

Global Economic Outlook – May 2025

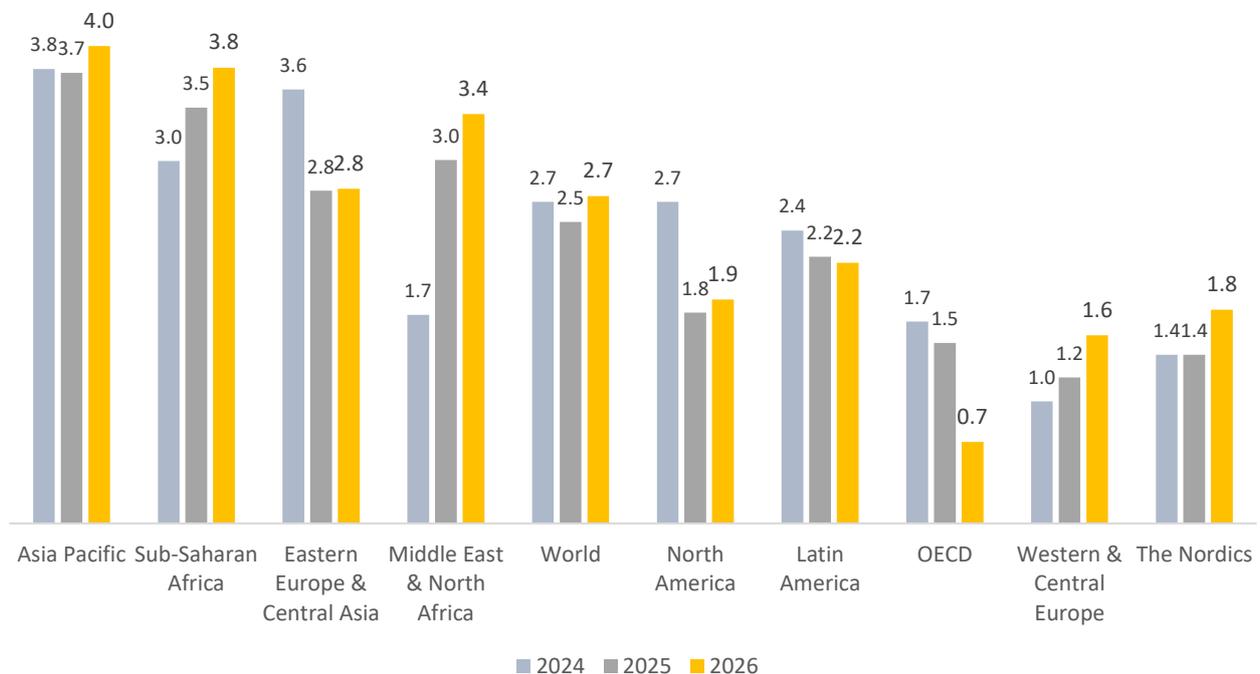
New tariff measures and subsequent pause indicative of a mixed narrative

“Following weeks of at-times intense market turmoil, signs are emerging that the U.S. may be softening its trade stance. The U.S. has signaled that tariffs on the Chinese Mainland are unlikely to stay as high as they currently are and has agreed to a 90-day pause on tariffs, with import tariffs on the Chinese Mainland falling to 30% and on the U.S. to 10%. The EU believes that it too is making progress toward a trade deal. However, the U.S. administration has also implied that pharmaceuticals imports could be next in line for duties. The subtle change in tone may be a sign that U.S. trade policy is shifting from universal tariffs to sector- or product-specific tariffs. To that end, the 90-day pause is in effect expiring July 8, 2025, indicating a willingness to engage in and even negotiate a reduction in trade barriers.

None of this potential change to approach substantively alters the outlook for businesses. Uncertainty continues to be highly elevated. Cost structures remain under pressure, with input prices driven up by tariffs and supply chains facing disruption. Corporates are becoming increasingly cautious and are either lowering their earnings guidance or delaying it. Industries heavily integrated into global supply chains, such as auto manufacturers, are especially affected; Ford announced an expected USD1.5bn earnings hit because of the tough operating environment. As the U.S. continues to balance domestic political goals with economic realities, global businesses must remain agile.”

Dr. Arun Singh, Global Chief Economist, Dun & Bradstreet.

Real GDP Growth (%)



Source: Haver Analytics; forecasts from Dun & Bradstreet

Recent Developments

Global

- In Q1 2025, the U.S. economy shrank 0.3% (annualized), compared with the previous quarter, due to a surge in imports as businesses rushed to buy goods ahead of new tariffs being fully implemented. The Eurozone economy grew 0.3% according to a flash estimate.
- In its latest World Economic Outlook released in April 2025, the IMF lowered its global growth forecast.
- Global stock markets experienced significant volatility during April. Major indices in North America, Europe, and Asia dropped sharply on the back of new tariffs, declining commodity prices, and growing fears of a potential recession. The STOXX Europe 600, a broad measure of European stocks, saw its worst week in five years.
- Friedrich Merz was elected as Germany’s new chancellor in April and took office on May 6. Chancellor Merz plans to end Germany’s two-decade borrowing limit and initiate almost USD1trn in spending.
- In April, the U.S. dollar continued to drop in value, falling to USD1.157:EUR from USD1.017:EUR at the start of 2025.

Movement in Country Rating & Environment Risks

Country Rating	Environment Risks			
	Credit	Market	Supply	Political
Argentina	Argentina	Algeria	Kyrgyz Republic	Italy
Egypt	Egypt	Argentina	Morocco	Cuba
Morocco		Turkmenistan	Poland	Indonesia
Nepal		Finland	Australia	Philippines

Note: Colors indicate *rating upgrade/improvement in outlook*, *rating downgrade/deterioration in outlook*

North America

- The U.S. economy shrank 0.3% (annualized) in Q1, compared with the previous quarter, largely because of higher imports.
- On April 2, the U.S. administration announced a comprehensive tariff strategy, imposing significant duties on a wide range of imports. The tariffs were soon suspended for 90 days, during which a flat 10% baseline rate would apply to all countries except the Chinese Mainland, which saw tariffs temporarily rise to up to 145%. In mid-May, the U.S. and Chinese Mainland agreed a 90-day pause on tariffs, with import tariffs on the Chinese Mainland falling to 30% and on the U.S. to 10%.
- Mass protests broke out across the U.S. in response to the new tariffs, alongside concerns about proposed cuts to social programs and aggressive immigration policies.
- The Liberal Party of Canada (LPC), headed by Mark Carney, has won the snap general election. The party was three seats short of an overall majority but will still intend to revive the economy. PM Carney met the U.S. administration in early May to discuss revisiting the trade tariffs on Canada, which the U.S. said would remain for now.
- In April, the U.S. dollar continued to drop in value, falling to USD1.157:EUR from USD1.017:EUR at the start of 2025. U.S. stock indices dropped sharply in the days immediately after 'Liberation Day'; the S&P 500 lost more than 12% in a week.
- Canada has announced the Alto high-speed rail project connecting Toronto and Quebec City. The huge infrastructure project aims to create 51,000 jobs during construction.

Western and Central Europe

- In April, a major power outage caused nationwide blackouts in Spain and Portugal. This resulted in a shutdown of transport networks and forced businesses to close.
- In May, the U.K. held local elections; Reform UK, the Liberal Democrats, and the Greens all took seats away from the duopoly of Labour and the Conservatives, continuing the trend from the general election last year of shifting away from traditional politics.
- The EU has delayed the introduction of tariffs on a range of U.S. goods in response to the 90-day pause on 20% U.S. tariffs on imports from the EU; most goods exported to the U.S. are still subject to a 10% tariff.
- The European Central Bank (ECB) and the Bank of England (BoE) both cut their key policy rates by 25bps in April and May, respectively. The BoE has maintained a more restrictive policy, as in March, U.K. inflation (2.6%) remained higher than the Euro area (2.2%). Due to tough lending conditions, we expect the business environment to remain more challenging in the U.K. than in the Euro area.

Asia Pacific

- The U.S. and the Chinese Mainland reached an agreement in May to roll back all tariff increases imposed after April 2. Under the new arrangement, tariffs on U.S. exports to the Chinese Mainland will be set at 10%, while exports from the Chinese Mainland to the U.S. will face a 30% tariff. However, existing exemptions and higher tariffs under Article 232 will continue to apply.
- The Chinese Mainland has stepped up stimulus efforts through hiring subsidies for companies, expanded support for exporters, and a surge in local government bond issuance, while the People's Bank of China (the central bank) has increased lending to state-backed investors to stabilize markets.
- South Korean customs have reportedly identified several Chinese Mainland-origin products, subject to higher U.S. tariffs or anti-dumping duties, being rerouted through Korea; similar suspicions apply to Vietnam, Thailand, Malaysia, and others.
- Following his re-election in May, Australian PM Anthony Albanese is expected to prioritize negotiating a favorable trade agreement with the U.S. administration as one of his early policy moves.
- A terrorist attack on April 22 in Pahalgam, Jammu and Kashmir, targeting tourists sparked a conflict between India and Pakistan, with targeted military actions from both sides. Tensions between the two countries have de-escalated following a ceasefire announced in May.

Eastern Europe and Central Asia

- The EU announced a 'new era' in relations with Central Asia during a summit in Samarkand, Uzbekistan, in April 2025. Discussions focused on forging strategic partnerships and clean energy collaboration and leveraging the region's natural resources.
- In April, Kazakhstan reported discovering its largest-ever deposit of rare earth elements, which could significantly boost its economic prospects. The deposit, located at the Zhana Kazakhstan site in the southeastern region, contains significant quantities of neodymium, cerium, lanthanum, and yttrium – key elements used in a wide range of high-tech applications, including EVs, wind turbines, and consumer electronics.
- On April 17, Azerbaijan hosted a meeting between Türkiye and Israel to discuss military deconfliction in Syria.
- On April 11, Turkmenistan participated in the Abu Dhabi Investment Forum, to enhance economic ties with the UAE and attract foreign investments.
- On March 6, Poland's President Andrzej Duda proposed raising NATO's defense spending to a minimum of 3% of GDP during discussions with NATO Secretary General Mark Rutte.
- Russian President Vladimir Putin declared a surprise three-day ceasefire during May 8-10 to mark Victory Day, which is expected to be a key step towards potential peace negotiations.

- Preliminary Q1 2025 data from Poland suggests that annual growth was slower than the 3.4% y/y growth seen in Q4 2024.

Latin America

- Latin America's GDP growth is projected to slow down further from the 2.2% forecast for 2025, with Mexico, Brazil, and Venezuela expected to be the most affected economies; however, Argentina's recovery is likely to provide a slight boost.
- Concerns about debt sustainability have eased in Argentina, following the IMF's approval of a USD20.0bn package in April 2025. This support has been crucial in removing currency and most capital controls.
- Economic activity in Mexico was weaker than expected in late 2024 and early 2025, impacted by U.S. tariffs, geopolitical tensions, and tightening financing conditions. Although exempt from the 10.0% baseline tariff, Mexico faces a 25.0% rate on non-compliant U.S.-Mexico-Canada Agreement (USMCA) goods, severely affecting its auto-related supply chains. Additionally, Mexico and Brazil face 25.0% tariffs on steel and aluminum exports to the U.S.
- Brazil's growth is expected to slow down due to impact of tariffs, inflationary pressures, monetary tightening, and fiscal uncertainty.
- The U.S. has re-established the 'Restricted List,' cutting off Cuba's access to foreign currency and limiting foreign investment. These sanctions are expected to increase costs further in 2025.

Middle East and North Africa

- Ceasefire agreements between Israel, Hamas, and Hezbollah have effectively broken down, as Israel continues airstrikes in Lebanon and Gaza, with no clear prospects for de-escalation.
- Oil prices continued to fall through April and early May 2025, as OPEC+ (led by Saudi Arabia and Russia) announced an above-expected increase in output, by 411,000 barrels per day for June, to put pressure on overproducing members.
- Saudi Arabia's USD500bn Neom megaproject is reportedly undergoing a comprehensive review to optimize resource allocation amid tightening budgets and scaled-back spending due to falling oil prices.
- In April, the UAE's Comprehensive Economic Partnership Agreements (CEPAs) with Costa Rica, Mauritius, and the Democratic Republic of the Congo (DRC) were either signed or came into force, reflecting its drive to diversify trading partners and mitigate global trade tensions.
- Lebanon has approved a comprehensive banking reform law and appointed a new central bank governor as part of efforts to address its prolonged financial crisis, helping to secure a USD250m loan from the World Bank.

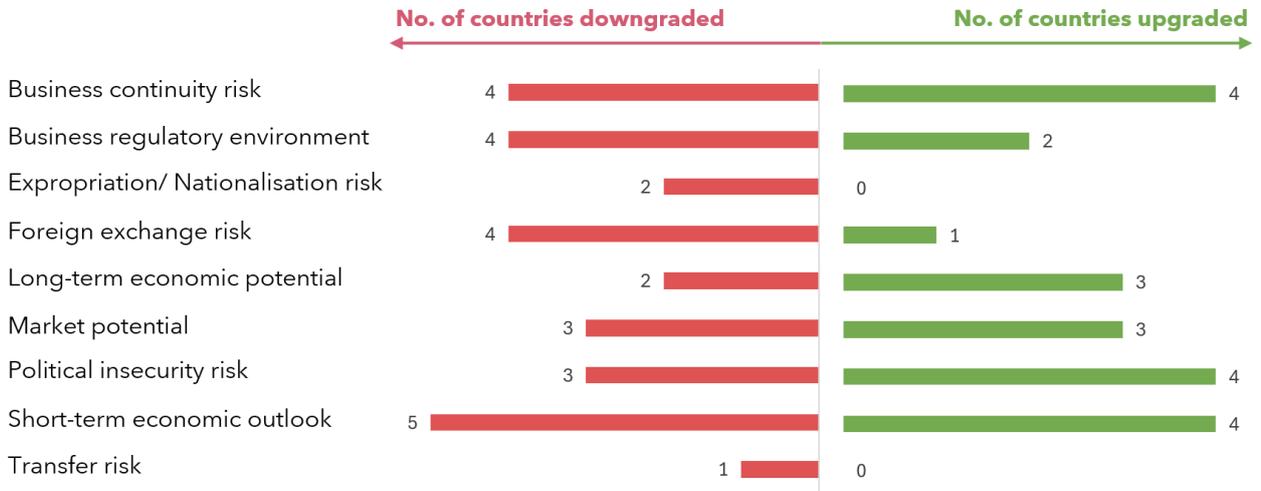
The Nordics

- Finland has been advocating for a unified European approach to U.S. tariff negotiations, emphasizing collective efforts to strengthen transatlantic trade ties.
- Norway is negotiating new trade agreements with the U.S. to ensure continued access to key markets for seafood and energy exports. On April 24, 2025, Norwegian PM Jonas Gahr Store and Finance Minister Jens Stoltenberg met U.S. President Donald Trump to discuss trade, tariffs, and Ukraine.
- In April 2025, Denmark's PM Mette Frederiksen called for increased Arctic defense collaboration with the U.S. during a visit to Greenland and firmly dismissed Washington's desire to annex the semi-autonomous Danish territory.
- Sweden has been actively integrating into NATO's defense strategy. In March 2025, Sweden deployed Gripen fighter jets to Poland for NATO air defense missions and stationed 550 troops in Latvia to bolster NATO's eastern flank.
- In May, the Swedish government announced a further expansion of its defense budget, with total military expenditures rising to SEK143bn (USD14.7bn) for 2025 - an increase of nearly SEK13bn from previous estimates. Sweden aims to boost its defense spending to SEK300bn (USD30bn) over the next decade, with a target of 3.5% of GDP by 2030.

Sub-Saharan Africa

- The DRC and the M23 rebels have agreed to draft a peace deal by June 2025, with the mediation of the U.S., raising hopes of resolving the decade-long crisis between the DRC and Rwanda.
- Kenya and the Chinese Mainland have signed 20 commercial deals to boost infrastructure and expand Kenyan exports such as tea, coffee, avocado, and macadamia.
- Russia is planning to commence a shipping line between Novorossiysk (Russia) and Lagos (Nigeria) by June 2025, which is expected to boost exports of machinery and agricultural goods to Nigeria. The imports of Russian goods (majorly comprising machinery and fish) to Nigeria have grown at a 15% CAGR over eight years.
- Tanzania has lifted the ban on imports from Malawi and South Africa, opening a window for negotiation to end the trade war between the three countries.
- In February, 11 countries in the region were placed under advanced monitoring by the Financial Action Task Force (FATF), which can affect aid, investments, and cross-border transactions in these countries.

Movement in Risk Dimensions



Source: Dun & Bradstreet



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The Point

North Wharf Road London W2 1AF



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