Part I Escalating Uncertainty at a Critical Juncture of the International Economic Order (IEO)

Chapter 1 A vulnerable global economy and the tariff shock

Until 2024, the global economy maintained stable growth despite the turmoil caused by the COVID-19 pandemic and the subsequent high inflation. However, the global economic structure was starting to become a fragile one overly dependent on U.S. growth. In China, which has so far led the global economic growth, a structural problem is emerging in the form of macro-level underconsumption amid an economic downturn and a deflationary trend due to a real estate market slump. As a result, the contribution of exports to the declining growth rate is growing.

Since the beginning of 2025, the global economy has been rocked violently by the impact of the tariff policy of the second Trump administration of the United States and other countries' responses to it, as well as the spillover effects, such as the rapidly heightening uncertainty.

This chapter will first provide an overview of the trend of the global economy in the period until 2024, when the United States led the global economy, and of China's economic downturn, followed by an overview of recent global economic developments and the future outlook, with a focus placed on changes in the projections for the global economy that have been caused by the "tariff shock" in 2025.[1]

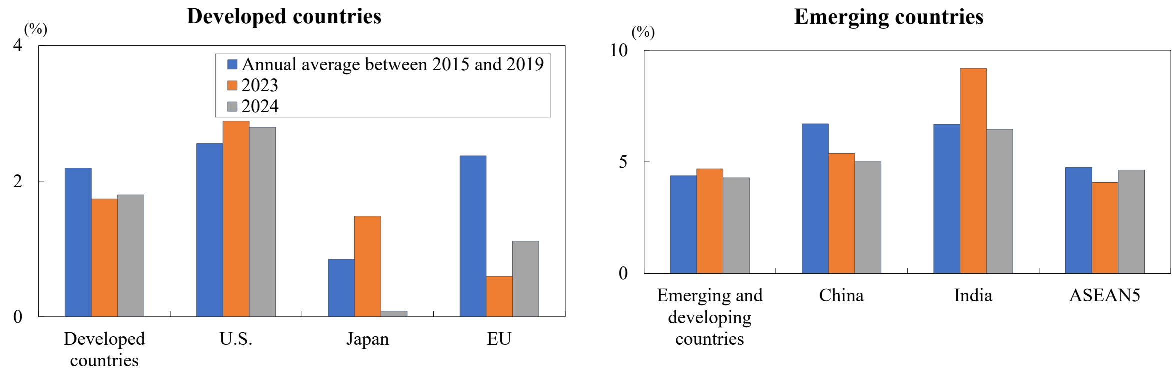
Section 1 Global economy in 2024 reliant on U.S. growth

In 2024, the real GDP growth rate of the global economy declined slightly, to 3.3% from 3.5% in 2023. Considering that monetary policy was rapidly tightened globally from 2022 onward, the global economy generally maintained firmness. However, at the same time, we see one distinctive feature of the current recovery phase, which is that the strength of the growth is uneven across regions—while the U.S. economy is staging a strong recovery, other regions are showing only a slow recovery.

In 2024, whereas most major countries and regions recorded slower growth rates compared with 2023 or lower growth rates compared with the pre-pandemic period (from 2015 to 2019), the U.S. economy maintained a higher growth than the average growth in the pre-pandemic period, as it did in 2023. (Figure I-1-1-1). In countries and regions other than the United States, there were downward economic pressures due to specific factors such as prolonged periods of inflation and high interest rates, manufacturing industry slumps, a long-running real estate market weakness, and political uncertainty. However, as for the U.S. economy, domestic demand, led by personal consumption, turned out to be stronger than expected against the backdrop of the robust labor market and the pile of household savings accumulated during the pandemic period and carried over since then.

[1] In addition to information that was available as of the end of March 2025, the WEO that was published on April 22 by the IMF, and relevant facts and data were also taken into consideration.

Figure I-1-1-1. Real GDP growth rates

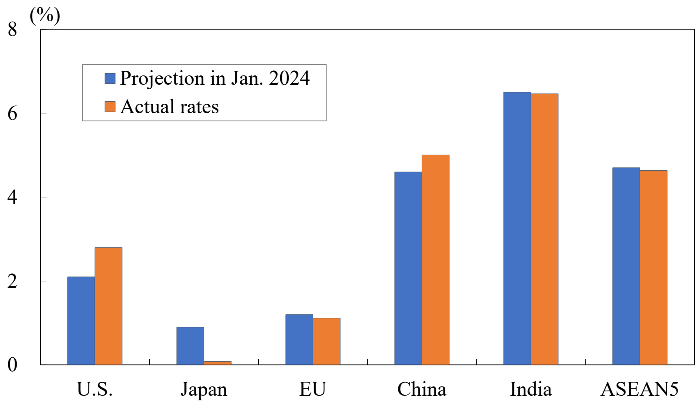


Note: ASEAN5 consists of five countries, i.e., Indonesia, Malaysia, the Philippines, Singapore, and Thailand.

Source: *WEO* (April 2025) (IMF).

A comparison between the growth projections by the IMF and the actual growth rates brings the stronger-than-expected growth of the U.S. economy into sharper relief. As of January 2024, the IMF projected a growth rate of 2.1% in 2024 for the United States compared with the previous year, expecting that the growth would slow down significantly from 2023 due to the effects of rapid interest rate hikes (Figure I-1-1-2). However, after all, the growth rate came to 2.8%, significantly higher than the projected rate, providing a sharp contrast to the performance of the Japanese and EU economies, whose growth rates turned out to be considerably lower than the projected rates. China's growth rate was also significantly higher than the projection published at the beginning of the year, supported, to some extent, by the effects of fiscal pump-priming and other policy measures, but the excess of 0.7 points over the projected growth rate for the U.S. economy was the largest among major countries. In 2024, the role of the United States as the predominant driver of the global economy became more apparent than before.

Figure I-1-1-2. Projection of growth rates and actual growth rates in 2024

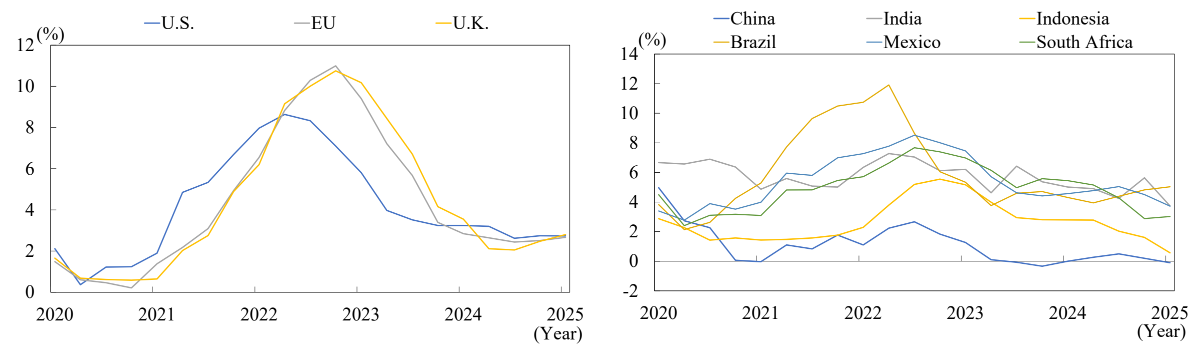


Note: ASEAN5 consists of five countries, i.e., Indonesia, Malaysia, the Philippines, Singapore, and Thailand. Data in India alone is based on fiscal years (April 2024 to March 2025).

Source: *WEO* (April 2025) (IMF).

As for the inflation that continued to plague countries and regions, the downtrend continued on the whole because international commodity prices remained relatively stable and because domestic demand in countries other than the United States was sluggish due to prolonged cycles of monetary tightening, among other reasons. Although inflation rates still remained higher than the pre-pandemic levels, they fell sharply from the peaks hit in 2022 (Figure I-1-1-3). In response, monetary policy in major countries and regions shifted to interest rate reduction (Figure I-1-1-4).

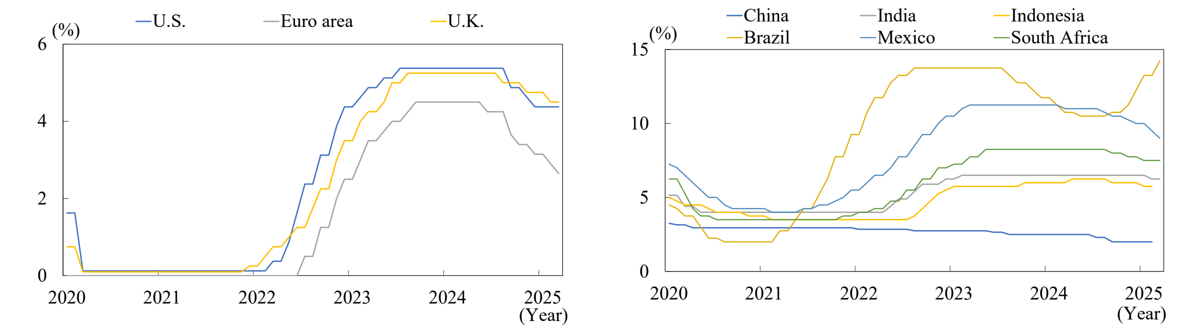
Figure I-1-1-3. Changes in inflation rates by major country and region



Note: This figure shows the increase rates of consumer price indices year on year (quarterly average value), and it covers data up to March 2025.

Source: CEIC.

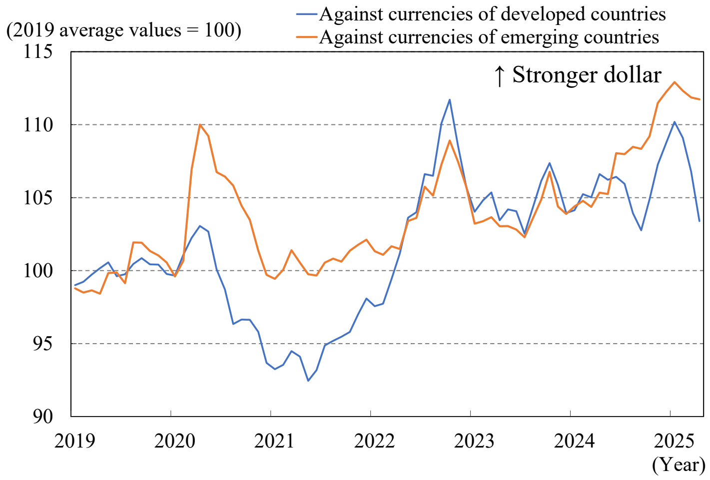
Figure I-1-1-4. Policy interest rates by major country and region



Source: CEIC.

Even so, as central banks in many countries and regions proceeded with interest rate reductions cautiously because prices, mainly services prices, showed some degree of stickiness (resistance to downward price pressure), interest rates did not decline sufficiently to boost economic growth. A handful of countries, including Brazil, resumed interest rate hikes in the second half of 2024. In addition to lingering inflationary pressures, the U.S. economy's role as the single predominant growth driver was a major factor behind the slow progress in interest rate reductions in countries around the world. In other words, as U.S. interest rates remained high and the U.S. dollar stayed strong in exchange markets (Figure I-1-1-5) amid the higher-than-expected robustness of the U.S. economy, other countries could not help but become conscious of the risk of their own currencies depreciating due to interest rate reductions. The appreciation of the dollar and inflows of money into the United States accelerated because Donald J. Trump won the U.S. presidential election in November 2024 and his new administration's policies fueled expectations of a further rise in U.S. inflation.

Figure I-1-1-5. U.S. dollar index



Note: This figure shows the nominal effective exchange rate of the U.S. dollar, which is weight-averaged by trade values, and covers data up to April 2025.

Source: FRB.