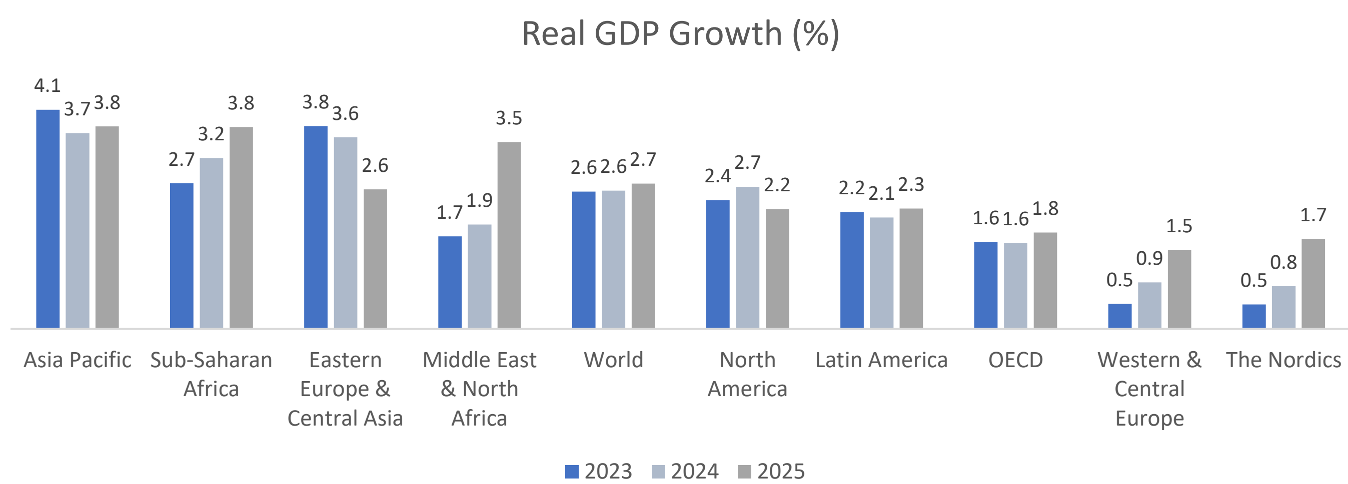
Global Economic Outlook – December 2024

Global trade uncertainty and geopolitical risk threaten growth in 2025

"The incoming U.S. administration's policy agenda will become clear following President-elect Donald Trump's inauguration on January 20, 2025. However, from messages on the campaign trail, further announcements since the election win, and the appointment of government roles, we can begin to get a sense of priorities. It seems highly likely that tariffs on imports into the U.S. will form some part of trade policy negotiations. Any additional costs and regulatory hurdles will oblige global businesses to consider trade strategies, partners, and supply chains. Tariff uncertainty makes planning challenging. We are already seeing the impact of uncertainty (specifically regarding potentially inflationary incoming U.S. policies): several countries' FX risk ratings have been downgraded over the past month due to local currencies depreciating against the strong U.S. dollar. Looking ahead to 2025, our Country Insight Solutions will continue to identify risks and opportunities for growth and cross-border business in the countries and regions in which you operate." **Dr. Arun Singh, Global Chief Economist, Dun & Bradstreet.**



Source: *Haver Analytics; forecasts from Dun & Bradstreet*

Global Economic Outlook

After winning the U.S. Presidential election in November, President-elect Donald Trump has announced the possibility of imposing a 25% import tariff on goods from Canada and Mexico, as well as an additional import tariffs on goods from the Chinese Mainland. The economic impact will depend on the nature of the tariffs, the extent to which they are applied, their duration, and whether they are reciprocated with retaliatory actions. Similarly, the scale of deportations alongside enhanced border restrictions – another potential policy priority – may see U.S. net migration fall and lead to lower overseas labor supply. President-elect Trump has also spoken of extending tax cuts and general deregulation. We will understand more when the new administration takes office on January 20, 2025, but in the meantime, the uncertainty is likely to affect business decisions. The market expects the impact of the incoming administration's new policies to be inflationary and has pared back expectations about the pace of Federal Funds rate cuts next year, with 75% of investors expecting U.S. interest rates to end 2025 in the range of 3.50% to 4.25%.

The Chinese Mainland is highly likely to retaliate, although given the economy's cyclical weaknesses, the scale of reciprocal tariffs may not be as large and perhaps may target specific industries. The government may continue to stimulate the economy in the event of trade disruption. Other emerging economies that have large trade surpluses with the U.S., or which re-export goods with components from the Chinese Mainland, such as Malaysia and Vietnam, are also likely to come under pressure from U.S. tariffs.

Given expectations of a generally higher inflationary environment in the U.S. in 2025, those emerging economies closely connected to movements in the Fed Funds rate, such as Mexico (the Bank of Mexico closely follows the U.S. Federal Reserve), Hong Kong S.A.R. (which operates a U.S. dollar peg for its currency), and those countries in parts of Latin America and Eastern Europe which are likely to find accessing international capital markets more difficult, are also likely to experience stress.

Europe-U.S. trade relations may also come under pressure, given the region's trade surplus with the U.S., at a time when the Eurozone's growth trajectory is already potentially weakening. Europe would likely be subject to blanket tariffs ranging from 10% to 20% on all imports. The U.S. is the EU's top export partner, accounting for around 20% of the EU's total exports outside of the union, and so further reciprocal tariffs on U.S. exports may be limited.

Aside from potential inflationary effects from upcoming U.S. policies, global underlying inflation continues to normalize, supporting monetary policy loosening. Progress towards central bank targets may, however, be slowing and in some regions, such as the Eurozone and the U.S., may be ticking up in recent readings, but the broad trend is of softer price pressures. We may find that the European Central Bank and the Bank of England make more progress than the Federal Reserve in cutting interest rates. The Chinese Mainland, meanwhile, continues to battle deflation.

Falling interest rates in major economies will ease pressure on emerging economies: local currencies should appreciate against the U.S. dollar, which would lessen imported inflation and allow central banks in emerging economies to focus on underlying domestic price pressures. Growth in India and in parts of Latin America, Eastern Europe, and the Middle East will likely offset the underlying slowdown in the Chinese Mainland. Brazil's central bank has been raising interest rates in recent months to combat rising inflation, indicating that central banks may be willing to reverse course if required.

One of the key short-term risks is the path of global disinflation – and the corresponding pace of monetary policy easing. With inflation edging up in some economies and expectations that it may re-accelerate in 2025, central banks are likely to continue to act cautiously.

Geopolitical risks in the Middle East continue to be a systemic regional risk, though the recent ceasefire between Israel and Hezbollah offers optimism, despite being endangered by transgressions. Political/insecurity risk has been, and continues to be, a key risk category this year. Latest incidents include the imposition and then almost immediate repeal of martial law in South Korea; the collapse of the French government following a vote of no confidence; and Germany's governing coalition finally breaking apart after months of disagreements. Germany is at a critical juncture, confronting a confluence of escalating geopolitical, economic, and domestic challenges that threaten its stability and leadership of Europe. The risk is acute – Germany faces losing its position as Europe's economic powerhouse, threatening dependent neighbors, and potentially undermining its wider geopolitical influence.

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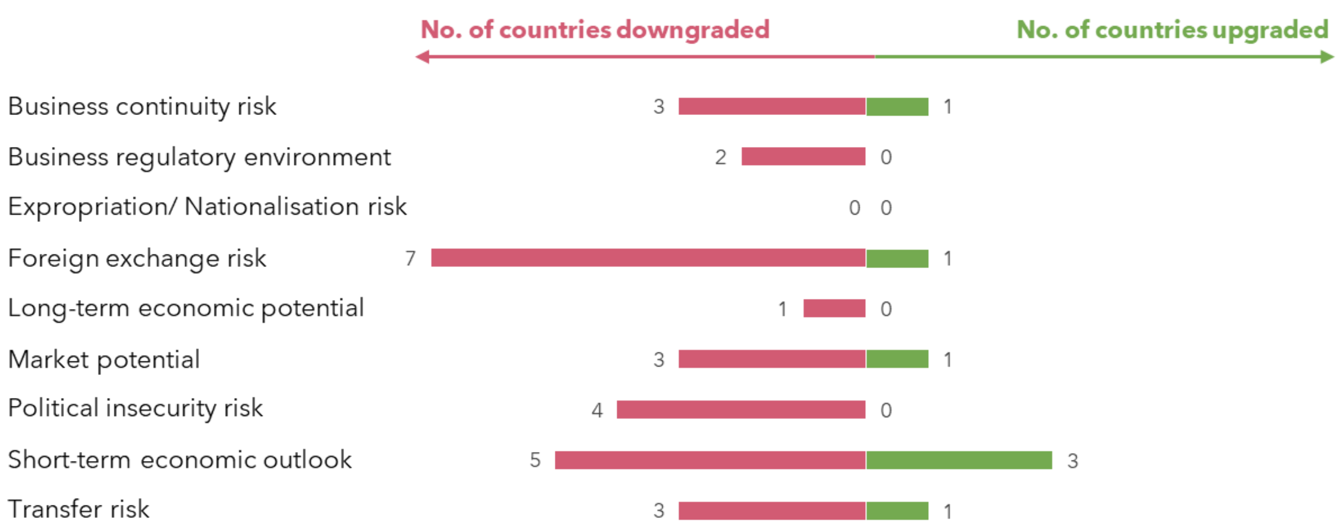
Movement in Country Rating & Environment Risks

Country Rating	Environment Risks			
	Credit	Market	Supply	Political
Czech Republic Bolivia Germany Sweden	Ethiopia Nicaragua India	Czech Republic India Qatar Iraq New Zealand	Paraguay Germany New Zealand South Korea	South Korea Germany New Zealand

Note: *Colors indicate Rating upgrade/Improvement in outlook, Rating downgrade/Deterioration in outlook*

Movement in Risk Dimensions



Source: *Dun & Bradstreet*

Rating Changes

▲ (Upgrade)

Czech Republic: We have upgraded the Czech Republic's overall country risk rating due to forecast strong economic growth in 2025. Households will likely benefit from rising employment, higher wages, and easing financial conditions. Businesses and consumers are growing in confidence.

Ethiopia: Ethiopia's credit environment risk rating has been upgraded following the introduction of macroeconomic reforms and a shift from its traditional credit-rationing approach to an exchange-rate-led lending model. This shift is expected to demand greater sophistication in credit allocation and enhanced expertise in managing short-term liquidity positions. These reforms enabled the government to secure USD3.4bn in IMF funding under an Extended Credit Facility arrangement.

India: The rupee fell below INR84:USD in mid-October, pressured by strong U.S. dollar demand from foreign banks, likely driven by equity outflows and the broader weakness in regional currencies amid a strengthening dollar. However, after a challenging October, foreign institutional investment (FII) outflows from Indian equities have eased, partially due to the redirection of flows toward the Chinese Mainland. Nonetheless, external policy uncertainties under the incoming U.S. administration remain a potential downside risk to the currency's outlook.

Nicaragua: We have upgraded Nicaragua's credit environment risk rating following rate cuts by the central bank. Headline inflation continues to ease, reaching its lowest level for the year in September, creating room for monetary easing to support growth in the coming months.

▼ (Downgrade)

Bolivia: September's wildfires are projected to impact agriculture, exports, and tourism, with effects lasting through mid-2025, prompting a downgrade in Bolivia's overall country risk rating. Inflationary pressures are building, with the headline inflation rate rising to 6.2% in September – a decade high. A larger external deficit and repayments on foreign debt took international reserves to USD1.9bn in August (an 11% y/y decline), contributing to the severe shortage of U.S. dollars and raising concerns about the country's debt sustainability. Dollar scarcity is making it difficult for businesses to import goods, settle international transactions, and manage external debt, putting a strain on trade and financial operations.

Germany: Germany faces escalating geopolitical, economic, and political challenges, with the Russia-Ukraine conflict straining defense and foreign relations. Domestic instability, the rising influence of the far right, and economic struggles – marked by high energy costs, a declining industrial base, and an aging workforce – further threaten stability. The 'debt brake' limits necessary investments, putting Germany's economic future and geopolitical role at risk without urgent reforms and leadership.

Iraq: Iraq's 2024 economic growth forecast has been revised to a contraction of 1.1%, reflecting pressures from declining oil prices and reduced crude oil production. Oil reference prices dropped below H1 levels in November 2024, further straining the oil-dependent economy. Iraq extended its crude oil production cuts through December 2024 as part of OPEC's strategy to stabilize prices. Consequently, headline production targets are unlikely to be met until early 2025.

New Zealand: New Zealand's GDP growth is expected to decelerate in the near term as higher mortgage repayments and reduced household discretionary spending, compounded by uncertainty in a slow labor market, dampen economic activity. Additionally, the proposed amendment to the Treaty of Waitangi, which could reverse certain Maori empowerment policies, has sparked significant protests. However, the amendment faces significant legislative hurdles, is unlikely to pass, and does not currently pose a threat to government stability.

Paraguay: Parana River water levels hit historic lows in September, severely impacting this essential trade route. The river's increasingly erratic conditions threaten import and export operations, raising logistics risks for Paraguayan businesses reliant on waterway transport. We have downgraded the business continuity and supply environment risk ratings.

South Korea: South Korea is grappling with significant political turmoil in the wake of the short-lived imposition of martial law. This situation has triggered widespread concerns about economic stability, governance, and the integrity of institutions. The opposition's push to impeach President Yoon Suk Yeol has further amplified uncertainty, with significant ramifications for the economy and South Korea's policy environment.

Sweden: We have downgraded Sweden's overall country risk rating and the short-term economic outlook risk rating and moved the respective outlooks from 'stable' to 'deteriorating' due to persistent growth concerns. The Swedish krona continues to show signs of weakness amid lower exports.

Key Market Updates

Brazil: Monetary tightening, which resumed in September, will likely dampen private credit demand in 2025. We expect 2.0% growth in 2025 – a deceleration from 2.9% in 2024 – as sticky inflation and rising borrowing costs dampen domestic consumption and investments. Lower government spending will also weigh on real GDP growth in 2025 as the Lula administration tightens its purse strings to restore sagging investor confidence. However, the government is unlikely to implement reforms to meaningfully address structural gaps that limit the country's competitiveness and weigh on its productivity.

Israel: Israel's economy expanded by an annualized 3.8% in Q3, exceeding expectations, as it continues to recover from weakness related to the Gaza conflict. Growth was driven by robust consumer spending, a sharp rise in fixed asset investments, and increased exports. The prospects for regional stability improved with a late-November ceasefire between Israel and Hezbollah in Lebanon, raising hopes for peace and reducing the risk of escalation between Israel and Iran.

Chinese Mainland: The Chinese Mainland's GDP growth slowed in Q3, weighed down by a prolonged property market slump and subdued confidence, though recent data indicates signs of recovery. The anticipated U.S. trade tariff increases are expected to further strain the economy, dampening export growth and curbing investment even before full implementation due to heightened uncertainty. This could spill over into weaker employment and income levels, which in turn would suppress consumer confidence and spending.

Mexico: In October, it emerged the government was considering offering tax incentives to foreign firms that invest in various sectors, including electric vehicles, semiconductors, rare earth minerals, batteries, and electronics. The President's economic stance means that she is pushing ahead with the energy industry's nationalization; to this end, Parliament passed a bill in October giving the state more control over key energy companies.

How Dun & Bradstreet Can Help

Dun & Bradstreet's Country Insight Solutions provide forecasts and business recommendations for 132 economies, allowing businesses to monitor and respond to economic, commercial, and political risks. To learn more, visit dnb.com/country-insight.