IMF WEO: Global Economic Outlook Shows Modest Change Amid Policy Shifts and Complex Forces

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This economic digest will tackle the presentation by Mr. Pierre-Olivier Gourinchas, the Economic Counselor and the Director of Research of the International Monetary Fund (IMF), for the World Economic Outlook (WEO) of October 2025. In this presentation, Mr. Gourinchas talks about the US trade tariffs, Artificial Intelligence surge, China's structural struggles, mounting fiscal pressures, and Central Bank's credibility risk.

Six months after United States' announcement of trade tariffs on all its trading partners, the growth downgrade matched the modest scenario. Global growth projected at 3.2% this year and 3.1% next year, with a downgrade revision of 0.2% from previous year's forecasts. This was due to trade negotiations that took part between the US and many trading partners such as United Kingdom, European Union and Japan, to name a few. As a result, the effect so far of these tariffs was low and met IMF's modest estimates. Having said that, concluding that the shock caused by the tariff surge had no effect on global growth is both premature and incorrect as stated by Mr. Gourinchas.

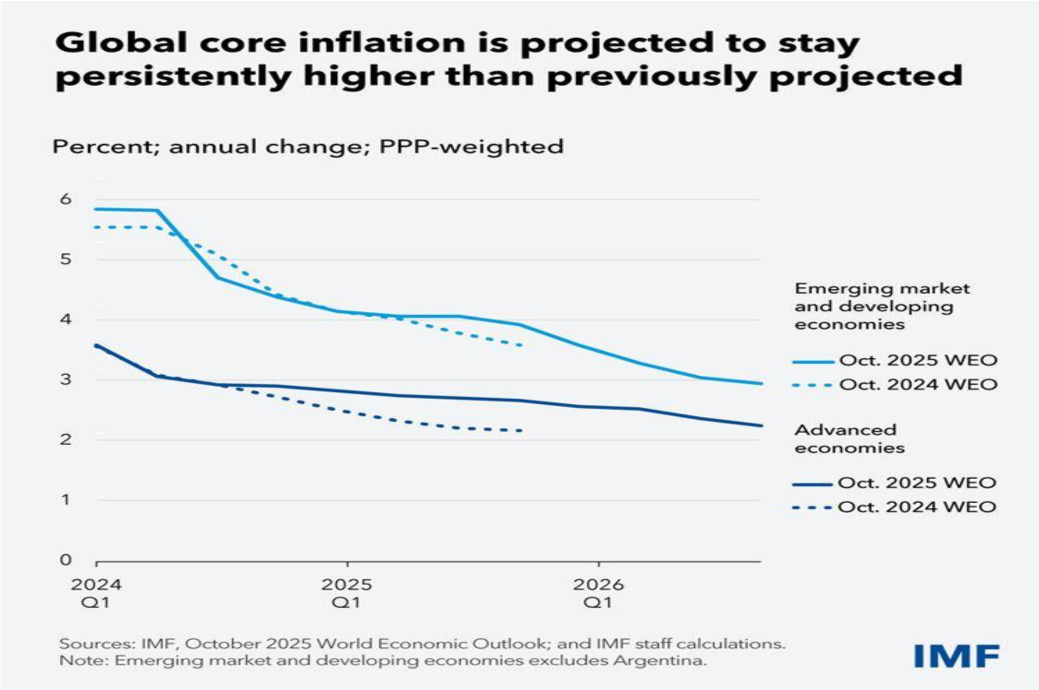
It is premature because past experience indicates that it might take longer time for the full picture to develop. In addition, there are no assurances on permanent trade agreements. Till now, most of the tariffs' consequences are born by US importers as pre-tariff import prices did not change and costs passed to US consumers are limited till now.

It is incorrect that the tariff shocks have no effect on global growth. This also is due to the fact that other economic forces are occurring concurrently. First, in addition to the supply shock from tariffs, United States' tighter immigration policies are reducing foreigners' labor supply. Second, the depreciation of the value of dollar and the increased investment in AI sector are supporting activity, thus exerting additional pressure on prices.

As for economies hit by US tariffs, other forces are lessening tariffs' effects. For China, a weaker exchange rate and finding new customers in Asia and Europe, in addition to the fiscal aid, lessened the effect of US tariffs on it. In Europe, its growth is attributed to Germany's fiscal expansion. The depreciation of US dollar resulted in milder consequences of US tariffs on emerging markets and developing countries.

It is expected that the second half of 2025 will experience a slowdown and partial recovery in 2026.

Compared to October 2024 projections, inflation is anticipated to be higher in both advanced economies and emerging and developing economies as shown in the below graph.



In Middle East and Central Asia, real GDP growth recorded 2.6% in 2024 and projections for 2025, 2026, and 2027 recorded 3.5%, 3.8%, and 3.7% respectively. For Lebanon, IMF estimates recorded a contraction of 7% (being higher than Banque Du Liban’ s estimates of a contraction of 6.4%) as a result of the war with Israel.

There are four worrying downside risks that could affect global growth.

First risk is the AI surge. The rising investments in this sector remind us of the dot-com boom in the late 1990s. The increased optimism in the technology sector, rising stock valuations, and huge consumption through capital gains might increase real interest rate, thus tighter monetary policy will be required just similar to what happened in late 1990s. The risk here is that if the outcome of AI after these huge investments did not justify the huge profit expectations, markets could correct severely.

The second downside risk to global growth is China’ s structural struggles. The real estate sector is still unsteady after four years of the burst of property bubble. Real estate investments are still contracting and overall credit demand remains week. In addition, a misallocation of resources is probable as investments in electrical vehicles and solar panels take place via significant subsidies. This might result in hidden costs and possible spillovers.

The third downside risk is the mounting of fiscal pressures. Many governments including some advanced economies are facing increased fiscal pressures. Immediate actions are required to prevent slower economic growth, higher real interest rates, along with higher debt and new spending needs. Low-income countries are more vulnerable due to the potential of reduced aid flows.

Lastly, institutional credibility is at risk due to increasing political pressures. Several Central Banks around the world are facing such pressures to ease monetary policies. Although this leads to lower interest rates in the short term, inflation could rise again in the future. In case of lost credibility, this will erase decades of hard-won trust and lead to economic and financial instability.

In conclusion, these downside risks could be mitigated. First, transparent and clear trade agreements should take place. This could lead to a 0.4% growth in the short term. Also, in case AI raises total factor productivity, this could lead also to economic growth. In the modest scenario, the combined effects of lower trade ambiguity, lower tariffs and increased output via AI will increase global growth by about 1% in the short term. For the long term, governments must encourage private entrepreneurs and provide them with the needed assistance to innovate and thrive. Finally, procedures to support education, public research, infrastructure, governance, financial stability and smart regulation that balances innovation with risk management, will all provide a better and less costly path.

World Economic Outlook Growth Projections

(Real GDP, annual percent change)	2024	PROJECTIONS 2025	2026
World Output	3.3	3.2	3.1
Advanced Economies	1.8	1.6	1.6
United States	2.8	2.0	2.1
Euro Area	0.9	1.2	1.1
Germany	-0.5	0.2	0.9
France	1.1	0.7	0.9
Italy	0.7	0.5	0.8
Spain	3.5	2.9	2.0
Japan	0.1	1.1	0.6
United Kingdom	1.1	1.3	1.3
Canada	1.6	1.2	1.5
Other Advanced Economies	2.3	1.8	2.0
Emerging Market and Developing Economies	4.3	4.2	4.0
Emerging and Developing Asia	5.3	5.2	4.7
China	5.0	4.8	4.2
India	6.5	6.6	6.2
Emerging and Developing Europe	3.5	1.8	2.2
Russia	4.3	0.6	1.0
Latin America and the Caribbean	2.4	2.4	2.3
Brazil	3.4	2.4	1.9
Mexico	1.4	1.0	1.5
Middle East and Central Asia	2.6	3.5	3.8
Saudi Arabia	2.0	4.0	4.0
Sub-Saharan Africa	4.1	4.1	4.4
Nigeria	4.1	3.9	4.2
South Africa	0.5	1.1	1.2
Memorandum			
Emerging Market and Middle-Income Economies	4.3	4.1	3.9
Low-Income Developing Countries	4.2	4.4	5.0

Source: IMF, *World Economic Outlook*, October 2025

Note: For India, data and forecasts are presented on a fiscal year basis, with FY 2024/25 (starting in April 2024) shown in the 2024 column. India's growth projections are 7.0 percent in 2025 and 6.1 percent in 2026 based on calendar year.

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