



Global Prospects and Policies: A Critical Juncture Amid Policy Shifts

WORLD ECONOMIC OUTLOOK APRIL 2025

DENIZ IGAN

APRIL 29, 2025

Strictly confidential and under embargo until Tuesday, April 22, 9 AM ET

Policy Uncertainty Tests Global Resilience

Overall Uncertainty, EPU, and TPU

US Effective Tariff Rates on All Imports (Percent)



Sources: Ahir, Bloom, and Furceri 2022; Caldara and others 2020; Davis 2016; US Bureau of the Census, *Historical Statistics of the United States*, 1789–1945; US International Trade Commission; and IMF staff calculations.

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

Recent Developments

Inflation Trends



Sources: Haver Analytics; and IMF staff calculations.

Note: LHS and RHS plot the median of a sample of 57 economies that accounts for 78 percent of World Economic Outlook world GDP (in weighted purchasing-power-parity terms) in 2024. Vertical axes are cut off at –2 percent and 12 percent. The bands depict the 25th to 75th percentiles of data across economies.

Labor Market Trends

(Percent) 14 ٠ Latest 12 Lowest point 10 • End of 2019 8 6 4 2 0 AUS CAN BRA POL TUR БA JPN **3BR** USA HUN **UN** ŚOR MEX

Unemployment Rates

Vacancy-to-Unemployment Ratios (Percent)



Sources: Haver Analytics; India Ministry of Statistics and Programme Implementation, Periodic Labour Force Survey; International Labour Organization; OECD; US Bureau of Economic Analysis; US Bureau of Labor Statistics; and IMF staff calculations.

Note: For LHS, India's unemployment in urban areas is from Periodic Labour Force Survey data. The "lowest point" is from the period spanning March 2019 to the latest available data. For RHS, "Europe" includes Austria, Belgium, Bulgaria, Croatia, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Latvia, Lithuania, Luxembourg, Malta, The Netherlands, Poland, Portugal, Romania, the Slovak Republic, Slovenia, Spain, and Sweden. The "peak" is from the period spanning January 2020 to the latest available data.

Varying Momentum Across Countries

Consumer Confidence

(Index, OECD harmonized)

Industrial Production Trends

(Index, Jan. 2019 = 100)



Sources: OECD; UNIDO; and IMF staff calculations.

Note: For LHS, the rest of world (ROW) represents the average value for data across 22 countries. For RHS, data are calculated as three-month moving averages. "EU4" refers to France, Germany, Italy, and Spain. "Other EU" refers to all other European Union (EU) countries.

High Public Debt Amid Elevated Interest Rates



Sources: Consensus Economics; OECD; and IMF staff calculations.

Note: LHS shows current three-year adjustment need versus historical adjustment. IQR refers to the interquartile range of three-year primary balance (PB) adjustments over the period 2000–19, calculated as the change between years *t* +3 and *t* using a rolling window. Current adjustment need is based on the difference between the 2028 debt-stabilizing primary balance (DSPB) and the 2025 primary balance excluding other flows. For MID, lines show medians, and shaded area denotes the IQR over all countries. RHS shows real rates calculated using long-term inflation expectations from Consensus Forecasts.

Inflation Expectations on Edge after Inflation Scare

Cross-Country Inflation Expectations

(Percentage point deviation from target, next 12 months)



Consensus Inflation Expectations

(Percentage point deviation from target)



Sources: Central bank websites; Consensus Economics; Haver Analytics; and IMF staff calculations.

Note: For LHS, sample includes 30 advanced economies (AEs) and 31 emerging market and developing economies (EMDEs). The horizontal lines in the middle of the boxes show the medians, and the upper (lower) limits of the boxes show the third (first) quartiles. The whiskers show the maximum and minimum within a boundary of 1.5 times the interquartile range from the upper and lower quartiles, respectively. For RHS, "one year" is based on March 2025 data.

Fragilities due to Gaps in Growth



Cost-of-Living Changes (*Percent, relative to 2019:Q4*)



Sources: Haver Analytics; OECD; and IMF staff calculations. Note: Data labels in the figure use International Organization for Standardization (ISO) country codes.

The Outlook: A Range of Possibilities

Global Growth Projections

"Reference Forecast"

- Trade policies as of April 4
 - Announcements between February 1
 and April 4
 - Including April 2 announcements and the initial responses
- Bottom-up
- In lieu of the traditional baseline WEO forecast

Alternatives

• Pre-April 2

- Announcements up to April 2
- Bottom-up
- Post-April 9
 - Announcements made after April 4
 - Model-based

Global Growth	2025	2026
Reference Forecast	2.8	3.0
Pre-April 2 Forecast	3.2	3.2
Post-April 9 Forecast	2.8	2.9
Jan 2025 WEO Update	3.3	3.3

Assumptions for the "Reference Forecast"

Commodity: Slowdown in energy, increase in nonfuel

Energy and Food Prices (Index, 2022:Q4 = 100)

Monetary policy: Slower than expected convergence in US, faster in EA Monetary Policy Projections (Percent, quarterly average) Fiscal policy: Consolidation expected in AEs, lagged in EMs

Fiscal Policy Projections

(Percentage points, change in structural primary balance per GDP)



Source: IMF staff calculations.

Note: For LHS and MID, solid lines denote projections from the April 2025 *World Economic Outlook* (WEO) and dashed lines those from the October 2024 WEO. For RHS, 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.

Growth Projections under the Reference Forecast: Advanced Economies

(percent change from a year earlier)

				*** * * * *			*	
	World	Advanced Economies	U.S.	Euro Area	Japan	U.K.	Canada	Other AEs ¹
2024	3.3	1.8	2.8	0.9	0.1	1.1	1.5	2.2
Revision from Jan. 2025	0.1	0.1	0.0	0.1	0.3	0.2	0.2	0.2
2025	2.8	1.4	1.8	0.8	0.6	1.1	1.4	1.8
Revision from Jan. 2025	-0.5	-0.5	-0.9	-0.2	-0.5	-0.5	-0.6	-0.3
2026	3.0	1.5	1.7	1.2	0.6	1.4	1.6	2.0
Revision from Jan. 2025	-0.3	-0.3	-0.4	-0.2	-0.2	-0.1	-0.4	-0.3

Source: IMF, April 2025 World Economic Outlook.

¹ Excludes the Group of Seven (Canada, France, Germany, Italy, Japan, United Kingdom, United States) and euro area countries.

Growth Projections under the Reference Forecast: EMs and LIDCs

(percent change from a year earlier)

			*]				\bigcirc	
	World	Emerging Market and Developing Economies	China	India	Brazil	Russia	Commodity Exporting Economies	Low Income Developing Countries
2024	3.3	4.3	5.0	6.5	3.4	4.1	3.4	4.0
Revision from Jan. 2025	0.1	0.1	0.2	0.0	-0.3	0.3	0.2	-0.1
2025	2.8	3.7	4.0	6.2	2.0	1.5	2.9	4.2
Revision from Jan. 2025	-0.5	-0.5	-0.6	-0.3	-0.2	0.1	-0.3	-0.4
2026	3.0	3.9	4.0	6.3	2.0	0.9	2.9	5.2
Revision from Jan. 2025	-0.3	-0.4	-0.5	-0.2	-0.2	-0.3	-0.3	-0.2

Source: IMF, April 2025 World Economic Outlook.

Note: Commodity Exporting Economies includes 50 emerging market and developing economies.

Inflation Projections under the Reference Forecast

Evolution of 2025 Inflation Forecasts



(Median, percent, year over year)

Distribution of One-Year-Ahead Inflation Projections (Density)

Source: IMF staff calculations.

Note: For LHS, the x-axis shows the months the World Economic Outlooks are published. RHS displays the distribution of one-year-ahead year-over-year inflation projections from the WEO reports using estimated kernel densities.

Medium-Term Growth Prospects



Source: IMF staff calculations. Note: Chart plots 50 largest economies (21 AEs and 29 EMDEs) in terms of 2024 GDP in purchasing-power-parity international dollars.

Labor supply policies could mitigate demography's drag on growth

Average Impact of Labor Supply Policies on GDP Growth over 2025–2100

(Deviation from the baseline scenario, percentage points)



Source: IMF staff calculations.

Note: The bars (markers) represent the deviations from the baseline scenario when each labor policy is implemented in isolation (all labor policies are implemented together). The sum of the values for the individual policies does not necessarily coincide with the value for the combined policy scenario because of interactions between the policies. The value for "World" denotes the average for the economies included in the model. Data labels in the figure use International Organization for Standardization (ISO) country codes. LFP = labor force participation; LIC = bloc of low-income countries.

Chapter 2 ("*The Rise of the Silver Economy: Global Implications of Population Aging*") considers three policy scenarios:

- 1. Health policies that would reduce crosscountry differences with respect to the frontier of healthy aging by one-fourth.
- 2. Faster increases in *effective* retirement age, relative to the baseline, bringing further alignment with prospective old-age thresholds (Sanderson and Scherbov 2010; Kotschy and Bloom 2023).
- 3. Narrowing country-specific gender gaps in LFP by three-fourths by 2040.

International cooperation in immigration can improve outcomes

Non-Bordering Advanced Economy

Responses to Different Types of Policy Tightening (Percent change relative to baseline)

Bordering Emerging Market and Developing Economies

Sources: Abel and Cohen (2019); Caliendo and others (2021); Eora Global Supply Chain Database; Penn World Table; United Nations, Global Migration Database; and IMF staff calculations. Note: "Short to medium term" refers to results for 2025; "long term" refers to results in 2075.

Risks: Tilted to the Downside

Risks to the Outlook

Downside

- Escalating trade measures and prolonged trade policy uncertainty
- Financial market volatility and correction
- Rising long-term interest rates
- Rising social discontent
- Increasing challenges to international cooperation
- Labor supply gaps

Upside

- Next-generation trade agreements
- Mitigation of conflicts
- Structural reform momentum
- Growth engine powered by AI

Rising Trade Restrictions and Fragmentation Concerns

Trade-Restrictive Measures (Number of measures) **Fragmentation Keywords in Earning Calls** (*Indices, 2013-15 = 100*)

Sources: Global Trade Alert; Refinitiv Eikon; and IMF staff calculations.

Note: For LHS, data are based on a count of measures and include adjustment for reporting lags. For RHS, fragmentation indices measure the average number of sentences, per thousand earnings calls, that mention at least one of the following keywords: *deglobalization, reshoring, onshoring, nearshoring, friend-shoring, localization, regionalization.*

Macro Effects of Foreign Exchange Movements

Effect of US Dollar Appreciation on Global GDP (*Percent change*)

Effect of US Dollar Appreciation on EMDE Inflation (*Basis points; Percent, right scale*)

Source: IMF staff calculations.

Note: For LHS, impulse responses from the IMF External Sector Report 2023 show the effects of a 10 percent appreciation in the nominal US dollar index with 90 percent confidence intervals. Real GDP is measured in national currencies at constant prices. "Advanced economies" exclude countries with weights in the US dollar index that are larger than 4 percent in 2020: Canada, France, Germany, Ireland, Italy, Japan, Switzerland, and the United Kingdom. For RHS, estimates are based on Carrière-Swallow and others (2021) and shows bilateral pass-through and foreign exchange depreciation against the US dollar between mid-September 2024 and the beginning of January 2025. Data labels in the figure use ISO country codes.

A Quantitative Assessment of Downside Risks

Source: IMF staff estimates.

Note: In LHS, simulations for the first three years are shown; The blue lines show the effects of tariffs under standard assumptions and red lines the effects of temporary tariffs and higher pass-through; The yellow lines show the effects when about 50 percent of global trade is invoiced in US dollars. In RHS, "Long term" is at least 50 years ahead. Both panels are based on the IMF's Global Integrated Monetary and Fiscal (GIMF) model.

Policy Priorities: Navigating Uncertainty and Enhancing Preparedness to Ease Macroeconomic Trade-offs

Policy Priorities

Managing Trade Tensions

- Deliver a stable and predictable trade environment
- Preserve international cooperation

Maintaining Price and Financial Stability

- Calibrate monetary policy amid two-sided risks
- Mitigate disruptive foreign exchange volatility
- Safeguard financial stability through prudential policy

Rebuilding Fiscal Buffers

- Devise adjustment plans to restore fiscal sustainability
- Enact targeted fiscal reforms
- Protect growth and the vulnerable
- Use timely, targeted, temporary support where essential, in a responsible way

Reinvigorating Medium-Term Growth

- Enact structural reforms
- Make progress on climate policies

The Effects of Increased Demand for Electricity from AI

Electricity Supply and Generation Mix, 2030

(TWh; change in generation mix under alternative energy policies relative to that under current policies)

Change in Electricity Prices, 2030

(Percent; change relative to that in baseline scenario)

Sources: IMF, IMF-ENV model; and IMF staff calculations.

Note: In LHS, the left axis shows the change in generation mix under alternative energy policies relative to current policies in terawatt-hours (TWh). Feed-in tariffs increase generation from solar and wind sources. The right axis shows the total increase in electricity supply relative to the baseline scenario in TWh, which is identical under both current energy policies and alternative energy policies.

Global Prospects and Policies:

WORLD ECONOMIC OUTLOOK APRIL 2025

Available for download at <u>IMF.ORG</u> on Tuesday, April 22