World Economic Outlook - October 2025

Background: World Economic Outlook (WEO)

- WEO is flagship report of International Monetary Fund (IMF).
- It is published **biannually, in April and October, with additional updates released in January and July**.
    - This means the full report is released twice a year, with interim updates providing forecasts and analysis in between.
- It assesses global economic trends, forecasts growth trajectories, and provides policy insights for advanced, emerging, and developing economies.
- It is a crucial tool for economic surveillance and policy formulation among IMF member nations.

WEO October 2025

Title of Report: Global Economy in Flux, Prospects Remain Dim

Global Economic Environment: Rising Uncertainty and Policy Shifts

The global economic landscape is undergoing significant transitions, marked by shifting policy frameworks, elevated uncertainty, and evolving geopolitical dynamics.

- Recent tariff actions by the United States since February 2025 has triggered global adjustments, although subsequent tariff rollbacks and bilateral deals have moderated initial disruptions. Nevertheless, uncertainty around the durability and direction of global economic policies remains high.
- Advanced economies have implemented major policy changes, including reductions in international development aid and stricter immigration controls. Concurrently, several large economies have adopted expansionary fiscal measures, prompting concerns regarding long-term debt sustainability and potential cross-border spillovers. These developments reflect a broader trend toward protectionism and fragmentation, dampening global growth prospects and necessitating recalibration of macroeconomic responses.

Growth and Inflation Dynamics

- The April 2025 World Economic Outlook (WEO) initially downgraded global growth expectations for 2025 by 0.5 percentage point to 2.8 percent due to heightened trade barriers and uncertainty.
- Tariffs were anticipated to act as supply shocks for imposing nations and demand shocks for targeted ones, with widespread negative sentiment weakening demand.
- By July, partial tariff reversals led to an upgraded projection of 3 percent growth. Inflation projections remained broadly stable, with slight upward revisions for the United States and downward adjustments elsewhere.

Short-Term Resilience and Emerging Weaknesses

- Despite the uncertain environment, early-2025 data reflected stronger-than-expected activity. Economic performance in the first half of 2025 was bolstered by temporary factors, including accelerated purchases, investment front-loading, and inventory stockpiling in anticipation of higher tariffs.
- Inflation trends diverged, with subdued price pressures observed in Asia, while inflation in the United States remained stable.
- The temporary nature of earlier resilience is becoming evident as these effects unwind. Economic indicators point to a gradual moderation in activity, with declining trade momentum and softening labor markets.
- Tariff-related price increases, initially muted, are increasingly likely to feed into US consumer inflation. Additionally, tightening immigration policies across advanced economies have led to sharp declines in net labor inflows, potentially constraining labor supply and reducing medium-term growth prospects.

Global Growth Outlook: Moderation Amid Policy Shifts and Uncertainty

- **Global economic growth** is expected to moderate following recent policy changes and heightened uncertainty in international trade dynamics.
    - Global GDP growth is projected to ease from 3.3 percent in 2024 to 3.2 percent in 2025 and further to 3.1 percent in 2026.
    - Although this represents a slight improvement compared to estimates in the July WEO Update, it remains cumulatively 0.2 percentage point lower than projections made prior to recent policy developments in the October 2024 WEO.
    - The downward revision reflects the lingering impact of protectionist measures and elevated policy uncertainty, even as tariff announcements have been partially scaled back.
- On an end-of-year basis, the slowdown appears sharper, with global growth expected to decelerate from 3.6 percent in 2024 to 2.6 percent in 2025, signaling a more pronounced weakening as short-term resilience fades.
    - **Advanced economies** are forecast to grow at an average of roughly 1.5 percent in 2025–26.
        - United States is projected to slow to 2.0 percent, reflecting moderating domestic demand and the effects of previous trade and policy shifts.
    - **Emerging market and developing economies** are anticipated to maintain relatively stronger performance, expanding slightly above 4.0 percent over the same period, though their growth momentum also moderates compared to previous forecasts.
        - This divergence highlights continued structural advantages in emerging markets but also underscores ongoing vulnerability to global shocks and fragmented trade flows.

Inflation and Trade Trends

- **Global inflation** is expected to fall to 4.2 percent in 2025 and to 3.7 percent in 2026. Price dynamics will vary considerably across regions.
    - United States is projected to experience inflation levels above target, with risks predominantly tilted to the upside due to tariff passthrough and policy uncertainty.
    - In contrast, inflation in many other major economies is expected to remain subdued, driven by softer demand and restrained price pressures.

- **World trade volume growth** is forecast to average 2.9 percent in 2025–26. Although front-loading of trade in early 2025 may temporarily support activity, this expansion remains weaker than the 3.5 percent growth recorded in 2024.
    - Persistent trade fragmentation, retaliatory tariff regimes, and global supply chain adjustments continue to constrain trade gains and limit the scope for stronger global integration.

Global Risks and Outlook: Downside Bias Amid Persistent Uncertainty

Risks to the global economic outlook remain predominantly skewed to the downside, consistent with patterns highlighted in earlier World Economic Outlook assessments.

- **Prolonged policy uncertainty** continues to represent a major headwind, with the potential to weaken consumption and investment sentiment across economies.
    - Further escalation of protectionist measures, including through non-tariff barriers, could disrupt supply chains, dampen investment flows, and impede productivity growth.
- **Labor market shocks** also present significant vulnerabilities.
    - Restrictive immigration policies threaten to reduce labor supply in economies already grappling with aging populations and skills shortages, constraining potential output and long-term growth trajectories.
- **Fiscal fragilities** pose another layer of risk as elevated borrowing costs heighten rollover pressures for sovereigns, potentially amplifying debt-related stress in vulnerable economies.
- **Financial markets** could face turbulence if technology sector valuations correct sharply.
    - A downside surprise in earnings or slower-than-expected productivity gains from artificial intelligence could dissolve current investor optimism, ending the AI-driven investment cycle and generating broader macro-financial repercussions.
- **Institutional risks** are also noteworthy. Pressures on the independence and credibility of core economic institutions, such as central banks, could undermine policy effectiveness.
    - Any erosion of data reliability or constraints on evidence-based decision making could further weaken macroeconomic stability.
- **External shocks** remain a concern, including commodity price spikes triggered by climate-induced disruptions or geopolitical tensions, which would disproportionately

burden low-income, commodity-importing nations.

Despite these **downside risks**, potential upside scenarios exist.

- Breakthroughs in trade negotiations could ease global tariff burdens and reduce policy uncertainty.
- Renewed reform momentum across economies could strengthen governance and support investment, boosting medium-term growth.
- Moreover, sustained technological advancements and stronger-than-expected productivity gains from AI adoption could deliver broad-based economic benefits and partly offset prevailing headwinds.

Restoring Confidence through Credible and Sustainable Policy Action

The overarching priority for policymakers is to rebuild confidence in the global economy through credible, predictable, and sustainable policy measures.

- Reducing uncertainty requires the establishment of transparent, rules-based trade frameworks that promote investment and harness the growth and productivity gains associated with trade.
  - This includes modernizing trade rules to reflect digital-era realities and strengthening multilateral cooperation mechanisms. Trade diplomacy must also be paired with appropriate macroeconomic adjustments to address persistent external imbalances, ensuring long-term benefits and stability.
- **Fiscal rebuilding** is critical. Governments must prioritize restoring fiscal buffers and maintaining debt sustainability through realistic medium-term consolidation strategies.
  - These should strike a balance between rationalizing expenditure and mobilizing revenues, ensuring that new support measures remain temporary, targeted, and offset by clearly defined savings.
  - Meanwhile, monetary policy should remain calibrated to central bank mandates, balancing inflation control and growth considerations. The preservation of central bank independence remains essential to anchor inflation expectations and safeguard policy credibility.
- **Emerging market and developing economies** have historically benefited from strengthening policy frameworks, helping them navigate periods of global financial stress.

    - In the current evolving global landscape, accelerating structural reforms is key to enhancing resilience.
    - Priority areas include boosting labor mobility and participation, accelerating digitalization, and reinforcing institutional capacity.
    - Industrial policy, while potentially useful in building resilience and supporting growth, must be applied judiciously—carefully weighing its opportunity costs and potential trade-offs.
- **For low-income economies**, domestic resource mobilization is vital, especially given declining external aid flows.
    - Governance and administrative reforms are necessary to strengthen revenue systems and ensure efficient public spending.
    - In an environment defined by heightened uncertainty, proactive scenario planning and pre-established policy playbooks can enhance readiness and credibility, enabling timely and effective policy responses as global economic dynamics continue to evolve.