

# Foreword

The good news is that global growth is holding steady, having slowed for three consecutive years. Inflation has been cut to a three-year low. Financial conditions have brightened. The world economy, in short, appears to be in final approach for a “soft landing.”

Yet, more than four years after the upheavals of the COVID-19 pandemic and subsequent global shocks, it’s clear the world—and developing economies, in particular—has yet to rediscover a reliable path to prosperity. Global growth is stabilizing at a rate insufficient for progress on key development goals—2.7 percent a year on average through 2026, well below the 3.1 percent average in the decade before COVID-19.

By the end of this year, one in four developing economies will be poorer than it was on the eve of the pandemic. By 2026, countries that are home to more than 80 percent of the world’s population would still be growing more slowly, on average, than they were in the decade before COVID-19. Without better policies, it would take a stroke of luck for that outlook to improve: global interest rates are expected to average 4 percent through 2026, double the average of the previous two decades.

Progress toward prosperity occurs when governments put in place policies that foster productivity, entrepreneurship, and innovation—and when they do so in a setting of closer international cooperation. That was the model that flourished after the fall of the Berlin Wall. By encouraging the flow of goods, capital, and ideas across borders, it ushered in an extraordinary era of global prosperity: a span of roughly 25 years when the incomes of the poorest nations, on average, were catching up with those of the wealthiest, and when the world came within striking distance of ending extreme poverty.

This edition of *Global Economic Prospects* offers a sobering assessment of the extent to which that

model of international cooperation has been fracturing—and what it will take to retool it for the needs of this decade and the next. Trade-policy uncertainty has reached this century’s highest level if you consider years involving major elections—when countries that collectively account for at least 30 percent of GDP went to the polls. Trade measures designed to restrain cross-border commercial flows are proliferating at a historic pace. From 2013 through 2023, investment growth in developing economies more than halved, on average, from the pace of the 2000s.

Against this backdrop, nearly half of developing economies will see their per capita income gap relative to advanced economies widen over the first half of the 2020s—the highest share since the 1990s. Per capita income growth in developing economies is expected to average just 3 percent through 2026, well below the average of 3.8 percent in the decade before COVID-19. Many developing economies are expected to see no relative catch-up with advanced economies in the near term.

There are, of course, notable bright spots in the global economy. The U.S. economy, in particular, has shown impressive resilience. Growth has remained buoyant in the teeth of the fiercest monetary policy tightening in four decades. U.S. dynamism, in fact, is one reason the global economy enjoys some upside potential over the next two years.

India and Indonesia are two additional examples of robust performance. India’s economy has been buoyed by strong domestic demand, with a surge in investment, and robust services activity. It is projected to grow an average of 6.7 percent per fiscal year from 2024 through 2026—making South Asia the world’s fastest-growing region. Indonesia is expected to benefit from a growing middle class and generally prudent economic policies, expanding by an average of 5.1 percent over the next two years.

The performance of these and a few other economies makes it clear that high growth can be sustained—even in difficult conditions. Countries can enhance long-term growth by enacting policies that build human capital, boost productivity, improve the efficiency of public spending, and encourage more women to enter the labor force.

This edition of *Global Economic Prospects* features two analytical chapters of topical importance to policymakers. The first outlines how public investment can boost economic growth and facilitate private investment. In developing economies, public investment accounts for just a quarter of total investment, on average, but it can be a powerful policy lever. Scaling up public investment by 1 percent of GDP can increase the level of GDP by more than 1½ percent over the medium term. The impact on private investment is also significant—it grows by as much as 2 percent over five years. These benefits are greatest when countries meet two criteria: they enjoy the fiscal space to increase public spending, and they have a track record of efficient public investment.

The second analytical chapter explores the tragic predicament of developing economies that are small states—those with a population of around 1.5 million or less. These economies are home to

just 17 million people but are often at the frontline of climate challenges. They face chronic fiscal difficulties. Two-fifths of them are at high risk of debt distress or already in it. They face climate-related natural disasters at a frequency eight times the average of other developing economies.

Comprehensive reforms can alleviate these challenges. First, small states should improve their ability to mobilize revenue from domestic sources, which constitute a more stable base than other alternatives. Second, they should improve spending efficiency—especially in health, education, and infrastructure. They should establish fiscal frameworks capable of managing frequent natural disasters and other shocks. These steps are all essential, together with coordinated global policies and financial support, to help them stay on a sustainable fiscal path.

Policymakers have cause to celebrate today: a global recession has been avoided despite the steepest rise in global interest rates since the 1980s. But they would be wise to keep their eye on the ball: growth rates remain too slow for progress. Without stronger international cooperation and a concerted push for policies that advance shared prosperity, the world could become stuck in the slow lane.

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