Global Economic Prospects

HIGHLIGHTS from Chapter 1:
THE GLOBAL OUTLOOK

Key Points

- *Global growth is estimated to have stabilized at 2.7 percent last year and is forecast to hold steady at that pace over 2025-26.*
- *However, this pace is insufficient to foster sustained economic development, bolster catch-up in per capita incomes, and offset the damage from several years of successive negative shocks. In all, global potential growth is estimated to have declined by about one third since the 2000s.*
- *Growth could be even weaker if downside risks materialize, such as adverse policy shifts and heightened policy uncertainty, growing trade fragmentation, slowing progress in reducing inflation, and weaker activity in major economies.*
- *The subdued growth outlook and multiple headwinds underscore the need for decisive policy action. Global policy efforts are required to safeguard trade, address debt vulnerabilities, and combat climate change.*
- *National policy makers also need to resolutely pursue price stability, as well as boost tax revenues and rationalize expenditures to bolster fiscal sustainability.*
- *To raise long-term growth and put development goals on track, interventions to mitigate conflict, lift human capital, and bolster labor force inclusion and food security are critical.*

Global activity: steady but subdued growth. Global growth is stabilizing as inflation moderates and monetary easing supports activity. This should give rise to a modest but steady global expansion over 2025-26, at 2.7 percent per year. A deceleration in the two main engines of the global economy—the United States and China—is expected to be offset by firming growth elsewhere (figure A). Inflation is now close to targets in many advanced economies and EMDEs, with the share of economies with above-target inflation on a downward trend. Advanced-economy policy rates are expected to decline somewhat further this year but remain well above the unusually low levels of the 2010s (figure B). However, global growth appears to be settling at a relatively subdued pace—over 2025-26, it is projected to remain 0.4 percentage point below the 2010-19 average. This reflects both the prolonged effects of the adverse shocks of recent years, as well as a structural decline in the fundamental drivers of growth such as investment and trade (figure C). In all, global potential growth is estimated to have declined by about one-third since the 2000s.

EMDE outlook: limited prospects for income catch-up. Growth in EMDEs is forecast to remain at about 4 percent in 2025-26. In China, subdued consumption amid a continuing secular slowdown is expected to weigh on activity in 2025-26. Excluding China, EMDE growth is projected to firm from 3.5 percent in 2024 to an average of 3.8 percent in 2025-26. This pickup is anticipated to be broad-based, with growth strengthening in nearly 60 percent of these economies. Nevertheless, growth prospects appear insufficient to offset the damage from several years of successive negative shocks, with output in EMDEs expected to remain more than 5 percent below its pre-pandemic trend in 2026. From a longer-term perspective, catch-up toward advanced economy income levels has steadily slowed across EMDEs over the first quarter of the twenty-first century. Following the 2020 global recession, outright divergence from advanced-economy incomes has occurred in many vulnerable EMDEs, with earlier progress LICs being reversed (figure D).

Risks to the outlook: tilted to the downside. The global outlook is surrounded by substantial uncertainty, with risks tilted to the downside. Global growth could turn out to be weaker on account of potential adverse changes in trade policies and heightened policy uncertainty. A surge in trade-distorting measures, often disproportionately affecting EMDEs, poses a risk to global trade and economic activity (figure E). More broadly, a sustained increase in global policy uncertainty could also dampen growth (figure F). Heightened geopolitical tensions and conflict escalations relating to Russia's invasion of Ukraine, events in the Middle East, and instability elsewhere could disrupt global trade and commodity markets. In affected EMDEs, intense conflicts could severely set back development goals and result in large long-term output losses. Other risks include higher inflation, extreme weather related to climate change, and weaker-than-anticipated growth in some major economies. On the upside, faster progress on disinflation and stronger activity in key economies could lead to faster-than-expected global growth.

Global policy challenges: safeguard trade, address debt vulnerabilities, and combat climate change. As the first quarter of the twenty-first century concludes, the overarching challenge facing policy makers is to sustainably raise growth rates and put a wide range of development objectives on a better trajectory. This will entail addressing multiple pressing concerns. Enhanced international cooperation is needed to limit growing trade fragmentation and safeguard a rules-based multilateral trade system. Decisive and coordinated policy action is also needed to tackle high debt burdens and avoid the economic and social costs of sovereign defaults, particularly in some highly vulnerable EMDEs. It is critical for the global community to boost concessional financing in light of the sharp post-pandemic decline in grants to LICs. Global cooperation is also essential to tackle climate change and biodiversity loss, mounting food insecurity, and conflict.

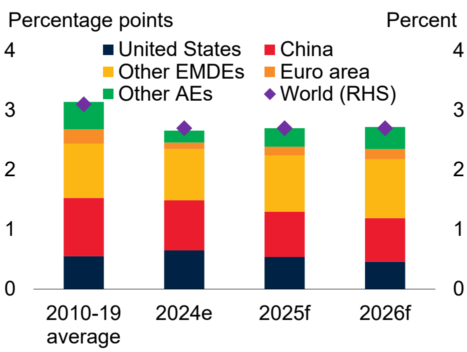
Near-term domestic policy challenges: ensure price stability and rebuild fiscal space. The uneven decline of inflation in EMDEs underscores that some central banks may need to slow the pace of monetary easing or even tighten policy to maintain credible inflation-targeting frameworks. Moreover, adverse shifts in investor sentiment could trigger sizable capital outflows from EMDEs, generating inflationary risks from currency depreciation. Rising debt-servicing costs, particularly for LICs, highlight that many vulnerable EMDEs need to rebuild fiscal buffers. EMDEs will also need to mobilize additional fiscal resources to undertake investments geared toward sustainable growth and addressing long-standing development challenges.

Structural policy priorities: lifting long-term growth and mitigating conflict. Over the longer term, comprehensive and wide-ranging reforms will be necessary to address the root causes of insufficient growth in many EMDEs. Tackling the rising incidence of conflict is crucial to reverse large declines in living standards in affected countries. Targeted policies are also needed to boost growth-enhancing investment, including in human capital, and advance labor force inclusion, especially in regions where working-age populations are projected to increase substantially. Bolstering food security is paramount—acute food insecurity remains elevated, with dire implications for both the immediate well-being and the lifetime prospects of those affected.

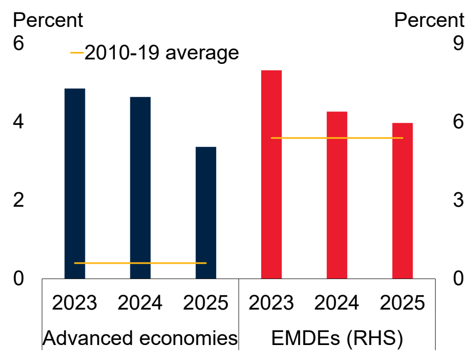
Figure: Global growth prospects and risks

Global growth is set to stabilize but remain below its pre-pandemic pace, with slowdowns in China and the United States offset by firming growth elsewhere. Monetary policy rates are generally expected to ease further over the forecast horizon, although advanced economy rates are likely to remain well above the low levels of the 2010s. Trade growth is set to undershoot its 2010-19 average in nearly two-thirds of economies. The pace of EMDE income convergence with advanced economies is expected to remain sluggish, with earlier gains reversing in LICs. Risks to the global outlook are tilted to the downside. Surging trade-distorting measures—to which EMDEs have been heavily exposed—could dampen global activity. Likewise, sustained increases in global economic policy uncertainty could notably slow growth, particularly in EMDEs.

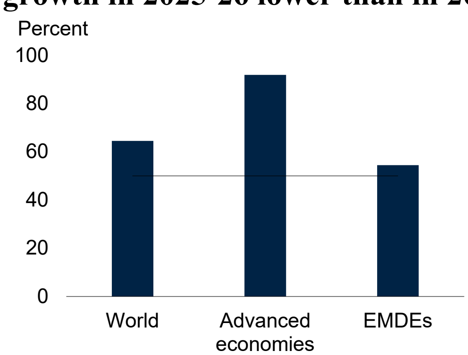
A. Contributions to global growth



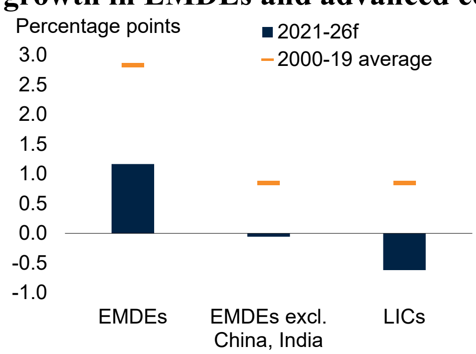
B. Policy rates in advanced economies and EMDEs



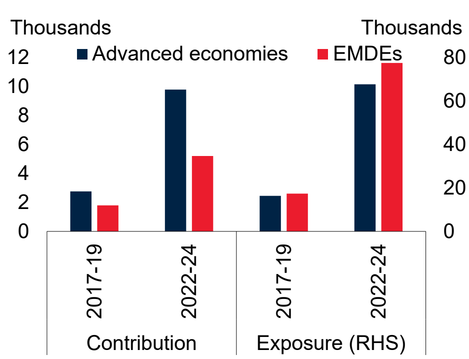
C. Share of economies with average trade growth in 2025-26 lower than in 2010-19



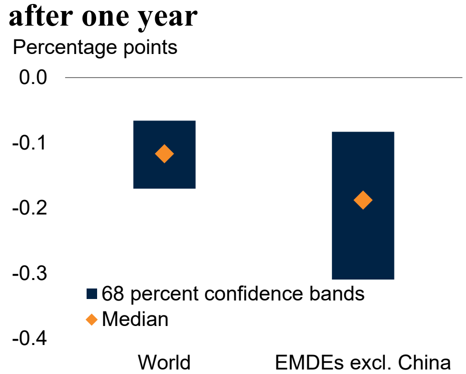
D. Difference between per capita income growth in EMDEs and advanced economies



E. New trade-distorting policy measures



F. Impact of a 10 percent rise in global economic policy uncertainty on output growth after one year



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Sources: Bloomberg; Consensus Economics; Global Trade Alert (database); Haver Analytics; World Bank.
Note: AEs = advanced economies; e = estimate; EMDEs = emerging market and developing economies; f = forecast; LICs = low-income countries; RHS = right-hand scale.
A. Aggregates are calculated using real U.S. dollar GDP weights at average 2010-19 prices and market exchange rates.
B. AEs are GDP-weighted averages of policy rates for 2023-24 and policy rate expectations for 2025, based on futures curves on December 23, 2024. EMDEs are the median 3-month government bond yields for 2023-24 and the median Consensus Economics forecasts for 1-year-ahead yields (or policy rates) for 2025, based on December 2024 surveys. Sample includes 3 AEs and 16 EMDEs.
C. Trade in goods and services is measured as the average of export and import volumes. Horizontal line shows the 50 percent threshold. Sample includes 32 AEs and 55 EMDEs.
D. Aggregate GDP per capita is calculated as aggregated GDP divided by the aggregate population. GDP aggregates are calculated using real U.S. dollar GDP weights at average 2010-19 prices and market exchange rates. Bars and markers represent annual average per capita GDP growth for each country group minus the annual average GDP per capita growth in advanced economies. The year 2020 is excluded due to extreme volatility related to the pandemic.
E. Panel shows implemented interventions by countries that discriminate against foreign interests. Contribution is the number of measures implemented by each country group. Exposure is the number of measures affecting each country group. Each measure can be implemented by and target multiple countries. Data as of December 19, 2024.
F. Data are GDP-weighted cumulative impulse responses of output growth to a 10 percent increase in global economic policy uncertainty. Three types of Bayesian vector autoregressions are estimated over 1998Q1-2023Q4, with four lags. Sample includes 32 AEs and 39 EMDEs excluding China.

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TABLE 1.1 Real GDP[1]
(Percent change from previous year unless indicated otherwise)

						Percentage-point differences from June 2024 projections		
	2022	2023	2024e	2025f	2026f	2024e	2025f	2026f
World	**3.2**	**2.7**	**2.7**	**2.7**	**2.7**	**0.1**	**0.0**	**0.0**
Advanced economies	**2.8**	**1.7**	**1.7**	**1.7**	**1.8**	**0.2**	**0.0**	**0.0**
United States	2.5	2.9	2.8	2.3	2.0	0.3	0.5	0.2
Euro area	3.5	0.4	0.7	1.0	1.2	0.0	-0.4	-0.1
Japan	0.9	1.5	0.0	1.2	0.9	-0.7	0.2	0.0
Emerging market and developing economies	**3.7**	**4.2**	**4.1**	**4.1**	**4.0**	**0.1**	**0.1**	**0.1**
East Asia and Pacific	3.4	5.1	4.9	4.6	4.1	0.1	0.4	0.0
China	3.0	5.2	4.9	4.5	4.0	0.1	0.4	0.0
Indonesia	5.3	5.0	5.0	5.1	5.1	0.0	0.0	0.0
Thailand	2.5	1.9	2.6	2.9	2.7	0.2	0.1	-0.2
Europe and Central Asia	1.6	3.4	3.2	2.5	2.7	0.2	-0.4	-0.1
Russian Federation	-1.2	3.6	3.4	1.6	1.1	0.5	0.2	0.0
Türkiye	5.5	5.1	3.2	2.6	3.8	0.2	-1.0	-0.5
Poland	5.3	0.1	3.0	3.4	3.2	0.0	0.0	0.0
Latin America and the Caribbean	4.0	2.3	2.2	2.5	2.6	0.4	-0.2	0.0
Brazil	3.0	2.9	3.2	2.2	2.3	1.2	0.0	0.3
Mexico	3.7	3.3	1.7	1.5	1.6	-0.6	-0.6	-0.4
Argentina	5.3	-1.6	-2.8	5.0	4.7	0.7	0.0	0.2
Middle East and North Africa	5.4	1.7	1.8	3.4	4.1	-1.0	-0.8	0.5
Saudi Arabia	7.5	-0.8	1.1	3.4	5.4	-1.4	-2.5	2.2
Iran, Islamic Rep.[2]	3.8	5.0	3.0	2.7	2.2	-0.2	0.0	-0.2
Egypt, Arab Rep. [2]	6.6	3.8	2.4	3.5	4.2	-0.4	-0.7	-0.4
South Asia	5.8	6.6	6.0	6.2	6.2	-0.2	0.0	0.0
India [2]	7.0	8.2	6.5	6.7	6.7	-0.1	0.0	-0.1
Bangladesh [2]	7.1	5.8	5.0	4.1	5.4	-0.6	-1.6	-0.5
Pakistan [2]	6.2	-0.2	2.5	2.8	3.2	0.7	0.5	0.5
Sub-Saharan Africa	3.8	2.9	3.2	4.1	4.3	-0.3	0.2	0.3
Nigeria	3.3	2.9	3.3	3.5	3.7	0.0	0.0	0.0
South Africa	1.9	0.7	0.8	1.8	1.9	-0.4	0.5	0.4
Angola	3.0	1.0	3.2	2.9	2.9	0.3	0.3	0.5
Memorandum items:								
Real GDP[1]								
High-income countries	2.9	1.7	1.7	1.8	1.9	0.0	-0.1	0.0
Middle-income countries	3.7	4.6	4.3	4.3	4.1	0.1	0.2	0.0
Low-income countries	5.1	3.0	3.6	5.7	5.9	-1.4	0.4	0.4
EMDEs excluding China	4.2	3.5	3.5	3.8	3.9	0.0	-0.2	0.0
Commodity-exporting EMDEs	3.3	2.6	2.8	3.2	3.4	0.0	-0.2	0.2
Commodity-importing EMDEs	3.9	5.0	4.7	4.5	4.2	0.0	0.2	-0.1
Commodity-importing EMDEs excluding China	5.3	4.6	4.3	4.4	4.6	-0.1	-0.2	-0.1
EM7	3.3	5.1	4.6	4.2	3.9	0.1	0.2	-0.1
World (PPP weights) [3]	3.4	3.2	3.2	3.2	3.2	0.1	0.0	0.0
World trade volume[4]	**5.9**	**0.8**	**2.7**	**3.1**	**3.2**	**0.2**	**-0.3**	**-0.2**
						Level differences from June 2024 projections		
Commodity prices [5]								
WBG commodity price index	142.5	108.0	104.5	98.5	96.7	-1.5	-3.6	-4.8
Energy index	152.6	106.9	100.8	93.6	91.7	-3.2	-6.4	-7.3
Oil (US$ per barrel)	99.8	82.6	80.0	72.0	71.0	-4.0	-7.0	-7.1
Non-energy index	122.1	110.2	112.1	108.5	107.0	2.0	2.1	0.4

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.
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 2022 refers to FY2022/23. For Bangladesh, the Arab Republic of Egypt, and Pakistan, the column for 2022 refers to FY2021/22. Pakistan's growth rates are based on GDP at factor cost.
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, see https://worldbank.org/commodities.

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