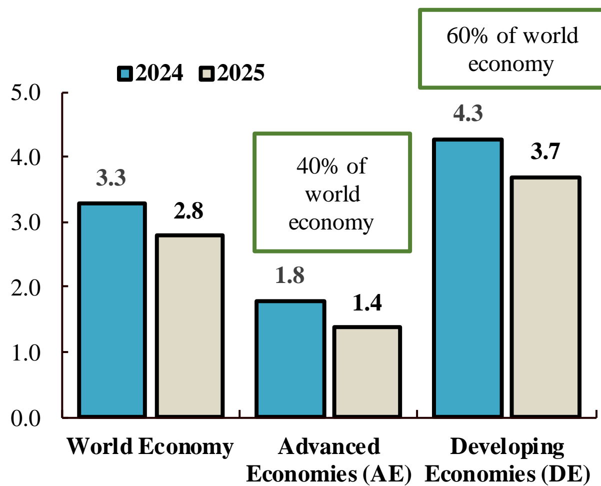
QNB Economics
economics@qnb.com
1 June 2025

Global growth outlook downgraded amid rising headwinds

At the beginning of the year, the global outlook pointed to stable economic growth, against a backdrop of cautious optimism. Tailwinds included continued policy easing from major central banks, resilient growth in the US, and a cyclical recovery in the Euro Area and China, with positive spillovers to the global economy. Growth in both Advanced Economies (AE) and Developing Economies (DE) was initially expected to remain steady, at rates that would match those of last year, adding to a world economic expansion rate of 3.3%.

But the climate of optimism and positive market sentiment began to shift markedly in February, as the new US administration embarked on an aggressive agenda of policy change, with sweeping implications for the global macroeconomic landscape. In fact, following US-driven trade uncertainties after "Liberation Day," expectations for growth were significantly downgraded. The 2.8% rate currently expected for this year is well below the initial expectations, and the 3.5% long-term average for 2000-2024.

IMF GDP Growth Forecasts
(%, year-over-year, actual for 2024 and forecast 2025)



Source: IMF World Economic Outlook, QNB Economics

The World Economic Outlook (WEO) is a valuable tool to discuss the global economic prospects. The WEO is the flagship publication crafted by the International Monetary Fund (IMF) twice a year, and is a standard benchmark for industry and markets. It provides a unified analysis of global economic conditions, trends and risks. The recent publication of the WEO offers a timely opportunity to revisit and reassess the global outlook, in light of significant recent market volatility and escalating trade tensions. In this article, we discuss the main factors that have contributed to the downward revision of the IMF growth outlook for the global economy.

First, the main factor behind the global outlook revision is associated with escalating trade rifts and the uncertainty this represents for both investors and consumers. Rising geopolitical tensions and policy disarray are expected to dampen trade volumes and cross border production, particularly in countries reliant on export-led growth strategies. Leading economic indicators in trade-intensive Asian countries, a barometer for global commercial activity, have already deteriorated sharply. More broadly, the volume of world trade in goods is seen expanding only about 1% this year, a quarter of the annual average of the last two decades. Given the role of trade as an engine of economic activity, its lacklustre performance this year will act as a drag on global growth.

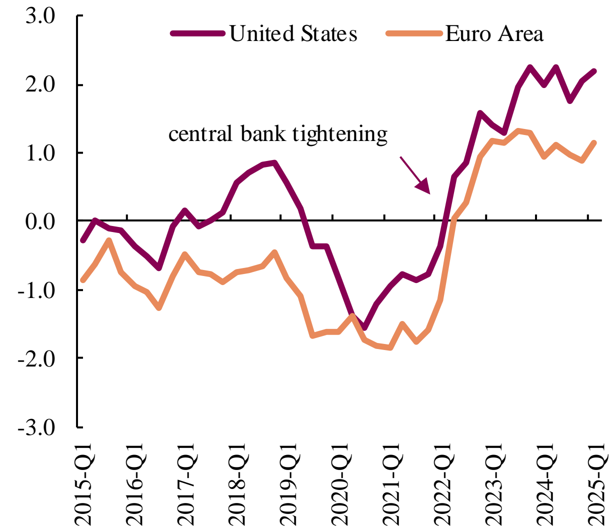
Second, the impact of the shock is also expected to be broad-based across geographies and country groups. In Advanced Economies (AE), the downgrades were led by the US, where growth is now expected to decelerate to 1.8% this year, a full percentage point below the performance of last year. The epicentre of the policy uncertainty, the US is expected to be significantly impacted even when the overall share of trade on GDP is relatively small. However, given its sweeping tariffs and the counter-measures from other countries, a significant share of the country's overall imports and exports are directly affected. The downgrades were also prevalent on other developed nations, including the Euro Area, Japan, and the UK. As a result, the group of AE, which represents 40% of the world economy, is now expected to decelerate to 1.4% this year.

Growth in Developing Economies (DE) is also seen losing pace, with the growth rate falling to 3.7%. Within this group, the current outlook points to a slowdown in Emerging and Developing Asia and Europe, as well as Latin America and Subsaharan Africa, while only the Middle East and Central Asia

would see an improvement relative to last year. Thus, worsening broad-based growth projections across both the AE and DE groups have contributed to a more subdued global outlook.

Third, financial conditions have remained tighter than previously expected, increasing the costs of debt for firms and consumers. Sovereign yields in AE began to rise with the monetary policy tightening cycles by major central banks in 2022. In spite of the beginning of rate cuts by the US Federal Reserve and the European Central Bank, longer-term yields have remained high, on the back of increased government bond issuances, renewed inflation concerns, and policy-induced disruptions in US Treasury markets. As a result, long-term government bond yields adjusted for inflation, which determine the real costs of debt, remain close to their highest levels in more than a decade across the major AE. Adding to the tightening of financial conditions, the spreads between high yield corporate bonds and long-dated government debt have increased. Higher real long-term yields and wider corporate yield spreads create additional headwinds for economic growth, as borrowing costs negatively impact investment and consumption.

Real 10-Year Government Yields
(% per year, adjusted for consumer inflation)



Source: World Economic Outlook, QNB Economics

All in all, the global outlook has deteriorated sharply since the beginning of the year, on the back of worsening prospects for international trade, a broad-based weakening performance expected across the AE and the DE, and tighter financial conditions weighing on consumption and investment.

QNB Economics Team:

Luiz Pinto
Assistant Vice President - Economics
+974-4453-4642

Bernabe Lopez-Martin*
Senior Manager - Economics
+974-4453-4643

Aisha Khalid Al-Thani
Senior Associate - Economics
+974-4453-4647

* Corresponding author

DISCLAIMER: *The information in this publication (“**Information**”) has been prepared by Qatar National Bank (Q.P.S.C.) (“**QNB**”) which term includes its branches and affiliated companies. The Information is believed to be, and has been obtained from, sources deemed to be reliable; however, QNB makes no guarantee, representation or warranty of any kind, express or implied, as to the Information’s accuracy, completeness or reliability and shall not be held responsible in any way (including in respect of negligence) for any errors in, or omissions from, the Information. QNB expressly disclaims all warranties or merchantability or fitness for a particular purpose with respect to the Information. Any hyperlinks to third party websites are provided for reader convenience only and QNB does not endorse the content of, is not responsible for, nor does it offer the reader any reliance with respect to the accuracy or security controls of these websites. QNB is not acting as a financial adviser, consultant or fiduciary with respect to the Information and is not providing investment, legal, tax or accounting advice. The Information presented is general in nature: it is not advice, an offer, promotion, solicitation or recommendation in respect of any information or products presented in this publication. This publication is provided solely on the basis that the recipient will make an independent evaluation of the Information at the recipient’s sole risk and responsibility. It may not be relied upon to make any investment decision. QNB recommends that the recipient obtains investment, legal, tax or accounting advise from independent professional advisors before making any investment decision. Any opinions expressed in this publication are the opinions of the author as at the date of publication. They do not necessarily reflect the opinions of QNB who reserves the right to amend any Information at any time without notice. QNB, its directors, officers, employees, representatives or agents do not assume any liability for any loss, injury, damages or expenses that may result from or be related in any way to the reliance by any person upon the Information. The publication is distributed on a complementary basis and may not be distributed, modified, published, re-posted, reused, sold, transmitted or reproduced in whole or in part without the permission of QNB. The Information has not, to the best of QNB’s knowledge, been reviewed by Qatar Central Bank, the Qatar Financial Markets Authority, nor any governmental, quasi-governmental, regulatory or advisory authority either in or outside Qatar and no approval has been either solicited or received by QNB in respect of the Information.*