HIGHLIGHTS from Chapter 1: THE GLOBAL OUTLOOK

Key Points

- *The global economy has shown notable resilience to heightened trade tensions and policy uncertainty, with stockpiling of traded goods, strong risk appetite, and a surge in artificial intelligence (AI) spending supporting activity, alongside adaptations in supply chains to rising trade barriers.*
- *The faster-than-expected pace of growth in 2025 capped a five-year global recovery from the 2020 recession unmatched in more than six decades, although vulnerable emerging market and developing economies (EMDEs) are lagging.*
- *Looking forward, global growth is projected to edge down to 2.6 percent this year as several supportive factors fade. The subdued growth over the forecast horizon is expected to leave many EMDEs struggling to create enough jobs for expanding working-age populations.*
- *Near-term risks are tilted to the downside, given the potential for further escalations of trade tensions or asset price declines leading to tighter financial conditions.*
- *To support long-term growth, policy makers in EMDEs should advance domestic reforms to diversify trade, strengthen macroeconomic frameworks, and remove structural bottlenecks.*
- *Without stronger economic dynamism, many EMDEs will struggle to create enough jobs for expanding working-age populations. Key pillars to address this jobs challenge include policies that promote physical, digital, and human capital infrastructure; that secure a better business environment; and that mobilize private capital to help meet substantial investment needs.*

Global activity: resilience in the face of increased trade headwinds. The global economy has been markedly resilient, despite last year's historic escalation in trade tensions and policy uncertainty. Growth was supported by significant front-loading of trade, supply-chain adjustments, limited tariff pass-through, easier global financial conditions, and a surge in AI-related investment, with growth revised higher in major economies (figure A). Resilient growth last year capped the strongest five-year recovery from a global recession in more than six decades (figure B). Going forward, a modest slowdown is projected this year, with global growth averaging 2.6 percent (figure C).

EMDE outlook: prospects remain uneven. Growth in EMDEs excluding China is projected to remain steady at 3.7 percent. More supportive financial conditions are set to boost investment, but this tailwind is expected to be offset by slightly softer consumption growth amid generally restrained confidence, and by the payback from earlier front-loading of EMDE exports as trade restrictions remain elevated. In 2027, growth in these economies is forecast to gain momentum, edging up to 4 percent. The projected pickup reflects an acceleration in domestic demand, driven by stronger investment and firmer consumption, in addition to a recovery in trade and manufacturing, with commodity exporters also supported by a modest rise in industrial commodity prices.

Key risks to the outlook: trade tensions and tighter financial conditions. The outlook is clouded by a high degree of uncertainty, and risks remain tilted to the downside. Heightened trade policy uncertainty amid a further proliferation of trade restrictions could weigh on trade prospects, business confidence, and investment. Furthermore, a substantial tightening in financial conditions could result from a correction in equity prices, possibly related to more restrictive monetary policy due to inflationary pressures, or rising government bond yields amid concerns about elevated debt in advanced economies. In a scenario where equity valuations decline sharply, leading to a plunge in risk appetite and consumer and business confidence, global growth could be lower this year (figure D).

Global policy challenges: diversify trade partnerships, mobilize resources for vulnerable EMDEs, and respond to changing climate patterns. Amid greater trade frictions, diversifying trade partnerships and deepening regional ties could buttress the resilience of EMDEs, alongside global efforts to restore a cooperative, transparent approach to trade (figure E). Support for the most vulnerable EMDEs also needs to be strengthened, especially against the backdrop of constrained fiscal space and declining aid flows. This includes securing debt relief for some economies, as well as broader efforts to increase aid efficiency and mobilize private capital. Countries also need to press on with mitigation and adaptation efforts to build climate-resilience.

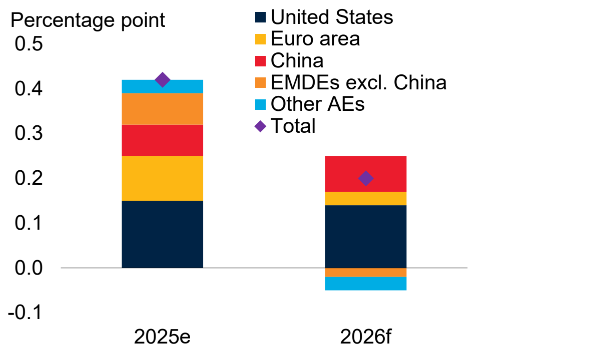
Near-term domestic policy challenges: strengthen fiscal and monetary policy frameworks. Many EMDEs are facing greater spending pressures amid elevated debt and rising debt service costs. This has increased the urgency to rebuild fiscal space, including by adopting fiscal rules and frameworks that can support fiscal discipline. Meanwhile, although headline inflation has moderated across many EMDEs, central banks should continue to carefully calibrate monetary policy to manage inflation-growth risks and trade-offs. This is central to affirming their independence and anchoring low and steady inflation.

Structural policy challenges: accelerate job creation and mobilize investment. EMDEs face an urgent jobs challenge as a significant number of young people are expected to reach working age by 2035 (figure F). The three key pillars to address this jobs challenge include policies that promote physical, digital, and human capital infrastructure; that secure a better business environment; and that mobilize private capital to help meet substantial investment needs. Together, these policies will help raise productivity and enhance prospects for long-term growth.

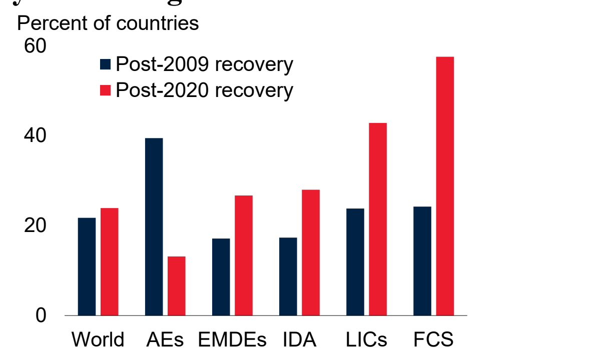
Figure 1. Global growth prospects and risks

Resilient growth last year was supported by several factors, with growth estimates revised higher in major economies. Following the pandemic, an uneven global economic recovery has left per capita incomes in many vulnerable EMDEs below pre-pandemic levels. After exceeding expectations last year, global growth is forecast to inch lower in 2026. In a downside scenario, a sharp decline in equity valuations alongside plunging risk appetite would reduce global growth by up to 0.3 percentage point relative to baseline projections this year. To navigate the challenging global trade environment, countries can deepen their integration with willing partners and strengthen regional trading relationships. EMDEs also face a major jobs challenge, with 1.2 billion young people in these economies reaching working age over the next 10 years.

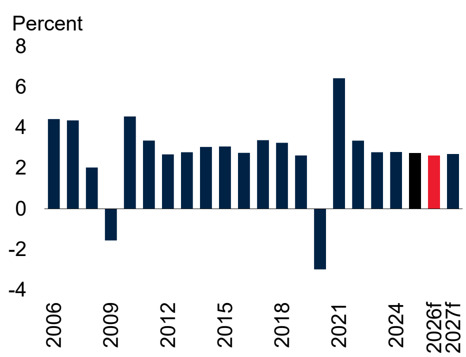
A. Contributions to global growth revisions



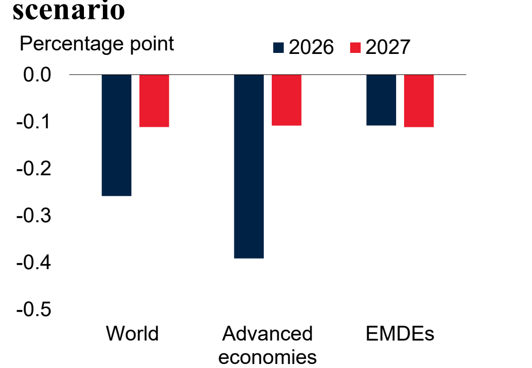
B. Countries with lower per capita GDP five years after global recessions



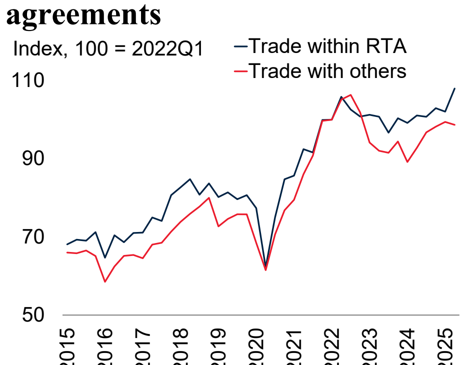
C. Global output growth



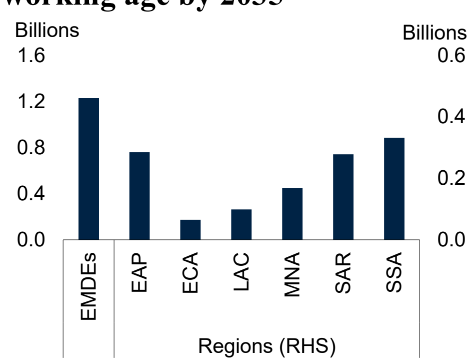
D. Change in GDP growth in downside scenario



E. Goods trade within regional trade agreements



F. Number of young people reaching working age by 2035



Sources: Bloomberg; Egger and Larch (2008); Oxford Economics; World Bank.
Note: f = forecast. EMDEs = emerging market and developing economies; RHS = right-hand scale; RTA = regional trade agreement.
A. Panel shows contributions to global growth forecast revisions from the June 2025 edition of the Global Economic Prospects report.
B. Each bar represents the share of economies whose per capita GDP remains below its pre-recession level five years after the recession. For the 2009 recession, the comparison is between 2008 and 2014; for the 2020 recession, it is between 2019 and 2025.
C. GDP aggregates calculated using real U.S. dollar GDP weights at average 2010–19 prices and market exchange rates.
D. Panel shows the deviation of growth from the baseline.
E. Panel shows nominal trade among countries with regional trade agreements (RTAs) in force as of 2023 (“Trade within RTA”) and among country pairs without trade agreements (“Trade with others”). Information on RTAs is updated from Egger and Larch (2008). The sample covers 70 reporting countries trading with 241 partner economies. Last observation is 2025Q2.F. Bars show the number of young people (aged 15–24) in each region in 2035.
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TABLE 1.1 Real GDP [1]
(Percent change from previous year unless indicated otherwise)

	2023	2024	2025e	2026f	2027f	Percentage point differences from June 2025 projections 2025e	2026f	2027f
World	**2.8**	**2.8**	**2.7**	**2.6**	**2.7**	**0.4**	**0.2**	**0.1**
Advanced economies	**1.6**	**1.7**	**1.7**	**1.6**	**1.6**	**0.5**	**0.2**	**0.0**
United States	2.9	2.8	2.1	2.2	1.9	0.7	0.6	0.0
Euro area	0.5	0.9	1.4	0.9	1.2	0.7	0.1	0.2
Japan	0.7	-0.2	1.3	0.8	0.8	0.6	0.0	0.0
Emerging market and developing economies	**4.4**	**4.3**	**4.2**	**4.0**	**4.1**	**0.3**	**0.2**	**0.2**
East Asia and Pacific	5.2	5.0	4.8	4.4	4.3	0.3	0.4	0.3
China	5.4	5.0	4.9	4.4	4.2	0.4	0.4	0.3
Indonesia	5.0	5.0	5.0	5.0	5.2	0.3	0.2	0.2
Thailand	2.0	2.5	2.0	1.8	2.5	0.2	0.1	0.2
Europe and Central Asia	3.6	3.6	2.4	2.4	2.7	0.0	-0.1	0.0
Russian Federation	4.1	4.3	0.9	0.8	1.0	-0.5	-0.4	-0.2
Türkiye	5.0	3.3	3.5	3.7	4.4	0.4	0.1	0.2
Poland	0.2	3.0	3.3	3.2	2.9	0.1	0.2	0.0
Latin America and the Caribbean	2.4	2.4	2.2	2.3	2.6	-0.1	-0.1	0.0
Brazil	3.2	3.4	2.3	2.0	2.3	-0.1	-0.2	0.0
Mexico	3.4	1.4	0.2	1.3	1.8	0.0	0.2	0.0
Argentina	-1.9	-1.3	4.6	4.0	4.0	-0.9	-0.5	0.0
Middle East, North Africa, Afghanistan and Pakistan	2.1	2.6	3.1	3.6	3.9	0.4	-0.1	-0.1
Saudi Arabia	0.5	2.7	3.8	4.3	4.4	1.0	-0.2	-0.2
Iran, Islamic Rep. [2]	5.3	3.7	-1.1	-1.5	0.6	-0.6	-1.8	-1.2
Egypt, Arab Rep. [2]	3.8	2.4	4.4	4.3	4.8	0.6	0.1	0.2
South Asia	8.0	6.3	7.1	6.2	6.5	1.0	-0.2	0.0
India [2]	9.2	6.5	7.2	6.5	6.6	0.9	0.0	-0.1
Bangladesh [2]	5.8	4.2	3.7	4.6	6.1	0.4	-0.3	0.4
Sri Lanka	-2.3	5.0	4.6	3.5	3.1	1.1	0.4	0.0
Sub-Saharan Africa	3.0	3.7	4.0	4.3	4.5	0.3	0.2	0.2
Nigeria	3.3	4.1	4.2	4.4	4.4	0.6	0.7	0.6
South Africa	0.7	0.6	1.3	1.4	1.5	0.6	0.3	0.2
Ethiopia [2]	7.2	8.1	7.2	7.1	7.7	0.8	0.6	0.5
Memorandum items:								
Real GDP [1]								
High-income countries	1.7	1.9	1.7	1.7	1.8	0.4	0.2	0.1
Middle-income countries	4.9	4.4	4.4	4.1	4.2	0.3	0.1	0.2
Low-income countries	1.0	3.6	5.0	5.7	5.6	0.2	-0.1	0.0
EMDEs excluding China	3.8	3.8	3.7	3.7	4.0	0.3	-0.1	0.0
Commodity-exporting EMDEs	2.9	3.3	3.0	3.1	3.3	0.1	-0.1	-0.1
Commodity-importing EMDEs	5.2	4.7	4.7	4.4	4.4	0.4	0.3	0.2
Commodity-importing EMDEs excluding China	4.9	4.3	4.4	4.3	4.7	0.4	-0.1	0.1
EM7	5.4	4.8	4.5	4.1	4.1	0.4	0.2	0.2
World (PPP weights) [3]	3.4	3.3	3.3	3.1	3.2	0.4	0.1	0.1
World trade volume [4]	**0.6**	**3.4**	**3.4**	**2.2**	**2.7**	**1.6**	**-0.2**	**0.0**
						Level differences from June 2025 projections		
Commodity prices [5]								
WBG commodity price index	108.0	105.1	98.2	90.9	94.1	4.0	1.9	2.2
Energy index	106.9	101.5	90.0	79.9	84.9	3.8	-0.3	0.5
Oil (US$ per barrel)	82.6	80.7	69.0	60.0	65.0	3.0	-1.0	0.0
Non-energy index	110.2	112.5	114.6	113.1	112.7	4.3	6.3	5.6

Source: World Bank.
Note: e = estimate; 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. The region name "Middle East and North Africa" has been revised to "Middle East, North Africa, Afghanistan and Pakistan," reflecting the inclusion of Afghanistan and Pakistan in the region starting July 1, 2025.
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 2023 refers to FY2023/24. For Bangladesh, the Arab Republic of Egypt, and Ethiopia, the column for 2023 refers to FY2022/23.
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, refer to https://worldbank.org/commodities.