KAMCO INVEST

Investment Strategy & Research

Event Update - IMF World Economic Outlook

October-2025

Global growth stays muted despite higher 1H-2025 estimates

In its latest World Economic Outlook (WEO) report, the IMF forecasted global real GDP growth at 3.2% for 2025 and 3.1% for 2026, marking an upward revision of 20 bps for the 2025 projection. The forecast for 2026 was kept unchanged vs. the expectation in July-2025. According to the IMF, global growth projections have been revised upward relative to the April-2025 WEO, however, they remain below the pre-tariff forecasts. Inflation, which is expected to be a key component of interest rates and future economic growth, is expected to continue its decline globally, albeit with significant variation.

In economies that are affected by tariffs, various mitigating factors are expected to support growth. China is offsetting the impact of higher tariffs through a weaker real exchange rate, redirecting exports to Asia and Europe, and implementing targeted fiscal support. In Europe, Germany's fiscal expansion is bolstering growth across the Euro Area. On the other hand, Emerging Market and Developing Economies benefit from easier global financial conditions, partly due to USD depreciation, and continue to show strong resilience, supported in part by strengthened policy frameworks. The IMF expects a slowdown in the 2H-2025 after countries front-loaded trades during 1H-2025 to avoid tariffs, while partial recovery is expected in 2026.

In terms of downside risks, the IMF highlighted the surge in AI investments which mirrors the late 1990s dot-com boom, boosting tech investment, stock valuations, and consumption, potentially raising the neutral real interest rate and requiring tighter monetary policy. However, if in case the new technology fails to meet the expectations, markets could reprice sharply, reducing wealth and consumption and creating broader financial spillovers. Separately, the IMF also emphasizes China's outlook which remains fragile, with a struggling property sector, weak credit demand, and rising financial risks that could push the economy toward a debt-deflation trap. While manufacturing exports and investments in sectors like EVs and solar panels support targeted growth, they may also cause resource misallocation and limited overall productivity gains.

Country/Regions	Oct-2025 Updated Forecasts			Rev. from July-2025	
Real GDP Growth	**2024**	**2025e**	**2026e**	**2025e**	**2026e**
World Output	3.3%	3.2%	3.1%	0.2%	0.0%
Advanced Economies	1.8%	1.6%	1.6%	0.1%	0.0%
United States	2.8%	2.0%	2.1%	0.1%	0.1%
Euro Area	0.9%	1.2%	1.1%	0.2%	-0.1%
EM and Developing Economies	4.3%	4.2%	4.0%	0.1%	0.0%
China	5.0%	4.8%	4.2%	0.0%	0.0%
India	6.5%	6.6%	6.2%	0.2%	-0.2%
MENA	2.1%	3.3%	3.7%	0.1%	0.3%
Saudi Arabia	2.0%	4.0%	4.0%	0.4%	0.1%
Sub-Saharan Africa	4.1%	4.1%	4.4%	0.1%	0.1%
Trade Volume	**2024**	**2025e**	**2026e**	**2025e**	**2026e**
World Trade Volume	3.5%	3.6%	2.3%	1.0%	0.4%
Imports - Advanced Economies	2.1%	3.1%	1.3%	0.7%	0.3%
Imports - EM and Developing Economies	5.6%	4.3%	4.0%	1.6%	0.0%
Exports - Advanced Economies	1.8%	2.1%	1.7%	0.9%	0.4%
Exports - EM and Developing Economies	6.5%	5.9%	3.3%	1.0%	1.0%
Consumer Prices	**2024**	**2025e**	**2026e**	**2025e**	**2026e**
Advanced Economies	2.6%	2.5%	2.2%	0.0%	0.1%
EM and Developing Economies	7.9%	5.3%	4.7%	-0.1%	0.2%

Source : IMF WEO Oct-2025

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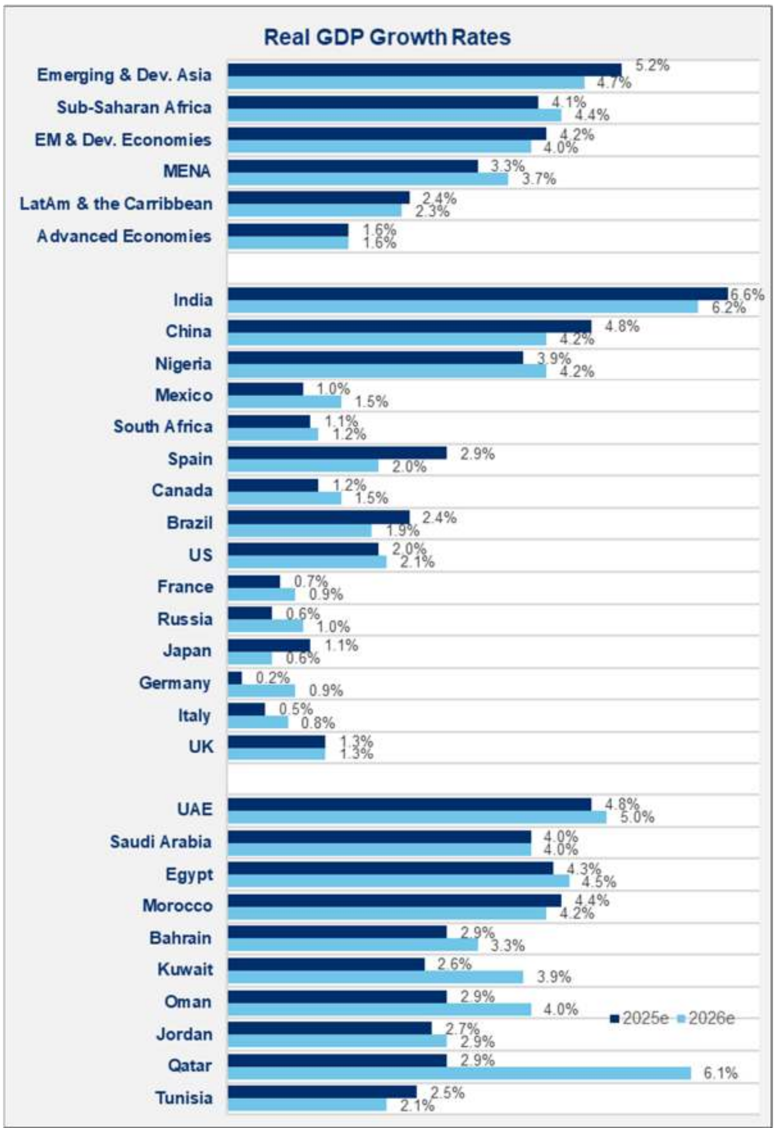
Advanced economies

Real GDP growth for Advanced Economies was raised by 10 bps for 2025 as compared to July-2025 forecasts to 1.6% and the same levels are expected to continue in 2026. Similarly, growth for Emerging Market and Developing Economies revised upward by 10 bps to 4.2% for 2025 and kept unchanged for 2026 at 4.0%. Growth in United Stated was revised upward by 10 bps for both 2025 and 2026, reaching 2.0% and 2.1%, respectively. The upward revision is attributed to lower effective tariff rates, a fiscal boost from the passage of the One Big Beautiful Bill Act (OBBBA), and easing financial conditions. However, the projection for 2025 represents a significant slowdown compared to 2024. This downward revision primarily reflects increased policy uncertainty, higher trade barriers, and slower growth in both the labor force and employment, especially during 2H-2025. In contrast, growth in the Euro Area was revised up by 20 bps to 1.2% in 2025 followed by a downward revision of 10 bps to 1.1% for 2026. The anticipated downgrade for 2026 in Euro Area reflects elevated uncertainty on multiple fronts and higher tariffs. Growth expectations for Germany were revised up by 10 bps to 0.2% in 2025 and remained unchanged at 0.9% for 2026. A recovery in private consumption, driven by rising real wages and fiscal easing in Germany in 2026 mitigates the slowdown only partially, whereas Ireland's strong performance provides a notable boost to growth in 2025.



Sources : IMF WEO Oct-2025

According to the IMF, growth in Japan is projected to rise to 1.1% in 2025, witnessing an upward revision of 40 bps. Japan's Growth in 2026 is expected to reach 0.6%, reflecting 10 bps upward revision. This revision is primarily driven by an anticipated increase in real wage growth, which is expected to support private consumption despite headwinds from elevated trade policy uncertainty and softening external demand.

Growth in the UK was revised upward by 10 bps for 2025 to 1.3%. However, for 2026, UK's real GDP growth was lowered by 10 bps to 1.3% compared to the July-2025 WEO. The upward revision for 2025 is primarily attributed to stronger activity in 1H-2025 and an improved external environment, supported in part by the UK-US trade deal announced in May-2025. Nonetheless, projected growth for 2025-26 remains cumulatively 0.4% lower than the forecast published in October-2024.

Meanwhile for China, the IMF maintained its 2025 and 2026 growth projections at 4.8% and 4.2%, respectively, unchanged from the July-2025 WEO. The anticipated outlook is buoyed by a stronger-than-expected performance in recent quarters, reflecting front-loading in international trade and relatively robust domestic consumption supported by fiscal expansion in 2025. These factors more than offset headwinds stemming from heightened uncertainty and higher tariffs. On the other hand, the projection for India's GDP growth is projected at 6.6% in 2025 and 6.2% in 2026. Compared with the July WEO Update, this represents an upward revision of 20 bps for 2025, mainly due to a strong 1H-2025 that is expected to offset the increase in the US effective tariff rate on imports from India since July-2025. However, growth in 2026 underwent a downward revision of 20 bps reflecting the likely impact of tariffs on exports from India, although trade negotiations continue between the two countries as well as India continues to form bilateral agreements with its other trading partners. Compared to the pre-tariff forecast published in October 2024, cumulative growth is projected to be 0.2% lower for India during 2026.

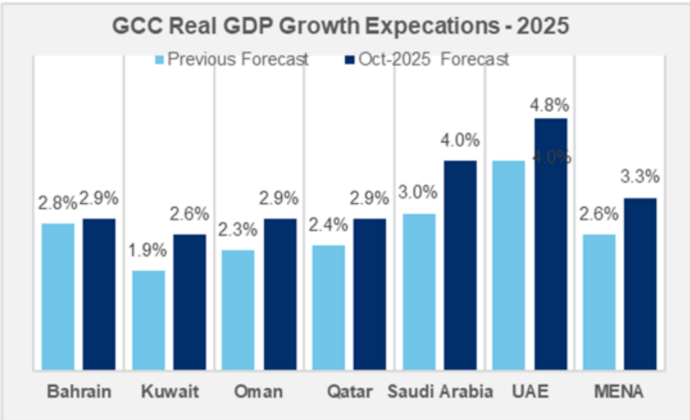
The Growing Resilience of Emerging Markets

Emerging markets have historically been vulnerable to global financial shocks, often experiencing substantial economic and financial instability during periods of heightened risk aversion commonly known as risk-off episodes. These shifts in global investor sentiment have typically triggered capital outflows, leading to currency depreciations and tighter financial conditions as a result of currency mismatches and higher borrowing costs. In many cases, risk-off shocks have acted like supply shocks, causing output losses and inflationary pressures that complicate policy trade-offs.

Recent trends, however, indicate a change from this historical pattern. Many emerging markets have shown remarkable resilience to external shocks, maintaining both financial and economic stability. This improved performance reflects stronger policy frameworks, increased reserve buffers, better communication strategies, and greater credibility of monetary and fiscal institutions.

MENA & GCC GDP Growth

Real GDP growth in the MENA region is projected to rise from 2.1% in 2024 to 3.3 % in 2025 and 3.7 % in 2026, reflecting upward revisions of 10 bps for 2025 and 30 bps for 2026. Saudi Arabia's real GDP is forecasted at 4.0 % in 2025, with the same rate expected in 2026. Compared with the July 2025 WEO, these projections were revised upward by 40 bps for 2025 and 10 bps for 2026, primarily due to a faster-than-expected unwinding of oil production cuts. The OPEC+ countries have so far announced cumulative hikes of 2.7 mb/d until November-2025. Production in Saudi Arabia increased by 1 mb/d until September-2025 since the unwinding of the production cuts.



Source : IMF WEO Oct-2025

Most GCC countries also saw upward revisions to their 2025 and 2026 growth forecasts. Kuwait's GDP growth was revised up by 70 bps to 2.6 % in 2025, with the economy expected to expand by 3.9 % in 2026. Oman's growth was upgraded by 60 bps to 2.9 % in 2025, and by 40 bps to 4.0 % in 2026. Bahrain's growth rates were revised upward by 10 and 30 bps, reaching 2.9 % in 2025 and 3.3 % in 2026, respectively. Qatar is now projected to grow by 2.9 % in 2025 (+50 bps) and 6.1 % in 2026 (+50 bps). The UAE's GDP is expected to expand by 4.8 % in 2025, an upward revision of 80 bps, while the 2026 projection remains unchanged at 5.0 %.

Global trade trends

Global trade activity was robust in the 1H- 2025, driven by strong growth in US imports and exports from Asia and the Euro Area, reflecting front-loading in anticipation of higher tariffs in the United States. Goods exports to the United States from major European economies particularly Germany, Spain, and the United Kingdom declined notably. Nonetheless, total Euro Area exports remained resilient, supported by larger intra-European trade flows. In China, the reduction in exports to the United States was partly offset by higher exports to the euro area and ASEAN countries, aided in part by the depreciation of the renminbi against most currencies, excluding the US dollar. Moreover, bilateral trade decoupling between the United States and China appears to be occurring sooner than during the 2018–2019 tariff shock, signaling a more accelerated realignment of trade patterns.

Following the announcement of the tariffs, governments across the globe are seen redrawing trade alliances as companies seek to avoid US tariffs as the bulk of the global trade or about 85% occurs outside of the US. There are announcements of new trade partnerships, like the one announced by a group of fourteen countries that include the UAE, Singapore, New Zealand and Switzerland to boost trade and investment. More frequent data also indicate a subtle shift. For instance, as per for 2025 and by 30 bps to 1.3 % for 2026 in the IMF report. In Emerging Market and Developing Economies, import growth was revised up by 160 bps to 4.3 % for 2025, while remaining unchanged at 4.0 % for 2026. Exports from Advanced Economies are expected to expand by 2.1 % in 2025, an upward revision of 90 bps, and by 1.7 % in 2026, revised up by 40 bps. For Emerging Market and Developing Economies, exports are projected to grow by 5.9 % in 2025 (+100 bps) and by 3.3 % in 2026.

Inflation is projected to decline

Global headline inflation is projected to fall to 4.2% in 2025 and 3.7% in 2026, broadly in line with previous forecasts but with some variation across countries and regions. Inflation forecasts have been revised upward in few economies compared to October 2024 WEO, which serves as the pre-policy-shift benchmark. Among Advanced Economies, headline inflation in the United Kingdom, which began rising in 2024, is expected to continue increasing in 2025, partly due to changes in regulated prices. This rise is projected to be temporary, with a loosening labor market and moderating wage growth helping inflation return to target by the end of 2026. In the United States, inflation is expected to edge up in the 2H-2025, as tariff effects pass through to consumers rather than being absorbed by supply chains. It is then projected to ease gradually, reaching the Federal Reserve’s 2% target by 2027.

In Emerging market and Developing economies, inflation projections for Brazil and Mexico have been adjusted upward. In Emerging and Developing Asia, inflation forecasts have been revised downward compared to the projections in October-2024, largely reflecting lower-than-expected outturns driven by food, energy, and administrative prices, as seen in China, India, and Thailand. According to the IMF , the assumed inflation rates for 2025 and 2026 are 2.1 % and 1.9 % for the Euro Area, 3.3 % and 2.1% for Japan, and 2.7% and 2.4% for the United States, respectively.

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