THE WORLD BANK
Development Economics | Prospects Group

Global Monthly

January 2024

Overview

- Global growth is projected to decelerate in 2024, albeit with notable divergence within both advanced economies and emerging market and developing economies (EMDEs).
- Aggregate EMDE output is projected to continue following a lower path than was expected before the pandemic.
- The recent conflict in the Middle East has heightened geopolitical risks, as further escalation could disrupt commodity markets and trade.

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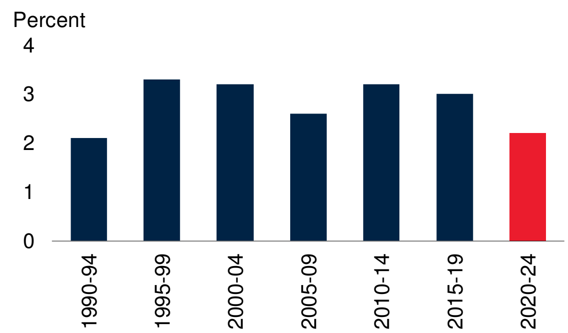
Chart of the Month

- The forecast for global growth over 2020-24 entails the weakest start to a decade since the 1990s—another period characterized by geopolitical strains and a global recession.
- Overall, global growth is expected to slow to 2.4 percent in 2024—the third consecutive year of deceleration.
- This deceleration reflects softening labor markets, the lagged effects of monetary tightening, and fiscal consolidation.

Global growth



Source: World Bank.
Note: GDP aggregates calculated using real U.S. dollar GDP weights at average 2010-19 prices and market exchange rates.

Special Focus: The Magic of Investment Accelerations

- Investment accelerations can be transformative for emerging market and developing economies (EMDEs).
- The average EMDE experienced around two accelerations over the past seven decades, driven by public and private investment, but they have become less common.
- During accelerations, output and productivity grew significantly, and other macroeconomic improvements materialized: inflation fell, and fiscal and external positions improved.

The *Global Monthly* is a publication of the Prospects Group. This edition was prepared by Collette Wheeler and Nikita Perevalov under the supervision of Carlos Arteta. The special focus was prepared by Kersten Stamm. This *Global Monthly* reflects data available up to January 18th, 2024. For more information, visit: www.worldbank.org/prospects. Back issues of this report are available since 2008.

Monthly Highlights

Global activity: continued deceleration and divergence. Global economic activity continues to soften, amid the effects of tight monetary policies, restrictive financial conditions, and weak global trade growth. Nevertheless, near-term prospects are diverging (figure 1.A). Growth in advanced economies as a whole and in China is projected to slow in 2024 to well below its 2010-19 average pace. Meanwhile, aggregate growth is set to improve in EMDEs with strong credit ratings, remaining close to pre-pandemic average rates. Although overall growth is also expected to firm somewhat from its 2023 low in EMDEs with weak credit ratings, the outlook for many such countries remains precarious, given elevated debt and financing costs, as well as idiosyncratic headwinds such as conflict. Global headline and core inflation have continued to decline from 2022 peaks. Nonetheless, inflation remains above target in most advanced economies and about half of inflation-targeting EMDEs. Global inflation is projected to remain above its 2015-19 average beyond 2024 (figure 1.B).

Global trade: projected pickup after pronounced weakness. Global trade growth in 2023 was the slowest outside global recessions in the past 50 years, with goods trade contracting amid anemic global industrial production. Services trade has continued to recover from the effects of the pandemic, but at a slower pace than previously expected. Global trade growth is projected to pick up to 2.3 percent in 2024, partly reflecting a recovery of demand for goods and, more broadly, in advanced-economy trade. Although global trade growth is expected to firm this year, the recovery of trade projected for 2021-24 is the weakest following a global recession in the past half century (figure 1.C). Continuation of the recent increase in the use of restrictive trade policies could result in more fragmented supply chains and slower trade growth than projected in the baseline. Moreover, recent attacks on commercial vessels transiting the Red Sea have already started to disrupt key shipping routes, eroding slack in supply networks and increasing the likelihood of inflationary pressures.

Commodity markets: elevated but easing prices. In 2023 as a whole, most commodity prices weakened to varying degrees alongside robust supplies and moderating demand; however, they remain above pre-pandemic levels (figure 2.A). The recent conflict in the Middle East has so far had only a muted impact on commodity prices. Despite recent volatility triggered mainly by the conflict and ongoing hostilities, average oil prices in 2024

FIGURE 1.A Growth, by economy and EMDE credit rating

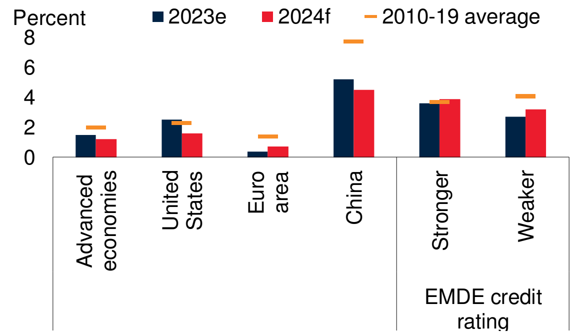


FIGURE 1.B Global consumer price inflation

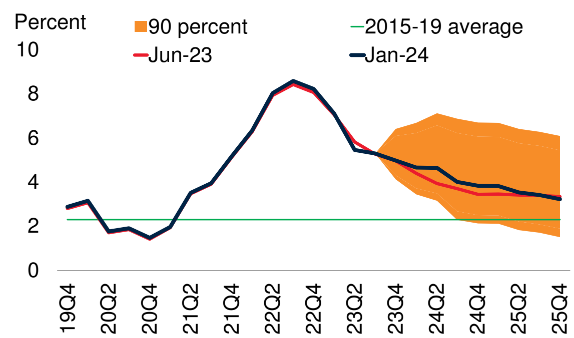
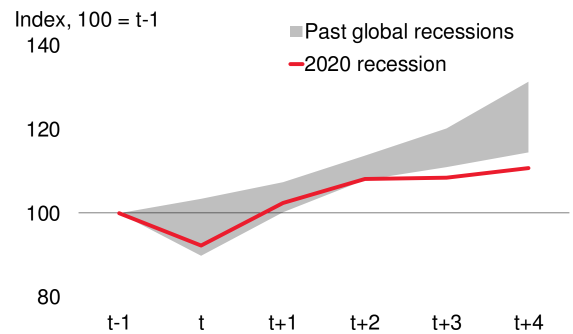


FIGURE 1.C Global trade around global recessions



Sources: Consensus Economics; Moody's Analytics; Oxford Economics; World Bank.

Note: e = estimate; f = forecast; CPI = consumer price index; EMDEs = emerging market and developing economies.

A. Advanced-economy GDP aggregates are calculated using real U.S. dollar GDP weights at average 2010-19 prices and market exchange rates; EMDE aggregates show the median. Credit ratings are Moody's sovereign foreign currency ratings. "Stronger" is defined as credit ratings of B and above. "Weaker" is defined as ratings of Caa and below.

B. Model-based GDP-weighted projections of country-level inflation using Oxford Economics' Global Economic Model. Uncertainty bands are the distribution of forecast errors for total CPI from Consensus Economics for an unbalanced panel of 18 economies.

C. Panel shows global trade recovery after global recessions. Year "t" denotes the year of the global recessions: 1975, 1982, 1991, 2009, and 2020. Past global recessions show the range for the four global recessions prior to 2020.

are projected to edge down to $81/bbl in 2024 in view of adequate oil supplies as well as slowing global activity and continuing deceleration of China's economy. Metal prices fell by 10 percent in 2023 on account of sluggish demand from major economies—notably China, which accounts for more than 60 percent of global metal consumption, in the midst of protracted weakness in the country's property sector. Metal prices are set to decline again as slower growth in China further weighs on metal demand. Food prices, particularly grain prices, fell by 9 percent in 2023. Rice was the exception—its price rose 27 percent in the year amid restrictions on exports of non-basmati rice from India, the world's top rice exporter. Food prices are expected to soften further this year in a context of continued ample supplies for major crops.

Global financing conditions: resilient risk appetite. Monetary tightening in advanced economies is concluding, with subsequent easing of policy interest rates likely to proceed at a measured pace. This, alongside softening inflation, could keep real policy rates elevated for an extended period, following the largest and fastest increase in U.S. real policy rates since the early 1980s (figure 2.B). Reflecting both the outlook for policy rates and volatile term premia, government bond yields in advanced economies in October reached their highest levels since the late 2000s before pulling back later in 2023. Risk appetite in advanced-economy financial markets has nonetheless been resilient, and most EMDEs have so far exhibited few signs of financial stress, despite high interest rates. In addition, resilient growth, limited current account vulnerabilities, and declining inflation have helped contain currency depreciation and support investor appetite for EMDE debt. Nonetheless, EMDEs with weak credit ratings—roughly one in four of them—continue to face prohibitively high financing costs, many having ceased international bond issuance two years ago (figure 2.C).

United States: diminishing resilience. In the United States, after picking up to an estimated 2.5 percent last year, growth is expected to slow to 1.6 percent in 2024, as the impact of temporary factors that boosted growth last year wanes. Declining savings, still-elevated borrowing rates, and easing labor market tightness are expected to restrain consumption growth. Key drivers of widespread labor shortages, including pent-up demand for labor-intensive services, are expected to continue to fade, bringing the labor markets further into balance (figure 3.A). Business fixed investment is also set to decelerate further given economic and political uncertainties, and with firms increasingly refinancing corporate debt at higher interest rates. Growth is

FIGURE 2.A Commodity prices

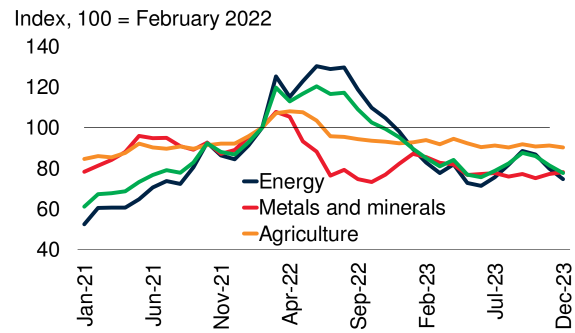


FIGURE 2.B U.S. real interest rate cycles

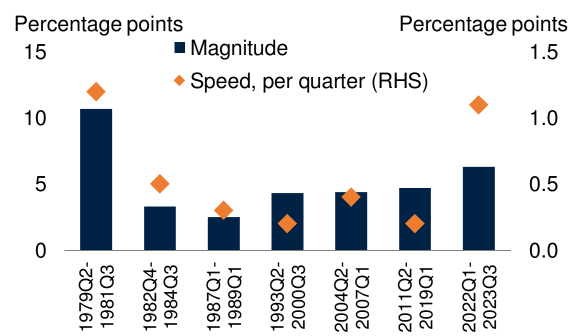
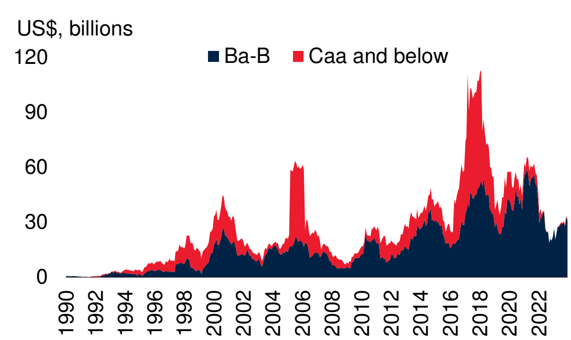


FIGURE 2.C Government bond issuance by non-investment-grade EMDEs



Sources: Dealogic; Federal Reserve Bank of St. Louis; Moody's Analytics; World Bank.

Note: EMDEs = emerging market and developing economies.

A. Data are measured in U.S. dollars. Last observation is December 2023.

B. "Magnitude" is the trough-to-peak change and "speed" is the average change per quarter during periods of rising real rates. Real rate is the U.S. policy rate minus one-year-ahead expected inflation from consumer surveys, adjusted for persistent errors.

C. Panel shows rolling 12-month totals for bond issuance by EMDE governments, categorized by Moody's long-term foreign currency sovereign credit ratings. Last observation is December 2023.

expected to edge up to 1.7 percent in 2025, closer to its trend rate, as the impact of easing monetary policy feeds through the economy.

Other advanced economies: subdued growth ahead. In the euro area, growth in 2024 is forecast to firm to a still-anemic 0.7 percent. Easing price pressures should support real disposable incomes, but the lagged effects of past monetary tightening are expected to weigh on domestic demand, especially business investment. Growth is projected to pick up to 1.6 percent in 2025, supported by a recovery in investment, as the European Union's NextGenerationEU (NGEU) funds lift public investment. In Japan, growth bounced back to an estimated 1.8 percent in 2023, but the post-pandemic rebound is expected to taper off, with growth forecast to slow to 0.9 percent in 2024 and 0.8 percent in 2025, close to its trend rate.

China: slowing growth. China's growth is expected to decelerate from an estimated 5.2 percent in 2023 to 4.5 percent this year, the slowest expansion in over three decades outside the pandemic-affected years of 2020 and 2022. Tepid consumer sentiment and a continued property sector downturn has weighed on activity (figure 3.B). While central government support should help boost infrastructure spending, local governments have limited fiscal space for policy maneuvering. Trade growth is also set to remain weak in 2024, with subdued global demand weighing on exports and slower domestic demand growth holding back imports, including of metals. Growth is expected to edge down further in 2025, to 4.3 percent, amid the continuing slowdown of potential growth with mounting debt constraining investment, demographic headwinds, and narrowing opportunities for productivity catch-up.

Other EMDEs: modest recovery. Growth in EMDEs excluding China is set to firm from 3.2 percent in 2023 to 3.5 percent this year and 3.8 percent in 2025. This pickup reflects a rebound in trade and improving domestic demand in several large economies. However, in many EMDEs with weak credit ratings, growth is projected to remain subdued by historical standards. Progress in closing the gap in per capita income with advanced economies will continue to be limited, with EMDEs excluding China and India making no relative gains between 2019 and 2025. Some of the most vulnerable EMDEs are falling further behind—per capita income is forecast to remain below its 2019 level this year in over one third of LICs and more than half of economies facing fragile and conflict-affected situations (figure 3.C).

FIGURE 3.A Labor market indicators in the United States

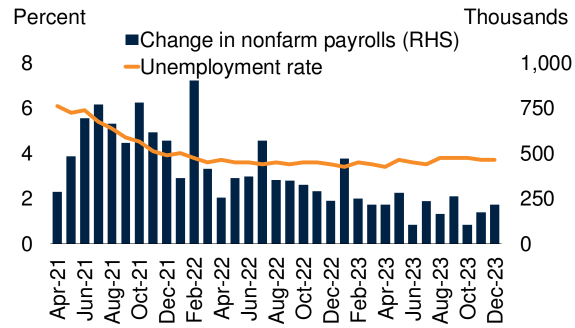


FIGURE 3.B China: Fixed investment growth

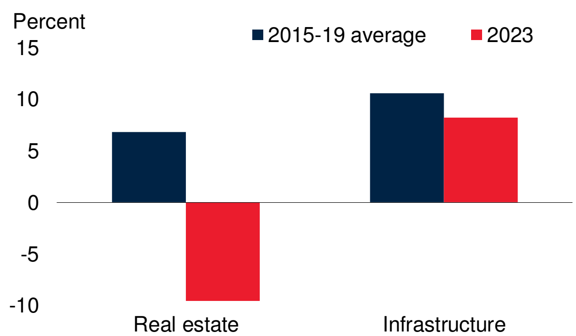
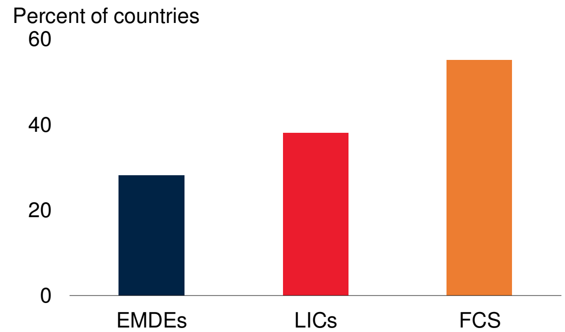


FIGURE 3.C Share of EMDEs with lower GDP per capita in 2024 than in 2019



Sources: Haver Analytics; UN World Population Prospects; World Bank.
Note: EMDEs = emerging market and developing economies; LICs = low-income countries; FCS = fragile and conflict-affected situations.
A. Last observation is December 2023.
B. Blue bars denote the simple average of 2015-19 year-on-year nominal growth of fixed-asset investment subcomponents. Red bars denote the year-on-year nominal growth of fix asset investment subcomponents in 2023.

Special Focus: The Magic of Investment Accelerations

Investment growth in emerging market and developing economies (EMDEs) has experienced a prolonged, broad-based slowdown since the 2007-09 global financial crisis. In EMDEs (excluding China) investment grew on average just over 3 percent per year in the 2010s, about half the annual average of the 2000s. This slowdown was exacerbated during the global recession in 2020, when investment contracted more deeply than in 2009. Despite a cyclical rebound in 2021, investment growth in EMDEs slowed in 2022 and 2023 and is expected to remain weak over the medium term. Prolonged weak growth in investment is a concern because investment is indispensable to fill infrastructure gaps, enable adaptation to climate change, facilitate the energy transition away from fossil fuels, accelerate poverty reduction, and advance shared prosperity. The additional investment needs to achieve the climate and development goals are estimated to amount to 1 to 8 percent of GDP in middle- and low-income countries, with largest needs in low-income countries (figure 4.A). It is therefore essential to accelerate growth in investment.

Investment accelerations have happened in many EMDEs, but they have become less common recently. Investment accelerations are periods of sustained investment growth at a relatively rapid rate. In a sample of 104 economies from 1950 to 2022, 192 investment accelerations occurred, during which per capita investment growth averaged at least 4 percent and was sustained for at least six years. Advanced economies experienced slightly more accelerations, on average, than EMDEs with just over 2 per economy compared to 1.7 in EMDEs. Across EMDE regions, East Asia and Pacific (EAP) had the highest number of accelerations per economy (nearly 2.4) over the past seven decades. However, alongside slowing investment growth in the 2010s, the share of EMDEs that experienced the start of an acceleration fell by around half, from 48 percent in the 2000s to 23 percent in the 2010s (figure 4.B). Most accelerations, about 80 percent, last between 6 to 10 years.

Strong investment growth is supported by public and private investment. In a typical acceleration in EMDEs over the past seven decades, investment growth increased by a factor of three, from around 3 percent per year to just over 10 percent per year during the acceleration (figure 4.C). The increase in investment growth in EMDEs was larger than in advanced economies. Both public and private investment growth similarly increased during

FIGURE 4.A Investment needs for a resilient and low-carbon pathway, 2022-30

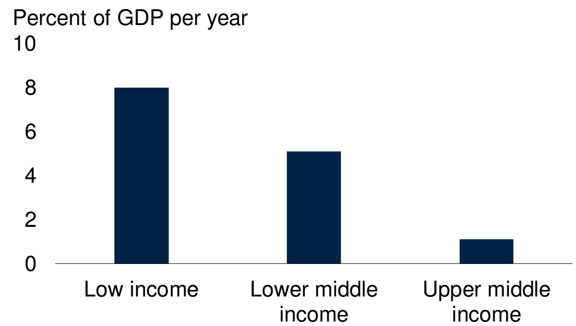


FIGURE 4.B Accelerations by decade

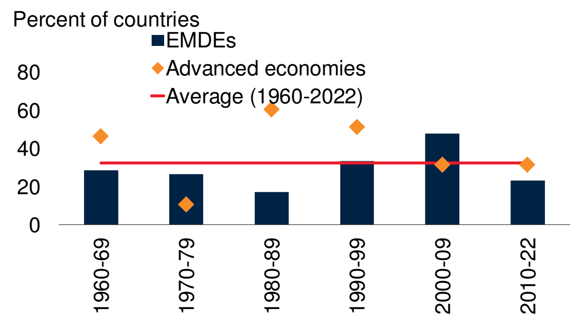
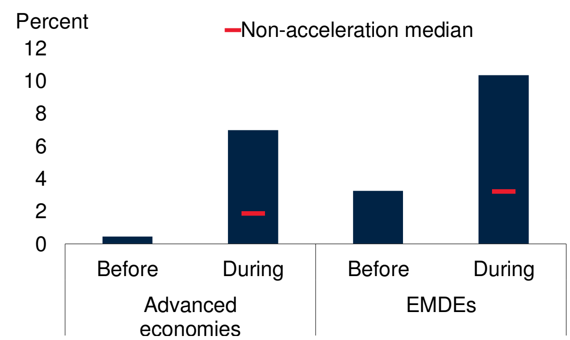


FIGURE 4.C Investment growth around accelerations



Sources: Dieppe (2021); Feenstra, Inklaar, and Timmer (2015); Haver Analytics; Kose and Ohnsorge (2023); WDI (database); World Bank (2022); World Bank.
Note: EMDEs = emerging market and developing economies; investment refers to gross fixed capital formation.
A. Bars show estimates of the annual investment needs to build resilience to climate change and put countries on track to reduce emissions by 70 percent by 2050. Depending on data availability, estimates include investment needs related to transport, energy, water, urban adaptations, industry, and landscape.
B. Bars and diamonds show the share of countries starting an investment acceleration during the corresponding decade. The red line shows the long-run average share of countries starting an investment acceleration over the past six decades.
C. Bars show period medians. "Before" refers to the six years before an acceleration, "During" refers to the full duration of accelerations. Red tick mark shows the median investment growth rate during all non-acceleration years. Sample includes 93 countries (34 advanced economies and 59 EMDEs) that experienced an acceleration between 1950 and 2022.

these accelerations. In EMDEs, on average, 44 percent of accelerations were driven by higher private than public investment growth. Across EMDE regions, the Europe and Central Asia region saw the largest share of private investment growth driven accelerations, almost 60 percent.

Investment accelerations have often coincided with periods of strong growth. During investment accelerations in EMDEs, output growth increased by 2 percentage points compared to other (non-acceleration) years, while productivity growth quadrupled to 1.7 percent per year (figure 5.A). This strong output growth rate translates into a 40 percent cumulative increase in GDP over a six-year period, more than one-and-a-half times the cumulative growth over a comparable period during non-acceleration years. Economic activity also shifted toward the manufacturing and services sectors, where output grew substantially faster than before the acceleration while growth in the agriculture sector was almost unchanged, and the economy-wide employment rate increased.

EMDEs also reaped other macroeconomic benefits as fiscal and financial conditions improved. In many cases, accelerations were accompanied by comprehensive reform packages that improved macroeconomic stability. Falling inflation rates often preceded accelerations. In EMDEs, the inflation rate fell from 8 percent before a typical acceleration to just under 6 percent during the acceleration. The lower rates were usually sustained after the acceleration. Fiscal conditions also improved alongside increasing growth, as the debt-to-GDP ratio declined (figure 5.B). External balances also improved. During accelerations, export growth more than doubled to over 8 percent per year, compared to just before an acceleration. Similarly, net FDI inflows increased by about 1 percentage point of GDP compared to the period preceding an acceleration (figure 5.C).

Investment accelerations are transformative events. Taken together, the strong economic growth and improving macroeconomic environment that often accompanied investment accelerations have boosted economic development. In the sample of 104 economies, 82% of the transitions from middle-income status to high-income status that occurred over the past three decades happened during investment accelerations.

FIGURE 5.A Transformational growth in EMDEs

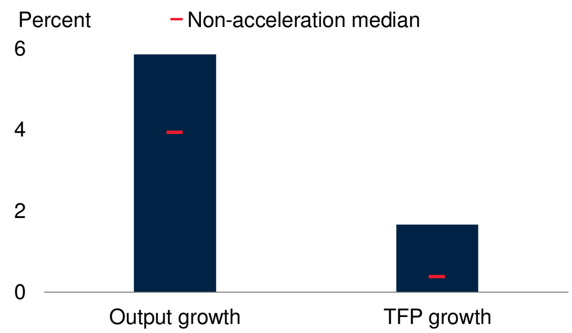


FIGURE 5.B Monetary and fiscal indicators in EMDEs

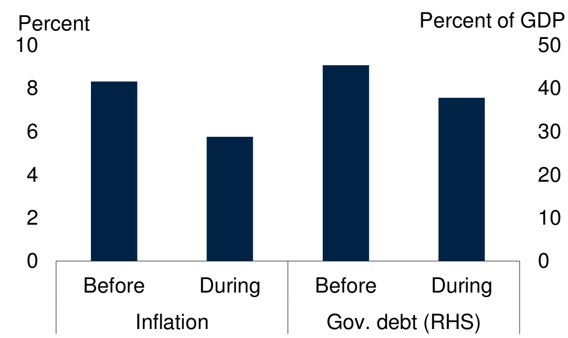
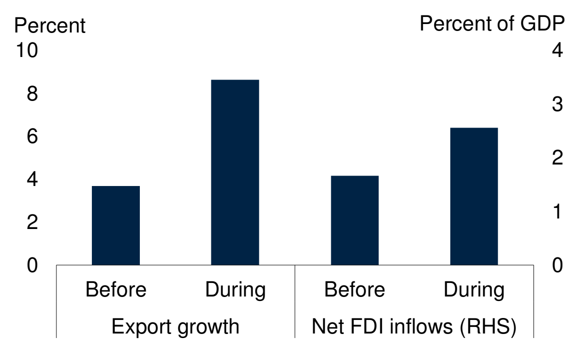


FIGURE 5.C Trade and FDI in EMDEs



Sources: Dieppe (2021); Feenstra, Inklaar, and Timmer (2015); Haver Analytics; Kose and Ohnsorge (2023); WDI (database); World Bank (2022); World Bank.

Notes: EMDEs = emerging market and developing economies; TFP = total factor productivity; investment refers to gross fixed capital formation.

A. Bars show the median growth rates of output and total factor productivity (TFP) during accelerations in EMDEs. Red tick marks show the median growth rates of output and TFP during all non-acceleration years. Sample includes 59 EMDEs that experienced an acceleration between 1950 and 2022.

B. ““Before” refers to the six years before an acceleration, “During” refers to the full duration of accelerations. Inflation and government debt show median annual inflation in percent, and median annual debt as percent of GDP, respectively.

C. “Before” refers to the six years before an acceleration, “During” refers to the full duration of accelerations. Export growth is measured in median annual percent growth. Net FDI inflows show median annual ratios in percent of GDP.

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TABLE: Major Data Releases

(Percent change, y/y)

Recent releases: December 24, 2023 - January 23, 2024					
Country	**Date**	**Indicator**	**Period**	**Actual**	**Previous**
Korea, Republic of	12/28/23	CPI	DEC	3.2%	3.3%
Russian Federation	12/29/23	GDP	Q3	5.5%	4.9%
Indonesia	1/1/24	CPI	DEC	2.6%	2.9%
Türkiye	1/3/24	CPI	DEC	64.8%	62.0%
Italy	1/5/24	CPI	DEC	0.6%	0.7%
Mexico	1/9/24	CPI	DEC	4.7%	4.3%
Argentina	1/11/24	CPI	DEC	211.4%	160.9%
Brazil	1/11/24	CPI	DEC	4.6%	4.7%
China	1/11/24	CPI	DEC	-0.3%	-0.4%
Japan	1/11/24	GDP	Q3	1.6%	2.3%
United States	1/11/24	CPI	DEC	3.3%	3.1%
France	1/12/24	CPI	DEC	3.7%	3.5%
India	1/12/24	CPI	DEC	5.7%	5.6%
Germany	1/15/24	GDP	Q4	-0.3%	-0.4%
Saudi Arabia	1/15/24	CPI	DEC	1.5%	1.7%
Canada	1/16/24	CPI	DEC	3.4%	3.0%
Euro area	1/17/24	CPI	DEC	2.9%	2.3%
United Kingdom	1/17/24	CPI	DEC	4.2%	4.2%
United States	1/17/24	IP	DEC	1.0%	-0.6%
Japan	1/18/24	CPI	DEC	2.6%	2.9%
China	1/19/24	GDP	Q4	5.2%	4.9%

(Percent change y/y)

Upcoming releases: January 24, 2024 - February 23, 2024				
Country	**Date**	**Indicator**	**Period**	**Previous**
United States	1/25/24	GDP	Q4	2.9%
Australia	1/30/24	CPI	Q4	5.3%
Euro area	1/30/24	GDP	Q4	0.0%
Mexico	1/30/24	GDP	Q4	3.3%
Spain	1/30/24	GDP	Q4	1.8%
Germany	1/31/24	GDP	Q4	-0.3%
Italy	1/31/24	GDP	Q4	0.1%
Brazil	2/2/24	IP	DEC	1.3%
Argentina	2/6/24	IP	DEC	-4.9%
Indonesia	2/6/24	GDP	Q4	4.9%
China	2/7/24	CPI	JAN	-0.3%
Mexico	2/8/24	CPI	JAN	4.7%
India	2/12/24	CPI	JAN	5.7%
India	2/12/24	IP	DEC	2.4%
Japan	2/13/24	GDP	Q4	1.6%
United Kingdom	2/13/24	IP	DEC	-0.1%
Netherlands	2/14/24	GDP	Q4	-0.6%
Poland	2/14/24	GDP	Q4	0.9%
United Kingdom	2/15/24	GDP	Q4	0.3%
Thailand	2/19/24	GDP	Q4	1.5%
Canada	2/20/24	CPI	JAN	3.4%