Global Macroeconomic Trends and Stagflation Risks

Global growth has slowed from the post-pandemic boom to roughly 3–3.2% in 2023–24, with forecasts near 3.0% for 2025 [1]. Inflation, which surged in 2022, is steadily moderating in most economies. For example, G20 headline inflation fell from about 6.1% in 2023 to an expected 5.4% in 2024 and 3.3% in 2025. Unemployment remains low by historical standards – around 4–5% in many advanced economies. The OECD reports an OECD-area unemployment rate of **4.9%** in July 2025 (stable since 2022), with the euro area at ~6.2% and the US around 4.3% (August 2025).

- **Growth:** Global output grew about 3.1% in 2023 and is forecast around **3.0% in 2025**. Major economies like the US and China are slowing (e.g. US ~2.6% in 2024, 1.8% in 2025; China ~4.9% in 2024, 4.5% in 2025).
- **Inflation:** After peaking in 2022, headline inflation is easing. OECD data show G20 CPI inflation easing to 5.4% (2024) and 3.3% (2025). Inflation is generally back toward central-bank targets by end-2025, though it remains well above 2% in some regions. For example, US core PCE inflation was about 2.6% in mid-2024. Japan's inflation eased toward 3%, while China's remained near zero. Some emerging markets (India, Indonesia, South Africa) are seeing rising inflation, though Argentina and Turkey still face very high rates.
- **Unemployment:** Labor markets stayed tight even as growth slowed. In the US, unemployment rose only to ~4.0% by mid-2024. OECD unemployment held near record lows (4.9% OECD-average in July 2025). The ECB notes euro-area unemployment at just 6.2% in mid-2025. In the UK, the Office for Budget Responsibility forecasts unemployment rising from ~4.0% to a peak around **4.5% in 2025** as spare capacity grows.

Causes of Recent Stagflationary Pressures

Stagflation arises when **inflation, sluggish growth, and rising unemployment** coincide. Recent pressures reflect multiple overlapping shocks:

- **Supply shocks (inflation drivers):** The global surge in prices (2021–22) was driven by pandemic-related supply bottlenecks and commodity shocks. Disruptions like China's COVID lockdowns, the Russia–Ukraine war (which sharply raised energy and food costs), and extreme weather boosted production costs and eroded supply. The World Bank notes "persistent supply-side disturbances" (e.g. wars, lockdowns, bottlenecks) fueled inflation. For instance, energy price spikes from Ukraine increased household costs and tightened financial conditions in energy-importing countries. Food and fuel cost pass-through in low-income countries also kept inflation higher than expected.
- **Demand and fiscal factors:** Strong consumer demand (fueled by drawn-down savings and fiscal stimulus) and accommodative monetary policy in 2020–21 amplified inflationary pressures. In 2022–23, global real GDP grew more than expected (a cumulative +6.7% in 2022–23, 0.8 pp above earlier forecasts), supported by fiscal spending and robust labor markets. This resilience helped growth but

also broadened demand-pull inflation. However, most regions are now reducing fiscal support; fiscal tightening to curb high debt is expected to weigh on growth.
- **Monetary tightening (growth dampener):** Rapid policy rate hikes (to around 4–5% in the US and ~3.5% in the euro area) have slowed activity. Central banks note that tight financial conditions are cooling demand. The Fed reports that higher rates have curbed spending and eased labor market pressures, while the ECB is pausing rate cuts as inflation nears target. These moves are containing inflation but also tempering growth prospects.
- **Other structural factors:** Long-term drags include productivity slowdown and demographic changes. Aging populations shrink labor forces and potential output, implying slower growth trends. Geopolitical fragmentation (e.g. rising tariffs and decoupling) adds uncertainty. IMF analysts warn that sharply higher trade barriers ("tariffs not seen in a century") and policy unpredictability have lowered growth forecasts by ~0.8 pp for 2025–26.

Together, these factors produce **moderate growth with still-elevated inflation**. Despite high rates and slower growth, unemployment has been slow to rise (as workers re-entered labor markets). This combination – rising prices and sagging growth – embodies stagflationary risk. Central banks emphasize that inflation must return to target before easing. OECD Sec-Gen Cormann stresses that disinflation progress allows eventual rate cuts, but "monetary policy should remain prudent until inflation has returned to … targets".

Policy Responses (Monetary and Fiscal)

Policymakers have responded forcefully to tame inflation while balancing growth:

- **Monetary policy:** Across major economies, central banks raised interest rates sharply in 2022–23 to fight inflation. The U.S. Federal Reserve, for example, held the federal funds rate at 5.25–5.5% through 2024 and reiterated its commitment to 2% inflation. By mid-2025, inflation had eased (US PCE inflation ~2.6% by May 2024), prompting discussion of rate cuts, though the Fed remains cautious about easing too soon. In Europe, after raising rates by 200 basis points to 2% in 2024–25, the ECB has signaled an end to tightening as inflation hovers around target (ECB inflation ~2.1% in Aug 2025). Record-low unemployment there (near 6%) and stable prices mean the ECB can now "lean back and wait it out". Other central banks (UK, Canada, Japan, EMEs) similarly hiked policy rates; many have paused or begun modest cuts in late 2024–25 as inflation moderated toward targets. Overall, monetary policy remains historically restrictive, aimed at completing disinflation.

- **Fiscal policy:** Most governments have shifted from pandemic-era stimulus to fiscal consolidation. Debt levels are high, limiting room for stimulus. The IMF and OECD emphasize the need to "rebuild fiscal space" by improving spending efficiency and optimising revenues. For example, the UK's budget office projects CPI inflation peaking around 3.7% in 2025 and then falling, while unemployment may rise to ~4.5% [2]. These forecasts assume fiscal tightening to reduce deficits. In the US, recent legislation provides some infrastructure and spending boosts, but long-run deficits (above 5% of GDP) are expected to shrink growth without offsetting inflationary impact. **In sum:** fiscal policy is generally neutral to contractionary, aiming to ensure debt sustainability. Targeted support (e.g. food subsidies) has largely replaced broad stimulus. IMF analysis warns that without policy cooperation, pro-cyclical fiscal tightening alongside tight money could deepen any downturn.

Projections and Scenarios (2025–2035)

Analysts foresee continued moderate growth and gradually falling inflation over the next decade. The IMF and OECD project global GDP growth of roughly **3.0–3.2%** annually in the mid-2020s, slightly below pre-pandemic averages. Inflation is expected to ease back to central-bank targets in most economies by 2025–26. For example, the IMF July 2025 update projects global growth of **3.0% in 2025 and 3.1% in 2026**. Headline inflation is forecast to continue its decline (global average ~4.2% in 2025 and ~3.6% in 2026 according to IMF data [3]).

Figure: IMF global growth projections (2024–26). After robust 2024 trade-driven growth, global output is seen moderating to about 3.0–3.1% by 2025–26 [1] .

Major institutions emphasize downside risks. The OECD (Sept. 2025) estimates steady 3.2% growth in 2024–25, with G20 inflation falling into the low single digits by end-2025. The World Bank projects world growth near 2.5–3% over 2025–27, well below pre-COVID trends, especially in low-income countries [1] [4] . For 2030–35, few expect a return to high growth. IMF staff note that population aging and low productivity will keep medium-term growth subdued. One study finds that even if growth accelerates to pre-pandemic norms, output by 2030 remains "far short of pre-pandemic projections" [4] . In other words, economies face a higher base of debt and lower growth potential: BIS research argues that "higher debt and lower growth will put pressure on fiscal trends and financial stability" long-term [5] . (See chart above for IMF's short-term outlook.)

Scenarios: If trade tensions ease and cooperation returns, growth could moderately surprise on the upside. Conversely, a renewed tariffs war or loss of monetary-policy credibility could trigger weaker growth and rebound inflation (stagflation). Policymakers across reports stress the need for structural reforms and investment (in green energy, digital tech, education) to lift potential growth. Some analysts warn that the current juncture (policy shifts, geopolitical realignment) represents a "new era" requiring new policy frameworks.

Risks and Uncertainties

Future outcomes hinge on several major risks:

- **Geopolitical conflict and trade:** Ongoing wars (Ukraine, Middle East, potential China-Taiwan flashpoints) and escalating trade barriers (tariffs, sanctions) pose threats. The OECD cautions that geopolitical and trade tensions could reignite inflation and squeeze growth. IMF Chief Economist Gourinchas notes that "breakdown in trade talks or renewed protectionism could damp growth globally and fuel inflation" [6] . Global trade growth, which supported early 2024 output, could falter if tariffs rise further. Increased policy uncertainty alone may delay investment and consumption.
- **Supply-chain reconfiguration:** Firms are shifting supply chains ("friend-shoring" away from adversarial partners) to mitigate geopolitical risk. This de-globalization can raise costs in the short run. IMF research highlights that complex trade networks mean that trade shocks can have "potentially large multiplier effects" on activity. For example, US/China tariff announcements already shaved ~0.4 pp off US growth forecasts. Further realignments (e.g. EU pushing for more local manufacturing) could act as a drag until new capacity comes online.

- **Climate and energy transitions:** Accelerating the shift to clean energy creates near-term frictions. Extreme weather events (droughts, floods, storms) are already causing economic losses globally – WEF ranks extreme weather as a top crisis risk (14% of experts surveyed) [7]. Transitioning away from fossil fuels will require massive investment, potentially raising energy prices during the switch. Conversely, failure to mitigate climate change could itself disrupt growth. These factors introduce uncertainty into inflation (e.g. food prices) and investment patterns.
- **Debt vulnerabilities:** High government and corporate debt increase fragility. IMF data show total global debt stabilized at **235% of GDP** in 2024, with public debt near 93% of GDP [8]. Interest burdens have risen as rates climbed, limiting fiscal flexibility. In emerging markets, heavy dollar debt and depleting reserves raise the risk of crises under tighter conditions. BIS and IMF analysts warn that a **high-debt, slow-growth** world heightens risks of financial stress [5] [9]. Persistent fiscal deficits (around 5% of GDP) mean public debt is on track to rise, especially if inflation rebounds.
- **Other factors:** Pandemic resurgence, global health crises, cyber disruptions, or sharp asset market corrections could abruptly change the outlook. Even developments like rapid automation or new technology (AI) can have unpredictable economic effects. Experts surveyed by the WEF express particular concern about misinformation, social polarization, and political instability, which indirectly affect economic policy consensus [10] [11].

Summary

In summary, the global economy in 2024–25 is characterized by **slowing growth and easing inflation**, rather than full-blown stagflation. However, the coexistence of still-elevated prices and below-trend growth keeps stagflation risks alive. Policymakers are walking a tightrope: maintaining tight monetary policy to secure 2% inflation, while seeking fiscal and structural measures to support growth. Major institutions project only modest growth (around 3% per year) through the late 2020s, implying no rapid rebound. The balance of risks is to the downside: renewed conflicts, fractured trade, climate shocks or financial stress could tip many economies into recession or persistent stagflation. On the other hand, coordinated policy easing (as inflation falls) and productivity-boosting reforms could improve prospects. Overall, the global outlook through 2030–35 is one of gradual recovery from recent shocks but subdued potential, demanding careful policy calibration [6].

Sources: Latest forecasts and analyses from the IMF, OECD, World Bank, BIS and central banks [3] [12] [8], among others. These include official reports and press releases (OECD Economic Outlook, IMF World Economic Outlook, Fed and ECB policy reports, etc.) up to September 2025.

---

[1] [3] [6] CARIBBEAN-IMF says LAC countries will record economic growth of 2.2 per cent this year - Caribbean Times
https://caribbeantimes.com/caribbean-imf-says-lac-countries-will-record-economic-growth-of-2-2-per-cent-this-year/

[2] EFOs - Office for Budget Responsibility
https://obr.uk/economic-and-fiscal-outlooks/

[4] Global Economic Prospects
https://www.worldbank.org/en/publication/global-economic-prospects

[5] Global Financial Stability Report - International Monetary Fund (IMF)
https://www.imf.org/en/Publications/GFSR

[7] [10] [11] Global Risks 2025: A world of growing divisions - Global Risks Report 2025 | World Economic Forum
https://www.weforum.org/publications/global-risks-report-2025/in-full/global-risks-2025-a-world-of-growing-divisions-c943fe3ba0/

[8] [9] Global Debt Remains Above 235% of World GDP
https://www.imf.org/en/Blogs/Articles/2025/09/17/global-debt-remains-above-235-of-world-gdp

[12] Consumer Prices, OECD - Updated: 8 September 2025
https://www.oecd.org/en/data/insights/statistical-releases/2025/09/consumer-prices-oecd-updated-8-september-2025.html