

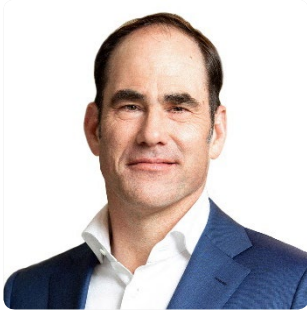
ING Global Outlook

December 2024

Economics, actually.

Our 2025 hit list





Economics, actually: Our 2025 hit list

'Love, Actually' remains a firm festive film, but its themes and core message now appear dated and, at times, a little shocking. As Donald Trump prepares to re-enter the White House, Europe continues to struggle with stagnation, and conflict continues to rage, I argue that, a bit like the movie, global economies really need to move on

Over the last five years, every single year has brought enough economic and political action you used to see in a decade. 2024 was no different. We had a record number of elections where we're seeing the rise of populism, central banks u-turned and slashed rates, and we economists were given a sharp reminder that there are, indeed, both cyclical and structural elements to growth.

We learnt a lot too. In China, the correction of a real estate bubble really does take years, not months. In the US, inflation can come down but costs can remain high. And those living costs can decide elections, not GDP growth or the speed of job creation. It's no longer 'the economy, stupid', but 'inflation, stupid'.

Here's another learning: it's all very well for central bankers to pat themselves on the back for managing a soft landing with rate hikes, but my goodness, we learnt that they're still far away from ordinary people's lives. And, hey, Europe! Did you forget that a gradual weakening of competitiveness will take its toll on the economy? I'm particularly looking at you, Germany.

The heady days of the Olympics, which apparently in the eurozone always tend to end with a public finance bang - first in Greece, now in France - seem an awfully long time ago. So, what do we have to look forward to next year?

It just so happens I was rewatching that Christmas favourite, 'Love, Actually', over the weekend. I know, I'm a softie at heart. And it started dawning on me that this sweet but now strangely dated movie classic may have more than one parallel with the economic world right now.

We have the old rockstar making an unexpected but stellar comeback. Will he still be filling the stadiums next year with his tariff song, or will he be holed up with his best mate in front of the TV?

There's Mark with his secret love for his best friend's wife. Might that be Europe on the doorstep of the White House next year, begging for some attention and pleading against a trade war?

Or perhaps Mr Trump himself, an unlikely Hugh Grant, will have to start a door-to-door search for his European partners as he realises that only a strong Transatlantic relationship can truly make America great again.

How about Europeans and Americans making great friendships like Colin Frissell did when he met those three American women? Or European consumers spending their way out of stagnation as Alan Rickman's Harry did when splurging on a necklace for his secretary?

'Love, Actually' is a movie of hope and unfulfilled wishes, of risk-taking but also complacency and, above all, a film of sometimes completely unrealistic stories. This is where it reflects our Macro Outlook for 2025. With our three calls, we present our safe bet, our riskier calls and some bolder ones, not unlike the movie.

But 'Love, Actually' is of its time; it hasn't aged too well. We're not likely to see this kind of old-genre romantic comedy in cinemas in 2025. Our global leaders, however, still seem intent on pushing onto us next year those same tried and tested themes with which we've become so familiar: tariffs, trade wars, isolationism, kicking the can...

I think we deserve better, actually.

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ING global forecasts

	2024					2025F					2026F				
	1Q24	2Q24	3Q24	4Q24F	2024F	1Q25F	2Q25F	3Q25F	4Q25F	2025F	1Q26F	2Q26F	3Q26F	4Q26F	2026F
United States															
GDP (% QoQ, ann)	1.6	3.0	2.8	2.7	2.8	1.7	1.3	1.6	1.7	2.0	1.8	1.8	1.5	1.4	1.7
CPI headline (% YoY, aop)	3.2	3.2	2.6	2.6	2.9	2.2	2.1	2.6	2.7	2.4	3.0	3.3	3.0	2.7	3.0
Federal funds (% eop)	5.50	5.50	5.00	4.50	4.50	4.25	4.00	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75
3-month SOFR rate (% eop)	5.40	5.40	5.00	4.40	4.40	4.20	3.90	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75
10-year interest rate (% eop)	4.25	4.40	3.80	4.25	4.25	4.25	4.75	5.00	5.50	5.50	5.00	5.00	5.00	5.00	5.00
Fiscal balance (% of GDP)					-7					-6.7					-6.4
Gross public debt / GDP					98.7					101.3					103.2
Eurozone															
GDP (% QoQ, ann)	1.2	0.7	1.5	-0.1	0.7	0.1	0.8	1.2	1.3	0.7	1.3	1.3	1.3	1.3	1.3
CPI headline (% YoY, aop)	2.6	2.5	2.2	2.3	2.4	2.4	2.1	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
ECB Deposit Rate (% eop)	4.00	3.75	3.50	3.00	3.00	2.50	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
3-month interest rate (% eop)	3.90	3.70	3.25	2.85	2.85	2.40	1.70	1.75	1.80	1.80	1.80	1.80	1.90	1.90	1.90
10-year interest rate (% eop)	2.30	2.60	2.10	2.10	2.10	2.10	2.30	2.40	2.60	2.60	2.60	2.60	2.70	2.70	2.70
Fiscal balance (% of GDP)					-3.1					-2.8					-2.7
Gross public debt/GDP					88.8					89.3					89.5
Japan															
GDP (% QoQ, ann)	-2.4	2.9	1.2	2.4	-0.2	0.8	0.8	0.8	1.2	1.3	1.2	1.2	1.2	1.2	1.2
CPI headline (% YoY, aop)	2.5	2.7	2.8	2.6	2.6	2.5	2.2	1.7	1.7	2.0	2.2	2.0	2.0	1.8	2.0
Target rate	0.10	0.10	0.25	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.00	1.00
3-month interest rate (% eop)	0.26	0.30	0.43	0.50	0.50	0.70	0.90	0.90	1.20	1.20	1.20	1.20	1.20	1.20	1.20
10-year interest rate (% eop)	0.73	1.06	0.86	1.00	1.00	1.00	1.25	1.25	1.50	1.50	1.75	1.75	1.75	1.75	1.75
Fiscal balance (% of GDP)					-7					-7					-7
Gross public debt/GDP					245					250					250
China															
GDP (% YoY)	5.3	4.7	4.6	4.8	4.8	4.5	4.9	4.5	4.4	4.6	4.1	4.3	4.1	4.2	4.2
CPI headline (% YoY, aop)	0.0	0.3	0.5	0.7	0.4	0.6	0.6	0.8	1.6	0.9	1.8	1.4	1.6	1.6	1.6
7-day Reverse Repo Rate (% eop)	1.80	1.80	1.50	1.50	1.50	1.40	1.40	1.30	1.20	1.20	1.20	1.10	1.00	1.00	1.00
3M SHIBOR (% eop)	2.16	1.92	1.84	1.85	1.85	1.75	1.75	1.70	1.65	1.65	1.60	1.55	1.50	1.50	1.50
10-year T-bond yield (% eop)	2.30	2.21	2.20	2.00	2.00	2.00	2.00	1.95	1.90	1.90	1.90	1.90	1.85	1.85	1.85
Fiscal balance (% of GDP)					-5.0					-5.50					-5.5
Public debt (% of GDP), incl. local govt					121					135					145
United Kingdom															
GDP (% QoQ, ann)	2.8	1.8	0.6	0.9	0.9	1.3	2.0	2.0	1.5	1.4	1.3	1.3	1.3	1.3	1.4
CPI headline (% YoY, aop)	3.5	2.1	2.0	2.6	2.6	2.6	2.4	2.7	2.5	2.5	2.4	2.2	2.2	2.2	2.3
BoE official bank rate (% eop)	5.25	5.25	5.00	4.75	4.75	4.25	3.75	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
3-month interest rate (% eop)	5.25	5.05	4.80	4.55	4.55	4.05	3.55	3.20	3.20	3.20	3.20	3.20	3.20	3.20	3.20
10-year interest rate (% eop)	3.95	4.20	4.00	4.25	4.25	4.10	4.00	4.10	4.25	4.25	4.00	4.00	4.00	4.00	4.00
Fiscal balance (% of GDP)					4.5					3.6					3.4
Public sector net debt (FY, %)					100.1					99.7					100.1
EUR/USD (eop)	1.08	1.08	1.12	1.05	1.05	1.04	1.04	1.04	1.02	1.02	1.01	1.02	1.03	1.05	1.05
USD/JPY (eop)	151	160	143	155	155	155	157	158	160	160	158	155	153	150	150
USD/CNY (eop)	7.22	7.26	7.01	7.25	7.25	7.20	7.25	7.25	7.35	7.35	7.50	7.45	7.40	7.40	7.40
EUR/GBP (eop)	0.86	0.87	0.84	0.83	0.83	0.83	0.83	0.82	0.82	0.82	0.82	0.83	0.83	0.84	0.84
ICE Brent - US\$/bbl (average)	82	85	79	74	80	73	70	68	65	69	67	69	73	70	70
Dutch TTF - EUR/MWh (average)	28	32	36	40	34	40	32	29	30	33	32	25	23	30	28

Source: ING forecasts

European Commission stabilized at a low level. At the same time inflation is rising again on the back of adverse base effects. Wage growth came out higher than expected in the third quarter, though the latest wage agreements in Germany suggest some moderation is in the offing. While the inflation trend is still down, some factors, such as rising food prices, will make the outlook more volatile. That is likely to keep the ECB on a gradual easing path.

United Kingdom

The UK outperformed most of its Western European neighbours through the first three quarters of 2024. Admittedly, not all of that can be easily explained by underlying economic fundamentals, and more importantly, momentum seems to be slowing. We expect relatively modest fourth-quarter growth before the recent budget injects some fresh energy in the new year. Departmental budgets are getting a big uplift in the remainder of this and, indeed, the next financial year, much of which will end up in public sector wages. Inflation, meanwhile, is proving unhelpfully sticky. The headline rate is up above 2% again and will head towards 3% before the year is out, coming down again through 2025. That's all down to energy, but services inflation is proving sticky too. That helps explain the Bank of England's relative caution.

China

Since the US election, there have been two main developments in China. The first was the long-awaited National People's Congress meeting, where an RMB10tn fiscal programme was approved. Spread over 3-5 years, this announcement now sets the stage for what the Ministry of Finance characterised as a "more forceful" fiscal policy stance in 2025 by reducing local governments' short-term debt burden. We expect local governments to roll out the anticipated policies to support consumption and property markets in the coming months, with December's Central Economic Work Conference worth monitoring.

The second development was a second month of encouraging data in October, as most indicators stabilised or moved a little stronger. Data now looks encouraging for our 4.8% YoY GDP forecast, which should satisfy China's 'around 5%' growth target. We think as long as data continues to hold up, policymakers will shift the brunt of upcoming stimulus to 2025.

Rest of Asia

Disinflation continues to be a theme for Asia, with median headline CPI for Asia falling to 2.2% in the third quarter of 2024 from 2.8% at the beginning of the year. Core inflation at 2% is also within most central banks' comfort zone. Monetary policy divergence is getting more evident. While some countries like Korea, Thailand and the Philippines went ahead with their rate cut cycle, others like Indonesia chose to pause, given the high sensitivity of local currency to a rising US dollar. The risk of a re-escalation of trade wars has sent Asia FX down since the US elections, with the largest decline seen in currencies that are more trade-oriented, such as the Thai Bhat, the Malaysian ringgit, the Taiwanese dollar and the Singapore dollar.

Within weeks of Trump's re-election, U.S. Defence Secretary Lloyd Austin visited Australia and Asia with a commitment to strengthening cooperation partnerships across the Indo-Pacific. The visit to the Philippines was particularly relevant as improving U.S.-Philippine defence ties will be critical in advancing regional security throughout the region.

Central and Eastern Europe

Although the global rate-cutting cycle is only in the early stages, it's at quite an advanced stage in the CEE region; it's now a case of fine-tuning for central bankers.

We're seeing economic recovery, but it's slower than expected. The disinflation process has basically stalled and we're seeing some new inflationary risks in some places.

Poland's central bank is close to restarting the cutting cycle next May with 100bp rate cuts in total as our baseline. The Czech National Bank is considering pausing the cutting cycle after delivering 300bp, and another 100bp should come more slowly next year. In Hungary, the NBH should return to its cutting cycle in the middle of next year, with 75bp in total. We should also see more rate cuts from the National Bank of Romania, which suspended its cutting cycle in October; it's expected to resume in May next year with 75bp of cuts.

FX

The Federal Reserve's broadest measure of the trade-weighted dollar has rallied 5% over the last two months as markets positioned for and then witnessed a Republican clean sweep. European currencies have borne the brunt of dollar strength as the mixture of soft eurozone survey data and Europe's fiscal straitjacket has pressured US:Eurozone interest rate spreads to the widest levels since 2022.

Geopolitical developments have hit European currencies, too, as the war in Ukraine has escalated. Investors and corporates remember only too well the spike in energy prices in 2022 and the damage that did to the eurozone's trade surplus and the euro.

From the US side of the equation, the FX market is leaning towards the view that President-elect Donald Trump will hit the ground running. This has meant very little reprieve for any global currencies, although the more commodity-linked currencies are faring slightly better on the back of some fiscal stimulus out of China.

Rates

US market rates hit local highs on the Trump win, but since then have been on a drift lower. A decent retracement is fitting following the near 100bp move to the upside for the 10yr yield, a move that was, in fact, sparked by the first Fed rate cut in mid-September. But as we push through December, we're back to basic data watching. To the extent that the data softens, there's an excuse to test lower still for yields.

In the eurozone, the recent pull lower in market rates is in sync with widening macro malaise and an ECB that's prepared to keep chipping away at the deposit rate. A curve flattening impulse has meant the entire curve has been shifting lower. A dominant outcome is wider spreads between US and eurozone market rates right along the curve, a theme that's not set to go away any time soon.

Commodities

Oil prices remain rangebound, with Brent trading in a mostly \$70-75/bbl range over November. The outcome of the US election is net bearish for oil, although we expect limited additional upside in US oil output with a Trump presidency. US producers are more price dependent and with the balance expected to be in surplus next year, we believe weaker prices will cap drilling activity.

OPEC+ policy is crucial for the oil market. The group agreed to extend supply cuts by another month. However, 2025 output policy is still unclear. We assume the group will gradually unwind its additional voluntary cuts next year.

European natural gas prices have rallied, with storage drawing quickly at the start of winter. A lack of wind has increased gas demand from the power sector. In addition, Russian supply risks linger. The Austrian energy company OMV stopped paying Gazprom for supplies to recoup damages it was awarded in arbitration, which saw Gazprom halt flows under the contract. However, Russian supplies continue unchanged, with Russia selling into the spot market instead. The market is bracing for the end of Russian transit flows through Ukraine, with the transit deal set to expire at the end of this year.

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Three calls for the global economy: Inflation waves and investment demands

Many central bankers have declared victory over inflation this year, projecting recent trends into 2025. We, though, are more cautious



Tourists look onto London's financial district

1 Call 1: Investment divergence

The list of investment needs in most economies is long and growing; think about reindustrialisation, AI, renewing infrastructure, green technology and defence. However, it's uncertain if next year will see a significant global investment boom. Instead, there is a high risk of investment divergence.

Although the specifics of the new US economic policies are still unclear, pressure on American companies to restore will increase, and foreign companies will feel the need to increase their US presence. And all that should boost investment.

The need for investment in the eurozone and China is also high, but fiscal constraints and new geopolitical uncertainties could hold back a spending boom. A new era of industrial policies in the US could actually cannibalise investments elsewhere, leading to investment divergence.

2 Call 2: Inflation will come in shorter but more frequent cycles

Many central bankers have already declared victory over inflation this year, projecting recent trends into 2025. We remain more cautious.

In the short run, cyclical disinflation should still prevail, particularly in the eurozone, as the turning of the labour market will further dampen wage growth. However, this might not be the full story for 2025. In fact, there is a high chance that inflation could come back with a vengeance.

Potential tariffs aren't the only factor that could reignite inflation throughout the year. Investment plans and initiatives could easily reintroduce supply-side constraints in many economies, creating new inflationary pressures. Initially, these investments might

lead to higher inflation, with the hope that they will eventually boost productivity and reduce inflationary pressures.

Consequently, 2025 could mark the beginning of a stop-and-go inflation pattern, with shorter but more frequent cycles, potentially necessitating more active monetary policy or a prolonged, steady approach from central bankers.

3 Our bold call: Yield curve control as result of higher debt

Debt-funded investments in the Western world could easily bring back debt sustainability concerns in the eurozone and the US. With much higher inflationary pressures than in the 2010s, central banks cannot go all-in with highly accommodative monetary policies across the board. The lower bound for interest rates will be higher this time around than in the 2010s.

Still, as the longer end of the curve is critical to mortgage and corporate borrowing costs, when push comes to shove, both the Federal Reserve and the European Central Bank could be forced to tackle elevated bond yields, trying to square the need for investment with price stability. This could lead to a new discussion on yield curve controls in the US and the eurozone, eventually forcing both central banks to start buying longer-dated government debt again. The ECB already has an instrument for it: the Transmission Protection Instrument (TPI). They might have to use it earlier than they had ever thought.

What could go right... or wrong... in 2025

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A look at the major risks and opportunities facing the global economy amid uncertainty as to just what the new US president will do once he takes office. The rhetoric may not match up with reality



Donald Trump is set to be inaugurated as US President on 20 January

The upside and downside risks to our global outlook

Forecasting what's going to happen in 2025 is doubly difficult right now because we really don't know for sure how Donald Trump's new presidency will shape global events. Will tariffs be as severe and wide-reaching as threatened? Will Mr Trump's position on Ukraine evolve from his campaign? These questions will determine not only the strength of the US economy, particularly into the end of 2025, but also the fate of Europe.

How European policymakers respond to the US administration's protectionism is also key. Do they retaliate, and does it galvanise European leaders into some joint fiscal stimulus? A lot hinges on China, too, and the success of its recent stimulus measures in stabilising sentiment and the property market.

Here's a list of the major risks we see to the global outlook and how they'd likely play out across the world economy and financial markets.

The upside risks to our global outlook

	How likely	Growth (Stronger/Weaker)				Inflation (Higher/Lower)				Policy rates (Higher/Lower)			Markets (Higher/Lower)		
		US	Euro zone	CEE	Asia	US	Euro zone	CEE	Asia	Fed	ECB	BoE	EUR/USD	USD yields	EUR yields
Macro drivers															
China stimulus triggers housing market turnaround	High		Stronger	Stronger	Stronger				Higher		Higher		Higher		Higher
Core inflation moves lower in major economies	High	Stronger	Stronger	Stronger	Stronger	Lower	Lower			Lower	Lower	Lower		Lower	Lower
EU agrees major pan-European investment stimulus	High		Stronger	Stronger		Higher	Higher			Higher		Higher		Higher	
US policy															
US reaches deal with EU to avoid tariffs	High	Stronger	Stronger	Stronger		Lower				Lower	Higher		Higher		Higher
US tariffs on China prove less extreme/implemented more slowly	High	Stronger	Stronger	Stronger	Stronger			Higher		Lower	Higher		Higher		
Geopolitics															
Ukraine war ceasefire and clearer prospects of NATO/EU membership	High		Stronger	Stronger		Lower	Lower						Higher		Lower
Middle East war deescalates; Iran-Israel tensions stabilise	High	Stronger	Stronger	Stronger	Stronger	Lower	Lower	Lower	Lower	Lower				Lower	Lower

Source: ING

The downside risks to our global outlook

	How likely	Growth (Stronger/Weaker)				Inflation (Higher/Lower)				Policy rates (Higher/Lower)			Markets (Higher/Lower)		
		US	Euro zone	CEE	Asia	US	Euro zone	CEE	Asia	Fed	ECB	BoE	EUR/USD	USD yields	EUR yields
Macro drivers															
China property prices, sentiment keep falling steeply. Overcapacity leads to dumping	High		Stronger	Stronger	Stronger		Lower	Lower	Lower		Lower	Lower	Lower	Lower	Lower
US unemployment unexpectedly spikes early on in 2025	High	Higher	Higher	Higher	Higher	Lower	Lower	Lower	Lower	Lower	Lower	Lower	Higher	Lower	Lower
Aggressive US deregulation sparks rapid outflow of EU corporate activity	High	Stronger	Higher	Higher		Lower	Lower			Lower	Lower	Lower	Higher		Higher
Europe joins US with tighter migration policy. Worker supply hit	High		Higher	Higher		Higher	Higher			Higher	Higher	Higher	Higher		Higher
Inflation and wage growth rebounds in both US and Europe	High	Higher	Higher	Higher		Higher	Higher			Higher	Higher	Higher		Higher	Higher
US policy															
US and EU engage in tit-for-tat trade war; tariffs eclipse initial expectations	High	Higher	Higher	Higher	Higher	Higher	Higher	Higher		Higher	Lower	Lower	Higher	Higher	Higher
Tax cuts fuel disorderly rise in US Treasury yields, market disorder	High	Higher	Higher	Higher	Higher	Lower		Lower	Lower	Higher		Higher	Higher	Higher	Higher
Geopolitics															
Ukraine-Russia conflict intensifies	High		Higher	Higher		Higher	Higher			Higher	Higher	Higher	Higher	Higher	Higher
Iran-Israel tensions rebuild; Iranian oil supply disrupted	High	Higher	Higher	Higher	Higher	Higher	Higher	Higher		Higher	Higher	Higher	Higher	Higher	Higher
Increased uncertainty surrounding North/South Korea, China/Taiwan	High		Higher	Higher	Higher			Higher					Higher	Higher	Higher

Source: ING

Central banks in 2025: They're singing a different tune

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Central bankers are adjusting their calculations yet again as we approach 2025. So, from New York to Tokyo, London to Frankfurt, we're also reassessing what we think they'll be up to next



The ECB's Christine Lagarde will again be centre-stage next year

Federal Reserve: Not so far, not so fast

You may be forgiven for questioning why the Fed has already cut the policy rate 75bp despite the economy growing at a rate close to 3%, an inflation rate above target, where unemployment remains very low, and equity markets and house prices are at all-time highs. The rationale goes that the 2022/23 rate hiking cycle was the most rapid and aggressive for forty years, and the period between the last rate hike and the first rate cut has been unusually long at 14 months - the average has been around six months over the past 50 years. Monetary policy operates with long and varied lags and the Fed wants a soft landing. The fact that it has a dual mandate of 2% inflation AND maximum employment means they have to set monetary policy to optimise for both. Inflation is looking better behaved, and this is allowing it to put more emphasis on the cooling jobs data.

With this in mind, the Fed is moving policy from restrictive territory to one that's slightly looser. They suggest that the long-run expectation for the Fed funds is around 3%, and with the ceiling rate currently at 4.75%, they have room to play with. As such, we favour them cutting rates again in December, but a pause in January looks likely. By the March FOMC meeting, the Fed will have a clearer understanding of President Trump's tariff, tax and spending plans. The prospect of domestic tax cuts supporting growth while tariffs push up inflation certainly argues for a slower and more gradual rate-cutting path next year. We look for 25bp of cuts per quarter in 2025 with a terminal rate of around 3.75% in the third.

European Central Bank: Going below neutral

Having been slow to address rising inflation and arguably late in stopping rate hikes last year, the ECB now appears determined to get ahead of the curve and return interest rates to neutral as quickly as possible. For the doves, this is a no-brainer, and for the hawks, the argument seems to be that getting rates back to neutral quickly could be

enough to avoid another episode of unconventional monetary policy with quantitative easing and negative interest rates further down the line.

However, with more downside risks for the eurozone economy emerging and even if inflationary pressures do not disappear entirely, we expect the ECB to go below neutral. This would follow the ECB's line of argumentation since September this year, i.e., putting more emphasis on tackling the lack of growth than squeezing out the last inflation bits. As a result, we see the deposit rate at 1.75% before the summer.

Bank of Japan: Pursuing policy normalisation

The BoJ marked a significant shift in its monetary policy in 2024. It ended its negative interest rate policy in March and raised its target rate to 0.25% in July, causing considerable volatility, especially in the FX market. Even before entering 2025, the BoJ is leaving open the possibility of another rate hike as early as December.

Next year, as it has been this year, the BoJ's rate decision will be a surprise to the markets and will be a live decision each time around. We continue to believe that the BoJ can raise its target rate to 1.0% by the end of 2025. We expect wage-driven inflationary pressures to grow and corporate profits to improve, while the weak JPY is a risk factor for inflation overshooting. The BoJ will be wary of external risks and global financial market jitters, so the pace of normalisation will slow towards the end of the year.

Bank of England: Gradual for now, faster cuts in the spring

In sharp contrast to the ECB, the Bank of England is taking rate cuts very gradually. The recent budget and all the extra government spending that came with it will boost growth in 2025. Meanwhile, services inflation, the guiding light for UK policy right now, is proving unhelpfully sticky. It's set to stay around 5% for the next few months, although the story looks a bit better when volatile items are stripped out.

A December rate cut looks unlikely now, but renewed progress on services inflation and wage growth in the spring should, we think, unlock faster cuts. We expect the next rate cut in February and think we'll most likely see another in March and then at every meeting until rates get down to the 3.25% area.

People's Bank of China: Easing with its expanded toolkit

2024 was a busy year for the PBOC, with a new policy framework reform announced in June, 30 bp of 7-day reverse repo rate cuts, a 100bp of RRR cuts, and new programmes introduced to support the equity and property markets. The PBOC's stabilisation efforts were generally well-received by market participants.

In 2025, the PBOC will build on the foundations laid this year. We expect 20-30bp of rate cuts, with more if US tariffs come in earlier or higher than currently anticipated. Another 50bp RRR cut is widely expected in the coming months, and we can see a cumulative 100bp of RRR reductions before the end of 2025. We also anticipate further expansion of open market operations and a gradual wind-down of the medium-term lending facility in the next part of the PBOC's reform, as well as continued targeted programmes to support vulnerable areas of the economy.

Three calls for trade: All the known unknowns

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Strategic moves by the new US administration could boost 2025 trade, with potential escalations and global impacts on trade dynamics



Trump's tariffs are still very much an 'unknown known'

1 **Call 1: US administration's strategic tariff tactics will boost global trade**

Everyone's talking about US tariffs, not least Donald Trump. But when might they come in, and how comprehensive will they be? It's the multi-billion-dollar question. Trump's threats of 25% tariffs on goods from Mexico and Canada and 10% on goods from China on inauguration day indicate the new administration's commitment to fulfilling campaign promises. Our best guess right now is that we'll see some sort of implementation from the second quarter of 2025 onwards.

By then, investigations will target company activities in third countries and goods passing through Chinese-operated ports, with the EU, Japan, and Korea potentially facing car tariffs. Additional 5-10% tariffs may be introduced to level the playing field. If negotiations fail by the end of 2025, major trade escalations and we could see blanket tariffs of up to 20%.

That said, we expect the US administration to use targeted tariffs to gain concessions, possibly delaying implementation, as tariffs will negatively impact US consumers and the economy. Despite disruptions, trade in goods is projected to grow by 2.5% year-over-year in 2025, driven by heavy front-loading in the first quarter and increased intra-continental trade throughout the year.

2 **Call 2: US tariff strategy will prompt global concessions and isolate China**

Due to the importance of the US sales market, countries targeted by potential US tariff action make significant concessions, ultimately improving trade relations between the US and the rest of the world.

As China is perceived as the largest geopolitical threat to the US, American policies will extend beyond trade with China to include investment, social media, and technology cooperation, also involving indirect trade impediments. For example, the US administration might pressure European companies to reduce their business with China if they wish to invest in the US.

This strategy could further isolate China and reshape global trade dynamics, emphasising the geopolitical stakes involved. As a result, trade in goods will perform even better in 2025, driven by strategic concessions and realignments, but faces potential volatility in the following years due to ongoing geopolitical tensions.

3

Our bold call: Europe follows the US and becomes increasingly protectionist

Europe is setting aside intra-member country differences and turning increasingly inward, advancing with the Critical Raw Materials Act, the Strategic Compass for Security and Defence, and the Green Deal Industrial Plan, among others.

By focusing on intra-EU trade, Europe significantly reduces its reliance on external sources and long-haul imports, ultimately leading to a more resilient but largely inflationary trade landscape. The extraction of critical minerals in some member countries is proceeding despite environmental concerns to enhance strategic autonomy.

All trade deals with other countries, such as Mercosur (Argentina, Bolivia, Brazil, Paraguay and Uruguay), are put on hold while Europe rigorously retaliates against protectionist measures from other nations. This triggers further protectionism, plunging global goods trade into a full-blown trade war. Trade volumes plummet to levels seen at the height of the Covid-19 pandemic, halting the era of the global goods trade and ushering in widespread deglobalisation.

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Three calls for the US: We're in for some surprises

Could the economists have it completely wrong... and not for the first time? Donald Trump could turn out to be a boon for the US economy. But there are risks domestically and internationally



Our base case is that the 'Dealmaker in Chief' will water down his tariff threats to some extent

1 Call 1: Tariff bear trap

Despite decent economic growth and slower-than-expected progress on inflation, the cooling jobs market remains a key focus. The Federal Reserve retains an easing bias, and we look for it to cut rates by 25bp later this month before pausing in January. In general, we expect to see cuts of 25bp per quarter with a terminal rate of around 3.75%.

Tariffs are the big concern. A 60% tariff on Chinese products and 20% tariffs on everyone else would equate to a [cost increase of \\$2,400 for every single American next year](#) – based on zero substitution for American-made products and 100% pass-through to the US consumer. It could turn out to be even worse, with Donald Trump threatening 25% immediate tariffs on Mexico and Canada. Our base case is that the “Dealmaker in Chief” wins some concessions, and tariffs are watered down to some extent – he has lumped in immigration, drug trafficking, military spending, as well as ‘free trade’ to his demands.

Either way, this will still be very painful, but some factors will mitigate the impact. Some substitution for American-made products is possible, but the US manufacturing sector cannot meet all the demand at present. Fortunately, the stronger dollar means foreign manufacturers receive more of their local currency for each dollar of revenue, allowing them to be more flexible on pricing. The US-based importing company's profit margins could absorb some of the extra costs. Nonetheless, US consumers will feel a squeeze on living standards, and US exporters will be hurt by reprisals. As such, a higher inflation and slower growth environment looks probable.

2 Call 2: DOGE-Con?

The US government is running a fiscal deficit of 7% this year. Trump's Department of Government Efficiency (DOGE) has been tasked with saving trillions of dollars, but there is scepticism; even if every Federal government worker were to be fired, that would barely save \$450bn per year.

Market fears regarding unsustainable government borrowing and inflation from tariffs could see investors demand a higher return for their risk, with US government borrowing costs surging higher. We forecast that the US 10Y yield breaks above 5% but could move even higher with mortgage rates and corporate borrowing costs hitting new cycle highs. At the same time, the dollar has already strengthened significantly but could go much further and break through parity against the euro thanks to a combination of positive interest rate differentials, geopolitical tensions and Trump's protectionist policies.

Additionally, if Trump follows through on his threat of an ultra-aggressive tariff regime, the world could descend into a long and immensely painful trade war. The implications for consumer spending power and inflation will be stark. Risk assets could come under severe pressure, and the chances of a recession would increase substantially.

3**Our bold call: To the moon!**

It could, of course, be that economists have got it completely wrong (again!), and Trump truly is the economic messiah. Trump's tax cuts deliver meaningful growth and encourage businesses to resume hiring and investment. Meanwhile, immigration controls constrain labour supply, keeping wage growth robust, but AI is adopted widely and rapidly with huge productivity gains pushing the US economy into a new paradigm of full employment and little inflation.

Tariff threats succeed in opening up foreign markets to US companies while also leading to more announcements of foreign companies investing in US production facilities. Tariffs are quickly watered down and are much less of a threat to inflation and growth as the US transitions to become a manufacturing powerhouse.

Bond markets give Trump the benefit of the doubt and investors then start to buy into the productivity miracle and Treasury yields actually fall. This makes housing much more affordable, and with regulations slashed, we see new home construction surge. America has never had it so good!

Three calls for the eurozone: It's still brighter in the south

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Portugal, Italy, Greece and Spain have outpaced the eurozone's average growth over the past few years, and we expect this trend to continue in 2025



Italian Prime Minister Giorgia Meloni at last month's Mediterranean Dialogues conference

1 Call 1: Southern member states will over-perform for the fifth consecutive year

Remember that horrible acronym PIGS, used to describe the southern Economic and Monetary Union (EMU) member states being targeted by financial markets during the euro crisis? How times have changed. Over the last four years, Portugal, Italy, Greece and Spain have outpaced the eurozone's average growth. And this trend is expected to continue next year.

These countries have received a significantly larger portion of the NextGen funds compared to their northern counterparts and still have plenty of money to spend. Additionally, the service sector's share of GDP in these southern nations is higher than the eurozone average, which is beneficial as European manufacturing faces challenges from high energy prices and upcoming US import tariffs. That said, Italy, with a bigger manufacturing base and a more challenging fiscal situation, might have trouble keeping up with the other three.

2 Call 2: Labour market turning, wage growth coming down

The eurozone labour market is tighter than the sluggish economic environment would suggest. With labour markets already under strain since the pandemic, businesses have hoarded labour while production remains weak, resulting in a decline in productivity.

During periods of high inflation, businesses could afford to retain excess staff because profits were bolstered by price-driven revenue growth. However, with inflation now reduced and wage growth remaining high, profit growth has rapidly diminished. As wage costs surpass revenue growth, the ability to keep underused employees on the payroll is no longer sustainable.

Businesses are indeed more downbeat on hiring. We expect unemployment to increase moderately throughout 2025 as hoarding labour is becoming a lot more expensive. It

also adds to the recent trend of higher bankruptcies, but the positive is that it should also help with some cyclical recovery in productivity.

3

Our bold call: Fiscal convergence but no common financing tool in 2025

Fiscal tensions within the eurozone are quickly increasing. France and Germany have been following almost completely opposing fiscal policies in recent times.

With a government debt ratio of 115% of GDP and an average fiscal deficit of 6% of GDP over the past few years, France urgently needs austerity. With government debt slightly above 60% of GDP, a fiscal deficit of less than 2% of GDP and an investment gap of more than €600bn, Germany needs fiscal stimulus.

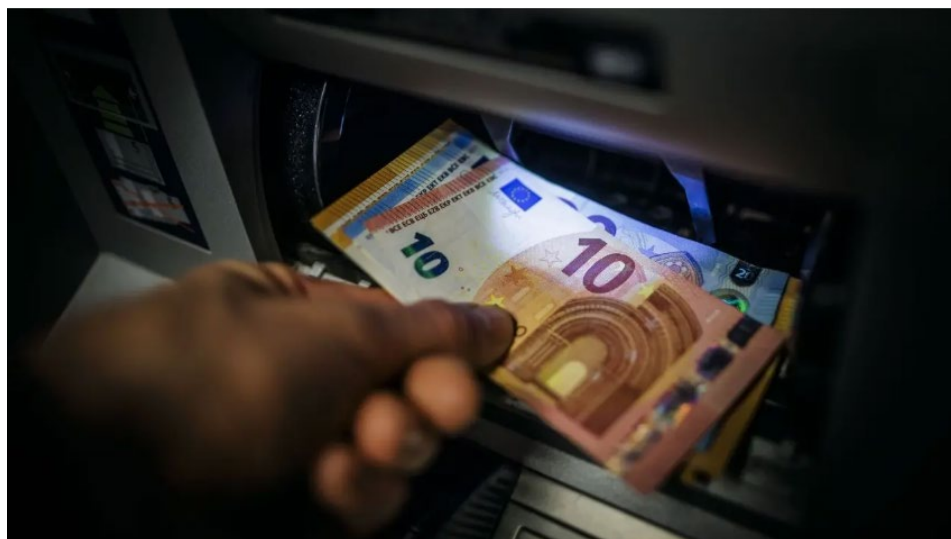
This fiscal policy approach of two extremes is not sustainable, and we expect to see a new type of fiscal convergence in 2025, with France becoming more German and Germany becoming more French. At the same time, talks about new common European financing instruments – as needed as they are – will be postponed as just paying the interest rates on newly issued European debt would require changes to an already tight EU budget.

Three calls for European households: C'mon and spend!

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European consumers have been frugal, saving a high share of their increasing real incomes. We expect things to normalise gradually next year, and there's still the potential for an upside surprise



Incomes will keep catching up next year, but we're not yet seeing a big spending spree

1 Call 1: Real wages support consumption

This year, real incomes have been catching up, driven by a rise in real wages. However, households are still holding back on spending, avoiding purchases of cars and other durable goods. The share of income not being spent hovers around 15%, compared to 12.5% pre-Covid. This 'savings ratio' is peaking, with Poland and Romania as rare exceptions, while the UK's savings ratio has nearly doubled. In Spain and the Netherlands, a gradual decline has begun, albeit from a high level. This contrasts starkly with US consumers.

Real incomes will continue to catch up next year but at a slower pace. Wage growth is slowing, inflation is decreasing less, and government fiscal consolidation is impacting households. Slower employment growth further dampens income growth.

Uncertainty remains high, and consumers are increasingly fearful of unemployment as the manufacturing sector announces restructuring. We expect an actual rise in unemployment, further damaging confidence. Additionally, interest rates still encourage saving over spending, limiting the expected decline in the savings ratio.

2 Call 2: The housing market turns savers into spenders

In Europe, unlike the US, recent 'savings' haven't significantly increased households' bank accounts. Total bank deposits haven't kept pace with nominal income, limiting the potential for a spending spree.

The high savings ratio did lead to gradual mortgage deleveraging, with outstanding debt declining relative to nominal income. Lower house prices and high mortgage rates encouraged down payments, while fewer housing transactions reduced demand for new mortgages.

Recently, this trend has started to reverse. In 2025, with lower average mortgage rates and higher nominal incomes, house prices will rise, and housing transactions will increase. This will support household consumption, for example, as moving often involves new furnishings. Overall, we expect a slight increase in household consumption.

3

Our bold call: From frugality to economic boom

History shows that sudden jumps in real income are rarely spent immediately. It takes time for consumers to adjust their behaviour. We also know that savings ratios are primarily driven by higher-income households. Next year, they may decide to finally go out and spend. Since higher-income households' additional spending is a significant share of total consumption, this could provide an important boost. If the housing market picks up more than we expect, it could also play a pivotal role.

A full normalisation of the savings rate to around 12.5% could lift GDP by up to 1.5%. Amidst the economic gloom, it's heartening to remember that we have at least one bright spot that might well be an upside surprise.

The eurozone Big 4: Politics is a drag

Political upheaval in Europe's powerhouses of France and Germany is not good at all for the eurozone's growth prospects

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French President Emmanuel Macron was in Saudi Arabia as political chaos unfolded back home

France: Political chaos will weigh on growth

The French economy is bracing for a turbulent 2025, with political instability casting a long shadow over its prospects. The constant threat of censure against any government put in place, the impossibility of passing a budget to put the public finances in order, and the prospect of yet more elections is simply fuelling uncertainty. And that's damaging both consumer spending and business investment.

The chaotic debate over the 2025 budget leaves the tax landscape murky, but one thing is clear: the ballooning budget deficit will force the government to tighten its fiscal belt, stifling economic growth. On the international front, looming tariffs and sluggish global economic activity are set to hamper French exports. As a result, GDP growth is projected to slow to 0.6% in 2025, down from 1.1% in 2024.

Germany: Fiscal stimulus is coming, at last

The German economy has been in de facto stagnation since early 2020, and negative headlines from iconic corporations have finally brought the broader political awareness that the economy urgently needs reforms and investments. The unanswered question is still whether Germany will try to 'only' modernise its old business model, consisting of cheap energy and flourishing exports, or whether it will opt for a complete economic overhaul.

We expect that after the elections in February, a new government will engage in more fiscal stimulus, either by changing the constitutional debt brake or by using special funds. Germany needs an additional fiscal stimulus of around 1.5% GDP per year over the next ten years just to close the investment gap of the last decade. Structural reforms and investments are needed to break the current vicious circle. If delivered, the economy should see a gradual turnaround in 2025. If not, stagnation will be the new normal.

Italy: Private consumption only ray of light

Even though employment growth might be taking a breather, we don't foresee an inversion in the trend. A gradual increase in headline inflation towards the 2% area through 2025, together with 3%+ contractual hourly wage gains, should allow some more catch-up in real wages, helping support a gradual recovery in private consumption.

The investment outlook looks more uncertain. The likely growth drag of the dwelling component following the 'super-bonus' overhang should be partially compensated by a push from the infrastructural construction component activated by EU recovery funds as the 2026 deadline approaches. In the meantime, the risk of a new round of US tariffs on Italian products under the Trump presidency could delay the recovery in the machinery investment component, in principle favoured by the forthcoming ECB monetary easing.

Don't expect much help from fiscal policy, as the limited room for manoeuvre left by the renewed European fiscal governance will mostly be used to refinance existing measures, not new ones.

Spain: A new growth mix

Spain has been a key driver of economic growth in the eurozone since the Covid-19 crisis, and this trend is expected to continue into 2025. However, the drivers of this growth are shifting. Post-crisis growth was fuelled by population increase, strong service exports, and government consumption despite a challenging inflationary and restrictive monetary policy environment. That particularly impacted Spanish households, leading to a decline in their net interest income over the past few years.

With the onset of monetary easing, private consumption and investment are set to rise. Households benefiting from elevated savings and a resilient labour market will increase their consumption in line with disposable income growth. Private investment, especially in the construction sector, is also expected to see a boost from declining interest rates and the EU Recovery and Resilience funds allocation. Together, these factors will keep Spain at the forefront of a sluggish eurozone economy in 2025.

Three calls for the UK: What's that over there?

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The UK is set to outpace the eurozone next year as Britain rides the wave of the recent government spending bonanza. Interest rates should fall more quickly than they have this year, too. But if you think the controversial tax rises are done, perhaps you need to think again



UK Chancellor, Rachel Reeves, with PM Keir Starmer in the background

1 **Call 1: UK growth to pick-up in 2025, though jobs market is a wild card**

The UK economy has performed better than many of its Western European neighbours so far in 2024, though growth has been less impressive since the summer. Quarterly growth rates should pick up again through the spring as the avalanche of extra government spending is deployed. The government plans to spend an extra 1.5% of GDP (£40bn) in current spending in the next financial year, and given much of that ends up as salary rises and employment, the multiplier effect is likely to be pretty strong. Admittedly, though, we think the £18bn extra pledged for capital projects may be left underspent. We expect 1.4% growth in 2025.

If we're wrong, it's likely to be to the downside. Jobs data is proving unreliable, but vacancies are below pre-Covid levels and outside of government, payrolled employment is falling. Layoffs are still low, but the risk is that they increase, perhaps on the back of the rise in employer taxation. A more immediate and far-reaching trade war with the US would be an issue, too. Around a fifth of UK exports head to the States, the UK's biggest trade partner, though most of this is services. Services fall out of the scope of tariffs but could be impacted if trade tensions spill into the regulatory arena.

2 **Call 2: Services inflation to fall back, prompting faster rate cuts**

Services inflation will fall in 2025; the question is how fast. The Bank of England expects it to float around its current 5% level for the next 4-5 months, and we tend to agree. That's why markets expect much more gradual rate cuts in the UK relative to the eurozone. But that service-sector stickiness is increasingly concentrated in several key categories which the Bank has explicitly said it pays less attention to. Rental growth is the leading example of this, and is showing little sign of easing off.

Volatile travel-related categories don't help either. Strip those out, and our own calculated measure of 'core services' inflation is set to fall close to 3% by April, from

4.5% in October. If we're right, then that heralds faster rate cuts in the spring. We expect a rate cut in February to be followed in March, and at every meeting until rates reach 3.25% later next year.

3

Our bold call: More big tax rises could be coming

The Chancellor's 'one-off' tax and spend budget is likely just the beginning. Expect more tax hikes next Autumn. Fiscal targets were barely met this October, and those targets aren't especially taxing by historical standards. They also rest on the shaky assumption that spending will rise by less than 1% per capita in real terms beyond the next fiscal year. A big top-up is inevitable.

What's more, the low-hanging fruit on tax has already been picked. And unlike the previous government, Chancellor Rachel Reeves is unlikely to be able to ride the wave of lower gilt yields. Reeves is banking on higher growth, but the risk is that this disappoints and the Office for Budget Responsibility revises down its relatively upbeat GDP assessment.

Could the UK become the next France in terms of government borrowing fears? Possibly, though the UK's tax burden is considerably lower and below the European average, offering more obvious scope for further increases. And given Reeves has ruled out rises on 'working people', we wouldn't be surprised to see the employer National Insurance hikes repeated in 2025.

Three calls for China: Steady, but headwinds are getting stronger

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China's stabilisation efforts will face a greater challenge in 2025, but policymakers appear up for the task



The National Olympic Sports Centre in Beijing

1 **Call 1: China will keep growth stable despite increasing external noise**

China has managed to avert the much-feared property and local government debt crises and looks set to complete this year's growth objective of 'around 5%'. This is largely thanks to stronger-than-expected external demand boosting exports, and manufacturing offsetting very weak confidence in households and the private sector; through the first three quarters of 2025, net exports contributed 1.1 ppt of the 4.8 ppt of year-to-date growth.

We expect China to target stable growth of "around 5%" or at the least "above 4.5%" in 2025. With escalating tariffs expected to dampen export momentum next year, China must turn to other drivers to keep growth stable. This will come in the form of more 'forceful' fiscal policy, as local governments return to their traditional roles as the executors of fiscal stimulus after managing their debt through swaps and issuing special bonds. Monetary policy easing will further spur a credit recovery and stave off deflation. We see GDP growth settling at 4.6% year-on-year and inflation of around 0.9% YoY in 2025.

2 **Call 2: China's property prices will finally bottom out**

Many policies were introduced this year to stabilise property prices. These measures aimed to improve housing affordability, remove barriers to purchase, absorb excess inventories, and provide financial support for property developers. However, despite these efforts, property prices continue to decline.

We think property prices will finally bottom out in 2025, with an L-shaped recovery more likely than a U-shaped or V-shaped one. Stabilisation will begin in China's core Tier 1 cities and gradually extend to Tier 2 cities. The performance of Tier 3 and 4 cities will be more varied and may take longer to recover due to a greater supply-demand imbalance. However, the overall property price index is expected to eventually bottom out.

The bottoming out of property prices represents the big first domino and a necessary but not sufficient condition in the process of restoring confidence; it is difficult to expect households to spend confidently when their biggest asset is losing value by the month.

3

Our bold call: China will hold the line on its currency

Many market participants have speculated that China will intentionally depreciate the yuan to offset US tariffs. There have been calls for the CNY to be depreciated by 10-20% and in more extreme cases, calls for a depreciation of 50%. Our view is this will not happen next year.

First, intentional devaluation will be ineffective to mitigate tariffs, as it will likely trigger currency manipulator claims and Trump's administration can easily adjust tariffs further as needed.

Second, this will also undermine the efforts of the last few years to stabilise the CNY, improve attractiveness as a settlement currency and avoid capital outflow pressures.

We anticipate some depreciation pressure in an expected strong dollar environment but expect the USD/CNY pair will move by less than the dollar index. We don't expect an intentional large-scale depreciation and think the CNY will remain a low-volatility currency vis-à-vis most other Asian currencies. Our 2025 forecast is for the USD/CNY to move within a band between 7.00-7.40, with further upside to 7.50 possible if tariffs come in earlier or more aggressive than our forecasts. Given Trump's stated preference for a weaker dollar, a small-probability high-impact risk is the possibility of a new Plaza Accord-type deal, which could represent an upside risk for the CNY.

Three calls for Asia: India poised to hold on to the top growth spot

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India is expected to remain the region's growth engine while emerging Asian countries, such as Indonesia and the Philippines are expected to see larger-than-expected rate cuts



India's prime minister, Narendra Modi, celebrates his party's gains in local elections last month

1 Call 1: India is likely to remain the region's fastest growing country

India is likely to remain the fastest-growing country in the region in 2025, although that growth will be weaker than in 2024. Inflation should remain well within the central bank's target, and the local currency should outperform.

While we expect India's GDP growth to slow slightly to 6.8% next year versus 6.9% in 2024, largely driven by fiscal consolidation and slower government spending, a confluence of factors including meaningful structural reforms, such as the de-clogging of bank and corporate bank balance sheets, and improved ease of doing business should support growth.

We expect private investment recovery, notably in the real estate sector, to drive growth. It will be aided by trade that remains relatively insulated from global developments. Urban consumption growth is likely to come off recent peaks but remains strong, supported by higher incomes and rate cuts expected in the first quarter of next year. A relatively smaller exposure to trade tariffs, lower oil prices, contained current account deficit, and large FX reserve holdings should allow INR to outperform the region.

2 Call 2: Weaker growth for Korea and larger rate cuts leading to a weaker won

Korea's growth is expected to decelerate to 1.6% YoY next year (vs 2.2% in 2024) due to slowing exports and weak domestic demand. Strong global demand for AI chips and the front-loading effects ahead of Trump's tariff hike may still boost exports in the first half of next year, but momentum will fade.

As growth conditions deteriorate and inflation falls below 2%, the Bank of Korea is set to deliver a total of 100bp cuts, reaching the terminal rate of 2.0%. Large rate cuts will probably add depreciation pressure on the KRW. Widening growth, inflation, and yield differentials between the US and Korea may work against the won. We expect a weaker

KRW in the first half of 2025 with increased volatility, then moderate a bit in the second half of the year.

Global dollar movements will dominate overall flows but KRW is likely to be hit harder than other Asian currencies due to its high sensitivity to external shocks given its large trade surplus with the US, high export dependence, and geopolitical sensitivity.

3

Our bold call: Rate cuts in EM Asia to exceed market expectations

Rate cuts in emerging market Asia will exceed market expectations resulting in longer-end bonds outperforming countries such as Indonesia, the Philippines and India.

The market consensus for Asia has moved towards fewer rate cuts, largely motivated by the Fed's actions, resulting in lower interest rate differentials for Asia versus the US. However, we think a combination of strong disinflation and slower growth will open up room for larger rate cuts than what the market is pricing in, especially for the Philippines, Singapore, India and perhaps Indonesia.

Our view on disinflation is supported by lower food and fuel prices as well as core inflation well into the pre-Covid range. There's further downside risk to Asia inflation from China's dumping of goods if tariffs were to strike in full. Moreover, for countries like Indonesia, the Philippines and India, very high positive real rates should support larger rate cuts, and a continued focus on fiscal consolidation should be positive for long-end bonds.

Three calls for the CEE: The recovery is facing fresh risks

The global rate-cutting cycle might still be in its early stages, but progress in Central and Eastern Europe has moved much further along. The next step for most central banks will simply be fine-tuning. Meanwhile, the region's economic recovery is moving more slowly than expected as disinflation stalls; we're seeing new risks emerge



Poland's Prime Minister, Donald Tusk, with the German Chancellor, Olaf Scholz in the summer

1 **Call 1: Economic recovery and a return of inflation to the target**

We expect an economic recovery across the region next year, ranging from 2.0% in the Czech Republic to 3.5% in Poland. This year's GDP growth was a visible disappointment, but local fundamentals support some acceleration next year. Real wages have been growing at a strong positive pace since the start of the year, while the recovery in household consumption has been one of the main reasons for surprisingly slow growth in most places.

The high level of savings rates suggests a recovery here, while negative consumer confidence has raised concerns about the future. A second year of economic recovery and inflation returning to target should be cause for optimism. Moreover, fiscal policy remains loose, and the political cycle is hindering consolidation. We, therefore, believe that the CEE region should outperform the euro area, and central banks should get confirmation that the battle against inflation has been won.

2 **Call 2: Weaker growth in the eurozone will hamper the CEE region's take-off**

The eurozone and Germany could see another weak year, resulting in a downside risk to our forecast for the CEE economy. Don't forget that Germany is their main trading partner, and its structural issues are showing. Well-known geopolitical developments are just adding further downside risk for the region. Our baseline for the GDP growth of CEE countries is already below market consensus, and, similar to this year, we expect downward surprises and revisions in market views.

The outcome of the US election brings additional downside risk, which may lead to a stumble in the region's recovery next year. At the same time, fiscal policy in most places has little room to deliver additional stimulus to the economy. From GDP growth levels of between 2.0-3.5%, we could easily fall into the 1.5-2.8% range, similar to this year. At

the same time, inflation could still remain elevated in this scenario, reducing more significant rate cuts from central banks.

3

Our bold call: Central banks cut rates below neutral as the European economy collapses

Looking beyond the horizon of current downside risks, a collapse of the European economy under the weight of structural changes, higher energy prices and geopolitical events cannot be ruled out. In such a scenario, the CEE region would be hit hard given its significant links to the European economy and global supply chains. The benchmark could be this year's weaker growth or last year's GDP stagnation across the board. The European Central Bank cutting well below the neutral rate and a collapse in demand pressures on inflation would, in turn, allow central banks to be more aggressive in their respective cutting cycles while keeping interest rate differentials and FX roughly stable.

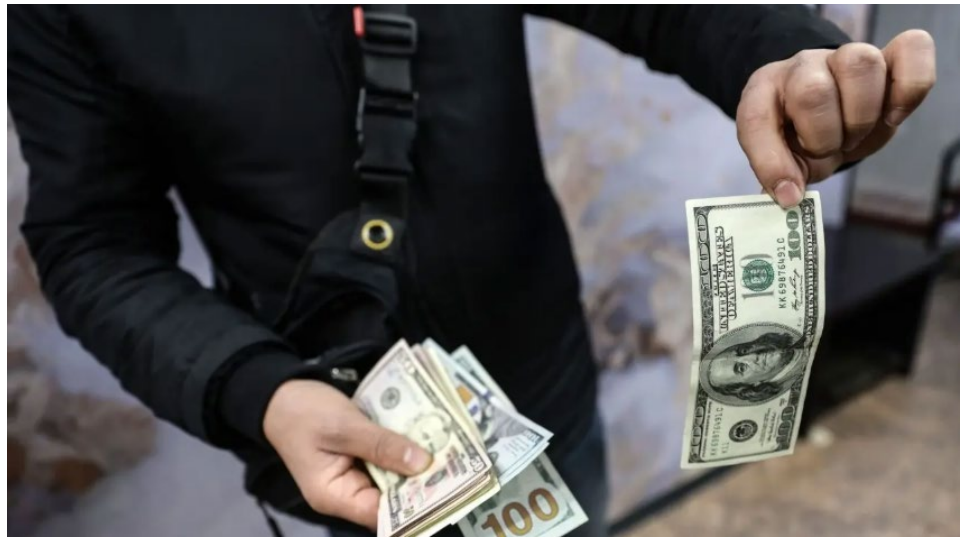
The Czech Republic and Hungary are the most exposed in this scenario due to the current weakness and concentration of the automotive sector. Central banks here could quickly follow suit, with the Czech National Bank being the first to go below the neutral rate. We think the National Bank of Romania would be the last willing to go drastically lower with the rate.

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Three calls for FX: All hail the mighty dollar

2025 is looking like it's going to be a year of dollar strength. That is ING's house call. The main risk to that probably stems from the US economy being softer than expected and a Republican administration pursuing a weaker currency



We're looking at a stronger dollar in 2025, but there are risks

How we got here

The Federal Reserve's broadest measure of the trade-weighted dollar has rallied 5% over the last two months as markets positioned for and then witnessed a Republican clean sweep. European currencies have borne the brunt of dollar strength as the mixture of soft eurozone survey data and Europe's fiscal straitjacket has pressured US:Eurozone interest rate spreads to the widest levels since 2022.

Geopolitical developments have hit European currencies, too, as the war in Ukraine has escalated. Investors and corporates remember only too well the spike in energy prices in 2022 and the damage those energy prices did to the eurozone's trade surplus and the euro.

From the US side of the equation, the FX market is leaning towards the view that President-elect Donald Trump will hit the ground running. This has meant very little reprieve for any global currencies, although the more commodity-linked currencies are faring slightly better on the back of some fiscal stimulus out of China.

1 Call 1: A trade war will see the dollar outperform

Trump's mix of policies is dollar-positive. US growth at the expense of the rest of the world should see a repeat of the broad dollar rally witnessed in 2018-2019 under peak Trump 1.0. Rate differentials and an elevated risk premium will drive the dollar's strength as the new administration keeps trade partners guessing on the next round of tariffs.

In harm's way will be the currencies of the more trade-dependent nations in Europe and Asia – both in the firing line for their large trade surpluses with the US. Relatively low interest rates and generally dovish (ex Japan) central banks will make it easier for corporates and investors alike to remain underweight in these FX pairs. The euro looks most vulnerable given the eurozone's stagnation and the delayed prospect of any fiscal

support. Here, we think EUR/USD will remain under pressure all year and could be closing 2025 very close to parity.

2 Call 2: Weak dollar policy could emerge if growth disappoints

If we're underestimating the power of restrictive Fed monetary policy, the dollar will not prove the outperformer we expect. Weaker growth could see the new administration putting more pressure on the Fed to ease and also show greater interest in a softer dollar.

The topic of dollar policy typically rears its head more frequently under Republican administrations. However, this debate should not have a meaningful impact on FX trends unless the US economy is showing surprising weakness.

Any ceasefire in Ukraine could also trigger the riskier call for a higher EUR/USD. While many view this as mere appeasement, the prospect of a peace dividend in Europe could prompt a re-assessment of European currencies—especially if a ceasefire were to become a more sustainable chapter for Ukraine's major reconstruction.

3 Our bold call: Dollar crashes if Trump outspends his welcome

Our wild call is for a dollar crash – probably led by the US Treasury market. It is very rare to see US Treasury yields rising and the dollar falling at the same time – but it has happened before. Here, investors baulking at the insufficient compensation for taking on US asset exposure could see all US asset markets under pressure as a 'sell America' mentality takes hold.

At the same time, there could be concrete evidence of central banks in the BRICS sphere of influence further reducing – or accelerating their reduction in FX reserves and, most likely, increasing their allocation to gold.

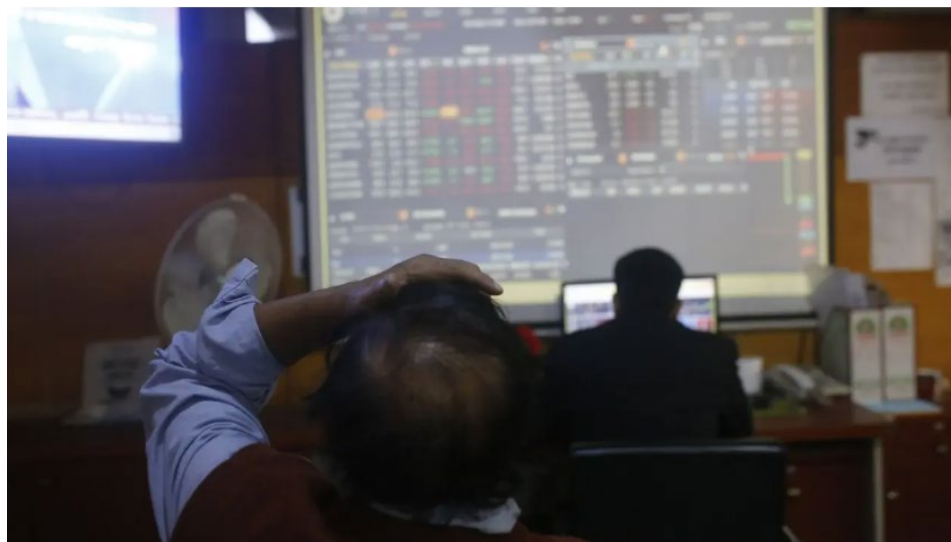
The sequence of events here could trigger a Treasury sell-off (poor auction, downgrade, etc.), higher bond yields taking their toll on a growth-stock-concentrated US stock market, and the Fed ultimately being forced into a deep easing cycle. USD/JPY would lead the dollar lower under this scenario.

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Three calls for rates: German angst versus US oomph

We see wider spreads being driven by higher US yields next year. Eurozone yields should rise by less and could even fall back in the end



Euro versus dollar spreads are set to maintain a widening bias

1 **Call 1: Euro versus dollar spreads to maintain a widening bias**

There has already been a significant re-widening in SOFR versus ESTR rates across the curve. Spreads are around 2% in short tenors and approximately 1.7% in the 10-year range. The front end is already pricing in the European Central Bank's deposit rate dropping to 1.75% alongside the Fed funds rate at 3.75%. But we think there will be pressure for the 10yr spread to widen by some 30-50bp through the early quarters of 2025.

This reflects upward pressure on US longer-tenor rates coming from the US fiscal deficit, tax cuts, and inflationary effects from tariffs. In contrast, the eurozone remains troubled by a weak domestic economy, particularly in Germany. German angst versus US oomph equals wider spreads between the two.

2 **Call 2: Can the US 10yr Treasury yield top 5.5%?**

Our vision is for the US 10yr Treasury yield to be in the 5-5.5% range as we progress through 2025. That equates to 10yr SOFR hitting at least 4.5%. One way of viewing this is relative to a neutral curve, which we see mapped out as a 3% funds rate and a 4% 10yr SOFR rate (a 100bp curve).

Donald Trump's tax-cutting agenda likely means the Federal Reserve lands above neutrality by some 50bp. Specifically, the Fed lands at 3.5-3.75%.

Given the inflation risk from tariffs and issues relating to the fiscal deficit, logic suggests that the 10yr rates should also land at around 50bp above neutrality. In turn, we should see a 4.5% 10yr SOFR rate. The 10yr Treasury yield is currently 50bp above that, meaning we hit 5%. A widening in this SOFR spread can push the 10yr yield as high as 5.5% – in part as the 10yr SOFR rate too is being pressured up in tandem.

3 Our bold call: Can the 10yr Euribor rate slip back to 2%?

While our central view sees upward pressure on eurozone rates due to the influence of Treasuries, there is also countervailing pressure from macroeconomic weakness, leading to some inverse correlation with US rates. Government bond yields, including German yields, could face upward pressure due to various political and deficit-related factors.

That can act as a separation from the ESTR curve, which, in its purest sense, is a fair value extrapolation out of the curve of the ECB's deposit rate. In the extreme, if the ECB's deposit rate were to hit 1.75% (or lower, say 1.5%) and the macro prognosis did not improve, then 10yr Euribor could well hit 2% (now 2.25%). The central view is for it to be pulled up. But a subsequent break back down presents a potential wild twist.

GDP forecasts

Developed Markets (QoQ% annualised growth)									
	3Q24F	4Q24F	1Q25F	2Q25F	3Q25F	4Q25F	2024F	2025F	2026F
US	2.8	2.7	1.7	1.3	1.6	1.7	2.8	2.0	1.7
Japan	1.2	2.4	0.8	0.8	0.8	1.2	-0.2	1.3	1.2
Germany	0.4	-0.1	-0.8	0.0	1.2	1.2	-0.2	-0.2	1.4
France	1.6	-0.4	0.4	0.8	1.2	0.8	1.0	0.6	1.0
UK	0.6	0.9	1.3	2.0	2.0	1.5	0.9	1.4	1.4
Italy	0.0	0.5	0.6	0.9	1.6	1.3	0.5	0.7	1.0
Canada	1.0	1.2	1.0	1.5	1.8	1.8	1.2	1.4	2.1
Australia	0.8	0.8	1.6	2.0	2.4	2.8	1.0	1.6	2.6
Eurozone	1.5	-0.1	0.1	0.8	1.2	1.3	0.7	0.7	1.3
Austria	1.2	1.2	1.0	1.2	1.2	1.2	-0.4	1.1	1.3
Spain	3.4	1.5	2.0	2.1	2.3	2.5	3.0	2.2	2.2
Netherlands	3.3	0.0	0.6	0.7	1.1	1.3	0.8	1.3	1.2
Belgium	0.6	0.4	0.0	0.8	1.2	1.2	0.9	0.6	1.1
Greece	0.6	-0.3	1.4	3.2	3.2	2.2	2.2	1.8	2.0
Portugal	0.8	1.3	2.2	2.4	2.4	2.4	1.7	2.2	2.2
Switzerland	1.7	1.2	1.2	1.6	1.6	1.2	1.3	1.5	1.4
Sweden	1.1	0.9	1.2	0.9	0.5	0.5	0.5	0.8	0.9
Norway	2.1	1.3	1.5	1.7	1.7	1.7	1.0	1.6	1.7
Emerging Markets (YoY% growth)									
	3Q24F	4Q24F	1Q25F	2Q25F	3Q25F	4Q25F	2024F	2025F	2026F
Bulgaria	2.3	2.6	2.9	3.1	3.2	3.2	2.3	3.1	3.2
Croatia	4.5	2.9	2.9	2.9	2.8	2.9	3.8	2.8	2.4
Czech Republic	1.3	1.4	1.6	1.8	2.2	2.4	0.9	2.0	2.5
Hungary	-0.8	0.2	0.2	0.3	0.5	2.8	0.5	2.0	4.5
Poland	2.5	3.1	3.2	3.1	3.3	4.1	2.7	3.5	3.8
Romania	1.7	1.5	2.5	2.8	2.5	2.4	1.0	2.6	2.6
Turkey	2.1	1.7	0.1	2.1	3.7	3.9	2.8	2.6	4.0
Serbia	3.1	3.2	3.6	3.8	4.1	4.2	3.7	4.0	4.2
Azerbaijan	5.4	3.0	2.0	2.5	3.0	3.0	4.2	2.6	2.8
Kazakhstan	5.6	3.6	5.4	5.5	5.3	5.7	3.9	5.5	4.5
Russia	3.1	2.5	2.0	2.5	1.5	1.0	3.8	1.8	0.5
Ukraine	1.5	3.7	2.5	4.5	5.0	5.5	4.1	4.2	5.5
China	4.6	4.8	4.5	4.9	4.5	4.4	4.8	4.6	4.2
India	6.6	6.6	6.6	6.8	6.9	6.9	6.9	6.8	7.3
Indonesia	5.0	5.0	5.1	5.1	4.9	5.0	5.0	5.0	5.1
Korea	1.5	1.8	1.0	1.6	1.9	1.7	2.2	1.6	1.7
Philippines	5.3	5.2	5.5	6.6	6.3	6.0	5.7	6.1	6.0
Singapore	5.4	2.1	2.4	2.5	2.6	2.7	3.4	2.6	2.7
Taiwan	4.0	3.4	3.3	2.6	3.0	2.6	4.7	2.8	2.5

Norway: Forecasts are mainland GDP

Source: ING estimates

CPI Forecasts (pa)

(%YoY)	3Q24F	4Q24F	1Q25F	2Q25F	3Q25F	4Q25F	2024F	2025F	2026F
US	2.6	2.6	2.2	2.1	2.6	2.7	2.9	2.4	3.0
Japan	2.8	2.6	2.5	2.2	1.7	1.7	2.6	2.0	2.0
Germany	2.1	2.6	2.4	2.1	2.1	2.1	2.5	2.1	2.2
France	2.1	1.7	1.8	1.8	1.8	1.4	2.3	1.7	2.0
UK	2.0	2.6	2.6	2.4	2.7	2.5	2.6	2.5	2.3
Italy	1.2	1.2	1.5	1.4	1.8	2.2	1.1	1.7	2.0
Canada	2.0	2.1	2.4	1.6	2.0	2.5	2.4	2.2	2.1
Australia	2.9	2.5	2.2	1.9	2.3	2.8	3.2	2.3	2.6
Eurozone	2.2	2.3	2.4	2.1	2.2	2.2	2.4	2.2	2.2
Austria	2.4	2.1	2.2	2.2	2.1	2.1	3.0	2.2	2.1
Spain	2.3	2.2	2.8	2.1	2.0	2.0	2.8	2.2	2.1
Netherlands	3.4	3.9	3.6	3.6	2.9	2.3	3.3	3.1	2.5
Belgium	3.2	2.7	2.1	1.9	2.0	2.1	3.1	2.1	2.0
Greece	3.1	3.1	2.9	2.6	1.8	1.8	3.0	2.3	2.0
Portugal	2.3	2.7	2.4	2.1	2.0	2.0	2.7	2.1	2.2
Switzerland	1.1	0.9	0.9	0.8	0.9	0.8	1.1	0.8	0.9
Sweden	1.4	1.0	0.6	0.8	1.5	1.5	1.8	1.1	1.5
Norway	2.8	2.2	2.1	2.1	1.5	2.1	3.1	2.0	2.2
Bulgaria	1.9	1.8	2.1	2.9	3.0	3.4	2.4	2.8	2.9
Croatia	1.9	2.4	2.6	2.6	2.6	2.5	2.9	2.6	3.3
Czech Republic	2.3	3.0	2.4	2.3	2.2	2.4	2.5	2.3	2.4
Hungary	3.5	3.7	3.9	4.0	4.3	4.5	3.7	4.2	3.4
Poland	4.5	4.8	6.0	5.5	4.0	3.5	3.7	4.8	3.0
Romania	5.0	4.8	4.4	5.2	4.7	4.5	5.6	4.6	4.1
Turkey	49.4	44.8	34.7	30.8	26.0	24.7	58.6	29.9	20.3
Serbia	4.3	4.0	4.2	4.1	3.6	3.4	4.6	3.8	3.4
Azerbaijan	3.2	3.8	4.6	5.0	3.2	3.6	2.1	4.1	4.5
Kazakhstan	8.4	8.7	8.8	8.9	8.3	7.5	8.7	8.4	6.5
Russia	8.9	8.8	8.6	8.2	7.6	6.4	8.4	7.7	5.1
Ukraine	7.0	9.5	9.5	8.5	7.2	6.0	6.1	7.8	5.3
China	0.5	0.7	0.6	0.6	0.8	1.6	0.4	0.9	1.6
India	4.1	5.1	4.9	4.7	3.8	3.5	4.8	4.6	4.7
Indonesia	2.0	2.2	2.1	2.0	2.1	2.2	2.1	2.1	2.2
Korea	2.1	1.4	1.2	1.4	1.4	1.6	2.3	1.4	1.8
Philippines	3.3	2.7	2.4	2.5	3.0	3.2	3.4	2.8	3.5
Singapore	2.2	2.0	2.2	2.0	1.8	1.8	2.5	2.0	2.4
Taiwan	2.2	1.7	1.6	1.5	1.4	1.5	2.1	1.5	1.5

*Quarterly forecasts are quarterly average; yearly forecasts are average over the year, HICP for Eurozone economies

Source: ING estimates

Oil and natural gas price forecasts (avg)

	4Q24F	1Q25F	2Q25F	3Q25F	4Q25F	1Q26F	2024F	2025F	2026F
Brent (\$/bbl)	74	73	70	68	65	67	80	69	70
Dutch TTF (EUR/MWh)	40	40	32	29	30	32	34	33	28

Source: ING estimates

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