CHAPTER 1

GLOBAL PROSPECTS AND POLICIES

A New Global Economic Landscape Slowly Takes Shape

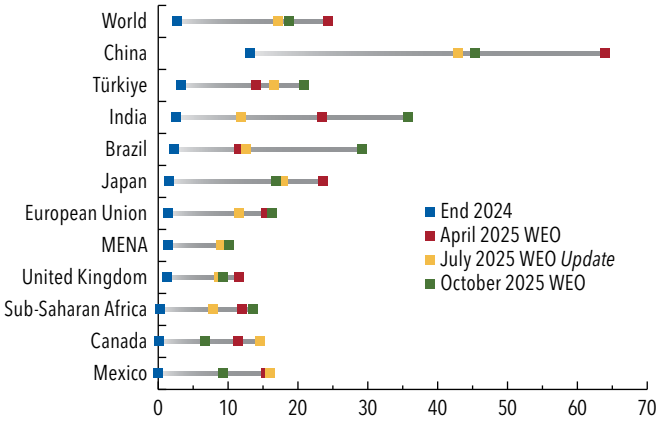
The year 2025 has been fluid and volatile, with much of the dynamics driven by a reordering of policy priorities in the United States and the adaptation of policies in the other economies to new realities. Trade news has dominated the headlines, and, along with them, perceived prospects for the global 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.

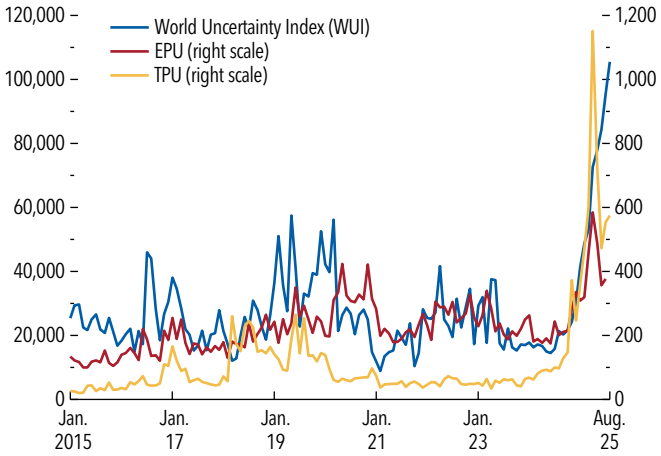
Figure 1.1. US Effective Tariff Rates by Country
(Percent)



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.

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).

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 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.

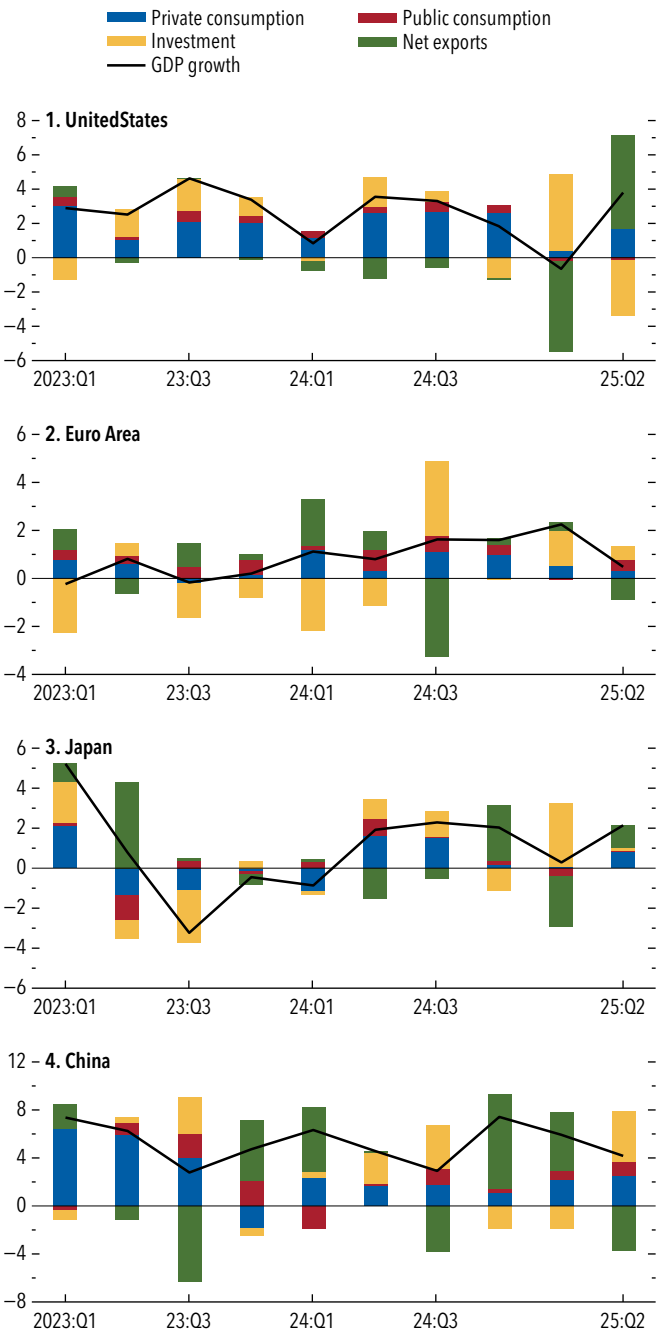
The last round of tariffs came in as the US economy started to show signs of a material slowdown. GDP grew at an annualized 3.8 percent in the second quarter of 2025, but mainly because imports and inventories fully reversed the outturn observed in the first quarter, which had seen a contraction of –0.6 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 stimulus. 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

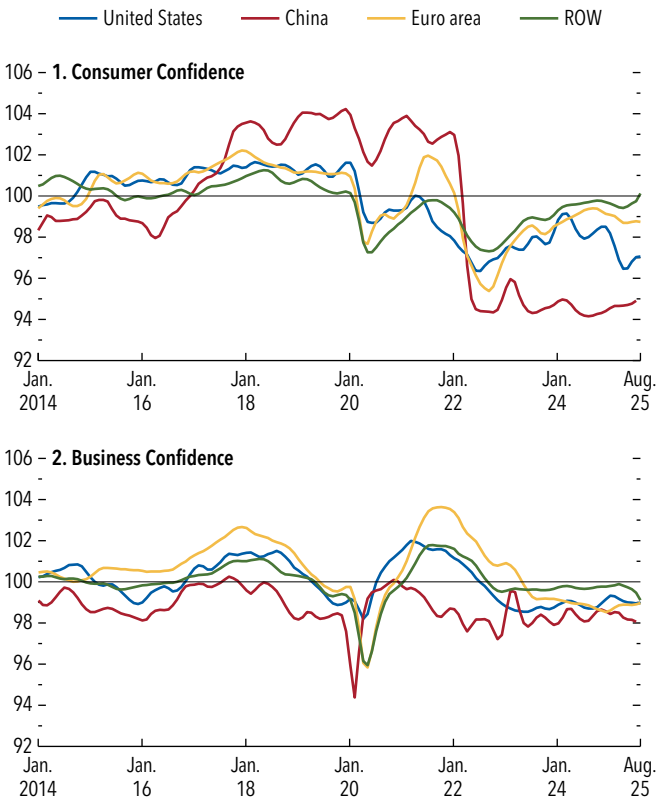
Figure 1.3. Contributions to Quarterly GDP Growth
(Percent, quarter over quarter, annualized)



Source: IMF staff calculations.

Note: Figures are calculated using seasonally adjusted series. Residuals are included in the investment contribution.

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.

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 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

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

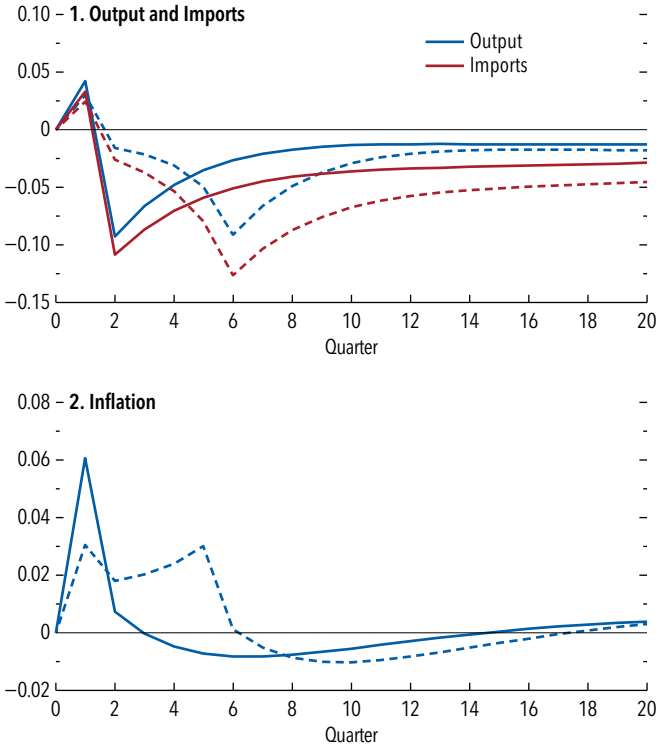
Several factors explain why the impact of higher uncertainty may have been delayed or mitigated. Uncertainty, acting as a negative demand shock, typically starts weighing on activity almost immediately. Its effect continues to build over time and eventually disappears as uncertainty lifts. Empirical 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 European Union and started to fall steadily only beginning in 2018 (BOE 2019).

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.

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.

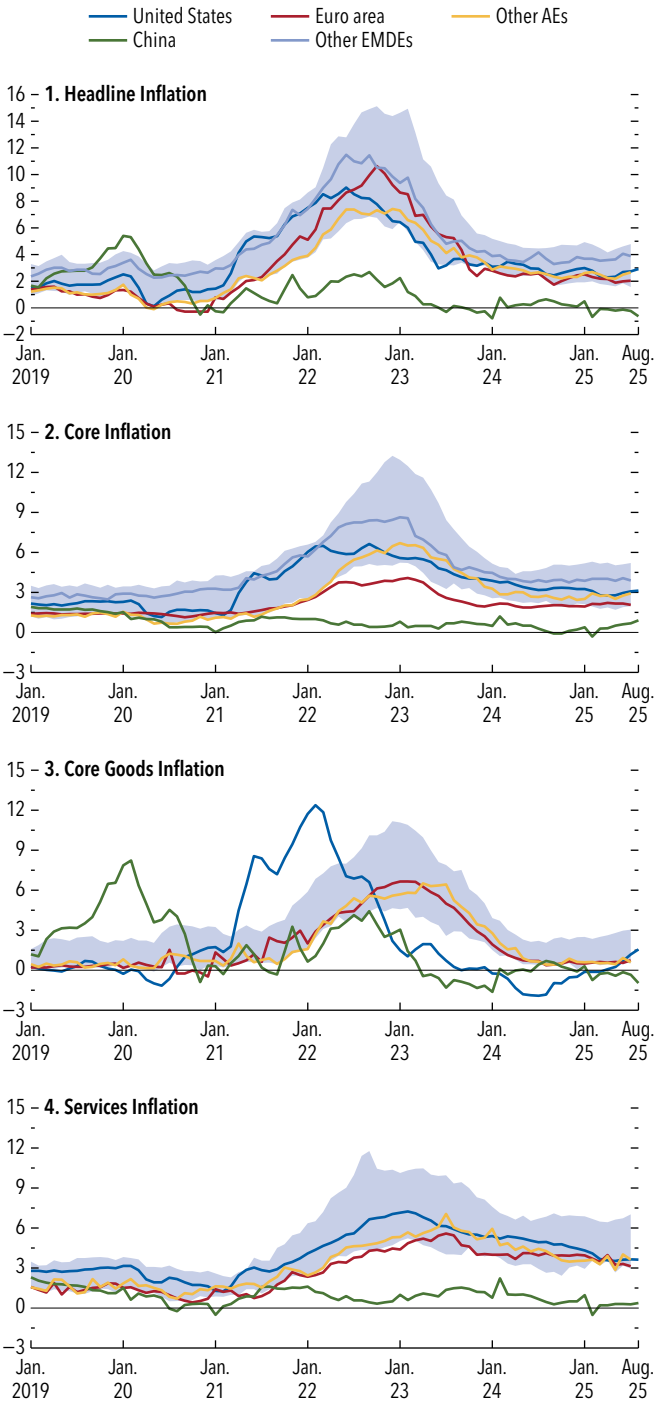
In the second exercise (dashed lines), agents receive news today that tariff uncertainty is going to rise later—akin to pauses or deadline extensions that push uncertainty into the future. Front-loading of imports is similar, but now it is motivated by anticipated larger potential price changes in the 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

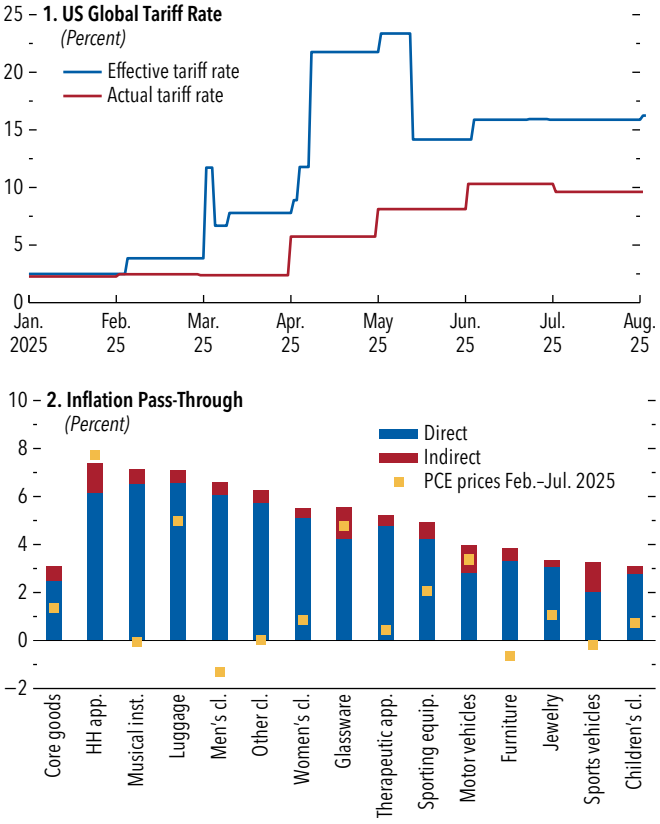
Figure 1.6. Global Inflation Trends
(Percent, year over year)



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.

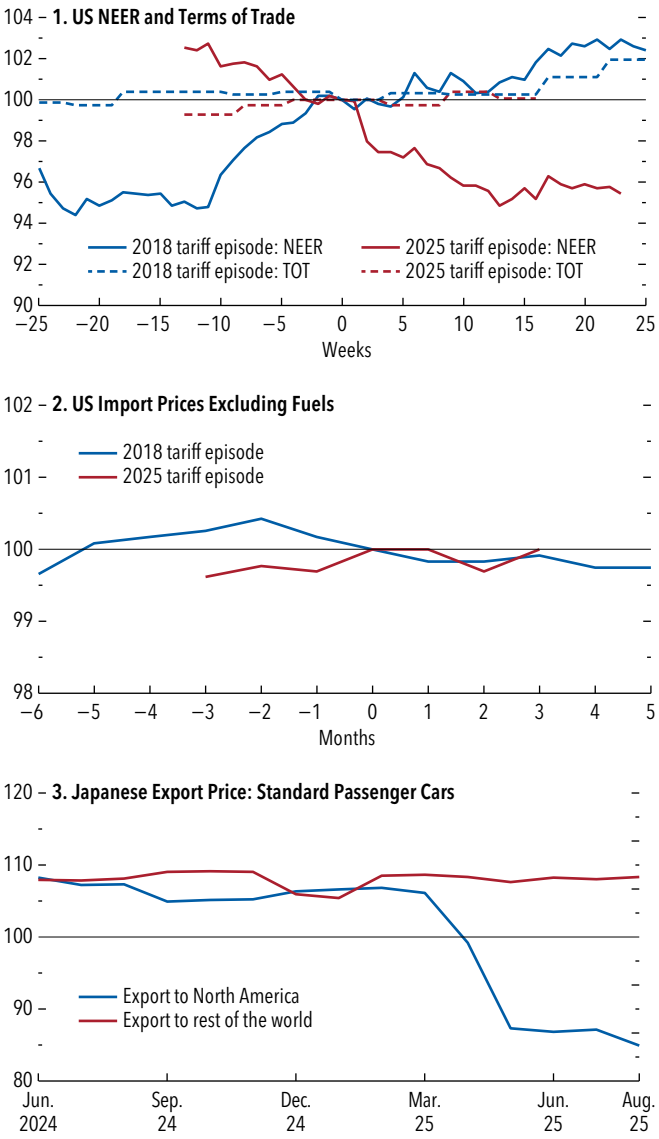
rewiring of global value chains and may, at some point, start to pass on cost increases to consumers (see also the October 2025 *Global Financial Stability Report* for an analysis of implications of higher tariffs for corporate earnings and debt-servicing capacity).

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.

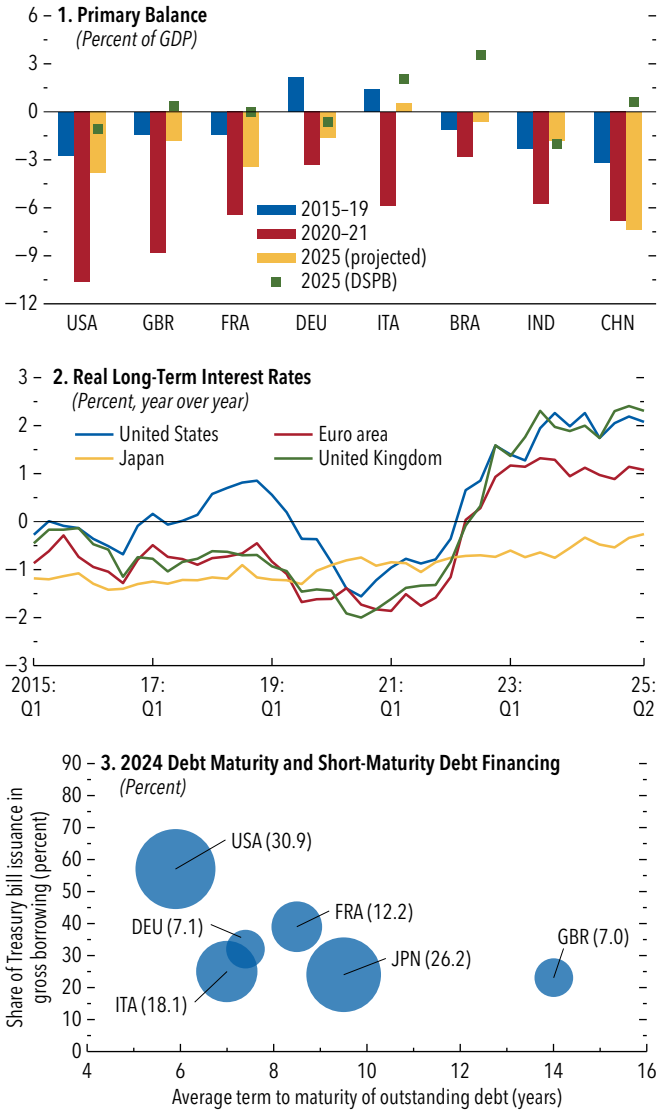
Fiscal policy remains too loose in many of the largest advanced and developing economies. Even though 2025 projected primary deficits in most cases are lower than the record-setting deficits of 2020–21, when large fiscal stimulus packages were deployed to counter the pandemic shock, they remain sizably 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 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

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.

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

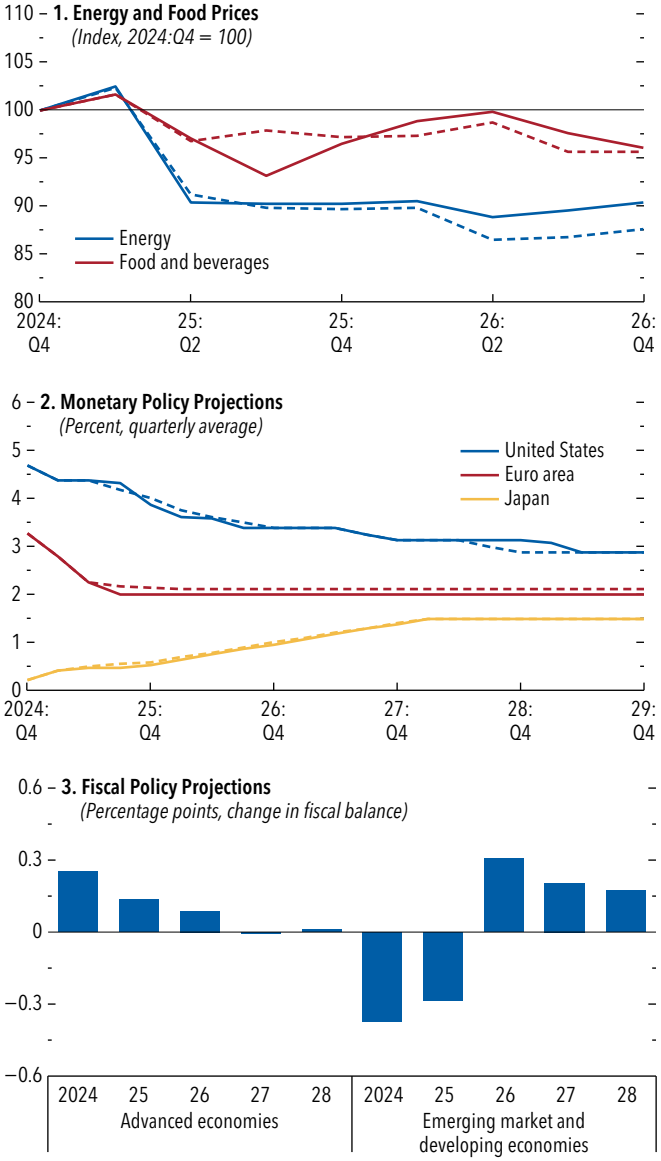
Looking past apparent resilience resulting from trade-related distortions in some of the incoming data and whipsawing growth forecasts from wild swings in trade policies, the outlook for the global economy continues to point to dim prospects, both in the short and the long term.

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 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

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.

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 prepandemic 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)

		Projections		Difference from July 2025 WEO *Update*[1]		Difference from April 2025 WEO[1]	
	2024	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
Memorandum							
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 Prices[7]	**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
Memorandum							
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 Prices[7]	**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)

		Projections		Difference from July 2025 WEO *Update*[1]		Difference from April 2025 WEO[1]	
	2024	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
Memorandum							
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*.

[1] Difference 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

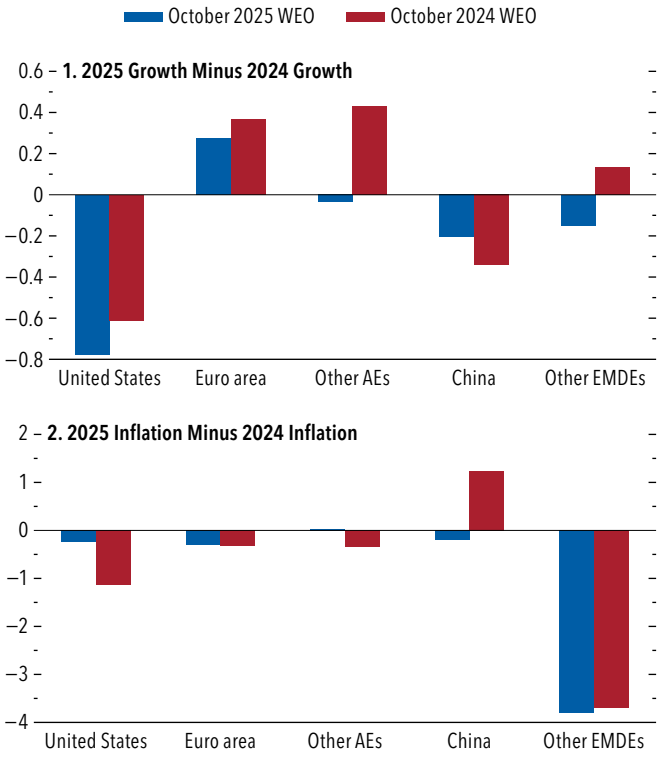
Under the baseline, global headline inflation is projected to decline to 4.2 percent in 2025 and to 3.7 percent in 2026. This path is virtually the same as depicted in the previous projections, but there is variation across countries and regions.

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.

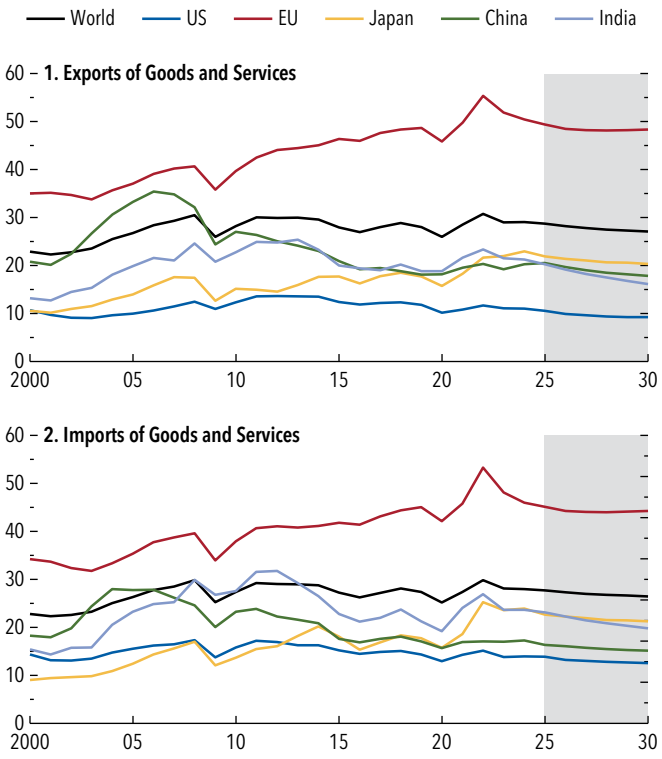
Note: AEs = advanced economies; EMDEs = emerging market and developing economies; WEO = *World Economic Outlook*.

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

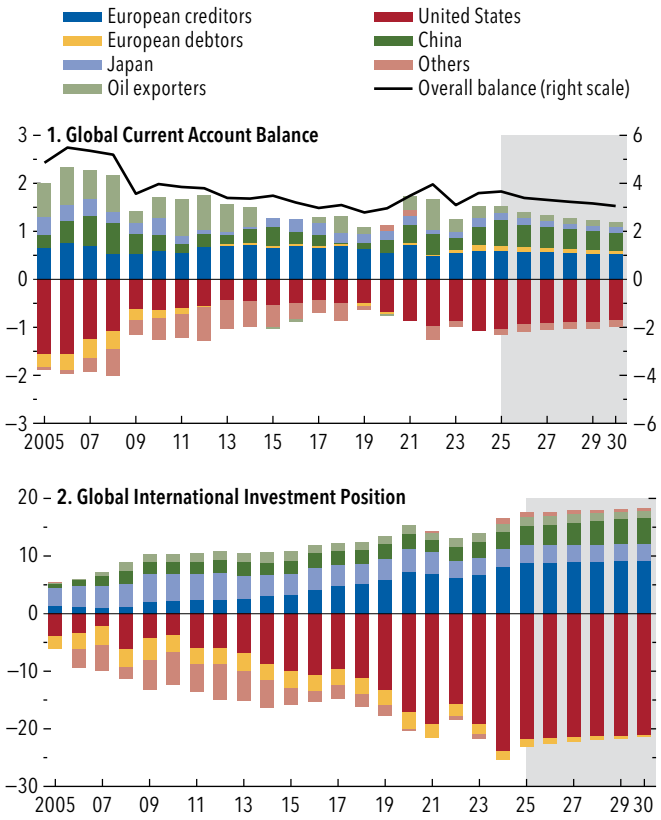
Figure 1.12. World Trade
(Percent of GDP)



Source: IMF staff calculations.

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

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.

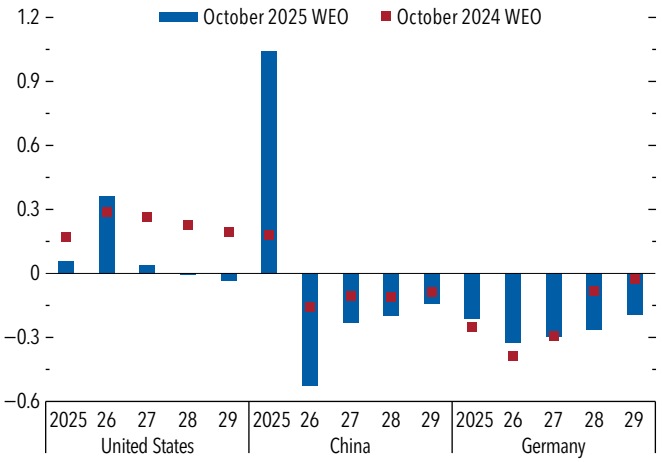
front-loading in 2025, is lower than projected in the October 2024 WEO, which envisioned an average growth rate of 3.3 percent.

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. 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

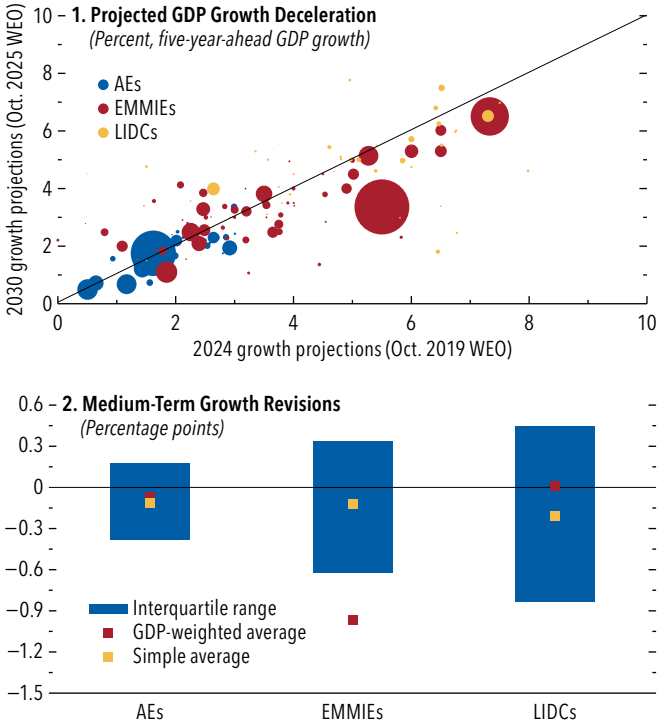
Figure 1.14. Projected Change in Current Account Balance
(Percentage points)



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*.

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*.

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.

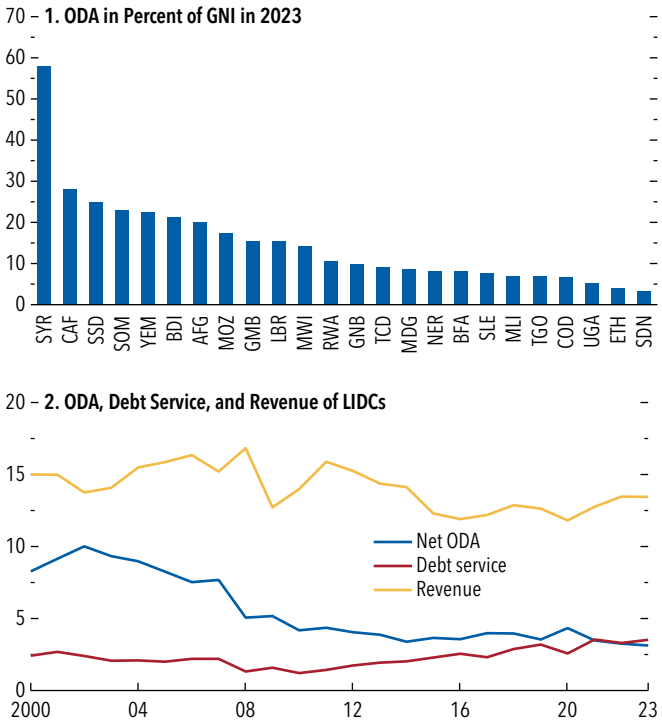
Medium-Term Outlook

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.

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

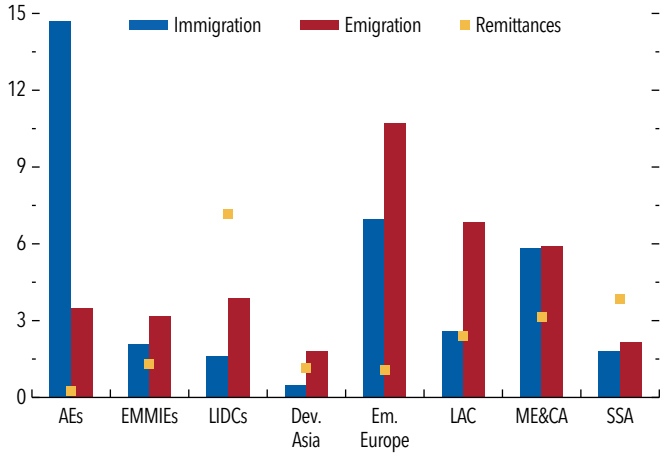
Figure 1.16. Official Development Assistance, Revenues, and Interest Burden
(Percent)



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.

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.

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 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

and should not anchor plans. Durable adjustment requires a balanced package drawn from a realistic set of available options—spending rationalization and revenue mobilization—rather than reliance on financial repression, monetary financing, or financial market complacency, given that these involve material macrofinancial risks.

Fiscal consolidation should prioritize measures that raise efficiency and crowd in private investment (October 2025 *Fiscal Monitor*). This entails broadening tax bases and strengthening revenue administration and reprioritizing expenditure toward high-multiplier uses—such as infrastructure, skills development, and well-targeted social protection. Automatic stabilizers should be allowed to operate fully over the cycle to support macroeconomic smoothing. Robust frameworks and credible rules, well-resourced independent fiscal institutions, improved fiscal governance, and greater debt transparency are critical to fiscal adjustment efforts (Acalin and others, forthcoming).

Where new discretionary support is warranted—for example, for households or firms severely affected by trade disruptions—it should be tightly targeted, transparently costed, and explicitly temporary. Programs should include clear sunset clauses with a preset expiration date and a preannounced step-down path. To safeguard adjustment, these offsetting measures should be specified before they are introduced, with explicit identification of savings from expenditure reprioritization or additional revenue, particularly where fiscal space is constrained.

Where debt is unsustainable, restructuring may be required, in addition to fiscal consolidation. Continued progress in operationalizing international sovereign debt resolution mechanisms—including the Group of Twenty (G20) Common Framework—and greater convergence of practices through the Global Sovereign Debt Roundtable can make necessary restructuring more timely, predictable, and less costly.

Ensuring debt sustainability. Credibility is central to placing public debt on a clear downward path. Governments should publish medium-term fiscal frameworks with clear anchors, preannounced adjustment paths, and contingency plans to manage shocks (IMF 2025b). Communication should include explicit guardrails against monetary financing to avoid the inflationary risks of fiscal dominance. Together, these elements reinforce market confidence, lower risk premiums, and help ensure that consolidation gains translate into durable debt sustainability.

Monetary Policy Priorities: Tailored, Transparent, Independent

Calibrating monetary policy to country circumstances. Central banks should calibrate monetary policy to preserve price stability, with due consideration for where activity stands relative to potential output. In economies imposing or retaliating with tariffs, these measures operate as supply shocks—pushing up inflation, at least temporarily, while weighing on activity. Interest rate cuts should be contingent on clear evidence that inflation is durably low and stable. Tariffs targeted at particular industries also warrant close scrutiny, as they are analogous to sector-specific supply shocks for the imposing countries, steepen the Phillips curve, and alter the inflation-output trade-off (Chapter 2 of the October 2024 WEO). By contrast, in economies that have not imposed tariffs, the dominant impulse may be weaker demand; however, any reduction in policy rates should be considered cautiously and is not presumed. Resilient domestic demand can keep inflationary pressures elevated. Only where disinflation is firmly established and slack has clearly widened would a gradual easing of the policy rate be appropriate.

Clear central bank communication. In high-uncertainty environments, transparency boosts predictability for market participants. Central banks should articulate the reaction function (for example, data dependencies, balance of risks) and publish a small number of scenarios for inflation and economic activity, with concise explanations of the transmission mechanism. Messages should be tailored to distinct audiences, and information should be released promptly and with equal accessibility for all intended recipients. A predictable calendar and a consistent format across statements, minutes, and projections further facilitate learning about the reaction function over time (Bernanke 2024).

Independence and credibility as pillars of stability. Safeguarding central bank independence is essential for macrofinancial stability. Once credibility erodes, re-anchoring expectations usually requires a prolonged period of tight monetary policy and elevated interest rates—which is costlier than preventing credibility loss in the first place (Pastén and Reis 2021). These risks are amplified where fiscal dominance pressures emerge—when elevated public financing needs encroach on monetary decisions. Seeking to influence the central bank to keep policy rates low or tolerating surprise inflation may appear to ease the near-term fiscal arithmetic, but it is eventually self-defeating.

Term and risk premiums widen and medium- to long-term nominal yields rise because of higher expected inflation (and ultimately higher actual inflation), which offsets any initial interest savings and, in some cases, unsettles demand for sovereign debt (Leeper 2023). Consistent with this observation, Box 2.3 in Chapter 2 documents 134 politically motivated central bank governor exits since 2000 and finds that such interference loosens policy, weakens currencies, and lifts inflation and inflation expectations, with some medium-term activity gains coming at the expense of significant deviations from price stability.

More broadly, macroeconomic performance rests on the quality and independence of institutions across the policy ecosystem—fiscal frameworks, financial supervision, competition and insolvency regimes, the judiciary, and, critically, national statistical systems. High-quality, timely, and professionally independent data are a public good: They reduce uncertainty and improve private sector planning and policy design. By contrast, weak data governance—gaps in coverage, opaque methodologies, infrequent publication, or politically influenced revisions—undermines accountability and blunts the effectiveness of policy.

Best practices combine legal and operational safeguards for central banks with strong supporting institutions. Key elements underpinned by the constitution, statutes, and case law include budgetary autonomy, the ability to set monetary policy free of interference, and the prohibition of short- and long-term direct lending to government.

Tackling excessive exchange rate volatility. The asymmetric effects of tariffs on the imposing and the targeted economies can push monetary policy trade-offs apart, even when business cycles are initially synchronized. In most cases, exchange rates should move flexibly in line with market conditions to facilitate macroeconomic adjustment. If exchange rate movements become disorderly, the IMF's Integrated Policy Framework provides country-specific guidance; where appropriate—and alongside sound monetary and fiscal stances—temporary foreign exchange intervention or targeted capital flow measures may be warranted.

Preserving macrofinancial stability. Financial policies should prioritize containing liquidity risks in nonbank finance and preserving resilience in the core banking system. In line with Financial Stability Board guidance, private credit funds should limit stock creation and redemption frequency. Regulators should mandate liquidity tools and regular stress tests to ensure resilience in downturns. In the banking sector, fully implementing internationally agreed capital and liquidity standards and strengthening the financial sector safety net will help safeguard intermediation amid elevated uncertainty. A comprehensive, risk-based regulatory and supervisory framework for crypto assets will mitigate macrofinancial stability risks, including robust regulatory frameworks to accommodate the rapid rise in stablecoins (see Chapter 1 of the October 2025 *Global Financial Stability Report*).

Policies for Severe Shock Mitigation

Amid elevated uncertainty, the wider use of scenario analysis can strengthen policy readiness and credibility. Authorities should develop a baseline and a small set of severe but plausible alternatives that jointly span macroeconomic and financial risks. Each scenario should be accompanied by an outline of plausible policy responses that would help frame private sector expectations. This could include, for monetary policy, alternative rate paths and, where relevant, balance sheet options and communication templates; for fiscal policy, calibrated use of automatic stabilizers and time-bound, targeted support; for financial stability, liquidity backstops and activation thresholds for available macroprudential buffers; and, where warranted by country circumstances, capital flow measures consistent with the IMF's Integrated Policy Framework.

Policies with Medium-Term Impact

Given the mounting challenges, there is an urgent need to identify and implement measures that can sustainably lift medium-term growth prospects. Some countries are turning to industrial policies, but these come with opportunity costs and trade-offs—most notably, a large fiscal cost—at a time public finances are already stretched (see Chapter 3). Known as "vertical" policies, these target public support to particular firms and sectors and should be used with care, with keen awareness of their opportunity costs and trade-offs, balancing goals to expand production in certain sectors against fiscal costs, higher consumer prices, and resource misallocation. Consideration should be more prominently given to "horizontal" reforms that aim to improve the general business environment and apply uniformly across the economy.

Disciplined use of industrial policy. To maximize the effectiveness of industrial policy and limit its costs, governments must diagnose market failures clearly, identifying specific areas where intervention can yield the largest benefits. All policies should be embedded in a robust institutional and macroeconomic framework, ensuring coordination among agencies and maintaining fiscal discipline, especially where debt is high and fiscal space limited. Governments should set explicit, measurable goals for industrial interventions, such as job creation, technological advancement, or increased domestic production, and should design policies to focus on areas with the highest potential for positive innovation spillovers and transformative impact (see also Chapter 2 of the April 2024 *Fiscal Monitor*). Strong governance is the key to successful implementation, with transparent selection processes, independent oversight, and accountability mechanisms reducing the risk of wasteful spending and corruption. Policies must include mechanisms for regular evaluation and recalibration. Governments should be prepared to scale back or discontinue ineffective measures. Policymakers should also carefully weigh the costs against potential benefits and be mindful of possible negative spillovers to other sectors or countries.

In the cross-border context, industrial policies should not be deployed to expand exports to compensate for lost markets, as such responses are costly and risk exacerbating trade distortions. If support to affected firms is considered, it should be cautious, narrowly targeted, and time-bound, aimed at specific, well-diagnosed market failures—that is, cases with clearly identified externalities, known magnitude, and well-established key demand and supply elasticities. Where countries face strong pressures to protect the local economy—for example, trade diversion or surges in foreign direct investment—they should prioritize instruments found in international agreements and designed for that purpose, rather than resorting to ad hoc industrial policy.

Implementing structural reforms. With challenges on multiple fronts and persistently dim medium-term prospects, growth-enhancing reforms have more urgency than ever.

Population aging, rapid technological change, and shifting patterns of comparative advantage in skills are reshaping labor markets across advanced and emerging market economies. Comprehensive policy packages that raise labor utilization and potential growth are therefore central to easing macroeconomic trade-offs and safeguarding fiscal sustainability.

Labor market institutions should facilitate mobility and efficient matching. Modernized public employment services, digital job-matching platforms, and relocation assistance can speed reallocation from declining to expanding sectors. Portable benefits across jobs and contract types, along with affordable childcare and parental leave, can raise participation—especially among women—and smooth earnings risks during transitions. Migration policies calibrated to domestic skill shortages can also clear bottlenecks while protecting domestic workers (see Chapter 3 of the April 2025 WEO).

Pension and retirement systems should support longer, healthier working lives through flexibility and actuarially fair incentives. Gradual retirement—through partial pensions and phased work schedules—can keep older workers engaged while easing physical demands (see Chapter 2 of the April 2025 WEO). Evidence also suggests that voluntary part-time work at older ages can raise well-being and that enabling such options can support both participation and life satisfaction (Nikolova and Graham 2014).

Advances in digitalization and AI can lift productivity and expand potential growth, especially when paired with complementary investments in workforce skills, strong management, interoperable infrastructure, competitive markets, and sound data governance and cybersecurity (Gopinath 2023). Realizing these gains calls for diffusion-oriented policies that both enable adoption and protect workers: Support for the uptake of digital tools by small firms, management upgrading, and data interoperability should complement traditional R&D incentives.

Competition and product market reforms should foster entry and reduce barriers to reallocating resources toward high-productivity firms; where trade shocks are concentrated, time-bound, well-targeted adjustment assistance—training, relocation support, and wage insurance—should replace open-ended protection. Improving the overall business climate—through infrastructure, education, and regulatory reform—can also amplify the impact of industrial policy.

For low-income countries facing challenges from cuts to international aid, strengthening capacity to mobilize domestic resources is crucial. This involves not only rationalization of public spending, increased transparency, and anti-corruption measures but also

administrative reforms to support provision of basic services. In parallel, to help vulnerable economies, donors should explore ways to mobilize more development assistance—meeting and front-loading existing commitments, with priority on grants and highly concessional terms.

Addressing climate change efficiently. A well-designed mix of policies can drive low-carbon, resilient growth. Investing in technologies such as solar and wind and in energy-efficient systems can reduce carbon emissions and create new industries and jobs. Implementing carbon pricing mechanisms, such as carbon taxes or cap-and-trade systems, can incentivize businesses to reduce their carbon footprint. This can be complemented by fiscal incentives like tax breaks or subsidies for green technologies. Providing technical assistance and financial support for adaptation projects, especially in low-income countries, can help them cope with the impacts of climate change. This assistance includes funding for infrastructure improvements and capacity-building initiatives. Transition from fossil fuels to renewables can enhance energy security by reducing dependence on imported fuels, create employment opportunities in the green energy sector, and improve the balance of payments by reducing energy importation costs. It can also enhance economic stability by reducing the volatility associated with fossil fuel markets.

Box 1.1. Trade Reallocation in Response to Tariffs: Will This Time Be Different?

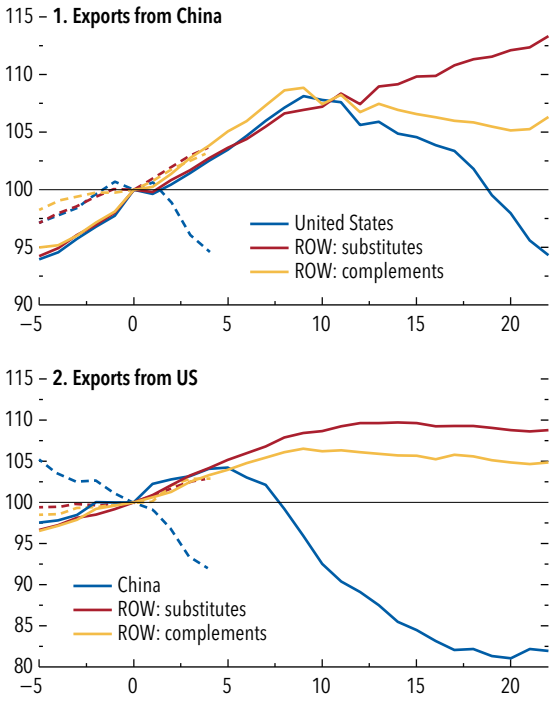
The shift in US trade policy in 2025 differs notably from the changes during 2018–19. For instance, whereas the previous round of tariff increases was directed primarily at a single trading partner—China—the current period is characterized by broader-based tariff hikes affecting a wider range of countries, alongside a marked rise in trade policy uncertainty.[1] This raises an important question: Has the distinct nature of the 2025 tariff shock led to different patterns of adjustment in bilateral trade between the United States and China, both with each other and with third-party countries, relative to the aftermath of 2018–19 tariff hikes? This box sheds some preliminary light on this question based on bilateral monthly trade flow data.

There is ample evidence of changes in international trade, foreign direct investment, and global value chains in response to the tariff increases of 2018–19 and the rise in trade tensions (see, for example, Fajgelbaum and others 2024; Freund and others 2024; Gopinath and others 2025; Graziano and others 2024). The bilateral US-China decoupling was accompanied by increased trade and investment ties with third countries. China's exports to the United States fell by about 6 percent within two years (Figure 1.1.1). This was accompanied by a steady increase in exports to China's substitutes (based on the degree of substitutability between that country's products and Chinese varieties) and less of an increase in China's complements.

Preliminary trade data for 2025 (marked in dashed lines) reveal early signs of further decoupling between

Figure 1.1.1. Exports by Destination Country Type and Tariff Episode

(Index, Feb. 2018 and Feb. 2025 = 100; solid = Feb. 2018 tariff episode, dashed = Feb. 2025 tariff episode)



Sources: Fajgelbaum and others 2024; Trade Data Monitor; and IMF staff calculations.

Note: *X*-axis value 0 corresponds to the tariff start dates February 2018 and February 2025, respectively. Each series is normalized to its respective date 0, at which the value equals 100. Countries are classified as substitutes or complements to China based on how their exports respond to tariffs on Chinese goods. Substitutes (complements) are countries whose exports increase (decrease) when Chinese exports are taxed, reflecting positive (negative) substitution elasticity with respect to China. See Fajgelbaum and others (2024) for details. Changes are calculated using 12-month rolling sums to smooth seasonal fluctuations. ROW = rest of the world.

The authors of this box are Adam Jakubik and Monika Sztajerowska.

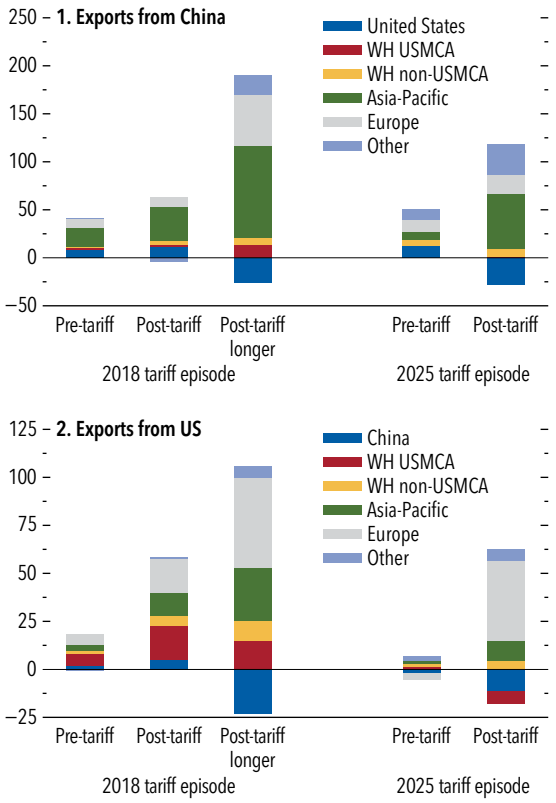
[1]Tariff episodes also differ in tariff size, product scope, initial tariff levels, and the speed of implementation, among other ways.

Box 1.1 *(continued)*

the United States and China—similar to 2018–19 (marked in solid lines). The decoupling also appears to have been happening sooner than it did in the previous episode. Meanwhile, there is an increase in Chinese exports to third countries. Differences between countries that may serve as China's substitutes relative to those that are China's complements are not yet obvious. Looking at the trade patterns through a geographic lens rather than through structural similarities between different countries reveals some of the underlying differences between the two tariff episodes so far. In 2018–19, Asian and U.S.-Mexico-Canada Agreement (USMCA) countries—many of which fall into the China's substitutes category—absorbed China's falling exports to the United States (Figure 1.1.2, panel 1). Meanwhile, falling US exports to China were accompanied by increases in other destinations, such as the European Union, together with stable exports to Canada and Mexico (Figure 1.1.2, panel 2). Early signals from the latest trade data point to potentially faster trade shifts this time. For example, Chinese exports to third-country markets—especially in Asia and Europe—increased more in February–April 2025 than in February–April 2018. At the same time, Canada and Mexico have accounted for a small share of China's change in exports since February 2025 and have made a negative contribution to US export growth, in contrast to 2018–19. High tariffs on non-USMCA-compliant products and on steel and aluminum content on a value-added basis, combined with further tightening and enforcement of rules of origin, may be partially responsible, along with other factors.

It is too soon to assess the magnitude of a longer-term reallocation—which in 2018–19 picked up speed only after about 12 months. The extent of shifts may be different this time because threats of higher tariffs on exports to the United States have affected most countries since January 2025—unlike the China-specific changes to the US trade policy in the 2018 episode—and overall policy uncertainty is

Figure 1.1.2. Change in Exports by Destination Region and Tariff Episode
(Billions of US dollars)



Sources: Trade Data Monitor; and IMF staff calculations.

Note: Bars show the total change in exports within each tariff period (2018 and 2025, respectively). Segments indicate contributions from each destination market. Changes are calculated using 12-month rolling sums to smooth seasonal fluctuations. "Pre-tariff" refers to the change from $t - 3$ months to $t = -1$; "Post-tariff" refers to the change from $t = 0$ to $t + 3$ months; and "Post-tariff longer" refers to the change from $t = 0$ to $t + 22$ months (available for 2018 only). USMCA = U.S.-Mexico-Canada Agreement; WH = Western Hemisphere.

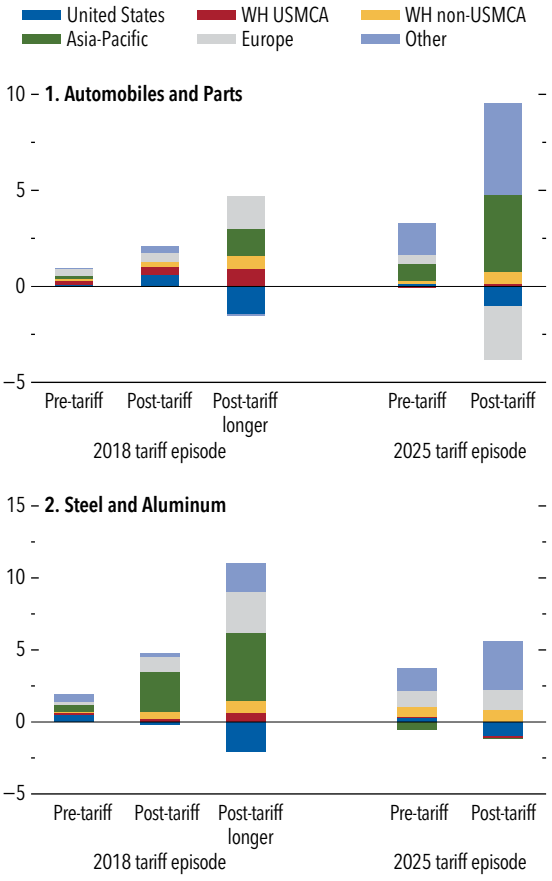
Box 1.1 *(continued)*

high, complicating firms' reallocation decisions. In addition, further actions are being taken to reduce reallocation, including tighter rules of origin, customs enforcement of transshipment, duties applied on value-added content, and extended screening procedures for foreign direct investment.

Such shifts observed in gross trade data can also be induced by other factors, many of which are unrelated to trade policy, including broader changes in the countries' competitiveness. At the aggregate level, the observed increase in Chinese exports to third countries is also not necessarily for the same products whose exports to the United States dropped. In addition, movements in exchange rates and relative prices may affect the degree of reallocation in real terms. This preliminary analysis is, hence, illustrative, and will require further analysis to isolate the role of different factors once sufficient data become available. The pace and geography of reallocation will also depend on frictions, including policy choices by third countries. Model simulations of long-term reallocation (Rotunno and Ruta 2025) suggest that, once uncertainty is resolved, China's exports to non-US markets could increase by 4–6 percent in the baseline, with the extent and direction of diversion depending crucially on the distribution of tariffs and third-country policies.

While similar caveats apply to trends observed at the sectoral level, early evidence suggests that trade flows are already being redirected to Asia in several important sectors targeted by tariff increases, including automobiles and parts, and to Europe in steel and aluminum (Figure 1.1.3). In addition, there is some evidence that changes in third countries' imports from China in a given sector, including to Asia, are correlated with the change in their exports in the same sector to other regions, including the United States and Europe. This may suggest that trade diversion to other markets is larger than what is captured in gross trade data and could be consistent with either trade reallocation, trade rerouting, or a combination of the two.

Figure 1.1.3. Change in China's Exports by Destination Region and Tariff Episode in Selected Sectors
(Billions of US dollars)



Sources: Trade Data Monitor; and IMF staff calculations.

Note: Bars show the total change in exports within each tariff period (2018 and 2025, respectively). Segments indicate contributions from each destination market. Changes are calculated using 12-month rolling sums to smooth seasonal fluctuations. "Pre-tariff" refers to the change from $t - 3$ months to $t = -1$; "Post-tariff" refers to the change from $t = 0$ to $t + 3$ months; and "Post-tariff longer" refers to the change from $t = 0$ to $t + 22$ months (available for 2018 only). USMCA = U.S.-Mexico-Canada Agreement; WH = Western Hemisphere.

Box 1.2. Risk Assessment Surrounding the Baseline Projection

This box uses the IMF's Group of Twenty (G20) model to derive confidence bands around the *World Economic Outlook* (WEO) baseline forecast and the IMF's Global Integrated Monetary and Fiscal (GIMF) model to analyze shocks that could materialize over the five-year WEO horizon. While the risk scenarios presented in the April 2025 WEO remain relevant, two new scenarios are also considered. Scenario A combines policies and shocks that result in a fall in global output and a *narrowing* in global imbalances relative to the baseline. Policies and shocks in scenario B result in an increase in global output relative to the baseline but do not have strong implications for imbalances.

Confidence Bands

The G20 model is used to generate distributions around the baseline by drawing shocks recovered from the underlying historical data (Andrle and Hunt 2020). The distribution is tilted to align with the growth-at-risk assessment presented in the October 2025 *Global Financial Stability Report*. As in the previous assessment, growth distributions are skewed to the downside, with downside risks more likely than upside risks, and inflation distributions are skewed to the upside.

Panels 1 and 2 in Figure 1.2.1 show the distributions for US growth and headline inflation (90 percent confidence bands represented in the blue-shaded areas). Uncertainty about 2025 outcomes is lower, since data for the first half of the year are in. The probability of a recession occurring in 2026 is assessed at about 30 percent, somewhat smaller than the recession probability estimated in the April 2025 WEO; the risk that 2026 US headline inflation will rise above 3 percent is similar (about 30 percent).[1]

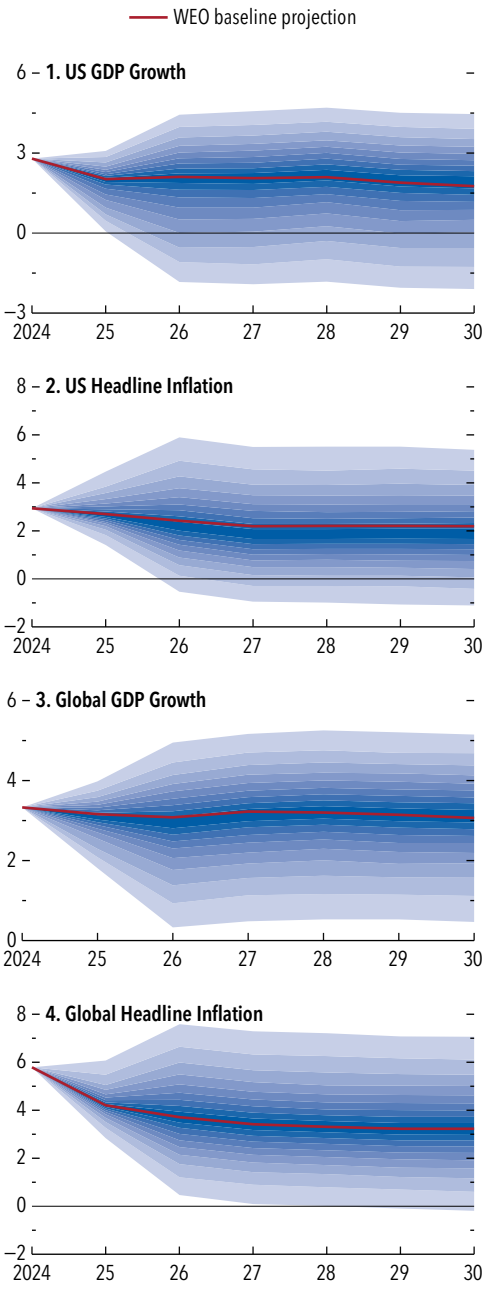
That said, the probability of recession and inflation above 3 percent are larger than at the time of the October 2024 WEO (25 and 20 percent, respectively).

Panels 3 and 4 in Figure 1.2.1 show the distributions for global growth and headline inflation.

The authors of this box are Jared Bebee, Dirk Muir, and Rafael Portillo.

[1]The recession risk for 2026 is the probability that 2026 annual growth will be below 0.8 percent, consistent with a shallow recession starting in the first quarter of 2026. The probability of a short-lived US recession (in 2025) was assessed to be about 37 percent at the time of the April 2025 WEO.

Figure 1.2.1. Forecast Uncertainty around Global Growth and Inflation Projections
(Percent)



Source: IMF staff estimates.
Note: Each shade of blue represents a 5 percentage point probability interval. WEO = *World Economic Outlook*.

Box 1.2 *(continued)*

The probability that global growth in 2026 will fall below 2 percent is assessed at about 25 percent, slightly lower than in April. The probability that 2026 global headline inflation will rise above 5 percent is broadly similar, at about 25 percent. In summary, downside risks to growth have receded slightly relative to April but remain elevated, while upside risks to inflation are broadly the same.

Scenarios

The GIMF model is used to assess risk scenarios. As in April, the version of the model has 10 regions, including China, the United States, and the euro area. The scenarios assume monetary policy responds endogenously, with floating exchange rates in most regions. In scenario A, China's currency is managed through capital flow measures, with limited overall adjustment of the renminbi relative to the dollar. In scenario B, the renminbi adjusts as in a flexible exchange rate regime. Automatic stabilizers operate on the fiscal side. The model has been modified relative to April to allow higher pass-through to capture inflation risks from tariffs and exchange rate movements.

Layers Considered in Scenario A

Higher tariffs and supply-chain disruptions. The scenario assumes permanently higher US tariffs than in the baseline, starting at the end of 2025. The increase in tariffs is the higher of either the tariff increases announced in April or the tariff rates announced in the letters sent in June and July. Imports from China face the largest tariff hikes relative to the baseline, close to 30 percentage points, followed by emerging Asia, the euro area, and Japan, at about 10 percentage points. The effective tariff rate on US imports increases by 10 percentage points overall, with tariff revenue used to pay down public debt over the WEO horizon. The scenario also assumes that countries do not retaliate. In addition, the cumulative increase in tariffs in both the baseline and the scenario leads to a temporary disruption of global supply chains. Total factor productivity in sectors more involved in global trade (about 20 percent of global value added) falls by 1 percent, globally, in 2026–27, before returning to baseline in 2028.

Higher inflation expectations. A confluence of factors (the post–COVID-19 inflation surge, tariffs, concerns about central bank independence) raises inflation expectations in many countries in 2026 and 2027. One-year-ahead inflation expectations increase by 60 basis points in emerging markets currently facing inflation above target, 50 basis points in the United States, and about 25 basis points in other advanced economies, excluding Japan, and in the remaining emerging markets, excluding China.

Higher sovereign yields. A reassessment of the global economy's capacity to absorb the historic increase in public debt leads to an increase in sovereign yields. Term premiums on public debt increase in all countries except China by 100 basis points, starting in 2026 and lasting 10 years. The safe/neutral global real rate also increases gradually but permanently relative to baseline, by up to 50 basis points and affecting all countries equally. Fiscal policy does not adjust over the WEO horizon, but public debt is eventually stabilized at higher levels in most countries.

Tighter global financial conditions. The combined effect of shocks and policies considered in this scenario is amplified by additional tightening in global financial conditions. Corporate spreads increase in 2026 by 50 basis points in advanced economies and China, and by 100 basis points in emerging markets, excluding China. The layer also includes a modest decline in equity prices in the US, reflecting in part a correction of AI stock valuations. The tightening lasts for two years.

Lower global demand for US assets. Lower foreign demand raises expected returns on US assets—a partial loss of the "exorbitant privilege" of the United States—by up to 80 basis points relative to baseline. The increase in the US external risk premium lasts for 20 years.

Layers Considered in Scenario B

A return to low tariffs. Tariffs imposed since January 2025 are permanently removed, reducing effective tariff rates on US imports by about 15 percentage points relative to the current baseline. Imports from China see the largest decrease in effective tariff rates (about 22 percentage points), followed by Japan, Europe, and emerging Asia (10–20 percentage points). Trading partners also remove tariffs on US exports, and US exports to China see a decrease in effective tariff rates of about 20 percentage points.

Reduced trade policy uncertainty. Agreements coming out of ongoing bilateral negotiations and multilateral

Box 1.2 *(continued)*

initiatives provide greater predictability in global trade arrangements, reducing economic uncertainty relative to the baseline. The decrease in uncertainty is equivalent to a two-standard-deviation decrease in the global economic policy uncertainty measure in Davis (2016), or about the absolute size of the spike observed in 2018–19.

Higher-than-expected benefits from AI. The benefits of artificial intelligence (AI) on global productivity and investment are moderately larger than in the current baseline. The layer features two components. First, several countries see a modest increase in investment in new AI-specific capital (information processing equipment, software intellectual property), most notably the United States and China. Second, global productivity increases as AI is gradually deployed to the broader economy. Global total factor productivity increases by about 0.8 percent over a 10-year period, at the lower range of existing estimates, with considerable cross-country variation. Countries more exposed to gains in automation and better prepared for AI adoption see larger productivity gains, drawing on the assessment in Cerutti and others (2025).

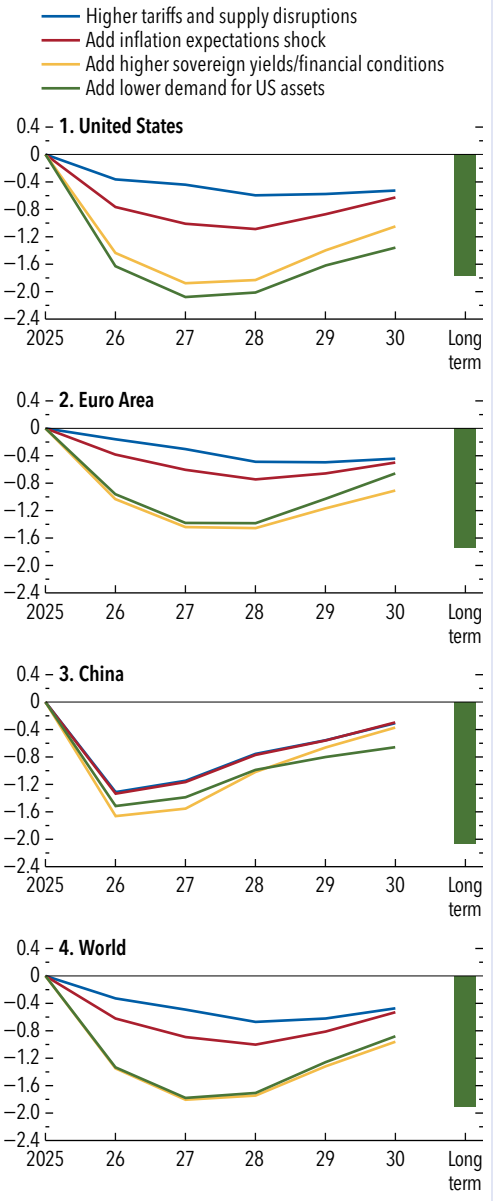
Impact on the World Economy

Figures 1.2.2 and 1.2.4 present the effects, for scenarios A and B, on the level of GDP during 2025–30 and over the long term, for China, the United States, the euro area, and the world. The effects of higher sovereign yields and additional tightening in financial conditions are merged into a single layer. Figure 1.2.3 shows the effects of scenario A on inflation, real interest rates, and current account balances of these three regions, and the impact on the US dollar's real effective exchange rate.[2] The panels for current accounts and the dollar also show the contribution from higher tariffs and from lower demand for US assets.

In scenario A, *higher tariffs* reduce global goods demand and disrupt supply. Global activity decreases by 0.3 percent relative to baseline in 2026, with the effect building through 2028, and with a permanent loss in global GDP of one-half percent. China is most affected among tariff-facing regions because of the larger tariff hike and the limited adjustment assumed

[2]The real interest rate presented in Figure 1.2.3, panel 2 is the sum of the one-year safe real rate and half the term premiums.

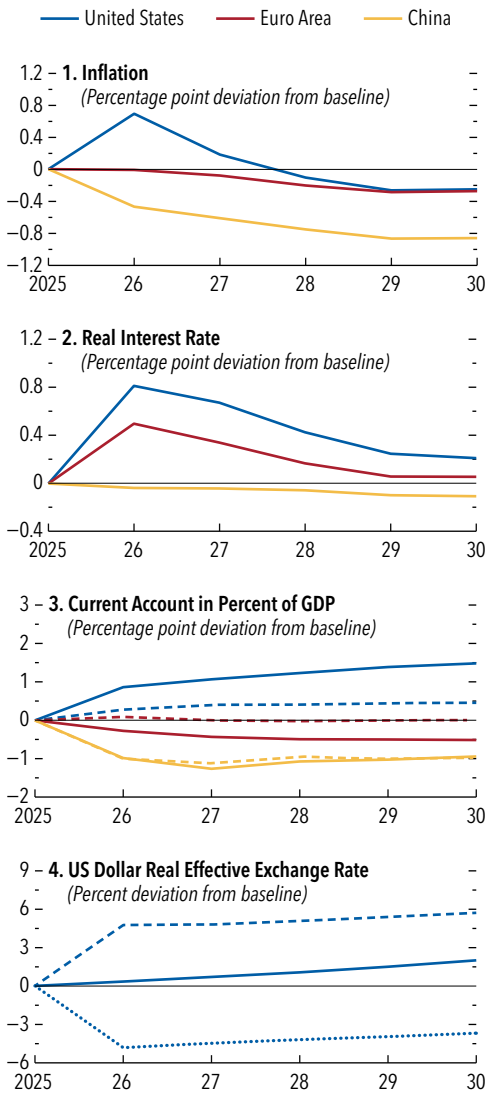
Figure 1.2.2. Impact of Scenario A on GDP
(Percent deviation from baseline)



Source: IMF staff estimates.
Note: "Long term" is at least 50 years ahead.

Box 1.2 *(continued)*

Figure 1.2.3. Impact of Scenario A in the United States, China, and the Euro Area

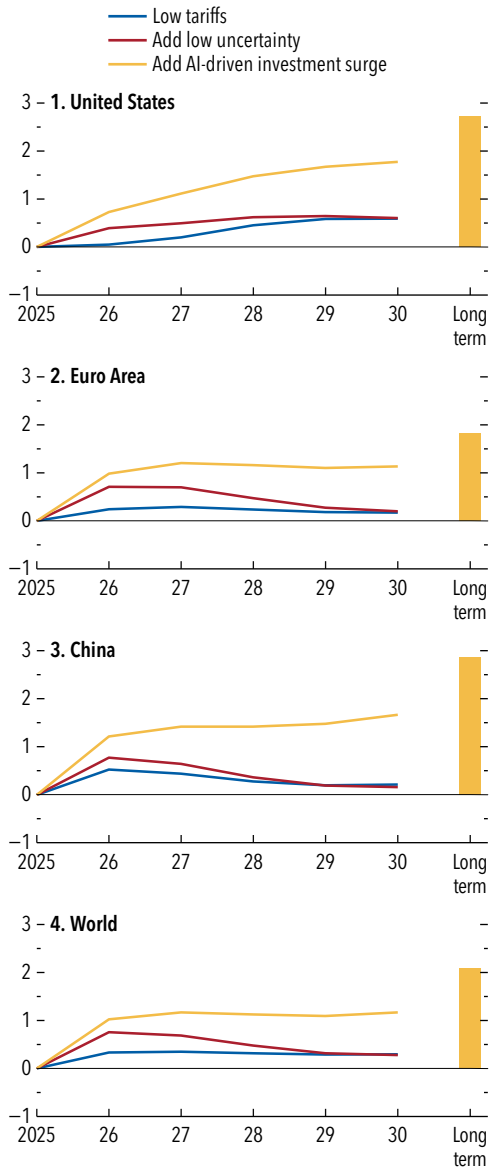


Source: IMF staff estimates.

Note: Dashed lines refer to tariff layer of scenario. Dotted line in panel 4 refers to "lower demand for US assets" layer of scenario.

Figure 1.2.4. Impact of Scenario B on GDP

(Percent of GDP)



Source: IMF staff estimates.

Note: "Long term" is at least 50 years ahead. AI = artificial intelligence.

Box 1.2 *(continued)*

in the renminbi-to-dollar rate, which also results in a lower current account surplus than in the baseline. Higher tariffs reduce production efficiency in the United States and cause dollar appreciation that lowers demand for US exports. The United States experiences a moderate reduction in its current account deficit, in part because the decline in investment is larger than in other countries. The impact on the euro-area-wide current account is limited.

Higher tariffs also lead to a temporary 40 basis point surge in US inflation and a 20 basis point increase in policy rates in 2026. China experiences a sustained reduction in inflation of 40–50 basis points. Other regions, including the euro area, experience a modest increase in inflation of 10–20 basis points.

For countries facing *shocks to inflation expectations*, the resulting inflationary pressures elicit higher nominal and real policy rates. A faster response in prices relative to wages also contributes to a decrease in purchasing power, adding to the negative impact on aggregate demand. The impact is most pronounced in emerging markets facing higher-than-target inflation and in the United States, which in 2026 sees an additional increase of 30 basis points in inflation and policy rates and a decrease in activity of about 0.4 percent from this shock alone. The impact on the euro area is smaller and is negligible on China. Global GDP is reduced by 0.3 percent in 2026, and global inflation increases by 20 basis points. The impact on activity fades as inflation is stabilized.

In the *sovereign yields and global financial conditions* layer, the combination of higher real interest rates and corporate spreads reduces global investment by 3 percent and GDP by 0.6 percent in 2026, relative to the baseline. In the short term, the hit is larger in emerging markets excluding China because corporate spreads widen more, and smaller in China as term premiums do not increase. The layer is also moderately disinflationary, with global inflation falling by about 0.2 percentage point in 2026. The impact on the United States and the euro area is similar to the global average. Over the long term, all countries see a permanent decrease in GDP, of about 1.5 percent.

The impact of *lower global demand for US assets* varies across regions. The United States experiences a combination of higher domestic real interest rates and a depreciation of the US dollar, which raises demand for US exports but compresses domestic absorption, lowers GDP somewhat, and reduces the US current account deficit sizably. As global asset demand shifts toward other regions, real interest rates outside the United States decrease, including in the euro area. Euro area GDP increases modestly, and its current account surplus is lowered as domestic absorption increases. China benefits more than other regions in the short term. Under the assumption that the exchange rate relative to the dollar is managed, the renminbi depreciates in real effective terms, supporting China's external demand and limiting adjustment in its current account.

The combined effect from shocks in the scenario is a sizable decrease in world GDP in 2026, 1.2 percent lower than baseline, with activity declining further relative to baseline in 2027. The United States is hit harder than China and the euro area as it experiences a larger decrease in GDP, higher inflation, and higher real interest rates. Other countries, including emerging markets, experience a decrease broadly similar in magnitude to the one the world economy experiences. The impact on the US dollar's real effective exchange rate is muted, reflecting the offsetting effect of various shocks, and global imbalances narrow.

In scenario B, *the return to low tariffs* helps support activity globally, with gains in all three large countries but largest in China in the short term. The United States sees a temporary reduction in inflation of about 60 basis points in 2026 and a 7 percent depreciation of the dollar relative to baseline as US demand for imports increase and the renminbi-dollar rate adjusts. Global activity is further supported in the short term by *lower trade policy uncertainty*, which benefits all countries and raises global investment by about 2 percent in 2026–27. *Higher-than-expected benefits from AI* raise global GDP by about 0.3 percent in 2026, with global investment increasing by an additional 1.5 percent over 2026–27. The increase in short-term activity and investment is somewhat larger in the United States and China than in the euro area, and with limited impact on inflation. The economic gains build over time as productivity rises.

The combined effect from layers in scenario B is an increase in global GDP of about 1 percent in 2026 and about 2 percent over the long term, with the return to low tariffs explaining about 0.7 percentage point of the increase and higher-than-expected benefits from AI explaining 1.4 percentage points. Finally, global imbalances do not change much in this scenario, as the shocks considered generate relatively small cross-country variation and exchange rates play a larger role in global adjustment.

Commodity Special Feature: Market Developments and Commodity-Driven Macroeconomic Fluctuations

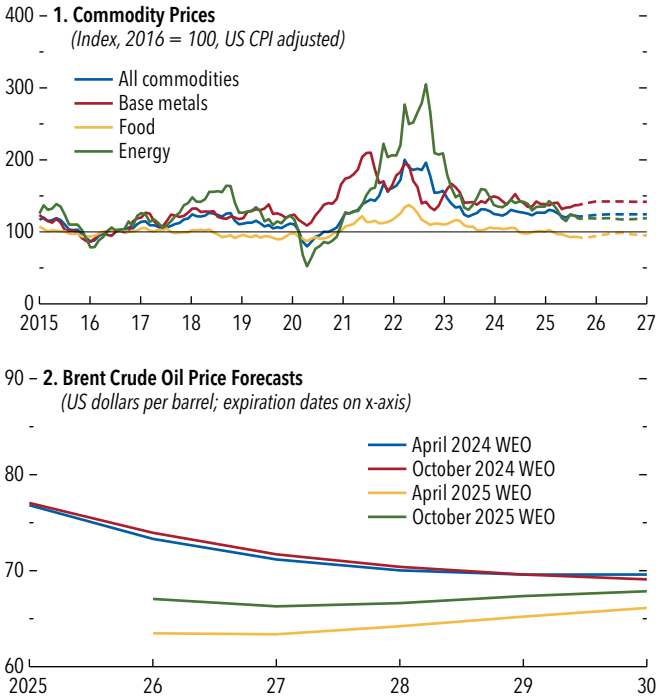
Primary commodity prices declined by 2.6 percent between March and August 2025, with large gains in precious metals partly offsetting a broad-based decline in other commodity groups, including energy, base metals, and agriculture. In oil markets, strong global supply and tepid global demand growth have contributed to bringing prices down, despite ongoing geopolitical ructions. Tariffs drove some commodities lower, especially base metals. This Special Feature analyzes the importance of interlinkages between commodity sectors and the rest of the economy in understanding cyclical fluctuations following commodity price shocks.

Commodity Market Developments

Oil prices decreased 5.4 percent between March 2025 and August 2025 as tepid global demand growth and strong supply growth from both OPEC+ and non-OPEC+ contributed to bringing prices down. Barring the temporary price spike in mid-June from the Israel-Iran war, oil prices have been range-bound, trading between $60 and $70 since the US announcement of tariffs in early April. The tariff announcements induced a decrease in global demand expectations and coincided with the start of an accelerated production schedule from OPEC+ (Organization of the Petroleum Exporting Countries plus selected nonmember countries, including Russia). Bearish fundamentals are now mostly in focus: The International Energy Agency is forecasting 0.7 mb/d (million barrels per day) of global demand growth in 2025 and 1.4 mb/d of non-OPEC+ supply growth, while the latest OPEC+ production schedule gradually brought back 2.5 mb/d through September,[1] one year ahead of schedule, with plans to further increase production. Talks to find a diplomatic solution to the war in Ukraine have stalled, increasing the risk of US secondary sanctions. US futures markets indicate that oil prices will average $68.90 per barrel in 2025, a 12.9 percent decline from the previous year, before decreasing to $65.80 in 2026 and steadily increasing to $67.30 through 2030 (Figure 1.SF.1, panel 2). Risks around this forecast are balanced. While potential Russian supply disruptions present an upside risk to prices, the risk of accelerated OPEC+ supply increases, combined with the tariff-induced cloudy global economic environment, continue to pressure prices downward. All the while, higher-cost producers set a loose price floor, with some US breakeven prices in the low to mid $60s.

Natural gas prices fell reflecting tariffs and ample supply. Title Transfer Facility (TTF) trading hub prices in Europe dropped 16.6 percent between March 2025 and August 2025 to $11.0 per million British thermal units (MMBtu). Despite a temporary spike in June amid the Israel-Iran war, TTF prices fell on lower

Figure 1.SF.1. Commodity Market Developments



Sources: Bloomberg Finance L.P.; Haver Analytics; IMF, Primary Commodity Price System; International Energy Agency; and IMF staff calculations.

Note: In panel 1, latest actual CPI value is applied to forecasts, represented by the dashed portions of the graph lines. CPI = consumer price index; WEO = *World Economic Outlook*.

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[1]2.2 mb/d of gradual unwinding of production cuts, combined with a 0.3 mb/d higher production quota for the United Arab Emirates.

energy demand because of tariff-induced business uncertainty, weaker competing demand from Asia, and the approval of more flexible EU gas storage targets. Asian liquefied natural gas prices tracked the decreasing trend in European prices, falling by 12.2 percent. US Henry Hub prices fell by 30 percent to $2.9 per MMBtu owing to trade-policy-induced demand uncertainty and record-high domestic production. Futures markets suggest that TTF prices will average $12.1/MMBtu in 2025, steadily decreasing to $8.4/MMBtu in 2030, reflecting ample global liquefied natural gas supply in the medium term, with US export capacity expected to almost double through 2027. Henry Hub prices are expected to fluctuate around $3.5/MMBtu between 2025 and 2030.

Safe haven demand lifted precious metals, whereas tariffs drove base metal prices lower. The IMF's metals price index rose 6.8 percent between March and August 2025 (Figure 1.SF.1, panel 1). Precious metals drove this increase, with gold increasing 12.8 percent, reaching record highs above $3,400/ounce as investors sought safe haven assets amid rising geopolitical uncertainty and central banks increased gold reserves. US import tariffs had mixed effects on base metals. While US tariffs announced in early April pressured global prices downward, 50 percent tariffs on steel, aluminum, and copper triggered front-loading by the United States, providing some support to prices. Futures markets suggest modest increases of 0.3 percent in 2025 and 3.0 percent in 2026.

China's rare earth export controls trigger price spikes. Top producer China launched export licensing requirements for seven critical rare earth elements and their corresponding magnets in April, causing dramatic export slowdowns during April and May. Following a US-China trade agreement on June 11, Chinese magnet exports rebounded in June and had fully recovered by July, rising 5 percent year over year. Price impacts have persisted for key magnet materials however. Rare earth carbonate feedstock prices also jumped 30.2 percent as reduced US raw material exports to China tightened global supplies of processed rare earths amid strengthening demand.

After a strong start to the year, agricultural commodities declined, thanks to ample supplies and the tariffs. From March to August 2025, the IMF's food and beverages price index fell by 4.8 percent, led by sharp declines in coffee, cereal, and sugar prices. This reversed early-year gains, when coffee and cocoa prices surged because of bad weather in major exporters and tight global supply. Cereal prices dropped by 11.1 percent amid strong harvest prospects in major producing countries, such as the United States, Russia, Brazil, and Argentina. Coffee prices plunged by 16.7 percent, with the IMF Coffee Index retreating from its February historic high as supply prospects improved in top producer Brazil and as US tariff uncertainty grew. Despite this downward trend, prices surged briefly in August, following US tariffs on Brazil that caused trade disruptions. Meanwhile, corn prices fell 11.9 percent, pressured by Brazil's large harvest in the second quarter and promising crop conditions in the United States. Upside risks to the food price outlook could stem from new export restrictions, which might raise global prices by tightening international supply—even as they put downward pressure on food prices in some exporting countries—and because of potential bad weather resulting from La Niña in the fourth quarter. Larger-than-expected harvests and higher tariffs pose the main downside risk.

Commodity-Driven Macroeconomic Fluctuations in Advanced and Emerging Markets: Does Size Matter?

Commodities play a central yet often underappreciated role in shaping macroeconomic fluctuations across both advanced and emerging market and developing economies, with the latter generally experiencing greater macroeconomic volatility. In the context of today's climate-related supply shocks and geopolitical and trade tensions, understanding the macroeconomic impact of commodity price fluctuations matters more than ever. And this requires looking beyond the sheer *size* of the commodity sector. Crucial to understanding the effect of commodity price shocks on output and inflation is how *interconnected* the sector is with the rest of the economy and the rest of the world (for example, Baqaee and Farhi 2019; Bigio and La'O 2020; Silva 2024; Silva and others 2024; Romero 2025; Qiu and others 2025). These interlinkages shape the reallocation of labor and capital across sectors in response to a commodity price movement and play a critical role in driving fluctuations in real activity and inflation. The degree of interconnection between the commodity sector and the broader economy determines the extent of cyclical amplification and persistence following a commodity price shock—and how monetary policy should respond.

Relying on a mix of empirical analysis and general equilibrium modeling, this Commodity Special Feature will seek to answer three questions: (1) How do commodity sectors' linkages with the broader economy differ between emerging market and developing economies and advanced economies and across different commodities? (2) How do these linkages (up- and downstream) affect the propagation of commodity price shocks to the rest of the economy? and (3) How should monetary policy respond?

Size and Interconnectedness of Commodity Sectors in Advanced Economies and Emerging Market and Developing Economies

It is well established that, on average, emerging market and developing economies have much larger commodity sectors than advanced economies (for example, Kohn, Leibovici, and Tretvoll 2021).[2] The average *size*, or Domar[3] weight, of the commodity sectors in emerging market and developing economies is twice as large for metals, three times as large for energy, and almost four times as large for agriculture compared with advanced economies (see Online Annex Table SF.1.1 in Online Annex 1.1).[4] But are commodity sectors also more *interconnected* in emerging market and developing economies—and could this greater interconnectedness help explain their seemingly larger impact on economic fluctuations?

Answering this question requires examining their role within the broader production network—both upstream as suppliers to other sectors and downstream as purchasers of inputs. For example, an increase in copper prices encourages mining and extraction activities in countries that produce copper. This typically results in greater demand for industrial machinery, construction, transportation, and financial services, all inputs to the copper industry. Higher copper prices also affect a wide range of downstream industries. And this matters to the extent these industries may also ultimately influence the overall cost associated with copper extraction. For instance, higher copper prices will increase construction costs, which will in turn increase industrial machinery's production costs—an input to the production of copper. The degree of interconnectedness of the commodity sector is measured by its *network-adjusted value-added share* (NAVAS) (Silva and others 2024; Qiu and others 2025), or the sector's total (direct and indirect) exposure to the economy's factors of production (see Online Annex 1.1 for a formal definition).[5]

The commodity sector NAVAS is larger than its size (Domar weight) in both advanced and emerging market economies, but the differences in NAVAS across both groups tend to be smaller than the differences in size.[6] This suggests that its significance for macroeconomic fluctuations in advanced economies may be larger than it appears at first glance (Figure 1.SF.2). There is also a large overlap between the right tail of the distribution of the NAVAS in advanced economies and the left tail in emerging market and developing economies, meaning that commodity sectors in many advanced economies are more interconnected than in emerging market and developing economies and that commodity price shocks in these advanced economies may have a larger and more persistent effect on economic activity (Figure 1.SF.2, panel 2).

Understanding Consumption Patterns Depends on Commodity Sector Interconnectedness, Not Size

Figure 1.SF.3, panel 1, displays the relationship between the NAVAS (horizontal axis) and the correlation between countries' cyclical consumption and commodities' terms of trade (commodity net export price index). As suggested in the previous section, countries with a more interconnected commodity sector (higher NAVAS) display stronger annual correlation between aggregate consumption and commodities terms of trade, and some advanced economies (for example, Australia, New Zealand, Canada) have larger NAVAS and co-movement than emerging market and

[2]In this Commodity Special Feature, the commodity sectors are broken down into energy (mining and petroleum products), metals (mining and fabricated metal products), and agricultural products.

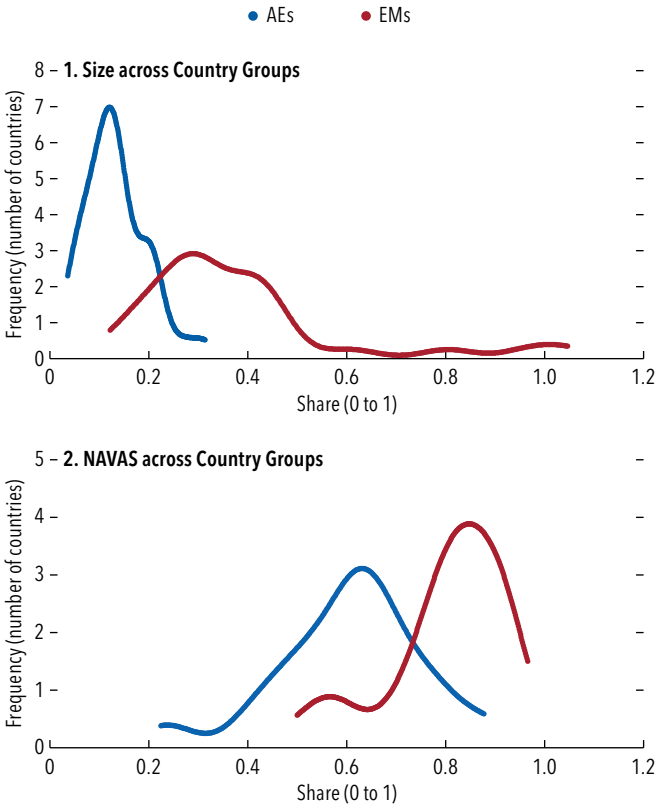
[3]Domar weights are defined as the ratio of sectoral gross output to national GDP (Domar 1961).

[4]All online annexes are available at www.imf.org/en/Publications/WEO.

[5]Online Annex 1.1 shows that varying the importance of the commodity sector as supplier of inputs to the rest of the economy has no impact on the NAVAS provided these sectors do not eventually feedback to the commodity sector's upstream suppliers.

[6]The average commodity sector is three times larger (Domar weight) in emerging market and developing economies than in advanced economies, but its network-adjusted value-added share (NAVAS) is only 31 percent higher, with energy exhibiting the biggest difference across country groups and metals and agricultural products the smallest.

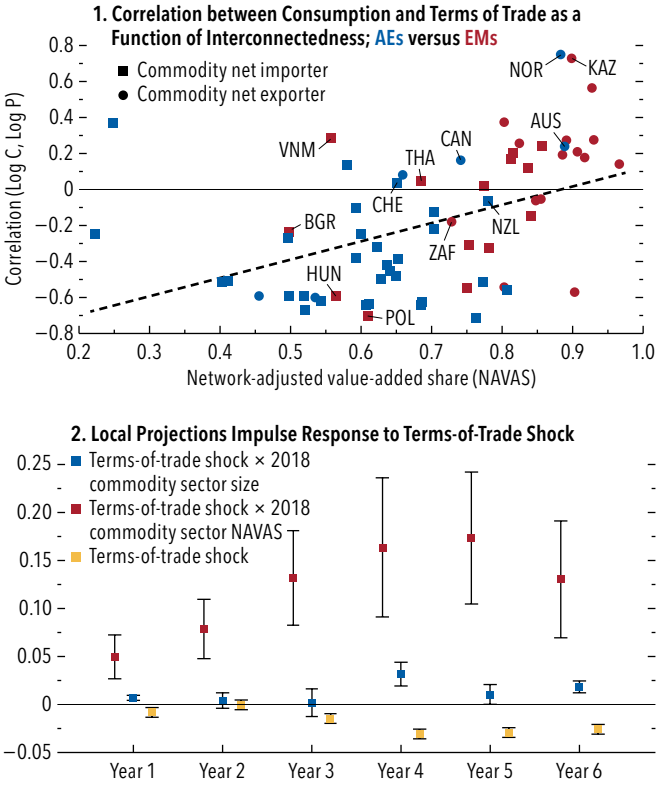
Figure 1.SF.2. Size and Network-Adjusted Value-Added Share across Country Groups



Sources: Organisation for Economic Co-operation and Development, Input-Output Tables, 2018; and IMF staff calculations.

Note: The Domar weight is the ratio of the nominal value of the commodity sector gross output to GDP. NAVAS is the sum of commodity sector value-added (VA) share and commodity suppliers' VA shares weighted by the Leontief inverse elements that capture downstream and upstream linkages of the commodity sector. AEs = advanced economies; EMs = emerging markets; NAVAS = network-adjusted value-added share.

Figure 1.SF.3. Importance of Interconnectedness over Size



Sources: Global Macro Database (Müller and others 2025); IMF, Commodity Terms of Trade Database; and IMF staff calculations.

Note: Panel 1 shows the correlation between countries' cyclical consumption and cyclical terms of trade, computed for 66 countries covering the period 1990–2023 with an annual frequency. The network-adjusted value-added share (NAVAS) used is from the year 2018. Sectoral value-added shares are measured using the ratio between gross output minus intermediate input usage and gross output. Terms of trade are measured by the Commodity Net Export Price Index, weighted by net exports as a share of GDP and deflated using the US consumer price index. Advanced economies are shown in blue, while emerging markets are shown in red. In addition, squares represent commodity net importers, while circles indicate commodity net exporters. Panel 2 presents consumption coefficient estimates from panel local projections at annual horizons, along with their respective standard deviations, in response to a one-standard-deviation terms-of-trade shock. The terms-of-trade shock is constructed following Schmitt-Grohé and Uribe (2018) using the residual of an autoregressive process of order one for each country's log terms-of-trade index, deflated by US consumer price index. Estimates are shown for the direct terms-of-trade shock, its interaction with the NAVAS, and its interaction with the Domar weight in yellow, red, and blue, respectively. See Online Annex 1.1, Parts I and II for further details. Data labels in the figure use International Organization for Standardization (ISO) country codes. AEs = advanced economies; EMs = emerging markets.

developing economies (for example, Bulgaria, Hungary, Poland, South Africa).

Interestingly, and maybe counterintuitively, the correlation is sometimes negative, even for commodity net exporters (for example South Africa); this point will be discussed further in the next subsection using a general equilibrium model.

Figure 1.SF.3, panel 2, confirms that interconnectedness (NAVAS) matters for the effect of commodity price shocks on consumption, even after controlling for the role of size (Domar weights). Coefficient estimates at different horizons (based on local projection analysis; Jordà 2005) show that the NAVAS interaction coefficient—which measures the marginal impact of deeper interconnectedness on the response of consumption to terms-of-trade changes—is substantially larger than the coefficient for the size interaction and is always significant.

Specific country examples tend to confirm this finding. For instance, although Thailand's commodity sector is six times larger than Switzerland's, their NAVAS values are almost identical (0.68 in Thailand and 0.65 in Switzerland), resulting in a very similar impact of terms-of-trade shocks on consumption (see Figure 1.SF.3,

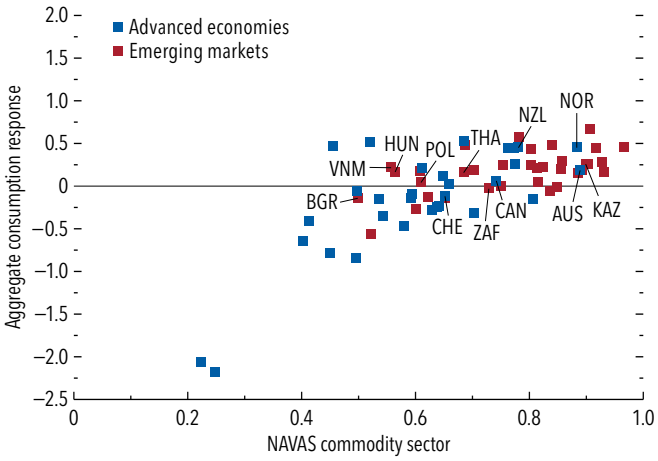
panel 1). Similarly, the Norwegian energy sector exhibits a NAVAS of 0.94, significantly larger than Vietnam's (0.48), despite their similar size. And as expected, shocks to energy prices are more correlated with consumption in Norway than in Vietnam (Online Annex 1.1, Online Annex Figure 1.SF.1).

Model-Based Analysis

The small open economy dynamic stochastic general equilibrium model developed in Silva and others (2024) and Gomez-Gonzalez and others (2025) is employed to unpack the channels through which production network structure affects the transmission of commodity price shocks to the rest of the economy. In the model, households consume a final good produced with labor, commodities, and imported and domestic intermediate goods. Households save in foreign assets, which accumulate according to the small open economy's successive current account surpluses or deficits. The real interest rate is given and fixed. Calibration uses the same Organisation for Economic Co-operation and Development data featured in Figure 1.SF.2, covering 66 countries and 44 sectors and is set to match each country's sectoral final consumption shares, input-output shares, and the commodity sector's net exports, all in 2018.[7] Once calibrated, the model is used to run two experiments. First, it looks at the relationship between NAVAS and the co-movement between consumption and commodity terms of trade. Model simulations (Figure 1.SF.4) show very similar results to raw data (Figure 1.SF.3, panel 1): The slope is positive (emerging market and developing economies tend to have higher NAVAS and higher correlation of cyclical consumption and terms-of-trade shocks), and some advanced economies do display higher NAVAS and stronger co-movement than emerging market and developing economies. There is some variation in the correlation of consumption with commodity price shocks for the same level of interconnectedness (NAVAS), which suggests a complex propagation mechanism, which is analyzed further below.

[7]The model's rich network structure and dynamic consumption decision make it well equipped to study the transmission of commodity price shocks through factor prices and the valuation of debt. While it abstracts from factors such as unemployment and time-varying profit margins, these simplifications allow for a focused analysis of network propagation mechanisms. Because six commodity sectors are aggregated into one here, the benchmark calibration has 1 commodity sector and 38 non-commodity sectors.

Figure 1.SF.4. Model-Based Consumption Response to a 1 Percent Terms-of-Trade Price Shock
(Percent change)



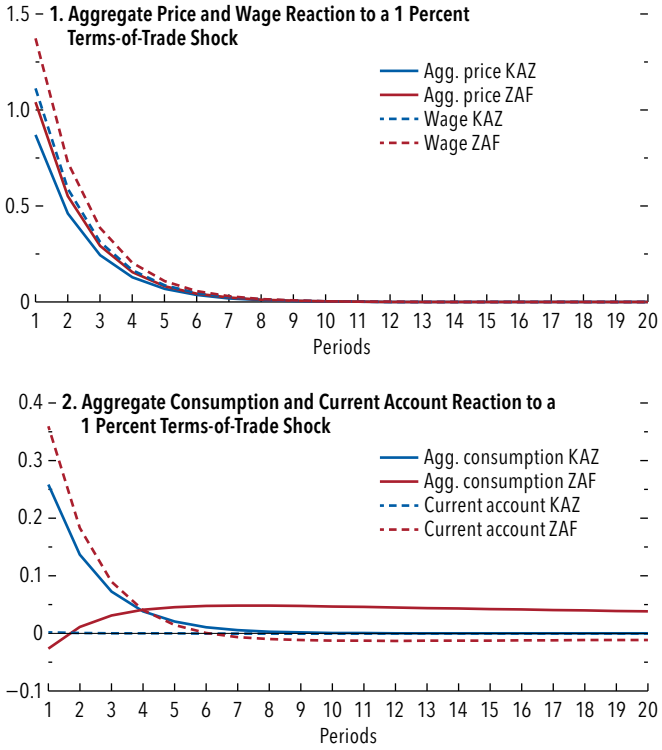
Sources: Organisation for Economic Co-operation and Development; and IMF staff calculations.

Note: NAVAS is the network-adjusted value-added share of the commodity sector. Consumption response is the first-period reaction of real consumption to a 1 percent terms-of-trade shock. Data labels in the figure use International Organization for Standardization (ISO) country codes.

Second, the model is used to look under the hood and better understand the transmission mechanism of shocks to commodity prices. To emphasize the importance of the NAVAS in driving co-movements between commodity terms-of-trade shocks and consumption (Figure 1.SF.3, panel 1), the model is run for two commodity net exporters whose commodity sectors are of similar size (39 percent of GDP)—Kazakhstan and South Africa—but with the Kazakh commodity sector more strongly interconnected (NAVAS of 0.90 versus 0.73 for South Africa). Figure 1.SF.5—which displays impulse response functions to a 1 percent commodity terms-of-trade shock—shows that the impact on aggregate consumption of a commodity price shock is *positive* and large in Kazakhstan but is *negative* in South Africa. Analysis of the transmission mechanism—which runs through both prices and wages—is essential to understanding this seemingly counterintuitive result.

Note first that real wages increase in both countries (nominal wages increase more than prices) because higher revenues in the commodity sector boost labor demand and real wages in equilibrium. However, the final impact of the shock on consumption does not depend only on labor income but also on the impact of the shock on households' real wealth (net foreign

Figure 1.SF.5. Model-Based Impulse Responses to a 1 Percent Terms-of-Trade Shock
(Percent change)



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

Note: The figure illustrates the impact of a commodity price shock on two distinct exporting economies, both calibrated to start with an equal initial trade balance. The calibration is based on each economy's input-output structure. Agg. = aggregate; KAZ = Kazakhstan; ZAF = South Africa.

assets denominated in units of real commodity goods).[8] In South Africa, the aggregate price index increases more than commodity prices on impact (more than 1 percent; see Figure 1.SF.5, panel 1), leading to a *decline* in the real value of net foreign assets—a negative wealth shock from the perspective of South African consumers—and a decline in consumption.[9]

But what explains this larger increase in aggregate prices in South Africa? The key lies in the way factor price changes propagate and become diluted through the production network. In general equilibrium, any exogenous increase in commodity prices will be met by a commensurate increase in marginal costs in the commodity sector until excess profit is driven to zero. Because higher marginal costs stem from both *factor prices* (wages in the model) and *intermediate input prices*, a higher NAVAS implies greater interconnectedness of the commodity sector, a larger contribution of intermediate input prices to marginal cost fluctuations, and thus a smaller increase in wages required for any given rise in marginal costs. In low-NAVAS economies, such as South Africa, commodity price shocks feed more directly into factor costs—rather than being diluted along the supply chain via intermediate input prices—resulting in larger aggregate price increases.[10] Low-NAVAS countries will tend to see larger increases in aggregate prices, lower *real* net foreign assets, and therefore a smaller *wealth* effect.

To sum up, differences in commodity sector linkages as measured by the NAVAS drive the differences in macroeconomic responses to commodity price fluctuations.[11] On balance, the wealth effect could even be negative and could more than offset the positive income effect, leading to a drop in consumption, as in South Africa (Figures 1.SF.3, panel 1, and 1.SF.5), and this is true regardless of the size of the sector as measured by Domar weights.

Implications for Monetary Policy in Small Open Economies

While higher commodity prices typically exert upward pressure on inflation, their effect on consumption varies with the commodity sector's NAVAS—amplifying or dampening the transmission, depending on the economy's structure. This raises important questions about how monetary policy should respond to commodity price shocks.

Standard theory suggests that monetary policy should respond only to inflation occurring in sticky price sectors and should ignore fluctuations in

[8]This relates to Drechsel and Tenreyro (2018) and Di Pace, Juvenal, and Petrella (2025), who show that increases in export prices have positive effects on net foreign asset position.

[9]The negative co-movement between consumption and commodity terms-of-trade prices in South Africa aligns with the empirical evidence in Figure 1.SF.3.

[10]An increase in marginal costs in the commodity sector can arise either from small increments in intermediate input prices—driven by modest wage increases along the supply chain—or from a large direct increase in wages that takes place in all sectors simultaneously given perfect labor mobility across sectors. The latter exerts a stronger effect on aggregate prices.

[11]For more details see Gomez-Gonzalez and others (2025), in which the authors show how these effects change when the country is instead a commodity importer and when considering productivity shocks to the commodity sector. The authors also discuss the heterogeneity in energy, metals, and agricultural commodity linkages across groups of economies. Finally, the authors show that the relationship between NAVAS and the consumption response to terms-of-trade shocks is robust to denominating foreign assets in units of the importable goods instead of in units of the exportable goods.

commodity prices because these sectors display flexible prices that are not influenced much by monetary policy (Aoki 2001; Woodford 2003). However, while it is true that *global* commodity prices are flexible and highly responsive to shocks, the pass-through to *domestic* commodity sectors is incomplete, and domestic commodity prices are stickier.[12]

The question then becomes how much weight policymakers should assign to commodity price fluctuations in the conduct of monetary policy. As shown by Rubbo (2023), Domar weights may be a good guide in a closed economy.[13] But relying on them to design monetary policy in small open economies, instead of the *network-adjusted weight* (NAW)—which depends on the NAVAS—would lead to welfare losses that are inversely proportional to the NAVAS (Qiu and others 2025).[14] The reason is that when the commodity sector's NAVAS is low—meaning it relies more on foreign than on domestic factors of production (directly and indirectly)—there is no need to respond to commodity price fluctuations since they do not lead to commensurate output gap fluctuations.

A small open economy policymaker following the prescription for a closed economy (adjusting monetary policy guided by Domar weights) would typically be *overestimating* the importance of commodity price fluctuations in the conduct of monetary policy, and the degree of overreaction would be inversely proportional to the NAVAS. Using the data presented in Figure 1.SF.2, Figure 1.SF.6 reports the distribution of the "policy mistake" made by relying on size instead of the NAW. The figure shows that both groups of economies would make monetary policy mistakes by overweighting the commodity sector by roughly a third.[15]

[12]For more on incomplete pass-through, see, for example, Choi and others (2018) for oil (among many others), Miranda-Pinto and others (2024) for metals, and Hyun and Lee (2023) for agricultural products.

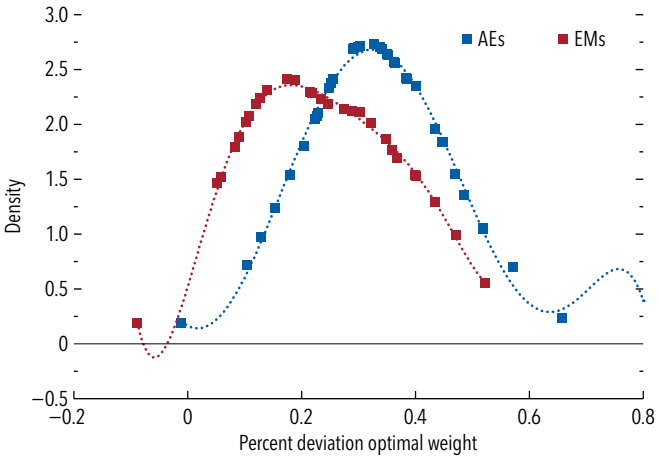
[13]Rubbo (2023) shows that—using sectoral (Domar) weights (and measures of sectoral price stickiness) to adjust the consumer price index (CPI)—a new CPI can be constructed. Stabilizing this new price index also closes the output gap and is therefore optimal from the point of view of monetary policy.

[14]The welfare losses from following a closed economy policy prescription in a small open economy environment are described by the monetary policy mistake (PM), defined as $PM = k(1 - NAVAS) + export\ intensity - expenditure\ switching$. For more details, please refer to Online Annex 1.1, Part IV.

[15]For instance, the average size of the commodity sector in advanced economies is 13 percent, but because the average monetary policy mistake is 34 percent, the actual weight should be 8.6 percent. For emerging market and developing economies, the average size of the commodity sector is 39 percent, but given an average monetary policy mistake of 24 percent, the actual weight should be 30 percent.

Figure 1.SF.6. Monetary Policy Mistake Distribution, 2018
(Percent)

Kernel density estimate of the monetary policy mistake in the commodity sector.



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

Note: Underlying calculations, based on the work of Qiu and others (2025), illustrate the monetary policy errors that occur when the focus is solely on the size of the commodity sector. The horizontal axis represents the policy mistakes expressed as the difference between the Domar weight and network-adjusted weight as a proportion of the Domar weight. AEs = advanced economies. EMs = emerging markets.

Specifically, advanced economies tend to overestimate (by 32 percent, on average) the importance of the commodity sector in monetary policy design, compared with emerging market and developing economies (by 27 percent, on average).

Conclusion

The macroeconomic impact of commodity price shocks depends less on the size of the commodity sector than on how interconnected it is with the rest of the economy. The network-adjusted value-added share (NAVAS) captures this interconnectedness and explains cross-country differences in how consumption responds to commodity price fluctuations.

For policymakers, the main takeaway is that macroeconomic frameworks should be adapted to account for the structure of domestic production networks. In particular, central banks should account for production network structures when calibrating their response to commodity price movements. Doing so can reduce the risk of policy miscalibration and enhance macroeconomic stability across both advanced and emerging market economies, regardless of their net commodity trade position.

Annex Table 1.1.1. European Economies: Real GDP, Consumer Prices, Current Account Balance, and Unemployment

(Annual percent change, unless noted otherwise)

	Real GDP			Consumer Prices[1]			Current Account Balance[2]			Unemployment[3]		
		Projections			Projections			Projections			Projections	
	2024	2025	2026	2024	2025	2026	2024	2025	2026	2024	2025	2026
Europe	**1.9**	**1.5**	**1.6**	**7.8**	**6.2**	**4.6**	**2.5**	**1.9**	**1.9**	**...**	**...**	**...**
Advanced Europe	**1.1**	**1.3**	**1.3**	**2.3**	**2.2**	**2.0**	**3.1**	**2.7**	**2.7**	**5.8**	**6.0**	**5.9**
Euro Area[4,5]	0.9	1.2	1.1	2.4	2.1	1.9	2.6	2.3	2.2	6.4	6.4	6.3
Germany	–0.5	0.2	0.9	2.5	2.1	1.8	5.6	5.4	5.1	3.4	3.7	3.4
France	1.1	0.7	0.9	2.3	1.1	1.5	0.1	–0.1	–0.2	7.4	7.6	7.5
Italy	0.7	0.5	0.8	1.1	1.7	2.0	1.1	1.0	1.0	6.6	6.7	6.7
Spain	3.5	2.9	2.0	2.9	2.4	2.0	3.2	2.7	2.6	11.3	10.8	10.7
The Netherlands	1.1	1.4	1.2	3.2	2.9	2.4	9.1	9.5	9.3	3.7	3.8	4.0
Belgium	1.0	1.1	1.0	4.3	2.6	1.3	–0.9	–0.9	–0.9	5.7	6.1	6.2
Ireland	2.6	9.1	1.3	1.3	1.7	1.7	16.2	11.1	11.5	4.3	4.6	4.6
Austria	–1.0	0.3	0.8	2.9	3.6	2.3	2.4	1.8	2.2	5.2	5.7	5.6
Portugal	1.9	1.9	2.1	2.7	2.2	2.1	2.1	1.8	1.9	6.5	6.4	6.3
Greece	2.3	2.0	2.0	3.0	3.1	2.5	–7.0	–5.8	–5.3	10.1	9.0	8.4
Finland	0.4	0.5	1.3	1.0	1.8	1.9	0.0	0.1	–0.1	8.4	9.0	8.7
Slovak Republic	2.1	0.9	1.7	3.2	4.2	3.3	–2.8	–2.9	–2.5	5.4	5.5	5.6
Croatia	3.9	3.1	2.7	4.0	4.4	2.8	–1.2	–1.6	–2.0	5.3	5.0	5.0
Lithuania	2.7	2.7	2.9	0.9	3.6	3.1	2.5	2.1	2.1	7.1	6.6	6.1
Slovenia	1.7	1.1	2.3	2.0	2.5	2.4	4.5	2.9	2.9	3.7	3.8	4.0
Luxembourg	0.4	1.2	2.1	2.3	2.3	2.2	6.9	12.2	12.4	5.8	6.1	6.2
Latvia	–0.4	1.0	2.2	1.3	3.8	2.6	–1.6	–2.1	–2.3	6.9	6.7	6.6
Estonia	–0.1	0.5	1.5	3.7	5.1	4.3	–1.2	–0.9	–2.2	7.5	7.9	7.4
Cyprus	3.4	2.9	2.8	2.3	0.7	1.3	–8.4	–8.5	–9.1	4.9	4.5	4.7
Malta	6.8	3.9	3.9	2.4	2.4	2.0	5.5	5.1	4.4	3.1	2.5	2.5
United Kingdom	1.1	1.3	1.3	2.5	3.4	2.5	–2.7	–3.1	–3.0	4.3	4.7	4.7
Switzerland	1.4	0.9	1.3	1.1	0.1	0.6	7.7	7.0	7.0	2.4	2.9	3.1
Sweden	0.8	0.7	1.9	2.0	2.3	1.6	5.9	5.8	5.7	8.4	9.0	8.4
Czech Republic	1.2	2.3	2.0	2.4	2.5	2.3	1.7	0.6	0.4	2.6	2.5	2.4
Norway	2.1	1.2	1.6	3.1	2.4	2.4	16.7	16.2	15.9	4.0	4.3	4.2
Denmark	3.5	1.8	2.2	1.3	1.9	2.1	12.2	12.2	11.7	2.9	3.0	3.0
Iceland	–1.0	1.4	2.3	5.9	4.2	3.1	–2.6	–3.6	–1.1	3.4	3.9	4.0
Liechtenstein	1.5	1.0	1.5	1.1	0.1	0.6	14.6	13.2	12.9	2.7	2.7	2.7
Andorra	3.4	2.4	1.6	3.1	2.2	1.8	15.0	15.2	15.3	1.5	1.6	1.6
San Marino	0.7	1.0	1.3	1.2	2.0	2.0	18.3	17.5	17.8	4.4	4.4	4.5
Emerging and Developing Europe[6]	**3.5**	**1.8**	**2.2**	**16.9**	**13.5**	**9.3**	**–0.1**	**–1.1**	**–1.0**	**...**	**...**	**...**
Russia	4.3	0.6	1.0	8.4	9.0	5.2	2.9	1.7	1.6	2.5	2.4	3.1
Türkiye	3.3	3.5	3.7	58.5	34.9	24.7	–0.8	–1.4	–1.3	8.7	8.3	8.3
Poland	2.9	3.2	3.1	3.7	3.8	2.8	0.0	–0.7	–0.8	2.9	2.9	3.1
Romania	0.8	1.0	1.4	5.6	7.3	6.7	–8.4	–8.0	–6.6	5.4	5.9	5.8
Ukraine[7]	2.9	2.0	4.5	6.5	12.6	7.6	–7.2	–16.5	–12.6	13.1	11.6	10.2
Hungary	0.5	0.6	2.1	3.7	4.5	3.5	2.2	1.2	0.9	4.5	4.3	4.2
Belarus	4.0	2.1	1.4	5.7	7.0	7.5	–3.2	–1.8	–3.1	3.0	2.9	2.9
Bulgaria	2.8	3.0	3.1	2.6	3.6	3.4	–1.6	–3.8	–3.2	4.2	3.5	3.4
Serbia	3.9	2.4	3.6	4.7	4.6	4.0	–4.7	–5.3	–5.3	8.6	8.6	8.6

Source: IMF staff estimates.

Note: Data for some countries are based on fiscal years. Please refer to Table F in the Statistical Appendix for a list of economies with exceptional reporting periods.

[1] Movements in consumer prices are shown as annual averages. Year-end to year-end changes can be found in Tables A6 and A7 in the Statistical Appendix.
[2] Percent of GDP.
[3] Percent. National definitions of unemployment may differ.
[4] Current account position corrected for reporting discrepancies in intra-area transactions.
[5] Based on Eurostat's harmonized index of consumer prices, except for Slovenia.
[6] Includes Albania, Bosnia and Herzegovina, Kosovo, Moldova, Montenegro, and North Macedonia.
[7] See the country-specific note for Ukraine in the "Country Notes" section of the Statistical Appendix.

Annex Table 1.1.2. Asian and Pacific Economies: Real GDP, Consumer Prices, Current Account Balance, and Unemployment

(Annual percent change, unless noted otherwise)

	Real GDP			Consumer Prices[1]			Current Account Balance[2]			Unemployment[3]		
		Projections			Projections			Projections			Projections	
	2024	2025	2026	2024	2025	2026	2024	2025	2026	2024	2025	2026
Asia	**4.6**	**4.5**	**4.1**	**2.1**	**1.6**	**2.1**	**2.6**	**2.9**	**2.5**	**. . .**	**. . .**	**. . .**
Advanced Asia	**1.6**	**1.6**	**1.4**	**2.6**	**2.5**	**2.1**	**5.3**	**5.0**	**4.7**	**2.9**	**3.0**	**3.0**
Japan	0.1	1.1	0.6	2.7	3.3	2.1	4.8	3.9	3.6	2.6	2.6	2.6
Korea	2.0	0.9	1.8	2.3	2.0	1.8	5.3	4.8	3.9	2.8	3.0	3.0
Australia	1.0	1.8	2.1	3.2	2.6	3.0	–1.9	–1.8	–1.7	4.0	4.2	4.3
Taiwan Province of China	4.8	3.7	2.1	2.2	1.7	1.6	14.1	13.8	13.1	3.4	3.4	3.4
Singapore	4.4	2.2	1.8	2.4	0.9	1.3	17.5	17.4	17.3	2.0	2.1	2.1
Hong Kong SAR	2.5	2.4	2.1	1.7	1.7	2.1	13.0	12.5	12.2	3.0	3.4	3.3
New Zealand	–0.6	0.8	2.2	2.9	2.7	2.1	–6.1	–4.7	–4.4	4.8	5.2	5.1
Macao SAR	8.8	2.6	2.8	0.7	0.5	1.2	35.8	35.5	34.9	1.8	1.7	1.7
Emerging and Developing Asia	**5.3**	**5.2**	**4.7**	**1.9**	**1.3**	**2.1**	**1.6**	**2.2**	**1.7**	**. . .**	**. . .**	**. . .**
China	5.0	4.8	4.2	0.2	0.0	0.7	2.3	3.3	2.8	5.1	5.1	5.1
India[4]	6.5	6.6	6.2	4.6	2.8	4.0	–0.6	–1.0	–1.4	4.9	4.9	4.9
Indonesia	5.0	4.9	4.9	2.3	1.8	2.9	–0.6	–1.1	–1.2	4.9	5.0	5.0
Thailand	2.5	2.0	1.6	0.4	0.2	0.7	2.5	1.7	1.3	1.0	1.0	1.0
Vietnam	7.1	6.5	5.6	3.6	3.4	3.2	6.6	4.0	2.4	2.2	2.3	2.5
Malaysia	5.1	4.5	4.0	1.8	1.6	2.2	1.4	1.5	1.8	3.2	3.0	3.0
Philippines	5.7	5.4	5.7	3.2	1.6	2.6	–4.0	–3.8	–3.5	3.8	3.9	3.9
Other Emerging and Developing Asia[5]	**3.9**	**3.3**	**4.4**	**9.3**	**9.6**	**8.9**	**–0.2**	**0.1**	**–1.0**	**. . .**	**. . .**	**. . .**
Memorandum												
ASEAN-5[6]	4.6	4.2	4.1	2.0	1.4	2.3	2.6	2.3	2.2	. . .	. . .	. . .
Emerging Asia[7]	5.4	5.2	4.7	1.6	1.0	1.8	1.6	2.2	1.7	. . .	. . .	. . .

Source: IMF staff estimates.

Note: Data for some countries are based on fiscal years. Please refer to Table F in the Statistical Appendix for a list of economies with exceptional reporting periods.

[1] Movements in consumer prices are shown as annual averages. Year-end to year-end changes can be found in Tables A6 and A7 in the Statistical Appendix.

[2] Percent of GDP.

[3] Percent. National definitions of unemployment may differ.

[4] See the country-specific note for India in the "Country Notes" section of the Statistical Appendix.

[5] Other Emerging and Developing Asia comprises Bangladesh, Bhutan, Brunei Darussalam, Cambodia, Fiji, Kiribati, Lao P.D.R., Maldives, the Marshall Islands, Micronesia, Mongolia, Myanmar, Nauru, Nepal, Palau, Papua New Guinea, Samoa, the Solomon Islands, Sri Lanka, Timor-Leste, Tonga, Tuvalu, and Vanuatu.

[6] Indonesia, Malaysia, the Philippines, Singapore, and Thailand.

[7] Emerging Asia comprises China, India, Indonesia, Malaysia, the Philippines, Thailand, and Vietnam.

Annex Table 1.1.3. Western Hemisphere Economies: Real GDP, Consumer Prices, Current Account Balance, and Unemployment

(Annual percent change, unless noted otherwise)

	Real GDP			Consumer Prices[1]			Current Account Balance[2]			Unemployment[3]		
		Projections			Projections			Projections			Projections	
	2024	2025	2026	2024	2025	2026	2024	2025	2026	2024	2025	2026
North America	**2.6**	**1.8**	**2.0**	**3.1**	**2.8**	**2.5**	**–3.6**	**–3.6**	**–3.3**	**. . .**	**. . .**	**. . .**
United States	2.8	2.0	2.1	3.0	2.7	2.4	–4.0	–4.0	–3.6	4.0	4.2	4.1
Mexico	1.4	1.0	1.5	4.7	3.9	3.3	–0.9	–0.2	–0.3	2.7	2.9	3.1
Canada	1.6	1.2	1.5	2.4	2.0	2.0	–0.5	–1.4	–1.3	6.4	6.9	6.6
Puerto Rico[4]	3.2	–0.8	–0.1	2.0	1.4	2.2	. . .	. . .	. . .	5.6	6.4	6.0
South America[5]	**2.3**	**2.7**	**2.2**	**23.6**	**9.8**	**5.8**	**–1.1**	**–1.6**	**–1.5**	**. . .**	**. . .**	**. . .**
Brazil	3.4	2.4	1.9	4.4	5.2	4.0	–2.7	–2.5	–2.3	6.9	7.1	7.3
Argentina	–1.3	4.5	4.0	219.9	41.3	16.4	0.9	–1.2	–0.4	7.2	7.5	6.6
Colombia	1.6	2.5	2.3	6.6	4.9	3.5	–1.7	–2.3	–2.6	10.1	10.0	9.8
Chile	2.6	2.5	2.0	3.9	4.3	3.1	–1.5	–2.5	–2.2	8.5	8.6	8.3
Peru	3.3	2.9	2.7	2.4	1.7	1.9	2.2	1.8	1.2	6.4	6.5	6.5
Ecuador	–2.0	3.2	2.0	1.5	1.1	2.8	5.7	4.9	3.4	3.4	4.0	3.8
Venezuela	5.3	0.5	–3.0	49.0	269.9	682.1	4.9	4.2	2.5	. . .	. . .	. . .
Bolivia	0.7	0.6	. . .	5.1	20.8	. . .	–3.0	–3.4	. . .	5.0	5.1	. . .
Paraguay	4.2	4.4	3.7	3.8	3.9	3.7	–3.9	–3.5	–3.7	5.8	5.2	5.2
Uruguay	3.1	2.5	2.4	4.8	4.7	4.5	–1.0	–1.4	–1.5	8.2	7.9	8.0
Central America[6]	**3.9**	**3.4**	**3.8**	**2.3**	**1.9**	**3.0**	**–0.4**	**–0.1**	**–1.0**	**. . .**	**. . .**	**. . .**
Caribbean[7]	**12.1**	**3.6**	**8.2**	**6.2**	**6.1**	**6.4**	**2.6**	**–0.2**	**–0.6**	**. . .**	**. . .**	**. . .**
Memorandum												
Latin America and the Caribbean[8]	2.4	2.4	2.3	16.6	7.6	5.0	–0.9	–1.1	–1.1	. . .	. . .	. . .
Eastern Caribbean Currency Union[9]	4.0	3.0	2.6	2.2	1.8	1.9	–9.9	–10.4	–9.0	. . .	. . .	. . .

Source: IMF staff estimates.

Note: Data for some countries are based on fiscal years. Please refer to Table F in the Statistical Appendix for a list of economies with exceptional reporting periods.

[1] Movements in consumer prices are shown as annual averages. Year-end to year-end changes can be found in Tables A6 and A7 in the Statistical Appendix. Aggregates exclude Venezuela.

[2] Percent of GDP.

[3] Percent. National definitions of unemployment may differ.

[4] Puerto Rico is a territory of the United States, but its statistical data are maintained on a separate and independent basis.

[5] See the country-specific notes for Argentina and Venezuela in the "Country Notes" section of the Statistical Appendix.

[6] Central America refers to CAPDR (Central America, Panama, and the Dominican Republic) and comprises Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua, and Panama.

[7] The Caribbean comprises Antigua and Barbuda, Aruba, The Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, and Trinidad and Tobago.

[8] Latin America and the Caribbean comprises Mexico and economies from the Caribbean, Central America, and South America. See the country-specific notes for Argentina and Venezuela in the "Country Notes" section of the Statistical Appendix.

[9] Eastern Caribbean Currency Union comprises Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines, as well as Anguilla and Montserrat, which are not IMF members.

Annex Table 1.1.4. Middle East and Central Asia Economies: Real GDP, Consumer Prices, Current Account Balance, and Unemployment

(Annual percent change, unless noted otherwise)

	Real GDP			Consumer Prices[1]			Current Account Balance[2]			Unemployment[3]		
		Projections			Projections			Projections			Projections	
	2024	2025	2026	2024	2025	2026	2024	2025	2026	2024	2025	2026
Middle East and Central Asia	**2.6**	**3.5**	**3.8**	**14.0**	**10.9**	**9.5**	**2.3**	**1.1**	**0.6**	**. . .**	**. . .**	**. . .**
Oil Exporters[4]	**2.7**	**3.2**	**3.5**	**8.5**	**10.0**	**10.0**	**4.5**	**2.8**	**2.2**	**. . .**	**. . .**	**. . .**
Saudi Arabia	2.0	4.0	4.0	1.7	2.1	2.0	–0.5	–2.1	–2.5	3.5	. . .	. . .
Iran	3.7	0.6	1.1	32.5	42.4	41.6	3.2	1.8	2.0	7.6	9.2	9.2
United Arab Emirates	4.0	4.8	5.0	1.7	1.6	2.0	14.5	13.2	12.3	. . .	. . .	. . .
Kazakhstan	4.8	5.9	4.8	8.7	11.4	11.2	–1.7	–3.8	–4.0	4.7	4.6	4.6
Algeria	3.7	3.4	2.9	4.0	3.5	3.9	–1.1	–3.7	–3.8	. . .	. . .	. . .
Iraq	–0.2	0.5	3.6	2.6	1.5	2.5	–0.2	0.4	–1.1	. . .	. . .	. . .
Qatar	2.4	2.9	6.1	1.2	0.1	2.6	17.4	10.8	10.2	. . .	. . .	. . .
Kuwait	–2.6	2.6	3.9	2.9	2.2	2.2	29.1	26.5	24.4	. . .	. . .	. . .
Azerbaijan	4.1	3.0	2.5	2.2	5.7	4.5	6.3	4.3	2.3	5.4	5.3	5.3
Oman	1.7	2.9	4.0	0.6	0.9	1.5	2.9	–1.0	–0.7	. . .	. . .	. . .
Turkmenistan	3.0	2.3	2.3	4.6	3.9	5.0	4.4	2.3	0.7	. . .	. . .	. . .
Bahrain	2.6	2.9	3.3	0.9	0.3	0.8	4.8	3.5	3.8	6.2	. . .	. . .
Oil Importers[5,6]	**2.4**	**4.0**	**4.4**	**23.6**	**12.2**	**8.8**	**–3.9**	**–3.2**	**–3.7**	**. . .**	**. . .**	**. . .**
Egypt	2.4	4.3	4.5	33.3	20.4	11.8	–5.4	–5.1	–4.3	7.4	7.4	7.3
Pakistan[7]	2.5	2.7	3.6	23.4	4.5	6.0	–0.6	0.5	–0.4	8.3	8.0	7.5
Morocco	3.8	4.4	4.2	0.9	1.2	1.8	–1.2	–2.3	–2.6	13.3	13.1	12.7
Uzbekistan	6.5	6.8	6.0	9.6	9.1	7.3	–5.0	–2.4	–4.6	5.5	5.0	4.5
Tunisia	1.6	2.5	2.1	7.0	5.9	6.1	–1.7	–3.1	–3.3	. . .	. . .	. . .
Sudan[7]	–23.4	3.2	9.5	185.7	87.2	54.6	–3.3	–3.1	–7.7	60.8	60.6	58.0
Jordan	2.5	2.7	2.9	1.6	2.2	2.6	–5.9	–5.5	–5.9	. . .	. . .	. . .
Georgia	9.4	7.2	5.3	1.1	3.9	3.4	–4.4	–4.5	–4.6	13.9	13.9	13.9
Armenia	5.9	4.8	4.9	0.4	3.3	2.8	–4.6	–4.7	–4.7	13.9	13.5	13.3
Tajikistan	8.4	7.5	5.5	3.5	3.8	4.5	6.2	3.4	–0.4	. . .	. . .	. . .
Kyrgyz Republic	9.0	8.0	5.3	5.0	8.0	6.9	–25.3	–8.4	–7.7	4.0	4.0	4.0
Mauritania	6.3	4.0	4.3	2.5	2.5	3.5	–9.4	–7.2	–7.1	. . .	. . .	. . .
West Bank and Gaza[7]	–26.6	. . .	. . .	53.7	. . .	. . .	–21.1	. . .	. . .	. . .	. . .	. . .
Memorandum												
Caucasus and Central Asia	5.5	5.6	4.7	6.7	8.6	8.0	–1.4	–2.0	–3.0	. . .	. . .	. . .
Middle East, North Africa, Afghanistan, and Pakistan[6]	2.1	3.2	3.7	15.2	11.2	9.8	2.9	1.6	1.2	. . .	. . .	. . .
Middle East and North Africa	2.1	3.3	3.7	14.2	12.2	10.3	3.2	1.7	1.3	. . .	. . .	. . .
Israel[8]	1.0	2.5	3.9	3.1	3.2	2.2	2.8	2.8	3.0	3.0	2.9	3.2

Source: IMF staff estimates.

Note: Data for some countries are based on fiscal years. Please refer to Table F in the Statistical Appendix for a list of economies with exceptional reporting periods.

[1] Movements in consumer prices are shown as annual averages. Year-end to year-end changes can be found in Tables A6 and A7 in the Statistical Appendix.
[2] Percent of GDP.
[3] Percent. National definitions of unemployment may differ.
[4] Includes Libya and Yemen. Yemen does not currently export oil due to the internal conflict.
[5] Includes Djibouti, Lebanon, and Somalia. See the country-specific note for Lebanon in the "Country Notes" section of the Statistical Appendix.
[6] Excludes Afghanistan and Syria because of the uncertain political situation. See the country-specific notes in the "Country Notes" section of the Statistical Appendix.
[7] See the country-specific notes for Pakistan, Sudan and West Bank and Gaza in the "Country Notes" section of the Statistical Appendix.
[8] Israel, which is not a member of the economic region, is shown for reasons of geography but is not included in the regional aggregates.

Annex Table 1.1.5. Sub-Saharan African Economies: Real GDP, Consumer Prices, Current Account Balance, and Unemployment

(Annual percent change, unless noted otherwise)

	Real GDP			Consumer Prices[1]			Current Account Balance[2]			Unemployment[3]		
		Projections			Projections			Projections			Projections	
	2024	2025	2026	2024	2025	2026	2024	2025	2026	2024	2025	2026
Sub-Saharan Africa	**4.1**	**4.1**	**4.4**	**20.3**	**13.1**	**10.9**	**–1.5**	**–1.7**	**–1.8**	**. . .**	**. . .**	**. . .**
Oil Exporters[4]	**3.9**	**3.6**	**3.9**	**29.1**	**21.7**	**19.8**	**5.3**	**3.3**	**1.9**	**. . .**	**. . .**	**. . .**
Nigeria[5]	4.1	3.9	4.2	31.4	23.0	22.0	6.8	5.7	3.6	. . .	. . .	. . .
Angola	4.4	2.1	2.1	28.2	21.6	16.3	5.4	0.9	0.5	. . .	. . .	. . .
Gabon	3.4	1.9	2.6	1.2	1.4	2.5	4.0	1.8	–0.3	. . .	. . .	. . .
Chad	3.5	3.3	3.6	5.1	4.0	3.6	1.0	–2.3	–2.9	. . .	. . .	. . .
Equatorial Guinea	0.9	–1.6	0.5	3.4	2.9	2.9	–3.3	–3.0	–3.8	. . .	. . .	. . .
Middle-Income Countries[6]	**3.1**	**3.3**	**3.5**	**6.3**	**5.0**	**4.5**	**–2.2**	**–1.9**	**–1.9**	**. . .**	**. . .**	**. . .**
South Africa	0.5	1.1	1.2	4.4	3.4	3.7	–0.7	–0.9	–1.2	32.6	32.7	32.7
Kenya	4.7	4.8	4.9	4.5	4.0	5.2	–2.3	–2.8	–3.4	. . .	. . .	. . .
Ghana	5.7	4.0	4.8	22.9	16.6	9.9	1.1	1.8	1.7	. . .	. . .	. . .
Côte d'Ivoire	6.0	6.4	6.4	3.4	1.0	1.5	–4.2	–2.1	–1.7	. . .	. . .	. . .
Cameroon	3.5	3.8	4.1	4.5	3.7	3.3	–3.1	–3.4	–3.9	. . .	. . .	. . .
Senegal	6.4	6.0	3.0	0.8	2.0	2.0	–12.5	–8.0	–5.4	. . .	. . .	. . .
Zambia	4.0	5.8	6.4	15.0	14.2	9.2	–2.6	1.3	2.7	. . .	. . .	. . .
Low-Income Countries[7]	**6.0**	**5.9**	**6.2**	**28.1**	**12.1**	**7.2**	**–5.3**	**–5.3**	**–4.4**	**. . .**	**. . .**	**. . .**
Ethiopia	8.1	7.2	7.1	21.0	13.0	9.4	–4.2	–2.9	–2.6	. . .	. . .	. . .
Tanzania	5.5	6.0	6.3	3.1	3.3	3.5	–2.6	–2.6	–2.7	. . .	. . .	. . .
Democratic Republic of the Congo	6.5	5.3	5.3	17.7	8.8	7.1	–3.9	–3.3	–2.1	. . .	. . .	. . .
Uganda	6.3	6.4	7.6	3.3	3.8	4.3	–7.5	–5.0	–3.7	. . .	. . .	. . .
Mali	4.7	5.0	5.4	3.2	3.5	2.0	–4.6	–4.6	–2.6	. . .	. . .	. . .
Burkina Faso	4.8	4.0	4.8	4.2	1.3	2.4	–5.7	–1.6	–1.3	. . .	. . .	. . .

Source: IMF staff estimates.

Note: Data for some countries are based on fiscal years. Please refer to Table F in the Statistical Appendix for a list of economies with exceptional reporting periods.

[1] Movements in consumer prices are shown as annual averages. Year-end to year-end changes can be found in Tables A6 and A7 in the Statistical Appendix.

[2] Percent of GDP.

[3] Percent. National definitions of unemployment may differ.

[4] Includes Republic of Congo and South Sudan.

[5] See the country-specific note for Nigeria in the "Country Notes" section of the Statistical Appendix.

[6] Includes Benin, Botswana, Cabo Verde, the Comoros, Eswatini, Lesotho, Mauritius, Namibia, São Tomé and Príncipe, and Seychelles.

[7] Includes Burundi, Central African Republic, Eritrea, The Gambia, Guinea, Guinea-Bissau, Liberia, Madagascar, Malawi, Mozambique, Niger, Rwanda, Sierra Leone, Togo, and Zimbabwe.

Annex Table 1.1.6. Summary of World Real per Capita Output

(Annual percent change; in constant 2021 international dollars at purchasing power parity)

	Average									Projections	
	2007–16	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
World	**2.0**	**2.5**	**2.5**	**1.8**	**–3.9**	**5.7**	**2.8**	**2.4**	**2.3**	**2.7**	**2.2**
Advanced Economies	**0.8**	**2.2**	**1.9**	**1.5**	**–4.4**	**5.9**	**2.4**	**0.9**	**1.2**	**1.2**	**1.4**
United States	0.7	1.8	2.4	2.1	–2.9	5.8	2.0	2.1	1.9	1.5	1.8
Euro Area[1]	0.4	2.5	1.6	1.4	–6.3	6.5	3.3	–0.1	0.6	0.8	0.9
Germany	1.2	2.6	1.0	0.9	–4.0	4.1	1.1	–1.8	–0.8	0.0	0.8
France	0.3	2.0	1.3	1.7	–7.9	6.4	2.3	1.3	0.8	0.4	0.6
Italy	–0.9	1.8	1.0	0.6	–8.6	9.7	5.2	0.8	0.8	0.6	0.9
Spain	0.0	2.6	1.8	1.1	–11.1	6.5	5.0	1.3	2.5	1.6	0.8
Japan	0.5	1.8	0.8	–0.2	–3.9	3.0	1.3	1.7	0.6	1.6	1.2
United Kingdom	0.4	2.0	0.8	1.1	–10.7	8.7	4.0	–0.6	–0.3	0.4	0.5
Canada	0.4	1.8	1.3	0.4	–6.1	5.3	2.5	–1.3	–1.3	0.1	1.6
Other Advanced Economies[2]	1.9	2.5	2.1	1.3	–2.1	5.9	1.9	0.6	1.7	1.3	1.5
Emerging Market and Developing Economies	**3.6**	**3.2**	**3.3**	**2.5**	**–3.2**	**5.9**	**3.2**	**3.6**	**3.2**	**3.7**	**3.0**
Emerging and Developing Asia	6.5	5.6	5.6	4.5	–1.4	7.1	4.1	5.5	4.7	4.7	4.2
China	8.4	6.3	6.4	5.7	2.2	8.5	3.2	5.5	5.1	5.0	4.4
India[3]	5.3	5.6	5.3	2.8	–6.7	8.8	6.8	8.2	5.6	5.7	5.2
Emerging and Developing Europe	2.1	3.7	3.5	2.4	–1.9	7.6	1.9	3.8	3.8	2.1	2.2
Russia	1.5	1.6	2.7	2.1	–2.5	6.2	–1.1	4.4	4.5	1.0	1.3
Latin America and the Caribbean	1.2	0.3	0.2	–0.9	–8.0	6.6	3.6	1.6	1.6	1.7	1.6
Brazil	1.2	0.7	1.1	0.6	–3.9	4.3	2.6	2.8	3.0	2.0	1.6
Mexico	0.2	0.9	1.0	–1.3	–9.1	5.4	2.9	2.4	0.6	0.2	0.8
Middle East and Central Asia	1.5	0.0	0.7	0.3	–4.5	2.9	4.1	0.4	0.5	6.0	2.0
Saudi Arabia	0.4	1.1	5.9	2.1	–8.3	9.2	7.2	–4.0	–2.6	2.0	1.9
Sub-Saharan Africa	1.8	0.0	0.5	0.4	–5.7	1.2	1.9	1.2	1.5	1.6	1.8
Nigeria	2.7	–1.6	–0.4	0.0	–8.3	–1.0	2.2	1.2	1.9	1.8	2.1
South Africa	0.6	–0.3	0.0	–1.3	–7.5	3.8	0.9	–0.5	–0.8	–0.3	–0.3
Memorandum											
European Union	0.7	2.9	2.1	1.8	–5.7	6.7	3.5	0.0	0.8	1.2	1.3
ASEAN-5[4]	3.6	4.0	3.8	3.2	–5.5	3.3	4.6	3.1	3.6	3.2	3.2
Middle East and North Africa	1.2	–0.6	0.2	–0.1	–4.7	3.0	4.4	0.4	–0.1	1.4	1.9
Emerging Market and Middle-Income Economies	3.9	3.6	3.7	2.7	–2.9	6.6	3.5	4.0	3.6	3.5	3.3
Low-Income Developing Countries	2.8	1.7	2.0	2.3	–3.9	1.2	2.6	1.8	1.7	3.9	2.7

Source: IMF staff estimates.

Note: Data for some countries are based on fiscal years. Please refer to Table F in the Statistical Appendix for a list of economies with exceptional reporting periods.

[1] Data are calculated as the sum of individual euro area countries.
[2] Excludes the Group of Seven (Canada, France, Germany, Italy, Japan, United Kingdom, United States) and euro area countries.
[3] See the country-specific note for India in the "Country Notes" section of the Statistical Appendix.
[4] ASEAN-5 comprises Indonesia, Malaysia, the Philippines, Singapore, and Thailand.

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