World Bank slashes global growth forecast

Nick Beams
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The World Bank has slashed its forecast for global growth, with major economies leading the downturn, because of the effects of the Trump tariff war against China and the rest of the world.

In its six-monthly economic outlook issued earlier this week, the World Bank said global output would increase by 2.3 percent in 2025, the lowest rise since 2008, outside the recessionary years of 2009 and 2020. This was a reduction of 0.5 percentage points on its forecast at the start of the year.

Growth could be even lower, because the outlook was predicated on the assumption that the pause in the imposition of reciprocal tariffs by the US would remain in force. There was a potential for higher tariffs, it said, but even if the pause continued, the average effective tariff imposed by the US was at the highest level in nearly a century.

"This sudden escalation in trade barriers results in global trade seizing up in the second half of this year and is accompanied by a widespread collapse in confidence, surging uncertainty, and turmoil in financial markets," the report said.

All the report could offer was a vague call—which will be completely ignored—for a priority to be placed on fostering "dialogue and cooperation to address global imbalances and restore a more predictable, transparent, and rules-based approach to resolving tensions and avoiding escalation."

The tariff measures have exacerbated the already lower trend in global growth. A "prospective recovery in global trade and investment—two important drivers of long-term development that have been relatively subdued in recent years—has been disrupted."

It said that "the downgrade to global growth this year is principally driven by the advanced economies."

In the US, growth is expected to "decelerate sharply in 2025 to 1.4 percent," with investment spending "particularly hard hit." Growth in 2026 was predicted to rise marginally to 1.6 percent.

The outlook noted that the resilience in US labour markets had continued to gradually diminish. Non-farm payroll growth was below the 2015–2019 average and easing further, with other labour market indicators "signalling reduced dynamism."

The situation in the euro area may be even worse, with the surge in uncertainty, as well as financial volatility, set to "prolong the bloc's economic weakness, holding back recovery in investment and trade."

Growth in the region is set to slow to just 0.5 percent this year and average 0.9 percent for 2026–27.

Growth is Japan is expected to rise to 0.7 percent this year from 0.2 percent in 2024. But this is a downward revision of 0.5 percent from the projection in January, due to slowing external demand amid increased trade barriers and weaker than expected real wage growth because of the elevation in food prices.

China's growth is expected to slow from 5 percent in 2024 to 4.5 percent this year, falling to 4 percent in 2026 and 3.9 percent in 2027.

The situation facing what the World Bank categorises as "emerging market and developing economies (EMDE)" is no better. EMDE growth is expected to "slow significantly" in 2025 to 3.8 percent, with only a "modest" pickup in 2026–27.

"The expected rate of growth is well below pre-pandemic averages and the pace that is needed to create sufficient jobs to meet working-age population growth."

The capacity of many EMDEs to respond to negative shocks had diminished "due to sharp pandemic-related increases in debt, elevated poverty rates, and waning official development assistance."

The growth in the debt burden with the rise in interest rates since 2022 is increasing in significance.

Fiscal deficits in the 2020s have averaged 6 percent of GDP in developing economies, the highest levels this century, with interest payments alone accounting for about a third of the deficits.

The mounting debt and interest burden confronting these countries was highlighted in a recent comment by well-known international economist Joseph Stiglitz, published in the *Financial Times*.

He noted that, according to United Nations data, some 54 countries spend more than 10 percent of their tax revenues on interest payments alone, with the average payments on interest as a share of tax revenue having almost doubled since 2011.

"More than 3.3bn people live in countries that now spend more on debt service than on health and 2.1bn in countries that spend more on debt than on education," he wrote.

These countries are being sucked dry by international finance capital. They experienced a net outflow to the private sector on long-term debt of $39 billion in 2023 following an outflow of $50 billion the previous year, according to the Stiglitz article.

The World Bank report warned that volatility in financial markets could lead to a "material reappraisal of risk appetite [that] could lead to sharp asset price corrections in advanced economies, which would reverberate through global markets and might become disorderly if synchronous deleveraging by market participants leads to liquidity strains."

There is a direct connection here to the Trump tariff war. In April, following the announcement of the massive reciprocal tariff hikes, interest rates on US Treasury bonds spiked and there were warnings of a financial crisis because of the escalation of US debt.

However, instead of the value of the dollar rising, as is usually the case when there is turbulence and finance seeks a safe haven, it fell and has continued to fall since. The growing lack of confidence in the US dollar as the global currency was also reflected in the rise in the gold price to record highs, reaching $3500 per ounce at one point.

While it pointed to a fall in price of metals and other raw materials because of the marked slowdown in the world economy, the World Bank forecast that the price of gold would continue to rise. This is a clear indication it fears dollar instability will increase.

In his foreword to the report, the bank's chief economist Indermit Gill summed up its conclusions:

"Only six months ago, a 'soft landing' appeared to be in sight: The global economy was stabilising after an extraordinary string of calamities both natural and man-made over the past few years. That moment has passed. The world economy today is once again running into turbulence. Without a swift course correction, the harm to living standards could be deep."

But amid rising conflicts on both the economic and political fronts—the US economic war and the drive by the Trump administration to establish a presidential dictatorship—such a "course correction" is not even a remote possibility.