DEVELOPMENT COMMITTEE: THE MANAGING DIRECTOR'S WRITTEN STATEMENT

April 2025

The world economy is at a pivotal juncture. At the center are shifting policy priorities by major economies and escalating trade tensions, in the face of high public debt, weak medium-term growth prospects, and transformative forces reshaping the economic landscape. In this context, the economic outlook is highly uncertain, with intensifying downside risks. Based on information available as of April 4, 2025, global growth is projected to fall significantly while headline inflation is expected to further decline, though at a slightly slower pace than expected earlier. Many low-income developing countries (LIDCs) face the added challenge of collapsing aid flows. While growth in LIDCs is expected to further improve in the aggregate, the rate of per capita growth is projected to decline in 2025-26. Moreover, of the 20 fastest growing countries in the world in 2024, around half were LIDCs—yet many of the poorer LIDCs have seen virtually no progress in per capita incomes over the past 15 years. In the current environment of elevated uncertainty and frequent shocks, policies should be geared towards enhancing economic and financial stability, rebuilding buffers, and improving growth potential. Countries should also renew their focus on addressing internal and external macroeconomic imbalances, which can help enhance stability internally, externally, and globally. Multilateral cooperation remains essential to deliver sustained growth and meet global challenges.

ECONOMIC OUTLOOK AND RISKS

The world economy is projected to slow down …

Global growth is projected to drop from 3.3 percent in 2024 to 2.8 percent in 2025, before recovering to 3.0 percent in 2026. This is lower than the forecast in the January 2025 WEO Update, by 0.5 percentage points for 2025 and 0.3 percentage points for 2026, with downward revisions for nearly all countries.

… driven by escalating trade tensions in the face of other challenges.

The downgrades reflect in large part the direct effects of the new trade measures and their indirect effects through trade linkage spillovers, heightened uncertainty and deteriorating sentiment. At the same time, many countries are facing high debt levels and elevated interest rates, with limited policy space to respond to new shocks. Medium-term prospects for the world economy remain lackluster, with five-year-ahead forecasts at 3.2 percent, well below the historical average of 3.7 percent during 2000-19. This moderation of medium-term growth is more visible in emerging and developing economies (EMDEs) than in advanced economies (AEs), implying a slowdown in the projected pace of income convergence. Transformative forces—digitalization/artificial intelligence, demographic shifts, and climate transitions—are reshaping the economic landscape, creating opportunities and challenges.

Growth in AEs is expected to fall significantly.

Growth in AEs is projected to drop from 1.8 percent in 2024 to 1.4 percent in 2025 and 1.5 percent in 2026. The forecasts for 2025 include significant downward revisions for Canada, Japan, the United Kingdom, and the United States—with greater policy uncertainty and trade tensions often the common driver, while weaker consumption and tighter financial conditions are also playing a role in some countries.

Growth in EMDEs is also projected to fall, albeit with some regional variations.

In EMDEs, growth is projected to drop to 3.7 percent in 2025 and 3.9 percent in 2026, from 4.3 percent in 2024. This is 0.5 and 0.4 percentage points lower, respectively, compared with the rates projected in the January WEO Update. Emerging and developing Asia and Middle East and Central Asia have the largest downward revisions, followed by Latin America and the Caribbean, while Sub—Saharan Africa and emerging and developing Europe are least affected. For China, growth is revised down by 0.6 and 0.5 percent respectively in 2025 and 2026, reflecting tariffs and trade policy uncertainty.

Improving aggregate outlook for LIDCs, but dire prospects for the poorest.

Growth in LIDCs is expected to further improve, from 4.0 percent in 2024, to 4.2 percent in 2025 and 5.2 percent in 2026. However, in per capita terms, the rates are projected to decline from 3.0 percent in 2024 to 1.9 percent in 2025 and recover to 2.8 in 2026. Furthermore, significant vulnerabilities persist for many LIDCs, and behind the aggregate figures are important divergences in performance. Of the 20 fastest growing countries in the world in 2024, around half were LIDCs. Yet many of the poorer LIDCs have seen virtually no progress in per capita incomes over the past 15 years. Advancing development prospects in these countries will require strong domestic reforms, significant international support, and proactively addressing debt vulnerabilities, including high debt service.

Inflation is declining at different speeds across countries.

Global headline inflation is expected to decline to 4.3 percent in 2025 and 3.6 percent in 2026. Inflation is projected to decline faster in advanced economies, reaching 2.2 percent in 2026, compared with inflation in EMDEs declining to 4.6 percent over the same time horizon.

Intensifying downside risks dominate the outlook.

Risks to the outlook are tilted to the downside, both in the short and the medium term. Key downside risks include trade tensions and prolonged trade policy uncertainty; financial market volatility; rising long-term interest rates; rising social discontent; increasing challenges to international cooperation; demographic shifts; and specifically, for some LIDCs, reductions in international aid flows and remittances. On the other hand, trade expansion at the regional and cross-regional levels, a resolution or mitigation of ongoing conflicts, a generalized acceleration in structural reforms, and AI-driven productivity gains can help boost growth and resilience.

POLICY PRIORITIES

Navigating uncertainty while building resilience.

In the face of ongoing structural shifts, heightened uncertainty, and persistently weak growth, policies should focus on steps to restore confidence and stability, reduce imbalances, and sustainably lift growth. This highlights the critical role of dialogue and multilateral cooperation, preserving macroeconomic and financial stability, building buffers, and accelerating durable structural reforms.

Dialogue and multilateral cooperation are essential to manage trade tensions and address global challenges.

Countries should recommit to a rules-based system and international cooperation, which remain essential for promoting a stable and predictable trade environment, facilitating debt restructuring, and addressing shared challenges. At the same time, they should address domestic policy and structural imbalances, thereby ensuring their internal economic stability. This will help rebalance growth-inflation trade-offs, rebuild buffers, and reinvigorate medium-term growth prospects, as well as reduce global imbalances. Regional and cross-regional economic integration and cooperation offer opportunities for countries to diversify partnerships and enhance efficiency. International tax cooperation can mitigate the effects of ongoing harmful tax competition by preventing a race to the bottom in global corporate taxes. If bilateral foreign aid flows decline, multilateral assistance will become even more important to address budget and development needs in LIDCs. Multilateral cooperation will also help facilitate international sovereign debt resolution, including through the G20 Common Framework (CF) and work at the Global Sovereign Debt Roundtable (GSDR).

Central banks should carefully calibrate monetary policy amid two-sided risks …

The priority for central banks remains fine-tuning the monetary policy stance to ensure price and financial stability. Where near-term inflation risks are tilted to the upside or inflation expectations are rising, future cuts to the policy rate should remain contingent on evidence that inflation is under control. Gradually moving the policy rate toward a neutral stance is appropriate if inflation expectations are clearly anchored, while growth or labor markets are softening. In the face of elevated uncertainty, central bank independence and clear communication will be crucial for policy credibility and to anchor inflation expectations.

…and mitigate disruptive FX volatility and safeguard financial stability through prudential policy.

The IMF's Integrated Policy Framework provides guidance on appropriate policy responses to disruptive foreign exchange (FX) volatility. In countries with well-functioning and deep FX markets and low foreign-currency debt, exchange rate flexibility and financial market policies—including rapid, decisive, and well-designed liquidity support—are advisable. For countries with shallow FX markets or sizable foreign currency denominated debt, temporary foreign exchange interventions or capital flow management measures could be appropriate. These should be complemented with macroprudential measures to mitigate potential disruptions arising from large foreign currency debt holdings.

Heightened uncertainty underscores the importance of robust prudential policies to safeguard financial stability. Where needed, macroprudential buffers should be rebuilt to increase resilience against shocks, while avoiding a broad tightening of financial conditions.

Restoring fiscal space and putting public debt on a sustainable path requires credible medium-term consolidation plans.

In a shock-prone world with reduced fiscal space and rising government borrowing costs, fiscal discipline is key to rebuilding fiscal buffers, restoring debt sustainability, and creating space for priority spending on public services, infrastructure, national security, and the climate transition. Greater fiscal discipline would also help contain borrowing costs amid higher term premiums and upside risks to inflation in some countries. Fiscal adjustment plans should be anchored in credible fiscal frameworks, grounded in realistic assumptions, and underpinned by reforms to strengthen domestic revenue mobilization and enhance expenditure efficiency, particularly in EMDEs. Careful design of adjustment plans can help mitigate adverse growth and distributional impacts. For countries in or at high risk of debt distress, achieving fiscal sustainability may require debt restructuring, on top of fiscal consolidation.

Durable structural reforms can help lift potential growth and support job creation.

Structural reforms in labor, product, and financial markets can help lift productivity and potential growth and support job creation, led by the private sector. To that end, policymakers should introduce measures to increase the participation of women and older workers in the labor force, facilitate the integration of migrants, improve the business environment, streamline excessive regulation, fight corruption, promote innovation and technology adoption, and alleviate financial constraints. These reforms will also help countries take advantage of the opportunities for innovation and jobs from digitalization and generative AI, the climate transition, and the growing youth population in many EMDEs. To ensure broad public support and maximize benefits, structural reforms and fiscal policies need to be carefully calibrated to ensure that the gains are widely shared, with early engagement and clear communication.

IMF SUPPORT

The IMF will maintain its role as a trusted economic and financial advisor to its membership

The IMF supports its members with the integration of evidence-based policy advice, tailored capacity building supported by deep technical expertise, and, when necessary, financial support to resolve balance of payments problems. In this rapidly evolving world, the IMF will stay at the forefront of the emerging challenges, with a strong emphasis on macroeconomic and financial stability, private sector-led growth, and identifying solutions to shared challenges, including reducing excess imbalances. In addition, the IMF provides a platform for countries to find cooperative solutions for shared economic challenges, taking advantage of its near-universal membership.

The IMF will sharpen the focus of surveillance, while continuing

The complex macroeconomic and financial landscape requires the IMF to stay agile and strengthen its analysis and advice on monetary, fiscal, exchange rate, and financial sector policies. The forthcoming Comprehensive Surveillance Review (CSR)

to adapt to a changing economic landscape. will set surveillance priorities and modalities for the next 5 years and develop high-level principles to guide engagement in new policy areas. The IMF will rigorously assess external imbalances and recommend multilaterally consistent, country-specific policy changes to achieve healthy rebalancing, including orderly exchange rate adjustments, in bilateral Article IV consultations and the 2025 External Sector Report (ESR). As the financial sector is rapidly evolving, driven by the rise of non-bank financial institutions, crypto assets, new payment platforms, and the use of AI, the forthcoming Review of Financial Sector Assessment Programs (FSAPs) will guide efforts to deepen macro-financial analysis in bilateral surveillance and produce cutting-edge analysis of risks from changes in the financial system.

Capacity Development (CD) will be further enhanced. The IMF is making CD delivery more flexible, tailored, and better integrated with policy advice and program design. Looking ahead, the IMF will continue to modernize CD delivery through new technologies, enhanced use of regional capacity development and training centers, and reinforcing coordination with partners. The IMF's surveillance, lending and policy analysis will also be better integrated with CD activities.

Work to adapt IMF lending toolkits to meet the needs of the membership will continue. The recent Charges and Surcharges Reform has significantly lowered members' borrowing costs, and the full implementation of the PRGT Reform approved in parallel is essential to bolster support for LICs while restoring the self-sustainability of the Trust. The IMF is launching the Review of Program Design and Conditionality to ensure that IMF-supported programs are well-designed to address macroeconomic imbalances while promoting growth. The IMF will continue to explore ways to strengthen its precautionary facilities, including in the context of the forthcoming review of the Short-Term Liquidity Line (SLL).

The IMF will continue to play a key role in addressing debt challenges. The IMF will continue its strong involvement on debt issues, through analytical work and operational support to ongoing debt restructurings, and work at the Global Sovereign Debt Roundtable (GSDR), including the publication of a playbook for country authorities considering debt restructuring. It will also advance work on its own debt policies, including updating the 2020 stock-take on the international architecture for resolving sovereign debt involving private sector creditors, and finalization of the review of the IMF-World Bank debt sustainability framework for low-income countries (LIC DSF). The forthcoming Sovereign Risk and Debt Sustainability Framework (SRDSF) guidance update will further simplify the implementation of the framework. The 3-pillar approach, proposed jointly with the World Bank, aims to support countries whose debt is sustainable but face high debt service, and is being implemented flexibly based on countries' specificities.

The success of the IMF hinges on a strong and agile institution. The quota-based structure has served the institution well. The implementation of the 16th General Review of Quota (GRQ) is ongoing, and the IMF will continue to work with the membership on quota shares under the 17th GRQ. The Fund welcomed the 25th Executive Board Chair intended for sub-Saharan Africa in November 2024.

The IMF has consistently delivered to meet the needs of its membership and continues to seek efficiency gains, including through periodic policy reviews and an ongoing streamlining exercise to make space for the highest priority needs. The IMF's success is built by its talented and professional staff, and the IMF remains committed to attracting and retaining top talent from around the world and building a versatile workforce equipped with the right blend of skills and experience.