BOX 1.2 Low-income countries: Recent developments and outlook

The number of people struggling with extreme poverty in low-income countries (LICs) remains high. Recent flare-ups of violent conflict have heightened the challenges faced by many of these countries, as have increased debt-service costs and reduced fiscal policy space for many more. This resulted in downward revisions for growth in LICs in 2024, now estimated at 3.6 percent. Growth in these countries is forecast to rise to 5.8 percent a year, on average, in 2025 and 2026—an upward revision from previous projections mainly driven by improvements in the outlook for some fragile and conflict-affected LICs. Per capita income growth is projected to increase to an average of 3 percent in 2025-26 but will remain uneven. Risks to the outlook are tilted to the downside. They include intensifying insecurity and violent conflict, especially in the Middle East and Sudan, which could lead to negative spillovers for many LICs, including increased food insecurity. Other downside risks are lower global growth due to heightened uncertainty and the potential for adverse changes in trade policies, more persistent inflation, increased risk of government debt distress, and more frequent or intense extreme weather events.

Introduction

In low-income countries (LICs), growth remained subdued at 3.6 percent last year. This partly reflected slower-than-expected expansion in major LICs, including the Democratic Republic of Congo and Ethiopia, but also high levels of violent conflict in fragile and conflict-affected situations (FCS), especially Sudan (figure B.1.2.1.A). These developments resulted in a downward revision of nearly 2 percentage points for growth in LICs in 2024 compared to the January forecast last year. In 2025-26, growth in these economies is expected to accelerate, following the easing of overlapping shocks that hit them in the past half decade, including the pandemic, high inflation, and tightening financial conditions.

Although inflation has slowed in many LICs, costs of living remain elevated and the number of people struggling with extreme poverty and food insecurity in these countries remains high. Policy space, which was narrow before the pandemic, has been further depleted by increased debt and interest payments, requiring fiscal tightening and constraining the ability of governments to support the poor in many LICs. Elevated violence has continued to exacerbate poverty and increased the number of displaced people.

Various downside risks cloud LICs' prospects, including further increases in domestic political instability and violent conflict, and more persistent inflation than projected, which could keep monetary policies tighter for longer than assumed. Greater frequency or intensity of adverse weather events could also weigh on economic activity.

Against this backdrop, this box addresses the following 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

Despite some improvement, growth in LICs remained subdued at an estimated 3.6 percent in 2024. The estimate reflects a further 15 percent GDP contraction in Sudan, which took the country's output to levels more than one-third lower than before the start of the current conflict. The pickup in growth last year was partly driven by accelerated activity in agriculture-exporting LICs, amid solid investment growth in Uganda. Part of the improvement in growth also reflects a less pronounced drag from the slower contraction of Sudan's economy than in 2023.

At the country level, growth estimates for more than 40 percent of LICs in 2024 have been revised down from June projections. Most of these downgrades pertain to FCS LICs, with growth estimates lowered in more than half of these countries, most pronouncedly in Sudan and South Sudan. This resulted in a downward revision of 1.4 percentage points for LIC growth in 2024 compared to the June forecast, on top of a 0.5-percentage-point downgrade already incorporated in the June forecast.

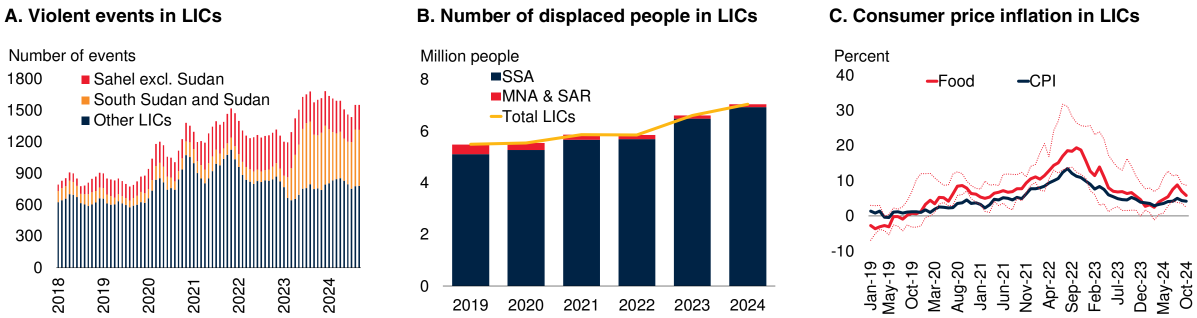
Highlighting the economic and humanitarian costs of violent conflict in LICs, output growth differed significantly between FCS and non-FCS LICs in 2024.

Note: This box was prepared by Dominik Peschel.

BOX 1.2 Low-income countries: Recent developments and outlook (*continued*)

FIGURE B1.2.1 LICs: Recent developments

The incidence of violence has remained high in LICs, mainly reflecting violent conflicts in the Sahel and East Africa. Consequently, the number of displaced people has increased in recent years. While median consumer price inflation in LICs has moderated since late 2022, food price inflation rose in 2024, posing a significant challenge in many of these countries.



Sources: ACLED (database); Haver Analytics; United Nations High Commissioner for Refugees (UNHCR) Refugee Population Statistics Database; World Bank.

Note: excl. = excluding; LICs = low-income countries.

A. Three-month moving average. Violent events include battles, explosions, violence against civilians, and riots. Last observation is November 2024.

B. MNA = Middle East and North Africa, SAR = South Asia, SSA = Sub-Saharan Africa. Statistic covers forcibly displaced persons by country of asylum comprising of refugees under UNHCR's mandate and asylum-seekers; excludes internally displaced persons. Sample includes 25 countries, of which at least 22 are in Sub-Saharan Africa.

C. Change in prices from 12 months earlier. Dotted lines refer to the interquartile range of food price inflation. Median for the sample of eight LICs. Last observation is October 2024.

Output growth in non-FCS LICs edged up to an estimated 5.6 percent, mainly driven by improvements in both Uganda, which benefited from an oil-related infrastructure boom, and Madagascar, where ongoing structural reforms boosted growth. However, in FCS LICs, excluding the Democratic Republic of Congo and Ethiopia, output contracted by 1.3 percent, mostly on account of the conflict-related contraction in Sudan. The conflict in Sudan has led to the internal displacement of about 10 million people, and more than 2 million have fled the country (figure B.1.2.1.B). Sudan's government institutions have collapsed, and population displacements, along with reduced economic activity, have contributed to a sharp decline in government revenues.

In the Democratic Republic of Congo, growth slowed to 4.9 percent in 2024, as violent conflict in the eastern part of the country disrupted mining operations and resulted in the internal displacement of several million people. In Ethiopia, growth moderated to 6.1 percent following foreign exchange market reforms and tighter monetary policy.

While annual consumer price inflation in the median LIC has declined from its mid-2022 peaks, food prices picked up in 2024 in many LICs (figure B.1.2.1.C). Some LICs in the Sahel and East Africa were hit by severe floods in 2024 (Burkina Faso, Chad, Mali, Central African Republic, Niger, South Sudan), while LICs in Southern Africa experienced El Niño-related droughts (Malawi, Mozambique), which adversely affected harvests and raised local food prices. Moreover, in some countries, food price inflation remained persistently high (Ethiopia, Malawi, Sierra Leone), while in others, it was driven by conflict (South Sudan).

Outlook

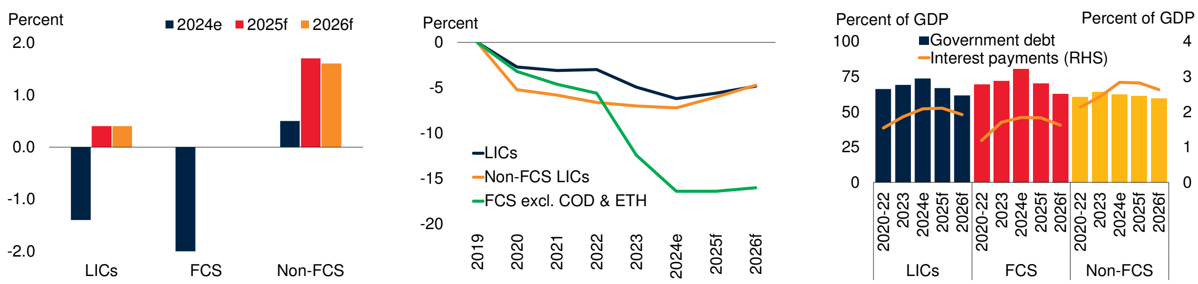
Growth in LICs is projected to firm from 3.6 percent in 2024 to an average of 5.8 percent a year in 2025-26 (table B.1.2.1). At the same time, this growth rate, though substantially higher than in the past two years, will not make up for the lost ground that the overlapping shocks of the past half decade have caused. At the end of 2026, LICs will still face output losses of nearly 5 percent compared to their pre-pandemic baseline, with worse results for FCS LICs that were also hit by a wave of political instability and violent conflict in recent years. LICs also continue to face multiple challenges, including high debt and limited access to financing.

BOX 1.2 Low-income countries: Recent developments and outlook (*continued*)

FIGURE B1.2.2 LICs: Outlook and risks

Growth estimates in LICs for 2024 have been revised sharply downward, mainly as a result of delays in stabilization as violent conflict in East Africa continues. Meanwhile, upward revisions in the forecasts for non-FCS LICs result in a slightly higher growth forecast for LICs in 2025-26. Fragile and conflict-affected LICs, excluding the Democratic Republic of Congo and Ethiopia, are projected to merely stabilize their capita income losses in 2025-26 relative to the pre-pandemic trend. Despite their projected high growth, LICs will not be able to close the gap. Government debt-to-GDP ratios in LICs are expected to decline in the forecast period, and interest payments as a percentage of GDP are expected to moderate somewhat.

A. Growth forecast revisions for LICs since June 2024 **B. Per capita income losses relative to the pre-pandemic trend** **C. Government debt and interest payments in LICs**



Sources: International Monetary Fund; World Bank.

Note: e = estimate; f = forecast; excl. = excluding; COD = Democratic Republic of Congo; ETH = Ethiopia; FCS = fragile and conflict-affected situations; GDP = gross domestic product; LICs = low-income countries.

A. Revisions relative to forecast published in the June 2024 edition of the *Global Economic Prospects* report. Sample comprises 21 LICs.

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

C. Simple averages of country groupings. Sample includes 21 LIC countries.

The forecast assumes that the security situation in a number of LICs improves substantially and that no new violent conflicts break out, that inflation continues to abate, that no debt crises emerge, and that no unusually adverse weather events take place. That said, the growth forecast has been upgraded by 0.4 percentage point a year compared to June, on account of an upward revision for non-FCS LICs that mainly reflects a sharp upward revision to growth in Uganda, where oil production is expected to commence during the forecast horizon (figure B.1.2.2.A). At the country level, there are as many forecast downgrades as upgrades for LICs in 2025.

Anticipating improvements in the security situation in some countries, growth in FCS LICs is forecast to increase from 2.8 percent in 2024 to about 5.2 percent a year in 2025-26. The pickup largely reflects a projected return to growth in Sudan, based on the assumption of a ceasefire in the ongoing conflict—which has already heavily damaged the country's industrial base along with education and health facilities. Moreover, the outlook for the two largest economies in this group—Ethiopia and the Democratic Republic of Congo—diverges. In Ethiopia, growth is expected to benefit from last year's macroeconomic reforms and is projected to strengthen. In contrast, growth in the Democratic Republic of Congo is forecast to soften toward the end of the forecast period amid fiscal consolidation efforts—a downward revision of 1 percentage point a year, on average, compared to the June forecast.

Growth in non-FCS LICs, a small set of countries, is forecast to strengthen from 5.6 percent in 2024 to an average of 7.3 percent a year in 2025-26. However, the upward revision in growth projections is mainly driven by stronger growth in Uganda. Moreover, economic activity in Rwanda is expected to continue benefiting from solid private investment and favorable agricultural conditions. In Madagascar, growth is forecast to edge up further as ongoing structural reforms in key sectors take effect.

Per capita income growth in LICs is expected to increase from a subdued 0.8 percent in 2024 to an average of 3.0 percent a year in 2025-26. However, compared to the pre-pandemic trend, the level of per capita income in LICs is expected to be nearly 5 percent lower by the end of 2026, and nearly 16 percent lower

BOX 1.2 Low-income countries: Recent developments and outlook (*continued*)

TABLE B1.2.1 Low-income country forecasts[a]

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

	2022	2023	2024e	2025f	2026f	Percentage-point differences from June 2024 projections: 2024e	2025f	2026f
Low-Income Countries, GDP[b]	**5.1**	**3.0**	**3.6**	**5.7**	**5.9**	**-1.4**	**0.4**	**0.4**
GDP per capita (U.S. dollars)	2.2	0.2	0.8	2.9	3.1	-1.4	0.4	0.4
Afghanistan[c]	-6.2	2.7	..	..	..	..	..	..
Burkina Faso	1.5	3.0	3.7	3.9	4.1	0.0	0.1	-0.1
Burundi	1.8	2.7	2.2	3.5	4.2	-1.6	-0.9	-0.6
Central African Republic	0.5	0.7	0.7	1.1	2.0	-0.6	-0.6	0.1
Chad	2.8	4.2	3.0	2.1	3.5	0.3	-1.2	0.6
Congo, Dem. Rep.	8.9	8.4	4.9	5.0	4.6	-1.1	-0.9	-1.1
Eritrea	2.5	2.6	2.8	3.0	3.3	0.0	0.0	0.0
Ethiopia[d]	6.4	7.2	6.1	6.5	7.1	-0.9	-0.5	0.1
Gambia, The	4.9	5.3	5.6	5.8	5.4	0.1	0.0	0.0
Guinea-Bissau	4.2	5.2	5.0	5.0	5.0	0.3	0.2	0.1
Liberia	4.8	4.7	5.3	5.7	5.8	0.0	-0.5	-0.5
Madagascar	4.0	3.8	4.5	4.6	4.7	0.0	0.0	0.0
Malawi	0.9	1.6	1.8	4.2	3.3	-0.2	0.3	-0.8
Mali	3.5	3.5	3.7	4.0	4.5	0.6	0.5	0.0
Mozambique	4.4	5.4	4.0	4.0	4.0	-1.0	-1.0	-0.4
Niger	11.5	2.0	5.7	8.5	4.6	-3.4	2.3	-0.5
Rwanda	8.2	8.2	7.6	7.8	7.5	0.0	0.0	0.0
Sierra Leone	5.3	5.7	4.3	4.7	4.7	0.8	0.7	0.4
Somalia	2.7	4.2	4.4	4.5	4.5	0.7	0.6	0.5
South Sudan[d]	-2.3	-1.3	-7.8	-11.4	6.1	-9.8	-15.2	2.1
Sudan	-1.0	-20.1	-15.1	1.3	2.9	-11.6	2.0	1.7
Syrian Arab Republic[c]	0.7	-1.2	-1.5	-1.0	..	0.0	..	..
Togo	5.8	6.4	5.3	5.4	5.8	0.2	0.0	0.2
Uganda[d]	4.7	5.3	6.0	6.2	10.8	0.0	0.0	4.2
Yemen, Rep.[c]	1.5	-2.0	-1.0	1.5	..	0.0	0.0	..

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.

c. Forecasts for Afghanistan (beyond 2023), the Syrian Arab Republic (beyond 2025), and the Republic of Yemen (beyond 2025) are excluded because of a high degree of uncertainty.

d. GDP growth rates are on a fiscal year basis. For example, the column for 2022 refers to FY2021/22.

for FCS LICs, excluding the two major economies in this group—the Democratic Republic of Congo and Ethiopia (figure B.1.2.2.B). Per capita income growth is primarily driven by strong expansion in non-FCS LICs and the two major FCS LICs. In the remaining LICs, growth is forecast at a mere 1 percent, keeping average per capita income well below its pre-pandemic level. At the country level, per capita income in nearly half of FCS LICs is expected to remain below pre-pandemic levels by the end of 2026.

Progress in poverty reduction in many LICs is thus expected to remain limited (chapter 4). Per capita income growth rates are largely insufficient to raise living standards significantly. Moreover, several populations continue to experience negative spillovers from violent conflicts and political instability, such as displacement and food shortages, exacerbating the situation in those countries, especially in East Africa and the Sahel region.

BOX 1.2 Low-income countries: Recent developments and outlook (*continued*)

Risks

Risks to the outlook remain tilted to the downside, especially for FCS LICs. These countries suffer from fragility stemming from persistent poverty, as well as ongoing violence and conflict, especially those in East Africa and the Sahel (Burkina Faso, Democratic Republic of Congo, Mali, Somalia, South Sudan, Sudan). An escalation of conflict in East Africa could lead to extended humanitarian crises in LICs and further destruction of infrastructure, and exacerbate already-severe food insecurity across LICs in the region, as many of these countries rely heavily on food imports. Similarly, intensified conflict in the Middle East could lead to sharply higher oil prices, triggering a renewed pickup in inflation across LICs. A conflict-induced oil price spike could also raise global food prices by driving up transportation and production costs, as many fertilizers are byproducts of the oil and gas industry.

Global growth could be lower than projected. Unexpected adverse changes in trade policies could result in further trade fragmentation and dampen global activity. A potential intensification of protectionist measures could lead to further trade barriers and retaliation between trading blocs that, in addition to their potential inflationary effects, could adversely affect economic prospects. Such adverse developments could also affect the outlook for LICs.

If global inflation proves more persistent than expected, major central banks may need to slow the pace of their monetary policy easing, resulting in a slower-than-expected improvement in financial conditions for LICs. While high debt-service costs remain a burden for many LICs, liquidity concerns and financing conditions have become pressing challenges (IMF 2024a). This is particularly relevant as access to external financing at favorable interest rates has dwindled in recent years (Mawejje 2024).

A deterioration in financing conditions facing LICs could further heighten the risk of government debt distress in some of these countries—especially as public debt restructuring has become more complicated in recent years amid a more diverse set of creditors (Chrimes et al. 2024). Furthermore, sizable primary deficits have driven the debt buildup in LICs, reflecting expenditure pressures amid persistent revenue weakness (Mawejje 2024). As a result, nearly half of LICs (12 out of 26) were in or at high risk of government debt distress at the end of October 2024 (IMF 2024b). Government debt-to-GDP ratios in LICs are expected to gradually decline from recent high levels, but still stand at 61.5 percent, on average, at the end of 2026. Though easing somewhat, interest payments are expected to remain elevated across LICs, averaging 2 percent of GDP over the forecast period, and be higher for non-FCS LICs (figure B.1.2.2.C).

Economic growth and the pace of poverty reduction could slow markedly in LICs if the adverse effects of climate change intensify. Extreme weather events, such as droughts and floods, have frequently had catastrophic consequences in LICs, especially in the Sahel region (Silvestre et al. 2024). These countries generally have limited capacity—both institutionally and in terms of infrastructure—to cope with natural disasters. The number of people facing extreme hunger remains high, especially across East Africa, where malnutrition is exacerbated by violent conflict and the displacement of people. The number of people in LICs facing a food crisis or worse conditions reached about 147 million people in 2024 (GRFC database). This figure could rise if extreme weather events occur.

The erosion in per capita incomes since 2020 in the most vulnerable economies reflects myriad factors, including intensifying conflict and violence, political instability, food and energy price shocks, limited access to financing, and elevated debt. Following successive negative growth surprises, FCS and LICs are now projected to experience weaker recoveries in per capita incomes than previously assumed. Compared to the pre-pandemic trend, the level of per capita income in LICs and FCS is on track to be nearly 5 and 12 percent lower, respectively, by the end of 2026 (figures 1.10.D and 1.10.E). Losses relative to trend exceed 20 percent in some economies afflicted with widespread fragility, violence, and conflict (for example, Central African Republic,