

### Event Update - IMF World Economic Outlook

July-2025

#### *Global real GDP growth revised upwards amid the ongoing tariff war...*

In its latest World Economic Outlook (WEO) report, the IMF forecasted global real GDP growth at 3.0% for 2025 and 3.1% for 2026, marking an upward revision of 20 bps for the 2025 projection and 10 bps for 2026. This upward revision reflects stronger-than-expected front-loading of trade flows in anticipation of higher tariffs, along with a supportive fiscal environment underpinned by a weak US Dollar. Nonetheless, global real GDP growth remains below the pre-pandemic average of 3.7%, highlighting persistent structural challenges across economies.

Additionally, the IMF projected global headline inflation to decline to 4.2% in 2025 and fall further to 3.6% in 2026. However, it emphasized that inflation dynamics remain uneven across regions, noting that inflation in the US is projected to remain above target levels relative to other advanced economies.

Despite projecting relatively higher global growth for 2025 and 2026, the IMF underscored that risks to the global outlook remain tilted to the downside. Key risks include potential tariff hikes, escalating geopolitical tensions, and rising fiscal vulnerabilities. As per the IMF, the tariffs and a failure in trade negotiations could lower growth by 20 bps in 2025. Geopolitical disruptions such as ongoing conflicts in the Middle East could further strain global supply chains and place upward pressure on commodity prices. Moreover, fiscal deficits in major economies such as the US, Brazil, and France could tighten financial conditions, potentially resulting in higher long-term interest rates and increased market volatility. On the positive side, progress in trade negotiations could reduce global economic uncertainty by encouraging investment and supporting medium-term growth prospects.

The IMF's growth forecast for the MENA region was revised upward by 60 bps for 2025 to 3.2%, largely driven by stronger growth projections for oil exporters. However, the real GDP forecast for the region in 2026 remained unchanged from the April-2025 WEO at 3.4%. Saudi Arabia's growth projection was also revised upward by 60 bps for 2025, reaching 3.6%, while the 2026 forecast was also revised up by 20 bps 3.9%. The revision mainly reflected the unwinding of production cuts from OPEC+ with the aim of fully reversing the 2.2 mb/d of cuts by the end of September-2025.

Country/Regions	Jul - 2025 Forecasts			Rev. from Apr-25	
Real GDP Growth	2024	2025e	2026e	2025e	2026e
<b>World Output</b>	3.3%	3.0%	3.1%	0.2%	0.1%
<b>Advanced Economies</b>	1.8%	1.5%	1.6%	0.1%	0.1%
United States	2.8%	1.9%	2.0%	0.1%	0.3%
Euro Area	0.9%	1.0%	1.2%	0.2%	0.0%
<b>EM and Developing Economies</b>	4.3%	4.1%	4.0%	0.4%	0.1%
China	5.0%	4.8%	4.2%	0.8%	0.2%
India	6.5%	6.4%	6.4%	0.2%	0.1%
Middle East and North Africa	1.9%	3.2%	3.4%	0.6%	0.0%
Saudi Arabia	2.0%	3.6%	3.9%	0.6%	0.2%
Sub-Saharan Africa	4.0%	4.0%	4.3%	0.2%	0.1%
<b>Trade Volume Growth</b>	<b>2024</b>	<b>2025e</b>	<b>2026e</b>	<b>2025e</b>	<b>2026e</b>
<b>World Trade Volume</b>	3.5%	2.6%	1.9%	0.9%	-0.6%
Advanced Economies	2.0%	1.8%	1.2%	0.2%	-0.8%
EM & Dev. Economies	5.8%	3.8%	3.2%	2.0%	0.0%
<b>Consumer Prices Change</b>	<b>2024</b>	<b>2025e</b>	<b>2026e</b>	<b>2025e</b>	<b>2026e</b>
Advanced Economies	2.6%	2.5%	2.1%	0.0%	-0.1%
EM and Developing Economies	7.7%	5.4%	4.5%	-0.1%	-0.1%

Sources : IMF WEO - July-2025

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This is estimated to support GDP growth in oil producers in the GCC, mainly Saudi Arabia, Kuwait and the UAE. Furthermore, the IMF expects the broader Middle East and Central Asia region to emerge from several years of subdued growth, with the growth rate accelerating from an estimated 2.4% in 2024 to 3.4% in 2025 and 3.5% in 2026. Compared to the April-2025 WEO update, these projections represent an upward revision.

### Advanced economies are projected to grow moderately.

Growth in Advanced Economies was revised upward by 10 bps for both 2025 and 2026, reaching 1.5% and 1.6%, respectively. The 2025 projections reflect marginal but encouraging upward adjustments for Canada, the EU, the United Kingdom, and the United States, while Spain's forecast remains unchanged from the April-2025 WEO update. Similarly, growth for Emerging Market and Developing Economies was revised upward by 40 bps for 2025 and 10 bps for 2026, with growth now expected at 4.1% and 4.0%, respectively.

According to the IMF, growth in the US is projected to rise to 1.9% in 2025, witnessing an upward revision of 10 bps. US Growth in 2026 is expected to reach 2.0%, reflecting a 30 bps upward revision. This revision is primarily driven by lower-than-anticipated tariff levels compared to those announced in April-2025, coupled with looser financial conditions and fiscal stimulus resulting from enacted legislation. However, the IMF also observed a cooling in US private demand, largely attributed to a slowdown in immigration.

For the Euro area, the IMF revised its 2025 growth forecast upward by 20 bps to 1.0%, while keeping the 2026 projection unchanged from April-2025 WEO at 1.2%. This upward revision for 2025 is mainly attributed to robust GDP output in Ireland during Q1-2025, despite the country accounting for less than 5% of the region's total GDP. The rise in Irish growth reflects a surge in pharmaceutical exports to the US due to front-loading and the commissioning of new production facilities. The IMF noted that without Ireland's contribution, the revision would have been limited to 10 bps instead of 20 bps. The unchanged projection for 2026 reflects the expected dissipation of front-loaded trade effects.

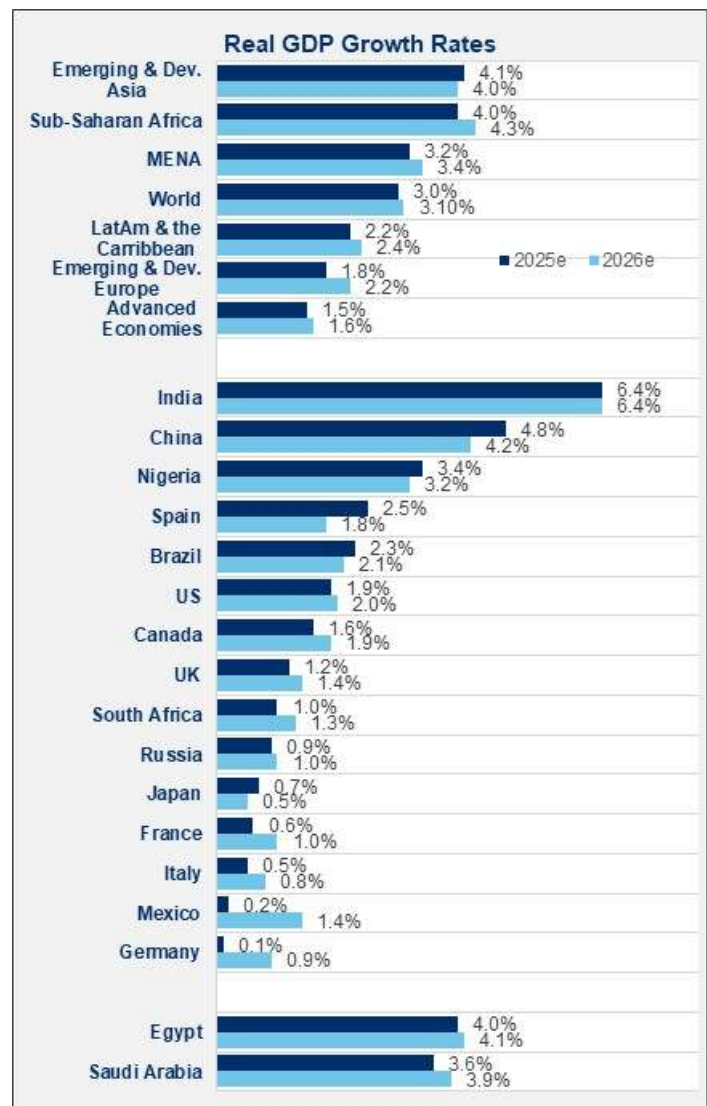
In Asia, Japan's growth was revised upward by 10 bps for 2025 to 0.7%. However, for 2026, Japan's real GDP growth was lowered by 10 bps to 0.5% compared to the April-2025 WEO. China's growth outlook improved significantly, with the 2025 forecast revised upward by 80 bps to 4.8%, and a more modest upward revision of 20 bps to 4.2% for 2026. This upgrade reflects stronger-than-anticipated activity in Q1-2025 and a substantial reduction in US-China tariffs. China's Q1-2025 GDP performance alone implies a mechanical upgrade of 60 bps for the year. Growth in inventory restocking is expected to partially offset the reversal of front-loaded demand in Q2-2025, with inventory accumulation helping to mitigate the anticipated payback in the second half of the year.

Real GDP growth in the Middle East and Central Asia is expected to rise from 2.4% in 2024 to 3.4% in 2025 and 3.5% in 2026. This reflects an upward revision of 40 bps for 2025, while the 2026 forecast remains unchanged from the April-2025 WEO. Similarly, growth in Sub-Saharan Africa is forecast at 4.0% in 2025, increasing to 4.3% in 2026. In Latin America and the Caribbean, real GDP growth is projected to decelerate to 2.2% in 2025 before rebounding to 2.4% in 2026. In contrast, growth in Emerging and Developing Europe is expected to decline, with the 2025 forecast slashed by 30 bps to 1.8%, while the 2026 forecast was revised upward by 10 bps to 2.2%.

### Inflation Expected to Fall

Global headline inflation is projected to decline to 4.2% in 2025 and further to 3.6% in 2026, supported by softening demand and falling energy prices. However, the IMF notes that this overall downward trend in inflation masks significant cross-country variations. In the US, tariffs are expected to act as a supply shock, gradually passing through to consumer prices and exerting upward pressure on inflation during the second half of 2025. In contrast, in non-US jurisdictions, tariffs are anticipated to function more as a negative demand shock, thereby easing inflationary pressures.

The IMF forecasts that US inflation will remain above the 2% target in 2026, whereas in the Euro area, inflationary pressures are expected to be more subdued.



Source : IMF WEO - July-2025



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In China, headline inflation is projected to remain unchanged from the April-2025 WEO update, largely due to lower-than-expected domestic energy prices. However, the IMF revised up China's core inflation forecast to 0.5% in 2025 and 0.8% in 2026, mainly due to tariff reductions.

### Global Trade Volumes

The IMF reported that global trade activity expanded strongly in Q1-2025 but is expected to contract in Q2-2025 as earlier front-loading of trade flows begins to unwind. World trade volume was revised upward by 90 bps for 2025, but downward by 60 bps for 2026. The short-term boost seen earlier in 2025 driven by elevated trade policy uncertainty and the anticipation of tighter trade restrictions is projected to fade in the second half of the year, with a corresponding deceleration expected in 2026.

Additionally, a weaker US Dollar is amplifying the tariff shock rather than mitigating it, resulting in a positive effect on the US current account balance. However, this benefit is more than offset by the ongoing expansionary fiscal stance. Over the medium term, fiscal stimulus in economies with current account surpluses is expected to contribute to a reduction in global imbalances.

The IMF also warned that rising geopolitical tensions particularly in the Middle East or Ukraine, that could introduce new negative supply shocks that would further disrupt global trade and economic activity. Potential damage to key infrastructure could impact shipping routes and supply chains, pushing up commodity prices. These shocks would likely dampen growth and intensify inflationary pressures, forcing central banks to navigate even more challenging trade-offs at a time when trade-related uncertainty is already high.

On a more optimistic note, the IMF emphasized that a new wave of credible trade arrangements could help generate broader reform momentum, potentially boosting medium-term growth. Reliable trade agreements could catalyze progress in labor market policies aimed at upskilling, reduce mobility barriers, simplify business regulations, and promote enhanced competition and innovation.

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