

Economic Outlook

World Economy in Summer 2026

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Klaus-Jürgen Gern, Stefan Kooths,
Johanna Krohn, Wan-Hsin Liu und Jan
Reents

Research Group
Business Cycles and Growth

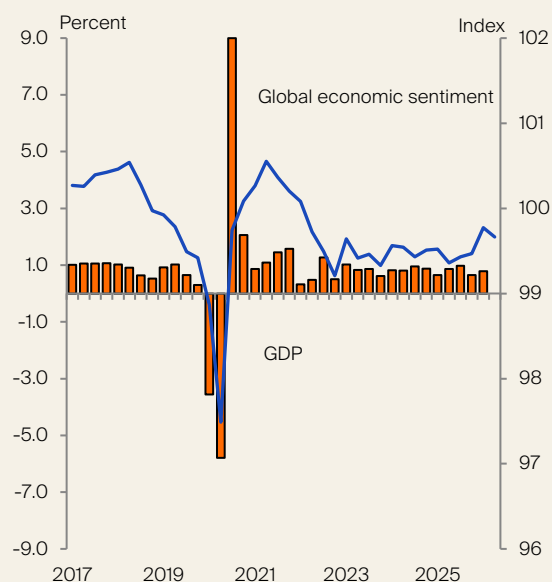
World Economy in Summer 2026: Iran War Still Weighs on Growth

Klaus-Jürgen Gern, Stefan Kooths, Johanna Krohn, Wan-Hsin Liu und Jan Reents

In the spring of 2026, global growth slowed amid rising energy prices and heightened geopolitical risks. While production in the Persian Gulf countries has slumped, the economy remained firmly on an upward trajectory in most other countries. In the United States in particular, the economy is expected to continue expanding at a largely unchanged pace. Positive momentum continues to come from the boom in AI technology, which is providing strong impetus for trade and investment. Currently, financial markets appear to continue expecting that oil and gas production and transportation in the Gulf region will soon return to normal levels. In this scenario, which is also underlying our forecast, the consequences for the global economy will remain limited, the rise in inflation temporary, and the monetary policy response moderate. However, as the conflict has now lasted significantly longer than expected in March, we have reduced our forecast for global output growth—measured in terms of purchasing power parity—for this year from 3.1 percent to 2.8 percent. For the coming year, a rebound to 3.3 percent is then expected (March forecast: 3.2 percent). The main risk to this forecast is a prolonged closure of the Strait of Hormuz meaning that oil supplies remain at their current sharply reduced levels for a significantly longer period of time, which would lead to a much more severe and prolonged slowdown in the global economy.

Higher crude oil and LNG prices and heightened uncertainty in the wake of the Iran war weigh on global economic activity. Since the attack by the United States and Israel on Iran on February 28, 2026, the Strait of Hormuz has been largely blocked. Prior to the war, around 20 percent of globally traded crude oil passed through the strait, as did around 20 percent of liquefied natural gas (LNG). As a result, roughly 3 percent of global gas consumption is currently unavailable to the world market. This is particularly affecting Asian economies, many of which rely heavily on LNG imports. In the oil market, some of the affected volumes have been redirected to pipeline transport, while other producers have increased output. Nevertheless, according to estimates by the International Energy Agency, global oil supply is currently more than 10 percent below its pre-war level (IEA 2026). This is by far the largest oil supply shock in history; at its peak, the percentage decline in supply during the 1973/74 oil crisis was less than half as large.

Figure 1:
World Economic Activity



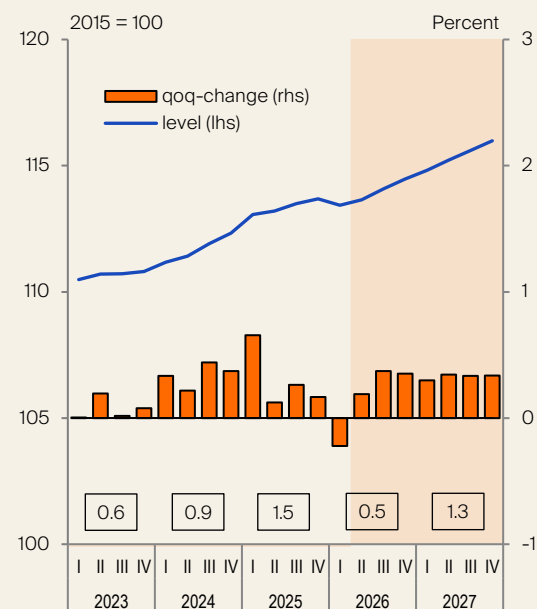
Quarterly data, seasonally adjusted. Global economic sentiment is based on business expectations in 42 economies. GDP: price adjusted, change over previous quarter, 46 countries, weighted by purchasing power parities.

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

Against this benchmark, the market price response has so far been moderate. Prices initially rose sharply but subsequently settled at levels observed several times in recent years during major geopolitical crises, such as Russia's invasion of Ukraine in 2022 or phases of strong demand growth (2007 and 2012/13). Adjusted for the increase in the general price level, the real oil price remains well below historical peaks.

The global economy continued to expand decently until recently, albeit at a more moderate pace than over the course of last year. World output increased somewhat more strongly in the first quarter of 2026 than in the fourth quarter of 2025, although this was mainly due to the temporary drag on the US economy from the government shutdown in October and November (Figure 1). In the first quarter, GDP in the United States rose noticeably again, albeit at a relatively moderate rate of 0.4 percent. Economic activity also picked up markedly in Japan and the United Kingdom. By contrast, aggregate output in the euro area fell by 0.2 percent. This decline was largely due to a sharp 12 percent fall in GDP in Ireland, driven by special factors.¹ Excluding Ireland, the euro area economy continued to expand at a broadly unchanged, albeit moderate pace (Figure 2).

Figure 2:
GDP in the Euro Area



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: Kiel Institut forecast.

With the outbreak of the war in the Gulf, sentiment deteriorated, especially among consumers, while purchasing managers' indices for manufacturing declined only slightly. The Kiel Institute's indicator of the global economic sentiment, which is calculated on the basis of sentiment indicators from 42 countries, has recently fallen somewhat but continues to signal robust expansion in the second quarter. In the United States, robust employment gains suggest that economic activity may even have gained momentum of late.

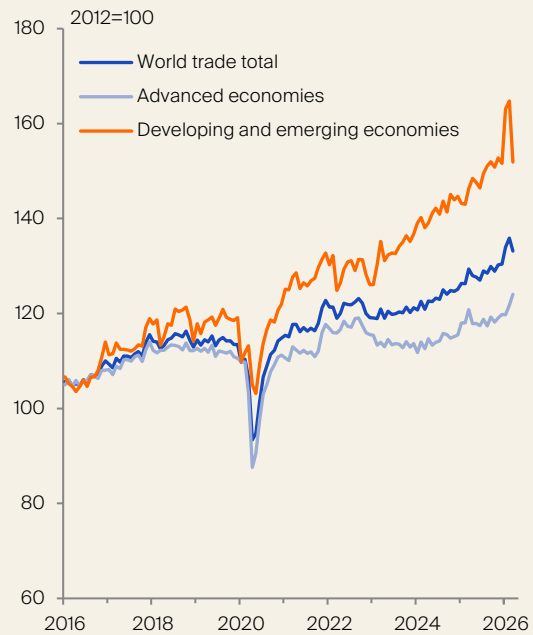
The effects of the war in Iran are clearly visible in world trade and global industrial production, but they remain concentrated in the Gulf countries. Global industrial production, which had increased at a moderate pace last year, accelerated in the first

¹ Production by multinational pharmaceutical companies for export, which accounts for a significant portion of Irish industrial output, had increased massively in the first half of last year in connection with U.S. tariff policies and is now apparently being scaled back again. In addition to the normalization of the level of pharmaceutical production, there have been changes in the allocation of licensing rights in multinational companies, which affect GDP but do not influence economic activity in Ireland. An alternative measure of economic activity from the Irish Central Statistics Office, which adjusts for distorting effects of the activity of multinational companies ("Modified Domestic Demand"), indicates a stable upward trend in the Irish economy.

two months of this year and in February stood 3.4 percent above its level a year earlier. World trade expanded even more strongly, rising by 7.6 percent over the same period (Figure 3). This momentum was driven mainly by the AI boom; accordingly, Asian economies, where production of the relevant capital goods is concentrated, benefited particularly strongly. In March, with the onset of the war in Iran and the associated closure of the Strait of Hormuz, both industrial production and world trade declined markedly - by around 2 percent each. The decline was due mainly to the direct effects of the war on production and trade in the Gulf region. Industrial production, which includes raw material extraction, collapsed by almost one quarter in the Africa and Middle East region, which is dominated by the Gulf states. In the rest of the world - especially in advanced economies and in emerging Asia - only minor declines were recorded at most, and generally production continued increased further (Figure 4). A similar picture emerges for world trade, where exports and imports of the advanced economies initially showed little reaction.

Prices of non-energy commodities have also risen significantly. Energy commodities became considerably more expensive shortly after the start of the Iran war. The corresponding World Bank index had risen by around 50 percent by April. Although prices eased somewhat in May, they were still around 40 percent higher than at the end of 2025. Fertilizer prices also increased sharply, as the Gulf states had previously supplied roughly one third of global demand for urea, an important nitrogen fertilizer. Prices of

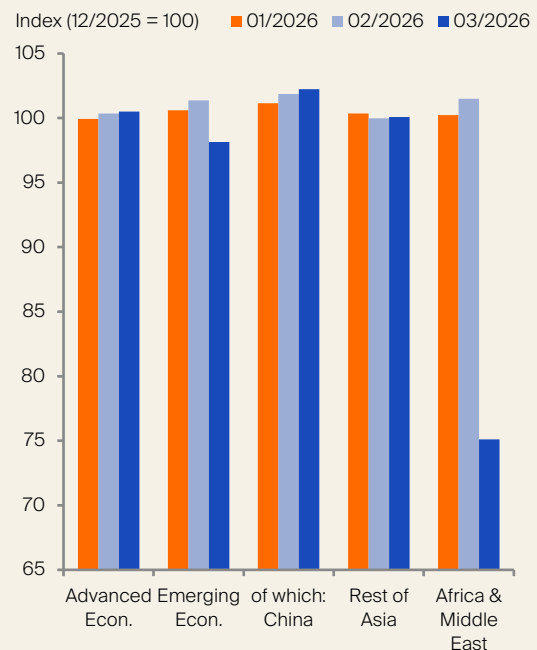
Figure 3:
World Trade



Monthly Data.

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

Figure 4:
Global industrial production, January to March 2026



Monthly data; price- and seasonally adjusted.

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

other commodities have also risen noticeably. On the supply side, commodity production is typically energy-intensive; on the demand side, industrial demand remained robust. Prices of metals and minerals have increased by around 10 percent since March. Food prices are also clearly on an upward trend, with higher fertilizer prices raising concerns that lower fertilizer use could weigh on future harvests.

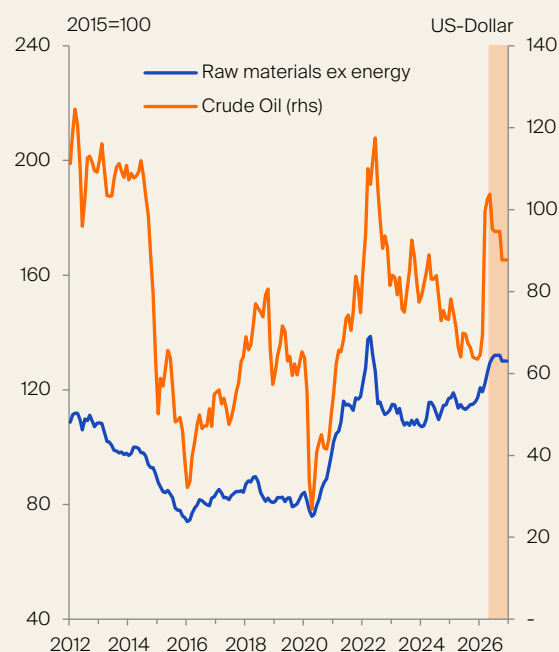
Oil prices are expected to decline over the forecast horizon, but to remain substantially higher than previously assumed.

At the beginning of the war, it was generally assumed - including in our March forecast - that the military superiority of the United States and Israel would allow safe passage through the Strait of Hormuz to be restored soon, and that shipments of crude oil, petroleum products and LNG from the Persian Gulf would be interrupted for only a few weeks at most. This

assumption has proved too optimistic. Despite negotiations between the United States and Iran, an end to the conflict is not yet in sight. Financial markets nevertheless appear to continue to expect the situation to ease soon, as crude oil prices on futures markets decline noticeably from the summer onward. However, markets no longer expect oil prices to return quickly to the average level of around US\$65 recorded in 2025. First, it will take some time for the Gulf states to return to pre-war production levels. Second, current oil demand is partly being met by inventories, whose replenishment after the crisis will generate additional demand. In line with financial markets, we expect the price of Brent crude to decline gradually to just under US\$80 by the end of next year (Figure 5). On average, oil prices are thus around US\$10 higher this year and next than assumed in our spring forecast. By contrast, the price of LNG in Europe is currently noticeably lower than expected in March and is projected to fall gradually over the forecast horizon to around EUR 35 per MWh.

Consumer prices have risen sharply as a result of higher energy prices. Price pressures in the advanced economies have strengthened noticeably in recent months. In the G7 countries, the inflation rate stood at 3.3 percent in April 2026, compared with 2.1 percent in February (Figure 6). Core inflation, excluding energy and food, also increased, albeit to a much smaller extent. As energy prices are now likely to remain elevated for longer and to decline more slowly than expected in the spring, the risk has increased that the energy-price impulse will keep inflationary pressures elevated for a more prolonged period.

Figure 5:
Raw material prices



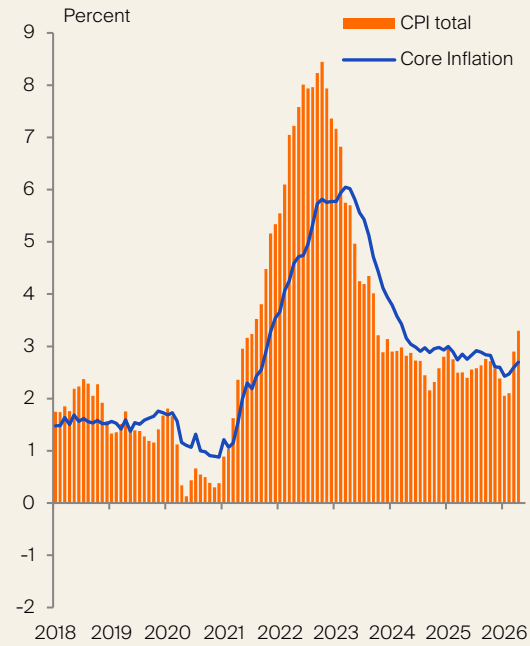
Monthly data, data edge: shaded: forecast.
Raw materials ex energy: HWWI-Index, USD-based; Crude Oil: Spot market, Brent.

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

The acceleration in inflation differs across countries, reflecting a number of country-specific factors. The inflation rate has risen particularly strongly in the United States. There, the percentage increase in fuel prices was especially pronounced because, given the very low fuel taxes, prices at the pump are determined mainly by crude oil prices and refinery margins, and because fuels have a relatively high weight in the consumer basket. In other advanced economies, fuels are generally taxed much more heavily, so an equally large increase in variable price components translates into a smaller percentage increase in final prices. In the euro area, other sources of energy have also become cheaper in many countries at the same time. Electricity prices, in particular, have fallen substantially in some cases. In addition, policy measures have dampened prices in some countries. Other special factors included the easing of previously strong food-price inflation in Japan and a lower gas price cap in the United Kingdom. As a result, inflation rates in these countries have barely risen.

In the major advanced economies, monetary policy leans toward tightening. Central banks initially did not respond to the increase in energy prices following the conflict in the Middle East. It is now becoming apparent, however, that the inflationary pressures could last longer than previously expected. Inflation expectations have also increased at longer horizons. Against this backdrop, the European Central Bank has signaled that it is inclined to raise policy rates slightly in order to make clear at an early stage that it will firmly counter price pressures that are not merely temporary (Schnabel 2026). We expect a second rate hike this year in October, following the one in June, bringing the deposit rate to 2.5 percent (Figure 7). The Bank of England also sees risks of second-round

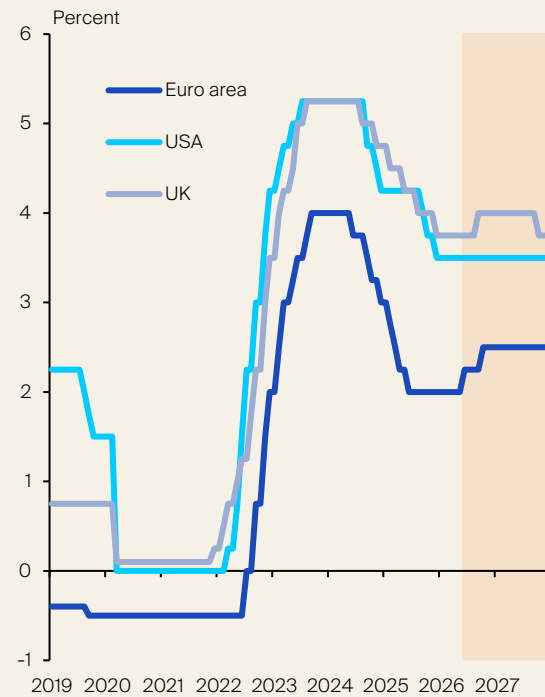
Figure 6:
CPI Inflation in Industrial Countries



Monthly Data; yoy change.

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

Figure 7:
Policy rates in major advanced economies



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

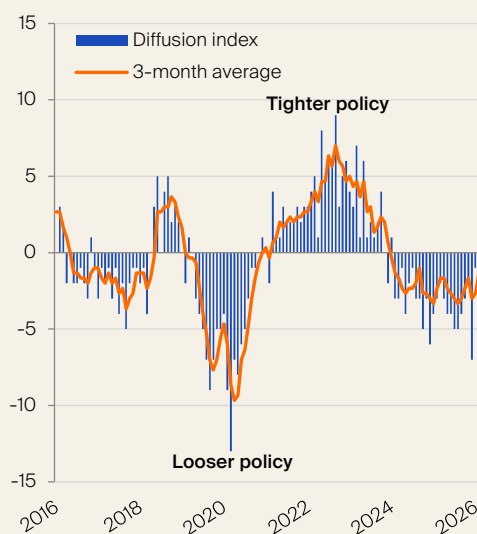
Source: LSEG Datastream. shaded area: forecast of IfW Kiel.

effects in price and wage setting and is likely to raise its policy rate slightly in September from the current level of 3.75 percent. The situation is particularly challenging for the Federal Reserve. On the one hand, the government expects interest rates to be cut in order to stimulate the economy and probably also to reduce the interest burden on public debt. On the other hand, robust labor market data have weakened the case for a rate cut, while ten-year inflation expectations risk becoming entrenched at 2.5 percent, well above the inflation target. Against this backdrop, we expect the target range for the federal funds rate to remain unchanged at 3.50 to 3.75 percent over the forecast period. There is, however, a significant risk that the Fed will have to raise interest rates again.

Most central banks in emerging markets are waiting on the sidelines. Since January 2024, interest rate cuts have predominated in emerging markets (Figure 8). This remains the case, although policy rates have been changed in only a few countries in recent months. Monetary policy most recently was eased mainly in Brazil and Russia. Mexico also implemented a rate cut in March.

Fiscal policy is providing stimulus to economic activity. Although public debt has already risen sharply in most countries in recent years and debt-service burdens are bound to increase noticeably in an environment of significantly higher interest rates, budget deficits are rising further in many countries this year. This is less a response to weak economic activity than a reflection of the desire to finance additional public spending - on defense, infrastructure, industrial-policy priorities and, more recently, measures to cushion the increase in energy prices. To create additional fiscal space, there are discussions at the European level about another revision of the fiscal rules, after they had already been reformed following the Covid-19 pandemic to provide more flexibility, and after the security-policy shock caused by Russia's attack on Ukraine to provide additional scope for debt-financed military spending outside the rule framework. As a result, the aggregate general government deficit in the euro area is likely to rise from 2.9 percent of GDP last year to around 3.5 percent this year and next, thus once again clearly exceeding the 3 percent ceiling set out in the Maastricht Treaty. In the United States, the continuation of reduced income tax rates from the first Trump presidency, together with further tax cuts, is leading to significant losses in tax revenue. The additional tariff revenues intended to partly finance these measures are likely to be refunded to some extent as a result of the court ruling against tariffs imposed under the International Emergency Economic Powers Act (IEEPA), and future tariff revenues will most

Figure 8:
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.

probably be significantly lower than budgeted. Spending cuts are unlikely to offset this, especially as substantial additional outlays will be required to finance the war in Iran and to replenish ammunition stocks. The current request envisages an increase in the military budget of more than 50 percent compared with the current fiscal year, to around US\$1.5 trillion in fiscal year 2027. As a result, the US federal budget deficit is likely to rise by a little more than half a percentage point this year to just under 6.5 percent of GDP and to remain at this high level next year. Fiscal policy is also expansionary in Japan.

US tariffs have declined, ... On February 20, the US Supreme Court ruled that tariffs imposed under the IEEPA were unlawful, as they fall within the competence of Congress. Sector-specific tariffs introduced on a different legal basis, such as those on steel, aluminum and cars, were not affected by the ruling. Nevertheless, the decision invalidated tariffs that accounted for 60 percent of the tariff revenues collected since President Trump took office in 2025. The US government responded by introducing across-the-board tariffs of 10 percent under a different legal provision. Under this provision, however, tariffs can be levied without congressional approval for no more than 150 days. As a result, the average nominal tariff level on US imports fell from 14.9 percent to 11.7 percent (Tax Foundation 2026). The changes in tariff rates under the new arrangement differed across countries and altered the relative position of individual countries in competing for the US market. Tariffs fell particularly sharply for countries where they had previously been especially high, such as India, Brazil and China. By contrast, countries that had previously negotiated relatively low tariff rates - including Argentina, Chile and the United Kingdom - benefited hardly at all. Germany and the EU as a whole also saw only a moderate reduction in tariff levels.

... but trade policy uncertainty remains high. The current temporary tariff arrangement expires on July 24. What follows thereafter is currently unclear, and no concrete plans have yet been announced. Uncertainty is further heightened by ongoing litigation over the current tariff arrangement. Various scenarios are possible, but a complete lapse without replacement appears unlikely, not least given the government's fiscal situation. A tariff regime for the pharmaceutical sector has been announced. It initially provides for a 100 percent tariff on imports of patented medicines and is set to apply to certain large companies from July 31 before subsequently being broadened. However, exemptions have already been negotiated for various countries, including pharmaceutical imports from the EU, for which a tariff rate of 15 percent is to apply. Overall, trade policy uncertainty therefore remains high, even though the use of tariffs as an all-purpose instrument in international political disputes appears to have lost some appeal to the US president. For the forecast, we assume US tariffs to remain broadly unchanged overall.

Outlook: Global economic activity temporarily dampened

Higher energy prices and uncertainty are weighing on global growth, but are not causing it to slump. The higher costs of crude oil and LNG are dampening global economic activity. Under our assumptions about the level and trajectory of crude oil and LNG prices, however, the effects remain limited in most countries. A substantial loss of purchasing power for importers of energy commodities arises only for a limited period, and structural adjustments of the kind that may be necessary in response to lasting changes in relative prices are probably not required. Higher consumer prices for energy are unlikely to permanently alter the inflation environment, so a massive monetary policy response through higher interest rates is probably not necessary. At the global level, the negative effects of higher energy prices are also mitigated by the fact that there are beneficiaries of this development: countries and companies whose financial room to maneuver improves and that therefore generate additional demand. The economic effects are severe, however, in the Gulf countries, where aggregate output will decline significantly because of lower industrial production, severely restricted transport options and losses in tourism, which is also important in some countries in the region. Given the longer duration of the crisis, this decline is more pronounced than expected in the spring and is the main reason for the substantial downward revision relative to our March forecast. Provided that the situation in the Gulf eases in the second half of the year, production in the region should subsequently recover more strongly. We have therefore slightly raised our forecast for world output growth next year.

The increasing application of AI remains the global growth engine. The expansionary forces stemming from the growing use of artificial intelligence in the economy, and also in the private sphere, remain in place. Investment spending is likely to continue to be driven by the need for additional data-processing capacity and by high expenditure on research and development. The high electricity demand associated with AI applications also requires extensive investment in power generation capacity and grid infrastructure. However, these investments are likely to grow more slowly over the forecast period.

World output will grow much more slowly this year. We expect growth in world output to decline from 3.4 percent in 2025 to 2.8 percent this year. For 2027, we expect a recovery, with growth of 3.3 percent (Table 1). We have lowered our forecast for this year by 0.3 percentage points and raised it by 0.1 percentage points for next year compared with our March forecast ([Gern et al. 2026](#)). Based on market exchange rates, global output is expected to grow by 2.4 percent this year (previously 2.7 percent) and by 2.8 percent next year (unchanged). Global merchandise trade, which increased by 4.2 percent in 2025, is likely to grow by 4.4 percent on average in 2026 despite the decline in the spring, reflecting the strong increase at the beginning of the year. For 2027, we expect growth of 3.1 percent.

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

	Weight	Gross domestic product				Consumer prices			
		2024	2025	2026	2027	2024	2025	2026	2027
World economy total including	0	3,4	3,4	2,8	3,3	6,8	4,7	5,6	3,9
Advanced economies	41.0	1,9	1,9	1,6	1,8	2,7	2,5	3,1	2,3
China	19.3	5,0	5,0	4,7	4,6	0,2	0,0	1,1	1,1
Latin America	6.6	2,1	2,1	1,8	2,2	27,3	13,2	20,3	6,1
India	8.2	7,2	7,5	6,6	6,7	4,6	1,6	3,8	4,0
East Asian emerging economies	7.1	4,0	3,5	3,6	3,7	2,2	1,8	3,1	2,3
Russia	3.5	4,3	1,0	0,2	0,5	8,4	9,2	6,3	6,5
Africa	4.7	3,0	4,0	3,8	4,0	16,9	10,8	8,8	7,3
<i>Memorandum item:</i>									
World trade volume (goods)		2,6	4,2	4,4	3,1				
World economy (GDP weights using current US-dollar exchange rates)		2,9	2,9	2,4	2,8	5,1	3,7	4,6	3,1

Percent. Weights according to GDP in 2024 based on purchasing power parities. GDP, consumer prices: change over previous year. East Asian emergin economies: Thailand, Malaysia Indonesia and Philippines. Africa: Egypt, Nigeria, South Africa, Algeria, Ethiopia.

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

The US economy remains robust. Aggregate output is likely to expand at rates of slightly more than 2 percent both this year and next. While higher inflation reduces the purchasing power of incomes, income developments are benefiting from the United States being a net exporter of energy commodities. Investment and employment in the commodity sector are being stimulated; drilling activity has already increased. Fiscal stimulus is also coming from government expenditures as military expenses are ramped up. Government consumption is expected to accelerate next year. While productivity in the United States has recently increased markedly - arguably also as a result of the rapid implementation of AI - growth is increasingly constrained by the labor force potential, whose expansion has slowed in the context of more restrictive migration policy (Congressional Budget Office 2026). Despite employment growth that is weak by historical standards, unemployment therefore remains low. Consumer prices are likely to increase at a markedly faster rate of 3.5 percent this year and should remain above the Federal Reserve's inflation target of 2 percent next year, at 2.5 percent.

The economic momentum in China is easing somewhat. After GDP increased surprised to the upside in the first quarter on the back of a very sharp rise in exports, export growth is likely to gradually lose momentum over the rest of the year. Foreign demand is increasing more slowly, and resistance to a further expansion of Chinese producers' market shares is rising in major markets. At the same time, the domestic economy remains subdued, not least because there is still no sign that the correction in the real estate market is coming to an end. All in all, we expect real GDP to increase by 4.7 percent in 2026 and by 4.6 percent in 2027. The inflation rate is likely to be 1.1 percent in both years.

Economic activity in Japan is temporarily dampened. Following a strong increase in GDP in the first quarter, driven primarily by a sharp rise in exports, the effects of the war in Iran are likely to dampen trade, investment and private consumption in the summer semester. Overall, however, the outlook for the Japanese economy has improved.

Exporters are benefiting from the low external value of the yen and strong demand for computer chips that relies on Japanese components and machine tools. Although these chips are produced mainly in neighboring Asian countries, their production relies on Japanese components and machine tools. After inflation, which had been stubbornly high for some time, declined significantly, the outlook for private consumption has also brightened, as it should benefit from rising real wages. Given low potential growth amid demographic aging, however, GDP growth rates are likely to remain low, at 0.6 percent this year and 0.9 percent next year.

After a setback this year, euro area economic activity is expected to strengthen again next year. GDP growth is likely to slow markedly in the current year, from 1.5 percent in 2025 to 0.5 percent. However, the extent of the slowdown is overstated by the specifics of the sharp swing in growth in Ireland. Excluding Ireland, the growth rate declines from 1.1 percent to 0.8 percent. Next year, economic activity is likely to accelerate to 1.3 percent on the back of stronger domestic demand and rising exports. Private consumption is supported by a robust labor market and further increases in real wages. Uncertainty is still dampening private investment initially, but funds from the Recovery and Resilience Facility are stimulating public investment, particularly this year. Fiscal policy is likely to be expansionary in 2026 and broadly neutral in 2027, while monetary policy should remain accommodative despite the modest rise of interest rates. Price pressures will subside again over the course of next year once the effects of the energy-price increase have passed through, and inflation will then be only slightly above the 2 percent target.

Output growth in the United Kingdom continues at a moderate pace. Following a strong increase in GDP of 0.6 percent in the first quarter, a significant slowdown is in the cards for the current quarter. Increased uncertainty and renewed stronger inflationary pressure are likely to dampen private consumption and investment. For 2026, we expect output growth to slow from 1.4 percent to 1.1 percent. With the general easing of the situation in the Gulf and renewed declines in energy prices as assumed in the forecast, economic activity is likely to pick up again next year. However, as fiscal policy tends to be restrictive and monetary policy aims at sustainably reducing inflation, the pace of expansion remains moderate at 1.3 percent.

In emerging economies outside the Persian Gulf, economic activity appears robust. Emerging Asia is particularly affected by the loss of oil and LNG deliveries from the Gulf countries. In addition to making greater use of other energy sources, such as coal, many economies have introduced energy-saving measures that are dampening activity. Although output growth in the region is likely to weaken noticeably this year, indicators continue to point to a solid expansion overall. The Indian economy is likely once again to record the highest growth rate among the large economies this year and next, at slightly more than 6.5 percent. In Latin America, the moderate expansion is broadly continuing. Restrictive monetary policy is the main drag, while the region as a commodity exporter tends to benefit from higher commodity prices. Russia, finally, is increasing struggling to maintain its level of aggregate output, not least because Ukraine repeatedly succeeds in inflicting serious damage on oil and gas infrastructure. Owing

to extensive damage to refineries and tank farms, crude oil production apparently had to be reduced because of insufficient processing and storage capacity, and regional fuel shortages are becoming more frequent.

The key risk to global economic activity at present is a prolonged closure of the Strait of Hormuz. The amount of energy commodities unavailable to the world economy as long as the chokepoint in the Persian Gulf remains closed cannot be permanently offset by drawing on inventories. Developing sufficient new capacity elsewhere, or bypassing the Strait of Hormuz through additional pipelines, require large-scale investments that can be implemented only over several years. As the closure persists, physical bottlenecks would increasingly emerge, requiring a reduction in economic activity. This would likely be accompanied by another substantial rise in oil prices. In such a scenario, problems in international value chains would also probably become more frequent, leading to shortages beyond the energy sector and adding further to inflationary pressure. According to a model-based simulation of a scenario in which energy deliveries from the Gulf states remain substantially reduced until mid-2027, the global economic expansion would come almost to a standstill by the winter of 2026/27 (OECD 2026).

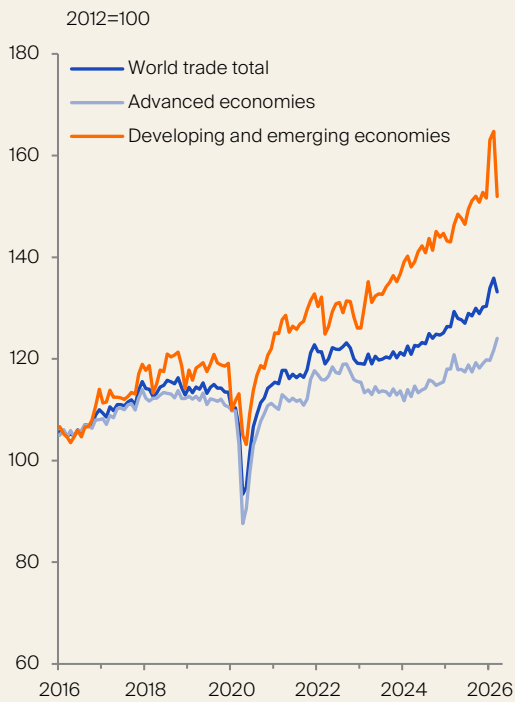
The AI boom offers opportunities and risks. Investment in technologies for the application of artificial intelligence is currently an important driver of global economic activity. So far, this investment is heavily concentrated in the United States, and activity in this area could increase more rapidly elsewhere than assumed. In addition, aggregate productivity gains from AI could materialize, which we have not incorporated into our forecast. The massive expenditure on data centers and software development is based on high expectations regarding demand and profitability, which are also reflected in the valuations of the companies involved. Should these expectations fail to materialize or be revised downward, investment cuts, layoffs and stock market losses could weigh heavily on economic activity.

Data annex

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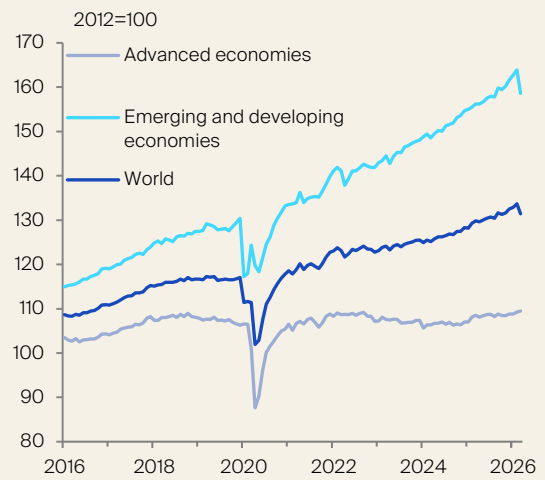
1 World Economy

Figure 1.1:
World Trade

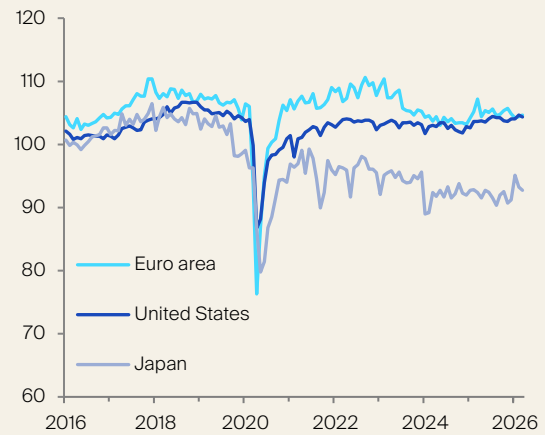


Source: CPB, *World Trade Monitor*; Kiel Institute calculations.

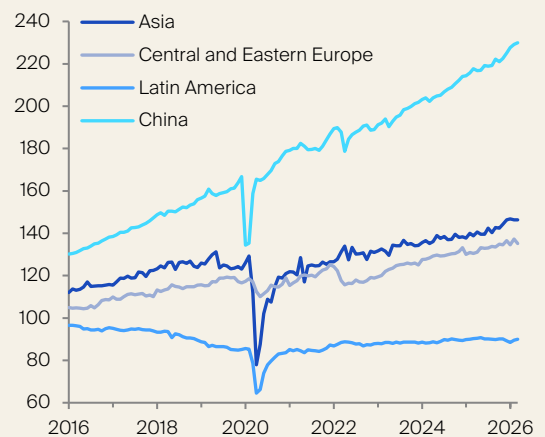
Figure 1.2:
Industrial Production by country groups



Advanced economies



Emerging and developing economies

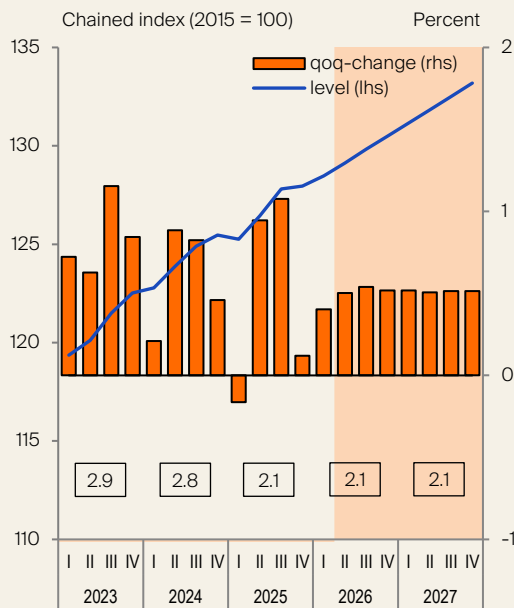


Monthly data. Last value: Julz 2024.

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

2 United States

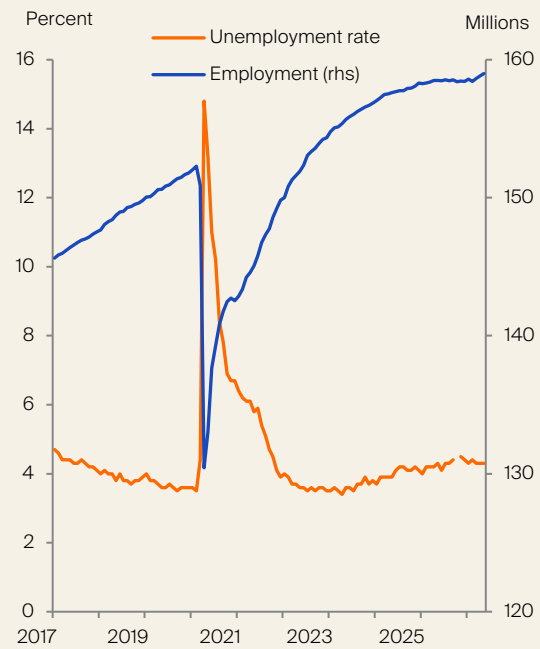
Figure 2.1:
GDP



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

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

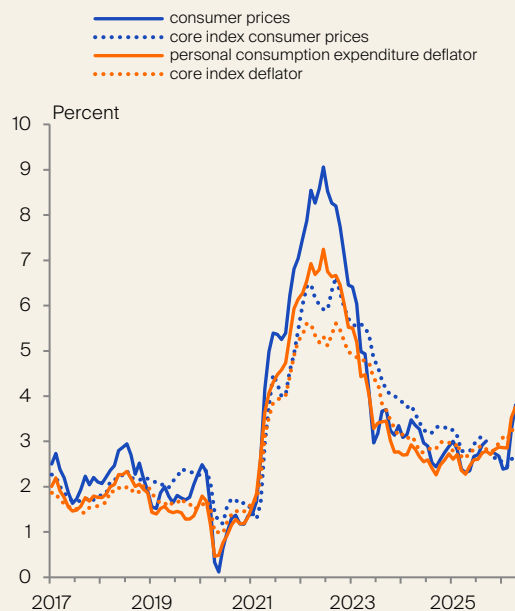
Figure 2.2:
Labour Market



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

Table 2.1:
Key indicators for the United States

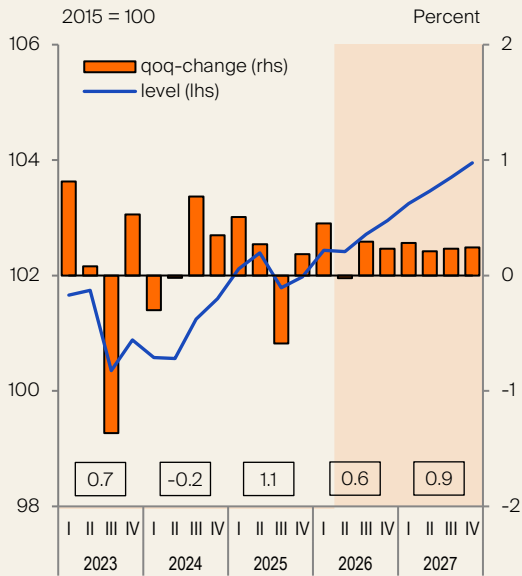
	2024	2025	2026	2027
Gross Domestic Product	2.8	2.1	2.1	2.1
Domestic expenditure	3.1	2.3	2.0	2.2
Private consumption	2.9	2.6	1.7	1.9
Government expenditure	3.8	1.1	0.8	1.7
Gross fixed capital formation	3.0	2.7	4.4	3.5
Machinery and equipment	3.5	8.3	9.5	5.4
Intellectual property rights	3.5	5.6	8.8	5.9
Structures	1.1	-5.3	-6.0	-1.6
Residential investment	3.2	-2.2	-5.2	-2.0
Change in inventories	0.0	-0.1	-0.3	-0.1
Net exports	-0.3	-0.1	0.0	-0.1
Exports	3.6	1.6	5.2	2.0
Imports	5.8	2.7	3.4	3.9
Consumer prices	3.0	2.6	3.5	2.5
Unemployment rate	4.0	4.3	4.4	4.4
Current account balance	-4.0	-3.7	-3.6	-3.8
Gov. budget balance (federal)	-6.3	-5.8	-6.5	-6.5

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.— 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

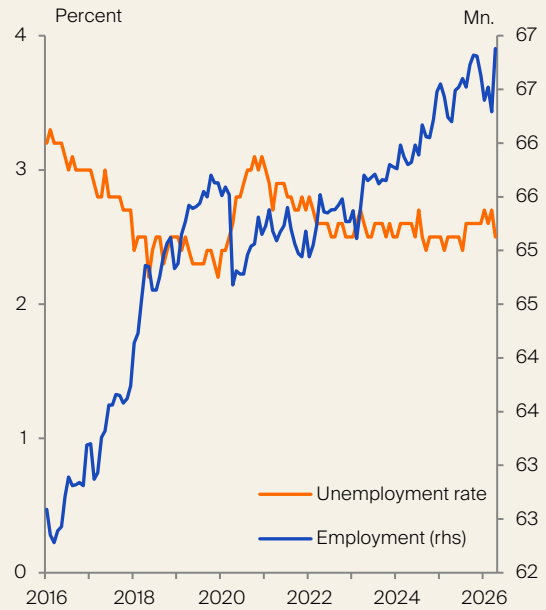
Figure 3.1:
GDP



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

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

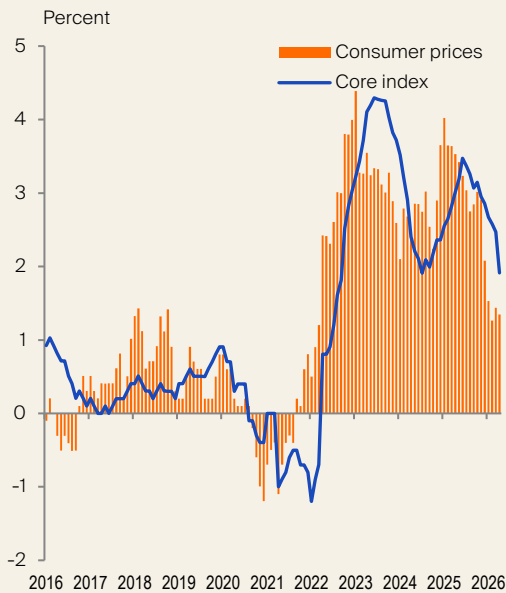
Figure 3.2:
Labour market



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

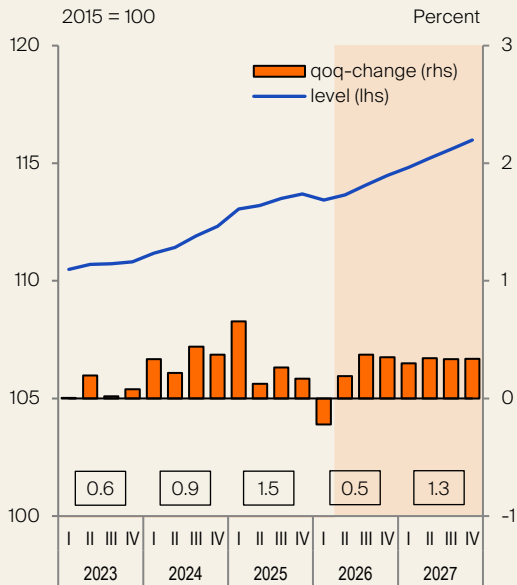
	2024	2025	2026	2027
Gross Domestic Product	-0.2	1.1	0.6	0.9
Domestic demand	-0.3	1.3	0.3	1.0
Private consumption	-0.6	1.3	0.8	1.0
Government consumption	1.6	0.9	1.2	0.7
Gross fixed investment	2.9	1.0	0.6	1.1
Enterprises	-0.1	2.1	0.6	2.0
Residential investment	-1.0	-2.4	-0.7	0.6
Public investment	-1.8	-0.4	1.5	-2.2
Inventories	0.0	0.0	0.0	0.0
Net exports	0.1	-0.2	0.2	0.0
Exports	2.2	2.5	1.5	1.8
Imports	1.7	3.8	0.3	1.9
Consumer prices	2.7	3.2	1.8	1.9
Unemployment rate	2.5	2.5	2.5	2.4
Current account balance	4.5	4.8	4.5	4.9
Fiscal balance	-1.7	-1.0	-2.1	-1.6

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, fiscal balance: percent of nominal GDP.

Source: Cabinet Office, *National Accounts*; OECD, *Main Economic Indicators*; Kiel Institute calculations; shaded area: Kiel Institute forecast.

4 Euro Area

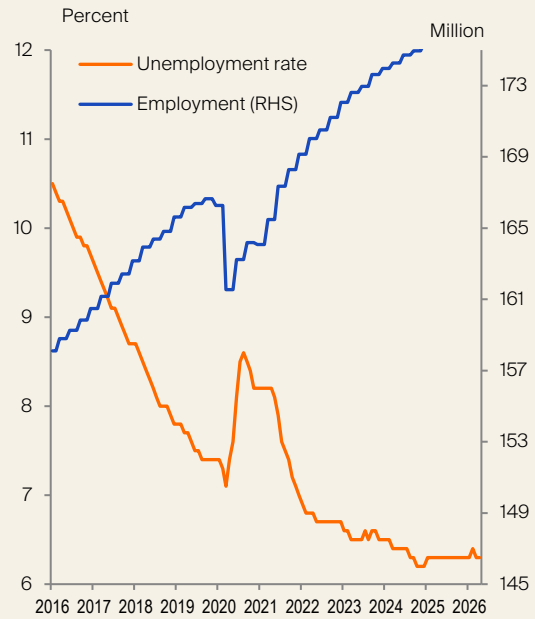
Figure 4.1:
GDP



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: Kiel Institut forecast.

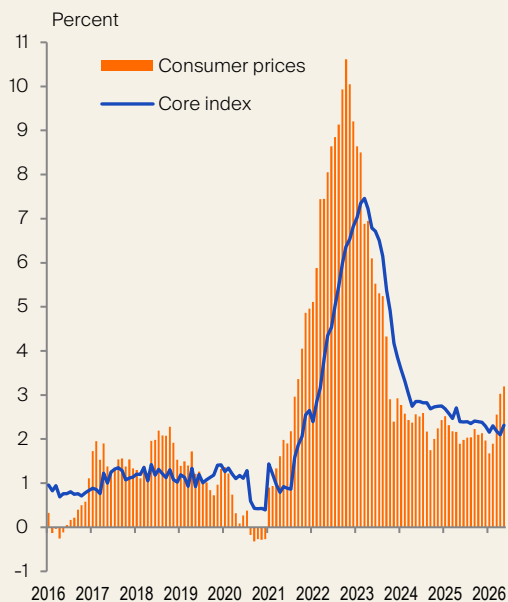
Figure 4.2:
Labor market



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 for the Euro area

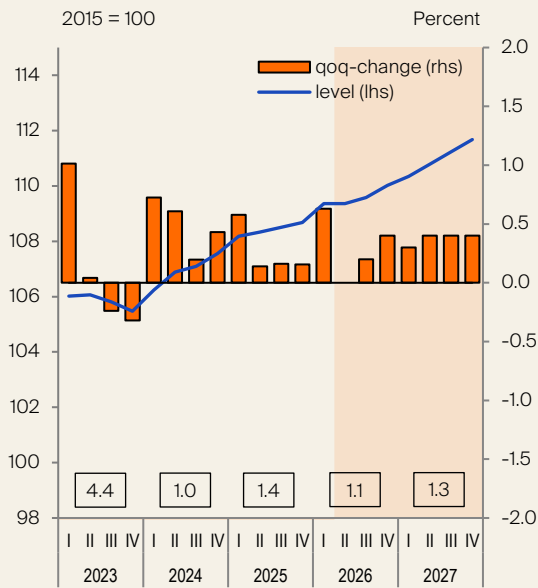
	2024	2025	2026	2027
Gross domestic product	0.9	1.5	0.5	1.3
Domestic expenditure	0.6	2.1	1.0	1.3
Private consumption	1.3	1.5	1.0	1.5
Government consumption	2.3	1.4	1.6	0.7
Gross fixed capital formation	-2.6	3.1	1.1	1.6
Inventories	0.0	0.3	-0.2	0.0
Net exports	0.3	-0.5	-0.4	0.1
Exports	0.6	2.3	0.0	1.6
Imports	-0.1	3.6	1.0	1.6
Consumer prices	2.4	2.1	2.9	2.2
Unemployment rate	6.4	6.3	6.3	6.1
Current account balance	2.6	2.5	1.8	1.8
Government budget balance	-3.1	-2.9	-3.4	-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; grey shaded area: Kiel Institute forecast.

5 United Kingdom

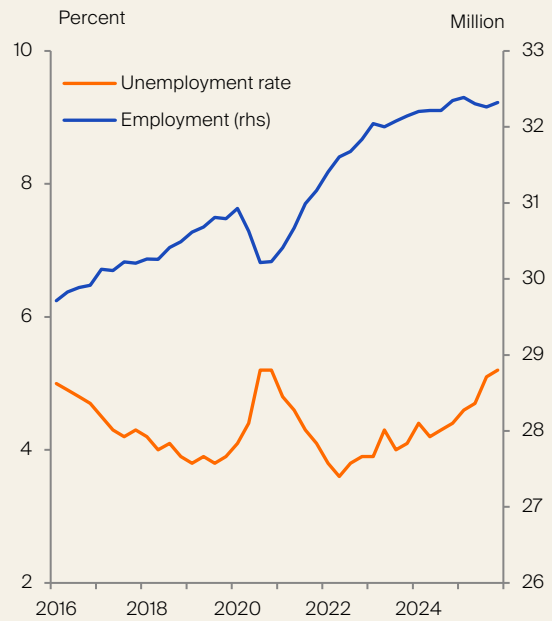
Figure 5.1:
Bruttoinlandsprodukt



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

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

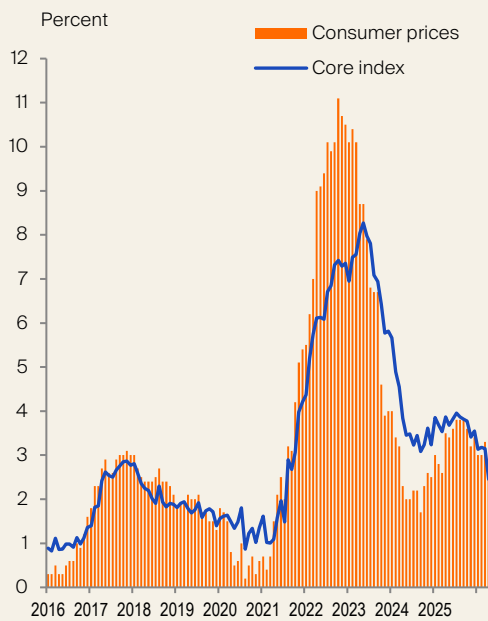
Figure 5.2:
Labor market



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

	2024	2025	2026	2027
Gross Domestic Product	1.0	1.4	1.1	1.3
Domestic demand	0.5	1.4	1.2	1.4
Private consumption	-0.2	1.0	0.7	1.0
Government consumption	2.1	2.9	1.8	1.5
Gross fixed investment	1.7	4.1	4.0	3.0
Inventories	0.9	0.2	-0.1	0.0
Net exports	-0.5	-0.2	-0.1	0.0
Exports	1.3	2.1	1.2	2.0
Imports	2.7	4.2	1.6	1.9
Consumer prices	2.5	3.4	3.1	2.5
Unemployment rate	4.3	4.8	5.0	4.8
Current account balance	-3.0	-2.5	-3.2	-3.0
Fiscal balance	-6.1	-5.5	-5.2	-4.6

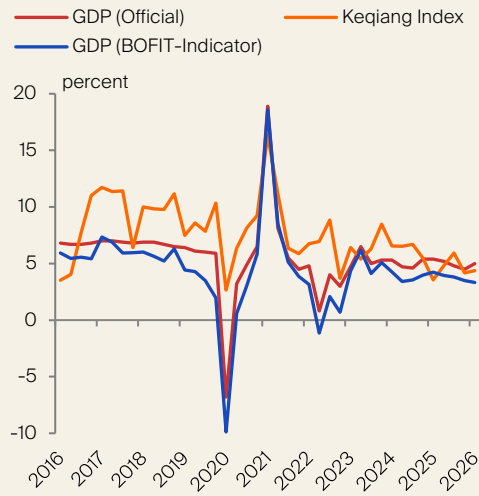
Percent. GDP: volumes, change over previous year.

percent. — net exports, inventories: contribution to growth, percentage points. — Unemployment rate: Unemployed in relation to labor force. — Current account balance, fiscal balance: percent of nominal GDP.

Source: Office for National Statistics, *Economy*. Shaded area: Kiel Institute forecast.

6 China

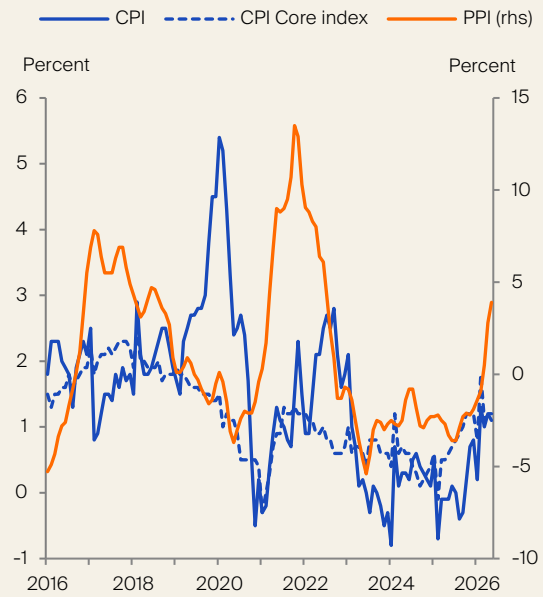
Figure 6.1:
GDP and alternative indicators



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.

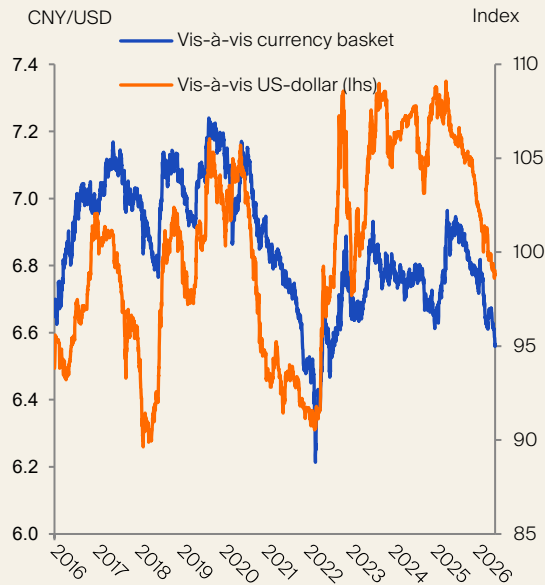
Figure 6.2:
Inflation



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

Source: National Bureau of Statistics.

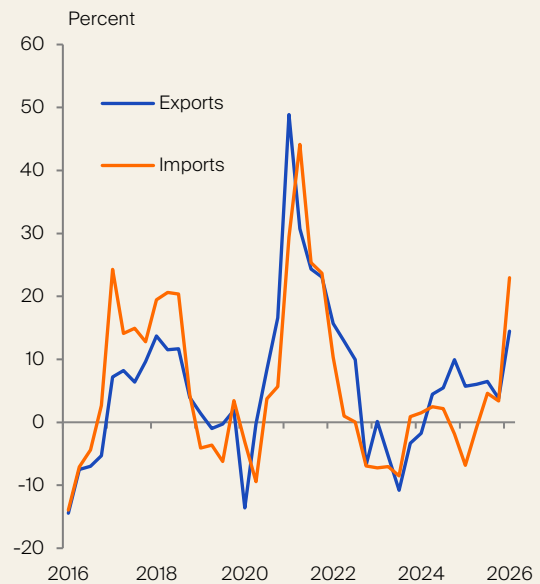
Figure 6.3:
Exchange rates



Daily data.

Source: Refinitiv Data; China Foreign Exchange Trade System; Index: 2015.01.01 = 100, Weights according to CFETS (2025); Exchange rates are defined as CNY per unit of foreign currency; Decreasing exchange rates or decreasing indices imply CNY appreciation. Kiel Institute calculations.

Figure 6.4:
Foreign trade

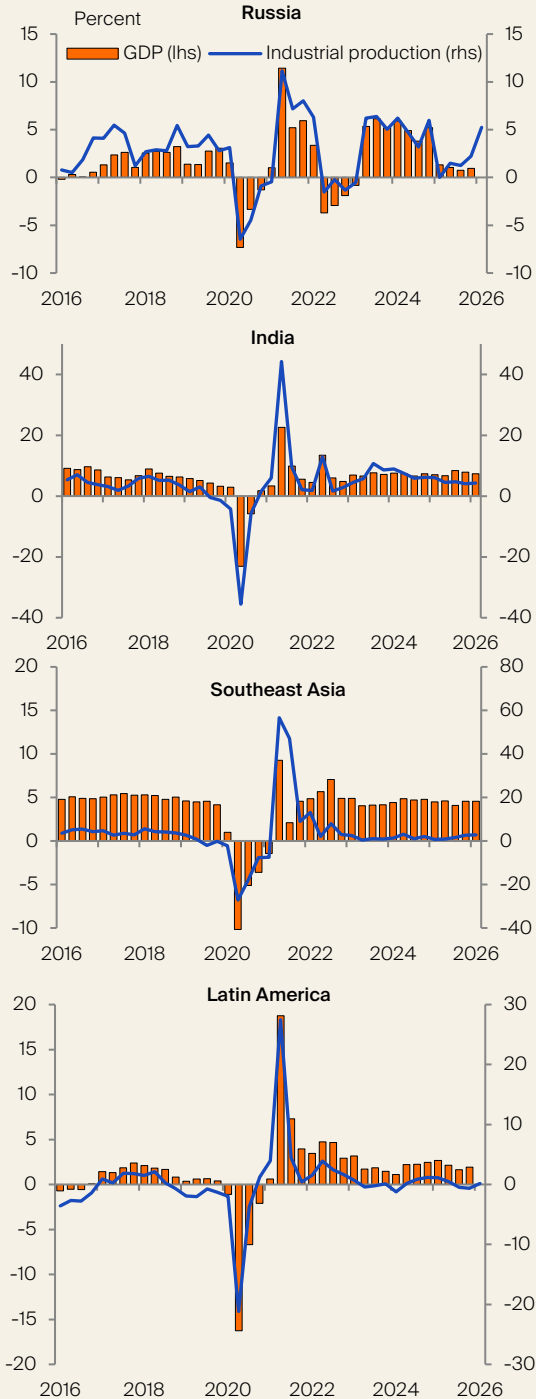


Change compared to the previous year based on quarterly averages.

Source: General Administration of Customs China.; Kiel Institut calculations.

7 Other Emerging Economies

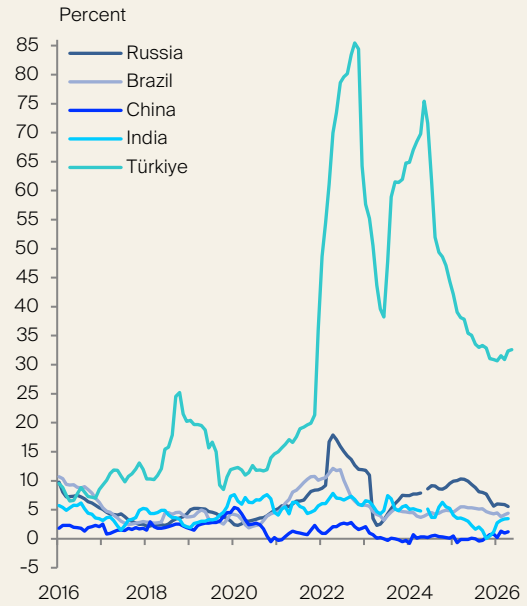
Figure 7.1:
GDP and Industrial production in Emerging Economies



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

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

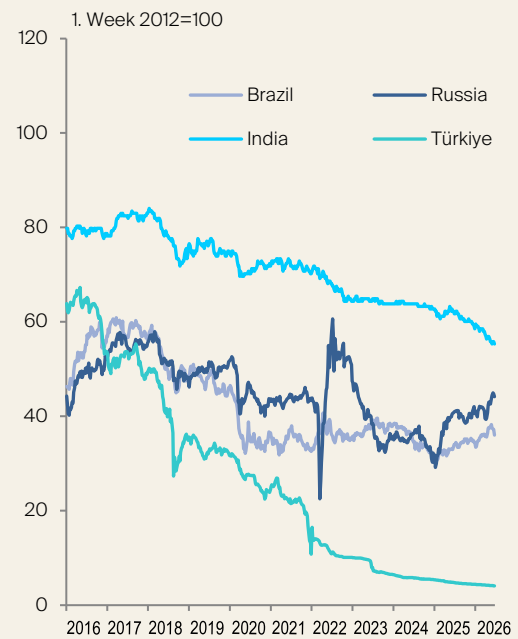
Figure 7.2:
Consumer prices



Monthly data; change over previous year.

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

Figure 7.3:
US-Dollar exchange rates



Weekly data.

Source: LSEG

8 Tables

Table 8.1:
Real gross domestic product, consumer prices and unemployment rate in advanced economies

	Weights	Real GDP				Consumer prices				Unemployment rate			
		2024	2025	2026	2027	2024	2025	2026	2027	2024	2025	2026	2027
European Union	41.3	1.1	1.6	0.8	1.5	2.4	2.4	2.7	2.3	6.0	6.0	5.9	5.7
Euro area	35.1	1.0	1.5	0.5	1.3	2.4	2.1	2.4	2.1	6.4	6.4	6.3	6.1
Sweden	0.9	1.9	1.7	1.7	2.2	2.0	2.6	2.4	2.0	8.4	8.9	8.6	8.0
Poland	2.3	3.1	3.6	3.4	3.3	3.7	3.3	3.4	2.3	2.9	3.2	2.9	2.8
United Kingdom	5.1	1.0	1.4	1.1	1.3	2.5	3.4	3.1	2.5	4.3	4.8	5.0	4.8
Switzerland	1.0	1.4	1.4	0.8	1.0	1.1	0.2	0.7	0.5	4.0	4.2	4.4	4.2
Norway	0.7	1.4	1.2	1.4	0.7	3.2	3.0	3.4	2.8	4.0	4.5	4.4	4.3
United States	34.9	2.8	2.1	2.1	2.1	3.0	2.6	3.5	2.5	4.0	4.3	4.4	4.4
Canada	3.1	2.0	1.9	1.5	2.1	2.4	2.1	2.5	1.9	6.4	6.8	6.6	6.4
Japan	7.8	-0.2	1.1	0.6	0.9	2.7	3.2	1.8	1.9	2.5	2.5	2.5	2.4
South Korea	3.9	2.0	1.0	2.4	2.0	2.3	2.1	2.7	2.0	2.8	2.8	2.8	2.7
Australia	2.3	1.0	2.0	1.9	2.1	3.2	2.8	4.1	3.0	4.1	4.2	4.4	4.4
Total	100.0	1.7	1.7	1.3	1.7	2.6	2.6	2.9	2.3	4.8	4.9	4.9	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.

Table 8.2:
Real gross domestic product, consumer prices and unemployment rates in the European Union

	Weights	Real GDP				Consumer prices				Unemployment rate			
		2024	2025	2026	2027	2024	2025	2026	2027	2024	2025	2026	2027
Germany	24.0	-0.5	0.3	0.5	0.8	2.5	2.3	2.8	2.3	3.4	3.8	3.9	3.7
France	16.2	1.4	0.9	0.4	1.0	2.3	0.9	2.3	1.9	7.5	7.7	8.2	8.1
Italy	12.2	0.6	0.7	0.7	0.5	1.1	1.6	3.1	2.3	6.5	6.1	5.5	5.5
Spain	8.8	3.5	2.8	2.3	1.9	2.9	2.7	3.3	2.4	11.4	10.5	10.0	9.7
Netherlands	6.2	1.1	1.8	1.1	1.3	3.2	3.0	2.6	2.0	3.7	3.9	4.0	3.9
Belgium	3.4	1.1	1.0	0.8	1.2	4.3	3.0	3.3	2.1	5.7	6.2	6.2	5.9
Austria	2.7	-0.8	1.0	1.0	1.3	2.9	3.6	3.0	2.1	5.2	5.7	5.7	5.5
Ireland	3.1	2.6	12.4	-11.3	5.8	1.3	2.0	3.2	2.2	4.3	4.7	4.9	4.6
Finland	1.5	0.4	0.2	1.5	1.6	1.0	1.8	2.3	2.1	8.4	9.7	10.5	10.0
Portugal	1.6	2.2	1.9	3.1	3.1	2.7	2.2	2.7	2.1	6.5	6.0	5.6	5.3
Greece	1.3	2.1	2.2	1.9	2.0	3.0	2.9	3.7	2.4	10.1	8.9	8.7	8.0
Slovak Republic	0.7	1.9	0.8	0.9	1.5	3.2	4.2	4.0	3.2	5.3	5.4	5.8	5.7
Bulgaria	0.6	3.2	3.2	2.8	2.7	4.4	1.4	4.1	2.8	4.2	3.5	3.2	3.1
Luxembourg	0.5	0.3	0.6	1.1	1.5	2.3	2.5	3.1	1.4	6.3	6.5	6.9	6.5
Kroatien	0.5	3.8	3.4	2.3	3.1	4.0	4.4	4.1	2.6	5.1	4.9	4.2	4.0
Slovenia	0.4	1.7	0.9	2.4	2.3	2.0	2.5	3.2	2.6	3.7	3.9	3.7	3.5
Lithuania	0.4	3.0	2.9	2.3	2.0	0.9	3.4	4.2	2.3	7.1	6.9	6.8	6.7
Latvia	0.2	-0.3	2.1	2.3	2.3	1.3	3.8	3.0	2.6	6.9	6.9	6.7	6.3
Estonia	0.2	-0.1	0.6	2.4	2.2	3.7	4.8	3.8	2.8	7.6	7.4	6.4	5.5
Cyprus	0.2	3.9	3.8	2.5	2.5	2.3	0.8	3.3	2.0	4.8	4.4	3.5	3.2
Malta	0.1	6.2	3.6	3.7	3.0	2.4	2.4	2.6	1.7	3.2	3.0	2.9	2.9
Sweden	3.1	1.9	1.7	1.7	2.2	2.0	2.6	1.6	2.0	8.4	8.9	8.6	8.0
Poland	4.7	3.1	3.6	3.4	3.3	3.7	3.3	3.5	2.8	2.9	3.2	2.9	2.8
Denmark	2.2	3.5	2.9	3.3	1.6	1.3	1.8	1.8	2.1	6.2	6.4	6.4	6.0
Czech Republic	1.8	1.1	2.6	2.0	2.4	2.4	2.5	2.5	2.4	2.8	2.9	3.0	2.8
Romania	2.0	0.9	0.7	-0.3	2.7	5.3	8.9	7.8	3.1	5.4	6.1	6.3	6.0
Hungary	1.1	0.7	0.4	2.0	2.5	3.7	4.4	2.5	2.9	4.4	4.4	4.3	4.0
European Union	100.0	1.1	1.6	0.8	1.5	2.6	2.5	3.1	2.3	6.0	6.0	5.9	5.7
Addendum:													
European Union 11	87.0	1.0	1.5	0.6	1.3	2.3	2.1	2.8	2.2	6.5	6.5	6.5	6.3
Accession countries	12.4	2.1	2.4	2.2	2.8	3.7	4.5	4.3	2.8	4.1	4.3	4.2	4.0
Euro Area	85.1	1.0	1.5	0.5	1.3	2.4	2.1	2.9	2.2	6.4	6.3	6.3	6.1
Euro Area without Germany	61.1	1.5	1.9	0.5	1.5	2.3	2.0	2.9	2.2	7.4	7.2	7.1	6.9

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 8.3:
Real gross domestic product and consumer prices in selected emerging market economies

	Weights	Real GDP				Consumer prices			
		2024	2025	2026	2027	2024	2025	2026	2027
Indonesia	5.0	5.0	5.1	4.7	4.9	2.2	1.9	3.0	2.7
Thailand	1.9	2.9	2.4	1.8	3.0	0.4	-0.1	2.5	1.0
Malaysia	1.5	5.1	5.2	4.5	4.5	1.8	1.4	2.0	2.0
Philippines	1.5	5.7	4.4	3.0	4.5	2.9	1.6	6.0	3.0
Total	9.9	4.7	4.5	3.9	4.4	1.9	1.4	3.2	2.3
China	41.3	5.0	5.0	4.7	4.6	0.2	0.0	1.1	1.1
India	17.5	7.2	7.5	6.6	6.7	4.6	1.6	3.8	4.0
Asia total	68.7	5.5	5.6	5.1	5.1	1.6	0.6	2.1	2.0
Brazil	5.1	3.4	2.3	1.8	2.0	4.4	5.0	4.6	4.0
Mexico	3.6	1.4	0.5	1.5	1.8	4.7	3.8	4.1	3.5
Argentina	1.5	-1.3	4.2	2.5	2.8	220.0	41.9	33.0	28.0
Colombia	1.2	1.6	2.6	2.4	2.2	6.6	5.1	5.8	5.0
Chile	0.7	2.6	2.6	1.8	2.3	4.3	4.2	4.0	3.0
Peru	0.7	3.5	3.2	2.9	3.0	2.4	1.5	3.2	2.4
Latin America total	12.8	2.1	2.1	1.9	2.1	29.9	8.8	7.8	6.6
Egypt	2.4	2.4	3.8	4.3	4.8	33.3	20.0	15.0	12.0
Nigeria	2.3	3.4	3.0	2.8	3.0	33.3	27.0	35.0	20.0
South Africa	1.1	0.5	1.0	1.2	1.5	4.4	3.8	4.5	4.5
Algeria	0.9	3.5	3.5	3.0	3.2	4.0	3.7	3.6	3.5
Ethiopia	0.5	8.1	7.0	7.0	7.5	21.7	21.0	15.0	12.0
Africa total	7.1	3.0	3.3	3.4	3.7	24.5	17.8	18.4	12.4
Russia	7.5	4.3	1.0	0.2	0.5	8.4	9.2	6.3	6.5
Tyrkiye	3.8	3.3	3.6	3.0	3.6	58.5	34.9	32.0	26.0
Total	100.0	4.7	4.5	4.1	4.2	9.5	4.8	5.5	4.6

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.

Literatur

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Kiel Institut für Weltwirtschaft

Standort Kiel

Kiellinie 66, 24105 Kiel

Telefon + 49 431 8814-1

info@kielinstitut.de

Standort Berlin

Chausseestraße 111, 10115 Berlin

Telefon +49 30 30830637-5

berlin@kielinstitut.de

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