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Article

World Economy Winter 2024: Strong headwinds for global economic activity

Kiel Institute Economic Outlook, No. 119

Provided in Cooperation with:

Kiel Institute for the World Economy – Leibniz Center for Research on Global Economic Challenges

Suggested Citation: Gern, Klaus-Jürgen; Kooths, Stefan; Liu, Wan-hsin; Reents, Jan; Sonnenberg, Nils (2024) : World Economy Winter 2024: Strong headwinds for global economic activity, Kiel Institute Economic Outlook, No. 119, Kiel Institute for the World Economy (IfW Kiel), Kiel

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KIEL INSTITUTE **ECONOMIC OUTLOOK**

World Economy
Winter 2024

Finalized December 12, 2024



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No. 119 (2024|Q4)

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STRONG HEADWINDS FOR GLOBAL ECONOMIC ACTIVITY

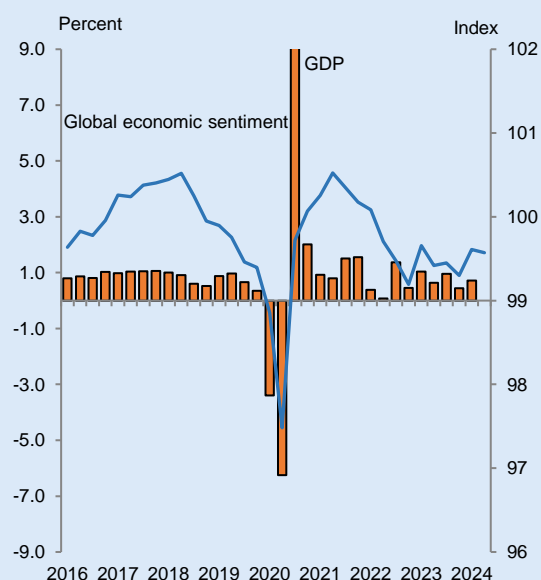
Klaus-Jürgen Gern, Stefan Kooths, Wan-Hsin Liu, Jan Reents and Nils Sonnenberg

The global economy is facing increased economic policy uncertainty in a phase of already moderate momentum, primarily due to the announcements made by the incoming US administration. However, it is unclear what measures will actually be implemented. This forecast assumes that additional tariffs will be imposed on imports into the United States, albeit not to the full extent proposed in Donald Trump's presidential campaign. While we assume that the reduction of US policy interest rates will be slowing, we still expect global economic activity to gradually benefit from tailwinds due to more favorable financing conditions. Under these assumptions, the US economy is likely to continue to expand significantly, while economic momentum in Europe will remain low but gradually move upwards. At the same time, given the gloomy outlook for Chinese exports, a sustained economic recovery in China remains nowhere in sight despite the announced stimulus measures. While global trade has risen again in the year to date, it is likely to slow noticeably over the forecast horizon due to the expected restrictive trade policy measures. All in all, we keep our forecast for global output growth in 2024 – measured on a purchasing power parity basis – unchanged at 3.2 percent this year. For next year, we expect an expansion of 3.1 percent, also unchanged from our September forecast. The outlook for 2026 has deteriorated, and we have reduced our forecast by 0.2 percentage points to 3.1 percent. As of late, the decline in inflation has slowed down due to the absence of a year-on-year fall in energy prices. The expected further decline in inflation towards the target of 2 percent is likely to be sluggish, mainly due to the persistent rise in services prices. There is a risk that monetary policy will remain restrictive for longer than currently expected. In addition, there are still major risks for the global economy from a possible escalation of geopolitical conflicts. Trade conflicts could also escalate further, but while there is an upside to our forecast if they turn out to be less severe than assumed.

The global economy has recently continued to expand at a very moderate pace. In the third quarter of 2024, the global economy accelerated only slightly following the loss of momentum in the spring (Figure 1). While the US economy continued to expand strongly, output in the other advanced economies barely increased. Growth also remained subdued in China. Business sentiment, which had improved noticeably at the beginning of the year, deteriorated again somewhat over the past months. For the fourth quarter, the global economic sentiment indicator calculated by the Kiel Institute on the basis of sentiment indicators from 42 countries points to a continuation of modest growth rates.

Industrial production and world trade in goods are increasing slowly. Global growth continues to be driven by the service sector. After picking up noticeably in the first half of the year, world industrial production recently lost momentum again. The global Purchasing Managers' Index (PMI) for the manufacturing sector even slipped briefly into contractionary territory and recently only barely exceeded the expansion threshold of 50. Global trade in goods also slowed down during the summer

Figure 1:
World Economic Activity



Quarterly data, seasonally adjusted. Global economic sentiment is based on business expectations in 42 economies. GDP: price adjusted, change over previous quarter, 46 countries, weighted by purchasing power parities.

Source: OECD, Main Economic Indicators; national sources; Kiel Institute calculations.

months (Figure 2). Although the PMI for incoming orders from abroad improved recently, it remained below 50 in November for the sixth consecutive month. Against this backdrop, freight rates fell again significantly following strong increases in the first half of the year, which were due not only to the recovery in trade, but also to the additional strain on freight capacities from the major re-routing of traffic away from the Suez Canal in response to the attacks by Yemeni rebels that started in November 2023. This is probably the main reason why freight rates are currently still more than twice as high as a year ago, according to the Drewry World Container Index.

Growth in the advanced economies decelerated slightly. In the third quarter, GDP in the group of advanced economies slowed down slightly compared to the second quarter (Figure 3). The strong expansion in the United States continued at an almost unchanged pace (0.7 percent) with both private consumption and corporate investment increasing significantly. At the same time, the economy in the euro area remained subdued. The uptick in the quarterly GDP growth rate to 0.4 percent was mainly due to special one-off factors (in Ireland, it was related to the activities of multinational companies; in France, to the summer Olympic Games) and overstates the underlying growth momentum. In the United Kingdom, output barely increased after strong growth in the first half of the year, mainly due to a weak expansion in the service sector. The Japanese economy also grew at a much slower pace than in the previous quarter, in which private demand had recovered from a temporary slump in the beginning of the year. Overall, the differences in economic momentum between the US and the other advanced economies remain large. However, in view of the fact that the unemployment rate remains low in almost all advanced economies, this is probably not primarily due to cyclical reasons, but rather to a considerable gap in the growth of potential output.

Developments in the emerging economies remained mixed. Economic output expanded at a more or less unchanged pace in the third quarter following the slowdown in spring which was primarily due to weakness in China. The Chinese economy picked up slightly, but its growth of less than 1 percent quarter on quarter was once again significantly below trend. Growth decelerated somewhat in Southeast Asia, and considerably in India, where the post-pandemic upswing has apparently run its course and

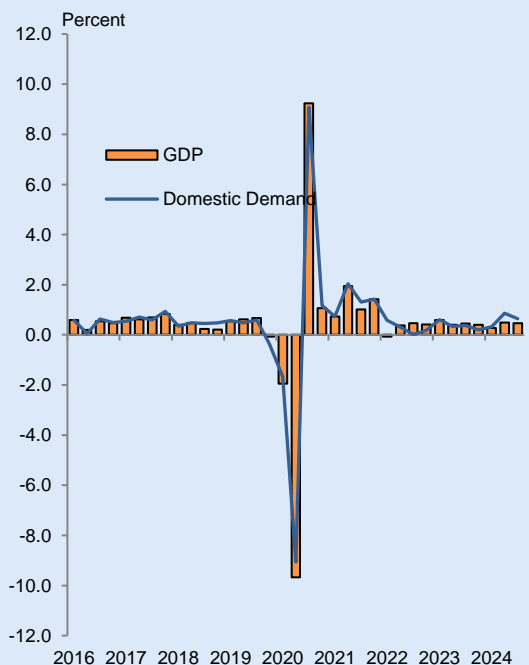
Figure 2:
World Trade



Monthly Data.

Source: CPB, World Trade Monitor, Kiel Institute calculations.

Figure 3:
GDP and Domestic Demand in the G-7



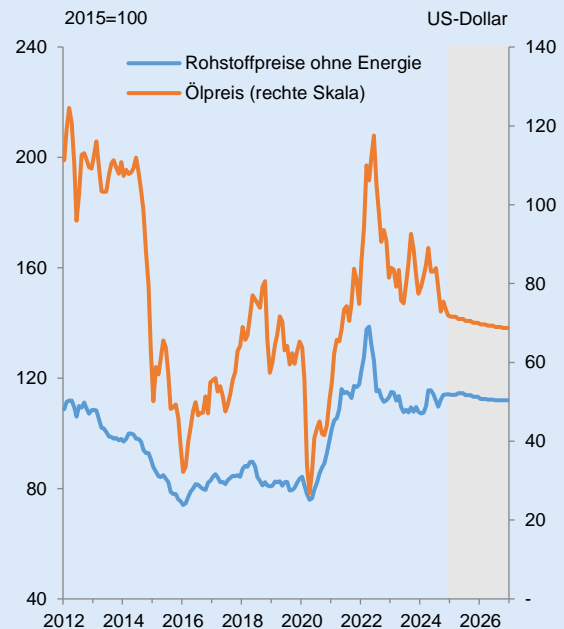
Price adjusted; seasonally adjusted; yoy change. G7 consists of USA, Japan, Canada, Germany, France, Italy and UK.

Source: OECD Main Economic Indicators, Kiel Institute calculations.

private consumption was dampened by rising consumer prices. In contrast, there was a noticeable acceleration of growth in Latin America with the economy expanding strongly almost everywhere in the third quarter. While output continued to grow strongly in Brazil – GDP rose by 4 percent in the third quarter compared to the previous year –, GDP in Mexico, which had virtually stagnated in the first half of the year, also increased significantly. In Argentina, the deep recession appears to be over. Although data for the third quarter is not yet available, the indicators for production and demand suggest that the economy has been on a clear upward trend since the spring after three quarters of sharp declines. Finally, the upturn in production in Russia has weakened further; the year-on-year growth rate of 3.1 percent reported by the Russian statistical office is largely the result of the increases in production in the previous quarters.

The oil price is under pressure amid low demand growth. The oil price is trending downwards since spring 2024. Although geopolitical tensions have repeatedly given rise to concerns about supply security, leading to temporary price spikes, the price of a barrel of Brent crude at the beginning of December was just over 70 US dollars, 20 US dollars less than in April. This is due to a significant slowdown in the growth of demand for oil, coupled with an improved outlook for supply, partly because the election of Donald Trump as US President is associated with expectations of a stronger expansion in US production. The additional production from oil-producing countries that are not part of the OPEC+ group already exceeds the growth in global demand. Although the announced easing of the production limits for OPEC members introduced in 2020 to support prices has been repeatedly postponed, supply in the oil market is therefore likely to remain ample. One of the main reasons for the restrained increase in global oil demand is the slow rise in demand from China, which is not only due to the sluggish economy but also reflects the rapidly progressing switch to electromobility. Against this backdrop, we expect prices to continue to fall gradually over the forecast period, in line with financial markets (Figure 4). In contrast, the price of gas has risen noticeably in recent months from the low levels recorded in March (Figure 5). The prices of non-energy commodities have also been trending upwards recently. Prices for some foodstuffs in particular rose, while metal prices showed no clear

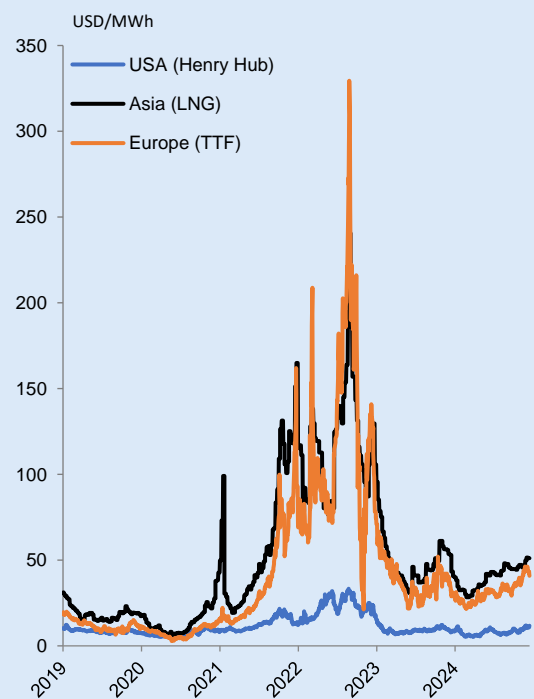
Figure 4:
Raw material prices



Monthly data, data edge: shaded: forecast.
Raw materials ex energy: HWWI-Index, USD-based; Crude Oil: Spot market, Brent.

Source: International Petroleum Exchange; HWWI, Rohstoffpreisindex, Kiel Institute forecast.

Figure 5:
CPI Inflation in Industrial Countries



Quelle: LSEG Datastream

trend due to the lack of momentum in the industrial sector.

The decline in inflation is faltering. Inflationary pressure has slowed overall over the course of this year. In the G7 countries, the inflation rate has fallen from around 3 percent at the end of 2023 to 2.3 percent in October (Figure 6). However, the decline has only been due to the energy component for some months now. The core rate (consumer prices excluding energy and food), which had fallen steadily until the middle of the year, has remained at 2.9 percent since then. The rise in prices for services has been particularly high and persistent, while prices for industrial goods have recently risen only slightly at best in most countries.

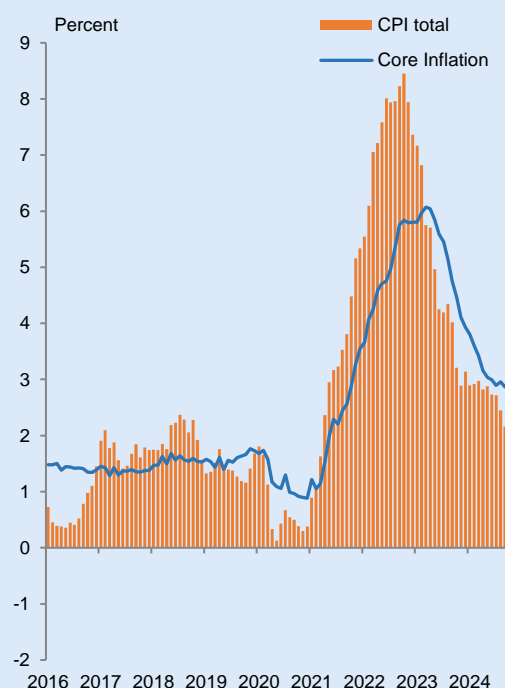
Additional trade-restrictive measures are likely. Global trade conflicts were already intensifying in 2024. The US government decided to take various measures to slow down China's technological catch-up process in strategically important sectors and secure its lead in the high-tech sectors. The Chinese government recently responded to this by restricting the exports of critical raw materials to the United States. At the same time, subsidies, credit control and other incentives in China in recent years have led to overcapacities in a number of strategically important industries, resulting in increased pressure to export to global markets. As a result, in the course of 2024, the United States, followed first by the European Union and finally Canada decided to impose high tariffs on electric cars, and in some cases other goods such as solar panels and steel, in order to prevent unfair displacement of domestic production. The economic policy agenda of US President-elect Trump now suggests the introduction of tariffs across the board, intended to attract industrial production to the United States on the one hand and to generate revenue for the national budget to finance tax cuts on the other.

The forecast assumes additional general import duties of 5 percent in the United States and an additional tariff of 30 percent on imports from China. Although the new administration is not yet in office and therefore no legally binding decisions have yet been made, it does not seem reasonable to make the usual "no policy change" assumption for the forecast in view of Donald Trump's strong preference for tariffs as emphasized in his presidential campaign. Trump's plan to impose an additional tariff of 10 percent on all imports and 60 percent on imports from China has been widely cited in recent months.^[1] Although we do not expect this measure to be implemented in full as the associated negative effects on the US economy would probably be too strong, we also consider it unlikely that the new administration will completely forego additional tariffs. For the forecast, we therefore assume that tariffs will be increased by half the announced amount, either as a general tariff or in the form of – then even higher – tariffs on certain goods. We also assume that there will only be a limited response to the US tariffs with counter-tariffs.

^[1] Occasionally, higher tariff rates have also been suggested

The additional tariffs slow down trade and production worldwide, but especially in China – and in the United States. Additional tariffs of this magnitude imposed by a large country such as the United States are expected to have a noticeable impact on trade and production worldwide. For the

Figure 6:
CPI Inflation in Industrial Countries



Source: OECD, Main Economic Indicators; Kiel Institute calculations.

quantification in our forecast, we draw upon simulations using a disaggregated trade model (Felbermayr et al., 2024).^[1] According to this model, the very high tariff rate will have a particularly strong impact on exports and output in China, but also in the United States itself, as import duties on foreign goods also change the relative prices of exports and therefore have similar effects as taxation of exports. In contrast, the impact on European countries is comparatively low.

^[1] The simulations are carried out using the Kiel International Trade Evaluation (KITE) model. Among other things, additional tariffs of 10 and 60 percent with and without retaliation were simulated. The results were adapted to the lower tariff rates assumed here.

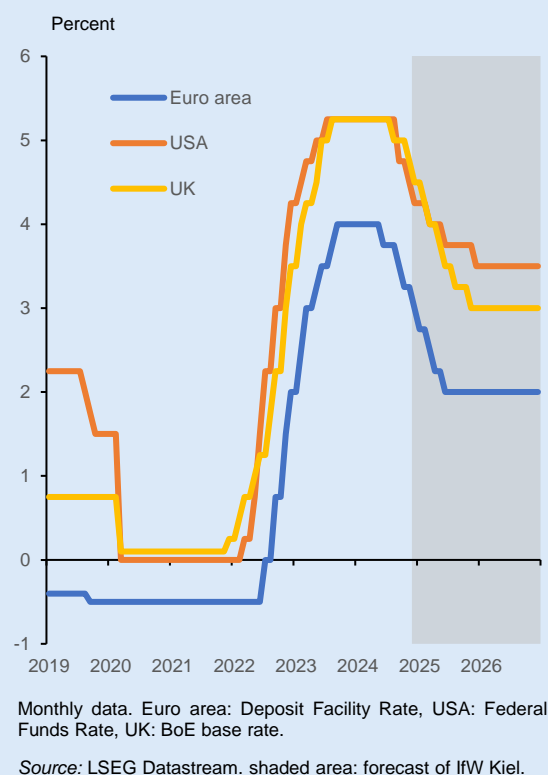
Monetary policy in the advanced economies is being eased further. The interest rate cuts initiated in the major advanced economies in summer 2024 were continued in the fall. Following the surprisingly large first move in September, the Federal Reserve most recently reduced the key interest rate range to 4.5 percent to 4.75 percent in November. We expect further small interest rate cuts – the next one probably already in December – by a total of 75 basis points by the summer of next year (Figure 7). The European Central Bank (ECB) is likely to cut its key interest rate

(deposit facility) even further, following the 75 basis points implemented in three steps by October. We expect a further reduction to 3.0 percent in December. In 2025, the key interest rate is likely to be cut by 25 basis points at each meeting until June towards 2 percent, which we regard as a largely neutral level. The Bank of England is following a similar path, although at a somewhat higher level; the key interest rate in the UK is expected to be 3.0 percent from the fall of 2025. In Japan, by contrast, where central bank interest rates were raised slightly above zero in 2024, a further tightening of monetary policy is to be expected as inflation has now fallen significantly and is close to the target of 2 percent.

The US dollar has appreciated on the back of the increased interest rate differential between the US and Europe. Expectations of financial markets regarding key interest rates have changed significantly since September, likely - at least partly - in response to the probable policy changes by the new US administration. While smaller interest rate cuts now are being expected in the US over the next two years in view of increased inflation risks, financial markets are assuming more interest rate cuts and a lower final level for the euro area against the backdrop of the weak economy. This was accompanied by a depreciation of the euro from 1.12 US dollars at the beginning of October to 1.05 US dollars per euro at the beginning of December. The British pound and the Japanese yen lost value of a similar magnitude. The nominal effective exchange rate of the dollar rose by around 5 percent overall (Figure 8). To the extent that the reactions on the foreign exchange markets are linked to the announced tariff policy – for example, because a comparatively tighter monetary policy is expected as a result of the inflationary effects of the protection of domestic producers – this dampens the trade effects from the ceteris paribus imposition of tariffs.

In the emerging economies, the monetary easing cycle is gradually coming to an end. The easing of monetary policy – as well as its previous tightening – began in general earlier in the emerging markets than in the advanced economies. Interest rate cuts predominated until recently (Figure 9). In November, for example, key interest rates in Mexico, South Africa and Argentina were cut again. However, in more

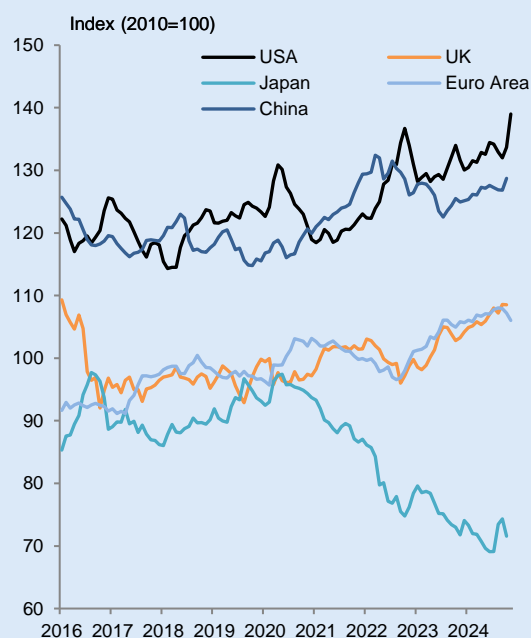
Figure 7:
Policy rates in major advanced economies



and more countries the easing cycle seems to have come to an end and some have started to raise their interest rates again. In addition to Russia, where the central bank has already increased interest rates sharply since July in order to counter rising inflation and stem the devaluation of the ruble, Brazil's central bank also tightened its policy in view of the strong economy and rising inflation over the past three months.

Fiscal policy is slow with budget consolidation. In recent years, fiscal policy was expansive in order to cushion the economic impact of the pandemic and the effects of higher energy prices. In many cases, programs were also implemented with industrial policy objectives, to promote infrastructure and to expand renewable energies. When the crisis measures came to an end, budget deficits fell in many cases; however, they usually remained significantly above the levels recorded before these crises, and even increased again more recently in some countries, including in the US and in France. Given the increase in government debt in the wake of the crises and the higher level of long-term interest rates, significant budget consolidation would be necessary in order to use the current phase of economic normality to counter the higher burden on government budgets from debt servicing and regain fiscal leeway in the event of new crises (OECD, 2024; IMF, 2024). However, there are scant signs of any pronounced efforts to reduce the structural deficits, which are still high in many places. On the contrary: Japan recently announced further fiscal stimuli to support demand, and the UK has adopted expansionary measures aimed at strengthening public infrastructure, although UK fiscal policy is still expected to be somewhat restrictive overall. For the US, President-elect's tax cut plans even suggest an expansionary fiscal policy. In the EU, political pressure is being exerted for consolidation through fiscal rules. As part of EU budget monitoring, an excessive deficit procedure has been launched for seven countries, in order to reduce deficits in accordance with the fiscal rules that have been reinstated in a modified form. All in all, we expect fiscal policy to have a slightly dampening effect on the economy in 2025 and 2026.

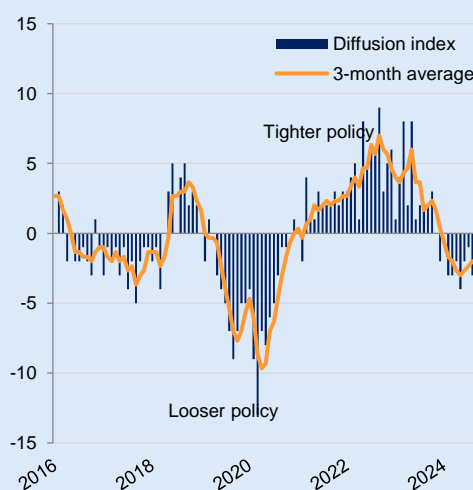
Figure 8:
Nominal effective exchange rates



Monthly data.

Source: JP Morgan, Thomson Reuters Datastream.

Figure 9:
Monetary Policy in Emerging Markets



Monthly data. The diffusion index is the number of central banks raising policy rates less the number of central banks decreasing policy rates in a given month. Emerging markets included are: Argentina, Brazil, Chile, China, Colombia, Indonesia, India, Mexico, Malaysia, Peru, Philippines, Russia, Thailand, Turkey, South Africa.

Source: Bank of International Settlements (BIS); Kiel Institute calculations.

Outlook: Economic upswing still not in sight

Economic policy uncertainty and structural problems hinder a strong expansion of the global economy. The economy does have some tailwinds: Monetary policy is less and less restrictive and is likely to turn neutral over the course of the coming year. The prospects for private consumption have improved, as real wages have not decreased for some time due to declining inflation rates and higher wage increases. Real wages in most countries now exceed the levels prior to the inflation surge, often substantially. However, these developments come partly at the expense of companies' profit margins and may result in a dampening of corporate investment and a lower level of employment. High uncertainty concerning economic policy in the United States is an additional burden. In particular, the prospect of higher tariffs imposed by the US is threatening global economic momentum. China, which has often been the growth engine of the global economy in the past two decades and is currently struggling with severe structural problems, would be particularly affected. As trade barriers are making expansion by way of exports more difficult, no sustainable upturn is in sight there. The European economy is also suffering from structural problems reflected in extremely low productivity growth.

The global economy will tend to lose momentum over the forecast horizon. For the current year, we continue to expect global output growth to slow down slightly to 3.2 percent (Table 1). For 2025 and 2026, we expect growth of just 3.1 percent per annum, meaning that we leave our forecast for the coming year unchanged and reduce our 2026 outlook by 0.2 percentage points compared to our September report ([Gern et al., 2024](#)). Based on market exchange rates, global output will grow by 2.8 percent this year, 2.7 percent next year and 2.6 percent in 2026. Global trade in goods is expected to increase by 1.8 percent this year, following a reduction of 1.3 percent in 2023. For 2025 and 2026, we have significantly reduced our expectations for world trade growth in light of the assumed trade policy measures and are now forecasting increases of 1.7 percent and 1.2 percent, respectively.

US economic growth is expected to slow down. Until recently, GDP grew strongly on the back of substantial increases in private consumption. Current indicators suggest that the economy remained on an upward trajectory in the fourth quarter. The outlook for consumption has improved for the remainder of the forecast period as household income and savings have been revised upwards significantly for the recent years, meaning that we no longer expect a noticeable increase in the savings rate going forward. Following the election of Donald Trump, significant changes in economic policy are to be expected. While fiscal policy will be more expansionary than previously assumed, measures to curb irregular migration and additional import tariffs will slow the growth of potential output. As a result, inflation is likely

Tabelle 1:
Real GDP and consumer prices in the global economy

	Weight	Gross domestic product				Consumer prices			
		2023	2024	2025	2026	2023	2024	2025	2026
World economy total	100	3.3	3.2	3.1	3.1	7.7	6.9	4.7	3.9
including									
Advanced economies	59.3	1.8	1.8	1.8	1.6	4.8	2.7	2.2	2.2
China	18.4	5.6	4.9	4.4	4.0	0.2	0.3	0.2	0.2
Latin America	4.8	2.2	1.8	2.5	2.1	23.9	28.1	9.5	6.6
India	7.3	7.7	6.7	6.3	6.9	5.3	5.1	4.9	4.5
East Asian emerging economies	5.0	3.4	4.0	3.9	3.8	3.5	2.5	2.4	2.4
Russia	2.9	3.6	3.9	1.5	1.0	5.9	7.9	8.0	7.0
Africa	2.4	3.1	3.3	3.7	3.8	15.4	16.8	16.3	13.6
<i>Memorandum item:</i>									
World trade volume (goods)		-1.3	1.8	1.7	1.2				
World economy (GDP weights using current US-dollar exchange rates)		2.9	2.8	2.7	2.6	6.2	5.2	3.4	3.0

Percent. Weights according to GDP in 2023 based on purchasing power parities. GDP, consumer prices: change over previous year. East Asian emergin economies: Thailand, Malaysia Indonesia and Philippines. Africa: Egypt, Nigeria, South Africa, Algeria, Ethiopia.

Source: IMF, International Financial Statistics; OECD, Main Economic Indicators; Kiel Institute calculations; shaded area: Kiel Institute forecast.

to approach the central bank's target more slowly and monetary policy will be eased more slowly than previously assumed. However, the scope and timing of the policy measures to be implemented by the new US government remains highly uncertain at this point in time. There is thus a great deal of uncertainty about their impact on the economy. Based on our assumptions, we expect GDP to increase by 2.4 percent and 1.7 percent in 2025 and 2026, respectively, following an increase of 2.8 percent this year (Table 2). The unemployment rate is likely to rise slightly to 4.3 percent in the forecast period, while the inflation rate will remain slightly above the central bank's target at 2.2 percent and 2.3 percent in 2025 and 2026, respectively.

Table 2:

Real gross domestic product, consumer prices and unemployment rate in advanced economies

	Weights	Real GDP				Consumer prices				Unemployment rate			
		2023	2024	2025	2026	2023	2024	2025	2026	2023	2024	2025	2026
European Union	40.2	0.5	0.9	1.2	1.4	6.1	2.6	2.6	2.3	6.0	6.0	5.8	5.7
Euro area	34.0	0.5	0.8	0.9	1.1	5.4	2.3	2.3	2.1	6.6	6.4	6.3	6.1
Sweden	0.9	0.0	0.6	1.3	1.5	5.9	2.0	1.6	2.0	7.7	8.4	8.1	7.5
Poland	2.2	0.1	2.4	3.4	3.5	10.9	3.7	4.7	3.0	2.8	3.0	2.9	2.7
United Kingdom	5.1	0.3	0.9	1.4	1.4	7.3	2.6	2.2	2.0	3.7	4.1	4.0	3.9
Switzerland	1.0	0.7	1.4	1.5	1.5	2.1	1.4	1.0	1.0	4.3	4.0	4.1	4.0
Norway	0.6	0.7	2.4	2.3	2.0	5.5	3.4	2.7	2.5	3.4	4.0	4.1	4.0
United States	35.3	2.9	2.8	2.4	1.7	4.1	2.9	2.2	2.3	3.6	4.0	4.2	4.1
Canada	3.1	1.5	1.3	1.8	1.7	3.9	2.4	2.2	2.3	5.4	6.4	7.0	6.8
Japan	8.5	1.5	-0.2	1.1	0.7	3.3	2.5	1.9	2.0	2.6	2.5	2.4	2.4
South Korea	3.8	1.4	2.2	1.9	2.4	3.6	2.3	1.9	2.1	2.8	2.7	2.7	2.6
Australia	2.3	2.1	1.0	2.0	2.5	5.6	3.2	2.4	2.5	3.7	4.1	4.1	4.0
Total	100.0	1.5	1.6	1.7	1.5	5.0	2.7	2.3	2.2	4.5	4.7	4.7	4.6

Based on GDP at prices and exchange rates of 2023 in percent. Change over previous year in percent. European Union and Norway: Harmonized Index of Consumer Prices (HICP). Standardized unemployment rate in percent (ILO); country groups weighted according to the size of the labor force in 2023.

Source: Eurostat, VGR; OECD, Main Economic Indicators; IMF World Economic Outlook Database; Statistics Canada, Canadian Economic Account; shaded: Kiel Institute forecast.

The Japanese economy is temporarily gaining momentum. In 2024, GDP is likely to decrease slightly – by 0.2 percent – despite a revival over the course of the year. The contraction was mainly due to a decline in private consumption, which suffered from falling real incomes for a long time. However, real wages have now been rising since summer 2024. The gains in purchasing power in the coming year will be supported by measures contained in the economic stimulus package announced this autumn, including the reintroduction of subsidies for gas and electricity, the extension of the petrol price cap, and additional payments to low-income households. The package also includes considerable funds to support investment in the semiconductor industry and R&D. The low valuation of the yen is also having a stimulating effect. The massive depreciation in recent years – 25 percent in nominal effective terms since 2021, and 40 percent against the US dollar – has increased the competitiveness of Japanese products abroad, boosted the profitability of export companies and made Japan an attractive destination for tourists. Against this backdrop, we expect the Japanese economy to accelerate in the coming months. However, the pace of expansion is likely to slow again in 2026 as the economic policy stimuli run their course. We expect GDP to grow by 1.1 percent in 2025 and 0.7 percent in 2026, then roughly corresponding to the growth rate of production potential.

The economy in the euro area remains subdued. Following the fairly strong increase in GDP of 0.4 percent in the third quarter, growth in the euro area is likely to have slowed again towards the end of the year. This is not only due to the loss of the temporary factors that boosted activity in the third quarter. Current indicators such as industrial production or business and consumer sentiment are also signaling that the economy is slowing again. Economic momentum is expected to continue to be weak going forward. Private consumption is likely to remain on an upward trend amid rising real wages, and the expected easing of monetary policy will improve financing conditions. However, the persistent

weakness in the manufacturing sector – which is also due to structural factors –, the lack of fiscal stimuli, and a number of economic political uncertainties will hinder the expansion. Additional headwinds include, in particular, risks for foreign trade. According to our assumptions, new tariffs in the United States will impede exports, and trade tensions with China are likely to increase. The possible enactment of a free trade agreement with Latin America (Mercosur) can probably only provide an incomplete compensation here. Political challenges in some European countries are adding to uncertainties about the future economic policy. The requirements of the European fiscal rules and the obvious need to reduce new borrowing in order to stem the increase in the public debt burden mean that an overall restrictive fiscal policy can be expected. Against this backdrop, we expect the economy in the euro area as a whole to pick up only very gradually. GDP growth is likely to increase only slightly in the forecast period, from 0.8 percent in 2024 to 0.9 percent and 1.1 percent in 2025 and 2026, respectively (Table 3). The expected increase in GDP of the euro area without Germany is somewhat higher, but similarly subdued over time and slowed down by the development in France in particular, where the increase in GDP is likely to weaken noticeably against the backdrop of political uncertainty and a probably unavoidable fiscal restriction. The economic expansion in Spain is also expected to be weaker than in 2024, as the government is putting the brakes on fiscal policy and the recent high growth in tourism is likely to slow down (Table 4). Despite all of this, the labor market in the eurozone has so far proved resilient. The unemployment rate has continued to fall to a historically low level of 6.3 percent in October. Inflation is likely to gradually decline in light of the weak economy and should be close to its target at 2.1 percent in 2026.

Tabelle 3:
Real gross domestic product, consumer prices and unemployment rates in the European Union

	Weights	Real GDP				Consumer prices				Unemployment rate			
		2023	2024	2025	2026	2023	2024	2025	2026	2023	2024	2025	2026
Germany	24.2	-0.1	-0.2	0.1	0.7	5.9	2.3	2.2	2.0	3.0	3.4	3.7	3.8
France	16.6	1.1	1.1	0.7	0.8	5.7	2.3	2.3	2.2	7.3	7.5	7.7	7.8
Italy	12.3	0.8	0.5	0.8	0.9	5.9	1.1	2.1	2.2	7.7	6.5	6.0	6.0
Spain	8.6	2.7	3.1	2.0	1.8	3.4	2.8	2.3	2.2	12.2	11.5	10.5	9.5
Netherlands	6.1	0.1	0.9	1.4	1.1	4.1	3.1	2.4	2.0	3.5	3.6	3.6	3.5
Belgium	3.4	1.3	1.0	0.8	1.1	2.3	4.3	2.9	2.1	5.5	5.7	5.7	5.6
Austria	2.8	-0.8	-0.9	0.7	1.2	7.7	2.9	2.3	2.0	5.1	5.2	5.5	5.3
Ireland	3.0	-5.7	0.4	3.1	3.2	5.2	1.2	2.1	2.0	4.3	4.3	4.3	4.3
Finland	1.6	-1.2	-0.3	1.3	1.3	4.3	0.9	2.0	2.1	7.2	8.4	8.6	8.0
Portugal	1.6	2.5	1.6	1.9	2.4	5.3	2.6	2.1	1.8	6.6	6.4	6.2	6.0
Greece	1.3	2.3	2.2	2.1	2.0	4.2	3.0	2.4	1.9	11.1	10.1	9.0	8.5
Slovak Republic	0.7	1.4	2.0	2.6	2.8	11.0	3.2	3.2	2.1	5.9	5.4	5.2	5.0
Luxembourg	0.5	-1.1	0.7	2.0	1.9	2.9	2.2	2.3	1.9	5.2	6.0	5.9	5.5
Kroatien	0.4	3.3	3.7	3.0	2.9	8.4	3.9	3.4	2.2	6.1	5.0	4.6	4.4
Slovenia	0.4	2.4	1.1	1.9	1.8	7.2	2.0	4.8	3.0	3.7	4.0	4.5	4.0
Lithuania	0.4	0.4	2.5	2.7	2.2	8.7	0.6	1.8	1.8	6.9	7.4	6.9	6.4
Latvia	0.2	1.2	-0.1	0.2	1.7	9.1	1.2	2.2	2.1	6.5	6.9	6.8	6.0
Estonia	0.2	-3.1	-0.8	0.9	1.9	9.1	3.8	3.6	2.4	6.4	7.7	8.0	7.2
Cyprus	0.2	2.6	3.6	2.0	1.9	3.9	2.1	2.1	2.0	5.8	5.1	4.9	4.6
Malta	0.1	7.0	5.7	3.8	3.6	5.6	2.5	2.1	1.9	3.5	3.1	2.8	2.6
Sweden	3.2	0.0	0.6	1.3	1.5	5.9	2.0	1.6	2.0	7.7	8.4	8.1	7.5
Poland	4.4	0.1	2.4	3.4	3.5	10.9	3.7	4.7	3.0	2.8	3.0	2.9	2.7
Denmark	2.2	2.5	3.0	3.2	2.1	3.4	1.3	1.9	1.8	5.1	6.0	5.5	5.0
Czech Republic	1.9	0.0	0.9	2.0	2.6	26.5	8.2	2.4	2.1	2.6	2.7	2.5	2.3
Romania	1.9	2.4	0.8	2.3	2.7	3.9	5.2	3.9	3.6	5.6	5.4	5.3	5.2
Hungary	1.2	-0.8	0.6	2.1	3.4	-1.4	-0.1	3.7	3.2	4.1	4.4	4.3	4.2
Bulgaria	0.6	2.0	2.3	3.1	3.2	6.9	4.5	2.3	2.9	4.3	4.2	3.9	3.7
European Union	100.0	0.6	0.9	1.2	1.4	6.1	2.6	2.6	2.3	6.0	6.0	5.8	5.7
Addendum:													
European Union 11	87.4	0.5	0.8	1.0	1.1	5.3	2.3	2.2	2.1	6.6	6.5	6.4	6.2
Accession countries	12.6	0.8	1.7	2.7	3.0	9.4	3.9	3.9	2.9	4.1	4.1	4.0	3.8
Euro Area	84.7	0.5	0.8	0.9	1.1	5.4	2.3	2.3	2.1	6.6	6.4	6.3	6.1
Euro Area without Germany	60.5	0.8	1.1	1.2	1.3	5.2	2.3	2.3	2.2	7.8	7.5	7.2	6.9

Based on GDP at prices and exchange rates of 2023 in percent. Change over previous year in percent. Harmonized Index of Consumer Prices (HICP). Standardized unemployment rate in percent (ILO); country groups weighted according to the size of the labor force in 2023. Accession countries since 2004.

Source: Eurostat, National Accounts; shaded: IfW forecast.

The UK economy continues to recover, with economic policy headwinds easing. The only slight expansion in GDP in the final quarter of 2024 does not reflect the underlying economic momentum. Private consumption remained on an upward trajectory, supported by significant real wage growth, and the marked increase in corporate investment also continued. Overall economic output is likely to continue to grow at a moderate pace over the forecast horizon. While the monetary easing by the Bank of England is having a stimulating effect, the reduction of interest rates will be very gradual because domestic inflationary pressure is still considerable despite the current overall inflation rate being close to the target. Service prices, for example, are still rising by more than 5 percent. Although fiscal policy is still slightly restrictive, it is also stimulating economic activity by significantly increasing investment in public infrastructure. All in all, we expect a gradual acceleration of economic growth from 0.9 percent this year to 1.4 percent in 2025 and 2026, respectively.

Despite expansionary economic policies, the Chinese economy is not gaining momentum. Recent indicators actually suggest that the Chinese economy picked up in the fall. Retail sales and car sales have recently increased, suggesting some revival in private consumption. Exports also increased significantly in October, a trend that could be reinforced by new orders frontloaded to escape the expected additional US tariffs. We therefore expect robust growth for the current and the coming quarter. However, exports are likely to slow down noticeably over the course of the coming year due to more restrictive trade policies, particularly in the United States but also in Europe. As a result, the expansion of the manufacturing sector, which is currently the most dynamic part of the Chinese economy, will probably lose momentum. Beyond external economic challenges, the unresolved real estate crisis and the debt problems of some local governments continue to weigh on the Chinese economy. It is questionable whether the announced monetary and fiscal policy stimuli will stimulate domestic demand sufficiently in order to offset the dampening factors. The economic sentiment is too poor and uncertainty among consumers and companies high. We therefore expect growth to remain weak over the forecast horizon, with GDP rising by 4.4 percent in 2025 and 4.0 percent in 2026, following an increase of 4.9 percent this year. Against this backdrop, inflation will remain very low.

In the other emerging economies, growth remains robust. In 2024, production in the emerging economies increased at a moderate pace overall, albeit with significant differences between the individual countries and regions. While momentum was quite high almost everywhere in Asia, production in Latin America increased only moderately. However, the differences narrowed over the course this year. While the economy in Latin America has picked up since mid-year, even in countries where it had previously been weak, such as Mexico or Argentina, the strong momentum in India slowed noticeably. The catch-up potential in India following the deep pandemic slump has now probably been exhausted, and there are increasingly capacity bottlenecks which have recently also been reflected in rising wholesale prices for processed products. Inflation has also risen noticeably, primarily due to rising food prices, and is dampening private consumption. As a result, the Indian economy is likely to expand at a noticeably slower pace over the next two years than recently (Table 4). By contrast, momentum remains high in the emerging economies of Southeast Asia, which could even benefit from the more restrictive US trade policy if the high tariffs on imports from China lead to production relocation to other Asian countries. By contrast, economic activity in Mexico is likely to be significantly dampened if the current free trade agreement with the United States and Canada is thwarted by tariffs and other trade barriers – after all, 80 percent of the country's exports go to the US. Overall, however, we expect economic output in Latin America to remain on a clear upward trajectory. Finally, for Russia, where macroeconomic capacities are increasingly being used to satisfy war needs and appear to have reached their limits, we expect a significant slowdown in growth, while inflationary pressure remains high.

The risks to the forecast are considerable, but balanced. Particular risks to the forecast are currently posed by the uncertainty related to the future US trade policy, especially as US President-elect Trump is also prone to using trade policy measures to achieve political goals in completely different areas – such as the recent threat of tariffs of 25 percent on imports from Canada and Mexico and an additional 10 percent on imports from China in order to force these countries to curb drug trafficking and irregular

migration.¹ There are risks on both sides of our assumptions: Higher tariffs and countermeasures by trading partners – with a correspondingly stronger negative impact on global trade and production – are just as possible as a much more cautious or targeted approach by the US. Geopolitical risks also remain considerable, but in addition to an escalation of latent conflicts – for example between China and Taiwan – there is also the possibility that acute conflicts will be mitigated and the global political climate improve as a result. A downside risk for the economy is that US inflation is fueled by economic policy to such an extent that the Fed not only flattens the path of interest rate cuts as assumed, but even raises interest rates again in response. This would noticeably worsen financial conditions worldwide. On the other hand, there is an economic upside risk if private households become more confident in view of rising real incomes and falling inflation, particularly for energy and food², reduce their savings rate – which in many countries is still significantly higher than pre-pandemic level –, and thus provide an additional stimulus to the economy on the consumption side.

Tabelle 4:

Real gross domestic product and consumer prices in selected emerging market economies

	Weights	Real GDP				Consumer prices			
		2023	2024	2025	2026	2023	2024	2025	2026
Indonesia	5.6	5.0	5.0	4.9	5.3	3.7	2.5	2.6	2.7
Thailand	2.0	1.9	2.7	3.2	2.2	1.2	0.6	1.6	1.9
Malaysia	1.5	3.5	5.6	4.6	3.3	2.5	2.8	2.6	2.4
Philippines	1.6	5.6	5.4	5.7	5.4	6.0	3.4	3.0	2.8
Total	10.7	4.3	4.7	4.7	4.4	3.4	2.3	2.5	2.5
China	41.6	5.6	4.9	4.4	4.0	0.2	0.3	0.2	0.2
India	16.6	7.7	6.7	6.3	6.9	5.3	5.1	4.9	4.5
Asia total	68.9	5.9	5.3	4.9	4.8	2.0	1.8	1.7	1.6
Brazil	5.2	3.2	3.1	2.8	2.4	4.6	4.3	3.9	3.7
Mexico	4.1	3.3	1.6	1.8	0.9	5.5	4.8	3.9	3.7
Argentina	1.6	-1.6	-3.8	3.1	3.0	133.0	219.0	38.0	19.0
Colombia	1.3	0.6	1.8	2.5	2.9	11.7	6.9	3.9	3.7
Chile	0.8	0.3	2.3	2.2	2.5	7.6	4.3	3.7	3.0
Peru	0.7	-0.4	2.9	2.8	2.8	6.3	2.4	1.9	2.4
Latin America total	13.6	2.1	1.7	2.5	2.1	20.6	29.3	7.7	5.4
Egypt	2.3	3.8	3.4	4.5	4.5	8.5	24.4	30.0	25.0
Nigeria	1.7	2.7	2.5	3.0	3.5	18.8	24.7	30.0	28.0
South Africa	1.3	0.6	0.5	0.8	1.2	6.9	4.5	3.4	3.0
Algeria	0.8	4.1	3.7	3.2	3.2	9.3	9.3	6.2	4.8
Ethiopia	0.5	7.5	6.5	6.5	6.5	33.9	30.2	25.0	18.0
Africa total	6.6	3.2	2.9	3.4	3.6	12.9	19.3	21.6	18.6
Russia	6.4	3.6	3.9	1.5	1.0	5.9	7.9	8.0	7.0
Türkiye	4.6	4.5	3.4	3.5	5.0	53.9	58.0	35.0	25.0
Total	100.0	5.0	4.5	4.2	4.1	7.8	9.6	5.7	4.6

In percent. Weights: According to 2023 GDP at purchasing power parities. — GDP: price adjusted; changes compared to the previous year. — Consumer prices: changes compared to the previous year. — Asia total, Latin America total: based on listed countries.

Source: IMF, International Financial Statistics; OECD, Main Economic Indicators; national statistics; Kiel Institute calculations; shaded: Kiel Institute forecast.

¹ We assume that it will be possible to prevent the introduction of these tariffs through appropriate commitments, especially as the US economy would also be severely damaged in view of the strong interdependence with Canada and Mexico.

² Empirical results show that price changes for these categories of goods, which are perceived particularly strongly in everyday experience, have a significant impact on consumer confidence as measured in surveys (OECD, 2024: Box 1.1).

Data annex

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1. World Economy

Figure 1.1:
Business expectations by groups of countries

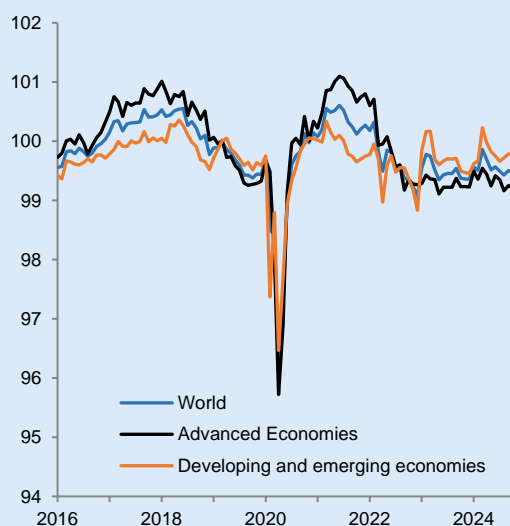


Figure 1.3:
World trade

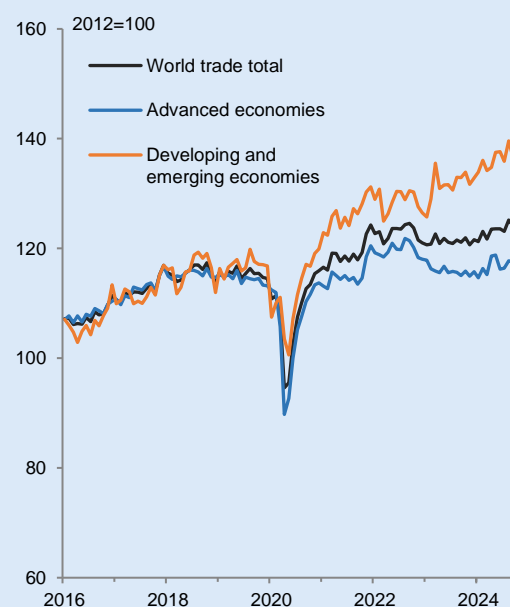
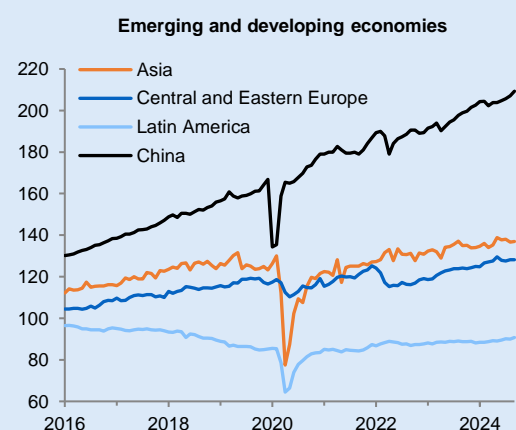
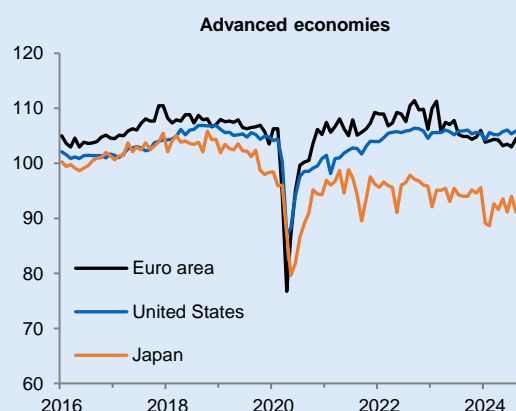
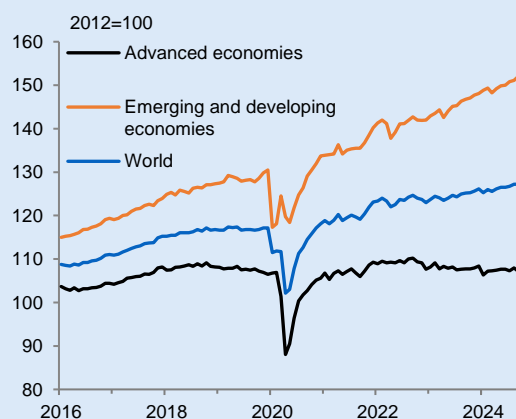


Figure 1.2:
Industrial production by groups of countries and regions

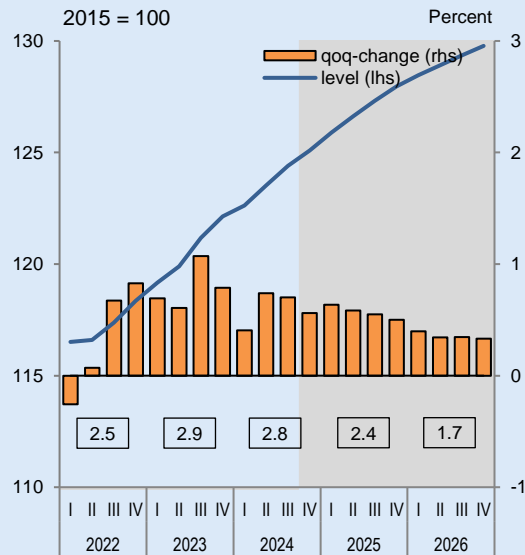


Monthly data. Last value: Julz 2024.

Source: CPB, World Trade Monitor; Kiel Institute calculations.

2. United States

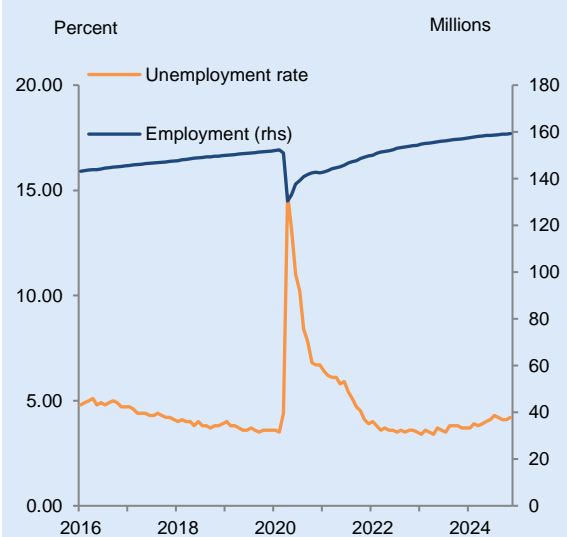
Figure 2.1:
GDP



Quarterly data, price, seasonally and calendar adjusted, qoq-change; annual rate of change (boxes).

Source: Bureau of Economic Analysis; shaded: Kiel Institute forecast.

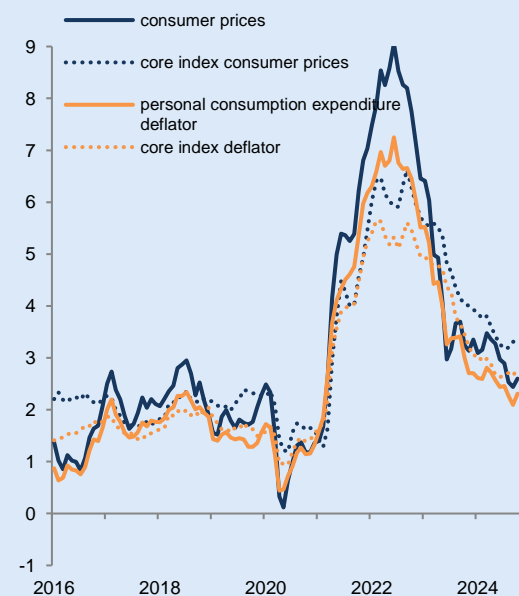
Figure 2.2:
Labor market



Monthly data; seasonally adjusted. .

Source: US Department of Labor, *Employment Situation*.

Figure 2.3:
Consumer prices



Monthly data; change over previous year. Core index: consumer prices excluding energy and food.

Source: US Department of Labor, *Consumer Price Index*.

Table 2.1:
Key indicators United States

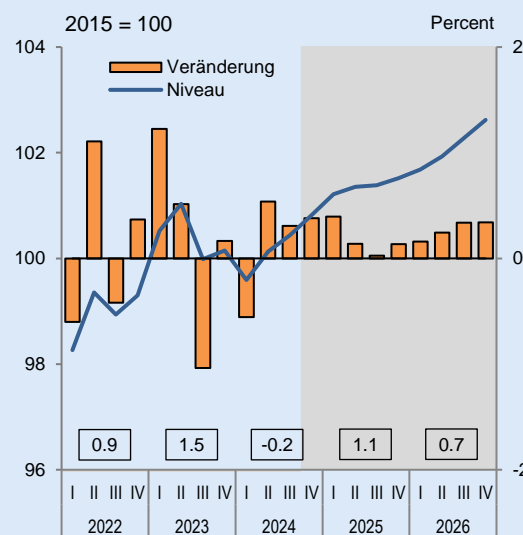
	2023	2024	2025	2026
Gross Domestic Product	2.9	2.8	2.4	1.7
Domestic expenditure	2.3	3.1	2.6	1.7
Private consumption	2.5	2.7	2.7	1.7
Government expenditure	3.9	3.3	1.7	1.5
Gross fixed capital formation	2.4	3.8	1.7	2.1
Machinery and equipment	3.5	4.0	3.2	2.0
Intellectual property rights	5.8	4.0	2.1	2.1
Structures	10.8	3.2	-0.1	1.2
Residential investment	-8.3	3.8	0.6	3.1
Inventories	-0.4	0.1	0.3	0.0
Net exports	0.6	-0.3	-0.2	0.0
Exports	2.8	3.1	2.4	2.0
Imports	-1.2	5.5	3.5	2.0
Consumer prices	4.1	2.9	2.2	2.3
Unemployment rate	3.6	4.0	4.2	4.1
Current account balance	-2.9	-3.5	-3.5	-3.5
Government budget balance	-6.4	-6.5	-6.6	-6.6

GDP: volumes, change over previous year, percent. Net exports, inventories: contribution to growth, percentage points. Unemployment rate: unemployed in relation to labor force, percent. Current account balance, government budget balance: percent of nominal GDP. Budget balance: fiscal year.

Source: US Department of Commerce, *National Economic Accounts*; US Department of Labor, *Employment Situation and Consumer Price Index*; US Department of the Treasury, *Monthly Treasury Statement*; own calculations; shaded: IfW forecast.

3. Japan

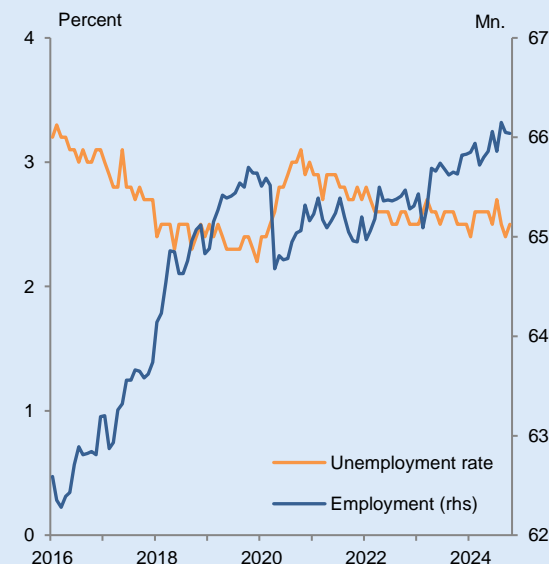
Figure 3.1:
GDP



Quarterly data, price, seasonally and calendar adjusted, qoq-change; annual rate of change (boxes).

Source: Cabinet office, *National Accounts*; shaded: Kiel Institute forecast.

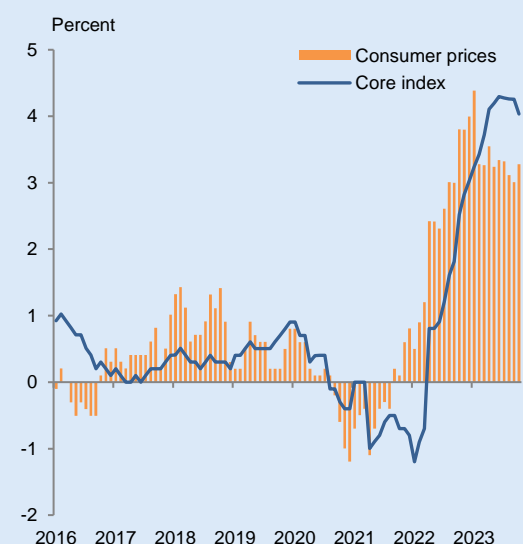
Figure 3.2:
Labor market



Monthly data; seasonally adjusted.

Source: Department of Labor.

Figure 3.3:
Consumer prices



Monthly data; change over previous year. Core index: consumer prices excluding energy and fresh food.

Source: Statistics Bureau of Japan.

Table 3.1:
Key indicators Japan

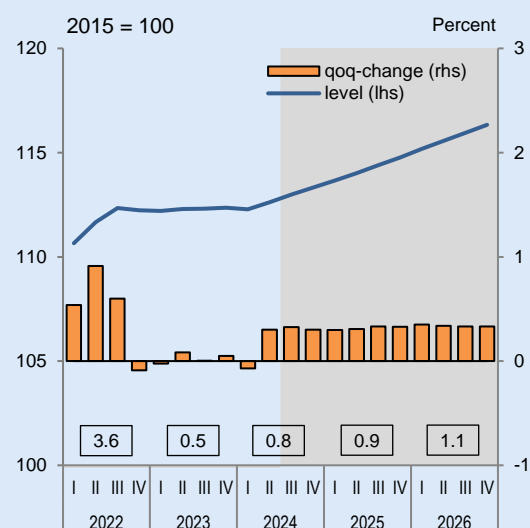
	2023	2024	2025	2026
Gross Domestic Product	1.5	-0.2	1.1	0.7
Domestic expenditure	0.6	0.1	1.3	0.8
Private consumption	0.8	-0.2	1.3	0.7
Government consumption	-0.3	1.0	1.3	1.2
Gross fixed capital formation	-0.3	2.0	1.2	0.5
Enterprises	1.3	1.3	1.7	1.5
Residential investment	1.5	-2.7	-0.9	0.0
Public investment	1.8	-0.9	1.1	-2.5
Change in inventories	-0.3	0.0	0.0	0.0
Net exports	0.6	-0.3	-0.2	-0.1
Exports	3.0	0.7	2.5	0.9
Imports	-1.5	2.1	3.3	1.1
Consumer prices	3.3	2.2	2.3	1.4
Unemployment rate	2.6	2.5	2.4	2.4
Current account balance	3.6	3.5	4.0	4.0
Government budget balance	-4.2	-3.9	-3.5	-3.0

Percent. GDP: volumes, change over previous year, percent. Net exports, inventories: contribution to growth, percentage points. Unemployment rate: unemployed in relation to labor force. Current account balance, government budget balance: percent of nominal GDP.

Source: Cabinet Office, *National Accounts*; OECD, *Main Economic Indicators*; own calculations; shaded: Ifw forecast.

4. Euro Area

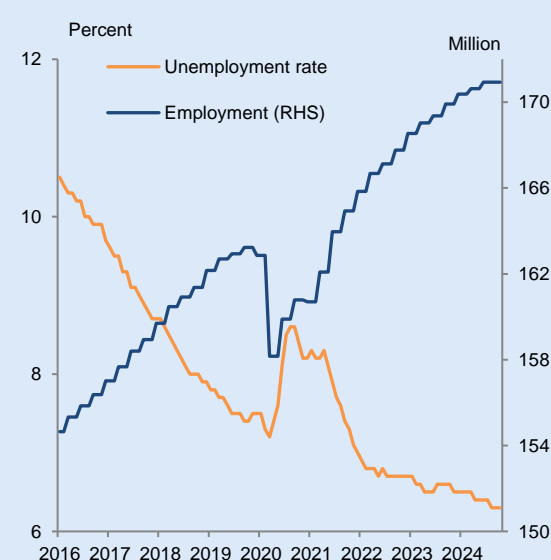
Figure 4.1:
GDP



Quarterly data, price, seasonally and calendar adjusted, qoq-change. Annual data: price adjusted, annual rate of change (boxes).

Source: Federal Statistical Office, Fachserie 18, Series 1.3; shaded: ifw forecast.

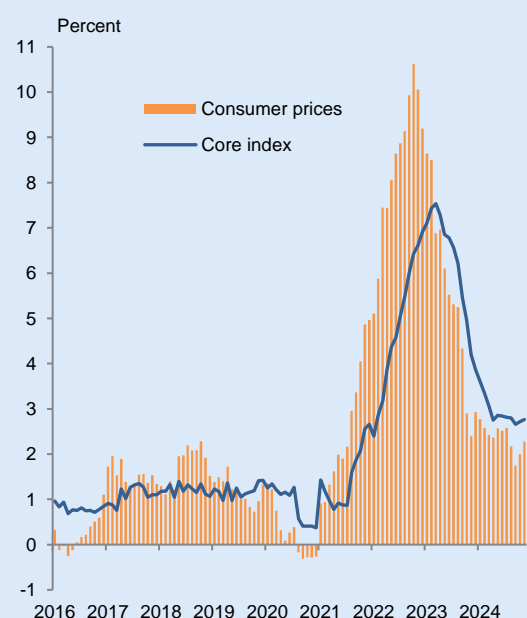
Figure 4.2:
Labor market



Monthly data; seasonally adjusted.

Source: Eurostat, *Labor Statistics*; ECB, *Monthly Bulletin*.

Figure 4.3:
Consumer prices



Monthly data; y-o-y change. Core index: HICP without energy and unprocessed food.

Source: Eurostat, *Price Statistics*.

Table 4.1:
Key indicators Euro Area

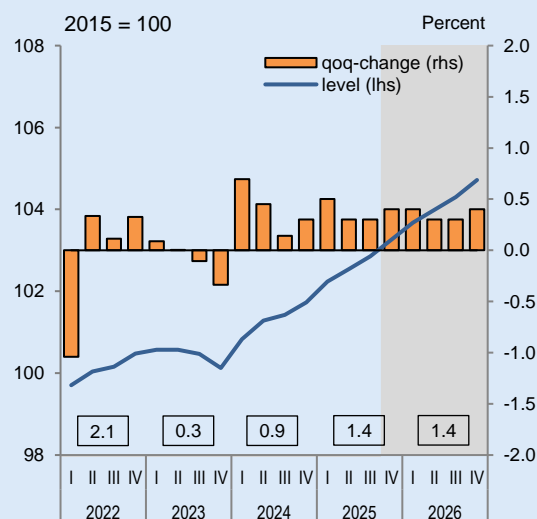
	2023	2024	2025	2026
Gross Domestic Product	0.5	0.8	0.9	1.1
Domestic expenditure	0.3	0.3	1.4	1.2
Private consumption	1.6	2.2	1.0	0.9
Government consumption	0.7	0.9	0.8	0.7
Gross fixed capital formation	1.8	-2.1	1.7	2.1
Inventories	-0.8	-0.2	0.3	0.1
Net exports	0.3	0.5	-0.3	0.0
Exports	-0.5	1.0	1.2	2.1
Imports	-1.2	0.1	2.1	2.3
Consumer prices	5.4	2.3	2.3	2.1
Unemployment rate	6.6	6.4	6.1	5.8
Current account balance	1.0	3.9	3.6	3.6
Government budget balance	-3.6	-3.1	-3.0	-2.9

GDP: volumes, change over previous year, percent. Net exports, inventories: contribution to growth, percentage points. Unemployment rate: unemployed in relation to labor force, percent. Current account balance, government budget balance: percent of nominal GDP.

Source: Eurostat, *National Accounts*; own calculations; shaded: ifw forecast.

5. United Kingdom

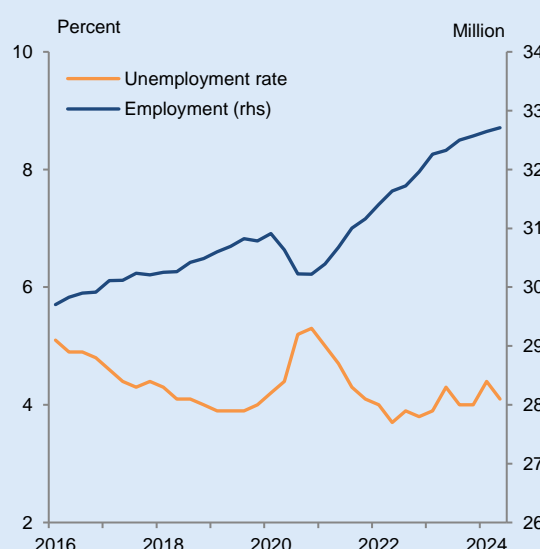
Figure 5.1:
GDP



Quarterly data, price, seasonally and calendar adjusted, qoq-change; annual rate of change (boxes).

Source: Cabinet office, *National Accounts*; shaded: ifw forecast.

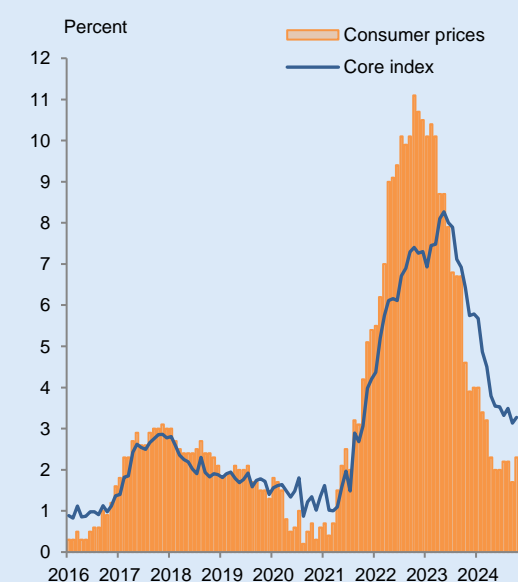
Figure 5.2:
Labor market



Quarterly data, seasonally adjusted.

Source: Office for National Statistics, *Economy*.

Figure 5.3:
Consumer prices



Monthly data, change over previous year. Core rate: consumer prices excluding energy and fresh food.

Source: Office for National Statistics, *Economy*.

Table 5.1:
Key indicators United Kingdom

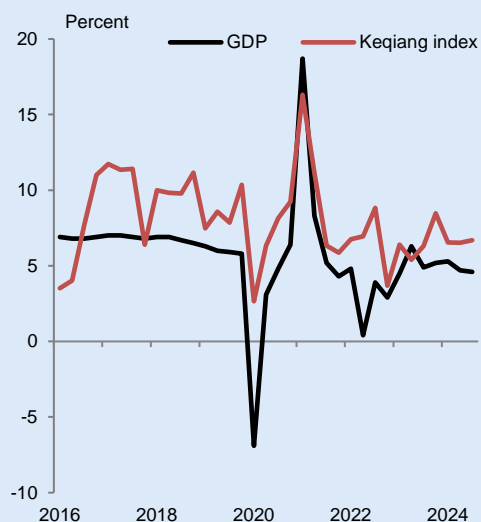
	2023	2024	2025	2026
Gross Domestic Product	0.1	1.0	1.2	1.4
Domestic expenditure	0.7	1.0	1.3	1.2
Private consumption	0.3	1.2	1.4	1.3
Government consumption	0.5	1.1	0.8	0.7
Gross fixed investment	2.2	-1.0	1.7	2.0
Inventories	-0.6	0.3	0.0	0.0
Net exports	0.4	-0.1	-0.1	-0.1
Exports	-0.5	1.8	1.7	1.9
Imports	14.1	2.0	1.8	2.2
Consumer prices	9.1	2.6	2.2	2.0
Unemployment rate	3.7	4.0	4.3	4.1
Current account balance	-3.1	-3.3	-2.0	-1.5
Government budget balance	-5.4	-5.0	-4.5	-4.0

Percent. GDP: volumes, change over previous year, percent. Net exports, inventories: contribution to growth, percentage points. Unemployment rate: unemployed in relation to labor force. Current account balance, government budget balance: percent of nominal GDP.

Source: Office for National Statistics, *Economy*; shaded: ifw forecast.

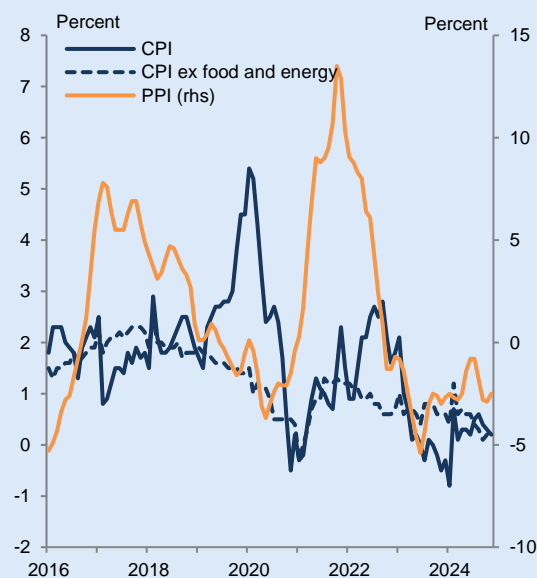
6. China

Figure 6.1:
GDP and Keqiang index



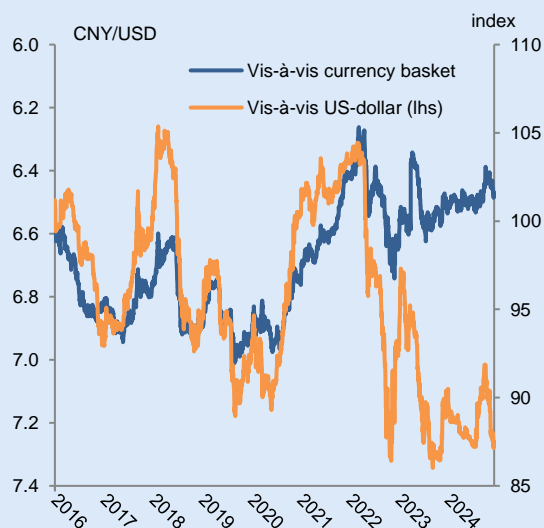
Source: National Bureau of Statistics; National Energy Agency; People's Bank of China; Kiel Institute calculations.

Figure 6.2:
Inflation



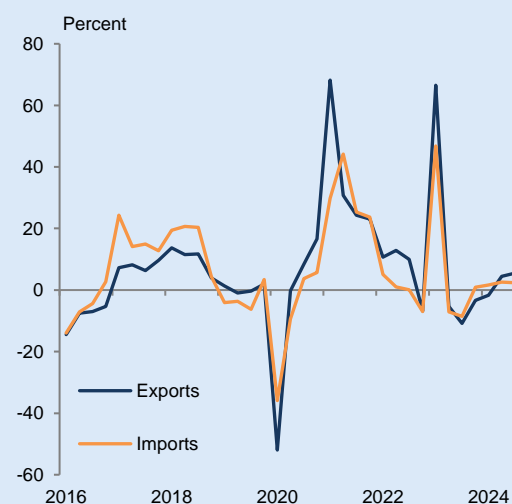
Source: National Bureau of Statistics.

Figure 6.3:
Exchange rate



Source: Thomson Reuters; China Foreign Exchange Trade System; Kiel Institute calculations.

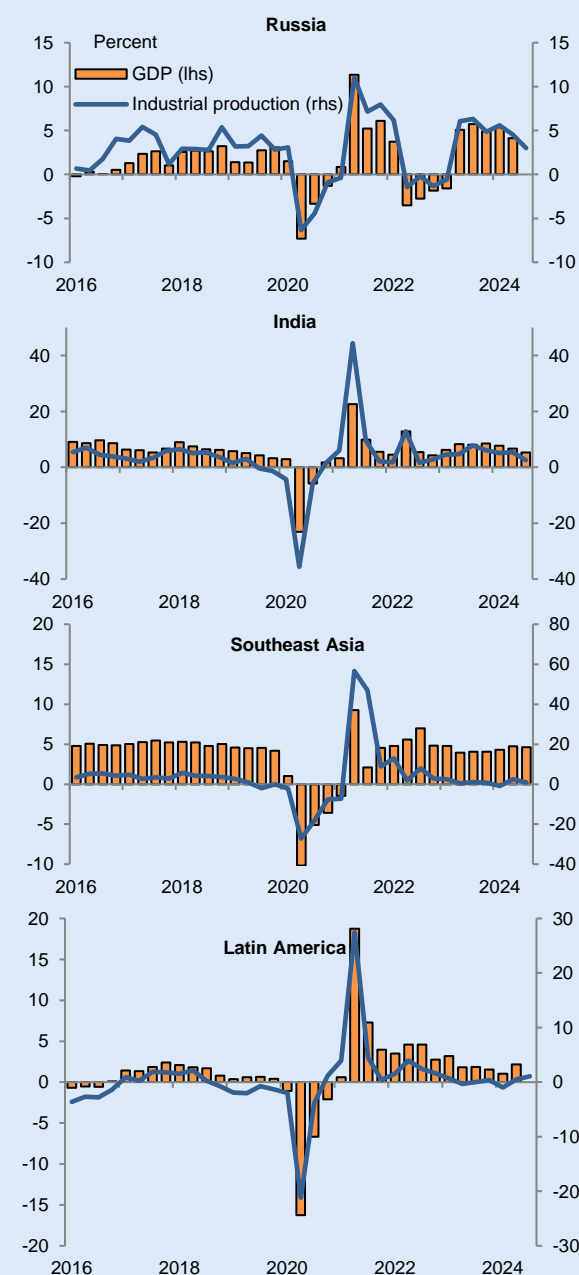
Figure 6.4:
Foreign trade



Source: General Administration of Customs China

7. Other emerging Economies

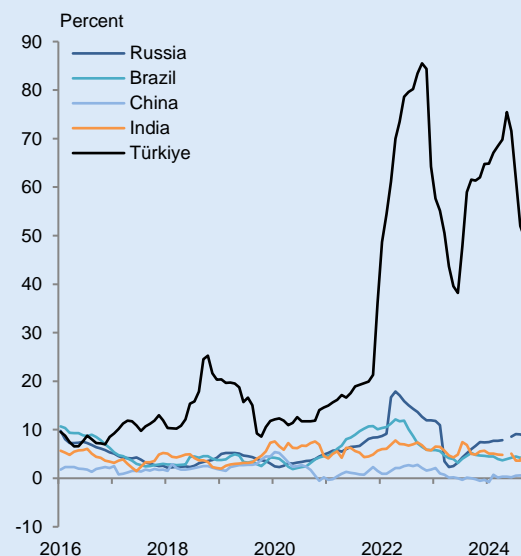
Figure 7.1:
GDP and industrial production in emerging economies



Quarterly data; volumes; seasonally adjusted; change over previous year; Southeast Asia: GDP-weighted average of Indonesia, Thailand, Malaysia and the Philippines; Latin America: GDP-weighted average of Argentina, Brasil, Chile, Colombia, Mexico and Peru.

Source: IMF, *International Financial Statistics*; national statistical offices; Kiel Institute calculations.

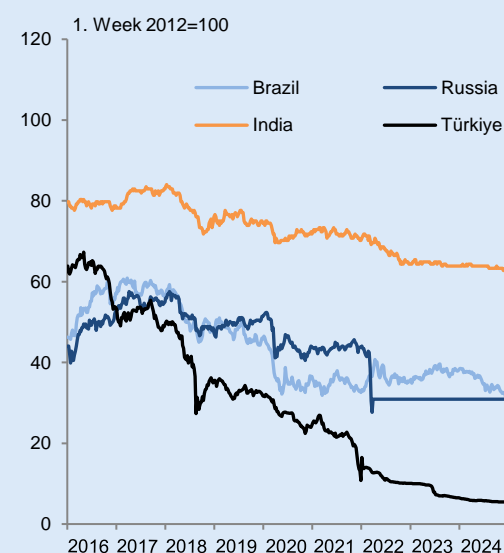
Figure 7.2:
Consumer prices



Monthly data; change over previous year.

Source: Federal State Statistics Service, *Russia*; IBGE, *Brazil*; National Bureau of Statistics, *China*; Labour Bureau, *India*.

Figure 7.3:
US-dollar exchange rates



Weekly data.

Source: LSEG

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