



International Monetary Fund

**World Economic Outlook and the Asia Pacific Region
—Global Economy in the Shadow of War—**

(based on Chap. 1 of IMF World Economic Outlook (WEO) April 2026)

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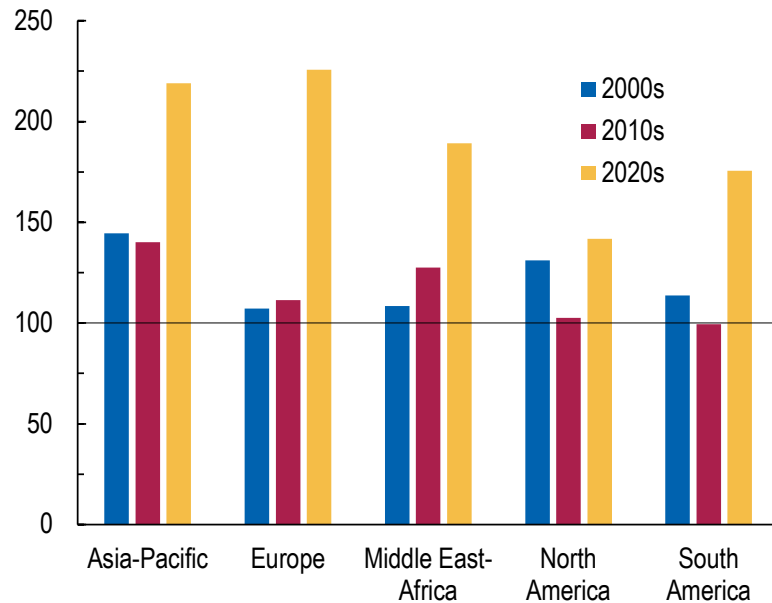
Seminar at Research Institute of Economy, Trade and Industry (RIETI)

June 3, 2026

Global Economy Tested Again

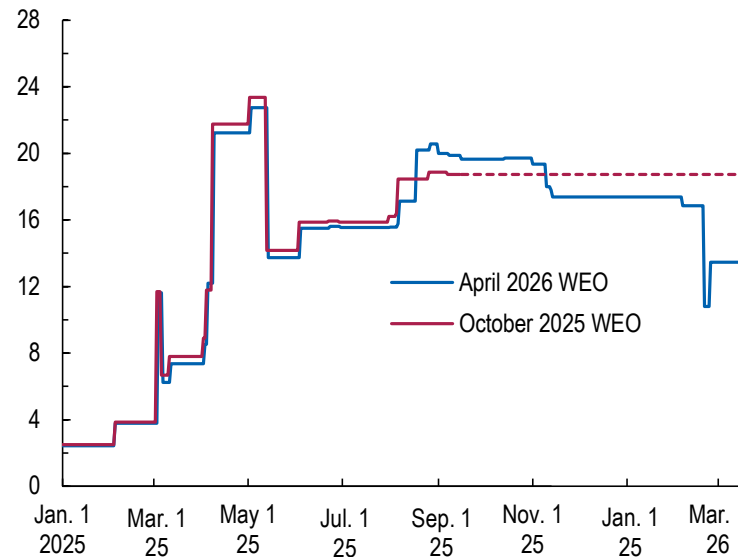
Regional Geopolitical Risk

(Index, 1990s = 100)



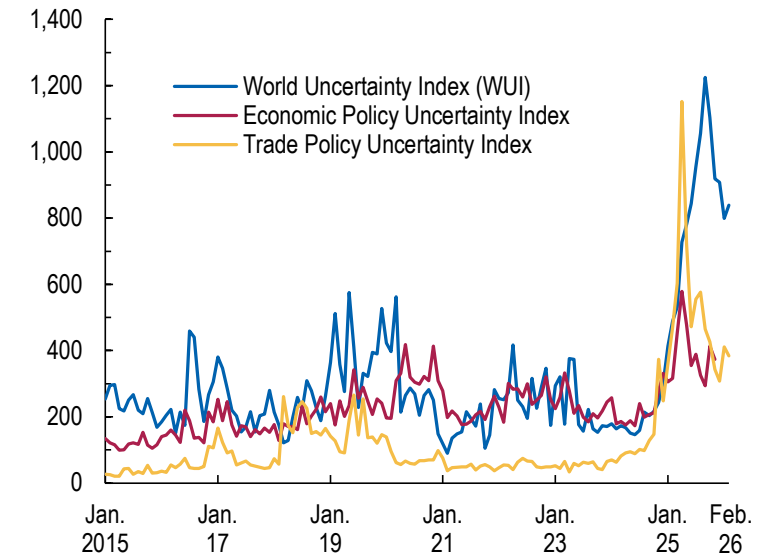
US Effective Statutory Tariff Rate

(Percent)



Global Uncertainty

(Index)



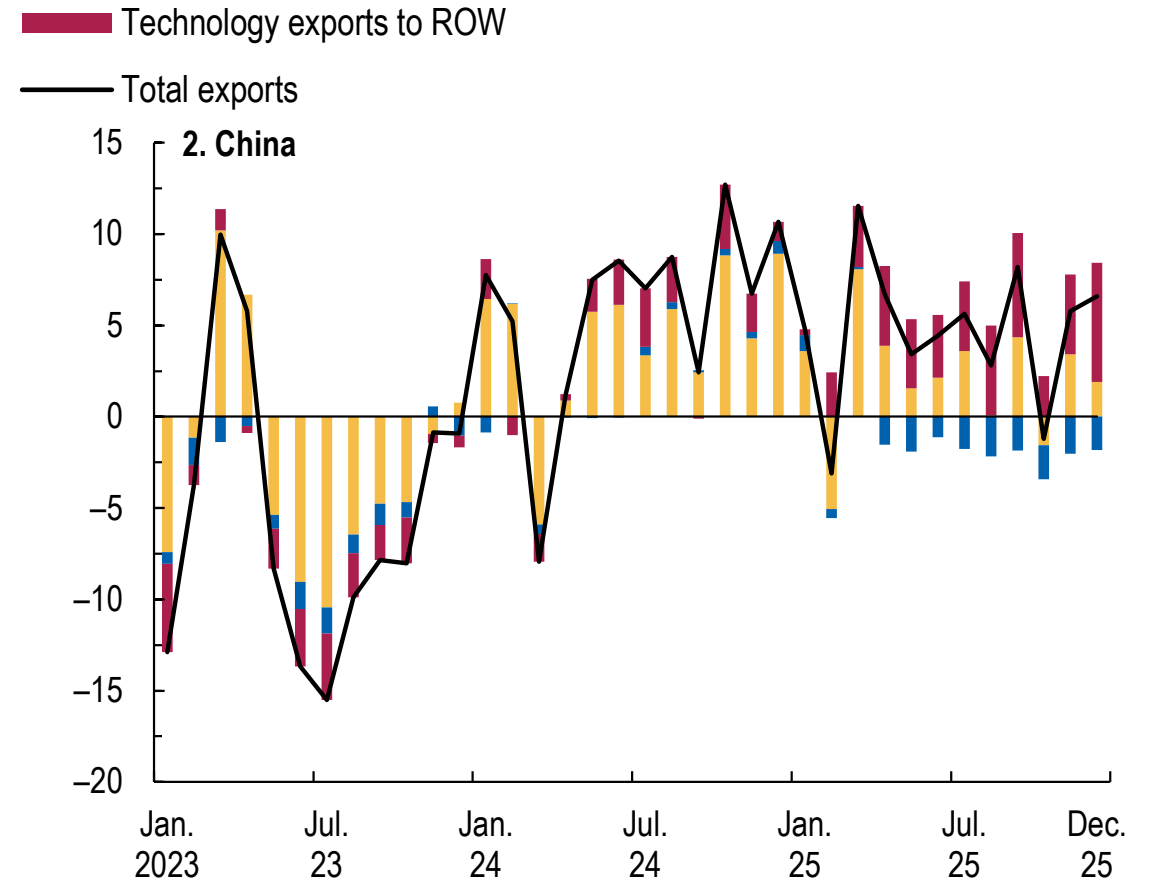
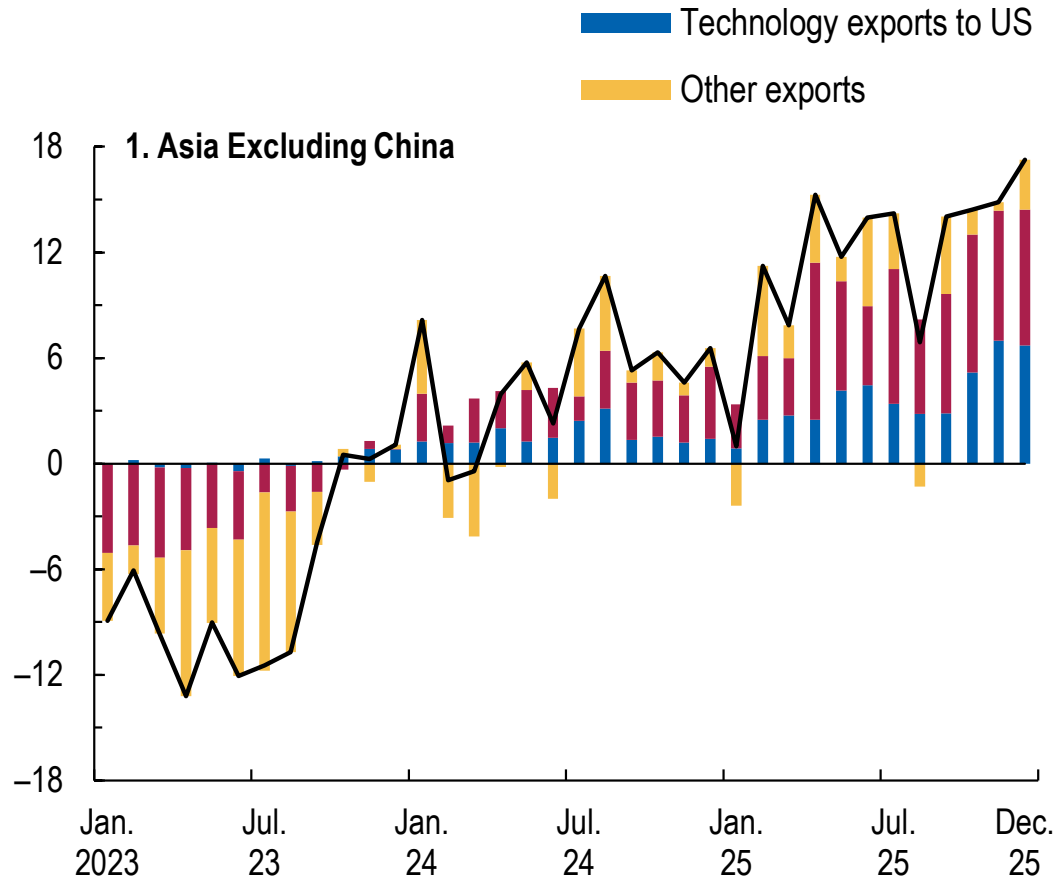
Sources: Ahir, Bloom, and Furceri 2022 (worlduncertaintyindex.com); Baker, Bloom, and Davis 2016 (policyuncertainty.com); Caldara and Iacoviello 2026; Caldara and others 2020 (matteoiacoviello.com/tpu.htm); WTO-IMF Tariff Tracker; and IMF staff calculations.

Note: In the left panel, the figure presents the country-specific geopolitical risk index of Caldara and Iacoviello (2026), a news-based measure of adverse geopolitical events that covers 10 major newspapers in Canada, the United Kingdom, and the United States. The country-level data were downloaded from <https://www.matteoiacoviello.com/gpr.htm> and averaged at the regional and decadal levels and normalized to 100 for the 1990s. In the middle panel, “Effective statutory tariff rate” is a weighted average of announced statutory rates using pretariff (hence, presubstitution) import weights. Calculations include only tariffs that are in effect at the time noted on the x-axis; measures that are not specified and implemented are not included. In the right panel, the uncertainty measures are news- and media-outlets-based indices that quantify media attention to global news related to overall uncertainty (WUI), economic policy uncertainty, and trade policy uncertainty. WUI is divided by 100. WEO = *World Economic Outlook*.

**Recent Developments:
Continued Resilience and Rising Fragility**

Expansion in Tech-Related Trade

Continued Brisk Growth in Tech-Related Trade Flows (Percent, year over year)



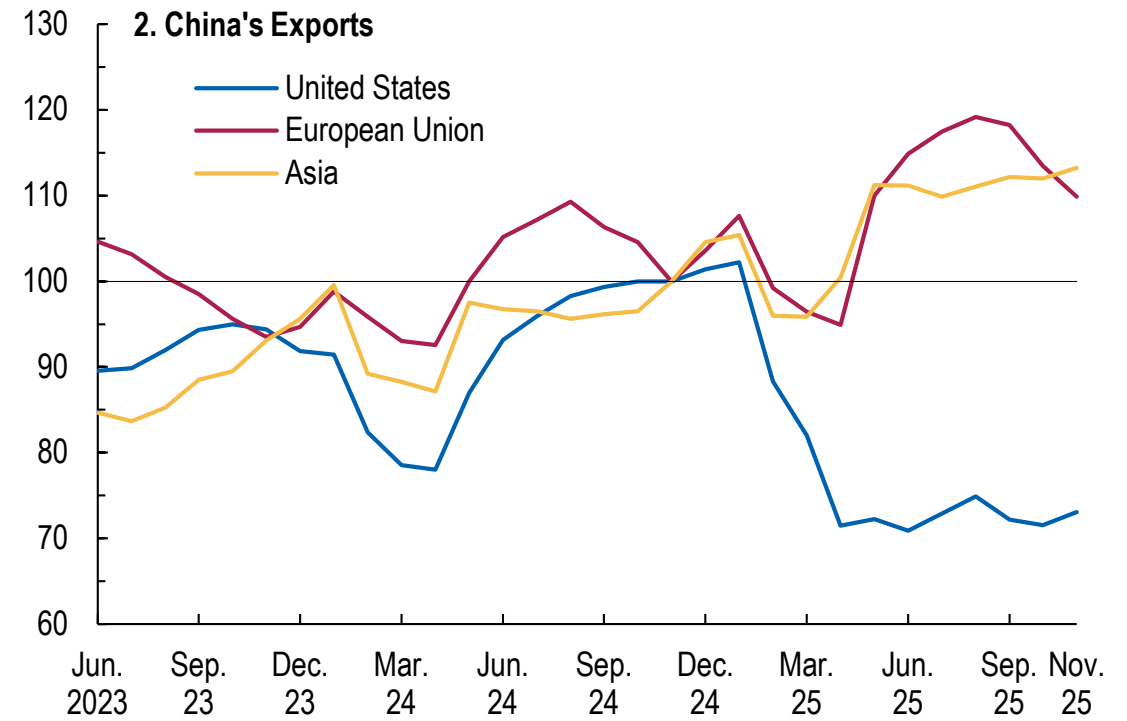
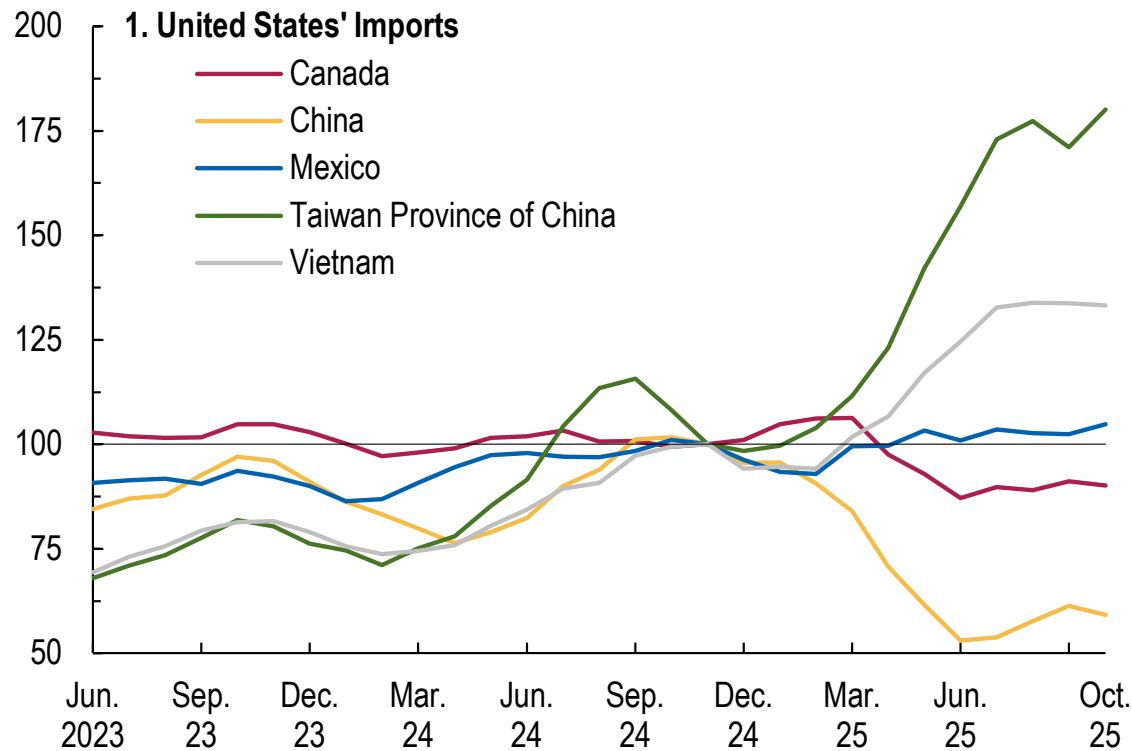
Sources: Haver Analytics; International Trade Center, Trade Map; and IMF staff calculations.

Note: "Technology" exports include those classified under Harmonized System codes 8419, 8470–8473, and 85. "Asia" includes Cambodia, China, Indonesia, Japan, Korea, Malaysia, Singapore, Taiwan Province of China, Thailand, and Vietnam. Data for Vietnam include computers, electronic products, and parts; telephones, mobile phones, and parts; and insulated wires and cables. ROW = rest of the world.

Rewiring of Global Supply Chains and Trading Relations Continued

Reorientation of Global Trade

(Index, 2024 = 100)



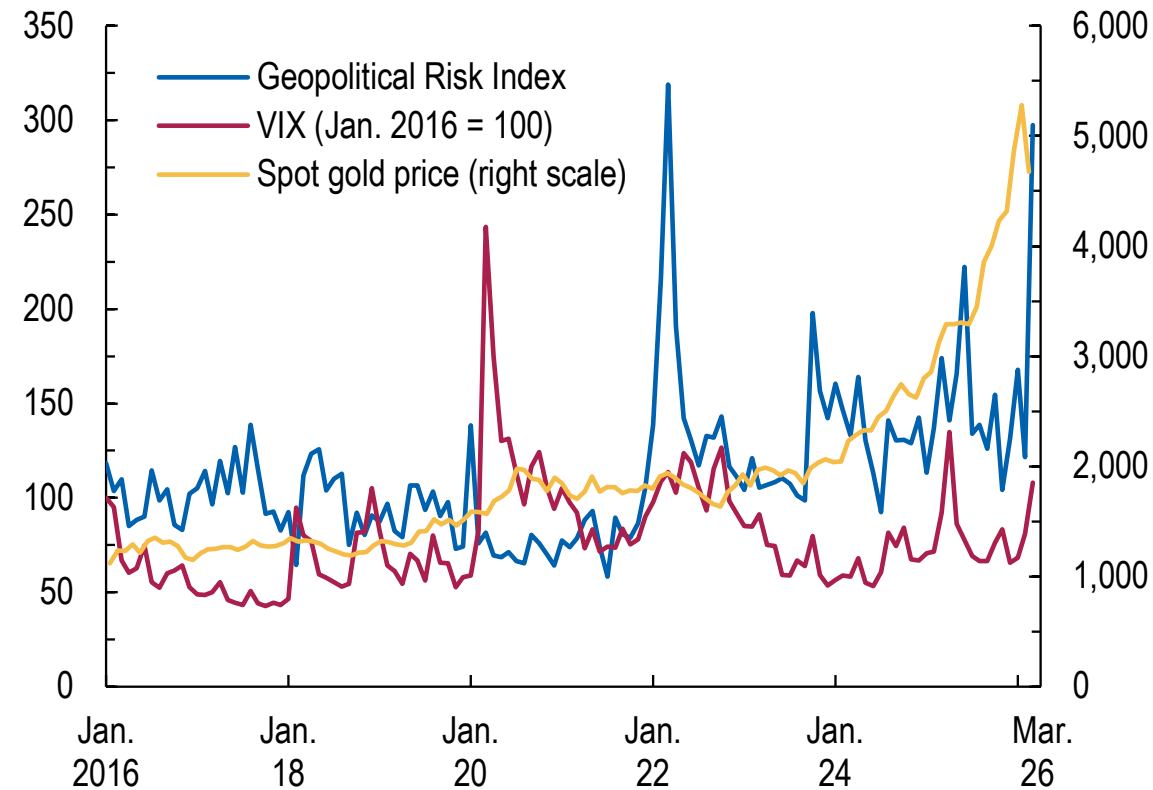
Sources: Trade Data Monitor; and IMF staff calculations.

Note: Three-month moving average of non-seasonally adjusted US dollar values, based on cross-border shipments data sourced from Trade Data Monitor. These data can differ from balance of payments data.

The Outbreak of the Middle East Conflict

Global Geopolitical Risk

(Index; US dollars per ounce)



Sources: Caldara and Iacoviello 2022; Chicago Board Options Exchange (CBOE); London Stock Exchange Group, Datastream; and IMF staff calculations. Note: This figure plots the monthly global geopolitical risk index of Caldara and Iacoviello (2022), a news-based measure of adverse geopolitical events that covers 10 major newspapers in Canada, the United Kingdom, and the United States. Data were downloaded from <https://www.matteoiacoviello.com/gpr.htm> on April 02, 2026. VIX = CBOE Volatility Index.

**The Outlook:
Growth and Disinflation, Interrupted**

Risks to the Outlook

Reference Forecast

- **In lieu of the traditional baseline, given the fluidity of the situation**
- **Short-lived conflict and gradual normalization of production and transport in the region**
- **Impact on commodity prices, inflation expectations, and financial conditions limited**
- **Bottom-up projections by IMF country teams**

Adverse Scenario

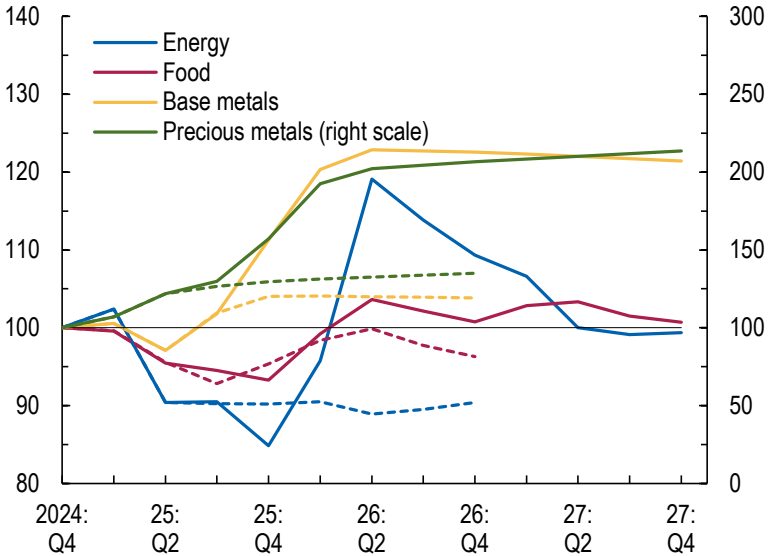
- **Larger and more persistent increases in commodity prices**
- **Top-down model-based projection**

Severe Scenario

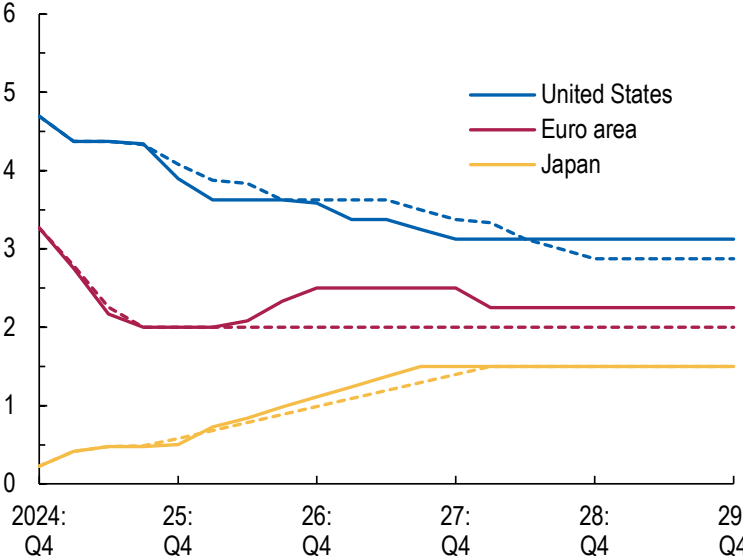
- **Damage to energy infrastructure in the conflict region**
- **Top-down model-based projection**

Assumptions for the Reference Forecast

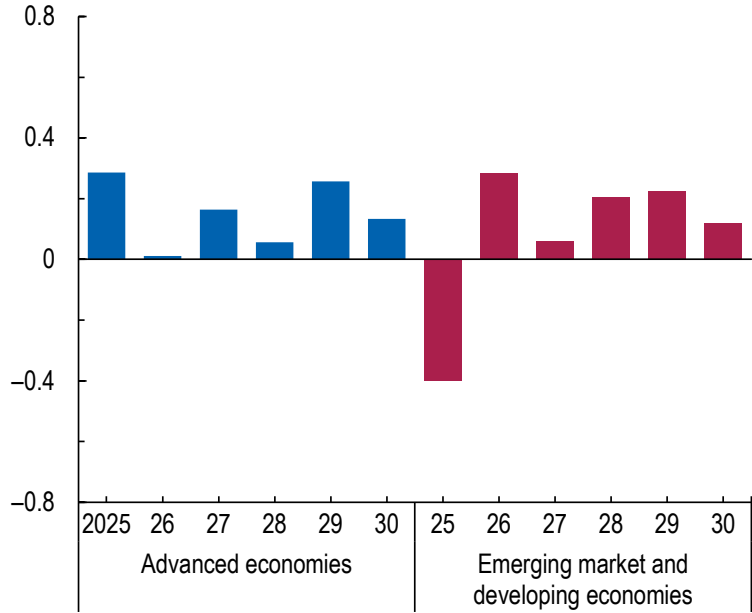
Commodity Prices (Index, 2024:Q4 = 100)



Monetary Policy Projections (Percent, quarterly average)



Fiscal Policy Projections (Percentage points, change in fiscal balance)

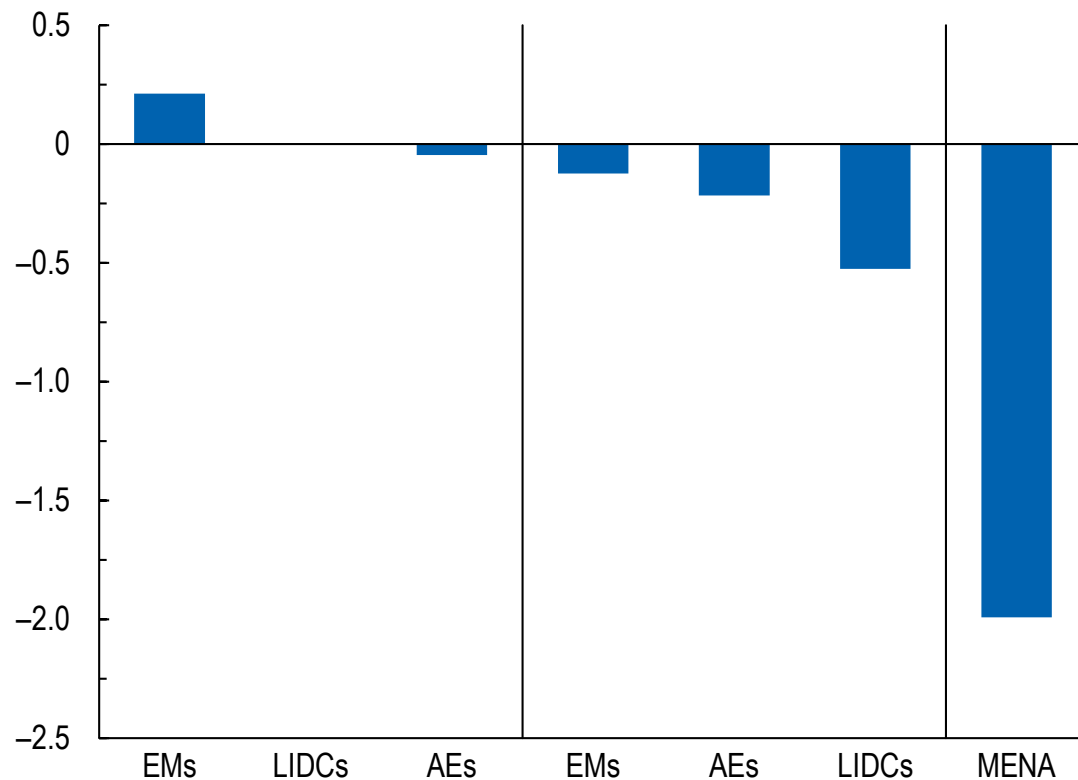


Source: IMF staff calculations.

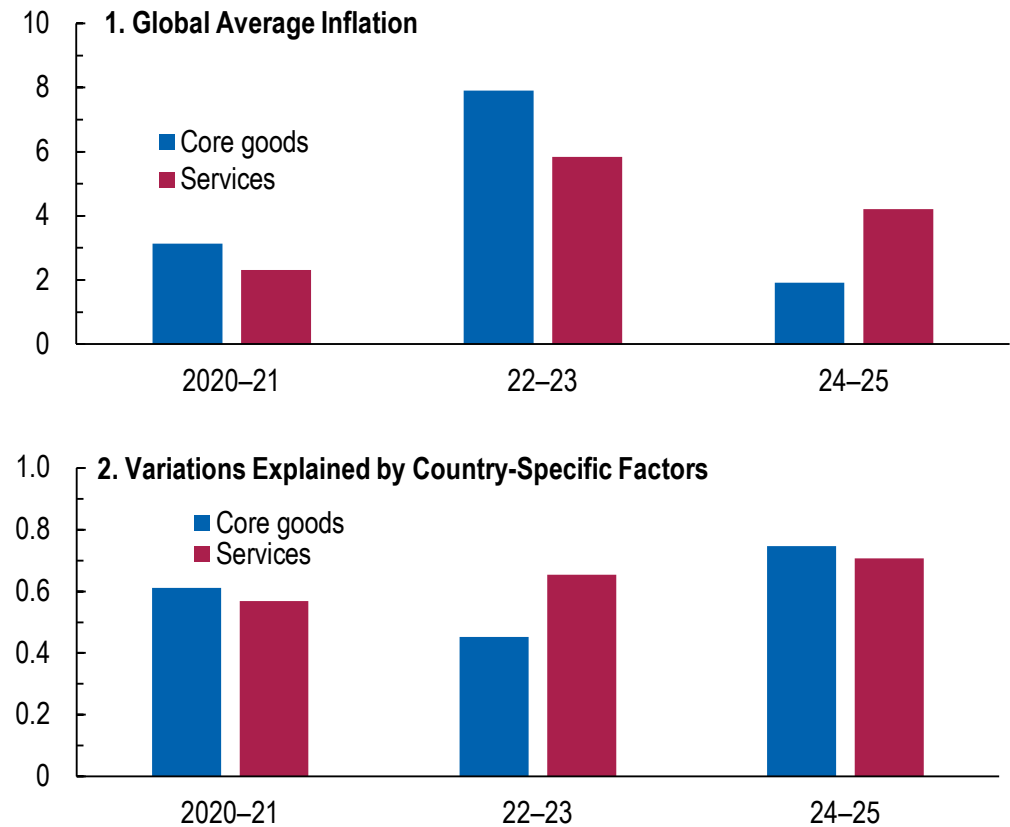
Note: In panels 1 and 2, solid lines denote projections from the April 2026 *World Economic Outlook* (WEO) and dashed lines those from the October 2025 WEO. In panel 3, the fiscal balance used is the general government structural primary balance in percent of potential GDP. The structural primary balance is the cyclically adjusted primary balance excluding net interest payments and corrected for a broader range of noncyclical factors such as changes in asset and commodity prices.

Global Forecasts: Fragile with Large Dispersion

GDP Growth Revisions in the Reference Forecast
(Percentage points)



Global Inflation
(Percent)



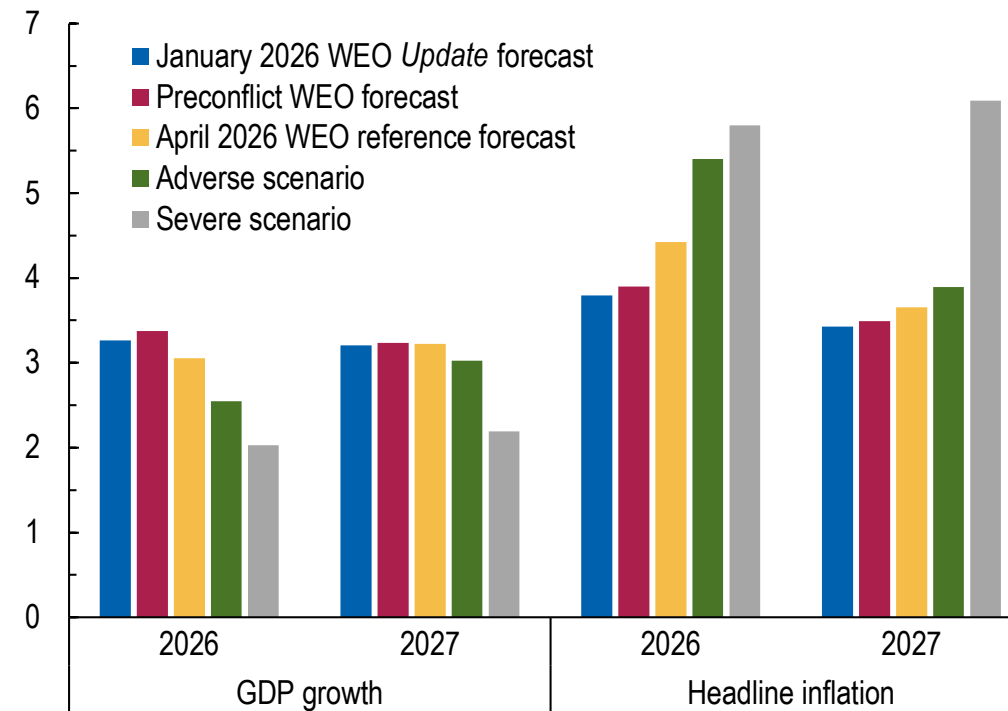
Source: Haver Analytics; World Bank, World Development Indicators; and IMF staff calculations.

Note: The left figure presents cumulative GDP growth revisions for 2026–27 relative to January 2026 *World Economic Outlook Update*. Energy exporters and importers are defined using 2022 net energy imports as a share of energy use. Groups are aggregated using purchasing-power-parity weights. EMs and LIDCs exclude MENA. In the right figure, panel 1 shows the average inflation across 27 countries for which data are available. All numbers are simple averages. Panel 2 shows the share of country-level inflation variation not explained by global inflation, proxied by the first principal component of inflation across 27 countries, computed in a rolling two-year window. AEs = advanced economies; EMs = emerging market economies; LIDCs = low-income developing countries; MENA = Middle East and North Africa.

Global Growth Forecasts under Different Scenarios

Global Growth and Inflation Forecasts

(Percent)

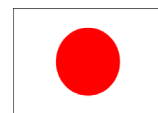
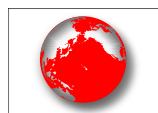


Source: IMF staff estimates.

Note: The three WEO forecasts are constructed bottom-up from individual country projections before and after the outbreak of the Middle East conflict. The two scenarios are model-based top-down estimates. The adverse scenario assumes that oil (gas) prices increase by 80 (160) percent starting in 2026 Q2, relative to the January 2026 WEO Update, with the increase mostly unwinding in 2027, one-year-ahead inflation expectations increase by 50 (90) basis points in advanced economies (emerging markets excluding China), and corporate premiums rise by 50 (100) basis points in advanced economies plus China (emerging markets excluding China), while sovereign spreads in emerging markets excluding China increase by 50 basis points in emerging markets excluding China with the tightening in financial conditions fading in 2027. The severe scenario is calibrated to larger and more persistent shocks. First, oil (gas) prices are assumed to be 100 (200) percent higher than the January 2026 WEO Update, starting in 2026 Q2 and staying at that level in 2027, while food commodity prices increase by 5 (10) percent in 2026 (2027). Second, one-year-ahead inflation expectations increase by 100 (130) basis points in advanced economies (emerging markets excluding China) by 2027. Third, corporate risk premiums rise by 100 (200) basis points in advanced economies plus China (emerging markets excluding China) in 2026–27, while sovereign spreads increase by 100 basis points in emerging markets excluding China over the same period. WEO = *World Economic Outlook*.

GROWTH PROJECTIONS: ADVANCED ECONOMIES

(PERCENT CHANGE FROM A YEAR EARLIER)



World

Advanced Economies

United States

Euro Area

Japan

United Kingdom

Canada

Other Advanced Asia

2025

3.4

1.9

2.1

1.4

1.2

1.3

1.7

3.5

Revision from
Jan. 2026

0.1

0.2

0.0

0.0

0.1

-0.1

0.1

1.5

2026

3.1

1.8

2.3

1.1

0.7

0.8

1.5

2.9

Revision from
Jan. 2026

-0.2

0.0

-0.1

-0.2

0.0

-0.5

-0.1

0.9

2027

3.2

1.7

2.1

1.2

0.6

1.3

1.9

2.3

Revision from
Jan. 2026

0.0

0.0

0.1

-0.2

0.0

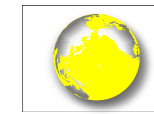
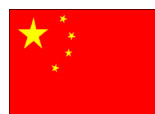
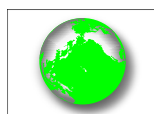
-0.2

0.0

0.0

GROWTH PROJECTIONS: EMERGING MARKETS AND LIDCS

(PERCENT CHANGE FROM A YEAR EARLIER)



	World	Emerging Market and Developing Economies	China	India	Brazil	Russia	Commodity Exporting Economies	Low Income Developing Countries
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2025	3.4	4.4	5.0	7.6	2.3	1.0	3.2	4.8
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Revision from Jan. 2026	0.1	0.0	0.0	0.3	-0.2	0.4	0.1	0.2
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2026	3.1	3.9	4.4	6.5	1.9	1.1	2.5	4.8
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Revision from Jan. 2026	-0.2	-0.3	-0.1	0.1	0.3	0.3	-0.6	-0.3
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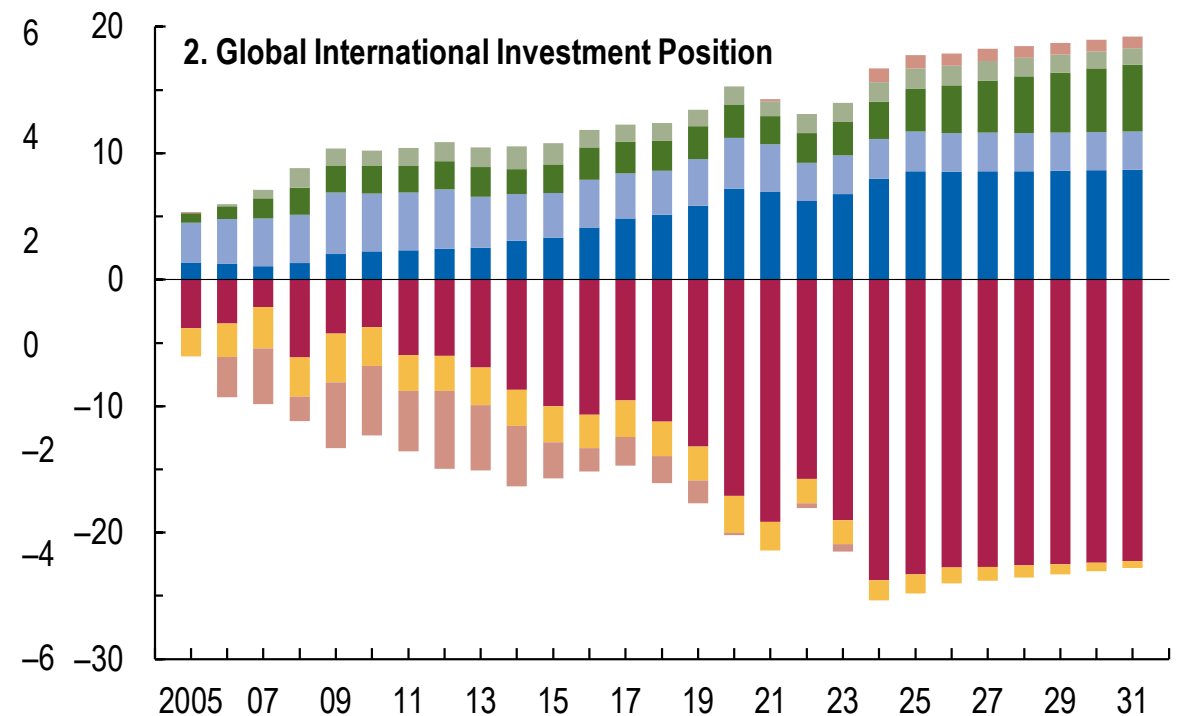
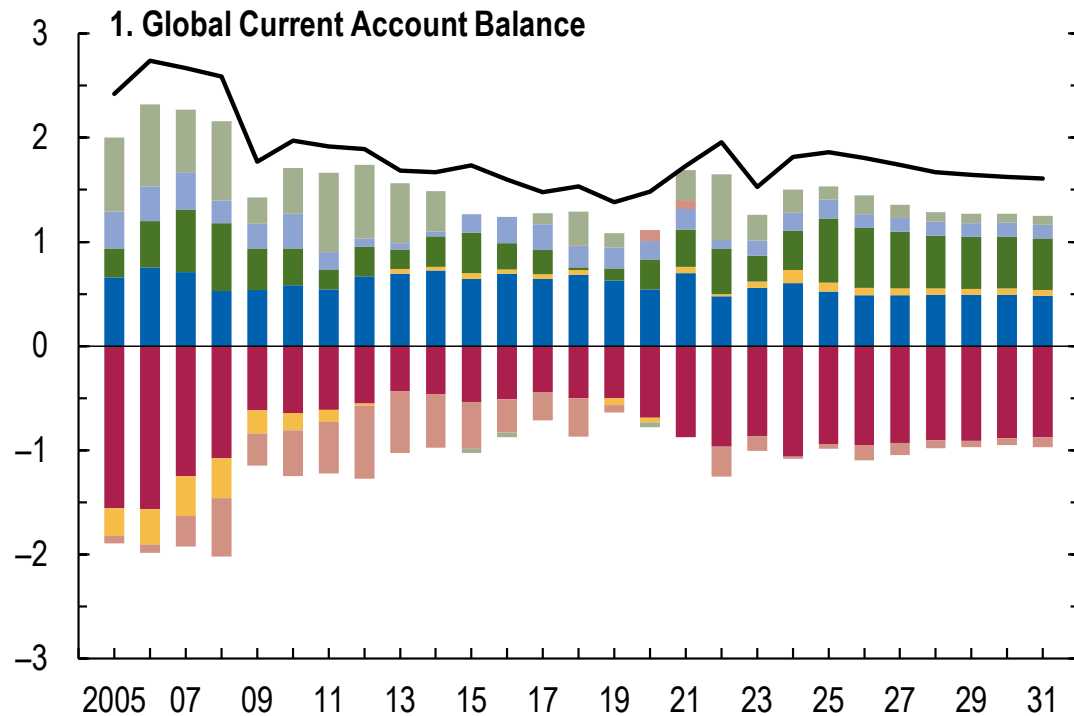
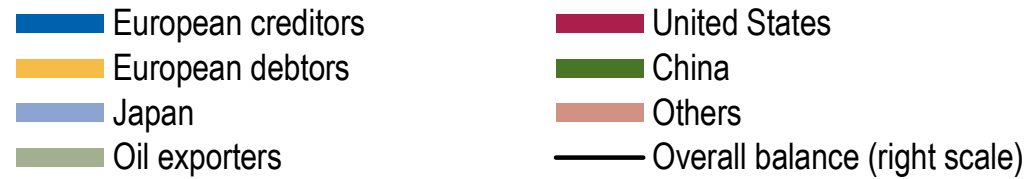
2027	3.2	4.2	4.0	6.5	2.0	1.1	3.4	4.9
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Revision from Jan. 2026	0.0	0.1	0.0	0.1	-0.3	0.1	0.2	-0.2
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World Trade Outlook and Global Imbalances

Current Account and International Investment Positions

(Percent of global GDP)



Source: IMF staff calculations.

Note: "European creditors" are Austria, Belgium, Denmark, Finland, Germany, Italy, Luxembourg, The Netherlands, Norway, Slovenia, Sweden, and Switzerland. "European debtors" are Cyprus, Greece, Ireland, Portugal, and Spain. "Oil exporters" are Algeria, Azerbaijan, Iran, Kazakhstan, Kuwait, Nigeria, Oman, Qatar, Russia, Saudi Arabia, United Arab Emirates, and Venezuela.

**Risks:
Downside Dominates**

Risks to the Outlook

Downside

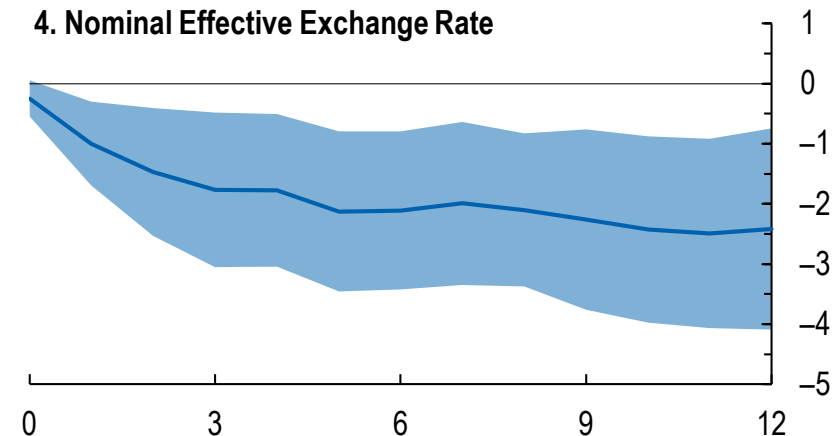
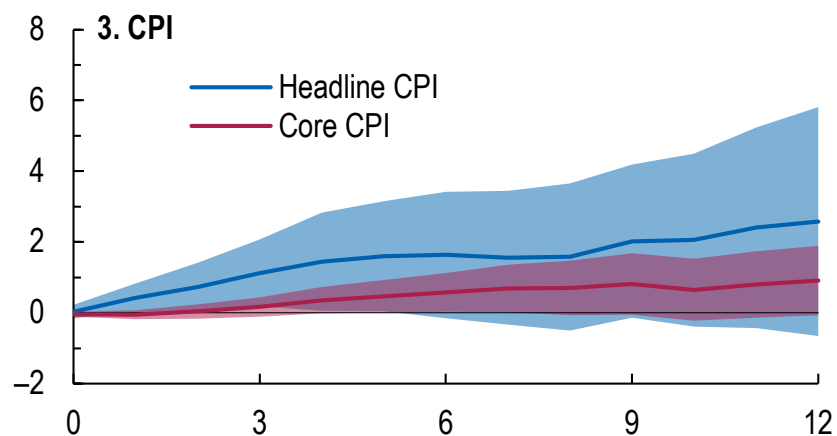
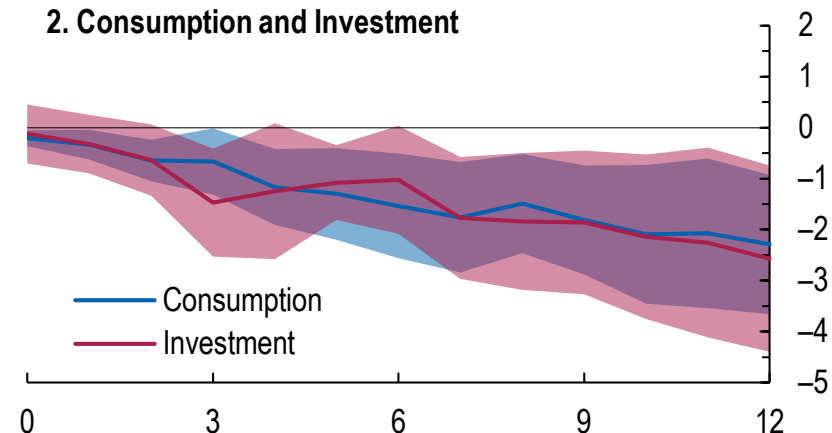
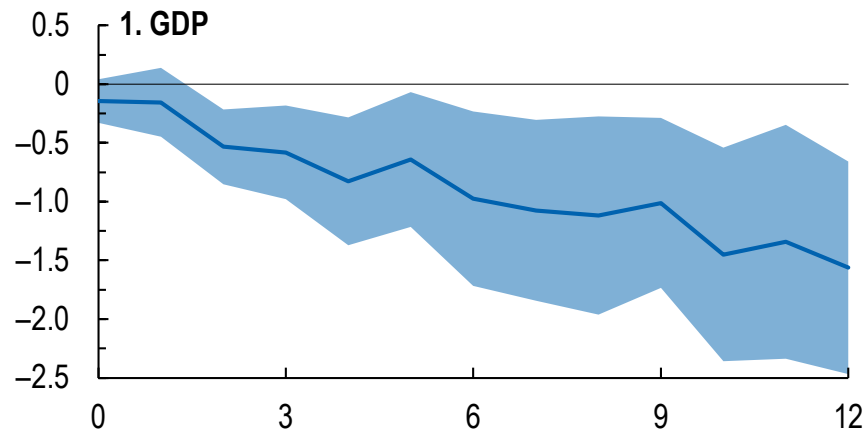
- **Further intensification of conflicts and eruption of domestic political tensions**
- **Reevaluation of productivity gains from new technology**
- **Repricing of borrowing costs triggered by fiscal vulnerabilities**
- **Disruption of the fragile balance of current trade policies**
- **Erosion of confidence in economic institutions**

Upside

- **Sooner materialization of productivity gains from artificial intelligence**
- **Structural reforms as countries seize the moment**
- **Progress in trade talks and enhanced policy predictability**

Intensification of Conflicts and Eruption of Domestic Political Tensions

Estimated Impact of Geopolitical Risks (Percent)

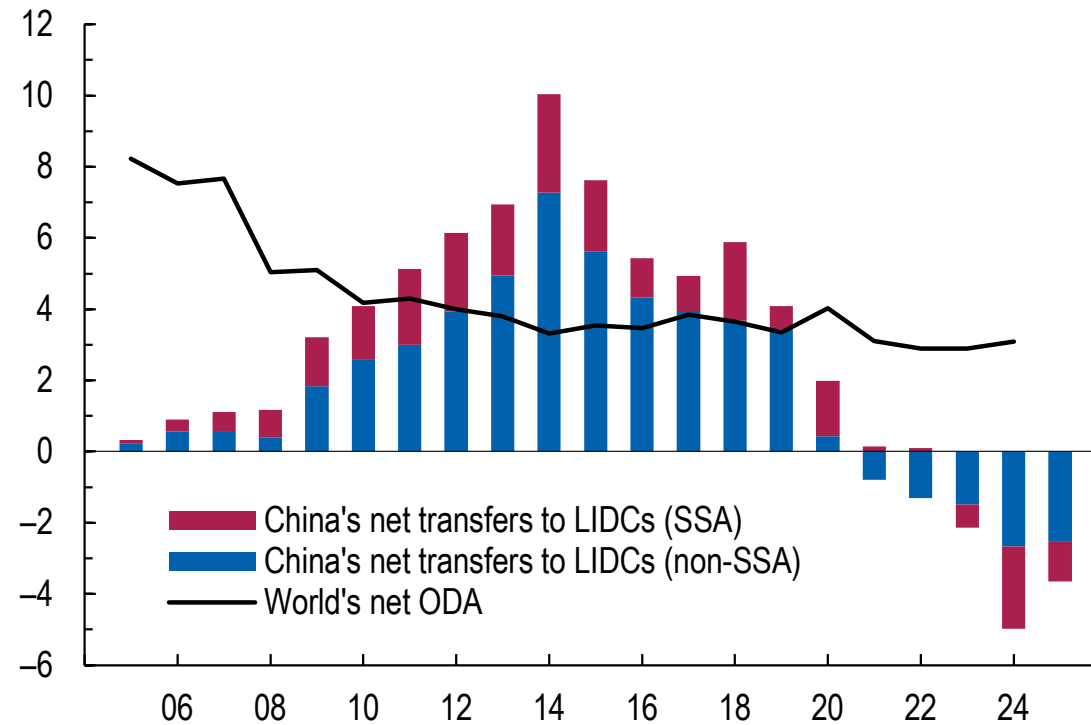


Sources: Caldara and others 2026; and IMF staff calculations.

Note: The analysis uses local projections, controlling for lagged country-specific geopolitical risk and changes in macroeconomic variables, as well as country and time fixed effects. Geopolitical risk is measured based on newspaper archives. See Caldara and others (2026) for details. The country-level data were downloaded from <https://www.matteoiacoviello.com/gpr.htm>. The lines denote point estimates, and the shaded areas denote 90 percent confidence intervals. CPI = consumer price index.

Repricing of Borrowing Costs Triggered by Fiscal Vulnerabilities

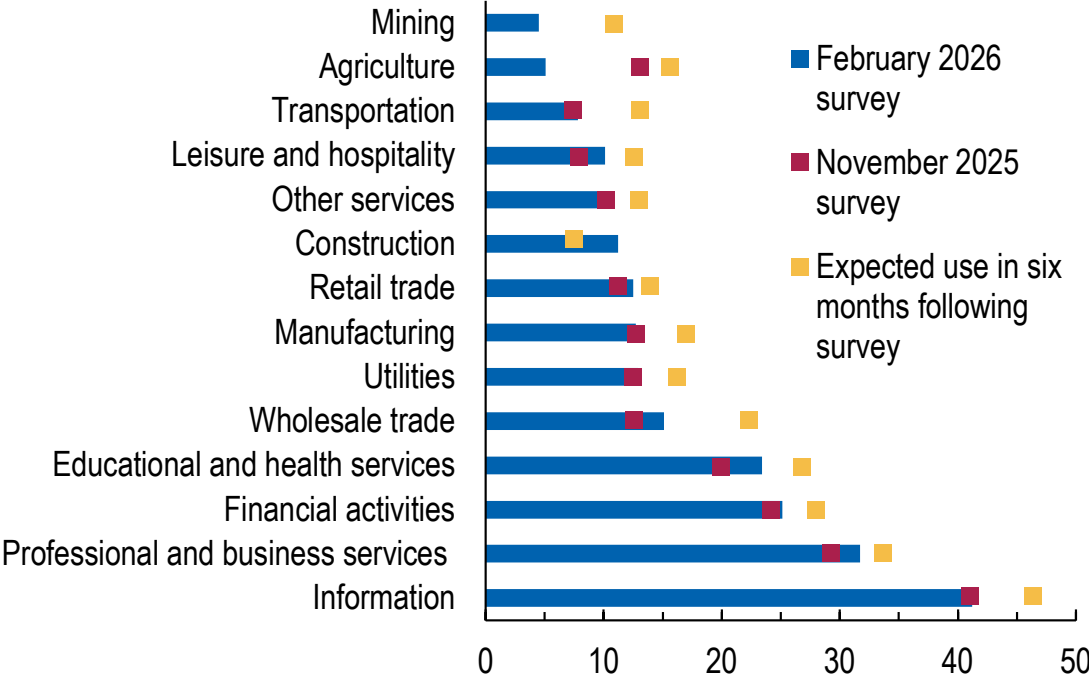
International Flows to LIDCs
(Billions of US dollars)



Sources: Organisation for Economic Co-operation and Development; World Bank, World Development Indicators; and IMF staff calculations.
 Note: Net official development assistance (ODA) is weighted by and shown as percentages of gross national income. LIDCs = low-income developing countries; SSA = sub-Saharan Africa.

Sooner Materialization of Productivity Gains from Artificial Intelligence

Use of Artificial Intelligence by US firms by Sector (Percent)



Sources: US Census Bureau, Business Trends and Outlook Survey; and IMF staff calculations.

Note: Sectors are aggregated using gross-value-added shares. Blue bars and red markers show responses to the survey question: "In the last six months, did this business use Artificial Intelligence (AI) in any of the following business functions?" The yellow markers show responses from the February 2026 survey to the question: "During the next six months, do you think this business will be using AI in any of its business functions?" Survey responses for Construction and Mining sectors were not available from the November 2025 survey.

**Policies:
Addressing the Current Shock,
Preparing for the Next**

Get Own House in Order and Cooperate with Others

Preserving Price and Financial Stability

- Be ready to act decisively
- Reserve the option to look through if inflation expectations anchored and monetary policy stance already properly calibrated
- Communicate clearly, timely, and consistently
- Safeguard independence and credibility
- Maintain a flexible but orderly exchange rate
- Enhance prudential oversight

Promote Medium-Term Growth

- Mobilize labor, implement smarter regulation, harness technological progress
- Foster energy transition
- Address domestic imbalances

Protect the vulnerable but stay disciplined

- Keep a fiscal and monetary policy mix consistent with price stability
- Limit distortion of price signals
- Fiscal support, if any, should be timely, temporary, and targeted, with clear sunset clauses and identified offsets
- Rebuild fiscal buffers
- Credible medium-term fiscal framework, calibrated to country circumstances

Restore Predictable International Economic Rules

- Advance efforts to resolve tensions and promote trade
- Promote effective international cooperation

Useful Links

IMF

- Website : <https://www.imf.org/>
- IMF REO : <https://www.imf.org/en/Publications/REO>
- IMF WEO : <https://www.imf.org/en/Publications/WEO>

OAP

- Website : [IMF.org/OAP](https://www.imf.org/OAP)
- X : https://x.com/IMF_Tokyo
- Facebook : <https://www.facebook.com/IMFAsiaPacificOffice/>

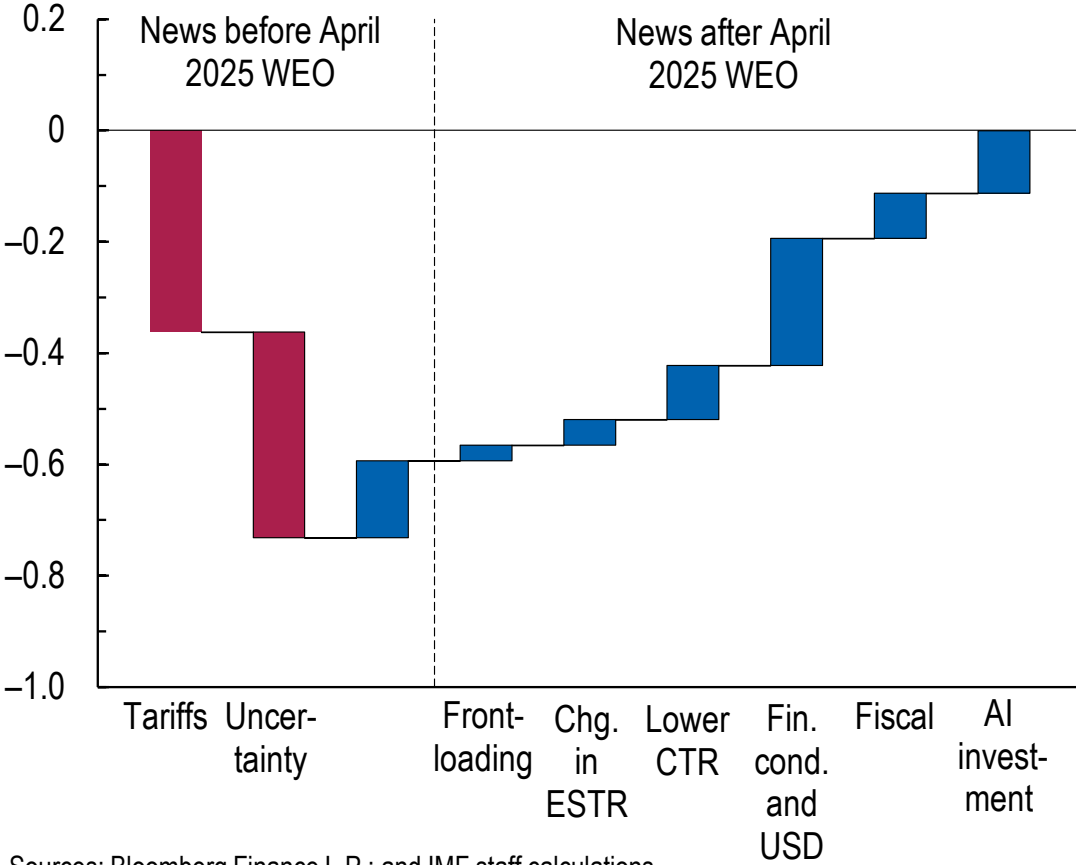


Extra Slides

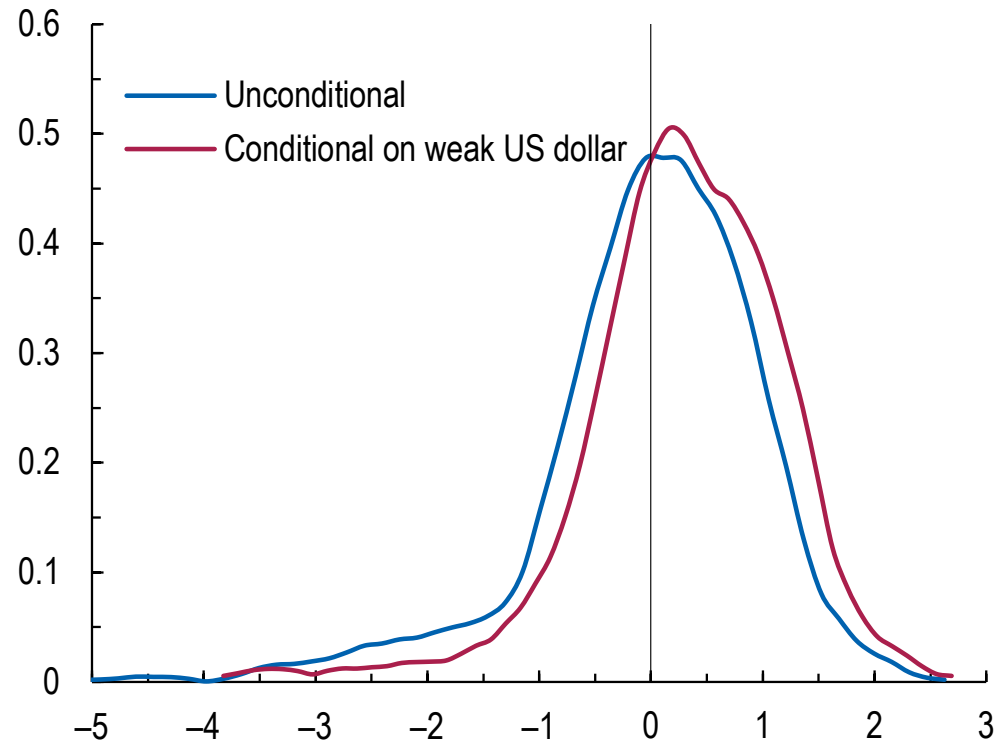
Extra Slides:
Explaining the Resilience of Global Growth in 2025

Explaining the Resilience of Global Growth in 2025

News in 2025 and World GDP Growth
(Percent)



Correlation between US Dollar and Emerging Market Growth
(Density)



Sources: Bloomberg Finance L.P.; and IMF staff calculations.

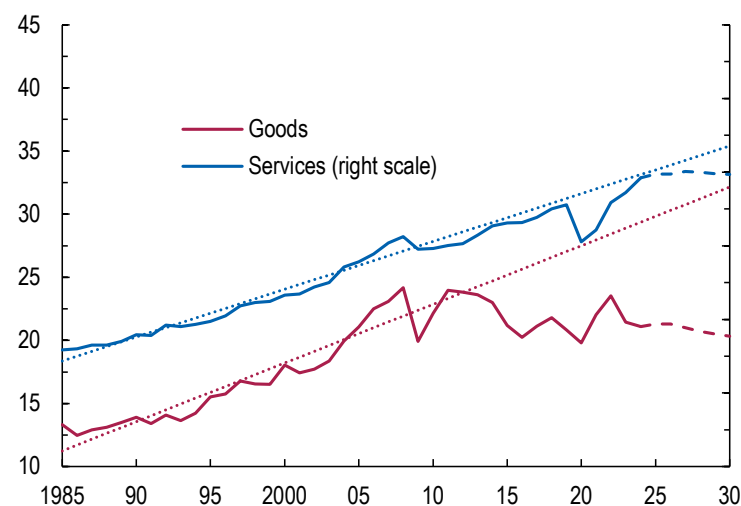
Note: In the left panel, AI = artificial intelligence; Chg. in ESTR = change in effective statutory tariff rate; CTR = collected tariff rate; Fin. cond. and USD dep. = financial conditions and US dollar depreciation; WEO = *World Economic Outlook*. In the right panel, "Weak US dollar" is defined as a depreciation of at least 5 percent in Bloomberg's US dollar index (USDIX) during 2020, with GDP growth measured as the one-year-ahead outcome following the depreciation. Both unconditional and conditional series are estimated over 1990–2025. The density functions are computed using the Epanechnikov kernel method.

Extra Slides: Services Trade - An Emerging Engine for Global Growth

Services Trade: An Emerging Engine for Global Growth

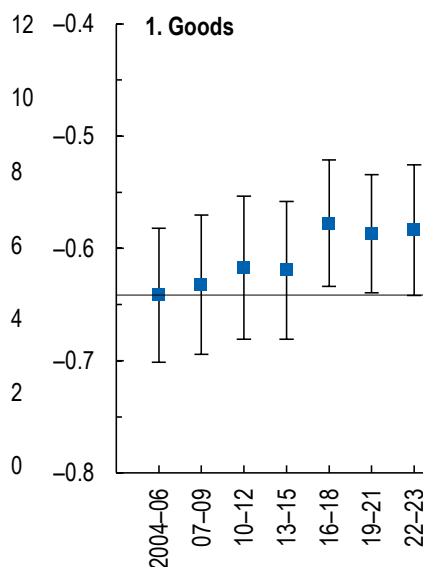
World Exports

(Percent of world GDP; dotted = pre-GFC trend; dashed = April 2026 WEO reference forecast)



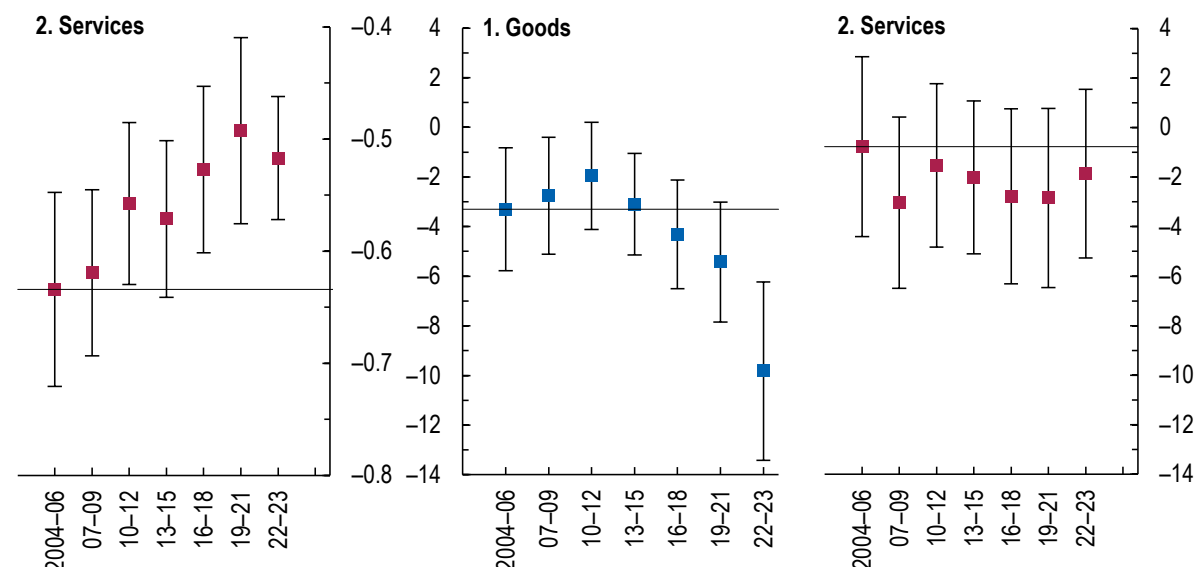
Impact of Geographic Distance on Bilateral Trade

(Percent)



Impact of Geopolitical Distance on Bilateral Trade

(Percent)



Sources: Centre d'Études Prospectives et d'Informations Internationales; and IMF staff calculations.

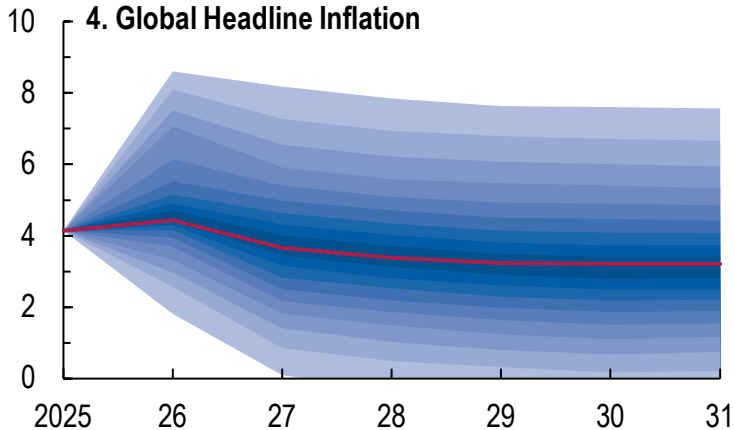
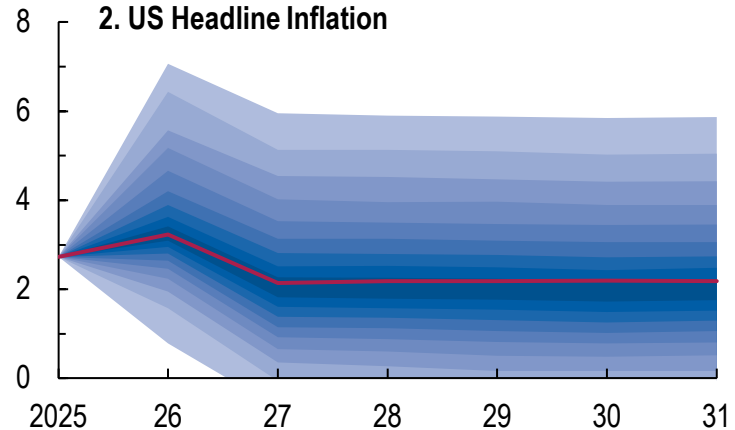
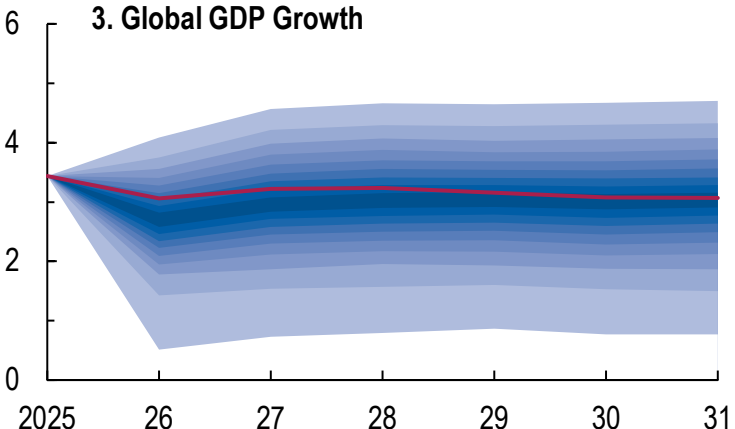
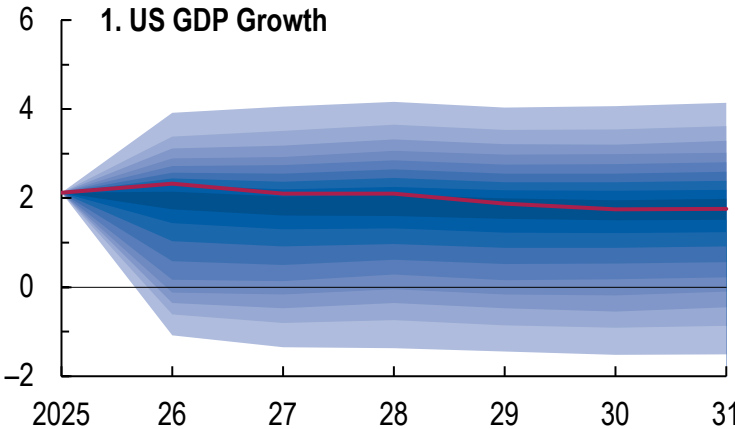
Note: In the left panel, dotted lines represent respective linear trends based on 1985–2008 data prior to the global financial crisis (GFC). Dashed lines 2025 and on represent April 2026 WEO reference forecasts. The middle panel is based on repeated cross-sectional estimations of a structural gravity model with standard controls and importer and exporter fixed effects. Horizontal lines reflect the values in 2004–06 for each panel. Whiskers reflect 95 percent confidence bands. "Geographic distance" is the weighted average distance between trade partners' most populous cities. See Li and others (2025) for details. The right panel is based on a panel estimation of a structural gravity model with standard controls; importer-time, exporter-time, and importer-exporter fixed effects; and a time-varying coefficient on geopolitical distance. Horizontal lines reflect the values in 2004–06 for each panel. Whiskers reflect 95 percent confidence bands. "Geopolitical distance" is measured as the ideal-point distance between trade partners. See Li and others (2025) for details. WEO = *World Economic Outlook*.

Extra Slides: Risk Assessment Surrounding the Reference Forecast

Confidence Bands

Forecast Uncertainty around Global Growth and Inflation Projections

(Percent)



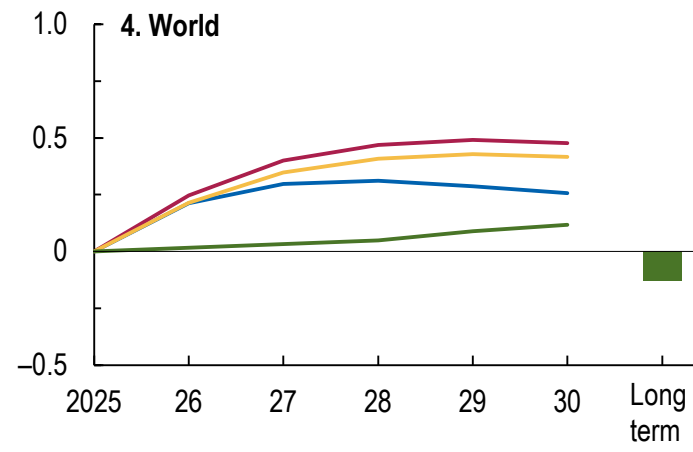
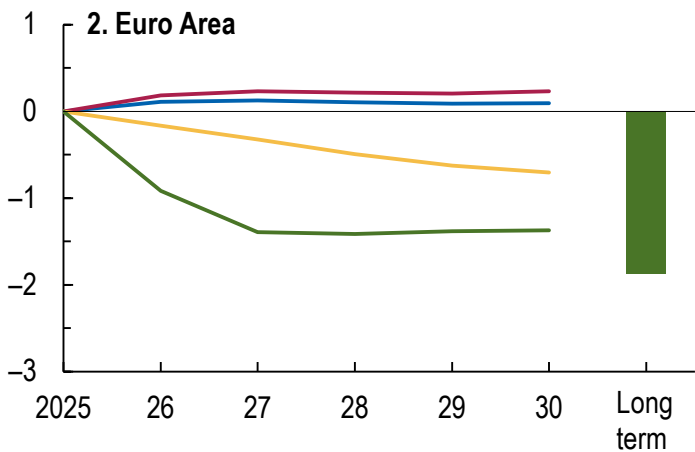
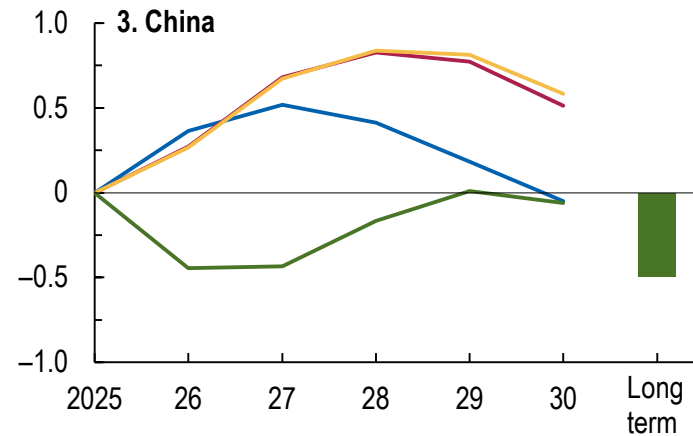
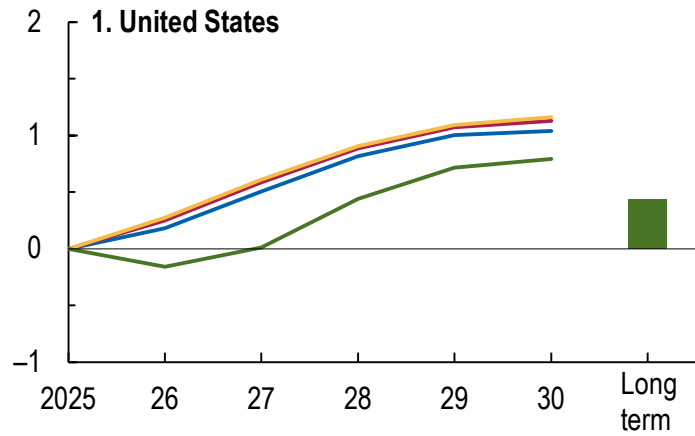
— WEO reference forecast

Source: IMF staff estimates.
Note: Each shade of blue represents a five percentage point probability interval. WEO = World Economic Outlook.

Risk Scenario A: The Divide Widens

Impact of Scenario A on GDP

(Percent deviation from reference forecast)



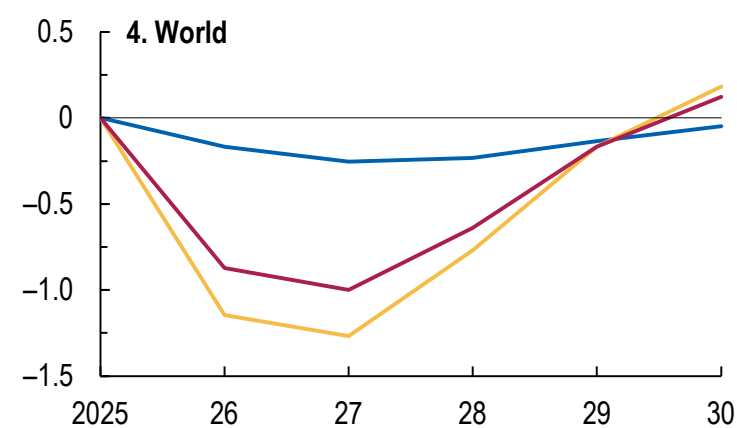
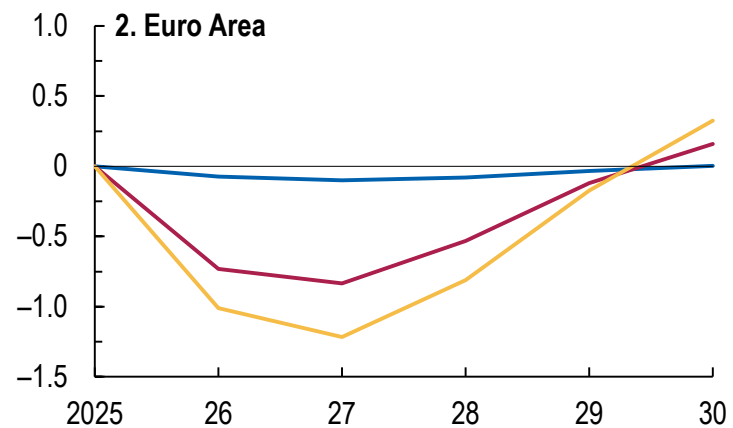
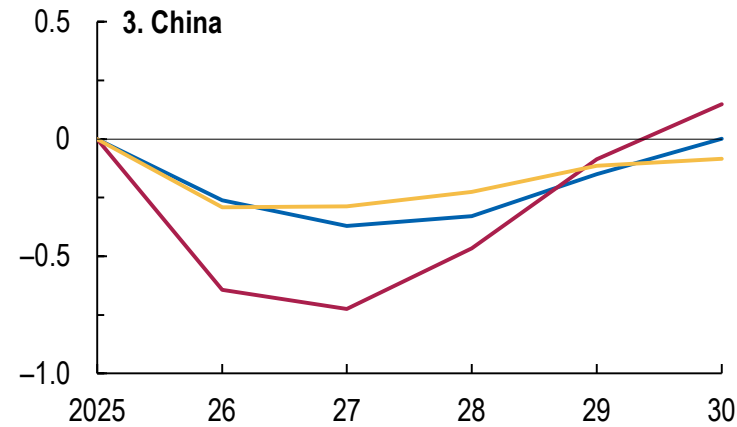
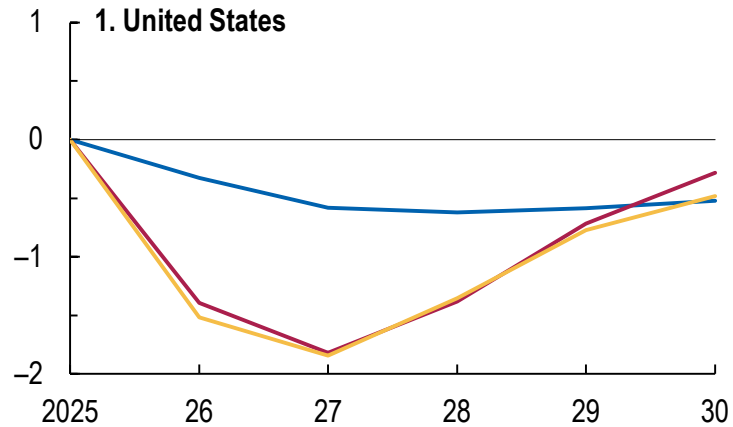
- US-led AI surge
- Add China export-led growth
- Add euro area weak productivity
- Add China-euro area-US tariff war

Source: IMF staff estimates.
 Note: "Long term" is at least 50 years ahead. AI = artificial intelligence.

Risk Scenario B: AI Disappoints, Risk Off Ensues

Impact of Scenario B on GDP

(Percent deviation from reference forecast)



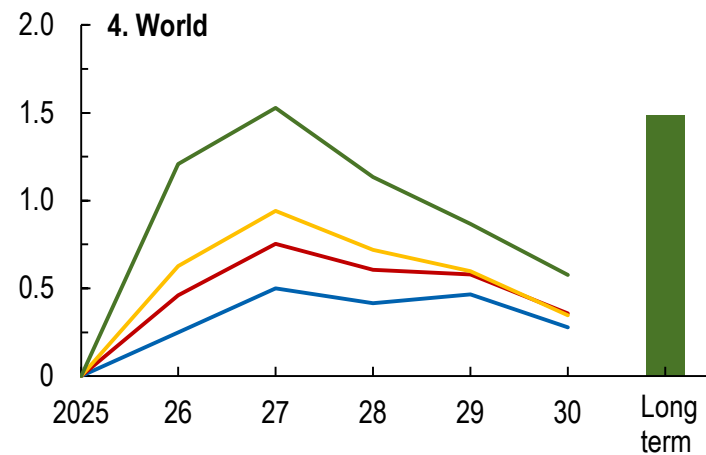
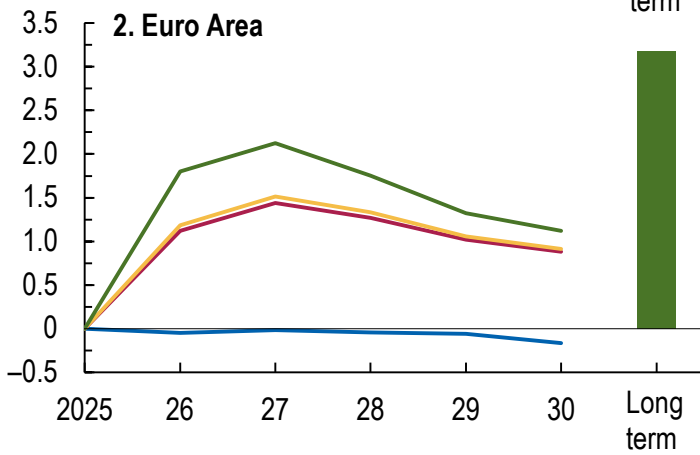
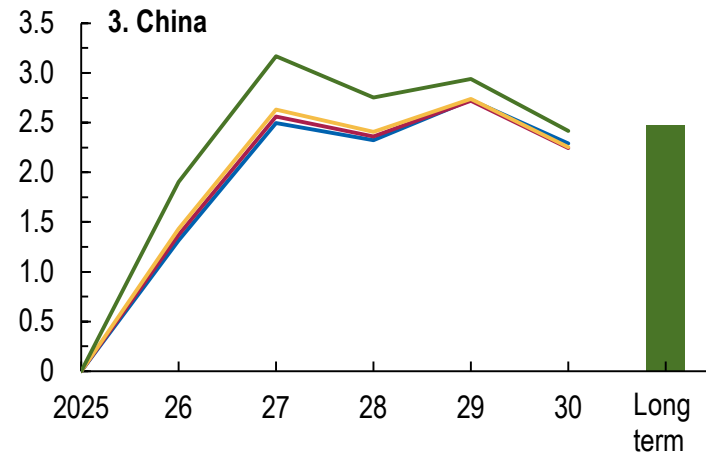
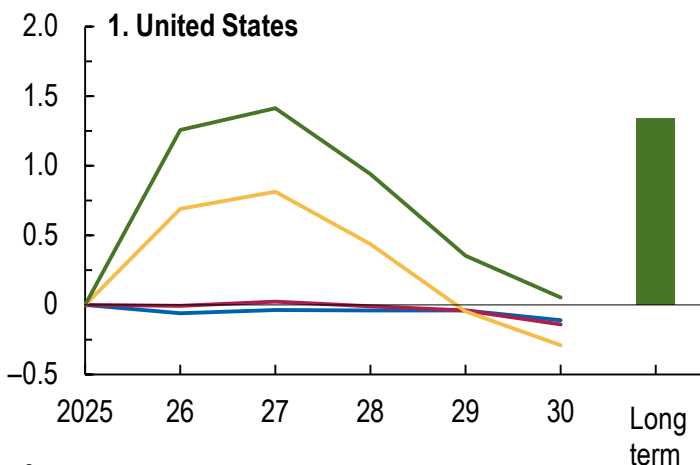
- Unwinding AI-related investment
- Add lower equity prices, tighter financial conditions
- Add term premium and US dollar shock

Source: IMF staff estimates.
Note: AI = artificial intelligence.

Risk Scenario C: Reforms Reset Economies

Impact of Scenario C on GDP

(Percent deviation from reference forecast)

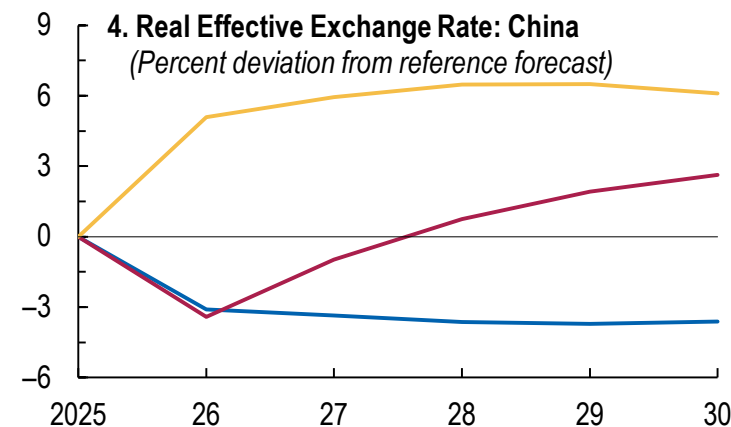
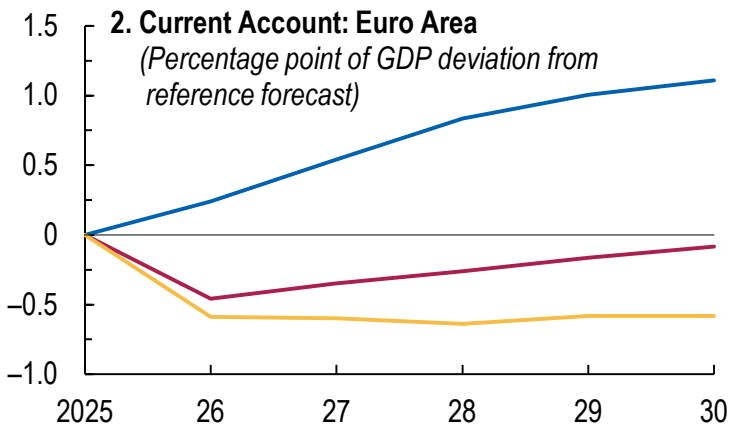
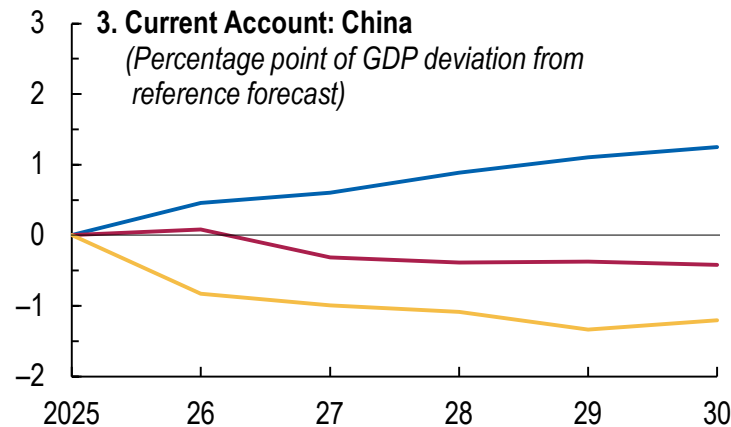
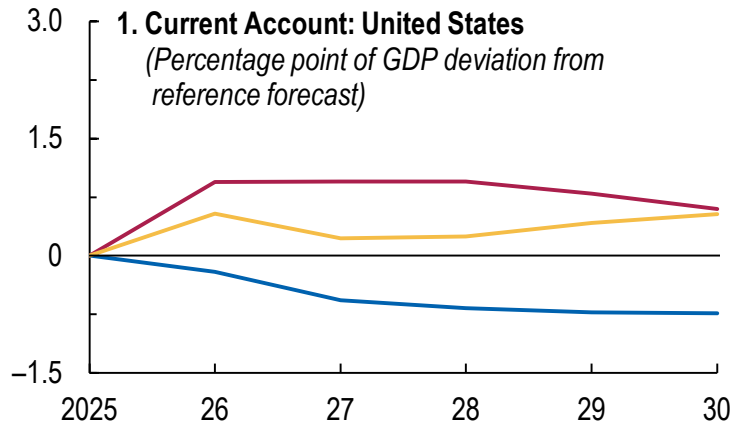


- China broad reform
- Add euro area productivity reforms
- Add US fiscal reform
- Add tariff rollback (with TPU)

Source: IMF staff estimates.
 Note: "Long term" is at least 50 years ahead. TPU = trade policy uncertainty.

Impact on the Global Imbalance

Impact of Scenarios on Current Accounts and Exchange Rates in the United States, China, and the Euro Area



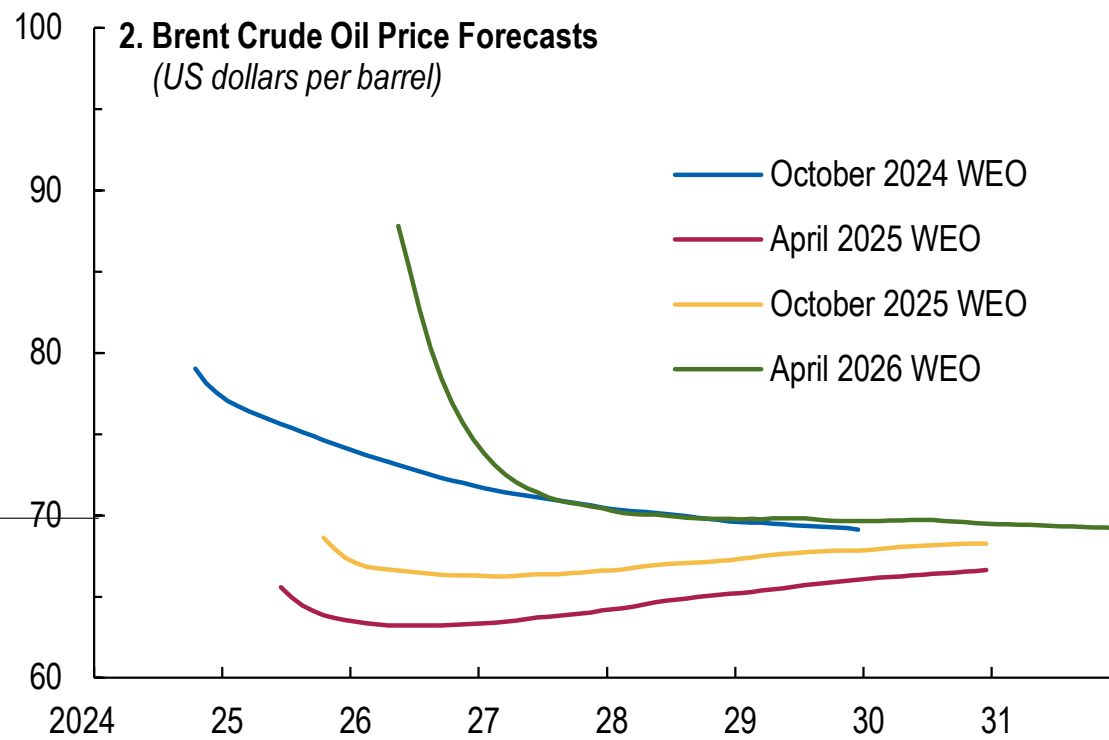
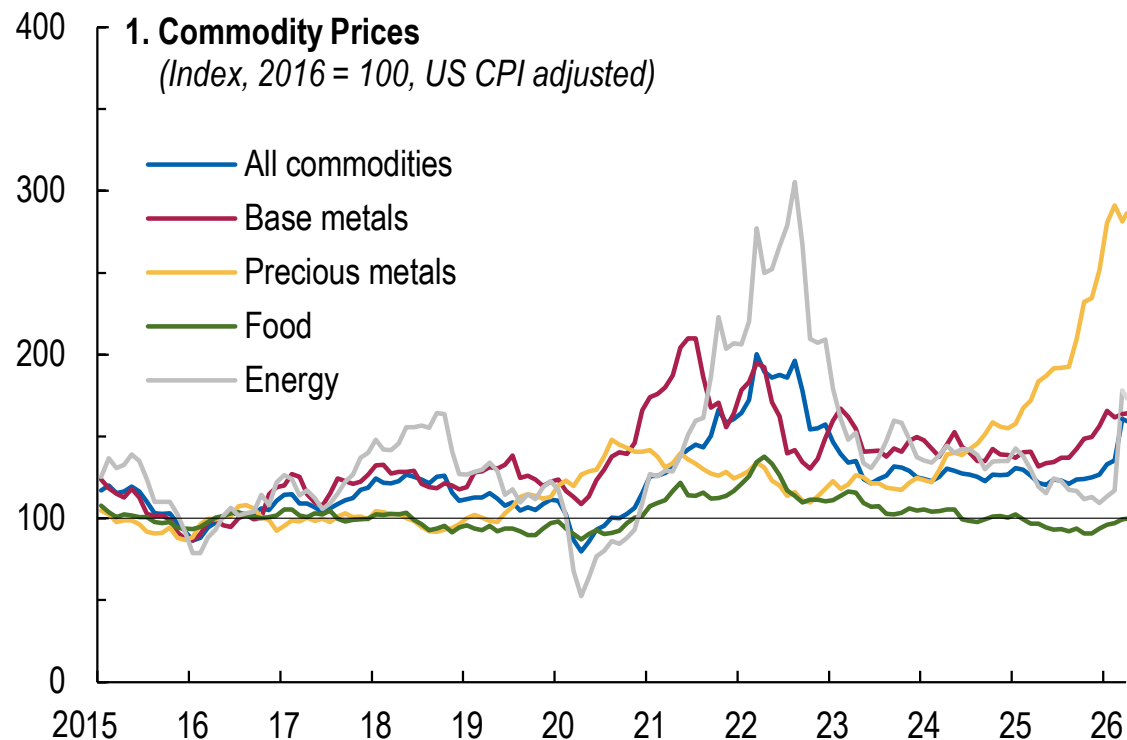
— Scenario A
— Scenario B
— Scenario C

Source: IMF staff estimates.

Extra Slides: Commodity Special Feature

Commodity Special Feature (1)

Commodity Market Developments

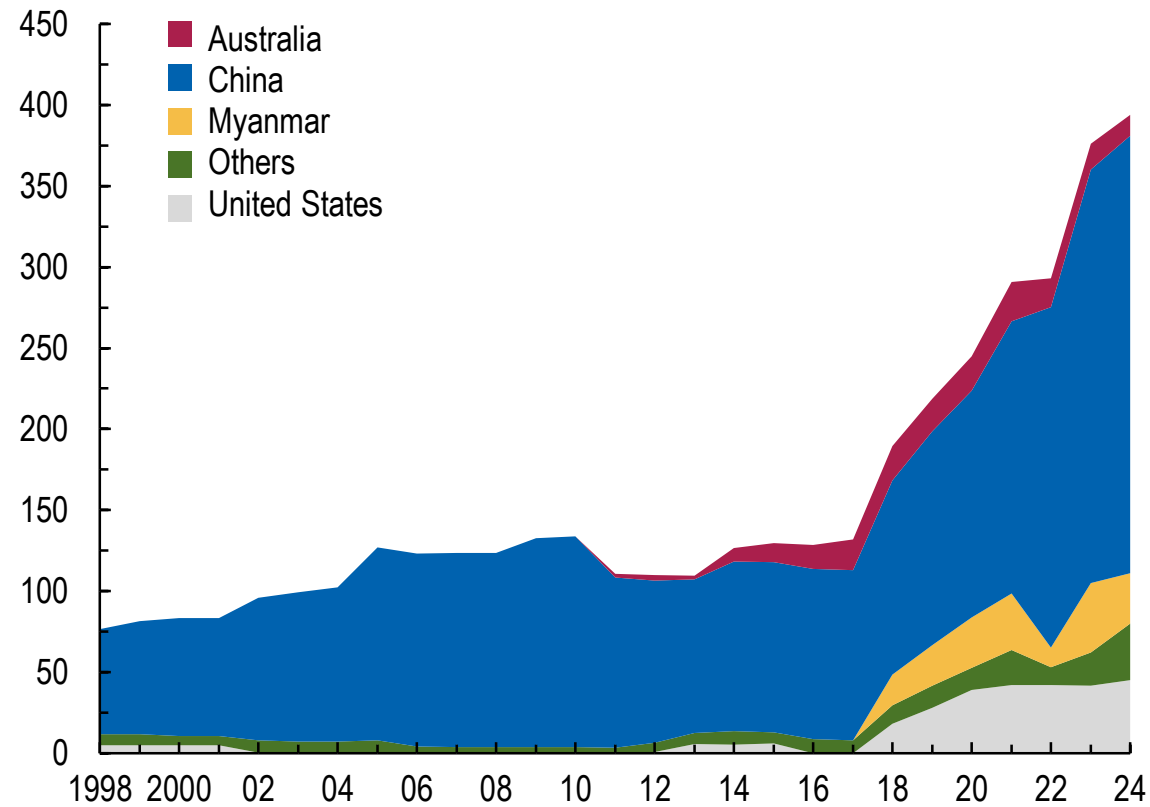


Sources: Bloomberg Finance L.P.; Haver Analytics; IMF, Primary Commodity Price System; International Energy Agency; and IMF staff calculations.

Note: In panel 1, latest actual CPI value is applied to forecasts, represented by the dashed portions of the graph lines. In panel 2, expiration dates are on the x-axis. CPI = consumer price index; WEO = *World Economic Outlook*.

Commodity Special Feature (2)

Rare Earth Mining by Country 1998–2024
(Thousands of metric tons per year, in TREO equivalents)

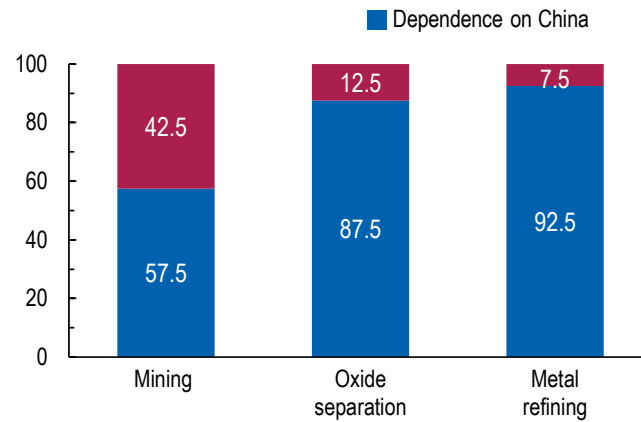


Sources: Nassar and others 2023; National Minerals Information Center, US Geological Survey, "Rare Earths Statistics and Information"; and IMF staff calculations.
Note: TREO = total rare earth oxide.

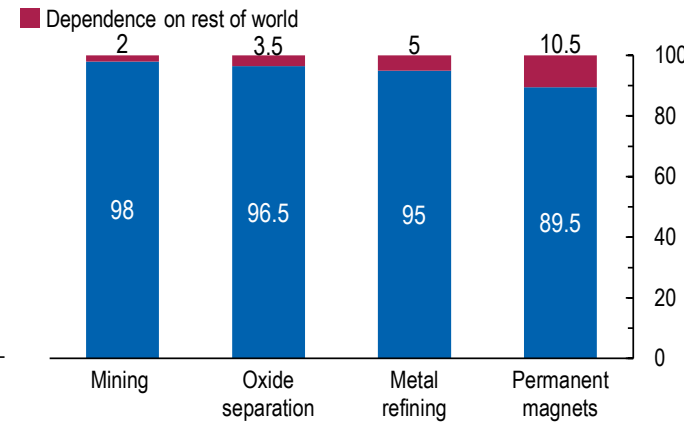
Commodity Special Feature (2)

Average Import Dependence on China by Rare Earth Supply Chain Segment (Percent)

1. LREE Supply Chain Segments



2. HREE Supply Chain Segments



3. Chinese Exports of Rare Earth Metals and Compounds



4. Chinese Exports of Rare Earth Permanent Magnets



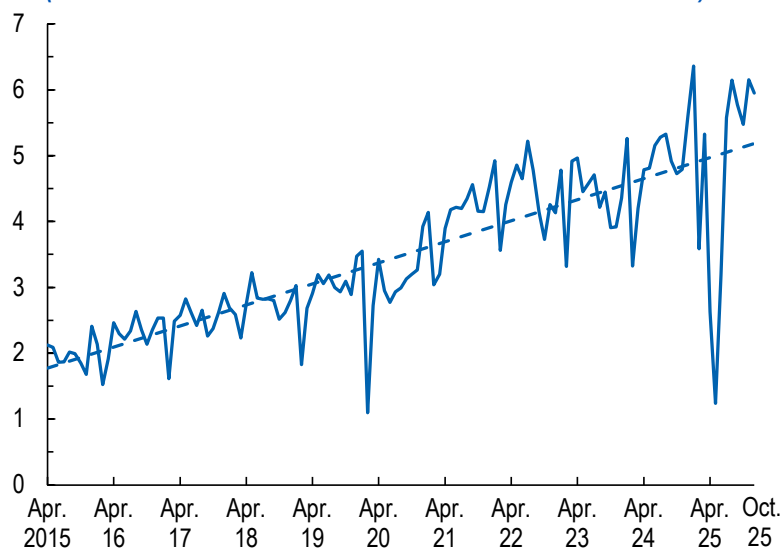
Sources: Bedford 2025; World Bank, World Integrated Trade Solution (WITS); and IMF staff calculations.

Note: Data for panels 1 and 2 are based 2023–24 production, synthesized in Bedford 2025. Data for panels 3 and 4 are from 2024 from WITS. HREE = heavy rare earth element; LREE = light rare earth element.

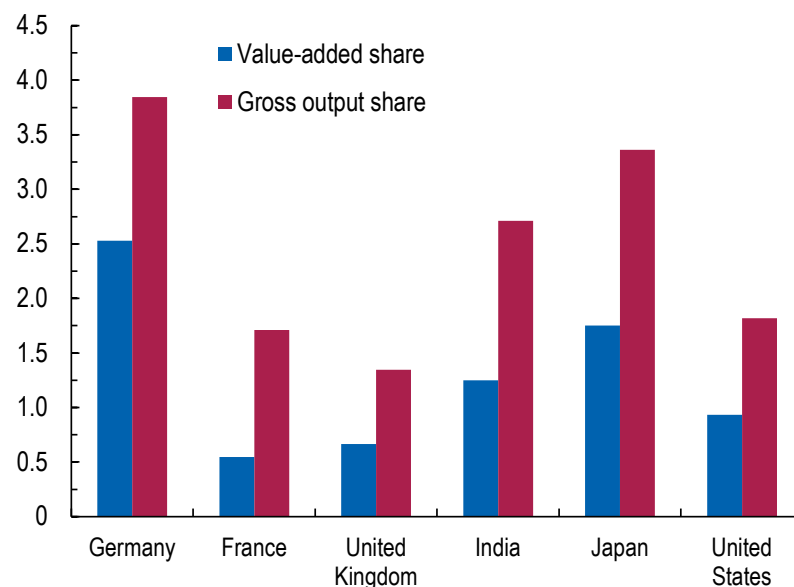
Commodity Special Feature (3)

China's Exports of Rare Earth Permanent Magnets and Rare Earth Magnet Components Intended for Permanent Magnet Production

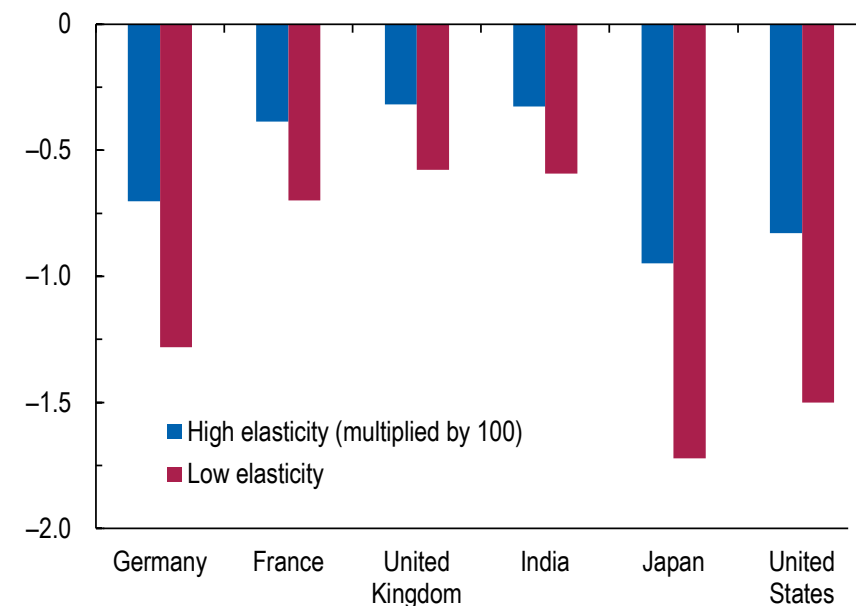
(Thousands of metric tons; dashed = trend)



Value added and Gross Output at Risk (Percent of goods and services using rare earth elements as inputs)



Output Losses by Country from a Major REE Disruption (Percent of GDP)



Source: General Administration of Customs of the People's Republic of China (GACC); Hong Kong Trade Development Council, China Customs Statistics; Nassar and others 2025; Organisation for Economic Co-operation and Development; Organisation for Economic Co-operation and Development (OECD), Input-Output Tables; and IMF staff calculations.

Note: In the left panel, data from the series "CN: Export: HS 8: Permanent Magnets or Articles Going to Be Permanent Magnets, of Rare-Earth Metals," Code HS 850511. In the middle panel, calculations are based on Nassar and others 2025, which provides industry-specific measures of gross output dependence on rare earths at the Bureau of Economic Analysis 405 × 405 detailed input-output level. These dependence measures are first mapped onto the US input-output structure and then translated to the OECD industry classification input-output with 50 sectors from 2017. Using the OECD input-output framework, country-specific shares of rare-earth-dependent consumption are derived for each OECD-level industry across countries. The value-added share is computed as the value added attributable to rare-earth-dependent activities divided by total GDP. The gross output share is defined as an economy's gross output dependent on rare earths divided by its total gross output. In the right panel, the scenarios are based on an 80 percent supply disruption affecting 80 percent of imported goods, specifically rare earths and magnets. The high-elasticity scenario uses a substitution elasticity of 0.8 between the imported goods and their varieties as in Alfaro and others 2025, while the low-elasticity scenario uses an elasticity of 0.015. REE = rare earth element.

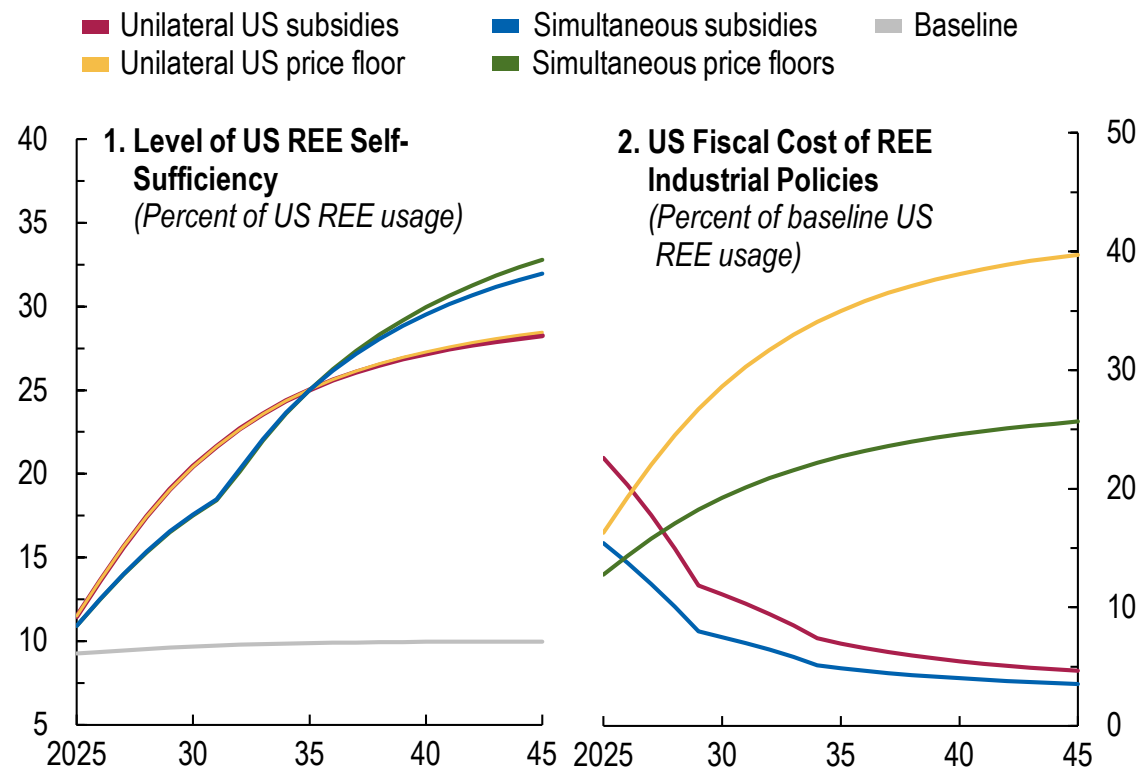
Commodity Special Feature (4)

Aggregate Stock Market Value of Publicly Listed Firms in the Rare Earth Industry

(Billions of US dollars)



Effectiveness and Fiscal Cost of Alternative Industrial Policies to Achieve 25 Percent REE Self-Sufficiency in the US



Sources: S&P Capital IQ Pro; S&P Global.; and IMF staff calculations.

Note: In the left panel, firms are identified using Capital IQ based on keyword searches for rare-earth-related terms in business and long business descriptions. The sample is restricted to operating, publicly listed companies with primary locations outside China. This initial screen yields 315 firms. Each firm is manually reviewed to retain only those with active involvement in rare earth extraction, processing, or project development. Firms with only peripheral references to rare earths are excluded, resulting in a final sample of 89 companies. In the right panel, investment subsidy to US refiners only implemented with a 77.2 percent subsidy; investment subsidy to refiners outside China only implemented with a 77.8 percent subsidy; price floor subsidy to US refiners only implemented with a price floor 2.42 times the period market price; price floor subsidy to refiners outside China implemented with a price floor 2.2 times the period market price. Baseline scenario assumes 4.7 percent global demand growth in 2025–29, 1.42 percent global demand growth in 2030–34. DoD = US Department of Defense; REE = rare earth element; S&P = Standard and Poor's.