BOX 1.3 Low-income countries: Recent developments and outlook

Growth in low-income countries (LICs) firmed in 2025, reaching 5 percent, and is projected to rise to 5.7 percent in 2026 before easing slightly to 5.6 percent in 2027. This forecast assumes a de-escalation of conflicts in several countries, stronger domestic demand growth, and continued easing of inflation. The projected gains in growth are concentrated among the largest LIC economies; growth in smaller LICs, especially those in fragile and conflict-affected situations, is expected to be insufficient to recover pandemic-related output losses. While real per capita income growth is projected to increase to 2.8 percent a year, on average, in 2026-27, this will not be enough to bring about significant reductions in extreme poverty, which will continue to be exacerbated in many cases by limited buffers to cushion the impacts of adverse shocks. Projected growth in LICs is also insufficient for job creation to keep pace with labor force growth. Risks to the outlook remain tilted to the downside. Persistent or escalating conflicts, as well as more severe or extreme weather events than assumed in the baseline, could further constrain activity, especially given limited policy space. Lower-than-expected commodity prices would also weigh on growth and further narrow fiscal space. These challenges are further compounded by heightened uncertainty, reflecting policy shifts in trade, reductions in official development assistance, intensifying geoeconomic tensions, and potential financial market deterioration.

Introduction

Growth in low-income countries (LICs) firmed last year, reaching an estimated 5 percent, as recovering private consumption more than offset slower investment and trade. Growth in LICs is expected to strengthen further to 5.7 percent in 2026, before edging down to 5.6 percent in 2027. These baseline projections are contingent on substantial improvements in security in several LICs in fragile and conflict-affected situations (FCS). Nevertheless, the pace of per capita income growth remains insufficient to fully recover pandemic-era losses or to support the rapid expansion of jobs needed to lift incomes and reduce extreme poverty.

Relative to the June forecasts, growth in 2025 has been revised up by 0.2 percentage point, reflecting stronger domestic demand, more favorable prices for some commodity exports, and stronger-than-expected economic activity in some FCS countries. However, the 2026 growth forecast has been revised down by 0.1 percentage point, reflecting the effects of planned fiscal consolidations, heightened policy uncertainty, and scarring in countries affected by, or emerging from, conflict. Nevertheless, growth in LICs tends to be volatile, reflecting structural vulnerabilities such as heavy reliance on primary sectors, exposure to conflict, volatile financial flows, and heightened susceptibility to climate change-related and other natural disasters (Dabla-Norris and Gündüz 2014).

Risks to the baseline growth projections are therefore high and tilted to the downside. If the assumed improvements in security situations in conflict-affected countries fail to materialize, growth, macroeconomic stability, and food security could deteriorate, undermining progress in job creation and poverty reduction. Growth in LICs could also be dampened by several external headwinds, including a flare-up in trade tensions, heightened policy uncertainty, and tighter global financing conditions. Lower commodity prices would worsen fiscal pressures, while intensifying climate change effects could further slow activity. For Sub-Saharan Africa LICs, unless extended, the expiration of the African Growth and Opportunity Act (AGOA) late last year is expected to affect duty-free access to the U.S. market. Further reductions to official development assistance (ODA) beyond those assumed in the baseline would exacerbate these challenges, leaving vulnerable economies with even weaker buffers against adverse shocks.

Against this backdrop, this box addresses three questions:

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

Recent developments

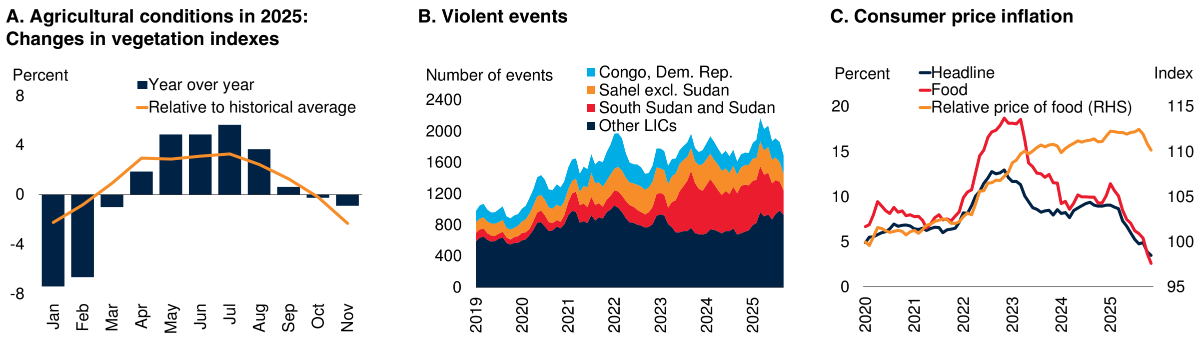
Growth in LICs firmed to 5 percent in 2025, up from 3.6 percent in 2024, supported by reduced conflict intensity in some FCS countries, higher government spending, and favorable commodity prices—particularly for exporters of coffee, gold, and other precious metals. Relative to last June's projections, estimated growth in

Note: This box was prepared by Joseph Mawejje and Edoardo Palombo.

BOX 1.3 Low-income countries: Recent developments and outlook (*continued*)

FIGURE B1.3.1 LICs: Recent developments

Favorable weather conditions supported higher agricultural output in LICs in 2025. Although the incidence of violence eased in some countries in 2025, the total number of reported violent events was still significantly higher than the 2010–19 average. Median consumer price inflation has declined in LICs, with the decrease supported by easing food prices, but relative food prices remain elevated.



Sources: ACLED (database); FAO; Haver Analytics; Humanitarian Data Exchange; United States Department of Agriculture (USDA); World Bank.

Note: excl. = excluding; LICs = low-income countries; RHS = right-hand scale.

A. Panel shows average changes in normalized difference vegetation indexes (NDVIs) for countries in subregions where January to November overlaps with the main growing season. NDVIs are derived from remotely sensed data to assess vegetation health and density. NDVIs per country are weighted by province according to relative crop production, based on USDA weights. Sample includes Democratic Republic of Congo, Madagascar, Malawi, Mozambique, Rwanda, the Federal Republic of Somalia, and Uganda.

B. Three-month moving averages. "Violent events" include battles, explosions, violence against civilians, and riots. Last observation is September 2025. Sample includes 21 LICs, of which 6 are Sahel countries.

C. Median increases in consumer prices from 12 months earlier. Sample includes up to 21 LICs for headline inflation and up to 19 LICs for food inflation. Last observation is October 2025. Relative food price index is computed relative to headline inflation.

2025 has been revised up by 0.2 percentage point, reflecting stronger domestic demand and higher-than-expected commodity prices.

Growth has been upgraded for 14 of the 24 LICs, including the Democratic Republic of Congo, Afghanistan, and Uganda, the three largest LIC economies (refer to table B1.3.1). Growth in LICs in 2025 was driven by solid performance among agricultural commodity exporters (Gambia, Rwanda, Uganda) and a subset of industrial commodity exporters (Niger). In mid-2025, favorable weather and recovery from earlier drought conditions in eastern Africa helped raise agricultural output, supporting real incomes and stronger-than-expected consumption growth (refer to figure B1.3.1.A). The pickup in activity in 2025 was broad-based, with the pace of growth accelerating in over half of economies.

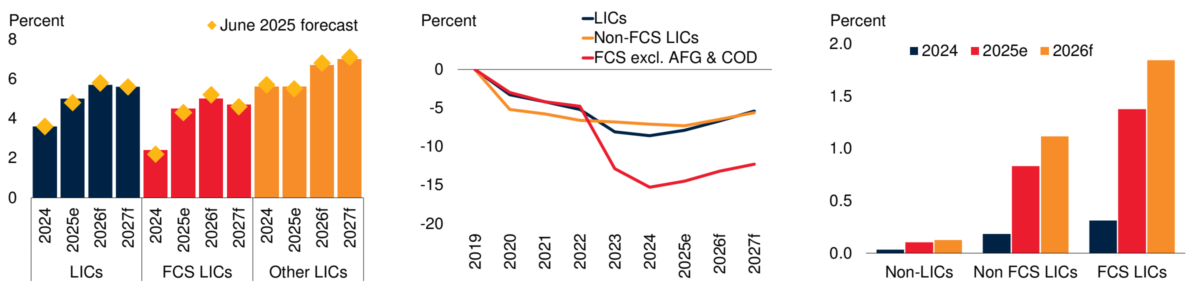
Fragility and conflict remain a key differentiator of growth performance, with growth in FCS countries generally weaker than elsewhere. The incidence of violence remains elevated, and the number of reported conflict events is still significantly higher than the 2010-19 average (refer to figure B1.3.1.B). In LICs in FCS nevertheless, growth strengthened to 4.5 percent in 2025, supported by improving security conditions in some countries and partial recoveries in agriculture and services, with growth exceeding expectations in several economies (Afghanistan, Burundi, Central African Republic). In the Democratic Republic of Congo, growth slowed for the third consecutive year, decelerating to 5.1 percent, reflecting weak investment growth, elevated conflict, and lower mining activity following a temporary ban on cobalt exports. In Afghanistan, an influx of returnees supported a recovery in activity, but conditions remain dire as the country has been buffeted by successive shocks, including droughts, earthquakes, and regional geopolitical tensions. In South Sudan, multiple shocks—including spillovers from the conflict in neighboring Sudan, persistent subnational violence, and disruptions to oil exports—weighed heavily on activity, with output contracting by 23.8 percent in fiscal year 2025.

BOX 1.3 Low-income countries: Recent developments and outlook (*continued*)

FIGURE B1.3.2 LICs: Outlook and risks

Growth in LICs is projected to pick up in 2026 and 2027. Fragility and conflict remain key differentiators of growth performance, with growth in LIC economies in FCS lagging growth in LICs not marred by conflict. Despite the projected rebound over 2026–27, LICs are not expected to fully recover to pre-pandemic levels of per capita income, with LICs in FCS making even slower progress. LICs in FCS are major recipients of ODA, and the retrenchment of international financial support will increase their vulnerability to various risks, including those related to health and climate change.

A. Growth forecasts compared with June 2025 projections **B. Real per capita income losses relative to pre-pandemic projections** **C. ODA cuts relative to 2023 as a share of 2023 GNI**



Sources: Centre for Global Development; World Bank.

Note: e = estimate; f = forecast. AFG = Afghanistan; COD = Democratic Republic of Congo; excl. = excluding; FCS = fragile and conflict-affected situations; GNI = gross national income; LICs = low-income countries; ODA = official development assistance.

A. Revisions relative to the forecasts published in the June 2025 edition of the *Global Economic Prospects* report. Sample includes 22 LICs.

B. Panel shows percentage deviation from the baseline projections for GDP per capita in January 2020 *Global Economic Prospects.*

C. Sample includes 72 EMDEs, of which 22 are LICs.

Among LICs not in FCS, growth was stable at 5.6 percent in 2025, supported by robust domestic demand growth, resilient export performance, and moderating inflation. In Uganda, growth edged up to 6.3 percent, bolstered by recovering household consumption, increased government spending, solid investment growth, and buoyant coffee exports. In Rwanda, growth moderated to a still-robust 7 percent, with solid investment growth and continued expansion in the services sector, but tempered by slower growth in agricultural output, reflecting the effects of climate shocks.

Median headline consumer price inflation in LICs has fallen in 2025, from 8 percent in January to about 5 percent in the second half, supported by easing food price inflation (refer to figure B1.3.1.C). The disinflation has been widespread, with inflation slowing in over 70 percent of LICs. In Sierra Leone, inflation stood at 4.6 percent in November 2025 from more than 14 percent at the start of the year, while Burkina Faso, Guinea-Bissau, and Niger experienced deflation in the second half of 2025, partly reflecting strong harvests that lowered food prices. The relative price of food in LICs, after rising sharply since 2020, stabilized in 2025 but remains elevated.

In the context of elevated global economic uncertainty, monetary policy in LICs remained cautious in 2025, with policy rates unchanged in many economies and adjusted only marginally in others. In the Democratic Republic of Congo, however, the central bank cut its policy rate by 750 basis points to 17.5 percent in October 2025, the first change in two years. Elsewhere, policy rates were lowered in Mozambique but remained unchanged in Uganda since October 2024 and in Rwanda since August 2025.

Food insecurity has intensified in LICs, exacerbated in many cases by conflict, climate change, natural disasters, and population displacement (FAO et al. 2025). In 2024, about 140 million people in LICs faced an acute food insecurity crisis or worse—an increase of 30 percent since 2020. Although the number of additional internally displaced persons each year in LICs has eased somewhat from its peak in 2019, it remains above historical levels (IDMC 2025). In 2024, LICs hosted an estimated 21 million refugees—more than half of the global total (UNHCR 2025).

BOX 1.3 Low-income countries: Recent developments and outlook (*continued*)

TABLE B1.3.1 Low-income country forecasts[a]

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

	2023	2024	2025e	2026f	2027f	Percentage-point differences from June 2025 projections 2025e	2026f	2027f
Low-Income Countries, GDP[b]	**1.0**	**3.6**	**5.0**	**5.7**	**5.6**	**0.2**	**-0.1**	**0.0**
GDP per capita (U.S. dollars)	-1.7	0.8	2.1	2.8	2.8	0.2	-0.1	0.0
Afghanistan[c d]	2.3	2.5	4.3	3.8	3.5	2.1	1.4	1.0
Burkina Faso	3.0	4.8	4.7	4.9	5.1	0.4	0.2	0.1
Burundi	2.7	3.9	4.6	4.9	5.5	1.1	1.2	1.5
Central African Republic	0.7	1.5	2.7	3.0	3.1	0.6	0.8	0.3
Chad	4.1	3.5	3.4	3.7	4.1	-0.1	-0.8	-0.3
Congo, Dem. Rep.	8.6	6.5	5.1	5.1	5.3	0.3	0.1	0.0
Eritrea	2.6	2.9	3.2	3.5	3.6	0.1	0.1	0.1
Gambia, The	5.0	5.3	5.7	5.5	5.3	0.1	0.2	-0.2
Guinea-Bissau	4.5	4.8	5.1	5.2	5.2	0.0	0.0	0.0
Liberia	4.7	4.0	4.6	5.4	5.6	-0.5	-0.1	-0.1
Madagascar	4.2	4.2	4.0	4.0	4.4	0.3	0.1	0.0
Malawi	1.9	1.7	1.9	2.6	3.1	-0.1	0.2	-0.1
Mali	3.5	4.0	4.9	5.0	5.0	0.1	0.2	0.3
Mozambique	5.5	2.1	1.1	2.8	3.5	-1.9	-0.7	0.0
Niger	2.0	10.3	6.5	6.7	6.6	-0.6	1.6	2.1
Rwanda	8.6	7.2	7.0	7.2	7.6	0.0	-0.1	0.3
Sierra Leone	5.7	4.3	4.3	4.4	4.6	0.2	0.2	0.4
Somalia, Fed. Rep.	4.2	4.1	3.0	3.5	3.5	0.0	0.0	0.0
South Sudan[d]	-1.3	-7.2	-23.8	48.8	0.8	10.9	7.7	-20.4
Sudan	-29.4	-14.0	6.1	5.1	3.7	1.1	-4.2	-0.4
Syrian Arab Republic[c]	-1.2	-1.5	1.0	..	..	0.0	..	..
Togo	6.4	5.3	5.0	5.4	5.6	0.0	0.0	0.1
Uganda[d]	5.3	6.1	6.3	6.4	9.8	0.1	0.2	-0.6
Yemen, Rep.[c]	-2.0	-1.5	-1.5	0.0	..	0.0	-0.5	..

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 on account of data limitations.

b. Aggregate growth rates are calculated using GDP weights at average 2010–19 prices and market exchange rates. Data for the Syrian Arab Republic and the Republic of Yemen are excluded.

c. Forecasts for the Syrian Arab Republic (beyond 2025) and the Republic of Yemen (beyond 2026) are excluded because of a high degree of uncertainty.

d. GDP growth rates are on a fiscal year basis. For example, the column for 2023 refers to FY2022/23.

Outlook

Growth in LICs is projected to strengthen to 5.7 percent in 2026 before stabilizing at 5.6 percent in 2027 (refer to figure B1.3.2.A). Compared with June projections, the forecast is 0.1 percentage point lower in 2026 but remains unchanged in 2027. The marginal downgrade to growth in 2026 masks improved growth forecasts for nearly 70 percent of LICs. These gains are offset by heightened policy uncertainty, subdued activity in FCS LICs (Mozambique, Sudan, the Republic of Yemen), and country-specific developments in a few cases (Chad, Liberia).

Growth in LICs will continue to face multiple domestic challenges, including high public debt and limited access to financing. In addition, LICs face external headwinds, including subdued global growth, increased trade barriers, fragmented global trade, and falling donor support. For the four-fifths of LICs in Sub-Saharan Africa, unless extended, the expiration of the United States' AGOA in late 2025 has eliminated duty-free access to the U.S. market. Against this backdrop, the outlook for LICs remains highly uncertain. The baseline projections are predicated on improved security in several LICs, the avoidance of debt crises, no further retrenchment in donor support, greater resilience in the

BOX 1.3 Low-income countries: Recent developments and outlook (*continued*)

face of extreme weather events and other natural disasters, and sustained institutional reform momentum across many LICs.

Government debt-to-GDP ratios in LICs are expected to decrease gradually from recent highs but to remain above 60 percent, on average, by the end of 2027. The projected decline in debt ratios reflects primary fiscal surpluses amid consolidation efforts, partly offset by interest payments that are expected to remain elevated. Despite progress in addressing fiscal imbalances and the narrowing of sovereign spreads, debt-servicing costs are expected to peak in 2026, reflecting higher borrowing costs, shifts to less concessional debt, and lagged effects of pandemic-related debt accumulation. The decline in ODA will further narrow fiscal space in LICs, limiting critical investment in growth-enhancing sectors such as health, education, infrastructure, and climate adaptation (Mawejje 2025).

Growth in FCS LICs is forecast to increase from 4.6 percent in 2025 to an annual average of 4.8 percent in 2026–27. This assumes that further improvements in security situations in some countries materialize, offsetting a projected slowing of activity in Afghanistan and Sudan. Growth in Sudan is forecast to slow in 2026 -27, reflecting the effects of protracted conflict and constrained post-rebound growth momentum amid a severely damaged industrial base. In South Sudan, a substantial recovery in 2026 following five years of contraction is expected to be supported by a normalization of activity and the resumption of oil exports.

Growth in non-FCS LICs is anticipated to pick up from 5.6 percent in 2025 to 6.7 percent in 2026 and 7.0 percent in 2027. This acceleration largely reflects strengthening growth in Uganda, driven by oil-related capital investment, robust domestic demand, solid export performance, and the anticipated start of oil production in the latter half of 2026. Excluding Uganda, growth in non-FCS LICs is expected to average 5.1 percent a year in 2026–27.

Real per capita income growth in LICs is expected to accelerate from 2.1 percent in 2025 to 2.8 percent in both 2026 and 2027. However, these gains are expected to be unevenly distributed, with much of the increase concentrated in the three largest LIC economies. In all LICs, real per capita incomes in 2027 are expected still to be about 5 percent below levels projected before the pandemic, with FCS LICs lagging even further behind (refer to figure B1.3.2.B). About 160 million youth—20 percent of the current LIC population—will reach working age in LICs over the next decade. This makes the creation of sufficient productive jobs an urgent challenge. With more than half of their population living in extreme poverty, only limited improvements in average living standards are expected in the next two years.

Risks

Risks to the growth outlook remain tilted to the downside, especially for FCS LICs, as the projections hinge partly on positive developments in security situations that may fail to materialize. The persistence or intensification of current conflicts—most notably in the Democratic Republic of Congo, South Sudan, and Sudan—poses a significant risk to growth, macroeconomic stability, and food security, and could precipitate prolonged humanitarian crises. Supply chain disruptions due to regional conflicts could further undermine both near-term growth and longer-term development prospects. Fiscal positions could also deteriorate if conflicts persist or intensify. Armed conflicts are associated with increases in defense expenditure and reductions in revenue capacity, and can significantly weaken countries' fiscal positions (Mawejje 2025).

The steep decline in ODA has increased risks to LICs' growth prospects. It has left these economies with thinner buffers to protect them from adverse shocks and heightened the risk of reversals in development. ODA flows from donor countries may be reduced by between 9 and 17 percent in the next couple of years, threatening critical investments in education, health care, and infrastructure, thereby undermining both actual and potential growth (OECD 2025). FCS LICs—notably Afghanistan, the Central African Republic, the Federal Republic of Somalia, and South Sudan—are especially vulnerable given their very high dependence on external donor support (refer to figure B1.3.2.C).

LICs' growth outlook also faces downside risks from weaker-than-expected global growth—particularly

BOX 1.3 Low-income countries: Recent developments and outlook (*continued*)

through its potential impacts on export demand and commodity prices. Further increases in trade restrictions represent another risk. While the direct impacts of higher tariffs by advanced economies may be limited for many LICs, given their relatively modest export exposure to these markets, indirect effects—operating through heightened trade policy uncertainty, weaker global growth, and lower commodity prices—could be substantially more damaging.

The possibility of a worsening of global financial market conditions is another risk. Such developments would also pose risks to the sustainability of LICs' fiscal positions. While many LICs have undertaken structural reforms to enhance resilience to external volatility—including reforms to deepen domestic debt markets and extend debt maturities—debt sustainability concerns linger, with 12 of the 24 LICs in, or at high risk of, debt distress, and none assessed at low risk in 2025. While government debt-to-GDP ratios in LICs are projected to decline in 2026–27, they remain elevated (IMF and World Bank 2025). For many LICs, inadequacy of official foreign reserves is another source of financial fragility.

Inflation in LICs could be driven higher than projected by several factors, including debt monetization, currency depreciations, conflict-related supply chain disruptions, and adverse weather conditions affecting food prices. This would push central banks in LICs to tighten monetary policy and financial conditions, thereby reducing growth. Alternatively, if central banks fail to respond effectively, higher inflation could threaten growth by eroding households' purchasing power.

Extreme weather events, such as droughts and floods, and other natural disasters have frequently had catastrophic consequences in LICs, more so than in other EMDEs, partly reflecting LICs' narrower buffers and weaker capacity (Mejia et al. 2019). If the adverse effects of climate change intensify, the pace of poverty reduction in LICs could become markedly slower (Jafino et al. 2020). Climate change-related and other natural disasters can exacerbate existing vulnerabilities, including by fueling conflict, displacement, and worsening food insecurity (FSIN and GNAFC 2025). This is exemplified by recent events such as landslides in Sudan, flooding in South Sudan, and drought in Malawi, which exacerbated already-dire situations. Climate change-related destruction of crops and livelihoods could push many LIC populations further into poverty, given their limited capacity and resources to adapt (Damania et al. 2025).

driven valuations. Risk appetite could also sour if policy stances from major central banks are tighter than anticipated in response to stronger inflation, whether due to renewed goods price pressures related to trade barriers or other unanticipated drivers. Stress may also emerge from sovereign bond markets: long-term yields in major advanced economies remain high, debt levels have increased, and fiscal deficits are set to remain large. Substantial shifts in expectations regarding deficits or concerns about monetary policy credibility could weaken demand for government debt, push up term premia, and lead to disorderly bond-market conditions.

To quantify the impact of tighter financial conditions, a global macroeconomic model is used to construct a scenario focused on a sharp correction in equity valuations as a potential trigger.[2] A correction to valuations such that the cyclically adjusted price-to-earnings ratio for the S&P 500 index returned to late-2019 levels would be associated with a decline in equity prices of about 20 percent, with negative consequences for business and consumer confidence. The effects of a retrenchment in risk appetite and a confidence shock in advanced economies could be substantial. A decline in household wealth would lead to weaker consumption. Financial institutions would likely amplify the downturn by tightening credit

[2] These simulations are conducted 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).