KIEL INSTITUTE

ECONOMIC OUTLOOK

World Economy
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TRADE POLICY HEADWINDS – SLOWER EXPANSION

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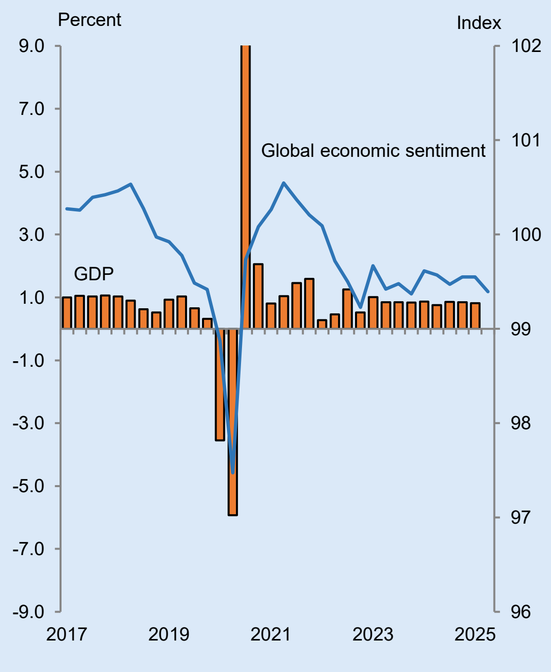
The outlook for the global economy continues to be weighed down by high uncertainty surrounding economic policy in the United States in general and aggressive tariff measures in particular. Although the threat of tariffs actually boosted economic activity at the beginning of the year, as shipments to the United States were brought forward, this demand will be missing in the coming months and add to the unfolding negative effects of tariffs on production. This forecast is based on the assumption that additional tariffs on imports to the United States will remain in place roughly at a level corresponding to the current prevailing rate. Monetary policy will be eased less than previously assumed in the United States, while in the euro area, it will be eased somewhat more. At the same time, fiscal policy is about neutral overall, although in the United States it is even expansionary. Against this backdrop, we expect a weaker expansion of the global economy. While the US economy is losing significant momentum and in China, despite economic policy stimulus, the economy is not gaining traction amid the deteriorating outlook for exports, the economy in Europe is likely to pick up slightly. Overall, we expect global output—measured on the basis of purchasing power parities—to increase by only 2.9 percent this year and next, after a rise of 3.3 percent last year. We have thus reduced our forecast by 0.2 percentage points both for this year and next compared to the March report. The decline in inflation has recently only made slow progress. While inflation is expected to rise again in the United States, the upward pressure on prices in the euro area is likely to gradually decrease further and, on average for this year and next, inflation rates will broadly be in line with the ECB's target rate.

The global economy expanded at a largely unchanged pace at the beginning of 2025. In the first quarter of 2025, global economic output increased slightly less than in the previous two quarters (Figure 1). While the increase in production in the advanced economies slowed noticeably — mainly due to a slight decline in US GDP following strong growth previously — the economies of the emerging economies expanded more strongly, primarily due to a significantly higher momentum in India. In the spring, purchasing managers' indices (PMI) worldwide deteriorated amid the US government's tariff announcement in early April. A slowdown in the global economy is thus expected for the second quarter.

In anticipation of US tariffs, global trade and industrial production temporarily increased sharply. Global industrial production, which had already picked up at the end of 2024, increased strongly in the first months of the current year. The global manufacturing PMI rose sharply in the first two months of the year and clearly exceeded the expansion threshold of 50 in the first quarter. It is highly probable that this was largely due to orders being brought forward in anticipation of tariff increases in the US. This is clearly reflected in international goods trade. After increasing only modestly for much of 2024, it picked up noticeably

Figure 1:
World economic activity



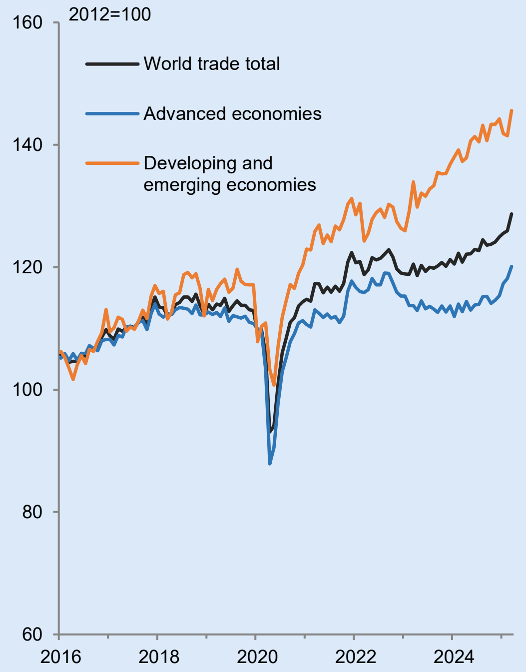
Quarterly data, seasonally adjusted. Global economic sentiment is based on business expectations in 42 economies. GDP: price adjusted, change over previous quarter, 46 countries, weighted by purchasing power parities.

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

towards the end of the year and increased sharply towards March, driven by a drastic rise in US imports (Figure 2). However, national data suggest that the trade dynamic has recently reversed under the impact of the newly introduced tariffs. For example, US goods imports fell by almost 20 percent in nominal terms in April compared to the previous month. At the same time, the increases in China's exports compared to the previous year slowed sharply. In May, exports to the US fell by 35 percent. Industrial production has also recently lost momentum. The global PMI fell below the threshold of 50 in May; especially in China, sentiment in the manufacturing sector was subdued.

In the advanced economies, developments were mixed. In the first quarter, GDP growth in the major advanced economies slowed noticeably (Figure 3). The differences in momentum between economic regions were considerable. In the US, GDP declined slightly. Private consumption, which had until recently been the main driver of the expansion, increased only moderately. Given the high uncertainty around economic policies of the new administration and their possible consequences, households saved more. In addition, a larger share of domestic demand was apparently met by imports. These rose drastically (at an annualized rate of over 40 percent), likely not least to pre-empt expected increases in tariffs. Private investment increased somewhat more strongly than in the previous quarter, but the increase was concentrated in the information technology sector, where hardware is largely imported from Asia. Imports were also used to a considerable extent to build up inventories, which increased by more than 2 percent of GDP. In Japan, growth was also slightly negative. While private consumption increased moderately and private investment even strongly, government spending and exports declined. In contrast, the economy in Europe expanded swiftly. GDP increased by 0.6 percent in the euro area and by 0.7 percent in the United Kingdom, compared to the previous quarter. A boost in exports to the US played a significant role in this development. This was particularly evident in Ireland, where GDP increased by almost 10 percent and exports (especially pharmaceuticals) by more than 140 percent. Otherwise, private consumption in the euro area increased somewhat more slowly than in the previous quarter, while the increase in capital spending accelerated significantly, though this was also largely due to a very strong increase in Ireland. A similar picture emerges in the United Kingdom. Fixed investment increased strongly there as well, while private consumption expanded only moderately.

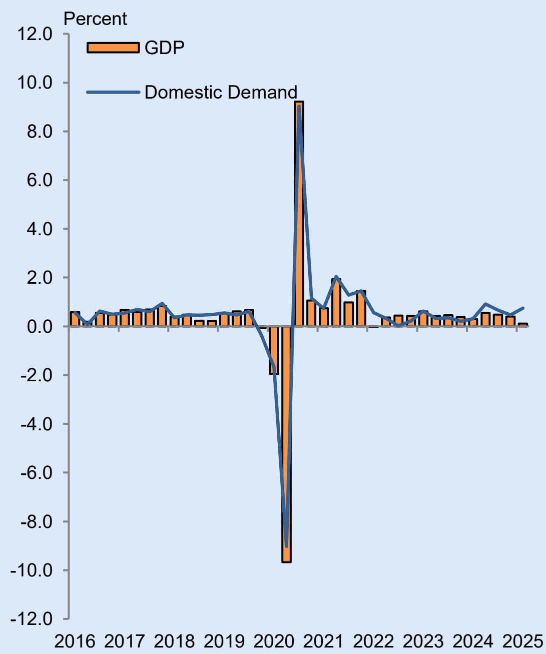
Figure 2:
World Trade



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.

The emerging economies proved robust. After a clear pick-up in growth in the final quarter of last year, China recorded a somewhat weaker growth rate of 1.2 percent compared to the previous quarter, albeit exceeding expectations, and year-on-year growth remained unchanged at 5.4 percent. Economic policy stimulus encouraged domestic demand, while strong impulses came from foreign demand. Especially in March, ahead of the tariff increases that were introduced for Chinese products, there was a pronounced export surge to the United States. Other emerging Asian countries probably also benefited from the frontloading of orders and generally expanded at a brisk pace. The increase in momentum was particularly strong in India, mainly driven by domestic factors. A noticeable decline in inflation, and additional income due to significantly improved agricultural yields boosted consumption. In Latin America, the economic expansion remained strong overall. While the rebound in Argentina from a deep recession probably continued, growth in Brazil picked up again despite now very high key interest rates, and the economies of the other South American countries expanded at a solid pace. The Mexican economy, however, barely recovered from the production decline in the fourth quarter caused by special factors. Here, the tariff dispute with the United States, to which about a third of economic output is delivered, had a noticeable impact on sentiment. Finally, production in Russia in the first quarter of 2025 was only 1.4 percent higher than a year earlier and may even have contracted on a quarter-on-quarter basis—seasonally adjusted data are not available from official sources. The economy is apparently operating at capacity limits; bottlenecks are increasingly apparent due to the shift to wartime production, and high interest rates—the policy rate has been 21 percent since October and was only slightly reduced to 20 percent at the beginning of June—are curbing both consumer spending and non-war-related investments. In addition, income from oil sales is declining due to prices, although this is cushioned in terms of domestic currency by the appreciation of the ruble against the US dollar, which has amounted to 20 percent since the beginning of the year.

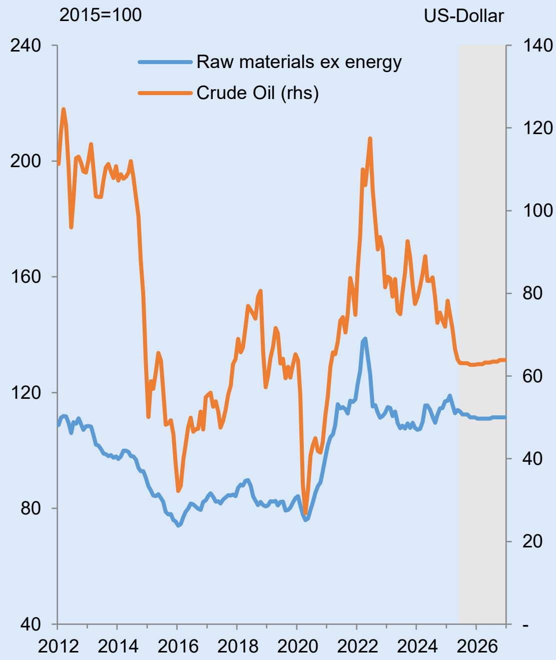
US tariffs are likely to remain permanently higher. The Trump administration has decided on a large number of tariff increases in recent months, but has also suspended many of them, introduced product-specific exceptions, or—as in the case of China—temporarily reduced punitive tariffs. For example, the so-called "reciprocal" tariffs, announced in early April, which provided for country-specific tariff rates based on the respective bilateral trade balance and in some cases reached levels of 50 percent, were not implemented but paused for 90 days to allow for negotiations. An announced punitive tariff of 50 percent against the EU was also put on hold for a month to allow trade talks in the meantime. However, a 10 percent tariff on all imports with some product-specific exceptions (such as pharmaceuticals, semiconductors, or copper), special tariffs on cars and car parts of 25 percent and on steel and aluminum, whose rates were increased from 25 to 50 percent at the beginning of June, and special tariffs on imports from China of generally 30 percent since mid-May, are in effect. Overall, the trade-weighted average tariff rate in the United States has increased from 2.5 to about 15 percent since the new administration took office. Depending on the product structure of exports and due to country-specific special rules, the effective tariffs vary greatly across countries, ranging from about 30 percent (China) to less than 5 percent (Ireland and Slovenia) (OECD, 2025). The coming weeks are likely to be characterized by negotiations, threats, and great uncertainty. We expect that the average tariff level will not rise further—the negative effects for the US economy would be too severe if the "reciprocal" tariffs were implemented, even partially. However, it is also not expected that the Trump administration will significantly reduce tariffs from the currently applied levels as considerable tariff revenues are included in the budget plans—at a level roughly corresponding to the current average tariff rate—in order to finance tax cuts in the long term. Overall, we maintain the assumption underlying our forecast that ultimately an additional tariff of about 10 percent will be imposed on most countries; for China, the additional burden is assumed to be 20 percent.

Higher OPEC+ production and weaker demand are putting pressure on oil prices. Since spring 2024, the oil price has generally been on a downward trend, although geopolitical events have repeatedly led to concerns about supply security and temporary price increases. Since the end of February, prices have fallen sharply; at times, hardly more than 60 Dollar had to be paid for a barrel of Brent. The trigger for the price slump was the announcement of tariffs, which fueled concerns about the economy and suggested weaker demand for oil, especially in the context of the announcement of "reciprocal" tariffs by the Trump administration in early April. At that time, prices for industrial raw materials also fell sharply. While these largely recovered following the suspension of tariffs, the oil price remained depressed. This indicates that other factors are also at play in the oil market. The supply outlook has also improved, as OPEC+ countries have repeatedly raised their production quotas despite subdued demand and have announced further increases by the end of the year. They are responding to declining quota discipline within the cartel and the ongoing loss of market share. Apparently, OPEC is now willing to accept lower barrel prices to reduce the incentive for other countries to expand production. This is likely to have an effect especially in the US fracking industry, where producers have already announced they will cut back on investment. Conventional exploration projects, which are designed for the long term, are less responsive and their supply is likely to react only with a significant time lag. Against this backdrop, we expect oil prices to remain low for the forecast period, in line with financial markets (Figure 4). The price of liquefied natural gas, after a sharp rise at the beginning of the year, has also fallen significantly and was recently about the same as a year ago.

The decline in inflation has stalled. The rise in prices in the advanced economies has slowed somewhat again in recent months but is still higher than last autumn. In the G7 countries, the inflation rate was 2.5 percent in April, compared to 3.0 percent in January 2025 (Figure 5). The core rate (consumer prices excluding energy and food) has recently declined slightly to 2.7 percent, after remaining at just under 3 percent for almost a year. The situation varies considerably between countries. While in the United Kingdom and Japan the overall inflation rate was recently significantly higher than the core rate—mainly due to a regulation-related jump in gas prices (United Kingdom) and a pronounced rice shortage (Japan)—the opposite is true in the United States and the eurozone. Here, inflation is currently being dampened by significantly lower energy prices. The core rate has also recently fallen somewhat. In the US, however, the additional tariffs are likely to generate increasing inflationary pressure in the coming months.

Monetary policy in the advanced economies is moving in different directions. The interest rate cuts initiated in the major advanced economies in the summer of 2024 continued until the end of last year. Since December, however, the major central banks have increasingly diverged in their policies. The European Central Bank (ECB) has since reduced its key rate (deposit facility) in four steps, most recently on June 5, from 3.0 to 2.0 percent. Overall, no significant impulses are expected from

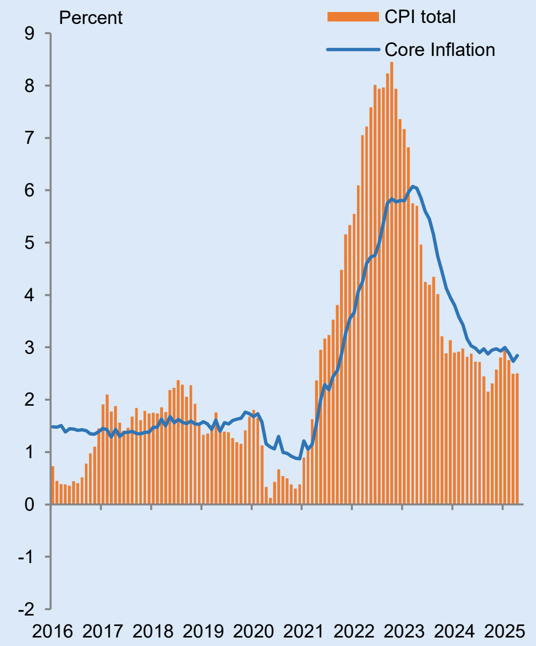
Figure 4:
Raw material prices



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.

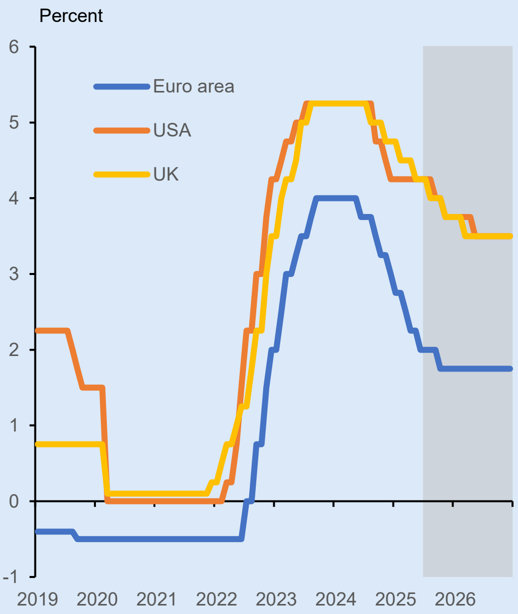
Source: OECD, *Main Economic Indicators*; Kiel Institute calculations.

monetary policy for the forecast period. After a pause in rate cuts, we only expect one more rate cut in September, unless price developments and the economy surprise on the downside in the coming months. The Bank of England has also cut rates, but at a slower pace and to a lesser extent (Figure 6). It is likely to continue this cautious approach for the time being, given that inflation is still clearly above target. The US Federal Reserve, by contrast, has not changed the target range for the federal funds rate since December. It remained at 4.0 to 4.25 percent. The Fed finds itself in a difficult position due to the expected inflationary effects of tariffs and the depreciation of the US dollar, as well as increasing signs of nervousness in the bond markets, especially for long maturities, which suggest declining confidence in the Fed's ability to ensure price stability. Financial markets only expect a further rate cut later this year. Finally, the Bank of Japan has tightened its reins further in view of the persistently high inflation, even though short-term interest rates are still very low. Contributing to a further gradual tightening of monetary policy is a significant reduction of its of government bond purchases.

In the emerging economies, interest rate cuts continue to predominate. The easing of monetary policy—as well as the previous tightening—began earlier in the emerging economies than in the advanced economies. Nevertheless, interest rate cuts have dominated recently (Figure 7). Since March, key interest rates have been reduced in Mexico (twice), India, the Philippines, Thailand, Colombia, South Africa, and Russia. Among the countries included in our interest rate policy diffusion index, interest rates have been raised only in Brazil, for the sixth time in a row, and in Turkey.

Fiscal policy is broadly neutral overall. Fiscal policy was massively expansionary during the crisis years to cushion the economic consequences of the pandemic and the effects of higher energy prices. However, there was little subsequent consolidation. Although budget deficits have generally declined as crisis measures expired, they have remained significantly above pre-crisis levels. In some cases, they even rose again last year, such as in the US and France. There are hardly any pronounced efforts to reduce the still high structural deficits almost anywhere. Only in the United Kingdom do fiscal announcements suggest a noticeable reduction in the structural deficit. In many cases, higher defense spending is also contributing to higher deficits, which are only partially financed by spending cuts elsewhere or tax increases (such as in Japan, where the corporate tax rate has been

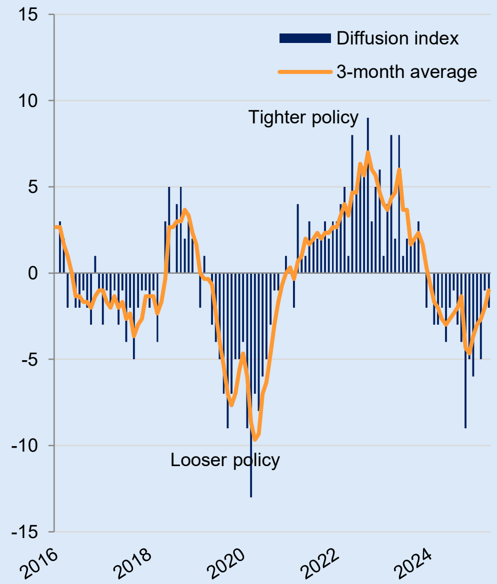
Figure 6:
Policy rates in major advanced economies



Monthly data. Euro area: Deposit Facility Rate, USA: Federal Funds Rate, UK: BoE base rate.

Source: LSEG Datastream. shaded area: forecast of IfW Kiel.

Figure 7:
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.

increased for this purpose). For the US, the government's tax cut plans even suggest a noticeably expansionary fiscal policy, especially as it is likely to be difficult to implement the targeted spending cuts. This not only increases the debt level but also leads to an ever-greater debt service burden on the budget. An expansionary fiscal policy also runs counter to the government's goal of reducing the trade deficit and thus creates a policy inconsistency that is likely to fuel uncertainty. In Europe, a changed attitude of the US government is leading to a strong increase in defense spending. To enable this politically desired shift, the European Union has relaxed its fiscal rules and provided favorable community loans through the Security Action for Europe (SAFE) program.

OUTLOOK: THE GLOBAL ECONOMY IS LOSING MOMENTUM AGAIN

Economic policy uncertainty remains high, while the negative effects of tariff policy are unfolding. There are forces supporting the economy: monetary policy is less restrictive or has already returned to a neutral stance; the outlook for private consumption has improved, as real wages have rebounded and exceed pre-inflation surge levels in most countries, often significantly so, thanks to lower inflation and higher wage increases. However, this is partly at the expense of companies' profit margins, potentially dampening investment, and can lead to lower levels of employment. The high uncertainty around the US economic policy continues to weigh on sentiment. While the threat of tariffs apparently even boosted economic activity at the beginning of the year, as shipments to the United States were brought forward to pre-empt higher trade costs, this demand will be missing in the coming months, adding to the negative effect of tariffs on production.

The global economy is losing momentum in the forecast period. For the current year, we expect the increase in global output calculated at purchasing power parities to slow from 3.3 percent to 2.9 percent, and for 2026 we expect growth of the same magnitude (Table 1). We have thus reduced our forecast for both years by 0.2 percentage points (Gern et al. 2025). On the basis of market exchange rates, the global GDP will grow by 2.4 percent this year and next, after 2.9 percent in 2024. Global goods trade, which increased by 2.4 percent in 2024, is likely to rise by an average of 2.7 percent this year helped by the strong expansion in the first months. The weak development in the further course of the year is mainly reflected in the average increase for 2026, for which we have reduced our expectations to 0.3 percent.

The US economy is weakening. Although GDP declined slightly in the first quarter, this was not a sign of recession. Labor market data remained strong, with the number of jobs continuing to rise significantly and the unemployment rate remaining low. In May, too, nonfarm payrolls increased by about 139,000, roughly in line with the trend of the past two years, and the unemployment rate remained at 4.2 percent. Nowcast models currently expect a fairly strong growth rate of 0.6 percent for the second quarter. However, leading indicators have recently deteriorated noticeably. The ISM purchasing managers' indices for both manufacturing and services slipped into contraction in May, factory orders were recently declining, and the consumer sentiment index compiled by the University of Michigan was at its lowest level since mid-2022, when the inflation wave reached its peak. We expect the economy to lose significant momentum in the coming months. Private consumption is likely to increase only slightly, also because higher inflation would decrease real income gains. In addition, policy-related uncertainty is likely to reduce the propensity to consume. Uncertainty about the business environment, not only regarding foreign trade, is also dampening investment. Overall, we expect GDP growth of only 1.5 percent this year and 1.4 percent next year, after 2.8 percent last year (Table 2). Inflation is likely to pick up again as a result of higher import prices and is expected to reach 3.2 percent on average this year.

Table 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	3.4	3.3	2.9	2.9	7.9	7.0	4.8	3.9
including									
Advanced economies	57.7	1.8	1.9	1.3	1.3	4.8	2.7	2.7	2.3
China	19.1	5.4	5.0	4.5	4.2	0.2	0.2	0.2	0.2
Latin America	5.8	2.2	2.0	1.8	1.9	23.9	27.9	10.6	7.6
India	7.8	8.8	6.7	6.7	6.5	5.3	5.1	4.9	4.5
East Asian emerging economies	4.7	3.4	4.0	3.4	3.8	3.5	2.3	2.0	2.3
Russia	2.8	4.1	4.1	0.8	0.5	5.9	8.4	10.0	8.0
Africa	2.2	3.0	3.2	3.5	3.5	18.9	18.8	13.1	10.0
Memorandum item:									
World trade volume (goods)		-0.9	2.5	2.7	0.3				
World economy (GDP weights using current US-dollar exchange rates)		2.9	2.9	2.4	2.4	6.3	5.2	3.7	3.0

Percent. Weights according to GDP in 2024 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.

Table 2:
Real GDP, 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	40.6	0.6	1.0	1.3	1.4	6.1	2.6	2.3	2.1	6.1	6.0	5.9	5.7
Euro area	34.3	0.6	0.8	1.1	1.2	5.4	2.4	2.1	1.9	6.6	6.4	6.3	6.1
Sweden	0.9	0.0	1.0	0.9	1.7	5.9	2.0	2.0	2.0	7.7	8.4	8.5	7.8
Poland	2.3	0.1	2.9	3.2	3.0	10.9	3.7	3.6	3.0	2.8	2.9	2.9	2.7
United Kingdom	5.0	0.4	1.1	1.1	0.9	7.3	2.5	3.0	2.4	3.7	4.1	4.5	4.6
Switzerland	1.0	0.7	1.3	1.2	1.2	2.1	1.4	0.5	0.7	4.3	4.0	4.0	3.9
Norway	0.6	0.2	2.1	0.9	1.8	5.5	3.4	2.9	2.5	3.4	4.0	4.1	4.0
United States	35.1	2.9	2.8	1.5	1.4	4.1	2.9	3.2	2.7	3.6	4.0	4.3	4.5
Canada	3.1	1.3	1.6	0.3	1.1	3.9	2.4	2.2	1.9	5.4	6.3	6.8	6.8
Japan	8.4	1.4	0.2	0.8	0.7	3.3	2.5	2.9	1.8	2.6	2.5	2.5	2.4
South Korea	3.8	1.4	2.1	0.3	1.7	3.6	2.3	1.9	2.1	2.8	2.7	2.9	2.8
Australia	2.2	2.1	1.0	2.1	1.9	5.6	3.2	2.4	2.5	3.7	4.1	4.1	4.0
Total	100.0	1.6	1.6	1.2	1.3	5.0	2.7	2.7	2.3	4.6	4.7	4.8	4.8

Based on GDP at prices and exchange rates of 2024 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 2024.

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

China's domestic economy cannot fully compensate for weaker exports. According to official figures, overall economic output increased at a solid pace of 1.2 percent in the first quarter, not least due to a strong increase in exports. Private consumption picked up slightly, and the construction sector continued to shrink, though not as strongly as before. Recent data shows that the contribution of exports to growth is now fading as US tariffs take effect. The government has adopted programs to stimulate consumption through subsidies for durable goods and transfer payments—measures that were missing from the economic policy toolkit in recent decades. Investment is also being promoted through ample credit supply and support for restructuring in the construction sector. Nevertheless, indicators suggest that the economy has recently lost significant momentum. On the assumption that US tariffs are not being increased much further from their current level, we expect output growth of 4.5 percent in 2025 and 4.2 percent in 2026. However, with the weakness of the Chinese economy last year, doubts about the reliability of Chinese macroeconomic data have grown again. Just as it is questionable whether the official figure for GDP growth in 2024—at 5.0 percent, exactly in line with the government's target—is realistic, it is not unlikely that the government will eventually—at least in official statistics—achieve its target of 5 percent again.

The euro area economy is picking up slightly despite headwinds from trade policy. In the euro area, the strong impulse from foreign trade recorded in the first quarter — especially in Ireland — is likely to reverse in the current quarter. However, the underlying cyclical forces — a gradual strengthening of private consumption and reviving investment — are likely to remain. Sentiment indicators currently point to a slowdown in the services sector, but sentiment among industrial companies has continued to improve until recently. That said, investment activity is likely to increase only moderately over the forecast horizon. Although fiscal policy has been further eased, high uncertainty and a still challenging financing environment stand in the way of a more dynamic development. Long-term bond yields have only hesitantly followed money market rates, and credit margins have recently risen again. In addition, according to the latest ECB Bank Lending Survey, credit standards have tended to tighten (European Central Bank, 2025). While the still low capacity utilization in manufacturing is likely to continue to dampen investment demand, there are positive signals from the housing sector as demand for housing loans is increasing. The fiscal policy stance in the euro area is considered broadly neutral for the current year. Fiscal policy measures, such as the planned infrastructure package in Germany (Boysen-Hogrefe et al., 2025) and an expansion of defense spending in the euro area, are likely to provide only minor impulses this year, but will have a noticeably expansionary effect during the course of next year. Overall, GDP is expected to increase by 1.1 percent this year and 1.2 percent in the euro area next year. Excluding Germany, the picture is slightly more dynamic this year. Next year, the expansion of the German economy, supported by particularly large fiscal stimulus, is likely to be similar to that of the other member states combined. The labor market continues to prove resilient, with a low unemployment rate that is expected to decline further from 6.2 percent (April) to 6.1 percent in the forecast period. Inflation is expected to continue to decline in view of lower energy prices and moderate growth to fall from 2.4 percent in 2024 to 2.1 percent in 2025 and 1.9 percent in 2026.

Downside risks to the economy remain. Uncertainty about economic policy has increased significantly, especially in the US, not only with regard to trade policy. This uncertainty could affect the US economy more strongly than expected in the forecast. So far, high tariffs have not had a strong impact on output in the US, for example by disrupting production networks or making US products too expensive. How strong such effects will be depends on the design of trade policy on the one hand and on the flexibility of companies on the other. Additional tariffs or escalations such as those seen between the US and China in April would further weigh on the global economy. The forecast also assumes that other countries will not resort to trade barriers aimed at keeping foreign products away in order to protect domestic producers facing difficulties in serving the US Market. The EU is already imposing compensatory tariffs on China in the field of electric vehicles, for example. In addition, security arguments are increasingly playing a role in the attitude towards global trade. If protectionist tendencies continue to spread, a pillar of international division of labor that has supported global welfare gains in recent decades is at risk. So far, financial markets have reacted relatively calmly to the turmoil in trade policy — with the exception of the temporary slump in stock prices following the announcement of reciprocal tariffs ("Liberation Day"). In particular, there has been no flight of capital from emerging markets to traditional safe havens, especially the dollar and US government bonds. On the contrary: as tariff announcements increasingly damaged the outlook for the US economy, capital that had flowed out in considerable amounts towards the end of last year flowed back into emerging markets, and emerging market currencies appreciated significantly against the dollar. The volatility of capital flows poses a risk to financial stability in emerging markets, many of which could still get into debt problems, if interest rates and exchange rates develop unfavorably (OECD, 2025).

Data annex

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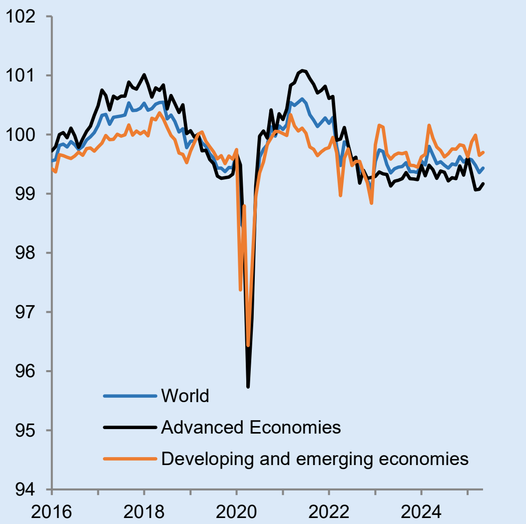
1. World Economy

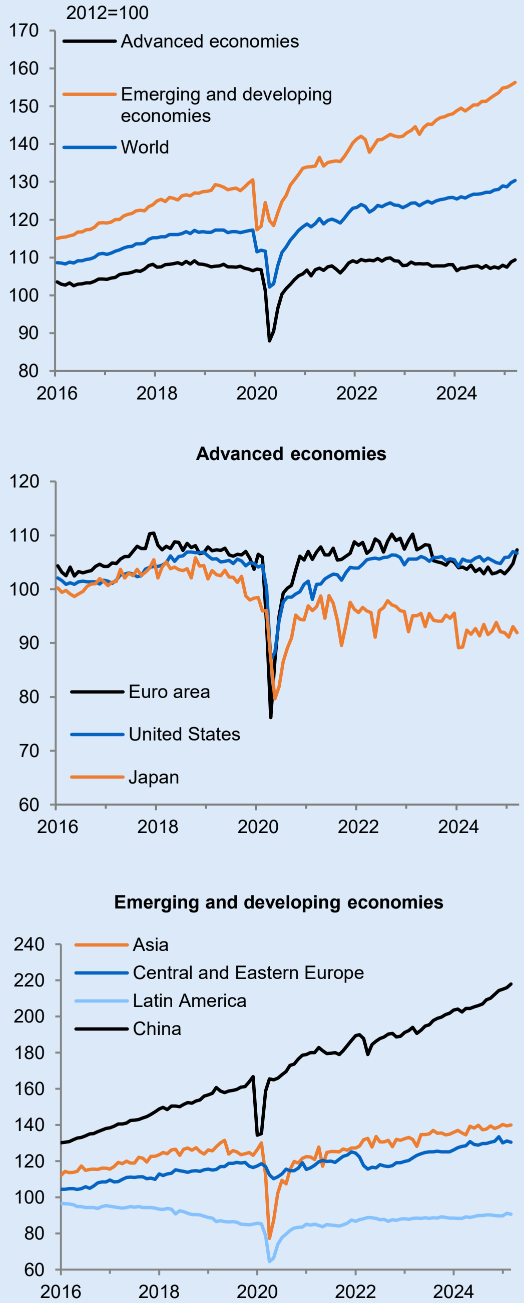
Figure 1.1:
Business expectations by groups of countries



Monthly data, seasonally adjusted. Indicators are based on buisness expectations in 42 countries (34 advanced economies and 8 emerging economies).

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

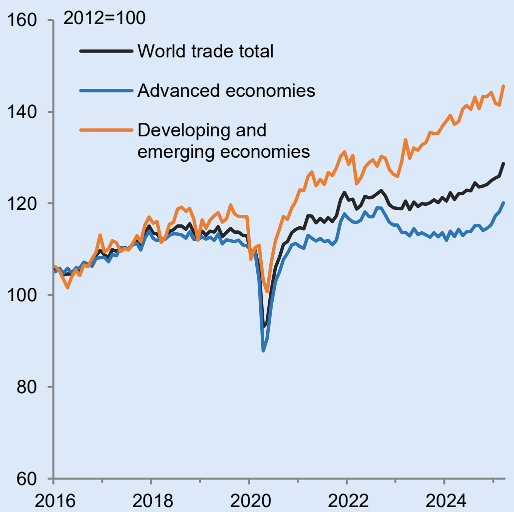
Figure 1.2:
Industrial production by groups of countries and regions



Monthly data. Last value: Julz 2024.

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

Figure 1.3:
World Trade

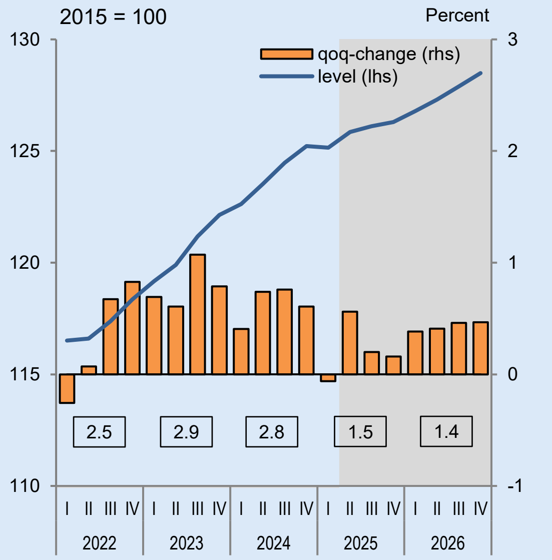


Monthly Data.

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

2. United States

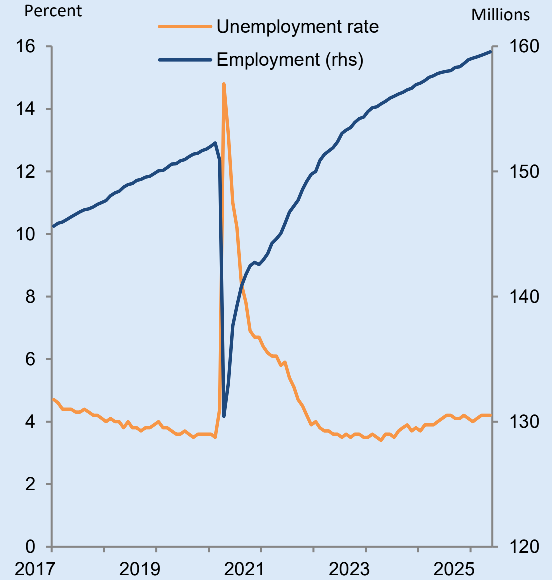
Figure 2.1:
GDP in the United States



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

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

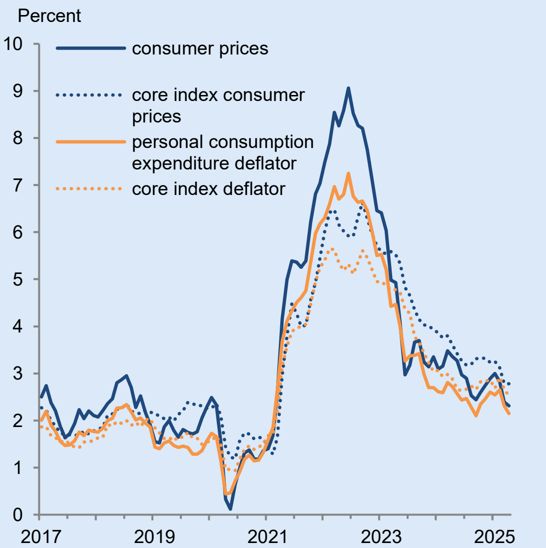
Figure 2.2:
Labor market



Monthly data, seasonally adjusted.

Source: US Bureau of Labor Statistics, *Employment Situation*.

Figure 2.3:
Consumer prices



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

Source: .US Bureau of Economic Analysis, *Personal Consumption Expenditures Price Index;* US Bureau of Labor Statistics, *Consumer Price Index.*

Table 2.1:
Key indicators United States

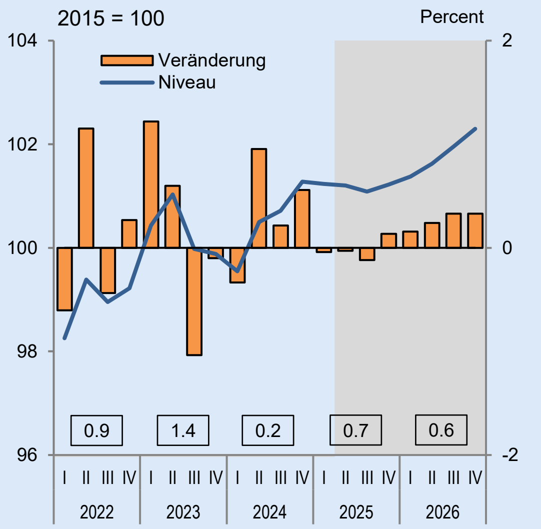
	2023	2024	2025	2026
Gross Domestic Product	2,9	2,8	1,5	1,4
Domestic expenditure	2,3	3,1	1,8	1,4
Private consumption	2,5	2,8	2,0	1,5
Government consumption	3,9	3,4	1,5	0,7
Gross fixed capital formation	2,4	3,7	1,3	1,7
Machinery and equipment	3,5	3,3	2,6	2,6
Intellectual property rights	5,8	3,9	2,2	2,2
Structures	10,8	3,5	-1,4	0,3
Residential investment	-8,3	4,2	-0,4	0,4
Inventories	-0,4	0,0	0,2	0,0
Net exports	0,6	-0,3	-0,3	0,0
Exports	2,8	3,3	3,0	1,8
Imports	-1,2	5,3	5,4	0,7
Consumer prices	4,1	2,9	3,2	2,9
Unemployment rate	3,6	4,0	4,3	4,5
Current account balance	-2,9	-3,4	-3,9	-3,7
Government budget balance	-6,2	-6,4	-6,4	-6,4

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; Kiel Institute calculations; shaded: Kiel Institute forecast.

3. Japan

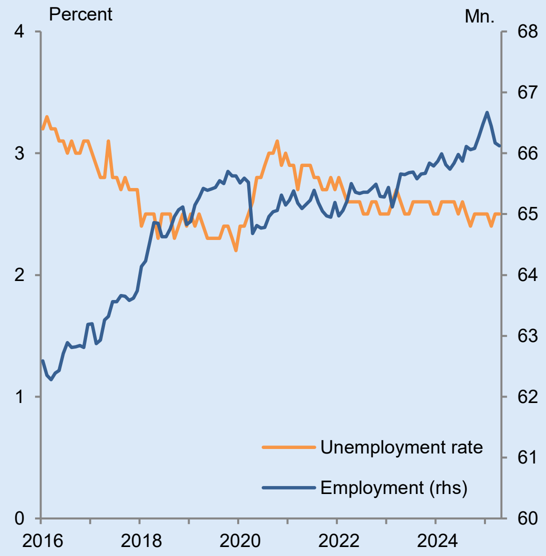
Figure 3.1:
GDP



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

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

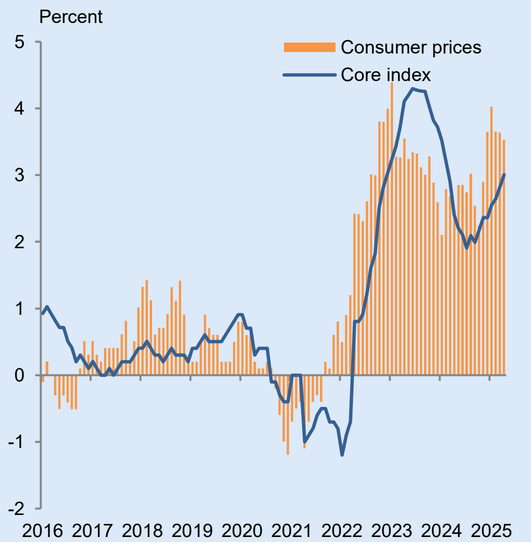
Figure 3.2:
Labor market



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

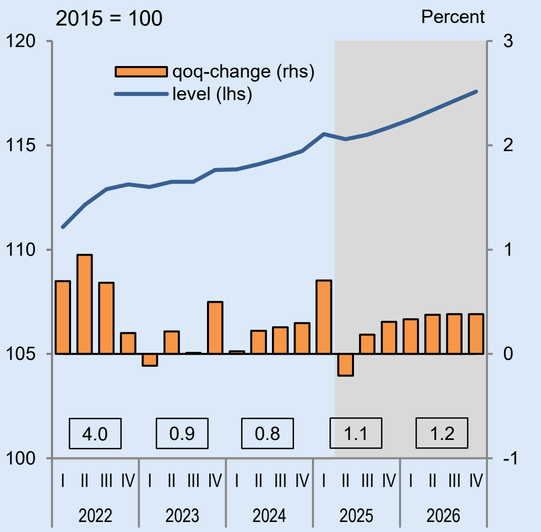
	2023	2024	2025	2026
Gross Domestic Product	1.4	0.2	0.7	0.6
Domestic expenditure	0.6	0.1	1.0	0.7
Private consumption	0.9	-0.1	1.0	0.8
Government consumption	-0.3	0.9	0.4	1.2
Gross fixed capital formation	-0.3	2.0	1.1	0.4
Enterprises	1.3	1.4	1.7	1.2
Residential Investment	1.5	-2.5	1.3	0.0
Public investment	1.7	-1.0	-1.3	-2.5
Change in inventories	-0.3	0.0	0.0	0.0
Net exports	0.5	0.0	-0.3	0.0
Exports	3.3	1.1	1.9	0.7
Imports	-0.9	1.0	3.5	0.9
Consumer prices	3.3	2.5	2.9	1.8
Unemployment rate	2.6	2.5	2.5	2.4
Current account balance	3.8	4.8	4.3	4.0
Government budget balance	-3.9	-3.6	-3.4	-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*; Kiel Institute calculations; shaded: Kiel Institute forecast.

4. Euro Area

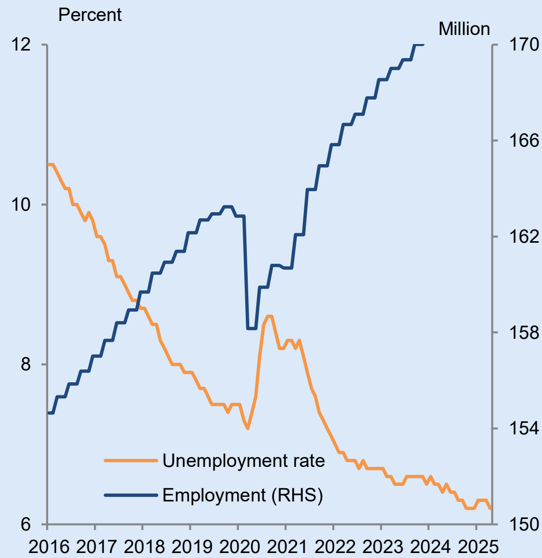
Figure 4.1:
GDP



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.

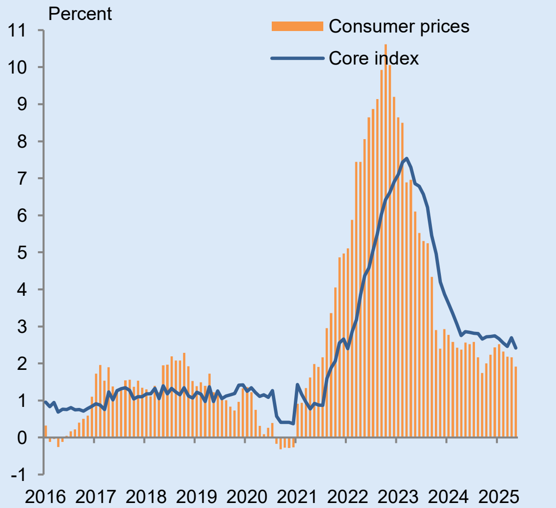
Figure 4.2:
Labor market



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

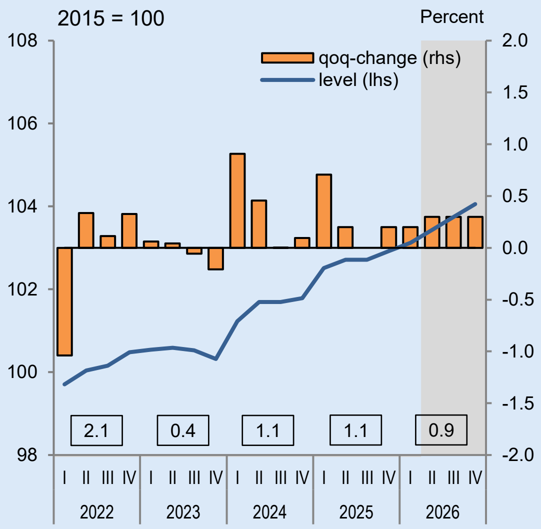
	2023	2024	2025	2026
Gross Domestic Product	0.5	0.8	1.1	1.2
Domestic expenditure	0.2	0.4	2.0	2.0
Private consumption	1.4	1.1	1.9	1.9
Government consumption	0.6	2.5	1.3	1.8
Gross fixed capital formation	2.0	-1.8	2.9	2.1
Inventories	-0.8	-0.4	0.0	0.0
Net exports	0.3	0.5	-0.8	-0.7
Exports	-0.6	1.0	1.2	1.1
Imports	-1.3	0.1	3.0	2.6
Consumer prices	5.4	2.4	1.9	1.9
Unemployment rate	6.6	6.4	6.2	5.9
Current account balance	1.7	3.3	3.0	3.0
Government budget balance	-3.6	-3.2	-3.2	-3.5

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*; Kiel Institute calculations; shaded: Kiel Institute forecast.

5. United Kingdom

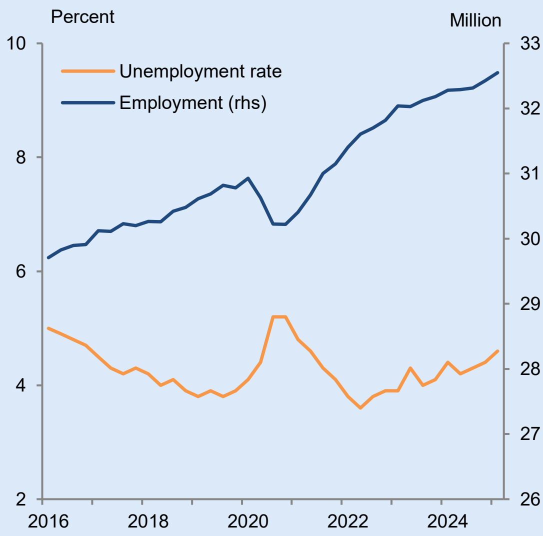
Figure 5.1:
GDP



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

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

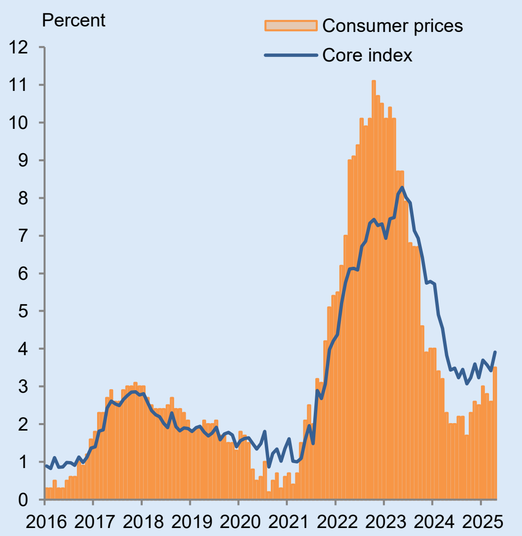
Figure 5.2:
Labor market



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

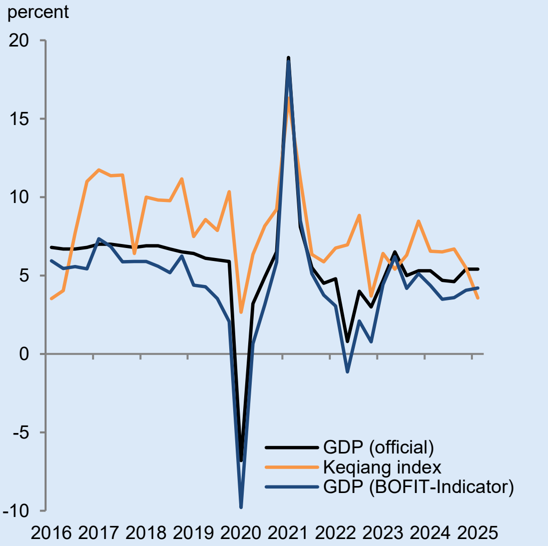
	2023	2024	2025	2026
Gross Domestic Product	0.4	1.1	1.1	0.9
Domestic expenditure	0.0	2.4	1.3	1.3
Private consumption	0.5	0.6	1.2	1.3
Government consumption	1.6	3.0	2.0	1.0
Gross fixed investment	0.3	1.5	2.5	2.5
Inventories	-0.6	-0.7	0.0	0.1
Net exports	0.5	-1.4	-0.2	-0.3
Exports	-0.4	-1.2	1.4	1.2
Imports	-1.2	2.7	2.0	2.0
Consumer prices	9.1	2.5	3.0	2.4
Unemployment rate	4.0	4.3	4.5	4.6
Current account balance	-3.5	-2.7	-3.0	-3.1
Government budget balance	-6.0	-6.0	-5.2	-4.5

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: Kiel Institute forecast.

6. China

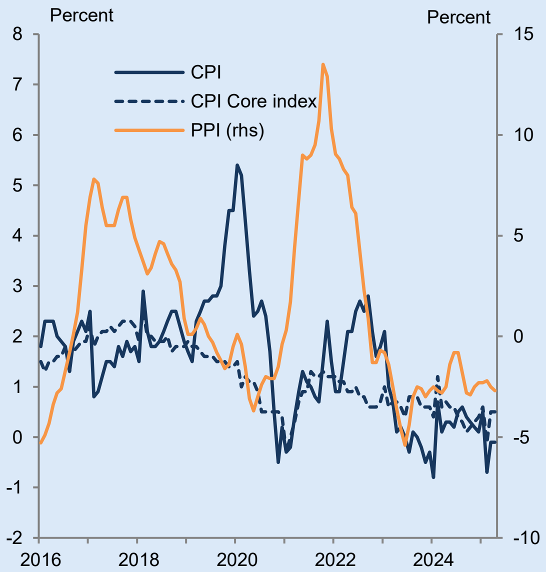
Figure 6.1:
GDP and alternative activity indicators



Quarterly data. GDP (official): year-on-year percentage change; Keqiang-index: arithmetic mean of the year-on-year growth rates of RMB lending from financial institutions, electricity consumption and railway freight cargo volume; GDP (BOFIT- Indicator): estimated year-on-year growth rate, simple average.

Source: Kiel Institute calculations based on data from National Bureau of Statistics, National Energy Agency, and People's Bank of China; GDP (BOFIT-Indicator) from Bank of Finland.

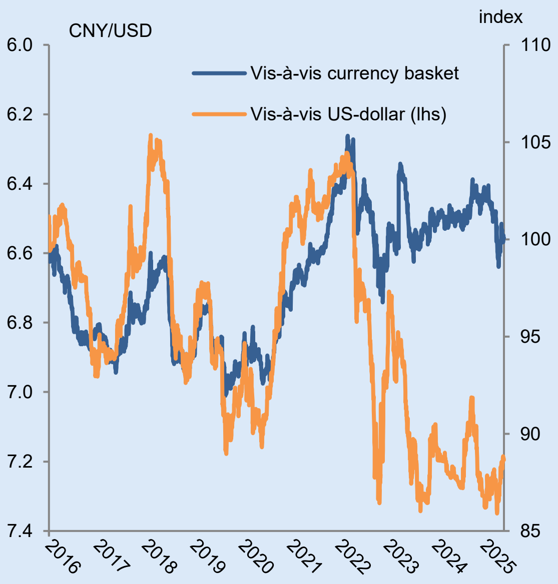
Figure 6.2:
Inflation



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

Source: National Bureau of Statistics.

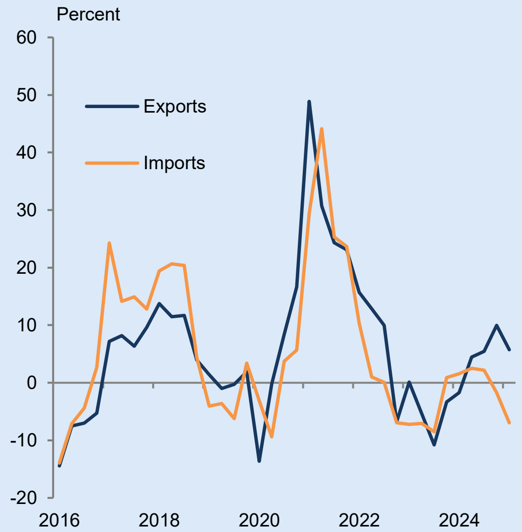
Figure 6.3:
Exchange rates



Daily data.

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

Figure 6.4:
Foreign trade

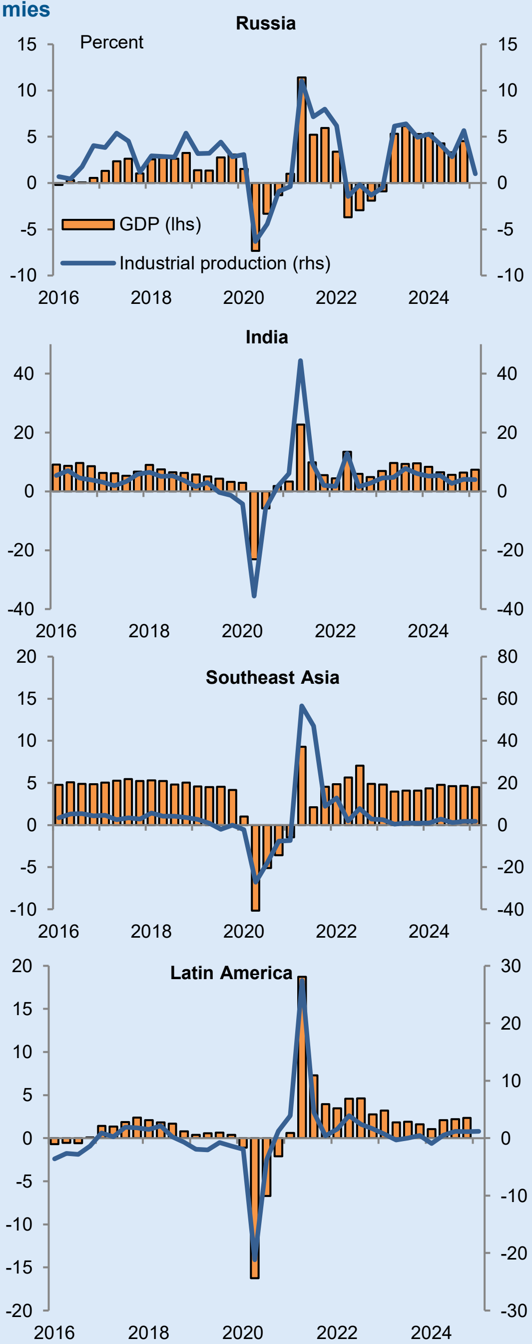


Change on a year ealier based on quarterly averages.

Source: General Administration of Customs China

7. Emerging Economies

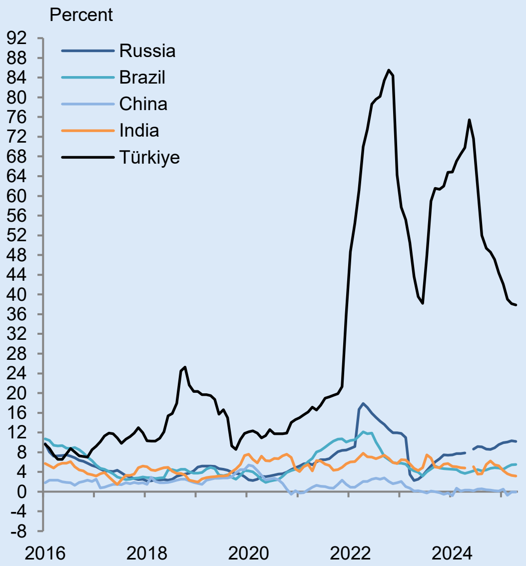
Figure 7.1:
GDP and industrial production in emerging economies



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 Argentinia, Brasil, Chile, Colombia, Mexico and Peru.

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

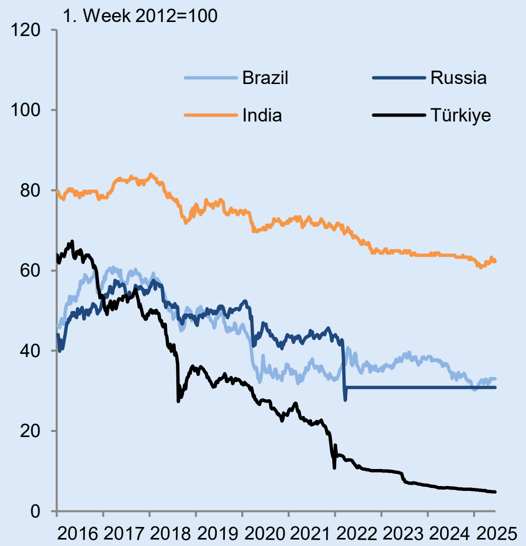
Figure 7.2:
Consumer prices



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

8. Additional Forecast Tables

Tabelle 8.1:
Real GDP, 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	24.0	-0.1	-0.2	0.4	1.3	6.0	2.5	2.4	1.8	3.1	3.4	3.6	3.6
France	16.3	1.6	1.1	0.5	0.8	5.7	2.3	1.0	1.7	7.4	7.4	7.4	7.4
Italy	12.2	0.8	0.5	0.6	0.7	5.9	1.1	1.8	1.8	7.7	6.5	6.1	6.1
Spain	8.9	2.7	3.2	2.4	2.2	3.4	2.9	2.2	2.1	12.2	11.4	10.7	10.0
Netherlands	6.3	0.1	1.0	1.2	1.0	4.1	3.2	3.2	2.1	3.5	3.7	3.8	3.7
Belgium	3.4	1.2	1.0	0.8	0.7	2.3	4.3	2.9	2.1	5.5	5.7	6.3	6.3
Austria	2.7	-0.8	-1.1	0.1	0.6	7.7	2.9	2.8	2.0	5.1	5.2	5.7	5.6
Ireland	3.0	-5.7	1.3	8.1	0.6	5.2	1.3	1.8	1.9	4.3	4.3	4.2	4.1
Finland	1.5	-0.9	-0.1	0.8	1.3	4.3	1.0	2.0	2.1	7.2	8.4	9.1	9.0
Portugal	1.6	2.6	1.9	1.5	2.2	5.3	2.7	1.9	2.1	6.6	6.5	6.3	6.0
Greece	1.3	2.3	2.3	2.0	1.9	4.2	3.0	2.4	2.1	11.1	10.1	8.3	7.9
Slovak Republic	0.7	2.2	2.1	1.4	2.6	11.0	3.2	3.3	2.1	5.9	5.3	5.2	5.0
Luxembourg	0.5	-0.7	1.0	-0.1	1.4	2.9	2.3	2.0	1.9	5.2	6.3	6.5	6.0
Kroatien	0.5	3.3	3.9	2.6	2.8	8.4	4.0	3.6	2.5	6.1	5.1	4.4	4.2
Slovenia	0.4	2.3	1.5	0.1	1.8	7.2	2.0	2.0	2.0	3.7	3.7	4.1	3.9
Lithuania	0.4	0.4	2.7	2.6	2.2	8.7	0.9	2.9	1.8	6.9	7.1	6.4	6.1
Latvia	0.2	2.2	-0.4	0.2	1.7	9.1	1.3	3.0	2.1	6.5	6.9	7.3	6.8
Estonia	0.2	-3.1	-0.3	0.2	1.8	9.1	3.7	4.1	2.4	6.4	7.6	8.0	7.3
Cyprus	0.2	2.8	3.4	2.9	1.9	3.9	2.3	1.6	2.0	5.8	4.9	4.2	4.0
Malta	0.1	6.8	5.9	4.0	3.6	5.6	2.4	1.7	1.9	3.5	3.1	2.8	2.5
Sweden	3.1	0.0	1.0	0.9	1.7	5.9	2.0	2.0	2.0	7.7	8.4	8.5	7.8
Poland	4.7	0.1	2.9	3.2	3.0	10.9	3.7	3.6	3.0	2.8	2.9	2.9	2.7
Denmark	2.2	2.5	3.7	2.4	2.1	3.4	1.3	1.7	1.8	5.1	6.2	6.2	5.5
Czech Republic	1.8	0.1	1.0	2.6	2.6	10.7	2.4	1.2	2.2	2.6	2.8	2.5	2.3
Romania	2.0	2.4	0.8	1.0	2.1	3.9	5.3	3.9	3.6	5.6	5.4	5.7	5.5
Hungary	1.1	-0.7	0.5	0.7	2.8	17.0	3.7	4.3	3.2	4.1	4.4	4.3	4.2
Bulgaria	0.6	2.0	2.6	2.8	2.9	6.9	4.4	2.5	2.2	4.3	4.2	3.6	3.3
European Union	100.0	0.7	1.0	1.3	1.4	6.1	2.6	2.3	2.1	6.1	6.0	5.9	5.7
Addendum:													
European Union 11	87.0	0.6	0.9	1.1	1.2	5.3	2.3	2.0	1.9	6.7	6.5	6.4	6.2
Accession countries	13.0	0.9	2.0	2.2	2.6	9.5	3.7	3.3	2.9	4.1	4.1	4.0	3.8
Euro Area	84.5	0.6	0.8	1.1	1.2	5.4	2.4	2.1	1.9	6.6	6.4	6.3	6.1
Euro Area without Germany	60.5	0.9	1.2	1.4	1.1	5.2	2.3	1.9	1.9	7.8	7.4	7.2	7.0

Based on GDP at prices and exchange rates of 2024 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 2024. Accession countries since 2004.

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

Table 8.2:
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	4.8	3.7	2.5	2.0	2.5
Thailand	2.0	1.9	2.5	3.9	4.2	1.2	0.6	1.2	1.5
Malaysia	1.6	3.5	5.1	4.3	4.4	2.5	1.8	2.1	2.2
Philippines	1.6	5.5	5.6	5.8	5.5	6.0	3.2	2.4	2.8
Total	10.8	4.3	4.7	4.8	4.7	3.4	2.2	1.9	2.3
China	41.6	5.4	5.0	4.5	4.2	0.2	0.2	0.2	0.2
India	17.0	8.8	6.7	6.7	6.5	5.3	5.1	4.9	4.5
Asia total	69.4	6.1	5.4	5.1	4.8	2.0	1.7	1.6	1.6
Brazil	5.1	3.2	3.4	1.9	1.7	4.6	4.4	5.2	4.5
Mexico	4.1	3.3	1.2	0.1	1.0	5.5	3.5	3.3	3.7
Argentina	1.5	-1.6	-1.7	5.0	3.2	133.0	220.0	45.0	25.0
Colombia	1.3	0.6	1.6	2.3	2.2	11.7	6.6	4.8	4.4
Chile	0.7	0.3	2.4	2.1	2.0	7.6	4.3	4.4	3.5
Peru	0.7	-0.4	3.3	3.0	2.8	6.3	2.4	2.0	2.4
Latin America total	13.4	2.1	1.9	1.8	1.8	20.7	29.2	9.0	6.5
Egypt	2.3	3.8	2.4	3.0	3.2	24.4	33.3	21.2	14.4
Nigeria	1.7	2.8	3.4	3.2	3.2	24.7	32.5	25.0	20.0
South Africa	1.2	0.7	0.6	1.0	1.2	6.9	4.5	2.9	2.5
Algeria	0.8	4.1	3.6	3.2	3.0	9.3	5.3	5.0	4.5
Ethiopia	0.5	5.8	6.3	6.5	6.5	30.2	24.0	17.0	14.0
Africa total	6.5	3.1	2.8	3.0	3.1	19.8	23.5	16.4	12.4
Russia	6.2	4.1	4.1	0.8	0.5	5.9	8.4	10.0	8.0
Tyrkiye	4.5	4.5	3.2	3.8	4.5	53.9	58.0	38.0	25.0
Total	100.0	5.2	4.6	4.2	4.0	8.2	9.8	5.7	4.4

In percent. Weights: According to 2024 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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