THE BROOKINGS INSTITUTION

WEBINAR

STATE OF THE GLOBAL ECONOMY:
NAVIGATING A NEW ERA OF HEIGHTENED UNCERTAINTY

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COULIBALY: Good morning, everyone, and warm welcome to all of you who have tuned in from around the world. My name is Brahima Coulibaly. I'm the vice president of the Global Economy and Development program here at Brookings. It is my pleasure to welcome you to this timely and very important discussion on the state of the global economy and the road ahead. Just last year, the world was beginning to emerge from a sequence of extraordinary shocks. The global pandemic to widespread supply chain disruption and inflationary pressures among others. Today, however, the global economic outlook remains very fraught with uncertainty, rising trade tensions, growing policy fragmentation, and intensifying geopolitical conflicts have once again clouded the horizon with global growth now projected this year to fall to its lowest rate in almost two decades. Outside of global recession times.

These developments raise pressing questions on how resilient is the global economy in the face of these new challenges? And what does the unraveling of free trade in the free trade era means for global growth, particularly for emerging and developing economies? And how should policymakers respond to avoid deepening the divides across nations and regions? To help us unpack these questions, we are very delighted and fortunate to be joined by an outstanding group of thought leaders who will bring valuable perspectives to this dialog grounded in research, practice, and policy experience. We are pleased to organize this conversation in collaboration with the Prospects Group of the World Bank that is led by Ayhan Kose, who is a deputy chief economist at the World Bank and nonresident senior fellow at Brookings.

As in the past, the conversation would be motivated by the latest global economic prospects report, which is available online. This flagship publication has provided timely critical analysis on the outlook of the global economy, and it would help set the stage for our expert panel discussion. So I congratulate Ayhan and his World Bank colleagues on another excellent report. And for the rest of the agenda is pretty straightforward. Ayhan will present the main highlights of the report for about 10 to 15 minutes. And afterwards, my colleague and Senior Fellow Robin Brooks will introduce the panelists and begin the moderated discussion. So with that, let me pass it on to you, Ayhan.

KOSE: Thank you. Good morning, good afternoon, or good evening, wherever you may be. It's a pleasure to join today's discussion on the global outlook based on the latest Global Account Prospects report. Let me start by thanking Coul and our colleagues at Brookings for hosting this event and partnering with us. We are especially pleased to see these media updates becoming a valuable tradition. There's much to cover given the policy shifts, global deals, and unfolding developments. I will start with a quick overview of the global outlook and key risks, then I will briefly touch on the report's two analytical chapters, one on foreign direct investment in emerging market developing economies and the other on fragile and conflict-affected economies. I will close with four key takeaways from the report.

Let me start with the global backdrop, beginning with financial and commodity markets. Financial markets have been volatile in recent months, driven by the 12-day war in the Middle East in mid-June, and heightened trade policy uncertainty in April, and again, over the past week. As shown on the left panel, the April trade tensions triggered sharp declines in emerging market developing economy equity markets, in general global markets and a widening of sovereign bond spreads. But risk sentiment improved after some of these types were postponed. Markets wobbled a little bit during the Middle East conflict escalated but stabilized quickly following the de-escalation. Despite the markets have largely recovered, as you see. Equities have posted gains even and bond spreads are now below pre-April levels. Still, the risk of renewable volatility remains high. Turning to commodity markets, as shown on the right, we have seen a broad-based decline in the overall commodity price index since the beginning of the year. On the demand side, rising uncertain and shifting trade policy have weighed on global growth expectations and commodity consumption. On the supply side, OPEC plus has shifted strategy, signaling a tolerance for lower oil prices by raising production targets in recent months.

Just a quick update about the forecast, we are expecting commodity prices declined by about 10% this year and we are expecting brand oil price to be about $66 per barrel for the entire year average down from $81 last year. So what about the forecasts? To forecast global growth, we follow standard practice, assuming current trade policies remain in place while assessing possible changes in the risk analysis. In this case, we assume the tariff structure as of late May holds throughout the forecast period and I think that recent developments haven't changed materially this assumption given that you know the tariff increases again postpone a month. Against this spectrum growth prospects have worsened since January mainly due to rising trade barriers, elevated policy uncertainty and increased financial volatility. We are expecting global growth to be 2.3% this year. A sharp downgrade from earlier forecasts.

And compared to our January projections, we are basically revising the forecast by about 0.4 percentage point this year, as well as next year, 0.3 percentage points, even though next year we expect a little bit of improvement. Advanced economies are projected to slow down sharply this year. As you see here, the growth falling to 1.2% in 2025 and again, you know, 1.4% next year. These are well below trend growth rates we saw prior to the pandemic. And again, these are sizable downward revisions relative to what we had in January. Emerging market developing economies, the acronym EMD is referred to. Are also expected to slow down, with growth easing 3.8% this year and the next year down 0.3% points from our January forecast. When you exclude China, you still see a slowdown in economic growth. So, this is a broad-based slowdown. Roughly 70% of country forecasts were downgraded since January.

While the overall downward revision to global growth is driven mainly by advanced economies, the slowdown in EMB growth is also significant. An important driver of the growth outlook is what types of development we see in global trade. After a decade of rising trade restrictions, the past four months have brought a sharp escalation. Major economies have imposed sizable tariff hikes and retaliatory measures, intensifying global trade tensions. As a result, we expect global trade to slow sharply as well. From 3.4% last year to just 1.8% this year, as you can see in the left and middle panels. This reflects the combined impact of higher tariffs, elevated policy uncertainty, and a little bit of front loading of trade activity earlier this year. Trade policy uncertains spiked to a record high following the US tariff announcements in April.

While it has eased somewhat, Thanks to some rollbacks and new negotiations and even some deals, it remains elevated and of course it has increased again over the past week. Trade growth for this year has been revised down by 1.3 percentage points relative to what we had in January. As you see in the middle panel, nearly all country groups have seen downward revisions. In 2026, trade growth is expected to recover modestly. But it is still... Just half the pre-pandemic average. The pre- pandemic average was about 4.6 percent. We are expecting trade growth to go back to, you know, 2.4 percent. There is also considerable divergence across countries. As seen in this middle panel again, economies more exposed to emerging market developing economy export markets are expected to recover faster than those tied more closely to advanced economies. If you look at high frequency indicators, you have a better sense of the slowdown in trade.

As you see on the right, this basically shows high frequency manufacturing export orders component of the PMIs. Since November last year, new export orders have dropped sharply in highly trade exposed emerging market developing economies, reflecting the rise in trade policy uncertainty. In contrast, The median export orders index for emerging developing economies has stayed closer to neutral, but has also softened in recent months. Overall, one can say trade has remained resilient so far, but a significant pronounced slowdown is underway. Now, let me turn to the big picture and the risks clouding the outlook. What do our forecasts tell us? Global growth is expected to slow to its weakest pace since 2008, outside of global recessions, as you see in the left panel here. We do not expect a global recession, but if forecasts for the next two years materialize, average global growth in the first seven years of this decade will be the slowest of any since the 1960s.

Against this background, risks remain firmly tilted to the downside. Sustained trade tensions could disrupt supply chains, fuel inflation, and trigger renewed financial volatility. Emerging market developing economies face added pressures from rising conflict and climate shocks, which threaten to erode already fragile growth prospects. Pulse uncertainty, of course, is critical and it has surged since January. As shown in the right panel, prolonged periods of uncertainty can depress investment and confidence just as much as tariff hikes. If uncertainty persists or intensifies, it could deliver a major blow to growth in emerging market developing economies as well as global economic growth. Here in the past we used to think you know policy uncertainty is a one-time shot mostly associated with one event. But over the past six months, what we learned, it could be a persistent adverse development when we think about especially external conditions these emerging market developing economies are facing.

Having said all of these, there are some upside risks as well. If trade tensions ease and uncertainty declines, growth prospects could improve materially. Short-term growth could also exceed expectations with more expansionary fiscal policy, even though this could come at the cost of higher inflation and interest rates. Finally, faster-than-expected gains from technology could translate into higher productivity growth and better outcomes when it comes to income. FDI has long been a key engine of global growth, bringing capital, technology, and jobs particularly for emerging market developing economies. In one of the thematic chapters of the latest report, we examine the evolution of FDI, its growth impact, and policy challenges developing economies face in the context of attracting FDI and improving their benefits. Let me highlight three key points from this chapter. First, as shown in the left panel, FDI surge in the 1990s and... In the 2000s, driven by trade liberalization and the expansion of global value chains.

In fact, inflows to emerging market development economies grew five-fold between 2000 and 2008. Since the global financial crisis, however, FDI has steadily declined, reaching its lowest level since the early 2000s. In fact in 2023, when we had the It is debatable data. EMDs received just $435 billion, or 2.3% of their GDP, this halved the 2008 peak, while high-income economies recorded their weakest inflows since 1996. Of course, rising trade and investment barriers now pose a serious threat to global efforts to mobilize development finance. Decline in FTI reflects both global and domestic factors. On the global side, the reasons are clear. Trade fragmentation, policy uncertainty, and basically the decline in appetite to have these trade and investment agreements. On a domestic side, we don't see much of a momentum when it comes to, of course, liberalization of trade regimes, investment regimes, but at the same time There is not much improvement when it comes to investment climates and institutions and legal systems.

Third, growth benefits of FDI are significant. Our analysis shows that a 10% increase in FDI inflows raises GDP in these economies by 0.3% over three years, with much stronger effects in countries that have better institutions, greater trade openness, and higher human capital. As you see on the right, in countries that can control corruption, that have better investment profiles, you have better basically benefits associated with FDI inflows. The other chapter focuses on a group of economies we call fragile and conflict affected situations.

The development challenges facing these economies, there are 39 of them, and these economies are home to over 1 billion people, are monumental. They are facing persistent violence, fragility, and vulnerability to shocks. I'm going to again make three points in the context of these economies. First, as shown in the left panel here. Number of conflicts and related fatalities has more than doubled since 2000, with particularly deadly conflicts in Ethiopia, Sudan, Syria, Ukraine, and the West Bank and Gaza. Second, while diverse in income levels and regions, half of these economies are in sub-Saharan Africa, these economies face a number of common risks, including heavy reliance on commodity exports and prolong fragility. Nearly half have been classified as fragile conflict situations for more than 15 years, and half of them are currently experiencing conflict. These conditions have kept extreme poverty rates exceptionally high in these economies.

Nearly 40 percent, in fact, the poverty rate in 2025 compared to just 6 percent in other developing economies. Obviously, conflict inflicts severe economic damage. Our calculations suggest conflicts reduce per capita income by over 15% after two years. As shown in the right panel, in 2000, average per capita GDP in FCS economies was a little under half that in other developed economies, but by 2024, the ratio had slumped to less These economies haven't just stagnated, they have been regressing when it comes to their income levels. Let me conclude with these four messages. First, we are facing a broad-based slowdown and rising risks. Global growth is slowing significantly amid a weaker trade and, of course, pronounced slowdown ahead of us, especially in advanced economies. The outlook is further clouded by elevated risks.

We basically observe a sharp decline in FDI amid uncertainty, but at the same time, our results suggest reforms can translate into larger FDI inflows and much better growth outcomes associated with FDI receipts. Fragile and conflict situations face mounting pressures. These economies are grappling with persistent violence, stalled poverty reduction, and subdued income growth. Conflicts are linked to sharp output losses, food insecurity, elevated debt risks, and slower human capital development. And finally, what needs to be done? Countries need to find a way to build resilience, and in an increasingly difficult external environment they are facing, they need to expand opportunity. What does that mean?

The global community needs predictable, transparent frameworks to resolve trade tensions. Global co-operations is essential to overcome the basically challenges we see around the world. Developing economies need credible macroeconomic and structural policies to strengthen resilience to external shocks, foster private investment, create jobs, and navigate challenging trade-offs. Let me end with inviting all of you to visit our webpage. Look at our public input about the discussions we will have today. Thank you. Back to you.

BROOKS: Thank you so much, Ayhan, for that very interesting mapping of the global economy and your outlook. We really enjoyed listening, and it was super informative. My name is Robin Brooks. I'm a Senior Fellow in the Global Economy and Development Program here at Brookings. And it's my pleasure to, after Ayhan's presentation on the global outlook, moderate a discussion with our panelists. If I could ask everybody to turn on their cameras on the screen, please. Perfect. And before I introduce our esteemed panelists, I just wanna emphasize that this panel is happening for the benefit of our audience online. And so my goal is to make this discussion as interactive with our audience as possible. And so to that end, please submit your questions, either via X or what used to be called Twitter, using the hashtag, #globaleconomy, or via email, and you can email at events@brookings.edu.

I will repeat that as we go into the discussion, but please submit questions as we go. So, I'm going to introduce our panelists in the order in which I will let them do their opening comments. I'm gonna start with Steve Kamin. Steve for many years was at the Federal Reserve Board in a Senior Policy role, but now is Senior Fellow at the AEI, which I can testify is right next to Brookings and has a really wonderful cafeteria, which I've been happy to go to every once in a while. So Steve, we'll kick things off with you. Followed by Debora Revoltella, who is the Chief Economist at the European Investment Bank based in Luxembourg and has had a long career, both in the policy slash public sector and before that in. European banking sector. And Debora will talk to us about Europe and whether or not this is a big moment given all the uncertainty that's coming out of the United States.

We then are very pleased to have with us Hanan Morsy from the United Nations Economic Commission Africa, where she's the Chief Economist. Hanan, welcome. Hanan will be speaking in particular to Africa and some of the challenges in the current environment and of course frontier markets more generally. And then we obviously are also joined by Ayhan who needs no introduction because he already did the opening presentation. So Steve, let me start with you on the United States. A lot of the uncertainty that's been hitting the world has been coming out of the United States. So the US Is kind of the origin of what is happening. But it seems like there's actually a decent amount of blowback, both in terms of what people are expecting for growth and inflation, and obviously year to date, the dollar has fallen quite precipitously as well. So maybe you could give us. Sketch for us the landscape and then I'll follow up with one or two questions.

KAMIN: Sure, well thank you Robin, it's a real pleasure to be here today and I should add that you are always welcome to come over to AEI, the American Enterprise Institute, for lunch whenever you like. So anyway, so it's great to be able to flesh out the World Bank's excellent global forecast. Now, as you've mentioned, as I have suggested, a big contributor to the decline in global growth that's projected for this year owes to a slowdown in United States growth. And in the World Bank's forecast, basically, it falls from a very robust 2.8% pace in 2024 to only 1.4% this year, largely as a result of those tariffs. Now let me say a few things about that projection. First, it sounds like a really big markdown in growth, but the 1.40% is actually only a little bit below kind of like what people view as potential. The Fed has it at 1.8%.

So it's a lot better than the forecast of recession that were prevalent just a few months ago when it looked like tariffs might be an awful lot higher. Second point I wanna make is that the World Bank's forecast is actually quite prudent and quite consistent, both with my own views and I would add, those are the Federal Reserve forecast that was released last month. And then finally, I should note that the range of uncertainty about this forecast is so wide as to render it, if not virtually useless, at least not highly dependable. So what do I mean by that? Well, let's start with the simplest possible estimate of what the Trump tariffs, which probably amounted to about 15 percentage points higher than before Trump entered office, of what that would do to the economy. Based on looking at the increased tax burden to American households and firms coming from the tariffs.

So I calculate that at around 1% of GDP and that's just about the size of the markdown in the World Bank's forecast for US growth since January. So it's a very bare bones, kind of like projection of the impact, but it ignores a huge number of factors. No, on the one hand. There's lots of things that could make the Trump tariffs much more contractionary and perhaps push the economy into recession, including retaliatory tariffs by our trading partners, plunging investments in the context of that trade uncertainty that Ayhan emphasized, and the fact that, you know, come August 1st, when there's a deadline for a lot of trade deals, tariffs might end up a lot higher than they are right now. But, on the other hand... We actually haven't seen much impact to these tariffs. The Atlanta Fed has second quarter GDP growth at around 2.5%, which is quite respectable. Unemployment is only at 4.1%. Job growth has held up quite well.

And the stock market has fully recovered its earlier losses, which bodes well for future consumption and investment activity. So, obviously, the situation poses a big quandary for the Fed. And that uncertainty about the tariff effects of inflation are not helping either. So in the Fed's June forecast, inflation rises to three, this is PCE inflation, rises to 3% this year from 2.6% at the end of 2024. But as of May, inflation had actually declined to 2.3% at an annual rate and was running well below the Fed target of 2% on a month-to-month basis. So maybe firms are eating the extra costs of the tariffs and not passing them along to their customers, or maybe we're gonna see an explosion of prices once firms run out of the stockpile of inventories that they had imported before the tariffs went up. So a lot of uncertainty here, but either way, with the economy doing as well as it is, it's a cinch the Fed's not gonna start cutting rates until September at the earliest.

And besides the balance between the labor market and inflation, Fed policymakers are going to have to keep their eye on several other considerations. First, after the passage of the big, beautiful bill, our unsustainable fiscal deficits, which are currently around 6% of GDP, are going become even more unsustainable. And the federal debt, which is currently around 100% of the GDP, is slated to grow much larger over the coming decades. Now, down the road, this could force the Fed into having to choose between letting interest rates rise as creditors start charging the US Government a premium because of lost creditworthiness, or the Fed could intervene to buy the debt and keep interest rates lower but at the risk of higher inflation.

Besides the budget issue, of course, Trump's chaotic trade policies, along with the fiscal have already pushed the dollar down about 10 percent this year, as Robbins mentioned. In the near term, this will add to inflationary pressures, and in the longer term, the dominance of the dollar itself in global financial markets is at stake, raising further questions about our ability to fund ongoing trade and budget deficits. Besides all that, a third consideration is how a decline in immigration is going to affect the inflation in the labor market. And finally, what does the replacement of Jay Powell next year by Trump mean for the Federal Reserve, monetary policy, the economy, and, not to sound too dramatic, life on planet Earth itself? So with that, I will stop and answer any of your follow-up questions.

BROOKS: Thanks so much, Steve. I love listening to you. And I think that was the perfect outline to the US picture. If I may, let me ask you three follow-ups. And they're going to be in increasing order of difficulties. So feel free to answer the first one. And then we go from there. And you can throw the question back in my face if you choose to. The dollar, ok, so the dollar has fallen significantly, as you just said. Whenever the dollar falls, there's the inevitable mangling of, is this about reserve currency status, or is it a cyclical fall? I'd love to know where you stand on the issue and whether or not there really is a questioning of. Reserve currency status and a shift to a multipolar world in your view. And I'll come back to that point in my last question. Second question is, I need you to put on your telepathic thinking Trump reader hat and explain to us where all this is going.

We obviously had the Vietnam trade deal just now, which perhaps is a template for other that are coming down the pipe. We had penalty tariff rates on trans shipments, for example. We have a universal tariff on pretty much everybody. So is the game plan to penalize countries that allow trans-shipment from China and then reading between the lines, is this really about the trade confrontation between the US and China? And the third question. I get asked this all the time is, is this going to fundamentally erode institutional integrity in the United States and perhaps even democracy? And I think that comes back to the reserve currency status question that was kind of the first question. And it also goes to what you were saying last about the Federal Reserve and Jay Powell's successor. Three simple questions.

KAMIN: They are very simple and incredibly easy to answer. Thank you very much for lofting those softballs at me. Actually, what I'm gonna do, because I think your first question is the juiciest and the one that I've been looking at is try to answer in reverse order. Uh, on the question of whether, you know, we're experiencing a fundamental degradation of institutional quality, uh, you, know, I'm the macroeconomist, not the political science expert, so my views are worth what you're paying for them. Uh, but I guess all I would say is certainly everything that the administration is doing. You know, appears to be one that degrades the rule of law, the prudence of our policy-making, and the integrity of our policy- making, rule-making and law.

Whether that will end up actually prevailing during or after the Trump's administration, I really don't know, but it doesn't look very good from the standpoint And that's one of the main reasons why there are so many questions about, you know, the prospects for both the economy and the global role of the dollar, which I'll get to shortly. To your question about where is all this trade going, trade policy going, I guess the way I would think about it is that on Liberation Day, When you know follow after Trump announced these whopping reciprocal tariffs on all of our trading partners. And then the stock market and bond market reacted so forcefully and adversely, Trump pulled back, consistent with the so-called taco trade. Uh, what's going on now is that he's stealthily reintroducing. A lot of the higher tariffs that he'd pulled back from earlier, threatening to raise them nearly to those Liberation Day levels by August 1 if trade deals are not concluded. I would say that the stock market, I guess, recalls the parable of the frog in the boiling pot of water.

If you throw the frog into a boiling pot of water, purportedly it jumps out. But if you put it in a lukewarm port of water and gradually raise the heat, and eventually it won't jump out and it'll boil to death. So I'm a little worried basically that this time financial markets will, on the one hand, will not react as forcefully to higher Trump tariffs. Okay, and secondly that there will be some compromise between the Liberation Day level of reciprocal tariffs going up to, you know, 40 to 50 percent for many countries to a compromise that's more around, let's say, 20 to 30 percent for many of our trading partners. And let me just say, and so that, you would be obviously better than the worst possible outcome, but it will be a very bad outcome and it would be an outcome that the financial markets will let Trump get away with.

On the issue of China, I think that Trump's antipathy toward trade deficits and his love of tariffs includes, but goes well beyond, China. Okay, the final one, the dollar. What is this? Okay. I think that, let's put it this way, it is hard to attribute all of the decline in the dollar to standard cyclical considerations, which is to say the US growth compared to foreign growth, US interest rates compared to foreign interest rates. I have a little mini model that explains the dollar based on these interest rate differentials and the VIX, the measure of volatility, and that model basically, you know, predicted relatively flat, unchanged exchange rates, kind of like through the beginning, you now, for the last year or so.

What the actual dollar did was it rose well above the predicted model, you know, kind like toward the end of last year and throughout this, you know, toward the of last and beginning of this year as the Trump trade kind of excited people about the United States. Since then... Even before Liberation Day, it's been declining sharply. So that goes beyond cyclical considerations. It may reflect investor dismay with Trump's policies. It may reflect the sense that the prospects for the economy are worse than are evidence in the bond market. Or it may reflect a genuine pullback from US Assets and a future reduction in reserve status of the dollar. It's hard to know. One of the things that happened after Liberation Day is that the dollar started reacting positively to volatility, which is what you'd expect with a flight to safety currency, and instead reacted negatively, falling when volatility went up. That behavior has since kinda like gone back to normal, but I could see it coming back if there was more policy turbulence. Now I'll stop there.

BROOKS: Thanks so much, Steve. Last question. On the dollar. Even after all that long screen, you have appetite for more? One more. And I think this is really important, and you just touched on it. For some reason, the imposition of tariffs by the United States, which we tend to think of as inflationary, has caused markets to price, Federal Reserve rate cuts, and price more aggressive rate cuts than for other central banks, which is why when you were talking about cyclical versus other animal spirit, perhaps reserve currency status reasons for the decline of the dollar, rate differentials have moved quite significantly against the Is that something that you think is justified when you think about what is priced in markets for the Federal Reserve versus what they will do?

You'd said that the soonest the Fed might cut is September. But if we think that the Trump administration is clamping down, for example, on transshipments with these punitive tariffs on trans shipments, for example. If inventories from tariff front running have been run down. Are there reasons to think that the Fed might not cut at all, and in fact that inflation might pick up, and we could be in kind of a stagflation situation? Is that conceivable?

KAMIN: Oh, well, that's completely conceivable. I mean, if you kind of like just do the ordinary arithmetic that I was talking about, looking at the share of imports and GDP and multiplying by the tariff increase, you know, and taking into account like supply chain problems, you certainly would get higher inflation than we're experiencing right now. And you would expect, you now, that by the end of the year, inflation will be much closer to that June SEP, It's, you know, survey of. Economic projections Fed forecasts at 3% than where it's likely to go. So the fact that there's a couple things going on. One of them is we haven't seen the inflation show up yet. That's a surprise. That's contrary to our models. And that's leading a lot of market participants reasonably enough to mark down their projections for inflation. That's thing one. Thing 2 is a little bit dicier.

But if you look at the projections for the Fed funds rate over the next couple of years, it's got basically the markets have two cuts this year, which is consistent with that, you know, the inflation remaining lower than we first thought and the economy slowing somewhat. Keeping in mind also. That at four and a quarter to four and half percent, the Fed funds target is well above the inflation rate and well above what most people think of as an equilibrium interest rate. Okay, now then, the markets have another couple of cuts, actually three cuts, I think, for next year. Now, is that merited? It could be, you know, in the sense that if the economy, you now, kind of like continues to be on the slow side below potential, and if inflation stays low. The three cuts would bring it more back into the range of what the Fed views as a neutral range.

There is another possibility as well, which is the markets are counting on the new Fed chair being more dovish, more likely to lower interest rates than Powell has been. I think that would be an inappropriate reason for the anticipations of the Fed funds rate to be so low. But I think you could sort of justify the market's expectations even without relying on that. So, to your question of, you know, are interest rates, you know, unusually low, inappropriately low, I'd say it's hard to tell at this point, but you can make the contrary case.

BROOKS: Thank you so much, Steve. That was wonderful. And I'm gonna stop pestering you with questions for right now. Debora, I was recently at an event with a lot of European policymakers and obviously the global picture is quite a difficult one, but there is a sense of optimism in Europe that I can't remember seeing in quite some time. So perhaps could you give us your outlook for Europe? And obviously, the subtext here is, will Europe rise to the occasion and do what it takes in terms of some of the changes to the financial architecture, like joint debt issuance and so on, to create the room for Europe to seize this moment.

REVOLTELLA: Thank you, thank you very much. I think you have the right perception of European view and I think in this moment there is a strong sense of a unique opportunity for Europe after many years of lost opportunity and an opportunity to catch. So, and I think there is some momentum and we'll discuss a little bit in which areas I really see that the change are happening. But starting from the current macro situation, I think we have our forecast are generally in line also to the commission forecast is still for this year 1.1 grow in 2025, 1.5 in 2026. We see the effect, I think, like almost everybody, we were estimating the effect of the uncertainty in tariff to some 0.3% and we are still all looking at what is happening. Q1 has been stronger than also we were expecting. It's interesting because there is a very strong dynamic in Ireland that is always a tricky case related to many American companies being active.

But the other point that was interesting and for me particularly the fact that in period of so much uncertainty also gross capital formation, I was actually quite strong. And actually was strong also in the US That I'm still asking myself, how can it be something that we will see going forward. The ECB is finding itself, I think we were in Sentra with Hanan last week, the ECB is coming out quite convinced that they are on the right path, they have the right strategies, they remain data dependent, operating and meeting after meeting, but they don't see many big issues. I found them very comfortable actually in the position in which they are.

But I come to the point that you were asking and I think Europe came out after the liberation day and they shocked all markets with the realization that maybe something was broken in the US, and it's a big word, broking in the US A process of readjustment of the global monetary system with some rebalancing out of the dollar could happen and there may be an opportunity for strengthening the rule of the euro. I think the realization is also that the euro per se will not take over. It's not a substitution that will come suddenly but there is a possibility for some strengthening. And also what is interesting, I think we come in Europe from a moment where last year we came with the Draghi report, the Lector report. It was very clear everything that is wrong in Europe and it was well spelled out. So now markets were under underpricing Europe on the back of everything that doesn't work. And then suddenly you have an opportunity and people start looking at what can be done. Actually, the Draghi and the Literary Port were very instrumental for the Commission to come in and have all the right files, all the light proposals coming up one after one very quickly.

And at the same time, there is this increased confidence on Euro and European assets. What we have seen is that in all the moment of the period of maximum volatility market, et cetera, even when spreads were increasing at the European level, there was very little reopening of spreads. Somebody can say there is a lot of reopening. I think there is very little of the intra-European spread. One thing that we see, also as an institution, there is a lot of demands of European-backed assets in the US dollar that we see as a sign that investors like European risk and even if it's dollar and actually the dollar component is fine, but they like the European risk. So we see some important elements. I think that there is a lot that to have a strong rule of the euro has to happen in terms of the investment and saving union, even market integration. And now there is that. A strong acceleration on the digital euro process that is starting actually is going in a fast track after being kind of more blocked also in the European Parliament etc.

But the realization that it has to come, it's really moving things. But then I come to the trade part, if I still have a couple of minutes. On the trade part, I think it's also interesting to see where Europe stands, because in fact, Europe is much more an open economy than US and China. We were looking, even if you exclude the intra-European trade, about 45% openness compared to 37% China, 25% US. So in a moment of major reshuffling of trade, actually, Europe is more sensitive.

On our side, we tend to think that if we would end up in something that is just the 10% that would be manageable and it's something, it's what market are somehow probably the economy is already trying to digest. But the, the, I think in the negotiation, the biggest thing that everybody's looking at is also the second issue that will be put and I think that the US policy is really trying to ask trading partners to decouple completely from China in strategic technologies and I think that is something where Europe is very much putting an halt in the sense that yes, there are reasons for Europe to think of economic security and treat China in a certain way. But it has to be a European decision and it has to be very targeted in this specific sector and Europe needs to have its independence in deciding. And I think this is quite important because if you look at the trade development of the last years. What you saw is that actually China has been growing exactly, both in terms of innovation and in terms of entering new in global market, etc. Export performance, exactly in sectors where Europe used to be quite the stronger.

So it's competing about on the both in term of. Buys less from Europe, and this compete exactly where Europe was strong. So, there is an element for Europe to look at China and to look how to deal with China. But it's also true that Europe remains... Quite attached to the principle of a global value chain and efficiency in the value chains. So the idea is really to go more targeted when you look and start discussing in terms of economic dependencies. What is happening on the policy point of view is that there is a lot of try to speed up trade agreements, so looking at all the existing trade agreements and try to take the most and potentially work in strengthening some of the trade agreements and opening a new trade agreement. And one that is quite interesting is with the Mercosur because it's ready for ratification and so the effects are coming quite quickly. But actually, there is a lot of activities, new negotiations with India, Indonesia, the Emirates and looking at Singapore, Australia, the Philippines.

So it's really a reopening of all the trade and negotiation part. And what emerged maybe at the global level is that Europe is then the trusted partner. That can take a stronger role. But as I was saying, it remains the internal work to be done. And I think Europe is realizing that there is a lot of untapped potential in terms of the internal single market. The internal single-market is a stabilizer in this moment, also provide an alternative resilience in the market, but there is a lot of potential.

On our side, we have a survey that looks when firms try to export to another country, 60% tell us that there are non-tariff barriers. So there should be zero, it's a lot. So, there is lot of a potential to upside that. And then it comes the fiscal side, if you want. What is changing in Europe? I think there is, for sure, the defense side. So it was a shock. Defense has to be a priority. A member said that Germany was the first one moving forward with all the internal package. All European countries are coming there with quite some commitment on the defense side. I think this will be a very important test for Europe in terms of how Europe organizes suspending it thermo for the fans. And the more there will be coordination and joint procurement, joint decision on the defense side, it's very hard for Europe to get there. But there are more discussions in this direction.

And I think that's quite important because you were talking about joint missions. I don't think we are there. But I think we can go in the direction of much more coordinated spending and much more joint spending coming. But let's see, that is something that we have to look at. And the last point I wanted to say, it's the moment in which in Europe we are starting to discuss about the European budget. The European budget in Europe is small, it's like a 2% of GDP, it is not a big thing, but it's an interesting moment because there is much more focus on simplification, on really directing the money where it matters and try to do more for innovation and competitiveness. That is what Europe needs. So let's look at that development also going forward.

BROOKS: Wonderful, thank you so much Debora. In the interest of time, I'm gonna go straight to Hanan and actually there's a question that we have which I'll put directly to you because it's directly relevant but it in no way restricts you from focusing on your particular area and the question is how the global uncertainty and the tariff regime of the United States in particular impacts Sub-Saharan Africa and frontier markets, perhaps also elsewhere. Ayhan's presentation talked about frontier markets low-income countries struggling in terms of recovering from COVID. COVID shock has had a lasting impact in terms of access to global financial markets and in terms of per capita growth. So maybe you could just give us your outlook for Africa for frontier markets and then we take it from there.

MORSY: Thank you, thank you very much. I think the African economy and when I talk about Africa for the UN Economic Commission for Africa, we treat the continent as a whole. So I'm not going to be just talking about Sub-Saharan Africa, but whole of Africa. And we have seen remarkable resilience of African countries over the last few years despite global shocks but of course with all the you know the very complex global landscape and you know increasing shocks in particular areas, this is compounding the effect and really kind of raising the downside risk of the outlook significantly. And particularly, this is the case for two shocks. One of them we've talked with it mentioned, which is the issue of the cuts of the official development assistance.

And already we have been, over the years, seeing a decline in that from around 3.5% in mid-2000s to almost 2% by 2023. However, we've all seen substantial cuts, whether from the US with the cuts in USAID. And what is even different than historically at this time, and it's important to highlight, is historically what we've seen before is when there is a retrenchment by a major player, global solidarity historically kicked in. And the others have filled in that gap and stepped up. Unfortunately, this is not the case this time and we've seen multiple cuts by those that usually have come in to show global solidarity and mitigate such cuts. So we've seen substantial cuts also by European countries announced. And just to give you a sense, for African countries, on average, the weight of ODA as a percent of GNI is around 7.2%. And the reliance varies across countries. It's significant and particularly important. For example, in 2023, more than 40% of the African countries actually received, that were reliant, heavily reliant on USAID receipts and the closure, for example, and the decline globally of ODA tends to affect certain particular sectors.

And here the one that is most exposed actually is the health sector and with massive implications and followed by Going to the other shock that we have seen in terms of the US trade policy and implication on the continent, I think it's important to highlight here that the increase in the tariffs on April 5th and the increase and the average tariffs imposed by US on its imports from Africa. Which went from the 0.7% to 7.1%. And that in itself, once that part of the measure was done, what we ended up with is actually the US Becoming more protectionist on its own policy toward African countries than African countries are toward the US.

Because if we calculate, for example, the average tariffs from the African countries to the US, it's around 6.1%. So that in itself, this is also historic for advanced economy, for the US to be having more protectionist policies and trade measures than developing countries. But that does not take into account you know, the reciprocal part of the tariffs. That could rise to more than 15 percent if all the resurgical tariffs are implemented. And after the 90 days pause, we have seen the US Starting to announce some tariffs from August 1 on a number of countries, including South Africa, Algeria, Libya, the three them at 30 percent. And Tunisia at 25%.

There are additional countries that will see how this will fit. But basically, from our analysis, the key sectors that will be affected are agri-food and industry, with chemicals, transport and vehicle and parts. Being hit the most within these. So that's kind of the overview from the changes in trade policy. But of course, there is also the global financing conditions, having tight financing conditions at the same time as we have the retrenchment in Odier. So you can imagine how complicated that landscape is. And in addition to that, increasing level of uncertainty and unpredictability in the system that makes it even harder, both in terms of planning, anticipating conditions and all. And all that, this of course have, you know, serious consequences for the continent, especially that it's coming at a time Where? The debt burden is high, and countries, even before all that, were facing a debt service of 89 billion US dollars for this year. This, of course, even without taking into account all the implication we just spoke about.

And at the same time, in terms of access to capital markets, this remains a quite high cost and in many times prohibitive. And if we factor Also the fact that what we call the African premium of Africa having to pay higher than what fundamentals justify this really magnifies the amount of cost that will need to be incurred to just finance development and climate action. In the bigger scheme, what we are perhaps facing is also the financial paradox. The fact that we have on one hand abundant global savings, while we have scarce flows. And when we have savings, global savings exceeding 30 trillion annually, but the flow of affordable and long-term finance to the parts of the globe where actually growth and future labor will come to is not actually happening. That tells us that there is something in the system that needs adjusting. Incentives are not aligned for capital to flow efficiently.

And at the same time, I think one of the. Examples that illustrate this is the issue of the misalignment in green finance. So while Africa holds significant share of global reserves and critical minerals that are key to the transition, green transition, and you know the vast majority of renewables, potential for renewable energy. The continent only receives 2% of green investment flows. So basically what we have is we have capital that is not flowing to where the biggest and highest opportunities are. And there are many things that compound that including issues of financial regulations, the same financial regulations that are done to maintain global stability. Are, to a large extent, becoming also an impediment to development. For example, you know, the risk weighting requirements for infrastructure financing.

So I think there are really a number of issues that need to be tackled. You know, to have the resources flow where the opportunities are highest and for the to work in a way that... Actually allows this to be done in an effective way and there is a lot of work for example on issues of you know infrastructure projects in the continent having one of the lowest non-performing rates and yet you know in terms of the cost for example to finance clean energy in Africa is over 18 percent compared to under 5% in advanced economies. So there are a number of issues that we need to deal with from rating biases to absence of de-scale de-risking mechanisms to regulation issues and that would be key to enable not just for Africa and global south but for the world to transition to where we need to go. And then the other issue is also that our global financial system have not, you know, scaled to match the needs of, you know, our century. Just to illustrate the big capital debate in capital of the World Bank, African Development Bank and EBRD combined is around $66 billion as dollars. This is smaller than the capitalization of a single, thick firm.

So I think there is really a huge mismatch in the system. And we need to have this corrected to enable development to happen in a more sensible way that with finance at scale and more affordable. And also we need to tackle other issues, you know, from the perspective, I mean, this is kind of on the global level, but also at a regional level. One of the things and one of the, you know, responses that we see now at a national and regional level is the, you know, the kind of... Pursuing of self-reliance, focusing a huge focus on domestic resource mobilization and what can be done.

Also focus on fostering more of the regional integration because I think one of the most interesting parts in this is the fact that while, for example, the share of high value. Exports from Africa to the world is less than 15%, around 14% with the rest of the world, but intra-African one, it's around 45%. So that is a huge opportunity to be able to trade more among African countries and to move up the value chain to create better jobs and higher living standards.

BROOKS: Great, thanks Hanan. That was a great summary. And I'm actually getting a bunch of questions specifically for you. But let me circle to Ayhan because we also got a number of questions for him and then I'll, time permitting, I have a few questions for the panel as a whole. Ayhan, one question that we got was what to read into the fall and commodity prices. You had a very nice chart. I think on the first slide in your presentation where you differentiated between metals and other commodity prices, non-metals commodities, and the non-metals and I guess oil in particular fell. That's obviously about OPEC's supply in large part. But the question is, are we looking at a deflationary dynamic between weak growth, falling commodity prices? Is that the next thing to worry about?

KOSE: Thank you, Robin. This was a fascinating exchange so far. We call so much ground. On the commodities, when you look at the demand side, obviously, there are pressures pushing commodity prices down. If you are expecting weaker growth, everything else equal prices will decline. On the supply side as well, there are good reasons to expect prices to come down, especially price of energy, given how OPEC plus policies have changed over the past six months. And as I mentioned, we are expecting much lower prices this year. Now, going forward, we have this volatility in metal prices, especially when you think about what happened with respect to copper over the past week.

And that creates a kind of duality when we think about the prices in the US and prices in other countries that happened in the context of some other commodities in the past, when interventions with respect to trade policy translated into you know, gyrations in certain commodity markets. The one commodity that gets a lot of attention, and we are expecting breaking a record high this year, is obviously gold. But we are also expecting some precious metals like silver and platinum register gains. Now, there is a bigger question you are asking.

What are the implications for inflation? Decline in commodity prices, especially prices with respect to oil, could have a disinflationary impact. Whether that impact is significant is questionable though. We look at this issue in our latest commodity market outlook and the impact was quite small at the global level. If you also look at the US, the impact was quite small. Nevertheless, it pushed inflation just a little bit down, I would say, 10 basis to 20 basis points. The challenge going forward, given the type of volatility we have seen in commodity markets since the pandemic, and obviously, increasingly, the trade policies overshadowing developments in commodity markets. We expect more volatility, and this has huge consequences for those economies that depend on commodity exports for their fiscal earnings. I'm going to just talk about one more issue, given that we covered a number of things, but there are just these bright spots in the global economy.

Let me briefly talk about that, there's a lot of pessimism around the panel. One bright spot, we see these technological innovations as a powerful engine for economic growth, advances in AI, clean energy, digital infrastructure. These could translate into significant gains. Second, in the context of trade... Global supply chains are adopting, they're not collapsing. And that's good news. I think this diversification push, because of elevated trade policy uncertainty, these new tariffs could make a global trade and global supply chain more resilient going forward. As much as tariffs are increasing, there is quite a bit of uncertainty. You also see more countries are turning to regional trade agreements. Debra mentioned some of these in the context of European Union, but you look at China and Serbia, China and Ecuador, the EU trying to basically have agreements with a number of partners. And then in Africa, in Asia, you have countries trying to push forward with regional trade agreements. These are good news.

There is not all gloom and doom when it comes to trade. A number of countries, by the way, are trying to join this comprehensive progressive agreement for TPP. This was a huge debate. 10 years ago, but now the number of countries line up to join the agreement. That's good news. And finally, India has a bright spot still delivering faster growth than any other major economy. We are expecting six and a half percent growth this year and next year. And when you think about, you know, that type of growth, India's economy expands by one fifth every three years.

And you look at some of these countries under IMF agreements, Robin, we know those agreements, very well, you and I. Look at Argentina. Argentina is expected to average growth four and a half percent over the forecast horizon, and inflation is expected to continue decline. There is this fiscal surplus. There are good things happening around the world as well. It's, I think, pleasant to remember those good things. Back to you.

BROOKS: So Ayhan, I'm actually glad that you mentioned some good things, although I would highlight that Deborah's commentary was largely about good things European focus. So just so there's not too much doom and gloom. I have one question for Steve and then one question from Hanan and then maybe we do a lightning round of upbeat final thoughts, cottoning on the positive things that you just mentioned, Ayhan. So. I'll ask my two questions then I'll turn to Steve and then I turn to Hanan. In terms of Steve, one annoying acronym on this whole reserve currency dollar status thing is TINA. There is no alternative.

And we just had a BRICS head of state meeting in Brazil. Is this a catalyst for Perhaps the BRICS, against all odds and all commentary, getting their act together and mounting a credible challenge to the status of the dollar, that's one question. And then Hanan, for you, how should Africa position itself? You talked about ODA. You talked to about access to global finance and how actually returns on investment far exceed. Those perhaps elsewhere and how this is a big missed opportunity for the world. How should Africa position itself? Should there be a pivot towards China? Should there a pivot toward Europe or somewhere else? Do you have any thoughts on that? So Steve, first the TINA and BRICS acronyms, what should we make of those?

KAMIN: We should make nothing of those. There is no chance that the BRICs are going to develop a currency to compete with the US Dollar. Besides there being a very disparate group of countries with almost nothing in common with each other, but a desire to get away from the dollar, the only country that could possibly develop a currency that could compete with a dollar, of course, is China. And given their own problems with governance, rule of law, capital controls, et cetera, no other country is going to want to put a big hunk of their savings in Chinese currency assets, although they may want to use the RMB for trading purposes.

So I don't necessarily buy Tina. I could imagine that some combination of technological progress that makes it a lot easier to shift between different currencies plus greater use of the euro could end up pushing us toward the famed multi-polar currency world. But I don't see the bricks as part of it.

BROOKS: Thank you, Steve. That was very clear. Hanan, on the strategic orientation of Africa, do you have any thoughts on that?

MORSY: Yes, definitely. I think it's a great opportunity to actually shift the narrative and mindset. I think the fact that there is this emphasis on self-reliance is itself a good shift that we need to really make sure that to close the leakages. And that also includes even at the national level with international taxation, illicit financial flows. As pricing, invoicing, profit shifting. I think actually these sources are three times what is being, what used to be given official development assistance. So it helps focus the minds on what matters. This is number one. Number two, I think, and similar to other regions, there is this tendency to now focus also on diversification and that diversification. Includes diversification of both trade and finance. We've seen that happen with African countries being able to tap financing that is much cheaper in Japan and issue samurai and panda bonds that are far cheaper than euro bonds, for example.

And I think one of the good things out of all what is happening is the realization of the value of regional integration. And I think it's across the board. And this is actually really like, you know, very strong at the African continent because the integration has been behind what has been achieved in other region and the potential is high. So that in itself, you can be a very, strong impetus to do what has not been done for a while, but also I think there is the issue of the narrative also in terms of the communication and the data. So one of the things that we need to have more of is the infrastructure return data by sector. It looks super cool. It looks very cool. By country and have it that publicly available from MDBs and stakeholders. So that also it helps with this perception of, you know, by investors and also for countries to learn to kind of like sell the word, all the reforms that they're doing much better than they used to and focus on investments and private sector, because that will be key. So that's the, you know how I see things shifting and the narrative. Moving forward.

BROOKS: Great, thanks so much, Hanan, that was perfect. So maybe we'll finish, we've got five minutes, so there's time for kind of a lightning round, and maybe I'll start with Debora, then Ayhan, then Hanan, then Steve. You get the final word, Steve. But maybe we do something upbeat. So if I had to guess, even though it sounds a little bit counterintuitive for Europe. Defense spending, perhaps, is the single biggest positive thing, as crazy as that sounds. But that is the big unifier that everyone can kind of agree on, and perhaps they can even figure something out on funding. But Deborah, I'd love to hear a couple sentences on the single best thing in the European outlook. And then we'll go to Ayaan on the global level, Hanan for Africa, and Steve for the US. You're muted, Debra.

REVOLTELLA: It had to happen at a certain point. No, I agree with you that, in fact, I think the fan spending may be a way for Europe to spend together in an aligned way and try this EU public good coordination, if you want. So that's one of the positives. I think. If we want to be on the positive side, today is happening in Rome, actually a very big conference on Ukraine to start discussing also on the reconstruction of Ukraine and the narrative is moving very much in that direction and that could be another positive going forward. But to me it's very important that Europe looks also On the one side, it continues to remain open, internationally, and that's part of what we see. But on the other side, also working more on this untapped internal potential, the untappable potential of the US single market, of the investment and saving union, and that is quite important.

BROOKS: Thanks so much, Deborah. Ayhan, on the global level, perhaps one or two upbeat finishing thoughts.

KOSE: So I had my bright spots. When we think about what happened since 2020, Robin, I think that the global economy is repeatedly surprised on the upside. We had certain forecasts that global growth is going to be weaker than last year. But more or less, there has been growth. This year, again, we downgraded forecast in mid-year, but who knows? There are certain developments, I would say mostly actually structural taking place. We don't have a good grasp of those developments. Like the best economy, we should understand very well, the United States. Why labor market is so resilient, why inflation is not picking up in the way people expect it, why activity is still so resilient. My hope is that global economy will surprise again on the upside and we will have better outcomes in the second half of the year.

BROOKS: Thank you very much, Hanan, single best perhaps thing off the radar screen for Africa.

MORSY: I would say two. One is the one I mentioned on the focus on regional integration and the huge potential it has for higher value added and better living standards. The second is actually the issue of, you know, the advantage of being a latecomer in development means that you can do things in a totally new destructive ways using, not starting where everyone started, but starting where everyone ended. So perhaps if this can be tapped sufficiently, that can be a huge positive for the content.

BROOKS: Perfect. Thank you, Hanan. Okay, Steve, take us home. What's the upside for the United States?

KAMIN: Well, I think that I haven't alluded to it, but I mean, the US, over the last few years after COVID has shown itself to be the most dynamic, innovative, and entrepreneurial economy in the world, or one of those, and kind of looks like despite the many slings and arrows of Trump's policy fortune, the economy is still doing well. So the hope is that the disruptions won't be that great. And that the US Economy will continue to power along, which will have positive knock-on effects on the rest of the world.

BROOKS: Steve, Deborah, Hanan, and Ayhan, thank you so much for this really fascinating panel. On behalf of Brookings, I really appreciate all the time you took and the great responses to the questions. It remains for me to thank our audience for the really great questions that you submitted and for kicking off some really great back and forth that we had. So on behalf of me from Brookings, on behalf of Kuhl, who runs the Global Economy and Development Program, I'd just like to thank all of you and all of the staff that helped make this possible here at Brookings. Thank you so much to you and our audience.