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The global economic outlook

1. **Despite high policy uncertainty, the global economy remained resilient in the first half of this year, with annualised GDP growth of 3.2%.** Trade activity accelerated in advance and in anticipation of expected tariff increases. Strong investment in AI and other digital technologies boosted activity in the United States. Economic growth was high in several emerging market economies. Agriculture production surged in Brazil, fiscal support outweighed headwinds from trade and property market weakness in China, growth of the GDP deflator fell markedly in India, and investment rebounded in Indonesia.
2. **Frontloading of trade ahead of expected tariff increases was significant.** Global merchandise trade volumes were 4.1% higher in March 2025 than in October 2024, driven by the United States where merchandise trade volumes were 16.5% higher in March 2025 than in October 2024. Trade volumes have fallen since March 2025, and trade between China and the United States has declined particularly notably. Growth in indicators of global air freight and passenger traffic has recently slowed.
3. **Additional increases in bilateral tariff rates have raised the estimated average tariff rate on merchandise imports to the United States to 19.5% as of the end of August.** This is higher than at any time between the 1930s and 2024, based on the OECD's analysis. Monthly tariff rates calculated from US revenue and trade statistics (reported customs duties divided by merchandise import values) have risen sharply this year, but they are still significantly below estimated average tariff rates, portending an increase in tariff collection in the coming months.
4. **The impacts of higher tariff rates are yet to be fully felt.** This reflects a combination of factors, with US firms making use of inventories and profit margins to reduce the initial impact of higher tariffs, lags between the announcement and imposition of higher tariff rates, and the exemption of goods already in transit from higher tariff rates. There are some signs that tariffs have begun to be passed through to consumer prices, notably durable goods with a high import content. Import price data suggest that foreign companies have generally not offset higher US tariffs by reducing the prices of exports to the United States, with lower prices of passenger car exports from Japan being an exception. There are some signs of reduced purchases of goods subject to higher tariff increases.
5. **Several high-frequency activity indicators point to slowing momentum.** Industrial production has fallen in recent months in Brazil, Germany and Korea, and retail sales growth has declined in China, the euro area and the United States. Signs of softening are also appearing in labour markets, with rising unemployment rates and falling job openings as a share of the unemployed in some economies, including the United States. Consumer confidence is subdued by historical standards and below the level observed in late 2024, especially in major advanced economies, possibly reflecting elevated policy uncertainty and rising food price pressures.
6. **Financial conditions have become more supportive.** Indicators of financial market volatility have eased, stock prices have risen significantly, and corporate bond spreads have narrowed, though high asset valuations also heighten financial market vulnerabilities to negative shocks. Some signs of elevated uncertainty persist regarding future fiscal risks in advanced economies. These include the historically high estimated real term premium underpinning 10-year US sovereign yields, the widening French sovereign bond spread relative to Germany, and a substantial steepening of the long-end of the sovereign yield curve in many countries. The price of gold – traditionally a hedge against perceived risks – has risen by more than 40% this year.

7. **Inflation has ceased to decline in many OECD countries, with goods price inflation rising again and services price inflation remaining persistent.** Higher global food prices have contributed to rising goods price inflation, with dairy and vegetable oil prices having increased steeply since early 2024. Price pressures have remained elevated in services sector components such as health, recreation and restaurants, while housing cost pressures have weakened. Nominal wage growth has generally continued to moderate as labour markets have eased, but it remains high by historical standards in many advanced economies.

8. **According to the September 2025 OECD Interim Economic Outlook, global GDP growth is expected to slow from 3.3% in 2024 to 3.2% in 2025 and 2.9% in 2026.** Growth is expected to soften in the second half of this year, as frontloading of trade activities unwinds and higher tariff rates on imports to the United States and China dampen investment and trade growth. High geopolitical and policy uncertainty will also continue to weigh on domestic demand.

9. **Growth is projected to be weaker in 2026 than in 2025 for most G20 advanced economies.** In the United States, growth is expected to weaken to 1.8% in 2025 and 1.5% in 2026 as the impact of higher tariffs, elevated policy uncertainty and a decline in net immigration are only partly offset by strong momentum of business investment in high technology sectors, fiscal support and assumed further monetary policy easing. Increased trade frictions and policy uncertainty are expected to weigh on growth in Canada, with growth projected at 1.1% in 2025 and 1.2% in 2026. Euro area growth is expected to be 1.2% in 2025 and 1.0% in 2026, with stronger defence and public infrastructure expenditures boosting output growth in Germany, but fiscal consolidation weighing on growth in France and Italy. A tighter fiscal stance is also expected to constrain domestic demand in the United Kingdom, with growth projected to be 1.4% in 2025 and 1.0% in 2026. In Japan, robust corporate profits and strong investment should boost activity this year, with growth projected to be 1.1% in 2025 before slowing to 0.5% in 2026.

10. **Growth in G20 emerging market economies is also projected to ease.** In China, the end of export frontloading, the imposition of higher tariff rates on imports and the fading of fiscal support are expected to lower growth, beginning in the second half of this year. Chinese real GDP growth is projected to be 4.9% in 2025 and 4.4% in 2026. In India, overall activity is anticipated to be supported by monetary and fiscal policy easing, with growth projected to be 6.7% in 2025 and 6.2% in 2026. Monetary policy easing and strong public investment are expected to support the Indonesian economy, with growth of 4.9% projected for both 2025 and 2026. In Brazil, growth is expected to be 2.3% in 2025 and 1.7% in 2026, South Africa is projected to grow by 1.1% in 2025 and 1.3% in 2026, and Türkiye is projected to grow by 3.2% in both 2025 and 2026.

11. **Inflation is expected to decline as economic growth and labour markets ease.** We project headline inflation across the G20 to decline from 6.2% last year to 3.4% this year and 2.9% next year. One exception is the United States, where we expect tariffs to push inflation up – from 2.5% in 2024, to 2.7% in 2025, and 3.0% in 2026. In the euro area, inflation is anticipated to remain subdued, while in Japan the normalisation of food prices will contribute to inflation moving back to the central bank target in 2026. Inflation is projected to decrease more noticeably in G20 emerging market economies, with further declines of inflation in Argentina and Türkiye, and also in Brazil and Mexico. An uptick in inflation is projected for Indonesia, as well as for China from its current very low level.

12. **There are significant risks to the economic outlook.** Additional increases in trade barriers, or prolonged policy uncertainty, could lower growth, by raising production costs and weighing on investment and consumption. Inflation pressures could resurface: persistent food price inflation or further increases in geopolitical tensions in oil-producing regions that raise risks to energy supply and energy prices could push inflation expectations up. Concern about governments' fiscal vulnerabilities could intensify in financial markets given large and persistent fiscal deficits and high public debt, raising interest costs and refinancing risks, particularly for lower-income countries. Associated increases in sovereign bond yields, weaker-than-expected output growth or upside inflation surprises could lead to risk repricing in financial markets and a

resurgence in volatility. High asset valuations, especially for technology stocks and crypto-assets, such as bitcoin, increase financial stability risks. On the upside, agreements that lower bilateral tariff barriers from current levels and reduce policy uncertainty would support stronger growth and lower inflation relative to the baseline projections.

Policy requirements

13. **To strengthen economic growth prospects, a key priority is to ensure a lasting resolution to trade tensions.** All other things being equal, well-functioning open global markets mean stronger growth, higher incomes, lower costs, and better living standards. Countries should continue to draw on these important benefits, while tackling concerns around unfair trade practices, an unlevel playing field, supply chain resilience, and more generally economic security. Productive engagement among governments is needed to make international trading arrangements fairer and function better, in a way that preserves the economic benefits of open markets and rules-based global trade.

14. **Central banks should remain vigilant and respond promptly to shifts in economic or financial developments that may pose risks to price stability.** Policy rate reductions should continue in economies where inflation is expected to moderate towards the central bank's target, provided inflation expectations remain well-anchored. Maintaining central bank independence will preserve policy credibility and reduce the volatility and persistence of inflation.

15. **Active supervision and monitoring are needed to address financial stability risks.** High valuations in financial markets, including the rapid growth in crypto-asset market capitalisation, and the growing interconnections between banks and non-bank financial institutions require enhanced vigilance to safeguard financial stability. Effective monitoring, supervision and robust regulatory policies that are well-coordinated across jurisdictions are needed. Enhancing reporting requirements and filling data gaps would also improve risk monitoring and mitigate financial vulnerabilities, including for crypto-assets.

16. **Fiscal discipline is necessary to safeguard longer-term debt sustainability, to make fiscal space to deal with structural spending pressures, and to maintain capacity to respond to shocks.** Rising spending pressures, including from population ageing and defence requirements, are coming at a time when public debt across the OECD already stands at 112% of GDP, up from 73% of GDP in 2007. Many countries have persistent budget deficits, and debt service costs are rising as low-yielding debt matures and needs to be re-issued at higher rates. Spending challenges in emerging market economies also stem from the need to enhance physical and digital infrastructure and strengthen social safety nets. Measures to generate savings and better target spending should prioritise sustainable growth and equality of opportunity, while their pace and composition should be tailored to individual countries' situation and needs. Systematic and regular spending reviews, strengthened public procurement practices, greater use of digital technologies, and better targeting of social benefits would boost spending efficiency, and free up spending for areas that better support opportunities and growth.

17. **Ambitious structural reforms are important to boost prospects for growth over the medium to long term.** Current potential GDP per capita growth in the OECD is estimated at 1.3%, down from 2.4% in the 1990s. Policy reforms that boost competition in product markets, mitigate labour and skills shortages, and increase business investment, including in AI and other digital technologies and in research and development, would unlock stronger growth and economic dynamism. Digital investment must accelerate, particularly in Europe and Japan. From 2014 to 2023, real business investment in software and data grew by 159% in the United States, compared to just 55% in Europe, and 8% in Japan. We estimate that, even in a scenario of slow adoption, AI will contribute between 0.2 and 0.4 percentage points to annual labour productivity growth in G7 countries over the next decade. Policies that enable faster adoption of AI and of digital tools that are complementary with AI, for example relevant software, would boost these gains by an additional 0.7 to 0.9 percentage points.