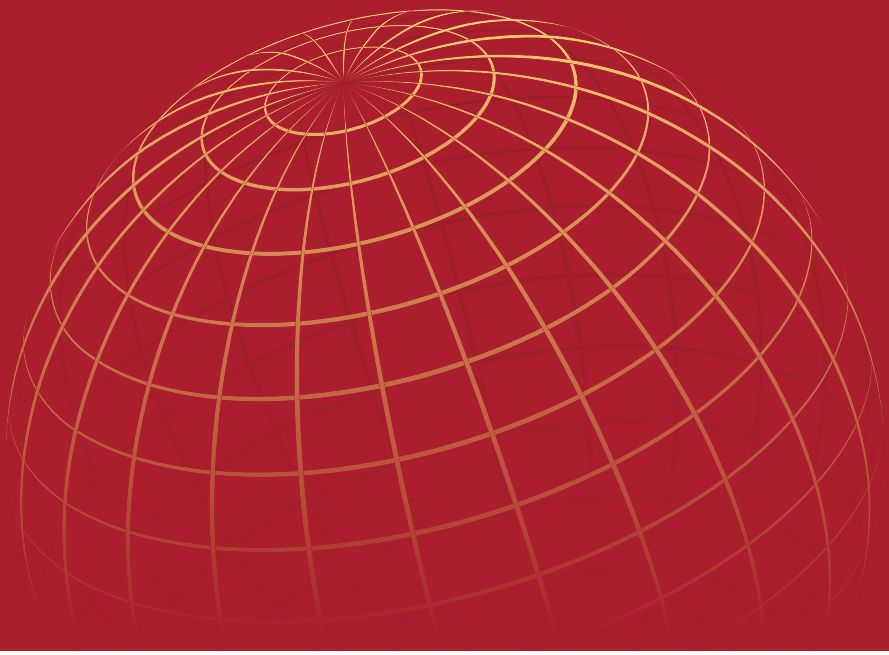


CHAPTER 1

GLOBAL OUTLOOK

The global economy is stabilizing, following several years of negative shocks. Global growth is projected to hold steady at 2.6 percent this year, despite flaring geopolitical tensions and high interest rates, before edging up to 2.7 percent in 2025-26 alongside modest expansions of trade and investment. Global inflation is expected to moderate at a slower clip than previously assumed, averaging 3.5 percent this year. Central banks in both advanced economies and emerging market and developing economies (EMDEs) are likely to remain cautious in easing policy. As such, markedly higher interest rates than prior to the pandemic are set to sustain for an extended period. Despite some improvement, the outlook remains subdued. Global growth over the forecast horizon is expected to be nearly half a percentage point below its 2010-19 average, with a slower pace of expansion in economies comprising over 80 percent of the global population. EMDE growth is projected to moderate from 4.2 percent in 2023 to 4 percent in 2024. Amid heightened conflict and violence, prospects remain especially lackluster in many vulnerable economies—over half of fragile and conflict-affected economies will still be poorer in 2024 than on the eve of the pandemic. Risks have become more balanced but remain tilted to the downside. Escalating geopolitical tensions could lead to volatile commodity prices. In a context of elevated trade policy uncertainty, further trade fragmentation risks additional disruptions to trade networks. More persistent inflation could lead to higher-for-longer interest rates. Other risks include weaker-than-anticipated activity in key economies and disasters related to climate change. Against this backdrop, policy makers face daunting challenges. Global efforts are needed to safeguard trade, support green and digital transitions, deliver debt relief, and improve food security. Still-pronounced inflation risks underscore the need for EMDE monetary policies to remain focused on price stability. High debt and elevated debt-servicing costs will require EMDE policy makers to balance sizable investment needs with fiscal sustainability. To meet development goals, policies are needed to raise productivity growth, improve the efficiency of public investment, build human capital, and close gender gaps in the labor market.

Summary

The global economy is stabilizing, following several years of overlapping negative shocks. Despite elevated financing costs and heightened geopolitical tensions, global activity firmed in early 2024. Global growth is envisaged to reach a slightly faster pace this year than previously expected, due mainly to the continued solid expansion of the U.S. economy. However, the extent of expected declines in global interest rates has moderated amid lingering inflation pressures in key economies. By historical standards, the global outlook remains subdued: both advanced economies and emerging market and developing economies (EMDEs) are set to grow at a slower pace over 2024-26 than in the decade preceding the pandemic (figure 1.1.A).

Domestic demand is projected to improve in many EMDEs this year, in line with a moderate cyclical recovery from the effects of high inflation, tight financial conditions, and anemic industrial activity. Aggregate EMDE growth is nonetheless poised to decelerate slightly mainly because of idiosyncratic factors in some large economies. Moreover, significant challenges persist in vulnerable economies—including in low-income countries (LICs) and those facing elevated levels of conflict and violence—where growth prospects have deteriorated markedly since January.

Global trade growth is recovering, supported by a pickup in goods trade. Services-trade growth is expected to provide less of a tailwind this year, given that tourism has nearly recovered to pre-pandemic levels. However, the trade outlook remains lackluster compared to recent decades, partly reflecting a proliferation of trade-restrictive measures and elevated trade policy uncertainty.

Aggregate commodity prices have increased since late last year. Amid fluctuations, average oil prices are expected to be slightly higher in 2024 than in 2023, underpinned by a tight demand-supply balance in a context of continued geopolitical tensions. Nonetheless, average energy prices are projected to be marginally lower this year than

Note: This chapter was prepared by Carlos Arteta, Phil Kenworthy, Nikita Perevalov, Peter Selcuk, Garima Vasishtha, and Collette Wheeler, with contributions from John Baffes, Mirco Balatti, Samuel Hill, Alen Mulabdic, Dominik Peschel, Shijie Shi, Naotaka Sugawara, and Takuma Tanaka.

TABLE 1.1 Real GDP[1]

(Percent change from previous year unless indicated otherwise)

	2021	2022	2023e	2024f	2025f	2026f	Percentage point differences from January 2024 projections 2024f	2025f
World	**6.3**	**3.0**	**2.6**	**2.6**	**2.7**	**2.7**	**0.2**	**0.0**
Advanced economies	**5.5**	**2.6**	**1.5**	**1.5**	**1.7**	**1.8**	**0.3**	**0.1**
United States	5.8	1.9	2.5	2.5	1.8	1.8	0.9	0.1
Euro area	5.9	3.4	0.5	0.7	1.4	1.3	0.0	-0.2
Japan	2.6	1.0	1.9	0.7	1.0	0.9	-0.2	0.2
Emerging market and developing economies	**7.3**	**3.7**	**4.2**	**4.0**	**4.0**	**3.9**	**0.1**	**0.0**
East Asia and Pacific	7.6	3.4	5.1	4.8	4.2	4.1	0.3	-0.2
China	8.4	3.0	5.2	4.8	4.1	4.0	0.3	-0.2
Indonesia	3.7	5.3	5.0	5.0	5.1	5.1	0.1	0.2
Thailand	1.6	2.5	1.9	2.4	2.8	2.9	-0.8	-0.3
Europe and Central Asia	7.2	1.6	3.2	3.0	2.9	2.8	0.6	0.2
Russian Federation	5.9	-1.2	3.6	2.9	1.4	1.1	1.6	0.5
Türkiye	11.4	5.5	4.5	3.0	3.6	4.3	-0.1	-0.3
Poland	6.9	5.6	0.2	3.0	3.4	3.2	0.4	0.0
Latin America and the Caribbean	7.2	3.9	2.2	1.8	2.7	2.6	-0.5	0.2
Brazil	4.8	3.0	2.9	2.0	2.2	2.0	0.5	0.0
Mexico	6.0	3.7	3.2	2.3	2.1	2.0	-0.3	0.0
Argentina	10.7	5.0	-1.6	-3.5	5.0	4.5	-6.2	1.8
Middle East and North Africa	6.2	5.9	1.5	2.8	4.2	3.6	-0.7	0.7
Saudi Arabia	4.3	8.7	-0.9	2.5	5.9	3.2	-1.6	1.7
Iran, Islamic Rep.[2]	4.7	3.8	5.0	3.2	2.7	2.4	-0.5	-0.5
Egypt, Arab Rep.[2]	3.3	6.6	3.8	2.8	4.2	4.6	-0.7	0.3
South Asia	8.6	5.8	6.6	6.2	6.2	6.2	0.6	0.3
India[2]	9.7	7.0	8.2	6.6	6.7	6.8	0.2	0.2
Bangladesh[2]	6.9	7.1	5.8	5.6	5.7	5.9	0.0	-0.1
Pakistan[2]	5.8	6.2	-0.2	1.8	2.3	2.7	0.1	-0.1
Sub-Saharan Africa	4.4	3.8	3.0	3.5	3.9	4.0	-0.3	-0.2
Nigeria	3.6	3.3	2.9	3.3	3.5	3.7	0.0	-0.2
South Africa	4.7	1.9	0.6	1.2	1.3	1.5	-0.1	-0.2
Angola	1.2	3.0	0.9	2.9	2.6	2.4	0.1	-0.5
Memorandum items:								
Real GDP[1]								
High-income countries	5.5	2.8	1.5	1.6	1.9	1.9	0.3	0.1
Middle-income countries	7.5	3.5	4.5	4.1	4.0	4.0	0.1	0.0
Low-income countries	4.1	5.0	3.8	5.0	5.3	5.5	-0.5	-0.3
EMDEs excluding China	6.5	4.3	3.4	3.5	4.0	3.9	0.0	0.2
Commodity-exporting EMDEs	5.8	3.4	2.6	2.8	3.4	3.2	-0.1	0.3
Commodity-importing EMDEs	8.0	3.9	4.9	4.7	4.3	4.3	0.3	-0.1
Commodity-importing EMDEs excluding China	7.3	5.3	4.5	4.4	4.6	4.7	0.2	0.1
EM7	7.8	3.3	5.1	4.5	4.0	4.0	0.4	-0.1
World (PPP weights)[3]	6.6	3.3	3.1	3.1	3.2	3.2	0.2	0.1
World trade volume[4]	**11.2**	**5.6**	**0.1**	**2.5**	**3.4**	**3.4**	**0.2**	**0.3**
							Level differences from January 2024 projections	
Commodity prices[5]								
WBG commodity price index	100.9	142.5	108.0	106.0	102.1	101.5	1.1	-0.1
Energy index	95.4	152.6	106.9	104.0	100.0	99.0	0.6	0.0
Oil (US$ per barrel)	70.4	99.8	82.6	84.0	79.0	78.1	3.0	1.0
Non-energy index	112.1	122.1	110.2	110.1	106.4	106.6	2.4	-0.2

Source: World Bank.

Note: e = estimate (actual data for commodity prices); f = forecast. EM7 = Brazil, China, India, Indonesia, Mexico, the Russian Federation, and Türkiye. WBG = World Bank Group. World Bank forecasts are frequently updated based on new information. Consequently, projections presented here may differ from those contained in other World Bank documents, even if basic assessments of countries' prospects do not differ at any given date. For the definition of EMDEs, developing countries, commodity exporters, and commodity importers, please refer to table 1.2. The World Bank is currently not publishing economic output, income, or growth data for Turkmenistan and República Bolivariana de Venezuela owing to lack of reliable data of adequate quality. Turkmenistan and República Bolivariana de Venezuela are excluded from cross-country macroeconomic aggregates.

1. Headline aggregate growth rates are calculated using GDP weights at average 2010-19 prices and market exchange rates.

2. GDP growth rates are on a fiscal year (FY) basis. Aggregates that include these countries are calculated using data compiled on a calendar year basis. For India and the Islamic Republic of Iran, the column for 2022 refers to FY2022/23. For Bangladesh, the Arab Republic of Egypt, and Pakistan, the column for 2022 refers to FY2021/22. Pakistan's growth rates are based on GDP at factor cost.

3. World growth rates are calculated using average 2010-19 purchasing power parity (PPP) weights, which attribute a greater share of global GDP to emerging market and developing economies (EMDEs) than market exchange rates.

4. World trade volume of goods and nonfactor services.

5. Indexes are expressed in nominal U.S. dollars (2010 = 100). Oil refers to the Brent crude oil benchmark. For weights and composition of indexes, see https://worldbank.org/commodities.

last—reflecting notable declines in prices for natural gas and coal—while remaining well above pre-pandemic levels. Metals prices are expected to be little changed over the forecast horizon, as demand related to metals-intensive clean energy investments and a broader pickup in global industrial activity attenuate the impact on commodity demand of declining real estate activity in China. Well-supplied markets for grains and other agricultural commodities should see edible food crop prices decline modestly.

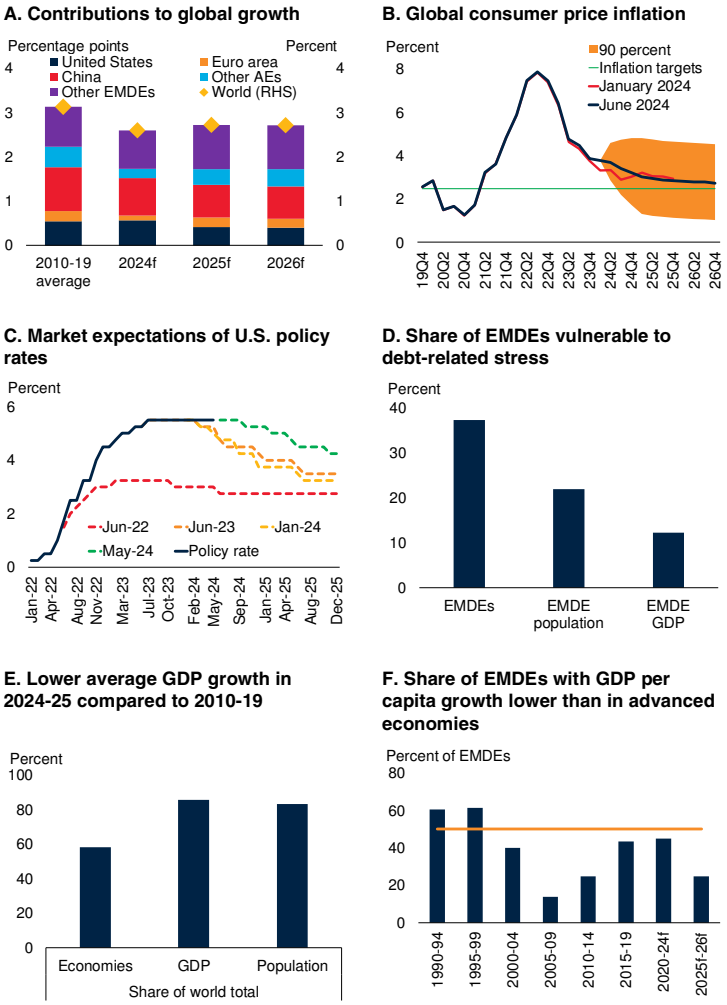
Inflation continues to wane globally, making progress toward central bank targets in advanced economies and EMDEs, but at a slower pace than previously expected. Core inflation has remained stubbornly high in many economies, supported by rapid growth of services prices. Over the remainder of 2024, continued tight monetary policy stances and slowing wage increases should help reduce inflation further. By the end of 2026, global inflation is expected to settle at an average rate of 2.8 percent, broadly consistent with central bank targets (figure 1.1.B).

The anticipated extent of monetary easing in advanced economies this year has diminished substantially since late 2023—by more than a percentage point in the case of the United States. Expected policy rate paths diverge across major economies, as the European Central Bank proceeds with policy easing while the U.S. Federal Reserve keeps rates on hold for longer. Indeed, aside from short-term fluctuations, market expectations for the path of U.S. interest rates have repeatedly moved higher since 2022 (figure 1.1.C). Despite this market reassessment, global financial conditions have eased this year, reflecting solid risk appetite following last year's progress on disinflation and diminished concerns about the possibility of a sharp slowdown in global growth. In particular, global equity markets have made sizable gains.

EMDE financial conditions similarly became more accommodative early this year, aided by declining domestic policy rates, improving global sentiment, and expected easing of advanced-economy monetary conditions. EMDE conditions turned somewhat less accommodative in the

FIGURE 1.1 Global prospects

The global economy is stabilizing but the outlook remains subdued—both advanced economies and EMDEs are projected to grow at a slower pace over 2024-26 than in the pre-pandemic decade. Recent upward pressures on global core inflation are anticipated to gradually ease, such that headline inflation converges to levels broadly consistent with central bank targets by 2026. Market expectations for the path of U.S. policy rates have been repeatedly revised higher. Amid elevated borrowing costs, about two-fifths of EMDEs are acutely vulnerable to debt stress. In 2024-25, growth is expected to underperform its 2010-19 average in countries comprising more than 80 percent of global output and population. The multiple shocks of recent years have impeded per capita income catch-up, with almost half of EMDEs losing ground relative to advanced economies over 2020-24.



Sources: Bloomberg; Consensus Economics; Fitch Ratings; International Monetary Fund; Moody's Analytics; Oxford Economics; S&P 500 Index; UN World Population Prospects; World Bank.

Note: f = forecast; AEs = advanced economies; EMDEs = emerging market and developing economies. GDP aggregates are calculated using real U.S. dollar GDP weights at average 2010-19 prices and market exchange rates.

B. Model-based GDP-weighted projections of consumer price inflation using Oxford Economics' Global Economic Model. Sample includes 65 economies, including 31 EMDEs, and excludes Argentina and República Bolivariana de Venezuela. Confidence bands are derived from Consensus Economics forecast errors using the pre-pandemic sample. Horizontal line shows the average of most recent country-specific inflation targets, where available, or the 2015-19 average.

C. Solid blue line is the upper bound of the target range for the U.S. federal funds rate. Dotted lines are vintages of market-based policy rate expectations, derived from derivatives markets.

D. Sample includes those with weak credit ratings and those judged by the International Monetary Fund and the World Bank to be in or at high risk of debt distress.

E. "Economies" refers to the share of countries, "GDP" refers to the share of world GDP, and "population" is the share of the world population.

F. Horizontal line indicates the 50 percent threshold.

second quarter, as a strengthening of the U.S. dollar—prompted by geopolitical tensions and firm inflation data in the United States—coincided with a bout of capital outflows. Although market perceptions of sovereign credit risk have generally eased this year, EMDE borrowing costs continue to be high, and marked divergences persist. Indeed, credit ratings and debt sustainability analyses indicate that about 40 percent of EMDEs remain acutely vulnerable to debt-related stress (figure 1.1.D).

Following two years of sharp fiscal consolidation at the global level, fiscal policy became generally supportive of growth in 2023, especially in advanced economies. Going forward, fiscal consolidation is projected to resume, exerting a material drag on near-term growth in advanced economies and a modest headwind in EMDEs. This reflects government efforts to rebuild fiscal space, which has been eroded by the run-up in debt since the onset of the pandemic and the sharp increases in borrowing costs.

Against this backdrop, global growth is expected to remain subdued at 2.6 percent in 2024—unchanged from the previous year—reflecting tepid investment growth amid broadly restrictive monetary policies, and moderating consumption growth, in part because of receding savings buffers and diminishing fiscal support. Growth is projected to edge up to an average of 2.7 percent in 2025-26, as trade growth strengthens and broad but measured monetary policy easing supports activity in both advanced economies and EMDEs.

Across the forecast horizon, global growth remains lackluster by recent historical standards, at about 0.4 percentage point below the 2010-19 average. In 2024-25, growth is set to underperform its average pace in the 2010s in nearly 60 percent of economies, representing more than 80 percent of global output and population (figure 1.1.E). The subdued outlook—despite the anticipated moderation of various cyclical headwinds—underscores a secular deceleration of potential growth in many large economies. Relative to pre-pandemic norms, growth has weakened notably in countries that experienced high rates of inflation, much of which emanated from shocks to supply chains and commodity prices. Yet this trend is set to continue in the coming years, suggesting potentially enduring supply-side weakness.

Growth in EMDEs is forecast to hover around 4 percent a year over 2024-26. Growth in China is expected to slow this year and ease further in 2025 and 2026, with cyclical headwinds weighing on growth in the near term, along with a continuing structural slowdown. Excluding China, EMDE growth is projected to edge up to 3.5 percent this year and then firm to an average of 3.9 percent in 2025-26. In many EMDEs, this pickup reflects improving domestic demand, supported by receding inflation and easing financial conditions, and a cyclical rebound in trade, reflecting firming demand from some advanced economies. Across EMDE regions, the outlook is expected to diverge somewhat, with growth forecast to be weaker than the 2010-19 average in East Asia and Pacific, Europe and Central Asia, and South Asia, but broadly returning to pre-pandemic averages in most other regions over 2025-26.

Growth in LICs is forecast to improve over the forecast horizon from a subdued 3.8 percent in 2023 to 5 percent this year. This reflects increasing activity among several commodity-exporting economies—mainly metal exporters—as well as expected improvement among fragile economies. However, forecasts have been downgraded significantly for several countries amid elevated uncertainty and ongoing conflicts. Moreover, despite the projected pickup, the recovery from the 2020 global recession will remain weak: growth in many LICs and economies in fragile and conflict-affected situations (FCS) is expected to underperform pre-pandemic growth rates by at least half a percentage point. Many LICs are poorer now than they were in 2019, and will continue to contend with acute economic challenges, including slow progress in poverty reduction, depleted fiscal space, and elevated susceptibility to debt distress.

GDP per capita in EMDEs is forecast to grow at about 3 percent on average over 2024-26, well below the average in 2010-19. Excluding China, EMDE per capita GDP growth is forecast to be

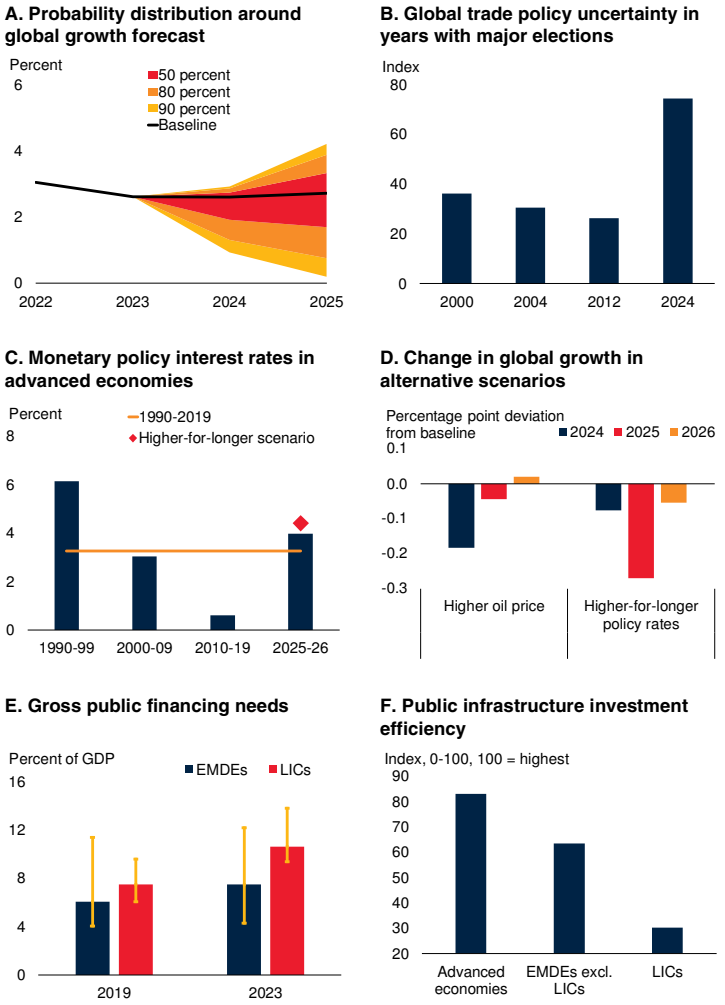
lower still, averaging 2.5 percent over 2024-26. Some large EMDEs, such as India, are expected to see continued solid per capita growth. Yet the trend of the 2020s so far is one of uneven and limited progress. Nearly half of EMDEs are set to lose ground relative to advanced economies when viewed over the 2020-24 period (figure 1.1.F). Although this trend is expected to improve somewhat over 2025-26 in EMDEs as a whole, per capita growth is set to remain stagnant in many LICs and FCS.

Risks to the outlook have become somewhat more balanced since January, with the global economy thus far proving resilient to high financing costs. However, the balance of risks remains tilted to the downside amid elevated uncertainty (figure 1.2.A). Heightened geopolitical tensions could sharply depress sentiment, disrupt trade and commodity markets, push up inflation, and hurt economic activity; in particular, a conflict-related disruption to global oil supply could push oil prices markedly higher and undermine the disinflation process. Elevated trade policy uncertainty—already at an unusually high level relative to previous years with major elections since 2000—and proliferating trade restrictions could weigh on trade prospects and economic activity (figure 1.2.B). Further trade fragmentation could have adverse global repercussions via declining economic confidence, increasing trade distortions, and related financial market reactions.

Advanced-economy interest rates are at levels last seen before the 2008-09 global financial crisis, and, in light of persistently above-target inflation and tight labor markets, they are likely to remain high for some time. Over the next couple of years, policy interest rates in advanced economies are expected to be more than double their 2000-19 average (figure 1.2.C). Although the global economy has withstood high interest rates better than was anticipated, interest rate-sensitive components of activity will continue to be restrained. Moreover, if further delays in the disinflation process emerge, policy rate cuts may be postponed. A higher resulting path for interest rates, relative to the baseline, could give rise to markedly tighter financial conditions and significantly weaker global growth (figure 1.2.D).

FIGURE 1.2 Global risks and policy challenges

Risks to the outlook are somewhat more balanced but remain skewed to the downside. Pronounced trade policy uncertainty—already at its highest level compared with other years of major elections since 2000—could portend further trade restrictions and weigh on global trade. Advanced-economy interest rates are expected to remain well above 2000-19 average levels and could turn out higher still if inflationary pressures persist, substantially slowing global growth. Conflict-related oil supply disruptions could raise oil prices, dampen economic activity, and undermine the disinflation process. EMDE fiscal policy makers confront exacting trade-offs, given elevated borrowing costs and large financing needs. Improving public investment efficiency in EMDEs is crucial, especially given constrained fiscal space.



Sources: Bloomberg; Caldara et al. (2020); Consensus Economics; Federal Reserve Bank of St. Louis; Haver Analytics; IMF (2021); Ohnsorge, Stocker, and Some (2016); Oxford Economics; IMF-WEO (database); World Bank.

Note: EMDEs = emerging market and developing economies; LICs = low-income countries.

A. Probabilities use the range and skewness implied by oil and equity price derivatives, and term spread forecasts. Values for 2024 and 2025 use 6-month- and 18-month-ahead forecast distributions. Last observation is May 30, 2024, and May 2024 for Consensus Economics forecasts.

B. Panel shows the average trade policy uncertainty index in the first five months of each year in which elections were held in countries cumulatively representing more than 30 percent of global GDP. Last observation is May 2024.

C. Average annual policy rates. Aggregates are calculated as GDP-weighted averages of the policy rates and policy rate expectations for the United States, the euro area (using aggregated national policy rates as a proxy over the 1990-99 period), and the United Kingdom. Policy rate expectations are based on futures curves observed on May 31, 2024.

D. Scenarios are produced using Oxford Economics' Global Economic Model.

E. Sample includes 98 EMDEs and 10 LICs. Data are medians. Whiskers show interquartile range.

F. Bars show group medians of the IMF (2021) public infrastructure efficiency index. Sample includes 27 advanced economies and 93 EMDEs, of which 15 are LICs.

Weaker-than-expected growth in China—triggered, for instance, by a more prolonged and deeper property sector downturn—could have notable negative spillovers, particularly for EMDE commodity exporters. Severe climate-change-related natural disasters could result in considerable losses in lives, livelihoods, and output. Such events could also cause spikes in food prices, stalling or even reversing the decline in global inflation and exacerbating food insecurity. These downside risks, should they materialize, would likely hit the poorest and most vulnerable EMDEs hardest.

On the upside, global disinflation could proceed at a faster pace than currently envisioned, aided by stronger productivity growth. This could be driven by the rapid adoption of new technologies, enabling advanced economies to extend recent gains and EMDEs to recoup post-pandemic productivity losses. Other possible triggers for lower inflation might include improvements in supply chains and greater declines in commodity prices than currently projected. Faster global disinflation would allow central banks to lower policy rates more than assumed. Global activity would likely strengthen as a result of both stronger productivity and lower policy rates, reflecting easier financial conditions, higher real incomes, and improved sentiment. In addition, EMDEs could benefit from firming capital inflows. Another upside risk is that U.S. growth could be higher than expected on account of continued strong labor supply dynamics, underpinned by rising labor force participation and elevated absorption of working-age migrants.

Policy makers face a range of daunting challenges. Coordinated improvements in debt relief will be necessary to free up resources for growth-enhancing investments, particularly in some of the most vulnerable EMDEs, given elevated financing needs (figure 1.2.E). Enhanced international cooperation is needed to tackle the threat of climate change, the fragmentation of trade networks, and mounting food insecurity and conflict. Global cooperation is also essential to leverage the benefits of new technologies such as artificial intelligence (AI), including by tapping AI solutions to address global challenges.

By late last year, most EMDE central banks were holding policy rates steady or lowering them, as inflation declined. However, in many EMDEs, bringing inflation durably to target will require a moderation of persistent service-sector price pressures. In this context, EMDE central banks can help anchor inflation expectations by communicating a steadfast focus on price stability and willingness to pause easing if necessary. Given reduced expectations for policy rate cuts by major advanced-economy central banks, continued monetary easing in EMDEs may further narrow interest rate differentials relative to advanced economies, potentially leading to increased financial market volatility. As such, confined interventions to manage capital flows and currency volatility could become appropriate in limited circumstances. In addition, close supervision of bank credit quality and capital levels, complemented by macroprudential policies, can help strengthen the resilience of EMDE financial sectors.

Fiscal space remains narrow in many EMDEs amid weak revenues and elevated debt-servicing costs. Decisive measures will be needed to boost fiscal resources for public investment. These could include reforms to mobilize domestic revenues, the harnessing of digital technologies to simplify tax payments and records management, and reform of costly and inefficient subsidies. Furthermore, even with increased public resources, improved spending efficiency will be needed to meet a wide range of development challenges. In particular, it is critical to improve infrastructure investment efficiency, where EMDEs significantly lag advanced economies (figure 1.2.F). In the case of small states, elevated exposure to external shocks poses a formidable fiscal challenge, underscoring the need to balance additional investments in human capital and climate-resilient infrastructure with the maintenance of adequate fiscal buffers.

To raise productivity growth, advance prosperity, and address persistent longer-term challenges, policies should aim to increase the scale and efficacy of public investment programs, enhance human capital, address climate change, and confront persistent food insecurity. Additionally, targeted policies are needed to better leverage

women's economic potential and reduce gender discrimination, as well as to address high youth unemployment rates in many EMDEs.

Global context

The near-term global economic landscape has improved, but notable challenges remain. Trade growth, which came to a halt last year, is showing signs of recovery amid a pickup in goods trade. Commodity prices have come off their 2022 peaks and supply-chain pressures have waned, helping to moderate global inflation. Yet the pace of disinflation has slowed since last year, particularly with respect to core prices. Monetary policy easing, as a result, is expected to proceed at a cautious pace as policy makers remain focused on ensuring price stability. Financial conditions in EMDEs have become less restrictive, in part because robust risk appetite has counterbalanced higher benchmark borrowing costs. However, about 40 percent of EMDEs remain vulnerable to debt-related stress.

Global trade

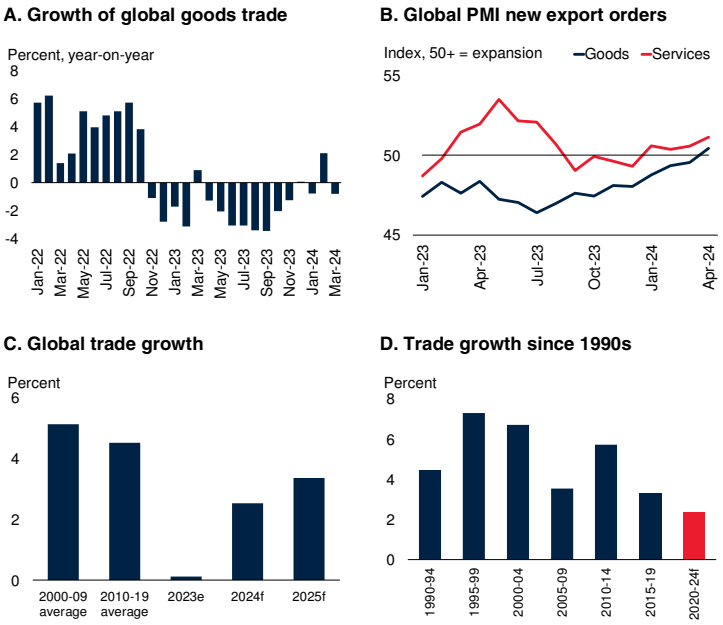
Global trade in goods and services was nearly flat in 2023—the weakest performance outside of global recessions in the past 50 years. Amid a sharp slowdown in global industrial production, the volume of goods trade contracted for most of 2023 and fell by 1.9 percent for the year as a whole (figure 1.3.A). The evolution of goods trade diverged across regions, with volumes declining in advanced economies, especially in Europe, and stagnating in EMDEs as expansions in China and Europe and Central Asia (ECA) offset contractions in Latin America and the Caribbean (LAC), Sub-Saharan Africa (SSA), and Middle East and North Africa (MNA).

The value of global services trade grew about 9 percent in 2023, driven primarily by a recovery in tourism flows—exports of travel services surged by about 38 percent (WTO 2024). However, the pace of expansion in tourism was substantially below that in 2022, with recent data indicating tourism activity in line with pre-pandemic levels, suggesting a near-full recovery in most regions. Stabilization in services trade is reflected in the steadying of the global services PMI for new export orders, which has remained closer to neutral thresholds compared to last year (figure 1.3.B).

The number of new trade-restricting measures is still well above pre-pandemic levels—although down from the historical high reached in 2023—exerting a further drag on global trade. Recent attacks on commercial vessels in the Red Sea, coupled with climate-related shipping disruptions in the Panama Canal, have affected maritime transit and freight rates along these critical routes (Bogetic et al. 2024). These disruptions, however, have not yet led to a substantial increase in global supply chain pressures or lengthened global supplier delivery times. Adverse effects have been

FIGURE 1.3 Global trade

Global trade in goods and services was nearly flat in 2023 amid goods trade contractions for most of the year. Leading indicators suggest that services trade has stabilized. Global trade in goods and services is projected to expand by 2.5 percent in 2024 and 3.4 percent in 2025 but remain well below the average rates of the two decades preceding the pandemic. In all, global trade growth in 2020-24 is set to register the slowest half decade of growth since the 1990s.



Sources: CPB Netherlands Bureau of Economic Analysis; Haver Analytics; World Bank.
Note: e = estimate; f = forecast; PMI = purchasing managers' index. Trade in goods and services is measured as the average of export and import volumes.
A. Panel shows goods trade volumes. Last observation is March 2024.
B. Panel shows manufacturing and services subcomponents of the global purchasing managers' index (PMI) new export orders series. PMI readings above (below) 50 indicate expansion (contraction). Last observation is April 2024.
D. Panel shows five-year averages of growth in global trade in goods and services.

limited to a few regions and specific industries so far.

Global trade growth is projected to pick up to 2.5 percent this year, a significant improvement from last year but well below the average rates observed in the two decades preceding the pandemic (figure 1.3.C). The forecast entails a pickup in goods trade growth after a sluggish start to the year, supported by a rebound in global goods demand as inventory restocking resumes in the United States and the euro area, and as demand from China stabilizes. Meanwhile, services trade growth is expected to stabilize near its pre-pandemic pace. In 2025, trade growth is expected to firm to 3.4 percent, in tandem with a pickup in growth in the euro area and EMDEs excluding China, and remain steady in 2026.

Despite the expected growth in trade this year, by the end of 2024 global trade is set to register the slowest half-decade of growth since the 1990s, mirroring subdued global GDP growth (figure 1.3.D). In the near term, the responsiveness of global trade to global output is likely to remain lower than before the pandemic, reflecting muted investment growth and the recent proliferation of trade restrictions worldwide.

The trade outlook is subject to various downside risks, including weaker-than-anticipated global demand, escalating geopolitical tensions, and further disruptions in maritime transport. Moreover, with elections taking place in many countries this year, heightened trade policy-related uncertainty and the potential for more inward-looking policies could weigh on trade prospects and economic activity.

Commodity markets

After a sharp decline between mid-2022 and mid-2023, commodity price swings were less pronounced in the second half of last year. In 2024, aggregate commodity prices have generally risen against a backdrop of tight supply conditions and signs of firmer industrial activity (figure 1.4.A). Average commodity prices are nonetheless forecast to recede slightly over the forecast period, mainly reflecting improving supply conditions, while remaining well above pre-pandemic levels (figure 1.4.B).

Oil prices have fluctuated this year, trending substantially higher in April in the context of escalating tensions in the Middle East, but subsequently pulling back (figure 1.4.C). Against a backdrop of continued geopolitical risks, the average price of Brent oil is forecast to be slightly higher this year than last, at $84/bbl, before receding to $79/bbl in 2025 amid the partial unwind of OPEC+ supply cuts and expanding non-OPEC+ production. The near-term oil price forecast is notably uncertain, however, given the potential for price spikes resulting from conflict-related supply disruptions.

Natural gas prices fell nearly 28 percent in the first quarter of 2024, relative to the previous quarter, amid robust production, mild winter weather, and elevated inventories. After reaching a nearly 30-year low in March, the price of U.S. natural gas surged in May, in part due to increased liquefied natural gas (LNG) exports. U.S. natural gas prices are expected to stabilize in the near term, before increasing further in 2025 as gas liquefaction capacity expands, allowing more supplies to be diverted to other markets (figure 1.4.D). European natural gas prices rebounded in the second quarter of 2024, reflecting persistent supply risks related to ongoing conflicts. Despite the anticipated growth of U.S. LNG exports, average European gas prices are envisaged to rise by 11 percent in 2025, as industrial activity picks up, supporting demand.

Most metal prices were relatively stable during the first quarter of this year. However, among precious metals, gold prices reached record highs, fueled by geopolitical concerns and central bank purchases. In the second quarter, copper prices rose to a record nominal high on supply concerns, while benchmark aluminum prices spiked after the introduction of new sanctions on the Russian Federation. Metals prices, excluding those of precious metals, are projected to remain little changed, on average, in 2024-25, staying well above pre-pandemic levels. Weaker metals demand associated with lower real estate investment in China is likely to be substantially

counterbalanced by firming global industrial demand and metals-intensive clean energy investments (figure 1.4.E).

Agricultural commodity prices were close to unchanged, in aggregate, in the first quarter. Average prices are set to soften somewhat in 2024-25. Food prices are forecast to dip by 6 percent in 2024 and 4 percent in 2025, mainly reflecting ample supplies for grains as well as oils and meals (figure 1.4.F). Volatile weather and increasing trade restrictions or disruptions could nonetheless push prices higher. Despite declining consumer food price inflation, acute food insecurity is estimated to have further worsened last year and doubled globally since 2019. Surging hunger is linked to a combination of still-elevated consumer food prices and proliferating violence and instability in vulnerable areas, notably in parts of the Middle East and Sub-Saharan Africa.

Global inflation

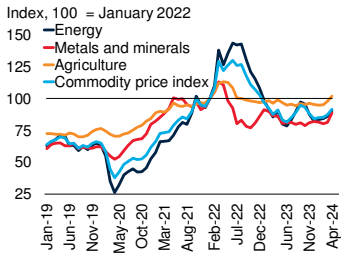
Global inflation has continued to decline, yet it remains above target in most advanced economies and in about one-fourth of inflation-targeting EMDEs. The initial phase of disinflation after the pandemic was underpinned by falling energy prices as well as waning supply chain pressures. Recently, the pace of consumer price disinflation has slowed, reflecting a partial rebound in energy prices, along with a notable slowdown in the rate of decline in core inflation (figure 1.5.A).

In advanced economies, disinflation in consumer goods prices appears to have bottomed out, while inflation in consumer services remains elevated (figure 1.5.B). In the United States, resilient economic activity, alongside rapid increases in the cost of shelter, has given rise to persistently high services and, more broadly, core inflation over the past few months. To some extent, the strength of U.S. productivity growth has mitigated these trends, likely lessening the inflationary effects of rising wages. In contrast, subdued productivity in the euro area has driven economy-wide labor costs higher, underpinning elevated core and services inflation, despite anemic euro area demand.

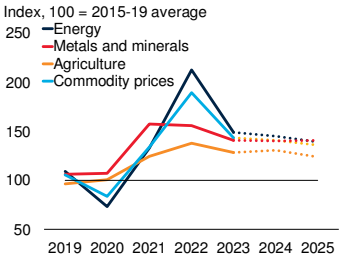
FIGURE 1.4 Commodity markets

Aggregate commodity prices have generally increased in 2024 after declining, on average, last year. Over the forecast period, commodity prices are projected to decline slightly but remain well above 2015-19 levels. Oil prices have remained volatile this year amid a confluence of heightened geopolitical tensions and OPEC+ production cuts. U.S. natural gas liquefaction capacity is set to advance next year, enabling more gas supplies to be diverted to other markets. Robust growth of clean energy investment is expected to continue supporting base metals prices. Food prices are projected to soften in the next two years, aided by growing supplies of grains and edible crops.

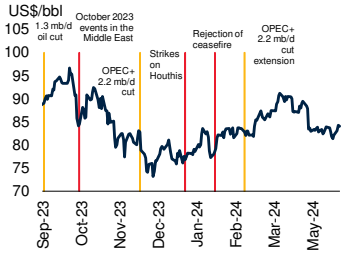
A. Commodity prices



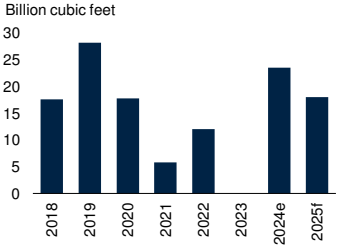
B. Commodity price projections



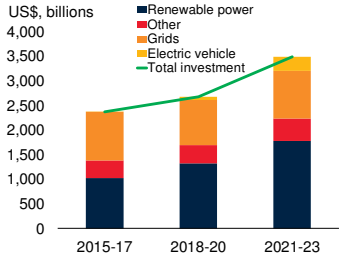
C. Oil prices and key events



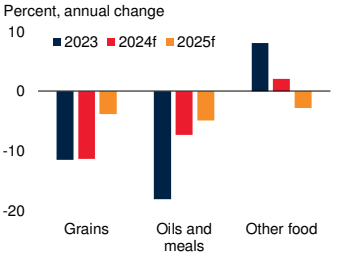
D. Additional U.S. natural gas liquefaction capacity



E. Global clean energy investment



F. Food commodity price forecasts



Sources: Bloomberg; IEA (2023); U.S. Energy Information Administration (EIA); World Bank.
Note: bbl = barrels; OPEC+ = Organization of the Petroleum Exporting Countries and Azerbaijan, Bahrain, Brunei Darussalam, Kazakhstan, Malaysia, Mexico, Oman, the Russian Federation, South Sudan, and Sudan.

A. Monthly data in U.S. dollar terms. Last observation is April 2024.

B. Commodity prices line refers to the World Bank commodity price index, excluding precious metals. Dashed lines indicate forecasts.

C. Daily Brent prices. Last observation is May 29, 2024. Yellow lines show the 1.3 and 2.2 million barrels per day (mb/d) cuts. Red lines indicate geopolitical events, including the October 2023 events in the Middle East, the strikes on Houthis by the United Kingdom and United States, and the rejection of the ceasefire in Gaza.

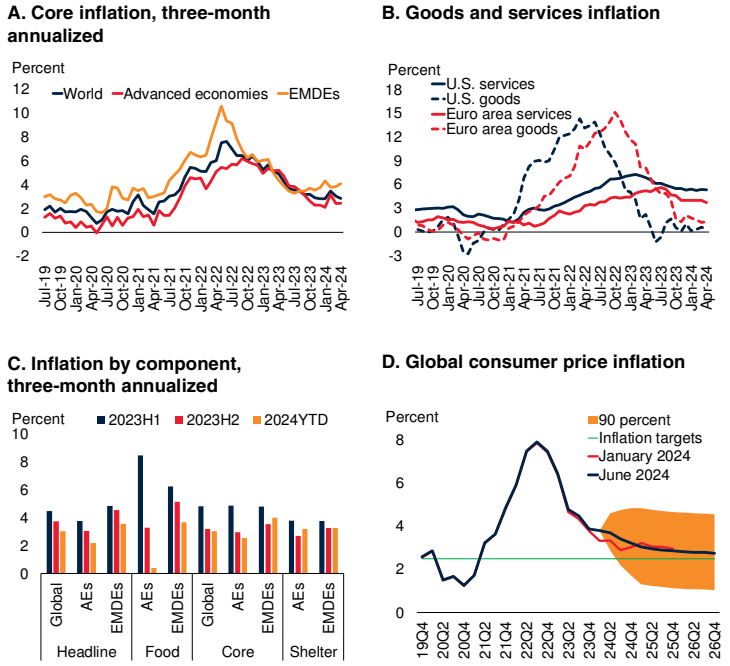
D. 2024 and 2025 are EIA estimates based on up-to-date project information. Last update is 2024Q1.

E. Total global investment in each three-year period. 2023 values are estimated. "Other" refers to end-use renewable energy, electrification in building, transport, and industrial sectors, and battery storage.

F. 2024 and 2025 values are forecasts.

FIGURE 1.5 Global inflation

The pace of decline in core inflation has slowed this year. In major advanced economies, disinflation in consumer goods prices appears to have bottomed out, while inflation in consumer services prices remains elevated. High core inflation in EMDEs was driven by services, including shelter. Global inflation is expected to gradually decelerate toward average inflation targets by 2026, amid softening core inflation.



Sources: Eurostat; Federal Reserve Bank of St. Louis; Haver Analytics; Oxford Economics; World Bank.

Note: AEs = advanced economies; EMDEs = emerging market and developing economies; YTD = year to date.

A. Panel shows median consumer price inflation excluding food and energy, measured in three-month annualized percent changes. Sample includes up to 32 advanced economies and 46 EMDEs. Last observation is April 2024.

B. Panel shows year-on-year consumer price inflation in the goods and services categories. U.S. goods inflation is a weighted average of consumer durable and nondurable price inflation rates, U.S. services excludes energy services. Last observation is April 2024.

C. Median three-month annualized inflation rates by component; averages computed over months in the first and second halves of 2023, and year-to-date in 2024. Sample includes up to 36 advanced economies and 100 EMDEs. Last observation is April 2024.

D. Model-based GDP-weighted projections of consumer price inflation using Oxford Economics' Global Economic Model. Sample include 65 economies, including 31 EMDEs, and excludes Argentina and República Bolivariana de Venezuela. Confidence bands are derived from Consensus Economics forecast errors using the pre-pandemic sample. The green line shows the average of most recent country-specific inflation targets. The 2015-2019 average is used when the target is not available.

In EMDEs, headline inflation has generally continued to recede on a 12-month basis. Across most EMDEs in East Asia and Pacific (EAP) and LAC, headline inflation broadly continued to trend near or below pre-pandemic averages through late 2023 and early 2024, despite reaccelerating in some countries. However, progress has been slow and uneven in other regions, with elevated core price increases contributing to high headline inflation rates. As in advanced economies, persistently high core inflation in EMDEs has been driven by services prices, including for shelter (figure 1.5.C).

Greater-than-anticipated inflationary pressures earlier this year have led to an upward revision to the projection for near-term global inflation (figure 1.5.D). Nevertheless, aside from a small group of countries where very high inflation reflects idiosyncratic domestic challenges, global inflation is expected to decline to 3.5 percent in 2024, before easing further, to 2.9 percent in 2025 and 2.8 percent in 2026, broadly consistent with average country inflation targets. The slowdown is expected to be driven by softening core inflation, as services demand moderates and wage growth slows, in addition to a modest decline in commodity prices. Surveys of inflation expectations similarly imply gradual global disinflation over the next two years.

Global financial developments

Global financial conditions have eased, on balance, since last year, primarily reflecting declines in risk premia amid still-elevated interest rates. Central banks across major advanced economies are expected to gradually lower policy rates this year, but the level of real interest rates is set to remain a headwind to economic activity—albeit a diminishing one—for some time. Policy rate projections derived from financial markets have been volatile since U.S. policy tightening started in 2022, with expectations repeatedly revised higher over time (figure 1.6.A). Meanwhile, most advanced-economy central banks continue to emphasize that the pace of easing will be cautious, reflecting persistent inflationary pressures—and, in the case of the United States, robust economic activity. As such, government bond yields are well above pre-pandemic levels and are likely to remain so, absent large negative shocks to growth.

Risk appetite picked up globally early in the year—particularly in advanced economies—signaling optimism that continued steady disinflation might accompany resilient growth. With volatility subdued, advanced economy equity valuations reached elevated levels, especially

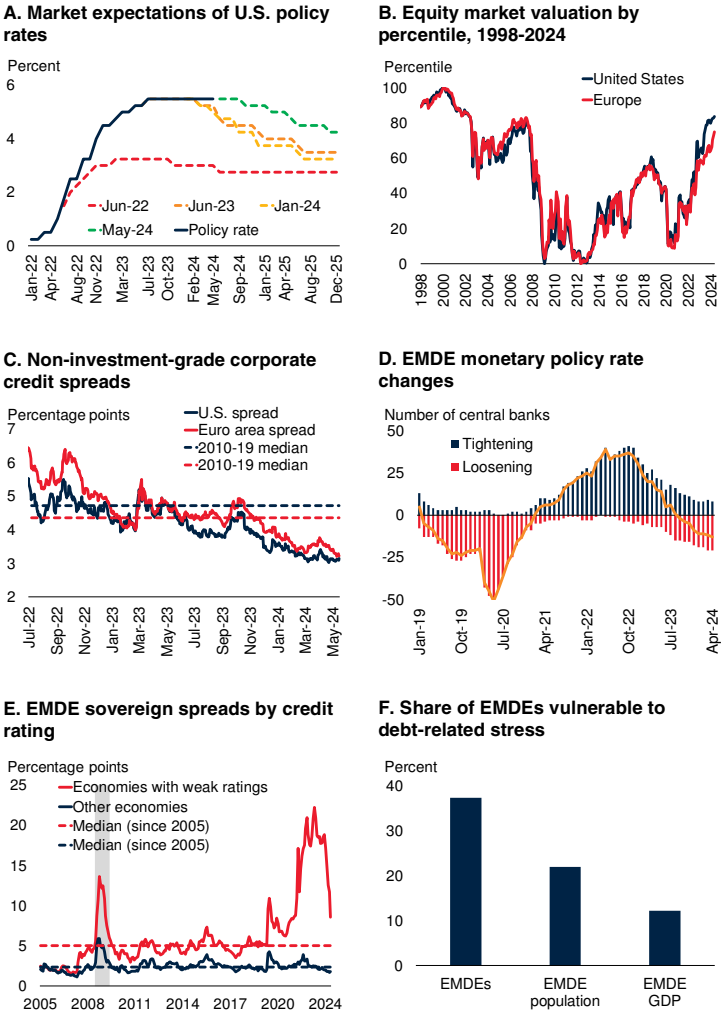
in the United States, where confidence regarding potential productivity gains from AI played a key role (figure 1.6.B). Sentiment briefly wilted in April, amid firm U.S. inflation data and escalating geopolitical tensions, but rebounded thereafter. Although the cost of credit remains high, perceptions of corporate credit risk appear muted—except for asset classes, such as office real estate, that have been adversely affected by structural post-pandemic shifts in activity. Corporate credit spreads remain well below 2010-19 average levels in both the United States and the euro area (figure 1.6.C). Banks in these jurisdictions continue to report tightening of standards for lending to firms, but by markedly narrowing majorities.

EMDE financial conditions also eased in the first quarter of 2024, reflecting expectations of easing advanced-economy monetary conditions, improving global investor sentiment, and ongoing policy rate cuts in many large EMDEs (figure 1.6.D). Conditions turned less accommodative early in the second quarter, as safe haven flows and declining expectations of U.S. rate cuts stoked a notable strengthening of the U.S. dollar and a bout of debt and equity portfolio outflows. Sovereign spreads have nonetheless trended to below 2010-19 levels in the majority of middle-income EMDEs, signaling investor confidence that financial stress risks are broadly contained. In contrast, spreads remain elevated among EMDEs with weak credit ratings, even if they have declined substantially this year (figure 1.6.E).

Indeed, despite some easing of global conditions, financial stress concerns remain acute in about 40 percent of EMDEs—comprising those with weak credit ratings, and those where debt sustainability analyses indicate a high risk of, or existing, debt distress (figure 1.6.F). Among weakly rated countries that had market access in the 2010s, a combination of political instability, the pandemic and other external shocks, and financial crises in the 2020s has rendered non-concessional debt prohibitively expensive. Among unrated countries—many of them low-income countries—debt burdens have grown increasingly severe owing to a decade of debt build-up in the 2010s, coupled with anemic post-pandemic recoveries and rising debt-service costs (World Bank 2023a).

FIGURE 1.6 Global financial developments

Financial market expectations for the path of U.S. policy rates have been repeatedly revised higher. The tightening of global financial conditions through higher interest rates has been dampened, however, by narrowing risk premia, reflected in buoyant equity valuations and tight corporate credit spreads. On net, EMDE central banks have been easing policy since the second half of 2023. EMDE sovereign risk spreads have declined, but they remain elevated among economies with weak credit ratings. In all, nearly 40 percent of EMDEs—home to about one-fifth of the EMDE population—face an elevated likelihood of debt-related stress.



Sources: Barclays; Bloomberg; Federal Reserve Bank of St Louis; Fitch Ratings; Haver Analytics; Ice Data Indices; International Monetary Fund; J.P. Morgan; Moody's Analytics; MSCI (database); S&P 500 Index; UN World Population Prospects; World Bank.

Note: EMDEs = emerging market and developing economies.

A. Solid blue line represents the upper bound of the target range for the U.S. federal funds rate. Dotted lines represent vintages of market-based expectations for the upper bound of the policy rate range.

B. Lines depict the percentile rank of equity index valuations. Underlying valuation is based on the excess earnings yield, where lower (higher) excess yield implies higher (lower) valuation. Excess earnings yield is the cyclically adjusted earnings yield (inverse CAPE ratio) minus the 10-year inflation-protected U.S. Treasury yield. Last observation is April 2024.

C. Corporate credit spreads derived from indexes of option-adjusted high-yield corporate bonds. Last observation is May 29, 2024.

D. Bars indicate number of central banks raising (lowering) policy rates in the preceding three months. Yellow line indicates net number of central banks. Sample includes 58 EMDEs and excludes economies with strict currency pegs. Last observation is April 2024.

E. Median spreads for up to 22 weakly rated EMDEs and up to 49 other EMDEs. Weak ratings are defined as Caa+/CCC+ and below for long-term foreign currency debt. Shaded areas represent September 2008-August 2009 and January-December 2020.

F. Sample of vulnerable EMDEs includes those with weak credit ratings, and those judged by the International Monetary Fund and the World Bank to be in or at high risk of debt distress.

Major economies: Recent developments and outlook

Advanced economies

Growth in advanced economies slowed to 1.5 percent in 2023, with notable divergences. Growth in the United States strengthened to 2.5 percent last year, owing primarily to robust consumption, government spending, and significantly reduced imports of goods and services. Consumption was supported by continued spending out of savings accumulated during the pandemic and a healthy expansion of household balance sheets as equity prices gained rapidly last year. A substantial widening of the U.S. budget deficit in 2023 (fiscal year), to over 6 percent of GDP at the federal level, also played a role in boosting growth (CBO 2024a). In contrast, euro area growth slowed sharply last year, driven by weak consumption growth, reflecting the impact of high energy prices on household budgets.

Aggregate growth in advanced economies is projected to remain at 1.5 percent in 2024, with activity in key economies continuing to diverge. Weak activity in the euro area and Japan, in large part as a result of continued feeble domestic demand, will be accompanied by resilient growth in the United States. Next year, amid a projected slowdown in the United States, coupled with firming growth in the euro area, the contrast in growth performance across major economies is likely to become less stark.

The near-term outlook for monetary policy differs among advanced economies. The easing of monetary policy in the United States is expected to begin later than previously assumed—given resilient activity and above-target inflation. This lags the recent policy rate cut in the euro area, where the impacts of past supply shocks on inflation continue to fade. Meanwhile, fiscal policy is envisaged to tighten substantially in 2024 relative to 2023 for many advanced economies, exerting a drag on growth.

In the **United States**, growth is forecast to average 2.5 percent this year, and moderate to a below-trend rate of 1.8 percent in 2025. Relative to previous projections, growth in 2024 has been revised up by 0.9 percentage point, as data releases earlier this year surprised to the upside, particularly on the consumer spending side. The slowdown in 2025 is expected to be driven primarily by the cumulative effects of past monetary tightening and a contractionary fiscal stance. Elevated real borrowing rates are set to restrain household spending on durable goods and residential investment. In line with the recent softening in high-frequency indicators, broader consumer spending is expected to slow due to moderating growth in household income as labor market tightness recedes and savings diminish.

The boost to consumption growth from household wealth gains is likely to moderate owing to slowing increases in real estate net worth, which has historically had substantial effects on consumer spending (Carroll, Otsuka, and Slacalek 2011). Increases in house prices tapered off toward the end of 2023 and are expected to remain well below the strong pace seen over the past few years. As wealth gains slow, household income growth is also expected to ease sequentially throughout 2024, with the labor market continuing to soften and U.S. job openings declining (figure 1.7.A). Rising labor supply is expected to contribute to labor market rebalancing, including from continued robust net migration (figure 1.7.B). On the fiscal side, with a relatively stable or slightly lower deficit expected over the next few years, fiscal policy is not expected to be a significant driver of growth.

In 2026, growth is expected to remain at 1.8 percent, as a further slowdown in fiscal spending offsets a modest pickup in consumer spending and business investment. By the end of 2026, borrowing rates are expected to have declined substantially as inflation returns close to target.

In the **euro area**, growth slowed sharply in 2023, reflecting tight credit conditions, feeble exports, and elevated energy prices. Trade volumes declined in 2023 for the first time outside of an annual euro area contraction, in large part reflecting a loss of export competitiveness amid elevated energy prices. Growth appears to have bottomed out, however, though with key

differences across sectors and member countries. Services activity suggests incipient improvement in early 2024, but this has been offset by weaker-than-expected industrial activity, especially in the manufacturing sector in Germany. Growth is forecast to firm only slightly in 2024, to 0.7 percent, supported by an ongoing recovery in real incomes but dampened by still-subdued investment and export growth. Consumer spending is expected to edge higher in 2024, as inflation declines and wages continue to rise, albeit at a more moderate pace (figure 1.7.C).

Growth is forecast to pick up in 2025, to 1.4 percent, as the recovery in export and investment growth gathers pace, with the latter benefiting from lower policy rates and the absorption of EU funds. In 2026, economic activity is projected to expand at a relatively stable pace of 1.3 percent, slightly above potential growth estimates as reforms under the European Union's NextGenerationEU plan start to bear fruit. In some large euro area members, national fiscal policy is expected to exert a drag on activity in the near term.

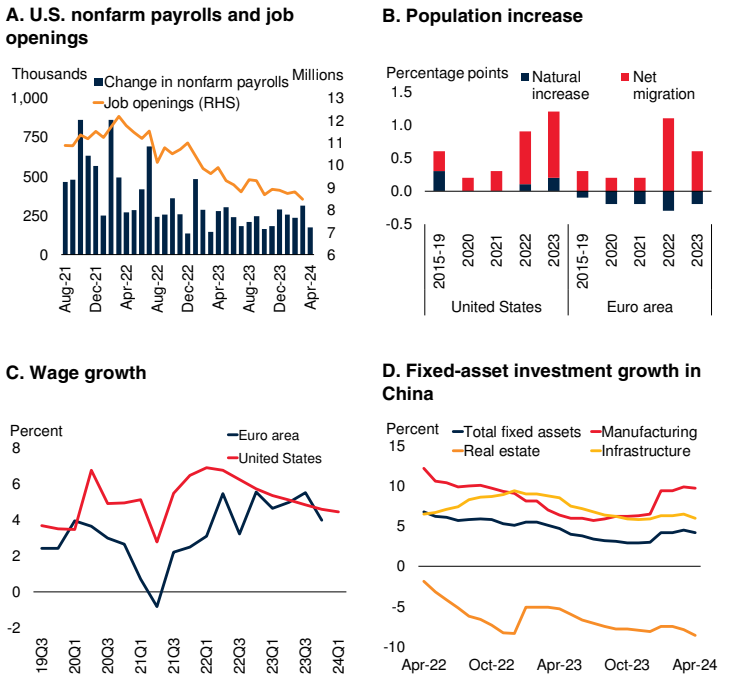
In **Japan**, growth is expected to decelerate to 0.7 percent in 2024, due to a feeble expansion in consumption and slowing exports amid normalizing auto production and stabilizing tourism demand. Output is projected to grow at an average rate of 1 percent in 2025 and 0.9 percent in 2026, on slight improvements in consumer spending and capital investment. The Bank of Japan discontinued major unconventional policy measures—yield curve control, negative interest rates, and some asset purchases—in March 2024, and raised the range for the short-term policy rate to 0-0.1 percent, while also signaling possible further monetary action if inflation risks rise, including in the context of rapid depreciation of the yen.

China

Growth in China edged up in early 2024, supported by a positive contribution from net exports that offset softening domestic demand. Following weakness last year, exports and imports have both strengthened. Meanwhile, overall investment growth has remained tepid, with solid infrastructure and manufacturing investment set against declining real estate investment as the property sector downturn—now in its third year—continues (figure 1.7.D). Property prices and sales have fallen further, and property developers have experienced renewed financing pressures. Amid weak consumer confidence, domestic consumption has also remained subdued, with retail sales growth below pre-pandemic averages. Headline consumer prices have increased modestly this year, after declining

FIGURE 1.7 Major economies: Recent developments and outlook

U.S. labor market tightness has been receding, with the level of job openings declining since its mid-2022 peak. Rising labor supply, including that from robust net migration, is expected to continue to support the re-balancing in the U.S. labor market. Euro area consumer spending is expected to edge higher in 2024, partly on the back of continued wage growth. In China, overall investment growth remained tepid in early 2024, with solid infrastructure and manufacturing investment set against continued declines in real estate investment.



Sources: Congressional Budget Office (2024b); Eurostat; Federal Reserve Bank of St. Louis; Haver Analytics; National Bureau of Statistics of China; Organisation for Economic Co-operation and Development; World Bank.

A. Panel shows the level of total nonfarm job openings in millions, and the change in nonfarm payrolls in thousands. Last observation is April 2024 for unemployment and March 2024 for job openings.

B. Blue bars show the contribution to the annual change in population (in percentage points) from the natural increase (the difference between the number of births and deaths); red bars show the contribution from net migration, which is the difference between immigration and emigration. Statistics for the euro area for 2023 are based on Eurostat's baseline projections.

C. Solid lines show year-on-year growth in wages: nonsupervisory average hourly wages in the United States and private sector earnings in the euro area.

D. Year-on-year growth of year-to-date total fixed assets, manufacturing, real estate, and infrastructure investment. Last observation is April 2024.

late last year on the back of falling food prices, and core inflation has remained well below the target of about 3 percent. Producer prices have continued to decline, reflecting weak demand.

To bolster demand, additional spending measures have been announced—including for infrastructure projects—building on a raft of policies implemented late last year. In tandem, the People's Bank of China cut interest rates and the reserve requirement ratio. As property-related bank lending declined, the government established a scheme to facilitate liquidity provision to real estate developers to support the completion of viable property projects, as well as to help promote confidence. Further measures were also introduced aimed at boosting property demand, including removing the residential mortgage rate floor and lowering down payment requirements for borrowers.

With activity anticipated to soften in the second half of this year, growth is projected to slow to 4.8 percent in 2024, from 5.2 percent in 2023, as an expected uptick in goods exports and industrial activity supported by the global trade recovery is offset by weaker consumption. Compared with January projections, growth has been revised up 0.3 percentage point, reflecting stronger-than-expected activity in early 2024, particularly exports. Investment is envisaged to remain subdued. While government spending will continue to prop up infrastructure investment, local government financing pressures will constrain fiscal support. The property sector is assumed to stabilize only toward the end of the year. Although inflation is set to pick up this year as the drag from falling food prices fades, it is anticipated to remain well below target amid slowing consumption and weak demand pressures. Producer price pressures are also set to remain weak in the context of subdued activity and softening prices for commodities, particularly energy and metals.

Growth is projected to decline further in 2025 to 4.1 percent—0.2 percentage point lower than projected in January owing primarily to a weaker outlook for investment—and 4 percent in 2026, as slowing productivity growth and investment as well as mounting public and private debt weigh on activity. With the population falling for the second consecutive year in 2023, and amid a low and declining fertility rate, demographic headwinds are expected to intensify, dragging potential growth lower.

Emerging market and developing economies

EMDE growth is projected to edge down from 4.2 percent in 2023 to 4 percent in 2024 and then remain broadly stable over the forecast horizon. Decelerating activity in China is projected to be offset by firming growth in other EMDEs due to improvements in domestic demand and a recovery in trade. However, aggregate EMDE output is projected to remain on a path notably below its pre-pandemic trajectory, indicating sizable long-term scarring from the crises of the past four years. After a sharp slowdown last year, growth in LICs is projected to pick up over the forecast horizon, although to an appreciably lesser degree than previously expected.

Recent developments

After softening in the second half of 2023, activity in EMDEs generally stabilized in early 2024, with indicators of domestic demand, including retail sales and consumer confidence, firming somewhat (figures 1.8.A and 1.8.B). In early 2024, headline manufacturing and services sector PMIs broadly moved up, with a still greater improvement in headline manufacturing PMIs for EMDEs excluding China (figure 1.8.C). Economic conditions have nonetheless continued to diverge, with ongoing weakness among vulnerable EMDEs. Growth in countries with stronger credit ratings has so far outpaced growth in weaker-rated countries, including many grappling with high debt and financing costs, and in those facing acute challenges, such as elevated levels of domestic conflict and violence.

EMDE goods trade growth has shown signs of improvement, with the manufacturing component of new export orders PMIs returning to expansionary territory in early 2024, for the first time since mid-2023 (figure 1.8.D). In contrast,

services exports decelerated in most EMDEs, reflecting an increasingly mature tourism recovery following the pandemic. However, countries that lifted pandemic-related restrictions later, mostly in East Asia and Pacific (EAP), continue to see a rebound in tourist flows.

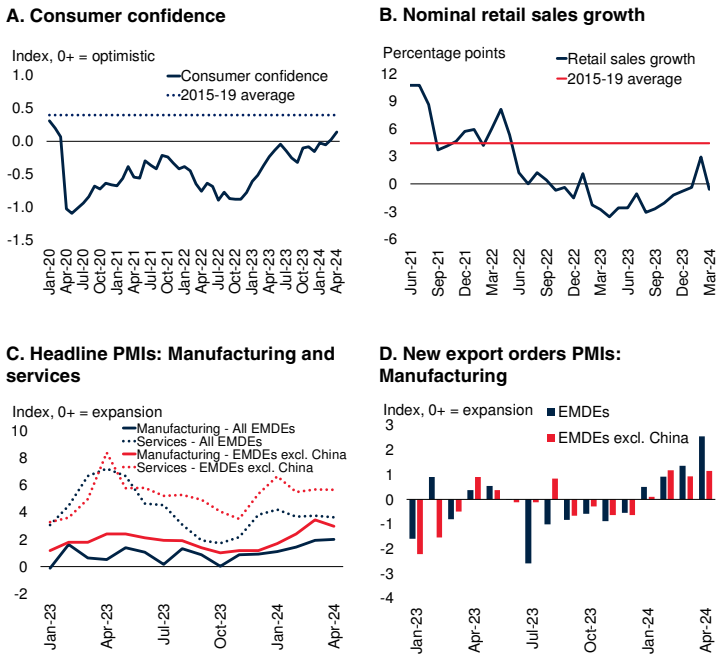
Activity in commodity exporters has continued to face headwinds in early 2024, amid sluggish global industrial production. In oil exporters, this has been somewhat offset by robust foreign direct investment (FDI) in the extractives sector. Still, activity, fiscal revenue, and export earnings in oil exporters have been dampened by subdued global demand—giving rise to OPEC+ oil production cuts—as well as by infrastructure constraints related to aging oil fields in some cases.

Activity in commodity importers excluding China has been robust. This mostly reflects resilience in some large economies, notably India, owing to continued strength in domestic demand. Growth has been more muted in other commodity importers so far this year. After goods export volumes contracted in 2023, the rebound seen in early 2024 has been somewhat limited, especially in economies with large export-oriented manufacturing sectors, partly owing to lukewarm external demand from major trading partners. Furthermore, elevated prices for food and energy remain a constraint on disposable incomes, dampening consumption growth.

Growth in LICs decelerated by 1.2 percentage points to 3.8 percent in 2023 from a year earlier, mainly reflecting violent conflict in some countries. Pervasive violence and political instability exacerbated challenging economic and humanitarian situations, particularly in the Sahel region of Africa and its adjacent countries. At the same time, activity in some major LICs continued to expand at a solid pace—such as in the Democratic Republic of Congo, on account of strong mining activity, and in Ethiopia, reflecting good harvests and steady services sector growth. Consumer price inflation in LICs has, on average, continued to decline in early 2024, providing some respite for consumption growth. Notably, food price inflation has slowed in many LICs. Food insecurity nonetheless remains elevated, with an estimated 127 million people in LICs suffering from food crisis or worse conditions in 2024 (FSIN and GNAFC 2024).

FIGURE 1.8 Recent developments in emerging market and developing economies

Activity in EMDEs generally stabilized in early 2024, with consumer confidence and retail sales firming somewhat. Measures of headline manufacturing and services activity firmed across EMDEs, and leading indicators of new export orders pushed into expansionary territory, in line with an anticipated rebound in global trade.



Sources: Haver Analytics; World Bank.
Note: EMDEs = emerging market and developing economies; PMI = purchasing managers' index.
A. Panel shows the standardized deviation of average consumer confidence from the 2015-19 average. Sample includes up to 12 EMDEs. Last observation is April 2024
B. Panel shows the percentage-point deviation of nominal monthly retail sales growth from pre-pandemic averages. Sample includes 15 EMDEs. Last observation is March 2024.
C. Panel shows the weighted average of a sample that includes 21 EMDEs. Readings above (below) zero indicate expansion (contraction). Monthly readings are centered on 50, the expansionary threshold. Last observation is April 2024.
D. Panel shows the weighted average of a sample that includes 21 EMDEs. Readings above (below) zero indicate expansion (contraction). Monthly readings are centered on 50, the expansionary threshold. Last observation is April 2024.

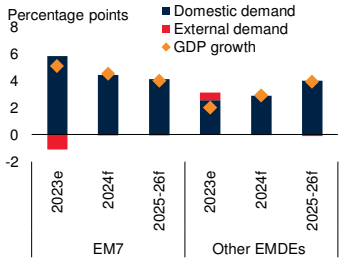
EMDE outlook

Aggregate growth in EMDEs is forecast to edge down from 4.2 percent in 2023 to 4 percent in 2024 and remain broadly stable over 2025-26, near estimates of EMDE potential growth for the 2020s. However, these aggregates mask notable differences in regional trends, with the expected pace of growth falling short of the 2010-19 average in EAP, ECA, and South Asia (SAR), but

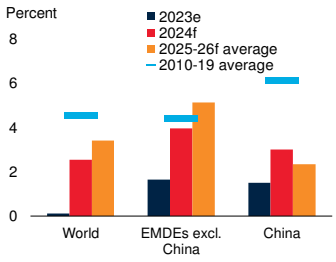
FIGURE 1.9 Outlook in emerging market and developing economies

While domestic demand growth is expected to moderate in some large EMDEs due to idiosyncratic factors, it is projected to pick up in many other economies. In many EMDEs, trade growth is also expected to firm over the forecast horizon but would still fall short of pre-pandemic averages in some cases. Relatively supportive commodity prices are anticipated to lift growth among commodity exporters. Despite a cyclical upswing in growth in EMDEs excluding China over 2025-26, output is expected to remain noticeably below its pre-pandemic trend, suggesting significant economic scarring.

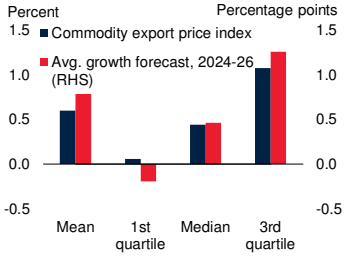
A. Domestic and external demand, by country group



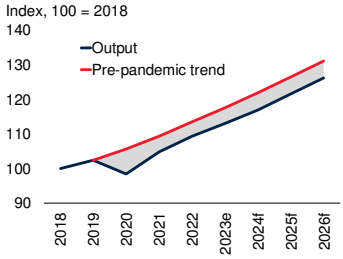
B. Trade growth, by country group



C. Growth and commodity prices in commodity exporters, deviation from 2010-19 averages



D. Output in EMDEs excluding China



Sources: International Monetary Fund; World Bank.

Note: e = estimate; f = forecast; EMDEs = emerging market and developing economies; EM7 = Brazil, China, India, Indonesia, Mexico, the Russian Federation, and Türkiye. GDP aggregates calculated using real U.S. dollar GDP weights at average 2010-19 prices and market exchange rates.

A. Projected contribution to growth of domestic demand and net exports, and GDP growth for EM7 and Other EMDEs (EMDEs excluding the EM7). The discrepancy between GDP and sum of domestic demand and external demand (net exports) is explained by inventories and statistical residuals.

B. Forecast total trade growth 2024-26 compared to the 2010-19 average for selected country groups. Trade is measured as the average of import and export volumes.

C. Red bars show the deviation of projected GDP growth (averaged over 2024-26) in commodity exporters from their 2010-19 averages. Blue bars show the deviation of country-specific 2023 commodity export price indexes from their 2010-19 averages for these countries.

D. Panel shows the level of GDP for EMDEs excluding China compared to their pre-pandemic trends through 2026 (2018 = 100). For 2023 and beyond, the January 2020 baseline is extended using projected growth for 2022.

returning close to pre-pandemic averages in other regions over 2025-26, partly owing to still-supportive commodity prices (box 1.1). Excluding China, EMDE growth is projected to inch up to a still subdued pace of 3.5 percent this year, before firming to about 3.9 percent in 2025-26, reflecting a cyclical upswing as monetary policy becomes less restrictive and demand from advanced economies gathers pace.

In 2024, the contribution to growth from domestic demand in EMDEs is expected to soften relative to 2023, before firming over 2025-26. The weaker contribution from domestic demand this year, however, largely reflects idiosyncratic developments in some of the seven largest EMDEs (EM7), following strong performance in 2023 (chapter 2).[1] In most of these economies, consumption growth is anticipated to decelerate in 2024, as the boost from idiosyncratic factors fades, and then stabilize over 2025-26. In contrast, in other EMDEs, domestic demand is expected to gather pace over the forecast horizon (figure 1.9.A). Among these economies, private consumption is envisaged to rebound in 2024 and further strengthen over 2025-26, with declining inflation and interest rates supporting real household incomes and consumer confidence. The rebound in consumption is expected to be broad-based across most regions.

The profile of investment is projected to broadly mirror that of private consumption, with varying trends between the largest EMDEs and others. For the EM7 as a whole, investment growth is expected to decelerate this year, from 2023, and then proceed at a moderate rate over 2025-26. Notably, investment in China is anticipated to remain tepid, although this is envisaged to have a somewhat limited impact on other EMDEs, as declining commodity demand for real estate in China is counterbalanced by commodity-intensive infrastructure investments. Outside the largest economies, EMDE investment is expected to rebound in 2024, and accelerate further in 2025-26, in line with declining interest rates, improving business confidence, and firming manufacturing activity.

Across EMDEs, trade growth is expected to pick up in 2024, but nonetheless remain below pre-pandemic averages, particularly for some large economies, including China. Trade growth is then projected to strengthen further in many EMDEs in 2025-26, in line with increasing external

[1] The EM7 comprises Brazil, China, India, Indonesia, Mexico, Russia, and Türkiye. These economies are grouped together for analytical purposes on account of their large share of global output.

BOX 1.1 Regional perspectives: Outlook and risks

Although the economic outlook differs among emerging market and developing economy regions, it remains challenging for all, with growth projected to soften in most of them in 2024. The slowdown this year in East Asia and Pacific (EAP) mainly reflects moderating growth in China. Growth in Europe and Central Asia (ECA), Latin America and the Caribbean (LAC), and South Asia (SAR) is also set to decelerate as activity in their largest economies slows down. Growth is expected to pick up this year in the Middle East and North Africa (MNA) and Sub-Saharan Africa (SSA), albeit less robustly than previously forecast. In 2025, growth is projected to weaken further in EAP and ECA, and firm or remain stable in other regions. While somewhat more balanced than in January, risks to the outlook remain tilted to the downside for all regions, owing to the possibilities of intensified conflict and geopolitical tensions and further trade fragmentation. Tighter-than-expected global financial conditions and unexpected fiscal consolidations could also weigh on growth. Weaker-than-expected growth in China and natural disasters—including those associated with climate change—pose additional downside risks. On the upside, global inflation could moderate more quickly than assumed, enabling faster monetary policy easing, and growth in the United States could be stronger than expected.

Introduction

Emerging market and developing economy (EMDE) regions mostly face moderating growth prospects this year. Although inflation has generally declined from recent peaks and monetary policy has been easing in all EMDE regions, reductions in central bank policy rates have generally been limited, partly reflecting continued tight monetary policies in major advanced economies. Meanwhile, fiscal policy space has narrowed in all regions amid elevated public debt and increased debt-servicing costs. A pickup in global trade, which came to a standstill last year, is expected to support demand and economic activity in all EMDE regions; however, global trade growth is projected to remain below pre-pandemic averages. Despite the increase in oil prices earlier this year, overall, commodity prices are envisaged to ease slightly, providing a modest tailwind to growth in commodity-importing regions.

Next year, activity is anticipated to accelerate in some regions. However, growth will remain below pre-pandemic averages in East Asia and Pacific (EAP), Europe and Central Asia (ECA), and South Asia (SAR). While some easing in global financial conditions has made risks to the baseline growth projections more balanced since January, they remain tilted to the downside. With the outbreak of conflict in the Middle East and Russia's invasion of Ukraine, further intensification of armed conflicts and escalation of geopolitical tensions present a major downside risk to all EMDE regions.

Note: This box was prepared by Samuel Hill.

In this context, this box considers two questions:

- What are the cross-regional differences in the outlook for growth?
- What are the key risks to the outlook for EMDE regions?

Outlook

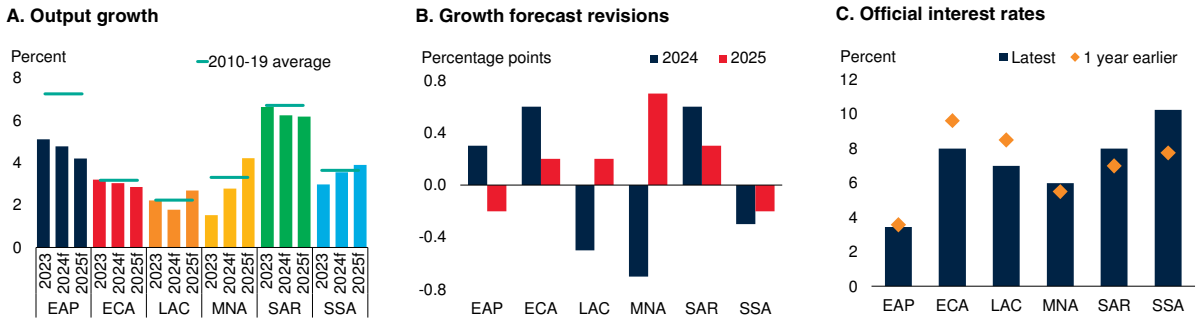
Although the economic outlook differs among the EMDE regions, it remains challenging for all. In 2024, growth is projected to slow in most regions, as economic activity in the largest economies—and key growth engines—in each region decelerates (figure B1.1.1.A). In EAP, slower growth primarily reflects weakening activity in China, where consumption growth is expected to slow amid subdued confidence. Meanwhile, in SAR, growth is set to ease in India as rapid investment growth cools. In ECA, growth in both the Russian Federation and Türkiye is expected to slow, in part reflecting the lagged effects of monetary policy tightening on consumption. In Latin America and the Caribbean (LAC), amid structural challenges, growth will ease across the largest economies in part reflecting tight macroeconomic policies.

Growth in Sub-Saharan Africa (SSA) is projected to accelerate this year, supported by a pick up in domestic demand, following a lackluster 2023. However, ongoing political instability and conflicts are expected to continue hindering economic activity in the region. In the Middle East and North Africa (MNA), the pickup in growth this year is mainly due to strengthening oil production and exports among oil-exporting economies, which will offset protracted weakness elsewhere. Despite an anticipated deceleration this year, SAR—the region with the highest potential

BOX 1.1 Regional perspectives: Outlook and risks (*continued*)

FIGURE B1.1.1 Regional outlooks

Growth is projected to slow in most EMDE regions this year, reflecting factors such as the adverse consequences of conflict and the drag from tight macroeconomic policies. Projected growth in 2024 has been revised downward in LAC, owing to tighter-than-expected macroeconomic policies, and in MNA, due to oil production cuts. In contrast, growth has been revised upward in EAP, reflecting surprisingly strong activity in China in early 2024, and in ECA and SAR, partly due to unexpectedly resilient domestic demand. Although official interest rates seem to have peaked across EMDE regions, substantial cuts have not yet been made.



Sources: Haver Analytics; World Bank.

Note: f = forecast; EAP = East Asia and Pacific; ECA = Europe and Central Asia; EMDEs = emerging market and developing economies; LAC = Latin America and the Caribbean; MNA = Middle East and North Africa; SAR = South Asia; SSA = Sub-Saharan Africa.

A. Aggregate growth rates are calculated using GDP weights at average 2000-19 prices and market exchange rates. "2010-19" refers to the period averages of regional growth rates. Data for 2024 and 2025 are World Bank forecasts.

B. Revisions reflect differences in forecasts presented in the January 2024 edition of the *Global Economic Prospects* report. Data for 2024 and 2025 are World Bank forecasts.

C. Bars show the regional median of official policy interest rates. Diamonds show the regional median 12 months earlier. Sample includes 73 EMDEs (10 in EAP, 18 in ECA, 15 in LAC, 10 in MNA, 5 in SAR, and 15 in SSA). Last observation is April 2024.

growth rate—is projected to remain the fastest-growing region over the forecast horizon (Kose and Ohnsorge 2023).

Growth projections for 2024 have been revised down substantially since January in LAC, reflecting in part a sharp fiscal consolidation in Argentina, as authorities are seeking to address the country's significant economic challenges, and in MNA, owing to adverse effects of the conflict in the Middle East and an extension of oil production cuts (figure B1.1.1.B). Projected growth this year has also been downgraded for SSA, largely reflecting the adverse effects of a recent increase in political instability and conflict. In contrast, projected growth this year for EAP has been revised up, owing to surprisingly strong recent activity in China. Projected growth this year has also been revised up for ECA, largely due to a more-supportive-than-expected fiscal policy stance in some countries, and for SAR, reflecting surprisingly resilient activity around the turn of the year.

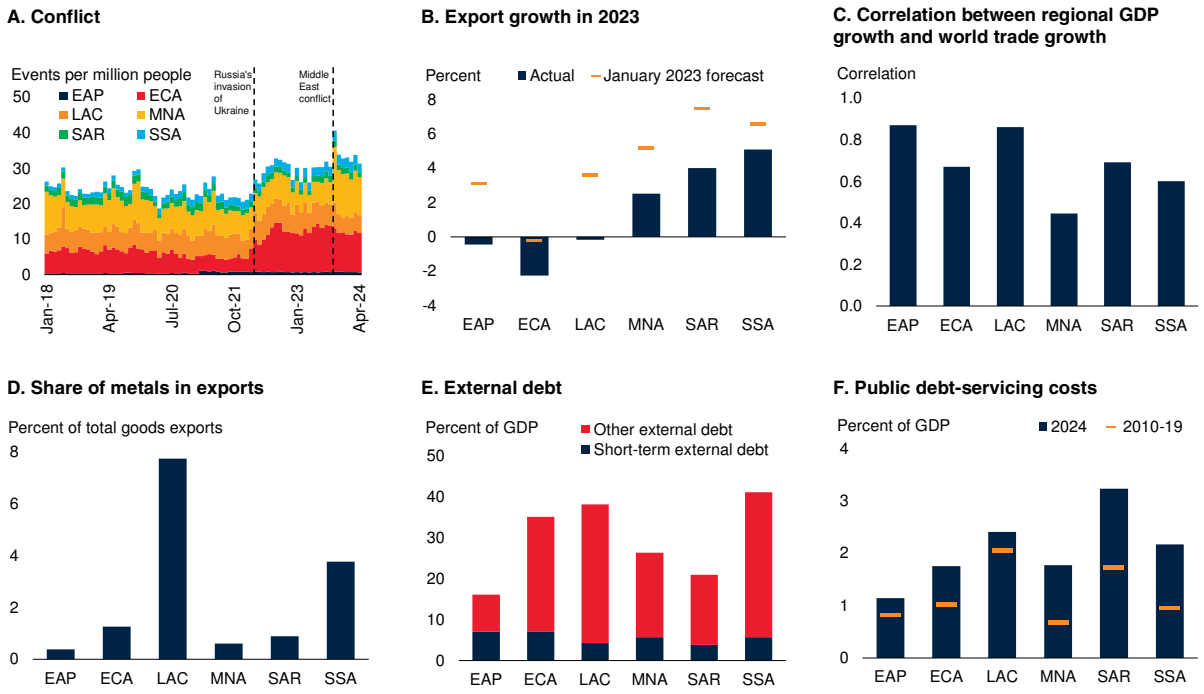
Following a substantial decline last year, headline inflation in most EMDE regions continued to moderate toward central bank targets in early 2024 in year-on-year terms, albeit at a slower pace. However, in some large economies in EAP and SSA, inflation ticked up. Core inflation also remained elevated in most regions. Inflation is generally expected to decline across EMDE regions this year as demand pressures ease and commodity prices soften slightly. However, inflation will remain elevated in some countries, particularly in SAR and SSA, reflecting a combination of adverse food supply shocks—partly due to drought—and currency depreciations.

All EMDE regions are anticipated to see some benefits from this year's projected pickup in global trade, including a rebound in goods trade. With the global tourism recovery largely complete, the tailwinds from stronger services exports have faded in most regions. However, particularly in EAP—where the tourism recovery has lagged because of a slow revival in tourism from some countries, notably China—increasing inbound tourism will provide some support to growth. An anticipated softening in overall commodity prices will weigh on exports and activity in key commodity-exporting regions, notably ECA, LAC, MNA, and SSA.

BOX 1.1 Regional perspectives: Outlook and risks (*continued*)

FIGURE B1.1.2 Regional risks

Risks to the baseline projections remain tilted to the downside for all EMDE regions. These include intensified armed conflict, particularly in ECA and MNA, and an escalation in geopolitical tensions that could prompt further trade policy restrictions and thwart the projected pickup in global trade. Slower-than-expected growth in China could also weaken demand, particularly for metal exports. Moreover, tighter global financial conditions than anticipated could add to borrowing costs—particularly in regions with high levels of external debt—and add to fiscal pressures, which would further weaken demand and growth.



Sources: ACLED (database); International Debt Statistics (database); International Monetary Fund; UN Comtrade (database); World Bank.

Note: EAP = East Asia and Pacific; ECA = Europe and Central Asia; LAC = Latin America and the Caribbean; MNA = Middle East and North Africa; SAR = South Asia; SSA = Sub-Saharan Africa.

A. Stacked bars show the number of reported conflict events per million people in each of the six EMDE regions. Conflict events include battles, explosions, violence against civilians, riots, and protests. The date of Russia's invasion of Ukraine is February 24, 2022. The date of the Middle East conflict is October 7, 2023. Last observation is April 2024.

B. "January 2023 forecast" refers to the forecast for exports of goods and services in 2023, presented in the January 2023 edition of the *Global Economic Prospects* report.

C. Pairwise correlation of annual real GDP growth in each region and real world trade growth between 2010 and 2019.

D. Aggregates are GDP-weighted averages of exports of metals as a percent of total goods export, between 2018 and 2022.

E. GDP-weighted average of gross debt held by nonresidents as a share of GDP. Short-term external debt is external debt maturing in less than one year. Last observation is 2022.

F. Aggregates are the regional median of the difference between general government net lending/borrowing and general government primary net lending/borrowing as a percent of GDP. Lines show the regional median of the simple country average between 2010 and 2019. Data for 2024 are IMF forecasts.

In most regions, activity will be supported by solid consumption growth, bolstered by moderating inflation that will help lift real incomes. Investment is also projected to strengthen in some regions, supported by monetary policy easing. In SAR, robust investment growth also reflects strong public investment in India, which is anticipated to crowd-in private investment. However, investment growth this year is expected to cool in ECA, following exceptionally strong growth last year, and to remain subdued in EAP, weighed down by weakness in China's property sector.

Monetary policy easing is anticipated to support demand, particularly in ECA and LAC—where in many cases official interest rates began to be cut last year, ahead of other regions—and to a lesser extent in EAP (figure B1.1.1.C). However, across all regions, central banks remain wary of a resurgence in inflation

BOX 1.1 Regional perspectives: Outlook and risks (*continued*)

and are expected to remain cautious in easing monetary policy. Continuing tight monetary policies in key advanced economies, notably the euro area and the United States, also restrict their room for maneuver. Although the stance of fiscal policy will remain broadly accommodative in MNA and neutral in EAP and ECA, to varying degrees, fiscal consolidation amid elevated debt levels will drag on activity in LAC, SAR, and SSA.

Next year, growth is projected to pick up in some regions, as the global trade recovery strengthens further and monetary policy easing provides more support for demand, including investment. However, growth is projected to edge down further in EAP, as mounting structural headwinds slow activity in China, and in ECA. In 2026, growth is anticipated to edge up in SSA, but mostly soften in other EMDE regions. Taken together, the forecasts imply limited catch-up toward advanced-economy per-capita GDP levels over the forecast horizon—particularly in ECA, LAC, and MNA. In SSA, the poorest region, GDP per capita is expected to fall further behind, hobbled by the interrelated challenges of pervasive conflict, climate change, and widespread food insecurity (Bedasa and Deksisa 2024).

Risks

Although risks to the outlook have become somewhat more balanced for all EMDE regions since January, they remain tilted to the downside. An escalation of conflict or geopolitical tensions, or further trade fragmentation could have widespread adverse repercussions. To varying degress, weaker-than-expected growth in China could drag on growth in all regions, as could unexpectedly tighter global financial conditions. More frequent and severe climate-change-related natural disasters pose a further downside risk. In contrast, a faster decline in global inflation, enabling a more rapid global monetary easing, and faster-than-expected growth in the United States, present upside risks to EMDE regions.

Against the backdrop of conflict in the Middle East and Russia's invasion of Ukraine, intensification of armed conflict or an escalation in geopolitical tensions present notable downside risks to all EMDE regions (figure B1.1.2.A). Regions in which conflicts are concentrated—ECA MNA, and SSA—are most vulnerable to adverse direct impacts on activity, including disruptions to commercial activity and damage to physical capital (World Bank 2024a). However, the repercussions of intensified conflict could affect all regions. Worsening conflict could disrupt global oil supply, leading to higher energy prices and inflation, and weaker growth, particularly in regions dependent on imported energy, notably EAP and SAR (World Bank 2024b). As underscored by disruptions to agricultural production in Ukraine and its exports, conflict can also damage global food security (World Bank 2024c). Escalating conflict could also dent global business and consumer sentiment, and increase risk aversion, weighing on demand and growth.

Further increases in protectionism—following the recent proliferation of trade restrictions and industrial policy measures—present an important downside risk to growth in all regions. Restrictive trade policies, including both those targetting and those instigated by EMDEs, add to production costs and disrupt supply chains. The large number of elections taking place around the world this year—including in ECA and SSA, as well as in advanced economies—heightens the possibility of further protectionist measures. These could sow additional uncertainty and weigh on the anticipated global trade recovery this year. Export growth in every EMDE region fell short of expectations last year and could again surprise on the downside, with adverse implications for broader activity (figure B1.1.2.B). Regions whose economies are more integrated into global value chains and where growth is more synchronized with global trade, notably EAP and LAC, are especially vulnerable to protectionist measures (figure B1.1.2.C).

Weaker-than-expected growth in China would also reduce demand and growth globally, including across EMDE regions. Heightened policy uncertainty in China could weigh on investment, while protracted weak consumer sentiment could prolong the downturn in its resource-intensive property sector. The consequences would be particularly severe for regions more reliant on exports to China, particularly of metals, including LAC and SSA (figure B1.1.2.D). EAP economies with extensive trade linkages to China are also vulnerable (Copestake et al. 2023).

An unexpected tightening of global financial conditions could weigh on investment and growth in all regions.

BOX 1.1 Regional perspectives: Outlook and risks (*continued*)

This could be triggered by a range of factors, including a step-up in geopolitical tensions that may cause investor risk appetite to wane. Financial conditions could also tighten if disinflation in major advanced economies is slower than expected, resulting in higher-for-longer monetary policy rates. Higher global borrowing costs would weigh on investment and increase the risk of financial stress, particularly in regions with large stocks of external debt with shorter maturities—notably ECA, LAC, MNA, and SSA (figure B1.1.2.E). Against a backdrop of mounting public debt—notably in SAR and some MNA oil-importing countries, and to a lesser extent LAC—higher borrowing costs would also add to fiscal pressures. Debt-servicing costs have increased in all regions since the pandemic, and there is upward pressure on other spending, including outlays necessary to meet the Sustainable Development Goals—especially in SSA (figure B1.1.2.F; Aggarwal et al. 2024). Particularly where governments already face fiscal pressures, notably in some countries in LAC, MNA, SAR, and SSA, and to a lesser extent EAP and ECA, higher borrowing costs could force a sudden pivot to fiscal consolidation, significantly reducing demand.

Severe natural disasters, including those related to climate change, could weaken growth in all EMDE regions. Disruptive weather associated with El Niño and La Niña conditions could reduce agricultural production, particularly in EAP, LAC, SAR, and SSA. This would put upward pressure on food prices and inflation, sapping consumption. Small states, particularly in EAP and LAC, are especially vulnerable to more frequent destructive storms that can impose large human and economic costs, and severely weaken fiscal positions.

Conversely, the fact that global inflation declined substantially last year suggests the possibility that further progress with disinflation could be faster than expected, presenting an upside risk to the baseline projections for all regions. Lower inflation would enable easier than assumed monetary policy in major advanced economies, helping lift global sentiment and reduce borrowing costs, boosting demand in all regions. In addition, growth in the United States may exceed expectations, supported by higher labor force participation or immigration, presenting further upside potential to growth in EMDE regions. Economies in EAP and LAC with high export exposure to the United States—especially manufacturing- and tourism-dependent economies—stand to gain the most. Commodity-exporting regions, notably MNA, could also benefit from higher commodity prices resulting from stronger U.S. consumer and business demand.

demand and accelerating manufacturing activity (figure 1.9.B). Over the forecast horizon, net exports are anticipated to generate only a small drag on growth, as the pick-up in import growth is partially offset by improving exports alongside the recovery in global trade. The trade recovery should also support employment and investment in EMDEs.

Fiscal policy is envisaged to exert a modest drag on growth in most EMDEs over the forecast horizon. Fiscal consolidation is anticipated to proceed at a steady pace in EMDEs excluding China over 2024-26, reflecting governments' efforts to phase out support measures. However, growing net interest costs are expected to partially offset efforts to reduce expenditures.

Growth in commodity exporters is projected to edge up in 2024 to 2.8 percent, then strengthen to 3.3 percent on average over 2025-26. In 2024, OPEC+ production cuts will weigh on growth in some energy exporters, particularly in MNA. Thereafter, persistently elevated export prices should encourage expanded commodity production and support investment growth (figure 1.9.C). In commodity importers excluding China, growth is projected to ease slightly to 4.4 percent and then gather pace to an average of 4.7 percent in 2025-26. This acceleration should be sustained by robust consumption and investment growth in some large EMDEs, particularly India. In 2025-26, commodity importers excluding China are set to grow faster than China for two consecutive years for the first time in decades.

Growth is envisaged to remain weak in EMDEs with low credit ratings, which account for roughly one-fourth of rated economies. These countries continue to experience outsized negative effects from elevated global interest rates, which have exposed underlying vulnerabilities. For many of these economies, capital market access remains highly constrained amid domestic financial volatility, dampening consumer and business confidence and limiting the scope for governments to support activity.

Growth prospects have continued to deteriorate in many of the most vulnerable economies, contrasting with EMDEs in aggregate (Chrimes et al. 2024). Growth forecasts for 2024 have been downgraded in more than 75 percent of LICs and about two-thirds of FCS since January, compared to just under two-fifths of other EMDEs. The weakening outlooks of many vulnerable countries reflect significant domestic strains, including limited access to financing, highly constrained fiscal space amid elevated debt levels, and increases in conflict and violence.

The recovery of EMDEs from the shocks over the past four years is set to remain limited and uneven. The level of EMDE output is anticipated to remain below its pre-pandemic trajectory, indicating notable economic scarring; this is true even after excluding China, which is facing a structural slowdown (figure 1.9.D). Meanwhile, trade—a key driver of long-term EMDE growth—is set to be exacerbated by ongoing geopolitical tensions, trade fragmentation, and persistent trade policy uncertainty.

LICs outlook

Growth in LICs is projected to recover from a subdued 3.8 percent in 2023 to 5 percent this year and increase further to an average of 5.4 percent over 2025-26 (box 1.2). The pickup over the forecast horizon is underpinned by a moderate recovery in commodity-exporting LICs, where commodity prices remain broadly supportive of expanded production, as well as some stabilization in fragile and conflict-afflicted LICs.

Although growth is anticipated to strengthen in LICs, it will remain insufficient to raise output back to pre-pandemic trends. Moreover, the recovery is projected to be notably slower over the next two years than envisioned in January. This downward revision to growth mainly reflects slower improvements than anticipated in some fragile economies—particularly in the Sahel region of Africa following a surge in conflict last year. The revisions are among the largest for Niger and Sudan, where domestic strife has continued to hamper activity. Even so, the lifting of sanctions on Niger is expected to buoy activity there this year, with growth moderating thereafter. In Sudan, output is now projected to contract at a much sharper pace than anticipated in January amid ongoing violent conflict, which has paralyzed production, damaged infrastructure, and displaced a large portion of the population.

Beyond these specific cases, many LICs will continue to face daunting challenges, with projected growth insufficient to enable significant progress in reducing poverty. Elevated levels of violence and extreme weather events continue to displace people, disrupt food supplies, and exacerbate poverty. In addition, most LICs face difficult policy trade-offs as policy space, including to support the poor, has narrowed considerably. This situation is aggravated by elevated debt-service costs and slow progress in debt restructuring. Access to new external financing remains highly constrained, especially among the half of LICs already judged to be in, or at high risk of, debt distress.

Per capita income growth

The multiple shocks of the past four years have impeded income catch-up and poverty reduction in EMDEs. EMDE GDP per capita growth is projected to fall from 3.2 percent in 2023 to 3 percent in 2024 and remain near that pace over 2025-26—well below the 2010-19 average of 3.8 percent. Although about half of EMDEs are expected to see per capita GDP growth pick up this year and next, this follows a lengthy period of stagnation in living standards owing to an initial feeble recovery from the 2020 global recession and the sharp rise in the cost of living. Indeed, one in four EMDEs is expected to remain poorer in 2024 than on the eve of the pandemic. This includes

BOX 1.2 Recent developments and outlook for low-income countries

After slowing to 3.8 percent in 2023, growth in low-income countries (LICs) is projected to recover to 5 percent in 2024 and improve further to an average of 5.4 percent in 2025-26. Nevertheless, these figures represent substantial downward revisions from January projections, primarily due to an ongoing high level of conflict across LICs and a consequent delay in improvements in some heavily conflict-affected LICs. Gross domestic product (GDP) per capita growth in 2024-25 is projected to be less than half the rate of GDP growth. This means that improvements in average living standards are expected to be limited and the number of people struggling with extreme poverty and food insecurity will remain high. Public debt burdens and their servicing costs have risen, while access to financing has become more challenging for many LICs. Economic activity has also been disrupted by extreme weather events in some LICs. Against this backdrop, risks to the LICs outlook remain tilted to the downside. They include intensifying insecurity and violent conflict, weaker growth in China, increased debt distress, and more frequent or more intense extreme weather events.

Introduction

Growth in LICs is expected to rise from a subdued 3.8 percent in 2023 to 5 percent in 2024. Last year's tepid growth mainly reflected increased political instability and violent conflict in some LICs—especially Niger and Sudan—and sluggish performances in some metal-exporting LICs that faced feeble external demand and lower global metals prices. Projected growth in 2024 has been downgraded by 0.5 percentage point since January, with downward revisions for about three-quarters of LICs. An exception is Ethiopia—the largest LIC economy—where peacebuilding continues to yield dividends, and steady growth of 7 percent a year is projected over 2024-26.

Many LICs continue to struggle with persistent vulnerabilities and fragility, especially in the Sahel region of Africa, where the incidence of violent events has increased sharply in the past year (figure B1.2.1.A). Elevated violence and extreme weather events have continued to displace people, disrupt food supplies, and exacerbate poverty (figure B1.2.1.B). Many LICs face difficult policy trade-offs. The policy space to support the poor has narrowed or been depleted in many countries, while high financing needs and limited access to new funding continue to endanger debt sustainability.

Multiple downside risks cloud growth prospects among LICs, including an escalation of the conflict in the Middle East, further increases in local political instability and violent conflict, a sharper-than-expected economic slowdown in China, and more severe or more frequent adverse weather events. Also, higher global interest rates than assumed in the baseline could increase financial pressures, particularly on highly indebted countries.

With the prospect of only limited and uneven gains in per capita incomes, the number of people in these countries struggling with extreme poverty and food insecurity will remain high.

Against this backdrop, this box addresses the following questions:

- What have been the main recent economic developments in LICs?
- What is the baseline outlook for LICs?
- What are the risks to the outlook?

Recent developments

Growth in LICs slowed by 1.2 percentage points to 3.8 percent in 2023. Decelerations were most pronounced in Niger and Sudan. In Niger, a coup in mid-2023 led to international sanctions, and growth in the year slowed to 2 percent from 11.5 percent in 2022. Activity in Sudan declined even faster, with output contracting 12 percent, as a resumption of conflict damaged the country's industrial base. In other parts of the Sahel and nearby countries, pervasive violence and political instability exacerbated already-challenging economic and humanitarian situations—including in Burkina Faso, Mali, Somalia, and South Sudan.

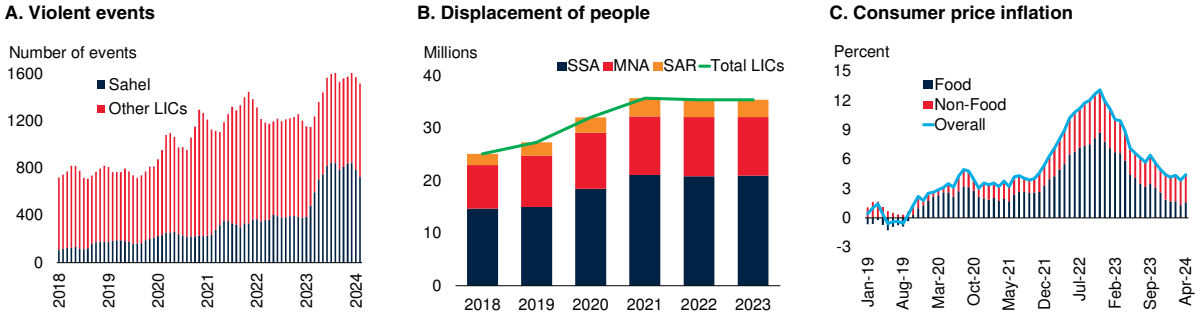
At the same time, activity in major LICs, particularly in the Democratic Republic of Congo and Ethiopia, continued to expand at a solid pace. Strong mining

Note: This box was prepared by Dominik Peschel.

BOX 1.2 Recent developments and outlook for low-income countries (*continued*)

FIGURE B1.2.1 LICs: Recent developments

The incidence of violent events has risen in LICs, especially in the Sahel region of Africa, resulting in an increased number of displaced people. Moderating food price inflation has helped consumer price inflation in LICs decline from its highs in late 2022.



Sources: ACLED (database); Haver Analytics; United Nations High Commissioner for Refugees (UNHCR) Refugee Population Statistics Database; World Bank.
Note: LICs = low-income countries.
A. Three-months moving average; violent events include battles, explosions, violence against civilians, and riots. Sample only comprises SSA LICs. Last observation is April 2024.
B. MNA = Middle East and North Africa, SAR = South Asia, SSA = Sub-Saharan Africa. Statistic covers internally displaced persons (IDPs) due to conflict to whom UNHCR extends protection and/or assistance. The IDP population also includes people in an IDP-like situation. Sample includes 15 countries, of which at least 12 are in Sub-Saharan Africa.
C. Change in prices from 12 months earlier. Unweighted averages for the sample of 7 LICs.

activity supported growth in the Democratic Republic of Congo, while activity in Ethiopia was underpinned by good harvests and steady services sector growth. Upward revisions for these two economies also contributed to overall GDP growth in LICs last year being 0.3 percentage point higher than estimated in January, despite several downward revisions in the remainder of the group.

Output in agricultural-commodity exporters grew by 3.3 percent in 2023, markedly faster than in their industrial-commodity-exporting counterparts, where output expanded by only 0.9 percent on average, reflecting lower global metal prices as well as violent conflict in some of these countries. However, the growth performance of industrial-commodity-exporting economies varied widely in 2023. Whereas economic performance in Niger and Sudan deteriorated sharply, Chad grew strongly, reflecting higher oil production. Growth was also robust in Mozambique, primarily driven by the start of offshore liquified natural gas production, and in Uganda, supported by an oil-related construction boom. In early 2024, El Niño-related droughts weighed on agricultural output in some agricultural-commodity exporters (Madagascar, Malawi; OCHA 2024).

Consumer price inflation in LICs has, on average, continued to decline in early 2024, with food price inflation slowing in many countries as global food price pressures waned (figure B1.2.1.C). Still, food price inflation remains high in some LICs (Burundi, Ethiopia, The Gambia, Malawi, Sierra Leone; World Bank 2024d). Food insecurity remains elevated in LICs, with an estimated 127 million people in LICs suffering from food crisis conditions, or worse, in 2024 (FSIN and GNAFC 2024).

Outlook

Growth in LICs is projected to recover to 5 percent this year and to further improve to 5.3 percent in 2025 and 5.5 percent in 2026 (table B1.2.1). The forecast assumes that violence will recede in some LICs, no debt crises emerge, and inflation continues to moderate.

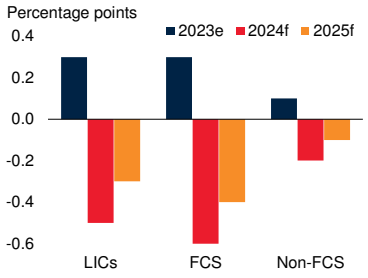
Nevertheless, the growth outlook for LICs has been revised down since January by 0.5 percentage point in 2024 and by 0.3 percentage point in 2025 (figure B1.2.2.A). Projections for growth in 2024 have been revised down for about three-quarters of LICs. The downgrades are mainly driven by slower-than-expected improvements in some LICs facing fragile and conflict-

BOX 1.2 Recent developments and outlook for low-income countries (*continued*)

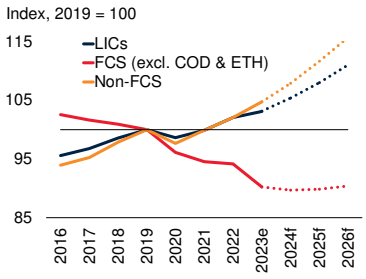
FIGURE B1.2.2 LICs: Outlook and risks

The growth forecast for LICs has been revised downward. In per capita terms, growth is expected to be subdued overall, but to diverge markedly between most fragile and conflict-affected LICs, where it is expected to remain below its pre-pandemic level, and other LICs, where it is expected to be stronger. Increased interest payments, especially in the latter group of LICs, necessitate reductions in primary fiscal deficits to maintain government debt sustainability.

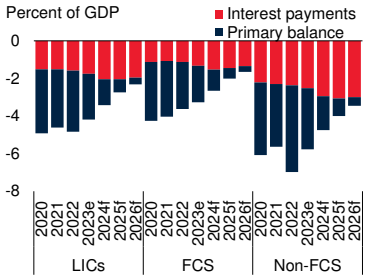
A. Growth forecast revisions for LICs since January 2024



B. GDP per capita in LICs



C. Fiscal balance in LICs



Sources: International Monetary Fund; World Bank.
Note: e = estimate; f = forecast; excl. = excluding; COD = Congo, Dem. Rep.; ETH = Ethiopia; FCS = fragile and conflict-affected situations; GDP = gross domestic product; LICs = low-income countries.
A. Revisions relative to forecast published in the January 2024 edition of the *Global Economic Prospects* report. Sample comprises 21 LICs.
C. Simple averages of country groupings. Sample includes 22 low-income countries.

affected situations (FCS)—countries with high levels of institutional and social fragility and those affected by violent conflict. The largest downward revisions are for Niger and Sudan, both FCS LICs. Conversely, the growth forecast for Ethiopia has been upgraded, mainly owing to a bumper harvest.

Growth in FCS LICs is forecast to increase from 3.3 percent in 2023 to 4.8 percent in 2024 and 5.3 percent in 2025—mainly on account of strong growth in the two largest economies in this group, Ethiopia and the Democratic Republic of Congo. Growth in other FCS LICs is projected to average only 2.6 percent in 2024-25, although this marks a notable improvement from the 1.5 percent output contraction in 2023. Assuming that no new shock disrupts economic stability, strong growth of 7 percent is expected to persist in Ethiopia in 2024-25, supported by increased investment and a recovery in government consumption. Growth in the Democratic Republic of Congo is expected to remain robust at about 6 percent annually in 2024-25, mainly thanks to mining sector activity.

Growth in non-FCS LICs is forecast to rise from 5.2 percent in 2023 to 5.6 percent in 2024 and to 6 percent in 2025. In Rwanda, steady growth averaging 7.7 percent a year is projected for 2024-25—with strong growth in construction and manufacturing projected to continue, while agricultural production is forecast to rebound following two years of weak performance. In Madagascar, growth is expected to be boosted by structural reforms relating to the mining sector, digital technology, and improvements in the investment climate. Growth in Uganda is projected to strengthen further, reflecting continued investments in the oil sector. Furthermore, growth in Madagascar, Rwanda, and Uganda is also expected to benefit from increased global tourism.

Per capita growth in LICs is expected to pick up from 1 percent in 2023 to 2.2 percent in 2024 and 2.5 percent in 2025—far from sufficient to enable effective poverty alleviation (figure B1.2.2.B). Furthermore, there is a sharp divergence between non-FCS LICs, where growth in per capita GDP is forecast to average 3.2 percent in 2024-25, and FCS LICs (excluding the Democratic Republic of Congo and Ethiopia), where average per capita GDP is expected to be largely stagnant, remaining markedly below pre-pandemic levels. Nearly one-third of LICs are forecast to still have lower per capita incomes in 2026 than in 2019.

Over the forecast horizon, projected growth in per capita GDP across LICs is on average only about 1

BOX 1.2 Recent developments and outlook for low-income countries (*continued*)

TABLE B1.2.1 Low-income country forecasts[a]

(Real GDP growth at market prices in percent, unless indicated otherwise)

	2021	2022	2023e	2024f	2025f	2026f	Percentage point differences from January 2024 projections 2024f	2025f
Low-Income Countries, GDP[b]	4.1	**5.0**	**3.8**	**5.0**	**5.3**	**5.5**	**-0.5**	**-0.3**
GDP per capita (U.S. dollars)	1.3	2.2	1.0	2.2	2.5	2.7	-0.5	-0.3
Afghanistan[c]	-20.7	-6.2	..	..	..	..	..	..
Burkina Faso	6.9	1.8	3.2	3.7	3.8	4.2	-1.1	-1.3
Burundi	3.1	1.8	2.7	3.8	4.4	4.8	-0.4	-0.1
Central African Republic	1.0	0.5	0.9	1.3	1.7	1.9	-0.3	-1.4
Chad	-1.2	2.8	4.1	2.7	3.3	2.9	-0.1	0.6
Congo, Dem. Rep.	6.2	8.9	7.8	6.0	5.9	5.7	-0.5	-0.3
Eritrea	2.9	2.5	2.6	2.8	3.0	3.3	-0.4	-0.3
Ethiopia[d]	6.3	6.4	7.2	7.0	7.0	7.0	0.6	0.0
Gambia, The	5.3	4.9	5.3	5.5	5.8	5.4	0.2	0.3
Guinea-Bissau	6.4	4.2	4.2	4.7	4.8	4.9	-0.9	0.3
Liberia	5.0	4.8	4.7	5.3	6.2	6.3	-0.1	0.0
Madagascar	5.7	3.8	3.8	4.5	4.6	4.7	-0.3	-0.1
Malawi	2.8	0.9	1.5	2.0	3.9	4.1	-0.8	0.6
Mali	3.1	3.5	3.5	3.1	3.5	4.5	-0.9	-1.5
Mozambique	2.3	4.2	5.0	5.0	5.0	4.4	0.0	0.0
Niger	1.4	11.5	2.0	9.1	6.2	5.1	-3.7	-1.2
Rwanda	10.9	8.2	8.2	7.6	7.8	7.5	0.1	0.0
Sierra Leone	4.1	3.5	3.1	3.5	4.0	4.3	-0.2	-0.3
Somalia[e]	3.3	2.4	3.1	3.7	3.9	4.0	0.2	0.1
South Sudan[d]	-5.1	-2.3	-1.3	2.0	3.8	4.0	-0.3	1.4
Sudan	-1.9	-1.0	-12.0	-3.5	-0.7	1.2	-2.9	-0.9
Syrian Arab Republic[c]	1.3	-0.1	-1.2	-1.5	..	..	..	..
Togo	6.0	5.8	5.4	5.1	5.4	5.6	-0.1	-0.4
Uganda[d]	3.4	4.7	5.2	6.0	6.2	6.6	0.0	-0.4
Yemen, Rep.[c]	-1.0	1.5	-2.0	-1.0	1.5	..	-3.0	..

Source: World Bank.
Note: e = estimate; f = forecast. World Bank forecasts are frequently updated based on new information and changing (global) circumstances. Consequently, projections presented here may differ from those contained in other Bank documents, even if basic assessments of countries' prospects do not significantly differ at any given moment in time.
a. The Democratic People's Republic of Korea is not projected due to data limitations.
b. Aggregate growth rates are calculated using GDP weights at average 2010-19 prices and market exchange rates.
c. Forecasts for Afghanistan (beyond 2022), the Syrian Arab Republic (beyond 2024), and the Republic of Yemen (beyond 2025) are excluded because of a high degree of uncertainty.
d. GDP growth rates are on a fiscal year basis. For example, the column for 2022 refers to FY2021/22.
e. Percentage point differences are relative to the World Bank's October 2023 forecast. The January 2024 *Global Economic Prospects* did not include forecasts for Somalia.

percentage point higher than in advanced economies. Markedly higher GDP growth is needed in LICs to enable significant progress in poverty reduction and to accelerate economic development and catch-up in per capita incomes.

LIC governments often lack fiscal space to provide effective support for their populations' welfare. With public debt remaining high in many LICs, increases in debt-service costs in the past two years have absorbed government spending that otherwise could have been available for such productive uses as investment in healthcare, education, and infrastructure (figure B1.2.2.C). Public debt in LICs has increased by about 12 percentage points of GDP between 2019 and 2023 (Chrimes et al. 2024). In late 2023, more than half of

BOX 1.2 Recent developments and outlook for low-income countries (*continued*)

LICs were already in, or at high risk of, debt distress. Without debt relief agreements, several more LICs face an increasing likelihood of debt distress.

Risks

Risks to the baseline growth forecast remain tilted to the downside, particularly for countries grappling with fragility and those more susceptible to conflicts or adverse weather events. An escalation of conflict in the Middle East could cause a renewed pickup in inflation across LICs. In addition to causing higher fuel prices, a conflict-induced and sustained oil price spike could also raise food prices and exacerbate food insecurity across LICs by increasing costs of production—many fertilizers are byproducts of the oil and gas industry—and transportation.

Many LICs suffer from fragility stemming from persistent poverty, as well as festering violence and conflict, especially in East Africa and the Sahel (notably Burkina Faso, Democratic Republic of Congo, Ethiopia, Mali, Somalia, South Sudan, Sudan). While there has been progress with peacemaking efforts in the Democratic Republic of Congo and Ethiopia, violence in several LICs has increased, especially in the Sahel region, where political instability has risen, with several coups d'état in recent years. A further escalation of violence and conflict would not only push growth below the baseline, but also further increase the number of displaced people and extend humanitarian crises in these countries, many of which already suffer from high food insecurity.

If global interest rates remain elevated for longer than assumed, restrictive financing conditions will lead to higher debt-service costs, which in turn increase the likelihood of debt crises in some LICs. This, coupled with limited access to external financing at favorable interest rates, could markedly increase the risk of government debt distress, especially if coordination problems among a diverse group of creditors intensify (Bolhuis et al. 2024). In recent years, issues regarding debt restructuring in LICs have intensified, in spite of efforts to coordinate with an increasingly diverse set of creditors; the share of LICs' external debt to non-Paris Club creditors has increased markedly over time (Chrimes et al. 2024).

Slower-than-expected growth in China could adversely affect LICs, in particular metal exporters. A more persistent or deeper-than-expected property sector downturn in China would weigh directly on real estate investment and have knock-on effects on revenue collection that could further reduce fiscal space and constrain public infrastructure investment. A broad-based investment slowdown in China would markedly reduce global demand for and prices of minerals and metals.

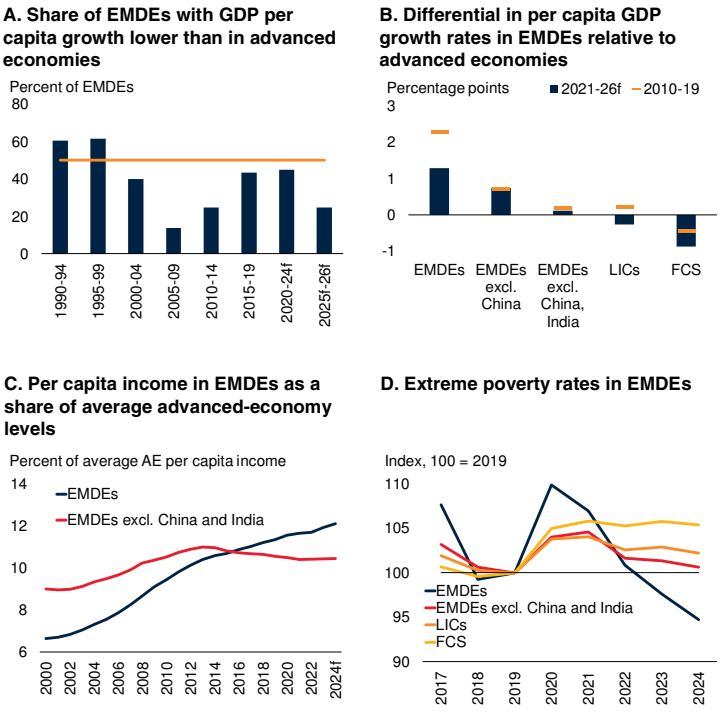
Economic growth and poverty reduction in LICs could also decelerate if the effects of climate change become more severe. Extreme weather events have already had catastrophic consequences in several LICs. In particular, global warming has disproportionately hit the Sahel region (World Bank 2023b). The current El Niño weather pattern could bring further devastation and increase the incidence of vector-borne and waterborne diseases owing to increased rainfall and flooding in parts of Africa, especially East Africa (Burundi, Rwanda, Somalia, Uganda). At the same time, severe droughts in parts of Southern Africa could put renewed upward pressure on food prices in affected LICs (Madagascar, Malawi, Mozambique).

more than half of FCS economies. Over 2020-24, per capita income differentials relative to advanced economies are set to widen in nearly half of EMDEs—the highest share since the 1990s (figure 1.10.A). Although some improvement is expected in EMDEs over 2025-26, the share of LICs and FCS with weaker per capita income growth relative to advanced economies is projected to remain elevated.

The broader picture is of limited and highly unequal progress in the catch-up to advanced-economy GDP per capita levels. Given subdued per capita income growth, the catch-up process is anticipated to stall in EMDEs excluding China and India, with FCS falling further behind (figure 1.10.B). In EMDEs excluding China and India, the aggregate level of per capita income relative to advanced economies is expected to be lower in

FIGURE 1.10 Per capita income growth

Per capita income growth remains subdued and continues to lag advanced economies in about half of EMDEs, with income catch-up having stalled or reversed among many LICs and fragile and conflict-affected economies. Per capita GDP in EMDEs, excluding China and India, has stagnated relative to advanced economies and remains lower than in 2019. After rising sharply during the pandemic, extreme poverty rates remain elevated, especially in vulnerable EMDEs.



Sources: Mahler and Lakner (2022); UN World Population Prospects; World Bank Poverty and Inequality Platform; World Bank.

Note: f = forecast; AE = advanced-economy; EMDEs = emerging market and developing economies; FCS = fragile and conflict-affected situations; LICs = low-income countries. GDP per capita aggregates are calculated as aggregated GDP divided by the aggregate population. GDP aggregates are calculated using real U.S. dollar GDP weights at average 2010-19 prices and market exchange rates.

A. Orange horizontal line indicates the 50 percent threshold.

B. Bars and dashes calculated as annual average per capita growth for each country group, minus annual average per capita growth in advanced economies. The year 2020 is excluded on account of extreme volatility related to the pandemic.

D. Sample includes up to 154 EMDEs, 26 LICs, and 39 FCS. Poverty data from Mahler and Lakner (2022) and the World Bank Poverty and Inequality Platform.

2024 than in 2019, extending the stagnation that started in the 2010s (figure 1.10.C).

Weakness in per capita growth in the decade so far has been most pronounced among EMDEs where poverty levels were already elevated. In LICs, the anticipated firming in per capita growth in 2025-26 is insufficient to offset income losses relative to advanced economies since the pandemic. Fragile EMDEs, where the pervasive economic and social damages of conflict are most pronounced, have slipped even further behind.

The pandemic unwound three years of progress on poverty reduction in EMDEs, while the subsequent global shocks have taken a further toll. Consequently, poverty rates stand above 2019 levels in many EMDEs, especially in vulnerable economies (figure 1.10.D). Accordingly, the ambition to reduce global poverty to 3 percent of the world's population by 2030 increasingly appears out of reach. With many EMDEs already growing close to estimated potential growth rates, concerted efforts to further structural reforms and raise long-term growth will likely be needed to substantially accelerate poverty reduction. Progress in recent years on poverty reduction has primarily reflected robust growth in SAR and EAP, while extreme poverty is increasingly concentrated in SSA, as well as several fragile and conflict-affected states elsewhere.

Global outlook and risks

Summary of global outlook

Global growth is projected to remain subdued at 2.6 percent in 2024—half a percentage point below the 2010-19 average (figure 1.11.A). This reflects the lagged effects of monetary tightening, resumed fiscal consolidation, and moderate consumption growth in the context of receding savings buffers and diminishing labor market tightness. Investment growth is expected to remain subdued this year, constrained by elevated real interest rates and policy uncertainty amid elevated geopolitical tensions. After global trade growth ground to a halt last year, the initial rebound is forecast to be modest.

A slight upgrade to the global growth forecast in 2024 reflects continued robust expansion in the United States and somewhat stronger-than-expected economic activity in China. This contrasts with an unchanged projection of muted growth in the euro area and a tepid expansion of 3.5 percent in EMDEs excluding China.

In 2025 and 2026, global growth is forecast to edge up slightly to average 2.7 percent, as inflation gradually subsides, policy rates decline, and trade growth firms. Global investment growth is projected to pick up as monetary easing gains

traction. On the other hand, fiscal policy is envisaged to exert a slight drag on global growth as many governments seek to repair pandemic-era fiscal deteriorations.

Growth in EMDEs is projected to hover around 4 percent in 2025-26—close to their aggregate potential growth estimate—but the forecasts entail considerable divergence. Growth in China is expected to slow notably. In contrast, growth is envisaged to gather momentum in EMDEs excluding China, aided by less restrictive financing conditions and improving consumption growth. Even so, the lingering effects of recent large shocks—including the pandemic, the invasion of Ukraine, and the sharp rise in global interest rates to combat inflation—are evident in continued sizable output losses relative to the pre-pandemic trajectory, particularly in some of the most vulnerable countries.

Elevated global inflation in recent years has weighed on growth both by curbing real incomes and by prompting the sharp and simultaneous tightening of monetary policies. In both advanced economies and EMDEs, growth in 2023 underperformed pre-pandemic trends by a wider margin in countries experiencing larger increases in post-pandemic inflation (figure 1.11.B). This divergence is not expected to reverse over the forecast horizon, reflecting tighter monetary policies and adverse supply developments in economies where inflation has proved to be more stubborn.

Risks to the outlook

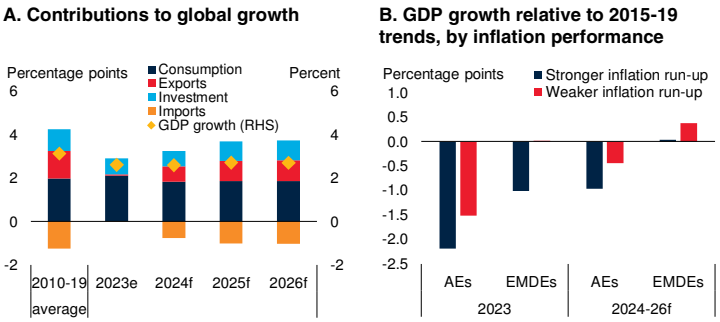
Risks to the outlook have become somewhat more balanced, given the continued resilience of the global economy to high financing costs. However, risks to the global outlook continue to be tilted to the downside amid heightened uncertainty.

Worsening conflicts or escalating geopolitical tensions could have adverse impacts on global growth through commodity markets, trade, and financial linkages. Further trade fragmentation amid resurgent inward-looking industrial policies carries the risk of additional disruptions to trade networks, supply chains, and economic activity. Stubbornly elevated core inflation in advanced economies could forestall anticipated monetary easing, tightening financial conditions, including in EMDEs, and weighing on global growth. Weaker-than-expected growth in China could have negative global spillovers through commodity markets and trade channels. Climate change looms ever larger, with more frequent and extreme weather events presenting risks to both near and long-term growth.

On the upside, further positive supply-side developments—such as a boost to productivity due to increased technology adoption and supply chain improvements—may result in stronger growth and continued disinflation. This could enhance confidence that inflation will durably return to targets, prompting central banks in some advanced economies and EMDEs to ease monetary policy more than currently assumed, further boosting global growth in the latter years of the forecast. In addition, U.S. growth could be higher than currently expected, reflecting continued strong labor supply dynamics, underpinned by rising labor force participation and absorption of working-age migrants.

FIGURE 1.11 Global outlook

Global growth is projected to remain subdued in 2024—half a percentage point below the 2010-19 average. Growth is envisaged to pick up slightly in 2025-26, supported by modest firming of investment and trade growth. Growth is projected to be weaker than pre-pandemic trends in economies that experienced larger increases in inflation.



Sources: Haver Analytics; World Bank.

Note: e = estimate; f = forecast; AEs = advanced economies; EMDEs = emerging market and developing economies.

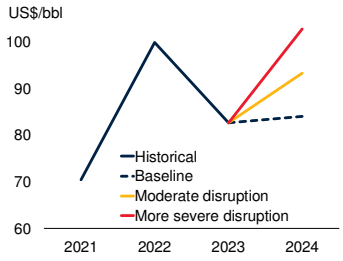
A. Country sample with data availability for components is different from the sample of countries reporting GDP level data. As such, GDP growth number derived from components differs from numbers presented in table 1.1. Components do not always equal headline growth on account of statistical discrepancies.

B. Panel shows the median country deviations from pre-pandemic growth averages (2015-19). Stronger (weaker) inflation run-up means above (below) median difference between post-pandemic inflation peak and pre-pandemic average.

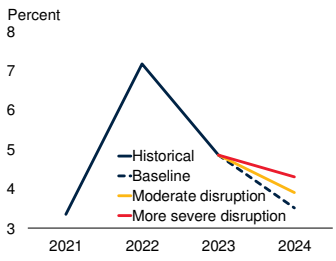
FIGURE 1.12 Risks from conflicts, trade fragmentation, and higher-for-longer policy rates

Conflict-related disruptions to oil supply from the Middle East could result in sizable oil price increases—in a more severe scenario, this could stall progress on global disinflation this year. Globally, trade policy uncertainty has risen to levels higher than those in other years with major elections since 2000. Among new trade-distorting policies, the use of subsidies has risen sharply since the pandemic. Advanced-economy interest rates are expected to remain well above 2000-19 average levels. Persistent core inflation in these economies could see interest rates remain higher for longer, substantially lowering global growth in 2025.

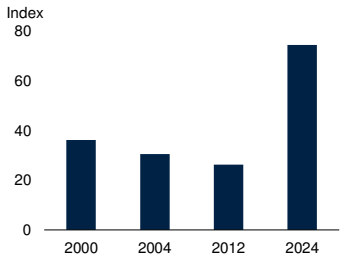
A. Brent oil prices under conflict-related oil supply disruption scenarios



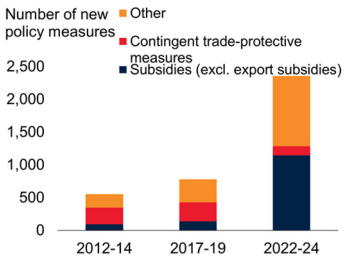
B. Global inflation under conflict-related oil supply disruption scenarios



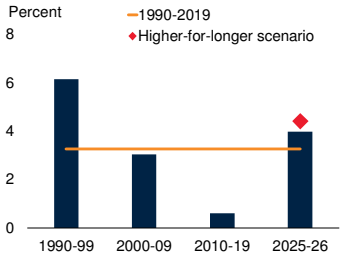
C. Global trade policy uncertainty in years with major elections



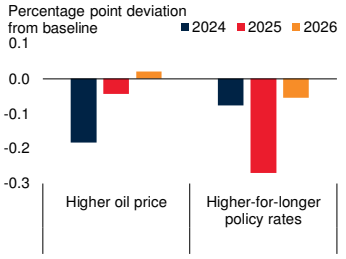
D. Trade-distorting policy measures affecting goods trade



E. Monetary policy interest rates in advanced economies



F. Change in global growth in alternative scenarios



Sources: Bloomberg; Caldara et al. (2020); Federal Reserve Bank of St. Louis; GTA (database); Haver Analytics; Oxford Economics; World Bank.

A.B. The blue dashed lines indicate baseline forecasts for the price of Brent oil (panel A) and global consumer price inflation weighted by GDP (panel B), expressed as annual averages. Orange and red lines depict outcomes under moderate and more severe conflict-related disruptions to oil supply, occurring in mid-2024.

B.F. Model-based GDP-weighted projections using Oxford Economics' Global Economic Model.

C. Panel shows the average trade policy uncertainty index in the first five months of each year in which elections were held in countries cumulatively representing more than 30 percent of global GDP. Last observation is May 2024.

D. Panel shows implemented interventions that discriminate against foreign commercial interests. Contingent trade-protective measures include trade defense instruments such as safeguard investigations and anti-circumvention, antidumping, and countervailing measures. Subsidies cover state loans, financial grants, loan guarantees, production subsidies, and other forms of state support, excluding export subsidies. Adjusted data (for reporting lags) as of May 30, 2024.

E. Average annual policy rates. Aggregates are calculated as GDP-weighted averages of the policy rates and policy rate expectations for the United States, the euro area (using aggregated national policy rates as a proxy over the 1990-99 period) and the United Kingdom. Policy rate expectations are based on futures curves observed on May 31, 2024. Diamond shows the expected policy rate under the higher-for-longer policy rates scenario.

Downside risks

Proliferation of armed conflicts and broader geopolitical risks

Risks related to armed conflict have increased sharply given the ongoing conflict in the Middle East, attacks on vessels in the Red Sea, a marked deterioration in security conditions in parts of Sub-Saharan Africa, and Russia's ongoing invasion of Ukraine. More generally, the incidence of armed conflicts—in various forms and manifestations—has increased in recent years. Armed conflicts can result in loss of human life, destruction of physical and human capital, political instability, and heightened uncertainty, in turn stifling investment and economic activity. In addition, conflicts can pose fiscal challenges to the extent they are associated with higher military expenditures, lower revenues, and higher public debt. Human capital losses due to diminished educational and health provision in conflict-affected areas can compound these economic damages over the longer term.

More immediately, if the conflict in the Middle East intensifies, substantial disruptions to oil supply and large commodity price spikes could follow, potentially undermining efforts to bring inflation back to targets globally. The extent and duration of oil price impacts would depend on the nature of the initial shock, as well as the speed and size of other oil producers' responses to higher prices. Indicatively:

- *A moderate conflict-driven supply disruption* in mid-2024 could initially lower oil supply from the region by about 1 million barrels per day (mb/d). Given an already-tight demand-supply balance in oil markets, oil prices could rise significantly, pushing the average Brent price this year to $92/bbl, about 10 percent above the baseline (figure 1.12.A). In such circumstances, progress on disinflation could slow notably, with average global consumer price inflation (weighted by GDP) in 2024 being 0.4 percentage point higher than the baseline forecast.[2]

[2] The alternative scenarios in this and subsequent sections are produced using the Oxford Economics Global Economic Model, a semi-structural macroeconomic projection model that includes 188 individual country blocks in its extended version, available at quarterly or annual frequencies (Oxford Economics 2019).

- *A more severe conflict-related supply disruption*, involving exports from one or more regional oil producers being substantially encumbered, could initially reduce global oil supply by 3 mb/d. With other oil exporters likely to quickly ramp up production in response, the global reduction in supply could ease to about 1 mb/d by late 2024. Under supply constraints of this magnitude, the average Brent oil price this year could be about 20 percent higher than the baseline, surpassing $100/bbl. In this instance, disinflation could stall globally, with global inflation pushed 0.8 percentage point above the 2024 baseline forecast (figure 1.12.B).

Furthermore, uncertainty around the evolution of Russia's invasion of Ukraine poses continued risks to commodity markets—including for oil products and grains—and regional security. The confluence of multiple armed conflicts and their knock-on effects threatens to exacerbate uncertainty about the geopolitical environment, forestalling investment, dampening both consumer and business sentiment, and increasing financial volatility. Negative economic effects would be most acute in the countries engaged in and adjacent to conflicts. However, other EMDEs could also suffer adverse spillovers due, for example, to rising import prices, partly resulting from higher shipping costs and increased global risk aversion. The recent surge in the price of gold—an asset that often gains value during periods of conflict and instability—underscores that the geopolitical environment is impacting market perceptions of risk. Moreover, some of the challenges posed by conflicts could be compounded in the longer term by wider geopolitical tensions, which could result in commodity, finance, trade, and labor markets becoming increasingly segmented into regional blocs. Historically, periods of heightened geopolitical risks have been associated with large adverse effects on global economic activity (Caldara and Iacoviello 2022).

Further trade fragmentation and trade policy uncertainty

A further proliferation of trade restrictions presents a substantial downside risk to global growth prospects. Restrictions divert trade away from the lowest-cost supplier, resulting in disruptions to global supply chains. Historically, global supply chains have facilitated technological diffusion, enabling rapid economic convergence and poverty reduction (World Bank 2020). Following Russia's invasion of Ukraine, trade and FDI flows between countries in geopolitically distant blocs have already declined considerably compared to flows between more closely aligned countries (Blanga-Gubbay and Rubínová 2023; Gopinath et al. 2024). Moreover, policies aimed at reducing dependence on specific suppliers do not necessarily achieve diversification, as these policies could lead to stronger indirect linkages as trade is diverted via other countries, resulting in more complex and less efficient supply chains (Freund et al. 2023). Reconfiguring supply chains is costly and can result in welfare losses as firms devote resources to search for alternative suppliers (Grossman, Helpman, and Redding 2024).

Heightened trade policy uncertainty and a further weakening of the multilateral trading system—both of which may follow from escalating trade-restrictive measures—could have adverse effects on growth. In the near term, increased trade policy uncertainty could slow business investment in both advanced economies and EMDEs (Caldara et al. 2019, 2020). In the longer term, less efficient supply chains could decrease returns on capital, posing headwinds for productivity growth. Over time, multinationals may elect to near-shore by outsourcing some manufacturing processes to nearby countries—even if such decisions would otherwise not be optimal—because of declining expectations that trade tensions will be resolved (Alessandria et al. 2024). While such developments may reflect strategic considerations, there is a risk they also embed norms that erode benefits from globalization—such as the depth and efficiency of global markets—and slow the dissemination of beneficial technologies. A less open global economy would likely be most disadvantageous to the poorest countries, given their limited market power and the historical role of international trade in raising living standards.

Growing public support for more inward-looking policies and an increasingly divided political landscape pose additional risks in the context of

the large number of elections scheduled for this year—countries holding parliamentary or general elections in 2024 account for about 60 percent of global GDP. Indeed, trade policy uncertainty has reached an unusually high level relative to previous years of major elections around the world since 2000 (figure 1.12.C). Election outcomes could lean toward greater protectionism, such as increased tariffs and subsidies, which could hinder trade and FDI. This would accelerate already-emerging trends. For instance, the number of trade-distorting policies has already tripled compared to the pre-pandemic period. Among these policies, the use of subsidies has surpassed contingent trade-protective measures as governments have become more interventionist in pursuing industrial policy objectives (figure 1.12.D). These policies can lead to global inefficiencies through increased fragmentation of production processes and idle capacity, as well as by encouraging the entry of inefficient firms (Barwick, Kalouptsidi and Zahur 2024; Bown 2023). More generally, FDI flows to EMDEs could be dampened by a deterioration in institutional quality stemming from post-election policy changes, or by related political and social unrest.

Higher-for-longer interest rates and weaker risk appetite

Given that global inflation is projected to steadily moderate over the forecast horizon, central banks are assumed to gradually ease monetary policies in the remainder of 2024 and 2025 to prevent real interest rates from becoming unduly restrictive. Even so, advanced economy policy rates in 2025-26 are expected to remain markedly elevated compared to recent decades, at more than double the 2000-19 average (figure 1.12.E). Moreover, if inflationary pressures endure for longer than envisaged, policy rate cuts may be fewer or postponed, leaving monetary conditions tighter than in baseline forecasts.

More persistent inflation and higher-for-longer monetary policy rates in the United States and other advanced economies would weigh on global growth via several channels. Along with elevated borrowing costs, a higher path of advanced-economy inflation, if unmatched by nominal wage growth, would reduce real incomes and consumer spending. Many EMDE central banks could also postpone or slow monetary easing, in part to forestall inflation risks that might otherwise follow from currency depreciation, given shifting interest rate differentials. The pass-through from depreciation to inflation tends to be particularly pronounced when inflation expectations are less anchored, growing in a non-linear fashion with larger currency moves (Ha, Stocker, and Yilmazkuday 2020). With short-term interest rates turning out higher than anticipated, bond yields would likely also rise in advanced economies and EMDEs, exerting an additional drag on activity. Reduced risk appetite, which could accompany an inflation-driven shift in rate expectations, would tighten financial conditions further.

Growth implications of stubborn inflation and higher-for-longer monetary policy rates are quantified using a global macroeconomic model. In this scenario, elevated core inflation is assumed to keep headline inflation in major advanced economies above target levels through mid-2025, with policy interest rates in the United States and the euro area remaining at current levels until that time. This results in a path for advanced economy interest rates about 40 basis points higher than the baseline, on average, in 2025-26. Many EMDE central banks are also assumed to pursue more restrictive monetary policies than in the baseline, partly because of inflation pressures arising from potential currency deprecations.

Under this scenario, global growth slows due to a combination of tighter financial conditions and weaker real income gains than in the baseline, with the impact peaking in 2025. In addition, weaker external demand reduces export growth in EMDEs. Overall, global growth in 2025 is 0.3 percentage point below the baseline, with average growth in advanced economies and EMDEs 0.3 percentage point and 0.2 percentage point lower, respectively (figure 1.12.F).

The aforementioned scenario is predicated on a moderate decline in risk appetite. Larger increases in risk premia could result in more adverse outcomes. EMDEs at elevated risk of debt-related stress could see sharp currency depreciations and

destabilizing capital outflows, triggering new crises or derailing nascent recoveries (Arteta, Kamin, and Ruch 2022). Other extant financial vulnerabilities—including office-related lending in advanced economies and high exposure to domestic sovereign debt in some EMDE banking sectors—could also be exacerbated. Such developments could amplify the drag on global growth via additional channels. For example, office loan defaults could slow advanced-economy credit growth, while EMDE fiscal authorities might pursue sharper fiscal consolidations to buttress stability.

Weaker-than-expected growth in China

The outlook for China is subject to various risks, the materialization of which could have a range of global spillovers. On the upside, greater-than-assumed policy support, such as higher government spending, could boost demand. On the downside, however, a more persistent or deeper-than-expected property sector downturn would directly weigh on investment and have broader knock-on effects. It would reduce household wealth and sap consumer confidence and spending. It would also undermine revenue collection, further reducing fiscal space and hindering fiscal support, particularly at the local government level.

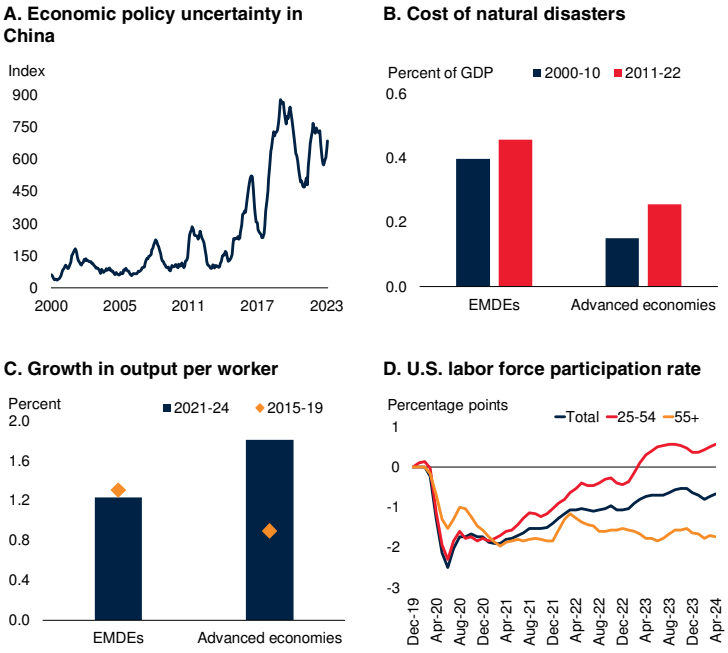
Another downside risk relates to the possibility of prolonged weakness in business sentiment and private investment in a range of sectors, partly owing to elevated domestic or international policy uncertainty, including about the domestic regulatory environment (figure 1.13.A). Moreover, potential growth in China, already on a notable downward trend, could decline faster than expected, resulting in slower actual growth. Industrial policy, including government support for preferred manufacturing sectors, could have the unintended effect of exacerbating inefficient capital allocation and encouraging supply-demand imbalances.

Weaker growth in China could have adverse international spillovers via global trade and commodity markets. It would weigh on the anticipated global trade recovery, dampening activity in trade-intensive economies. Commodity-exporting EMDEs, notably energy and metal exporters, would be particularly affected, given China's share in global commodity demand and in an environment of softening commodity prices. Protracted weak consumer confidence could cause households in China to curtail discretionary spending, including on overseas travel, thereby dampening tourism-related activity, particularly in EAP economies where China is an important source of demand.

Although China's integration into global financial markets remains limited, a sharper slowdown

FIGURE 1.13 Other risks to the outlook

In China, elevated policy uncertainty could weigh on sentiment and investment. Economic losses from natural disasters in EMDEs have risen in recent years and are persistently larger as a share of GDP than in advanced economies. On the upside, global productivity could turn out better than expected, particularly if productivity growth rises above its pre-pandemic average in EMDEs, helping to offset some of the pandemic scarring affecting the level of labor productivity. U.S. growth has proven remarkably resilient, in part as a result of an expanding labor force.



Sources: Baker et al. (2013); EM-DAT (database); Federal Reserve Bank of St Louis; International Labour Organization; World Bank.

Note: EMDEs = emerging market and developing economies.

A. Panel shows six-month moving average of Economic Policy Uncertainty index, based on the *South China Morning Post*. Last observation is November 2023.

B. Panel shows period averages of total costs of natural disasters as percent of GDP.

C. Median growth in annual output per worker from International Labour Organization (ILO) model estimates. Sample includes 189 countries, covering 2015-24.

D. Panel shows difference in percentage points in the three-month moving average of labor force participation rates since December 2019 for age groups 55 and above, 25-54, and all ages. Last observation is April 2024.

could create adverse financial spillovers, including by sapping global risk appetite (Gutierrez, Turen, and Vicondoa 2024). Against a backdrop of high and rising private and public sector debt, slower growth in China and concerns over mounting financial risks could prompt authorities to rein in credit growth and markedly pivot to fiscal consolidation. Such a shift in the policy stance could dampen global sentiment in anticipation of weakening global demand, resulting in a decline in investor risk appetite and equity prices. The ensuing tightening in global financial conditions would have disproportionately adverse effects on less creditworthy economies reliant on external financing.

More frequent natural disasters with worsening impacts

The frequency and severity of natural disasters have risen over time and are projected to increase further with climate change, posing a risk to global growth. Natural disasters have devastating impacts on output, lives, and livelihoods, with the effects falling disproportionately on the poor. Economic losses from natural disasters in EMDEs have risen considerably over time, averaging about 0.5 percent of GDP per year over 2011-22, about twice the impact in advanced economies (figure 1.13.B). Of all the deaths over 1970-2019 from weather, climate, and water hazards, 82 percent occurred in low- and lower-middle-income countries (WMO 2021).

Weather patterns, such as the ongoing El Niño and La Niña, risk harming agricultural output and result in price pressures in the near term. These weather patterns may become more extreme and increase in frequency under more acute greenhouse gas emission scenarios, inflicting damages over the long term. For instance, past experience suggests that El Niño combined with global climate change could reduce rice yields in Southeast Asia, pushing millions of people into food insecurity, as it did between 2014 and 2016 (FEWS NET 2023). More frequent and widespread crop failures resulting from climate change and associated natural disasters can cause food price spikes and exacerbate poverty and food insecurity. Under an adverse scenario, over 130 million people could be pushed into extreme poverty by 2030, most of them in low- and lower-middle-income countries (Hallegatte and Rozenberg 2017; Jafino et al. 2020). Additionally, reduced yields would adversely affect incomes across EMDEs where agriculture is a significant share of output.

Headwinds to growth deriving from weather events may be amplified by a lack of fiscal space to respond to them or through their impact on public sector balance sheets (Milivojevic 2023). Extreme weather events could also worsen the spread of disease, aggravate the hardships faced by those without access to adequate housing, and adversely affect the stability of banking sectors.

Upside risks

Lower global inflation and faster monetary easing

Global consumer price inflation has declined substantially since its mid-2022 peak, reflecting falling commodity prices, normalizing supply chains, and expanding labor supply. As much of the run-up in inflation was due to pandemic-related supply disruptions and higher energy prices, rapid disinflation occurred despite resilient output growth in many advanced economies and EMDEs. While the baseline outlook embeds continued disinflation, the pace is expected to slow, reflecting persistent service price pressures that will likely keep policy rates elevated, relative to the pre-pandemic period, throughout the forecast horizon. However, inflation could recede more rapidly compared to the baseline assumptions.

Several factors could support faster disinflation. Productivity could turn out to be better than expected globally, particularly if productivity growth rises above its pre-pandemic average in EMDEs, helping to offset some of the pandemic scarring affecting the level of labor productivity (figure 1.13.C). This could be driven by the consolidation of post-pandemic working practices and a calibrated and equitable integration of new technologies that unlock productivity gains. In addition, goods inflation could decline further due to moderating commodity prices or further improvements in global supply chains, leading to

lower imported price inflation. With respect to energy prices, substantial spare oil capacity among OPEC+ producers raises the possibility of a downdraft in oil prices if increases in oil supply—driven either by OPEC+ decisions or production growth elsewhere—are greater than markets anticipate. As well as directly lowering headline inflation via energy disinflation, lower oil prices would feed through (with a lag) to many core prices, such as those for travel services and freighted goods.

If global inflation concerns were to abate faster than currently expected, central banks in advanced economies and EMDEs could ease monetary policy more than anticipated, reducing borrowing costs and supporting improved credit growth. Lower borrowing rates and inflation would also boost global consumer confidence, pushing up consumer spending and facilitating a stronger recovery in global trade. The resulting higher demand would provide additional impetus for increased investment in productive capacity. Finally, along with lower domestic policy rates, EMDEs would likely benefit from stronger global risk appetite, with foreign investment flows rekindled by lower yields in advanced economies, further easing access to finance for firms and governments in EMDEs.

Stronger growth in the United States

The United States has been a bright spot in the global economy, with growth proving more resilient than expected, despite the sharpest monetary policy tightening in decades. Meanwhile, as was the case globally, U.S. inflation continued to retreat, partly on account of waning energy and food prices, as well as some moderation in core inflation. The growth outlook this year has been revised up significantly following repeated upside surprises to activity, supported by the expansion of the supply side of the economy, particularly with respect to gains in productivity and the size of the workforce (figure 1.13.D).

It is possible that growth in the United States could continue to surpass expectations this year and the next, especially if elevated growth in labor supply and productivity turns out to be persistent. Continued expansion in the prime-age labor force due to elevated real wages, as well as strong increases in the working-age population due to immigration, could prove more enduring than projected. Such an expansion of the working-age population could boost consumer spending, while businesses could also be encouraged to increase capital investment in line with higher staffing levels, raising overall growth. An increase in labor supply would help bring labor markets into better balance, enabling higher employment and reducing labor market tightness, which would help to ease wage growth. If this greater employment occurred in more productive sectors, economy-wide productivity might sustain solid growth. Slowing wage growth and continued increases in productivity would support the ongoing disinflation process. Thus, in such a scenario, stronger growth would be accompanied by continued disinflation, requiring little change to the Federal Reserve's policy rate path.

Policy challenges

The tepid growth outlook and multiple downside risks on the horizon underscore the importance of forceful policy responses to address persistent and substantial challenges. Global policy efforts are needed to support the green and digital transitions, safeguard international trade, and ensure food and energy security. Addressing many of these issues is likely to require increased investment in the provision of public goods in an environment of rising debt and high debt-servicing costs. Still-elevated inflation underscores the need for monetary policy makers to continue to focus on price stability. To meet development goals and bolster long-term growth prospects, reforms at the national level are needed to enhance the efficiency of public investment, boost human capital, and strengthen resilience and inclusion.

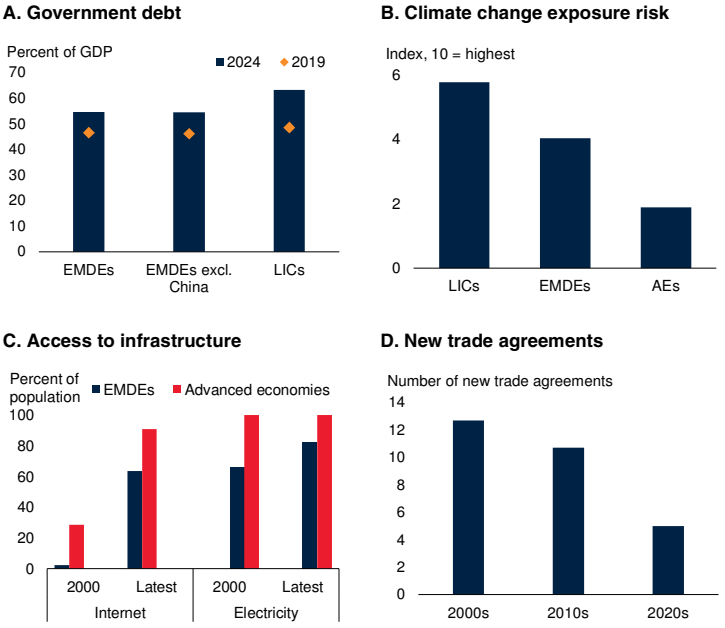
Key global challenges

Elevated debt

Many EMDEs are contending with high debt in an environment of weak growth, steep borrowing costs, and a multitude of downside risks (figure 1.14.A). These challenges are particularly acute for

FIGURE 1.14 Global policy challenges

High levels of debt across many EMDEs, notably LICs, highlight the need for global policy action to prevent costly debt crises. LICs are especially exposed to climate change risks and have the largest investment needs to achieve a resilient and low-carbon pathway. Despite improvements over the past two decades, EMDEs continue to lag advanced economies in access to key infrastructure. The adoption of trade agreements has slowed in the 2020s to less than half the rate of the 2000s.



Sources: INFORM (database); Kose and Mulabdic (2024); WDI (database); IMF-WEO (database); World Bank; World Trade Organization.
Note: AEs = advanced economies; EMDEs = emerging market and developing economies; LICs = low-income countries.
A. Bars show the median for each country group.
B. Bars show average INFORM Climate Change Risk Index for each country group. The index provides quantified estimates of the impacts of climate change on the future risk of humanitarian crises and disasters, with 0 being no risk and 10 being the highest risk. Data are for 2022.
C. Panel shows simple averages. Data as of 2021. Electricity: unbalanced sample of 153 EMDEs and 37 advanced economies. Internet: 139 EMDEs and 37 advanced economies.
D. Panel shows average number of new trade agreements yearly as of February 1, 2024. Sample excludes agreements signed by the United Kingdom.

the poorest countries, where many sources of financing are drying up or have become cost-prohibitive. EMDEs with weak credit ratings—many of which are middle-income—face interest rates more than 10 percentage points above the global benchmark rate, leaving them effectively locked out of commercial markets and highly vulnerable to debt crises. Decisive action by the international community is needed to address developing risks to avoid the economic costs of debt crises. Debt restructuring and relief processes, particularly the G20 Common Framework, have so far delivered little relief and need to be upgraded to reflect the rapidly evolving sovereign landscape. These efforts can be complemented with domestic reforms to build the fiscal space necessary to boost growth and resilience, strengthen governance frameworks, and enhance debt transparency, which can in turn help prevent debt-related vulnerabilities from escalating further.

Climate change

Decarbonizing the global economy will require sizable investments and financing, yet policies worldwide remain inadequate to meet global climate goals. Reaching net zero by 2050 will require cutting greenhouse gas emissions by between one-fourth and one-half by 2030 relative to 2019; however, current global commitments are estimated to reduce emissions by only about 10 percent by the end of this decade. In EMDEs, the amount of investment spending needed to tackle development goals and reduce emissions by 73 percent by 2050 ranges from about 1 to 10 percent of GDP per year over the remainder of this decade—with notably higher needs in LICs, in part owing to their wider existing gaps in development and infrastructure spending and their exposure to climate change risks (figure 1.14.B; Neunuebel 2023; World Bank 2022a). The cost of achieving these goals will increase further if progress is delayed (World Bank 2022b).

In EMDEs, mobilizing public resources, including through subsidy reforms and carbon pricing, can help finance the needed public investments and social transfers to ensure a low-emission and equitable development pathway (World Bank 2023c). This can be complemented with measures to attract private investment, including policies that strengthen the regulatory environment and tackle corruption. Strong global cooperation is also needed to increase access to financing to address climate change, especially for vulnerable countries facing significant budgetary constraints (Chrimes et al. 2024).

Trade policies can be integrated more closely with climate initiatives to expedite the transition to renewable energy and to make progress on achieving global climate goals. Reducing restrictions on trade in green energy technologies is crucial for facilitating investment in energy transitions and the implementation of climate

action plans, particularly in EMDEs with limited access to finance and technologies domestically (Park 2024). Measures such as environmental provisions in trade and investment agreements can support the transfer of greener technologies and facilitate broader technology spillovers to EMDEs.

Climate change is a growing threat to food security, with the impacts of rising temperatures and extreme weather events becoming increasingly evident in reduced crop yields and disruptions to food supply chains (IFPRI 2022). For wheat, rice, and maize in tropical and temperate regions, climate change, without adaptation measures, is projected to impair crop production at local temperature increases of 2 degrees Celsius (Aggarwal et al. 2024). To increase the resilience of the agriculture sector and ensure food security, countries can implement new technologies, such as irrigation systems to improve water use efficiency; increase access to insurance and risk finance; enhance early warning systems; and advance climate risk and adaptation knowledge (World Bank 2023c). Measures to help address food insecurity include avoiding export restrictions, strengthening agricultural food systems, and targeting social protection and cash transfers to poor and vulnerable households. Governments can also promote additional investments in research and development to boost agricultural productivity. Given heightened geopolitical tensions, collective global action is also needed to safeguard energy security by avoiding restrictions on trade in materials critical for the energy transition.

Digital transition

Although digital adoption is accelerating globally, the digital divide continues to widen (World Bank 2023d). About one-third of the global population, or 2.6 billion people, remained offline in 2023, with the vast majority living in EMDEs. Despite improvements over the past two decades, in 2021, about 18 percent of the population in EMDEs lacked electricity while only about 63 percent had access to the internet, compared with over 90 percent in advanced economies (figure 1.14.C). In addition to exacerbating development challenges, weak investment in digital infrastructure and research and development in EMDEs constrains the adoption of new technologies, such as AI.

Facilitating digital adoption and diffusion is critical to narrow the digital divide. Governments can play a role by catalyzing private investment in digital infrastructure. This can be achieved by rationalizing restrictions on foreign participation and ownership in internet service providers, promoting infrastructure sharing, ensuring competition, and monitoring the quality of internet services (ITU 2020; World Bank 2023d). Developing digital infrastructure can help raise investment growth and financial inclusion by enabling small firms and financial institutions to access financial markets and digital payments (UN 2022; World Bank 2022c). New digital technologies can help low- and middle-income countries address various development challenges. Still, some technologies, such as AI, are likely to be better leveraged by advanced economies given their more digitalized economies, highly skilled workforces, and institutional frameworks that can better adapt to the changing landscape. As advances in AI foster greater automation, the rationale for investing in and trading with low- and middle-income countries could become weaker, especially if their workforces lack the skills to take advantage of new roles created by AI. This may lead to a deterioration in their terms of trade, and eventually widening productivity and income gaps with advanced economies (World Bank 2023d).

To maximize the potential of AI and other new technologies, global coordination on international standards is needed to ensure their responsible development. A thorough assessment of the adequacy of existing legal frameworks in addressing emerging challenges—such as those related to data privacy and cybersecurity—is warranted. This can be complemented by national policies that balance innovation and regulation.

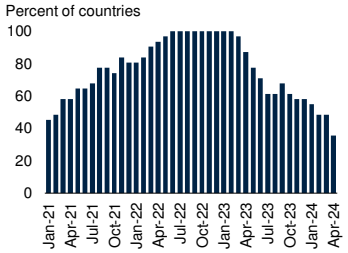
Trade fragmentation

Trade has been a key engine of global prosperity. The rapid expansion of global trade after 1990 enabled one billion people to escape extreme poverty and helped EMDEs narrow the income

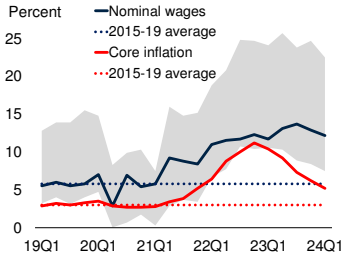
FIGURE 1.15 EMDE monetary and financial policy challenges

The share of EMDEs with above-target inflation has declined, even though wage growth and core inflation remain elevated in some countries. Monetary easing in EMDEs has narrowed interest rate differentials between EMDEs and key advanced economies; this trend could lead to heightened financial and exchange rate volatility in some economies. Net capital inflows to EMDEs have been modestly positive recently; they could increase as central banks in advanced economies ease policy.

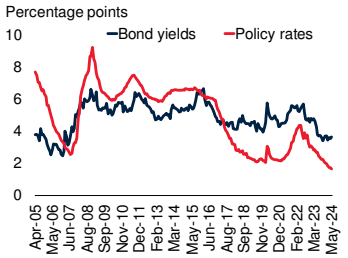
A. Share of EMDEs with above-target inflation



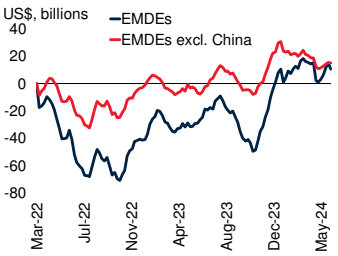
B. EMDE nominal wage growth and core inflation



C. Interest rate differential between EMDEs excluding China, and the United States



D. Capital flows to EMDEs



Sources: Bloomberg; Haver Analytics; IIF (database); World Bank.

Note: EMDEs = emerging market and developing economies.

A. Panel shows the share of EMDEs with inflation above target. Sample includes 31 EMDEs. Last observation is April 2024.

B. Nominal wage growth in the last quarter of available data compared to 2015-19 average and deviation of three-month moving average of core inflation from the 2015-19 average. Shaded area indicates the range of the first and third quartile of quarterly wages. Sample includes up to 20 EMDEs. Last observation is 2024Q1.

C. Red line indicates the differential between U.S. federal funds rate and a GDP-weighted average of policy rates for up to 18 EMDE central banks. Blue line indicates the differential between U.S. 10-year government bond yield and a GDP-weighted average of 10-year government bond yield for up to 14 EMDEs. Last observation is May 2024.

D. Net non-resident debt and equity flows to EMDEs since the U.S. Federal Reserve Bank started its hiking cycle in March 2022. Cumulative total using weekly data. Last observation is May 31, 2024. Sample includes 17 EMDEs for equity flows and 10 EMDEs for debt flows.

gap with high-income economies (Kose and Mulabdic 2024). Accordingly, the weakness in global trade in recent years and the subdued near-term outlook do not portend well for development and living standards. Critically, the proliferation of trade-restricting measures, disruptions to global value chains, and a further weakening of the multilateral trading system could lead to significant welfare losses globally, with particularly adverse impacts for EMDEs.

To reinvigorate trade growth and guard against trade fragmentation, it is key to restore the rules-based multilateral trade system, mitigate the adverse effects of geopolitical tensions on trade networks, foster a level playing field for international commerce, and reduce trade policy uncertainty. At the multilateral level, measures are needed to reinstate and reform the dispute settlement system, and enhance transparency, especially regarding distortions from industrial policy measures (IMF, OECD, World Bank, and WTO 2022). Countries could also resume efforts to expand trade agreements to bolster trade. In the 2020s so far, an average of just five agreements have been signed each year, less than half the rate of the 2000s (figure 1.14.D).

EMDE monetary and financial policy challenges

Many EMDE central banks began to cut policy rates last year amid declining inflation. With the broad trend in disinflation continuing this year, the share of EMDEs with above-target inflation has fallen below 50 percent for the first time since early 2021 (figure 1.15.A). Nevertheless, wage growth and service sector inflation are still elevated in some countries, and core inflation has remained persistently high (figure 1.15.B).

Bringing inflation durably to targets in these countries will require further easing of labor market tightness, as well as moderation in the growth of shelter and other services prices. Because of their persistence, reducing wage and services inflation sustainably toward pre-pandemic levels may be a lengthy process requiring carefully calibrated monetary policies (Amatyakul, Igan, and Lombardi 2024). If inflation were to surprise to the upside, it would be critical for central banks to signal their readiness to pause or reduce the pace of monetary easing, and even increase policy rates, if needed. This, together with continued emphasis on clear central bank communications, should help keep inflation expectations anchored and inflation trending toward targets, especially in the context of EMDEs (Ha, Kose, and Ohnsorge 2019).

In the near term, continued monetary easing in EMDEs could result in further narrowing of

interest rate differentials relative to key advanced economies, as the expected pace of easing in the latter has diminished this year (figure 1.15.C). Such narrowing could trigger currency depreciations and endanger progress on disinflation, depending on the extent to which currency movements are transmitted to domestic prices. It could also exacerbate financial market volatility, particularly in economies with large external financing needs and elevated debt. Destabilizing capital outflows are less likely to occur, however, if EMDE monetary policy frameworks and commitments to price stability are seen as credible (Kalemli-Özcan and Unsal 2024). In addition, if limited in scope and duration, interventions to manage capital flow and currency volatility could be considered, should a sudden bout of outflows threaten to destabilize domestic financial systems.

To prepare for unforeseen shocks, close scrutiny of EMDE bank credit quality and capital levels is crucial. This can help ensure that banking sectors can weather potential losses without constricting credit in an unduly procyclical manner. More broadly, improved surveillance and supervision of banking sectors, along with strengthened fiscal frameworks, may reduce vulnerabilities and risks associated with the sovereign-bank nexus (Feyen and Igor 2019). Such financial sector reforms, along with broader structural and fiscal adjustments, can help improve investor perceptions and attract foreign capital, especially among EMDEs at elevated risk of debt-related stress.

In EMDEs with open capital accounts and strong financial market access, sound macroprudential policies can be important for the health and resilience of financial sectors. Measures of cumulative net portfolio flows to EMDEs have been close to neutral since the start of the U.S. monetary tightening cycle; however, if the inflationary persistence observed in early 2024 proves temporary, as currently expected, capital inflows could increase significantly as advanced-economy central banks ease policy (figure 1.15.D). Under such a scenario, EMDE central banks could enhance macroprudential buffers to help contain potential financial stability risks.

EMDE fiscal policy challenges

Fiscal policy in EMDEs is anticipated to modestly tighten over 2024-26, reflecting efforts to attenuate elevated debt stocks (figure 1.16.A). Rebuilding fiscal buffers will be important in containing debt-service burdens and regaining market confidence, helping reduce funding costs. That said, while fiscal adjustment can improve long-term growth prospects by fostering confidence and expanding fiscal space, the potentially adverse impacts on near-term growth and inequality need to be minimized through careful design and implementation—including by prioritizing critical spending on health, education, and social protection (Balasundharam et al. 2023). Facing high borrowing costs, EMDEs will need to mobilize resources to tackle development challenges without damaging the sustainability of their fiscal positions, including through strengthening public investment management. Countries can also implement measures to increase revenues, including through phasing out pandemic-era tax cuts and strengthening tax administration and enforcement.

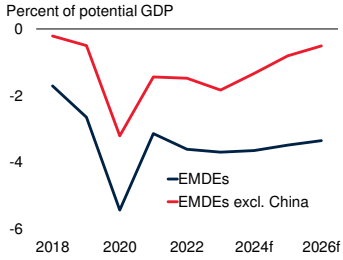
The elevated cost of servicing debt could crowd out spending on other priorities, including public investment in physical and human capital, and social safety nets (figure 1.16.B; chapter 3). In EMDEs with limited fiscal space, redirecting spending to the highest priorities—including growth-enhancing investment and targeted support to the poor and the vulnerable—and improving spending efficiency are critical to help meet spending needs as fiscal policy is tightened. Such efforts can be supported by strong and effective fiscal institutions and management, backed by reforms to improve the transparency, accountability, and efficiency of fiscal policy.

Mobilizing revenues remains a key challenge in EMDEs. As tax collection, particularly of direct taxes such as income taxes, is often limited, EMDEs tend to be more reliant on other sources of revenues compared to advanced economies. These sources include rental income, interest, dividends, and sales of goods and services, which tend to be more volatile than tax revenues

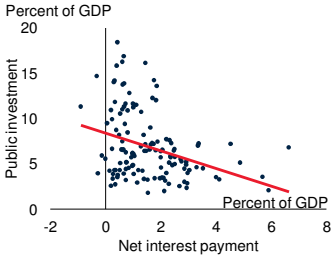
FIGURE 1.16 EMDE fiscal policy challenges

Fiscal policy in EMDEs is anticipated to modestly tighten over 2024-26, with fiscal deficits narrowing to help address elevated debt stocks. A larger debt-service burden is associated with lower spending on public investment in EMDEs. Fiscal challenges are particularly acute in small states, where fiscal deficits are generally larger and the risk of debt distress is higher than in other EMDEs.

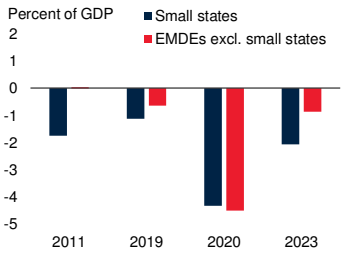
A. Cyclically adjusted primary balances in EMDEs



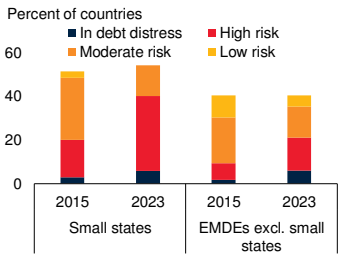
B. Public investment and interest payments in EMDEs in 2010s



C. Primary fiscal balance in EMDEs



D. Risk of debt distress in EMDEs



Sources: IMF (2015); Kose et al. (2022); IMF-WEO (database); World Bank; World Bank-IMF Debt Sustainability Framework.

Note: f = forecast; EMDEs = emerging market and developing economies.

A. Aggregates are computed as weighted averages using potential GDP as weights. Sample includes 46 EMDEs. Data for 2023 are estimates, while data for 2024-26 are forecasts.

B. Panel shows the relationship between public investment in percent of GDP in the 2010s and net interest payments, computed as differences between primary balances and fiscal balances. Correlation coefficient is -0.34 and is statistically significant at the 1 percent level, based on data for 130 EMDEs.

C. Panel shows the average primary fiscal balance for a sample of 32 small states and up to 109 EMDEs.

D. Share of small states and other EMDEs in overall debt distress or at risk of debt distress, based on the joint World Bank-IMF Debt Sustainability Framework for Low Income Countries (LIC-DSF) as of March 30, 2024.

(Mourre and Reut 2017). Government revenues are particularly weak in LICs—in 2024, they are set to be just under 14 percent of GDP, much lower than in other EMDEs and advanced economies. They also tend to be more volatile in LICs, which are often more dependent on commodities for export and fiscal revenues.

Strengthening tax collection by widening the tax base—including through eliminating costly tax exemptions, deductions, and other special preferences—and simplifying tax codes can improve domestic revenue mobilization and help generate lasting revenue gains for EMDEs. At the same time, limits in mobilizing domestic resources, especially in the short run, make funding from external sources particularly important for LICs (UNCTAD 2023). The receipt of official development assistance has increased since 2010, and external grants account for about 16 percent of government revenues in LICs.

The number of EMDEs with a heightened risk of debt distress or already in outright default remains elevated. The composition of debt also poses considerable challenges. In EMDEs with lower income levels and with less developed financial markets, the composition of government debt tends to be skewed toward riskier sources—including foreign-currency-denominated debt and non-resident holdings of debt—rendering countries more vulnerable to sudden shifts in global financing conditions. Additionally, the stock of short-term government debt has risen, increasing vulnerability to refinancing costs in a context of higher global interest rates.

Small states face unique fiscal challenges stemming from their exposure to large external shocks (chapter 4). The pandemic and subsequent global shocks have worsened fiscal and debt positions in small states (figure 1.16.C). More than one-third of small states are at high risk of debt distress or already in it, roughly twice the share in other EMDEs (figure 1.16.D).

Small states have an even more acute challenge in striking a balance between maintaining adequate fiscal buffers and increasing investments in human capital and climate-resilient infrastructure. As revenues are highly volatile and dependent on sometimes unreliable sources, a more stable and secure tax base is needed. Spending efficiency also needs to be improved, especially given that expenditure levels are already relatively high. These efforts should be complemented by reforms to fiscal frameworks, including better utilization of fiscal rules and sovereign wealth funds. With limited institutional capacity and opportunities to borrow privately, ongoing international support will also be important to help meet spending needs and strengthen policies.

EMDE structural policy challenges

EMDEs face pressing longer-term challenges, many of which have been aggravated by the overlapping shocks of the last four years. Comprehensive reform efforts are needed to boost investment to achieve sustained growth and development. Crucially, reversing the scarring effects of the pandemic on growth prospects will require investments in education and human capital. Bolstering food security is vital, particularly in light of increased hunger, growing trade-restrictive policies, and conflict. Widening gender gaps in labor force participation and elevated youth unemployment rates in EMDEs highlight the need for labor market reforms and social protection measures.

Accelerating public investment

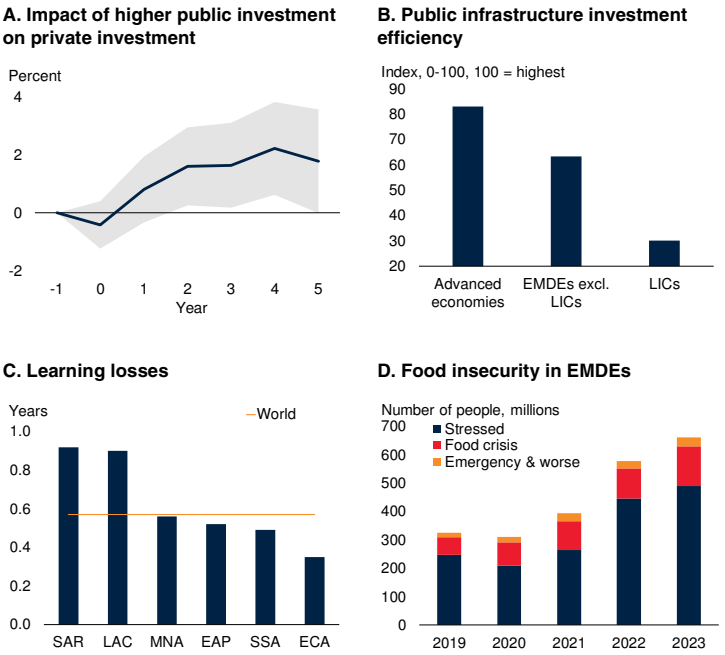
Sustained investment is needed to deliver robust potential output growth, improve living standards, and make progress in achieving development and climate-related goals. Effective public investment could play an important role, including to catalyze broader investment. Nonetheless, for many EMDEs, fiscal space is limited, reflecting weak revenue collection, especially relative to advanced economies. To accelerate public investment in EMDEs, it is critical to expand fiscal buffers, including through reforms aimed at increasing domestic revenue mobilization and by enhanced support from the global community.

Mobilizing public resources could, in turn, help facilitate private investment through various channels. Public investment in infrastructure—notably, transport and communications infrastructure—can raise returns on private capital, thereby encouraging private sector investment. Public investment programs can also catalyze private investment directly by leveraging private capital in the implementation of investment projects—for instance, via public-private partnerships. Furthermore, public investment can help reduce uncertainty and risks associated with large private investment projects. Estimates show that an increase in public investment equivalent to one percent of GDP leads to a 2.2 percent increase in private investment over four years (figure 1.17.A; chapter 3). Policies to overcome common obstacles to private investment—such as poor business conditions, insufficient project pipelines, and underdeveloped domestic capital markets—are also essential.

It is also critical to improve public investment efficiency, notably in infrastructure, where more than one-third of spending by EMDEs is estimated to be wasted, leaving a large efficiency gap in EMDEs relative to advanced economies (figure 1.17.B; chapter 3). Spending efficiency could be improved, and waste reduced, by tackling corruption and poor governance, and by improv-

FIGURE 1.17 EMDE structural policy challenges

Public investment can have significant crowding-in effects on private investment in EMDEs. Infrastructure investment efficiency in EMDEs is considerably lower than in advanced economies. Learning losses from the pandemic have been more pronounced in regions where school closures were extensive. Food insecurity in EMDEs has surged since the pandemic.



Sources: IMF (2021); GRFC (database); Schady et al. (2023); World Bank.

Note: EAP = East Asia and Pacific; ECA = Europe and Central Asia; EMDEs = emerging markets and developing economies; LAC = Latin America and the Caribbean; LICs = low-income countries; MNA = Middle East and North Africa; SAR = South Asia; SSA = Sub-Saharan Africa.

A. Response of real private investment (cumulative change in year *t* relative to year *t*-1, in percent) to a public investment shock equivalent to 1 percent of GDP; *t* = 0 is the year of the shock. Shaded areas denote 90-percent confidence bands, based on standard errors clustered at the country level. Sample includes 129 EMDEs.

B. Bars show group medians of the IMF (2021) public infrastructure efficiency index. Sample includes 27 advanced economies and 93 EMDEs, of which 15 are LICs.

C. Panel shows the average learning-adjusted years of schooling (LAYS) lost by World Bank region, weighted by population. Regional averages exclude high-income countries. For each country, lost LAYS are calculated for each level of schooling and then averaged across levels, weighted by the duration of each level, as shown in Schady et al. (2023). Horizontal line shows the global average.

D. Panel shows the number of people suffering food insecurity in phases 2 to 5, according to the acute food insecurity reference table from GRFC report. Sample includes data for up to 135 EMDEs.

ing investment project management frameworks. This could include an overarching investment planning framework comprising a transparent set of development and climate goals; multiyear budgeting; robust project management; enhanced monitoring and procurement processes; as well as improved risk management and mitigation. Finally, without enhanced global financial support and technical assistance, EMDEs with limited fiscal space, deep structural challenges, and vast infrastructure needs—especially LICs, FCS, and some small states—may not be able to finance and implement substantial, growth-enhancing public investment projects.

Lifting human capital

In many EMDEs, the negative effects of the COVID-19 pandemic on human capital have not been reversed and have exacerbated challenges that predate the pandemic. In particular, the pandemic brought about considerable disruption to schooling and learning and is likely to have a lasting and unequal impact on learning levels. Learning losses have been more pronounced in regions where school closures were extensive, notably in LAC and SAR (figure 1.17.C). Since 2019, the learning poverty rate—the share of children unable to read and understand a simple text by age 10—is estimated to have risen by 13 percentage points to 70 percent, on average, in low- and middle-income countries (World Bank et al. 2022). The long-term effect of these learning losses is likely to be substantial. This generation of students could lose an estimated 17 percent of GDP in future earnings as a result of lost schooling and learning, with losses likely to be greater for poor and other vulnerable students (Schady et al. 2023).

Despite these potential losses, most EMDEs have not implemented policy measures to support a recovery in learning. Such measures could include targeted instruction programs, particularly for vulnerable students, and enhanced training for teachers. New learning technologies can also be harnessed to improve teaching effectiveness and educational outcomes (World Bank 2019). Re-integrating of workers separated from the labor markets during the pandemic, including through upskilling and reskilling, is also needed. Nontraditional modes of education, such as short-cycle higher education programs, can play an important role in skills development and training workers in new fields (Ferreyra et al. 2021).

Confronting food insecurity

Food insecurity in EMDEs has surged since the pandemic, affecting about 660 million people in 2023 compared with about 325 million in 2019 (figure 1.17.D). Major drivers of food insecurity and malnutrition—conflict, extreme weather patterns, economic downturns, and inequality—have intensified in recent years, often occurring in combination. The rise of trade-restrictive measures has further accentuated food insecurity, particularly in EMDEs that rely heavily on food imports, exposing them to fluctuations in international food prices (Laborde, Lakatos, and Martin 2019). Beyond immediate concerns over food insecurity, rising food prices significantly impact poverty, welfare, and outcomes later in life (Gatti et al. 2023; Lederman and Porto 2016). To shore up food security, urgent action is needed to protect vulnerable households, along with measures to tackle the root causes of food insecurity. Governments need to support production by ensuring access to and availability of agricultural inputs, such as fertilizers, while facilitating increased trade in food and agricultural inputs. Policies are also needed to improve the resilience of food systems. These could include investing in more social protection programs that ensure both the climate resilience of food systems and affordability of healthy diets. Investing in agricultural technology can help improve climate-resilient food production and raise agricultural productivity.

Bolstering inclusion in the labor force

Progress in closing gender gaps in labor force participation in EMDEs lags considerably behind that in advanced economies (WEF 2023; World Bank 2024e). This reflects unequal access to services, discriminatory laws, inadequate childcare, and other barriers that prevent women from realizing their full economic potential. Reforms that aim to reduce the gender gap in the labor force can ignite new sources of economic growth,

particularly given the secular decline in potential growth (Kose and Ohnsorge 2023). Such reforms include targeted social protection measures that provide adequate social safety nets, access to education, and support for childcare and job re-entry programs (Bussolo et al. 2022; World Bank 2022c).

Low labor force participation and high unemployment among youth populations is another major challenge in many EMDEs, particularly in LICs. Labor market outcomes for youth remain below pre-pandemic trends (ILO 2023). The share of people in LICs aged 15-24 years who were neither employed nor in education or training was 1 percentage point higher (at 27.7 percent) in 2022 than in 2019, while the youth unemployment rate was 1.1 percentage points higher (Elder and O'Higgins 2023). To boost the recovery in youth employment, governments could prioritize policies targeted to youth. Active labor market policies, youth employment programs, career guidance, and apprenticeships are vital for increasing employment opportunities (World Bank and ILO 2024). This is particularly important for more vulnerable sections of the youth population, such as migrants and refugees.

TABLE 1.2 Emerging market and developing economies[1]

Commodity exporters[2]		Commodity importers[3]	
Algeria*	Kyrgyz Republic	Afghanistan	Samoa
Angola*	Lao PDR	Albania	Serbia
Argentina	Liberia	Antigua and Barbuda	Somalia
Armenia	Libya*	Bahamas, The	Sri Lanka
Azerbaijan*	Madagascar	Bangladesh	St. Kitts and Nevis
Bahrain*	Malawi	Barbados	St. Lucia
Belize	Mali	Belarus	St. Vincent and the Grenadines
Benin	Mauritania	Bosnia and Herzegovina	Syrian Arab Republic
Bhutan*	Mongolia	Bulgaria	Thailand
Bolivia*	Mozambique	Cambodia	Tonga
Botswana	Myanmar*	China	Tunisia
Brazil	Namibia	Djibouti	Türkiye
Burkina Faso	Nicaragua	Dominica	Tuvalu
Burundi	Niger	Dominican Republic	Vanuatu
Cabo Verde	Nigeria*	Egypt, Arab Rep.	Viet Nam
Cameroon*	Oman*	El Salvador	
Central African Republic	Papua New Guinea	Eswatini	
Chad*	Paraguay	Georgia	
Chile	Peru	Grenada	
Colombia*	Qatar*	Haiti	
Comoros	Russian Federation*	Hungary	
Congo, Dem. Rep.	Rwanda	India	
Congo, Rep.*	São Tomé and Príncipe	Jamaica	
Costa Rica	Saudi Arabia*	Jordan	
Côte d'Ivoire	Senegal	Kiribati	
Ecuador*	Seychelles	Lebanon	
Equatorial Guinea*	Sierra Leone	Lesotho	
Eritrea	Solomon Islands	Malaysia	
Ethiopia	South Africa	Maldives	
Fiji	South Sudan*	Marshall Islands	
Gabon*	Sudan	Mauritius	
Gambia, The	Suriname	Mexico	
Ghana*	Tajikistan	Micronesia, Fed. Sts.	
Guatemala	Tanzania	Moldova	
Guinea	Timor-Leste*	Montenegro	
Guinea-Bissau	Togo	Morocco	
Guyana*	Uganda	Nauru	
Honduras	Ukraine	Nepal	
Indonesia*	United Arab Emirates*	North Macedonia	
Iran, Islamic Rep.*	Uruguay	Pakistan	
Iraq*	Uzbekistan	Palau	
Kazakhstan*	West Bank and Gaza	Panama	
Kenya	Yemen, Rep.*	Philippines	
Kosovo	Zambia	Poland	
Kuwait*	Zimbabwe	Romania	

* Energy exporters.

1. Emerging market and developing economies (EMDEs) include all those that are not classified as advanced economies and for which a forecast is published for this report. Dependent territories are excluded. Advanced economies include Australia; Austria; Belgium; Canada; Cyprus; Czechia; Denmark; Estonia; Finland; France; Germany; Greece; Hong Kong SAR, China; Iceland; Ireland; Israel; Italy; Japan; the Republic of Korea; Latvia; Lithuania; Luxembourg; Malta; the Netherlands; New Zealand; Norway; Portugal; Singapore; the Slovak Republic; Slovenia; Spain; Sweden; Switzerland; the United Kingdom; and the United States. Since Croatia became a member of the euro area on January 1, 2023, it has been removed from the list of EMDEs, and related growth aggregates, to avoid double counting.

2. An economy is defined as commodity exporter when, on average in 2017-19, either (1) total commodities exports accounted for 30 percent or more of total exports or (2) exports of any single commodity accounted for 20 percent or more of total exports. Economies for which these thresholds were met as a result of re-exports were excluded. When data were not available, judgment was used. This taxonomy results in the classification of some well-diversified economies as importers, even if they are exporters of certain commodities (for example, Mexico).

3. Commodity importers are EMDEs not classified as commodity exporters.

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