26, with the United States slowing to 2.0 percent. Emerging market and developing economies are projected to moderate to just above 4.0 percent. Inflation is expected to decline to 4.2 percent globally in 2025 and to 3.7 percent in 2026, with notable variation: above-target inflation in the United States—with risks tilted to the upside—and subdued inflation in much of the rest of the world. World trade volume is forecast to grow at an average rate of 2.9 percent in 2025–26—boosted by front-loading in 2025 yet still much slower than the 3.5 percent growth rate in 2024—with persistent trade fragmentation limiting gains.

Risks to the outlook remain tilted to the downside, as they were in previous WEO reports. Prolonged policy uncertainty could dampen consumption and investment. Further escalation of protectionist measures, including nontariff barriers, could suppress investment, disrupt supply chains, and stifle productivity growth. Larger-than-expected shocks to labor supply, notably from restrictive immigration policies, could reduce growth, especially in economies facing aging populations and skill shortages. Fiscal vulnerabilities and financial market fragilities may interact with rising borrowing costs and increased rollover risks for sovereigns. An abrupt repricing of tech stocks could be triggered by disappointing results on earnings and productivity gains related to artificial intelligence (AI), marking an end to the AI investment boom and

the associated exuberance of financial markets, with the possibility of broader implications for macrofinancial stability. Pressure on the independence of key economic institutions, such as central banks, could erode hard-earned policy credibility and undermine sound economic decision making, including as a result of reduced data reliability. Commodity price spikes—stemming from climate shocks or geopolitical tensions—pose additional risks, especially for low-income, commodity-importing countries. On the upside, a breakthrough in trade negotiations could lower tariffs and reduce uncertainty. Renewed reform momentum in an effort to navigate the intensifying challenges could give a boost to medium-term growth. Faster productivity growth because of AI could bring economy-wide gains.

The task ahead is to restore confidence through credible, predictable, and sustainable policy actions. Policymakers should establish clear, transparent, and rules-based trade policy road maps to reduce uncertainty and support investment and to reap the productivity and growth benefits that more trade brings. Trade rules should be modernized for the digital age and offer opportunities for stronger multilateral cooperation. Pairing trade diplomacy with macroeconomic adjustment is crucial for correcting persistent external imbalances by addressing their underlying causes and securing lasting gains. Rebuilding fiscal buffers and safeguarding debt sustainability remain a priority.

Medium-term fiscal consolidation should involve realistic, balanced plans that combine spending rationalization and revenue generation. Any new support measures should be temporary, well-targeted, and offset by clear savings. Monetary policy should be calibrated to balance price stability and growth risks, in line with central banks' mandates. Preserving the independence of central banks remains critical for anchoring inflation expectations and enabling them to achieve their mandates. As Chapter 2 shows, past actions to improve policy frameworks have served emerging market and developing economies well in increasing resilience to risk-off shocks. Countries should embrace reform without any further delay to enhance resilience as a new global economic landscape takes shape. Efforts on structural reforms—promoting labor mobility, encouraging workforce participation, investing in digitization, and strengthening institutions—should be redoubled now to lift growth prospects. As Chapter 3 demonstrates, industrial policy may have a role in improving resilience and growth, but full consideration should be given to opportunity costs and trade-offs involved in its use. For low-income countries, mobilizing domestic resources, including through governance and administrative reforms, is essential as external aid declines. In times of uncertainty, scenario planning and predesigned policy playbooks can improve preparedness and credibility, ensuring that policy responses are both effective and timely.

GLOBAL PROSPECTS AND POLICIES

A New Global Economic Landscape Slowly Takes Shape

The year 2025 has been fluid and volatile, with much of the dynamics driven by a reordering of policy priorities in the United States and the adaptation of policies in the other economies to new realities. Trade news has dominated the headlines, and, along with them, perceived prospects for the global economy have fluctuated. As observed in the April 2025 *World Economic Outlook* (WEO), a series of new tariff measures by the United States lifted tariff rates to levels not seen in a century. Countermeasures by US trading partners were limited, barely moving the effective tariff rate on US exports. A flurry of announcements followed, including trade deals between the United States and several of its trading partners and a reset to higher tariff rates for countries without a trade deal (see the WTO-IMF Tariff Tracker for a summary). As a whole, the announcements brought down the US effective tariff rates from their April highs, gravitating toward a range between 10 percent and 20 percent for most countries (Figure 1.1). Nonetheless, tariffs are very far from falling back to their 2024 levels. Trade policy uncertainty remains elevated in the absence of clear, transparent, and durable agreements among trading partners—and with attention starting to shift from the eventual level of tariffs to their impact on prices, investment, and consumption (Figure 1.2).

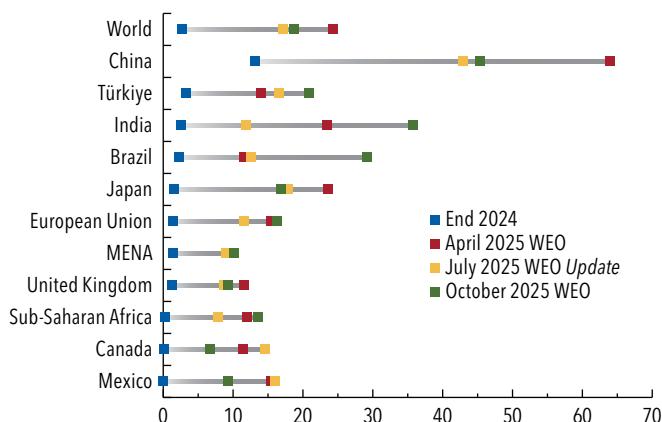
There have also been changes in other policy domains. On the international side, sizable cuts in development aid and more restrictive stances on immigration have been introduced. Official development assistance dropped by 9 percent in 2024 and, based on announced cuts by major donors, a drop of similar magnitude is expected in 2025 (OECD 2025). Low-income developing countries face the largest impact, although with different effects among members of this group. Meanwhile, net migration into several advanced economies that have been traditional recipients of migrant inflows has declined sharply. On the domestic side, in major economies—most notably, the United States—a shift toward a more stimulative fiscal stance, including from changes in defense

spending in some cases, has also raised concerns about the lack of adjustment toward more sustainable public finances and has broad cross-border spillovers. Meanwhile, progress on long-overdue growth-enhancing structural reforms continues to be stalled.

As the new landscape takes shape, the world is adapting. The evolution of WEO projections painted a picture of a significant, though not massive, impact of shifting policies on the economic outlook. The tariff shock in April and the associated uncertainty with which it unfolded prompted a downward revision of the global growth projection for 2025, by 0.5 percentage point to 2.8 percent, in the April 2025 WEO. In the July 2025 WEO *Update*, it was mainly the lowering of tariff rates and the implications thereof for uncertainty and financial conditions that drove a modest 0.2 percentage point upward revision of the 2025 global growth projection to 3.0 percent. Global inflation projections were revised little in April and July, but revisions in different directions across countries offset each other. Specifically, inflation forecasts were revised upward in the United States but downward in many other jurisdictions, consistent with the expectation that the shifting international trade landscape would imply a supply shock in the tariffing country and a demand shock in the tariffed countries.

To date, more protectionist trade measures have had a limited impact on economic activity and prices. Growth held up in the first half of the year, with year-over-year quarterly annualized growth rates persisting at about 3½ percent. Inflation has shown more mixed signals. Globally, sequential headline and core inflation edged up. Relative to WEO projections, inflation readings surprised on the upside in Mexico and the United Kingdom. By contrast, inflation in India, Malaysia, the Philippines, and Thailand surprised on the downside. In China, inflation developments were broadly in line with expectations, with consumer price inflation remaining at very low levels and producer price inflation continuing to be negative. In the United States, headline inflation held steady, driven by moderating price increases in core services and with disinflationary dynamics in goods prices receding.

**Figure 1.1. US Effective Tariff Rates by Country
(Percent)**

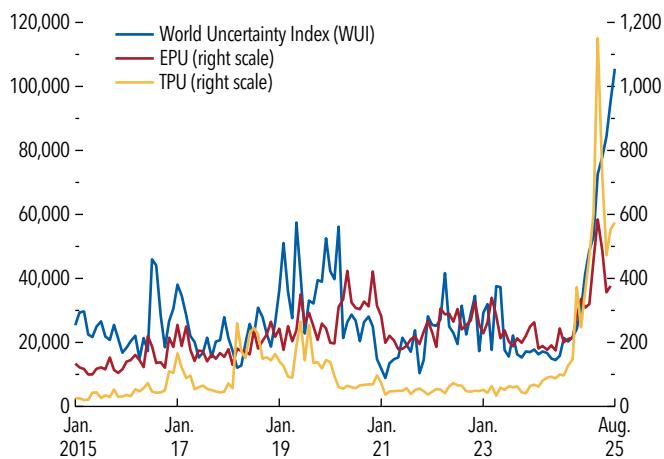


Sources: US International Trade Commission; WTO-IMF Tariff Tracker; and IMF staff calculations.

Note: The effective tariff rate is a weighted average of announced statutory rates.
MENA = Middle East and North Africa; WEO = *World Economic Outlook*; WTO = World Trade Organization.

The unexpected resilience in activity and muted inflation response reflect—in addition to the fact that the tariff shock has turned out to be smaller than originally announced—a range of factors that provide temporary relief, rather than underlying strength in economic fundamentals. Households and businesses front-loaded their consumption and investment in anticipation of higher tariffs. This gave a temporary boost to global activity in early 2025. Trade flows started adjusting, with diversion to third countries captured in high-frequency data. At the same time, implementation delays in newly announced tariffs allowed firms to postpone price increases, as they waited for clarity on when and by how much tariffs on certain goods from certain countries would increase. Inventory buildup and its subsequent drawdown, presales, orders put on hold or goods placed in bonded warehouses, and infrequent pricing because of long-term contracts also slowed the pace of pass-through of rising costs (Bauer, Haltom, and Martin 2025). Healthy profit margins in the wake of the inflation surge following the COVID-19 pandemic provided buffers for suppliers in source countries and importers in destination countries to absorb the higher tariffs. Rather than appreciating, as happened in previous episodes of trade tensions, the US dollar depreciated, reflecting increased hedging demand by non-US investors and a potential market reassessment of the dollar’s bull run over the past decade (*October 2025 Global Financial*

Figure 1.2. Overall, Economic Policy, and Trade Policy Uncertainty (Index)



Sources: Ahir, Bloom, and Furceri 2022; Caldara and others 2020; Davis 2016; and IMF staff calculations.

Note: The uncertainty measures are news- and media-outlet-based indices that quantify media attention to global news related to overall uncertainty (WUI), economic policy uncertainty (EPU), and trade policy uncertainty (TPU).

Stability Report). While a weaker dollar amplified the tariff shock, it also supported global trade, contributed to favorable global financial conditions, and eliminated inflationary pressure from exchange rate pass-through, hence providing policymakers (especially those in emerging market and developing economies) with room to support their economies.

There are increasing signs that the adverse effects of protectionist measures are starting to show. Patterns in net exports and inventories driven by front-loading behavior have largely reversed. Core inflation has risen in the United States, and unemployment has edged up. Inflation is stabilizing above central bank targets in several other countries, and inflation expectations are still fragile, worsening the trade-offs for monetary policymakers as uncertainty and tariffs start weighing on activity.

As the global economy slides into a more fragmented landscape, risks to the outlook increase. The tactics that keep activity seemingly resilient in the short term, such as trade diversion and rerouting, are costly. Suboptimal reallocation of productive resources, technological decoupling, and limitations on knowledge diffusion are bound to restrain growth over the longer term. More restrictive stances on the cross-border flow of labor add to pressure on countries already facing challenges from aging populations

(see Chapter 2 of the April 2025 WEO) and would entail output declines on a global scale over the longer term (Chapter 3 of the April 2025 WEO). Dim medium-term growth prospects amplify concerns about fiscal sustainability. The scaling back of international aid worsens these dynamics for the most vulnerable countries while eroding standards of living and, paradoxically, strengthening incentives for migration in source countries.

Recent Developments: Resilience Giving Way to Warning Signs

Slowing Activity

The global economy has shown resilience to the trade policy shocks, including because these shocks materialized on a smaller scale than expected at their onset, but the drag from shifting policies is becoming visible in more recent data. There have been several common drivers of growth patterns across countries but also some important idiosyncratic factors.

The last round of tariffs came in as the US economy started to show signs of a material slowdown. GDP grew at an annualized 3.8 percent in the second quarter of 2025, but mainly because imports and inventories fully reversed the outturn observed in the first quarter, which had seen a contraction of -0.6 percent. Investment slowed, with a reduction in spending on commercial and residential construction and broader weakness masked by a surge in spending on equipment and intellectual property, including those related to AI. The jobs reports since July were much weaker than expected, with significant decline in the number of jobs added. The unemployment rate edged up to 4.3 percent in August. Signs of slowing activity and a weakening labor market appeared in the context of ongoing shifts in labor supply. Net international migration flows plunged in the first half of 2025 and, if the current trends continue, it could imply about 1.0–1.6 million fewer immigrants than in 2024 and 2.5 million fewer than in 2023 (Duzhak and New-Schmidt 2025).

Other major economies are showing signs of waning of the front-loading that drove stronger-than-expected outcomes in the first quarter of 2025. Growth in China in the second quarter slowed to 4.2 percent from 6.1 percent in the first quarter (based on staff seasonally adjusted estimates), with the contribution of net exports receding. This partly offset the acceleration in domestic demand, possibly driven by policy stimu-

lus. High-frequency indicators point to a deceleration in economic activity in July and August. In the euro area, GDP growth slowed to 0.5 percent, from 2.3 percent in the first quarter. Declines in growth rates were recorded in Germany and Italy, as well as in Ireland, which had disproportionately contributed to euro area growth in the first quarter, with export performance driven by pharmaceutical sector transactions, partly as a result of front-loading. In Japan, the economy grew at an annualized rate of 2.2 percent in the second quarter, accelerating from 0.3 percent in the first quarter. In addition to solid capital spending, this was propelled by strong exports, especially of cars. However, new export orders fell in July, for the first time since December, and export values dropped, led by sectors most affected by tariffs.

The composition of contributions to GDP growth in major economies indicates few signs of underlying strength in demand. It clearly illustrates the distortions in trade flows in the past few quarters (Figure 1.3). Importantly, consumption growth has been subdued in all key jurisdictions. And investment has weakened, notwithstanding bursts of activity before the tariff news in April. This is broadly in line with depressed consumer and business confidence (Figure 1.4).

Beyond China, emerging market and developing economies more broadly showed strength, sometimes because of particular domestic reasons, but recent signals point to a fragile outlook there as well. Growth for the group of emerging market economies excluding China was stronger than expected in the first half of 2025, thanks in part to record agricultural output in Brazil, robust service sector expansion in India, and resilient domestic demand in Türkiye. The stronger-than-expected economic performance adds to a more general trend of resilience in emerging markets, which originates in improvements in domestic institutions and favorable external conditions (see Chapter 2). However, external conditions are becoming more challenging, and in some cases, domestic momentum is slowing. For instance, in Brazil, signs of moderation are appearing amid tight monetary and fiscal policies. Higher tariffs imposed by the United States are curtailing external demand, with profound implications for several large export-oriented economies, while heightened trade policy uncertainty is dampening firms' appetite for investment. At the same time, constrained fiscal space is reducing governments' ability to stimulate domestic demand where needed. Among the group of low-income countries, some of the world's poorest economies continue to see feeble

Figure 1.3. Contributions to Quarterly GDP Growth
(Percent, quarter over quarter, annualized)

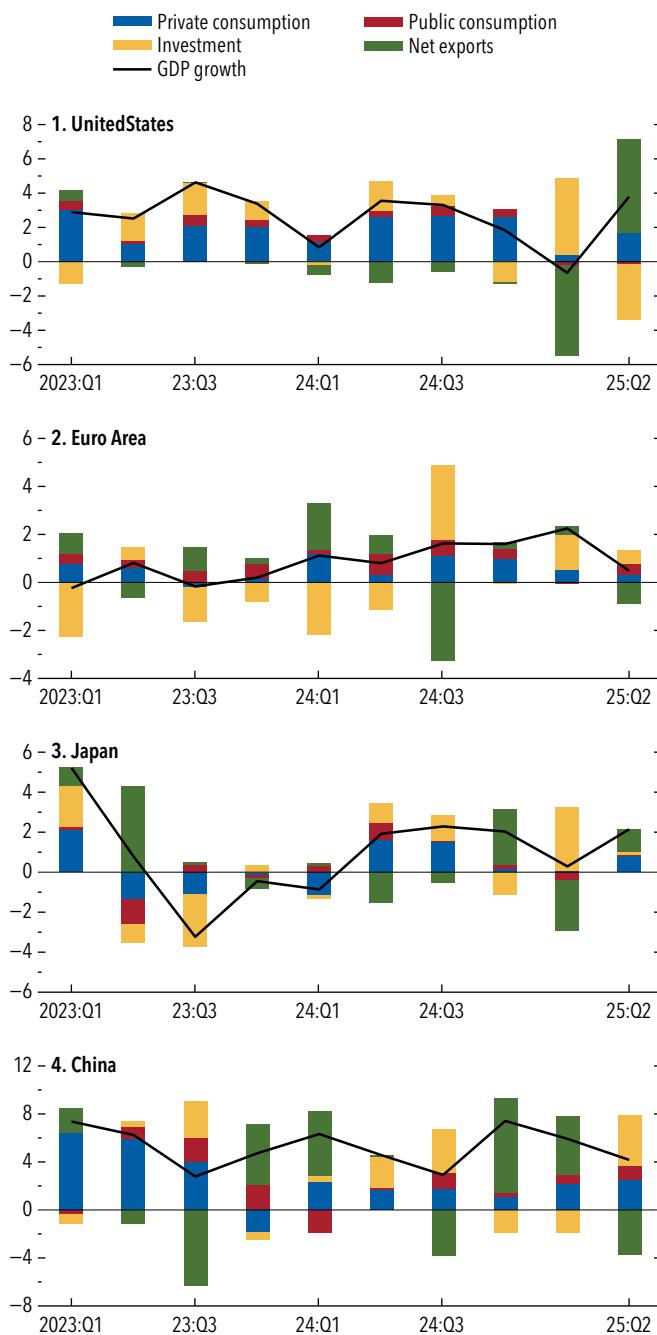
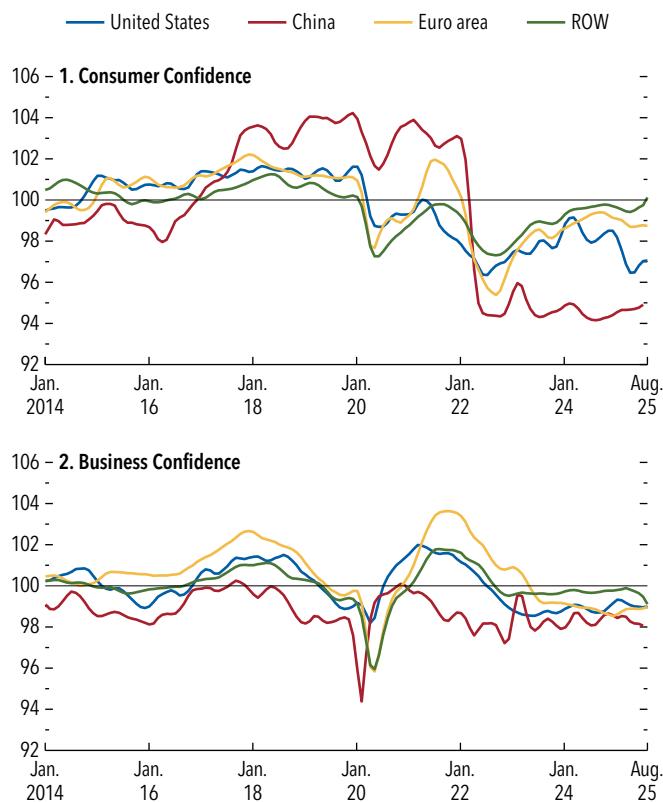


Figure 1.4. Consumer and Business Confidence
(Index, OECD harmonized)



Sources: OECD; and IMF staff calculations.

Note: An indicator above 100 signals a boost in confidence; below 100 indicates a pessimistic view. The rest of the world (ROW) represents the average value for data across 22 economies. OECD = Organisation for Economic Co-operation and Development.

or regional conflicts, are falling even more behind (Chabert and Powell 2025).

Renewed economic fears, especially in the United States, briefly set a risk-off tone in financial markets (October 2025 *Global Financial Stability Report*). Global equity indices declined in early August following the US jobs report, and US Treasury yields plunged. Still, these movements were reversed quickly. Equity prices rallied in one of the fastest recoveries on record. At least so far, markets have taken the changes in trade and fiscal policies mostly in stride, despite recent steepening of the US yield curve. Global financial conditions remain accommodative by historical standards. Much of the year's equity market gains has come from a rally in artificial intelligence (AI) stocks. The stretched valuations and calm relative to the challenges raise the risk of market volatility and asset price correction should uncertainty start biting and

growth—about 2 percentage points lower than other peers in this group—adversely affected by a dearth of external financing flows and cuts to international aid. Other fragile countries, caught up in internal

economic indicators, including productivity gains from generative AI investments, start to disappoint. The decline in aggregate investment could be rather sharp, given that investment in data centers and AI was a significant contributor to investment growth recently.

Uncertainty Impact Still in the Pipeline

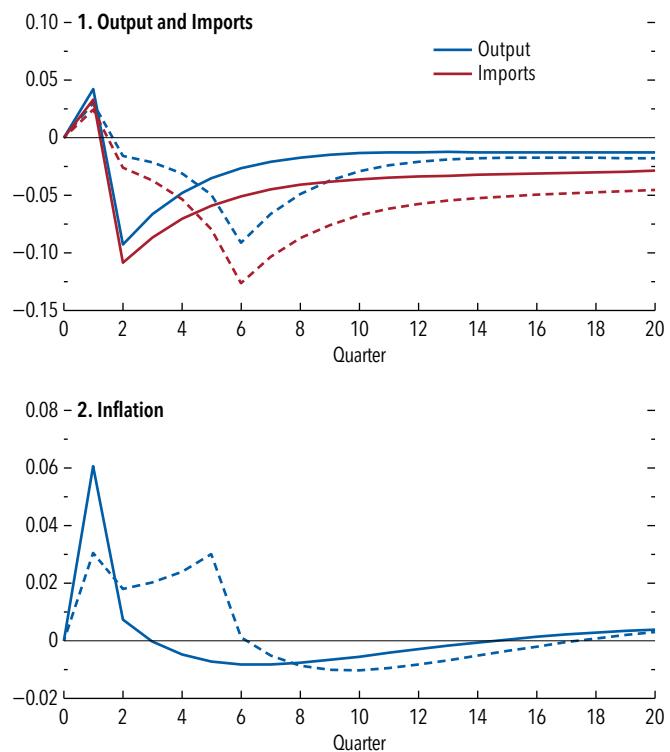
Several factors explain why the impact of higher uncertainty may have been delayed or mitigated. Uncertainty, acting as a negative demand shock, typically starts weighing on activity almost immediately. Its effect continues to build over time and eventually disappears as uncertainty lifts. Empirical estimates suggest that a one-standard-deviation increase in economic policy uncertainty leads to a 2 percent drop in investment, peaking about two years after the shock and fading in about three years (Londono, Ma, and Wilson 2025). Estimates for trade policy uncertainty range between 0.7 percent and 2 percent, peaking in the first couple of quarters and fading in the second year. So far, at the current juncture, the behavior of investment seems to be on the upper end of standard confidence bands.

There are two main channels through which the negative effects of uncertainty materialize. First, under the classic real-options mechanism (Bernanke 1983), firms defer irreversible projects when the outlook is clouded because waiting is cheaper than committing to a potentially costly mistake. Households display a similar pattern, postponing durable purchases while maintaining spending on essentials. A second channel operates through precautionary behavior. When perceived income risk increases, households save more, thereby softening consumption growth (Bansal and Yaron 2004).

Yet these need not translate into weaker output in the near term. Front-loading to avoid what potentially will be higher prices resulting from future tariffs is a clear force temporarily offsetting the wait-and-see and precautionary motives. At the same time, firms may choose to keep prices unchanged and absorb higher costs in margins to retain their customer base while waiting for uncertainty to lift. Strategic complementarities—whereby pricing decisions of one firm strengthen the incentive for other firms to take similar action—may reinforce such short-term stickiness in prices.

The Brexit experience is a case in point. Measures of uncertainty rose sharply before the 2016 referendum. Business investment continued to grow in the period immediately following the UK's withdrawal from the

Figure 1.5. Impulse Responses to a Tariff-Uncertainty Shock
(Percent deviations from the stochastic steady state)



Sources: Ghironi and Ozhan, forthcoming; and IMF staff calculations.

Note: Figure shows impulse responses of selected variables for the tariff-imposing economy to a tariff-uncertainty shock. Solid lines show a shock that materializes in the first quarter ("realized uncertainty"), and dashed lines show a news shock announced in the first quarter that materializes in the fourth quarter. Inflation is annualized.

European Union and started to fall steadily only beginning in 2018 (BOE 2019).

Tariff uncertainty moves activity mainly across time—front-loading provides a brief offset, but once it fades, uncertainty acts as a drag on demand. To illustrate the mechanisms in play, tariff-uncertainty shocks are examined in isolation from tariffs themselves in an open-economy New Keynesian model (Ghironi and Ozhan, forthcoming). Two exercises consider temporary increases in uncertainty about import tariffs (Figure 1.5). In the first exercise (solid lines), uncertainty rises on impact. Given a wider distribution of tariffs, agents try to avoid potentially larger price changes by front-loading imports, temporarily lifting output. Faced with uncertainty about costs, firms raise prices to protect margins, generating a small, short-lived increase in consumer price inflation. Once the front-loading effect fades, uncertainty operates like a negative demand shock—activity softens and inflation eases as firms compress margins.

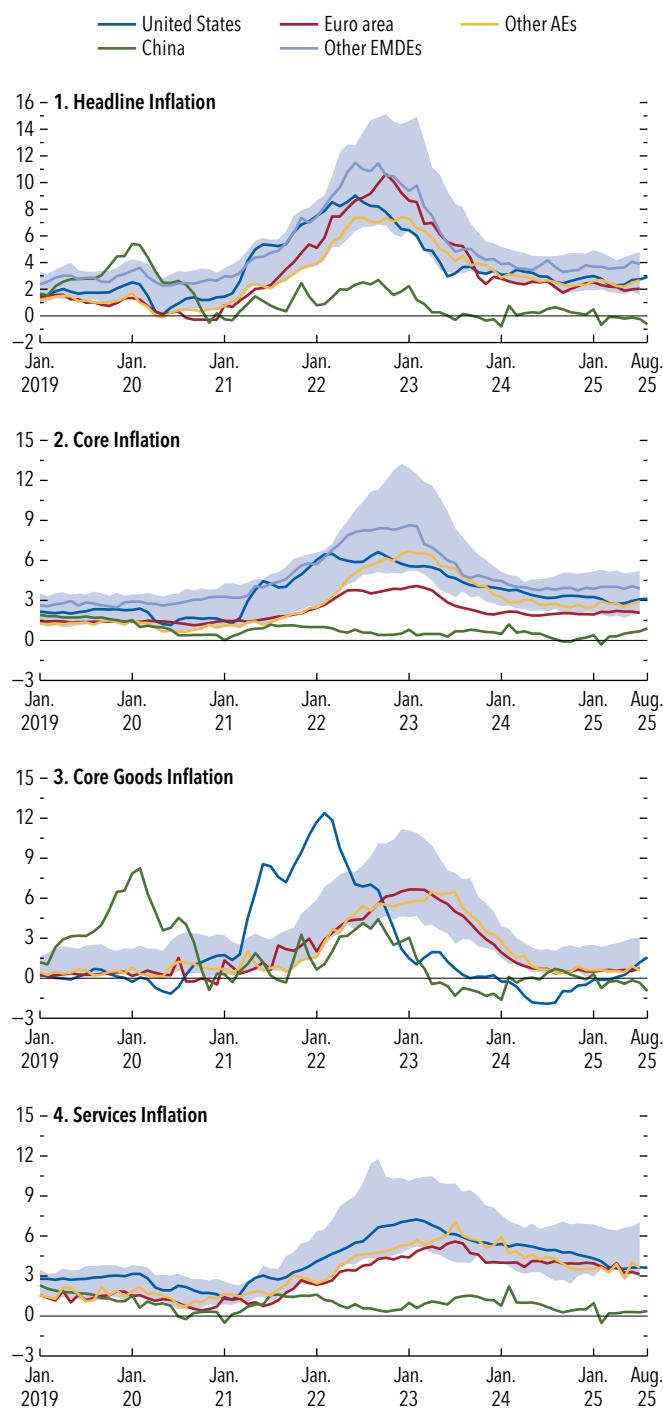
In the second exercise (dashed lines), agents receive news today that tariff uncertainty is going to rise later—akin to pauses or deadline extensions that push uncertainty into the future. Front-loading of imports is similar, but now it is motivated by anticipated larger potential price changes in the future rather than an immediate increase in the variation of costs. Because the timing of uncertainty is known (for example, the expiration of a pause, the date for a bilateral negotiation meeting), firms can plan: They build inventories and reprice slowly. Hence, when uncertainty is known to increase in the future, inflation increases in gradual increments and may look like it is more stubborn than when uncertainty increases right away (though less pronounced in magnitude).

Rising Prices in the United States?

To date, the impact of tariffs and associated rewiring of supply chains on inflationary pressures remains muted. In the tariffing country—the United States—headline and core inflation have ticked up only slightly (Figure 1.6). A deeper look into core inflation, however, reveals a more visible climb in core goods prices in the United States, but not in other countries (blue line in Figure 1.6, panel 3). Notably, this climb occurred at a time of persistent services inflation.

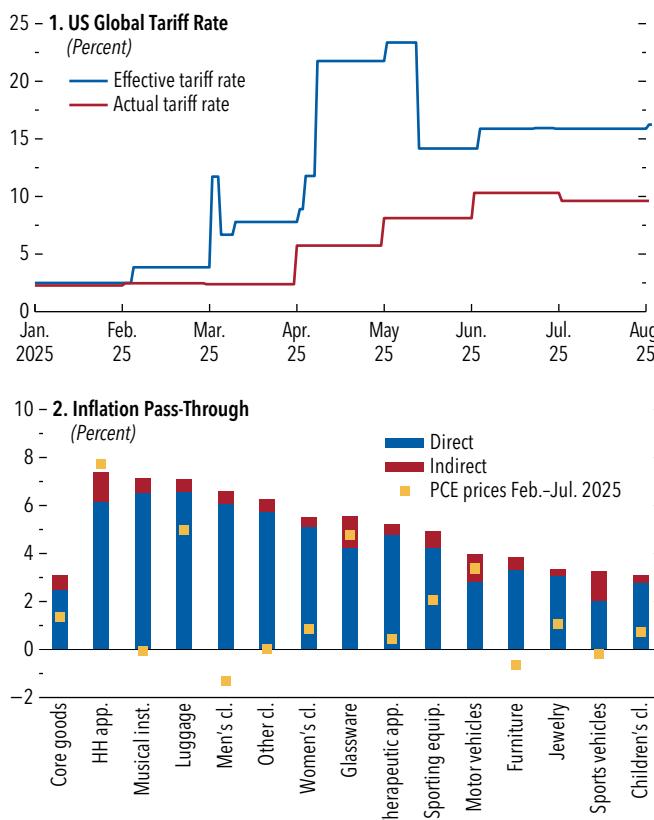
The muted response to date could also mean delayed pass-through. Indeed, stockpiling and tariff pauses, among other factors such as trade diversion and rerouting, mean that the *actual* effective tariff rate—that is, the actual duty paid on imports at customs as a share of the value of imports—lagged the effective rate based on the announcements and calculated as a weighted average of statutory rates using pre-substitution trade weights (Figure 1.7, panel 1). An examination of certain categories of goods suggests that very little of what would be expected to pass through to consumer prices has actually passed through so far (Figure 1.7, panel 2). Household appliances, for instance, have reflected the cost of tariffs, but many categories, including food and clothing, have not. High-frequency retail pricing data indicate that, in categories with exposure to tariffs, the prices of both imported and domestic goods are affected (Cavallo, Llamas, and Vazquez 2025). This suggests broader pricing and supply-chain spillovers. Although firms in the United States enjoyed higher profitability after the pandemic shock, they may not be able to absorb the cost increases that result from the tariff hikes and the

Figure 1.6. Global Inflation Trends
(Percent, year over year)



Sources: Haver Analytics; and IMF staff calculations.

Note: Panels 1 and 2 plot the median of a sample of 57 economies that account for 78 percent of the 2024 world GDP (in weighted purchasing-power-parity terms) in the *World Economic Outlook*. The bands depict the 25th to 75th percentiles of data across economies. "Core inflation" is the percent change in the consumer price index for goods and services, excluding food and energy (or the closest available measure). AEs = advanced economies; EMDEs = emerging market and developing economies.

Figure 1.7. Impact of Tariffs on Prices

Sources: Haver Analytics; US International Trade Commission; WTO-IMF Tariff Tracker; and IMF staff calculations.

Note: In panel 1, actual tariff rate is the actual duty paid on imports at customs as a share of the value of imports, and the effective tariff rate is a weighted average of announced statutory rates using pre-tariff (hence, pre-substitution) import weights. Actual rate may be biased downward if a product is misclassified or under-invoiced or if tariffs are prohibitively high. In panel 2, the full pass-through is estimated using country- and product-specific tariffs and direct and indirect import intensities from the input-output tables and personal consumption expenditure (PCE) bridge. The estimates assume that margins are unchanged and there are no offsetting effects from factors such as the exchange rate. app. = appliances; cl. = clothing; equip. = equipment; HH = household; inst. = instruments; WTO = World Trade Organization.

rewiring of global value chains and may, at some point, start to pass on cost increases to consumers (see also the October 2025 *Global Financial Stability Report* for an analysis of implications of higher tariffs for corporate earnings and debt-servicing capacity).

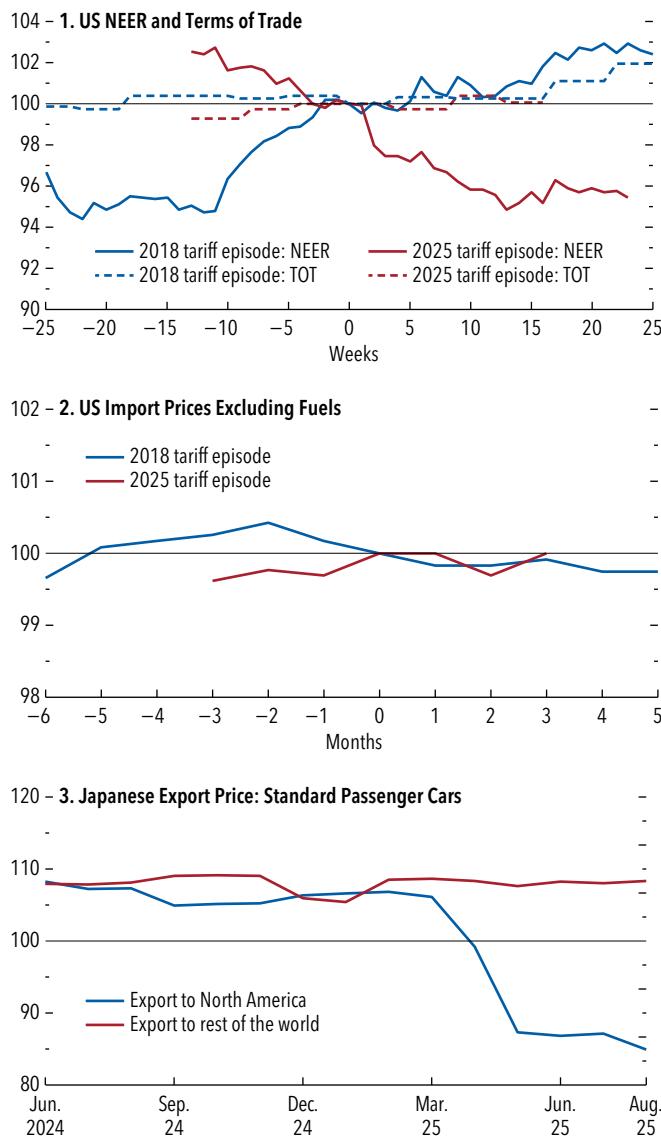
One crucial point about the assessment of recent price developments is the movement of the US dollar. A well-established finding regarding tariffs is that the currency of a tariff-imposing country appreciates (Mundell 1960; Jeanne and Son 2024). On the one hand, with the currency appreciation, the direct impact of tariffs on prices through higher import prices would be somewhat mitigated. On the other hand,

prolonged currency appreciation could offset the direct improvement in trade balances from tariffs—hence leaving trade balances mostly unchanged—and hamper economic activity. This so-called exchange rate offset has been largely absent in the current episode, with the US dollar (the currency of the tariff-imposing country) weakening markedly in April and May and staying mostly stable at the weaker level since then, unlike in the 2018–19 episode (Figure 1.8, panel 1). Interestingly, the aggregate US ex-tariff import price has remained broadly stable since April 2025 (Figure 1.8, panel 2).

The relative lack of movement in US import prices is set in the context of the notable increase in the average effective tariff rate and the sharp depreciation of the US dollar during this time. In a standard setting, the dollar appreciation boosts the margin of exporters, especially if they invoice in dollars, as is common practice. Hence, they have room to absorb some of the tariffs without a deterioration in profitability. And, if they are absorbing the tariffs, import prices decline. This time around, the depreciation of the dollar makes matters more challenging. Under dominant currency pricing, a weaker dollar directly reduces the margin of exporters, separately from the tariffs. Furthermore, the universal nature of the tariffs may make margin reduction less likely, as exporters, who know their competitors are also tariffed, will be reluctant to cut margins.

The lack of a decline in import prices this time—at least to date—indicates that exporters on the whole have not absorbed tariffs through markups or export price adjustment, leaving US firms and households to bear the burden. But the aggregate price movements may mask important variations in US sectoral import prices, considering the varying intensity of tariffs across goods, as well as factors such as demand elasticity and pricing power. For instance, the US import price of capital goods has increased significantly, consistent with recovering some of the margin lost to depreciation of the US dollar, whereas that of automobiles—in one of the hardest-hit sectors—has seen only a moderate increase since April. For exporting countries, some sectors appear to be more sensitive to tariffs than others in terms of export prices. For instance, in Japan the export price of standard passenger cars bound for North America has plummeted more than 20 percent, while that of cars bound for the rest of the world has remained stable, where both are invoiced in US dollars (Figure 1.8, panel 3). A similar pattern is observed for

**Figure 1.8. Tariffs, US Dollar, and Prices
(Index)**



Sources: Bank of Japan; Federal Reserve Board; US Bureau of Labor Statistics; and IMF staff calculations.

Note: In panels 1 and 2, week and month 0 for the 2018 tariff episode correspond to the week and month of July 6, when the US imposed a 25 percent tariff on \$34 billion in Chinese goods, and China implemented a 25 percent tariff on \$34 billion in US goods. For the 2025 tariff episode, week and month 0 correspond to April 4, following the April 2 "Liberation Day" announcement. In panel 2, the import prices include the transaction value of the goods and the value of services performed to deliver the goods from the border of the exporting country to the border of the importing country, hence they include cost, insurance, and freight but not tariffs. In panel 3, the base year is 2020, and the exports are recorded at border values. NEER = nominal effective exchange rate; TOT = terms of trade.

Korea's automobile export prices. In contrast, export prices of German cars sold to non-EU countries have remained relatively stable so far. Exporters may not be able to maintain lower prices for much longer, given

margin pressures. When firms' pricing decisions are based on beliefs about when competitors will be raising prices, the price increases tend to be gradual, rather than a one-off jump. That said, an appreciation of the dollar—which has been range-bound recently—may put the exchange rate offset back in action to mitigate the impact of tariffs on US consumer prices.

Evolving External Balances

Global trade activity was robust in the first quarter of 2025, driven by strong growth in US imports and in exports from Asia and the euro area because of front-loading in anticipation of higher tariffs in the United States. Some of this strength could be related to a weaker dollar (Boz and others 2020). Subsequent higher-frequency data show signs of deceleration in the second quarter. Goods exports to the United States from major European economies—particularly Germany, Spain, and the United Kingdom—have fallen notably. Total euro area exports remain resilient, however, supported by larger trade flows within Europe. In China, the decline in exports to the United States has been partly offset by higher exports to the euro area and countries in the Association of Southeast Asian Nations (ASEAN), in part supported by the depreciation of the renminbi against most currencies (excluding the US dollar). Bilateral trade decoupling between the United States and China appears to be happening sooner when compared with the 2018–19 tariff shock (see Box 1.1).

Along with changes in the global trade landscape and other policy shifts, current account balances for the world's largest economies have also evolved. The US current account deficit was 4.6 percent of GDP in the first half of 2025, 1.9 percentage points wider than the 2013–24 average, mainly reflecting an increase in goods imports. The euro area current account surplus stood at 1.9 percent of GDP in the first half of 2025 compared with 3 percent over the same period in 2024 and 2.3 percent during 2013–24, largely as a result of an increase in the primary income deficit. Current account surpluses stood at 3.2 percent of GDP in China and 4.7 percent of GDP in Japan, which are larger than in the same period of 2024 and when compared with the historical averages during 2013–24.

While witnessing some improvement in the first quarter of 2025, the net international investment position (NIIP) of the United States has generally seen a stronger rise in US liabilities in recent years

as the economy continues to attract record inflows of foreign direct investment (April 2025 WEO), as well as inflows into equities and US Treasuries. By contrast, the euro area's and Japan's NIIP continue to see assets building faster than liabilities. For China, low-frequency trends indicate relative stability in the NIIP.

POLICY MIX: LOOSE FISCAL AND DIVERGENT MONETARY

Against the backdrop of slowing global growth and varying domestic inflation developments, policy space is constrained and vulnerabilities are high.

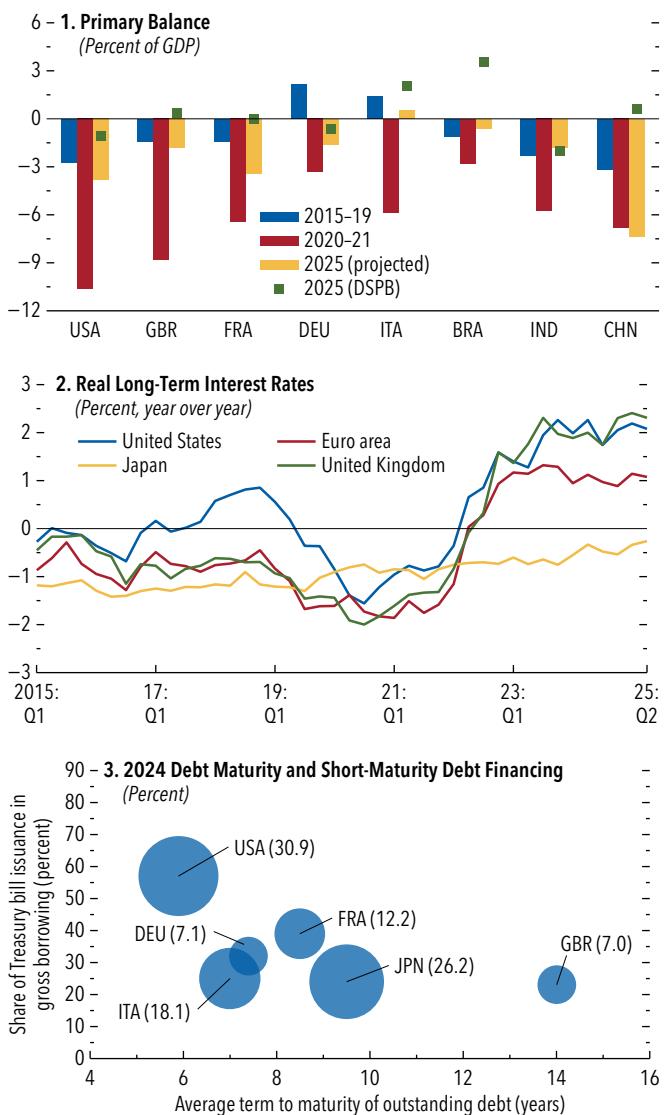
Fiscal policy remains too loose in many of the largest advanced and developing economies. Even though 2025 projected primary deficits in most cases are lower than the record-setting deficits of 2020–21, when large fiscal stimulus packages were deployed to counter the pandemic shock, they remain sizably larger than prior to the pandemic, except in Brazil and India (Figure 1.9, panel 1). In China, the fiscal policy stance remains appropriately expansionary, given the weakness in domestic demand, but marks a continued departure from the stance that is needed to avoid rising debt to GDP over the medium term.

Stabilizing debt to GDP at its 2024 level requires significant consolidation for most countries. In other words, given the projected primary balances for 2025, debt ratios are set to rise, and in some cases—Brazil, China, France, and the United States—significantly so. Further, globally, the level of debt under an extreme adverse scenario would be even higher (see assessment based on the debt-at-risk framework in the October 2024 *Fiscal Monitor*). Spending pressures from aging populations, defense, and energy security add to the risks, especially in Europe.

The calculus of postpandemic debt sustainability is complicated by elevated debt ratios, worsening primary balances, higher interest rates, and a weakening growth outlook. As policy rates were hiked in light of the inflation surge in 2021–22, interest rates at the short end of the yield curve were suddenly much higher and contributed significantly to the rising cost of debt servicing. Since the end of 2023, mid-segment yields and those at the long end have also crept upward (Figure 1.9, panel 2).

The overall rising cost of borrowing is a reason for concern—particularly given the significant refinancing requirements, as a share of GDP, for some of the

Figure 1.9. Fiscal Policy



Sources: Consensus Economics; Eurostat; Organisation for Economic Co-operation and Development; and IMF staff calculations.

Note: In panel 1, the debt-stabilizing primary balance (DSPB) is calculated as the primary balance required to stabilize the debt given projected effective interest rate on debt and GDP growth, and accounting for stock-flow adjustments. In panel 2, 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. In panel 3, bubble size and labels refer to countries' refinancing requirements as a share of GDP. Country labels in the figure use International Organization for Standardization (ISO) codes.

largest economies (Figure 1.9, panel 3). In addition, increased reliance on financing through Treasury bills—short-term debt securities with maturity of one year or less—tends to shorten average debt maturity over time and increasingly exposes governments to refinancing risks or fluctuations in short-term interest rates. Emerging markets with weaker credit ratings and

low-income economies face challenging conditions in bond markets (Chapter 1 of the October 2025 *Global Financial Stability Report*).

Globally, monetary policy's shift from aggressive tightening to a more nuanced stance leaning toward easing or neutral continues. In some of these countries where the fiscal policy stance is loosening, the monetary policy rate is expected to remain steady. But the high uncertainty could prompt fluctuations in interest rates. Concerns about excessive market volatility arising from sovereign refinancing risks make it a challenge for central banks to maintain both price and financial stability (Chapter 2 of the October 2024 *Global Financial Stability Report*).

At the same time, monetary policy stances are bound to become more divergent. While this reflects differing inflation outlooks and central banks' reaction to domestic economic developments within their mandate, it may lead to sharp movements in exchange rates as markets reassess relative currency values.

The Outlook: Dim Prospects

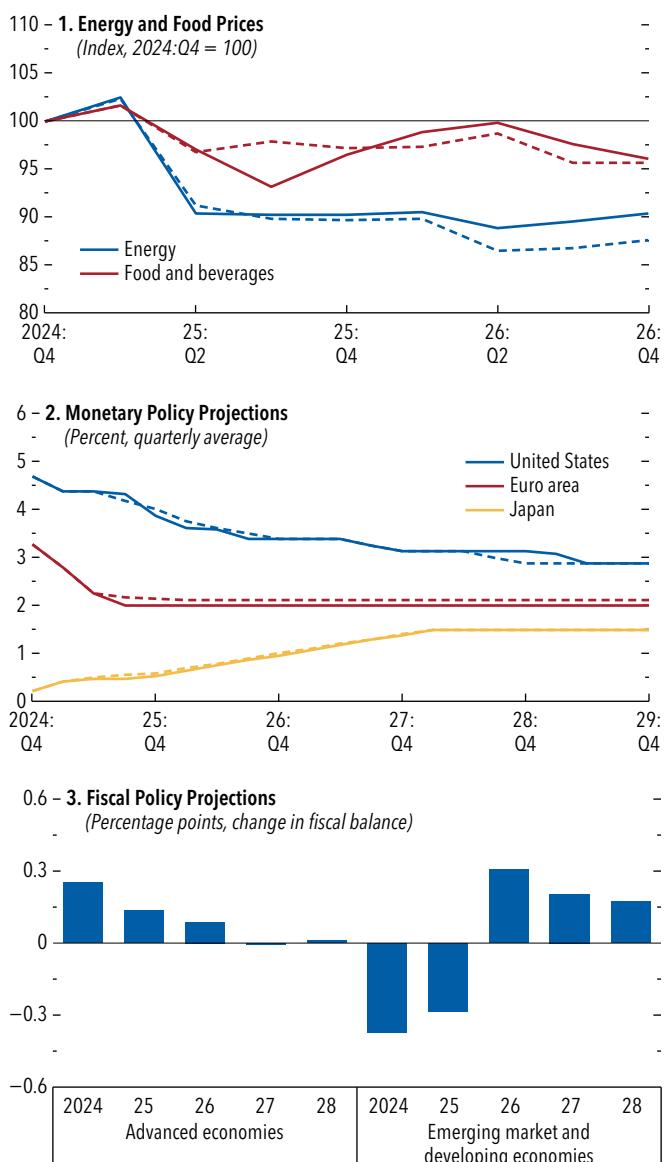
Looking past apparent resilience resulting from trade-related distortions in some of the incoming data and whipsawing growth forecasts from wild swings in trade policies, the outlook for the global economy continues to point to dim prospects, both in the short and the long term.

Global Assumptions

The baseline forecasts are predicated on several projections for global commodity prices, interest rates, and fiscal and trade policies (Figure 1.10). Box 1.2 assesses the impact on growth and inflation of plausible deviations from the baseline assumptions.

- **Commodity price projections:** Prices of fuel commodities are projected to decline in 2025 by 7.9 percent and in 2026 by 3.7 percent. This is driven by a decline in oil prices, although at a slower pace than assumed in the April 2025 WEO. The oil futures curve suggests that the petroleum spot price index is expected to average \$68.90 a barrel in 2025 and decrease to \$67.30 by 2030. Barring the temporary spike related to the Israel-Iran war in mid-June, prices have traded in the \$60–\$70 range established since the start of the accelerated production schedule of OPEC+ (Organization of the Petroleum

Figure 1.10. Global Assumptions



Source: IMF staff calculations.

Note: In panels 1 and 2, solid lines denote projections from the October 2025 *World Economic Outlook* (WEO) and dashed lines those from the April 2025 WEO. In panel 3, the fiscal balance used is the general government structural primary balance in percent of potential GDP. The structural primary balance is the cyclically adjusted primary balance excluding net interest payments and corrected for a broader range of noncyclical factors such as changes in asset and commodity prices.

Exporting Countries plus selected nonmember countries, including Russia) in April. Nonfuel commodity prices are projected to increase by 7.4 percent in 2025 and by 4.1 percent in 2026. This implies a slightly lower path than assumed in April, driven by lower projected food and beverage prices, with

- wheat, rice, coffee, and cocoa prices retreating faster from their historical highs than previously forecast.
- *Monetary policy projections:* Central banks in major jurisdictions are projected to take different paths in their policy rate decisions, reflecting differences in the extent of inflationary pressures. In the United States, the federal funds rate is projected to be reduced along a slightly more front-loaded path than expected in the April WEO, dropping to 3.50–3.75 percent at the end of 2025, still reaching its terminal range of 2.75–3.0 percent around the end of 2028. In the euro area, policy rates are expected to hold steady at 2 percent, which is broadly the same as that projected in April. In Japan, policy rates are expected to be lifted, along broadly the same path as that assumed in April, gradually rising over the medium term toward a neutral setting of about 1.5 percent, consistent with keeping inflation and inflation expectations anchored at the Bank of Japan's 2 percent target.
 - *Fiscal policy projections:* Advanced economies as a group are expected to maintain a broadly neutral fiscal policy stance, which marks a significant departure from the tighter fiscal policy stance assumed in the April 2025 WEO. In the United States, the general government fiscal-balance-to-GDP ratio is expected to deteriorate by 0.5 percentage point in 2026, largely reflecting the passage of the One Big Beautiful Bill Act (OBBBA) and despite an offset of about 0.7 percentage point of GDP from projected tariff revenues. The fiscal balance is projected to worsen in the euro area—including a 0.8 percentage point widening of the deficit in Germany resulting from increased spending on infrastructure and military capability. Under current policies, US public debt fails to stabilize, rising from 122 percent of GDP in 2024 to 143 percent of GDP in 2030, 15 percentage points higher than projected in April. In the euro area, the debt-to-GDP ratio is expected to reach 92 percent in 2030, up from 87 percent in 2024. By contrast, governments in emerging market and developing economies, on average, are projected to modestly tighten fiscal policy in 2026 by about 0.2 percentage point of GDP, reversing the widening expected in 2025. In China, the deficit is expected to narrow slightly through 2030, following a widening of 1.2 percentage points in 2025. Public debt in emerging market and developing economies continues to rise, reaching 82 percent of GDP in 2030, compared with just under 70 percent in 2024.

- *Trade policy assumptions:* Tariffs that have been announced and implemented as of the beginning of September are included in the baseline. These measures are assumed to remain in effect indefinitely, even when they are explicitly stated to have an expiration date, meaning that pauses on higher tariffs are assumed to remain in place past their expiration dates and higher rates are assumed not to take effect. Trade policy uncertainty is assumed to remain elevated through 2025 and 2026, including on account of the additional pause of higher tariffs between China and the United States through November and because legal proceedings are currently underway in the United States concerning use of the International Emergency Economic Powers Act as a legal basis for the imposition of tariffs.

Growth Forecast

Global growth is projected to decelerate from 3.3 percent in 2024 to 3.2 percent in 2025 and to 3.1 percent in 2026 (Table 1.1). On a fourth-quarter-to-fourth-quarter basis, growth is projected to decline from 3.6 percent in 2024 to 2.6 percent in 2025 and recover to 3.3 percent in 2026. At market exchange rates, world output is projected to grow by 2.6 percent in both 2025 and 2026, slowing down from 2.8 percent in 2024 (Table 1.2).

The growth forecast is little changed from the July 2025 WEO *Update*, reflecting gradual adaptation to trade tensions, but is decisively below the pre-pandemic average of 3.7 percent. Looking at sequential growth from the second half of 2025 into 2026 gives a clearer picture by removing the distortion from front-loading in the first half of 2025: The global economy is projected to grow at an annualized average rate of 3.0 percent over these six quarters, a slowdown of 0.6 percentage point from the 3.6 percent average rate in 2024. The forecast for 2025–26 is also lower, by a cumulative 0.2 percentage point, than projected in the October 2024 WEO, before the major shifts in policy stances in key jurisdictions. Given the fluidity of trade policy assumptions during 2025, comparisons of current forecasts with those in the April 2025 WEO or in the July 2025 WEO *Update* may obscure the direction the world economy has traveled. Hence, the forecasts are discussed in comparison with those in the October 2024 WEO, which provides a clearer picture.

Table 1.1. Overview of the World Economic Outlook Projections
(Percent change, unless noted otherwise)

	2024	Projections		Difference from July 2025 WEO Update ¹		Difference from April 2025 WEO ¹	
		2025	2026	2025	2026	2025	2026
World Output	3.3	3.2	3.1	0.2	0.0	0.4	0.1
Advanced Economies	1.8	1.6	1.6	0.1	0.0	0.2	0.1
United States	2.8	2.0	2.1	0.1	0.1	0.2	0.4
Euro Area	0.9	1.2	1.1	0.2	-0.1	0.4	-0.1
Germany	-0.5	0.2	0.9	0.1	0.0	0.2	0.0
France	1.1	0.7	0.9	0.1	-0.1	0.1	-0.1
Italy	0.7	0.5	0.8	0.0	0.0	0.1	0.0
Spain	3.5	2.9	2.0	0.4	0.2	0.4	0.2
Japan	0.1	1.1	0.6	0.4	0.1	0.5	0.0
United Kingdom	1.1	1.3	1.3	0.1	-0.1	0.2	-0.1
Canada	1.6	1.2	1.5	-0.4	-0.4	-0.2	-0.1
Other Advanced Economies ²	2.3	1.8	2.0	0.2	-0.1	0.0	0.0
Emerging Market and Developing Economies	4.3	4.2	4.0	0.1	0.0	0.5	0.1
Emerging and Developing Asia	5.3	5.2	4.7	0.1	0.0	0.7	0.1
China	5.0	4.8	4.2	0.0	0.0	0.8	0.2
India ³	6.5	6.6	6.2	0.2	-0.2	0.4	-0.1
Emerging and Developing Europe	3.5	1.8	2.2	0.0	0.0	-0.3	0.1
Russia	4.3	0.6	1.0	-0.3	0.0	-0.9	0.1
Latin America and the Caribbean	2.4	2.4	2.3	0.2	-0.1	0.4	-0.1
Brazil	3.4	2.4	1.9	0.1	-0.2	0.4	-0.1
Mexico	1.4	1.0	1.5	0.8	0.1	1.3	0.1
Middle East and Central Asia	2.6	3.5	3.8	0.1	0.3	0.5	0.3
Saudi Arabia	2.0	4.0	4.0	0.4	0.1	1.0	0.3
Sub-Saharan Africa	4.1	4.1	4.4	0.1	0.1	0.3	0.2
Nigeria ⁴	4.1	3.9	4.2	0.5	1.0	0.9	1.5
South Africa	0.5	1.1	1.2	0.1	-0.1	0.1	-0.1
<i>Memorandum</i>							
World Growth Based on Market Exchange Rates	2.8	2.6	2.6	0.1	0.0	0.3	0.2
European Union	1.1	1.4	1.4	0.1	0.0	0.2	-0.1
ASEAN-5 ⁵	4.6	4.2	4.1	0.1	0.0	0.2	0.2
Middle East and North Africa	2.1	3.3	3.7	0.1	0.3	0.7	0.3
Emerging Market and Middle-Income Economies	4.3	4.1	3.9	0.1	0.0	0.4	0.1
Low-Income Developing Countries	4.2	4.4	5.0	0.0	0.0	0.2	-0.2
World Trade Volume (goods and services)	3.5	3.6	2.3	1.0	0.4	1.9	-0.2
Imports							
Advanced Economies	2.1	3.1	1.3	0.7	0.3	1.2	-0.7
Emerging Market and Developing Economies	5.6	4.3	4.0	1.6	0.0	2.3	0.6
Exports							
Advanced Economies	1.8	2.1	1.7	0.9	0.4	0.9	-0.3
Emerging Market and Developing Economies	6.5	5.9	3.3	1.0	1.0	4.3	0.3
Commodity Prices							
Oil ⁶	-1.8	-12.9	-4.5	1.0	1.2	2.6	2.3
Nonfuel (average based on world commodity import weights)	3.7	7.4	4.1	-0.5	2.1	3.0	3.9
World Consumer Prices⁷	5.8	4.2	3.7	0.0	0.1	-0.1	0.1
Advanced Economies ⁸	2.6	2.5	2.2	0.0	0.1	0.0	0.0
Emerging Market and Developing Economies ⁷	7.9	5.3	4.7	-0.1	0.2	-0.2	0.1

Source: IMF staff estimates.

Note: Real effective exchange rates are assumed to remain constant at the levels prevailing during August 1, 2025–August 29, 2025. Economies are listed on the basis of economic size. The aggregated quarterly data are seasonally adjusted. WEO = *World Economic Outlook*.

¹ Difference based on rounded figures for the current, July 2025 WEO *Update*, and April 2025 WEO forecasts.

² Excludes the Group of Seven (Canada, France, Germany, Italy, Japan, United Kingdom, United States) and euro area countries.

³ For India, data and forecasts are presented on a fiscal year basis, and GDP from 2011 onward is based on GDP at market prices with fiscal year 2011/12 as a base year.

⁴ Nigeria's national accounts data have been revised and rebased, with 2019 as the new base year. The rebasing provides an updated current view of the economy and the revisions increased the level of GDP by 40.8 percent in 2019.

⁵ Indonesia, Malaysia, the Philippines, Singapore, and Thailand.

⁶ Simple average of prices of UK Brent, Dubai Fateh, and West Texas Intermediate crude oil. The average price of oil in US dollars a barrel was \$79.17 in 2024; the assumed price, based on futures markets, is \$68.92 in 2025 and \$65.84 in 2026.

⁷ Excludes Venezuela. See the country-specific note for Venezuela in the "Country Notes" section of the Statistical Appendix.

⁸ The assumed inflation rates for 2025 and 2026, respectively, are as follows: 2.1 percent and 1.9 percent for the euro area, 3.3 percent and 2.1 percent for Japan, and 2.7 percent and 2.4 percent for the United States.

Table 1.1. Overview of the World Economic Outlook Projections (continued)
(Percent change, unless noted otherwise)

	Q4 over Q4 ⁹						
	Projections		Difference from July 2025 WEO Update ¹		Difference from April 2025 WEO ¹		
	2024	2025	2026	2025	2026	2025	2026
World Output	3.6	2.6	3.3	-0.1	0.1	0.2	0.3
Advanced Economies	1.9	1.3	1.8	-0.1	0.1	0.1	0.3
United States	2.4	1.9	2.0	0.2	0.0	0.4	0.3
Euro Area	1.3	0.7	1.7	0.0	0.0	0.0	0.3
Germany	-0.2	0.3	1.0	-0.2	0.0	0.0	0.0
France	0.6	0.8	1.0	0.1	-0.1	0.0	0.0
Italy	0.6	1.0	0.1	0.3	-0.9	0.2	-0.8
Spain	3.7	2.5	1.8	0.2	0.2	0.5	0.1
Japan	1.3	0.2	1.1	0.4	0.3	0.6	-0.2
United Kingdom	1.5	1.4	1.4	-0.1	0.2	-0.3	0.5
Canada	2.3	0.5	2.3	-0.6	-0.2	-0.1	0.1
Other Advanced Economies ²	2.1	1.2	2.8	-1.0	1.1	-1.0	1.1
Emerging Market and Developing Economies	4.9	3.7	4.4	0.1	0.1	0.4	0.4
Emerging and Developing Asia	5.9	4.5	5.3	0.0	0.1	0.5	0.6
China	5.4	3.7	5.0	-0.1	0.3	0.5	0.8
India ³	7.4	6.0	6.2	-0.4	-0.2	-0.2	-0.1
Emerging and Developing Europe	3.4	1.3	2.3	-0.2	0.3	-0.5	0.3
Russia	4.5	-0.5	0.5	-0.4	0.0	-0.9	-0.3
Latin America and the Caribbean	2.4	2.1	2.6	0.2	-0.2	0.5	-0.2
Brazil	3.3	2.4	2.3	0.0	0.0	0.4	0.1
Mexico	0.4	1.5	1.7	1.2	-0.5	1.7	-0.3
Middle East and Central Asia
Saudi Arabia	4.4	4.0	4.0	0.4	0.1	1.5	0.3
Sub-Saharan Africa
Nigeria ⁴	4.0	3.9	4.3	-0.1	0.1	0.2	1.5
South Africa	0.5	1.5	1.0	0.1	0.1	0.7	-0.6
<i>Memorandum</i>							
World Growth Based on Market Exchange Rates	3.0	2.2	2.8	0.0	0.1	0.3	0.3
European Union	1.6	1.0	1.7	-0.1	0.0	-0.1	0.0
ASEAN-5 ⁵	4.8	4.9	4.5	0.9	-0.5	1.3	0.2
Middle East and North Africa
Emerging Market and Middle-Income Economies	4.9	3.7	4.4	0.1	0.1	0.4	0.4
Low-Income Developing Countries
Commodity Prices (US dollars)							
Oil ⁶	-10.1	-8.3	-2.2	3.0	-1.5	5.8	-1.5
Nonfuel (average based on world commodity import weights)	8.3	7.1	1.2	0.5	1.7	5.9	0.8
World Consumer Prices⁷	4.9	3.6	3.0	0.1	0.1	0.1	0.0
Advanced Economies ⁸	2.4	2.4	2.0	0.0	0.0	0.0	-0.1
Emerging Market and Developing Economies ⁷	6.7	4.4	3.7	0.0	0.2	0.0	0.1

⁹ For world output, the quarterly estimates and projections account for approximately 90 percent of annual world output at purchasing-power-parity weights. For emerging market and developing economies, the quarterly estimates and projections account for approximately 85 percent of annual emerging market and developing economies' output at purchasing-power-parity weights.

Growth Forecast for Advanced Economies

For *advanced economies*, growth is projected to be 1.6 percent in 2025 and 2026, both 0.2 percentage point lower than recorded in 2024 and projected in the October 2024 WEO.

- In the *United States*, growth is projected to slow to 2.0 percent in 2025 and remain steady at 2.1 percent in 2026, broadly the same as in July and an improvement relative to April on account of lower effective tariff rates, a fiscal boost from the passage of the OBBBA, and easing financial

conditions. This projection marks a significant slowdown from 2024 as well as a cumulative downward revision of 0.1 percentage point relative to the October 2024 WEO and 0.7 percentage point relative to the January 2025 WEO *Update*. The downward revision is mainly a result of greater policy uncertainty, higher trade barriers, and lower growth in both the labor force and employment.

- Growth in the *euro area* is expected to pick up modestly to 1.2 percent in 2025 and to 1.1 percent in 2026. While an improvement relative to April and

**Table 1.2. Overview of the World Economic Outlook Projections at Market Exchange Rate Weights
(Percent change)**

	2024	Projections		Difference from July 2025 WEO Update ¹		Difference from April 2025 WEO ¹	
		2025	2026	2025	2026	2025	2026
World Output	2.8	2.6	2.6	0.1	0.0	0.3	0.2
Advanced Economies	1.8	1.6	1.7	0.1	0.0	0.2	0.2
Emerging Market and Developing Economies	4.2	4.0	3.8	0.0	0.0	0.5	0.1
Emerging and Developing Asia	5.2	5.0	4.5	0.1	0.0	0.7	0.1
Emerging and Developing Europe	3.4	1.9	2.3	0.0	0.1	-0.2	0.0
Latin America and the Caribbean	2.2	2.3	2.2	0.2	0.0	0.4	0.0
Middle East and Central Asia	2.3	3.6	4.0	0.2	0.3	0.7	0.4
Sub-Saharan Africa	3.9	4.0	4.2	0.2	-0.1	0.3	0.0
<i>Memorandum</i>							
European Union	1.0	1.3	1.3	0.1	-0.1	0.3	-0.1
Middle East and North Africa	1.9	3.4	3.9	0.1	0.3	0.7	0.4
Emerging Market and Middle-Income Economies	4.2	4.0	3.8	0.1	0.1	0.5	0.2
Low-Income Developing Countries	4.0	4.5	5.0	0.1	-0.1	0.3	-0.3

Source: IMF staff estimates.

Note: The aggregate growth rates are calculated as a weighted average, in which a moving average of nominal GDP in US dollars for the preceding three years is used as the weight. WEO = *World Economic Outlook*.

¹Difference based on rounded figures for the current, July 2025 WEO *Update*, and April 2025 WEO forecasts.

July, this is a cumulative downward revision of 0.4 percentage point compared with the October 2024 WEO. Elevated uncertainty on multiple fronts and higher tariffs are the main drivers. Recovering private consumption from higher real wages and fiscal easing in *Germany* in 2026 provide only a partial offset, whereas strong performance in *Ireland* lifts growth in 2025. The euro area economy is expected to grow at potential in 2026.

- Forecasts for other advanced economies also mark significant downward revisions compared with those in the October 2024 WEO, largely a reflection of the shifting international trade landscape. In *Canada*, the growth forecast for 2025 is 1.2 percent, and for 2026 it is 1.5 percent—cumulatively 1.7 percentage points below the October 2024 projection. In *Japan*, growth is expected to accelerate from 0.1 percent in 2024 to 1.1 percent in 2025 and moderate to 0.6 percent in 2026. These dynamics are driven by an expected pickup in real wage growth supporting private consumption, despite headwinds from elevated trade policy uncertainty and softening external demand. This constitutes a cumulative downward revision of 0.2 percentage point relative to October 2024. In the *United Kingdom*, growth in 2025 and 2026 is expected to be 1.3 percent, revised, on a cumulative basis, slightly upward relative to April. While this reflects strong activity in the first half of 2025 and an improvement in the external environment, including

through the UK-US trade deal announced in May, the projected growth in 2025–26 is still lower by a cumulative 0.4 percentage point compared with the forecast in October 2024.

Growth Forecast for Emerging Market and Developing Economies

- For *emerging market and developing economies*, growth is projected to moderate from 4.3 percent in 2024 to 4.2 percent in 2025 and 4.0 percent in 2026. This is virtually unchanged from the July WEO *Update* and is a cumulative upward revision of 0.6 percentage point from the April 2025 WEO. That said, it is lower than the forecast in October 2024 by a cumulative 0.2 percentage point, with low-income developing countries experiencing a larger downward revision than middle-income economies.
- Growth in *emerging and developing Asia* is expected to decline from 5.3 percent in 2024 to 5.2 percent in 2025 and further to 4.7 percent in 2026. For quite a few countries in the region—particularly in ASEAN, among the most affected—the evolution of growth forecasts largely mimicked that of effective tariff rates. In *China*, the 2025 GDP growth forecast was revised downward by 0.6 percentage point in the April 2025 WEO, with the escalation of trade tensions between China and the United States, and then upward by 0.8 percentage point in the July WEO *Update*, following the pause on higher rates in May. Compared with the October 2024 WEO

projection, growth, at 4.8 percent, is expected to be 0.3 percentage point higher. Growth is expected to moderate in 2026 to 4.2 percent. A stronger-than-expected outturn in the past few quarters, reflecting front-loading in international trade and relatively robust domestic consumption supported by fiscal expansion in 2025, more than offset the headwinds from higher uncertainty and tariffs. In *India*, growth is projected to be 6.6 percent in 2025 and 6.2 percent in 2026. Compared with the July WEO *Update*, this is an upward revision for 2025, with carryover from a strong first quarter more than offsetting the increase in the US effective tariff rate on imports from India since July, and a downward revision for 2026. Compared with the pre-tariff forecast in October 2024, growth is projected to be cumulatively 0.2 percentage point lower.

- In *Latin America and the Caribbean*, growth is projected to remain stable at 2.4 percent in 2025 and fall slightly to 2.3 percent in 2026. The forecast for 2025 is revised upward by 0.4 percentage point relative to April on account of lower tariff rates for most countries in the region and stronger-than-expected incoming data. The revision is driven largely by *Mexico*, which is expected to grow at 1.0 percent in 2025, 1.3 percentage points higher than forecast in the April 2025 WEO. For *Brazil*, the projection for 2025 is revised upward, but that for 2026 is revised downward, in part because of the higher tariff rate on the country's exports to the United States. For the region as a whole, a forecast for this year and next that is cumulatively 0.5 percentage point lower than forecast in the October 2024 WEO reflects trade policy changes and uncertainty.
- Growth in *emerging and developing Europe* is projected to decline substantially, from 3.5 percent in 2024 to 1.8 percent in 2025, and to recover modestly to 2.2 percent in 2026. This is driven mainly by a sharp drop in the growth forecast in *Russia*, from 4.3 percent in 2024 to 0.6 percent in 2025 and to 1.0 percent in 2026. Growth for 2025 is 0.9 percentage point lower than in the April 2025 WEO forecast. The downward revision is largely a result of recent data releases that show a concentration of fiscal expenditures in the fourth quarter of 2024, which pushed estimated GDP growth in 2024 from 4.1 percent to 4.3 percent. The payback is incorporated in the 2025 projection. Growth projections for *Türkiye* are revised upward for both 2025 and 2026, on account of stronger-than-expected

outturns, and provide a partial offset. Still, for the region as a whole, the growth forecast is lower than projected in the October 2024 WEO by a cumulative 0.7 percentage point.

- Growth in the *Middle East and Central Asia* is projected to accelerate, from 2.6 percent in 2024 to 3.5 percent in 2025 and to 3.8 percent in 2026, as the effects of disruptions to oil production and shipping dissipate and the impacts of ongoing conflicts abate. Compared with April, the projection for 2025 is revised upward by 0.5 percentage point. This largely reflects developments in Gulf Cooperation Council countries, in particular *Saudi Arabia*, where the unwinding of oil production cuts was faster than expected, and *Egypt*, where the outturn in the first half of 2025 was better than expected. Despite the region's relatively smaller exposure to the new US tariff regime, compared with the October 2024 WEO, its growth projection is cumulatively 0.8 percentage points lower for 2025 and 2026, as a result of the indirect effects of subdued world demand on commodity prices.
- In *sub-Saharan Africa*, growth is expected to remain subdued, unchanged in 2025 from 4.1 percent in 2024, before picking up to 4.4 percent in 2026. This is an upward revision relative to the April 2025 WEO forecast by a cumulative 0.5 percentage point, but a downward revision of 0.1 percentage point compared with the October 2024 WEO. Whereas growth in *Nigeria* is revised upward on account of supportive domestic factors, including higher oil production, improved investor confidence, a supportive fiscal stance in 2026, and given its limited exposure to higher US tariffs, many other economies see significant downward revisions because of the changing international trade and official aid landscape. Many low-income countries in sub-Saharan Africa benefited from preferential access to the US market under the African Growth and Opportunity Act, which expired in September. Halting this preferential access is expected to have sizable negative effects, particularly on *Lesotho* and *Madagascar*.

Inflation Forecast

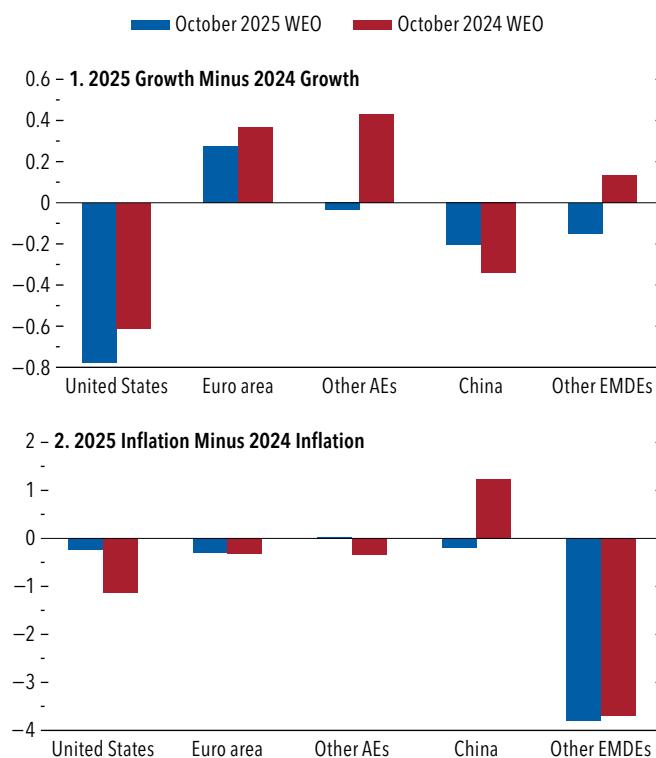
Under the baseline, global headline inflation is projected to decline to 4.2 percent in 2025 and to 3.7 percent in 2026. This path is virtually the same as depicted in the previous projections, but there is variation across countries and regions.

Inflation forecasts are revised upward in quite a few economies, relative to the October 2024 WEO, which serves as a pre-policy-shift benchmark. Among advanced economies, the most notable cases are the United Kingdom and the United States. In the United Kingdom, headline inflation, which started picking up in 2024, is expected to continue rising in 2025 partly because of changes in regulated prices. This is projected to be temporary, with a loosening labor market and moderating wage growth eventually helping inflation return to target at the end of 2026. In the United States, inflation is expected to pick up beginning in the second half of 2025, as the impact of tariffs is no longer absorbed within supply chains and instead passed on to consumers. Inflation then is expected to return to the Federal Reserve's 2 percent target during 2027. This forecast assumes only modest second-round effects, implying potential upside risks to US inflation in the baseline amid downside risks to employment. Among emerging market and developing economies, inflation forecasts for Brazil and Mexico are revised upward. For Brazil, the revision is more pronounced and in part reflects the stabilization of inflation expectations above target rates, reflecting credibility challenges associated with fiscal policy uncertainties last year, although relief from more recent currency appreciation is expected to arrive in late 2025 and in 2026. For Mexico, volatile categories such as food and more-persistent-than-expected services inflation contribute to the upward revision.

For several other economies, inflation forecasts are revised downward, compared with the October 2024 WEO. In much of emerging and developing Asia, that is the case. This is largely a reflection of lower-than-expected outturns, with food, energy, and administrative prices playing a significant role (for example, in China, India, and Thailand).

Taken together with the GDP growth forecasts, the picture varies across countries. US growth in 2025, forecast at 2.0 percent, is lower than the 2.2 percent projected in the October 2024 WEO. Inflation in 2025, forecast at 2.7 percent, is higher than the 1.9 percent projected in the October 2024 WEO. Relative to forecasts prior to the policy shifts, the US economy is expected to slow more sharply in 2025 than was projected a year ago (Figure 1.11). Meanwhile, inflation is expected to remain largely unchanged and elevated, compared with the notable decline projected in October 2024. This combination

**Figure 1.11. Changes in GDP Growth and Inflation
(Percentage points)**



Source: IMF staff calculations.

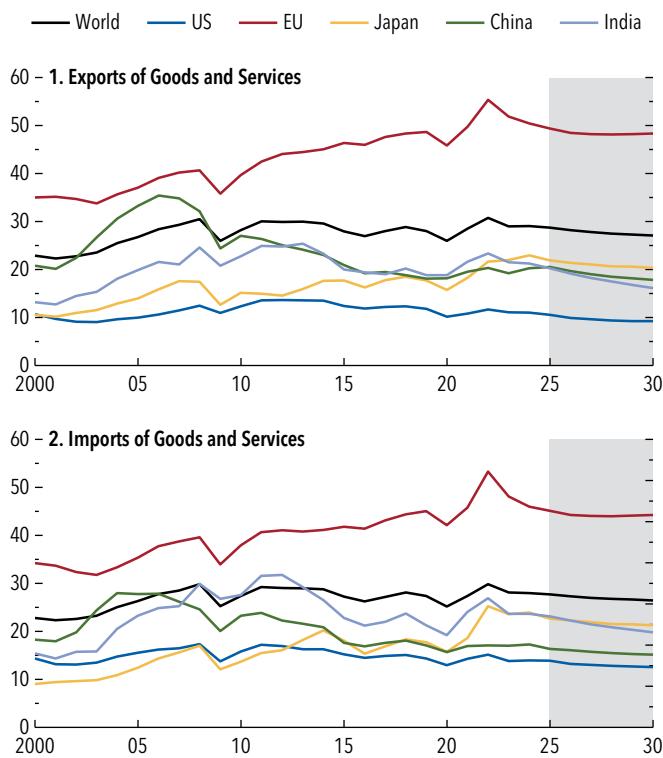
Note: AEs = advanced economies; EMDEs = emerging market and developing economies; WEO = *World Economic Outlook*.

of a sharper growth slowdown and a slower pace in disinflation in the United States contrasts with the less sharp growth slowdown and muted inflation in China. Elsewhere, in most cases, a pickup in growth is no longer expected or is projected to be much weaker, while inflation is still expected to decline at about the same pace as before. This is broadly in line with what would be anticipated from the introduction of higher US tariffs, with small deviations in the inflation outlook attributable to idiosyncratic offsetting factors.

World Trade Outlook and Global Imbalances

World trade is expected to decline modestly over the five-year forecast horizon (Figure 1.12). Compared with the April 2025 WEO, world trade volume is expected to grow faster in 2025 but more slowly in 2026. This reflects the front-loading patterns observed. Trade volume growth at an average rate of 2.9 percent in 2025–26, even with the temporary boost from

Figure 1.12. World Trade
(Percent of GDP)



Source: IMF staff calculations.

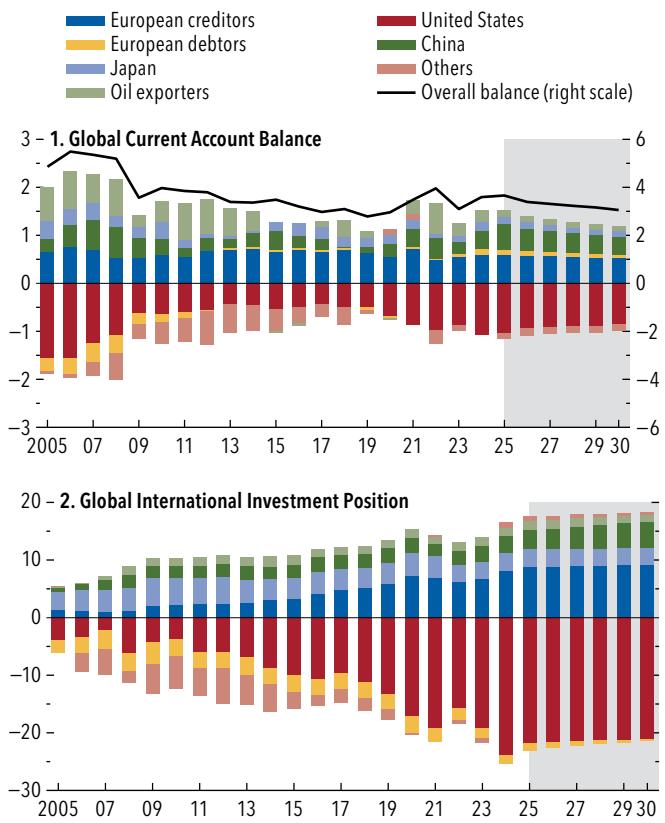
Note: Shaded area represents forecasts. European Union (EU) data include both intra- and extra-EU trades.

front-loading in 2025, is lower than projected in the October 2024 WEO, which envisioned an average growth rate of 3.3 percent.

Global current account imbalances in 2025 are expected to exceed those in the October 2024 WEO and to narrow thereafter (Figure 1.13). Among the three largest contributors to the overall balance (China, Germany, United States), preemptive trade ahead of prospective tariffs widens the US deficit and the surplus for China, before unwinding as pull-forward behavior dissipates (Figure 1.14).

The narrowing of global imbalances works through three main channels. The first is trade policy shifts. In the United States, the rise in import costs and greater uncertainty dampen investment, softening import demand. At the same time, tariffs on intermediate inputs act as a tax on US manufacturers, raising production costs for exports of final products and US products that compete against imports—leaving the net effects on the current account ambiguous.

Figure 1.13. Current Account and International Investment Positions
(Percent of global GDP)



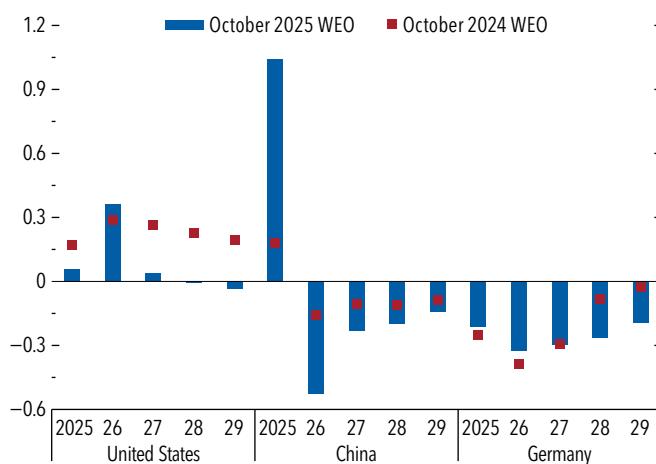
Source: IMF staff calculations.

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.

Further, even as higher tariff receipts are likely to lift public savings, decreasing private savings are likely to offset this increase. Overall, the impact on the current account of this channel is likely to be limited, consistent with both model-based and empirical analysis (2025 *External Sector Report*).

Second, exchange rate movements are an additional channel of external adjustment. Higher unilateral tariffs would normally be associated with a stronger currency for the tariffing country, helping with the absorption of the tariff shock. The recent depreciation of the US dollar, instead, enhances export price competitiveness and restrains import-intensive consumption—possibly helping to narrow US external deficits. A weaker dollar also tends to ease global financial

**Figure 1.14. Projected Change in Current Account Balance
(Percentage points)**



Source: IMF staff calculations.

Note: Each data point shows difference from previous year of current account balance in percent of GDP series in respective WEOs. WEO = *World Economic Outlook*.

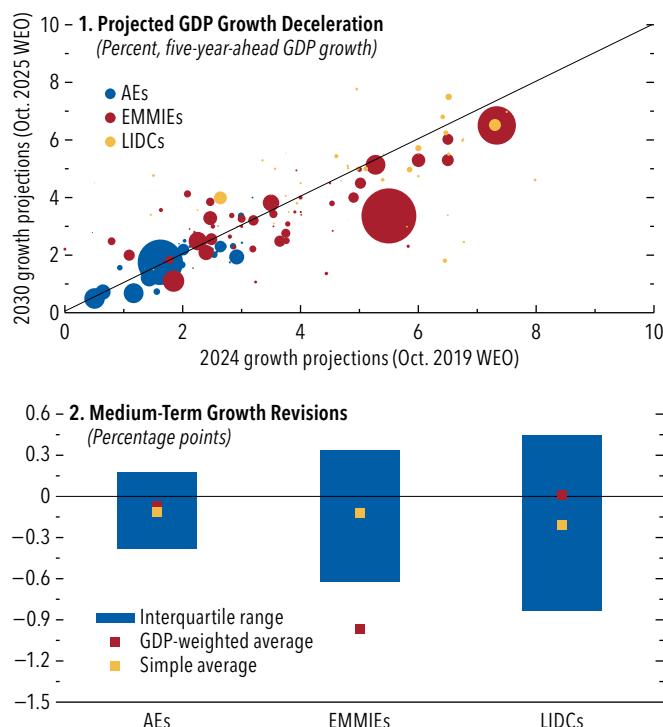
conditions, providing some near-term global demand, but this is likely to be eroded by higher inflation in the United States relative to the rest of the world and the associated adjustment in the real effective exchange rate.

Last but not least, fiscal changes have accompanied trade developments. China and Germany have recently announced and expanded spending measures to boost domestic demand, which will lower net savings and reduce external surpluses. In the United States, the OBBBA is expected to widen the fiscal deficit over the medium term relative to projections in previous WEO reports, despite back-loaded spending cuts and sizable tariff receipts. This weighs on public saving and so tends to widen the current account deficit—or at least temper any narrowing from other channels.

Medium-Term Outlook

A more fragmented international economic landscape adds to the challenges many countries are facing in lifting medium-term growth prospects, including from aging populations and subdued productivity growth. In the absence of durable structural reforms, growth forecasts over the five-year WEO horizon remain mediocre. World output is projected to expand at an average annual pace of 3.2 percent in 2027–30, a persistently lackluster performance compared with the prepandemic (2000–19) historical average of 3.7 percent.

Figure 1.15. Medium-Term Growth Outlook



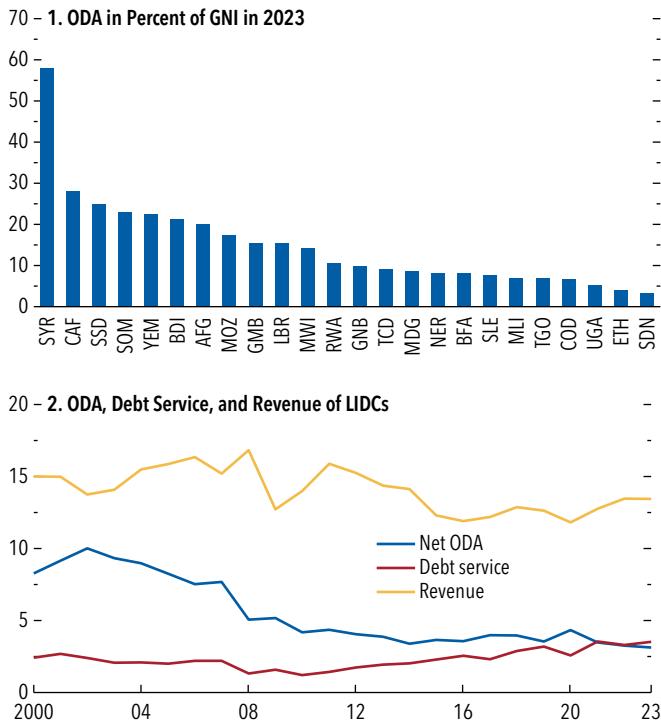
Source: IMF staff calculations.

Note: In panel 1, bubble sizes are based on 2030 GDP at purchasing power parity in October 2025 WEO. In panel 2, the medium-term growth revisions are defined as 2030 real GDP growth from October 2025 WEO minus 2024 growth from October 2019 WEO. AEs = advanced economies; EMMIEs = emerging market and middle-income economies; LIDCs = low-income developing countries; WEO = *World Economic Outlook*.

Relative to October 2019, prior to the sequence of shocks that hit the world economy (the pandemic, Russia's invasion of Ukraine, the inflation surge, and now the protectionist trade policies), the medium-term outlook today is decidedly weaker. Medium-term growth prospects are dimming for about two-thirds of the world economy (measured by purchasing power parity), and the decline is more pronounced for emerging market and middle-income economies (Figure 1.15, panel 1).

Despite the heterogeneity in medium-term growth revisions (Figure 1.15, panel 2), particularly within the group of low-income developing countries, the stronger downward revisions for emerging market and developing economies portend challenges to the pace of global income convergence (see also the October 2023 WEO and the April 2024 WEO). The world's poorest economies, including those suffering from prolonged conflict, are particularly at risk of seeing their growth momentum decelerate and their per capita income gap relative to advanced economies

Figure 1.16. Official Development Assistance, Revenues, and Interest Burden (Percent)

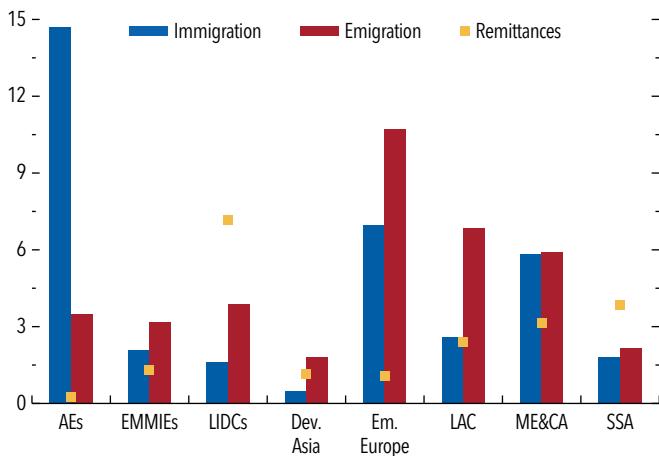


Sources: Organisation for Economic Co-operation and Development; World Bank, *World Development Indicators*; and IMF staff calculations.

Note: In panel 1, data labels in the figure use International Organization for Standardization (ISO) country codes. In panel 2, net ODA and debt service are weighted by and shown as percentages of GNI, and revenue is weighted by and shown as percentage of GDP. Revenue excludes grants. GNI = gross national income; LIDCs = low-income developing countries; ODA = official development assistance.

widen. This comes amid a significant decline in financing flows to these economies, including as a result of cuts in grants and concessional lending (Chabert and Powell 2025) and significantly higher reliance on commercial creditors for external financing (IMF 2025a; October 2025 *Global Financial Stability Report*). Official development assistance constitutes a significant share of gross national income in some of the most vulnerable countries in the Middle East and in Africa (Figure 1.16, panel 1). It affects sectors from health and education to energy. Based on tracking of donor announcements, countries such as Afghanistan, the Central African Republic, and Somalia may be hit hardest by aid cuts in proportion to their gross national income (Huckstep and others 2025). The direct short-term macroeconomic impact of aid cuts may not be large and will ultimately depend on details of the cuts and the response of governments in recipient countries. The options for governments to

Figure 1.17. Migrant Stock and Remittances (Percent)



Sources: United Nations, *International Migrant Stock 2024*; World Bank, *World Development Indicators 2025*; and IMF staff calculations.

Note: Immigrants are expressed as a percentage of the destination population, emigrants of the origin population, and remittances as a percentage of GDP in US dollars. AEs = advanced economies; Dev. Asia = developing Asia; Em. Europe = emerging Europe; EMMIEs = emerging market and middle-income economies; LAC = Latin America and the Caribbean; LIDCs = low-income developing countries; ME&CA = Middle East and Central Asia; SSA = sub-Saharan Africa.

make up for loss of aid may be limited as debt service burdens climb and government revenues stagnate (Figure 1.16, panel 2). The effects will become visible over time as likely deterioration in energy access and human capital accumulation reduce potential output, on top of the humanitarian costs involved. Declining official development assistance could also heighten geopolitical instability, migration pressures, and security risks in fragile regions, and recipient countries may increasingly rely on a patchwork of smaller, less coordinated, and potentially less accountable donors.

Immigration is another aspect of recent policy shifts that has implications for medium-term growth in both low-income countries and advanced economies. The global stock of international migrants is estimated at 285 million as of 2022, with 168 million participating in the labor force (ILO 2025). About a quarter of those international migrants in the labor force are in North America—primarily the United States—and another quarter are in western Europe. On average, roughly 15 percent of advanced economies' populations are immigrants, while emigrants constitute a significant portion of populations in emerging Europe, Latin America and the Caribbean, and the Middle East and North Africa (Figure 1.17). Crucially, remittances—which alleviate poverty and under some circumstances modestly but permanently

raise GDP (Francois and others 2022)—are a significant resource for many of these source countries. That said, output costs of more restrictive policies on the cross-border flow of labor may also be sizable in the destination countries. In the United States, the new immigration policies could reduce the country's GDP by 0.3 percent to 0.7 percent a year (Edelberg, Veuger, and Watson 2025; Mayda and Peri 2025). A decline in labor supply, especially of immigrant labor, which tends to be associated with business dynamism and innovation, would also lower potential output. When compounded with the negative supply shock imposed by tariff measures, this implies that labor market slack may not increase much and that the disinflationary momentum the US economy has recently experienced may vanish sooner rather than later. Certain sectors of the economy where immigrants form a large portion of the labor force, such as construction, hospitality, personal services, and farm work, could experience stronger inflationary pressures than others. Then, further decreases in the monetary policy rate would need to proceed cautiously, depending critically on incoming data.

Risks to the Outlook: Still Tilted to the Downside

Risks to the outlook remain tilted to the downside, as in the July 2025 WEO Update.

Downside Risks

Prolonged trade policy uncertainty and ratcheting up of protectionist trade measures. Further increases in trade policy uncertainty would weigh on firms' investment decisions and worsen the growth outlook. It would also hamper their ability to optimize inventories, potentially leading to short-term output volatility—the front-loading of imports followed by payback periods. Further increases in tariffs could weigh negatively on activity in countries directly impacted by the trade measures. While other countries may benefit from tariff-induced trade diversion, especially if their exports embed a rising share of domestic value added, the aggregate impact is likely to depress global output over the medium term given the disruption to supply chains (April 2025 WEO). The rise in protectionist measures both through tariffs and nontariff measures (including export controls on new technologies) could lead to further disruption and fragmentation of supply

chains, reversing some of the efficiency gains of the past few decades from trade liberalization. Reliance on ad hoc bilateral deals for trade negotiations, which erode previous agreements and whose details and longevity remain unclear, would not meaningfully reduce trade policy uncertainty. If such deals are coupled with further discriminatory measures against third countries, they may generate additional negative spillovers and tit-for-tat dynamics. Over the medium term, more protectionist stances and fragmentation could also stunt global technological diffusion, further hurting growth prospects, especially of emerging market and developing economies. This could in turn give rise to domestic polarization and social unrest.

Shocks to labor supply. Further deterioration in labor supply from more stringent immigration policies in advanced economies could weigh on firms' investment and hiring decisions, especially in economies where certain skills are in short supply and that have recently relied on immigration flows to ease labor market tightness. This would act as a negative supply-side shock with direct bearing on the economy's potential output capacity. Emerging pockets of labor market tightness—as experienced in the aftermath of the COVID-19 pandemic shock—could put upward pressure on the price of services and increase core inflation.

Fiscal vulnerabilities, financial market fragilities, and their interactions. In light of the recent surge in long-term sovereign bond yields in major advanced economies, abrupt market reactions to fiscal vulnerabilities could have an amplified impact. Rising fiscal worries may lead borrowing costs to increase further or, equivalently, could erode the “convenience yield” on the sovereign debt of some large advanced economies, given the sensitivity of government bond yields to changes in debt (Furceri, Goncalves, and Li 2025). In countries where a high share of the outstanding debt stock is rolled over annually, the rise in yields would increase debt-service costs and may reduce other critical spending, such as capital spending or support for shock-prone households. In addition, many low-income countries are reeling from the impact of reduced official aid flows, which increase their reliance on private creditors to meet their gross financing needs and add to their fiscal vulnerability. A repricing of core government bond yields could be amplified by maturity mismatches and leverage among nonbank financial institutions and could ripple through to other assets, triggering disorderly price corrections where asset valuations are above fundamentals. To the extent that

market repricing worsens balance sheets for households and firms, it could weigh down consumption and investment. The rapid rise of stablecoins, as alternatives to traditional safe assets and bank deposits, may encourage currency substitution. And, in the event of a run on a given stablecoin, it may jeopardize the market for the assets that back it—such as short-term government bonds or demand deposits—and pose systemic risks to the financial system (Chapter 1 of the October 2025 *Global Financial Stability Report*).

Repricing of new technologies. Excessively optimistic growth expectations about AI could be revised in light of incoming data from early adopters and could trigger a market correction. Elevated valuations in tech and AI-linked sectors have been fueled by expectations of transformative productivity gains. If these gains fail to materialize, the resulting earnings disappointment could lead to a reassessment of the sustainability of AI-driven valuations and a drop in tech stock prices, with systemic implications. A potential bust of the AI boom could rival the dot-com crash of 2000–01 in severity, especially considering the dominance of a few tech firms in market indices and involvement of less-regulated private credit loans funding much of the industry’s expansion. Such a correction could erode household wealth and dampen consumption. To the extent that the AI hype has led to excessive capital flows into a narrow set of firms and sectors, any unwinding of these positions could then entail a slow economic recovery hampered by capital misallocation. These vulnerabilities are compounded by constrained fiscal space, which may limit the effectiveness of policy responses.

Eroding good governance and institutional independence. Intensification of political pressure on policy institutions safeguarded by a country’s constitution, statutes, and case law—for example, central banks, whose primacy of independence is upheld by both conventional wisdom and empirical evidence—could erode hard-won public confidence in their ability to fulfill their mandates. This could de-anchor the public’s inflation expectations. The evidence shows that political pressure on central banks tends to increase the intensity and persistence of inflationary pressures (Binder 2021; Drechsel 2025). Pressures on technocratic institutions mandated with data collection and dissemination could also erode the public’s and markets’ trust in statistics from official sources, significantly complicating the tasks of central banks and policymakers in making policy decisions,

while diminishing transparency and hampering price discovery in financial markets. It also raises the likelihood of policy mistakes if political interference leads to compromise in data quality, reliability, and timeliness.

Renewed spikes in commodity prices arise as a result of climate shocks, regional conflicts, or broader geopolitical tensions. Escalation in regional conflicts could result in sustained increases in the prices of food, fuel, and other essential commodities, with commodity-importing nations particularly susceptible to heightened inflationary pressures amid constrained fiscal space. Moreover, extreme heat, prolonged drought, and other natural disasters—exacerbated by climate change—may adversely affect agricultural yields, sparking food supply shocks and amplifying food security challenges. These developments would disproportionately impact low-income countries, where households allocate a substantial share of their expenditures to essential commodities.

Upside Risks

Breakthrough in trade negotiations, leading to lower tariffs and improved policy predictability. The potentially heavy costs associated with global trade fragmentation and dislocation of supply chains may spur breakthroughs in trade negotiations that reduce aggregate tariff rates as part of expanded agreements for regional or multilateral cooperation. In addition, restoring rules-based nondiscriminatory frameworks could measurably improve trade policy predictability and facilitate broad-based efficiency gains (see Box 1.2 for a discussion of the potential output gains from a return to a world of lower tariffs and reduced trade policy uncertainty). Strengthening cooperation in areas such as trade in services, streamlining business regulation, and fostering capital market integration could help unlock investment and boost productivity growth.

A faster pace of structural reforms. In an increasingly challenging global environment, both advanced and emerging market and developing economies could enhance domestic structural reform initiatives to prevent further declines in productivity and growth potential relative to their peers. Accelerating the pace of macrocritical structural reforms—such as those aimed at increasing labor force participation, reducing resource misallocation in labor and capital markets, or promoting business innovation—could contribute to stronger medium-term growth.

Artificial intelligence reigniting productivity growth. Faster AI adoption could help unleash strong productivity gains as firms increase uptake of the various AI-based tools being developed and deployed at high speed. This may be accompanied by increased business dynamism if the right policies are in place to enable high-productivity firms to continue to grow—and allow unproductive ones to exit the market—prompting an efficiency allocation of resources that supports aggregate productivity growth. Gains from AI could well exceed potential costs from their adverse effects on employment, especially if governments put in place adequate regulatory frameworks and offer supportive labor market programs aimed at upskilling and re-skilling workers at risk of displacement.

Policies: Bringing Confidence, Predictability, and Sustainability

Anchoring Trade in Predictable Rules

Removing trade policy uncertainty. Countries should set out and respect clear and transparent trade policy road maps to reduce volatility, stabilize expectations, and support investment. In periods of heightened uncertainty, pragmatic cooperation and predictable processes help limit costly precautionary adjustments and anchor confidence in a rules-based system.

Modernizing trade rules and cooperating to lower barriers. Policymakers should update trade rules to reflect the evolving structure of commerce—services, digital trade and data flows, complex subsidies, and supply-chain security—thereby improving predictability and the conditions in which firms can compete fairly. Practical avenues include interoperable standards for data and services and trade and investment facilitation platforms. However, modernizing without overreach is essential: Trade rules should be targeted to clearly identified cross-border spillovers and calibrated to respect legitimate prudential objectives. Cooperation across regional and multilateral platforms can keep trade regimes interoperable. Effective, trusted dispute-settlement mechanisms can increase credibility and, hence, uptake of new rules.

Countries should pursue bilateral, regional, and plurilateral negotiations to lower barriers—tariffs, quotas, and behind-the-border frictions—aiming for agreements that remain open to those willing to accept similar obligations while avoiding raising barriers against third parties. Design options include open-accession

clauses to promote inclusivity and minimize fragmentation and disciplinary measures that curb discriminatory procurement. Negotiations should aim to de-escalate tensions and prevent tariff hikes, with an emphasis on nondiscriminatory market opening. The objective should be to lower, not raise, trade and investment barriers and to limit discriminatory elements that risk negative third-country spillovers and renewed tensions. Managed trade provisions—such as purchase commitments and quantitative restrictions—should be avoided because they lead to distortions and diversion and are unlikely to address external imbalances, which are driven by aggregate saving–investment dynamics.

Pairing trade diplomacy with macroeconomic adjustment. To lock in these gains, trade diplomacy should be aligned with domestic policies that address the root causes of large external imbalances (Chapter 1 of the 2025 *External Sector Report*). For Europe, this could include higher public infrastructure investment to raise potential growth and close the postpandemic productivity gap with the United States. For China, rebalancing toward household consumption—including through fiscal measures with a greater focus on social spending and the property sector—and scaling back industrial policies would reduce external surpluses and alleviate domestic deflationary pressures. For the United States, credible fiscal consolidation would ease demand pressures and lower global interest rate spillovers. Aligning trade diplomacy with macroeconomic measures can defuse persistent sources of friction.

Rebuilding Fiscal Buffers and Safeguarding Debt Sustainability

Restoring buffers. Fiscal policy space has significantly declined during the unprecedented series of shocks the global economy has endured in recent years. Additional spending demands are coming from population aging and the need to ensure national and economic security. More than ever, countries should implement credible medium-term fiscal consolidation—designed to rebuild buffers while protecting spending to support the vulnerable. With debt ratios already elevated and projected to rise further over coming decades under current policies, heavy debt burdens will likely weigh on growth, crowd out priority spending, and heighten rollover and interest rate risks. Separately, fiscal strategies that rest on benign baselines or assume extraordinary growth are themselves a source of fragility