Overview

- Global economic activity has continued to firm, underpinned by a recovery in goods trade and manufacturing.

- Although it slowed in 2024Q1, activity remains broadly resilient in the United States and improving in China and other emerging market and developing economies (EMDEs); in contrast, activity data for the euro area are mixed.

- Headline inflation remains elevated in some countries, amid persistent core inflation and higher energy prices.

Chart of the Month

- Headline inflation rose sharply across the globe in the wake of the pandemic, due to a series of overlapping shocks, before gradually declining since mid-2022.

- Within a subset of economies where the pickup in inflation was more pronounced, median headline inflation peaked at 12 percent for advanced economies and almost 18 percent for EMDEs around mid-2022.

- More recently, inflation rates have been more similar across the world, suggesting that the still-elevated inflation may be driven by factors that are more common across countries.

Special Focus: Fiscal Policy Volatility in Commodity Exporters

- Over the past three decades, fiscal policy has been more volatile in commodity-exporting EMDEs, on average, than in others.

- Fiscal policy volatility is associated with more volatile business cycles and lower economic growth.

- By adopting average advanced-economy policies regarding exchange rate flexibility, capital account openness, and the use of fiscal rules, commodity-exporting EMDEs could reduce their fiscal policy volatility and boost per capita growth.
Monthly Highlights

Global activity: gathering pace. After slowing in the second half of 2023, global activity has surprised on the upside in recent months (figure 1.A). Leading indicators point to sustained momentum in the months ahead, with the global composite PMI edging up further in March. This increase in the composite PMI was largely driven by an uptick in the manufacturing component, particularly in EMDEs, along with improving trade and industrial activity. The expansion in the global services sector remained relatively steady, with new business orders supported by firming domestic demand. Despite stabilizing at elevated levels in some countries, most prominently in the United States, global consumer price inflation continued to ease in early 2024, with median inflation falling to 3.2 percent in March—the lowest rate since mid-2021.

Global trade: gaining momentum. Global goods trade is showing signs of recovery, expanding by 1.2 percent in February (y/y)—marking the first month of expansion following a sharp contraction in 2023. This expansion was driven by EMDEs, as trade volumes in advanced economies continued to fall. The manufacturing and services components of the new export orders PMIs have shown improvements in recent months, with the manufacturing component edging closer to expansionary territory in March (figure 1.B). Shipping prices have stabilized despite ongoing disruptions in the Suez and Panama Canals, and global delivery times have improved, including in EMDEs. The PMI reading for new export orders for services was in expansionary territory for the third consecutive month in March. This growth was primarily driven by a continued expansion in EMDEs, which outweighed the ongoing contraction in advanced economies.

Commodity prices: upward pressure. Commodity prices rose 2 percent in March (m/m), primarily driven by the increase in prices for beverages and precious metals. The price for Brent crude oil surpassed US$90/bbl in early April for the first time since October, largely owing to escalating tensions in the Middle East, combined with additional cuts from OPEC+ (figure 1.C). The benchmark price for European natural gas rose 5 percent in March amid concerns over weather-related supply disruptions and unplanned outages. Agriculture prices rose 3 percent, led by the continued increase in beverage prices. Cocoa prices surged an additional 28 percent in March, surpassing a recent record high, owing to adverse weather conditions and a crop disease outbreak in West Africa. Robusta coffee prices also continued to increase, by 8 percent in March, reflecting ongoing supply concerns in
key producers due to El Niño. Industrial metal prices remained relatively stable in March, as a decline in iron ore prices offset increases in prices for many other industrial commodities. Gold prices gained 7 percent in March, reaching an all-time high at the beginning of April.

Global financial conditions: rising yields, moderating risk appetite. Global financial conditions tightened in April as government bond yields increased—with the U.S. 10-year yield nearing 4.7 percent—and expectations of U.S. policy rate cuts diminished. In all, between December and mid-April, markets transitioned from pricing in six U.S. rate cuts this year, to only two (figure 2.A). Rising U.S. bond yields have tracked a pick-up in inflation momentum. Global risk appetite started to wilt in April, following first-quarter gains. The U.S. dollar appreciated amid escalating tensions in the Middle East, while global equity markets retreated somewhat. Among EMDEs, debt and equity portfolio flows turned negative, with notable outflows in East Asia and the Pacific. Sovereign bond spreads remained stable for many EMDEs but increased among countries with already-wide spreads (figure 2.B).

United States: heightened inflation concerns. U.S. economic activity remained broadly resilient over the past few months. Although growth slowed in 2024Q1 to 1.6 percent (q/q saar), the slowdown was mostly due to surging imports, while consumer spending remained robust. On the sectoral side, manufacturing PMI jumped to slightly above 50 in March, signaling the first modest rise in manufacturing activity after 16 consecutive months in contractionary territory. Broadly resilient domestic activity in late-2023 and early-2024 fueled strong increases in employment, with nonfarm payrolls rising by 303K in March. The incipient rebalancing in the tight labor market appeared to be stalling, with no meaningful decline in the elevated number of job openings occurring between October through February. Tight labor markets continued to put upward pressure on core consumer prices, which, along with rising gasoline prices, raise the risk of headline inflation climbing further (figure 2.C).

Other advanced economies: diverging sectoral activity. In other advanced economies, PMIs for March showed ongoing expansion in the services sector but continued contraction in manufacturing activity (figure 3.A). In the euro area, the March composite PMI indicated expanding activity for the first time since May 2023, with flash estimates for April rising further. The improvement was largely driven by the services component, amid tentative signs of firming business confidence and domestic
demand. Consumer confidence, while still subdued, rose in April to its highest point since February 2022, underpinned by easing headline inflation and solid wage growth. In contrast, euro area the manufacturing PMI continued to contract, with flash estimates falling further in April. In Japan, the manufacturing PMI continued to contract in March, pointing to lacklustre activity amid auto plant shutdowns. In contrast, strong tourism boosted the services PMI to 54.1 (up from 52.9 in February). In March, headline and core inflation edged down to 2.6 percent and 2.9 percent (y/y) respectively, ahead of the expiration of gas and electricity subsidies in May.

**China: modest pickup.** Despite continued property sector weakness, growth edged up slightly in 2024Q1, to 5.3 percent (y/y). The pickup was driven by net exports, which contributed 0.8 percentage point to growth in 2024Q1 after exerting a drag in the previous quarter (figure 3.B). This offset moderating contributions to growth from consumption and investment. In March, the manufacturing PMI increased from 49.1 to 50.8, as the new export orders subcomponent rose to 51.3, the first expansionary outturn in a year. In parallel, the non-manufacturing PMI increased from 51.4 to 53, reflecting gains in the services and construction sub-components. However, the downturn in the property sector continued, as real estate prices and sales both fell further in March. Meanwhile, headline consumer price inflation edged down to 0.1 percent (y/y) in March, from 0.7 percent in February, with food prices falling 2.7 percent (y/y).

**Other EMDEs: continued resilience in activity.** Various indicators for economic activity point to ongoing resilience in early 2024 (figure 3.C). The continued expansion in the composite PMI in March suggests sustained momentum over the next few months in EMDEs excluding China on improving manufacturing. Manufacturing expanded across large EMDEs (Brazil, India, Indonesia, Mexico, Nigeria, the Russian Federation, Saudi Arabia), while the rate of contraction eased in Poland, Thailand, and the Arab Republic of Egypt. In South Africa, power outages contributed to a sharp fall in factory activity. Across EMDEs, headline inflation has eased on aggregate, prompting policy interest rate cuts in some economies—a trend which continued in early April, with Peru’s central bank cutting by 25 basis points. However, inflation is still elevated in many EMDEs, remaining in the double digits in about 25 countries in early 2024.

**Sources:** CPB Netherlands Bureau of Economic Analysis; Haver Analytics; World Bank.

Note: IP = industrial production; PMI = Purchasing Managers’ Index.

A. Panel shows composite, manufacturing and services Purchasing Managers’ Index (PMI) for the advanced economies. PMI readings above (below) 50 indicate expansion (contraction). Last observation is March 2024.

B. Year-on-year real GDP growth and expenditure contributions. Last observation is 2024Q1.

C. Bars show the month-on-month percentage change (index-points-difference) for retail sales, industrial production (IP), and goods trade (composite, manufacturing and services PMI) in EMDEs. Retail sales and PMI samples exclude China.
Special Focus: Fiscal Policy Volatility in Commodity Exporters

Fiscal policy tends to be more volatile in emerging market and developing economies (EMDEs) than in advanced economies, and more so in EMDE commodity exporters than commodity importers. Over the past three decades, volatility measures of primary expenditures, government consumption, and revenues were all significantly higher in EMDEs than in advanced economies (figure 4.A). Within EMDEs, government expenditure and government consumption in commodity exporters were on average about 40 percent and 70 percent more volatile, respectively, than in commodity importers (figure 4.B). Moreover, among EMDEs, the larger the commodity sector, the more volatile fiscal policy has tended to be. While fiscal policy volatility has declined somewhat in EMDEs over the past three decades—mirroring an improvement in fiscal frameworks, including the increasing use of fiscal rules—it remains much higher among commodity exporters than in other EMDEs.

The degree of commodity dependence and the level of development of countries are key drivers of fiscal policy volatility. Empirical analysis of the drivers of fiscal policy volatility over the past three decades suggests that being both an EMDE and a commodity exporter can explain up to 22 percent of the variation in fiscal policy volatility across countries. Even after accounting for individual countries’ levels of development, commodity exporters exhibit higher fiscal policy volatility, indicating that commodity dependence in itself can be a source of volatility.

Exchange rate flexibility and the easing of restrictions on international financial transactions are associated with lower fiscal policy volatility. A more flexible exchange rate regime provides more room for the exchange rate adjustment needed to counteract the destabilizing effects of commodity prices on output. Nevertheless, pegged exchange rates remain the dominant exchange rate regime among EMDEs (figure 4.C). While greater exchange rate flexibility can help build resilience to commodity price shocks, its macropoponomic implications need to be considered, particularly in cases where prices of a few key exports are globally determined, and as exchange rate fluctuations may have adverse impacts on the balance sheets of public and private institutions. Likewise, economies with greater access to international capital markets should be better able to smooth the impact of commodity price fluctuations on output volatility. Capital account openness in commodity exporters has

Sources: Arroyo Marioli, Fatás, and Vasisht (2023); Chinn and Ito (2006); Ilzetzki, Reinhardt, and Rogoff (2022); IMF WEO database.

Note: EMDEs = emerging market and developing economies.

A.B. Panels show weighted averages (A) and simple averages (B), by country group, of the standard deviations of the residuals obtained from regressing four dependent variables—log differences of real primary expenditures, real government consumption, real revenues, and the change in primary balance (percent of GDP)—on real GDP growth. Weights used are the PPP GDP shares in the respective group's total GDP. Annual data for 36 advanced economies and 148 EMDEs over 1990–2021.

C. Panel shows the share of EMDEs with hard peg, soft peg, and floating exchange rate regimes, based on the classification in Ilzetzki, Reinhard, and Rogoff (2022).
increased over the past few decades, but it remains lower than in commodity importers (figure 5.A). Measures to increase account openness need to be approached carefully, in combination with consideration of the prudential and other actions that may be needed to avoid instability in a country’s domestic financial system.

**Fiscal frameworks and institutions, notably fiscal rules and sovereign wealth funds, can also help lower fiscal policy volatility.** Since the early 1990s, a growing number of EMDEs, particularly commodity exporters, have adopted fiscal rules and established sovereign wealth funds to strengthen their fiscal frameworks (figure 5.B). Fiscal rules can constrain discretionary spending, which tends to be procyclical and exacerbates the business cycle. Fiscal rules can also provide a strong signal of prudence in fiscal policy, helping to strengthen credibility. Sovereign wealth funds can help smooth the path of government expenditures, although strong institutional frameworks and a long-term political commitment to fiscal discipline are both critical for the effectiveness of these funds in achieving their objectives.

Finally, it is important to highlight that fiscal policy volatility is associated with more volatile business cycles and lower economic growth. Results from a counterfactual exercise suggest that if the average commodity-exporting EMDE were to adopt the policies of an average advanced economy in three areas—exchange rate flexibility, capital account openness, and the use of fiscal rules—it could have added about 1 percentage point in per capita growth every four to five years by reducing fiscal policy volatility (figure 5.C).

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**FIGURE 5.A Capital account openness**

![Diagram showing capital account openness](chart)

**FIGURE 5.B Fiscal rules and SWFs**

![Diagram showing fiscal rules and SWFs](chart)

**FIGURE 5.C EMDE annual per capita growth**

![Diagram showing EMDE annual per capita growth](chart)

Sources: Arroyo Marioli, Fatás, and Vasishtha (2023); Chinn and Ito (2006); IMF WEO database; Sovereign Wealth Fund Institute; World Bank.

**Note:**

A. Based on Chinn-Ito index of financial openness. The lines represent the average of the index in the represented year. Sample includes 98 commodity importers and 98 commodity exporters.

B. Number of EMDES with fiscal rules and SWFs (sovereign wealth funds).

C. The middle column in the panel illustrates how applying the average advanced-economy policies along three dimensions (exchange rate regimes, capital account openness, and fiscal rules) impacts GDP per capita growth in the average commodity-exporting EMDE. The last column shows the total commodity-exporting EMDE growth with these advanced-economy policies.
Recent Prospects Group Publications

Commodity Markets Outlook—April 2024
The Great Reversal: Prospects, Risks, and Policies in International Development Association (IDA) Countries
Global Economic Prospects—January 2024
What Explains Global Inflation
Energy Price Shocks and Current Account Balances
Forecasting Industrial Commodity Prices

Recent World Bank Working Papers

Leveraging Growth Regressions for Country Analysis
The Sovereign Spread Compressing Effect of Fiscal Rules during Global Crises
Linking Export Activities to Productivity and Wage Rate Growth

Recent World Bank Reports

Africa’s Pulse, April 2024: Tackling Inequality is Necessary for Growth and Poverty Reduction
East Asia and the Pacific Economic Update, April 2024: Firm Foundations of Growth
Europe and Central Asia Economic Update, April 2024: Unleashing the Power of the Private Sector
Latin America and the Caribbean, April 2024: Competition: The Missing Ingredient for Growth?
Middle East and North Africa Economic Update, April 2024: Conflict and Debt in the Middle East and North Africa
South Asia Development Update April 2024: Jobs for Resilience

TABLE: Major Data Releases

(Percent change, y/y)

<table>
<thead>
<tr>
<th>Country</th>
<th>Recent releases: April 1, 2024 - April 30, 2024</th>
</tr>
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<tbody>
<tr>
<td>Indonesia</td>
<td>4/1/24 CPI MAR 3.0% 2.8%</td>
</tr>
<tr>
<td>Germany</td>
<td>4/2/24 CPI MAR 2.2% 2.5%</td>
</tr>
<tr>
<td>Türkiye</td>
<td>4/3/24 CPI MAR 68.5% 67.1%</td>
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<tr>
<td>Mexico</td>
<td>4/9/24 CPI MAR 4.4% 4.4%</td>
</tr>
<tr>
<td>Brazil</td>
<td>4/10/24 CPI MAR 3.9% 4.5%</td>
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<tr>
<td>Russian Federation</td>
<td>4/10/24 CPI MAR 7.7% 7.7%</td>
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<tr>
<td>United States</td>
<td>4/10/24 CPI MAR 3.5% 3.2%</td>
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<tr>
<td>China</td>
<td>4/11/24 CPI MAR -0.0% 0.7%</td>
</tr>
<tr>
<td>Argentina</td>
<td>4/12/24 CPI MAR 287.9% 276.2%</td>
</tr>
<tr>
<td>France</td>
<td>4/12/24 CPI MAR 2.3% 3.0%</td>
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<tr>
<td>India</td>
<td>4/12/24 CPI MAR 4.9% 5.1%</td>
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<tr>
<td>Saudi Arabia</td>
<td>4/14/24 CPI MAR 1.6% 1.8%</td>
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<tr>
<td>Nigeria</td>
<td>4/15/24 CPI MAR 31.7% 29.9%</td>
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<tr>
<td>Canada</td>
<td>4/16/24 CPI MAR 2.9% 2.8%</td>
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<tr>
<td>China</td>
<td>4/16/24 GDP Q1 5.3% 5.2%</td>
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(Percent change y/y)

<table>
<thead>
<tr>
<th>Country</th>
<th>Upcoming releases: May 1, 2024 - May 31, 2024</th>
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</thead>
<tbody>
<tr>
<td>Korea, Rep.</td>
<td>5/1/24 CPI APR 3.1% 3.1%</td>
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<tr>
<td>Saudi Arabia</td>
<td>5/1/24 GDP Q1 -4.3%</td>
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<td>Indonesia</td>
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<td>5/16/24 IP MAR 7.0%</td>
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<td>South Africa</td>
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<td>Singapore</td>
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<td>Switzerland</td>
<td>5/30/24 GDP Q1 0.6%</td>
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