

BOX 1.1 Regional perspectives: Outlook and risks

Emerging market and developing economy regions face varying growth prospects this year. Growth is projected to moderate in East Asia and Pacific, amid weak domestic demand in China, as well as in Europe and Central Asia owing to decelerations in some large economies following strong growth last year. In contrast, a pickup is anticipated in Latin America and the Caribbean, the Middle East and North Africa, South Asia, and Sub-Saharan Africa, partly underpinned by robust domestic demand. In 2026, growth is expected to strengthen in most regions. Risks to the outlook remain tilted to the downside across all regions, centering on adverse shifts in global trade and other economic policies. The possibility of escalating conflict, slower-than-expected growth in China and the United States, higher-than-expected inflation and attendant slower monetary policy easing, and natural disasters pose further downside risks. Conversely, faster-than-expected growth in major economies and lower-than-expected inflation and faster monetary policy easing present key upside risks.

Introduction

Against a backdrop of heightened trade restrictive measures and subdued global growth, emerging market and developing economy (EMDE) regions face varying growth prospects. Although monetary easing has commenced in all regions and is expected to provide some support to domestic demand, the anticipated pace and extent of easing varies across regions. Moreover, against a backdrop of elevated public debt, fiscal consolidation is expected to weigh on activity in some regions. Since global trade growth is expected to remain below pre-pandemic averages, while international tourism has largely returned to pre-pandemic levels, domestic demand will serve as the primary driver of growth across regions. After moderating somewhat last year, global commodity prices are expected to soften further this year, benefiting commodity importers but posing a headwind to some commodity exporters.

Next year, growth is projected to firm in most EMDE regions. However, the forecasts imply that, across regions, growth will be insufficient to achieve consistent progress toward catching up to advanced-economy per capita income levels. Moreover, risks to the outlook remain tilted to the downside. In particular, adverse shifts in global trade and other economic policies, as well as heightened policy uncertainty, could weigh on activity across all regions.

In this context, this box considers two questions:

- What are the cross-regional differences in the outlook for growth?
- What are the key risks to the outlook for EMDE regions?

Note: This box was prepared by Samuel Hill.

Outlook

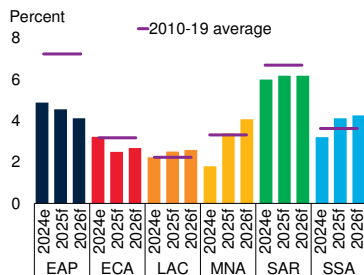
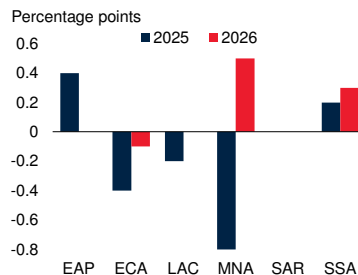
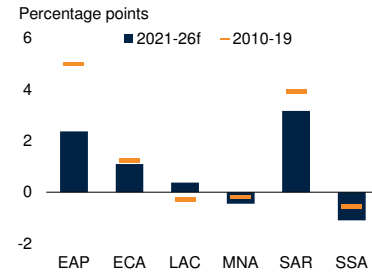
Growth is set to diverge across EMDE regions this year, falling in EAP and ECA—mainly due to slower growth in large economies weighing on the broader regional outlook—and picking up in LAC, MNA, SAR, and SSA (figure B1.1.1.A). In EAP, the anticipated slowdown reflects a further deceleration in China amid weak domestic demand and a continued property sector slump. Activity is also expected to decelerate in ECA, where the Russian Federation and Türkiye are projected to slow in part reflecting the lagged impact of tight monetary policy.

In contrast, growth is expected to pick up in MNA predicated on the assumption of an unwinding of oil production cuts and associated rising energy production and exports among oil-exporting economies. Growth in oil-importing economies in MNA is also set to firm, supported by moderating inflation and improved sentiment. A more modest acceleration is envisaged in LAC, partly driven by a rebound in Argentina following two consecutive years of contraction. Growth is projected to edge up in SAR—which is set to remain the fastest growing region over the forecast horizon—supported by firming growth in India. Growth is also anticipated to pick up in SSA, where activity will be supported by lower inflation and easing financial conditions.

Compared with the June projections, growth this year has been revised down in ECA, owing chiefly to the delayed effects of tighter-than-expected monetary policy in Türkiye and the assumption of continued active hostilities in Ukraine (figure B1.1.1.B). Growth has also been downgraded in MNA, due to weaker-than-expected oil production, and in LAC, where disinflation is proceeding more slowly than previously assumed in some countries. In contrast, projections have been

BOX 1.1 Regional perspectives: Outlook and risks (continued)**FIGURE B1.1.1 Regional outlooks**

Growth prospects vary across EMDE regions this year, declining in some regions mainly owing to decelerations in large economies. Projected growth this year has been downgraded in ECA, LAC, and MNA, with the downgrades variously reflecting tighter-than-expected monetary policy, oil production cuts, and the adverse impacts of conflict. The forecasts imply slower catch-up to advanced-economy per capita income levels compared with the pre-pandemic period in EAP and SAR, generally little to no catch-up in ECA, LAC, and MNA, and a further widening of the income gap in SSA.

A. Output growth**B. Growth forecast revisions****C. Differences between per capita income growth in EMDE regions and advanced economies**

Source: World Bank.

Note: e = estimate; EAP = East Asia and Pacific; ECA = Europe and Central Asia; EMDEs = emerging market and developing economies; f = forecast; LAC = Latin America and the Caribbean; MNA = Middle East and North Africa; SAR = South Asia; SSA = Sub-Saharan Africa.

A. Aggregate growth rates are calculated using GDP weights at average 2000-19 prices and market exchange rates. "2010-19" refers to the period averages of regional growth rates. Data for 2025 and 2026 are World Bank forecasts.

B. Revisions reflect differences in forecasts presented in the June 2024 edition of the *Global Economic Prospects* report and the current forecasts. Data for 2025 and 2026 are World Bank forecasts.

C. Bars and dashes represent annual average GDP per capita growth in EMDE regions minus the annual average GDP per capita growth in advanced economies, expressed in percentage points.

revised up slightly in EAP, partly reflecting somewhat stronger-than-expected prospects in China, and in SSA, on account of unexpectedly robust growth momentum in some countries.

In the second half of 2024, headline inflation in most EMDE regions settled around central bank targets or continued to decline toward them, supported by slowing demand in some major economies and moderating commodity prices. Price pressures were particularly subdued in EAP, where headline and core inflation are below central bank targets in some countries, including China. In most inflation-targeting countries in SAR, headline inflation was also below or within target ranges. In contrast, inflation generally remained elevated in ECA, partly reflecting strong wage growth, and in some countries in LAC, MNA, and SSA, often driven by food inflation.

Alongside an anticipated further recovery in global goods trade this year, export growth is expected to firm somewhat in most EMDE regions. The projected acceleration is particularly notable in MNA, driven by

an assumed ramp-up in energy production and exports, and to a lesser extent in ECA, partly reflecting spillovers from a modest recovery in euro area activity. In contrast to the expected uptick in goods export growth, tailwinds from the global tourism recovery have largely faded, except in EAP to some extent, where reopening was delayed. Consistent with the global trade outlook, trade growth in some regions is set to remain below pre-pandemic averages.

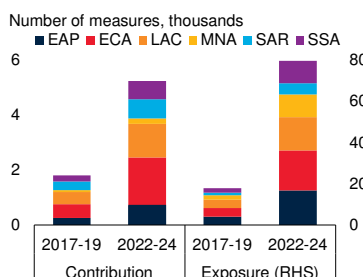
Given the tepid outlook for trade growth across EMDE regions, solid domestic demand is expected to drive growth, supported by moderating inflation and easing monetary policy, which will bolster household incomes as well as consumer and business confidence. In some regions, including parts of ECA and SAR, consumption will be further supported by remittances sustained by solid labor market conditions in worker destination economies. Consumption growth is anticipated to pick up modestly in LAC and more significantly in SSA, following years of subpar activity. Investment is also set to accelerate in LAC and SSA and remain buoyant in SAR. In contrast, consumption is expected to remain

BOX 1.1 Regional perspectives: Outlook and risks (continued)

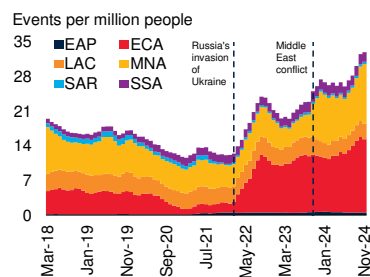
FIGURE B1.1.2 Regional risks

Risks to the baseline projections for EMDE regions remain tilted to the downside. Amid heightened policy uncertainty and shifting trade policies, escalating trade protectionism could dampen exports and growth across all regions. Heightened conflict and its fallout also pose a major risk to all regions, particularly ECA, MNA, and SSA. Resurgent inflationary pressures could keep interest rates higher for longer, adding to debt-servicing burdens in all regions, while growth in China and the United States could surprise to the downside, weighing especially on regions with close trade linkages to them. More frequent and costly climate-change-related natural disasters pose a further downside risk to all regions.

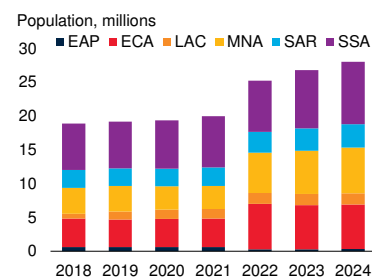
A. New trade-distorting policy measures



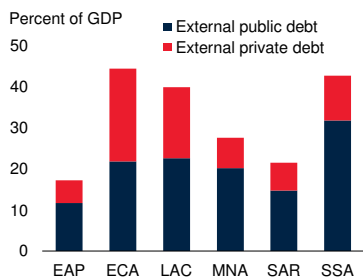
B. Conflicts



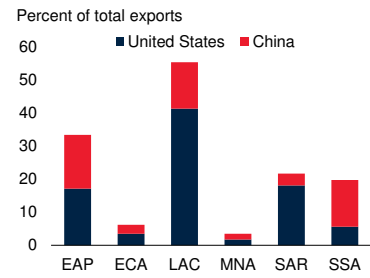
C. Displaced populations



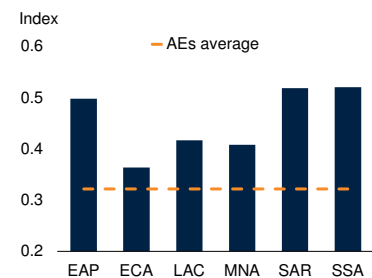
D. External debt



E. Exports to China and the United States



F. Vulnerability to climate change



Sources: ACLED (database); Global Trade Alert (database); International Monetary Fund; ND-GAIN (database); UN Comtrade (database); UNHCR (database); World Bank.

Note: AEs = advanced economies; EAP = East Asia and Pacific; ECA = Europe and Central Asia; EMDEs = emerging market and developing economies; LAC = Latin America and the Caribbean; MNA = Middle East and North Africa; SAR = South Asia; SSA = Sub-Saharan Africa.

A. The number of harmful trade measures implemented by and affecting different EMDE regions. Harmful trade measures include the sum of "Amber" and "Red" measures classified as harmful in the Global Trade Alert database. Each measure can be implemented by and target multiple countries. Data have been adjusted for reporting lags as of December 19, 2024.

B. Stacked bars show three-month moving averages of the number of reported individual conflict events per million people in each of the six EMDE regions. Major conflicts involve multiple conflict events, including battles, explosions, riots, and violence against civilians. The date of Russia's invasion of Ukraine is February 24, 2022. The date of the Middle East conflict is October 7, 2023. Last observation is end-November 2024.

C. Number of forcibly displaced persons by country of asylum, including refugees under UNHCR's mandate and asylum-seekers.

D. GDP-weighted average of gross external debt as a share of GDP. Annual data as of 2022. Sample includes 105 EMDEs (15 in EAP, 22 in ECA, 23 in LAC, 10 in MNA, 8 in SAR, and 27 in SSA).

E. Percent of gross regional goods exports to China and the United States in 2022. EAP excludes China.

F. Vulnerability measures exposure, sensitivity, and capacity to adapt to the negative effects of climate change. Index ranges from 0 to 1; higher values indicate higher vulnerability. Notre Dame Global Adaptation Initiative measures overall vulnerability by considering six life-supporting dimensions: food, water, health, ecosystem services, human habitats, and infrastructure. Orange line denotes the simple average of indices of advanced economies in 2022. Last observation is 2022.

subdued in EAP, partly reflecting weak consumer confidence and soft labor market conditions in China.

Mostly easing financial conditions, reflecting cuts in interest rates in major advanced economies and across EMDE regions, along with solid global investor risk appetite, are expected to support activity. However, the

anticipated pace of monetary policy easing varies considerably across regions. Interest rates are set to fall steadily in regions where easing cycles have more recently begun, including MNA, SSA, and SAR. In contrast, in some parts of ECA and LAC, where signs of elevated inflationary pressures persist, policy easing is expected to proceed gradually and unevenly. In EAP,

BOX 1.1 Regional perspectives: Outlook and risks (*continued*)

interest rates are already low by historical standards in many countries, limiting the scope for large interest rate cuts even with well-contained inflation pressures. To varying degrees, fiscal consolidation is expected to offset some of the support from easing monetary policy in certain regions.

Next year, growth is projected to strengthen in MNA, as oil production and exports accelerate, and in ECA, LAC, and SSA, where further declines in inflation and interest rates are anticipated to boost domestic demand. Elsewhere, growth is expected to soften slightly or remain stable. Overall, the forecasts imply that growth will be insufficient to achieve consistent progress toward narrowing the per capita income gap with advanced economies across EMDE regions (figure B1.1.1.C). For the period 2021-26, catch-up is set to slow compared to the decade preceding the pandemic in the fastest growing regions, EAP and SAR, remain slow in ECA and LAC, and continue to stagnate in MNA. Worse still, despite a projected uptick in growth, per capita income in SSA—the poorest and most poverty-stricken region—is set to fall further behind.

Risks

Risks to the baseline growth projections for EMDE regions remain tilted to the downside. Heightened policy uncertainty, particularly the threat of adverse global policy shifts, including further trade protectionism, poses a major risk to all regions. Escalating conflict also poses downside risks, particularly in regions where active conflicts are situated. Additional downside risks arise from persistently elevated inflation, which could hinder anticipated monetary policy easing, and adverse spillovers from weaker-than-expected growth in China and the United States. Climate-change-related natural disasters pose further downside risks to all regions. On the upside, growth in major economies could exceed expectations, while global disinflation and monetary easing could proceed more quickly than anticipated, with positive consequences for activity in all EMDE regions.

Heightened global policy uncertainty and potential adverse policy shifts, especially regarding trade policies, poses a downside risk across EMDE regions. Against a backdrop of increased global trade fragmentation, all regions have both implemented and been the target of,

new trade restriction measures (figure B1.1.2.A; Aiyar and Ohnsorge 2024). Additional such measures, which would further fragment global trade, could dampen trade growth, depress broader economic activity, and raise prices. Export-oriented regions with significant manufacturing bases are particularly vulnerable to the effects of heightened protectionism and supply chain reorientation, notably EAP, ECA, and LAC.

Amid already heightened global tensions, intensifying conflict poses a downside risk to growth in all EMDE regions (figure B1.1.2.B). Regions experiencing major conflicts, notably ECA, MNA, and SSA, are most exposed to direct costs, including disruptions to production, destruction of physical capital, and the displacement of populations (figure B1.1.2.C; Deininger et al. 2024). However, other regions are also exposed to adverse spillovers. In particular, conflict in the Middle East risks disrupting global oil and natural gas supplies, which could push up global energy prices and inflation, and dampen activity, especially in regions more dependent on imported energy, including EAP and SAR (World Bank 2024a).

Although inflation has been settling toward targets in most advanced economies and EMDEs, resilient activity and robust wage growth could result in more persistent global inflation than projected. In turn, this could prompt central banks in advanced economies and EMDEs to maintain higher policy rates, weighing on activity across EMDE regions. Regions where activity is expected to strengthen and inflation remains somewhat elevated—including LAC and SAR and some parts of ECA, MNA, and SSA—are most vulnerable. In addition, rapid shifts in expectations about policy interest rates could stoke global financial market volatility and increase debt-servicing costs, with particularly adverse consequences for EMDE regions reliant on external debt—including ECA, LAC, and SSA, and parts of MNA and SAR (figure B1.1.2.D).

Growth in the world's two largest economies, the United States and China, could fall short of expectations, generating adverse spillovers, particularly in EMDE regions with substantial trade linkages to them (figure B1.1.2.E; chapter 3). In the United States, following several years of robust job growth, the labor market could cool rapidly, leading to weaker-than-expected consumption. In China, the property slump

BOX 1.1 Regional perspectives: Outlook and risks (*continued*)

could intensify, further eroding confidence, weakening household balance sheets and consumption, and reducing industrial demand. An unexpected slowdown in either economy would weaken external demand across all EMDE regions, especially in EAP and LAC, and weigh on global commodity prices and economic activity in some commodity-exporting regions, particularly in ECA, MNA, and SSA.

Natural disasters, including more severe and frequent climate-change-related events, could dampen both short- and long-term growth in all EMDE regions (figure B1.1.2.F). Many regions are vulnerable to disruptive weather events such as droughts and floods, including ECA, which can intensify pervasive food insecurity, notably in MNA, SAR, and SSA. Moreover, such climate-change-related hazards would tend to exacerbate inequality given that poorer households are disproportionately exposed (Behrer et al. 2024). Small states, spread across all EMDE regions but concentrated in EAP and LAC, are particularly vulnerable to severe

floods and storms that endanger life and economic activity (World Bank 2024b).

On the upside, global disinflation could proceed more quickly than anticipated, paving the way for faster interest rate cuts than assumed. Lower inflation and interest rates would especially boost demand in regions where interest rates remain elevated, including LAC. An additional upside risk is faster-than-expected growth in China, on account of additional policy support measures, or in the United States, where strong household balance sheets could underpin more resilient consumption than assumed in the baseline. Commodity-exporting regions, including MNA and SSA, and to a lesser extent ECA, could benefit from higher prices and increased demand for commodity exports. In addition, regions with the strongest direct trade linkages to China and the United States, including EAP and LAC, could experience notably stronger external demand—though this could be tempered by additional trade protectionism.

many EMDEs. Despite the projected pickup in growth over 2025-26, the level of output for EMDEs excluding China is expected to remain about 4 percent below the pre-pandemic trajectory by 2026 (figure 1.9.F). Many long-term drivers of growth have also come under further pressure, with trade—a key driver of investment and productivity growth in EMDEs—facing headwinds from heightened geopolitical tensions, trade fragmentation, and elevated trade policy uncertainty.

LICs outlook

Growth in LICs is forecast to rebound to an average of 5.8 percent in 2025-26 (box 1.2). The recovery follows much weaker-than-expected growth in 2024, due to renewed violent conflict in Sub-Saharan Africa, particularly Sudan. The projected rebound over the forecast horizon depends on a recovery in LICs facing fragile and conflict-affected situations (FCS LICs), where substantial improvements in security situations are

assumed to take place. Furthermore, the forecast assumes that no new conflicts in LICs emerge, that inflation continues to abate, and that no debt crises occur.

The growth forecasts for LICs in 2025 and 2026 have been upgraded by 0.4 percentage point each, compared to June. The upward revisions are mostly predicated on improved growth prospects for some non-FCS LICs (such as Uganda), and on an end to conflict leading to economic stabilization in a few FCS-LICs (such as Sudan). Even so, the level of output in LICs is expected to remain almost 5 percent below the pre-pandemic trajectory by 2026, suggesting material output losses in many countries where extreme poverty is already pervasive.

Many LICs will continue to face daunting challenges (chapter 4). In some FCS LICs, violent conflict has resulted in the destruction of industrial capacity and significant displacement of the population, which is likely to prevent a near-term recovery in economic activity. For