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Our Economy and the World

Issue: 396

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This week's issue of "Our Economy and the World" includes:

Key Global and Regional Developments over the Past Week

- Reuters: ECB policymakers line up behind rate cuts
- Reuters: German investor morale falls more than expected in January, survey finds
- Bloomberg: Bank of Japan expected to raise interest rates by most in 18 years
- CNBC: South Korea fourth-quarter GDP grows at its slowest pace in six quarters, missing expectations

Special Analysis

- IMF: Global Growth: Divergent and Uncertain

Developments in Financial and Commodity Markets in the Past Week

- Reuters: Oil eases to one-week low amid Trump tariff uncertainty
- Reuters: Trump uncertainties push safe-haven gold to near all-time high

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Key Global and Regional Developments over the Past Week

[Reuters: ECB policymakers line up behind rate cuts](#)

European Central Bank policymakers lined up behind further interest rate cuts on Wednesday, indicating that next week's reduction is all but a done deal and further moves will also come even if the U.S. Federal Reserve remains cautious. Having cut rates four times already in response to weak growth and falling inflation, the ECB is expected to keep moving quickly in 2025 with traders even increasing rate cut bets this week after U.S. President Donald Trump did not announce much feared trade tariffs against the bloc.

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[Reuters: German investor morale falls more than expected in January, survey finds](#)

German investor morale fell more than expected in January, the ZEW economic research institute said on Tuesday, after the German economy contracted for the second consecutive year. The institute's economic sentiment index fell to 10.3 points from 15.7 points in December, well below the 15.3 forecast by analysts.

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[Bloomberg: Bank of Japan Expected to Raise Interest Rates by Most in 18 Years](#)

The Bank of Japan is widely expected to raise its benchmark rate Friday by the most in 18 years, in a show of boosted confidence over the sustainability of inflation as it progresses down its normalization path. Governor Kazuo Ueda and

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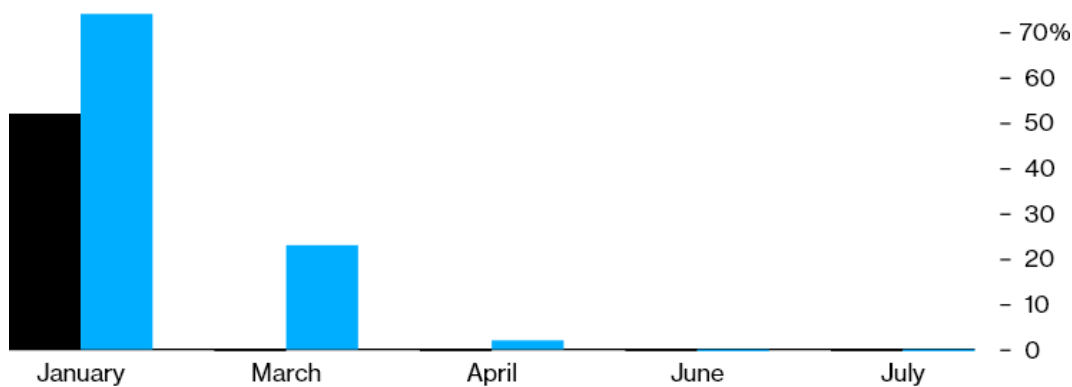
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his board will likely decide to increase the overnight call rate to 0.5% at the conclusion of their two-day meeting. The 25 basis point increase would be the largest since February 2007, adding to signs that the economy is finally getting back to normal.

Looming Increase

Nearly three quarters of economists expect a BOJ hike Friday

■ December survey ■ January



Source: Bloomberg

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[CNBC: South Korea fourth-quarter GDP grows at its slowest pace in six quarters, missing expectations](#)

South Korea's economy expanded 1.2% year on year in the fourth quarter, marking its slowest expansion since the second quarter of 2023. Advance figures missed the 1.4% expansion expected by economists polled by Reuters, and the growth was also softer compared with the 1.5% rise seen in the third quarter of 2024.

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Special Analysis

IMF: Global Growth: Divergent and Uncertain

Global growth is projected at 3.3 percent both in 2025 and 2026, below the historical (2000–19) average of 3.7 percent. The forecast for 2025 is broadly unchanged from that in the October 2024 World Economic Outlook (WEO), primarily on account of an upward revision in the United States offsetting downward revisions in other major economies. Global headline inflation is expected to decline to 4.2 percent in 2025 and to 3.5 percent in 2026, converging back to target earlier in advanced economies than in emerging market and developing economies.

Medium-term risks to the baseline are tilted to the downside, while the near-term outlook is characterized by divergent risks. Upside risks could lift already-robust growth in the United States in the short run, whereas risks in other countries are on the downside amid elevated policy uncertainty. Policy-generated disruptions to the ongoing disinflation process could interrupt the pivot to easing monetary policy, with implications for fiscal sustainability and financial stability. Managing these risks requires a keen policy focus on balancing trade-offs between inflation and real activity, rebuilding buffers, and lifting medium-term growth prospects through stepped-up structural reforms as well as stronger multilateral rules and cooperation.

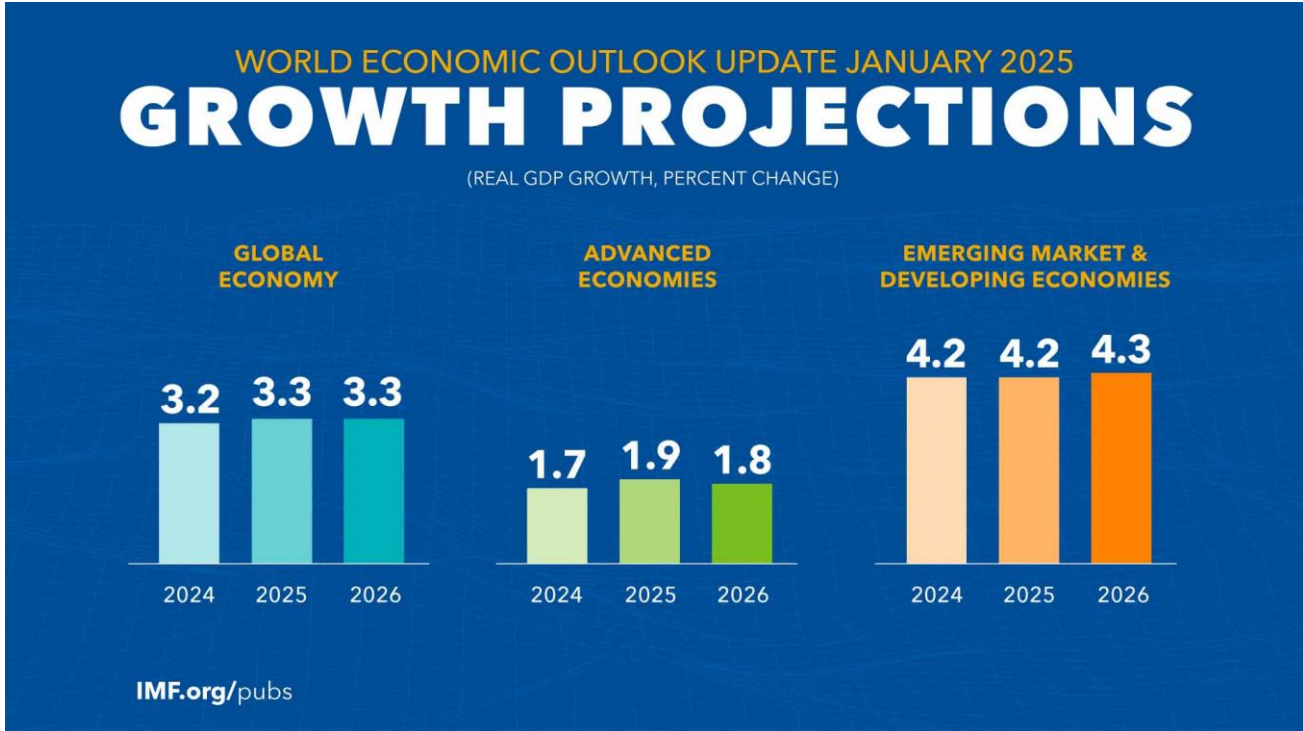
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Developments in Financial and Commodity Markets in the Past

[Reuters: Oil eases to one-week low amid Trump tariff uncertainty](#)

Oil prices eased to a fresh one-week low on Wednesday as the market considers how U.S. President Donald Trump's proposed tariffs could affect global economic growth and demand for energy. Brent futures fell 29 cents, or 0.4%, to settle at \$79.00 a barrel, while U.S. West Texas Intermediate crude (WTI) traded 39 cents, or 0.5%, lower to settle at \$75.44.

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[Reuters: Trump uncertainties push safe-haven gold to near all-time high](#)

Gold prices soared to near three-month highs on Wednesday, trading just below its record peak, fuelled by a soft dollar and lack of clarity around U.S. President Donald Trump's policy plans, which investors fear could trigger trade wars and elevate market volatility. Spot gold added 0.4% to \$2,755.2 per ounce as of 02:29 p.m. ET (1629 GMT). Prices were at their highest since Oct. 31 when they hit their all-time high of \$2,790.15.

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