United Nations | Department of Economic and Social Affairs

World Economic Situation and Prospects 2025

MID-YEAR UPDATE

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The *World Economic Situation and Prospects as of mid-2025* updates the *World Economic Situation and Prospects 2025* released on 9 January 2025. The report is prepared by the Global Economic Monitoring Branch in the Economic Analysis and Policy Division of the United Nations Department of Economic and Social Affairs.

United Nations

World Economic Situation and Prospects as of mid-2025

Summary

The world economy is at a precarious moment. Heightened trade tensions, along with policy uncertainty, have significantly weakened the global economic outlook for 2025. Higher tariffs—resulting in a significant increase in the effective tariff rate in the United States of America—are likely to strain global supply chains, drive up production costs and delay critical investment decisions, while also contributing to financial market volatility. Global economic growth is now projected 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.[1] The downward revisions in growth forecasts are broad-based, affecting both developed and developing economies. Weakening global trade growth and investment flows are compounding the slowdown. Many trade-reliant developing countries face mounting challenges from reduced exports, lower commodity prices, tighter financial conditions, and elevated debt burdens.

Inflation is easing globally, but short-term risks from tariff-driven cost pressures and uncertainty are adding to policy challenges. Addressing them requires a broad toolkit that combines monetary policy, fiscal measures, supply-side reforms, and industrial strategies to stabilize prices and foster resilience.

The deteriorating economic outlook is further undermining progress toward the Sustainable Development Goals, many of which are already off track. Slower growth and persistent cost-of-living pressures risk deepening inequalities, disproportionately burdening low-income households and vulnerable populations. Meanwhile, persistent weakness in global investment growth drags down long-term economic prospects.

1 United Nations (2025), World Economic Situation and Prospects 2025, New York.

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Global macroeconomic trends

Global overview

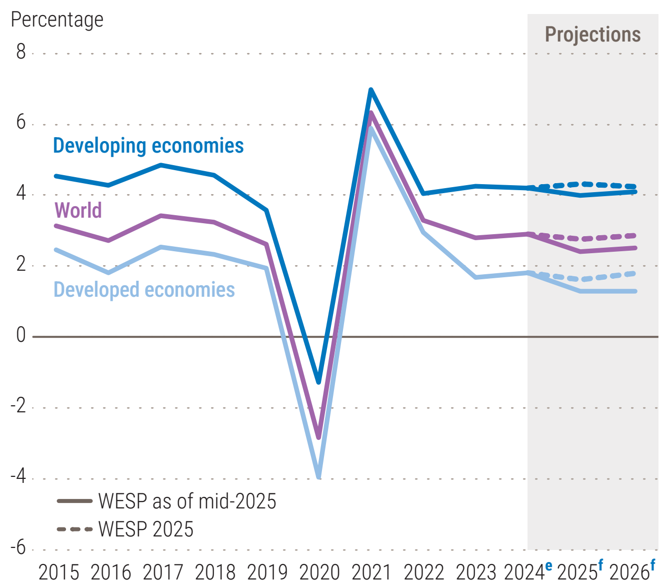
The global economic outlook has deteriorated significantly since the January 2025 forecast. Sweeping United States tariff announcements and counter-announcements, along with heightened policy uncertainty have eroded global growth prospects, already weaker than the pre-pandemic trend due to high debt levels, sluggish productivity growth and geopolitical tensions. Declining consumer and business confidence, increased financial market volatility, and potential disruptions in manufacturing and supply chains are weighing on economies worldwide. Tariff-induced price shocks risk reigniting inflation, slowing growth and driving up unemployment, complicating monetary policymaking. At the same time, constrained fiscal space—particularly in developing countries—limits the ability of governments to respond effectively to these shocks. Policy ambiguity fuels unprecedented levels of uncertainty, imperilling decision making at all levels. These challenges jeopardize growth and sustainable development.

Against this backdrop, the uncertainty in global growth forecasts is unusually high. Under the baseline scenario, incorporating developments and policy announcements as of early May 2025, the world economy is projected to expand by 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). The growth downgrade for 2025 affects both developed and developing regions, albeit to different degrees (table 1).

The broad-based downgrade arises from a series of increases in United States tariffs that have been unprecedented in size, scope and speed; retaliatory measures by China, the European Union and Canada; as well as uncertainty arising from selective implementation pauses and bilateral negotiations.[1] Currently, taking into

Figure 1

Growth of economic output



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

1 For a timeline of trade actions, see Brown, Chad P. (2025), Trump's trade war timeline 2.0: An up-to-date guide, Peterson Institute for International Economics.

Table 1

Growth of world output and gross domestic product

Annual percentage change	2010-2019 average	2023	2024[a]	2025[b]	2026[b]	Change from *World Economic Situation and Prospects 2025*: 2025	Change from *World Economic Situation and Prospects 2025*: 2026
World	**3.2**	**2.8**	**2.9**	**2.4**	**2.5**	**-0.4**	**-0.4**
Developed economies	**2.0**	**1.7**	**1.8**	**1.3**	**1.3**	**-0.3**	**-0.5**
United States of America	2.4	2.9	2.8	1.6	1.5	-0.3	-0.6
Japan	1.2	1.5	0.1	0.7	0.9	-0.3	-0.3
European Union	1.6	0.4	1.0	1.0	1.3	-0.3	-0.2
Euro area	1.4	0.4	0.9	0.8	1.1	-0.3	-0.2
United Kingdom of Great Britain and Northern Ireland	2.0	0.4	1.1	0.9	1.1	-0.3	-0.3
Other developed countries	2.6	1.4	1.5	1.4	1.5	-0.6	-0.6
Economies in transition	**2.4**	**4.3**	**4.4**	**2.5**	**2.6**	**-0.1**	**0.1**
South-Eastern Europe	2.1	3.4	3.4	3.2	3.6	-0.4	0.1
Commonwealth of Independent States and Georgia	2.5	4.3	4.5	2.5	2.5	0.0	0.0
Russian Federation	2.0	4.1	4.3	1.5	1.5	0.0	0.0
Developing economies	**5.2**	**4.3**	**4.2**	**4.0**	**4.1**	**-0.3**	**-0.1**
Africa[c,d]	3.8	3.3	3.5	3.6	3.7	-0.1	-0.3
North Africa[c,d]	3.6	3.1	3.2	3.5	3.6	0.1	-0.2
East Africa	6.2	6.0	5.7	5.2	5.6	-0.8	-0.4
Central Africa	2.6	2.0	2.7	2.6	2.9	-0.4	0.1
West Africa	4.5	3.6	4.2	4.2	4.0	0.1	-0.3
Southern Africa	2.4	1.6	1.6	1.9	2.2	-0.3	-0.3
East and South Asia[e]	6.7	5.2	5.1	4.6	4.5	-0.3	-0.2
East Asia	7.0	4.8	4.9	4.4	4.3	-0.3	-0.2
China	7.7	5.2	5.0	4.6	4.4	-0.2	-0.1
South Asia[e,f]	5.7	7.1	6.0	5.3	5.6	-0.4	-0.4
India[f]	6.7	8.7	7.1	6.3	6.4	-0.3	-0.3
Western Asia	4.1	2.0	2.1	2.8	3.6	-0.7	0.1
Latin America and the Caribbean	1.6	2.2	2.2	2.0	2.2	-0.5	-0.1
South America	1.2	1.5	2.1	2.3	2.2	-0.3	0.0
Brazil	1.4	3.2	3.4	1.8	2.0	-0.5	0.1
Mexico and Central America	2.7	3.2	2.0	1.0	1.9	-0.9	-0.5
Caribbean[g]	0.4	2.1	2.3	2.2	2.0	-0.3	-0.1
Least developed countries[d,e]	**5.5**	**4.7**	**4.5**	**4.1**	**4.8**	**-0.5**	**-0.3**
Landlocked developing countries[e]	**5.4**	**4.9**	**4.6**	**4.9**	**4.9**	**0.0**	**0.0**
Small island developing States	**3.9**	**2.2**	**4.6**	**3.1**	**2.8**	**-0.3**	**-0.2**
Middle-income countries	**5.6**	**4.7**	**4.4**	**4.1**	**4.2**	**-0.3**	**-0.1**
Memorandum items							
World trade[h]	4.5	1.1	3.3	1.6	2.3	-1.6	-1.2
World output growth with purchasing power parity (PPP) weights[i]	3.6	3.3	3.3	2.9	3.0	-0.3	-0.3

Source: UN DESA, based on estimates and forecasts produced with the World Economic Forecasting Model.
Notes: **a** estimate; **b** forecast; **c** excludes Libya due to conflict; **d** excludes Sudan due to conflict; **e** excludes Afghanistan due to lack of data; **f** calendar-year basis; **g** excludes Guyana as rapid growth due to oil production drives up the regional average; **h** includes goods and services; **i** based on 2015 benchmark. Estimates and forecasts are based on data and information available up to early May 2025.

account the agreement between the United States and China to significantly ease recent tariff hikes for 90 days, the average effective tariff rate on United States imports is estimated at about 14 per cent, up from 2.5 percent in early 2025.

In 2024, merchandise trade (average of exports and imports) accounted for 22.2 per cent of global economic output. United States imports made up 14 per cent of global imports, followed by China (10 per cent) and Germany (6 per cent). Hence, the potential upheaval in trade relations between the United States and the rest of the world portends significant risks for the global economy through multiple channels.

Complex supply chains based on enhanced specialization and low transaction costs need time and investments to adjust, a process that can be delayed by policy uncertainty. Uncertainties amplify financial market stress and volatility, while tariffs are expected to drive up business costs and consumer prices, stoking inflationary pressures. Rising prices, market instability and income risks may impact consumer spending, further weakening demand. Should changes in merchandise trade spill over into services—such as transport or tourism—the reverberations could spread through additional channels.

Under the baseline scenario, United States growth is forecast at 1.6 per cent in 2025, down from 2.8 per cent in 2024 and 0.3 percentage points below the January forecast (table 1). While the expectation of higher tariffs led to frontloading of imports, rising policy uncertainty is expected to weigh on private investment and consumption. In the European Union, growth is projected at 1.0 per cent in 2025, unchanged from 2024 and 0.3 percentage points below the January forecast. An uptick in consumer spending, supported by resilient labour markets, real income growth and lower interest rates, is expected to be offset by weaker net exports amid rising trade barriers.

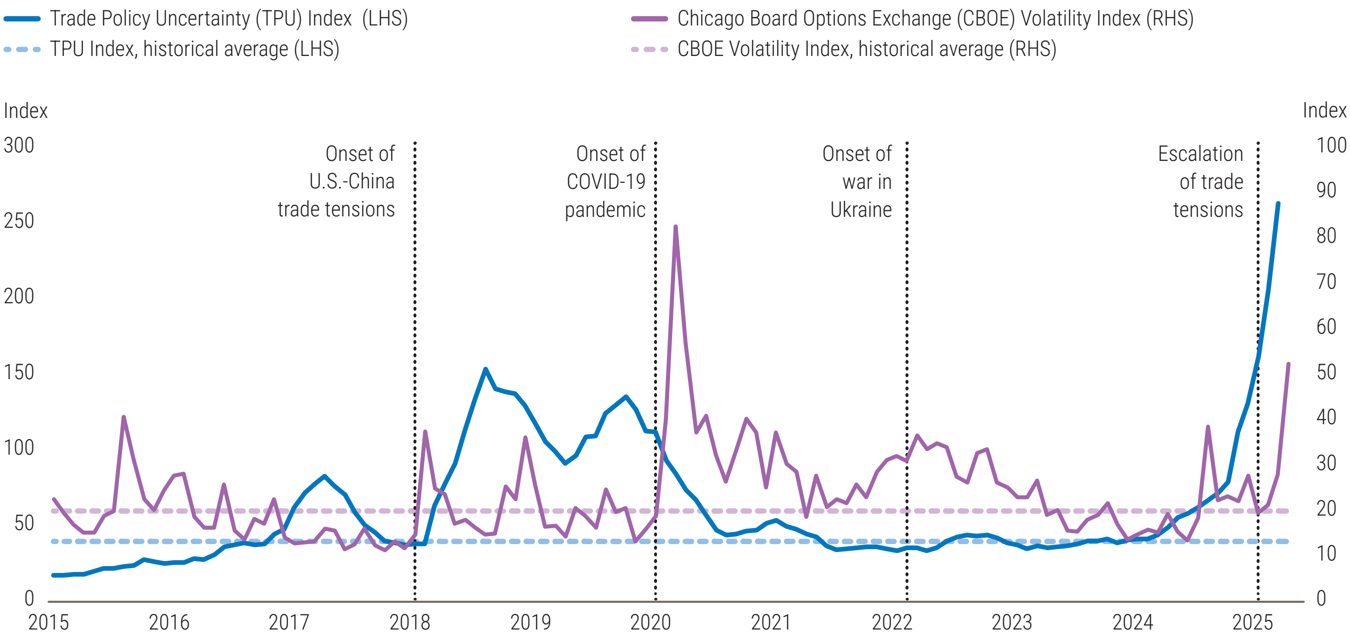
Among developing economies, East Asia and Latin America are expected to be the most impacted by tariffs due to their strong trade links with the United States. Many developing countries also face challenges from weak commodity price outlooks. In China, disruptions in export-oriented manufacturing, subdued consumption, and property sector weakness are expected to slow growth to 4.6 per cent in 2025, 0.2 percentage points below the January forecast. Mexico's economy is projected to stagnate in 2025, due to weaker exports to the United States and a steep decline in investment. In Africa, growth remains constrained by trade tensions, depressed prices of key commodities and ongoing armed conflicts. Despite a projected moderation, India remains one of the fastest-growing large economies, supported by resilient consumption and government spending. The Commonwealth of Independent States (CIS) region is largely insulated from the direct effects of global trade tensions but may face challenges from declining oil and gas prices, which could weigh on export revenues and fiscal balances.

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, 0.5 percentage points below the January forecast. 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 slight downward revision in growth to 3.1 per cent in 2025. Landlocked developing countries (LLDCs), as a group, are likely to experience limited near-term impacts from the trade conflict due to their restricted access to international markets.

A rapid resolution of trade tensions, accompanied by significant tariff reductions, could improve global economic prospects. However, downside risks dominate, with outcomes potentially worse than in the baseline scenario. Prolonged policy uncertainty, persistent trade conflicts and continuing market volatility (figure 2) could further disrupt supply chains, erode business and consumer confidence, and limit fiscal space. In this downside scenario, global growth could fall by 0.3 percentage points in 2025 and

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.

0.6 percentage points in 2026 compared to the baseline forecast.

A deteriorating global outlook further undermines progress towards the Sustainable Development Goals, many of which are already off track. Small and vulnerable economies, with limited bargaining power in bilateral trade negotiations, face declining trade revenues, weaker job creation, and slower growth. These challenges risk widening global inequalities and hindering economic convergence. Tariff-induced price increases disproportionately impact low-income households, intensifying cost-of-living pressures, threatening poverty reduction, and worsening within-country inequality. Women are especially vulnerable, as many countries under high tariff threats are major exporters of labour-intensive apparel and textiles, where women constitute the vast majority of the workforce. Weakened growth prospects further limit governments' fiscal space, constraining investment in development and climate action.

Inflation

Inflation has continued to decline in most economies, albeit at a slower rate, but heightened trade tensions have increased uncertainty about its short-term trajectory. Global headline inflation is projected to decelerate from 4.0 per cent in 2024 to 3.6 per cent in 2025, 0.2 percentage points higher than the January forecast. Falling prices for oil and certain commodities—reflecting weakening demand and easing supply constraints—are expected to provide some relief. However, rising tariffs, particularly in the United States, are likely to push up consumer prices, potentially reigniting inflation.

In developed economies, inflation is projected to average 2.8 per cent in 2025, slightly above the 2.7 per cent recorded in 2024. Core inflation—excluding food and energy—moderated in early 2025 but remains above central banks' target levels. In the United States, prospects of significantly higher tariffs on final and intermediate goods have raised short-term inflation expectations, fuelling concerns about renewed price pressures and possible de-anchoring from central bank targets. Although a single tariff hike may cause only a limited uptick in prices, broader tariff increases that impact different stages of supply chains, prompt retaliatory actions or result in significant supply disruption could lead to a more prolonged and persistent rise in consumer prices. In contrast, goods prices in Europe may face downward pressure as exporters redirect products away from the United States market. This dynamic could deepen the divergence between the two regions, with inflation continuing to decline in Europe, while remaining elevated in the United States—contributing to differing interest rate decisions.

In developing economies, average inflation is forecast to fall from 6.0 per cent in 2024 to 4.7 per cent in 2025, approaching its long-term average. However, in three-quarters of these economies, inflation in 2025 is expected to exceed 2019 levels, with several countries experiencing double-digit rates. Despite significant declines, food inflation remains high in many countries, particularly in Africa and Western Asia, due to exchange rate volatility, conflicts and climate-related shocks. Section II presents a more in-depth look at inflation.

Global trade and investment

Global trade growth is projected to slow sharply from 3.3 per cent in 2024 to 1.6 per cent in 2025. Merchandise trade is forecast to weaken significantly in the second half of 2025, following a temporary surge in late 2024 and early 2025 as businesses frontloaded shipments ahead of anticipated tariff hikes. The trade outlook remains highly uncertain, amid unpredictable trade policies and potential ripple effects across global relationships. The trade upheaval comes at a time of ongoing structural shifts, including the expanding role of services, evolving supply chains, growing deployment of advanced technologies, and the increasingly multipolar nature of global commerce.

While disruptions could unlock new opportunities for some economies, the risks of escalating protectionism, growing inefficiencies and persistent policy uncertainty pose significant challenges, underlining the volatile state of global trade. Escalating trade frictions are placing increasing strain on the multilateral trading system, particularly the World Trade Organization (WTO), the cornerstone of rules-based international trade. Small and vulnerable economies face greater risks of marginalization, as their limited leverage in trade negotiations leaves them increasingly exposed in this fragmented landscape. Adding to these challenges is the ongoing impasse in the WTO dispute settlement system, which makes trade conflicts harder to resolve, increasing uncertainty in global trade relations.

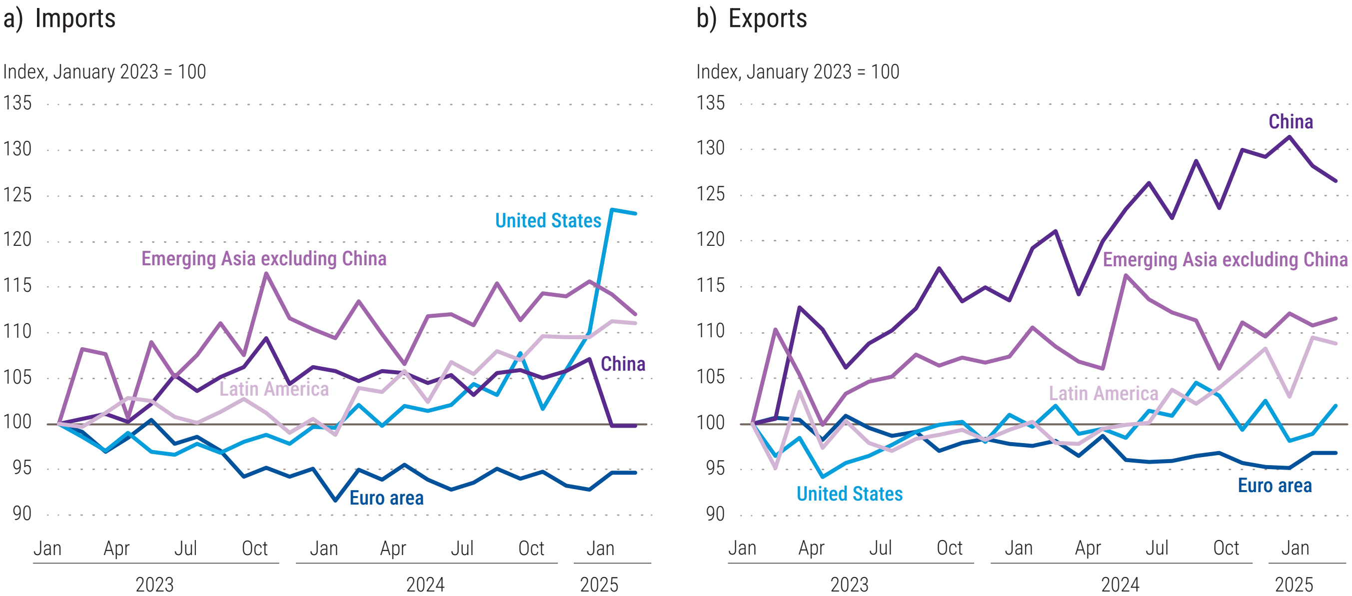
Recent trade indicators show significant variation across regions and product categories. United States merchandise imports rose sharply during the frontloading phase (figure 3a). In parallel, exports from China and other East Asian economies surged, fuelled by robust global demand for electronics, machinery, and semiconductors—critical components of global supply chains (figure 3b). In contrast, commodities underperformed due to subdued demand, especially for oil, placing additional strain on resource-dependent economies. This weakness is expected to persist throughout 2025, with prices of key commodities—including oil, industrial metals and minerals—projected to decline considerably.[2]

Signs of weakening goods trade are becoming increasingly evident. For example, manufacturing Purchasing Managers' Indices (PMIs) for new export orders have fallen below 50 in many economies, indicating weakness in external demand going forward (figure 4).

2 World Bank (2025), *Commodity Markets Outlook*, April.

Figure 3

Merchandise trade volume in selected economies



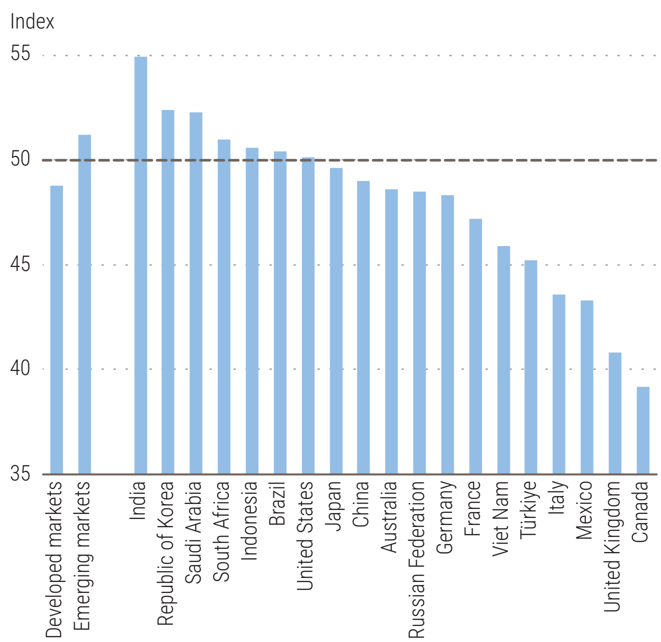
Source: UN DESA, based on data from CPB Netherlands Bureau for Economic Policy Analysis.
Note: Regional groupings are not strictly comparable to those in the present report but illustrate regional tendencies.

Services trade has proven more resilient, driven by digitalization and technological advancements. By 2023, digitally deliverable services reached $4.25 trillion, nearly 14 per cent of global goods and services exports. Artificial intelligence (AI) is further transforming services trade, with sectors such as education, healthcare and finance benefiting from AI-driven productivity growth and lower trade costs.[3] However, slower merchandise trade may undermine prospects for freight and transport services, while weaker overall growth could dampen demand for services like international tourism.

The global trade conflict is projected to weigh heavily on investment worldwide, by weakening global demand, raising costs for businesses and increasing policy uncertainty. Many firms are adopting a "wait-and-see" approach, delaying or scaling back capital expenditures, especially in sectors heavily reliant on complex global supply chains, such as electronics, machinery,

Figure 4

Manufacturing Purchasing Managers' Index for new export orders, March 2025



Source: UN DESA, based on data from CEIC.

3 See, for instance, World Trade Organization (2024), *Trading with Intelligence: How AI Shapes and Is Shaped by International Trade*, November.

and automotive manufacturing. Investment, the most import-intensive part of demand, is highly vulnerable to trade pressures. In developing countries, elevated financing costs further constrain investment capacity, compounding the trade-related challenges. Consequently, the weakness in global investment growth observed in 2024 is expected to persist in 2025, deepening its drag on long-term economic prospects (figure 5).

Among developed economies, investment growth in the United States began moderating in late 2024 but remained relatively strong overall. Business and residential investment face significant challenges, with trade, economic, and monetary policy uncertainties weighing on corporate and household decision-making. In the euro area, investment contracted by 2 per cent in 2024 and remains under pressure from geopolitical instability and subdued demand. However, increased military spending in the European Union, particularly in Germany and the United Kingdom of Great Britain and Northern Ireland, is expected to provide some support to investment growth.

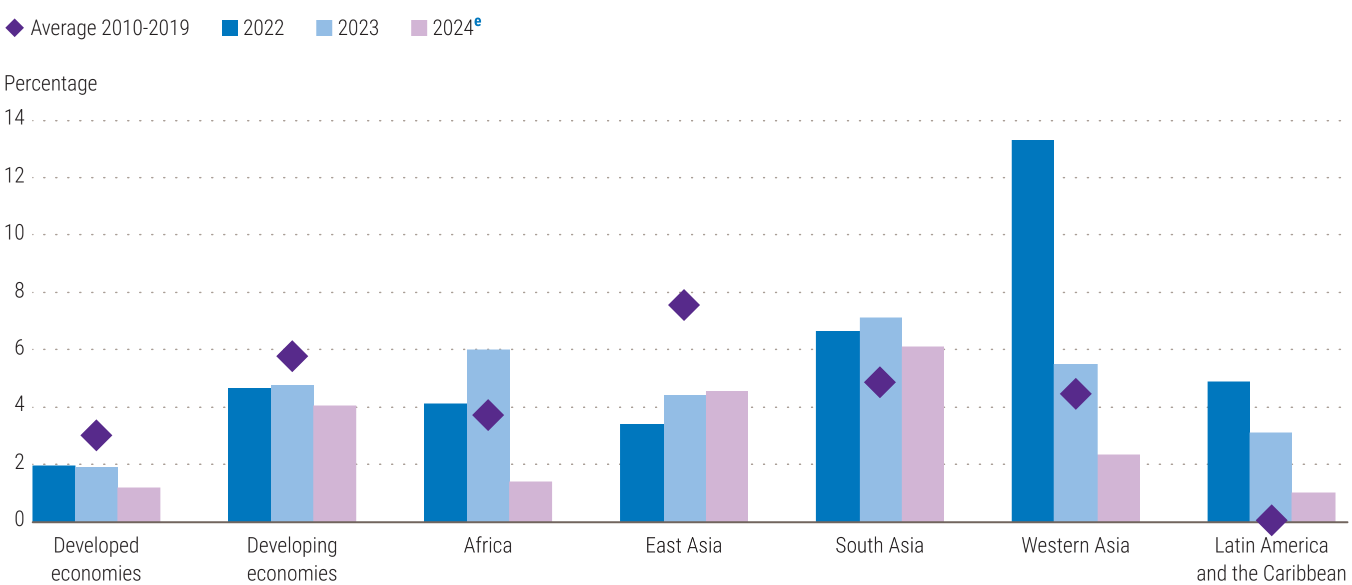
In developing regions, the slowdown in investment growth is projected to persist in 2025 due to trade-related uncertainties, elevated interest rates, and fiscal constraints. Geopolitical tensions and rising tariffs are reshaping global supply chains, driving a reallocation of foreign direct investment (FDI) flows. For instance, FDI flows to China declined by 29 per cent in 2024, a second consecutive year of contraction. In contrast, regions with strong connectivity to major developed markets, free trade agreements, and established manufacturing sectors could attract increased investment as businesses adapt to the evolving trade environment, although prolonged uncertainties can delay such decisions.

International finance

Since the last forecast, the outlook for financial conditions has become unsettled. While global financial conditions were largely accommodative in 2024—marked by growth of cross-border bank lending and sustained portfolio capital flows to emerging market economies—market volatility surged in April 2025, reaching its highest level since the COVID-19 pandemic.

Figure 5

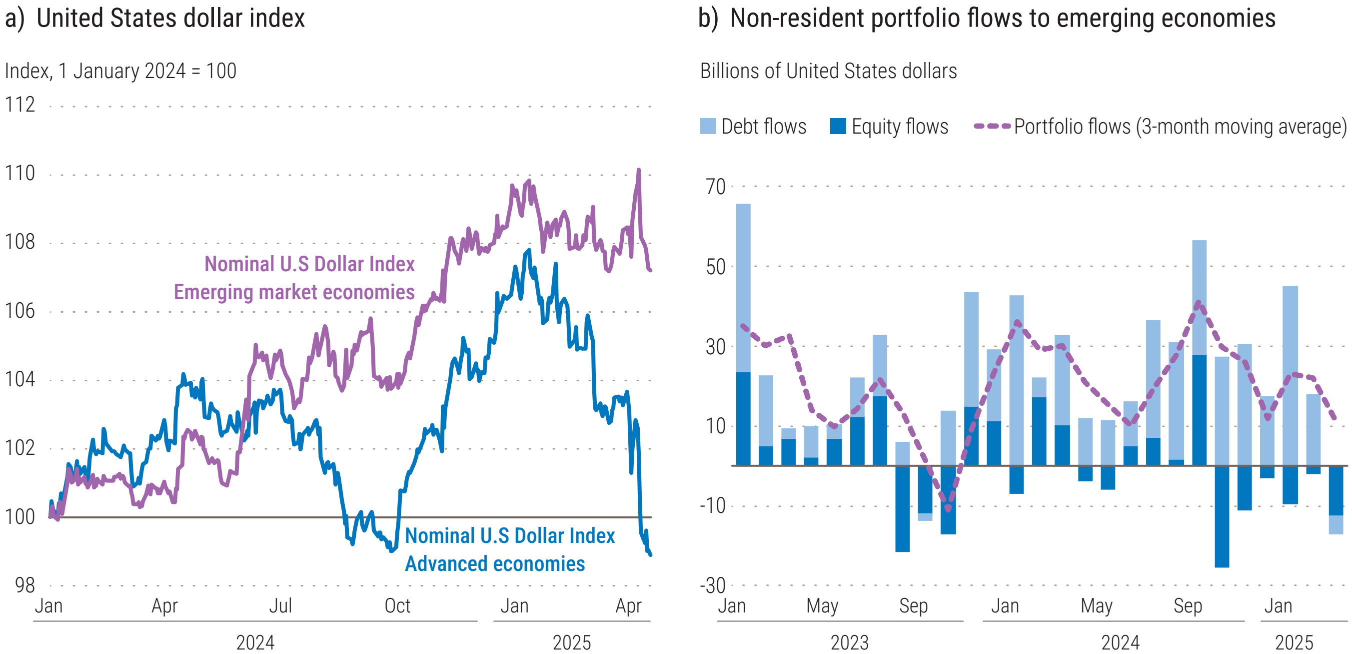
Growth of gross fixed capital formation, by country grouping and developing region



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

Figure 6

International finance indicators



Source: UN DESA, based on data from the Institute of International Finance, and Federal Reserve Economic Data.

This sharp increase in volatility reflects heightened investor anxiety and growing unease about the global economic environment. Major equity indices—especially in the United States—experienced some of the largest swings in recent history. The turmoil spread briefly to bond markets, with United States Treasuries experiencing sharp selling pressure as market confidence waned. The unwinding of large, leveraged positions by some hedge funds further amplified liquidity pressures. Meanwhile, the United States dollar weakened significantly against other major developed country currencies (figure 6a). In the two weeks after the "reciprocal tariffs" were announced, the depreciation amounted to 4.5 per cent against both the euro and the yen, and 7.3 per cent against the Swiss franc. The unusual combination of temporarily falling equity indices, rising bond yields, and a declining dollar reflected concerns over the broader United States economic and fiscal trajectory. Such fears, in turn, fuelled a sharp rise in gold prices, a traditional "safe haven" asset.

For developing countries, the outlook remains mixed. Many have demonstrated resilience during recent financial turmoil, experiencing only mild equity and bond market swings. Among a sample of 49 developing countries, 27 have posted year-to-date gains in major stock market indices.[4] However, should tariff-induced inflationary pressures materialize, major developed country central banks may keep interest rates higher than currently expected, tightening global financial conditions and triggering capital outflows from developing economies. Signs of such vulnerabilities may be becoming visible: portfolio flows to emerging markets declined in March for the first time since September 2023 (figure 6b), suggesting reduced investor appetite for riskier assets.

Official development assistance (ODA) is also under increasing strain. A weaker economic

4 As of 22 April 2025.

outlook constrains government resources, while major donor countries, such as the United States, the United Kingdom, and the Kingdom of the Netherlands, plan to scale back contributions in the coming years. This will worsen an already challenging environment for ODA, which declined by 0.2 per cent in 2023, hitting low-income and fragile countries hardest.[5]

Labour markets

Labour markets have remained resilient in most developed and many developing economies in early 2025. The global unemployment rate in 2024 held steady at a historically low level of 5 per cent. However, rising economic policy uncertainty, downgraded growth prospects, and sluggish investment pose risks to global labour markets. The rapid adoption of generative AI may bring further disruptions, with significant implications for employment structures across industries.

In the United States, the unemployment rate averaged 4.1 per cent in the first quarter of 2025, up from 3.8 per cent a year earlier but still low by historical standards. An economic downturn triggered by the ongoing trade disputes could significantly increase unemployment. In Europe, labour markets have demonstrated resilience despite weak economic growth. The unemployment rate in the European Union hit a record low of 5.7 per cent in early 2025, with service-oriented economies benefiting from robust job growth in sectors such as tourism and technology. However, higher United States tariffs on European goods, especially in the automotive industry, would pose a significant risk to manufacturing jobs.

For developing countries, the deteriorating economic outlook is expected to weigh on employment prospects and wage growth. In China, unemployment increased modestly in early 2025, with higher U.S. tariffs expected to intensify pressure on export-oriented industries.

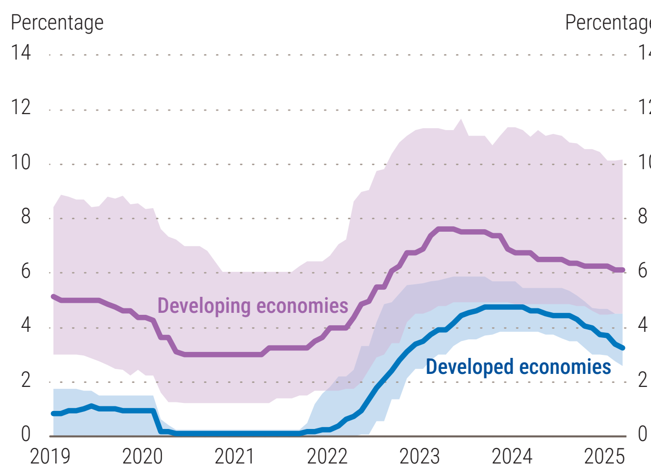
In India, unemployment remains largely stable amid steady economic conditions, though persistent gender disparities in employment underscore the need for greater inclusivity in workforce participation. Brazil's labour market has remained robust, despite a slight uptick in the unemployment rate from its record low.

Monetary policy

Monetary easing continued in early 2025, with central banks cutting policy rates three times more often than raising them in the first quarter. However, escalating trade conflicts and financial market turbulence have created a more uncertain policy environment. Many central banks are grappling with slowing global growth and rising inflationary risks, making decisions on the timing and scale of policy adjustments increasingly challenging. Despite recent cuts, policy rates in developed and developing economies remain well above pre-pandemic levels, leaving room for further easing if needed (figure 7).

Figure 7

Central bank policy rates in developed and developing economies



Source: UN DESA, based on CEIC data.
Note: The lines display the median policy rates for 48 developing economies and 18 developed economies. The shaded areas include the range between the 25th and 75th percentile of the respective policy rates.

5 The decline refers to ODA contributions by the Development Assistance Committee (DAC) countries.

The United States Federal Reserve held policy rates steady in early 2025, adopting a wait-and-see approach amid uncertainty over the impact of new trade and economic policies on growth and inflation dynamics, given its dual mandate of supporting stable prices and maximum employment. While the Federal Reserve is expected to remain cautious until the impacts of these policies become clearer, gradual easing of monetary policy is anticipated over the coming quarters. The pace and extent of easing will depend on the balance of economic risks. In contrast, central banks across Europe have continued reducing borrowing costs as inflationary pressures further eased and the growth outlook worsened. The European Central Bank cut its benchmark rates three times between January and April 2025.

In developing economies, improving balance-of-payments conditions and stabilizing exchange rates have allowed many central banks to shift to monetary easing. The Reserve Bank of India began an easing cycle in February as inflation moderated. The People's Bank of China lowered policy rates in early May to boost domestic demand amid external pressures. In Africa, central banks in the CFA franc zone have shifted to monetary easing, following the lead of the European Central Bank, with the Bank of Central African States cutting rates in March and the Central Bank of West African States expected to follow. Falling inflation has also allowed countries like Argentina, Egypt, and Tunisia to ease monetary policy. Brazil remains an outlier, raising policy rates three times in the first quarter to combat persistent inflation.

Fiscal policy

Fiscal policy stances have become increasingly divergent across the world, reflecting differences in the capacity of countries to address rising uncertainty, policy priorities and exposure to shocks. With escalating geopolitical tensions and a weakening economic outlook, major economies are expected to maintain elevated fiscal deficits despite high government debt levels and growing interest burdens. In the United States, the fiscal deficit reached 6.6 per cent of GDP in fiscal year 2024 and is projected to remain at a similar level in 2025, well above the historical average (1975–2024) of 3.8 per cent.[6] However, the United States fiscal outlook could evolve significantly as discussions on a comprehensive fiscal bill continue.

The United Kingdom and several European Union Member States have relaxed their fiscal policy stances to accommodate increased military spending. The European Union has proposed allowing Member States to raise military spending by up to 1.5 per cent of GDP beyond the usual 3 per cent fiscal deficit limit.[7] Germany has exempted defence and security spending from its fiscal brake rule and committed to a €500 billion infrastructure fund. China has also undertaken more ambitious fiscal expansion, raising the fiscal deficit from 3 per cent of GDP in 2024 to 4 per cent in 2025, to finance a broad range of stimulus measures.

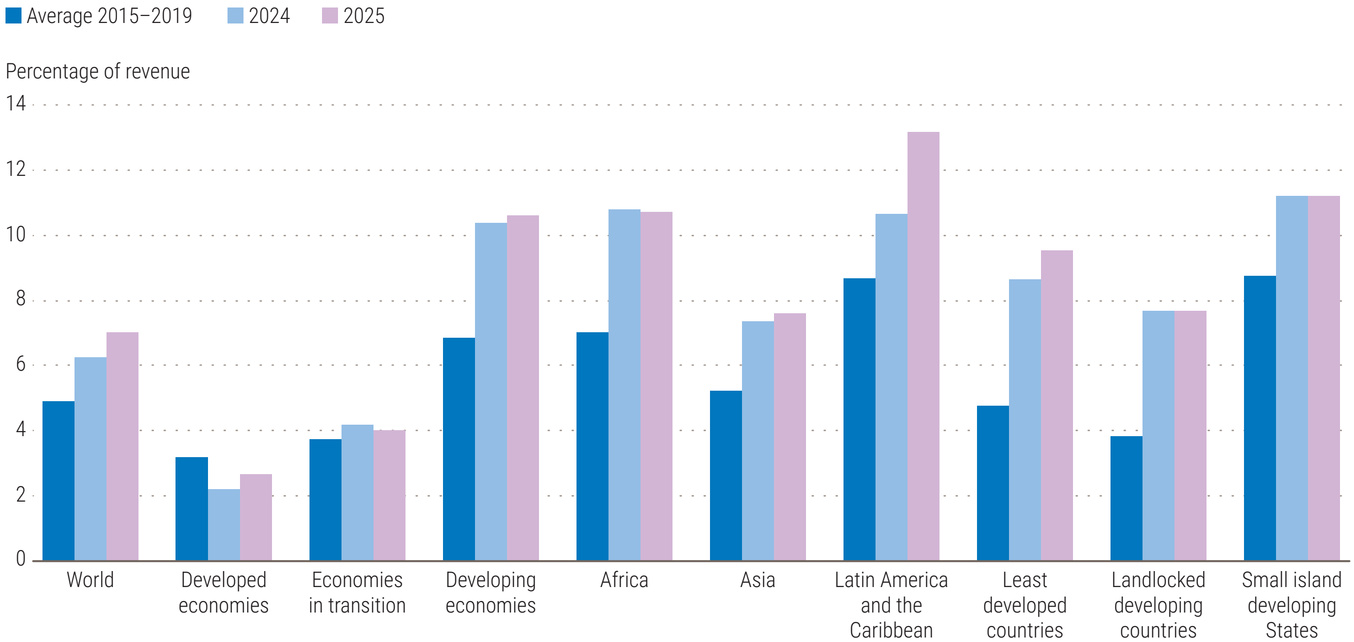
Fiscal conditions in most developing countries remain challenging, and the capacity for expansive policy limited. In 2024, the median fiscal deficit in developing countries stood at 3.4 per cent of GDP, up from a pre-pandemic average (2010–2019) of 2.8 per cent. The median general government gross debt rose from a pre-pandemic average of 40 per cent to 57 per cent of GDP in 2024. Interest payment burdens have also increased significantly. In 2025, government debt interest payments as a share of revenue are projected to be four percentage points higher than their 2015–2019 average (figure 8).

The ongoing trade conflict, rising uncertainty and deteriorating global economic conditions are likely to intensify debt challenges for developing countries. Declining export revenues,

6 United States Congressional Budget Office (2025), *The Budget and Economic Outlook: 2025 to 2035*.
7 European Commission (2025), *White Paper for European Defence – Readiness 2030*.

Figure 8

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.

shrinking foreign currency earnings, and weakening domestic demand could further strain governments' capacity to meet debt obligations. At the same time, heightened uncertainty may further limit access to funding. These pressures could intensify if tariff-driven inflation keeps global interest rates higher for longer. Conversely, a weaker United States dollar and more aggressive interest rate cuts, particularly by the Federal Reserve, could offer some relief. Lower borrowing costs, especially for countries with stronger credit ratings, may reduce external debt servicing burdens and help mitigate some of the adverse effects.

Inflationary pressures during economic uncertainty

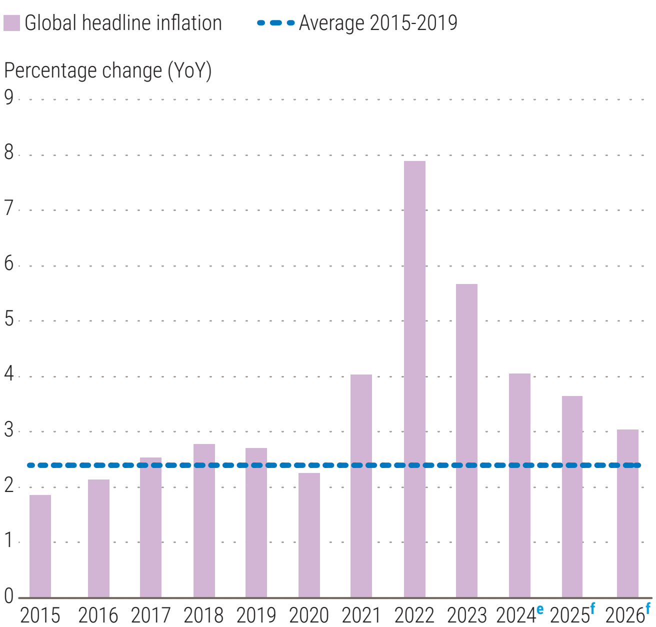
The current inflation landscape

Although global headline inflation declined from 7.9 per cent in 2022 to 5.7 per cent in 2023 and 4.0 per cent in 2024, price pressures remain elevated relative to historical averages, continuing to strain households, businesses, and policymakers (figure 9). By early 2025, annual headline inflation exceeded its 2015–2019 average in 110 out of 169 countries—around 65 per cent—underscoring the ongoing difficulties in achieving price stability. Elevated inflation, initially driven by supply disruptions from the COVID-19 pandemic and later sustained by strong demand in developed economies, has proven more persistent and challenging to address than expected.

Figure 9

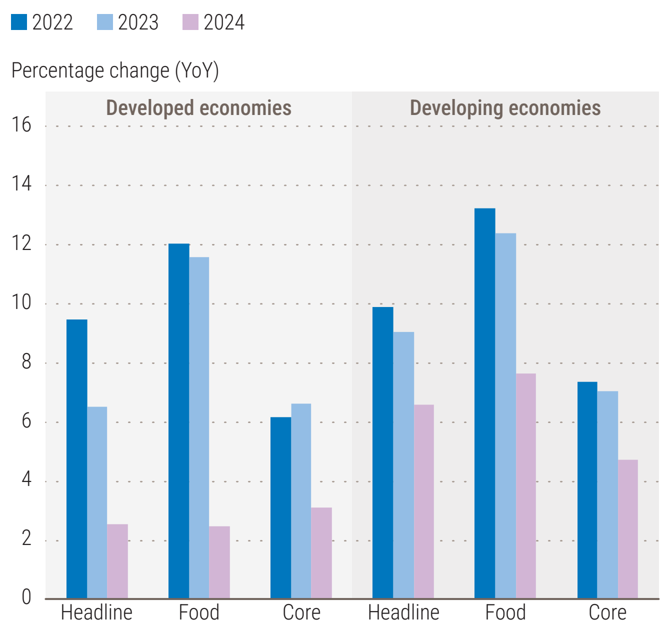
Inflation indicators

a) Global inflation



Source: UN DESA, based on estimates and forecasts produced with the World Economic Forecasting Model.
Notes: e = estimates; f = forecasts; **YoY** = year-over-year. Afghanistan, Argentina, the State of Palestine, Sudan, and the Bolivarian Republic of Venezuela are excluded.

b) Headline inflation and components in selected country groups



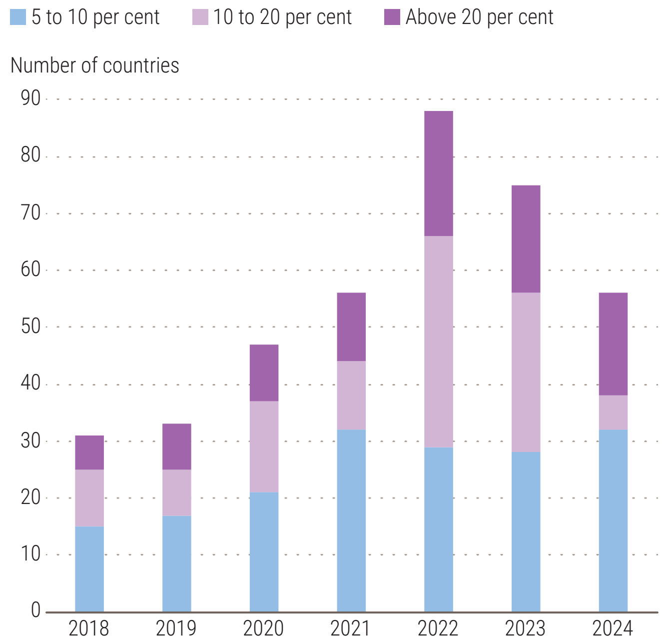
Source: UN DESA, based on data from CEIC and Trading Economics.
Notes: YoY = year-over-year. Country group data are an unweighted 10 per cent trimmed mean, excluding the 10 per cent largest and 10 per cent smallest values from the sample.

In most developed economies, inflation rates have remained above central bank targets in early 2025 as the pace of disinflation slowed. In the United States, elevated core inflation—excluding energy and food prices—has been driven by robust consumer demand, a tight labour market, and rising services prices, particularly for housing. In the euro area, continued upward pressure on services prices reflects strong nominal wage growth and robust consumer spending on tourism, hospitality and recreational services.

Inflation remains elevated in many developing economies, with over 20 countries experiencing double-digit inflation in early 2025. In Africa and Western Asia, in particular, inflation continues to exceed long-term averages. While headline inflation is expected to moderate further in 2025, high and volatile food inflation remains a major concern, averaging above 6 per cent in early 2025. This persistence is driven by the limited pass-through of declining international prices, currency depreciation, and climate-related disruptions to agricultural output. Between 2018 and 2024, the number of countries with annual food inflation above 20 per cent tripled—from 6 to 18. Similarly, the number of countries with food inflation over 5 per cent rose from 30 to 56 (figure 10).

Figure 10

Developing countries by food inflation bracket



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

Looking ahead, rising trade barriers are heightening the risk of a renewed upturn in inflation by driving up import costs, disrupting trade flows, and reducing supply-chain efficiencies. Tariffs on intermediate goods or critical inputs—such as energy—could disproportionately impact price stability by affecting the entire value chain.[8] Evidence from the 2018 United States tariffs shows that duties on both intermediate and final goods were largely passed through to import prices, significantly increasing input costs for firms and prompting supply chain reconfigurations, even in the absence of broader inflationary pressures.[9] However, the current wave of protectionist measures is broader in scope and scale than in 2018, raising the risk of more widespread and persistent inflationary effects. The initial increase in price levels from higher import costs can propagate throughout the economy as firms with market power might not only pass on higher costs to the consumer but also expand profit margins.[10]

The net effect of heightened policy uncertainty on inflation is ambiguous. On one hand, uncertainty can lead to delayed investment decisions and higher risk premiums, indirectly fuelling price pressures. On the other hand, it may prompt greater precautionary savings and reduce consumption, thereby dampening aggregate demand and easing inflationary pressures. In this context, the recent increase in inflation expectations in the United States is

8 Weber, I. M., and others (2024), Inflation in times of overlapping emergencies: Systemically significant prices from an input–output perspective, *Industrial and Corporate Change*, vol. 33, No. 2, April.
9 Amiti, M., and others (2019), The Impact of the 2018 Tariffs on Prices and Welfare, *Journal of Economic Perspectives*, 33 (4): 187–210.
10 However, if trade barriers substantially reduce aggregate demand, lower commodity prices and redirect surplus goods, they may create disinflationary pressures that gradually offset the initial price increases.

particularly concerning, as it could impact the behaviour of firms, workers and consumers, reinforcing inflation persistence. In March 2025, the median year-ahead inflation expectations increased by 0.5 percentage points to 3.6 per cent—the highest level in four decades. Similarly, in the United Kingdom, average one-year inflation expectations rose to 3.4 per cent in February. Such developments—following a period of high inflation—can increase the risk of longer-term inflation expectations becoming unanchored from policymakers' targets.

Trade barriers can also exert upward pressure on prices beyond the short term. By making essential goods scarcer or forcing firms to adopt less efficient and costlier alternatives, they entrench high-cost production structures and limit competition. Geopolitical fragmentation exacerbates these challenges, heightening uncertainty, discouraging long-term investment, disrupting production strategies, and raising risk premiums. This environment risks amplifying inflation volatility, complicating monetary policy and hindering consumption and investment decisions.

In addition, climate change and extreme weather events are increasingly driving supply shocks with inflationary consequences. The years 2023 and 2024 were the hottest on record, according to the United States National Aeronautics and Space Administration (NASA) and the National Oceanic and Atmospheric Administration (NOAA). Climate change pushes prices upwards through both short- and long-term channels. In the short term, extreme weather events—such as droughts, floods and heatwaves—disrupt agriculture and other sectors like fisheries, forestry, and energy, leading to temporary price spikes and increased volatility. While these isolated shocks may not always result in sustained inflation, their frequency and intensity are rising, particularly impacting low-income countries.[11] In the long term, shifting temperature and precipitation patterns, rising sea levels, and land degradation are expected to strain food systems, water availability, and energy production, leading to more persistent inflationary risks and altered seasonal price dynamics. Poorer countries, heavily reliant on food imports and burdened by fragile macroeconomic frameworks, are particularly vulnerable to both the acute and chronic inflationary pressures of climate change.

Trade tensions, global fragmentation and the climate crisis therefore present major challenges to the inflation outlook. Recurrent supply-side shocks and disruptions contribute to periodic price surges, along with greater volatility and uncertainty. This unpredictability complicates business investment decisions and household consumption planning, while also making it more challenging for central banks to manage inflation and inflation expectations effectively.

The unequal burden of inflation

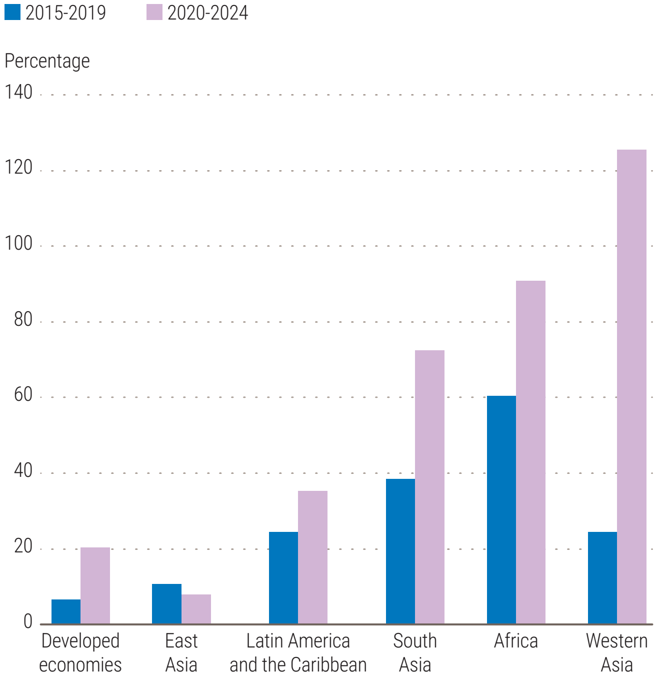
Persistent inflation has been a global phenomenon in recent years, but its effects have been uneven across countries, sectors, and households. These disparities highlight the often regressive and asymmetric nature of inflation impacts, arising primarily from differences in consumption patterns and income levels across populations. Between 2020 and 2024, consumer prices rose cumulatively by about 20 per cent in developed economies and 35 per cent in developing economies—substantially exceeding the increases of the previous five-year period. Africa, South Asia and Western Asia experienced particularly strong price increases in recent years (figure 11).

Across economies, average nominal wages failed to keep pace with rising prices during the initial inflation surge, eroding real wages. Developed economies saw sharp real wage declines in 2022 and 2023 (figure 12), marking one of the most prolonged periods of household purchasing power losses in decades. While

11 Qi, C., and others (2025), Impacts of climate change on inflation: An analysis based on long- and short-term effects and pass-through mechanisms, *International Review of Economics & Finance*, vol. 98, March.

Figure 11

Cumulative price changes in selected regions



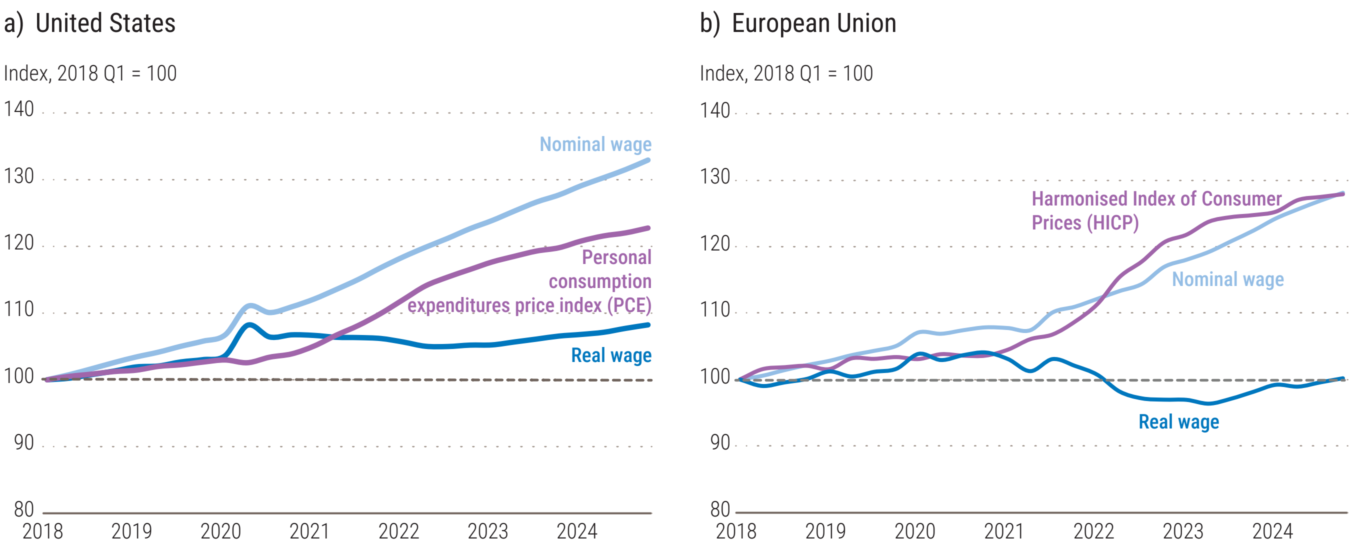
Source: UN DESA.
Note: Afghanistan, Argentina, the State of Palestine, Sudan, and the Bolivarian Republic of Venezuela are excluded.

falling inflation and rising nominal wages have supported a partial recovery, real wages in many developed economies remain below 2021 levels. In developing countries, the picture is mixed: large economies like Brazil, China, and Mexico have experienced real wage gains in recent years, while many others, particularly in Africa, have seen little to no improvement.

Aggregate assessments often mask large disparities across populations: in the United States, households in the lowest income quintile experienced a cumulative increase in the cost of their typical consumption basket between 2020 and 2024 that was approximately 10 percentage points higher than that faced by households in the highest income quintile.[12] This disparity stems primarily from differences in consumption patterns as essential goods and services—on which poorer households spend a larger share of their income—recorded some of the steepest price increases. Recent research also links inflation inequality to variations in price changes across narrowly defined product categories.[13]

Figure 12

Nominal wage, real wage and the price index



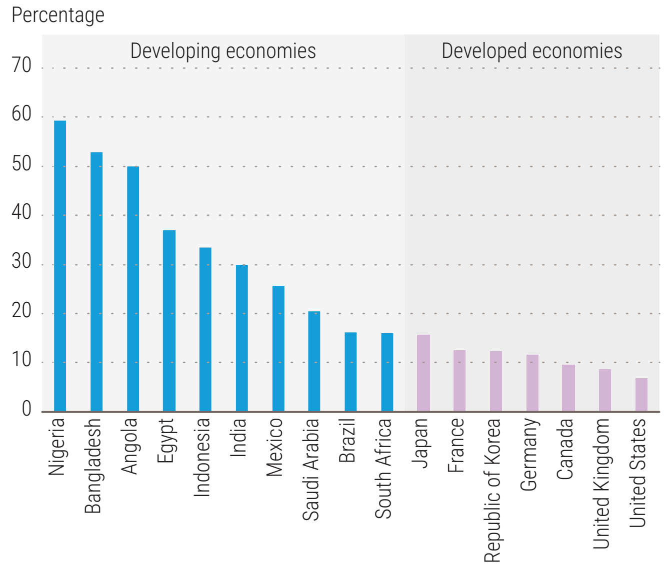
Source: UN DESA, based on data from the Federal Reserve Economic Data and Eurostat.
Note: Real wages are obtained by deflating nominal wages with the price index.

12 Horwich, J. (2024), *Lower income, higher inflation? New data bring answers at last*, Federal Reserve Bank of Minneapolis, 7 October.
13 Chen, T., and others (2024), *Cheapflation and the rise of inflation inequality*, Working Paper 36, Institute for Fiscal Studies, London.

The recent inflation surge has severely worsened global food insecurity. Structural and emerging factors—including climate shocks, currency depreciation, supply chain disruptions, and rising trade protectionism—have pushed food inflation above headline inflation. The effects have been particularly acute in countries where food represents a large share of household consumption (figure 13). Countries already grappling with food crises before the COVID-19 pandemic and the war in Ukraine have suffered the most, especially those experiencing conflict and climate-related disruptions. Globally, around 343 million people are now facing acute food insecurity, with 1.9 million at risk of famine—primarily in conflict-affected areas like Gaza, Haiti, Mali, South Sudan, and Sudan.[14]

Figure 13

Food expenditure as a share of total consumption expenditure, 2023



Source: UN DESA, based on data from the Economic Research Service of the United States Department of Agriculture and Our World in Data.

Policies to counter inflation

Monetary policy

The current environment of heightened uncertainty and rising inflation expectations in some major economies poses significant challenges for central banks. Inflation remains above target in most developed economies, even as growth slows and labour markets soften. Higher tariffs complicate disinflation efforts, while dampening economic prospects. In this environment, the risk of policy missteps is high. Overly tight monetary conditions could stifle growth, while premature or excessive easing might reignite inflation and erode policy credibility. Effectively navigating these risks demands adaptable yet well-anchored policy frameworks.

In developing economies, monetary authorities continue to navigate a complex and fragile environment. Although inflation has eased in many countries, it remains elevated and above central bank targets in many cases. Monetary policy space is constrained and uncertain, as major central banks, notably the Federal Reserve, face difficult decisions on future policy shifts. The near-term inflation outlook remains vulnerable to external shocks, including spillovers from trade tensions and heightened financial and commodity prices volatility. Many central banks are under growing pressure to slow, pause, or even reverse their monetary easing cycles.

These challenges underscore the need for a cautious and well-calibrated approach that balances inflation control, financial stability and inclusive growth. While monetary policy remains central to managing inflation, it primarily targets aggregate demand. Addressing today's complex inflation challenges requires a broader policy toolkit that integrates monetary policy with well-coordinated fiscal measures, supply-side reforms, and coherent medium-term industrial strategies.

Fiscal Policy

Fiscal measures and targeted supply-side interventions can complement monetary efforts, helping to ease structural bottlenecks,

14 World Food Programme (WFP) (2025), *WFP 2025 Global Outlook*, Rome.

stabilize expectations, and support vulnerable populations. In response to the inflation surge and persistent supply-side disruptions in 2022 and 2023, many governments adopted policies such as tax adjustments, targeted transfers and public spending to mitigate the cost-of-living crisis and shield vulnerable groups. Supply-side measures were also introduced to address production constraints and stabilize critical markets. These measures can be particularly important in case of market rigidities, limited competition or structural dependencies, where self-correcting mechanisms are less effective. While developed economies, with better fiscal positions and greater financing capacity, pursued broader interventions, many developing countries, constrained by tighter budgets, adopted more limited measures.

Temporary value-added taxes (VAT) reductions were widely used to lower consumer prices and ease headline inflation, for example in Türkiye, Viet Nam, and across the European Union. Several governments also introduced subsidies to limit the pass-through of international price increases to domestic consumers, particularly for energy and food. While these subsidies varied in scope and design, most were designed to be temporary. Some countries (e.g., Germany, Mexico, and Spain) implemented targeted and time-bound price stabilization mechanisms for essential goods and services, avoiding prolonged price controls to reduce market distortions. Additionally, several governments reinvested in strategic buffer stocks for staples like rice, maize, wheat, and edible oils, a tool particularly valuable in climate-vulnerable contexts to stabilize food supplies during disruptions.

However, these measures involve significant trade-offs. VAT reductions can erode public revenues and lead to uneven price adjustments when reversed. Broad subsidies, untargeted transfers, and prolonged tax cuts can widen fiscal deficits and, if sustained, fuel demand-driven inflationary pressures. While price controls may provide temporary relief, they risk distorting markets, discouraging investment, and creating shortages. These challenges underscore the dual nature of such interventions: when targeted, temporary and well-calibrated, they can provide immediate relief and support the most vulnerable; when poorly designed or fiscally unsustainable, they risk undermining long-term stability. Rigorous evaluation of these measures is essential to refine policy design and enhance effectiveness.

Managing inflation requires an integrated and strategic approach. Fiscal measures, with clearly defined and limited objectives, can complement monetary policy efforts by curbing price pressures, while providing targeted support to vulnerable populations. Since supply constraints cannot be resolved quickly through monetary or fiscal measures alone, longer-term strategies are essential to bolster production capacity and improve logistical infrastructure. Investments in infrastructure, energy systems, and food security can enhance supply chain resilience and help mitigate inflationary risks. As geopolitical tensions and climate-related disruptions intensify, inflationary pressures are driven by a complex interplay of factors, demanding adaptive and coordinated policymaking to maintain economic stability and foster inclusive, sustainable growth.

Regional economic outlook

Developed economies

North America

The 2025 GDP growth forecast for the United States has been revised down to 1.6 per cent, from 1.9 per cent in January, reflecting weaker domestic demand projections amid heightened policy uncertainty. Increased tariffs notably affect private investment because of its substantial import content of around 28 per cent. Moreover, elevated long-term government bond yields constrain mortgage rates from declining, weighing on residential investment. Left unchanged, the new tariffs are likely to considerably affect businesses, including small and medium-sized enterprises, that rely on imports of finished products.

The labour market remained stable in early 2025, with a 4.2 per cent unemployment rate in March, but this could change abruptly if the trade conflict triggers an economic downturn. The tariffs are expected to significantly raise product prices, especially for consumer durable goods. Durable goods consumption is projected to decline in mid-2025, owing to the unwinding of front-loaded spending in the first quarter and the effects of tariffs. However, slower growth in services prices is expected to partially offset this effect. Consumer price inflation is forecast to exceed 3.5 per cent by mid-2025, averaging 3.2 per cent for the year. While monetary easing is expected to continue, the timing and size of interest rate cuts may differ from prior expectations as the Federal Reserve faces significant policy trade-offs in balancing inflation, employment, and financial stability.

In Canada, the GDP growth forecast has been revised down from 1.8 per cent to 1.6 per cent for 2025, due to slower recovery in private investment amid increasing economic uncertainty. The impact of the new tariff measures is projected to be milder than initially expected, as exemptions for United States-Mexico-Canada Agreement (USMCA)-compliant goods persist.

Europe

The global trade conflict is set to strain Europe's already slow economic recovery. Rising tariff barriers, heightened trade policy uncertainty, and slowing growth in China and the United States—Europe's largest trade partners—are expected to weigh on exports and investment. The European Union GDP is projected to grow by 1.0 per cent in 2025, a 0.3 percentage points downward revision from the January forecast, mirroring the modest pace of 2024. The United Kingdom's economy is now projected to expand by 0.9 per cent in 2025, 0.3 percentage points lower than the January forecast and slightly below last year's 1.1 per cent growth.

Consumer spending is expected to provide modest support for growth, underpinned by rising real wages, resilient labour markets, and further interest rate cuts by central banks. While inflation is forecast to ease further, approaching the 2 per cent target in many countries, uncertainty around price dynamics poses policy challenges. Labour markets are expected to remain robust, with the unemployment rate in the European Union projected to remain near the current record low of 5.7 per cent. However, risks of an economic slowdown and weaker external demand could dampen job creation in the coming quarters.

The deteriorating trade environment is deepening the post-pandemic growth divergence between the region's manufacturing and service-based economies. 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. Germany is projected to face a third consecutive year of slight GDP contraction in 2025, as increased public infrastructure and defence spending under the revised debt brake is unlikely to fully compensate for weak private consumption and exports. In contrast, service-oriented economies like Croatia, Greece, Portugal, and Spain are proving more resilient, supported by robust consumer spending and sustained recovery in tourism and hospitality.

Developed Asia and the Pacific

The economies of Australia, Japan, and the Republic of Korea face pressure from rising global trade tensions, as China and the United States are key export markets. The 2025 growth projections have been revised down to 1.8 per cent for Australia, 0.7 per cent for Japan, and 1.2 per cent for the Republic of Korea. China's expected slowdown is set to weigh on Australia's commodity exports, while elevated United States tariffs on automobiles, steel, and aluminium are weakening external demand for Japan and the Republic of Korea. Despite these challenges, domestic demand is expected to recover to varying degrees across all three economies, following subdued growth in 2024. Australia is expected to see a robust rebound, supported by monetary easing from the Reserve Bank of Australia. In contrast, the Republic of Korea's domestic demand recovery remains sluggish despite continued monetary easing. Japan continues to struggle with weak consumption growth due to falling real wages, while private investment growth is expected to moderate amid the Bank of Japan's monetary tightening.

Economies in transition

Following stronger-than-expected growth in 2024, the Commonwealth of Independent States (CIS) region is projected to experience an economic slowdown in 2025. The aggregate GDP of the CIS and Georgia, which expanded by 4.5 per cent in 2024, is projected to increase by only 2.5 per cent in 2025. This slowdown reflects weaker growth in the Russian Federation and the diminishing impact of intermediary trade with the Russian economy for smaller CIS countries. The regional outlook hinges on several factors, including a potential resolution to the war in Ukraine, possible changes in the sanction regime against the Russian Federation, the evolution of energy and commodity prices, and developments in major economies like China. The Russian economy is projected to grow by only 1.5 per cent in 2025 as labour shortages and tight monetary policy take a toll. Lower oil prices weigh on the region's energy exporters, putting fiscal spending plans at risk. Ukraine's economic prospects remain heavily dependent on military developments, the functioning of the Black Sea corridor, and international funding flows. The estimated cost of post-conflict reconstruction in Ukraine has been revised up to $524 billion.[15] Central Asian countries may sustain high growth rates, supported by strong consumption and investment.

In South-Eastern Europe, regional GDP growth is projected to moderate from 3.4 per cent in 2024 to 3.2 per cent in 2025. Weaker external demand and political instability remain key risks.

15 World Bank, Government of Ukraine, European Union and United Nations (2025), *Fourth Rapid Damage and Needs Assessment (RDN4): February 2022-December 2024 (English)*, Washington, D.C.: World Bank Group.

Developing economies

Africa

Africa's growth outlook remains uncertain amid trade tensions, depressed commodity prices, ongoing armed conflicts and strained government budgets. GDP growth is projected at 3.6 per cent in 2025, a slight downward revision from the January forecast. Persistent inflation, averaging 16.7 per cent in 2024, has delayed monetary easing, but is expected to moderate to about 12 per cent in 2025. However, food price inflation remains elevated due to limited pass-through of declining international prices, currency depreciation, and climate-related disruptions to agricultural output. Falling prices for key commodities, including oil, diamonds and cocoa, weigh on the outlook for commodity-dependent economies. In addition, rising trade tensions and ODA cuts exacerbate balance-of-payments risks, threatening growth and development prospects. Conflicts in the Democratic Republic of the Congo and Sudan continue to disrupt economic activity, undermining stability in East and Southern Africa. While most government budgets remain under strain, fiscal consolidation measures and improved access to external funding in early 2025 have reduced the risk of further debt distress in some countries, but this progress could easily be undermined by external pressures.

Global trade tensions are affecting Africa through direct and indirect channels. The announcement and subsequent suspension of "reciprocal tariffs" in April 2025 by the United States Government highlights the uncertainty surrounding the global trading system and the risks for economies heavily reliant on United States markets. Indirectly, these tensions are expected to slow global demand for Africa's key exports, including commodities and intermediate goods. Adding to the uncertainty is the unclear future of the African Growth and Opportunity Act (AGOA), which grants United States market access privileges to 32 African countries and is set to expire in September 2025.

East Africa is expected to remain the fastest-growing subregion, with growth projected at 5.2 per cent in 2025. However, the outlook has been significantly downgraded due to the economic fallout from conflicts and global trade tensions. In contrast, Southern Africa is projected to grow at just 1.9 per cent in 2025, the lowest rate among Africa's subregions. South Africa's economic prospects remain subject to heightened uncertainties, driven by risks related to United States policies and persistently weak manufacturing activity.

East Asia

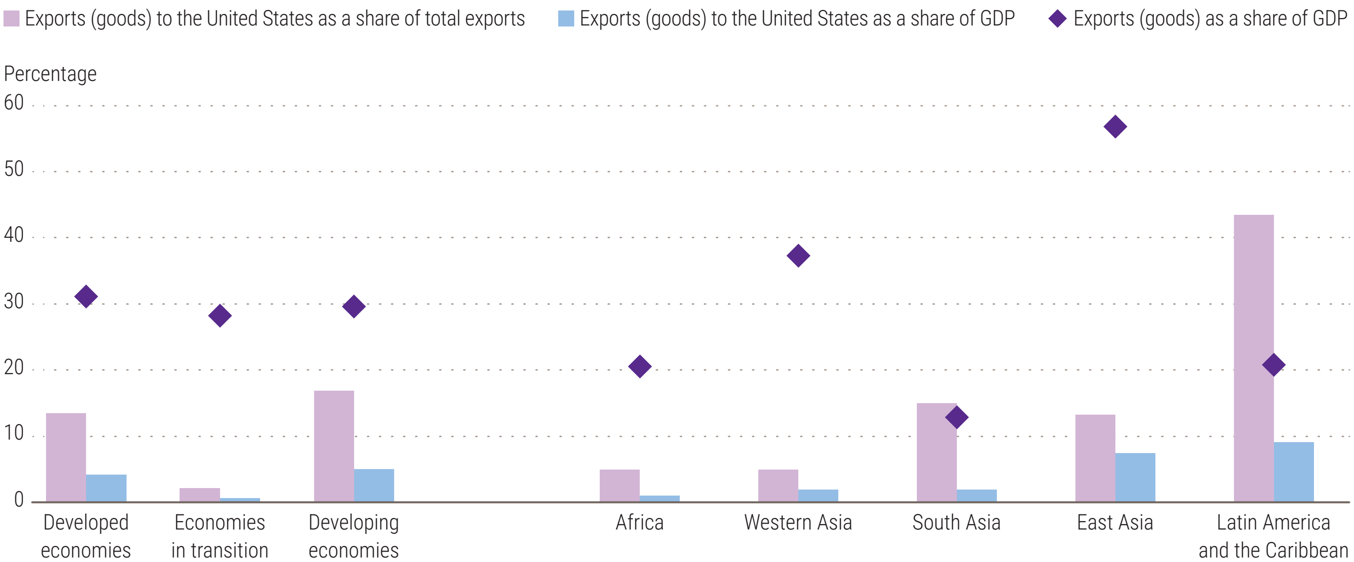
East Asia's economic outlook is shifting quickly amid global trade tensions. Exports, a key driver of growth and investment in recent years, now face significant challenges (figure 14). Regional growth is projected to slow from 4.9 per cent in 2024 to 4.4 per cent in 2025, a 0.3 percentage point downgrade from the January forecast. While export-oriented economies benefited from frontloading ahead of new tariffs in early 2025, trade policy uncertainty has disrupted manufacturing activities, triggered stock market declines and weakened some currencies. Further trade escalation of the trade conflict poses a major risk to regional growth.

China's growth is forecast to moderate from 5 per cent in 2024 to 4.6 per cent in 2025. Despite solid first-quarter growth, net exports are likely to weigh on growth in 2025 due to tariff shocks. Policy measures announced in March 2025 to boost consumption and investment and stabilize the property sector, are expected to help mitigate the negative impact. Advancing structural reforms to shift the economy toward domestic consumption remains key for longer-term resilience.

In other parts of East Asia, export-oriented economies like Cambodia, Malaysia, Thailand, Taiwan Province of China, and Viet Nam face significant risks from high tariffs. While the

Figure 14

Merchandise exports to the United States and export-to-GDP ratio, by country grouping and developing region, 2023



Source: UN DESA, based on data from UNCTAD.

pause on "reciprocal tariffs" has supported manufacturing activity, heightened uncertainty is dampening business and consumer sentiment, discouraging cross-border investment in regional supply chains. A weaker global outlook is expected to reduce demand for commodity exporters like Mongolia and may also negatively affect tourism-dependent economies, including Thailand and small islands in the Pacific. Severe natural disasters and high debt levels pose challenges for the region's most vulnerable economies. As of February 2025, Papua New Guinea is at high risk of debt distress and Lao People's Democratic Republic is already in debt distress.

Despite these challenges, most East Asian economies retain policy space. Muted inflation, forecast at 1.1 per cent in 2025, allows for accommodative monetary policy, while accumulated international reserves provide a buffer against external shocks. Countries with fiscal capacity could deploy targeted support, especially to vulnerable groups. Diversifying export markets will be crucial to reduce risks.

South Asia

South Asia's growth is projected to moderate from 6.0 per cent in 2024 to 5.3 per cent in 2025, a 0.4 percentage point downward revision from the January forecast, reflecting a more challenging global environment. Risks to the outlook are tilted to the downside, including potential escalation of geopolitical tensions, global trade policy uncertainty and persistent debt challenges.

India's economy is forecast to grow by 6.3 per cent in 2025, down from 7.1 per cent in 2024.[16] Resilient private consumption and strong public investment, alongside robust services exports, will support economic growth. While looming United States tariffs weigh on merchandise exports, currently exempt sectors—such as pharmaceuticals, electronics, semiconductors,

16 On a calendar-year basis.

energy, and copper—could limit the economic impact, though these exemptions may not be permanent.

Regional consumer price inflation is expected to decline from 10.7 per cent in 2024 to 8.7 per cent in 2025, driven by moderating global food and energy prices and the lagged effects of tight monetary policy. In India, inflation is projected to slow from 4.9 per cent in 2024 to 4.3 per cent in 2025, staying within the central bank's target range.

Declining inflation has allowed most of the region's central banks to commence or continue monetary easing in 2025. The Reserve Bank of India, which had kept its policy rate steady at 6.5 per cent since February 2023, began its easing cycle in February 2025. Meanwhile, governments in Bangladesh, Pakistan and Sri Lanka are expected to continue fiscal consolidation and economic reforms under IMF-supported programs.

Western Asia

Despite a challenging international environment, economic growth in Western Asia is expected to strengthen in 2025, supported by a gradual expansion of oil production, robust growth of non-oil sectors, and the impact of monetary easing in parts of the region. Regional GDP growth is projected to rise from 2.1 per cent in 2024 to 2.8 per cent in 2025, a downward revision by 0.7 percentage points from the January forecast. The unwinding of voluntary oil production cuts since April 2025 is expected to bolster economic activity in oil-exporting economies, with growth in Saudi Arabia forecast to reach 3.2 per cent in 2025, up from 1.3 per cent in 2024.

Türkiye's economic growth is forecast to moderate in 2025 as the central bank maintains a tight monetary policy stance after increasing policy rates in April, while fiscal consolidation continues. The manufacturing Purchasing Managers' Index has remained below 50 since March 2024, indicating continued pressure on industrial activity.

The United States tariffs announced so far are expected to have limited direct impact on the region's outlook. Most manufacturing-oriented economies, except Jordan, do not rely heavily on the United States as an export destination. For the Gulf Cooperation Council (GCC) economies, exemptions for energy and petrochemical exports shield oil exporters from direct tariff impacts. However, the broader effects of tariffs and heightened economic uncertainty on industrial production—particularly in China and other East Asian economies—could indirectly affect oil exporters by reducing demand for oil and refined products. In Lebanon, the Syrian Arab Republic, and Yemen, strong inflationary pressures persist owing to precarious geopolitical and balance-of-payments conditions.

Latin America and the Caribbean

The economic outlook for Latin America and the Caribbean remains challenging and has recently deteriorated. Regional GDP growth in 2025 is projected at 2.0 per cent, a downward revision of 0.5 percentage points from the January forecast, following a 2.2 per cent expansion in 2024. The slowdown reflects weaker growth in China and the United States—the region's primary trading partners—and heightened global policy uncertainty. Domestic factors, including a cyclical slowdown in domestic demand across several economies, are also weighing on growth. As a result, labour markets are losing momentum, with job and wage gains expected to remain limited.

Among the largest economies, Brazil's growth is projected to decline from 3.4 per cent in 2024 to 1.8 per cent in 2025, amid weakening household consumption, reduced fiscal stimulus and monetary tightening. In Mexico, growth is projected to slow sharply in 2025 to just 0.2 per cent, primarily due to weaker exports to the United States and a slump in investment. In contrast, Argentina's economy is forecast to rebound vigorously, with GDP growth projected at 5 per cent in 2025, driven by robust private consumption and surging investment.

Regional inflation is expected to decline further, from 5.0 per cent in 2024 to 4.6 per cent in 2025.[17] However, inflation remains above central bank targets in several economies and faces upside risks, including from food price volatility. Slowing growth, elevated inflation, and heightened uncertainty around United States monetary policy decisions have created complex policy trade-offs for central banks across the region. In many economies, the pace of monetary easing may slow or even stall. Brazil's central bank has raised interest rates in response to a recent uptick in inflation. Meanwhile, high debt burdens and elevated interest payments continue to constrain fiscal space, limiting governments' ability to implement countercyclical measures to support growth.

17 Argentina and the Bolivarian Republic of Venezuela are excluded.

For more information
www.un.org/en/desa

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