OIC ECONOMIC OUTLOOK 2025

Pathways to stability amid tariff impacts

SESRIC

ORGANISATION OF ISLAMIC COOPERATION

STATISTICAL, ECONOMIC AND SOCIAL RESEARCH AND TRAINING CENTRE FOR ISLAMIC COUNTRIES

Organization of Islamic Cooperation

Statistical, Economic and Social Research
and Training Centre for Islamic Countries

OIC Economic Outlook 2025

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Acronyms

CPI	Consumer Price Index
EPR	Employment-to-Population Ratio
EU	European Union
FDI	Foreign Direct Investment
GCC	Gulf Cooperation Council
GCF	Gross Capital Formation
GDP	Gross Domestic Product
GEPU	Global Economic Policy Uncertainty
GNI	Gross National Income
ILO	International Labour Organisation
IMF	International Monetary Fund
IPF	International Project Finance
ISIC	International Standard Industrial Classification
ITC	International Trade Centre
LAC	Latin America and the Caribbean
LDCs	Least Developed Countries
LFPR	Labour Force Participation Rates
MENA	Middle East and North Africa
MMBtu	Million British Thermal Units
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
OIC	Organisation of Islamic Cooperation
OPEC	Organization of the Petroleum Exporting Countries
PPP	Purchasing Power Parity
PTA	Preferential Trade Agreement
SDG	Sustainable Development Goal
SESRIC	Statistical, Economic and Social Research and Training Centre for Islamic Countries
TPU	Trade Policy Uncertainty
U.S.	United States
UAE	United Arab Emirates
U.K.	United Kingdom
UNCTAD	United Nations Conference on Trade and Development
UNSD	United Nations Statistics Division
US$	United States Dollar
WEO	World Economic Outlook
WTO	World Trade Organization

Foreword

It is with great pleasure that I present the *OIC Economic Outlook 2025: Pathways to Stability Amid Tariff Impacts*. This report arrives at a pivotal juncture, as the global economy grapples with unprecedented uncertainties. The escalation of trade tensions, particularly following the imposition of new U.S. tariffs reaching as high as 145 percent, has reshaped global supply chains and heightened volatility across financial and commodity markets. For the OIC Member States, these shifts have amplified both the risks and opportunities of integration into the global economy.

Despite these headwinds, the economies of OIC countries have shown notable resilience. Their collective GDP reached US$ 9.2 trillion in 2024, accounting for 8.3 percent of the global economy, while in purchasing power parity terms their share is even larger at 14.3 percent. Growth averaged 3.5 percent, surpassing the global average and placing several OIC countries among the fastest-growing economies worldwide. Guyana, with a remarkable 43.6 percent growth rate, and Niger at 10.3 percent, were among the top performers globally. Kyrgyzstan and Tajikistan also registered robust growth, underlining the dynamism across different regions of the OIC.

Trade and investment trends further illustrate this dynamism. Merchandise exports climbed to US$ 2.6 trillion in 2024, while imports rose more sharply to US$ 2.7 trillion. Intra-OIC exports expanded to US$ 491 billion, accounting for nearly a fifth of total exports of the group. Foreign direct investment inflows surged by 27 percent, reaching US$ 210 billion, which lifted the OIC share in global FDI inflows to an all-time high of 13.9 percent. These achievements reflect the attractiveness of OIC markets, even in a climate of rising global uncertainty.

This year's issue pays special attention to the newly announced U.S. tariffs, which represent one of the most significant trade policy shifts in decades. While direct exposure to the U.S. market is limited to a few Member States, the indirect impacts are widespread. The stronger U.S. dollar has raised import costs across many economies, while opportunities have opened up for trade diversion in sectors such as textiles, electronics, and resource-based commodities. At the same time, China–OIC trade, exceeding US$ 1 trillion in 2024, magnifies both the risks of spillover and the prospects for diversification. Rising trade and policy uncertainty have complicated investment decisions, making coordinated responses even more urgent.

The policy directions set out in this report point the way forward: diversifying exports and moving up the value chain; preserving fiscal space to cushion shocks; attracting supply-chain investment through predictable and transparent frameworks; and deepening intra-OIC cooperation to strengthen resilience and bargaining power. These actions are vital to ensure that OIC countries not only withstand external shocks but also harness new opportunities arising from global economic transitions.

Looking ahead, the resilience of OIC economies will depend on their ability to build on recent gains while addressing persistent disparities. High unemployment, elevated inflation, fiscal pressures, and structural reliance on commodities remain pressing challenges. Yet, the collective strengths of the OIC—demographic potential, abundant resources, and expanding markets—offer a strong basis for sustained growth if supported by closer collaboration and shared strategies.

In Islam, economic activity is not an end in itself, but a means to ensure justice, equity, and shared prosperity. Fairness, honesty, and cooperation are guiding values that must inform our collective economic future. In this spirit, I invite policymakers, scholars, and business leaders across the OIC to reflect on the insights presented here and to work together to build a more resilient, inclusive, and dynamic economic future for our nations and peoples.

Zehra Zümrüt SELÇUK
Director General
SESRIC

Executive Summary

RECENT DEVELOPMENTS IN THE WORLD ECONOMY

ECONOMIC GROWTH

The unprecedented U.S. tariff hikes, reaching up to 145% and spanning nearly all trading partners, including OIC countries, have amplified global uncertainty, disrupted trade flows, and slowed economic growth. Global growth moderated to 3.6% in 2022 and slightly declined to 3.5% in 2023 amid persistent geopolitical tensions, including the Russia-Ukraine war and the brutal occupation of Gaza, as well as fragilities in the financial sector. In 2024, global growth slowed further to 3.3%, and with the newly enacted U.S. tariffs, heightened trade tensions, and continued global uncertainties, it is projected to decline to 3.0% in 2025 before slightly recovering to 3.1% in 2026.

UNEMPLOYMENT

The global unemployment rate declined from 5.3% in 2022 to 5.0% in 2023, held steady in 2024, and is expected to remain stable through 2025. Youth unemployment (ages 15–24), while still elevated, has also shown a downward trend from 14.2% in 2021 to 12.6% in 2024 and is projected to decline further to 12.5% in 2025. While both male and female unemployment rates have decreased over time, women continue to face slightly higher unemployment in many regions, particularly in developing economies. Overall, labour markets have demonstrated resilience amid global uncertainties, but sustained efforts are needed to ensure an inclusive recovery, particularly for women and youth.

PRICES & INFLATION

Commodity prices surged by 33.7% in 2022, driven by post-pandemic supply disruptions and geopolitical tensions. However, this spike was followed by a sharp decline of 23.3% in 2023, with a more moderate decrease of 0.5% in 2024. Commodity prices are projected to decline by 1.1% in 2025 and by 2.3% in 2026. While new tariff measures and geopolitical uncertainties have renewed market volatility, inflation is stably declining. Global inflation declined to 5.6% in 2024, down from 6.6% in 2023, and is projected to ease further to 4.2% in 2025 and 3.6% in 2026. In developing countries, inflation moderated from 8.0% to 7.7% in 2024, while developed economies saw a more pronounced drop from 4.6% to 2.6%. Looking ahead, global inflation is expected to continue its downward trajectory, underpinned by restrained demand and more aggressive policy responses by central banks.

INTERNATIONAL TRADE

Global trade volume weakened in 2023, with trade in goods contracting by 0.8% and total trade in goods and services growing only 1.0%. Despite this uncertain environment, trade is projected to gradually recover, with trade in goods expected to grow by 2.9% in 2024 and 1.1% in 2025, while

combined trade in goods and services is projected to increase by 3.8% in 2024 and 1.7% in 2025. Although a temporary reconciliation on new tariff rates between China and the U.S. was reached in May 2025 following the escalation in April, with a 90-day postponement of broader tariff hikes to August, it continues to pose significant downside risks. These measures affect nearly all trading partners, including OIC countries, while recent warnings from the U.S. administration and ongoing legal challenges signal continued uncertainty in global trade dynamics.

CURRENT ACCOUNT BALANCE

In 2024, the global current account balance stood at US$ 518.6 billion. Developed countries recorded a surplus of US$ 102.9 billion, and developing countries had a surplus of US$ 415.7 billion. By 2025, the global current account balance is projected to fall to US$ 53.8 billion, with developed countries moving to a deficit of US$ 71.1 billion and developing countries seeing their surplus decrease to US$ 124.9 billion. Projections for 2026 indicate an increase in the global current account balance to US$ 96 billion, with both developed countries (US$ 56.8 billion) and developing countries (US$ 39.2 billion) recording surpluses. As a percentage of GDP, developed countries are forecasted to have a 0.1% deficit in 2025, down from a 0.2% surplus in 2024, while developing countries' surplus-to-GDP ratio is expected to fall to 0.3% in 2025 from 0.9% in 2024, and further decline to 0.1% in 2026.

FOREIGN DIRECT INVESTMENT

In 2024, global foreign direct investment (FDI) increased marginally by about 4%, reaching US$ 1.51 trillion, compared to US$ 1.45 trillion in 2023. Despite this modest growth, FDI inflows remained volatile, particularly in developing economies, which accounted for 42% of total inflows—down from 55.5% in 2020. FDI trends showed significant regional disparities. Developed economies saw a 12.1% rise in inflows, while developing countries experienced a 6.1% decline. China faced a sharp 29% drop in FDI, whereas North America, led by the U.S., recorded a 22.6% increase, driven by mergers, acquisitions, and high-tech investments. The U.S. remained the top global FDI destination, attracting US$ 278.8 billion, followed by Singapore and Hong Kong. Investment patterns highlighted a divergence between industrial investment and infrastructure development. Greenfield investments were robust in India and the UAE, while international project finance was concentrated in mature and select emerging markets.

FISCAL BALANCE

Fiscal deficits in developed countries were recorded at 4.7% of GDP in 2024. They are projected to narrow slightly to 4.3% in 2025 and further to 3.9% in 2026. In contrast, fiscal deficits in developing countries are expected to worsen from 5.5% of GDP in 2024 to 6.1% in 2025 before improving modestly to 5.9% in 2026. These persistent fiscal challenges are largely driven by rising expenditures on pensions, healthcare, defence, and climate change mitigation. Such structural spending pressures complicate efforts to achieve long-term fiscal sustainability, particularly in the context of subdued revenue growth in many developing economies.

RECENT ECONOMIC DEVELOPMENTS IN OIC COUNTRIES

PRODUCTION AND ECONOMIC GROWTH

At current prices, the total GDP of the OIC countries amounted to US$ 9.2 trillion in 2024, slightly (3.3%) above the preceding year. With this economic size, the OIC countries, as a group, accounted for 8.3% of global GDP in 2024, the same as in the previous year. This share is expected to decline to 8.2% in 2025. In terms of Purchasing Power Parity (PPP), expressed in international dollars, the total GDP of the OIC countries reached $28.1 trillion in 2024, and is expected to reach $29.8 trillion in 2025. With these amounts, the OIC countries, as a group, accounted for 14.3% of global GDP in 2024, also the same as the previous year.

GDP per capita

Given the ongoing growth in output, per capita GDP values at current prices continued to increase worldwide in 2024. However, the increase in the OIC group was rather small due to limited output growth. In U.S. dollar terms, the global average rose by 3.9% from the previous year to US$ 13,941, driven largely by developed countries, where GDP per capita increased by 3.5% to US$ 58,626. The OIC countries recorded a growth of 3.5%, with GDP per capita averaging US$ 4,624 in 2024, compared to US$ 4,469 in 2023. Non-OIC developing countries recorded a GDP per capita of US$ 7,564, up 3.0% over the same period. Thus, GDP per capita remained lower in OIC countries, and the gap widened somewhat in 2024.

Economic Growth

In 2024, the average growth rate in the OIC group stood at 3.5%, the same as in the previous year. It is expected to slightly decline to 3.4% in 2025, before rebounding to a projected 4.0% in 2026. However, the OIC group average remains below the 2010–2019 pre-COVID-19 annual average of 4.4%. It is noteworthy that the average growth rate registered by the OIC countries in 2024 was higher than the global average. Guyana, with a growth rate of 43.6%, was by far the fastest-growing economy in the world in 2024. Niger, which recorded a double-digit growth rate of 10.3%, was the second fastest in the world. Kyrgyzstan and Tajikistan, with growth rates of 9.0% and 8.4%, respectively, were also among the world's top 10 fastest-growing economies that year.

Structure of GDP: Value Added by Sector

The latest available data for 2023 shows that agricultural activities, constituting only 1.3% of total value added in developed countries have a high share of 10.0% in total value added in the OIC countries, which is also higher than that in non-OIC developing countries (8.3%). The share of the non-manufacturing industry is much higher in the group of OIC countries compared to the rest of the world, largely due to substantial fossil fuel extractive industries in many OIC countries. Non-manufacturing industry in OIC countries averaged at 23.3% in 2023 after falling from 27.4% in 2010 to a record low of 19.5% in 2020. The manufacturing sector accounted for 16.4% of total value added in OIC countries, higher than in developed countries (13.0%) but significantly below non-OIC developing countries (21.7%), in 2023. The services sector continues to play a key role in the majority of OIC economies, contributing an average of 50.2% to total value added in the OIC

group. This share is still low though, considering that the sector has a share of three quarters (76.5%) in total value added in developed countries and 57.0% in non-OIC developing countries, averaging at 67.8% worldwide.

Structure of GDP: Expenditures

As of 2023, final consumption expenditures by households continue to hold the highest share in GDP in OIC countries as well as the rest of the world. Household consumption accounted for 55.3% of GDP in OIC countries, which is higher than in non-OIC developing countries (50.6%) but lower than in developed countries (59.9%). The share of general government final consumption expenditures in GDP was low in OIC countries (13.2%) compared to both developed and non-OIC developing countries. The share of gross capital formation averaged at 28.1% for OIC countries, lower than the average for non-OIC developing countries but higher than the average for developed countries. International trade in goods and services continued to make up a higher share of GDP in OIC countries than in both developed and developing countries. For OIC countries, the share of exports and imports in GDP averaged at 36.3% and 34.2%, respectively.

LABOUR MARKET

In 2024, the employment-to-population ratio (EPR) in OIC countries has remained significantly lower than in the rest of the world, highlighting persistent labour underutilisation in the group. The EPR in OIC countries increased modestly from 55.5% in 2023 to 55.6% in 2024. Projections indicate it will remain largely flat through 2025–2026, staying above pre-pandemic levels but below the 2024 figure. According to the estimates of International Labour Organization (ILO), the number of unemployed individuals in OIC countries increased by about 300 thousand (0.7%) to 42.3 million. Despite the increase, the share of the group in the world decreased from 22.9% in 2023 to 22.8% in 2024. While estimates for 2025 signal a further yet small increase (0.8%) in global unemployment, the OIC group is expected to witness an increase of 2.3%, with the number of unemployed reaching 43.3 million, accounting for 23.1% of the world total. Unemployment rate in the OIC group has stabilized at around 5.3% recently after dropping from its peak at 6.7% in 2020, remaining above the global averages.

INFLATION

Consumer price inflation decreased across the world in 2024 after reaching record-high levels in 2022. Inflation in OIC countries dropped only marginally to 16.4% in 2024, down from 16.6% in 2023. Considering that, the inflation rate decreased to 2.6% in developed countries and to 5.3% in non-OIC developing countries –averaging at 5.7% worldwide– the OIC countries, on average, continued to have a much higher inflation rate in 2024. This trend is expected to continue in 2025, as well. Among OIC countries, Sudan recorded the highest annual inflation rate of 176.8% in 2024, ranking third globally. Following Sudan were Türkiye (58.5%), Palestine (52.9%), Lebanon (45.2%), and Yemen (33.9%). Egypt, Nigeria, Iran, Sierra Leone, and Pakistan completed the top ten list in the OIC.

INTERNATIONAL TRADE

Merchandise Trade

In 2024, both exports and imports of OIC countries increased compared to the previous year. Exports increased slightly by 3.1%, from US$ 2.5 trillion in 2023 to US$ 2.6 trillion in 2024. Moreover, the share of OIC countries in global exports slightly increased, from 10.5% to 10.6% in the same years. Conversely, merchandise imports grew by 9.0%, reaching US$ 2.7 trillion in 2024 compared to US$ 2.5 trillion in 2023. This contributed to a higher share in global imports, which rose from 10.3% in 2023 to 11.0% in 2024. A similar trend was observed in OIC countries' share of the merchandise trade of developing countries: their export share decreased slightly from 24.6% in 2023 to 24.5% in 2024, while their import share increased from 26.0% to 27.0% over the same period.

Services Trade

Over the past five years, the value of services trade of OIC countries has continued to grow. In 2024, their services exports reached US$ 689 billion, an 8.6% increase from US$ 635 billion in 2023. However, their share in global services exports slightly declined by 0.1 percentage point, from 8.0% in 2023 to 7.9% in 2024, despite steady increases between 2020 and 2023. On the import side, OIC countries' services imports grew by 5.2%, from US$ 675 billion in 2023 to US$ 712 billion in 2024, while their share in global services imports fell from 9.1% to 8.9% over the same period.

Intra-OIC Merchandise Trade

Intra-OIC merchandise exports increased by 5.2% from 467 billion in 2023 to 491 billion in 2024. Despite only a slight increase of 0.1-percentage point in OIC exports to the rest of the world, the share of intra-OIC exports increased more significantly, by 0.4 percentage points, from 18.8% in 2023 to 19.2% in 2024. Among the OIC countries, the United Arab Emirates was the largest exporter to other OIC countries in 2024 with US$ 85.0 billion, representing 17.3% of the total intra-OIC exports. It was followed by Saudi Arabia (US$ 82.1 billion, 16.7%), Türkiye (US$ 69.9 billion, 14.2%), Indonesia (US$ 33.4 billion, 6.8%), and Malaysia (US$ 32.5 billion, 6.6%). The top three countries alone accounted for nearly half (48.3%) of total intra-OIC exports, while this ratio reached as high as 78.3% for the top 10 countries, including Nigeria, Egypt, Qatar, Oman, and Iraq. Regarding intra-OIC imports, the United Arab Emirates was the largest importer from OIC countries in 2024. Its total imports from other member countries amounted to US$ 99.1 billion, accounting for 18.9% of the total intra-OIC imports. It was followed by Türkiye (US$ 42.8 billion, 8.2%), Saudi Arabia (US$ 40.9 billion, 7.8%), Malaysia (US$ 37.9 billion, 7.2%), and Indonesia (US$ 25.9 billion, 4.9%).

CURRENT ACCOUNT BALANCE

In 2024, OIC countries recorded a current account surplus of US$ 82 billion compared to US$ 119 billion in the previous year. The surplus as a percentage of GDP also decreased from 1.3% in 2023 to 0.9% in 2024. Looking ahead, IMF projections indicate a deficit of US$ 43 billion, equivalent to 0.5% of GDP, in 2025. Among the OIC countries, the United Arab Emirates registered the largest

current account surplus in nominal terms in 2024 (US$ 49 billion), while Egypt recorded the largest deficit (US$ 20.8 billion). As a percentage of GDP, the surplus reached as high as 29.5% in Kuwait, while the deficit reached as high as 31.1% in Kyrgyzstan.

FISCAL BALANCE

Government deficits in the OIC countries, on average, expanded to 2.8% of GDP in 2024, up from 2.1% in 2023. This expansion was primarily driven by a modest rise in expenditures as a percentage of GDP, while revenues remained unchanged. Current projections for 2025 signal a continuation of this trend, with expenditures rising, revenues falling, and deficits further expanding to 3.5% of GDP. At the country level, 24 of the 54 OIC countries with available data saw an improvement in their fiscal balance as a percentage of GDP in 2024 compared to the previous year. Additionally, the number of countries recording a surplus rose from nine in 2023 to ten in 2024.

INTERNATIONAL FINANCE

FDI Flows and Stocks

Net FDI inflows to the OIC countries amounted to US$ 210 billion in 2024, marking a 27.3% increase from US$ 165 billion in 2023. In consequence, the share of OIC countries in global FDI inflows increased from 11.3% in 2023 to 13.9% in 2024. Similarly, their share of total flows to developing countries rose to 33.2% in 2024, up from 24.5% in 2023. In the 5-year period from 2020 to 2024, FDI stocks increased by 21.9% to US$ 2.6 trillion in the OIC countries while they increased by 39.6% in non-OIC developing countries and by 20% in developed countries. Thus, the OIC countries hosted a slightly lower share of the global inward FDI stocks in 2024 (5.1%) than in 2020 (5.2%). Developed countries continued to host the bulk of global stocks, with a share of 76.2% in 2024.

External Debt

The total external debt stock of the OIC countries increased by US$ 98.7 billion or 4.6% to US$ 2,235 billion in 2023 from US$ 2,136 billion in 2022. This increase was driven by a rise in all components of the total external debt stock, except for the use of IMF credit. Short-term debt reached US$ 413 billion in 2023, with an increase of US$ 31 billion or 8.1% from the previous year, thus, its share in the total external debt stock increased from 17.9% to 18.5% over this period. Long-term debt stock, which includes public, publicly guaranteed, and private nonguaranteed debt, totalled US$ 1,705.4 billion in 2023, with an increase of US$ 68.3 billion or 4.2% from 2022, accounting for 76.3% of the total external debt stock, slightly down from 76.6% in the previous year. Use of IMF credit decreased by US$ 610 million or 0.5% to US$ 116.3 billion, and it continued to be the smallest component of the total external debt stock of the OIC countries.

International Reserves

After increasing by 4.8% to US$ 14.7 trillion in 2023, total international reserves worldwide fell to US$ 14.2 trillion in 2024, reflecting a decrease of US$ 558 billion or 3.8% from the previous year. Developing countries accounted for more than four-fifths (82.6%) of the total decline in global

reserves, where reserves decreased by US$ 460.8 billion, or 5.5%, to US$ 8 trillion in 2024. In developed countries, reserves decreased by US$ 97.2 billion, or 1.5%, to US$ 6.2 trillion. The 2024 data available for a set of 33 OIC countries that together represent 89.2% of total OIC GDP indicate a 7% increase in international reserves, rising from US$ 1.77 trillion in 2023 to US$ 1.88 trillion.

Official Development Assistance (ODA)

The latest available data show that net ODA flows received by the developing world reached US$ 243 billion in 2023, its highest level ever, with an increase of US$ 13.4 billion, or 5.9%, from the previous year. The flows that were reported at the individual country level increased by 11.1% and amounted to US$ 168.1 billion in 2023, accounting for 69.2% of the total ODA flows. ODA flows to the OIC countries increased by 4.3% to US$ 72.3 billion in 2023, compared to US$ 69.3 billion in 2022. The share of OIC countries had a lower share of the total ODA flows to individual developing countries in 2023 (43%) as compared to the previous year (45.8%).

Personal Remittances

At the global level, officially recorded remittance flows reached US$ 823 billion in 2023, up 3.6% from US$ 794 billion in the previous year. Inflows to the OIC countries, however, decreased by 7.4% or US$ 15 billion to US$ 184 billion, reducing their share in world total remittance flows to 22.4% in 2023, while it was maintained around the 25% range over the preceding four years.

IMPACTS OF NEW U.S. TARIFFS ON WORLD ECONOMIES AND OIC MEMBER COUNTRIES

Global Macroeconomic Impact of Tariffs

Shifting trade and tariff policies of the United States government in early 2025 marked the most significant intervention in international trade in decades, causing a reconfiguration in global trade partnership. The imposed tariffs are expected to have profound consequences for global and national economic indicators—including GDP, trade, and inflation—by affecting demand, prices, currency values, and investment.

Trade Exposure of OIC Member Countries to the United States

The United States maintains a moderate but growing trade relationship with OIC countries, with exports increasing steadily over the past three years, while imports have shown some degree of volatility, potentially creating new dynamics in bilateral trade negotiations, especially under the new U.S. tariff regime. This trade relationship is also characterized by significant imbalances, both deficits and surpluses, concentrated among a subset of countries. Besides the trade exposure of countries highly dependent on the U.S. market, product and sectoral exposure are imminent. The application of U.S. tariffs exceeding 10% on imports from several Member States poses targeted but significant risks, given the high product concentration and strategic export dependencies many of these countries maintain with the U.S. market. Key sectors are highly concentrated, with just a few categories such as electrical equipment, minerals, fuel and oil, and apparel and clothing accounting for the bulk of trade, indicating high vulnerability to tariffs.

Impact on OIC Economies via China and Global Supply Chains

Increased tariffs on China also poses both risks and opportunities for OIC Member States, as it is the block's largest trading partner. OIC economics could benefit from trade diversion as U.S. importers turn to alternative markets to replace higher-tariff Chinese goods. Textile, electronics, and resource-based commodity exporters could gain market share provided they can meet quality and cost requirements. However, higher U.S. tariffs may prompt Chinese exporters to divert goods to other markets. This intensifies competition for local manufacturers, threatening employment in labour-intensive factories of member countries.

Macroeconomic Channels and Sectoral Impacts for OIC Member Countries

The tariff shock strengthened the U.S. dollar, weakening currencies and raising import prices. Import-dependent economies face inflationary pressures that could erode purchasing power and trigger wage–price spirals while declines in exports and price pressures will strain public finances, especially in high-debt countries needing to cushion vulnerable populations. The global trade reconfiguration could yield competitive advantage for some economies through FDI flows as investors seek alternative option for sourcing supplies and new production facilities. The demand for critical resources driven by high demand in renewable energy could substantially increase FDI flows in countries with high deposits of these resources. The tariff announcements and its subsequent activation has clouded global trade and economic policy with uncertainty. The impacts of this uncertainty on business expectations and investment decisions is often overlooked. The Trade Policy Uncertainty (TPU) Index and the Global Economic Policy Uncertainty (GEPU) Index showed a high spike in the aftermath of the tariff announcement in April 2025.

Policy Implications and Strategic Responses Chains

To navigate uncertainties and the impacts of U.S. tariffs, a coordinated, forward-looking policy response, rooted in diversification, structural reform, and regional cooperation, is critical for mitigating these risks and securing sustainable economic gains. Furthermore, to attract FDI in manufacturing and critical minerals, governments should offer transparent incentives, invest in infrastructure and skills development, and ensure policy stability. Finally, joint action within the OIC can strengthen bargaining power and build resilience.

CHAPTER ONE

Recent Developments in the World Economy: Trends and Prospects

The world is currently experiencing volatility, uncertainty, complexity, and ambiguity. Since February 2025, U.S. tariffs, intended to reduce the country's goods trade deficit, has introduced fresh uncertainty into the global trade landscape. While these tariffs primarily target China, and despite China and the U.S. have temporarily reached an agreement on tariffs, the ripple effects are expected to be felt worldwide, including across the economies of OIC Member States. The tariffs, ranging from 10% to as high as 145%, affect imports of goods from nearly all countries and territories, highlighting the broad scope of potential exposure. In April 2025, the World Uncertainty Index rose to four times its value from April 2024, underscoring the unprecedented rise in trade-related uncertainty.

These developments culminated in a series of reactive measures and further shifts in trade policy. On May 12, China and the U.S. agreed to a temporary 90-day reduction in tariffs imposed after the April 2 escalation. The U.S. also postponed its broader tariff hike deadline to August 1. However, recent announcements from the U.S. administration have warned some trade partners of potentially even steeper tariffs than those proposed in April. Legal challenges are ongoing regarding the use of the International Emergency Economic Powers Act to justify these tariffs. Meanwhile, the July passage of the One Big Beautiful Bill Act (OBBBA) offered clarity on short-term U.S. fiscal policy but raised concerns about long-term fiscal sustainability (IMF, 2025d).

Against this backdrop, this chapter provides a thorough examination of key global economic indicators, drawing on insights from leading international organizations such as the International Monetary Fund (IMF), the United Nations Conference on Trade and Development (UNCTAD), the World Bank, the Organization for Economic Co-operation and Development (OECD), the United Nations (UN), and the International Labour Organization (ILO).

ECONOMIC GROWTH

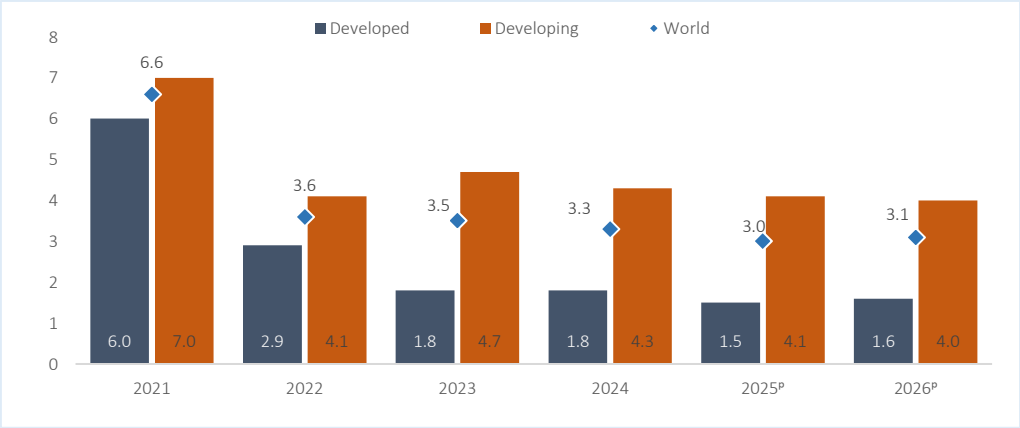
A slowdown in global economy growth after the post-pandemic rebound

Several challenges continue to cloud the global economic outlook. Policy uncertainties and ongoing tariff disputes, particularly between the U.S. and China, have contributed to a loss of economic momentum in 2025. Geopolitical conflicts, such as the Russia-Ukraine war and Israel's attacks on Gaza and Iran, along with their broader regional repercussions, are expected to significantly affect the post-pandemic global economic recovery, introducing further instability. In the OIC region, persistent tensions, such as those between Pakistan and Afghanistan, and Pakistan and India, alongside ongoing conflicts in Sudan, Palestine, Iran, Syria, Iraq, Yemen, and Lebanon, continue to pose significant threats to regional stability.

Additionally, monetary tightening by central banks may constrain financial sector growth, potentially exacerbating vulnerabilities within the banking sector during 2023–2024 (IMF, 2023a; IMF, 2023b). Furthermore, persistently high levels of sovereign debt remain a significant concern, particularly due to their complex interplay with imbalances in the financial sector, an interaction that can intensify the effects of economic shocks. Adding to this pressure, the global inflation surge that began in 2021 continues to reverberate throughout financial markets, compounding existing vulnerabilities (IMF, 2025b).

Following the global economic recovery that began in 2021 after the easing of COVID-19-related restrictions, the world experienced a strong rebound, with real GDP growth reaching 6.6%. However, this rapid recovery should be interpreted with caution, primarily due to the base effect. The severe output contractions witnessed globally in 2020 resulted in a low comparison base and significant statistical carry-over, inflating the year-over-year growth rates in 2021 (United Nations, 2021). With the normalization of the base effect in 2022, real GDP growth rates returned to pre-pandemic levels. A moderate growth rate of 3.6% was recorded in 2022, followed by a slight deceleration to 3.5% in 2023 and 3.3% in 2024. According to IMF July 2025 update, global growth is projected at 3.0% for 2025 and 3.1% in 2026. The forecast for 2025 is 0.2 percentage point higher than that in the reference forecast of the April 2025 WEO and 0.1 percentage point higher for 2026 (IMF, 2025d) (*Figure 1.1*).

Figure 1.1: Real GDP Growth (%)



Source: IMF, World Economic Outlook (WEO) Database, April 2025 and WEO Update July 2025. Note: P= Projection

In 2023, a significant slowdown was observed in both developed economies and the Euro Area. The real GDP growth rate in developed economies declined from 2.9% in 2022 to 1.8% in 2023 and remained at 1.8% in 2024. In developed economies, growth is expected to slow to 1.5% in 2025 before rising to 1.6% in 2026. In the Euro Area, growth dropped even more sharply—from 3.5% in 2022 to just 0.5% in 2023. According to the IMF, persistent weaknesses in Germany's manufacturing sector have contributed notably to this decline (IMF, 2024). In 2024, a slight recovery occurred, with real GDP growth reaching 0.9% in the Euro Area (IMF, 2025a).

Euro Area growth is expected to reach 1.0% in 2025 and 1.2% in 2026. The 2025 forecast was revised up by 0.2 percentage points by the IMF, mainly due to a strong first-quarter performance in Ireland, driven by a surge in pharmaceutical exports to the U.S. and new production facilities, despite Ireland accounting for less than 5% of the Euro Area economy. Without Ireland, the revision would have been just 0.1 point. The 2026 forecast remains unchanged, as the effects of front-loaded exports fade and growth returns to its potential. Increased defence spending is expected to influence growth in later years as countries move toward target levels by 2035 (IMF, 2025d).

According to IMF (2025a), manufacturing activity has continued to struggle due to sustained high energy prices, while the services sector has emerged as the primary driver of growth. This has contributed to a divergence in economic performance across European countries, especially between those more reliant on manufacturing, like Germany, and those with stronger service sectors, such as Spain. In Japan, the economy remained resilient in the face of tighter fiscal and monetary policy (OECD, 2025a). The growth rate is expected to rise from 0.2% in 2024 to 0.7% in 2025 (IMF, 2025d).

Developing countries exhibited diverse growth patterns. Real GDP in these economies grew by 4.7% in 2023 but declined to 4.3% in 2024. Growth in developing economies is expected to continue slowing, reaching 4.0% by 2026. China's economy grew by 5% in 2024 but is projected to slow to 4.8% in 2025 and continue declining to 4.2% in 2026. According to IMF July 2025 update, China's 2025 growth forecast was increased by 0.8 percentage points driven by stronger-than-expected activity in the first half of the year and a significant reduction in US–China tariffs. China's 2026 growth forecast was also raised by 0.2 points.

India's growth fell to 6.5% in 2024, down from 9.2% in 2023. In India, growth is projected at 6.4% for both 2025 and 2026, with slight upward revisions due to a more favourable external environment than previously expected (IMF, 2025a; IMF, 2025d). In Latin America and the Caribbean, economic growth was 2.4% in 2024. Growth is projected to slow to 2.2 percent in 2025 and recover back to 2.4 percent in 2026 (IMF, 2025a & IMF, 2025d). According to the IMF (2025a), while economic activity in Mexico slowed toward the end of the year, growth remained robust in Brazil, and the deep recession in Argentina continued to ease. According to World Bank, Brazil's real GDP grew by 3.4% in 2024, driven by solid consumption, supported by a heated labour market and fiscal transfers, and the recovery of investments[1].

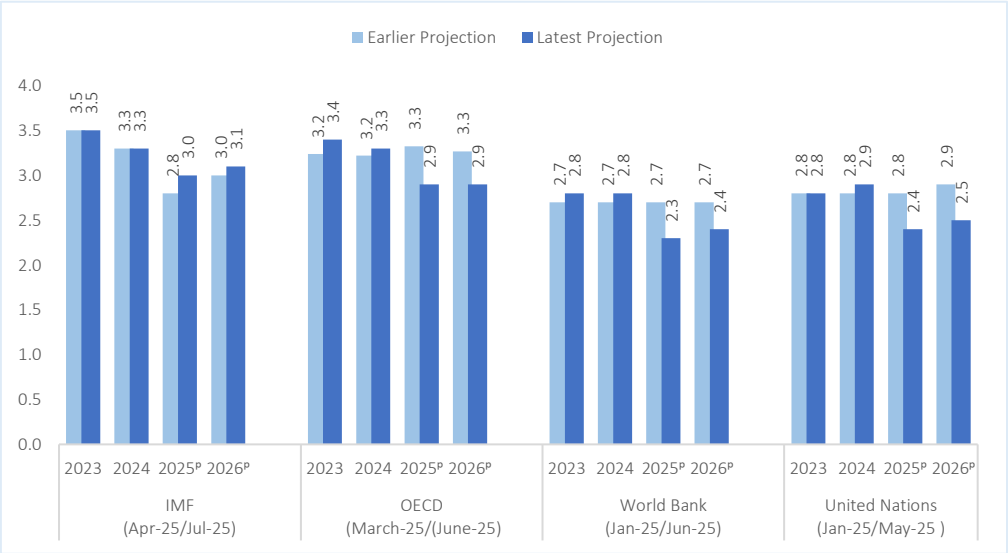
In the Middle East and Central Asia, challenges persisted due to oil production cuts and ongoing regional conflicts. Saudi Arabia's 2024 growth forecast was downgraded by 0.9 percentage points by the IMF, primarily due to extended oil production cuts. However, the gradual removal of voluntary production cuts, beginning in April 2025, is expected to boost economic activity in oil-exporting countries across the Middle East. As a result, Saudi Arabia's growth is projected to rise to 3.6% in 2025 and 3.9% in 2026, up from 2% in 2024. In the broader Middle East and Central Asia, real GDP growth was 2.4% in 2024 and is projected to accelerate to 3.4% in 2025 and 3.5% in 2026 (United Nations, 2025; IMF, 2025a; IMF, 2025d).

Africa's growth outlook remains uncertain, largely due to ongoing armed conflicts in the Democratic Republic of the Congo and Sudan, as well as strained government budgets. Sub-Saharan Africa's GDP growth stood at 4.0% in 2024 and is projected to rise modestly to 4.3% by 2026. According to the April 2025 World Economic Outlook (IMF, 2025a), growth forecasts for some of the region's larger economies have been revised. Nigeria's forecast was downgraded by 0.2 percentage points for 2025 and 0.3 percentage points for 2026, primarily due to falling oil prices. However, the July update shows a slight upward revision for Nigeria's growth. The country's

[1] https://www.worldbank.org/en/country/brazil/overview

economy grew by 3.4% in 2024 but is projected to decline to 3.2% by 2026. Similarly, South Africa's growth forecast was reduced by 0.5 percentage points for 2025 and 0.3 percentage points for 2026 in the April WEO. The July update projects that South Africa's growth will rise from 0.5% in 2024 to 1.3% by 2026 (IMF, 2025d).

Figure 1.2.A: World Real GDP Growth Projections (%)

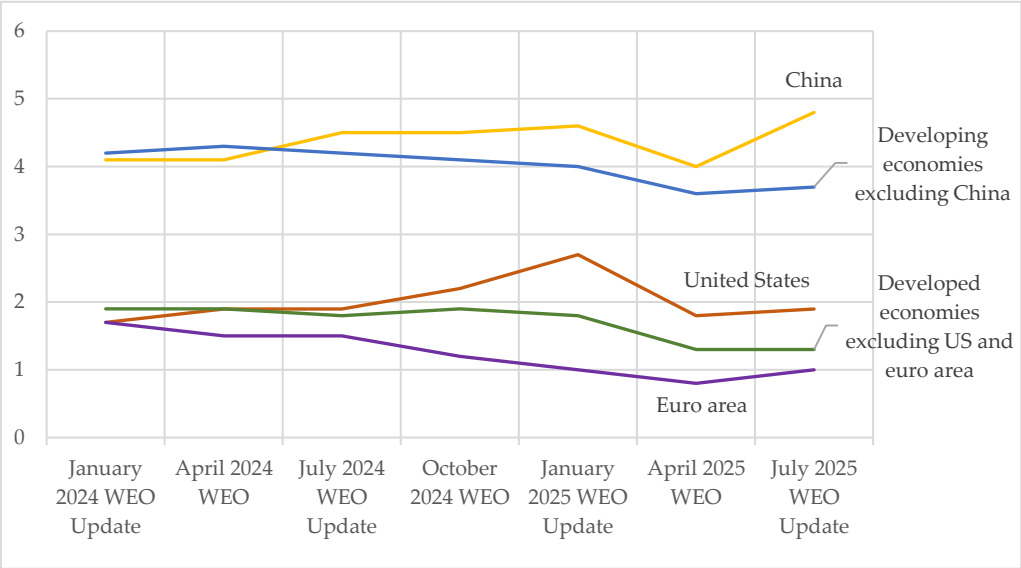


Source: Source: IMF, World Economic Outlook, April 2025 and July 2025 update; World Bank, Global Economic Prospects, January 2024 and June 2024; OECD, OECD Economic Outlook, March 2025 and July 2025; United Nations, World Economic Situation and Prospects, January 2025 and May 2025.

The OECD, United Nations, and World Bank, like the IMF, have revised their global economic growth projections. These revisions show mixed trends across institutions. The IMF slightly raised its forecasts for 2025 (by 0.2 percentage points) and 2026 (by 0.1 percentage points) compared to its April projections. In contrast, the OECD lowered its projections for both years by 0.4 percentage points. The World Bank and United Nations also revised their 2025 and 2026 estimates downward, reflecting a more cautious outlook for medium-term global growth. Specifically, the World Bank downgraded its 2025 and 2026 forecasts from 2.7% to 2.3% and 2.4%, respectively, in its latest *Global Economic Prospects* report. Similarly, the United Nations' May 2025 update showed a 0.4 percentage point downward revision for both years compared to its January 2025 projections *(Figure 1.2.A).*

When we look at the country groups, the IMF's July 2025 WEO update reveals a mixed outlook for 2025. Among developed economies, the United States saw a slight upward revision to 1.9%, recovering from a sharper downgrade in April. In contrast, the Euro Area's forecast improved only marginally to 1.0% after falling to 0.8%. Other developed economies remained unchanged at a modest 1.3%. On the other hand, China's outlook was significantly upgraded from 4.0% to 4.8% among major economies. However, growth expectations for developing economies excluding China remain relatively weak, with only a slight increase from 3.6% to 3.7% *(Figure 1.2.B).*

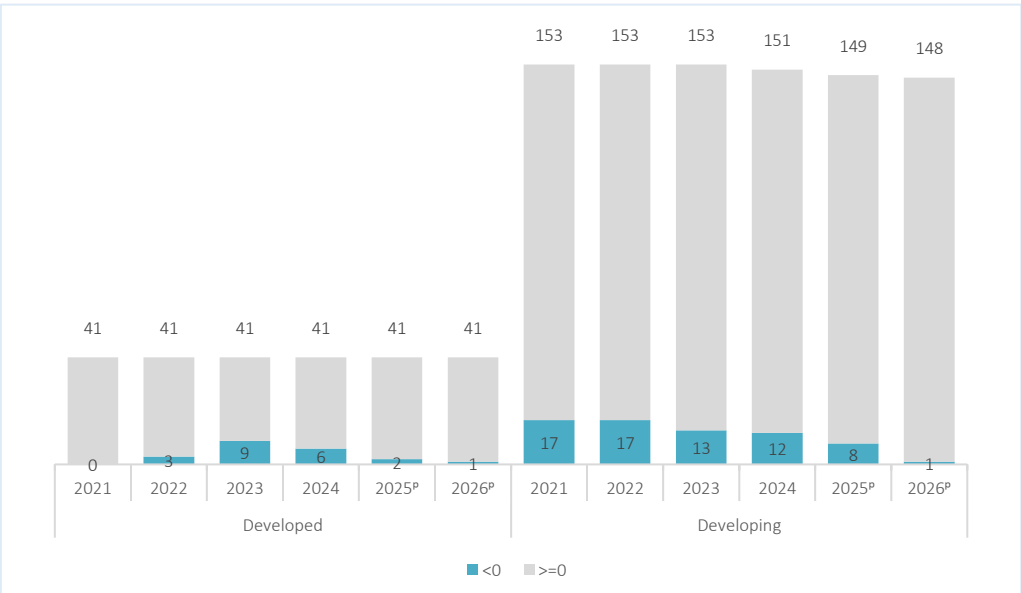
Figure 1.2.B: IMF's 2025 Growth Forecast Updates (%)



Source: IMF, World Economic Outlook, July 2025 update.

IMF data indicates a sharp downward trend in the number of economies contracting in real GDP between 2023 and 2026. In 2023, contractions were recorded in 9 developed and 13 developing economies. An improvement was recorded in 2024, with the figures dropping to 6 and 12, respectively. Projections suggest this trend will continue, with only a single economy from each group expected to see negative growth by 2026 *(Figure 1.3).*

Figure 1.3: Number of Countries with a Negative GDP Growth Rate



Source: IMF, World Economic Outlook Database, April 2025 and WEO July 2025 Update. Note: P= Projection

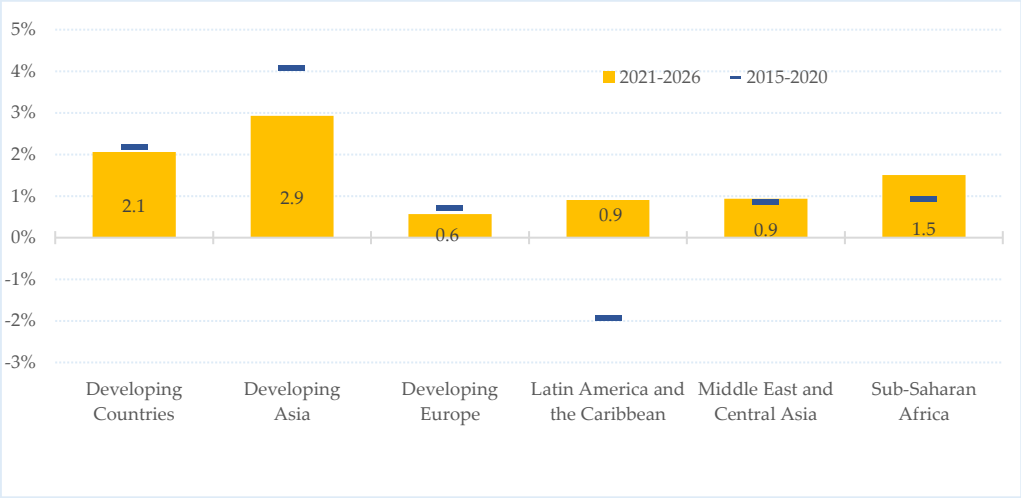
Per capita income convergence slows in Asia and Europe

Before the onset of the pandemic, developing countries experienced strong growth in per capita GDP relative to developed nations, facilitating convergence in income levels. From 2015 to 2020, developing countries recorded an average growth differential of 2.2 percentage points above developed economies, with Developing Asia leading at 4.1 percentage points. In contrast, Latin America and the Caribbean (LAC) struggled, showing a negative differential of -1.9 points.

Since the pandemic, however, the pace of per capita income convergence has slowed. According to SESRIC (2022), this disruption has particularly affected the trajectory of catch-up growth. Looking ahead to the 2021–2026 period, per capita GDP growth differentials are projected to narrow across most developing regions. Overall, developing countries are expected to maintain a positive differential of 2.1 points, slightly below the pre-pandemic figure. Developing Asia continues to lead with a projected differential of 2.9 points, although this marks a slowdown from the earlier period.

In other regions, trends are mixed. The Middle East and Central Asia is expected to maintain its previous differential of 0.9 points, while Sub-Saharan Africa is projected to improve modestly to 1.5 points. LAC is anticipated to recover somewhat, shifting from a negative differential to a modest positive one at 0.9 points. Meanwhile, Developing Europe is expected to see a slight decline, with its differential easing from 0.7 to 0.6 points *(Figure 1.4).*

Figure 1.4: Per Capita Income Growth Relative to Developed Countries (percentage points)*

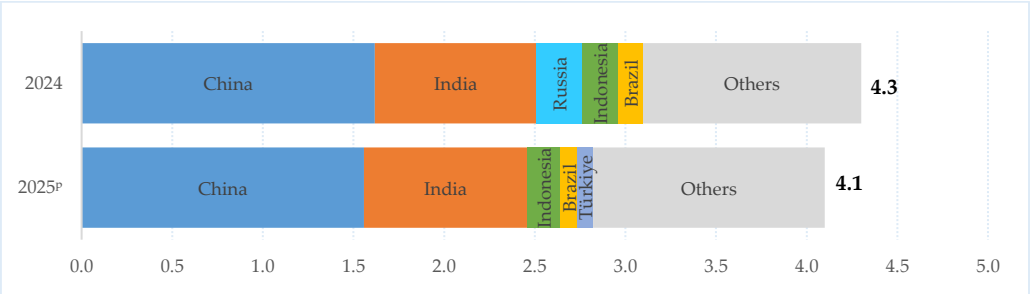


Source: SESRIC staff calculation based on data from IMF, World Economic Outlook Database, April 2025.
* Annual average difference in GDP per capita growth rate at constant prices between developing country groups and developed countries

The growth rates of per capita income vary widely across developing economies, leading to diverse rates of economic catch-up, primarily driven by differences in real GDP growth. Within this group, some countries serve as key drivers of economic dynamism, often termed "growth engines." Looking ahead, the economic expansion of developing nations is expected to be significantly influenced by a few major contributors.

Although China's economic performance has been increasingly affected by rising trade tensions and new tariffs, China and India together accounted for more than half of the total economic growth in developing countries in 2024 and 2025. Their combined contribution is projected at 2.5 percentage points for both years, and they are expected to remain dominant players (IMF, 2025a). Alongside China and India, Russia, Indonesia, and Brazil also made notable contributions in 2024, while in 2025, Türkiye is projected to replace Russia in the list of top five countries contributing to growth in the developing world (*Figure 1.5*).

Figure 1.5: Major Contributors to Economic Growth of Developing Countries (percentage points)



Source: IMF, World Economic Outlook Database, April 2025 and July 2025 Update. Note: P= Projection

UNEMPLOYMENT

Global unemployment rate remains stable in 2024

Global labour markets are undergoing profound transformations, shaped by demographic shifts, economic shocks, and migration pressures. These challenges are testing the resilience of employment systems and calling for adaptive, inclusive policy responses. Ageing is one of the most pressing challenges facing both labour markets and broader development agendas. This demographic shift signals a future contraction in the working-age population, raising concerns about long-term labour supply and economic growth. Many developed countries are nearing the end of their demographic transition and must now prepare for ageing populations and a shrinking ratio of workers to dependents (Bloom, Canning, & Sevilla, 2003). A higher dependency ratio implies that fewer workers will be supporting more retirees, placing increased pressure on pension and social security systems.

Bloom, Canning, and Sevilla (2003) explain that demographic transitions influence labour supply in two key ways. First, when large generations such as the baby boomers enter prime working ages (20–54), the working-age population grows, reducing the dependency ratio and boosting potential economic output. Second, declining family sizes often encourage greater female labour force participation, particularly among educated women, reinforcing the shift toward smaller, more economically active households.

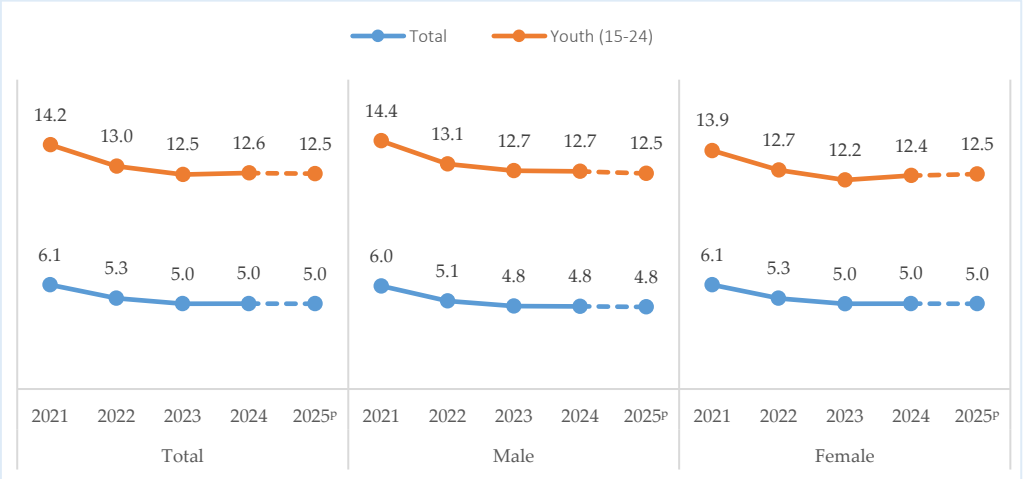
The demographic transition also profoundly affects human capital investment. Rising life expectancy and improved health alter societal attitudes towards education, work, and gender roles. With fewer children and longer anticipated working lives, families are more inclined to

invest in education, resulting in a more skilled and productive workforce. While these trends lead to delayed workforce entry, they also contribute to higher wages and living standards. However, these benefits are contingent upon supportive public policies, including flexible labour markets, strong financial systems, and investment in quality health and education services. Despite population ageing and fears of shrinking labour forces, youth unemployment remains a significant concern. This paradox reveals underlying structural challenges in labour markets, where even younger cohorts struggle to find adequate employment opportunities (World Bank, 2025a).

In addition to demographic and generational challenges, international migration and displacement have emerged as critical issues. According to the IMF (2025a), the global stock of legal migrants and refugees reached 304 million in 2024, equivalent to 3.7% of the world's population, nearly double the 1995 figure. Roughly one in six are refugees or asylum seekers. Notably, about 40% of migrants and 75% of refugees now reside in developing countries, adding significant pressure to already strained labour markets and social systems.

Youth unemployment continues to be a major challenge across the world, with unemployment rates nearly double those of adults. However, there has been a gradual recovery. Youth unemployment fell from 14.2% in 2021 to 13.0% in 2022 and then to 12.5% in 2023. Although it rose slightly to 12.6% in 2024, it is projected to decline back to 12.5% in 2025 *(Figure 1.6).*

Figure 1.6: World Unemployment Rate (%)



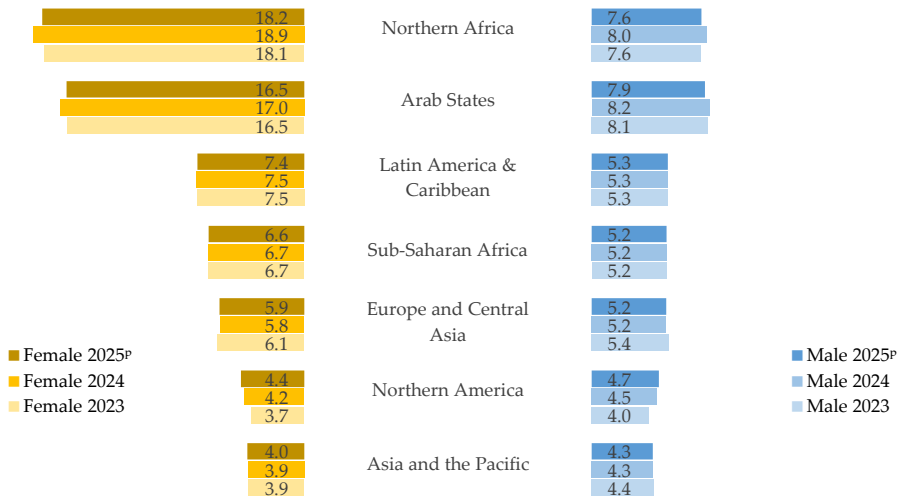
Source: ILOSTAT, ILO Modelled Estimates, November 2024.

The global unemployment rate saw a significant decline of 1.3 percentage points in 2022, dropping from 6.6% in 2020 (its highest level since 1991) to 5.3%. This improvement continued into 2023, with the rate falling further to 5.0%. According to the ILO (2024a), most countries—excluding low-income economies—recorded unemployment levels below pre-pandemic benchmarks. This positive trend is expected to continue through 2025. The total male unemployment rate declined from 6.0% in 2021 to 4.8% in 2024 and is projected to remain at this level in 2025. Similarly, the female unemployment rate dropped from 6.1% in 2021 to 5.0% in 2024 and is expected to remain stable in 2025 *(Figure 1.6).*

According to ILO (2025), the global jobs gap stood at approximately 402.4 million in 2024. This includes 186 million unemployed individuals, 137 million classified as part of the potential labour force (mostly discouraged workers), and around 79 million who want to work but face constraints, such as caregiving responsibilities, that prevent labour market entry. While the jobs gap has continued its pre-pandemic downward trajectory, it is expected to stabilize over the next two years amid a gradual decline in labour force participation.

Rising old-age participation in developed economies has helped counterbalance the effects of ageing. In these countries, the overall participation rate has risen by nearly one percentage point over the past decade, compared to a global decline. ILO Modelled Estimates (November 2024) also show that labour force participation rates (LFPR) have followed similar trends for both males and females, though female LFPR remains significantly lower. In 2024, LFPR fell to 73.0% for males and 48.9% for females. Both are projected to decline by another 0.1 percentage point in 2025.

Figure 1.7: Unemployment Rate by Region and Gender (%)



Source: ILOSTAT, ILO modelled estimates, November 2024 (%). Note: Regional classification is based on ILO country groupings. Regions are ordered by the difference between female and male unemployment rate in 2024

Ajilore (2025) argues that relying solely on the official unemployment rate fails to capture the full picture of labour market conditions, especially across demographic groups. The standard unemployment rate includes only those actively seeking work, omitting discouraged workers and others underutilized in the labour market. Labour underutilization offers a more comprehensive perspective, including the unemployed, those marginally attached to the labour force, and part-time workers seeking full-time jobs. This broader metric better reflects labour market slack. A widening gap between unemployment and labour underutilization indicates higher levels of underemployment and discouragement, often concentrated in vulnerable sectors such as leisure, hospitality, and retail. As Ajilore emphasizes, monitoring labour underutilization alongside labour force participation provides deeper insight into economic downturns, recovery processes, and the enduring barriers to stable, full-time employment. According to ILO modelled estimates

(November 2024), the global rate of potential labour force and willing non-jobseekers was 5.5% of the total population. However, a substantial disparity against women remains 8.0% for females compared to just 3.7% for males.

While global trends point to a gradual recovery in unemployment rates, regional disparities persist, with certain areas continuing to face heightened labour market challenges. In Northern Africa, female unemployment saw a notable increase in 2024, rising to 18.9% from 18.1% in 2023. Male unemployment in the region experienced a slight uptick, from 7.6% to 8.0% over the same period. Similarly, the Arab States witnessed rising unemployment rates for both males and females in 2024. ILO projections for 2025 suggest minor fluctuations in the region: Female unemployment is expected to decline to 16.5%, while male unemployment is projected to decrease slightly to 7.9%.

In Latin America and the Caribbean, male and female unemployment rates remained unchanged in 2024 compared to 2023. For 2025, the female unemployment rate is expected to decline slightly to 7.4%, while the male unemployment rate is projected to remain at its 2024 level. In the Asia and Pacific and Sub-Saharan Africa regions, unemployment rates for both sexes are projected to remain largely stable over the period 2023–2025 (*Figure 1.7)*.

PRICES & INFLATION

Easing global inflation and gradual decline in commodity prices

According to Kim (2025), the over-investment theory suggests that economic recessions stem not from a shortfall in consumer demand, but from excessive demand caused by disproportionate investment in the capital goods sector. This over-investment boosts overall income, leading to a surge in demand for consumer goods that outpaces the capacity of the existing production structure. As a result, commodity prices and wages rise, generating inflationary pressures. To counter this, central banks implement contractionary monetary policies, which not only curb inflation but also expose the unprofitability of prior over-investment in capital goods, thereby triggering a recession. Kim argues that such over-investment is partially driven by expansionary monetary and fiscal policies, which play a key role in setting the stage for economic downturns. Kim (2025) stated that U.S. government's fiscal policy has been extremely expansionist since 2008.

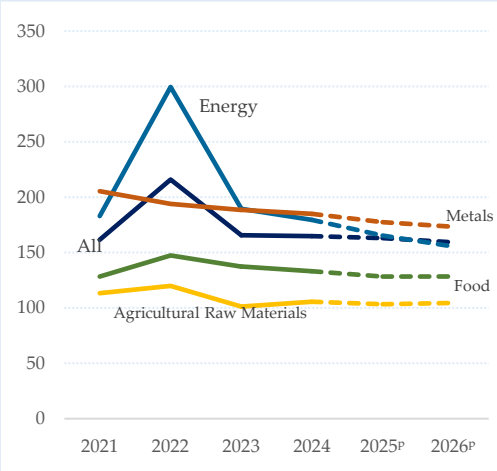
According to the World Bank, throughout 2023, most commodity prices experienced varying degrees of decline but remained above pre-pandemic levels (World Bank, 2024b). The World Bank (2025a) projects that commodity prices will continue to ease over the forecast horizon, primarily due to improved supply conditions for energy and food commodities, despite heightened geopolitical tensions in 2024. A significant further decline in oil prices is expected in 2025–2026, as production increases while global oil demand grows only modestly. Base metal prices are anticipated to stabilize over the forecast period. Meanwhile, prices for staple food crops, which dropped notably in 2024, are expected to decline slightly further.

According to IMF (2025a), between August 2024 and March 2025, primary commodity prices experienced modest growth, with a 1.9% overall increase driven by natural gas, precious metals (especially gold), and beverage prices. However, the landscape shifted sharply after the U.S.

announced additional tariffs on April 2, triggering declines in most commodity markets, including oil, base metals, and trade-sensitive agricultural products. Oil prices, which had already fallen 9.7% due to strong non-OPEC+ supply growth and weakening global demand, particularly from China, dropped further in April amid escalating trade tensions. Futures markets now forecast a 15.5% decline in oil prices for 2025. Similarly, natural gas prices, which had surged due to cold weather and supply disruptions, began to fall in early April, with European TTF (Title Transfer Facility) prices expected to average $12.5/MMBtu in 2025 before declining longer-term.

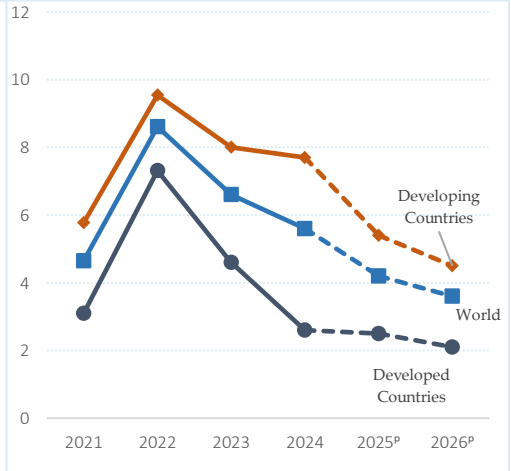
Energy prices surged by 63.6% in 2022. However, they began to decline significantly in 2023, dropping by 36.7%, further declined 5.3% in 2024. They are projected to continue decreasing, with a reduction of 7.9% in 2025 and 6.0% in 2026 (Figure 1.8). Between August 2024 and March 2025, metals and agricultural commodities mirrored this volatility. The IMF's metals index rose 11.2% by March, led by aluminium, copper, and especially gold, which surpassed $3,000/ton amid geopolitical uncertainty. Yet base metal prices quickly reversed in April due to trade fears. IMF's food and beverage price index increased 3.6% with sharp gains in coffee prices and beverages. Looking ahead, fuel commodity prices are projected to decline 7.9% in 2025, while nonfuel commodities may rise 4.4%. Broader risks remain balanced, influenced by weather, trade disruptions, and geopolitical shocks. The lasting impact of the energy shock from the Russia-Ukraine war, especially in Europe, underscores continued vulnerability, while the U.S., as a net energy exporter remains comparatively insulated (IMF, 2025a).

Figure 1.8: World Commodity Prices (2016=100)



Source: IMF, World Economic Outlook Database, April 2025. Note: P= Projection

Figure 1.9: Inflation (%)



Source: IMF, World Economic Outlook Database, April 2025 and WEO Update July 2025. Note: Annual average change in consumer prices (CPI); P= Projection

Core inflation is projected to remain above central bank targets in many countries in 2026, including the United States (OECD, 2025a). Global inflation, which peaked at 8.6% in 2022, dropped to 6.6% in 2023 and 5.6% in 2024 *(Figure 1.9)*. The decline in global inflation in 2024 reflects

a broad-based reduction in global core inflation, which differs from the trends observed in 2023. During that period, core inflation saw a modest annual decline, primarily driven by lower fuel and food price inflation. According to the IMF (2024a), the factors contributing to reduced core inflation have varied among major economies.

Inflation is projected to gradually decline globally, falling to 4.2% in 2025 and 3.6% in 2026 with developed economies expected to return to target levels sooner than developing countries *(Figure 1.9).* The inflation forecast has been revised upward for countries like the U.S. and U.K., driven by factors such as service sector price pressures and tariff-related supply shocks. Conversely, inflationary trends in emerging Asia have been revised downward, particularly in China. The IMF emphasizes that the inflation outlook remains uncertain due to trade policy shifts, exchange rate fluctuations, and financial market instability (IMF, 2025a).

In developed countries, inflation was at 7.3% in 2022, but then experienced a notable decrease to 4.6% in 2023 and 2.6% in 2024. Forecasts indicate a continued easing, with rates projected to fall to 2.5% in 2025 and 2.1% in 2026. Developing countries also experienced notable decline in inflation, from 9.5% in 2022 to 8.0% in 2023 and 7.7% in 2024. Projections show a notable decrease to 5.4% in 2025, with a further decline to 4.5% by 2026 *(Figure 1.9).*

According to the IMF report in April 2025, global inflation remains a key concern, with most countries still falling short of their inflation targets despite varied economic recoveries. The report notes that output gaps are increasingly uneven across countries, and fiscal policies in many places remain expansionary even as monetary authorities maintain restrictive stances. In the United States, the economy outperformed in 2024, but signs of cooling have emerged in early 2025, as consumer spending declines and sentiment weakens. Meanwhile, the Euro Area shows signs of cyclical rebound, though domestic demand remains muted due to weak consumer sentiment, elevated uncertainty, and persistent energy price pressures (IMF, 2025a).

The report underscores the complex challenges central banks face in balancing inflation control and financial stability. With sector-specific shocks and demand pressures varying across regions, monetary policy must be tailored to national conditions. The IMF warns that premature easing of monetary policy could destabilize inflation expectations, while excessive tightening could strain financial systems. Clear communication from policymakers is critical to manage uncertainty and maintain credibility in the face of ongoing economic and geopolitical risks (IMF, 2025a).

INTERNATIONAL TRADE

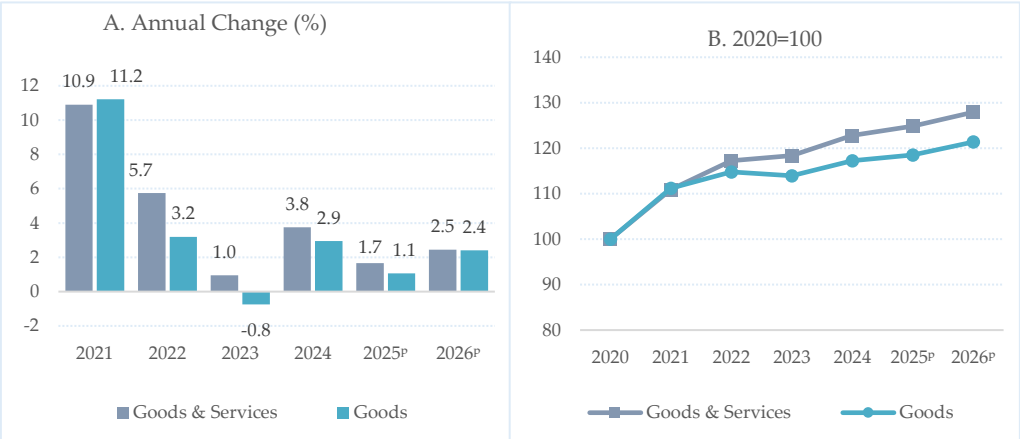
Trade volume continues to grow but at a slower pace

Strengthening international trade remains a key global priority. Trade, underpinned by a rules-based and predictable multilateral trading system, has been instrumental in reducing poverty and narrowing income disparities between countries. Estimates indicate that from 1995 to 2020, declining trade costs boosted global real GDP by nearly 7%, with low-income countries benefiting even more significantly, experiencing over a 30% increase. This has contributed to a faster pace of income convergence for these economies (World Bank, 2025a).

However, over the past three decades, while international trade policy has increasingly been recognized as a tool for advancing sustainable development, trade agreements at bilateral, plurilateral, and multilateral levels have often fallen short of this potential, and in some cases, have even undermined sustainability goals. This shortfall is partly driven by a more fragmented multilateral trade landscape, shaped by intensifying geopolitical tensions, especially between China and the United States, and a growing reliance on protectionist measures such as subsidies and export controls. In the critical raw materials sector, such unilateral restrictions have become more prevalent, with countries like China, India, and Russia implementing export taxes and licensing requirements that have significantly disrupted global supply chains (Baršauskaitė et al., 2025). According to UNCTAD's *Global Trade Update* (March 2025), global trade expanded by 3.7% (or US$ 1.2 trillion) to US$ 33 trillion in 2024 (UNCTAD, 2025a).

Global trade flows have expanded significantly during the first quarter of the twenty-first century, supporting output and income growth, technology spillovers, and poverty reduction in emerging markets and developing economies (EMDEs). Trade performance varied by region: goods trade grew steadily in EMDEs, except in the Middle East and North Africa, where OPEC+ oil production cuts led to a contraction. In contrast, most advanced economies experienced weak trade activity, with the United States being a notable exception. Meanwhile, services trade stabilized as the growth in travel services slowed, even though tourism activity returned to pre-pandemic levels. Trade-restricting policies surged globally, particularly among countries aligned with either China or the United States at the United Nations (World Bank, 2025a).

Figure 1.10: World Trade Volume



Source: IMF, World Economic Outlook Database, April 2025. Note: P= Projection

The growth rate of world trade volume in goods and services declined from 5.7% in 2022 to just 1.0% in 2023. Similarly, trade in goods saw a notable slowdown, falling from 3.2% growth in 2022 to -0.8% in 2023. This downward trend reversed in 2024, with world trade volume in goods and services growing by 3.8%, and trade in goods rebounding to 2.9% growth. However, both are projected to decelerate again in 2025, with expected growth of 1.7% for goods and services and 1.1% for goods alone. The IMF forecasts a modest recovery in 2026, with growth reaching 2.5% for goods and services and 2.4% for goods *(Figure 1.10.A).* As of 2024, global trade volume in goods and services is approximately 11% higher than 2021 levels and is projected to be 13% higher by 2025 *(Figure 1.10.B).*

In nominal US$ terms, global merchandise trade expanded in 2024. Global merchandise exports grew by 2.3%, reversing the 4.1% decline recorded in 2023. This growth was observed across all regions except Europe, where exports slightly declined by 0.5%. The most notable increases in exports were seen in Asia (5.4%) and South and Central America and the Caribbean (4.4%). Imports also rose across all regions except Europe in 2024. The Middle East recorded the largest increase in imports at 11.4%, followed by North America with a 5.0% rise. Globally, commercial services trade remained resilient, with exports growing by 9.1% in 2024 and imports by 7.6%, slightly moderating from 8.8% and 10.0% respectively in 2023 *(Table 1.1).*

Regional trends in commercial services trade continue to highlight shifts in global economic dynamics. In Africa, export growth in commercial services slowed to 2.7% in 2024, following a 10.1% increase in 2023. Imports, however, saw a notable rebound, rising by 10.2% in 2024 after a modest 1.0% increase in 2023. In Asia, commercial services exports rose by 12.8% in 2024, accelerating from 8.9% in 2023, while imports also remained strong, growing 9.6% after a 12.6% increase the previous year. Europe maintained steady momentum, with commercial services exports increasing 8.2% in 2024, following 8.9% in 2023. Imports grew by 7.1%, down from 10.6% in the previous year. In the Middle East, export growth cooled further to 6.6% in 2024, after expanding by 7.7% in 2023. Meanwhile, imports declined by 1.5% in 2024, reversing the 11.5% growth seen in 2023. North America posted consistent figures, with exports of commercial services increasing by 7.8% in 2024, up from 8.2% in 2023. Imports grew by 7.0%, an improvement from 5.5% the prior year. South and Central America and the Caribbean saw export growth slow to 8.5% in 2024 from a robust 13.7% in 2023, while imports rebounded to 10.3% after slowing sharply to 2.1% in 2023 (*Table 1.1*).

Table 1.1: Annual Change in Global Trade Values by Selected Region (%)

Exports				Imports		
2022	2023	2024	Region	2022	2023	2024
			Merchandise			
11.7	-4.1	2.3	World	13.7	-5.4	1.9
18.5	-6.5	1.1	Africa	20.0	-3.2	1.5
7.2	-6.0	5.4	Asia	9.4	-8.3	3.4
9.1	-0.4	-0.5	Europe	15.6	-4.9	-1.9
37.2	-8.2	1.4	Middle East	21.3	6.5	11.4
17.6	-2.0	2.2	North America	15.6	-4.9	5.0
17.1	-3.8	4.4	South and Central America and the Caribbean	22.8	-9.7	1.9
			Commercial services			
15.9	8.8	9.1	World	16.1	10.0	7.6
30.3	10.1	2.7	Africa	16.3	1.0	10.2
15.3	8.9	12.8	Asia	15.3	12.6	9.6
12.0	8.9	8.2	Europe	12.9	10.6	7.1
47.3	7.7	6.6	Middle East	23.5	11.5	-1.5
17.7	8.2	7.8	North America	24.9	5.5	7.0
42.9	13.7	8.5	South and Central America and the Caribbean	35.3	2.1	10.3

Source: SESRIC staff calculation based on data from WTO STATS. Access date: 5/9/2025

CURRENT ACCOUNT BALANCE

Global current account realignment: persistent imbalances and regional volatility

Global current account balance—the sum of absolute surpluses and deficits—has fluctuated in recent years, but the large surpluses observed in the post pandemic period are projected to shrink drastically over 2025-2026. In 2024, global current account balance was US$ 518.6 billion, up from US$ 324.6 billion in the previous year. However, it is projected to fall down to US$ 53.8 billion in 2025 and slightly rebound to US$96 billion in 2026 *(Table 1.2).* According to the IMF, high gross external liabilities in some economies remain large from a historical perspective and can increase risks of external stress (IMF, 2024).

The disparity between developed and developing countries is particularly notable. The aggregated current account balance of developed countries was in surplus at US$ 102.9 billion in 2024, but it is estimated to return to a deficit of US$ 71.1 billion in 2025. However, developed countries are expected to recover in 2026, with a projected surplus of US$ 56.8 billion. Meanwhile, the substantial surplus of developing countries is expected to decline significantly from US$ 415.7 billion in 2024 to US$ 124.9 billion in 2025 and US$ 39.2 billion in 2026. As a percentage of GDP, developed countries as a group had a current account surplus of 0.2% in 2024, which is projected to decline to a deficit of -0.1% in 2025 before rising slightly to a surplus of 0.1% in 2026. In developing countries, surpluses increased from 0.7% in 2023 to 0.9% in 2024, but projections indicate a weakening to 0.3% in 2025 and 0.1% in 2026 *(Table 1.2).*

Table 1.2: Current Account Balance

	Billion US$					Percent of GDP				
	2022	2023	2024	2025P	2026P	2022	2023	2024	2025P	2026P
World (Global Disparity)	**426.4**	**324.6**	**518.6**	**53.8**	**96.0**	**0.4**	**0.3**	**0.5**	**0.0**	**0.1**
Developed Countries	-273.2	24.9	102.9	-71.1	56.8	-0.5	0.0	0.2	-0.1	0.1
United States	-1,012.1	-905.4	-1,133.6	-1,137.7	-1,006.5	-3.9	-3.3	-3.9	-3.7	-3.2
Germany	160.2	251.8	266.9	249.0	244.2	3.8	5.6	5.7	5.2	5.0
Japan	89.9	158.5	193.0	141.9	144.7	2.1	3.8	4.8	3.4	3.3
Developing Countries	699.6	299.6	415.7	124.9	39.2	1.6	0.7	0.9	0.3	0.1
Developing Asia	337.1	253.7	410.8	309.4	253.9	1.3	1.0	1.5	1.1	0.9
China	443.4	263.4	423.9	362.6	343.2	2.4	1.4	2.3	1.9	1.7
Developing Europe	128.8	-14.9	-1.5	-58.8	-56.0	2.7	-0.3	0.0	-1.0	-1.0
Latin America and the Caribbean	-127.8	-73.7	-60.4	-74.8	-95.3	-2.2	-1.1	-0.9	-1.1	-1.4
Middle East and Central Asia	403.4	185.8	98.5	-3.6	-18.9	8.3	3.9	2.0	-0.1	-0.4
Sub-Saharan Africa	-41.9	-51.3	-31.8	-47.3	-44.5	-2.1	-2.6	-1.7	-2.5	-2.2

Source: IMF, World Economic Outlook Database, April 2025. Note: P= Projection

According to European Commission (2025), the U.S. economy is projected to slow in 2025 and 2026 due to rising tariffs and high policy uncertainty, which are expected to curb consumer spending and delay business investment. Employment growth will decelerate, and unemployment will rise moderately, while wage growth stalls amid increasing consumer prices. Tightening financial conditions and higher mortgage rates are likely to further reduce personal consumption and residential investment. Additionally, increased tariffs and a weaker dollar will significantly reduce import growth, while sluggish global demand and higher production costs are expected to dampen exports.

The U.S. current account balance is projected to improve moderately, with net trade contributing positively to economic growth in 2026. The U.S. deficit is expected to decline slightly from 3.9% of GDP in 2024 to 3.7% in 2025, and further to 3.2% in 2026 *(Table 1.2)*. In contrast, Germany and Japan recorded significant trade surpluses in 2024, contributing to current account surpluses of 5.7% and 4.8% of GDP, respectively. However, both countries are expected to see their surpluses decline in 2025 to US$ 249.0 billion (5.2% of GDP) for Germany and US$ 141.9 billion (3.4% of GDP) for Japan. By 2026, Japan is projected to maintain a relatively stable surplus of US$ 144.7 billion (3.3% of GDP), while Germany's surplus is expected to decrease further to US$ 244.2 billion (5.0% of GDP), as adverse developments in exports are partially offset by cheaper imports *(Table 1.2)*. According to European Commission (2025), the German economy faced ongoing headwinds throughout 2024. In 2025 and 2026, tariffs and rising global uncertainty are expected to weigh on consumption, investment, and exports. However, the new government's increased infrastructure and defence spending helped improve corporate confidence, partially offsetting the challenging external environment.

The current account balance of Developing Asia has followed a nuanced trajectory over the specified years. In 2023, the surplus stood at US$ 253.7 billion, rising to US$ 410.8 billion in 2024. However, the trend is projected to reverse in the following years, with the surplus dropping to US$ 124.9 billion in 2025 and further to US$ 39.2 billion in 2026. A key contributor to this trend is the narrowing surplus of China in 2025 and 2026. After a relatively strong performance in 2024, the Chinese economy is entering a more difficult period, grappling with unprecedented external challenges and persistent domestic vulnerabilities. China's current account surplus as a percentage of GDP is expected to decline from 2.3% in 2024 to 1.9% in 2025, with a further projected decrease to 1.7% in 2026 *(Table 1.2)*.

Aggregate current account balance of developing countries in Europe has fluctuated notably in recent years. Developing Europe experienced a sharp reversal from a sizeable surplus of US$ 128.8 billion in 2022 to a deficit of US$ 14.9 billion in 2023, followed by a modest deficit of US$ 1.5 billion in 2024. In 2025, the region is forecast to experience a deepening deficit of US$ 58.8 billion, which is a substantial deterioration relative to 2024. The deficit is expected to remain large at around US$ 56.0 billion in 2026 *(Table 1.2)*.

According to European Commission (2025), after two years of unexpectedly strong growth, the Russian economy is projected to slow significantly in 2025 and 2026. Despite historically high interest rates, inflation has continued to rise in recent months but is expected to ease in the near future. Continued war-related expenditures, coupled with subdued oil and gas revenues and weakening tax receipts due to the anticipated economic slowdown, are likely to widen the budget

deficit over the forecast period. Consequently, Russian public debt is also expected to rise through 2026. Similarly, Türkiye also is facing its own fiscal challenges. The 2025 budget projects a sizeable reduction in the central government budget deficit to 3.1% of GDP, mainly reflecting the winding down of earthquake reconstruction spending and the government's commitment to supporting disinflation. However, the budget's macroeconomic assumptions appear optimistic, with tax revenues expected to fall short and the deficit to be higher than planned. Despite these risks, government debt levels in Türkiye are forecast to remain relatively stable and moderate (European Commission, 2025).

The economic landscape of the Middle East and Central Asia has experienced notable instability in recent years. The region's current account surplus, expressed as a percentage of GDP, dropped significantly from 3.9% in 2023 to 2.0% in 2024. Projections indicate a further deterioration, with a small deficit of 0.1% expected in 2025, widening to 0.4% in 2026 *(Table 1.2)*.

The lingering effects of the pandemic continue to reverberate across regions, particularly impacting Sub-Saharan Africa and Latin America and the Caribbean (LAC). Since 2022, both regions have struggled to recover, consistently running current account deficits. In the LAC region, the deficit stood at 1.1% of GDP in 2023 and narrowed slightly to 0.9% in 2024. Similarly, Sub-Saharan Africa recorded a deficit of 2.6% in 2023, which improved to 1.7% in 2024. However, projections suggest that both regions will continue to experience deficits, with LAC expected to see a widening to 1.1% in 2025 and 1.4% in 2026, and Sub-Saharan Africa anticipated to reach deficits of 2.5% and 2.2% in the same years, respectively *(Table 1.2)*.

FOREIGN DIRECT INVESTMENT

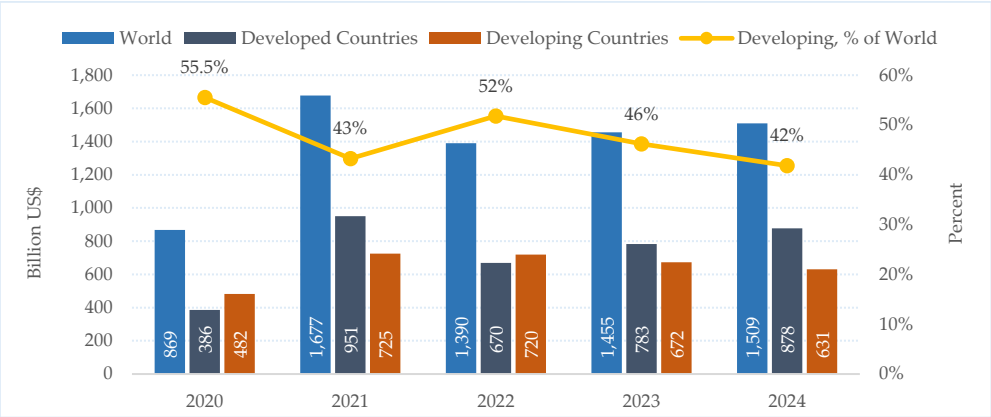
Global FDI shows fragile growth in 2024, masking deeper investment decline

Foreign Direct Investment (FDI) plays a vital role in global economic development by facilitating international trade, transferring technology, and creating employment. Open economic policies have enabled developing countries to integrate into global supply chains, leading to improved economic performance, enhanced workforce skills, and increased national income. Host countries benefit from FDI through higher productivity, technological advancement, and better wages, contributing to poverty reduction and lower unemployment. Meanwhile, investing countries gain access to new markets and enjoy improved financial outcomes (Le Ngoc & Heshmati, 2025).

Since the 1980s, Asian nations such as China, India, and Vietnam have reaped substantial benefits from FDI liberalization; including infrastructure development, job creation, and technological progress, helping them ascend global value chains. Studies further link FDI to India's GDP growth, particularly in high-tech sectors, while associating it with innovation and sustainable development. However, these benefits may be accompanied by short-term risks or "FDI traps" if regulatory frameworks are weak. Ultimately, FDI supports both economic and green growth in Asia when underpinned by effective, sustainability-focused policies. Despite globalization offering developing countries significant FDI-driven advantages, maintaining a balance between growth and environmental protection remains a persistent challenge. The impact of FDI on sustainability varies by region, depending on factors such as local energy efficiency, regulatory strength, and policy enforcement (Le Ngoc & Heshmati, 2025).

According to UNCTAD's *World Investment Report 2025*, global FDI increased marginally in 2024, by about 4%, from US$ 1,455 billion to US$ 1,509 billion[2] (*Figure 1.11*). Between 2000 and 2024, global FDI inflows averaged US$ 1,369 billion annually. FDI inflows to developing countries have fluctuated over recent years, accounting for between 42% (2024) and 55.5% (2020) of the global total *(Figure 1.11)*. This fluctuation highlights the volatility and uneven distribution of investment, reflecting changing global economic conditions and investor confidence in emerging markets (UNCTAD, 2025b).

Figure 1.11: World FDI Inflows



Source: UNCTAD, World Investment Report 2025, Annex Tables. Annex table 01: FDI inflows, by region and economy, 1990-2024

In 2024, FDI trends revealed stark contrasts between developed and developing economies. Developed economies experienced a 12.1% rise in inflows, while developing countries saw a 6.1% decline. China, notably, recorded a 29% drop in FDI, from US$ 189.1 billion in 2022 to US$ 116.2 billion in 2024. Conversely, North America, led by the United States, saw a 22.6% increase in FDI, fuelled by surges in mergers and acquisitions and high-tech investments. The United States remained the largest FDI recipient at US$ 278.8 billion, followed by Singapore (US$ 143.4 billion) and Hong Kong (US$ 126.2 billion). According to the UNCTAD report, the U.S. maintained its lead due to dominance in Greenfield projects and International Project Finance (IPF) deals. Other top destinations included Brazil, Egypt, the United Arab Emirates, Mexico, India, Indonesia, and Vietnam. Greenfield investment was particularly strong in India and the UAE, whereas IPF deals were concentrated in mature markets and key emerging economies. This divergence illustrates differing global trends between industrial investment and infrastructure development (UNCTAD, 2025b).

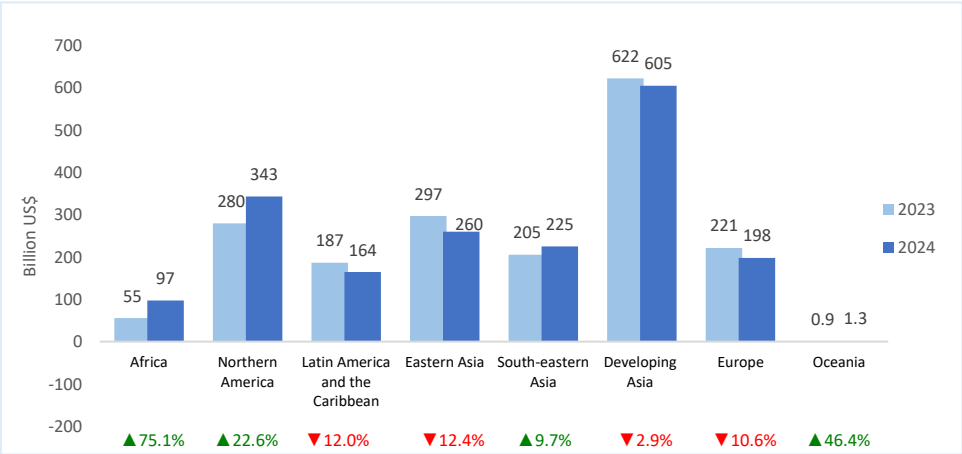
[2] The UNCTAD (2025) report indicated that the headline figure conceals significant weaknesses, as it was inflated by unstable financial flows through European conduit economies. When these are excluded, global FDI actually declined by 11%, from US$ 1.67 trillion to US$ 1.49 trillion—marking the second consecutive year of sharp decline and underscoring the continued fragility of international investment. This downward trend stands in stark contrast to the growth observed in global GDP and trade. Developed countries saw a sharp 22% drop in FDI, largely driven by a 58% fall in flows to Europe, again due to inflated and unstable financial movements through conduit economies.

Among developing regions, Africa experienced the most dramatic increase in FDI, rising 75% in 2024 (*Figure 1.12*), largely driven by Egypt's US$ 35 billion Ras El Hekma Development Project. Even excluding this megaproject, Africa's inflows rose by 12%, indicating a broader upward trend (UNCTAD, 2025b). The Ras El Hekma initiative, a joint venture between Egypt and the UAE, aims to transform the coastal peninsula into a global tourism and investment hub. Spearheaded by ADQ, an Abu Dhabi-based sovereign wealth fund, the project is expected to generate robust economic growth, create thousands of jobs, and elevate Egypt's profile in tourism and real estate (Werr and Strohecker, 2024).

This surge in FDI underscores the growing role of such investment in shaping developing economies. However, Rocha (2025) warns that FDI's impact on structural transformation is nuanced. While it may boost efficiency in certain sectors, it can also lead to labour misallocation, often shifting employment from high-productivity manufacturing to low-productivity services, resulting in negative structural change. Since the late 1990s, the rise of service-oriented FDI has intensified this concern. Rocha (2025) calls for further research into how FDI interacts with sectoral productivity shocks and informality in developing nations.

Supporting this shift, Bunskoek and Verburg (2025) highlight a rise in South–South investment flows, as emerging economies increasingly invest in one another. For instance, India has pledged US$ 14 billion in Nigerian projects, targeting US$ 150 billion in African investments by 2030. Similarly, China's FDI stock in Africa reached US$ 42.1 billion in 2023. Brazil and Türkiye are also broadening their economic engagement. These developments reflect strategic efforts among Global South countries, many BRICS-affiliated, to leverage FDI for mutual development, amid shifts in how developed nations approach globalization. Similarly, India's growing trade and economic engagement with Latin America—especially through its Preferential Trade Agreement (PTA) with MERCOSUR (South American trade bloc) reflects this strategic orientation. Since 2011, India and MERCOSUR have aimed to expand their PTA from around 450 to up to 2,000 tariff-concession goods, enhancing economic integration across the Global South (Kumari, 2025).

Figure 1.12: World FDI Inflows by Region, 2023 vs. 2024



Source: UNCTAD, World Investment Report 2025, Annex Tables. Annex table 01: FDI inflows, by region and economy, 1990-2024

Oceania recorded the second-highest increase in FDI inflows after Africa, reaching US$ 1.3 billion—a 46.4% rise from the previous year. Meanwhile, developing Asia saw only a modest 2.9% decline, as strong inflows to economies like India and Indonesia partially offset China's downturn. Latin America and the Caribbean, however, experienced a 12% decrease in FDI. Moreover, Europe saw a 10.6% drop in FDI in 2024 (*Figure 1.12*). Countries such as Ireland (-US$ 38.9 billion), Switzerland (-US$ 60.7 billion), and the U.K. (-US$ 40.0 billion) recorded substantial negative flows. However, Luxembourg rebounded sharply, attracting US$ 106.0 billion after previous declines (UNCTAD, 2025b).

The UNCTAD (2025b) report noted that recent FDI was heavily directed toward data centres, fintech platforms, e-commerce logistics, and specialized software services. Leading tech companies expanded operations in both developed and emerging markets, driven by growing digital consumption and enterprise demand for automation. For example, Oracle (United States) committed over US$ 6.5 billion to build data centres in Malaysia, tapping into demand for AI and cloud infrastructure. Similarly, Microsoft (United States) announced a US$ 3 billion investment to enhance its AI and cloud capacity in India. These investments reflect strategic moves by tech firms to capture the digital growth of emerging economies.

Beyond the digital sector, demand for transition-critical minerals such as lithium, cobalt, and rare earth elements supported steady FDI levels. African nations, such as the Democratic Republic of the Congo, Namibia, and Zambia, and Latin American countries, like Argentina, Chile, and Peru, remained focal points for mining investments. These nations play a critical role in the global shift to green technologies. However, international investment in infrastructure sectors, especially transport and utilities, fell sharply in 2024, hindered by rising interest rates and tighter global financial conditions. Despite renewable energy remaining the leading SDG-related sector in developing countries, investment in this area dropped by about 25%, especially in low-income nations. Agrifood systems also experienced a decline in investment, with capital primarily directed toward processing rather than primary agriculture. Moreover, private investment in Least Developed Countries (LDCs) remained inadequate. In contrast, the health sector saw increased investment, though mainly in middle-income countries. LDCs continued to struggle with significant gaps, particularly in pharmaceutical manufacturing (UNCTAD, 2025b).

FISCAL BALANCE

The prospects for fiscal sustainability remain challenging

The COVID-19 pandemic significantly exacerbated fiscal risks, particularly in the least developed countries, where economic growth declined, expenditures rose, and revenues shrank—resulting in increased vulnerabilities related to public debt (World Bank, 2023). The initial fiscal response to the pandemic, followed by support during the onset of the Ukraine war, contributed to a sharp rise in debt-to-GDP ratios. While these measures were instrumental in facilitating economic recovery, they left many countries with limited fiscal space and elevated debt burdens (IMF, 2025a).

According to OECD (2024a), future fiscal pressures are expected to intensify in the absence of meaningful policy adjustments. By 2040, the median G7 country could see a 70 percentage point increase in the ratio of net government financial liabilities to GDP. This rise is largely driven by demographic trends, particularly population aging, which will lead to higher spending on pensions, healthcare, and long-term care. Additional factors such as persistent structural deficits, potentially higher refinancing costs, and planned increases in defence spending further compound fiscal challenges. Moreover, the financial demands of climate change mitigation and adaptation are likely to strain already limited fiscal buffers.

Historically, significant and sustained reductions in debt-to-GDP ratios have required countries to limit the growth of public spending and maintain primary budget surpluses over long periods, often in conjunction with favourable economic conditions where GDP growth outpaces interest rates on debt. These efforts typically involve difficult policy choices, including curbing expenditures on pensions, civil service wages, subsidies, and public investment. However, achieving similar outcomes in the current environment may prove more difficult, especially if real interest rates remain elevated relative to GDP growth.

As of 2025, most OECD economies, including major ones like the United States, Japan, and the euro area, are projected to continue running primary budget deficits (OECD, 2024a). Under current fiscal trajectories, robust consolidation efforts will be required to place debt ratios on a sustainable downward path, particularly as inflation stabilizes and monetary policy becomes less restrictive.

The IMF (2025a) notes that although some debt reduction and fiscal tightening are planned, budget deficits remain substantial and fiscal space is considerably tighter than a decade ago. Debt servicing costs are expected to rise, with considerable variation across countries depending on inflation trends, growth rates, and the structure of public debt. In advanced economies, effective interest rates on debt are projected to exceed pre-pandemic levels, though they remain below peak pandemic levels in some cases. Meanwhile, many low-income and emerging market economies face growing debt service burdens as their debts mature.

Projections indicate that under current policies, U.S. public debt will rise from 121% of GDP in 2024 to 130% by 2030. In the euro area, debt levels are expected to increase due to expanded defence budgets and public investment. Emerging market and developing economies are also facing rising debt ratios, with levels anticipated to climb from 70% of GDP today to 83% by 2030, despite plans for fiscal tightening beginning in 2026 (IMF, 2025a).

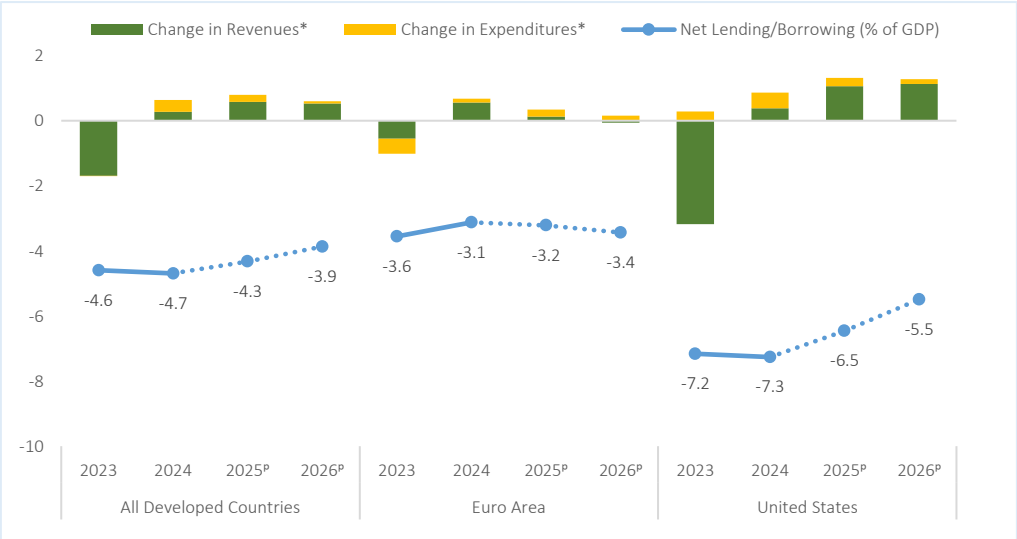
Based on the projected fiscal data from 2023 to 2026, developed countries are expected to gradually reduce their fiscal deficits, with net lending/borrowing improving from -4.7% of GDP in 2024 to -3.9% by 2026. This trend reflects a modest increase in revenues and restrained expenditure growth. The euro area maintained a relatively favourable fiscal position, with its deficit narrowing from -3.6% of GDP in 2023 to -3.1% in 2024. However, the deficit is projected to gradually widen again through 2026 *(Figure 1.13).*

Under the IMF's 2025 reference forecast, Germany's primary deficit is projected to widen by about 1% of GDP by 2030 compared to 2024, and by 4% relative to earlier forecasts, mainly due to increased defence spending and public investment. These fiscal changes are expected to have spill

over effects on other major euro area economies such as France, Italy, and Spain. As a result, the euro area's debt-to-GDP ratio is anticipated to rise from 88% to 93% by 2030, though the broader economic impact remains uncertain.

The United States is forecasted to continue running larger deficits, though with gradual improvement from -7.3% in 2024 to -5.5% by 2026. This reflects a stronger rebound in revenues, particularly from 2025 onwards, coupled with moderate growth in expenditures. Overall, while fiscal consolidation is underway across advanced economies, progress is expected to be uneven, with the U.S. continuing to face relatively larger fiscal imbalances (*Figure 1.13).*

Figure 1.13: General Government Fiscal Balance in Developed Countries



Source: IMF, World Economic Outlook Database, April 2025. Note: P= Projection; * Percentage point difference from the previous year in their ratio to GDP.

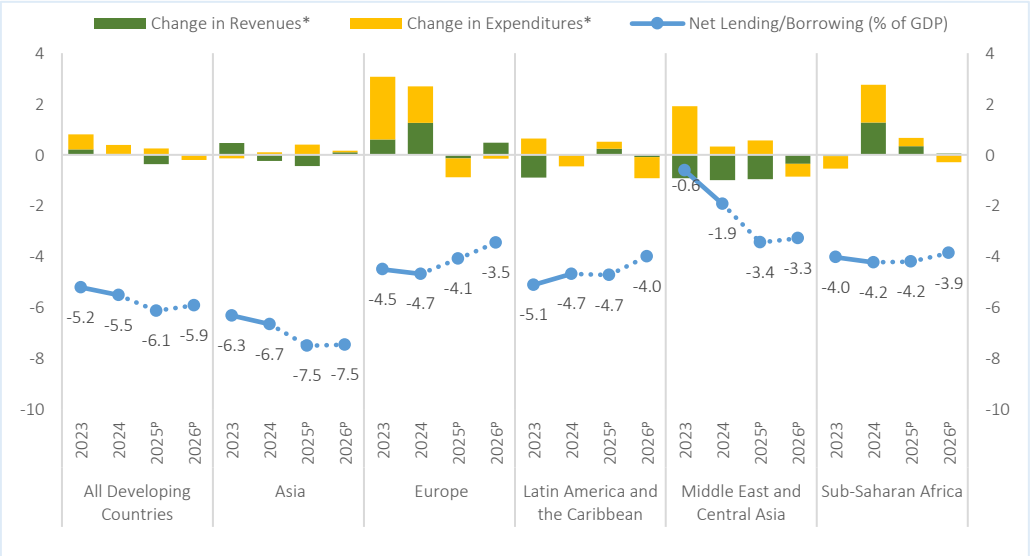
Between 2024 and 2026, developing countries are projected to maintain significant fiscal deficits, with the overall net lending/borrowing position deteriorating from -5.5% of GDP in 2024 to -5.9% in 2026. This trend is largely driven by persistent revenue weaknesses and relatively constrained expenditure adjustments. In Asia, fiscal deficits are expected to deepen further, from -6.7% in 2024 to -7.5% in both 2025 and 2026, amid falling revenues and only modest expenditure control (*Figure 1.14*).

According to IMF's 2025 projections, in China, the structural fiscal balance is projected to worsen by 1.2 percentage points of GDP in 2025, reflecting growing fiscal pressures. Meanwhile, public debt in emerging market and developing economies is on an upward trajectory, expected to rise from 70% of GDP currently to 83% by 2030. In contrast to Asia, Europe is forecasted to improve its fiscal position, with deficits narrowing from -4.7% in 2024 to -3.5% in 2026 (*Figure 1.14*). Latin America and the Caribbean are expected to stabilize their deficits around -4.0% by 2026. The Middle East and Central Asia region is experiencing a marked fiscal deterioration, with deficits widening from -0.6% of GDP in 2023 to -1.9% in 2024, and further projected to reach -3.3% by 2026 (*Figure 1.14*).

According to World Bank (2025a), the fiscal outlook for the Middle East and North Africa (MENA) region reflects a complex mix of oil price dynamics, geopolitical uncertainty, and country-specific policy paths. In the Gulf Cooperation Council (GCC) countries, fiscal deficits are projected to widen in 2025 as falling oil revenues, due to lower global prices, outpace modest expenditure reductions. Although a gradual rise in oil revenues is anticipated in 2026 with the phase-out of OPEC+ production cuts, fiscal pressures are expected to persist, especially in Saudi Arabia. Outside the GCC, most oil exporters face deteriorating fiscal positions, driven by declining oil prices and slower non-oil growth. However, Libya stands out, with stronger oil production expected to improve its fiscal balance. Among oil importers, fiscal deficits are also set to widen in 2025, particularly in Egypt, where elevated interest payments and the expiration of one-time revenue gains from foreign investment deals weigh heavily. Despite some expected fiscal tightening in countries like Jordan, Morocco, and Tunisia, overall debt sustainability remains a concern. By 2026, gradual fiscal consolidation is expected to improve balances in several economies, with Egypt planning to reduce energy subsidies and strengthen tax collection. Yet, high financing needs, regional conflict risks, and limited fiscal space leave many MENA countries vulnerable to external shocks. Geopolitical instability, especially in conflict-affected states like, Yemen, Syria, and Lebanon, adds further uncertainty to fiscal outcomes, while external risks such as oil price volatility and global financial tightening could further strain already fragile public finances across the region.

Sub-Saharan Africa is projected to maintain relatively high deficits, around -4.0% throughout the period, despite some expected recovery in revenue growth in 2025. Overall, fiscal challenges across developing regions remain acute, particularly where revenue mobilization continues to lag behind spending pressures (*Figure 1.14*).

Figure 1.14: General Government Fiscal Balance in Developing Countries



Source: IMF, World Economic Outlook Database, April 2025. Note: P= Projection; * Percentage point difference from the previous year in their ratio to GDP.

According to the OECD, sovereign debt is elevated in many emerging-market economies and is expected to rise further in the coming years. Rising interest payments and revenue shortfalls limit the capacity to undertake the investment necessary for sustainable development. Additionally, debt sustainability might be endangered in a number of emerging-market economies facing elevated spreads, especially if debt issuance remains sizeable, as the average maturity of their government debt is comparatively low (OECD, 2024a).

CHAPTER TWO

Recent Economic Developments in OIC Countries

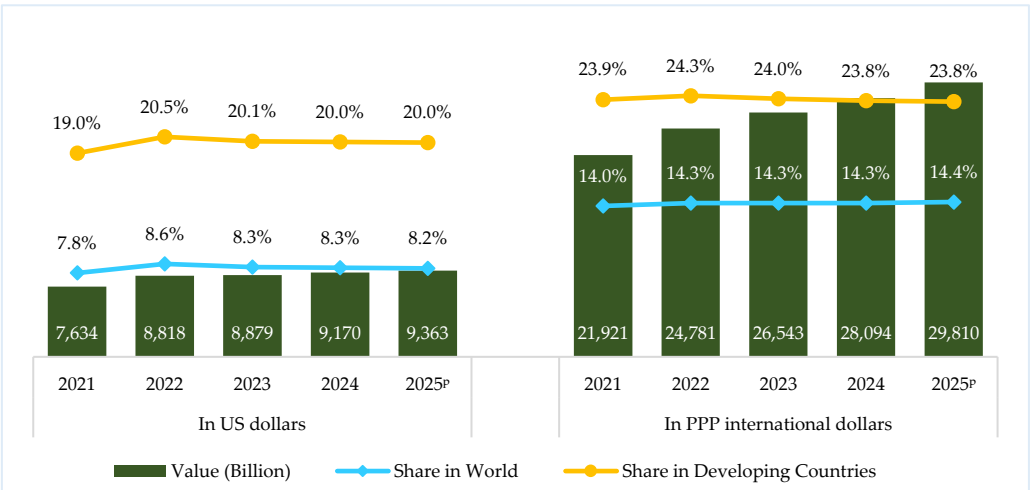
The global economy has been navigating a complex and turbulent landscape in recent years, shaped by rising geopolitical tensions, particularly in regions vital to global food and energy supplies, persistent inflationary pressures, the impacts of climate change, and widening inequalities. These challenges have created a difficult environment for policymakers and businesses alike. While some economies have demonstrated resilience, others continue to struggle with the consequences of these overlapping crises. Against this backdrop, this chapter reviews the recent macroeconomic performance of OIC countries, analysing key indicators to assess their position and prospects within the global economy.

PRODUCTION AND ECONOMIC GROWTH

Output reaches US$ 9.2 trillion in 2024

At current prices, the total GDP of OIC countries amounted to US$ 9.2 trillion in 2024, slightly (3.3%) above the preceding year. In 2024, it is projected to increase by 2.1% to US$ 9.4 trillion. With this economic size, OIC countries, as a group, accounted for 8.3% of global GDP in 2024, same as the previous year. This share is expected to decline to 8.2% in 2025. The share of OIC countries in the total GDP of developing countries declined slightly from 20.1% in 2023 to 20.0% in 2024 and is projected to remain unchanged in 2025, reflecting comparable recent output growth between OIC countries and the rest of the developing world (*Figure 2.1, left*).

Figure 2.1: Total GDP and World Shares of OIC Countries (at current prices)

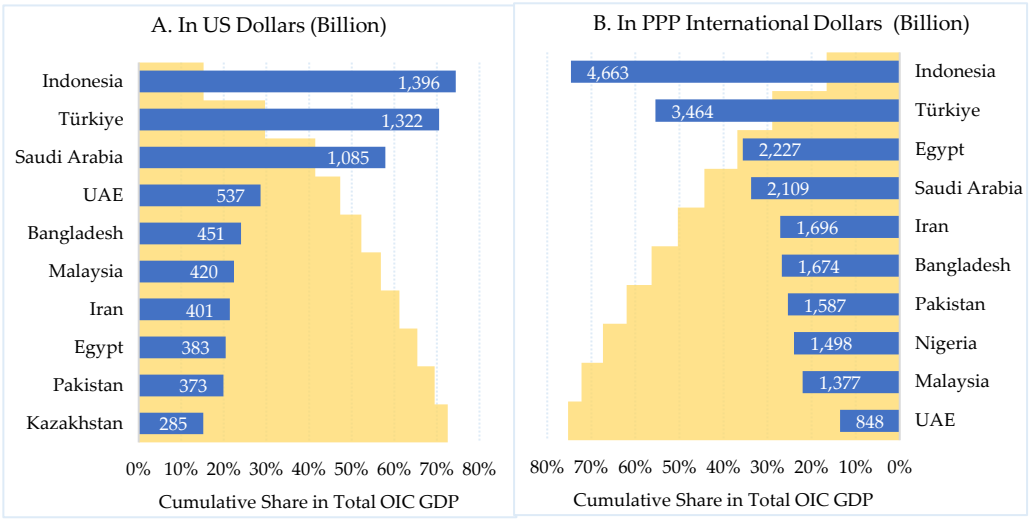


Source: SESRIC staff calculation based on IMF, World Economic Outlook Database, April 2025. Note: P= Projection; Data exclude Syria.

In terms of Purchasing Power Parity (PPP), expressed in international dollars, the total GDP of OIC countries reached 28.1 trillion dollars in 2024, and is expected to reach 29.8 trillion dollars in 2025. With these amounts, OIC countries, as a group, accounted for 14.3% of global GDP in 2024, the same as the previous year. Projections show that this share will reach 14.4% in 2025. However, their share in the total GDP of developing countries decreased to 23.8% in 2024 from 24.0% in 2023, and is expected to be also 23.8% in 2025 (*Figure 2.1, right*). Considering the estimated share of OIC

countries in the world population (24.9%) and in the population of developing countries (28.9%) in 2024, their share in GDP, whether in current U.S. dollars or in current PPP international dollars, remains below the desired levels.

Figure 2.2: Top 10 OIC Countries by GDP, 2024



Source: IMF, World Economic Outlook Database, April 2025.

Furthermore, it is observed that a significant portion of the total GDP of OIC countries is still generated by a few member countries, reflecting wide differences in economic size. In 2024, the top five OIC countries accounted for half (52.3%) of the total GDP measured in current U.S. dollars, while this share reached as high as 72.6% for the top ten countries (*Figure 2.2.A*). Indonesia, with a GDP of almost US$ 1.4 trillion, had the highest share in OIC GDP (15.2%), followed by Türkiye (14.4%), Saudi Arabia (11.8%), United Arab Emirates (5.9%), and Bangladesh (4.9%).

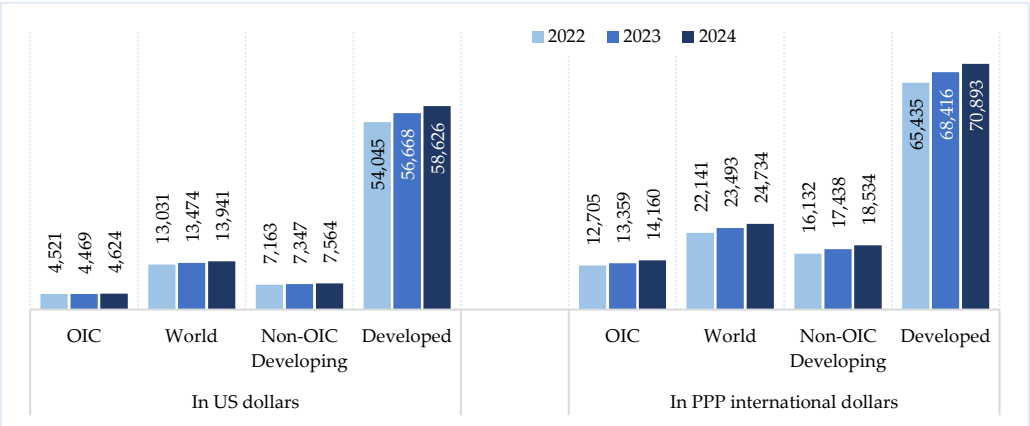
Figure 2.2 shows that the largest ten countries remain almost unchanged when GDP is expressed in PPP international dollars, though the ranking of countries changes due to the difference in purchasing power stemming from relative price differentials between countries. Indonesia was the largest economy, with a PPP equivalent of 4.7 trillion dollars that constituted 16.6% of OIC GDP in 2024. Together with Türkiye (12.3%), Egypt (7.9%), Saudi Arabia (7.5%), and Iran (6.0%), these five countries accounted for 50.4% of the total OIC GDP while, for the largest ten countries, this share reached as high as 75.3% (*Figure 2.2.B*).

Modest increase in GDP per capita in 2024, reflecting gradual improvement in average income levels

Given the ongoing growth in output, per capita GDP values at current prices continued to increase worldwide in 2024. However, the increase in the OIC group was rather small due to limited output growth (*Figure 2.3*). In U.S. dollar terms, the global average rose by 3.9% from the previous year to US$ 13,941, driven largely by developed countries, where GDP per capita increased by 3.5% to US$ 58,626. OIC countries recorded a growth of 3.5%, with GDP per capita averaging US$ 4,624

in 2024, compared to US$ 4,469 in 2023. Non-OIC developing countries recorded a GDP per capita of US$ 7,564, up 3.0% over the same period. Thus, GDP per capita remained lower in OIC countries, and the gap widened somewhat in 2024 (*Figure 2.3, left*).

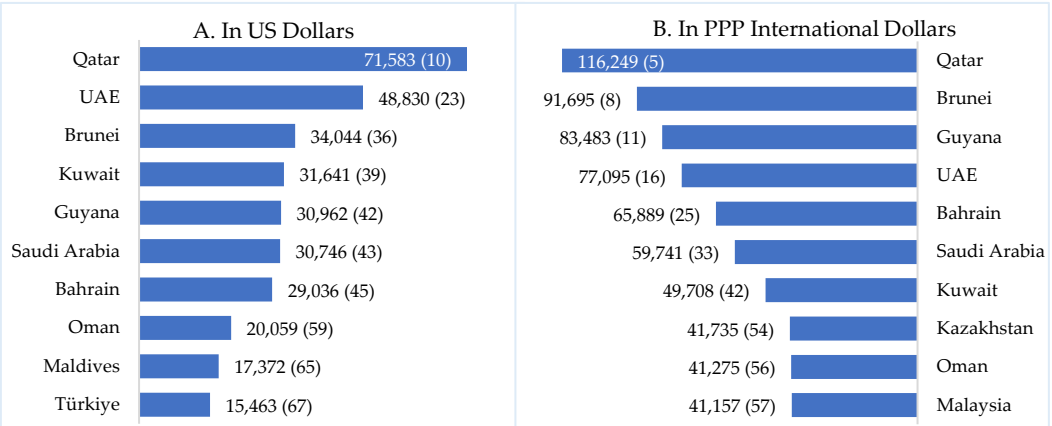
Figure 2.3: Average GDP per Capita (at current prices)



Source: SESRIC staff calculation based on IMF, World Economic Outlook Database, April 2025. Note: Data exclude Syria for the entire period under consideration and Afghanistan and Palestine for 2024.

In PPP terms, global GDP per capita averaged US$ 24,734 in 2024, up 5.3% from the previous year. In OIC countries, it increased by 6.0% to US$ 14,160, remaining below non-OIC developing countries, where it rose 6.3% to US$ 18,534 (*Figure 2.3, right*).

Figure 2.4: Top 10 OIC Countries by GDP per Capita, 2024 (at current prices)



Source: IMF, World Economic Outlook Database, April 2025. Note: The numbers in brackets indicate the global rank of the relevant country among 191 countries. Data exclude Afghanistan, Palestine, and Syria.

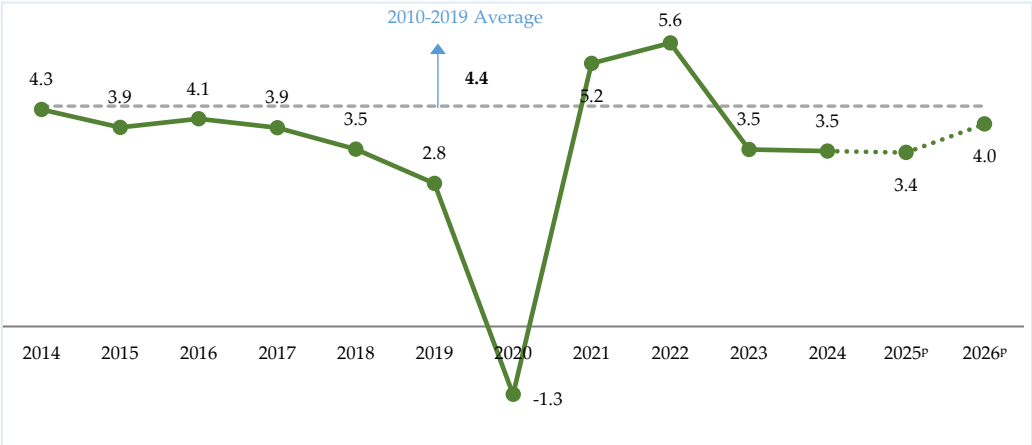
Among OIC countries, Qatar had the highest GDP per capita in 2024, ranking tenth globally with a value of approximately US$ 72 thousand. This value was more than 15 times the OIC average and about 172 times the lowest GDP per capita recorded by an OIC member, indicating the wide disparity among member countries. Following Qatar were the United Arab Emirates, Brunei Darussalam, Kuwait, Guyana, Saudi Arabia, Bahrain, Oman, Maldives, and Türkiye in descending order (*Figure 2.4.A*).

It is worth noting that most of these countries are rich in fossil fuel. In terms of PPP, the list of countries remained the same, except Kazakhstan and Malaysia replaced the Maldives and Türkiye. The ranking of countries shifted slightly, with Qatar maintaining the top spot with a GDP per capita value of over 116 thousand dollars, ranked fifth globally (*Figure 2.4.B*).

Real GDP growth moderates to 3.5% in 2024, followed by a projected slight decline in the subsequent period

In 2024, the average growth rate in the OIC group stood at 3.5%, the same as in the previous year. It is expected to slightly decline to 3.4% in 2025, before rebounding to a projected 4.0% in 2026 (*Figure 2.5*). However, the OIC group average remains below the 2010–2019 (pre-COVID-19) period, when it averaged 4.4% annually. It is noteworthy that the average growth rate registered by OIC countries in 2024 was higher than the global average. As mentioned in the previous chapter, developing economies grew by 4.3% and developed ones by 1.8%, with global economic growth averaging 3.3% in 2024 (*see Figure 1.1*). Similarly, growth in the next two years is projected to remain higher in the OIC group than the global average.

Figure 2.5: Real GDP Growth in OIC Countries

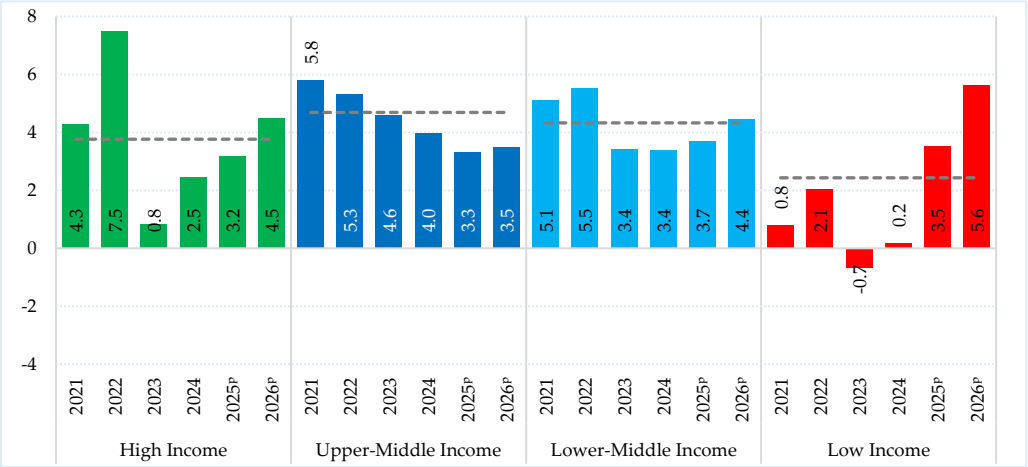


Source: SESRIC staff calculation based on IMF, World Economic Outlook Database, April 2025, and World Economic Outlook Update, July 2025. Note: P= Projection

The growth performance of OIC countries varied across income groups in 2024 (*Figure 2.6*). Economies of resource-rich high-income countries, which registered a growth rate of 0.8% in 2023, expanded by 2.5% in 2024. Their economies are expected to grow further in 2025 at 3.2%, followed by 4.5% in 2026, thereby surpassing the pre-pandemic average of 3.8%.

Having recorded a higher average economic growth rate (4.7%) during the decade prior to the pandemic compared to other groups, upper-middle-income economies have experienced decelerating growth since 2021. In 2023, their real GDP growth slowed to 4.6% and further to 4.0% in 2024. Growth in this group is expected to slow further to 3.3% in 2025, before recovering slightly to 3.5% in 2026. Unlike in other income groups, the average economic growth rate in this group is expected to remain below its pre-pandemic average through 2026.

Figure 2.6: Economic Growth in the OIC by Income Group (%)



Source: SESRIC staff calculation based on IMF, World Economic Outlook Database, April 2025, and World Economic Outlook Update, July 2025. Note: P= Projection; Dashed lines represent the annual average growth rate during 2010-2019 for the related income group. See Annex B for the income classification of OIC countries.

The average growth of lower-middle-income economies moderated to 3.4% in both 2023 and 2024 compared to over 5% in the previous two years. However, projections indicate a recovery, with growth expected to reach 3.7% in 2025 and 4.4% in 2026, slightly above the pre-pandemic average of 4.3%.

The group of low-income countries, which registered the slowest average growth (2.4%) among the income groups during 2010–2019, shows a different growth pattern. After contracting by 0.7% in 2023, the group rebounded modestly with 0.2% growth in 2024. Their economies are expected to expand further by 3.5% in 2025 and 5.6% in 2026, more than doubling their pre-pandemic average of 2.4%.

Figure 2.7: Real Output Growth in OIC Countries by Income Group (2020=100)

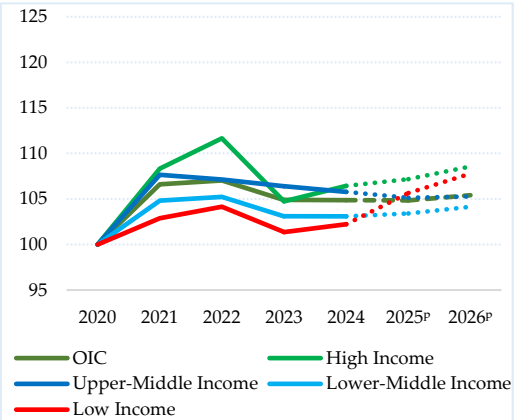
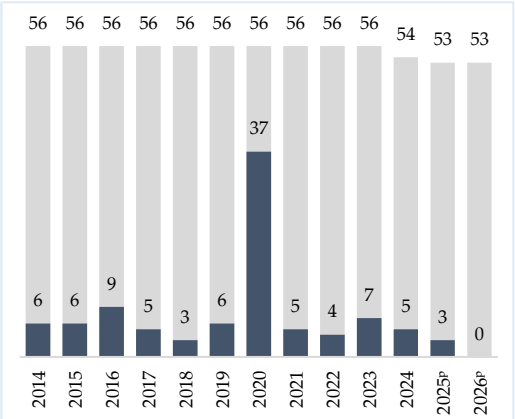


Figure 2.8: The Number of OIC Countries with a Negative Growth Rate*



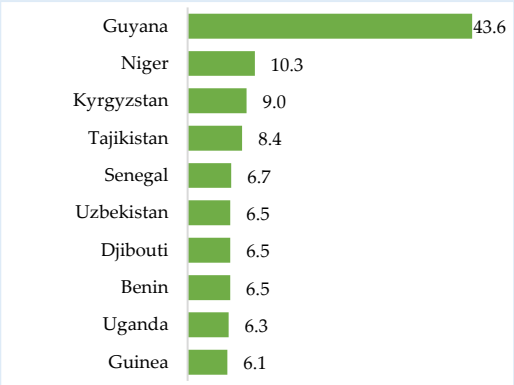
Source: SESRIC staff calculation based on IMF, World Economic Outlook Database, April 2025, and World Economic Outlook Update, July 2025. Note: P= Projection. * Excluding Syria for the entire period under consideration, Lebanon for 2025-2026, Afghanistan and Palestine for 2024-2026.

As of 2024, the real output of OIC countries, as a group, remained about the same as in 2023, largely driven by the performance of high-income and upper-middle-income countries. Given the expected growth rates over the next two years, output is projected to follow a modest upward trend. Meanwhile, the performance of low-income countries continued to improve more than that of other income groups, with their real output expected to be about 5.4% higher in 2026 compared to the 2024 level (*Figure 2.7*).

At the individual country level, 5 out of 54 OIC countries with available data recorded a negative growth rate in 2024: Sudan (-23.4%) Lebanon (-7.5%), Kuwait (-2.8%), Yemen (-1.5), and Libya (-0.6%). Current projections indicate that the economies of three OIC countries (Iraq, Yemen, and Sudan) are expected to contract in 2025, while all OIC countries with available data are expected to record a positive growth rate in 2026 (*Figure 2.8*).

Guyana was the fastest growing economy in the OIC and in the world in 2024. IMF data shows that the Guyanese economy continues to record exceptional growth rates, estimated at 43.6% in 2024, driven by accelerating oil production. Niger, which recorded a double-digit growth rate of 10.3%, was the second fastest-growing economy in the OIC and in the world. Kyrgyzstan and Tajikistan, with growth rates of 9.0% and 8.4% respectively, were also among the world's top 10 fastest-growing economies that year. In addition to these four countries, Senegal, Uzbekistan, Djibouti, Benin, Uganda, and Guinea ranked among the top 10 fastest-growing OIC economies in 2024 (*Figure 2.9*).

Figure 2.9: The Fastest Growing OIC Economies in 2024 (%)



Source: IMF, World Economic Outlook Database, April 2024, and World Economic Outlook Update, July 2025.

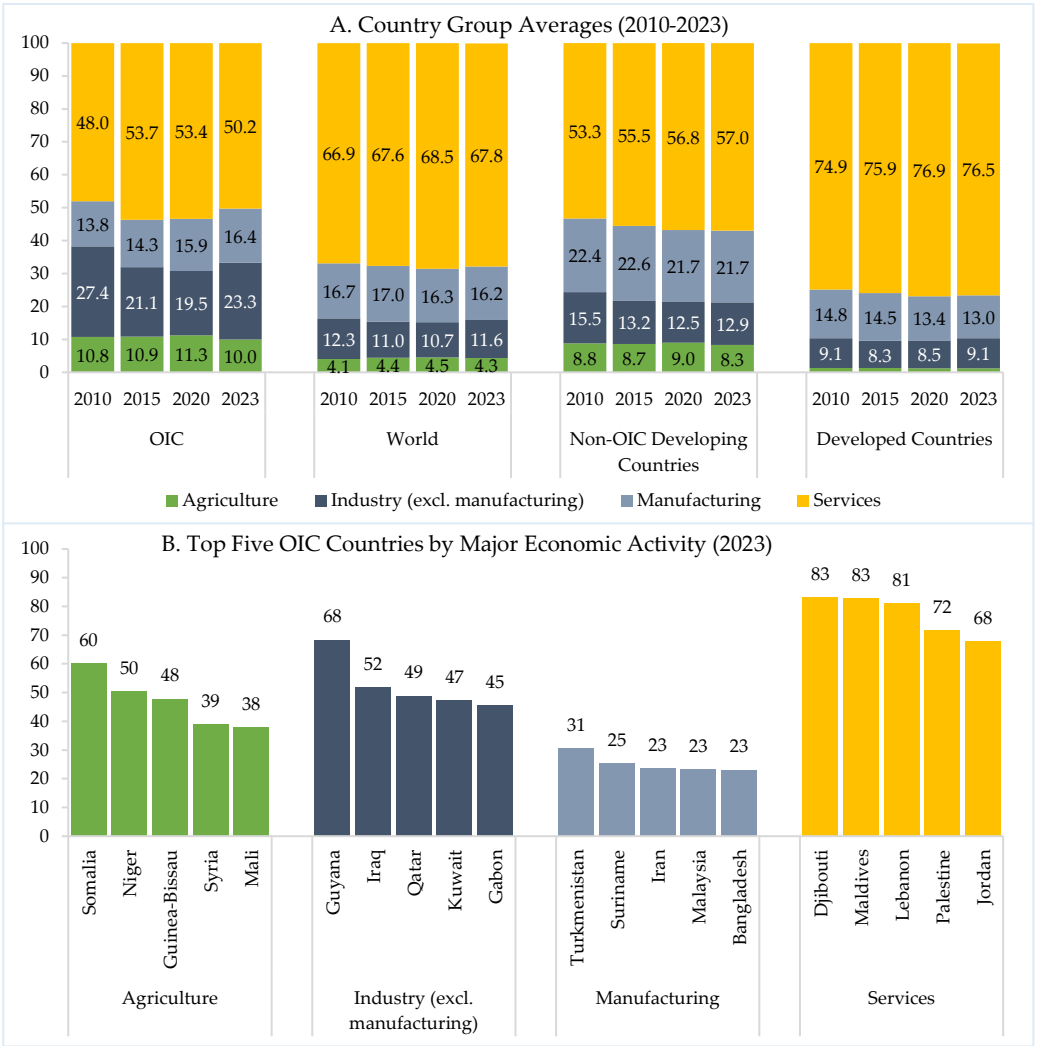
Industrial activities regain weight in GDP

The composition of GDP reveals important insights into the structure of economies (*Figure 2.10*). The latest available data for 2023 shows that agricultural activities, constituting only 1.3% of total value added in developed countries have a high share of 10.0% in total value added in the OIC countries, which is even higher than that in non-OIC developing countries (8.3%). The agriculture sector is particularly important for the OIC countries in Sub-Saharan Africa; its share in total value added reaches as high as 60% in Somalia, 50% in Niger, 48% in Guinea-Bissau, 39% in Syria, and 38% in Mali.

The share of the non-manufacturing industry is much higher in the group of OIC countries compared to the rest of the world, largely due to substantial fossil fuel extractive industries in many OIC countries. Although this share fell slowly over the 2010-2020 period worldwide, it witnessed a significant increase in 2023. For the OIC countries, it averaged at 23.3% in 2023 after falling from 27.4% in 2010 to a record low of 19.5% in 2020. The sector accounts for about two-thirds (68%) of the total value added in Guyana, 52% in Iraq, 49% in Qatar, 47% in Kuwait, and

45% in Gabon, and over one-third of the total value added in six other member countries heavily engaged in oil & gas extraction: Azerbaijan, Oman, Brunei Darussalam, Libya, United Arab Emirates, and Saudi Arabia.

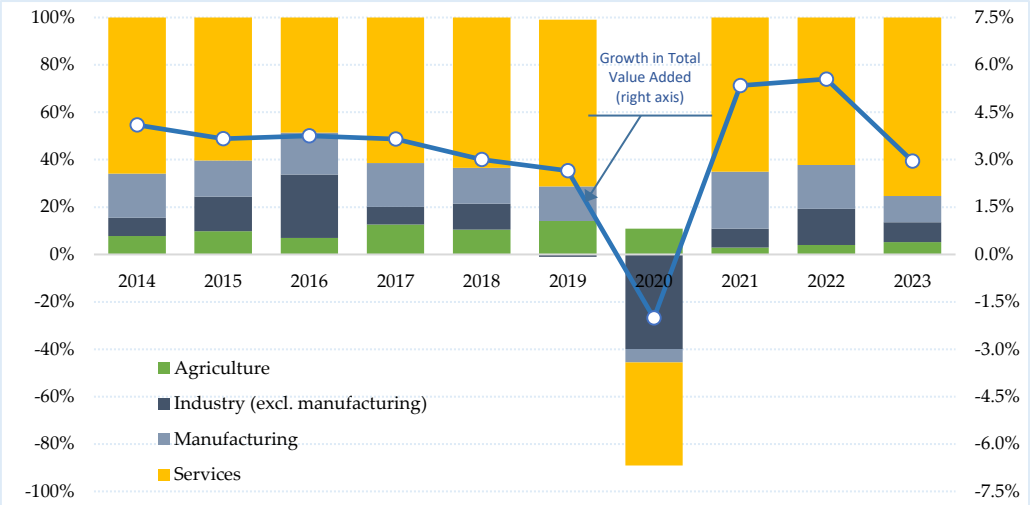
Figure 2.10: Distribution of Value Added by Major Economic Activity (% of total)



Source: SESRIC staff calculation based on data –at current prices in U.S. dollars– from UNSD, National Accounts - Analysis of Main Aggregates (AMA). Note: "Agriculture" comprises agriculture, hunting, forestry, fishing (ISIC A-B), "Industry" comprises mining, manufacturing, utilities, and construction (ISIC C-F), and "Services" comprises services activities (ISIC G-P). Data coverage: 57 OIC countries, 115 non-OIC developing countries, and 40 developed countries.

The manufacturing sector, which has greater potential to promote productivity and competitiveness, has a share of 16.4% in total value added of the OIC countries, which is higher than that of developed countries (13.0%) but significantly below that of non-OIC developing countries (21.7%). The sector accounts for 31% of the total value added in Turkmenistan, 25% in Suriname, and 20-23 % in seven other member countries, namely Iran, Malaysia, Bangladesh, Türkiye, Uzbekistan, Bahrain, and Indonesia.

Figure 2.11: Sectoral Contribution to Growth in Value Added in OIC Countries



Source: SESRIC staff calculation based on data –at constant 2015 prices in U.S. dollars– from UNSD, National Accounts - Analysis of Main Aggregates (AMA). Note: "Agriculture" comprises agriculture, hunting, forestry, fishing (ISIC A-B), "Industry" comprises mining, manufacturing, utilities, and construction (ISIC C-F), and "Services" comprises services activities (ISIC G-P). Data coverage: 57 OIC countries.

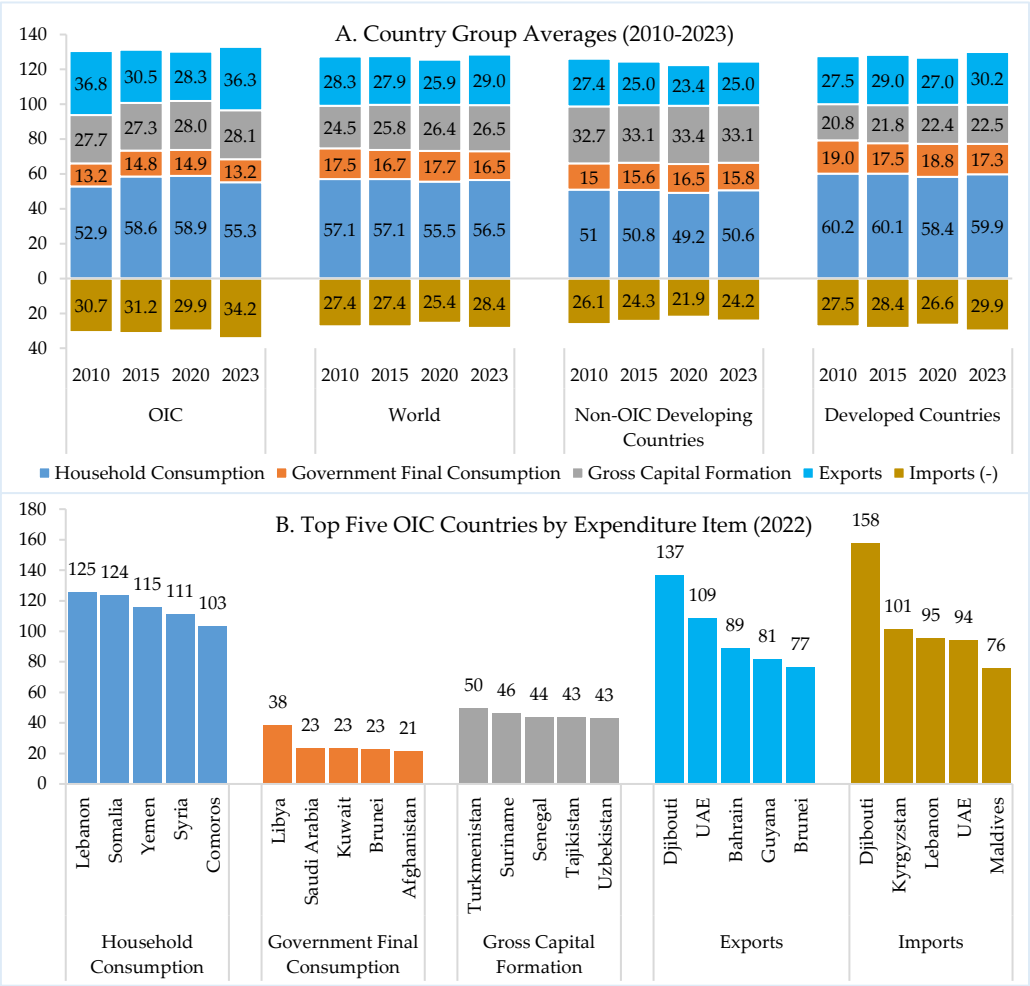
Despite losing ground to industrial activities, the services sector continues to play a key role in the majority of OIC economies, accounting for an average of 50.2% of the total value added in the OIC group. This share is still low, considering that the sector has a share of three quarters (76.5%) in total value added in developed countries and 57.0% in non-OIC developing countries, averaging at 67.8% worldwide. In the OIC group, this share reaches as high as 83% in Djibouti and Maldives, 81% in Lebanon, 72% in Palestine, and 68% in Jordan, while it is at least 50% in 23 other member countries.

The services sector, which grew at an annual average rate of 3.9% over the past decade, has been the dominant contributor to economic growth in OIC countries, typically accounting for more than three-quarters of the total growth in value added at constant prices (*Figure 2.11*). In 2023, the sector expanded by 4.5% and was again the largest contributor to growth in total value added (2.9%), with 75.4% of this growth stemming from services. By contrast, the non-manufacturing industry grew by only 1.5% in 2023, down from 4.5% in 2022, contributing 8.4% to growth in value added compared to 15.3% a year earlier. The manufacturing industry, meanwhile, expanded by 2.4% in 2023 and accounted for 11.1% of growth, a decline from 18.6% in 2022. The contribution of the agriculture sector increased from 4.0% in 2022 to 5.2% in 2023; additionally, the growth in agricultural value added declined from 2.0% in 2022 to 1.6% in 2023.

The analysis of the composition of GDP from the expenditures side reveals that final consumption expenditures, by both households and the government, continued to have the highest share in GDP over the years in OIC countries as well as in the rest of the world (*Figure 2.12.A*). In 2023, household consumption accounted for 55.3% of GDP in OIC countries, higher than in non-OIC developing countries (50.6%) but lower than in developed countries (59.9%). The ratio was exceptionally high in Lebanon (125%) and Palestine (124%), and also exceeded 100% in Yemen, Syria, and Comoros. This reflects the fact that a significant share of private domestic demand in

these countries was met through imported goods and services. In two other OIC countries, namely Afghanistan and Guinea-Bissau, the ratio was above 90%, whereas it was as low as 11% in Turkmenistan and 22% in Qatar.

Figure 2.12: GDP by Expenditure (% of total)



Source: SESRIC staff calculation based on data –at current prices in U.S. dollars– from UNSD, National Accounts - Analysis of Main Aggregates (AMA). Data coverage: 57 OIC countries, 114 non-OIC developing countries, and 40 developed countries.

The share of general government final consumption expenditure in GDP has been relatively low in OIC countries compared to both developed and other developing countries. In 2023, this share averaged 13.2% in OIC countries, compared to 15.8% in non-OIC developing countries and 17.3% in developed countries, with a global average of 16.5%. Among OIC countries, the highest ratio was recorded in Libya at 38%, followed by Saudi Arabia, Kuwait, and Brunei Darussalam (23% each), and Afghanistan (21%). By contrast, the share was as low as 4% in Nigeria and below 10% in fourteen other countries, including Sierra Leone, Bangladesh, Syria, Egypt, Somalia, Gambia, Indonesia, Chad, Sudan, Uganda, Turkmenistan, Comoros, Benin, and Suriname.

Gross capital formation (GCF), also called "investment", and is an important indicator for an economy as it shows the total value of additions to productive assets, which are intended for use in the production of other goods and services. Thus, a high share of GCF in GDP is desirable for long-term economic growth as current investment leads to greater future production. *Figure 2.12.A* shows that this share has been relatively stable over the past decade and averaged at 28.1% in 2023 for OIC countries, lower than the average for non-OIC developing countries (33.1%) but higher than the average for developed countries (22.5%). GCF accounted for half (50%) of GDP in Turkmenistan, the highest ratio both among OIC member countries and worldwide. This ratio was at least 40% in seven other countries (Suriname, Senegal, Tajikistan, Uzbekistan, Mauritania, Iran, and Benin) and less than 10% in three countries (Syria, Guinea-Bissau, and Iraq).

International trade –in goods and services– continued to account for a higher share of GDP in OIC countries than in both developed and developing countries in 2023. Moreover, both exports and imports had a higher share of GDP in 2023 compared to 2020 in all these groups of countries, as the pandemic-induced severe disruptions to global supply chains and travel services phased out. The share of exports increased by 8.0 percentage points and averaged at 36.3% for OIC countries, while it rose to 25.0% for non-OIC developing countries and to 30.2% for developed countries. The share of imports increased by 4.3 percentage points to 34.2% for OIC countries and it was higher than the average of both country groups in comparison (*Figure 2.12.A*).

Among OIC countries, Djibouti had the highest exports share in GDP at 137%, ranking fifth globally. This share reached 109% in the United Arab Emirates, 89% in Bahrain, 81% in Guyana, and 77% in Brunei Darussalam. In terms of imports' share in GDP, Djibouti (158%) also ranked highest in the OIC and fourth in the world. This share was as high as 101% in Kyrgyzstan, 95% in Lebanon, 95% in Kyrgyzstan, 94% in the United Arab Emirates, 76% in Maldives, and over 50% in 14 other member countries. On the other side of the spectrum, the imports-to-GDP ratio was as low as 16% in Sudan and 18% in both Pakistan and Bangladesh.

UNEMPLOYMENT

Unemployment remained stable at 5.3% in 2024

Labour markets have continued to recover in the post-pandemic period, with employment levels surpassing pre-pandemic levels. However, the pace of recovery slowed after 2023, with recent trends pointing to a levelling off and a slight decline expected in the coming years.

In 2024, the employment-to-population ratio (EPR)[1] reached 57.9% worldwide, marginally above the 57.7% recorded in 2019. Due to the subdued global economic outlook, the EPR is projected to decline slightly over the next two years, reaching 57.7% by 2026. While all country groups have followed a similar post-pandemic trend, non-OIC developing countries and developed countries maintained higher EPRs than the global average, recording 59.1% and 58.1%, respectively, in 2024. In comparison, EPR in OIC countries has remained significantly lower than in the rest of the world throughout the period under consideration, highlighting persistent labour underutilisation in the group. The EPR in OIC countries increased modestly from 55.5% in 2023 to 55.6% in 2024.

Figure 2.13: Employment-to-Population Ratio (%)

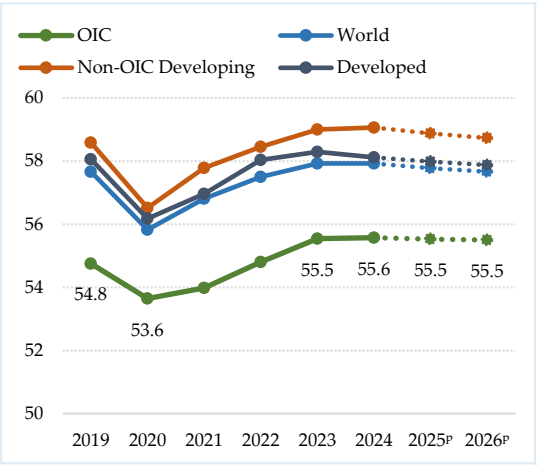
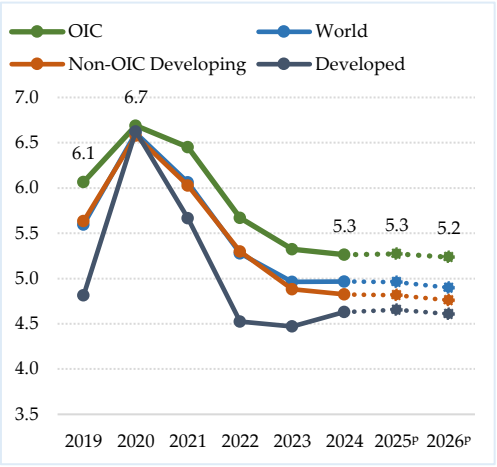


Figure 2.14: Unemployment Rate (%)



Source: SESRIC staff calculation based on ILOSTAT, ILO Modelled Estimates, November 2024.

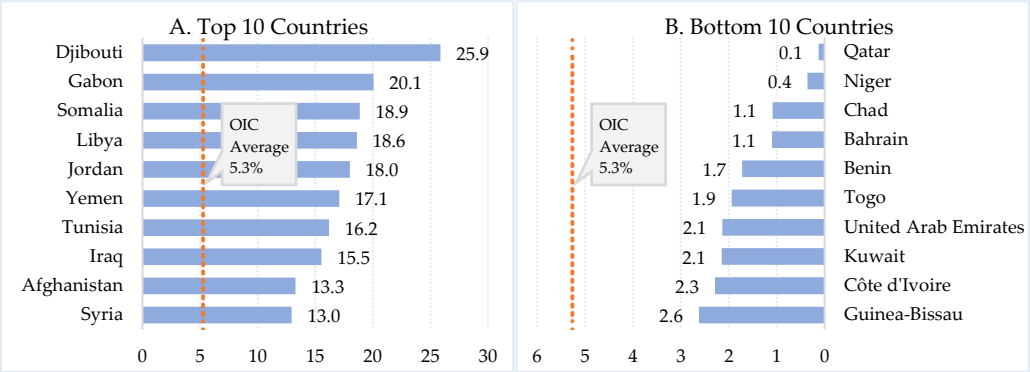
Projections indicate it will remain largely flat through 2025–2026, staying above pre-pandemic levels but below the 2024 figure (*Figure 2.13*).

According to ILO estimates, there were 186.0 million unemployed people worldwide[2] in 2024, about 2.6 million (1.4%) more than the previous year. While unemployment also increased in the OIC group, it was only by about 300 thousand (0.7%) to 42.3 million. Despite the increase, the share of the group in the world decreased from 22.9% in 2023 to 22.8% in 2024. While estimates for 2025 signal a further yet small increase (0.8%) in global unemployment, the OIC group is expected to witness an increase of 2.3%, with the number of unemployed reaching 43.3 million, accounting for 23.1% of the world total.

Additionally, the unemployment rate remains higher in the OIC group compared to global averages (*Figure 2.14*). In 2024, it stood at 5.3% for OIC countries, 4.6% for developed countries, and 4.8% for non-OIC developing countries, averaging globally at 5.0%. The unemployment rate for the OIC group was 5.7% in 2022, down from 6.7% in 2020, the highest level recorded since 2019. While unemployment rates across all groups declined significantly from their peak in 2020 to levels even below those recorded before the pandemic, the downward trend has since stalled. Estimates show that unemployment has remained broadly unchanged between 2023 and 2024, with projections suggesting similar stability in 2025 before only marginal improvements are expected thereafter.

The latest estimates indicate that in 2024, the unemployment rate declined in 33 OIC countries compared to the previous year, most notably in Guyana, Türkiye, Kyrgyzstan, and Afghanistan, while it increased in 21 countries, including Tunisia, Maldives, Bangladesh, and Turkmenistan. Varying greatly among OIC countries, the unemployment rate was as high as 25.9% in Djibouti (the third highest in the world after Eswatini and South Africa), followed by Gabon (20.1%), Somalia (18.9%), Libya (18.6%), and Jordan (18.0%) (*Figure 2.15.A*). On the other side of the spectrum, it was as low as 0.1% in Qatar (the lowest in the world), 0.4% in Niger, 1.1% in both Chad and Bahrain, and 1.7% in Benin (*Figure 2.15.B*).

Figure 2.15: Unemployment Rate in OIC Countries, 2024 (%)



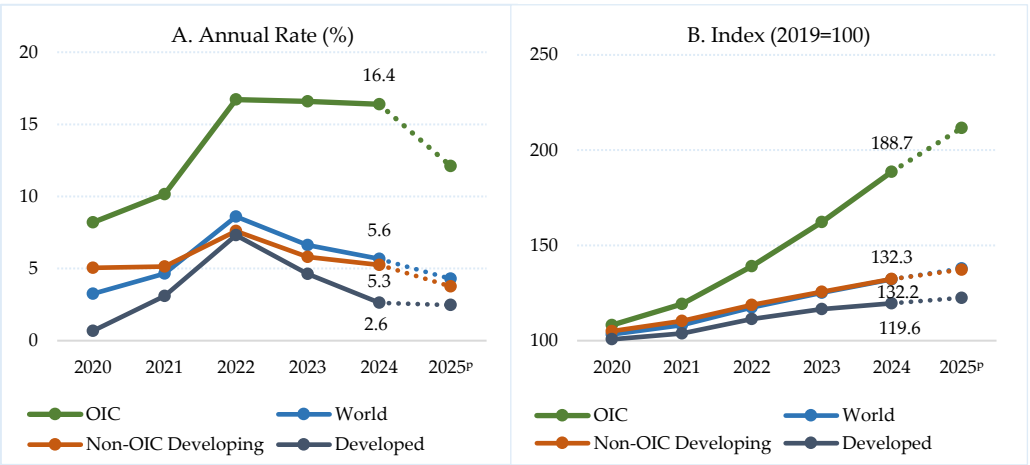
Source: ILOSTAT, ILO Modelled Estimates, November 2024. Data exclude Lebanon, Palestine, and Sudan.

INFLATION

Consumer price inflation to decline from 16.4% in 2024 to 12.1% in 2025

Consumer price inflation – measured by the consumer price index (CPI) – decreased globally in 2024 after peaking at record-high levels in 2022. However, on average, the decrease was less significant in OIC countries (0.3 percentage points) compared to non-OIC developing countries (2.3 percentage points) and developed countries (4.7 percentage points).

Figure 2.16: Inflation Rate (Annual Average Consumer Prices)



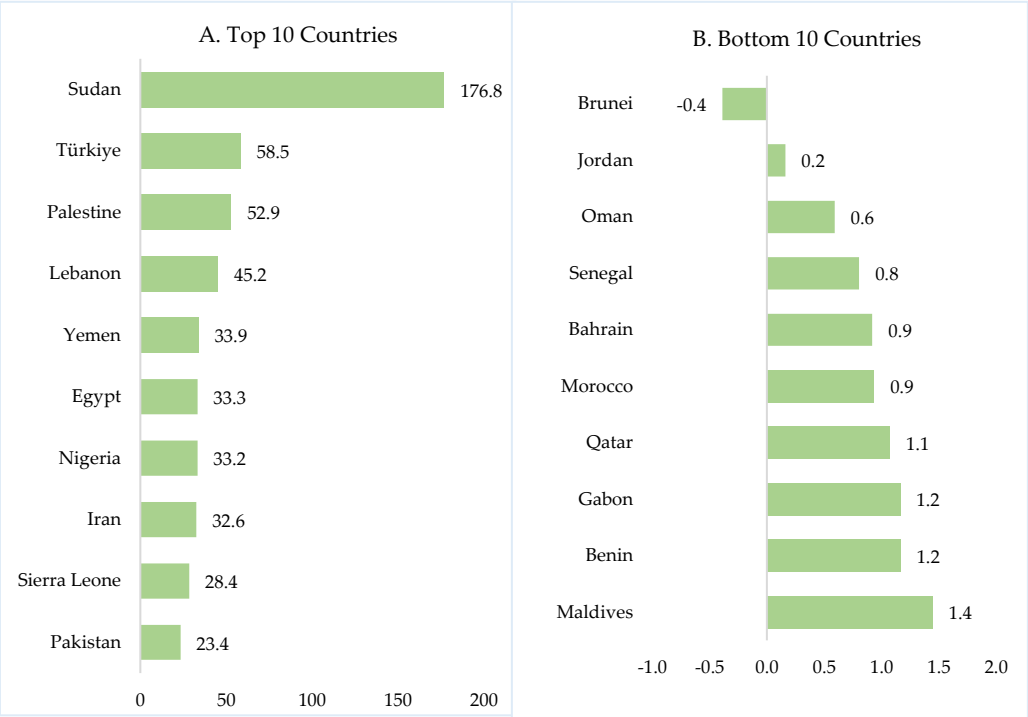
Source: SESRIC staff calculation based on IMF, World Economic Outlook, April 2025, and July 2025 Update.
Note: P= Projection. Group averages are calculated as a weighted average of national price indices, with the weights being each respective country's GDP in current international dollars based on PPP. The group averages exclude Venezuela.

In 2024, inflation in OIC countries dropped to 16.4% from 16.6% in 2023. Considering that, the inflation rate decreased to 2.6% in developed countries and to 5.3% in non-OIC developing countries—averaging at 5.6% worldwide—OIC countries, on average, continued to have a much

higher inflation rate in 2024. This trend is expected to continue in 2025, as well. Global inflation is projected to further decline to 4.2%, driven by a significant decrease in inflation in OIC countries (to 12.1%) and non-OIC developing countries (to 3.8%), while inflation in developed countries stagnates (at 2.5%) (*Figure 2.16.A*).

With the annual inflation rates observed in OIC countries over the 5-year period from 2020 to 2024, the average consumer prices in 2024 were 88.7% higher as compared to those in 2019, which was considerably above the world average increase of 32.2%. Over the same period, average prices increased by 32.3% in non-OIC developing countries and only by 19.6% in developed countries (*Figure 2.16.B*).

Figure 2.17: Inflation in OIC Countries, 2024 (%)



Source: IMF, World Economic Outlook, April 2025. Note: Annual average change in CPI. Excluding Afghanistan and Syria.

Among OIC countries, Sudan recorded the highest annual inflation rate of 176.8% in 2024, ranking third globally after Zimbabwe (736.1%) and Argentina (219.9%). The other OIC countries that ranked among top 10 globally included Türkiye (58.5%), Palestine (52.9%), Lebanon (45.2%), and Yemen (33.9%). Along with these five countries, Egypt, Nigeria, Iran, Sierra Leone, and Pakistan completed the top ten list in the OIC group (*Figure 2.17.A*).

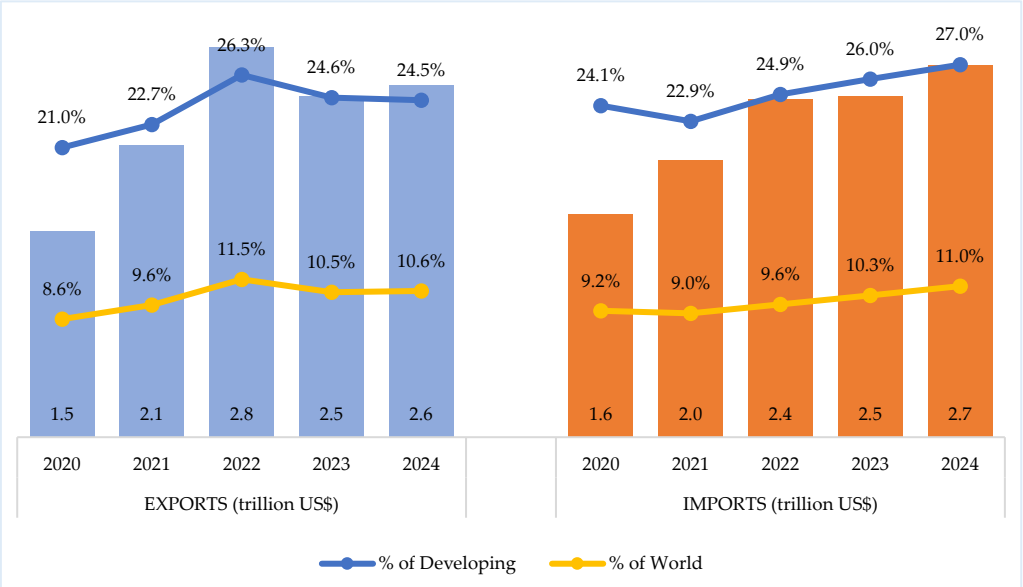
On the other hand, only one OIC country, namely Brunei Darussalam, reported a negative inflation rate in 2024 at -0.4%. In addition, inflation was as low as 0.2% in Jordan, 0.6% in Oman, 0.8% in Senegal, and 0.9% in Bahrain and Morocco (*Figure 2.17.B*).

INTERNATIONAL TRADE

Merchandise trade expands in 2024, with exports leading the growth

In 2024, both exports and imports of OIC countries increased compared to the previous year. Exports increased slightly by 3.1%, from US$ 2.5 trillion in 2023 to US$ 2.6 trillion in 2024. Moreover, the share of OIC countries in global exports slightly increased, from 10.5% to 10.6% in the same years. Conversely, merchandise imports grew by 9.0%, reaching US$ 2.7 trillion in 2024 compared to US$ 2.5 trillion in 2023. This contributed to a higher share in global imports, which rose from 10.3% in 2023 to 11.0% in 2024. A similar trend was observed in OIC countries' share of the merchandise trade of developing countries: their export share decreased slightly from 24.6% in 2023 to 24.5% in 2024, while their import share increased from 26.0% to 27.0% over the same period (*Figure 2.18*).

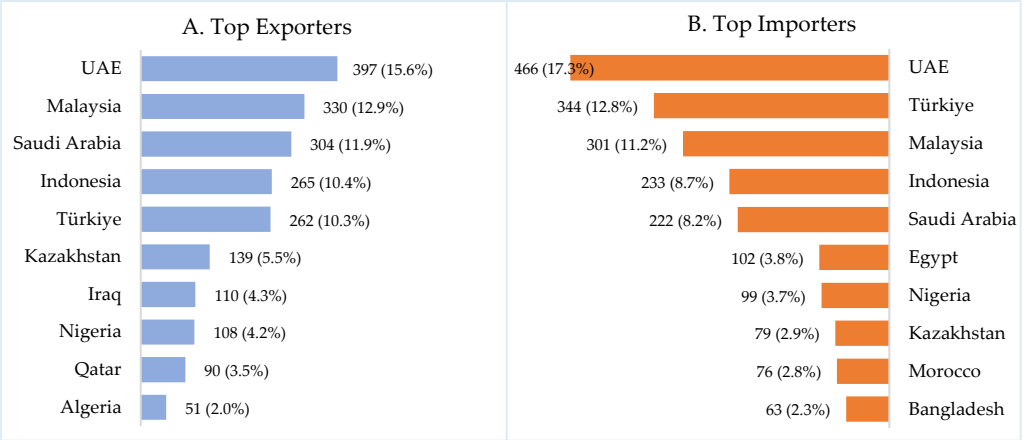
Figure 2.18: International Merchandise Trade of OIC Countries



Source: SESRIC staff compilation based on data from IMF, Direction of Trade Statistics (DOTS), as of June 2025. Note: Exports are valued on a free-on-board (FOB) basis while imports are valued on a cost, insurance, and freight (CIF) basis. Data coverage: 57 OIC countries.

In terms of the share of individual member countries in total merchandise exports from the OIC group, it is observed that a few countries continue to dominate (*Figure 2.19.A*). In 2024, the largest five exporters accounted for 61.0% of total merchandise exports of all member countries while the largest ten accounted for 80.6%. The United Arab Emirates, led the way with US$ 397 billion worth of merchandise exports and a 15.6% share in total OIC exports in 2024. It was followed by Malaysia (US$ 330 billion, 12.9%), Saudi Arabia (US$ 304 billion, 11.9%), Indonesia (US$ 265 billion, 10.4%), and Türkiye (US$ 262 billion, 10.3%). Additionally, Kazakhstan, Iraq, Nigeria, Qatar, and Algeria were among the top 10 OIC exporters in 2024.

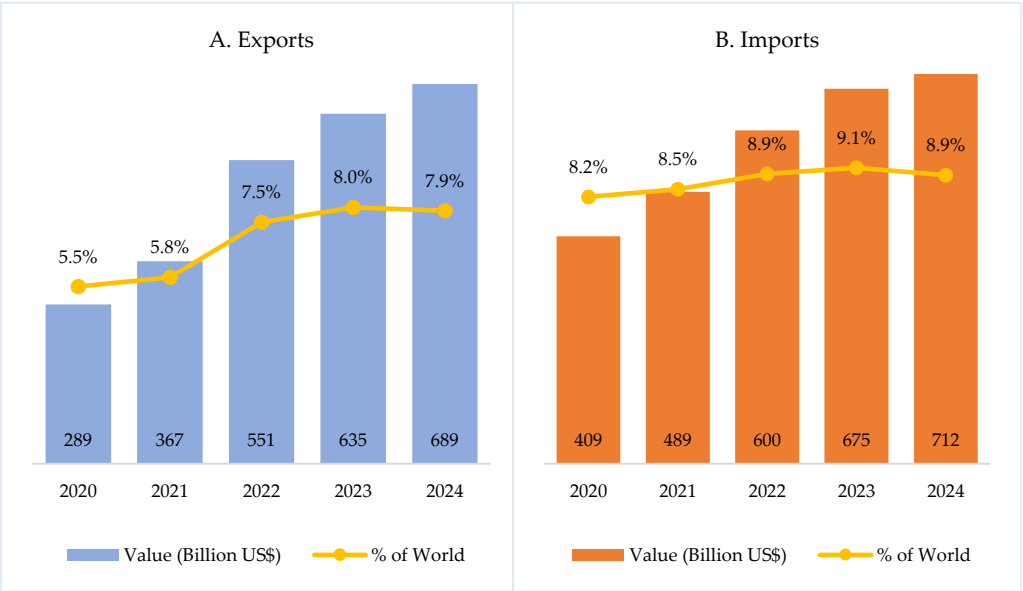
Figure 2.19: Major OIC Countries in International Merchandise Trade, 2024 (US$, billion)



Source: IMF, Direction of Trade Statistics (DOTS), as of June 2025. Note: The numbers in brackets indicate the share of the respective country in OIC total. Data coverage: 57 OIC countries.

Similarly, merchandise imports of OIC countries were also heavily concentrated in a few countries in 2024. As depicted in *Figure 2.19.B*, the United Arab Emirates was the top importer with US$ 466 billion of imports, accounting for 17.3% of the total imports of OIC countries. It was followed by Türkiye (US$ 344 billion, 12.8%), Malaysia (US$ 301 billion, 11.2%), Indonesia (US$ 233 billion, 8.7%), and Saudi Arabia (US$ 222 billion, 8.2%). The largest five importers accounted for 58.1% of the total OIC merchandise imports, while the largest ten countries, which also included Egypt, Nigeria, Kazakhstan, Morocco, and Bangladesh, accounted for 73.6% of OIC total imports.

Figure 2.20: International Services Trade of OIC Countries



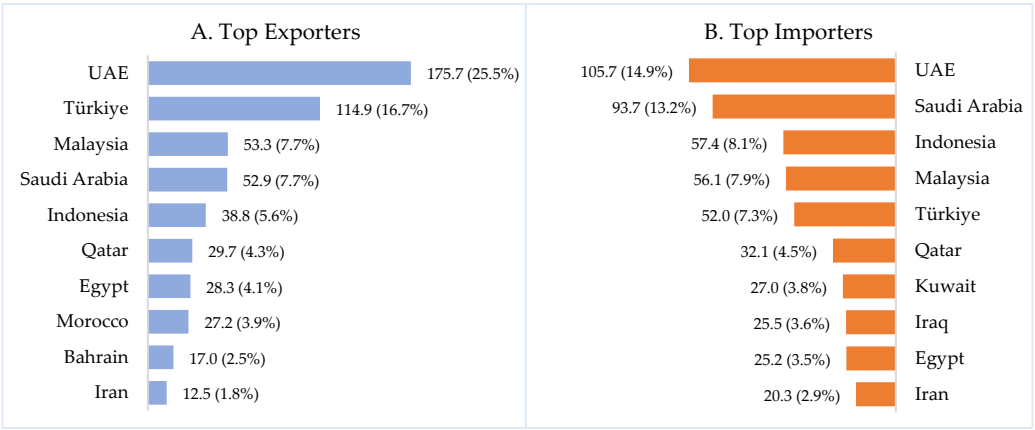
Source: WTO, WTO STATS [2025/08/25].

OIC countries continue to increase their services trade value

Over the past five years, the value of trade in services among OIC countries has continued to grow. In 2024, their services exports reached US$ 689 billion, an 8.6% increase from US$ 635 billion in 2023. However, their share in global services exports slightly declined, from 8.0% in 2023 to 7.9% in 2024, despite steady increases between 2020 and 2023 (*Figure 2.20.A*).

On the import side, OIC countries' services imports grew by 5.4%, from US$ 675 billion in 2023 to US$ 712 billion in 2024, while their share in global services imports fell from 9.1% to 8.9% over the same period (*Figure 2.20.B*).

Figure 2.21: Major OIC Countries in International Trade in Services, 2024 (US$, billion)



Source: WTO, WTO STATS [2025/08/25]. Note: The numbers in brackets indicate the share of the respective country in OIC total.

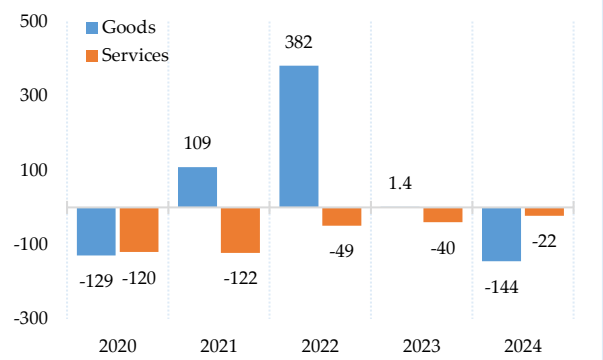
Just like merchandise trade, services trade of OIC countries was also concentrated in a few countries in 2024. The United Arab Emirates, with US$ 175.7 billion worth of services exports and a 25.5% share in total services exports of OIC countries, was the top exporter in services. It was followed by Türkiye (US$ 114.9 billion, 16.7%), Malaysia (US$ 53.3 billion, 7.7%), Saudi Arabia (US$ 52.9 billion, 7.7%), and Indonesia (US$ 38.8 billion, 5.6%) (*Figure 2.21.A*). It is noteworthy that only the top two countries together accounted for 42.2% of the total. For the top ten exporters, additionally including Qatar, Egypt, Morocco, Bahrain, and Iran, this ratio increased to 79.8%. In terms of services imports, the United Arab Emirates was the leading importer with a value of US$ 105.7 billion, making up 14.9% of the total services imports of OIC countries. It was followed by Saudi Arabia (US$ 93.7 billion, 13.2%), Indonesia (US$ 57.4 billion, 8.1%), Malaysia (US$ 56.1 billion, 7.9%), and Türkiye (US$ 52.0 billion, 7.3%) (*Figure 2.21.B*). While these top five importers accounted for more than half (51.3%) of the total, this ratio reached 69.6% for the top ten countries, which also included Qatar, Kuwait, Iraq, Egypt, and Iran.

Trade balance deteriorates in goods but improves in services in 2024

Between 2021 and 2023, OIC countries as a group were net exporters in merchandise trade, although their surplus narrowed sharply in 2023 to US$ 1.4 billion. In 2024, this trend reversed, with the group posting a merchandise trade deficit of US$ 144 billion, even larger than that in 2020 (US$ 129 billion) (*Figure 2.22*).

In 2024, only 17 OIC countries recorded a merchandise trade surplus, with Saudi Arabia leading at US$ 82.0 billion. Other countries with sizeable surpluses included Kazakhstan (US$ 60.4 billion), Qatar (US$ 57.1 billion), Iraq (US$ 51.4 billion), Indonesia (US$ 31.3 billion), Malaysia (US$ 28.9 billion), Guyana (US$ 16.0 billion), and Libya (US$ 12.4 billion). In contrast, most OIC countries ran trade deficits, the largest being Türkiye (US$ 82.2 billion), followed by United Arab Emirates (US$ 68.6 billion), Egypt (US$ 55.1 billion), Iran (US$ 36.9 billion), Morocco (US$ 31.1 billion), Kuwait (US$ 31.0 billion), Palestine (US$ 30.0 billion), Pakistan (US$ 23.6 billion), Oman (US$ 22.5 billion), and Bangladesh (US$ 21.7 billion).

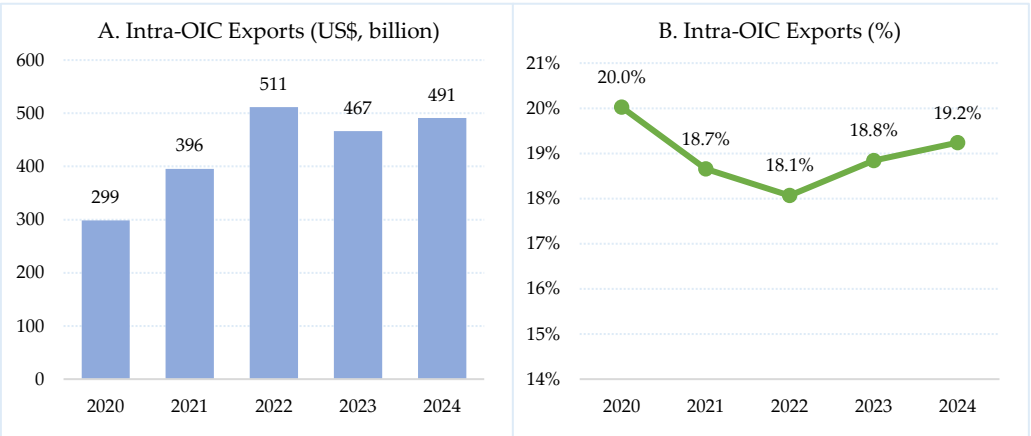
Figure 2.22: Aggregate Trade Balance of OIC Countries (US$, billion)



Source: SESRIC staff compilation based on data from IMF, Direction of Trade Statistics (DOTS), and WTO Data Portal.

In services trade, OIC countries as a group remained net importers over the five-year period from 2020 to 2024, although the deficit narrowed significantly in the last three years. In 2024, the aggregate services trade deficit stood at US$ 22 billion, the lowest during the period under review (*Figure 2.22*). At the country level, only 14 OIC countries recorded a surplus in 2024: United Arab Emirates, Türkiye, Morocco, Tunisia, Bahrain, Albania, Maldives, Jordan, Egypt, Lebanon, Gambia, Togo, Djibouti, and Kyrgyzstan. Among them, the United Arab Emirates posted the largest surplus at US$ 70.0 billion, followed by Türkiye (US$ 62.9 billion) and Morocco (US$ 14.7 billion). On the deficit side, Saudi Arabia recorded the largest figure at US$ 40.8 billion, followed by Indonesia (US$ 18.7 billion), Iraq (US$ 17.2 billion), Kuwait (US$ 15.4 billion), and Nigeria (US$ 13.2 billion).

Figure 2.23: Intra-OIC Merchandise Trade

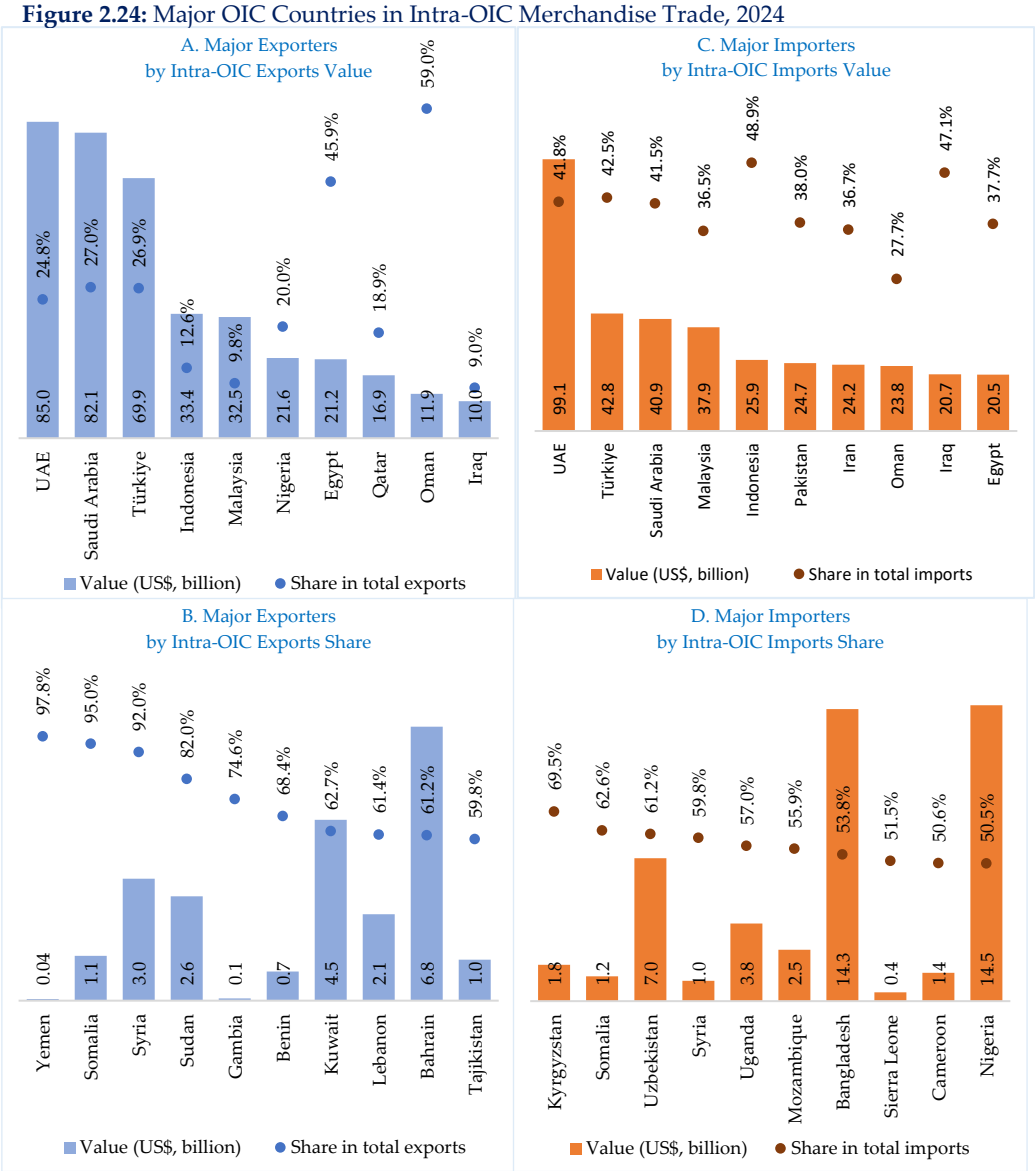


Source: SESRIC staff compilation based on data from IMF, Direction of Trade Statistics (DOTS), as of June 2025.

Intra-OIC exports increased to 19.2% in 2024, alongside a growth in value

Merchandise exports among OIC countries (intra-OIC exports) followed a similar trend to total exports and increased in 2024. Intra-OIC exports increased by 5.2% from 467 billion in 2023 to 491 billion in 2024 (*Figure 2.23.A*). Moreover, the share of intra-OIC exports in total OIC exports increased by 0.4 percentage points, from 18.8% in 2023 to 19.2% in 2024 (*Figure 2.23.B*). The slow growth in intra-OIC trade flows reduces the prospects for achieving the 25% target set in the OIC 2025 Programme of Action.

Figure 2.24: Major OIC Countries in Intra-OIC Merchandise Trade, 2024



Source: SESRIC staff compilation based on data from IMF, Direction of Trade Statistics (DOTS), as of 28 June 2025.

Among OIC countries, the United Arab Emirates was the largest exporter to other OIC countries in 2024, with US$ 85.0 billion, representing 17.3% of the total intra-OIC exports. It was followed by the Saudi Arabia (US$ 82.1 billion, 16.7%), Türkiye (US$ 69.9 billion, 14.2%), Indonesia (US$ 33.4 billion, 6.8%), and Malaysia (US$ 32.5 billion, 6.6%). The top three countries alone accounted for nearly half (48.3%) of total intra-OIC exports, while this ratio reached as high as 78.3% for the top 10 countries, including Nigeria, Egypt, Qatar, Oman, and Iraq, as well. Among these ten countries, Oman's exports to OIC countries made up as high as 59.0% of its total exports, while Iraq had a low intra-OIC exports share of 9.0% (*Figure 2.24.A*).

In comparison, some countries with relatively small export values directed a much larger share of their exports to OIC countries. In 2024, for example, intra-OIC exports accounted for 97.8% of Yemen's total exports, although their value was only US$ 0.04 billion. Similarly, in nine other countries, including Somalia, Syria, Sudan, Gambia, Benin, Kuwait, Lebanon, Bahrain, and Tajikistan, this share ranged between 59.8% and 95.0% (*Figure 2.24.B*).

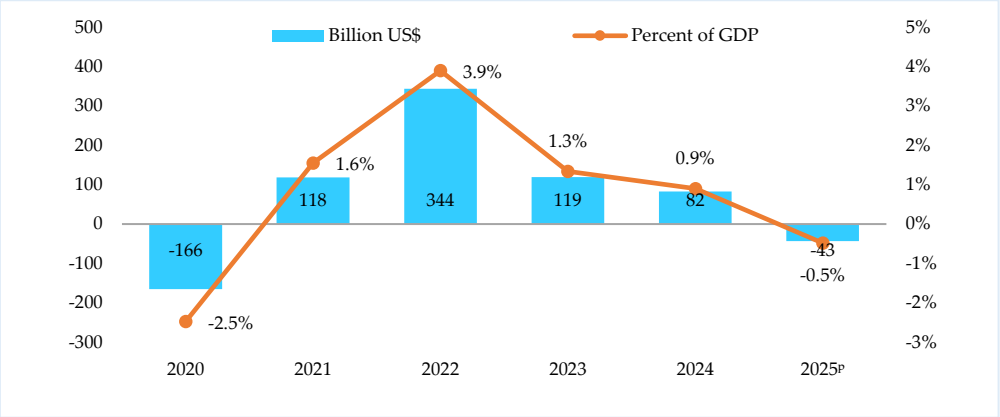
Regarding intra-OIC imports, the United Arab Emirates was the largest importer from OIC countries in 2024. Its total imports from other member countries amounted to US$ 99.1 billion, accounting for 18.9% of the total intra-OIC imports. It was followed by Türkiye (US$ 42.8 billion, 8.2%), Saudi Arabia (US$ 40.9 billion, 7.8%), Malaysia (US$ 37.9 billion, 7.2%), and Indonesia (US$ 25.9 billion, 4.9%). These top five importers accounted for 47.1% of the total intra-OIC imports in 2024, while the top 10 importers, additionally including Pakistan, Iran, Oman, Iraq, and Egypt, accounted for 68.8%. Among these ten countries, Indonesia's imports from OIC countries accounted for almost half (48.9%) of its total imports, while the intra-OIC imports share was around 27.7% in Oman (*Figure 2.24.C*). The highest intra-OIC imports share was recorded by Kyrgyzstan at 69.5%, though these imports amounted to only US$ 1.8 billion. Other countries with relatively high shares included Somalia (62.6%), Uzbekistan (61.2%), Syria (59.8%), Uganda (57.0%), Mozambique (55.9%), Bangladesh (53.8%), Sierra Leone (51.5%), Cameroon (50.6%), and Nigeria (50.5%), all receiving more than half of their merchandise imports from OIC countries (*Figure 2.24.D*).

CURRENT ACCOUNT BALANCE

Surplus narrows to 0.9% of GDP in 2024

OIC countries collectively recorded a current account surplus of US$ 82 billion in 2024, compared to US$ 119 billion in the previous year (*Figure 2.25*). The deficits in both merchandise and services trade in 2024, as illustrated in *Figure 2.22*, contributed to this narrowing surplus. In parallel, the surplus as a percentage of GDP decreased from 1.3% in 2023 to 0.9% in 2024. Looking ahead, IMF projections indicate a deficit of US$ 43 billion, equivalent to 0.5% of GDP, in 2025.

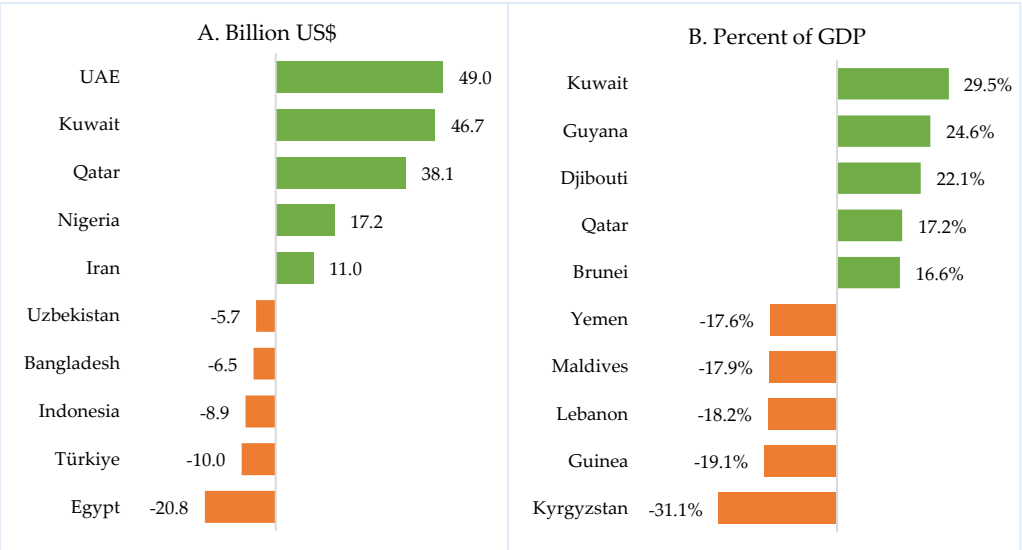
Figure 2.25: Aggregate Current Account Balance of OIC Countries



Source: IMF, World Economic Outlook, April 2025. Note: Data exclude Syria for the entire period under consideration, Afghanistan and Palestine for 2024-2025, and Pakistan and Lebanon for 2025.

Among OIC countries, the United Arab Emirates registered the largest current account surplus in nominal terms in 2024, amounting to US$ 49 billion, followed by Kuwait (US$ 46.7 billion), Qatar (US$ 38.1 billion), Nigeria (US$ 17.2 billion), and Iran (US$ 11 billion). On the other hand, Egypt recorded the largest current account deficit, amounting to US$ 20.8 billion, followed by Türkiye (US$ 10 billion), Indonesia (US$ 8.9 billion), Bangladesh (US$ 6.5 billion), and Uzbekistan (US$ 5.7 billion) (*Figure 2.26.A*). As a percentage of GDP, the surplus reached as high as 29.5% in Kuwait, followed by Guyana (24.6%), Djibouti (22.1%), Qatar (17.2%), and Brunei Darussalam (16.6%). At the other side of the spectrum, the current account deficit was as high as 31.1% of GDP in Kyrgyzstan, 19.1% in Guinea, 18.2% in Lebanon, 17.9% in Maldives, and 17.6% % in Yemen (*Figure 2.26.B*), while it was also above 10% in two other OIC countries: Mozambique and Senegal.

Figure 2.26: OIC Countries with the Largest Current Account Surpluses/Deficits, 2024



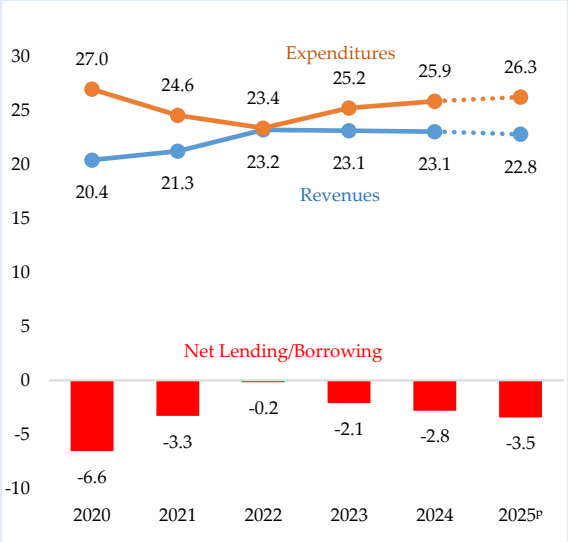
Source: IMF, World Economic Outlook, April 2025. Note: Excluding Afghanistan, Syria, and Palestine.

FISCAL BALANCE

Government deficits rise to 2.8% of GDP in 2024

Government deficits in OIC countries expanded further in 2024, averaging 2.8% of GDP, from 2.1% in 2023. This expansion was primarily driven by a modest rise in expenditures as a percentage of GDP, while revenues as a percentage of GDP remained unchanged. Indeed, expenditures rose from 25.2% of GDP in 2023 to 25.9% in 2024, while revenues were the same at 23.1% of GDP during the same period. Projections for 2025 indicate a continuation of this trend, with expenditures rising to 26.3% of GDP, revenues falling to 22.8% of GDP, and deficits further expanding to 3.5% of GDP (*Figure 2.27*).

Figure 2.27: Government Fiscal Balance in the OIC (% of GDP)

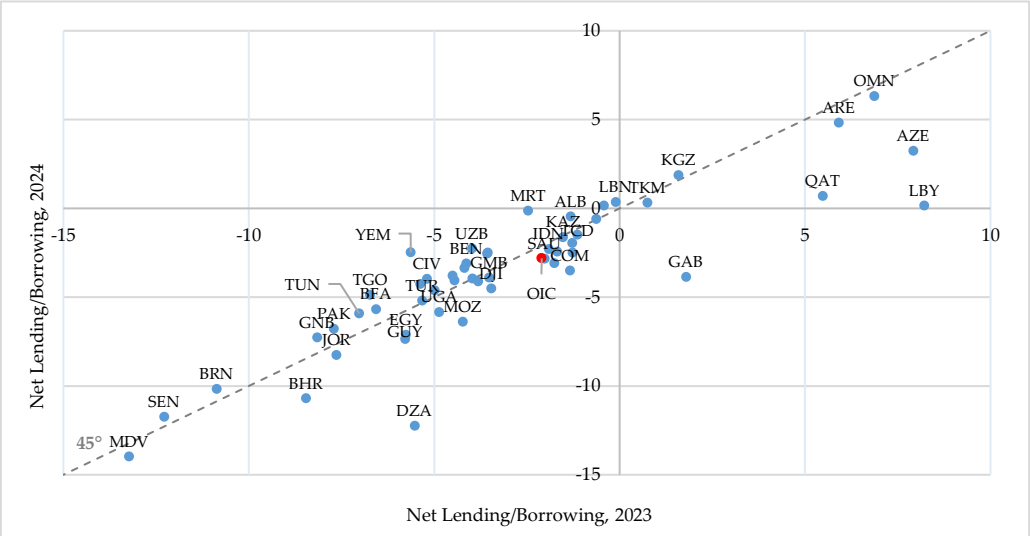


Source: IMF, World Economic Outlook, April 2025. Note: Data exclude Syria for the entire period under consideration, Afghanistan and Palestine for 2024-2025 and Pakistan and Lebanon for 2025.

Maintaining budget balance is crucial for ensuring economic stability, controlling public debt, and fostering investor confidence in the long term. Policymakers need to take swift action to tackle these challenges in order to avoid worsening fiscal disparities and to promote long-term economic stability.

Figure 2.28 shows that 24 of the 54 OIC countries with available data witnessed an improvement in their fiscal balance as a percentage of GDP in 2024 compared to the previous year. Notably, Yemen (from -5.6% to -2.5%), Mauritania (from -2.5% to -0.1%), Togo (from -6.7% to -4.9%), Uzbekistan (from -4.0% to -2.3%), and Côte d'Ivoire (from -5.2% to -4.0%) experienced positive changes. Conversely, significant deteriorations were observed in Libya (from +8.2% to +0.2%), Algeria (from -5.5% to -12.2%), Gabon (from +1.8% to -3.9%), Qatar (from +5.5% to +0.7%), and Azerbaijan (from +7.9% to +3.2%). Moreover, while nine countries recorded a surplus in 2023, this number increased to ten in 2024, led by Kuwait (21.6%) and followed by Oman (6.3%), the United Arab Emirates (4.8%), Azerbaijan (3.2%), and Kyrgyzstan (1.9%). On the other hand, Maldives had the largest fiscal deficit as a percentage of GDP in 2024, reaching 14%, followed by Algeria (12.2%), Senegal (11.7%), Bahrain (10.7%), and Brunei Darussalam (10.2%).

Figure 2.28: Government Fiscal Balance in OIC Countries: 2023 vs. 2024 (% of GDP)



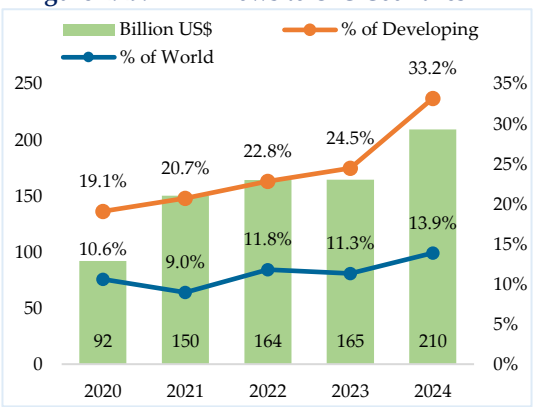
Source: IMF, World Economic Outlook, April 2025. Note: See Annex A for the country codes. Excluding Afghanistan, Syria, and Palestine due to unavailable data. Data for Kuwait is not displayed due to the significantly large values, which were 26.3 in 2023 and 21.6 in 2024.

INTERNATIONAL FINANCE

FDI inflows increased in 2024, though the outlook for greenfield investments weakened

Annual net FDI inflows to OIC countries amounted to US$ 210 billion in 2024, increasing 27.3% from US$ 165 billion in the previous year. While FDI flows increased worldwide (3.7%), it decreased in developing countries (-6.1%) (see *Figure 1.11* above). Thus, the increase in flows to OIC countries resulted in an increase their share in global flows as well as in flows to developing countries in 2024. The share of OIC countries in global FDI inflows reached all time high of 13.9% in 2024. Similarly, their share in flows to developing countries was measured at 33.2% in 2024, increasing from 24.5% in 2023 (*Figure 2.29*).

Figure 2.29: FDI Inflows to OIC Countries

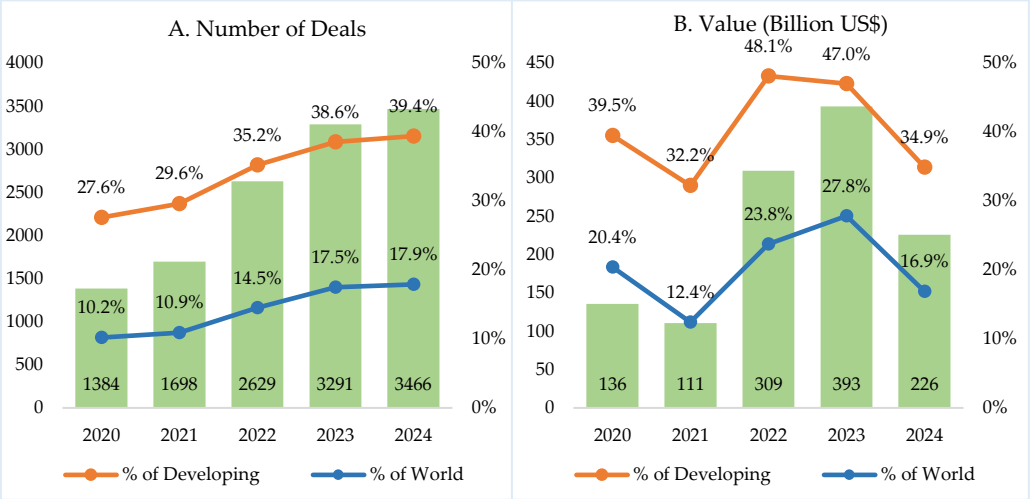


Source: SESRIC staff calculation based on data from UNCTAD, World Investment Report 2025, Annex Tables.

Greenfield investments[3] are of particular importance to developing countries due to the greater growth and employment opportunities they have to offer. The value of announced greenfield FDI projects decreased globally by 5.3% to US$ 1.34 trillion in 2024, following a growth of 8.5% to US$ 1.41 billion in 2023. The decrease in 2024 originated from the decrease in investments going

to developing countries (-22.7%), as investments destined for developed countries increased (+19.9%) that year. OIC countries witnessed a significant decline in value but an improvement in the number of announced greenfield FDI projects (*Figure 2.30*). The number of projects increased by 5.3% to 3,466 while the value of the projects decreased by 42.6% to US$ 226 billion.

Figure 2.30: Announced Greenfield Investment Projects Destined to OIC Countries

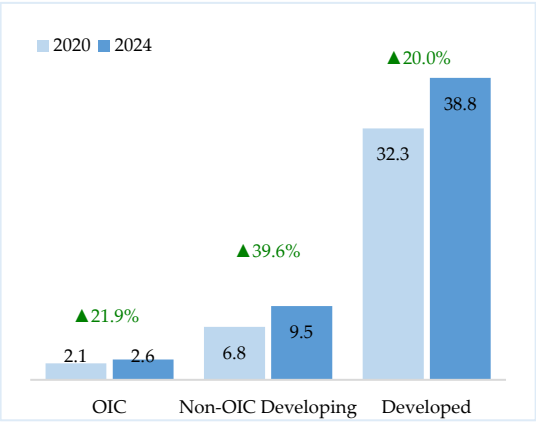


Source: SESRIC staff calculation based on data from UNCTAD, World Investment Report 2025, Annex Tables.

Accordingly, in terms of the number of projects, OIC countries accounted for 17.9% of the global total in 2024, up slightly from 17.5% in 2023. Similarly, their share of projects within developing countries increased from 38.6% to 39.4% during the same period. However, when considering the value of projects, the OIC countries' share of the global total declined significantly, falling from 27.8% in 2023 to 16.9% in 2024. A parallel decrease was observed in their share of the total project value for developing countries, which dropped from 47% to 34.9% over the same timeframe.

The investment landscape in OIC countries shows a positive trend in terms of project activity, reflecting growing investor interest and confidence. Despite a decline in the overall value of investments, the increase in the number of projects highlights the region's continuing appeal as a destination for foreign direct investment. This dynamic underscores the importance of ongoing reforms and strategic efforts to improve the business environment.

Figure 2.31: Inward FDI Stock (US$, trillion)

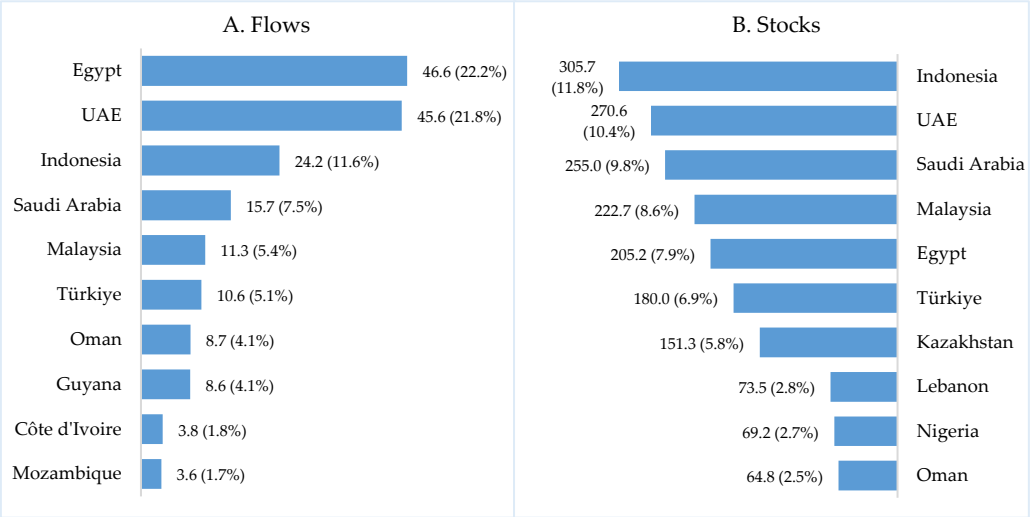


Source: SESRIC staff calculation based on data from UNCTAD, World Investment Report 2025, Annex Tables.

Global inward FDI stock reached US$ 50.9 trillion in 2024, up 23.3% from the level in 2020. Over the same 5-year period, FDI stocks increased by 21.9% to US$ 2.6 trillion in OIC countries while they increased by

39.6% in non-OIC developing countries and by 20% in developed countries (*Figure 2.31*). Thus, the OIC countries hosted a slightly lower share of the global inward FDI stocks in 2024 (5.1%) than in 2020 (5.2%). The bulk of global stocks continued to be hosted by developed countries, which had a share of 76.2% as of 2024.

Figure 2.32: OIC Countries with the Largest Inward FDI, 2024 (US$, billion)



Source: UNCTAD, World Investment Report 2025, Annex Tables. Note: The numbers in brackets indicate the share of the respective country in OIC total.

Similar to other key macroeconomic aggregates, inward FDI flows and stocks, too, exhibited a high level of concentration among OIC countries, with the bulk of the flows persistently directed to only a few of them. Inflows to only three countries – Egypt (US$ 46.6 billion), the United Arab Emirates (US$ 45.6 billion), and Indonesia (US$ 24.2 billion) – accounted for more than half (55.6%) of total inflows to all OIC countries in 2024. This ratio reached as high as 85.3% for the top ten countries (*Figure 2.32.A*). In the case of inward FDI stocks, the top five countries, as of 2024, hosted 48.5% of the OIC total while the top ten countries accounted for a share of 69.2% (*Figure 2.32.B*). With US$ 305.7 billion of inward FDI stocks (11.8% of the OIC total), Indonesia ranked first among OIC countries. It was followed by the United Arab Emirates (US$ 270.6 billion, 10.4%), Saudi Arabia (US$ 255 billion, 9.8%), Malaysia (US$ 222.7 billion, 8.6%), and Egypt (US$ 205.2 billion, 7.9%).

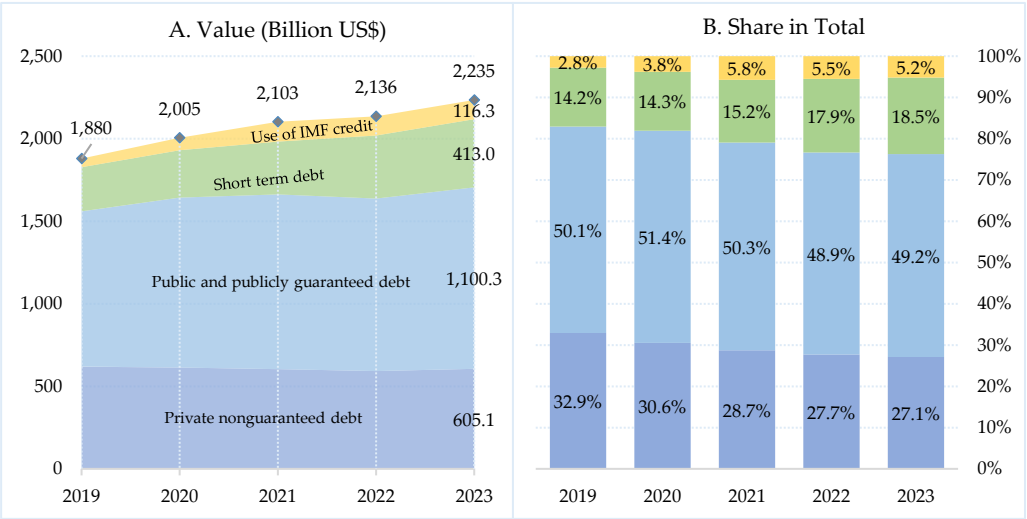
External debt stock up 4.6%; Short-term debt gains ground

The total external debt stock of the OIC countries increased by US$ 98.7 billion or 4.6% to US$ 2,235 billion in 2023 from US$ 2,136 billion in 2022. This increase was driven by a rise in all components of the total external debt stock, except for the use of IMF credit. Short-term debt reached US$ 413 billion in 2023, with an increase of US$ 31 billion or 8.1% from the previous year, and thus, its share in the total external debt stock increased from 17.9% to 18.5% over this period (*Figure 2.33*).

Public and publicly guaranteed debt increased by US$ 55.5 billion, or 5.3%, reaching US$ 1,100.3 billion in 2023 and remained the largest component of the total external debt stock. Its share also rose slightly to 49.2% in 2023, up from 48.9% in 2022. Private nonguaranteed debt grew by US$ 12.8 billion, or 2.2%, to US$ 605.1 billion. However, as the second largest component, its share declined to 27.1% in 2023 from 27.7% the previous year. Overall, the long-term debt stock, which includes public, publicly guaranteed, and private nonguaranteed debt, totalled US$ 1,705.4 billion in 2023, with an increase of US$ 68.3 billion or 4.2% from 2022, accounting for 76.3% of the total external debt stock, slightly down from 76.6% in the previous year.

Use of IMF credit decreased by US$ 610 million or 0.5% to US$ 116.3 billion, and it continued to be the smallest component of the total external debt stock of OIC countries. This type of debt made up 5.2% of the total external debt stock in 2023, down from 5.5% in the previous year.

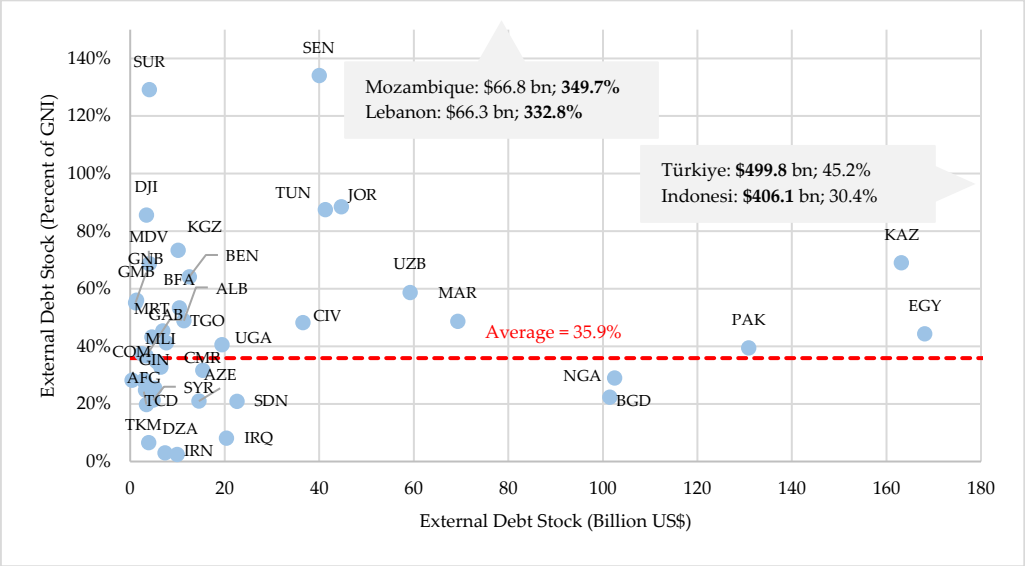
Figure 2.33: Total External Debt Stock of OIC Countries by Component



Source: SESRIC staff compilation based on data from World Bank, World Development Indicators. Data Coverage: 47 OIC countries (excluding Bahrain, Brunei Darussalam, Kuwait, Libya, Malaysia, Oman, Palestine, Qatar, Saudi Arabia, and the United Arab Emirates).

Overall, the external debt landscape of OIC countries showed an increase driven by rises across most debt components, with the notable exception of IMF credit, which declined slightly. A key feature of this trend was a growing reliance on short-term debt, which expanded its share within the total external debt stock. This shift signals an increased need for immediate financing but also raises concerns about greater vulnerability to refinancing risks and global financial volatility. Meanwhile, long-term debt continued to dominate the debt profile, growing moderately but with a slightly reduced share, reflecting a cautious approach to sustained borrowing. The continued decline in IMF credit usage marks its position as the smallest portion of the debt structure. Together, these developments highlight the importance of strengthening financial strategies to balance short-term funding needs while maintaining economic stability and managing associated risks.

Figure 2.34: Indebtedness of OIC Countries, 2023



Source: SESRIC staff compilation based on data from World Bank, World Development Indicators. Note: See Annex A for the country codes. Data coverage: 46 OIC countries (excluding Yemen due to unavailable GNI data as well as the 10 countries excluded from Figure 2.33). Debt-to-GNI ratio for Syria and Lebanon is for the year 2022.

At the country level, the total external debt stock increased in nominal terms over 2022/2023 in 35 out of 47 OIC countries with available debt data, with the largest increase recorded in Türkiye (by US$ 41.9 billion). Uzbekistan and Indonesia followed with an increase of US$ 10.2 billion and US$ 10 billion, respectively. On the other hand, with a debt stock decreasing by US$ 2.4 billion, Iraq stood out among the countries that recorded a decrease in their debt stock over the same period. It was followed by Somalia and Uganda with a decrease of US$ 1.1 billion and US$ 1 billion, respectively. As of 2023, Türkiye remained the most indebted OIC country in nominal terms with a total external debt stock value of US$ 499.8 billion, accounting for 22.4% of the total external debt stock of OIC countries for which data were available. Türkiye was followed by Indonesia (US$ 406.1 billion), Egypt (US$ 168.1 billion), Kazakhstan (US$ 163.2 billion), and Pakistan (US$ 130.8 billion) (*Figure 2.34*). Türkiye and Indonesia together accounted for two-fifths (40.7%) of the total external debt stock of OIC countries in 2023, while this ratio reached 61.4% for the most indebted five countries.

In terms of the debt burden in relation to a country's economic size, however, Mozambique was by far the most indebted OIC country in 2023, with its external debt stock more than three times its gross national income (GNI). To be more precise, it had a debt-to-GNI ratio of 349.7%. It was followed by Lebanon (332.8%), Senegal (134%), and Suriname (129.1%). This ratio was in a range of 80-90% in three OIC countries, namely Jordan, Tunisia, and Djibouti. Conversely, the lowest indebtedness ratios were recorded in Iran (2.4%), Algeria (3%), Turkmenistan (6.5%), and Iraq (8.1%) (*Figure 2.34*). Overall, the debt-to-GNI ratio averaged at 35.9% for OIC countries in 2023, increasing 0.7 percentage points from the previous year's average of 35.2%. While 27 out of 45 countries with available data recorded a decrease, Sudan recorded the largest one, 23.5 percentage

points, followed by Mozambique (19), Somalia (12.6), Kazakhstan (11.5), and Kyrgyzstan (8.8). On the other hand, Senegal recorded the largest increase in the ratio, 13.4 percentage points, followed by Egypt (9), Suriname (8.7), Nigeria (6.8), and Guyana (5.1).

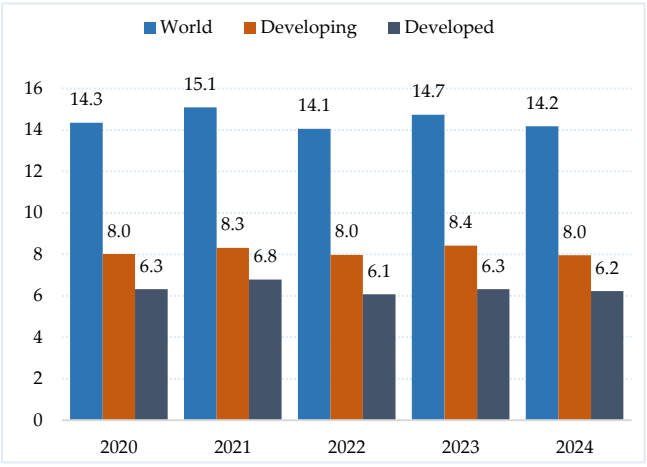
In 2023, OIC member countries experienced a mixed landscape in external debt trends, with some nations seeing substantial increases while others recorded notable declines. Türkiye and Indonesia remained the largest borrowers in nominal terms, continuing their positions from the previous year. Meanwhile, Mozambique and Lebanon continued to bear the heaviest debt burdens relative to the size of their economies. These contrasting debt dynamics reflect the diverse economic conditions and fiscal strategies across the OIC region. Looking ahead, it is essential for OIC countries to pursue prudent debt management while fostering sustainable economic growth. Striking this balance will be key to mitigating the risks of excessive indebtedness and enhancing long-term economic resilience.

Reserves down 3.8%, reflecting deteriorating reserve adequacy

International reserves play a vital role in ensuring economic and financial stability, helping countries remain resilient during global financial disruptions. Sufficient reserves enable nations to handle currency fluctuations, meet foreign debt obligations, and offer protection against external economic shocks. After increasing by 4.8% to US$ 14.7 trillion in 2023, total international reserves[4] worldwide decreased to US$ 14.2 trillion in 2024, reflecting a decrease of US$ 558 billion or 3.8% from the previous year (*Figure 2.35*). Therefore, the ability to withstand potential shocks and maintain financial stability slightly weakened in 2024 due to the decline in international reserves.

In 2024, developing countries accounted for more than four-fifths (82.6%) of the total decline in global reserves, where reserves decreased by US$ 460.8 billion, or 5.5%, to US$ 8 trillion. In developed countries, reserves decreased by US$ 97.2 billion, or 1.5%, to US$ 6.2 trillion. It is important for countries that have not yet reached sufficient reserve levels and continue to experience challenges in improving their financial stability to persist in adopting effective risk management measures and advancing regulatory reforms to strengthen their reserves.

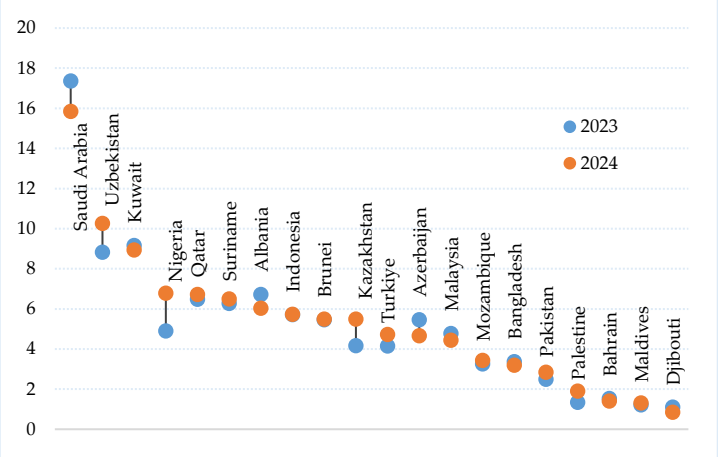
Figure 2.35: Total Reserves Including Gold (US$, trillion)



Source: World Bank, World Development Indicators.

Available data for 33 OIC countries, which together represented 89.2% of total OIC GDP, indicated a 7% increase in international reserves to US$ 1.88 trillion in 2024, from US$ 1.76 trillion in 2023. Among the 25 countries that recorded an increase in reserves, the United Arab Emirates led with a rise of US$ 48.4 billion, from US$ 189.5 billion in 2023 to US$ 237.9 billion in 2024. Türkiye followed with an increase of US$ 13.9 billion (from US$ 140.9 billion to US$ 154.8 billion), and Egypt with US$ 11.9 billion (from US$ 33.1 billion to US$ 44.9 billion). Kazakhstan and Indonesia also saw notable increases of US$ 9.8 billion and US$ 9.3 billion, respectively. In proportional terms, Kyrgyzstan recorded the highest increase at 57.2%, followed by Egypt at 35.8% and Pakistan at 34.1%. Among the countries that experienced a decline in reserves in 2024, Iraq saw the largest decrease at US$ 11.5 billion from US$ 112.2 billion in 2023 to US$ 100.7 billion in 2024. It was followed by Kuwait with US$ 1.9 billion, Azerbaijan with US$ 1 billion, Bangladesh with US$ 465 million, and Bahrain with US$ 169 million. In proportional terms, Djibouti recorded the highest decrease at 30.5%, followed by Iraq at 10.3% and Azerbaijan at 7.6%. As of 2024, Saudi Arabia held the largest amount of international reserves, totalling US$ 463.9 billion. It was followed by the United Arab Emirates with US$ 237.9 billion, Indonesia with US$ 155.7 billion, Türkiye with US$ 154.8 billion, and Malaysia with US$ 116.2 billion.

Figure 2.36: Total Reserves in Months of Imports



Source: World Bank, World Development Indicators.

While the majority of OIC countries increased their reserves in 2024, the reserves in terms of 'months of imports'[5] increased in half of them, as shown in *Figure 2.36* for the 20 countries with available data. In 2024, Saudi Arabia had the highest reserve adequacy among OIC countries, with reserves sufficient to cover 15.9 months of imports. It was followed by Uzbekistan with 10.3 months and Kuwait with 9 months. Several other countries, including Nigeria (6.8 months), Qatar (6.7), Suriname (6.5), and Albania (6), maintained ratios close to the global average of 8.2 months.

In summary, the status of international reserves in OIC countries showcased significant improvement in 2024. This improvement underscores the resilience and proactive economic strategies adopted by many OIC members to strengthen their financial stability. Countries like the United Arab Emirates, Türkiye, and Egypt made notable contributions to this upward trend, while others, such as Iraq and Kuwait, faced challenges resulting in declines in their reserves. Despite country-level differences, efforts to improve reserve adequacy point to a strengthening of economic resilience across the OIC region. Maintaining this progress will require continued commitment to sound economic and financial policies amid global uncertainties.

Net ODA received increases 4.3% to US$ 72.3 billion in 2023

Provided to promote economic development and welfare in recipient countries and territories, Official Development Assistance (ODA) continues to be an important source of financing for many developing countries, including the OIC countries. According to the OECD, while it is not the sole resource available for low- or middle-income countries, and providers are not always meeting their international commitments – such as the United Nations target of providing 0.7% of GNI as ODA – ODA is a stable and predictable source of external funding for sustainable development (OECD, 2024b).

Figure 2.37: Net ODA Received (US$, billion)

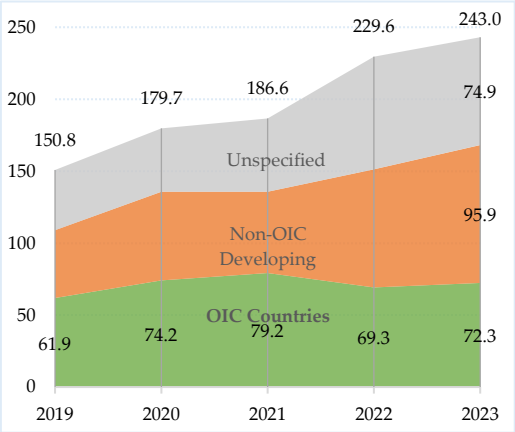
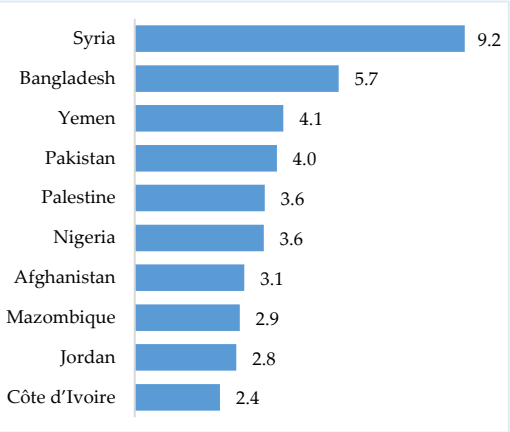


Figure 2.38: Top ODA Recipient OIC Countries, 2023 (US$, billion)



Source: OECD.Stat. Note: Net total ODA disbursements from official donors at current prices. Data coverage: 50 OIC countries (excluding Bahrain, Brunei Darussalam, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates) and 93 non-OIC developing countries. For the period under consideration, about one-third of the annual total ODA value is reported as "unspecified", not at the country level.

The latest available data show that net ODA flows received by the developing world reached US$ 243 billion in 2023, its highest level ever, with an increase of US$ 13.4 billion, or 5.9%, from the previous year (*Figure 2.37*). The flows that were reported at the individual country level increased by 11.1% and amounted to US$ 168.1 billion in 2023, accounting for 69.2% of the total ODA flows. In a similar trend, ODA flows to OIC countries increased by 4.3% to US$ 72.3 billion in 2023, compared to US$ 69.3 billion in 2022. Flows to non-OIC developing countries, on the other hand, increased by 16.8% to US$ 95.9 billion in 2023. Accordingly, OIC countries had a lower share of the total ODA flows to individual developing countries in 2023 (43%) as compared to the previous year (45.8%).[6]

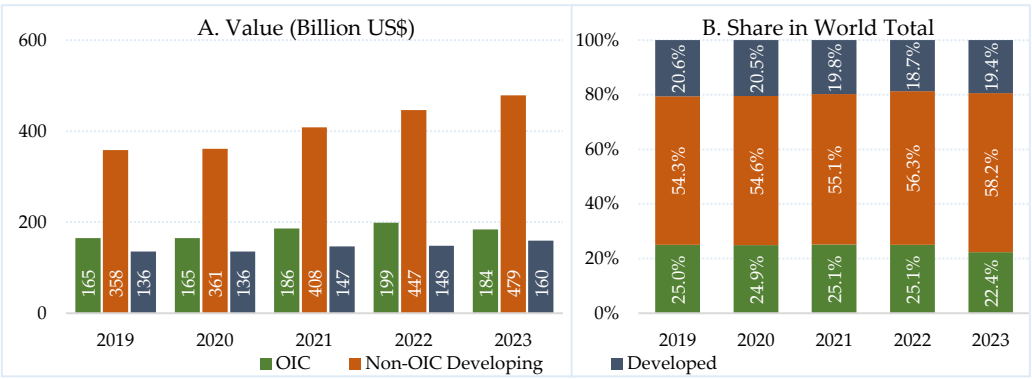
While disbursements to 16 out of 50 OIC countries receiving ODA decreased in 2023, the largest decreases were recorded for Egypt (by US$ 5.34 billion), Afghanistan (US$ 859.3 million), and Nigeria (US$ 813.2 million). The distribution of ODA among the OIC countries reveals significant disparities. As of 2023, the largest five recipients accounted for 36.8% of total ODA flows to OIC countries, while this ratio reached as high as 57.3% for the largest ten recipients. Syria, with total inflows of US$ 9.2 billion that made up 12.7% of the OIC total, ranked first among OIC countries and the second among all developing countries (after Ukraine). It was followed by Bangladesh (US$ 5.7 billion, 7.9%), Yemen (US$ 4.1 billion, 5.7%), Pakistan (US$ 4 billion, 5.5%), and Palestine (US$ 3.6 billion, 5%) (*Figure 2.38*), reflecting the urgent needs and strategic priorities within these nations.

The engagement of OIC countries with ODA remains crucial in addressing their unique developmental challenges. To foster more inclusive growth, it is imperative that ODA allocations are strategically aligned with the specific needs of the poorest and most vulnerable populations within OIC countries. This involves not only increasing the volume of aid but also improving its effectiveness through better targeting and implementation practices (OECD, 2024b). Enhanced cooperation between the OIC member states and international donors can help optimize resource utilisation and promote sustainable development outcomes. As the global community strives to meet the SDGs, a renewed commitment to supporting OIC countries through well-coordinated ODA initiatives will be vital in ensuring no country is left behind in the journey towards sustainable development.

Personal remittance inflows decrease 3.8% to US$ 192 billion

At the global level, officially recorded remittance flows reached US$ 823 billion in 2023, up 3.6% from US$ 794 billion in the previous year. Inflows to OIC countries, however, decreased by 7.4% or US$ 15 billion to US$ 184 billion, while inflows to non-OIC developing countries amounted to US$ 479 billion with an increase of 7.2%. Developed countries, on the other hand, recorded a slightly higher rate of growth in remittance inflows. Increasing by 7.8% from 2022, these flows reached US$ 160 billion in 2023 (*Figure 2.39.A*). Accordingly, the share of OIC countries in the world total remittance flows decreased to 22.4% in 2023, while it was maintained around the 25% range over the preceding four years (*Figure 2.39.B*).

Figure 2.39: Personal Remittances Received (US$, billion)

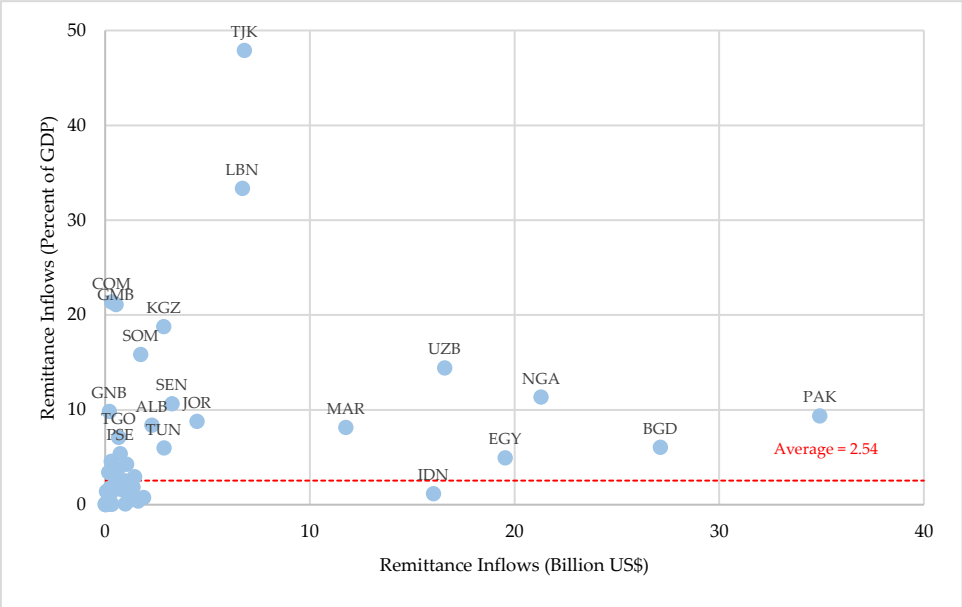


Source: SESRIC staff compilation based on data from World Bank, World Development Indicators.
Note: Data on the group OIC countries exclude Bahrain, Chad, Iran, Libya, Syria, Turkmenistan, and the United Arab Emirates.

As of 2024 (or the most recent year available 2023), Pakistan recorded the highest remittance inflows, receiving US$ 34.9 billion. It was followed by Bangladesh with US$ 27.1 billion, Nigeria with US$ 21.3 billion, Egypt with US$ 19.5 billion, and Uzbekistan with US$ 16.6 billion. These five countries together accounted for 60.1% of total remittances received by OIC countries in 2024, while this ratio reached as high as 83.1% for the largest ten recipients. In contrast, Brunei Darussalam registered the lowest remittance inflows at just US$ 1 million, followed by the Maldives with US$ 5.7 million, Gabon with US$ 18.5 million, Kuwait with US$ 20.4 million, and

Oman with US$ 39 million. In 2024, Pakistan with US$ 8.4 billion, Bangladesh with US$ 5 billion, and Uzbekistan with US$ 2.4 billion recorded the largest increases compared to the previous year. In contrast, Egypt with US$ 8.8 billion, Palestine with US$ 2.5 billion, and Azerbaijan with US$ 561 million, experienced the most significant decreases.

Figure 2.40: Personal Remittance Inflows to OIC Countries, 2024*



Source: SESRIC staff compilation based on data from World Bank, World Development Indicators.
Note: See Annex A for the country codes. * Data for 2024 or 2023.

Interestingly, remittance inflows make a surprisingly modest contribution to the GDP of the largest recipient countries. In fact, for three of the top five OIC countries by volume, this share sits below 10%, markedly lower than in numerous other member countries where remittances, though smaller in absolute terms, are a more critical component of national output. The top recipients in terms of the share of remittances in GDP included Tajikistan (47.9%), Lebanon (33.3%), Comoros (21.4%), the Gambia (21.1%), and Kyrgyzstan (18.8%). On average, remittance inflows accounted for 2.54% of GDP in the recipient OIC countries (*Figure 2.40*).

Overall, the remittance landscape presented a mixed picture for OIC countries. While global remittance flows saw a robust increase, the OIC countries experienced a decline, which could be traced to several factors, mostly pertaining to the host countries. Despite the decrease, countries like Pakistan, Bangladesh, and Nigeria remained major recipients, while for some others like Tajikistan and Lebanon remittances constituted a significant share of GDP, highlighting the critical role of remittances in their economies. The observed trends underscore the importance of strategic policies and international cooperation to enhance the efficiency and impact of remittance flows, thereby fostering sustainable economic growth and development in the OIC region.

SPECIAL COVERAGE

PATHWAYS TO STABILITY AMID TARIFF IMPACTS

CHAPTER THREE

Impact of New U.S. Tariffs on World Economies and OIC Countries

Shifting trade and tariff policies of the United States government in early 2025 marked the most significant intervention in international trade in decades, causing a reconfiguration in global trade partnership. The new tariffs are projected to have increased ramifications on global and national GDP, growth, trade, and inflation through demand, price, currency, and investment channels. The chapter analyses how the new tariff regime could reshape global economic dynamics. More specifically, it assesses the implications for OIC countries by drawing on empirical evidence from U.S. and Chinese trade with OIC countries, reviews the recent economic literature, and draws on recent forecasts from international organizations, including the International Monetary Fund (IMF), World Trade Organization (WTO), Organisation for Economic Co-operation and Development (OECD), World Bank, and United Nations Conference on Trade and Development (UNCTAD).

3.1 Introduction

On so-called "Liberation Day" in early 2025, the United States announced sweeping tariff measures that marked the most significant intervention in international trade in decades. Under the announcement, all trading partners faced a universal 10% tariff on goods entering the U.S. market, while a list of 56 economies—18 of them OIC members—as well as the European Union were subject to much higher "reciprocal" rates ranging from 11% to over 40%. China, the principal target, was hit with punitive rates of 145% as part of a wider trade confrontation (*Table 3.1*). Following strong diplomatic backlash, the U.S. administration agreed to a 90-day pause for partners other than China, applying only the 10% duty while bilateral negotiations continue. Despite this temporary reprieve, the uncertainty introduced by the tariff regime has already reverberated through financial markets, supply chains and policy debates.

Most economies utilized the delay in the activation of the tariffs as a period to negotiate trade deals with the U.S. and explore alternative markets including further strengthening of trade relationships with major export partners. The U.S. on the other hand took advantage of the 90 days period to negotiate tariff policies with individual countries. Further tariff adjustments effective August 7th, 2025, were announced by the Trump Administration on July 31st. As shown in *Table 3.1* below, the initial tariff rates for countries with tariffs rates of above 10% have since been adjusted based on the negotiations, which are still unfolding.

Table 3.1: The U.S. Tariff Schedule by Country/Area

Country/Area	Initial Rate (as of April 2nd)	Modified Rate (as of July 31st)	Country/Area	Initial Rate (as of April 2nd)	Modified Rate (as of July 31st)
Lesotho	50%	15%	Tunisia	28%	25%
Cambodia	49%	19%	Kazakhstan	27%	25%
Laos	48%	40%	India	26%	25%
Madagascar	47%	15%	South Korea	25%	15%
Vietnam	46%	20%	Brunei Darussalam	24%	25%
Myanmar	44%	40%	Japan	24%	15%

Country/Area	Initial Rate (as of April 2nd)	Modified Rate (as of July 31st)	Country/Area	Initial Rate (as of April 2nd)	Modified Rate (as of July 31st)
Sri Lanka	44%	20%	Malaysia	24%	19%
Falkland Islands	41%	10%	Vanuatu	22%	15%
Syria	41%	41%	Côte d'Ivoire	21%	15%
Mauritius	40%	15%	Namibia	21%	15%
Iraq	39%	35%	European Union[2]	20%	15%
Guyana	38%	15%	Jordan	20%	15%
Bangladesh	37%	20%	Nicaragua	18%	18%
Botswana	37%	15%	Zimbabwe	18%	15%
Liechtenstein	37%	15%	Israel	17%	15%
Serbia	37%	35%	Malawi	17%	15%
Thailand	36%	19%	Philippines	17%	19%
Bosnia & Herzegovina	35%	30%	Zambia	17%	15%
China[1]	34%	30%	Mozambique	16%	15%
North Macedonia	33%	15%	Norway	15%	15%
Angola	32%	15%	Venezuela	15%	15%
Fiji	32%	15%	Nigeria	14%	15%
Indonesia	32%	19%	Chad	13%	15%
Taiwan	32%	20%	Equatorial Guinea	13%	15%
Libya	31%	30%	Cameroon	11%	15%
Moldova	31%	25%	Dem. Rep. of the Congo	11%	15%
Switzerland	31%	39%	Canada[3]		35%
Algeria	30%	30%	Brazil[4]		50%
Nauru	30%	15%	Afghanistan		15%
South Africa	30%	30%	Türkiye		15%
Pakistan	29%	19%	Uganda		15%

Source: White House (https://www.whitehouse.gov/wp-content/uploads/2025/04/Annex-I.pdf) and White House (https://www.whitehouse.gov/presidential-actions/2025/07/further-modifying-the-reciprocal-tariff-rates/)
Note: Ranked in descending order according to the initially announced tariff rate. The highlighted ones are OIC Member States. [1] President Trump announced a 90-day pause for countries hit by higher U.S. tariffs, and they only faced a blanket U.S. tariff of 10% until July. However, upon China's retaliations against the new U.S. tariffs, President Trump raised China's rate to 145%. [2] The 15% tariff on the EU excludes column one-duty rates i.e. the ad valorem (or ad valorem equivalent) rate of duty under column 1-General of the Harmonized Tariff Schedule of the United States (HTSUS). [3] On 31st August 2025, the U.S. increased tariffs on Canadian goods from 25% to 35% based on "U.S. executive order Amendment to Duties to Address the Flow of Illicit Drugs Across our Northern Border." [4] The initial 10% tariffs on goods from Brazil were further adjusted to 50%.

The purpose of this chapter is to analyse how the new tariff regime could reshape global economic dynamics and, more specifically, to assess its implications for OIC countries. The chapter combines empirical evidence on U.S. and Chinese trade with OIC countries, reviews the recent economic literature, and draws on recent forecasts from international organisations—including

the International Monetary Fund (IMF), World Trade Organization (WTO), Organisation for Economic Co-operation and Development (OECD), World Bank, and United Nations Conference on Trade and Development (UNCTAD). By integrating these sources, the chapter aims to answer three questions:

(1) What is the likely impact of higher U.S. tariffs on global growth, trade, and inflation?

(2) Which OIC economies are most exposed to the new tariff regime through trade and investment linkages?

(3) What policy options can help OIC members mitigate risks and leverage new opportunities?

The analysis is intentionally forward-looking; although the long-term consequences will only unfold over time, examining current information provides a basis for early policy action.

3.2 Global Macroeconomic Impact of the Tariffs

3.2.1 International organisations' outlooks

In the months following the U.S. announcement, major international organisations updated their economic forecasts to reflect both the direct impact of the tariffs and the indirect effects of heightened uncertainty. The IMF's July 2025 *World Economic Outlook* update modestly raised global growth projections to 3.0% in 2025 and 3.1% in 2026, reflecting front-loaded purchases of goods ahead of tariff hikes and a temporary drop in the effective U.S. tariff rate to about 17% (IMF, 2025d). However, the IMF cautioned that if reciprocal tariffs are imposed, global growth could fall by around 0.2 percentage points, and higher tariffs would likely keep U.S. inflation above target.

The WTO, in its May 2025 *Global Trade Outlook and Statistics*, projected that world merchandise trade volumes would decline by about 0.2% in 2025 before rebounding in 2026, while an escalation scenario could generate a 1.5% contraction (WTO, 2025). The WTO also downgraded global GDP growth for 2025 to roughly 2.2%, emphasising that North America's exports could fall 12–13% and imports about 10%, while Asia would see a more modest slowdown. The organisation highlighted the role of policy uncertainty, warning that sustained tariff escalation could undermine recovery prospects.

3.2.2 OECD perspective: effective tariff rates and world GDP

The *OECD Economic Outlook* (June 2025) provides granular estimates of how the new tariffs alter the structure of global trade. According to the OECD, the tariffs introduced up to mid-May 2025 raised the ex-ante effective tariff rate on U.S. merchandise imports to about 15.4%, the highest level since the 1930s (OECD, 2025b). When combined with retaliatory actions by China and more limited actions by Canada, the OECD calculates that trade equivalent to over 2% of world GDP is now directly facing higher tariffs, pointing to much greater disruption than during the 2018–19 U.S.–China trade tensions. The report notes that tariffs raise consumer prices and input costs, depress real wages and delay investment; any revenue gains from tariff collections may be offset by a broader slowdown.

The OECD highlights differential impacts across countries and sectors. The highest announced tariffs fall on China, at around 30%, while Canada and Mexico face complex regimes linked to

compliance with the United States–Mexico–Canada Agreement, leading to effective rates of roughly 25% for car imports and 10% on energy exports. Some goods—such as pharmaceuticals, semiconductors and copper—remain exempt, lowering effective rates for countries like Chile, Colombia, Ireland and Switzerland. The OECD notes that exports to the United States are equivalent to over 20% of GDP for Mexico and Canada, over 5% for many small Asian economies and between 3% and 4% of GDP for many European countries; by comparison, the share is lower for most emerging economies. These exposures inform how strongly each country may feel the tariffs.

3.2.3 World Bank and UNCTAD perspectives: growth, trade, and inflation

The World Bank's June 2025 *Global Economic Prospects* report paints a sobering picture of the near-term outlook. The Bank projects that global growth will slow to about 2.3% in 2025, roughly half a percentage point lower than anticipated at the start of the year (World Bank, 2025a). Average growth in developing economies is expected to be around 3.8%, more than a full percentage point below the 2010s average. Global inflation is forecast to remain elevated near 2.9%, with tariff increases and tight labour markets contributing to price pressures. The Bank emphasises that halving tariffs relative to their late-May levels could boost global growth by about 0.2 percentage points over 2025–26. It urges countries to diversify trade, strengthen fiscal frameworks, and invest in human capital to bolster resilience.

UNCTAD's *Global Trade Update* (July 2025) documents how global trade has responded in the early months of the tariff regime. According to the report, global trade expanded by roughly US$ 300 billion in the first half of 2025, growing about 1.5% in the first quarter and projected to grow 2% in the second quarter (UNCTAD, 2025c). The expansion was driven mainly by services, which grew around 9% over the past four quarters. However, UNCTAD warns that the rise in trade value partly reflects price increases, as volumes grew only around 1%. Developed economies outpaced developing ones, reversing recent trends; the shift was propelled by a 14% surge in U.S. imports and a 6% jump in EU exports. Looking ahead, UNCTAD cautions that persistent policy uncertainty, potential retaliatory actions, and rising subsidies may dampen trade growth in the second half of 2025.

3.2.4 Expected effects and transmission channels

Taken together, the IMF, WTO, OECD, World Bank, and UNCTAD assessments reveal a world economy facing pronounced downside risks. Baseline projections still foresee global growth around 2.3–3.0% in 2025, but the range of plausible outcomes is wider than usual. The effective U.S. tariff rate has jumped to levels unseen since the 1930s, and trade equivalent to over 2% of world GDP is directly affected (OECD, 2025b). These developments dampen U.S. import demand and may slow growth in trading partners, particularly those with large exposures to the U.S. Higher tariffs also feed into inflation by raising the price of consumer goods and intermediate inputs. It is estimated that tariffs have increased the U.S. price level by about 1.5%, costing households approximately US$ 2,000 and reducing real U.S. GDP growth by roughly 0.6 percentage points (Budget Lab, 2025); similar or larger pass-through could occur in smaller economies.

The channels through which tariffs affect the global economy include:

- **Demand channel:** Reduced U.S. imports directly lower export demand for trading partners. Some of this demand may shift to countries outside the high-tariff list (trade diversion), while some is simply lost (trade aversion).
- **Price and currency channel:** Tariff uncertainty tends to strengthen the U.S. dollar as investors seek safe assets; emerging-market currencies depreciate, raising import prices and inflation. Central banks may tighten monetary policy to anchor expectations, which could further slow growth.
- **Investment channel:** Firms face uncertainty over future trade costs, leading to delayed or cancelled investment. High tariffs on intermediate goods increase production costs and reduce competitiveness.
- **Supply-chain channel:** Multinationals may restructure global value chains to reduce exposure to tariff risks, relocating production to countries with lower tariffs or deepening regional integration. This reconfiguration offers opportunities for some economies but may leave others behind.

3.3 Trade Exposure of OIC Member Countries to the United States

3.3.1 Aggregate U.S.–OIC trade

The U.S. maintains a substantial trade relationship with OIC Member States, though the share of OIC members in total U.S. trade remains relatively modest. In aggregate terms, U.S. exports to OIC Member States grew steadily over the past three years—from US$ 117.5 billion in 2022 to US$ 136.7 billion in 2024—accounting for 6.6% of total U.S. exports in the latest year. This marks a gradual increase from 5.7% in 2022 (*Table 3.2*).

On the import side, U.S. imports from OIC Member States declined significantly in 2023—from US$ 213.3 billion in 2022 to US$ 172.5 billion—before recovering slightly to US$ 181.1 billion in 2024. Consequently, the share of OIC members in total U.S. imports fell from 6.3% in 2022 to 5.4% in both 2023 and 2024.

Table 3.2.: Bilateral Trade between U.S. and OIC Member States

	Value (Million US$)			Share in U.S. Trade		
	2022	2023	2024	2022	2023	2024
U.S. Exports to OIC Member States	117,514	123,899	136,726	5.7%	6.1%	6.6%
U.S. Imports from OIC Member States	213,258	172,455	181,058	6.3%	5.4%	5.4%
U.S. Trade with OIC Member States	330,772	296,354	317,784	6.1%	5.7%	5.9%
U.S. Trade Balance with OIC Member States	-95,743	-48,556	-44,332	7.3%	4.2%	3.4%

Source: SESRIC staff compilation based on data from ITC Trade Map.

Given the above figures on exports and imports, the volume of trade (exports plus imports) between the U.S. and OIC Member States reached US$ 317.8 billion in 2024, representing 5.9% of the total U.S. trade with the world. For the U.S., the balance of trade with the OIC region has remained in deficit over the past three years (2022-2024), although the size of the deficit has narrowed considerably—from US$ -95.7 billion in 2022 to US$ -44.3 billion in 2024. This reduction reflects both the increase in U.S. exports to the region and the decline in imports. Moreover, as a share of the U.S. global trade deficit, the OIC's contribution also declined, from 7.3% in 2022 to as low as 3.4% in 2024.

These trends at the aggregate level suggest a relatively weak and changing trade relationship in the U.S.-OIC trade, with the potential for further shifts as new tariff measures unfold. The narrowing trade deficit and shifting trade shares may also indicate early signs of supply chain realignments or changes in sourcing strategies, which could intensify depending on the scope and permanence of the new U.S. trade measures.

3.3.2 Country-level exposure and dependency

U.S. imports from OIC member countries are highly concentrated among a handful of countries, with the top 10 accounting for over 85% of total imports from the group in 2024 (*Table 3.3*). Malaysia stands out as the largest OIC exporter to the U.S., with exports valued at US$ 53.8 billion in 2024—representing nearly 30% of total U.S. imports from OIC Member States and placing it 16th among all U.S. trading partners globally. Indonesia follows, with US$ 29.5 billion in exports (16.3% of the OIC total), and Türkiye ranks third with US$ 17.8 billion (9.8%).

Table 3.3: U.S. Imports from OIC Member States

Top 10 Import Partners from the OIC (2024)	Import Value (Million US$)			Share in Total U.S. Imports, 2024	
	2022	2023	2024	From World (Rank)	From OIC
Malaysia	56,897	47,328	53,849	1.6% (16)	29.7%
Indonesia	37,263	28,101	29,549	0.9% (20)	16.3%
Türkiye	20,428	16,521	17,798	0.5% (27)	9.8%
Saudi Arabia	24,149	16,510	13,187	0.4% (34)	7.3%
Bangladesh	11,835	8,669	8,781	0.3% (40)	4.8%
United Arab Emirates	7,315	6,872	7,800	0.2% (44)	4.3%
Iraq	10,343	8,942	7,690	0.2% (46)	4.2%
Nigeria	4,881	5,850	5,868	0.2% (53)	3.2%
Guyana	2,886	3,369	5,510	0.2% (56)	3.0%
Pakistan	6,560	5,187	5,466	0.2% (57)	3.0%
Sub Total	***182,557***	***147,348***	***155,499***	***4.6%***	***85.9%***
OIC	**213,258**	**172,455**	**181,058**	**5.4%**	**100.0%**

Source: SESRIC staff compilation based on data from ITC Trade Map.

Other significant exporters include Saudi Arabia (US$ 13.2 billion), Bangladesh (US$ 8.8 billion), and the United Arab Emirates (US$ 7.8 billion). Iraq, Nigeria, Guyana, and Pakistan complete the top ten, each contributing between US$ 5.5 and 7.7 billion in exports. These figures reflect the strong presence of certain OIC economies in U.S. import markets.

Similarly, U.S. exports to OIC Member States are concentrated among a limited number of key partners. In 2024, the top 10 OIC importers collectively accounted for over 84% of total U.S. exports to the OIC region. Malaysia and the United Arab Emirates lead the group, with export values reaching US$ 27.7 billion and US$ 27.0 billion respectively, each representing 1.3% of total U.S. global exports and roughly one-fifth of all U.S. exports to the OIC. With those figures, Malaysia and the United Arab Emirates were, respectively, the 18th and 19th largest export partners of the U.S. at the global level. Türkiye follows with US$ 15.3 billion (11.2% of the OIC total), while Saudi Arabia and Indonesia also feature prominently, importing US$ 13.2 billion and US$ 10.2 billion, respectively. Other notable destinations include Egypt, Morocco, Nigeria, Qatar, and Kuwait, each receiving between US$ 2.4 billion and US$ 6.1 billion in U.S. exports (*Table 3.4*).

Table 3.4: U.S. Exports to OIC Member States

Top 10 Export Partners from the OIC (2024)	Export Value (Million US$)			Share in Total U.S. Exports, 2024	
	2022	2023	2024	To World (Rank)	To OIC
Malaysia	18,107	19,442	27,705	1.3% (18)	20.3%
United Arab Emirates	20,854	24,857	26,969	1.3% (19)	19.7%
Türkiye	14,993	14,694	15,293	0.7% (26)	11.2%
Saudi Arabia	11,565	13,873	13,177	0.6% (28)	9.6%
Indonesia	9,986	9,943	10,202	0.5% (34)	7.5%
Egypt	6,553	4,487	6,092	0.3% (42)	4.5%
Morocco	3,512	3,752	5,269	0.3% (46)	3.9%
Nigeria	3,375	2,599	4,174	0.2% (53)	3.1%
Qatar	3,647	4,658	3,804	0.2% (54)	2.8%
Kuwait	3,398	2,919	2,412	0.1% (63)	1.8%
Sub Total	**95,991**	**101,225**	**115,097**	**5.6%**	**84.2%**
OIC	**117,514**	**123,899**	**136,726**	**6.6%**	**100.0%**

Source: SESRIC staff compilation based on data from ITC Trade Map.

While overall U.S. exports to OIC Member States rose by US$ 19.2 billion from 2022 to US$ 136.7 billion in 2024, this growth has been primarily driven by increased trade with just a handful of partners, with exports to the top 10 increasing by US$ 19.1 billion to US$ 115.1 billion. This emphasises both the importance of these bilateral relationships and the uneven distribution of trade engagement across the OIC region. In terms of trade balance as of 2024, the U.S. trade with OIC members shows a pattern of trade deficits with major exporting countries, contrasted by surpluses with a broader set of lower-volume trading partners (*Table 3.5*).

The most significant deficits are observed with Malaysia (US$ -26.1 billion), Indonesia (US$ -19.3 billion), and Bangladesh (US$ -6.6 billion), reflecting their strong export orientation and competitive manufacturing sectors. These countries, along with others like Iraq, Guyana, and Pakistan, account for the bulk of the U.S. trade deficit within the OIC group, and they all face new U.S. tariffs exceeding 10%.

Table 3.5: U.S. Trade Balance by OIC Member State, 2024

Country	*Trade Balance (Million US$)*	*Share in U.S. Imports*
* *Malaysia*	-26,145	1.6%
* *Indonesia*	-19,347	0.9%
* *Bangladesh*	-6,567	0.3%
* *Iraq*	-6,029	0.2%
* *Guyana*	-4,195	0.2%
* *Pakistan*	-3,331	0.2%
Türkiye	-2,505	0.5%
* *Nigeria*	-1,694	0.2%
* *Algeria*	-1,526	0.1%
* *Jordan*	-1,413	0.1%
* *Kazakhstan*	-1,333	0.1%
* *Libya*	-925	0.0%
* *Tunisia*	-651	0.0%
* *Côte d'Ivoire*	-456	0.0%
* *Brunei Darussalam*	-121	0.0%
* *Mozambique*	-71	0.0%
* *Cameroon*	-67	0.0%
Uganda	-32	0.0%
* *Chad*	-23	0.0%
Afghanistan	-12	0.0%
Gabon	-12	0.0%
Saudi Arabia	-10	0.4%
* *Syria*	-9	0.0%
Palestine	-3	0.0%
Comoros	3	0.0%
Guinea-Bissau	3	0.0%
Albania	9	0.0%
Niger	35	0.0%
Mali	46	0.0%
Somalia	46	0.0%
Burkina Faso	50	0.0%
Tajikistan	52	0.0%
Turkmenistan	67	0.0%
Gambia	78	0.0%
Iran	85	0.0%
Maldives	86	0.0%
Sierra Leone	90	0.0%
Azerbaijan	92	0.0%
Sudan	102	0.0%
Djibouti	104	0.0%
Senegal	107	0.0%
Kyrgyzstan	116	0.0%
Yemen	125	0.0%
Guinea	132	0.0%
Mauritania	137	0.0%

Country	*Trade Balance (Million US$)*	*Share in U.S. Imports*
Benin	163	0.0%
Togo	186	0.0%
Lebanon	273	0.0%
Suriname	287	0.0%
Uzbekistan	336	0.0%
Bahrain	374	0.0%
Oman	539	0.0%
Kuwait	664	0.1%
Qatar	1,931	0.1%
Morocco	3,285	0.1%
Egypt	3,374	0.1%
United Arab Emirates	19,169	0.2%

Source: *SESRIC staff compilation based on data from ITC Trade Map.* with an initial specific tariff rate of above 10%.*

Notably, while the U.S. has a trade deficit with all the 18 OIC Member States it initially imposed specific higher tariff rates, 16 of those members rather have a negligible share in the U.S. imports (0.3% or less), and they actually contribute little to the huge deficit of the U.S. that reached US$ 1.3 trillion in 2024. Indeed, those 18 countries collectively account for 5.7% of that deficit, of which 3.5 percentage points belong to Malaysia and Indonesia. It is also noteworthy that Türkiye, despite being among the leading OIC Member States the U.S. has a deficit with, did not initially face a specific higher tariff, though the modified tariff rates announced at end July 2025 included a 15% rate for the country—along with Afghanistan and Uganda (see *Table 3.1* and *3.6*). On the other hand, the United States enjoys trade surpluses with a wide range of OIC Member States, particularly in the Middle East and Africa. Notable surpluses emerge from its trade with the United Arab Emirates (US$ +19.2 billion), Egypt (US$ +3.4 billion), Morocco (US$ +3.3 billion), and Qatar (US$ +1.9 billion), followed by smaller but positive balances with countries like Kuwait, Oman, Bahrain, and several Sub- Saharan African members such as Senegal, Guinea, and Mauritania.

Overall, the trade balance data underscores the diverse nature of the OIC's trade relationship with the United States. A small number of countries visibly contribute to the U.S. deficit, largely through high-volume exports of goods now targeted by tariff revisions, while a broader set of partners maintain net imports from the U.S. From the perspective of U.S. trade policy, particularly its stated goal of narrowing the trade deficit, these tariffs appear partly aligned with efforts to curb imports from countries with large and persistent surpluses. However, whether these measures will materially reduce the overall U.S. trade imbalance remains uncertain, as firms may adjust by re-routing supply chains or passing on costs, and affected countries may respond with countermeasures or seek alternative markets. This reinforces the importance of monitoring bilateral trade dynamics in the coming period, especially for OIC economies heavily integrated into U.S.-bound value chains.

3.3.3 Tariff schedule for OIC countries

Following a reprieve of Liberation Day Tariffs, countries had a narrow window to negotiate trade deals and prepare for the impending trade configuration. *Table 3.6* summarises the initial tariff rates, which targeted 18 OIC countries a rate above 10%, and the final negotiated rates, which were expanded to include three additional countries, bringing the total to 21 OIC members subject

to a tariff above 10%. Some countries achieved substantial reductions from very high initial rates (e.g., Guyana and Côte d'Ivoire saw their rates fall from 38% and 21% to 15%), whereas others (e.g., Syria and Algeria) saw no change. Regardless of tariff adjustments, the ensuing uncertainty has led the disruption in markets, which could shift competitive advantage that some economies had over their competitors. For example, Bangladesh, which is a major exporter of textile and apparel with tariff rates of 20%, could face stiff competition in the U.S. market from lower-tariffed countries. Meanwhile, member countries emerging from prolonged conflicts with significantly higher tariffs faces contracted growth prospects, further undermining recovery efforts.

Table 3.6: Specific U.S. Tariffs on OIC Countries: Initial and Modified Rates

OIC Country	Initial Tariff Rate	Modified (Final) Rate	Observations
Syria	41%	41%	Punitive tariff maintained; high risk of continued trade decline.
Iraq	39%	35%	Significant, but still elevated tariff; oil exports may be affected.
Guyana	38%	15%	Large reduction; potential to increase exports if trade rules are clarified.
Bangladesh	37%	20%	Tariffs remain high on apparel exports, threatening competitiveness.
Indonesia	32%	19%	Sharp cut signals improved terms; diversified exports gain relief.
Pakistan	29%	19%	Moderate reduction; remains above the universal 10% rate.
Tunisia	28%	25%	Minor reduction; exports of textiles and electrical equipment may still face barriers.
Kazakhstan	27%	25%	Small reduction; energy exports partly exempt.
Brunei	24%	25%	Slightly higher final rate due to sectoral adjustments.
Malaysia	24%	19%	Reduced rates reflect ongoing negotiations; electronic exports remain sensitive.
Jordan	20%	15%	Reduced rate provides relief but still above 10%.
Mozambique	16%	15%	Slight decrease; agricultural exports may benefit.
Nigeria	14%	15%	Slight increase; energy exports may face higher duties.
Libya	31%	30%	Minimal change; hydrocarbon exports continue to face high barriers.
Chad	13%	15%	Increase indicates tough negotiations; cotton exports may suffer.
Cameroon	11%	15%	Increase from near-universal rate suggests concerns over rule of origin.
Algeria	30%	30%	No change; energy products partly exempt but other goods heavily taxed.
Côte d'Ivoire	21%	15%	Large reduction; opportunities in cocoa and rubber exports.
Afghanistan	10%	15%	Upward revision burdens nascent sectors; carpets and dried fruits face higher costs.
Türkiye	10%	15%	Steel and metal exports face headwinds along with machinery and textiles.
Uganda	10%	15%	Higher duty strains agricultural exports; coffee and fish shipments become less competitive.

3.3.4 Products and sectoral exposure

The composition of OIC exports to the U.S. provides clues about which sectors are most vulnerable. In 2024, the value of U.S. imports from the 18 OIC Member States (hereafter referred to as 'OIC-18') that were initially charged a specific tariff rate of above 10% amounted to US$ 129.6 billion, making 3.9% of total U.S. imports (*Table 3.7*). About one quarter (25.8%) of those imports, valued US$ 33.4 billion, consisted of electrical machinery and equipment, and this made up 6.9% of total imports of the U.S. in those products. Mineral fuels and oils were the second most imported products, accounting for 18.3% of U.S. imports from the OIC-18 and 9.5% of total imports of the U.S. in mineral fuels and oils. Machinery and mechanical appliances ranked third, comprising 8.6% of OIC-18 exports to the U.S., though they represented only 2.1% of total U.S. imports in this category. Articles of apparel and clothing accessories, whether knitted (6.1%) or not (6.6%), were important products supplied from the OIC-18, making up a significant proportion of U.S. imports in these products; 16.7% and 23.4%, respectively.

Beyond major product groups, several niche items exported by OIC-18 countries also hold a disproportionately large share of the U.S. import market. Although their overall share in U.S. imports from the OIC-18 is relatively modest, several products accounted for 10% or more of total U.S. imports in those products from all global sources. For instance, in 2024, the U.S. imported US$ 233.6 million worth of cotton from the OIC-18. While this made up only 0.2% of total imports of the U.S. from the OIC-18, it accounted for as high as 28.7% of all cotton imports of the U.S. that year. Other similar products included cocoa and cocoa preparations (18.9% of U.S. imports in those products), musical instruments (18.4%), prepared feathers and down (13.2%), headgear (12.7%), preparations of meat of fish (12.2%), other made-up textile articles (10.1%), and lead (10.0%).

These figures highlight that while the aggregate share of the OIC-18 in overall U.S. imports may be modest, their contribution in specific product categories is disproportionately high. As such, the imposition of elevated U.S. tariffs—particularly those exceeding 10%—could have a substantial impact on trade flows in niche but strategically important sectors. Key products such as cotton, cocoa, apparel, and various manufactured goods may face reduced competitiveness in the U.S. market, posing direct challenges for several OIC exporters.

Furthermore, the concentration of these exports in a limited number of tariff-sensitive categories amplifies the vulnerability of these economies to abrupt shifts in U.S. trade policy. Moving forward, diversification—both in product range and export destinations—will be critical for mitigating risk and sustaining export performance amid an increasingly protectionist global trade environment.

Table 3.7: Major U.S. Imports from OIC-18 Countries* (HS 2-digit), 2024

Code (HS)	Product Label	Value (million US$)	Percentage Distribution	Share in U.S. Imports
85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles	33,474.3	25.8%	6.9%
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	23,750.6	18.3%	9.5%
84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	11,204.8	8.6%	2.1%
62	Articles of apparel and clothing accessories, not knitted or crocheted	8,503.0	6.6%	23.4%
61	Articles of apparel and clothing accessories, knitted or crocheted	7,898.0	6.1%	16.7%
90	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof	4,663.4	3.6%	3.7%
40	Rubber and articles thereof	3,895.7	3.0%	10.7%
94	Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings; luminaires and lighting fittings, not elsewhere specified or included; illuminated signs, illuminated nameplates and the like; prefabricated buildings	3,622.7	2.8%	5.0%
15	Animal, vegetable or microbial fats and oils and their cleavage products; prepared edible fats; animal or vegetable waxes	3,193.5	2.5%	18.6%
64	Footwear, gaiters and the like; parts of such articles	2,912.7	2.2%	10.3%
	Other Products with a Share of 10% or More in U.S. Imports:			
63	Other made-up textile articles; sets; worn clothing and worn textile articles; rags	1,828.3	1.4%	10.1%
18	Cocoa and cocoa preparations	1,559.2	1.2%	18.9%
16	Preparations of meat, of fish, of crustaceans, molluscs or other aquatic invertebrates, or of insects	859.8	0.7%	12.2%
65	Headgear and parts thereof	391.3	0.3%	12.7%
67	Prepared feathers and down and articles made of feathers or of down; artificial flowers; articles of human hair	343.7	0.3%	13.2%
92	Musical instruments; parts and accessories of such articles	300.8	0.2%	18.4%
52	Cotton	233.6	0.2%	28.7%
78	Lead and articles thereof	97.7	0.1%	10.0%
TOTAL	**All Products**	**129,631.6**	**100.0%**	**3.9%**

Source: SESRIC staff compilation based on data from ITC Trade Map. * The 18 OIC Member States with an initial specific tariff rate of above 10%.

The U.S. remains a critical export destination for many OIC Member States, with trade ties that carry both strategic importance and potential vulnerability. Analysis of bilateral export data reveals that while the share of the U.S. in most OIC members' total exports remains below 10%, a number of economies maintain deep trade dependencies on the U.S. market (*Table 3.8*).

In the past three years, the U.S. has ranked as the top export partner for countries such as Jordan, Pakistan, and Suriname, and featured among the top five for several others, including Malaysia, Indonesia, and Türkiye. The share of the U.S. in total exports was 10% or more in 5 out of 44 OIC Member States with available data for the past three years: Jordan (22.9%), Pakistan (17.3%), Guyana (15.0%), Malaysia (13.2%), and Indonesia (10.0%). Crucially, all five of these high-dependency exporters are subject to specific elevated U.S. tariffs above 10% (See *Table 1*), which places their export competitiveness at particular risk in the context of tightening U.S. trade policy. In absolute terms, annual exports to the U.S. reached US$ 43.4 billion from Malaysia, US$ 26.4 billion from Indonesia, US$ 16.3 billion from Türkiye, US$ 13.5 billion from the United Arab Emirates, and US$ 12.8 billion from Saudi Arabia.

Table 3.8: The U.S. in Exports of OIC Member States

Member States	Year	Exports to U.S. (Million US$)	Exports to World (Million US$)	Share of U.S. in Exports to World	Rank of U.S.
Jordan	2023	2,881	12,590	22.9%	1
Pakistan	2024	5,615	32,461	17.3%	1
Guyana	2024	3,366	22,415	15.0%	2
Malaysia	2024	43,435	329,454	13.2%	2
Indonesia	2024	26,365	264,703	10.0%	2
Bahrain	2023	1,039	12,407	8.4%	3
Nigeria	2023	4,526	60,651	7.5%	4
Türkiye	2024	16,349	261,855	6.2%	2
Benin	2024	60	1,112	5.4%	5
Lebanon	2023	212	4,561	4.7%	5
Egypt	2023	1,951	42,052	4.6%	5
Comoros	2023	1	29	4.6%	7
Côte d'Ivoire	2024	917	20,494	4.5%	4
Saudi Arabia	2024	12,837	305,358	4.2%	6
Togo	2024	49	1,366	3.6%	9
Suriname	2023	74	2,311	3.2%	1
Morocco	2023	1,254	42,478	3.0%	6
Senegal	2023	156	5,317	2.9%	10
Kazakhstan	2024	1,971	81,618	2.4%	10
Chad	2024	83	3,473	2.4%	8
UAE	2023	13,545	570,245	2.4%	6
Oman	2023	1,344	59,011	2.3%	5
Djibouti	2023	76	4,785	1.6%	5
Brunei	2024	178	11,253	1.6%	13
Qatar	2023	1,480	97,751	1.5%	16
Uganda	2023	89	6,305	1.4%	14
Maldives	2023	2	162	1.3%	10

Member States	Year	Exports to U.S. (Million US$)	Exports to World (Million US$)	Share of U.S. in Exports to World	Rank of U.S.
Gabon	2023	163	12,704	1.3%	13
Palestine	2022	18	1,525	1.2%	4
Mozambique	2024	96	8,211	1.2%	17
Uzbekistan	2024	215	31,856	0.7%	10
Somalia	2024	3	448	0.6%	10
Azerbaijan	2024	135	26,554	0.5%	24
Mali	2022	13	3,905	0.3%	17
Burkina Faso	2024	19	5,634	0.3%	17
Gambia	2024	0	50	0.3%	16
Albania	2022	10	4,306	0.2%	23
Kyrgyzstan	2023	4	3,309	0.1%	20
Turkmenistan	2024	16	13,708	0.1%	18
Kuwait	2023	72	83,983	0.1%	13
Tajikistan	2023	0	1,293	0.0%	34
Niger	2023	0	467	0.0%	25
Tunisia	2023	2	20,040	0.0%	101
Mauritania	2024	0	4,150	0.0%	82

Source: SESRIC staff compilation based on data from ITC Trade Map.
Note: Ranked in descending order by the share of U.S. in a country's exports to world.

Overall, while a handful of countries show significant dependence, the majority of OIC states maintain limited exposure to the U.S. market, with shares below 5%. For many African and Central Asian OIC members, the U.S. ranks outside the top 10 export destinations, suggesting that direct impacts from tariff escalation may be limited in scope. Nevertheless, these economies are not immune to secondary effects, such as shifts in global prices, changes in Chinese sourcing strategies, or greater competition in third markets.

3.4 Impact on OIC Economies via China and Global Supply Chains

China is simultaneously the main target of the U.S. tariffs and one of the OIC's largest trading partners. Total trade between China and OIC members exceeded US$ 1 trillion in 2024, representing roughly 17% of China's global trade. Chinese exports to the OIC reached about US$ 595 billion, while imports from the OIC were around US$ 452 billion, leaving a growing surplus of about US$ 143 billion (*Table 3.9*).

This deep commercial relationship amplifies both opportunities and risks associated with the tariff war. The expanded set of elevated U.S. tariffs on Chinese goods is expected to have far-reaching consequences beyond the immediate U.S.-China bilateral relationship. For OIC Member States, the implications are multifaceted, with both risks and potential opportunities depending on their trade profiles, sectoral strengths, and positions within global supply chains. Analysing the evolving China-OIC trade relationship helps clarify the potential channels through which these global shifts could affect OIC economies.

Bilateral trade between China and OIC Member States has grown steadily over the recent years, reaching over US$ 1 trillion in 2024, or 17% of China's total global trade. Notably, China's exports to OIC Member States rose to US$ 594.8 billion, increasing both in value and as a share of its global

exports (16.6% in 2024). Meanwhile, imports from OIC Member States have declined slightly, contributing to China's growing trade surplus with the OIC—reaching US$ 143.2 billion in 2024, up from just US$ 17.4 billion in 2022 (*Table 3.9*). This widening imbalance reflects China's deepening export penetration into OIC markets, potentially reinforced by the evolving U.S. restrictions.

Table 3.9: Bilateral Trade between China and OIC Countries

	Value (Million US$)			Share in China's Trade		
	2022	2023	2024	2022	2023	2024
China's Exports to OIC Member States	526,771	543,582	594,816	14.7%	16.0%	16.6%
China's Imports from OIC Member States	509,373	456,117	451,647	18.8%	17.8%	17.5%
China's Trade with OIC Member States	1,036,143	999,699	1,046,463	16.4%	16.8%	17.0%
China's Trade Balance with OIC Member States	17,398	87,466	143,168	2.0%	10.5%	14.5%

Source: SESRIC staff compilation based on data from ITC Trade Map.

3.4.1 Trade diversion opportunities

One potential benefit for OIC economies stems from trade diversion—U.S. importers turning to alternative suppliers to replace high-tariff Chinese goods. Countries already competing with China in textiles (Bangladesh, Pakistan, and Türkiye), electronics (Malaysia, Indonesia) and resource-based commodities could capture market share if they can meet quality and cost requirements. The table of adjusted tariffs shows that Malaysia and Indonesia succeeded in lowering their rates to around 19%, improving their relative position. However, realising these gains will require expanding production capacity, adhering to strict rules of origin and meeting U.S. standards—a challenge for smaller economies.

3.4.2 Increased competition in third markets

Higher U.S. tariffs may prompt Chinese exporters to divert goods to other markets, including Europe, Africa and OIC countries themselves. This dynamic intensifies competition for local manufacturers. For example, low-cost Chinese textiles could undercut producers in Indonesia or Bangladesh, threatening employment in labour-intensive factories. Chinese electronics firms may also redirect output to markets where OIC countries seek to expand. Policymakers should be alert to this possibility and consider safeguard measures consistent with WTO rules to prevent market disruption.

3.4.3 Supply-chain reconfiguration and FDI

Multinational firms are already re-evaluating global supply chains in light of higher tariffs and geopolitical tensions. Nearshoring and "friend-shoring" strategies favour countries with stable political environments, reliable infrastructure and preferential market access. Malaysia and Indonesia, with established electronics industries and government incentives, could attract investment in semiconductors and electric-vehicle components. Gulf economies such as Qatar and

United Arab Emirates may benefit from increased investment in digital infrastructure, renewable energy and logistics. Conversely, OIC members lacking connectivity, industrial experience or preferential trade arrangements may see production shift elsewhere.

3.5 Macroeconomic Channels and Sectoral Impacts for OIC Member Countries

3.5.1 Exchange rates and inflation

Financial markets reacted to the tariff announcement with a flight to safety, strengthening the U.S. dollar and weakening many emerging-market currencies. A weaker currency raises the local currency cost of imports, pushing up inflation. In OIC economies that import large quantities of consumer goods or intermediate inputs—such as Jordan, Pakistan and Bangladesh—the pass-through from exchange rates to domestic prices could be substantial. Research suggests that tariffs have increased the U.S. price level by about 1.5%, costing households approximately US$ 2,000 and reducing real U.S. GDP growth by roughly 0.6 percentage points (Budget Lab, 2025); similar or larger effects could occur in small open economies with limited monetary policy flexibility. Higher import prices can erode purchasing power and prompt workers to demand higher wages, raising production costs and potentially triggering a wage–price spiral. Countries using currency pegs may import inflation, while those with flexible rates face the dual challenge of managing both exchange-rate and interest-rate volatility.

3.5.2 Domestic output, employment and fiscal dynamics

Higher tariffs and the associated uncertainty affect domestic output through multiple channels. On the demand side, slower U.S. growth reduces export orders; on the supply side, higher import prices raise production costs and squeeze profit margins. Firms may postpone investment in machinery and equipment, especially when imported capital goods become more expensive. GDP growth in oil-importing OIC economies is expected to slow modestly in 2025. For instance, Nigeria's growth is projected to decline from about 3.4% in 2024 to 3.0% in 2025 and Türkiye's growth from 3% to roughly 2.7%. Meanwhile, energy exporters like Saudi Arabia could benefit from strong oil prices and see growth rise to about 3%. These projections underscore how commodity dependence shapes vulnerabilities.

From a fiscal perspective, higher tariffs can reduce government revenues in exporting countries by depressing export volumes. At the same time, governments may need to increase social spending to cushion households from rising prices. Many OIC members already face elevated public debt; servicing this debt becomes more costly when global interest rates rise in response to persistent inflation. The World Bank warns that slowing growth will impede efforts to create jobs, reduce extreme poverty and close income gaps with advanced economies (World Bank, 2025). Policymakers will need to strike a balance between fiscal consolidation and targeted support for vulnerable groups.

3.5.3 Foreign direct investment and sectoral shifts

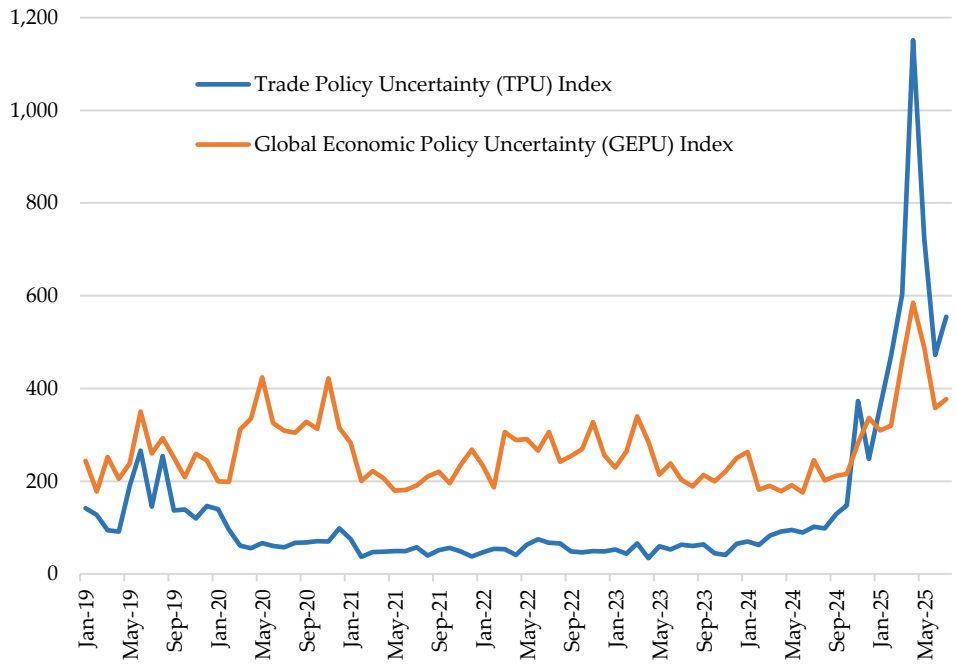
Heightened trade and policy uncertainty can dampen foreign direct investment (FDI) by increasing risk premiums. Yet the reconfiguration of supply chains may open new avenues for investment in the digital economy, advanced manufacturing and critical minerals. Evidence

points to a surge in investments in data centres, telecommunications infrastructure and cloud computing in countries such as Qatar, Azerbaijan and Bahrain. International project finance activities in energy and infrastructure have increased in the UAE, Saudi Arabia and Iran, reflecting long-term bets on renewable energy and logistics. Demand for semiconductors and electric-vehicle components is driving interest in Malaysia, which positions itself as a manufacturing hub for electronic components. In Sub-Saharan Africa, rising global demand for lithium, cobalt, and rare earth minerals needed for the green transition is attracting capital to countries like Guinea and Uganda. According to the *World Investment Report* (2025), FDI in Uganda rose by about 10% to US$ 3.3 billion, supported by projects in oil development and transport corridors (UNCTAD, 2025b).

3.5.4 Policy uncertainty: a sharp spike in 2025

An often overlooked channel is the impact of policy uncertainty on business expectations and investment decisions. The Trade Policy Uncertainty (TPU) Index and the Global Economic Policy Uncertainty (GEPU) Index, both constructed from newspaper coverage, showed a sharp spike after the U.S. election in late 2024 and another surge around the tariff announcement in April 2025. The TPU index exceeded 1,100 in April 2025, more than 20 times its average in 2022, while the GEPU index reached nearly 600, compared to about 400 during the pandemic-hit year of 2020. *Figure 3.1* plots these indices between 2019 and July 2025.

Figure 3.1: Trade and Economic Policy Uncertainty Indices, Monthly (2019–July 2025)



Data source: TPU Index [https://www.matteoiacoviello.com/tpu.htm] and GEPU Index [https://www.policyuncertainty.com/global_monthly.html]. Data downloaded on August 22, 2025.

Elevated uncertainty increases the option value of waiting, prompting firms to delay investment and reorder supply chains. Financial institutions may re-evaluate credit risk, tighten lending standards and demand higher risk premiums. The combination of higher tariffs and heightened uncertainty thus amplifies the drag on global and regional growth.

3.6 Policy Implications and Strategic Responses

In light of the considerable risks associated with the new tariff regime, OIC member countries need a multifaceted policy response. The following recommendations build on insights from international organisations and the unique circumstances of OIC economies:

1. **Diversify export markets and products.** Overreliance on the U.S. market exposes countries to sudden policy shifts. OIC members should deepen intra-OIC trade and pursue South–South integration, especially with fast-growing economies in Asia and Africa. The World Bank emphasises that trade integration with new partners can help offset the impact of U.S. tariffs (World Bank, 2025). Diversification also requires moving up the value chain—investing in higher-value manufacturing, services and digital capabilities.
2. **Improve trade facilitation and standards compliance.** Capturing trade diversion opportunities depends on efficient customs procedures, reliable logistics and adherence to rules of origin. Countries negotiating preferential rates—such as Malaysia and Indonesia—must demonstrate stringent enforcement of intellectual-property rights and environmental standards to satisfy U.S. requirements. Regional cooperation on standards within the OIC could help smaller economies meet these demands.
3. **Strengthen macro-economic management.** Monetary authorities should prepare for currency volatility and inflation pressures by maintaining adequate foreign-exchange reserves and adopting flexible exchange-rate frameworks where feasible. Fiscal authorities need to preserve policy space to support households and firms facing higher prices while maintaining debt sustainability. The World Bank underscores the importance of bolstering fiscal frameworks and mobilising domestic revenues to finance social protection (World Bank, 2025).
4. **Encourage supply-chain investment and industrial policy.** To attract FDI in manufacturing and critical minerals, governments should offer transparent incentives, invest in infrastructure and skills development, and ensure policy stability. Establishing special economic zones focused on electronics, electric-vehicle components or digital services can help integrate OIC economies into reconfigured global value chains.
5. **Promote OIC cooperation and multilateral engagement.** Joint action within the OIC can strengthen bargaining power. Sharing information on tariff negotiations, coordinating positions in WTO forums and exploring intra-OIC trade agreements can improve resilience. At the global level, OIC members should participate constructively in multilateral dialogues seeking to reduce tariffs and clarify rules; the World Bank notes that halving tariffs could lift global growth by around 0.2 percentage points (World Bank, 2025).

3.7 Conclusion

The U.S. tariff surge marks a turning point in global trade policy. Forecasts from the IMF, WTO, OECD, World Bank and UNCTAD converge on a message of weaker growth, slower trade and heightened uncertainty. The WTO projects a modest decline in merchandise trade in 2025, with the possibility of a 1.5% contraction if tensions worsen (WTO, 2025). The World Bank forecasts global growth slowing to about 2.3% and emphasises that halving tariffs could boost growth by roughly 0.2 percentage points (World Bank, 2025). The OECD calculates that the effective U.S. tariff rate has reached around 15.4%, the highest since 1938, and that trade equivalent to over 2% of world GDP now faces higher duties (OECD, 2025b). Research from Budget Lab finds that tariffs have already raised the U.S. price level by about 1.5% and reduced real U.S. GDP growth by around 0.6 percentage points, costing households about US$ 2,000 (Budget Lab, 2025). These figures underscore the magnitude of the policy shock.

For OIC members, the picture is nuanced. Aggregate U.S.–OIC trade remains a small share of U.S. global trade, but some countries—Malaysia, Indonesia, Pakistan, Jordan and Guyana—are highly exposed. Negotiated tariff rates vary widely, leaving some economies with punitive duties (e.g., Syria, Iraq) and others with near-universal levels (e.g., Mozambique, Côte d'Ivoire). The composition of exports, heavily weighted toward electronics and apparel, further heightens vulnerability. At the same time, the tariffs may create opportunities for trade diversion and supply-chain investment, particularly for countries able to meet quality and compliance requirements. Rising trade policy uncertainty, as captured by the TPU index, adds another layer of risk.

In such a fluid environment, proactive and coordinated policy action is vital. Diversifying markets, improving trade facilitation, managing macro-economic risks, encouraging investment and deepening OIC cooperation can help member states navigate the turbulence. Above all, continuous monitoring of global trade policy developments and agile responses will be essential as the world trade landscape evolves.

Annex: Country Classifications

A. Major Country Groups used in the Report

OIC Countries (57)

Code	Name	Code	Name	Code	Name
AFG	Afghanistan	GUY	Guyana	PAK	Pakistan
ALB	Albania	IDN	Indonesia	PSE	Palestine
DZA	Algeria	IRN	Iran	QAT	Qatar
AZE	Azerbaijan	IRQ	Iraq	SAU	Saudi Arabia
BHR	Bahrain	JOR	Jordan	SEN	Senegal
BGD	Bangladesh	KAZ	Kazakhstan	SLE	Sierra Leone
BEN	Benin	KWT	Kuwait	SOM	Somalia
BRN	Brunei Darussalam	KGZ	Kyrgyzstan	SDN	Sudan
BFA	Burkina Faso	LBN	Lebanon	SUR	Suriname
CMR	Cameroon	LBY	Libya	SYR	Syria
TCD	Chad	MYS	Malaysia	TJK	Tajikistan
COM	Comoros	MDV	Maldives	TGO	Togo
CIV	Côte d'Ivoire	MLI	Mali	TUN	Tunisia
DJI	Djibouti	MRT	Mauritania	TUR	Türkiye
EGY	Egypt	MAR	Morocco	TKM	Turkmenistan
GAB	Gabon	MOZ	Mozambique	UGA	Uganda
GMB	Gambia	NER	Niger	ARE	United Arab Emirates
GIN	Guinea	NGA	Nigeria	UZB	Uzbekistan
GNB	Guinea-Bissau	OMN	Oman	YEM	Yemen

Developed Countries* (41)

Andorra	France	Lithuania	Slovak Republic
Australia	Germany	Luxembourg	Slovenia
Austria	Greece	Macao SAR	Spain
Belgium	Hong Kong SAR	Malta	Sweden
Canada	Iceland	Netherlands	Switzerland
Croatia	Ireland	New Zealand	Taiwan Province of China
Cyprus	Israel	Norway	United Kingdom
Czech Republic	Italy	Portugal	United States
Denmark	Japan	Puerto Rico	
Estonia	Korea	San Marino	
Finland	Latvia	Singapore	

* Refers to "advanced economies" as classified by the IMF, World Economic Outlook Database, April 2025.

Developing Countries

Includes all countries other than those classified as developed countries.

B. Income Classification of OIC Countries

High Income* (8)

Bahrain	Guyana	Oman	Saudi Arabia
Brunei Darussalam	Kuwait	Qatar	United Arab Emirates

Upper Middle Income* (14)

Albania	Indonesia	Libya	Türkiye
Algeria	Iran	Malaysia	Turkmenistan
Azerbaijan	Iraq	Maldives	
Gabon	Kazakhstan	Suriname	

Lower Middle Income* (20)

Bangladesh	Djibouti	Lebanon	Palestine
Benin	Egypt	Mauritania	Senegal
Cameroon	Guinea	Morocco	Tajikistan
Comoros	Jordan	Nigeria	Tunisia
Côte d'Ivoire	Kyrgyzstan	Pakistan	Uzbekistan

Low Income* (15)

Afghanistan	Guinea-Bissau	Sierra Leone	Togo
Burkina Faso	Mali	Somalia	Uganda
Chad	Mozambique	Sudan	Yemen
Gambia	Niger	Syria	

* Country grouping by income level is based on World Bank classification by GNI per capita in 2024. Accordingly;

- Low-income countries: with a GNI per capita of $1,135 or less,
- Lower middle-income countries: with a GNI per capita between $1,136 and $4,495,
- Upper middle-income countries: with a GNI per capita between $4,496 and $13,935, and
- High-income countries: with a GNI per capita of $13,936 or more.

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Footnotes

[1] A high employment-to-population ratio means that a large proportion of a country's working age population is employed, while a low ratio means that a large share of the population is not involved directly in market-related activities, because they are either unemployed or out of the labour force altogether.

[2] ILO Modelled Estimates, November 2024. Excluding Palestine and Ukraine for which data is not available.

[3] A form of FDI where a parent company starts a new venture in a foreign country by constructing new operational facilities from the ground up instead of buying an existing facility in that country. These investment types are crucial for the development of productive capacity and infrastructure and for the prospects for a sustainable recovery (UNCTAD, 2021).

[4] Total reserves comprise holdings of monetary gold, special drawing rights (SDRs), reserves of IMF members held by the IMF (reserve position in the IMF), and holdings of foreign exchange under the control of monetary authorities.

[5] A traditional indicator of reserve adequacy that shows the number of months a country can continue to support its current level of imports if all other inflows and outflows cease.

[6] The share of OIC countries in world total ODA flows (including those reported at country level and those unspecified) was 29.7% as of 2023, compared with 30.2% in 2022. Despite the reported increase in flows to the individual OIC countries (4.3%), the rising flows to non-OIC countries (16.8%) contributed to this outcome.

STATISTICAL, ECONOMIC AND SOCIAL RESEARCH
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