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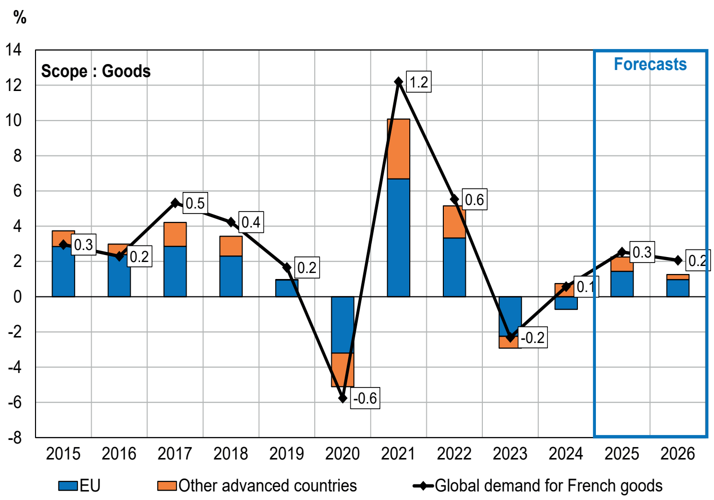
World Economic Outlook in Autumn 2025: Global Economy Hampered by an Adverse Trade Environment

French Treasury (DG Trésor) International Forecasting Teams

- US trade measures have driven the global outlook downwards compared to spring forecasts: global GDP growth is expected to stand at 3.0% in 2025 and 2.9% in 2026, down from 3.3% in 2024.
- Among advanced economies, growth is set to considerably slow in 2025 and 2026 in the United States, as consumption is adversely impacted by tariff hikes and budgetary cuts. Euro area growth should be driven by a pick-up in consumption following a decline in inflation and by sustained investment as a result of falling interest rates. However, growth is expected to be hindered by trade tensions and the appreciation of the euro. Germany's growth is set to be sluggish in 2025, but should recover in 2026 with the help of fiscal stimulus, while weak growth is expected in Italy in spite of support in the form of the National Recovery and Resilience Plan (RRP). Spain's growth is projected to remain far more robust, driven by population growth, dynamic investment and tourism. An expansionary fiscal policy is expected to support the United Kingdom's growth.
- Most major emerging economies are expected to experience a slowdown in growth in 2025 and 2026: in particular, China's growth is set to falter as a result of trade measures and persistent structural imbalances.
- Global trade should continue to be hampered by US trade measures, with growth of just 2.1% in 2025 and 2.3% in 2026, significantly below its historical average (2.8% from 2015 to 2019). Recovery in 2025, expected as a result of forecasts of tariff hikes for the first half of the year and demand from advanced economies, should be weaker than projected as it has been hindered by a decline in imports from China and India. In 2026, a pick-up in emerging-economy imports is not expected to offset declining US imports.
- The risks surrounding this scenario are mostly skewed to the downside as the Trump administration continues to threaten to impose new tariffs amid persistent geopolitical tensions.

Global demand for French goods



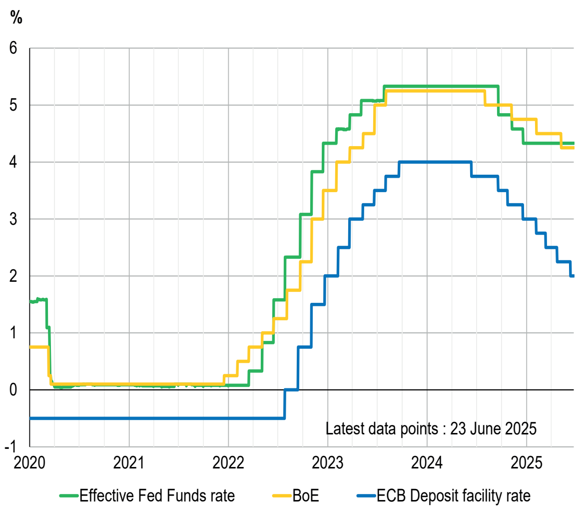
Source: OECD, IMF and national statistics institutes for past figures, DG Trésor for forecast figures.

1. Scenario assumptions: trade policy tightening and monetary policy slightly easing

These international forecasts were set on 22 August 2025.[1] They factor in the hike in sector-specific and bilateral tariffs imposed by the US, trade agreements negotiated with the US's various partners, and countermeasures implemented by China and Canada (see Box 1). These factors have resulted in an increase of the US average effective tariff of approximately 16 points,[2] compared to an assumption of 4.5 points in the spring scenario.[3]

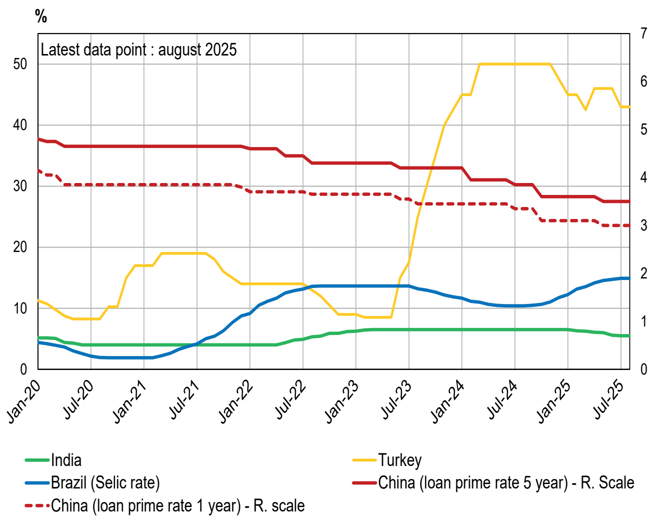
Since early 2025, most major advanced economies have continued the monetary easing initiated in 2024 (see Chart 1), except the US Federal Reserve ("the Fed") which left its interest rates unchanged. The European Central Bank (ECB) has signalled a pause, and should leave its deposit facility rate[4] unchanged at 2.00% until late 2026. However, financial markets are anticipating a 25-bps drop by the end of the year for both the Fed and the Bank of England (BoE) (4.0% in late 2025), followed by four additional cuts of 25 bps in 2026 for the Fed and two cuts for the BoE. US monetary policy nevertheless continues to be surrounded by an unusual form of uncertainty: together with political pressure, the Fed is receiving conflicting messages from the waning employment market – requiring monetary easing – and from rising inflation – requiring tightening. Chair of the Fed Jerome Powell's speech at the Jackson Hole Economic Policy Symposium in September points to a cut in interest rates.

Chart 1: Key rates in major advanced economies (%)



Sources: ECB, the Fed, BoE.

Chart 2: Key rates in major emerging economies (%)



Sources: National central banks.

1 The forecasts were prepared by Louis Adjiman, Alban Aubert, Marion Bachelet, Louis Blanco, Lina Bourassi, Léocadie Darpas, Lorelei Durand-Agache, Rizlaine Embarek, Juliette Flament, Eléa Giraud, Patrick Kanda Tunda, Aymeric Lachaux, Nicolas Lefebvre, Alexandre Leroy, Jules Luye and Laure Noël.

2 Based on WTO estimates.

3 See World Economic Outlook in Spring 2025 Growth Amid Global Turbulence, *Trésor-Economics*, No. 361, March 2025.

4 The deposit facility rate is currently the main instrument used by the ECB to conduct monetary policy in the euro area. It is the rate at which central banks remunerate overnight deposits from commercial banks.

Most major emerging economies are expected to continue monetary easing in 2025 and 2026, with the exception of Brazil (see Chart 2) where tightening took place in September 2024 and continued in 2025 to bring inflation closer to its target. India will likely adopt a gradual approach to monetary easing, while China is expected to implement more pronounced measures in line with its stated policy objectives. After a restrictive stance for most of 2024, Turkey is expected to initiate rate cuts in 2025, though its interest rates will remain high and above inflation, keeping real rates in positive territory.

US fiscal policy should have a neutral effect on growth: the expected benefits of tax cuts and tax incentives should be offset by the major anti-redistributive effects of the One Big Beautiful Bill Act (OBBBA), which are expected to adversely affect the purchasing power of households with a high propensity to consume (see Box 2). In the United Kingdom, the Labour government's expansionary fiscal policy is expected to bolster growth. Public consumption is therefore expected to grow robustly in spite of pressure on UK gilt yields. In Germany, the delays in adopting the 2025 budget (scheduled for September) and in implementing the special infrastructure fund are expected to postpone the impact of recovery measures until 2026 onwards. The measures are expected to strongly bolster growth, in spite of the scheduled partial expenditure outturn. In Spain and Italy, economic growth should continue to benefit from accelerated disbursements made under the EU's National Recovery and Resilience Plan (RRP).

Since early 2025, Brent crude (the European benchmark for oil) prices have been lower on average than in previous years ($71.7 versus $80.5 in 2024, $82.5 in 2023 and $100.9 in 2022). Growing geopolitical tensions, particularly in connection with the conflict between Iran and Israel in mid-June and in the Strait of Hormuz, drove oil prices up in late June/early July. However, this increase was temporary and relatively limited as global demand for oil was hindered by a worsening global outlook amid trade uncertainty, while supply continues to be abundant on the markets, bolstered by the OPEC+'s strategy to boost output. Nevertheless, Brent prices remain largely above their pre-pandemic levels ($57.4 per barrel on average between 2015 and 2019). For forecasting purposes, the barrel price is conventionally held constant at $67.5, its average from 3 to 22 August 2025. For 2025 as a whole, Brent crude is expected to average $70.0 per barrel, and $67.5 in 2026, somewhat lower than previously anticipated in the March 2025 global forecast ($75.8 per barrel in 2026). The euro-to-dollar exchange rate is fixed at $1.16, its average over the same early- to late-August 2025 window. The euro started to appreciate sharply against the dollar from early 2025 following worsening market perception of US economic policy and its potentially adverse impact on the economy.

Box 1: Tariff assumptions and their economic impact

Since Donald Trump's inauguration on 20 January 2025, his second administration has launched an offensive on global trade, raising the US's average effective tariff rate to the highest level recorded since the inter-war period and fuelling significant uncertainty.

The international scenario, set in August, factors in the following tariff measures:

- A 25% sector-specific tariff on automobiles and automobile parts (except for the United Kingdom, Japan and the EU as per their agreement with the United States), a 50% tariff on steel and aluminium (except for the United Kingdom, which is exempt, and the European Union assuming that non-binding quotas are negotiated).[a]
- Bilateral measures rolled out by the United States, setting tariffs on Chinese imports at 30% and EU imports at 15% (excluding aircraft and aircraft parts). Tariffs on Canadian imports were raised to 35%, except for energy products which were subject to a 10-pp increase, and a 30% tariff was imposed on Mexican imports. Mexican and Canadian products compliant with the United States-Mexico-Canada Agreement (USMCA)[b] continue to be exempt from tariffs.
- Canadian and Chinese countermeasures: Canada imposed a 25% tariff on certain US imports (16% of imports), while China imposed a 15% tariff on 22% of its US imports and a 10% tariff on the remainder.

These measures are considered to remain in force until the end of the forecast period.

According to estimates calculated using the Oxford Economics model,[c] trade tensions will continue to inhibit growth in 2026, with a more pronounced impact than in 2025 for most countries. Price hikes and uncertainty are hampering household consumption and business investment, while tariffs are curtailing exports and disrupting the global organisation of production by prompting a reorganisation of value chains. These measures are expected to reduce the EU's GDP by 0.1 pp in 2025 and 0.6 pp in 2026. As France is less reliant than its European neighbours on the US market, the adverse impact should be relatively smaller, with a limited drop in GDP of 0.1 pp in 2025 and 0.4 pp in 2026. Insee's estimate of the impact of US tariffs in its June Economic Outlook is mostly in line with our estimates.[d]

The findings presented show the difference between the actual impact and that of a counterfactual scenario in which the additional tariffs announced by President Donald Trump since his election were not imposed, all other things being equal.

Table 1: Impact of trade measures on GDP (difference from counterfactual scenario, as a %)

Country	2025	2026
Worldwide	–0.3	–0.6
United States	–0.7	–0.7
European Union	–0.1	–0.6
France	–0.1	–0.4
Germany	–0.1	–0.8
Italy	–0.1	–0.6
Spain	–0.1	–0.3
United Kingdom	–0.1	–0.3
China	–0.2	–0.8
Canada	–0.4	–1.2
Mexico	–0.4	–1.3

Source: Oxford Economics, DG Trésor calculations.

a. A number of changes to trade measures took place in August after the date of this impact study, but they are expected to continue to have a negligible effect.

b. The United States-Mexico-Canada agreement is the product of the 2017-2018 renegotiations of the NAFTA (North American Free Trade Agreement, which came into force in 1994). According to the White House, only 50% of Mexican imports and 38% of Canadian imports are compliant with this agreement and have a new one-month reprieve.

c. The simulations factor in the assumption that the signing of trade agreements dispels some uncertainty, thereby significantly containing the contraction of financial markets. To date, this assumption is backed by the actual recovery of the markets observed since mid-April.

d. See Insee (2025), "Household savings at a peak", *Economic Outlook.*

2. A less favourable global outlook for France than anticipated in March 2025

2.1 Global growth and trade outlooks revised downwards

US trade measures are expected to adversely impact global trade, with the country's growth rate to continue to be significantly outpaced by the global growth rate. Estimates indicate that global trade growth will stand at 2.1% in 2025 (up from 1.8% in 2024) and will be driven by an increase in advanced economies' imports, reflecting in particular the increase in trade in the first quarter ahead of the tariff hikes. However, projections point to the upturn in trade being more limited than expected in winter (revised downwards by 1.0 pp in 2025) and continuing to be outpaced by historical growth (2.8% on average between 2015 and 2019), hampered by a decline in imports from China and India. In 2026, the faster growth of emerging economies is not expected to offset the decline in imports to the United States, and growth in global trade should continue to be contained (2.3%, revised downwards by 0.9 pp).

The global economy is expected to slow down in 2025 (3.0% growth, after 3.3% in 2024), and then again in 2026 (2.9%). Despite an improved outlook in the euro area, growth is expected to be less robust than expected in spring (down 0.2 pp in 2025 and 0.4 pp in 2026). This stems from the worsening growth outlook in countries most vulnerable to the US's move to tighten its trade policy – first and foremost the United States itself, but also major emerging economies. Global growth is expected to pick up at a pace slower than the pre-pandemic levels (3.4% on average between 2015 and 2019).

Both advanced and emerging economies will see their growth outlook revised downwards (for advanced economies, 1.4% in 2025 then 1.5% in 2026 compared to 2.2% on average in the 2015-2019 period; for emerging economies 4.0% in 2025 then 3.8% in 2026 compared to 4.4% on average in the 2015-2019 period). However, emerging economies should continue to be the main driver of global growth.

Table 2: Global growth forecasts

	Average 2015-2019	2022	2023	2024	2025	2026	2025	2026
					DG Trésor Forecasts		Revisions to March 2025 forecasts	
Global growth	**3.4**	**3.7**	**3.5**	**3.3**	**3.0**	**2.9**	***–0.2***	***–0.4***
Advanced economies[a]	**2.2**	**3.0**	**1.8**	**1.8**	**1.4**	**1.5**	***–0.3***	***–0.2***
Euro area[b]	2.0	3.6	0.7	0.9	1.3	1.4	*0.3*	*0.3*
Germany	1.8	1.9	–0.7	–0.5	0.2	0.9	*0.1*	*0.3*
Spain	2.8	6.2	2.7	3.2	2.8	2.0	*0.3*	*0.2*
Italy	1.0	5.0	0.8	0.5	0.6	0.8	*–0.1*	*–0.3*
United Kingdom	2.0	4.8	0.4	1.1	1.2	1.2	*0.4*	*0.2*
United States	2.6	2.5	2.9	2.8	1.6	1.5	*–0.7*	*–0.7*
Emerging economies	**4.4**	**4.2**	**4.6**	**4.3**	**4.0**	**3.8**	**–0.2**	**–0.5**
Brazil	–0.5	3.0	3.2	3.4	2.1	1.8	*–0.3*	*–0.4*
China	6.7	3.1	5.4	5.0	4.7	4.0	*0.0*	*–0.4*
India[c]	6.7	7.6	9.2	6.5	6.3	6.2	*–0.2*	*–0.3*
Turkey	4.1	5.5	5.1	3.2	3.0	3.4	*0.4*	*0.0*
Global trade in goods[d]	2.8	4.1	–1.8	1.8	2.1	2.3	*–1.0*	*–0.9*
World demand in goods - France	3.3	5.5	–2.3	0.6	2.5	2.1	*–0.1*	*–0.7*

a. Aggregate forecast figures for "advanced economies" and "emerging economies" are estimated based on IMF projections, with figures adjusted using DG Trésor projections for the countries in the table above and adjusted for revisions to national accounts.
b. The euro area aggregate is derived from quarterly accounts adjusted for working days. Forecast figures are estimated based on European Commission projections adjusted by those of DG Trésor for Germany, France, Italy and Spain.
c. India's growth is for the fiscal year running from the beginning of April to the end of March of the following year.
d. Global trade, calculated as the sum of imports, covers 40 countries representing 85% of global imports.

Source: IMF, World Economic Outlook Update, July 2025; OECD, Economic Outlook, June 2025; European Commission, Spring 2025 Economic Forecast; DG Trésor calculations and forecasts.

For France, which is more reliant on trade with European countries than with the United States and emerging countries, demand for French exports is expected to grow faster than global trade in 2025 (2.5% compared to 2.1%) before slowing down in 2026 (2.1% compared to 2.3%). Nevertheless, these forecasts have been revised downwards compared to the spring scenario (down 0.1 pp in 2025 and down 0.7 pp in 2026).

2.2 Growth trajectories vary among advanced economies

In the United States, economic growth is expected to slow to 1.6% in 2025 (down from 2.8% in 2024) and then to 1.5% in 2026. This expected slowdown is primarily the result of sluggish domestic demand hampered by a "wait-and-see" approach adopted amid uncertainty surrounding the Trump administration's economic policy. Household consumption, the main driver for growth these past few years thanks in particular to the accumulation of excess savings (now depleted) during the COVID-19 pandemic, is expected to slow significantly in 2025 and 2026. It is expected to be penalised by the rising price of imported goods and the anti-redistributive effects of the OBBBA (see Box 2), shaving away at the purchasing power of households with a high marginal propensity to consume. Private investment is set to be heavily hindered by uncertainty and persistently restrictive financial conditions in 2025. However, R&D investment – driven by the flourishing AI sector – should contribute positively to the cycle. Public-sector demand is expected to contribute to this slowdown in economic growth in 2025, and is even projected to have a negative impact on it in 2026. Federal budget cuts are expected to hit hard, and while the OBBBA is slated to provide targeted funding in 2026 to support defence and border security, it is unlikely to fully offset this decline. Foreign trade is expected to remain subdued in the second half of the year, with imports and exports decreasing sharply. Imports should then see a modest recovery, while exports are expected to experience a stronger upturn, prompting a slight improvement in the trade balance in 2026. Over the forecast period inflation is expected to rise then fall. After falling in the early second quarter of the year, inflation should see a strong upswing starting from Q3 2025 as a result of tariff hikes. The cost of 50% to 70% of tariffs is expected to be passed on to consumers by the year end, particularly in sectors with low profit margins or that are highly sensitive to imported inputs. Inflation is then expected to gradually fall from Q2 2026.

In the euro area, growth is expected to pick up the pace in 2025 (1.3%, after 0.9% in 2024) through to 2026 (1.4%), driven by shrinking inflation that bolsters consumption, tthe transmission of falling interest rates that supports investment, and Germany's fiscal stimulus in 2026. Growth is expected to continue to be hampered, however, by US trade measures and the appreciation of the euro, with the latter stifling the competitiveness of euro area countries.

In Germany, the delay in adopting the 2025 budget (slated for September) is expected to postpone fiscal stimulus measures devised by the new coalition, which are only expected to produce their effects as from 2026 (estimated at 0.5 pp of GDP).). The economy is therefore expected to remain sluggish in 2025, with GDP growing by just 0.2%, adversely affected by foreign trade in particular. Exports are expected to be hampered by tariff hikes given Germany's considerable exposure to the United States (its main trade partner), and especially by structural challenges in the export-oriented industry, continuing the performance losses observed since the COVID-19 pandemic. In 2026, growth is expected to recover (0.9%) as a result of fiscal stimulus measures, triggering a sharp rise in public consumption and investment, most notably in the non-residential construction sector (rail, digitalisation, hospitals and schools) for infrastructure, and in equipment for the defence sector (primarily through the *Bundeswehr* fund).

In the United Kingdom, growth is projected to stand at 1.2% in 2025 (up from 1.1% in 2024) and should remain unchanged in 2026. The Labour government's expansionary fiscal policy is expected to be a crucial factor in supporting growth in spite of pressure on gilt yields and depending on new savings measures that could be announced at the October Budget presentation. Private consumption is also expected to be robust over the forecast period, as household purchasing power should be supported by an increase in the National Minimum Wage of 6.7% and a public sector pay increase in April 2025 despite persistent inflation. The rise in inflation apparent since October 2024 should continue until Q3 2025 following a hike in regulated prices (energy and water) and in National Insurance contributions paid by employers in the second quarter (increasing from 13.8% to 15.0%). Furthermore, business investment is set to experience a sharp slowdown in 2025 due to the increase in these contributions and the uncertainty surrounding US trade measures, but is expected to rebound in 2026 thanks to lower interest rates. Lastly, residential investment is expected to slightly decline in 2025 as the property sector shows signs of a slowdown (after property prices fell in the summer), but should experience an upturn in 2026 with the planning reform, which is intended to overhaul urban planning and infrastructure to build housing at a quicker pace.

In Italy, growth is expected to increase to 0.6%, roughly in line with the pace in 2024 (0.5%), though hampered by US trade measures. Tariffs rolled out by the Trump administration triggered a sharp drop in exports in Q2 2025 after they were stimulated in the first quarter ahead of the tariffs' implementation. Exports are expected to remain sluggish in the second half of the year, as Italy is heavily reliant on the United States which represents nearly 10% of its exports. Greater absorption of National Recovery and Resilience Plan (RRP) funds and the transmission of lower interest rates should offset the impact of the phase-out of the Superbonus scheme on investment. Household consumption should continue to be the primary driver of growth, with a gradual slump in the savings rate towards its pre-COVID-19 pandemic average. Growth is expected to pick up in 2026 (0.8%), driven by support for expenditure under the RRP, a very gradual upturn in exports and a less severe decline in residential investment, with the shock of the Superbonus phase-out having been largely absorbed in 2025.

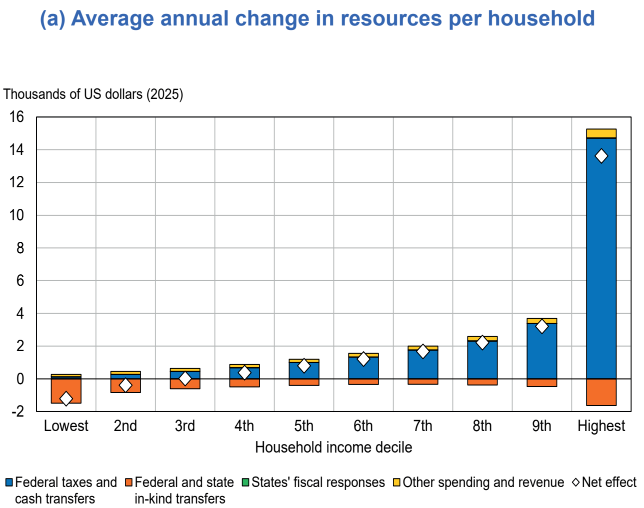
In 2024, Spain's growth significantly outpaced that of other major European economies, standing at 3.2% (compared to 0.7% on average in the euro area). Spain's growth particularly benefited from a high growth rate in public consumption, the tourism industry's strong resurgence – which now surpasses its pre-COVID-19 levels – and robust population growth resulting from immigration, thus boosting employment and private consumption. Growth should very gradually return to normal levels while still remaining high in 2025 (2.8%) and 2026 (2.0%). Private consumption is expected to remain the main growth driver, supported by previous sharp increases in purchasing power, a robust labour market and easing inflation. Investment is forecast to be robust, the combined result of the spread of falling interest rates, the increase in the absorption rate of RRP funds, and the resurgence in residential construction, driven by population growth and improved financial conditions. After having propped up growth since 2022, foreign trade is expected to have a negative impact on it. Growth in exports of services should remain at a high level in 2025 and 2026, buoyed by tourist numbers that remain strong. However, imports are also expected to be robust, reflecting strong domestic demand. Spain's exposure to the United States is also low: in 2024, only 4.7% of Spain's total exports of goods went to the United States, accounting for 1.2% of GDP.

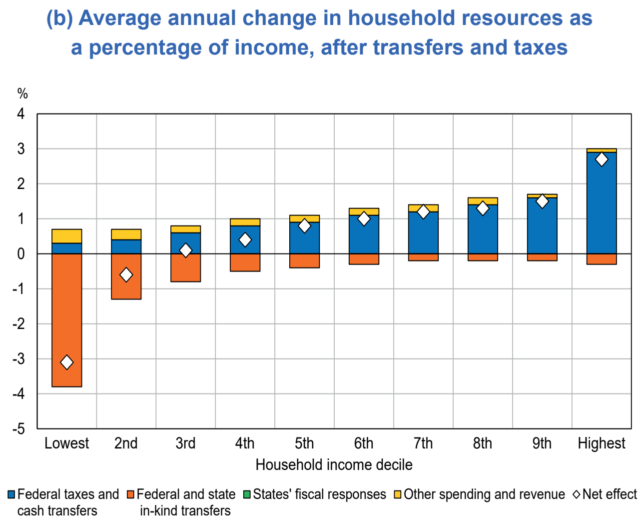
Box 2: What effect will the tax and spending policies of the One Big Beautiful Bill Act have on US households?

In his first term, President Trump signed into law on 22 December 2017 The Tax Cuts and Jobs Act (TJCA), a federal reform introducing several temporary tax cuts which was set to expire in late 2025. With no new legislation in place, these tax cuts would have greatly increased the tax burden placed on US households and businesses. On 4 July 2025, Trump signed into law a reconciliation bill known as the One Big Beautiful Bill Act (OBBBA), which made permanent – and stepped up – several TCJA provisions, in particular tax cuts for individuals, while also introducing new ones. This Act is one of the cornerstones of Trump's economic programme in his second term, alongside the rollout of tariffs.

According to the Congressional Budget Office (CBO), the OBBBA will widen the budget deficit by $3,400bn over the 2025-2034 period (cumulatively over ten years). The two factors thought to be behind this widening are (i) a drop in direct spending (negative $1,100bn) – primarily attributed to cuts in welfare programmes such as Medicaid and the Supplemental Nutrition Assistance Program (SNAP) and to the scrapping of electric vehicle tax credits – and (ii) a sharp decrease in federal revenues (negative $4,500bn), the majority of which would be allocated to households. The OBBBA supports households by: (i) making the TCJA tax brackets permanent; (ii) definitively setting the standard deduction at $15,750 for single filers and $31,500 for joint filers; (iii) introducing a raft of temporary measures for 2025-2028, such as a tax deduction on tip income and overtime income, and a deduction on interest paid for loans taken out on US-assembled vehicles. The Act also increases the state and local tax deduction (SALT) cap from $10,000 to $40,000 for the 2025-2029 period. Lastly, the Child Tax Credit under the TCJA has been made permanent and increased from $2,000 to $2,200 per child beginning in 2025, provided that the child has a Social Security number.

Chart 3: Net effect of the OBBBA on household income (2026-2034)





Source: CBO, Joint Committee on Taxation.

Note: The effect must be analysed in relation to the CBO's January 2025 baseline scenario, which did not factor in the Act.

According to the CBO, the OBBBA will increase household income over the 2026-2034 period, primarily thanks to tax cuts. The effect is expected to vary across the income distribution and by channel (see Chart 3). The lowest-income households (lowest decile) should see their income drop by approximately $1,200 per year (in 2025 dollars), amounting to 3.1% of their income on average compared to the counterfactual scenario in which the law was not in place. Projections show that this decrease is chiefly the result of reductions in in-kind transfers such as Medicaid and SNAP. In contrast, the wealthiest households are expected to generally benefit from these tax measures: estimates indicate that their income will increase on average by $13,600 annually – amounting to 2.7% of their projected income – primarily as a result of tax cuts. Lastly, middle-income households (fifth and sixth deciles) are expected to benefit to a lesser extent, with an increase in resources of about $800 (0.8% of projected income) for the fifth decile and $1,200 (1.0% of projected income) for the sixth decile.

In this light, the OBBBA is expected to provide limited support to household consumption, the key driver of the US economy. Its strongly anti-redistributive stance should be beneficial to wealthy households with a low propensity to consume while negatively impacting low-income households with a high propensity to consume. The OBBBA's fiscal multiplier is therefore expected to be low, especially amid the great uncertainty created by trade measures and pressure on the Fed. According to CBO estimates, the OBBBA is set to increase the federal deficit by $3,400bn over the 2025-2034 period compared to the counterfactual scenario. The factors behind this deterioration in the US public accounts are expected to be a $1,100bn decrease in spending and a drop in revenues of $4,500bn. On the whole, the OBBBA is expected to have a limited impact on growth: GDP should only increase by 0.5% on average over the period under review compared to the baseline scenario.

2.3 Major emerging economies continue to experience robust growth but it is expected to slow

China's economy is set to lose momentum, with growth slipping to 4.7% in 2025 from 5.0% in 2024. China's economy began the year with high carry-over growth of 4.2% after the first six months, primarily as a result of (i) resilient exports, which for the time being are able to be redirected from the United States to other countries, (ii) sustained consumption bolstered by the trade-in programme,[5] and (iii) monetary support measures including policy rate cuts. However, the 30% tariff hike imposed on Chinese imports by the US is expected to weigh on growth, particularly by dampening exports that are projected to suffer from the aftershock of the front-loading observed in the first half of the year. The Chinese authorities could extend the fiscal and monetary support measures if the impact of the tariffs were to jeopardise the growth target of "around 5%", which for now seems feasible. Growth is then expected to slow down to 4.0% in 2026 because of China's structural vulnerabilities and the lingering effects of US trade measures which should only partially be offset by redirecting a portion of exports. In addition, the extent of China's growth slowdown will be determined by the country's ability to alter its growth model, since it appears that manufacturing and exports will struggle to drive sufficient growth to offset the decline in the property sector.

In India, growth is projected to slow to 6.3% in the 2025/2026 fiscal year,[6] down from 6.5% in 2024/2025. This slowdown reflects rising household debt, which is hampering private consumption,[7] and to the imposition of particularly high US tariffs of 50% on Indian imports since 27 August 2025. These effects are expected to be only partially offset by a recovery in public investment, which took a blow last year because of the budget freeze and uncertainty during the election period. In 2026-2027, growth is expected to edge down slightly to 6.2% given the cumulative impact of US trade policy, and in spite of the delayed support from the monetary easing cycle launched in February 2025.

In Brazil, growth is forecast to normalise to 2.1% in 2025, following a strong performance in 2024 (3.4%). In 2025, the main drivers of growth – household consumption and investment – are likely to lose momentum, weighed down by the monetary tightening cycle initiated by the central bank in late 2024 and set to continue through 2025. In 2026, growth is expected to slow further to 1.8%, reflecting the lagged effects of monetary tightening and weaker foreign demand, particularly affected by the imposition of 50% tariffs by the United States on almost a third of Brazilian exports entering the country.

In Turkey, growth is expected to slightly moderate to 3.0% in 2025 – down from 3.2% in 2024 – hampered by a persistently restrictive monetary policy[8] and by continuing high – albeit declining – levels of inflation.[9] In addition, market tensions following the arrest of the mayor of Istanbul have prompted a pause in the monetary easing cycle launched in late 2024 is expected to further postpone economic recovery. Turkey's growth is expected to have a robust rebound in 2026 to reach 3.4%, driven by an upturn in private consumption and investment amid continuing interest rate cuts and shrinking inflation.[10] However, this recovery is expected to be dampened by weak foreign demand amid trade tensions.

(5) A programme offering financial incentives for consumers to replace outdated home appliances.
(6) The calendar used by India is the fiscal year, running from April to March of the following year.
(7) This forecast does not factor in the announcement of the GST reform, which aims to harmonise VAT rates to lighten the tax burden on consumers. This measure is intended to bolster domestic demand and the competitiveness of industry, particularly in labour-intensive sectors. However, this stimulus initiative will carry a high fiscal cost, estimated to range from 0.2% to 0.4% of GDP.
(8) Turkey's key interest rate stood at 43% in August 2025, compared to a high of 50% in the March-December 2024 period. The actual rate is also in positive territory and among the highest worldwide.
(9) Since its May 2024 peak (75.4% year on year), inflation gradually shrank to 33.5% in July 2025.
(10) According to the latest poll conducted by the CBRT, the markets are anticipating several cuts to the policy interest rate to bring it down to around 36% by late 2025 (25% in late 2026). The IMF also assumes that inflation will total 31% in late 2025 and 19% in late 2026. However, Turkey's economic policy is being conducted in such a way (pace of policy interest rate cuts, the extent of the national minimum wage increase) that it constitutes a major downside risk to these forecasts.

Box 3: Effect of US trade measures on emerging countries

Brazil, Mexico and several Asian economies – such as China, India and ASEAN countries – are among the economies most exposed to recent US tariff hikes given their heavy reliance on trade with the United States and the extent of the effective tariff rate increases. However, with negotiations still under way, the situation may evolve. In the wake of "Liberation Day" on 2 April, a series of bilateral agreements were signed with the US government, reducing some of the tariff hikes initially announced. For example, the tariffs imposed on Indonesia, Thailand, Malaysia and Vietnam were brought down to around 19% to 20% from the initial range of 32% to 46%. In return, these countries pledged to reduce or even scrap tariffs on US imports, increase their imports from the United States, particularly energy products, and lower non-tariff barriers. The United States has also introduced an additional tariff on Chinese goods that are transported via these countries as part of a transhipment process.

The United States threatened to raise tariffs on Chinese goods to 145%, while China's government announced that it would impose retaliatory tariffs of 125%. The situation was de-escalated in Ma: the additional US tariffs were cut to 30%, and China's tariffs to 10%, as part of an extended truce to allow negotiations to proceed.

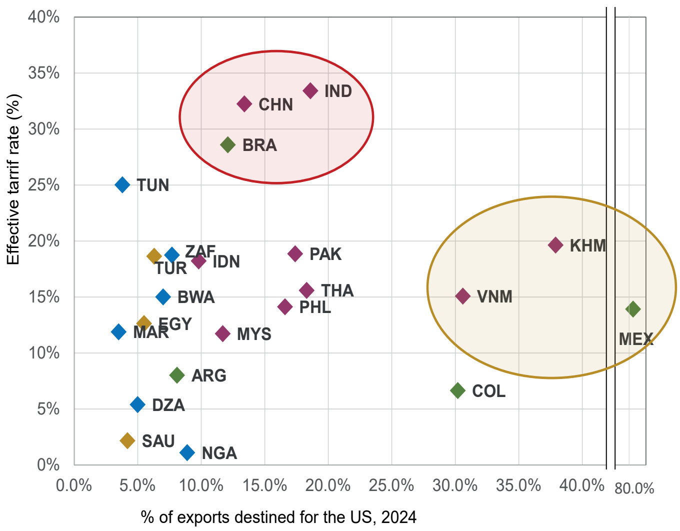
The biggest tariff hikes primarily reflect political objectives. For example, the BRICS countries appear to be particularly targeted, especially Brazil (faced with 50% tariffs compared to the 10% originally announced), with Trump citing the trial of former president Jair Bolsonaro as the reason for the hike. The US also imposed a 25% tariff on India to denounce the country's continuing trade barriers, as well as a 25% penalty for Delhi's purchases of Russian oil and weapons. South Africa has been hit with 30% tariffs, the highest rate in sub-Saharan Africa, attributed to rising bilateral political tensions since the second Trump administration took office.

Sector-specific tariffs (25% on automobiles and automobile parts and 50% on steel, aluminium and copper) have a varying impact on emerging economies. Mexico is particularly vulnerable, with 85.3% of its vehicle exports destined for the US market (22.1% of its total exports).[a] Brazil has also been dealt a blow through its steel and aluminium exports, which account for 15% of its exports to the United States (1.9% of its total exports in 2024). Lastly, the pharmaceutical industry could also be affected in the future, particularly in India, where 40% of pharmaceutical exports are destined for the US market (approximately 2% of the country's total exports).

The impact of trade tensions greatly varies from region to region, depending on the degree of reliance on exports to the United States and the effective tariff rates in place. As several strategic industries benefit from exemptions (e.g. semi-conductors, pharmaceuticals, electronics, energy products and certain critical minerals) the actual exposure of certain economies is reduced (see Chart 4).

Asia is still the most exposed region, particularly India, with the effective tariff rate[b] raised to 33% (with a 50% increase in nominal terms), and China, with the rate increased to 32% (with an additional 30% hike in nominal terms). ASEAN countries are especially affected given the hefty proportion of their exports that go to the United States and the effective tariff rate of roughly 15%. In Latin America, Mexico, the main trading partner of the United States, now has an effective tariff rate of 14% (with a 25% hike in nominal terms) and is currently conducting negotiations. Brazil also appears to have been left vulnerable, with the effective tariff rate raised to 29% (with a 50% hike in nominal terms). Conversely, countries in the Middle East and sub-Saharan Africa remain relatively unscathed, given their lower export volumes to the United States and the modest effective tariff rate levels.

Chart 4: Exposure of countries to US tariffs



Source: US Center for Global Development (26 August 2025).

How to read this Chart: The effective tariff rate for Brazil is 29% and exports to the United States accounted for 12.1% of overall exports in 2024.

a. A 25% tariff is imposed on vehicles exported from Mexico to the United States that fail to comply with USMCA rules.

b. The effective tariff rate is the average actual tariff applied to exports and reflects the overall impact of tariffs after exemptions, trade preferences and differences from product to product.

3. Risks continue to be significant and tilted to the downside

The risks surrounding this scenario are still skewed to the downside as the Trump administration continues to threaten to impose new tariffs amid persistent geopolitical tensions.

The Trump administration has entered into a certain number of trade agreements with its partners, including the European Union, which has dispelled some uncertainty. However, there are still some question marks hanging over their implementation, and Trump continues to threaten to impose additional tariffs, constituting the main downside risk of the scenario. What is more, the Trump administration's attacks on the Fed jeopardise the system's independence, and could undermine the credibility of the US dollar among international investors, potentially threatening global financial stability. This uncertainty has already depreciated the dollar and conversely appreciated the euro, reducing the competitiveness of France and its European partners.

In addition, despite recent talks on the war in Ukraine, the situation is still uncertain and the bombings continue. Lastly, the increasing frequency of extreme weather events indicates that the pace of global warming is stepping up, posing a considerable risk for emerging economies in particular.

As for upside risks, the EU defence spending multiplier could be higher than accounted for in this scenario, and could support demand to a greater extent from 2026 onwards. However, its impact on growth may be limited if France's partners switch out defence spending for other public spending items, or if a significant proportion of equipment is purchased outside of Europe (rather than being manufactured by European industry).

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