



DEVELOPMENT COMMITTEE: THE MANAGING DIRECTOR'S WRITTEN STATEMENT

October 2025

The global economy is undergoing a profound transformation, and uncertainty runs high. The outlook points to dim growth prospects, both in the short and the medium term, though with notable variations across countries and regions. Low-income developing countries (LIDCs) face specific challenges, including high debt vulnerabilities, a dearth of external financing flows, cuts to official aid, and more restrictive immigration policies. The world's poorest economies are particularly at risk of seeing their growth momentum decelerate and their per capita income gap relative to advanced economies widen. At the current conjuncture of sweeping policy shifts, heightened uncertainty, and weak medium-term growth prospects, it is crucial to implement credible and sustainable policy actions, build resilience against shocks, safeguard macroeconomic and financial stability, and undertake structural reforms to unlock private sector-led growth. Specifically for LIDCs, strengthening capacity to mobilize domestic resources and implement growth-enhancing reforms is crucial, while, in parallel, donors should explore ways to mobilize more development assistance.

ECONOMIC OUTLOOK AND RISKS

The global economy has been resilient thus far, but strains are emerging.

Despite a resilient start to the year, global growth is projected to decelerate from 3.3 percent in 2024 to 3.2 percent in 2025 and to 3.1 percent in 2026. This is an improvement relative to the July WEO update but cumulatively 0.2 percentage point below the October 2024 forecasts.

The first half of 2025 recorded relatively robust global growth. This, however, was largely driven by temporary factors—including front-loading of trade and investment and inventory management strategies—rather than fundamental economic strength. As these factors fade, activity is slowing and labor markets are softening, reflecting headwinds from protectionism and uncertainty.

Growth in AEs is projected to slow significantly.

For Advanced Economies (AEs), growth is projected to be 1.6 percent in 2025 and 2026, against 1.8 percent in 2024, with the US slowing from 2.8 percent in 2024 to 2.0 percent in 2025.

For EMDEs, growth is also expected to moderate, with

For Emerging and Developing Economies (EMDEs), growth is projected to moderate from 4.3 percent in 2024 to 4.2 percent in 2025 and 4.0 percent in 2026. Within the group there is considerable variation, however. Growth in the Middle East and Central Asia is projected to accelerate from 2.6 percent in 2024 to 3.5 percent in 2025; conversely, growth in 2025 is projected to decline from 3.5 percent to 1.8 percent in emerging and developing Europe and from 5.3 percent to 5.2 percent in

large regional variations.

emerging and developing Asia. In both sub-Saharan Africa and Latin America and the Caribbean, growth in 2025 is projected to remain stable at 4.1 percent and 2.4 percent, respectively. This reflects differences in various factors, such as exposure to higher tariffs and cuts in official aid, domestic economic strength and policy responses, and impacts from subdued commodity demand and prices.

LIDCs face additional challenges, particularly the poorest ones.

Growth for LIDCs is projected at 4.4 percent in 2025—slightly above the 4.2 percent reached in 2024—and at 5.0 percent in 2026. On top of trade disruption and elevated uncertainty, LIDCs must contend with high debt vulnerabilities, a dearth of external financing flows, cuts to official aid, and, for some of them, the impact of new restrictions on immigration, as remittances are a significant source of income for them. The world's poorest economies, including those suffering from prolonged conflict, are particularly at risk of seeing their growth momentum decelerate and their per capita income gap relative to advanced economies widen.

Medium-term growth prospects remain weak.

A more fragmented international economic landscape adds to the challenges many countries are facing in lifting medium-term growth prospects. In the absence of durable structural reforms, growth forecasts over the five-year WEO horizon remain mediocre. World output is projected to expand at an average annual pace of 3.2 percent in 2027–30, a lackluster performance compared with the pre-pandemic (2000–19) average of 3.7 percent. The decline is more pronounced for EMDEs, portending challenges to the pace of global income convergence.

Inflation is projected to decline, with notable variations.

Global headline inflation is projected to decline to 4.2 percent in 2025 and 3.7 percent in 2026, from 5.8 percent in 2024. The overall path is virtually the same as in the October 2024 WEO projections, but there are notable variations, with upward revisions in quite a few countries (e.g., Brazil, Mexico, United Kingdom, and United States) and downward revisions in much of the rest of world. In the United States, inflation is expected to pick up from the second half of 2025, as the impact of tariffs is no longer absorbed within supply chains and instead is passed on to consumers.

Risks to the outlook remain tilted to the downside.

Prolonged uncertainty, further escalation of protectionist measures, and labor supply disruptions could weigh on growth. Disappointing productivity gains from AI and disruptions in private credit markets could trigger an abrupt repricing of assets, with potential implications for macrofinancial stability. Renewed worries about fiscal sustainability could lead to sharply higher borrowing costs and refinancing risks. Escalation of conflicts and commodity price spikes pose additional risks.

On the upside, a breakthrough in trade negotiations could lower tariffs and reduce uncertainty; renewed reform momentum could boost medium-term growth; and faster productivity growth due to AI could bring economy-wide gains.

POLICY PRIORITIES

The task ahead is to foster

At the current *conjuncture* of sweeping policy shifts, heightened uncertainty, and weak medium-term growth prospects, it is crucial to implement credible and

confidence, build resilience, and safeguard stability.

sustainable policy actions, build resilience against shocks, safeguard macroeconomic and financial stability, and undertake structural reforms to unlock private sector-led growth. Strong and independent national economic institutions are essential for underpinning policy credibility and public trust.

Collective action is needed to reduce uncertainty, particularly on trade.

Pragmatic solutions are urgently needed to ease trade tensions and remove uncertainty on trade policy. To keep pace with the changes in the global economy, trade rules must be modernized for the digital age. Countries also need to exercise prudence in using subsidies and industrial policies, as these often create an unfair competitive advantage and distort trade. Excess external imbalances must be addressed as they are costly domestically and globally and, if unaddressed, increase the risk of a disorderly unwinding. Countries with excess surpluses should boost domestic demand, while countries with excess deficits need to reduce fiscal deficits. In addition, countries should pursue bilateral, regional, and plurilateral negotiations to lower trade barriers, while limiting discriminatory elements that risk negative third-country spillovers and renewed tensions.

Countries must act decisively to rebuild fiscal buffers and ensure debt sustainability, anchored in medium-term fiscal frameworks.

As fiscal policy space has significantly declined for many countries in the unprecedented series of shocks to the global economy in recent years, it is critical for these countries to implement credible medium-term fiscal consolidation to restore buffers and build resilience. Policies should be based on realistic, balanced plans that combine spending rationalization with revenue mobilization and prioritize measures that raise efficiency and promote private investment, while protecting the most vulnerable and ensuring fair burden sharing. Any new support measures should be temporary, well-targeted, and offset with clear savings. Robust frameworks, credible rules and fiscal institutions, improved fiscal governance, and greater debt transparency are critical to fiscal adjustment efforts.

Where debt is not sustainable, restoring sustainability may require restructuring of public debt in addition to fiscal consolidation. Continued progress in operationalizing the G20 Common Framework and greater convergence of practices through the Global Sovereign Debt Roundtable (GSDR) can make necessary restructurings more timely, predictable, and less costly.

Central Banks should preserve price stability, in line with their mandate.

Monetary policy should remain data-driven and country specific. In countries imposing tariffs, central banks will likely face a sharper tradeoff between price stability and output. By contrast, in countries facing tariffs, a gradual easing of the policy rate could become appropriate once disinflation is firmly established. Where applicable, exchange rates should continue to act as a shock absorber. Where exchange rate movements become disorderly, the Integrated Policy Framework (IPF) offers country-specific guidance on exchange-rate interventions and capital flow measures. In a rapidly changing economic environment with elevated uncertainty, transparency and clear communication boosts predictability for market participants. History has taught that central bank independence and clear communication are essential for keeping inflation in check and preserving financial stability.

Financial sector policies must guard against rapidly evolving risks.

Recent market developments have exposed risks from abrupt asset price corrections, disruptions in sovereign debt and FX markets, and the growing link between banks and Non-Bank Financial Intermediaries (NBFIs). Financial policies should prioritize containing liquidity risks in nonbank finance and preserving resilience in the core banking system. Strengthening the resilience of bond markets requires reducing fiscal risks, along with enhancements to market structures. Crypto assets, including stablecoins, could accelerate currency substitution and undermine monetary sovereignty in countries with weak currencies, high inflation, and low trust in central banks. As many of these challenges transcend borders, international cooperation is essential to harness the benefits and manage the risks.

Countries should embrace structural reforms to unlock private sector-led growth, and also to enhance resilience.

Limited fiscal space and a challenging external environment place the onus for reviving growth and job prospects on domestic reforms. Reforms to improve the business environment, address governance weaknesses and corruption, streamline excessive regulation, develop capital markets, promote entrepreneurship, and encourage competition not only help unlock the private sector but also help build the trust needed to secure support for difficult adjustment policies. In addition, labor market reforms can help increase participation and upgrade skills; competition and product-market reforms can foster entry and reduce barriers to reallocating resources toward high-productivity firms; and advances in digitalization and AI can lift productivity and expand potential growth. Well-designed reforms would not only raise growth and living standards but also strengthen macroeconomic resilience.

For LIDCs, particularly those facing challenges from cuts in official aid, strengthening capacity to mobilize domestic resources—including through governance and administrative reforms—and implementing growth-enhancing reforms is crucial to advancing their development path. In parallel, donors should explore ways to mobilize more development assistance, including technical assistance and financial support, in particular for adaptation projects to help them cope with the impacts of climate change.

IMF SUPPORT

The IMF has a critical role to play in addressing global challenges.

The IMF provides a global platform to resolve shared challenges and supports its members with granular, tailored macroeconomic, fiscal and financial policy advice grounded in rigorous analysis. This is supplemented by capacity development (CD) and, where necessary, lending to support members facing balance of payments needs, helping them stabilize their economies, absorb shocks, and promote sustainable growth. Strengthening data integrity and transparency remains fundamental to IMF surveillance, lending, and CD. In addition, work continues to modernize the Fund's policy frameworks, tools, and internal operations to remain an agile and focused institution that meets the evolving needs of our members.

The CSR and FSAP reviews are underway...

The Comprehensive Surveillance Review (CSR) is focused on three broad priorities: promoting resilience and growth through granular policy advice; strengthening assessment of external imbalances and outwards spillovers; and supporting members' capacity to manage shocks. The CSR will also develop a prioritization framework to guide IMF engagement across surveillance areas and proposals to refine and streamline surveillance modalities. The CSR will also underscore our efforts to deepen macrofinancial and financial sector analysis in bilateral surveillance, aligning with the ongoing FSAP review where relevant.

...work to fortify the Fund's lending toolkit and the GFSN continues...

The IMF is committed to fully implementing the reforms to the Poverty Reduction and Growth Trust (PRGT) to ensure our capacity to support low-income countries. Securing assurances of additional PRGT subsidies from the membership remains a top priority. The ongoing Review of Program Design and Conditionality will strengthen IMF program design to better support growth and resilience, including in cases involving exceptional access. Measures to boost the effectiveness and uptake of the Fund's precautionary facilities as crisis-prevention tools are also being explored, including through the upcoming Review of the Short-Term Liquidity Line. A recent IMF paper assesses the adequacy of the global financial safety net (GFSN) and outlines areas for improvement.

...and enhancements to CD are progressing.

IMF CD delivery is being further enhanced in line with the Fund's 2024 CD Strategy. We continue to integrate CD with surveillance and lending and will further strengthen support for reforms in the Fund's areas of expertise, complemented by the new Strategic Results Framework to help evaluate CD traction and ongoing efforts in leveraging technology to improve CD reach and effectiveness.

The IMF is further strengthening its support to global efforts to tackle debt challenges.

Together with the Bank, the Fund is reviewing the joint IMF-World Bank debt sustainability framework for low-income countries (LIC DSF) to better incorporate drivers of debt vulnerabilities. The guidance note on the debt sustainability framework for market-access countries is also being updated. Support to individual restructuring cases is being scaled up, alongside efforts to address remaining bottlenecks and further improve predictability and timeliness of restructuring processes, including through the GSDR. In parallel, the IMF is working with the World Bank to advance the implementation of the 3-pillar approach to assist countries with sustainable debt facing debt-service challenges.

We are also working to keep the IMF strong and agile.

Work toward implementing the 50 percent quota increase under the 16th General Review of Quota (GRQ) is ongoing. We are also working with the membership to develop principles to guide future discussions on quota and governance.

Through efficient and prudent stewardship of members' resources, the Fund's budget remains broadly the same in real terms as it was two decades ago. A recent streamlining exercise identified efficiency gains to make space for the highest priority needs and deliver best value to the membership. The institution remains committed to attracting and retaining top talent from around the world that are the IMF's greatest asset.