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Statement by Mr. Cormann
OECD

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The global economic outlook

1. **The global economy remained resilient in 2024, with growth reaching 3.2%.** Strong real income gains, lower interest rates and robust global trade growth were key supporting factors. In the second half of 2024, growth was boosted by strong consumer spending in the United States, and gradual upturns in many other advanced economies, including Australia, Canada, the euro area and Japan. Among emerging market economies, fiscal and monetary policy support and rapid export growth supported output growth in China, and strong domestic demand sustained continued GDP growth in Brazil, India and Indonesia.

2. **The economic outlook has now become more challenging, with declines in business and consumer confidence, rising economic policy uncertainty, and substantial increases in barriers to trade.** As of 10 April 2025, the United States has raised the tariff rate on most merchandise imports from China to 145% (from around 20% at the start of 2025), with China raising its tariff rate on merchandise imports from the United States to over 100%. The United States has also imposed a default tariff increase of 10 percentage points on all countries, with the possibility that many countries could face substantially higher tariffs in three months' time. In addition, higher tariffs have been announced on US imports from Canada and Mexico not compliant with the United States-Mexico-Canada Agreement, with Canada taking targeted retaliatory action in response. A tariff of 25% on imports of steel and aluminium products, automobiles and automobile parts has also been introduced. Taking these measures together, the average effective tariff rate in the United States will be over 20% – the highest level in more than a century.

3. **The recently announced trade policy measures will, if sustained, negatively impact the economic outlook.** Higher bilateral tariff rates will raise revenues for the governments imposing them, but will be a drag on global activity, trade, incomes and other tax revenues. They also raise the price of both imported final goods for consumers and intermediate inputs for businesses. The impact will be amplified where inputs cross borders several times and duties are incurred at each stage, such as in integrated North American manufacturing value chains. Trade policy uncertainty was at a record high in early April, and measures of economic policy uncertainty based on print media have increased significantly, especially in Canada and Mexico. Greater policy uncertainty can be expected to hold back spending decisions by companies and households, particularly on longer-term items, such as fixed capital investment and durable goods.

4. **The March 2025 OECD Interim Economic Outlook, published before the significant further increases in US tariffs announced in early April, already projected global growth to slow from 3.2% in 2024 to 3.1% in 2025 and 3.0% in 2026.** In quarterly terms, the projections had growth softening from the first quarter of 2025 and remaining subdued thereafter. Higher bilateral tariff rates and the associated increase in policy and geopolitical uncertainty were expected to act as a drag, particularly on business investment and trade. The projections assumed that the announced tariff increases as of mid-March 2025 between China and the United States and the 25% tariff on US imports of steel and aluminium would be maintained. In addition, tariff rates on all merchandise imports from Canada

and Mexico to the United States were assumed to rise by an additional 25 percentage points (except for the lower tariffs on potash and energy products). The projections also made the assumption of equivalent retaliatory tariffs by Canada and Mexico on merchandise imports from the United States.

5. **The OECD Interim Economic Outlook projected weakening growth for the United States, Canada and Mexico, reflecting assumed tariff rates.** Real GDP growth in the United States was projected to slow from its relatively fast pace of 2.8% in 2024 to 2.2% in 2025 and 1.6% in 2026, with growth in Canada projected to slow from 1.5% in 2024 to 0.7% in both 2025 and 2026. Mexico's economy was projected to experience a recession, with output declining by 1.3% in 2025 and 0.6% in 2026. In a lighter tariff scenario, with tariffs only being imposed on a subset of imports in the United States, Canada and Mexico, GDP growth was projected at 1.3% in Canada in both 2025 and 2026, and 0.1% in 2025 and 0.8% in 2026 in Mexico. Growth in the United States under this assumption would be slightly stronger in 2026 at 1.7%.

6. **Other advanced economies were expected to experience fewer direct economic effects from the tariff measures incorporated in the baseline projections but heightened geopolitical and policy uncertainty would still restrain growth below the rates we projected in December.** Euro area growth was projected to edge up from 0.7% in 2024 to 1.0% in 2025 and 1.2% in 2026, with growth in the United Kingdom projected to be 1.4% in 2025 and 1.2% in 2026. In Japan, robust corporate profits and strong wage growth were expected to be a tailwind for economic activity this year, with growth projected at 1.1% in 2025 and 0.2% in 2026.

7. **G20 emerging market economies were projected to continue to be a key driver of global growth.** The Chinese economy was expected to grow by 4.8% in 2025, with the negative impact of announced tariff increases offset by stronger policy support, before slowing to 4.4% in 2026. Solid domestic demand was projected to help sustain growth in India and Indonesia. In India, GDP growth was projected to be 6.4% in the fiscal year 2024-25 and 6.6% in the fiscal year 2025-26, while Indonesia was projected to grow by 4.9% in 2025 and 5.0% in 2026. The expansion in Brazil was expected to slow from its recent rapid pace due to the impact of monetary policy tightening and higher assumed tariff rates on steel and aluminium exports to the United States, with growth slowing from 3.4% in 2024 to 2.1% in 2025 and 1.4% in 2026.

8. **Inflation was expected to decline more slowly than previously anticipated, with headline inflation in the G20 economies projected to be 0.3 percentage points higher this year and next year than in the December 2024 OECD Economic Outlook.** Headline inflation in the G20 economies was projected to decline from 5.3% in 2024 to 3.8% in 2025 and 3.2% in 2026, with inflation in 2026 above central bank targets in many countries, including the United States. Core inflation in the G20 advanced economies was projected at 2.7% in 2024, 2.6% in 2025 and 2.4% in 2026. While inflation in the G20 emerging market economies was projected to decline more sharply than in the G20 advanced economies, this largely reflects significant projected falls in inflation in Argentina and Türkiye from the very high rates in 2024. Headline inflation in several other emerging market economies, including China, Indonesia and South Africa, was projected to rise.

9. **There are significant downside risks to the economic outlook that we set out in March as a result of further trade barriers and fragmentation.** The announced increases in bilateral tariffs between the United States and its trading partners in early April are likely to result in weaker projected global growth and higher inflation. As shown in our March Interim Economic Outlook, an additional rise of 10 percentage points in US tariffs on non-commodity imports from all trading partners with corresponding increases of tariffs applied to non-commodity imports from the United States in all other countries would reduce global output by 0.3% after three years, and raise global inflation by 0.4 percentage points per year on average over the first three years. In this scenario, output in the United States would decline by 0.7% by the third year of the shock (relative to the baseline) and inflation rise by an average of 0.7 percentage points per year. The impact of these shocks would be

magnified, in case of further widespread repricing of risks in financial markets, as was seen in early April with sharp falls in equity prices and rising debt yields in many countries, or if confidence continues to decline. In the United States, the University of Michigan indicator of consumer sentiment declined by 23% between December 2024 and March 2025.

10. **Inflationary pressures persist, and there is a significant risk that higher import prices from tariff increases could push up prices further.** Even before recent trade policy announcements, headline inflation was turning up again in an increasing share of countries. Services price inflation has stayed elevated, with a median rate of 3.8% in February 2025 across OECD economies, and goods inflation has recently risen in several economies, albeit from very low levels. Household inflation expectations have also moved higher in recent months, including in Canada, the United Kingdom and the United States, and financial market expectations of inflation over the next one to two years have begun to rise.

Policy requirements

11. **Central banks should remain vigilant given heightened uncertainty and the potential for higher trade costs to push up wage and price pressures.** A one-off rise in the relative price of tradeable goods due to tariffs should be accommodated, but a sequence of such changes would require a monetary policy response. Signs that inflation expectations are rising further amid still tight labour markets would likely require higher policy rates than would otherwise be the case, however parallel declines in output growth could place downward pressure on inflation. These factors, and the potential for currency turbulence as policy rates diverge across countries, likely mean that policy decisions will need to remain finely balanced for some time to come.

12. **Fiscal discipline is needed to ensure debt sustainability, maintain the ability of countries to react to future shocks and accommodate current and future spending pressures.** Plans to boost defence spending in Europe, particularly Germany, add to impending spending pressures from population ageing and climate change mitigation and adaptation. Stronger medium-term efforts are required to control growth in expenditures, reallocate spending to areas that better support opportunities and growth, and optimise revenues. Fiscal adjustments need to be designed carefully to ensure targeted support towards those in need. If growth is robust enough to withstand additional fiscal headwinds, consolidation efforts should be stepped up as the monetary policy stance becomes less restrictive. To cushion the near-term impact of higher trade costs, targeted policy measures can help support the incomes of affected companies and lower-income persons, though structural solutions are required where the impact from shocks to external competitiveness is likely to be prolonged.

13. **Solutions that avoid the application of high tariffs would help maintain growth and the progress made in tackling inflation.** Bilateral and multilateral dialogue needs to focus on finding ways to make international trade fairer, improve the global level playing field, tackle unfair trade practices, improve supply chain resilience and strengthen economic security, while keeping markets open and avoiding the need to resort to punitive tariffs. In an illustrative scenario in which all countries act to lower their average effective tariff rates by 1½ percentage points (relative to those assumed in the March 2025 Interim Economic Outlook projections), global output would be raised by close to 0.3% by the third year and global inflation would be reduced by close to ¼ percentage point on average in the first three years. Harmonising regulations and standards and improving trade facilitation would reduce trade costs, strengthen resilience of supply chains and diversify the range of suppliers and buyers.

14. **Countries should revive the pace of pro-competition reforms to reinvigorate productivity growth and boost living standards.** These include regulatory reforms that eliminate excessive administrative burdens and regulatory restrictions on firm entry. We estimate that reducing regulations and entry barriers in services, energy, transport and e-communications sectors to the levels in the five top-

performing OECD countries would increase GDP per capita by 0.8% over five years in the G20 advanced economies, and 1.8% in the G20 emerging market economies. In parallel, countries should adapt policies to support the use of AI, while also addressing related risks. We estimate that the successful adoption and diffusion of AI can boost labour productivity by 0.4% to 0.9% per year over the next 10 years, rising to 1.5% if we optimise synergies between AI and robotics. Effective training programmes promoting AI-relevant skills, robust digital infrastructure, affordable and reliable energy supply, and clear regulations regarding data usage and safety will all be important to maximise the productivity gains of AI.