

EIU Global outlook 2025

# The impact of a new US presidency



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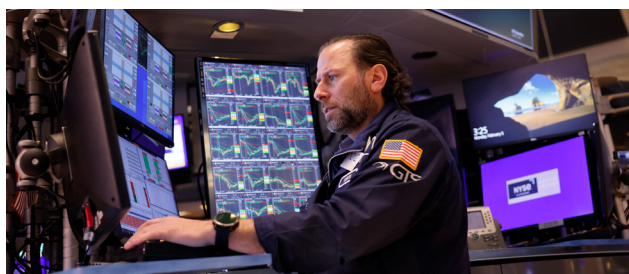
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## London

Economist Intelligence  
The Adelphi  
1-11 John Adam Street  
London WC2N 6HT  
United Kingdom

**Tel:** +44 (0)20 7576 8000

**E-mail:** [london@eiu.com](mailto:london@eiu.com)

## New York

Economist Intelligence  
900 Third Avenue, 16th Floor  
New York  
NY 10022  
United States

**Tel:** +1 212 541 0500

**E-mail:** [americas@eiu.com](mailto:americas@eiu.com)

## Hong Kong

Economist Intelligence  
1301 Cityplaza Four  
12 Taikoo Wan Road  
Taikoo Shing  
Hong Kong

**Tel:** + 852 2585 3888

**E-mail:** [asia@eiu.com](mailto:asia@eiu.com)

## Gurgaon

Economist Intelligence  
9th Floor  
Infinity Tower A  
DLF Cyber City  
Gurugram 122002  
Haryana  
India

**Tel:** +91 124 6409486

**E-mail:** [asia@eiu.com](mailto:asia@eiu.com)

## Dubai

Economist Intelligence  
PO Box No - 450056  
Office No - 1301A  
Aurora Tower  
Dubai Media City  
Dubai  
United Arab Emirates

**Tel:** +971 4 4463 147

**E-mail:** [mea@eiu.com](mailto:mea@eiu.com)

# EIU Global outlook 2025

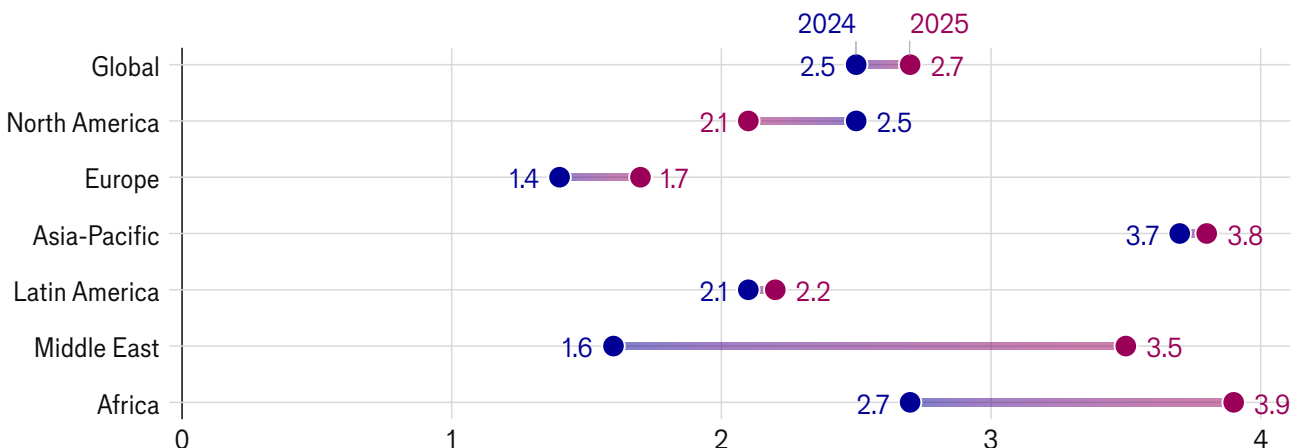
EIU forecasts that global real GDP growth will accelerate from an estimated 2.5% last year to 2.7% in 2025.

We expect that short-term interest rates will continue to fall gradually in advanced economies and many emerging economies in 2025-26. The process could be uneven, however, with stickiness in prices, notably the US, leading to delays in

further monetary loosening. On the fiscal side, high public debt levels mean that bond markets will remain sensitive to expansionary fiscal programmes that are not adequately funded.

## Slower growth in North America in 2025 offset by faster expansion in Asia, Europe and Middle East and Africa

% change in real GDP, by region; market exchange rate



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**The outlook for global trade is stable, although risks are skewed to the downside given the expected protectionist tilt in US policy.** The US president, Donald Trump, declined to implement tariffs on China in his first days in office but we believe these are still likely in early 2025, with those on other

major trading partners likely to begin to materialise in the second half of the year. This will encourage a front-loading of purchases that will yield higher trade growth than in 2024. Higher inventory levels will cause trade growth to slow more noticeably from the second half of 2025.

## Trump's China tariffs 2.0: EIU's forecast

	Optimistic scenario	Baseline scenario	Pessimistic scenario
<b>Probability</b>			
Rate	15%	60%	25%
<b>Weighted average of effective tariff rate (WATR; existing rate of about 10%)</b>			
Rate	10% additional increase, or a total of 20%	20% additional increase, or a total of 30%	40% additional increase, or a total of 50%* and revoke China's PNTR status
<b>Real GDP growth, taking into account policy response</b>			
2025	4.8%	4.6%	4%
2026	4.5%	4.3%	3.5%
<b>Exchange rate (Rmb:US\$)</b>			
Rate	7.25 by end-2026	7.45 by end-2026	Temporarily approaching 8

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\*Assumes a greater degree of exemptions, given the higher threatened duty rates. Note. The 20% and 40% additional increases in effective tariff rate (or 60% statutory tariff hike) include the 10% tariffs threatened in regard to fentanyl.

**Relatively high US interest rates and the imposition of tariffs, alongside geopolitical risk, will preserve the strength of the US dollar.** We expect the yen to remain weak in the near term and not to undo its losses of recent years, with Japanese interest rates likely to near their peak in 2025. The renminbi is forecast to weaken in response to anticipated US tariffs. The peso's weak value already reflects Mexico's exposure to Mr Trump's threatened trade measures.

**Crude oil prices will remain volatile owing to geopolitical risks in the Middle East and concerns about weak demand in China.** They should average close to current levels in 2025-26, before declining. We expect prices for agricultural commodities to remain on a broad downward trend, but beverage prices are set to remain higher for longer. Prices for most base metals are again trending upwards, and will continue to do so driven by the green transition and a related recovery in global construction activity tied to the ongoing electrification drive.

## US

**The US economy will show continued strength.** Higher ten-year yields will take a bite out of growth in the first half of the 2025, testing the productivity-led growth that dominated in 2024, and we expect policy pivots under Mr Trump to generate some uncertainty. Although our baseline forecast is for another full percentage point of cuts

from the Federal Reserve (Fed, the central bank) over 2025, we expect the next reduction to be delayed until the second quarter of the year. The continuing strength of the US economy and persistent inflation in some areas mean that there is also now a high risk that the Fed will cut by less.

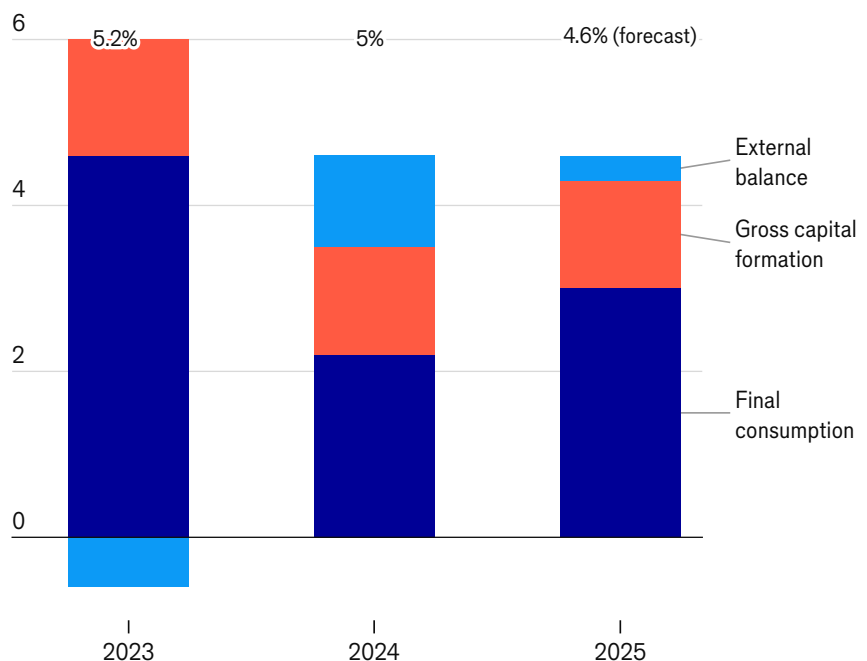
## China

**China's economy will still face headwinds in 2025.** A big external challenge arises from Mr Trump's second term. We expect US tariffs to be increased on Chinese imports over his presidency, given limited scope for bilateral negotiation. Although front-loading of exports

in 2025 could temporarily boost China's economic performance, tariffs will ultimately weigh on external demand for Chinese exports and dampen domestic sentiment, particularly against a backdrop of already weak confidence.

### Domestic demand will be pivotal for China's economy in 2025 as external challenges mount

Contribution to real GDP growth (%)



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Note: final consumption consists of private consumption and government consumption.

## Germany

**Germany will remain the slowest-growing large global economy.** This will be even after two consecutive years of contraction and zero growth in cumulative terms since 2019. Poor demographics, a public investment deficit compared with peer economies, pressure on competitiveness from energy prices

and high exposure to an increasingly complicated trade relationship with China will continue to limit German growth. Germany is also the most exposed within Europe to US tariffs owing to its large trade surplus with the US, the openness of its economy and its large industrial sector.

## Japan

**We forecast that Japan's economy will return to expansion.** Private consumption growth will pick up pace from mid-2025, amid easing inflation and improving real wage growth, although the recovery will be capped by trade disruptions emanating from US trade policy. The central bank will remain cautious to

prevent its policy normalisation from causing an economic recession or undermining its success in reflating the economy. We expect the Bank of Japan (the central bank) to lift its policy rate only once more in 2025, so that it stands at to 0.75% by year-end, and this will not be sufficient to engineer strong yen appreciation.

## India

**We forecast Indian growth to remain the fastest of major global economies.** India's economic momentum slowed in 2024, as high cost-of-living pressures dented urban consumption, and national and regional elections delayed government investment. However, factors such as monetary easing, strong rural consumption demand and front-loading of export orders will support growth in 2025.

Stricter immigration rules for skilled emigrants under a second Trump administration in the US will affect labour mobility for Indians, but will not meaningfully dent remittance flows back to India. US tariffs will add some pressure on India's current-account deficit and currency, although India is far less vulnerable than China and South-east Asia.

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## Global economic forecast

	2024	2025	2026
<b>Real GDP growth (%)</b>			
World (market exchange rates)	2.5	2.7	2.6
US	2.7	2.3	2.0
China	5.0	4.6	4.3
Germany	-0.1	0.6	0.7
Japan	-0.2	0.8	0.8
India	6.6	6.5	6.7
<b>Consumer price inflation (%; av)</b>			
World	5.9	4.6	3.6
US	2.8	2.4	2.3
China	0.2	0.7	0.9
Germany	2.4	2.0	1.9
Japan	2.6	2.2	1.7
India	4.8	4.3	4.4
<b>Commodity prices</b>			
Oil (US\$/barrel; Brent)	80.7	75.6	72.8
World non-oil commodity prices (US\$, % change)	0.7	4.0	-3.4
<b>Main policy interest rates (%; end-period)</b>			
Federal Reserve	4.4	3.4	2.9
Bank of Japan	0.3	0.8	1.0
European Central Bank	3.0	1.8	1.8
Bank of England	4.8	4.0	3.0
<b>Exchange rates (av)</b>			
US\$ effective (2010=100)	130.2	131.0	129.5
¥:US\$	151.5	150.3	138.4
US\$:€	1.08	1.05	1.04
Rmb:US\$	7.19	7.34	7.43
US\$:£	1.28	1.27	1.26

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Note. Grey shading indicates 2025-26 forecast period.



# The impact of a new US presidency

**Mr Trump’s initial actions as president evoked central themes of his election platform, they broadly fell short of his most aggressive policy pledges.** We interpret this as an early sign that he will struggle to enact the most controversial elements of his

agenda, even if major shifts in US policy still appear forthcoming. This will reflect sensitivity to capital markets, as well divisions between Mr Trump and the Republican Congress over their legislative strategy.

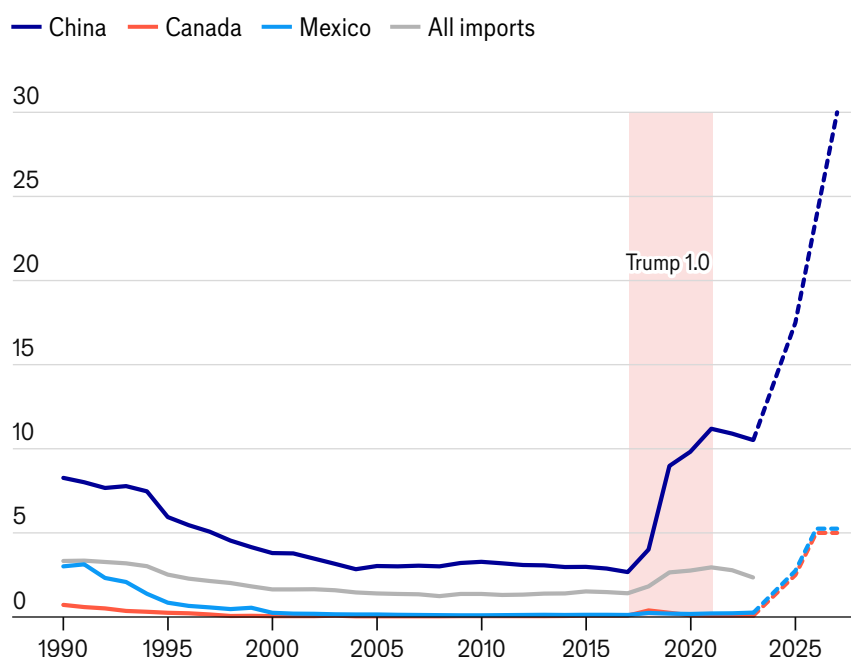
## Tariffs

**Absent from Mr Trump’s early actions was any increase in US tariffs.** This aligned with our forecast that sweeping new tariffs—including targeted duties towards China, Mexico and Canada—would not materialise at the start of Mr Trump’s term. Mr Trump instead has announced official reviews into unfair trade practices and potential currency manipulation by US trading partners, with a deadline for most of these reviews of April 1st.

The president’s statements threatening Canada, China and Mexico with earlier tariffs we interpret as a rolling threat and to help shape the parameters of future negotiations. However, the creation of a new External Revenue Service does suggest that some new tariffs are coming. We continue to expect the overall US weighted tariff rate to rise eventually to 5-10% (from about 2.5% currently) during Mr Trump’s presidency.

### EIU expects tariffs to rise on China, Canada and Mexico but by less than the blanket tariff threats made by Mr Trump

Average effective US tariff rates, by country, 1989–2023, and EIU forecast; %



Note. Dashed lines show forecasts.

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## Immigration

**Although border security featured prominently in Mr Trump's early announcements, numerous legal and logistical obstacles continue to weigh against his top policy objectives.** Some of Mr Trump's early orders have quickly overturned key elements of the previous Democratic administration's border policies, as he promised to do. This has included suspending all refugee resettlement and developing stricter criteria for vetting migrant arrivals. Other orders will be more difficult to implement. Mr Trump has reinstated his previous "Remain in Mexico" policy, although this will require buy-in from Mexico's government to take full effect. His declared national emergency at the US-Mexico border has unlocked additional powers and

resources, but any use of the military in an expanded role will encounter court challenges. A separate order to limit birth-right citizenship, which only Congress can authorise, already faces several lawsuits. Plans for mass deportations of undocumented migrants will also require congressional action, although agreement on a required funding bill is still some ways off. Mr Trump has also designated drug cartels as foreign terrorist organisations, which he previously cited as a potential cause for staging unilateral military operations in Mexico. However, we still view such an unprecedented outcome as very unlikely, not least because of the violence and instability that it would cause so close to the US border.

## Territorial expansion

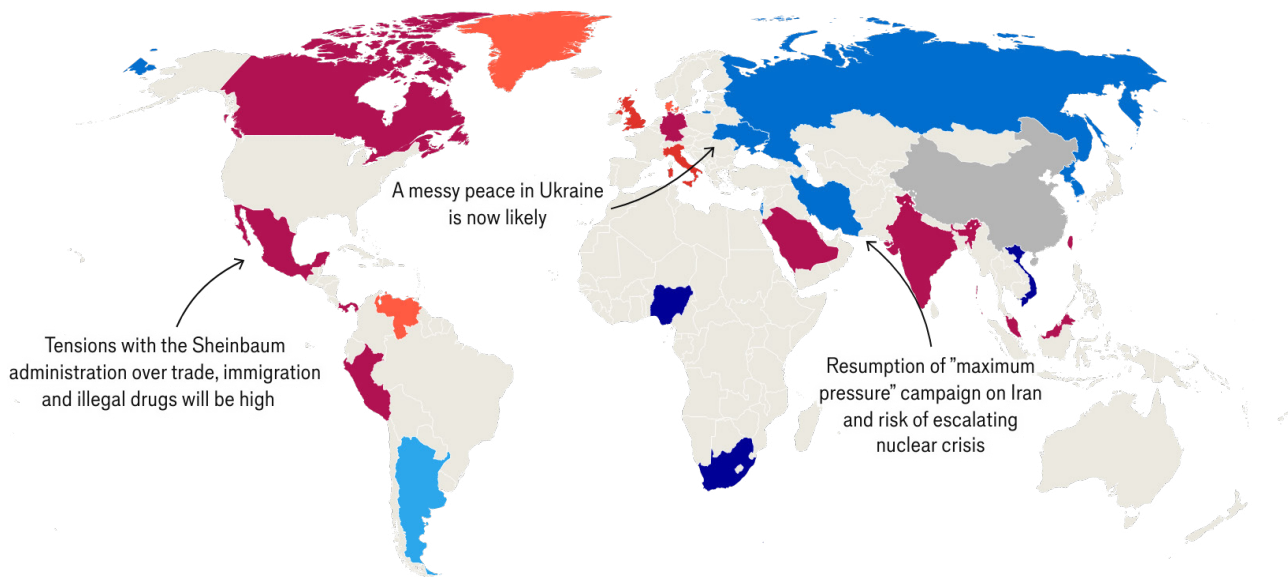
**Mr Trump's inaugural address referenced the expansion of US territory as an explicit goal, marking a sharp shift from recent administrations.** This included a reference to space exploration, but also to the Panama Canal, which Mr Trump plans to "take back". He also signed an executive order to rename the Gulf of Mexico, although this authority does not extend beyond the US. (Mexico has rejected the name change.) Previous

expansionist references to Canada and Greenland did not appear in his Inauguration Day speeches or orders, but could resurface further down the line. Overall, we continue to interpret these statements less as declarations of specific policy intentions and more as signals of Mr Trump's emerging world view, which places geostrategic significance on the wider territorial sphere of the Americas, particularly amid the US-China rivalry.

## Mr Trump plans to add to what will already be a full in-tray of international issues

Potential international hotspots during Mr Trump's first year

■ Trade ■ Diplomatic and security ■ Ideological and cultural ■ Trade and security  
■ Trade and ideological ■ Security and ideological ■ All



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Note. Hatching denotes combination of issue types.

## Multilateralism

Mr Trump pulled the US out of the Paris Climate Agreement and the OECD tax deal, which we long expected him to do. He also withdrew the US from the World Health Organisation (WHO), looking to fulfil an unmet policy objective from his first term. The order targeting the OECD tax deal includes instructions to the Treasury department to draft retaliatory measures against countries with tax rules that disproportionately target

US companies. The move not only jeopardises the OECD tax deal's future, but also sets up a potential trade war over topics covered by the agreement, including digital service taxes (DSTs). We expect these issues, particularly DSTs, to emerge as central negotiating points of upcoming bilateral discussions between the US and its major trade partners, especially the EU and Canada, which are also signatories to the OECD tax deal.

## Green transition and energy

**Mr Trump took several actions aimed at promoting fossil fuels and pivoting away from the previous administration's focus on the green transition.** This included orders to open public land and federal waters to oil drilling and mining, to repeal regulations promoting electric vehicles, and to halt approvals for wind farms in federal waters. He also declared a national energy emergency, even though the US is already the world's largest producer of oil and natural

gas. Mr Trump also ordered federal agencies to pause and review further spending from the previous administration's Inflation Reduction Act (IRA); however, most IRA spending occurs through tax credits, which only Congress can repeal. This reinforces our scepticism that Mr Trump will manage to unwind IRA substantially, especially as many Republican voting districts have benefited from the law's investments.

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# Meet the EIU team



## Tom Rafferty

Head of global forecasting  
and economics

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Tom is a seasoned analyst who delivers high impact global research and insight. He identifies the economic and geopolitical themes that will shape the global business landscape and leads the development of powerful, data-driven forecasts that make a difference for clients. A sought after presenter of the EIU's global outlook at keynote events, Tom enjoys sharing his views in boardroom settings and appears regularly in media.

### ★ Specialist subjects

Development, corporate strategy, emerging markets, geopolitics, macroeconomics, politics, public policy, risk

### 🌐 Languages

English, Mandarin

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London

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