

## Macroeconomic Outlook for 2025: Key Themes and Implications

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### Introduction

The year 2025 presents a complex macroeconomic landscape shaped by evolving monetary policies, geopolitical shifts, and regional economic dynamics. This article explores the major macroeconomic themes expected to influence global and regional economies in 2025, drawing on recent expert analyses and forecasts.

### 1. Monetary Policy and Interest Rate Dynamics

A defining feature of 2025 will be the evolving stance of central banks, particularly the US Federal Reserve (Fed). Following the 2024 US elections, the Fed's rate-cutting cycle is anticipated to stall at a higher terminal rate of 3.0–3.75%, about 75 basis points above earlier expectations. This adjustment reflects stronger short-term growth prospects driven by anticipated fiscal loosening and deregulation under the new administration. However, these policies are also expected to exert upward pressure on inflation, with core Personal Consumption Expenditures (PCE) inflation forecasted to hover around 2.5% year-over-year through 2025 and 2026. Consequently, the Fed may maintain interest rates above neutral for an extended period to anchor inflation expectations. This "higher-for-longer" rate environment will influence monetary policies globally, with emerging markets likely to experience more cautious rate cuts and Europe facing growth challenges that encourage further easing.

### Fiscal Policy Shifts and Growth Prospects

Fiscal policy will play a critical role in shaping economic outcomes in 2025. In the US, the combination of fiscal stimulus measures and deregulation is expected to modestly lift growth, particularly from 2026 onward when tax cuts take effect. Conversely, many Asian economies will prioritize fiscal consolidation, stabilizing growth at around 3.8% with easing inflation. Notable exceptions include Mainland China and Japan, where fiscal deficits are projected to widen. In Latin America, a drift back toward orthodox fiscal policies are anticipated, focusing on consolidation and addressing social issues, while regional growth divergence will become more pronounced, with Argentina recovering and Mexico facing challenges.

### Geopolitical and Trade Considerations

Trade policy and geopolitical tensions remain significant sources of uncertainty. The US administration's protectionist rhetoric, including tariff threats

targeting China, Vietnam, Cambodia, Japan, and South Korea, introduces risks of supply chain disruptions and inflationary pressures. However, these tariffs are unlikely to cause inflation shocks in Asia unless met with retaliatory measures or currency depreciation. In Europe, political uncertainty persists with upcoming elections in major economies such as Germany and France, complicating growth prospects. The potential for US policy shifts to affect European economic stability and the ongoing Russo-Ukrainian conflict adds further complexity.

### **Emerging Markets and Regional Divergence**

Recent global economic forecasts indicate a notable moderation in growth prospects for 2025 compared to earlier expectations. According to S&P Global Market Intelligence, the global real GDP growth forecast for 2025 was revised downward from 2.5% to 2.2%, reflecting heightened uncertainties and policy shifts following the 2024 US elections. Similarly, the OECD projects global GDP growth to moderate from 3.2% in 2024 to 3.1% in 2025, with further deceleration to 3.0% in 2026. This slowdown is attributed to increased trade barriers, policy uncertainty, and subdued investment and household spending in major economies.

In the United States, growth is expected to slow sharply from the robust 2.8% average in 2024 to approximately 1.3% in 2025, driven by early signs of weakening domestic demand, tariff shocks, and rising uncertainty. Consumer price inflation, which moderated to 2.7% year-over-year in late 2024, is projected to rise again, reaching around 4.0% by mid-2026. Consequently, the Federal Reserve is anticipated to maintain a relatively high target range for the federal funds rate (4.25%–4.5%) throughout 2025 to contain inflationary pressures.

The International Monetary Fund (IMF) projects global growth at 3.3% for both 2025 and 2026, slightly below the historical average of 3.7%. The IMF notes divergent growth paths across regions: the US growth forecast was revised upward to 2.7% for 2025 due to strong labor markets and investment, while the euro area's growth outlook was downgraded to 1.0% in 2025 amid geopolitical tensions and weak manufacturing momentum. China's growth is expected to slow from 4.8% in 2024 to around 4.4% in 2026. Inflation is forecasted to remain above central bank targets in many countries, with headline inflation in G20 economies falling from 3.8% in 2025 to 3.2% in 2026 but underlying inflation pressures persisting.

Fiscal policy remains a key lever in many economies. While the US is expected to implement fiscal loosening and deregulation measures that could support growth in the medium term, many Asian economies are prioritizing fiscal consolidation. Latin America is projected to experience divergent growth patterns, with some countries like Argentina recovering while others face challenges. Trade tensions,

particularly US tariff threats on Asian exporters, continue to pose risks to global supply chains and inflation dynamics.

### **Implications for Policy and Markets**

The evolving macroeconomic environment underscores the need for calibrated policy responses. Central banks face the challenge of balancing inflation control with supporting growth, especially as inflation remains sticky in services and core components. Governments are encouraged to focus on structural reforms that enhance productivity, promote inclusive growth, and address demographic challenges such as aging populations and labor market mismatches.

Investors and businesses should prepare for a "higher-for-longer" interest rate environment, increased market volatility, and regional disparities in growth and inflation. Enhanced multilateral cooperation and trade policy stability will be critical to mitigating downside risks and fostering a resilient global economy. Emerging markets face a mixed outlook in 2025. Capital outflows and tighter global financial conditions could pose risks, especially if abrupt policy tightening occurs worldwide. However, some emerging economies may outperform due to structural factors and policy adjustments. In Asia, monetary easing is expected to continue broadly, except in Japan and Malaysia. Latin American markets are expected to converge somewhat, influenced by structural changes and external policy shifts.

**Inflation and Labor Market Trends:** Inflation is projected to remain elevated in many regions due to supply constraints and policy-driven demand increases. The labor market in Europe is expected to soften, with easing job vacancies and potential layoffs as companies adjust to slower growth. In the US, inflation pressures and labor market tightness will influence monetary policy decisions and wage dynamics.

### **Conclusion**

The macroeconomic environment in 2025 will be shaped by a delicate balance of monetary tightening, fiscal policy shifts, geopolitical tensions, and regional economic disparities. Policymakers will need to navigate these challenges carefully to sustain growth, control inflation, and maintain financial stability. Understanding these themes is essential for investors, businesses, and governments as they prepare for the economic realities of the coming year.

### References

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