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MONTHLY BRIEFING
WORLD ECONOMIC SITUATION AND PROSPECTS

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Higher tariffs and policy uncertainty dampen global growth outlook

Global macroeconomic outlook

The global economic outlook as of mid-2025 has deteriorated notably, according to the latest *World Economic Situation and Prospects (WESP) update*. Global growth is now forecast to slow to 2.4 per cent in 2025, down from 2.9 per cent in 2024 and 0.4 percentage points below the January forecast (figure 1) This downward revision primarily reflects heightened trade tensions and intensified policy uncertainty, which are expected to strain global supply chains, raise production costs, and delay critical investment decisions, besides fuelling financial market volatility (figure 2).

According to UN DESA estimates, the effective tariff rate of the United States stood at about 14 per cent in mid-May, up from 2.5 per cent in early 2025, after factoring in the temporary agreement between the United States and China to significantly ease recent tariff hikes for 90 days.[1] While 2025 growth forecasts have been broadly downgraded, the outlook has deteriorated most for countries reliant on manufacturing, particularly those with strong trade ties to the United States. Ongoing uncertainty around the selective pauses in tariff implementation and bilateral negotiations is further complicating planning and policymaking. While a resolution of trade disputes could improve the outlook, the baseline scenario remains dominated by downside risks. A continuing fragmentation in global trade, prolonged uncertainty, or deteriorating fiscal situations could well deepen the current slowdown.

KEY MESSAGES

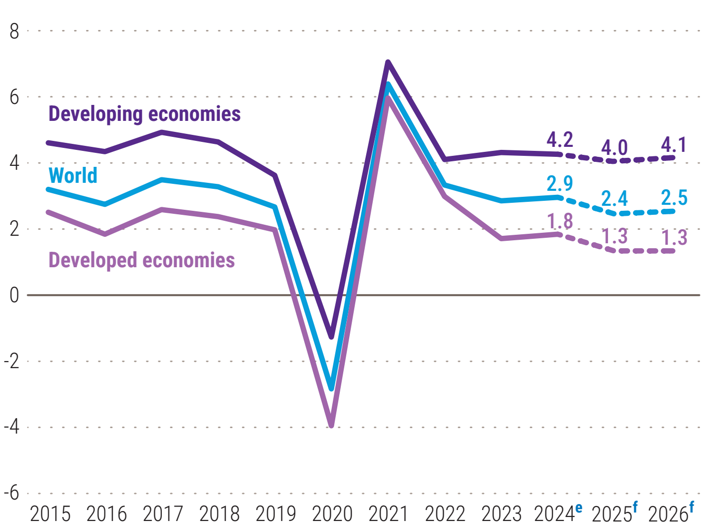
» The global economic outlook has worsened significantly since the January 2025 forecast. Higher tariffs and trade policy uncertainty are expected to strain supply chains, raise production costs, and prompt businesses to delay or scale back investments.

» Global growth is projected to decelerate from 2.9 per cent in 2024 to 2.4 per cent in 2025, reflecting a 0.4 percentage point downgrade since January. Trade-reliant developing countries are particularly vulnerable, grappling with reduced exports, lower commodity prices, tighter financial conditions, and rising debt burdens.

» The weakening global economy is jeopardizing progress on the Sustainable Development Goals. Slower growth and declining merchandise trade are hindering poverty reduction, increasing inequalities, and limiting resources for sustainable development initiatives.

Figure 1

Growth of economic output



Source: UN DESA, based on estimates produced with the World Economic Forecasting Model.
Note: **e** = estimates; **f** = forecasts.

Regional prospects

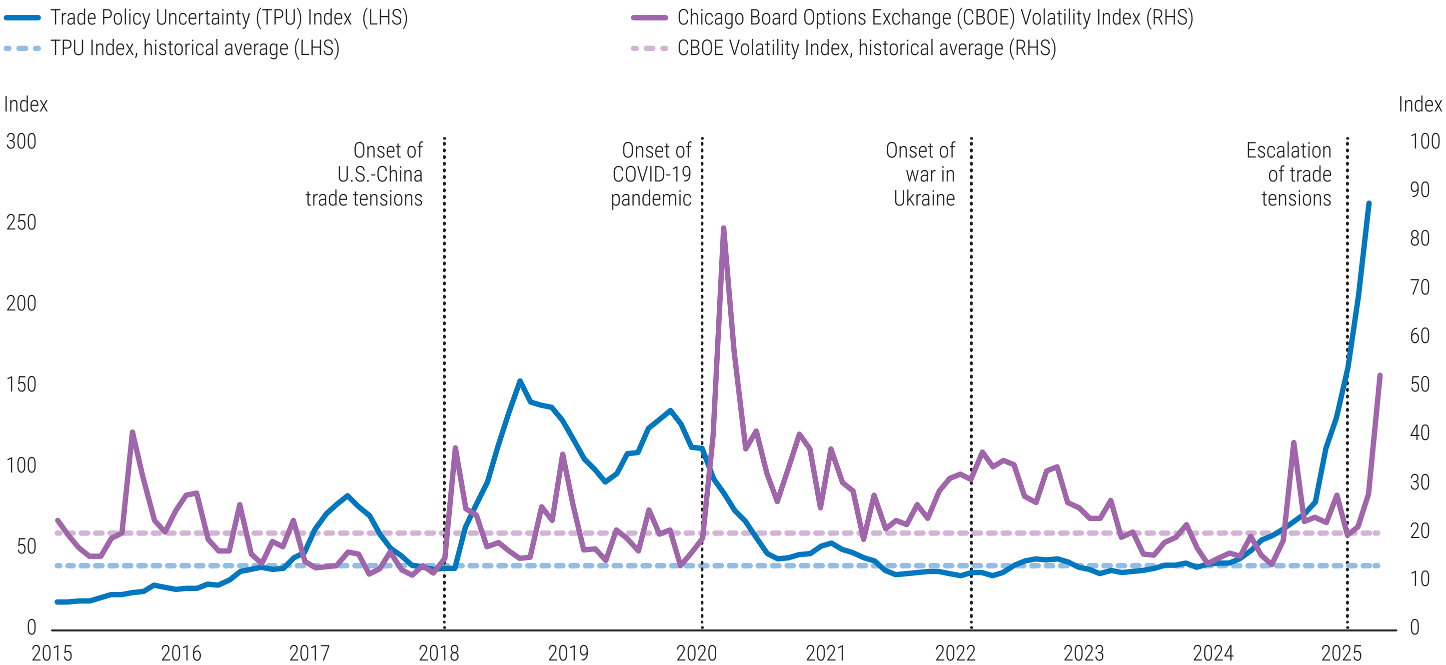
Growth forecasts have been broadly revised downward, impacting both developed and developing economies, though the severity varies across regions. Significant disparities in overall growth prospects persist (figure 3). **Developed economies** are forecast to grow at 1.3 per cent in 2025, down from 1.8 per cent in 2024, reflecting

1 See a timeline of trade actions at www.piie.com/blogs/realtime-economics/2025/trumps-trade-war-timeline-20-date-guide.

The Monthly Briefing on the World Economic Situation and Prospect is part of the monitoring and analysis activities of Economic Analysis and Policy Division (EAPD) of UN DESA. This issue, which is based on the *World Economic Situation and Prospects as of mid-2025* launched on 15 May, was prepared by Julian Slotman under the supervision of Ingo Pitterle (Senior Economic Affairs Officer) and general guidance of Shantanu Mukherjee (Director).

Figure 2

Trade policy uncertainty and equity market volatility



Source: UN DESA, based on data from Trade Policy Uncertainty Index, and Federal Reserve Economic Data (FRED).

Notes: **LHS** = left-hand scale; **RHS** = right-hand scale. Trade policy uncertainty index is based on a six-month moving average. Volatility index takes the maximum value of each month. The historical averages refer to the arithmetic mean from January 2000 to March 2025.

weakening private investment, trade tensions, and ongoing policy uncertainty.

In **North America**, the United States is projected to grow by 1.6 per cent in 2025, significantly lower than the 2.8 per cent recorded in 2024. This slowdown is attributed to weaker domestic demand, with heightened policy uncertainty projected to dampen private investment. Elevated long-term bond yields are expected to constrain residential investment, while tariffs are pushing up prices of consumer durable goods, curbing consumption. The unemployment rate, which averaged 4.1 per cent in early 2025, could rise further if trade conflicts deepen. Meanwhile, growth in Canada is forecast at 1.6 per cent, revised down from the 1.8 per cent forecast in January, as private investment slows amid economic uncertainty. Tariff exemptions under the United States-Mexico-Canada Agreement (USMCA) are expected to mitigate some negative impacts.

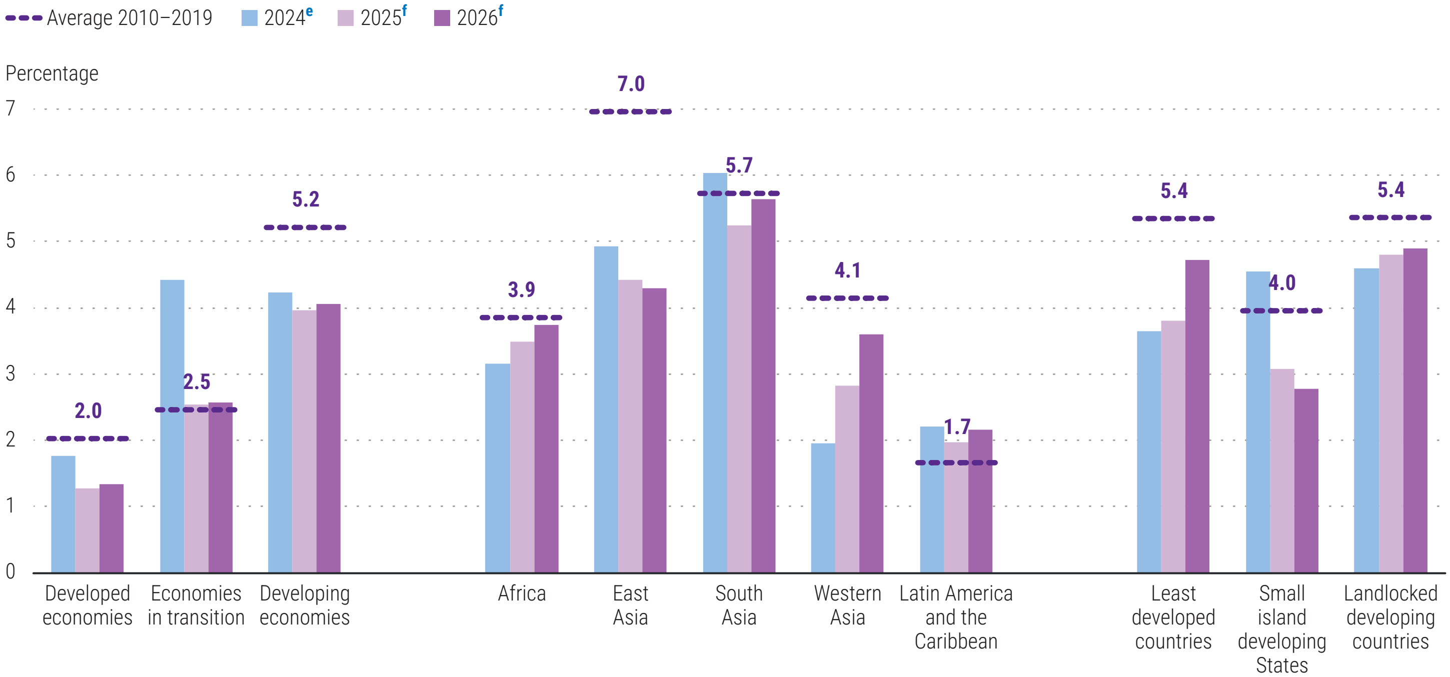
The **European Union** economy is projected to grow by 1.0 per cent in 2025, unchanged from 2024 but 0.3 percentage points below earlier forecasts. Key challenges include higher trade barriers, elevated policy uncertainty and slowing growth in the United States and China. The outlook has worsened most for manufacturing-dependent countries with strong trade links to the United States, such as Germany. By contrast, service-oriented economies such as Croatia, Greece, Portugal, and Spain are showing greater resilience, driven by robust consumer spending and a sustained recovery in tourism and hospitality.

In **Developed Asia and the Pacific,** global trade tensions and slowing external demand are dampening growth prospects for 2025. Japan's economy is forecast to grow by 0.7 per cent, as subdued consumption continues to weigh on the economy. Australia is projected to rebound, driven by monetary easing from the Reserve Bank of Australia. In contrast, the Republic of Korea continues to face a sluggish recovery in domestic demand, despite ongoing monetary easing efforts.

Economic growth in the **Commonwealth of Independent States (CIS)** is projected to slow sharply, from 4.5 per cent in 2024 to 2.5 per cent in 2025. The economy of the Russian Federation is forecast to grow by only 1.5 per cent due to labour shortages and tight monetary policy. Declining oil and gas prices are further straining the fiscal outlook of the region's energy exporters. Smaller CIS economies, which rely heavily on intermediary trade with Russia, are also experiencing reduced growth prospects. Ukraine's recovery remains uncertain, contingent on military developments, the operation of the Black Sea corridor, and the continuity of international funding flows.

Figure 3

Growth of gross domestic product by region and country group



Source: UN DESA, based on estimates and forecasts produced with the World Economic Forecasting Model.

Note: e = estimates; **f** = forecasts.

Growth projections for **developing economies** have been downgraded, with average growth now forecast at 4.0 per cent in 2025, compared to 4.2 per cent in 2024, reflecting significant regional disparities. **Africa's** gross domestic product (GDP) is forecast to expand by 3.6 per cent in 2025, slightly up from 3.5 per cent in 2024, but growth remains constrained by trade tensions, low commodity prices, and ongoing conflicts. East Africa is forecast to lead growth at 5.2 per cent, while Southern Africa lags at 1.9 per cent.

Growth in **East Asia** is projected to slow from 4.9 per cent in 2024 to 4.4 per cent in 2025, reflecting weaker export demand and heightened trade policy uncertainty. China's economy is projected to grow by 4.6 per cent in 2025, down from 5 per cent in 2024, as export-oriented manufacturing and property sector weaknesses weigh on economic activity. Policy measures to boost domestic consumption and investment and to stabilize the property sector are expected to provide some support for growth. Export-oriented economies like Cambodia, Malaysia, Taiwan Province of China, Thailand and Viet Nam face significant risks from higher U.S. tariffs and trade disruptions.

South Asia's growth is forecast to moderate from 6.0 per cent in 2024 to 5.3 per cent in 2025, with risks stemming from persistent debt challenges, trade uncertainty, and geopolitical tensions. India is forecast to grow by 6.3 per cent in 2025, supported by strong consumption, public investment, and services exports. In other economies in the region, such as Bangladesh and Pakistan, short-term growth prospects remain muted as governments implement fiscal consolidation measures and economic reforms under IMF-supported programs amid significant macroeconomic challenges.

Growth in **Western Asia** is forecast to strengthen slightly, reaching 2.8 per cent in 2025, up from 2.1 per cent in 2024, supported by a gradual increase in oil production, robust growth in non-oil sectors and the impact of monetary easing in parts of the region. While trade tensions are expected to have a limited direct impact on most economies in the region, lower oil prices will weigh on the growth prospects of energy exporters, including Saudi Arabia.

In **Latin America and the Caribbean,** GDP is projected to grow at 2.0 per cent in 2025, down from 2.2 per cent in 2024. Brazil's growth is forecast at 1.8 per cent, slowing from 3.4 per cent in 2024, as weaker household consumption, reduced fiscal stimulus and monetary tightening take a toll. Mexico's economy is projected to stagnate, with growth of just 0.2 per cent in 2025, due to weaker exports to the United States and a slump in investment. In contrast, Argentina is forecast to grow strongly in 2025, driven by robust private consumption and investment.

Economic prospects for many small and vulnerable countries have also worsened. Growth in the **least developed countries (LDCs)** is forecast at 4.1 per cent in 2025, down from 4.5 per cent in 2024. Cambodia, Lesotho and Madagascar are among the countries facing the highest levels of potential "reciprocal tariffs" from the United States, a key export destination. **Small island developing States (SIDS)** have seen a downward revision in growth to 3.1 per cent in 2025. **Landlocked developing countries (LLDCs)** are likely to experience limited near-term impacts from the trade conflict due to their restricted access to international markets.

Inflation and labour markets

Global inflation is projected to moderate from 4.0 per cent in 2024 to 3.6 per cent in 2025. However, the trend masks divergent regional dynamics. In developed economies, inflation is projected to average 2.8 per cent, slightly above the 2.7 per cent recorded in 2024, with risks of renewed upward pressures in the United States due to tariffs on intermediate and final goods. By contrast, goods prices in Europe may face downward pressure as exporters redirect products away from the United States market. Developing economies are projected to see inflation fall to 4.7 per cent, but three quarters of these economies will still experience rates above pre-pandemic levels. Food inflation remains high, especially in developing countries, where conflict and climate shocks continue to disrupt supply chains (figure 4).

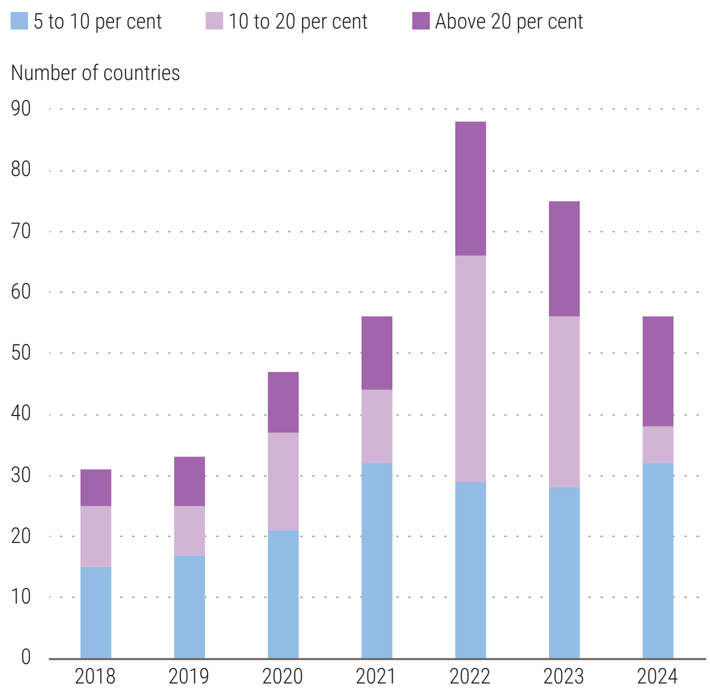
Labour markets remain relatively robust but face increasing risks amid rising economic policy uncertainty, downgraded growth prospects, and sluggish investment. The global unemployment rate has remained stable at 5 per cent, but forward-looking indicators point to a possible deterioration. In the United States, the unemployment rate rose slightly to 4.1 per cent in early 2025. The European Union has maintained low unemployment amid robust employment growth in service sectors. For many developing countries, the deteriorating economic outlook is expected to weigh on employment prospects and wage growth. The rapid adoption of generative artificial intelligence may bring further disruptions, with significant implications for employment structures across industries.

International trade and investment

Global trade is projected to experience a sharp slowdown. Following a temporary surge driven by front-loaded shipments ahead of anticipated tariffs, growth in trade volume is projected to reach just 1.6 per cent in 2025, down from 3.3 per cent in 2024. Falling prices for key commodities, including oil, industrial metals and

Figure 4

Developing countries by food inflation bracket



Source: UN DESA, based on data from Trading Economics.
Note: The sample covers 104 developing economies.

minerals, reflect subdued global demand, posing additional challenges for resource-dependent economies. Amid escalating protectionism and persistent policy uncertainty, the continuing erosion of the multilateral trading system risks further marginalizing small and vulnerable countries.

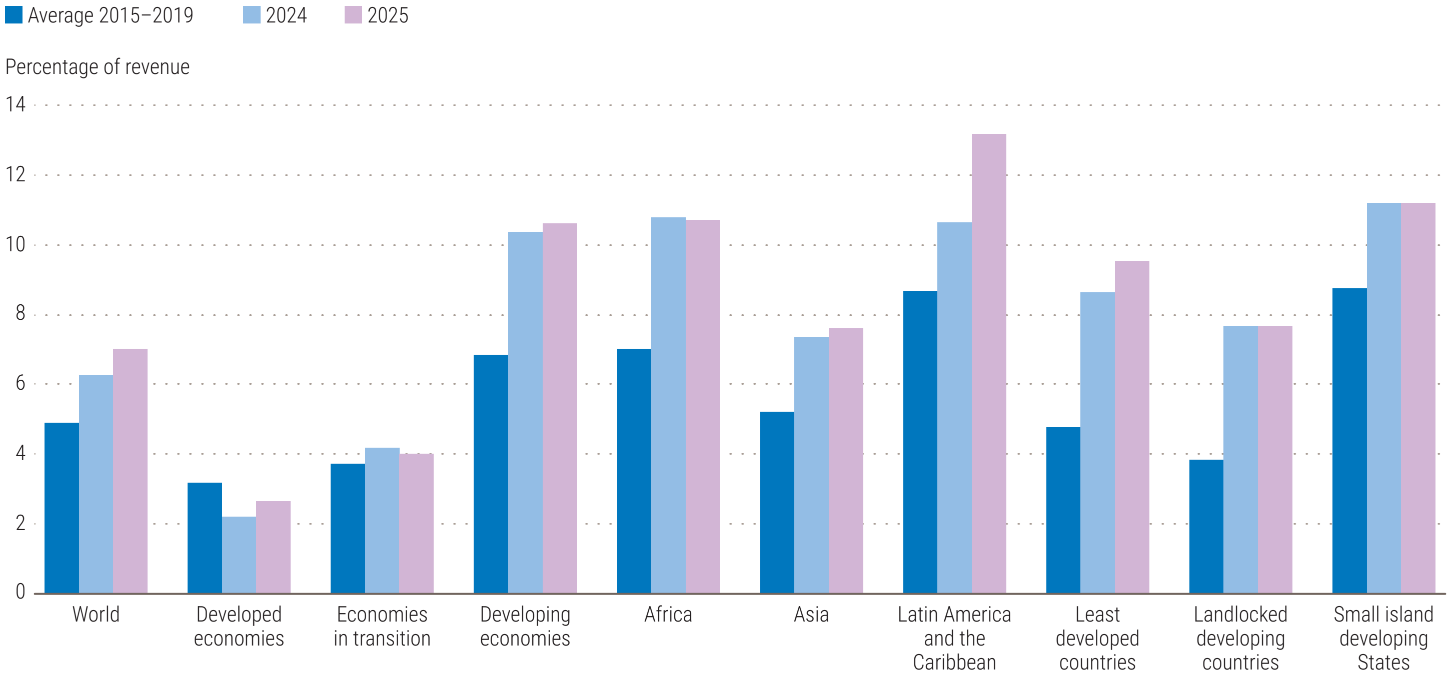
In contrast, services trade remains resilient, buoyed by the rapid expansion of digitally deliverable services, which now account for 14 per cent of global exports. Sectors such as education, finance, and healthcare have benefited from the widespread adoption of artificial intelligence.

The weakening of trade flows is also taking a toll on investment. Heightened uncertainty, elevated costs, and the potential reconfiguration of supply chains are expected to prompt businesses to delay or reduce capital expenditures, particularly in trade-dependent sectors like electronics, machinery, and automotive manufacturing.

Elevated volatility in financial markets further compounds these challenges. Major equity indices, particularly in the United States, have experienced sharp fluctuations, reflecting investor anxiety about the global economic environment. The United States dollar has weakened significantly against other major currencies,

Figure 5

Government interest expenditures, by country group and developing region



Source: UN DESA, based on data and estimates from the IMF World Economic Outlook database, April 2025.

Note: Regional values represent the median.

driven by concerns over fiscal sustainability and the impact of trade tensions. Additionally, portfolio flows to emerging markets turned negative in March 2025, reversing previous trends as investors moved away from riskier assets. A further tightening of global financial conditions could add pressure on economies already grappling with weak investment and debt challenges.

Monetary and fiscal policy

Three times more central banks have cut policy rates than raised them in early 2025, but the escalation in trade tensions is complicating further moves. The United States Federal Reserve has been holding its policy rates steady, awaiting more information on inflation and growth trajectories. The European Central Bank has lowered rates amid easing inflation and stagnant growth. Many central banks in developing economies are gradually easing monetary policies as inflation moderates. Brazil, however, has raised policy rates to address persistent inflation.

Fiscal policy is increasingly constrained for many countries, though the extent varies widely. The United States continues to run a large fiscal deficit, projected to remain above 6 per cent of gross domestic product in 2025.[2] Several European Union Member States are making use of eased fiscal rules to accommodate higher defence spending, while China is expanding fiscal stimulus to support growth. In contrast, most developing countries are struggling with high debt and limited fiscal space for counter-cyclical spending. Government interest payments of most developing countries have increased significantly, with the median burden in developing countries now four percentage points above the pre-pandemic average (figure 5). The ongoing trade conflict, rising uncertainty and deteriorating global economic conditions are likely to intensify debt challenges for developing countries, further constraining their capacity to reinvigorate economic growth.

The escalation in global trade tensions and the accompanying uncertainty are compounding development challenges. Progress towards the Sustainable Development Goals is increasingly off track, as Governments struggle to mobilise resources for development and climate action. Slower growth and weak investment risk deepening inequalities, disproportionately burdening low-income households and vulnerable populations.

2 The United States, Congressional Budget Office (2025). *The Budget and Economic Outlook: 2025 to 2035*.