



RISKS TO THE GLOBAL ECONOMY, POLICY ADJUSTMENTS AND ENHANCING COOPERATION

Executive summary

This note reflects on the discussions of the Framework Working Group (FWG), under South Africa's G20 presidency in 2025. These discussions were focused on identifying the various risks posed to a global economy that faces increased uncertainty and complex structural shifts, and proposing tailored policy adjustments to mitigate those risks, which may vary according to country circumstances. The main risks identified include:

- **Excessive macroeconomic imbalances** driven by domestic policies, structural rigidities, or external shocks such as commodity price fluctuations, that threaten economic growth and financial stability.
- **Conflicts, trade tensions and global supply chain** disruptions that have tested the foundations of economic openness and impact global sentiment, posing downside risk to the global economy.
- Global **public debt** is projected to continue to increase, with developing countries facing debt vulnerabilities.
- **Frequent and extreme weather events** disrupt productivity, investment and trade.
- **Ageing populations** risk slowing **productivity growth** and narrowing the demographic dividend for many economies. **Artificial intelligence (AI)** and other technologies offer potentially significant but unevenly distributed productivity gains across countries.

In response to these risks, the FWG urges multilateral cooperation to preserve macro fundamentals, mobilise investment, and foster more sustainable, balanced, and inclusive growth. Countries can pursue growth-friendly, sustainable fiscal policies anchored in credible medium-term frameworks while protecting priority public investment and social spending. Targeted structural reforms can be used to boost productivity and seek more balanced growth and inclusion. In addition, targeted social safety nets and compensation mechanisms are needed to support growth and cushion the potential impacts of demographic transitions. Central bank independence is crucial to achieving price and financial stability.

Introduction

The global economy faces elevated uncertainty and several complex challenges. Based on discussions by the FWG during South Africa's G20 presidency, this note identifies several risks and challenges confronting the global economy. These challenges were noted as contributing factors to softening productivity growth, and to weak investment and medium-term growth prospects.

A broad set of policy adjustments is necessary to effectively address these multifaceted challenges. These adjustments should aim to enhance confidence through credible, predictable and sustainable policy actions; bolster fiscal sustainability; maintain price and financial stability; seek more balanced and inclusive growth; and increase productivity and growth potential. The macroeconomic policies and structural reforms required must be carefully calibrated to enhance growth and tailored to apply to the unique circumstances of each country. Fostering multilateral dialogue and cooperation within the G20 is therefore crucial for policy effectiveness and to mitigate potential international spillovers. This approach is especially important as countries work to adjust domestic policies in response to the heightened risks facing the global economy.

Risks to the global economy

Global macroeconomic imbalances

Global macroeconomic imbalances remain an ongoing challenge facing the world economy. Although current account balances have decreased since the global financial crisis, in 2024, they widened by 0.6 percentage points to 3.9 per cent of global GDP.

¹ Among the 30 economies monitored by the International Monetary Fund (IMF) in its 2025 External Sector Report, excess current account balances increased by 0.4 percentage points, to 1.3 per cent of GDP. External stock positions, as reflected in the net international investment position, have continued to diverge and have now reached a new high.²

Global macroeconomic imbalances are driven by both external factors, such as fluctuating commodity prices, as well as domestic economic imbalances that are, in turn, influenced by a combination of cyclical conditions, structural factors, and various economic policies.³

Global imbalances in themselves are not necessarily problematic when they result naturally from the international division of labour and trade, different macroeconomic fundamentals, and the financial integration of the global economy. However, excessive and persistent imbalances can shape long-term growth prospects by influencing the underlying structure of economies and, in some cases, fuel financial crises with costly global consequences.⁴

The risks associated with global macroeconomic imbalances can intensify when they coincide with elevated asset valuations. Various factors, including high sovereign, corporate and household debt levels, and the impact of extreme weather events on the financial system, may pose risks to financial stability. These conditions suggest that even small shocks – such as weaker than expected growth or inflation surprises – could trigger abrupt market corrections, with significant impacts on cross-border flows.⁵

The risks to global economic growth arising from excess imbalances, exacerbated by high debt levels, underscore the need for G20 members to adopt a cooperative approach towards easing them.

Conflict, trade tensions, and global supply chain disruptions

Over the past few years, wars and conflicts, geopolitical and trade tensions, and disruptions to global supply chains have led to heightened uncertainty and complex challenges. While the global economy has shown resilience in the face of shocks, these challenges pose renewed downside risks to global growth prospects and add uncertainty to the inflationary outlook.

To date, tariffs and related policy uncertainty have weakened sentiment among households and firms in various regions.⁶ Despite this, actual economic outcomes in the first half of the year remained robust, supported to some extent by temporary factors that may fade over the coming quarters.⁷

Medium-term growth prospects are expected to be lower relative to estimates made at the beginning of the year, though the extent of these growth revisions is highly uncertain and differs across regions and income levels.⁸ Global supply chains could eventually adjust and mitigate the costs of wars and conflicts, geopolitical tensions and rising trade barriers, but not without costs

and the emergence of other risks.⁹ For instance, new trading clusters would likely fragment foreign direct investment flows and weigh on capital accumulation, particularly in emerging markets and developing economies.¹⁰

Thus far, the impact of tariffs on inflationary pressures has been small, and the short-term outlook for inflation remains mixed, with both upside and downside risks. Global inflation is still expected to decrease, but the overall picture masks cross-country variation.¹¹ Where countries impose higher tariffs, the supply shock may increase the level of consumer prices, though the timing, scale, and persistence of this increase remains uncertain.¹² Nonetheless, some import-sensitive categories show initial price pressures and some intermediate goods costs have risen.¹³ Conversely, countries that do not increase tariffs are expected to experience weakening domestic and external demand, as well as currency appreciation, slowing inflation. More broadly, inflation risks could emerge more strongly from conflicts and commodity price pressures or rising inflation expectations. Over the medium term, reduced efficiencies from trade risk placing upward pressure on prices.¹⁴

Public and private debt levels

Global public debt has surged in recent years and is expected to approach 100 per cent of GDP by the end of the decade, surpassing the pandemic peak.¹⁵ In turn, with interest costs climbing to a 20-year high in 2023, debt-service costs have risen. Developing countries spend a record 9.8 per cent of their GDP on servicing foreign debt.¹⁶ With sovereign borrowing expected to rise amid a slowdown in the global economy and cuts to official development assistance, many governments face increasing challenges to sustainably fund public needs.¹⁷

Although debt can be an important source of financing for policy goals, high debt levels pose several risks to the global economy and can contribute to global macroeconomic imbalances. Short-term and foreign currency-denominated debt exposes countries to currency and maturity mismatches, raising the risk of default, with potential global spillovers.¹⁸ Even in the absence of crises, high debt levels and rising debt service costs, among others, can constrain governments and curb investor appetite, crowding out private and public investment, with implications for capital flows, exchange rates, price stability, financial stability and the broader macroeconomy.¹⁹

In the private non-financial corporate sector, although debt has dipped below pre-pandemic levels, it remains near historic highs due to record issuance of leveraged loans and low-grade debt instruments.²⁰

In light of high public debt and fiscal pressures, there is cause for renewed focus on increasing fiscal sustainability and reducing debt levels.

Frequent and extreme weather events

Many countries believe that the increase in frequency and intensity of extreme weather events and natural disasters pose macroeconomic challenges, disrupting productivity, investment, trade, and weakening economic growth, to different degrees across countries. The economic losses from these events can be substantial, with the costs projected to be most severe in scenarios where policy ambition, in terms of transitions, are lowest.²¹ Developing countries remain the most exposed to these impacts.

Measures aimed at mitigating against the risks posed by extreme weather events and natural

disasters present both opportunities and risks to the global economy. Where implemented, the investment needs of transitions may require significant provision from a range of public and private sources, and meeting these needs could be challenging in the face of rising public debt and limited fiscal space. Some voluntary transition policies may also pose significant risks to the real economy, fiscal policy as well as price and financial stability. This is particularly the case if transitions are abrupt, disorderly, poorly designed, or lacking in international coordination and signalling. Appropriate macroeconomic policies that accompany the transition can help ensure that the potential economic opportunities can be harnessed in full.

Strong macroeconomic fundamentals and sound fiscal and monetary policies can strengthen economic growth by increasing resilience, moderating risks, and lowering the costs that arise from severe weather events and natural disasters. The G20 can facilitate the sharing of knowledge about progress in integrating a wide range of physical and transitional risks into macroeconomic analysis. This will, in turn, contribute to accelerating progress towards stronger sustainable, balanced and inclusive growth.

Demographics, technological change, and global productivity growth

The global population is experiencing unprecedented demographic changes. Decreasing fertility rates and increasing longevity in many countries are leading to a rapid rise in the share of older individuals worldwide. As the proportion of working-age individuals decreases in many countries, output and productivity growth may decrease, and place a greater strain on public finances through higher spending on pensions, health care, and long-term care.²² Improvements in health for older populations, however, can increase labour force participation, extending working lives and offsetting some of the negative economic impacts of ageing.²³ The availability of good health care could also moderate demand for long-term care, thereby easing pressure on fiscal resources.²⁴

Although low-income countries generally have younger populations, the window for them to benefit from their demographic dividend is narrowing, posing risks to longer-term economic growth prospects.²⁵ At the same time, these economies also face higher levels of informal employment as well as the lack of faster decent job creation to facilitate young people entering the workforce, increasing vulnerability to shocks.

Technological change and AI will shape the interaction between demographic trends, employment patterns, and productivity growth, presenting policymakers with both opportunities and risks. If harnessed effectively, AI has the potential to boost innovation, accelerate productivity growth, and open new avenues for economic development. The exact magnitude and timing of the productivity gains associated with AI remains unclear and will depend on how these new technologies develop and how quickly they are adopted, with uneven adoption rates potentially deepening global inequality between and within countries. While advanced economies are likely to adopt technologies quickly, many emerging markets and developing economies lag because of poor digital infrastructure, skill constraints, and lower investment levels.²⁶

Demographics, technological change, and global productivity growth should remain a central focus for G20 policymakers, given their significant implications for global macroeconomic stability and long-term growth.

Policy adjustments to mitigate the risks to the global economy and enhance global cooperation

Global imbalances and trade policy

Addressing global macroeconomic imbalances requires credible and well-calibrated adjustments to domestic policies. G20 members should focus on the fiscal and structural measures needed to alleviate pressures on domestic imbalances in both surplus and deficit economies. Encouraging trade without price-related distortions can help reduce global macroeconomic imbalances, while structural reforms can raise productivity and diversify the economic base, further improving trade performance. Where appropriate, prudent fiscal policies may help narrow excessive deficits by curbing excess demand, while appropriate exchange rate and monetary policies can support external adjustment by maintaining competitiveness and price stability, respectively. For excessive surpluses, any efforts to rebalance economic activity should be done in a sustainable and country-specific way. Macprudential policies and measures can limit credit booms that widen external gaps and raise vulnerabilities to shocks.

G20 members emphasise the importance of strengthening multilateral cooperation to address existing and emerging risks to the global economy. G20 members will continue to pursue efforts that advance prosperity and recognise the importance of the World Trade Organisation (WTO) to advance trade issues, and acknowledge the agreed upon rules in the WTO as an integral part of the global trading system. G20 members recognise that the WTO has challenges and needs meaningful, necessary, and comprehensive reform to improve all its functions, through innovative approaches, to be more relevant and responsive in light of today's realities.²⁷

Although public support can influence the volume and composition of trade flows, the studies that quantify their precise impact on overall external imbalances are limited because of a lack of comparable data across sectors and countries.²⁸ Nonetheless, there is some evidence that product subsidies can potentially contribute to certain distortions and external imbalances.²⁹ A rules-based multilateral approach to industrial and agricultural policy can assist national support measures to respond to legitimate objectives and not distort global trade or increase inequality among countries. This approach should rest on shared principles, including transparency, non-discrimination, and proportionality.

As structural distortions through country-specific reforms and multilateral coordination are addressed, the IMF should continue monitoring macroeconomic imbalances globally in an impartial and technical manner and, if necessary and without discrimination, imbalances should be addressed through country-specific reforms and multilateral cooperation in a way that contributes to strong, sustainable, balanced and inclusive growth, while respecting the policy space of individual countries.

Fiscal policy

Sound and sustainable fiscal policies are essential to promoting public and private investment, enhancing human capital, and achieving more sustainable economic and employment growth.³⁰

To reduce the risks posed by macroeconomic imbalances, high global debt levels, and insufficient fiscal space, countries should prioritise growth-friendly fiscal consolidations, where appropriate, that are anchored in credible medium-term frameworks and enable greater private

sector-led job growth without undermining long-term development goals. This should help reduce risk premia and real interest rates, crowd in investment, and unlock domestic capital. Although the exact policy mix will vary depending on country-specific circumstances, consolidation packages could include, depending on countries' unique circumstances, maintaining public investment levels, streamlining unproductive subsidies and ineffective tax expenditures, reducing wasteful expenditure, broadening tax bases, shifting towards less distortive taxes, and improving tax administration. Consideration of the impact on income distribution and appropriateness of tax systems³¹ is important for broader public support for consolidation measures.³²

Long-term capital investment may fall short of what is needed for stronger, sustainable, balanced, and inclusive growth. Governments can use public-private partnerships, among other instruments, to mobilise private capital for investment while easing budget pressures. For countries with fiscal space, boosting public investment in a targeted way can expand potential output to meet developmental goals.³³

Considering shifting demographics, reforming healthcare systems to improve efficiency while ensuring adequate coverage, alongside an emphasis on preventive health education, can help raise labour productivity and contain fiscal costs, including those arising from ageing.

Monetary and financial sector policies

Monetary policy should continue to aim for ensuring price stability, in line with central banks' respective mandates, thereby contributing to a stable macroeconomic environment. Central bank independence remains crucial to credibility and achieving price stability.³⁴ Central bank actions will need to remain data dependent, with actions grounded in well-defined and transparent policy frameworks.³⁵

In line with the G20 exchange rate commitment of April 2021, strong fundamentals and sound policies are essential to the stability of the international monetary system. G20 members remain committed to exchange rates that reflect underlying economic fundamentals and note that exchange rate flexibility can facilitate economic adjustment, and will continue to consult closely on foreign exchange market developments. G20 members also recognise that excessive volatility or disorderly movements in exchange rates can have adverse implications for economic and financial stability. G20 members will refrain from competitive devaluations and will not target their exchange rates for competitive purposes. Deepening financial markets would also help reduce potential currency and maturity mismatches, reducing macro-financial vulnerabilities.³⁶

Over the longer term, inflation dynamics could be affected through shifts in relative prices, increased volatility in key commodity prices, and a variety of supply-side shifts, including those induced by weather-related changes. These changes may introduce inflationary pressures and greater inflation volatility. Many G20 central banks already adjust their models to account for physical risks in scenario analysis.

Ageing populations may place downward pressure on productivity growth, pushing up net aggregate savings and leading to downward pressure on interest rates in many countries.³⁷ The adoption of AI technologies might work the other way, however, boosting productivity and reducing inflation.³⁸ Conversely, higher energy demand related to the widespread use of AI could put upward pressure on prices. Demographic and migration trends may complicate inflation dynamics further as labour markets in both source and destination countries adjust.

Given the high levels of uncertainty about the impact of demographic and technological changes on equilibrium interest rates, central banks should continue to closely monitor the broader effects of these and other shifts on prices, and ensure their actions consistently align with their core objective of maintaining price stability.

Structural reforms

A stable macroeconomic and trade environment encourages long-term investment, thereby attracting the capital needed to sustain economic activity and meet developmental goals. Macroeconomic stability must be accompanied by well-targeted structural reforms that enhance economic resilience, boost potential growth and mitigate the risk of rising global imbalances.

Policies that promote productivity and flexibility will improve the global economy's resilience to shocks. Reforms that reduce rigidities in product and labour markets can accelerate growth and job creation by enabling capital and labour to move easily towards more productive activities. Simplifying tax regimes and streamlining administrative processes can ease the burden of regulatory compliance and strengthen the effectiveness of public policies. Supportive regulatory frameworks in areas such as market entry requirements and key network sectors (such as electricity and natural gas, telecommunications, and transport) can foster competition, stimulate innovation and improve overall efficiency.

These reforms should be accompanied by investments in digital infrastructure, skills development, good governance, reduced barriers to entering and exiting markets, and economic cooperation. Strong enforcement of the rule of law is essential to ensure that these reforms are credible and effective.³⁹

AI can be an important driver of productivity. As such, policy priorities should focus on investment in digital infrastructure and skills, and the efficient allocation of labour and capital. At the same time, where AI adoption widens inequality, governments are encouraged to implement reskilling programmes and provide protection for people in vulnerable situations.

Promoting greater participation from under-represented groups, including women, young people, older workers and migrants, could help mitigate the downside risks and enhance the upside risks presented by rapid technological change. Fostering healthy ageing and providing opportunities for continual learning, reskilling, and flexible work arrangements can extend productive working lives in economies with an ageing workforce.

Initiatives for robust integration and efforts to address job losses that result from labour market changes arising from globalisation, rapid technological growth, and the transition to low-carbon economies –through investment in basic skills, inclusive labour market policies, reskilling, and enhanced social protection – are vital for reducing induced inequalities and social tensions.

Well-designed social safety nets and targeted compensation mechanisms can cushion the potential impacts of transitions and enable inclusive economic growth, thereby supporting labour reskilling and reallocation.⁴⁰

Conclusion

The global economic outlook is marked by uncertainty, rising debt, and mounting structural shifts. These risks have underscored the importance of fiscal and monetary credibility,

international cooperation and well-targeted structural reforms. This note identifies numerous opportunities for cooperation on actionable recommendations to preserve macroeconomic fundamentals. These include promoting fiscal sustainability and vigilant monetary policy, and boosting investment and productivity to offset the weak growth outlook.

The FWG continues to emphasise the importance of strengthening multilateral cooperation within the G20, by exchanging on best practices and encouraging progress to address existing and emerging risks to the global economy.

Notes

¹ IMF External Sector Report, July 2025.

² Valuation changes and widening current account balances both contributed to the expansion of global net creditor and debtor positions. See IMF External Sector Report, July 2025.

³ IMF External Sector Report, July 2025.

⁴ IMF External Sector Report, July 2025.

⁵ FSB's presentation titled "Global Financial System Vulnerabilities: A View from the Secretariate" at the fourth FWG meeting in Zimbali, South Africa; BIS' presentation titled "Global Economic and Financial Stability Risks" at the fourth FWG meeting in Zimbali, South Africa; and World Bank Global Economics Prospects, June 2025.

⁶ OECD Economic Outlook, July 2025.

⁷ These include the front-loading of consumption and investment, inventory management implementation delays of tariffs, and strong profit margins.

⁸ According to the IMF (World Economic Outlook Update, July 2025, pg. 3.), "Global growth is expected to decelerate, with apparent resilience due to trade-related distortions waning. At 3 per cent in 2025 and 3.1 per cent in 2026, the forecasts are below the 2024 outcome of 3.3 per cent and the pre-pandemic historical average of 3.7 per cent, even though they are higher than the April reference forecast." In its January 2025 update, the IMF expected global growth to average 3.3 per cent in 2025 and 2026. The World Bank (Global Economic Projections, June 2025) and OECD (Economic Outlook, June 2025) have also downgraded their global growth forecasts.

⁹ IMF World Economic Outlook, April 2025.

¹⁰ World Bank Global Economic Prospects, chapter 3, June 2025.

¹¹ IMF World Economic Outlook Update, July 2025.

¹² These effects will be dependent on how quickly importers frontload purchases, and whether corporations pass these costs on to consumers or absorb them through reduced margins, as well as how anchored inflation expectations are.

¹³ IMF World Economic Outlook Update, June 2025.

¹⁴ BIS presentation on the risks to inflation presented at the third FWG Meeting in Skukuza, South Africa. See also OECD Economic Outlook, June 2025.

¹⁵ IMF Fiscal Monitor, April 2025.

¹⁶ World Bank International Debt Report, 2024.

¹⁷ OECD, Cuts in Official development assistance: OECD Projections for 2025 and the Near Term, June 2025.

¹⁸ Eichengreen et al (2022).

¹⁹ See World Bank presentation titled "Fiscal Policy for Jobs", April 2025, Cape Town, South Africa; IMF Fiscal Monitor, April 2025; and OECD Global Debt Report, 2025.

²⁰ The global corporate bond market reached USD 35 trillion in outstanding amounts in 2024. Syndicated lending is a USD 25 trillion market and private credit amounts to at least USD 1.6 trillion in assets globally. See OECD Global Debt Report, 2025.

²¹ IEA Energy Prices and Affordability: Near-term Prospects, Risks and macroeconomic implications, April 2025.

²² OECD Employment Outlook: Can We Get Through the Demographic Crunch?, 2025.

²³ IMF The Implications of Ageing and Migration on Growth and Productivity, July 2025.

²⁴ European Commission: Directorate-General for Economic and Financial Affairs, 2024 Ageing Report – Economic and Budgetary Projections for the EU Member States (2022-2070), 2024.

²⁵ IMF The Implications of Ageing and Migration on Growth and Productivity, July 2025.

²⁶ OECD presentation on *The Macroeconomic Effects of Technology in Advanced and Emerging Economies* at the 3rd FWG meeting in Skukuza, South Africa; World Bank presentation on the *Impact of New Technologies on jobs* at the 3rd FWG meeting in Skukuza, South Africa; ILO Background note on *Artificial intelligence adoption and its impact on jobs* (June 2025); UNCTAD *World Investment Report: International investment in the Digital Economy* (2025).

²⁷ G20 FMCBG communique from Zimbali, South Africa July 2025.

²⁸ IMF External Sector Report, 2025.

²⁹ OECD The Market Implications of Industrial Subsidies, June 2025, Rotunno and Ruta, 2024, and IMF External Sector Report, 2025.

³⁰ World Bank presentation titled “Fiscal Policy for Jobs”, Cape Town, South Africa, April 2025.

³¹ In line with the 2024 G20 FWG Note “A Menu of Policy Measures and Recommendations to Address Inequality Pressures” and the “Rio de Janeiro G20 Ministerial Declaration on International” Tax Cooperation

³² World Bank presentation titled “Fiscal Policy for Jobs”, Cape Town, South Africa, April 2025.

³³ World Bank presentation titled “Fiscal Policy for Jobs”, Cape Town, South Africa ; and IMF Fiscal Monitor, April 2025.

³⁴ G20 FMCBG communique from Zimbali, South Africa, July 2025.

³⁵ OECD Economic Outlook, June 2025.

³⁶ G20 FWG summary document on global imbalances, 2019.

³⁷ G20 summary document on the macroeconomic implications of ageing, 2019; IMF The Implications of Ageing and Migration on Growth and Productivity, June 2025.

³⁸ BIS Annual Economic Report, June 2024.

³⁹ IMF presentation titled “Structural reforms for the climate transition” presented at the second FWG meeting in Cape Town, South Africa; OECD presentation titled “The role of product and labour markets in the climate transition” presented at the second FWG group meeting in Cape Town, South Africa; World Bank presentation titled “Fiscal Policy for Jobs” presented at the second FWG meeting in Cape Town, South Africa, April 2025.

⁴⁰ IMF The Implications of Ageing and Migration on Growth and Productivity (2025); ILO AI and Global Productivity: Assessing the Potential Gains and the Challenges for International Coordination (2025); World Bank presentation titled “The Impact of New Technologies on Jobs” presented in Skukuza, South Africa.

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