

**UNDER EMBARGO UNTIL 15 MAY 2025, 12:30 pm EDT**

## **WORLD ECONOMIC SITUATION AND PROSPECTS 2025**

### **MID-YEAR UPDATE**

#### **KEY MESSAGES**

#### **GLOBAL OVERVIEW**

- **The global economic outlook has deteriorated significantly since the previous forecast in January 2025.** Higher tariffs and trade policy uncertainty are expected to strain supply chains, raise production costs, and prompt businesses to delay or scale back investments in many sectors, impacting both developed and developing countries.
- **Global growth is projected to slow from 2.9 per cent in 2024 to 2.4 per cent in 2025, a 0.4 percentage point downward revision from the January forecast.** Trade-reliant developing countries face multiple challenges from reduced exports, lower commodity prices, tighter financial conditions, and elevated debt burdens.
- **The weakening global outlook is further undermining progress towards the Sustainable Development Goals.** Slowing growth and merchandise trade will keep more people trapped in poverty, deepen inequalities, and restrict investments in sustainable development.

#### **INTERNATIONAL TRADE**

- **Global commerce is being reshaped,** with trade growth projected to slow sharply from 3.3 per cent in 2024 to 1.6 per cent in 2025. Current disruptions are unfolding alongside broader structural changes, including the expanding role of services, evolving supply chains, the deployment of advanced technologies, and the increasingly multipolar nature of global trade.
- **Merchandise trade is projected to contract in the second half of 2025 following a temporary surge driven by frontloading to circumvent tariffs.** While the outlook for services trade remains more positive, supported by digitalization and technology, weaker merchandise trade and slowing global growth may dampen demand for transport, tourism, and other services.

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#### INTERNATIONAL INVESTMENT AND FINANCE

- **Global investment growth is expected to remain subdued in 2025 due to trade policy uncertainty, elevated interest rates and fiscal constraints.** The weak investment outlook presents risks to long-term economic growth and productivity.
- **Escalating trade tensions have unsettled financial markets, increasing volatility and heightening uncertainty about global financial conditions.** The risk of tighter financial conditions and declining official development assistance pose significant challenges for vulnerable developing countries.

#### LABOUR MARKETS

- **Labour markets have remained resilient across most developed and many developing economies.** However, weaker growth prospects and sluggish investment are expected to weigh on employment and wage growth, while the rapid adoption of generative artificial intelligence may bring further disruptions.

#### INFLATION

- **Inflation is projected to continue declining, albeit at a slower pace, over the forecast period.** Global headline inflation is projected to fall from 4.0 per cent in 2024 to 3.6 per cent in 2025, 0.2 percentage points higher than the January forecast.
- **Recurrent supply-side shocks pose significant risks to the inflation outlook.** Tariff barriers, potential supply chain disruptions and the effects of climate change are placing upward pressure on consumer prices, even as downward trends in prices of oil and some other commodities could have a moderating effect.
- **Addressing inflation requires an integrated policy toolkit.** Current challenges underscore the need for a well-coordinated strategy that integrates monetary policy with fiscal measures, supply-side reforms, and medium-term industrial policies to balance inflation control, financial stability, and inclusive economic growth.

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#### **MONETARY AND FISCAL POLICY**

- **Central banks face heightened challenges amid intensifying trade conflicts and financial market volatility.** While monetary easing continued in early 2025, policymakers will find it challenging to balance the timing and scale of future adjustments as they address slowing growth and rising inflation risks.
- **Limited fiscal space is hindering the ability of developing country governments to respond effectively to economic shocks, increasing their vulnerability to rising uncertainty and global economic challenges.** Falling export revenues, shrinking foreign currency earnings, and weakening domestic demand are further straining debt management, while heightened uncertainty continues to restrict investment.

#### **REGIONAL PROSPECTS**

- In the **United States**, growth is projected at 1.6 per cent in 2025, down from the January forecast of 1.9 per cent and below the 2.8 per cent recorded in 2024. High policy uncertainty, raised tariffs, and elevated bond yields are expected to weigh on investment and consumption.
- The **European Union's economic outlook** remains subdued, with trade tensions, weakening external demand and policy uncertainty weighing on exports and investment. Growth for 2025 has been revised down to 1.0 per cent, matching the rate in 2024. Manufacturing-heavy economies with strong trade ties to the United States face the greatest challenges.
- **China's** growth is forecast to moderate from 5 per cent in 2024 to 4.6 per cent in 2025 as tariff shocks dampen net exports. While policy measures are expected to bolster domestic demand and support the property sector, structural reforms to shift toward consumption-driven growth remain essential for long-term resilience.
- **Japan's** growth for 2025 is projected at 0.7 per cent, up from 0.1 per cent in 2024, but 0.3 percentage points below the January forecast. The economy continues to face challenges from weak consumption and subdued private investment amid monetary tightening.

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- Growth in the **Commonwealth of Independent States and Georgia** is projected to slow from 4.5 per cent in 2024 to 2.5 per cent in 2025, primarily due to weaker growth in the Russian Federation. The outlook remains highly dependent on a potential resolution to the war in Ukraine, and trends in global commodity prices.
- **Africa's** growth is projected at 3.6 per cent in 2025, up slightly from 3.5 per cent in 2024, but below the January forecast. The outlook remains uncertain, weighed down by trade tensions, weak commodity prices, ongoing conflicts and strained public finances.
- **East Asia's** growth is projected to slow from 4.9 per cent in 2024 to 4.4 per cent in 2025, marking a 0.3 percentage point downgrade from the January forecast, as escalating trade tensions pose significant challenge for export-oriented economies.
- Growth in **South Asia** is expected to moderate from 6.0 per cent in 2024 to 5.3 per cent in 2025. Resilient domestic demand and monetary easing will provide support, but significant risks persist, including global trade policy uncertainty and fiscal challenges. **India** will remain one of the fastest-growing large economies, with growth projected at 6.3 per cent in 2025, a downward revision by 0.3 percentage points from the January forecast.
- **Western Asia's** economy is projected to grow by 2.8 per cent in 2025, up from 2.1 per cent in 2024, but 0.7 percentage points below the January forecast. Growth will be supported by a gradual increase in oil production, robust expansion of non-oil sectors, and the impact of monetary easing in parts of the region.
- In **Latin America and the Caribbean**, growth is projected to slow from 2.2 per cent in 2024 to 2.0 per cent in 2025—a 0.5 percentage point decline from the January forecast. Rising global policy uncertainty, weakening exports and slowing domestic demand are expected to weigh on growth.
- Economic prospects for **least developed countries (LDCs)** have worsened. Growth is projected to slow from 4.5 per cent in 2024 to 4.1 per cent in 2025, with several LDCs facing significant threats from higher U.S. tariffs. Growth in **small island developing States (SIDS)** has been

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revised down to 3.1 per cent in 2025, a sharp decline from 4.6 per cent in 2024. **Landlocked developing countries (LLDCs)** are forecast to grow by 4.9 per cent in 2025, unchanged from the January forecast and slightly above the 2024 rate.