KIEL INSTITUTE FOR THE WORLD ECONOMY

KIEL INSTITUTE ECONOMIC OUTLOOK

World Economy
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STRONG HEADWINDS FOR GLOBAL ECONOMIC ACTIVITY

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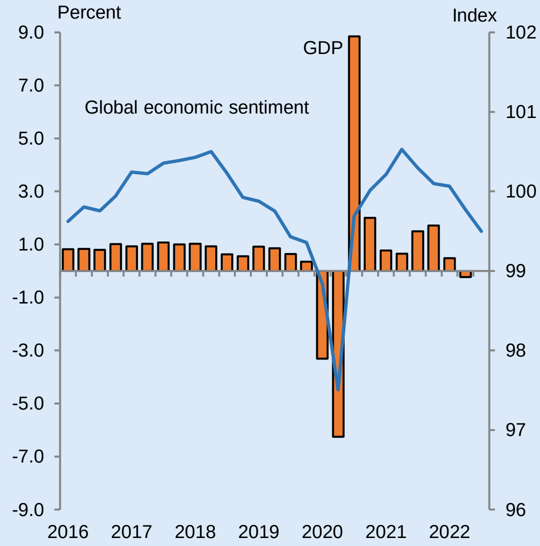
The global economy held up better than expected in the face of the inflation shock and the massive tightening of monetary policy in 2023, even if the economic expansion was moderate. Inflation is now falling swiftly and monetary policy is expected to start cutting interest rates in the first half of 2024. However, there are currently scant signs that global outlook will meaningfully improve in the near term. In the advanced economies, a high level of policy uncertainty is weighing on growth while fiscal policy stimuli are waning. In China, economic momentum remains subdued due to structural problems. Overall, we expect global production - measured on a purchasing power parity basis - to increase by 2.9 percent in the coming year, following 3.1 percent in 2023. For 2025, we expect global growth to pick up to 3.2 percent. We have thus revised upwards our forecast for 2023 and 2024 slightly - by 0.1 percentage points - compared to our September report. Although unemployment in the advanced economies will increase slightly going forward, it will remain historically low. Inflation will continue to fall and generally approach target levels again by 2025.

The global economy held up better than expected in 2023, but an economic upturn is still a long way off. The pronounced slowdown of global economic activity that was feared by many - including us - in view of the inflation shock last year and the subsequent sharp monetary policy response has not materialized. Global production expanded at an average rate of 0.8 percent in the first three quarters of the current year, close to the trend recorded before the coronavirus crisis (Figure 1). We now expect growth of 3.1 percent for 2023, significantly higher than forecast at the beginning of this year (2.5 percent in our spring forecast). However, there is no sign that the moderate pace of global growth will accelerate any time soon; the global economic sentiment indicator calculated by the Kiel Institute on the basis of sentiment indicators from 42 countries even signals a slowdown in economic momentum for the fourth quarter.

Figure 1:
World Economic Activity



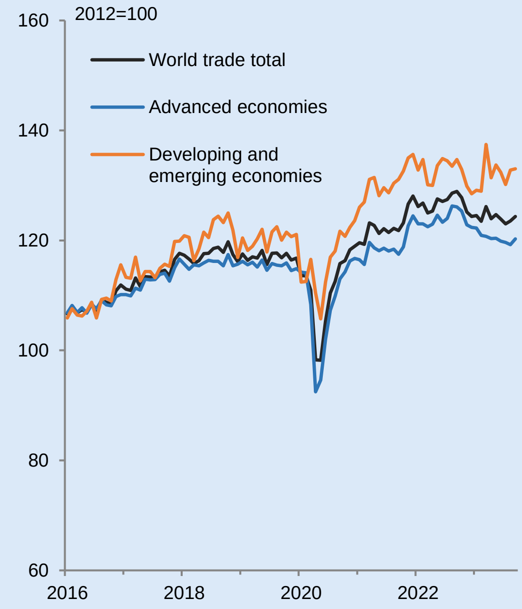
Quarterly data, seasonally adjusted. Global economic sentiment is based on business expectations in 42 economies. GDP: price adjusted, change over previous quarter, 46 countries, weighted by purchasing power parities.

Industrial production and global trade continue to be sluggish. In September 2023, global industrial production was barely higher than at the start of 2022, despite a slight pick up during the summer. The low level of purchasing managers' indices in manufacturing suggests that momentum remains low for the time being. Global trade was noticeably lower than last year (Figure 2). There are no clear signs of a recovery here either: the Kiel Trade Indicator, which estimates global trade activity based on real-time data from container shipping, has recently weakened again.

There are considerable differences in growth between the advanced economies, which are so far not fully reflected in the labor markets. Overall, output in the advanced economies grew at a moderate pace over the course of this year, with GDP in the G7 countries recently increasing at a rate of 0.6 percent, which is slightly higher than potential output (Figure 3). The differences in economic momentum are considerable. The US economy proved to be particularly robust in 2023 despite the sharp rise in interest rates, with production continuing to increase significantly – and even above the growth rate of potential output in the third quarter – on the back of an expansionary fiscal policy. By contrast, growth in Europe was weak, with little more than stagnation recorded in both the EU and the UK during of the year. In Japan, GDP declined significantly in the third quarter, although this followed up on a strong increase in the first half of the year. In the other advanced economies of Asia, by contrast, growth was substantial, in part reflecting a recovery of demand for semiconductors. The different dynamics in production have hardly been reflected on the labor markets of the advanced economies so far. Unemployment, starting from historically low levels, has remained low or risen only slightly even where production has not significantly increased for some time, such as in the Eurozone. However, recently increasingly signs are emerging that the labor market situation is beginning to deteriorate in some countries.

In emerging economies, there are also significant differences in growth momentum. In China, GDP picked up noticeably in the third quarter. However, the pace of expansion remains low by historical standards, and the country has partly lost its role as a driver of global economic expansion. Meanwhile, the Indian economy has been expanding strongly, and in most Southeast Asian emerging countries, production has recently picked up steam. By contrast, the economic outlook in Latin America is cloudy, with Mexico being the bright spot amid continued robust growth in the third quarter. In Brazil, the economy barely grew after strong gains in the first half of the year. In other South American countries, sluggish growth continued in the face of declining commodity prices. Argentina is even in economic crisis, which has deepened again recently. Türkiye is also experiencing significant economic difficulties: The economy nearly came to a halt as the exchange rate remained under downward pressure despite sharp interest rate hikes and inflation accelerated again. In Russia, the statistical office reported continued growth with GDP in the third quarter having been 5.5 percent higher than a year earlier, when economic activity had slumped following the start of military actions against Ukraine.

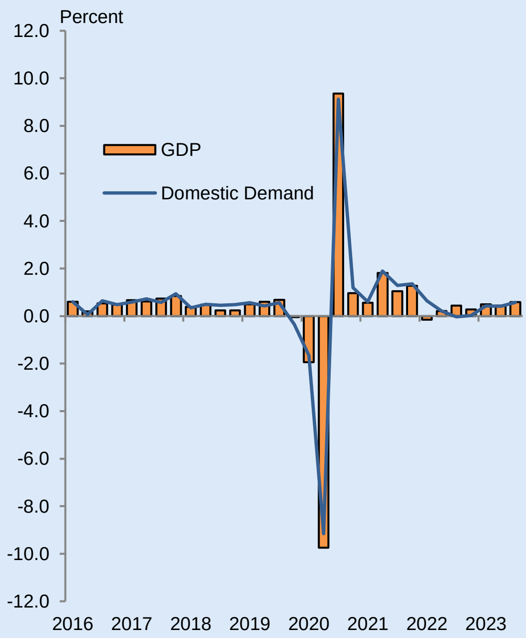
Figure 2:
World Trade



Monthly Data.

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

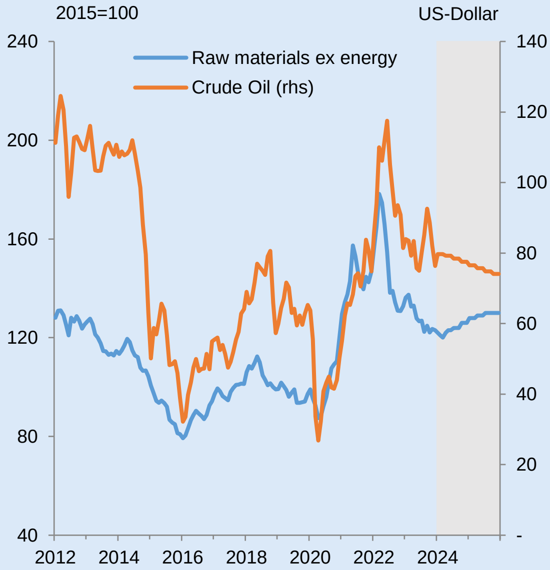
Figure 3:
GDP and Domestic Demand in the G-7, 2007–2022



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.

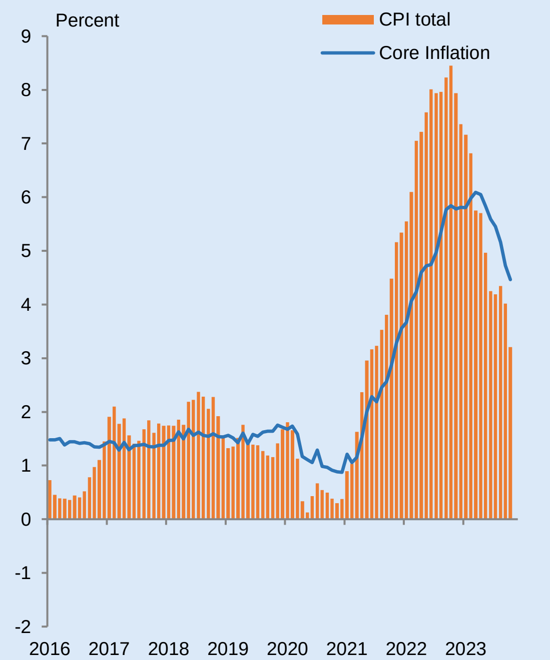
Figure 4:
Raw material prices



Monathly data, data edge: shaded: forecast.
Raw meterials 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



Monthly Data; yoy change.

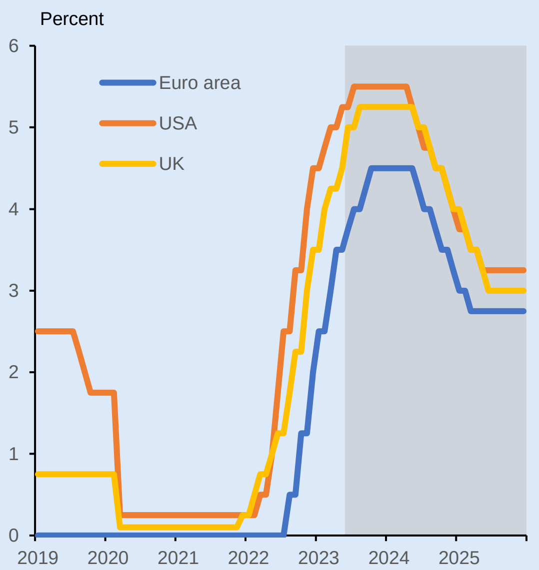
Source: OECD, *Main Economic Indicators*; Kiel Institute calculations.

The oil price has recently fallen again and is expected to decrease somewhat further over the forecast horizon. Commodity markets have generally eased this year. Prices for non-energy commodities have continued to decline, returning to the levels of late 2020, when the post-Corona commodity boom began. The oil price, which had risen sharply in the summer amid production cuts by Saudi Arabia of 1 million barrel per day, fell back in the autumn to around 75 US dollars in early December. Even the announcement by the OPEC+ group of countries to extend Saudi Arabia's voluntary production cuts and add further (also voluntary) cuts in production in Russia and other cartel member countries did not sustainably increase the price. Markets apparently expect sluggish demand growth which can be met by additional production elsewhere. Moreover, given diverging views within OPEC+ with respect to the appropriate level of production quotas, there are doubts about compliance with the quotas. We expect, in line with financial markets, that oil prices gradually decline further over the forecast horizon (Figure 4). The price level in the European gas market, which had risen noticeably in October, has also fallen back in recent weeks and was just under 40 euros per megawatt-hour (TTF) at the time of writing. However, this level is still about twice as high as in the years before the crisis, while the price of natural gas in the United States has not risen sustainably.

Inflation is now declining swiftly. Price pressures have significantly eased worldwide. In the G7 countries, the inflation rate fell from 8.4 percent in October 2022 to 3.2 percent in October 2023 (Figure 5). Initially this decrease was mainly due to falling energy prices, but in recent months the core inflation rate (consumer prices excluding energy and food) has been declining significantly as well. Based on the inflation momentum, the underlying inflationary pressure in Europe and the United States currently does not seem to be significantly higher than the inflation target. In particular, the prices of non-energy goods have barely increased recently.

Monetary policy is likely to begin lowering interest rates in the first half of 2024. The major central banks in advanced economies responded to the sharp rise in inflation with historically steep interest rate hikes. In the United States, the target for the Federal Funds Rate has been at 5.25 to 5.5 percent since July 2023, higher than at the end of the last significant phase of monetary policy restriction in 2007. Given the favorable development in inflation, the Fed has

Figure 6:
Policy rates in major advanced economies



Monthly data, end-of-period. Euro area: Main refinancing operations rate, USA: Federal Funds Rate, UK: BoE base rate, Japan: BoJ overnight rate:

Source: Refinitiv. shaded area: forecast of IfW Kiel.

stayed on hold and is now discussing rate cuts. We expect the first such step in the spring of next year. By the end of 2025, the upper limit of the target range for the key interest rate is expected to be reduced to 3.25 percent. The ECB and the Bank of England are expected to follow suit (Figure 6), so the degree of monetary policy restriction in advanced economies will gradually decrease going forward. The interest rate cycle is also turning in emerging markets, with more and more countries lowering policy rates. However, there are exceptions like Türkiye, Russia, and Argentina, where interest rates have recently been raised substantially further to tackle increasing inflationary pressure.

The supportive effects of fiscal policy are phasing out. In recent years, fiscal policy has been expansionary to mitigate the economic consequences of the pandemic and the effects of rising energy prices. Fiscal programs have also been implemented with industrial policy objectives, to promote infrastructure and the expansion of renewable energies. The crisis measures are now expiring, and additional expansionary stimulus is unlikely as fiscal consolidation is increasingly on the agenda given the threat of rising burdens of the sharply increased public debt and still high budget deficits. In the United States, the government lacks a majority in Congress, and there is even the risk of a budget crisis, as no proper budget has been adopted yet for the fiscal year 2024, which started in October. The government is currently operating under continuing resolution, i.e. with the budget plans of 2023, an arrangement that is set to expire in January. All in all, we expect fiscal policy to dampen growth in 2024 and 2025.

Outlook:
Economic upswing still not in sight

The impact of negative shocks is waning, but uncertainty remains. In the course of 2023, the disruptive factors that aborted the recovery from the Covid crisis last year have largely disappeared: commodity prices, especially for energy, have fallen significantly, and inflation has reduced as a result. Real wages are rising again thanks to falling inflation and rising remunerations, and supply bottlenecks are back to normal. At the same time, uncertainty for companies and consumers has remained high. It is partly geopolitical in nature and rooted in ongoing or new military conflicts (Ukraine, Gaza/Israel) or economic disputes (United States/China), but also due to unclear or inconsistent economic policy (Europe) or domestic political uncertainties (United States). All of this is likely to weigh on investment and consumer expenditures. Monetary policy is still restrictive for the time being; the impact of the sharp interest rate hikes has probably not yet fully worked through to the real economy. Finally, fiscal policy will not stimulate the economy as in the past years.

The global economy is expanding at a moderate pace and is only gradually gaining momentum. For 2023, we expect an increase in world output of 3.1 percent, after 3.3 percent in 2022. In the coming year, the increase is likely to be slightly weaker at 2.9 percent. For 2025, we expect growth to pick up to 3.2 percent. (Table 1). Compared to our autumn forecast (Gern et al. 2023), our expectations have improved slightly, by 0.1 percentage points, for 2023 and 2024, respectively. Based on market exchange rates, growth rates for the world economy are 2.7 percent this year, 2.4 percent next year, and

2.8 percent in 2025. Global trade is expected to contract by 2 percent in 2023 and increase only weakly by 1.2 percent next year. Only for 2025 do we expect a noticeable revival with an increase of 2.7 percent.

The US economy is achieving a soft landing. After the strong increase in GDP of 1.3 percent in the third quarter, economic momentum in the US is expected to weaken significantly, but we no longer expect a recession. A slowdown is indicated by the subdued sentiment in the business sector and a softening labor market. Positive signals come from the strong increases in corporate structures on the back of extensive government support programs (Gemeinschaftsdiagnose 2023, Box 1.1). Above all, private consumption is expected to continue to increase noticeably, as real wages rise significantly and substantial extra savings from the time of the Corona crisis can still be used. The restrictive effect of monetary policy has so far been mainly evident in housing construction. For the coming year, we expect an end to the housing recession, partly because mortgage rates seem to have peaked. GDP growth is likely to come in at 2.4 percent in 2023. For 2024 and 2025, we expect growth of 1.5 percent and 2.0 percent, respectively (Table 2). The unemployment rate will rise slightly to 4.4 percent during the forecast period. The inflation rate should continue to decline, partly due increasingly sluggish development of shelter-related costs. Over the forecast horizon, inflation is expected to gradually approach the central bank's target.

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

	Weight	Gross domestic product				Consumer prices			
		2022	2023	2024	2025	2022	2023	2024	2025
World economy total	100	3.3	3.1	2.9	3.2	9.4	8.0	7.3	4.8
including									
Advanced economies	59.3	2.6	1.6	1.3	1.9	7.5	4.7	2.6	2.2
China	18.4	3.0	5.4	4.7	4.6	2.0	0.4	1.3	2.0
Latin America	4.8	3.9	2.1	1.4	2.1	16.7	21.8	31.1	9.7
India	7.3	6.7	7.3	7.0	7.0	6.7	5.8	5.2	4.9
East Asian emerging economies	5.0	4.6	3.3	4.0	4.2	4.8	3.5	2.6	2.3
Russia	2.9	-2.1	2.8	1.5	0.4	13.8	5.8	7.0	5.0
Africa	2.4	3.5	3.6	3.5	3.8	14.7	17.7	16.9	14.5
Memorandum item:									
World trade volume (goods)		3.3	-2.0	1.2	2.7				
World economy (GDP weights using current US-dollar exchange rates)		3.0	2.7	2.4	2.8	7.8	5.8	5.0	3.4

Percent. Weights according to GDP in 2022 based on purchasing power parities. GDP, consumer prices: change over previous year. East Asian emergin economies: Thailand, Malysia 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.

Growth in the euro area is expected to gradually pick up in the course of the coming year. After a strong recovery following the pandemic, the euro area economy is currently in a lull. The combination of a sharp rise in living costs which dampened private consumption, deteriorating financing conditions in the wake of rapid monetary policy tightening, and little support from external demand led to economic stagnation that so far has lasted for a year and is likely to continue for the time being as indicated by weak business confidence particularly in industry. In the course of the coming year, the European economy is expected to gradually gain momentum. On the one hand, real wages are rising again due to accelerating wages and decelerating inflation, which favors a revival of private consumption. On the other hand, financing conditions are likely to improve with the expected monetary easing. In addition, the external economic environment should also improve. However, the increase in GDP in 2024 will likely be quite weak again at 0.8 percent, following 0.5 percent this year, and only in 2025 accelerate to a rate of 1.5 percent. Inflation is expected to fall from 5.4 percent on average in 2023 to 2.2 percent (2024) and 1.9 percent (2025), thus close to the inflation target of the ECB.

In the United Kingdom, economic recovery is slowed by significantly restrictive economic policies. GDP has barely increased for five quarters and stagnated in the third quarter of this year. The business sentiment remains poor. CPI inflation is still higher than in other major advanced economies despite a significant fall to 4.6 percent in October. High interest rates are increasingly affecting the housing market and dampening investments. Additionally, fiscal policy will weigh on growth as the government aims to reduce government debt relative to GDP in the coming years and push the budget deficit below 3 percent in order to comply with fiscal rules. The stimulating effects of a significant increase in real wages on private consumption are partly offset by slower employment growth. Overall, GDP is expected to rise by only 0.7 percent in 2024, slightly more than this year (0.5 percent). For 2025, we forecast an increase of 1.2 percent.

Inflation is slowing growth in Japan. In the third quarter of 2023, Japan's GDP shrank by 0.7 percent due to declines in both investments and private consumption. Already in the second quarter growth was almost exclusively due to a recovery in exports. Consumption is primarily restrained by significant real wage losses, as wages are not keeping pace with inflation, which, unlike in most other advanced economies, has not yet decreased significantly. The PMI currently indicate continued economic weakness, with the index decreasing in the services sector and being significantly in contractionary territory in manufacturing. The Bank of Japan has maintained its policy of keeping the interest rate for ten-year government bonds at a low level (currently 1 percent). This very expansive monetary policy has led to a substantial devaluation of the Japanese currency. Fiscal policy measures have been adopted to prevent a significant restrictive impulse from the expiry of measures decided last year to alleviate the energy crisis and to promote investments in green technology and digital infrastructure. All in all, the Japanese economy is expected to expand at a noticeably slower rate of 0.7 percent and 1.2 percent in the next two years compared to 2023 (2.0 percent), but still roughly in line with the potential growth rate.

Structural problems are weighing on the economy in China. Despite an unexpectedly strong GDP increase of 1.3 percent in the third quarter, economic prospects for China remain subdued. The crisis in the property market continues, accompanied by declining investments and financial distress. Deteriorating employment prospects, high youth unemployment, and increased uncertainty are affecting consumer sentiment. Declining revenues and high indebtedness of local governments are slowing down public investments. The central government is trying to improve the situation with debt restructuring programs having already implemented various measures to stimulate the economy, although so far with little visible effect. We expect the general trend towards lower growth rates in China to continue, which is also due negative demographics and changes in trade policy. We forecast GDP growth to decrease from 5.4 percent this year to 4.7 percent and 4.6 percent in 2024 and 2025, respectively.

The expansion in other emerging countries remains robust overall. While sluggish growth in China is also negatively impacting other emerging economies through trade and lower commodity prices, these are generally supported by domestic demand. Lower food prices, which have a higher weight in the consumer basket of developing and emerging countries than in advanced economies, support consumption. In more and more countries, interest rates are being reduced in response to decreasing inflation. Growth of the Indian economy is particularly strong, gradually catching up for the losses suffered during the Covid-19 crisis. While economic expansion in Southeast Asia should remain robust, growth in Latin America is likely to be significantly lower in 2024 than this year, before the economy picks up again in 2025. The outlook for Russia is particularly uncertain. The increases in production and income – a rise in GDP of 2.8 percent is expected for 2023 – are primarily due to government purchases, notably for armament, and higher transfer payments, while the volume of exports has declined significantly. Production capacities are increasingly utilized, so higher demand adds to inflationary pressure. In addition, import prices have increased due to a significant devaluation of the ruble. The central bank has raised its interest rates substantially, which is likely to curb consumption and private sector investment going forward.

Financial and political risks to the forecast abound. While energy supply and energy prices continue to pose a risk to the forecast, markets have proved their ability to digest even major changes in underlying conditions. Currently, upward and downward risks for commodity prices seem balanced. Downward risks to the global economic forecast persist due to uncertainty over developments in China, where an orderly consolidation in the real estate sector is still not assured. The impact of the sharp interest rate hikes on the economy in advanced economies has been surprisingly muted so far. There is a risk that the full effect has still to materialize and expenditures for investments and durable consumer goods will react with a greater delay. Geopolitical risks arise from increasing differences between China and the United States, extending well beyond trade policy issues. Tensions between the EU and China have also increased recently. Finally, the bi-partisan political confrontation in the United States and the uncertainty associated with the upcoming presidential elections entails significant risks for the outlook.

Table 2:
Real gross domestic product, consumer prices and unemployment rate in advanced economies

	Weights	Real GDP				Consumer prices				Unemployment rate			
		2022	2023	2024	2025	2022	2023	2024	2025	2022	2023	2024	2025
European Union	40.7	3.5	0.5	0.9	1.6	9.2	6.3	2.4	2.1	6.2	6.0	6.0	5.6
Euro area	34.8	3.4	0.5	0.8	1.5	8.4	5.4	2.2	1.9	6.8	6.5	6.5	6.2
Sweden	1.0	3.0	-0.3	0.1	1.5	8.1	6.1	2.5	2.0	7.5	7.3	7.1	6.7
Poland	2.3	5.5	0.5	3.1	3.6	13.2	10.7	3.3	2.7	2.9	2.8	2.6	2.5
United Kingdom	5.1	4.3	0.6	0.8	1.5	9.1	7.2	3.6	2.7	3.7	4.2	4.4	4.3
Switzerland	1.0	2.7	0.7	1.0	1.4	2.8	2.1	1.5	1.0	4.3	4.1	4.2	4.1
Norway	0.6	3.2	1.4	1.4	2.1	5.8	5.5	3.6	3.2	3.4	3.6	3.6	3.5
United States	35.0	1.9	2.4	1.5	2.0	8.0	4.2	2.7	2.3	3.6	3.7	4.3	4.4
Canada	3.1	3.8	1.0	0.7	2.1	6.8	3.9	2.7	2.3	5.3	5.4	6.3	6.2
Japan	8.4	0.9	2.0	0.7	1.2	2.5	3.0	2.2	1.8	2.7	3.0	2.8	2.7
South Korea	3.8	2.6	1.3	2.6	2.9	5.1	3.8	2.8	2.1	2.8	2.6	2.5	2.4
Australia	2.2	5.2	3.8	2.1	2.0	6.6	5.7	3.8	3.0	3.7	3.6	3.7	3.7
Total	100.0	2.8	1.4	1.2	1.8	7.8	5.1	2.6	2.2	4.6	4.6	4.8	4.7

Based on GDP at prices and exchange rates of 2022 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 2022.

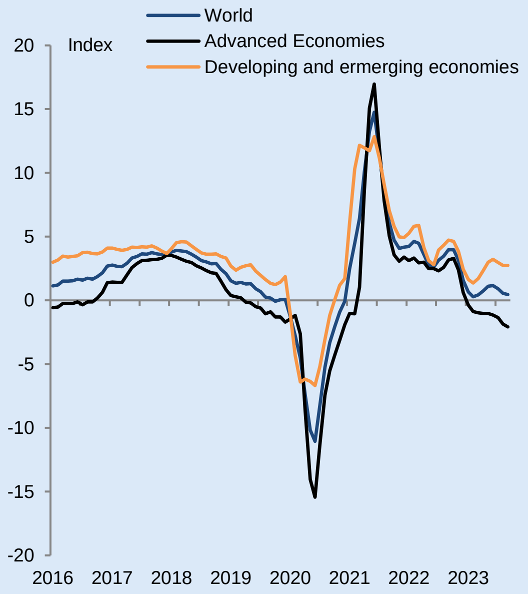
Source: Eurostat, VGR; OECD, Main Economic Indicators; IMF World Economic Outlook Database; Statistics Canada, Canadian Economic Account; shaded: Kiel Institute forecast.

Data annex

CONTENTS

1. World Economy

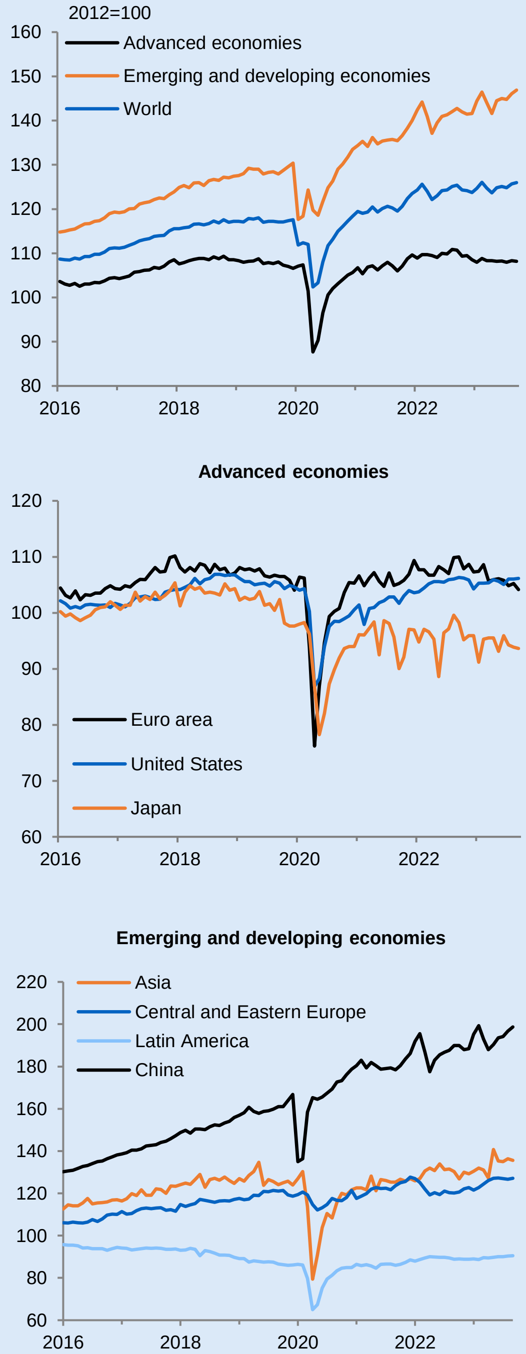
Figure 1.1:
Business expectations by groups of countries



Monthy data, seasonally adjusted, previous year's rate, quarterly average.

Source: CPB, Kiel Institute calculations.

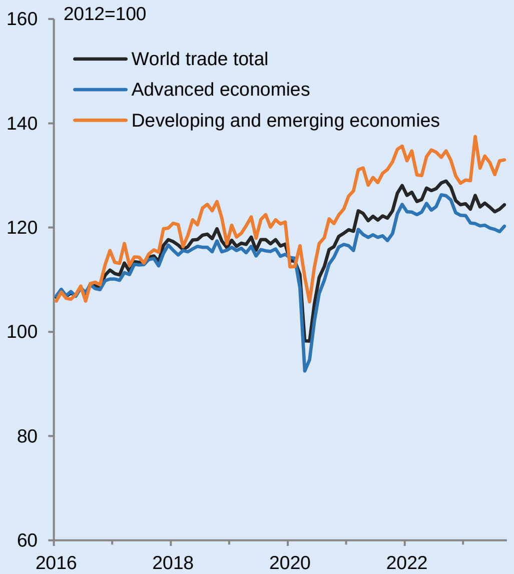
Figure 1.2:
Industrial production by groups of countries and regions



Monthly data. Last value: June 2022.

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

Figure 1.3:
World trade

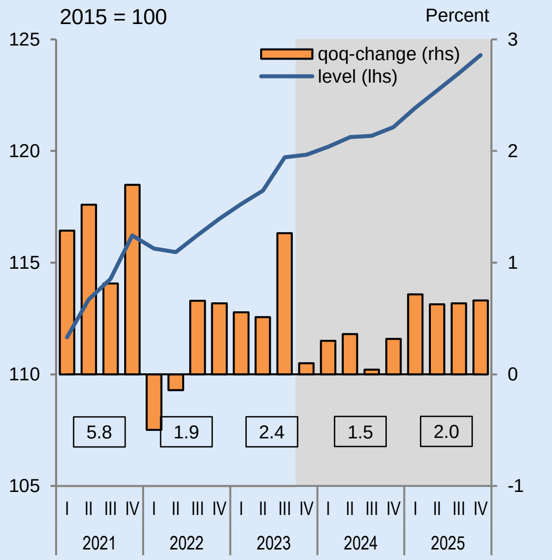


Monthly Data.

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

2. United States

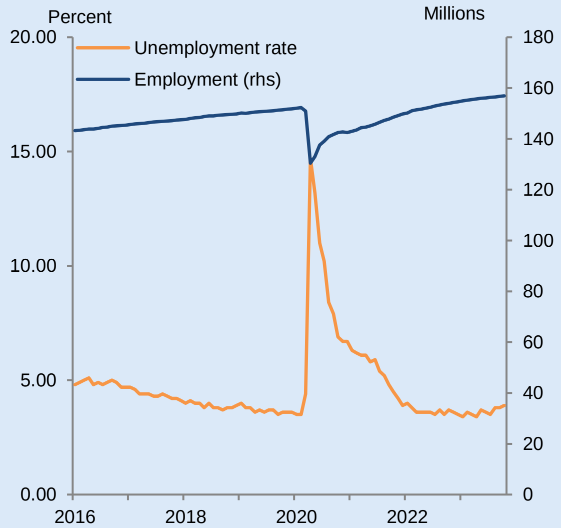
Figure 2.1:
GDP



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

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

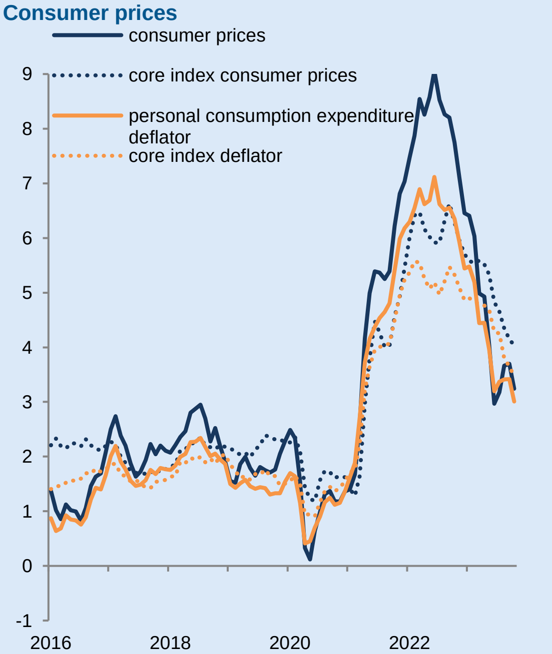
Figure 2.2:
Labor market



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

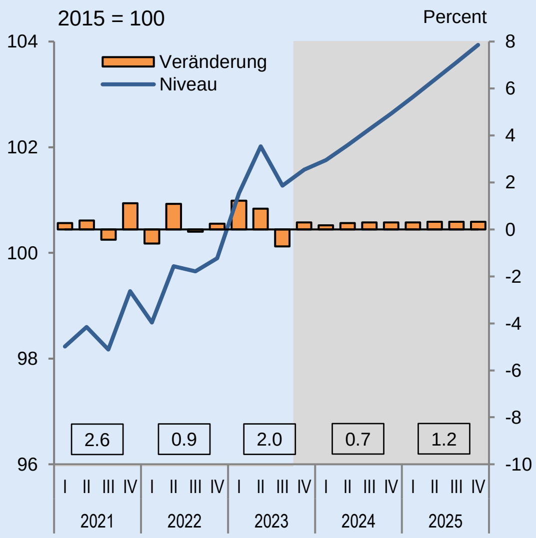
	2022	2023	2024	2025
Gross Domestic Product	1.9	2.4	1.5	2.0
Domestic expenditure	2.3	1.8	1.5	2.1
Private consumption	2.5	2.2	1.9	2.1
Government expenditure	-0.9	3.7	1.5	1.3
Gross fixed capital formation	1.3	0.4	1.6	2.1
Machinery and equipment	5.2	0.0	0.4	1.4
Intellectual property rights	9.1	4.5	2.6	2.3
Structures	-2.1	11.7	3.3	2.5
Residential investment	-9.0	-11.1	0.5	2.2
Inventories	0.6	-0.4	-0.2	0.1
Net exports	-0.4	0.6	0.0	0.0
Exports	7.0	2.5	0.7	1.7
Imports	8.6	-1.5	1.1	1.9
Consumer prices	8.0	4.2	2.7	2.3
Unemployment rate	3.6	3.7	4.3	4.4
Current account balance	-3.7	-3.0	-2.7	-2.7
Government budget balance	-5.7	-6.2	-5.6	-6.0

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

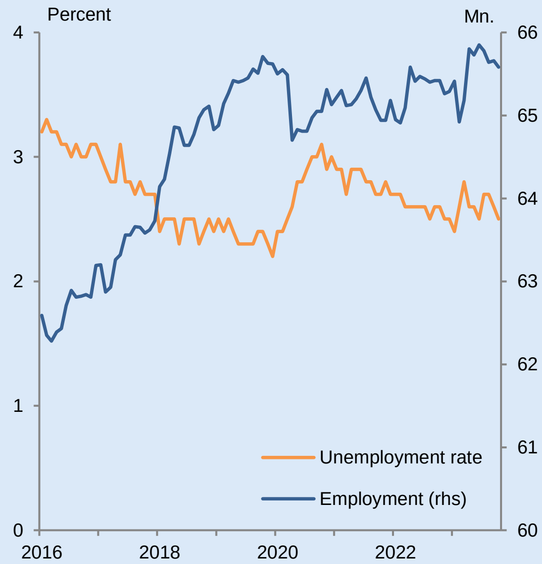
Figure 3.1:
GDP



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

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

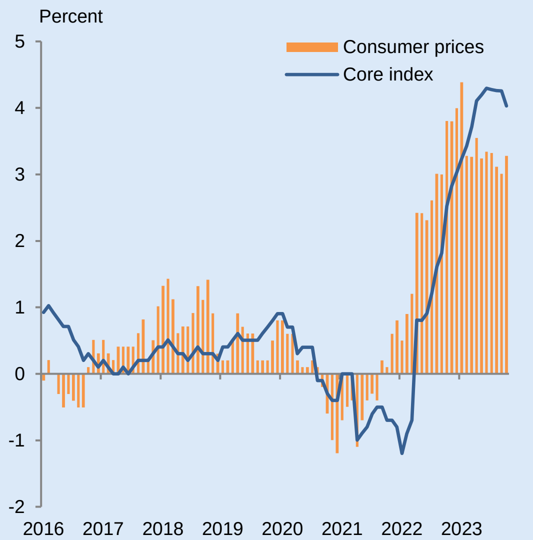
Figure 3.2:
Labor market



Monthly data; seasonally adjusted.

Source: Department of Labor.

Figure 3.3:
Consumer prices



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

Source: Statistics Bureau of Japan.

Table 3.1:
Key indicators Japan

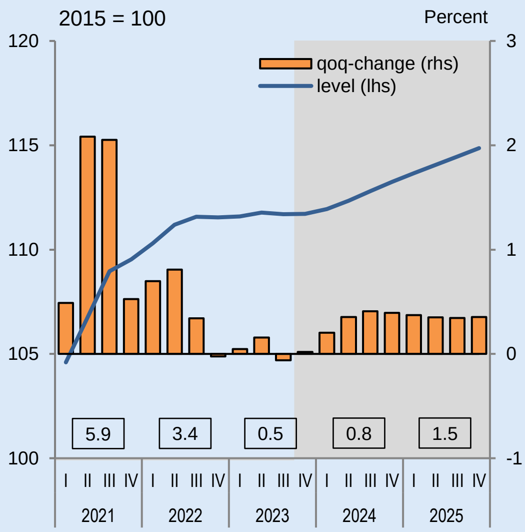
	2022	2023	2024	2025
Gross Domestic Product	0.9	2.0	0.7	1.2
Domestic expenditure	1.4	1.3	0.4	1.1
Private consumption	2.1	0.9	0.5	0.8
Government consumption	1.7	1.0	1.1	1.2
Gross fixed capital formation	-1.3	1.6	0.3	1.8
Enterprises	2.0	1.3	0.0	2.1
Residential Investment	-3.5	-3.5	-3.5	-3.5
Public investment	-9.7	2.7	0.8	0.5
Change in inventories	0.3	0.0	0.0	0.0
Net exports	-0.3	0.4	0.7	0.0
Exports	5.3	2.2	3.0	2.8
Imports	7.9	-1.3	1.7	2.4
Consumer prices	2.5	3.0	2.2	1.8
Unemployment rate	2.7	3.0	2.8	2.7
Current account balance	1.9	1.9	1.9	1.9
Government budget balance	-5.8	-5.2	-4.9	-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: Cabinet Office, *National Accounts*; OECD, *Main Economic Indicators*; own calculations; shaded: IfW forecast.

4. Euro Area

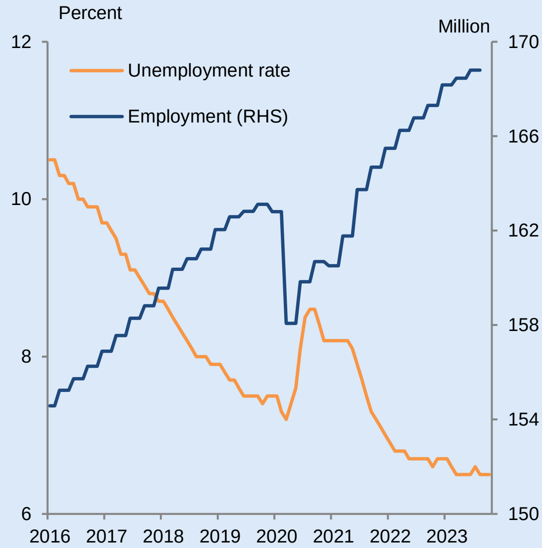
Figure 4.1:
GDP



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.

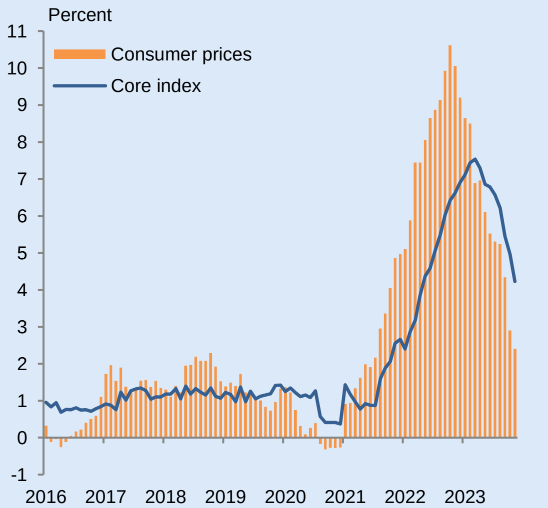
Figure 4.2:
Labor market



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

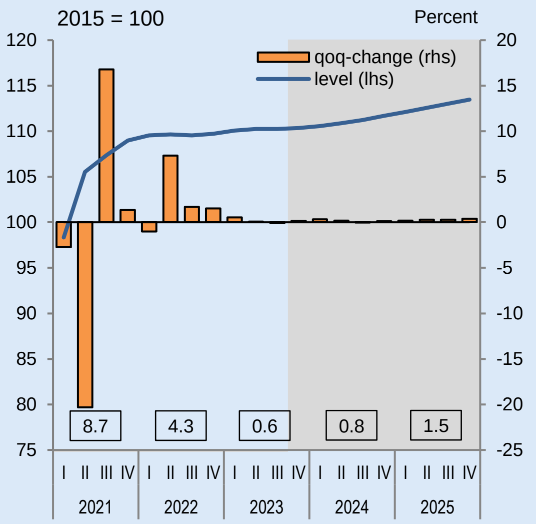
	2022	2023	2024	2025
Gross Domestic Product	3.4	0.5	0.8	1.5
Domestic expenditure	3.6	0.2	1.0	1.7
Private consumption	4.2	0.5	1.3	1.6
Government consumption	1.6	0.1	0.7	1.0
Gross fixed capital formation	2.8	0.7	0.6	2.4
Inventories	0.3	-0.2	0.0	0.0
Net exports	0.0	0.3	-0.2	-0.1
Exports	7.3	-0.8	0.9	3.7
Imports	7.9	-1.4	1.3	4.2
Consumer prices	8.4	5.4	2.2	1.9
Unemployment rate	6.8	6.5	6.5	6.2
Current account balance	-0.8	2.0	1.9	1.8
Government budget balance	-3.6	-3.3	-3.1	-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

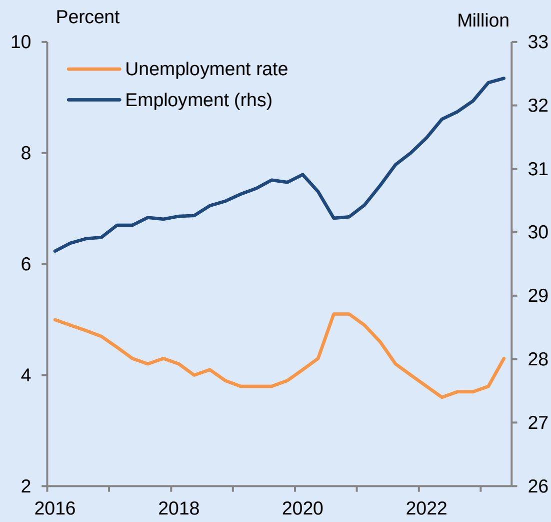
Figure 5.1:
GDP



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

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

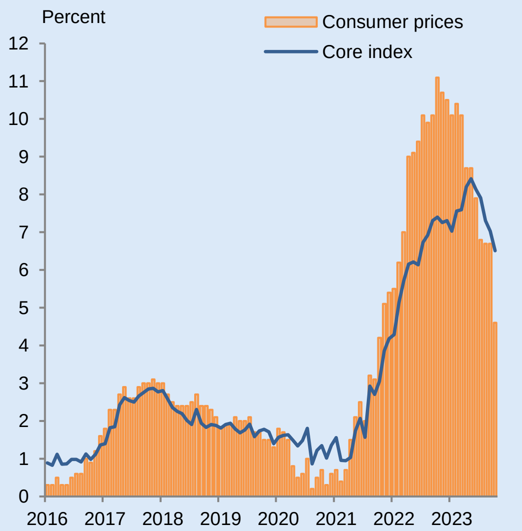
Figure 5.2:
Labor market



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

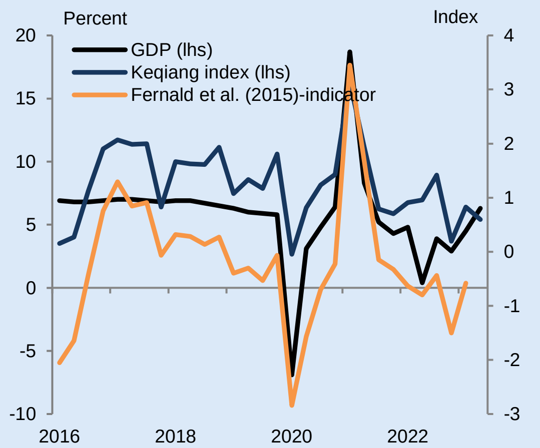
	2022	2023	2024	2025
Gross Domestic Product	4.3	0.6	0.8	1.5
Domestic expenditure	4.8	-0.2	0.5	1.3
Private consumption	5.2	0.5	0.9	1.2
Government consumption	2.5	-0.5	-0.5	0.5
Gross fixed investment	7.9	2.5	-2.0	0.8
Inventories	-0.5	-0.3	0.0	0.0
Net exports	-1.7	0.3	0.3	0.4
Exports	8.6	-0.4	1.5	2.6
Imports	14.1	-1.3	0.4	1.3
Consumer prices	9.1	7.2	3.6	2.7
Unemployment rate	3.7	4.2	4.4	4.3
Current account balance	-3.1	-3.7	-3.4	-3.0
Government budget balance	-4.6	-5.5	-4.6	-3.8

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

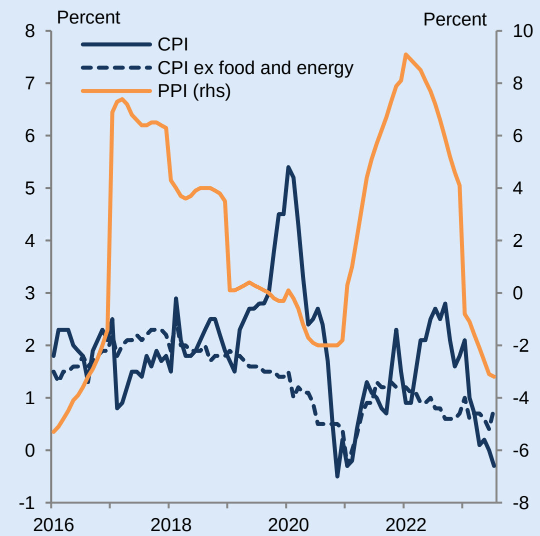
Figure 6.1:
GDP and alternative activity measures



Quarterly data. GDP: year-on-year percentage change; Keqiang-index: arithmetic mean of the year-on-year growth rates of bank lending, electricity consumption and freight cargo; Fernald et al. (2015)-indicator: first principal component of the year-on-year growth rates of electricity production, railway cargo, retail sales and raw material prices (see Fernald et al. (2015). *Is China Fudging its Figures? Evidence from Trading Partner Data.* Federal Reserve Bank of San Francisco, Working Paper 2015-12).

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

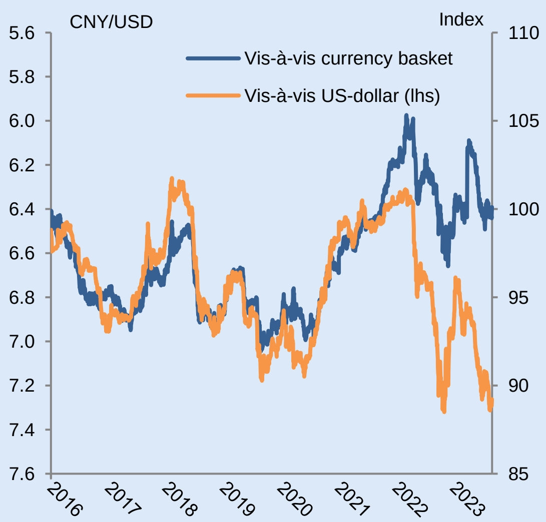
Figure 6.2:
Inflation



Monthly data; y-o-y growth rate. Core index: CPI excluding food and energy.

Source: National Bureau of Statistics.

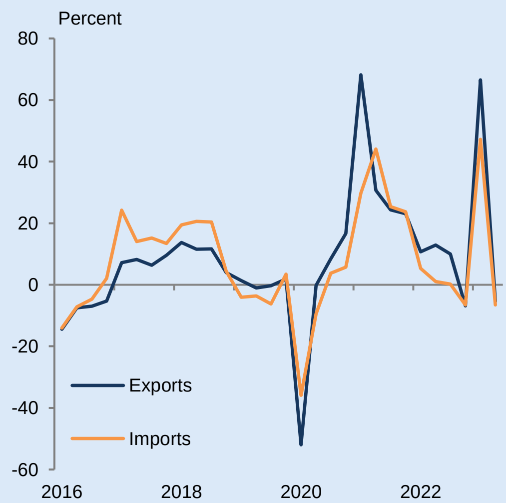
Figure 6.3:
Exchange rate



Daily data.

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

Figure 6.4:
Foreign trade

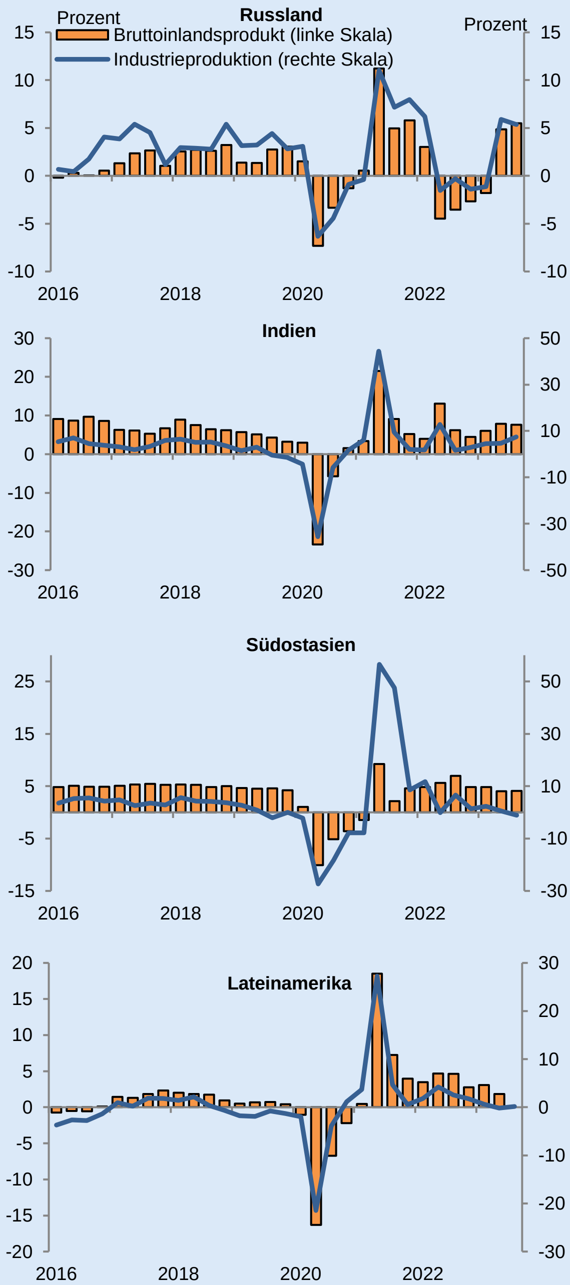


Change on a year ealier based on quarterly averages.

Source: General Administration of Customs China

7. Other emerging Economies

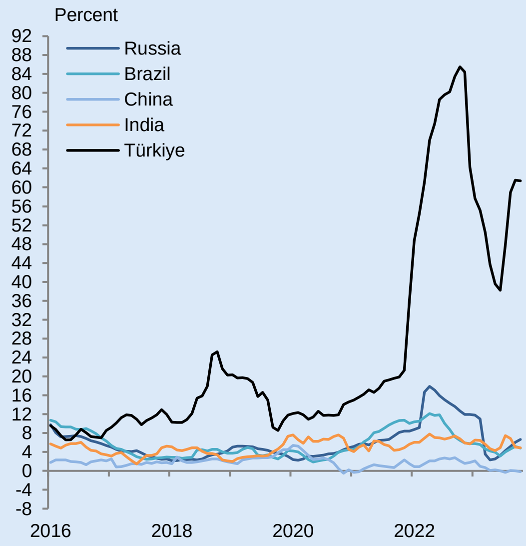
Figure 7.1:
GDP and industrial production in emerging economies



Quartalsdaten: preisbereinigt: Veränderung gegenüber dem Vorjahr; Südostasien: gewichteter Durchschnitt für Indonesien, Thailand, Malaysia und Philippinen; Lateinamerika: gewichterer Durchschnitt für Argentinien, Brasilien, Chile, Kolumbien, Mexiko und Peru.

Quelle: IMF, *International Financial Statistics*; nationale statistische

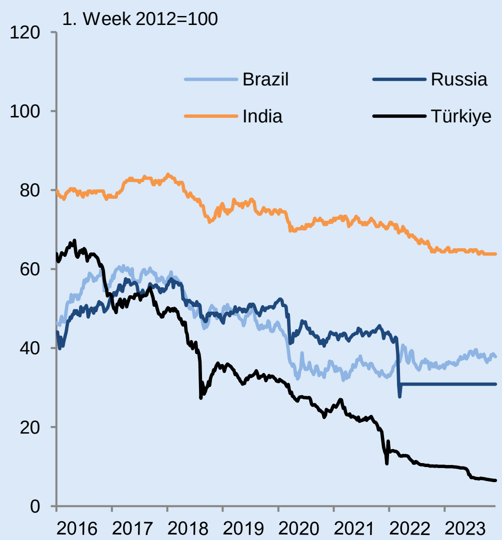
Figure 7.2:
Consumer prices



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: Thomson Reuters Datastream

8. Forecast summary

Tabelle 8.1:
Real gross domestic product, consumer prices and unemployment rates in the European Union

	Weights	Real GDP				Consumer prices				Unemployment rate			
		2022	2023	2024	2025	2022	2023	2024	2025	2022	2023	2024	2025
Germany	24.4	1.9	-0.1	0.9	1.4	8.6	5.9	2.3	1.8	3.1	3.0	3.1	3.0
France	16.6	2.5	0.8	1.0	1.6	5.9	5.6	2.6	1.9	7.3	7.3	7.3	7.1
Italy	12.2	3.9	0.7	0.2	0.8	8.7	6.0	1.6	1.7	8.1	7.7	7.7	7.6
Spain	8.5	5.8	2.4	1.4	1.7	8.3	3.4	2.5	1.9	12.9	12.1	11.8	10.5
Netherlands	6.0	4.4	0.1	0.3	1.6	11.6	4.1	1.4	2.0	3.5	3.6	3.6	3.3
Belgium	3.5	3.0	1.4	1.2	1.4	10.3	2.5	1.4	1.9	5.6	5.6	5.5	5.3
Austria	2.8	4.8	-0.8	-0.2	1.3	8.6	7.5	3.0	2.1	4.8	5.1	5.3	5.3
Ireland	3.2	9.6	-2.1	-0.4	2.7	8.1	5.2	2.6	1.9	4.5	4.4	5.0	4.7
Finland	1.7	1.6	-0.4	0.1	1.4	7.2	4.5	2.2	1.9	6.8	7.2	7.5	7.3
Portugal	1.5	6.8	2.1	0.6	1.7	8.1	5.4	2.2	2.1	6.2	6.6	6.9	6.7
Greece	1.3	5.7	2.2	2.3	2.8	9.3	4.0	2.3	1.8	12.5	10.8	9.4	8.4
Slovak Republic	0.7	1.8	1.1	1.6	2.6	12.1	10.8	3.5	3.0	6.2	5.9	5.8	5.4
Luxembourg	0.5	1.4	-0.8	1.4	2.0	8.2	2.8	2.0	1.9	4.6	5.2	5.5	5.2
Kroatien	0.4	6.4	2.4	2.0	2.7	10.7	8.4	3.2	2.8	6.8	6.4	6.3	6.1
Slovenia	0.4	2.9	1.4	1.6	2.8	9.3	7.3	3.3	2.5	4.0	3.8	4.1	4.0
Lithuania	0.4	2.5	-0.2	2.0	2.5	18.9	8.9	2.6	2.6	5.9	6.6	6.7	6.5
Latvia	0.2	3.5	-0.4	1.2	2.6	17.2	9.3	2.5	2.7	6.9	6.4	6.3	5.6
Estonia	0.2	-0.5	-3.5	-0.3	2.7	19.5	9.0	2.9	2.7	5.6	6.4	7.0	6.5
Cyprus	0.2	5.1	2.4	2.2	2.8	8.1	4.0	2.1	2.1	6.8	6.1	5.5	4.9
Malta	0.1	8.2	5.3	3.0	2.9	6.1	5.6	2.9	2.7	2.9	2.6	2.3	2.2
Sweden	3.5	3.0	-0.3	0.1	1.5	8.1	6.1	2.5	2.0	7.5	7.6	7.8	7.3
Poland	4.1	5.5	0.5	3.1	3.6	13.2	10.7	3.3	2.7	2.9	2.8	2.6	2.5
Denmark	2.4	2.7	1.0	0.2	1.6	8.5	3.4	1.7	1.5	4.5	4.9	5.0	4.7
Czech Republic	1.7	2.4	-0.5	0.8	2.8	14.8	11.2	3.2	3.0	2.4	2.7	2.9	2.6
Romania	1.8	4.6	2.2	3.0	3.6	12.0	10.0	4.0	2.9	5.6	5.5	5.4	5.1
Hungary	1.1	4.6	-0.7	1.9	3.0	15.3	17.2	4.3	3.8	3.6	4.0	4.2	4.0
Bulgaria	0.5	4.2	1.9	2.1	3.4	13.0	8.6	3.7	3.6	4.3	4.3	4.4	4.1
European Union	100.0	3.5	0.5	0.9	1.7	9.2	6.3	2.4	2.1	6.2	6.0	6.0	5.7
Addendum:													
European Union 11	88.1	3.4	0.5	0.7	1.5	8.2	5.3	2.2	1.9	6.8	6.6	6.6	6.2
Accession countries	11.9	4.3	0.7	2.3	3.2	13.2	10.7	3.5	2.9	4.1	4.1	4.0	3.8
Euro Area	84.8	3.5	0.5	0.8	1.5	8.4	5.4	2.2	1.9	6.8	6.5	6.5	6.2
Euro Area without Germany	60.4	4.1	0.8	0.7	1.6	8.3	5.2	2.2	1.9	8.0	7.8	7.7	7.3

Based on GDP at prices and exchange rates of 2020 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 2019. Accession countries since 2004.

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

Tabelle 8.2:
Real gross domestic product and consumer prices in selected emerging market economies

	Weights	Real GDP				Consumer prices			
		2022	2023	2024	2025	2022	2023	2024	2025
Indonesia	5.5	5.3	5.0	5.1	5.2	4.2	3.6	2.5	2.4
Thailand	2.0	2.6	2.7	3.3	3.1	6.1	1.5	1.6	1.9
Malaysia	1.6	8.7	4.5	4.3	4.4	3.4	2.9	2.7	2.3
Philippines	1.6	7.6	5.3	5.9	6.1	5.8	5.8	3.2	3.0
Total	10.7	5.6	4.5	4.8	4.8	4.7	3.4	2.5	2.4
China	41.3	3.0	5.4	4.7	4.6	2.0	0.4	1.3	2.0
India	16.3	6.7	7.3	7.0	7.0	6.7	5.8	5.2	4.9
Asia total	68.3	4.3	5.7	5.2	5.2	3.5	2.2	2.4	2.7
Brazil	5.2	3.1	3.0	1.4	1.8	9.3	4.5	3.3	3.7
Mexico	4.2	3.9	3.2	2.0	2.1	7.9	5.5	4.0	3.7
Argentina	1.7	5.0	-2.6	-2.8	1.9	72.4	134.7	268.1	54.0
Colombia	1.3	7.3	1.2	1.6	2.6	10.2	11.7	4.8	4.1
Chile	0.8	2.5	-0.1	1.5	2.2	11.6	7.5	3.5	3.7
Peru	0.7	2.7	0.1	2.2	2.8	7.9	6.3	2.6	2.6
Latin America total	13.9	3.9	1.9	1.1	2.0	16.6	21.4	35.5	9.7
Egypt	2.3	6.6	6.6	4.2	4.5	8.5	10.1	20.0	25.0
Nigeria	1.8	3.3	3.0	3.2	3.5	18.8	22.5	25.0	20.0
South Africa	1.3	2.0	2.3	1.4	1.5	6.9	7.0	5.2	4.6
Algeria	0.8	2.9	2.5	2.5	2.5	9.3	9.7	8.5	8.5
Ethiopia	0.5	6.4	6.0	5.8	5.5	34.0	30.0	24.0	20.0
Africa total	6.6	4.4	4.3	3.3	3.5	12.9	14.2	17.3	17.3
Russia	6.5	-2.1	2.8	1.5	0.4	13.8	5.8	7.0	5.0
Tyrkiye	4.6	5.6	4.0	3.2	4.5	72.3	53.0	50.0	35.0
Total	100.0	3.9	4.8	4.2	4.3	9.8	8.2	10.5	6.3

In percent. Weights: According to 2022 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.

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