

EXECUTIVE SUMMARY

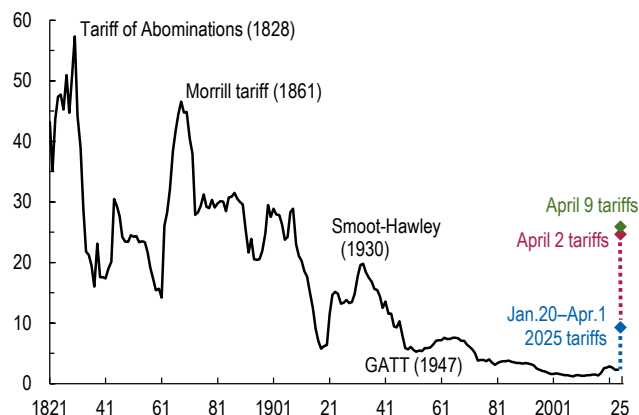
Following an unprecedented series of shocks in the preceding years, global growth was stable yet underwhelming through 2024 and was projected to remain so in the January 2025 *World Economic Outlook (WEO) Update*. However, the landscape has changed as governments around the world reorder policy priorities. Since the release of the January 2025 WEO *Update*, a series of new tariff measures by the United States and countermeasures by its trading partners have been announced and implemented, ending up in near-universal US tariffs on April 2 and bringing effective tariff rates to levels not seen in a century (Figure ES.1). This on its own is a major negative shock to growth. The unpredictability with which these measures have been unfolding also has a negative impact on economic activity and the outlook and, at the same time, makes it more difficult than usual to make assumptions that would constitute a basis for an internally consistent and timely set of projections.

Given the complexity and fluidity of the current moment, this report presents a “reference forecast” based on information available as of April 4, 2025 (including the April 2 tariffs and initial responses), in lieu of the usual baseline. This is complemented with a range of global growth forecasts, primarily under different trade policy assumptions.

The swift escalation of trade tensions and extremely high levels of policy uncertainty are expected to have a significant impact on global economic activity. Under the reference forecast that incorporates information as of April 4, global growth is projected to drop to 2.8 percent in 2025 and 3 percent in 2026—down from 3.3 percent for both years in the January 2025 WEO *Update*, corresponding to a cumulative downgrade of 0.8 percentage point, and much below the historical (2000–19) average of 3.7 percent.

In the reference forecast, growth in advanced economies is projected to be 1.4 percent in 2025. Growth in the United States is expected to slow to 1.8 percent, a pace that is 0.9 percentage point lower relative to the projection in the January 2025 WEO *Update*, on account of greater policy uncertainty, trade tensions, and softer demand momentum, whereas growth in the euro area at 0.8 percent is expected to slow by 0.2 percentage point. In emerging market and developing economies, growth is expected to slow down to 3.7 percent in 2025 and 3.9 percent in 2026, with significant downgrades for countries affected most by recent trade measures, such

Figure ES.1. US Effective Tariff Rates on All Imports (Percent)



Sources: US Bureau of the Census, *Historical Statistics of the United States, 1789–1945*; and IMF staff calculations.

Note: The Jan. 20–Apr. 1 tariffs in 2025 include 20 percent tariffs on China; 25 percent tariffs on steel and aluminum; 25 percent tariffs on Mexico and Canada; and a 10 percent tariff on Canadian energy imports. A United States–Mexico–Canada Agreement (USMCA) carve-out is assumed to halve the effective tariff increase for Canada and Mexico. The April 2 tariffs include auto sector tariffs and country-specific tariffs, applying exemptions provided in Annex II of the Executive Order per IMF staff judgment. The April 9 tariffs include an increase in the tariffs on China to 145 percent and a reduction in other country-specific tariffs to 10 percent. It also includes exemptions on some electronic products announced on April 11. GATT = General Agreement on Tariffs and Trade.

WORLD ECONOMIC OUTLOOK

as China. Global headline inflation is expected to decline at a pace that is slightly slower than what was expected in January, reaching 4.3 percent in 2025 and 3.6 percent in 2026, with notable upward revisions for advanced economies and slight downward revisions for emerging market and developing economies in 2025.

Intensifying downside risks dominate the outlook. Ratcheting up a trade war, along with even more elevated trade policy uncertainty, could further reduce near- and long-term growth, while eroded policy buffers weaken resilience to future shocks. Divergent and rapidly shifting policy stances or deteriorating sentiment could trigger additional repricing of assets beyond what took place after the announcement of sweeping US tariffs on April 2 and sharp adjustments in foreign exchange rates and capital flows, especially for economies already facing debt distress. Broader financial instability may ensue, including damage to the international monetary system. Demographic shifts and a shrinking foreign labor force may curb potential growth and threaten fiscal sustainability. The lingering effects of the recent cost-of-living crisis, coupled with depleted policy space and dim medium-term growth prospects, could reignite social unrest. The resilience shown by many large emerging market economies may be tested as servicing high debt levels becomes more challenging in unfavorable global financial conditions. More limited international development assistance may increase the pressure on low-income countries, pushing them deeper into debt or necessitating significant fiscal adjustments, with immediate consequences for growth and living standards. On the upside, a deescalation from current tariff rates and new agreements providing clarity and stability in trade policies could lift global growth.

The path forward demands clarity and coordination. Countries should work constructively to promote a stable and predictable trade environment, facilitate debt restructuring, and address shared challenges. At the same time, they should address domestic policy and structural imbalances, thereby ensuring their internal economic stability. This will help rebalance growth-inflation trade-offs, rebuild buffers, and reinvigorate medium-term growth prospects, as well as reduce global imbalances. The priority for central banks remains fine-tuning monetary policy stances to achieve their mandates and ensure price and financial stability in an environment with even more difficult trade-offs. Mitigating disruptive foreign exchange volatility may require targeted interventions, as outlined in the IMF's Integrated Policy Framework. Macprudential tools should be activated as needed to contain the buildup of vulnerabilities and to provide support in case of stress events. Restoring fiscal space and putting public debt on a sustainable path remain an important priority, while meeting critical spending needs to ensure national and economic security. This requires credible medium-term fiscal consolidation plans. Structural reforms in labor, product, and financial markets would complement efforts to reduce debt and narrow cross-country disparities. As Chapter 2 explains, countries' age structures are evolving at different rates, with important consequences for medium-term growth and external imbalances. In addition, as Chapter 3 documents, migration policy shifts in destination countries have sizable spillover effects, disproportionately affecting emerging market and developing economies.