THE WORLD BANK
Development Economics | Prospects Group

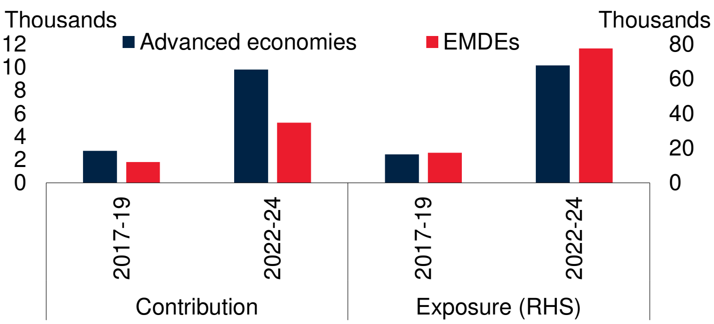
Global Monthly

January 2025

Overview

- According to the January 2025 *Global Economic Prospects* report, the global economy is stabilizing, even as growth prospects appear insufficient to offset the impact of several years of successive negative shocks.
- Global financial conditions have eased slightly, in aggregate, since mid-2024, although some easing in EMDE conditions was partly reversed toward the end of the year.
- Global trade is expected to pick up over 2025-26, but trade growth in nearly two-thirds of economies is likely to remain below pre-pandemic averages.

New trade-distorting policy measures



Sources: Global Trade Alert (database); World Bank.
Note: EMDEs = emerging market and developing economies; RHS = right-hand scale. 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.

Table of Contents

Chart of the Month

- Trade-distorting measures have been on the rise in recent years. Advanced economies accounted for nearly 70 percent of new trade-restrictive policy measures implemented over the 2022-24 period, which disproportionately affected EMDEs.
- Global growth could be weaker than projected on account of potential adverse changes in trade policies and related policy uncertainty.

Special Focus: Graduation Prospects in Low-income Countries

- Many low-income countries (LICs) attained middle-income status in the first decade of the twenty-first century due to rapid growth underpinned by domestic reforms and a benign global environment.
- The rate of graduation from low-income to middle-income status has slowed markedly since the 2000s.
- In recent years, per capita growth in LICs has been anemic amid stalling structural transformation and falling productivity growth.
- At 2010-19 average growth rates, only three LICs out of twenty-six would be expected to graduate to middle-income status by 2035, and another three by 2050.

The *Global Monthly* is a publication of the Prospects Group. This edition was prepared by Nikita Perevalov and Peter Selcuk, under the supervision of Carlos Arteta. The special focus was prepared by Joseph Mawejje. This *Global Monthly* is based on the January 2025 Global Economic Prospects report. For more information, visit: www.worldbank.org/prospects. Back issues of this report are available since 2008.

Monthly Highlights

Global activity: steady but falling short. According to the January 2025 *Global Economic Prospects* report, global growth is estimated to have stabilized at 2.7 in 2024. Inflation has been moderating without a substantial slowdown in key economies, and monetary policy easing has become widespread. Global growth is projected to hold steady at 2.7 percent over 2025-26 with decelerating activity in the United States and China expected to be offset by firming growth elsewhere, including in many emerging market and developing economies (EMDEs) (figure 1.A). Nevertheless, the forecast implies that global growth will remain notably below the 2010-19 average pace, with output continuing to fall short of its pre-pandemic trajectory. 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, in particular, trade and investment.

Global inflation: closing in on targets. Global headline inflation has continued to gradually ease, in part reflecting falling commodity prices and the lagged effects of monetary tightening. 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 and set to reach in 2025 its lowest level since the peak in 2022 (figure 1.B). Nevertheless, some EMDE regions and advanced economies experienced a pickup in the pace of core price gains in the middle of last year due to accelerated services inflation, driven by wage growth and demand for services, prompting some central banks to reassess the pace of monetary easing.

Global trade: rebounding amid headwinds. Global trade growth rebounded to an estimated 2.7 percent in 2024, following a tepid expansion in 2023. Despite weak manufacturing activity in some key advanced economies, the recovery was driven by goods trade, while services trade growth moderated. In 2025-26, trade growth is projected to pick up further to an average of 3.1 percent but will remain below its 2010-19 average pace in nearly two-thirds of economies (figure 1.C). The forecast envisions a slight increase in trade growth in the euro area in line with a tentative recovery in output—which accounts for one-fourth of global trade—as well as in Japan and EMDEs excluding China. Trade policy uncertainty and trade-restrictive measures remain elevated, with the number of new measures implemented in 2024 five times higher than the 2010-19 average. A major downside risk to the trade outlook is the increased likelihood of a further surge in trade restrictions and related uncertainty.

FIGURE 1.A Contributions to global growth

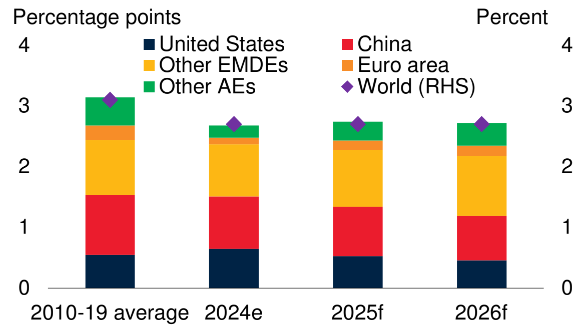


FIGURE 1.B Share of economies with headline inflation above target

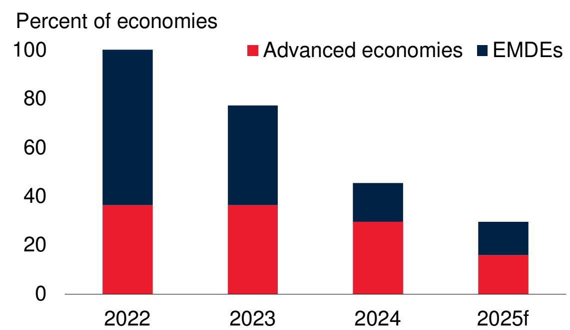
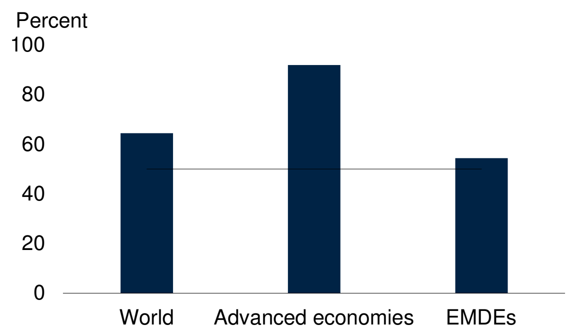


FIGURE 1.C Share of economies with average trade growth in 2025-26 lower than in 2010-19



Sources: Consensus Economics; Haver Analytics; World Bank.

Note: AEs = advanced economies; e = estimate; EMDEs = emerging market and developing economies; f = forecast; 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. Data for 2024 use average monthly year on year inflation. Data for 2025 use December 2024 Consensus Economics surveys. Sample includes 16 advanced economies and 28 EMDEs.

C. Horizontal line shows the 50 percent threshold. Sample includes 37 AEs and 101 EMDEs.

Commodity markets: expanding supply. Aggregate commodity prices softened by about 3 percent in 2024, primarily reflecting improving supply conditions for energy and food commodities. Commodity prices are projected to ease further over the forecast horizon, driven mainly by falling energy prices (figure 2.A). The price of Brent crude oil declined about 3 percent in 2024, to an average of $80/bbl, as ample global oil supply amid modest consumption growth offset the impact of geopolitical tensions. Brent crude oil prices are expected to decline further, to an average of $72/bbl in 2025 and $71/bbl in 2026, as production expands while oil demand growth remains modest. In contrast, base metal prices are envisaged to be relatively stable over 2025-26 in line with steady global growth. Prices for staple food crops, having fallen notably in 2024, are expected to post a small further decline.

Global financial conditions: EMDE easing pared back. Aggregate global financial conditions have eased slightly since mid-2024, mainly owing to the onset of monetary easing in the United States and generally robust risk appetite. U.S. monetary policy is expected to become less restrictive in 2025, with real policy rates expected to align with median neutral-rate estimates by the end of the year (figure 2.B). Nevertheless, advanced-economy policy rates are expected to remain well above the unusually low levels of the 2010s. Despite elevated global interest rates, improving investor sentiment over much of last year translated into capital inflows and improving financial conditions in EMDEs. However, toward the end of last year, a general appreciation of the U.S. dollar, rising U.S. bond yields, and various idiosyncratic domestic risks pared back somewhat the easing in EMDE financial conditions, with many EMDEs experiencing capital outflows (figure 2.C). Among middle-income countries with weak credit ratings, sovereign spreads normalized substantially last year, although borrowing costs remain far higher than in the 2010s.

United States: resilient growth. Although growth in the United States in the first half of 2024 was slightly stronger than anticipated, activity showed tentative signs of deceleration toward the end of the year, reflecting easing labor market conditions. The pace of job creation has been gradually diminishing, with the unemployment rate increasing by 0.8 percentage point through November of 2024. Compared to rises in unemployment after previous troughs, job losses played a more limited role in the increase in the unemployment rate so far (figure 3.A). Going forward, following an estimated expansion of 2.8 percent in 2024, growth is expected to ease to 2.3 percent in 2025 and 2 percent in 2026, alongside continued

FIGURE 2.A Commodity price projections

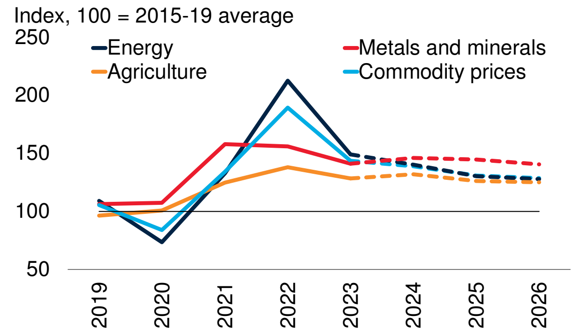


FIGURE 2.B Current and expected neutral interest rates

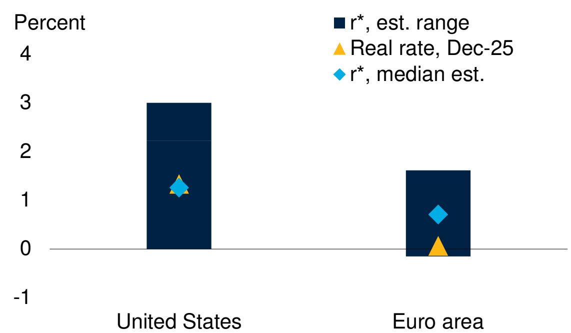
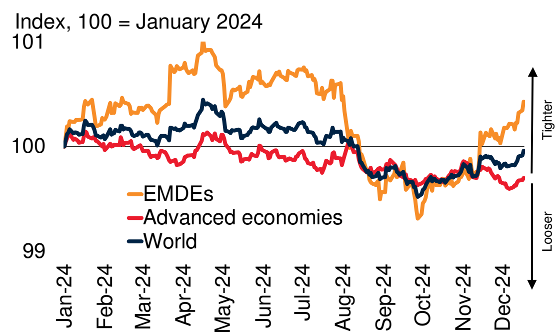


FIGURE 2.C Financial conditions index



Sources: Bloomberg; European Central Bank; Federal Reserve; Federal Reserve Bank of New York; Goldman Sachs; Holston et al. (2023); Hördahl and Tristani (2018); Laubach and Williams (2003); Lubik and Matthes (2023).

Note: EMDEs = emerging market and developing economies.

A. Commodity prices refer to the World Bank commodity price index annual average, excluding precious metals. Dashed lines indicate forecasts.

B. Blue bars represent the range of recent estimates of r* from various models. Light blue diamonds are a simple average of estimates. Estimates from a range of semi-structural, DSGE, and VAR models. The yellow triangles refer to the expected real rate in Dec 2025 (policy rate minus inflation expectations in 12 months implied by inflation swaps).

C. Higher index values represent tighter financial conditions. Last observation is December 17, 2024.

progress on disinflation, allowing the Federal Reserve to proceed with further easing of monetary policy. Importantly, this outlook does not incorporate potential major policy shifts, particularly with respect to trade and fiscal policies, as the scope of such shifts is unclear.

Other advanced economies: growth bottoming out. In the euro area, growth remained feeble last year owing to anemic business investment and industrial activity, with the latter weighed down in part by high energy prices. Over 2025-26, euro area growth is projected to pick up to about 1.1 percent as the cyclical recovery firms. In Japan, output is estimated to have stagnated in 2024, although growth is forecast to rise over 2025-26 to an average of 1.1 percent, as capital investment firms and consumer spending improves in line with rising wages.

China: policy support amid softening activity. China's growth is expected to decelerate from 5 percent in 2024 to 4.5 percent this year reflecting a continuing secular slowdown and subdued consumption (figure 3.B). Amid low inflation, weak domestic demand, and monetary policy easing in major advanced economies, the People's Bank of China implemented several measures in late 2024 to support activity, building on earlier policy changes. These measures, along with strong export momentum in late 2024 have contributed to a slightly firmer outlook for 2025 than envisioned in June. In 2026, growth is projected to edge down to 4 percent as rising debt weighs on investment, and slowing productivity growth constrains incomes and consumption in the context of ongoing demographic headwinds. The evolution of trade relations with the United States is a notable risk to the outlook.

Other EMDEs: firming, yet insufficient, growth. EMDEs excluding China are estimated to have grown 3.5 percent in 2024, supported by an ongoing expansion in the services sector. Growth is projected to accelerate to an average of 3.8 percent over 2025-26, mainly driven by firming domestic demand, on the back of domestic and global monetary easing, recovering real incomes, and improving confidence. In some EMDEs, a firming of global manufacturing and trade should provide further support to activity. Nevertheless, the recovery among EMDEs is expected to remain insufficient to make up for ground lost since 2020, particularly in LICs and fragile and conflict-affected situations (FCS). Excluding China and India, progress in closing the per capita income gap with advanced economies stalled in the mid-2010s (figure 3.C).

FIGURE 3.A U.S. unemployment increase, 18-month change from trough

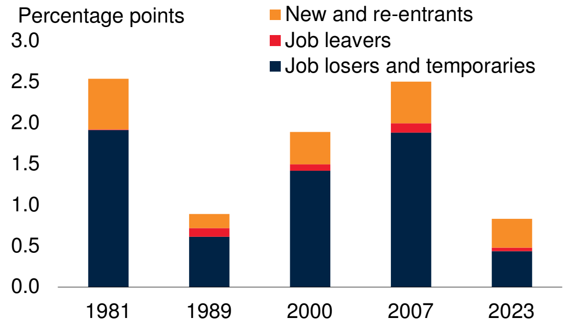


FIGURE 3.B Real retail sales in China

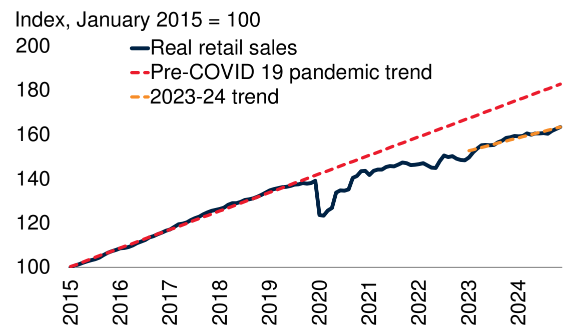
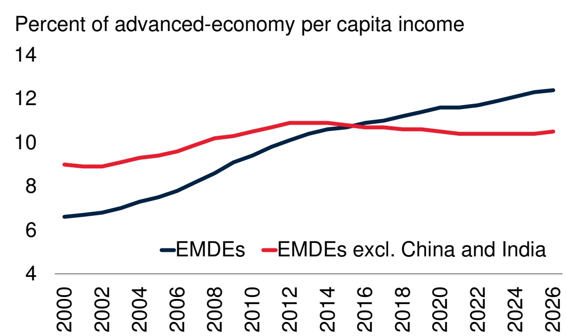


FIGURE 3.C EMDE per capita GDP relative to advanced economies



Sources: Federal Reserve Bank of St. Louis; Haver Analytics; World Bank.

Note: AEs = advanced economies; EMDEs = emerging market and developing economies.

A. Bars show the contribution to the increase in the number of unemployed, scaled by the labor force, from the month and year (year indicated on the horizontal axis) when the trough in the unemployment rate occurred, using comparable 18-month periods. The current period, which is labeled 2023, shows data over April 2023 to November 2024. Classification follows the Bureau of Labor Statistics' definition for job leavers, job losers and persons who completed temporary jobs, and new and re-entrants.

B. Nominal retail sales deflated by headline consumer price inflation. Red line trend based on observations between January 2015 and December 2019, extended to November 2024. Orange line denotes the trend between January 2023 and November 2024. Last observation is November 2024.

C. Aggregate GDP per capita is calculated as aggregated GDP divided by the aggregated population. GDP aggregates are calculated using real U.S. dollar GDP weights at average 2010-19 prices and market exchange rates.

THE WORLD BANK
Development Economics | Prospects Group
January 2025

Special Focus: Graduation Prospects in Low-income Countries

Remarkable progress in the first decade of this century. In 2000, 63 developing economies were classified as low-income countries (LICs). By 2010 that number had declined to 35, after a decade that saw an average of nearly 3 LICs graduate to middle -income status every year due to robust growth, underpinned by domestic reforms and a benign global environment. Since then, progress on moving up the income ladder among LICs has slowed markedly. Drawing on the latest *Global Economic Prospects* report, this special focus examines the prospects for growth and graduation in the current group of 26 LICs, comparing their performance with countries that graduated to middle-income since 2000—referred to as LICs turned into middle-income countries (LTMs).

Declining per capita growth in both LICs and LTMs. Dividing the 25 years since 2000 into three periods (2000-09, 2010-19, and 2020-24), an overall trend of decelerating per capita growth can be observed in both LICs and LTMs since 2000 (figure 4.A). Most LTMs made solid progress over the 2000s, with the median country registering an annual average per capita growth of 3.8 percent. In contrast, per capita growth was muted in LICs, at an annual average of just 1.5 percent in 2000-09, and the group largely missed out on the potential dividends of rapid global growth. Even in a period characterized by favorable global conditions and rapidly rising commodity prices, there was virtually no increase in incomes in the bottom quartile of LICs.

Slower extreme poverty reduction. More than 40 percent of the population in LICs is estimated to have lived in extreme poverty in 2024 (that is, living on less than $2.15 per day in 2017 PPP terms), about four times the proportion of the LTM population in extreme poverty (figure 4.B). About two-thirds of people in LICs live on less than $3.65 per day, compared with closer to one-third in LTMs. At the start of the century, the two groups were more closely comparable, but while the extreme poverty rate in LTMs has fallen by more than 31 percentage points since 2000, it has declined by just 17 percentage points in LICs. The global shocks of the early 2020s further set back LIC prospects of graduating to middle-income status, with extreme poverty rates in LICs no longer declining.

A reversal of per capita GDP catch-up. All else being equal, capital accumulation and growth should be faster in capital-scarce economies, where the marginal product of capital is

FIGURE 4.A Per capita GDP growth

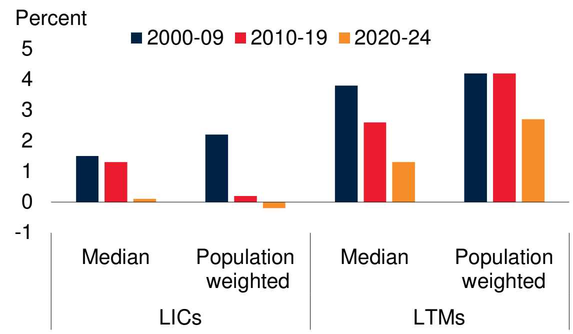


FIGURE 4.B Poverty rates, $2.15 per day

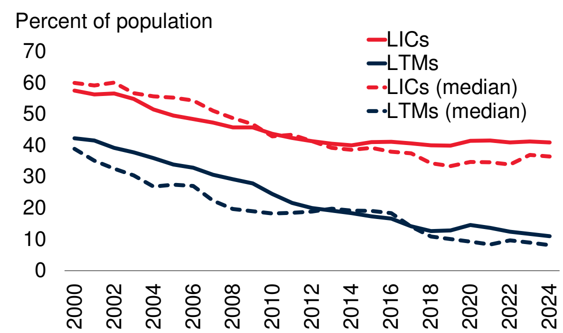
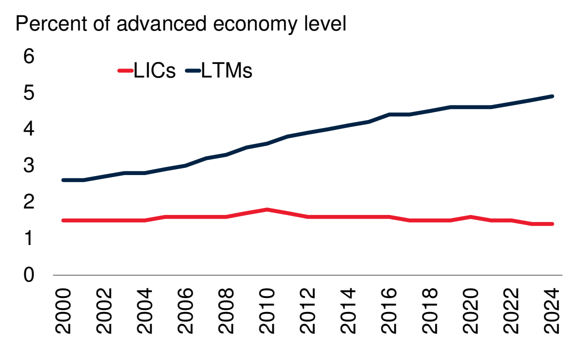


FIGURE 4.C GDP per capita relative to advanced economies



Sources: Mahler, Yonzan and Lakner (2022); WDI (database); World Bank Poverty and Inequality Platform (database); World Bank.

Note: LICs = low-income countries; LTMs = LICs turned into middle-income countries.

A. GDP aggregates are calculated using real U.S. dollar GDP weights at average 2010-19 prices and market exchange rates. GDP per capita population weighted aggregates are calculated as aggregated GDP divided by aggregate population. Median growth rates represent the median annual average growth rate for each country group in each period.

B. Solid lines represent population-weighted poverty rates in country groups. Dotted lines indicate the median poverty rate in each group each year.

C. Population-weighted GDP per capita as a percent of population-weighted GDP per capita in advanced economies, as defined in chapter 1 of the *Global Economic Prospects, January 2025.*

greater. However, LICs have not made much progress toward the income levels of richer countries, with virtually no income convergence to the advanced economy frontier since 2010 (figure 4.C). LICs made some progress between 2000 and 2010, with per capita incomes increasing from 1.5 to 1.8 percent of advanced economy levels. Since then, however, LICs have regressed to 1.4 percent of advanced economy levels in 2023-24. In contrast, per capita GDP in LTMs has made solid, albeit slowing, gains on advanced economies, with per capita GDP as a proportion of the advanced economy level near-doubling in the first quarter of the twenty-first century, from 2.6 percent to 4.9 percent.

Stalling structural transformation. LICs have substantially larger shares of employment in agriculture than do LTMs (figure 5.A). Since 2000, the agricultural share of employment has also declined more quickly in LTMs, falling by about 15 percentage points, compared to 12 percentage points in LICs. Expanding services sectors have absorbed the bulk of freed-up labor, becoming a large source of employment and output in both country groups—the average services employment share increased by 10 percentage points in both LICs and LTMs in 2000-21. In the same period, the average industrial employment share gained only 2 percentage points in LICs, signifying scant progress on industrialization. Industrial employment increased more than twice as much in the average LTM, rising 5 percentage points to 18 percent.

Falling productivity growth. LIC productivity, measured as output per worker, declined more than 13 percent between 2010 and 2022, on a population-weighted basis. Headline labor productivity growth can be disaggregated into growth within sectors, and reallocation between sectors. This decomposition reveals that weakening services productivity accounted for most of the slowdown in LICs in the 2010s (figures 5.B). Sectoral reallocation out of agriculture continued to boost headline productivity in the 2010s, but this effect was outweighed by productivity declines within sectors.

Fading graduation prospects. The recent trend of especially weak growth has seen graduation prospects slip further away in many LICs. At 2010-19 average growth rates, of the twenty-six existing LICs, three (Ethiopia, Rwanda, Uganda) would be expected to graduate by 2035 (figure 5.C). By 2050, only another three LICs would be expected to graduate. Were LICs instead able to lift future growth rates to match their 2000-23 average, nine LICs would be expected to graduate over the next decade—roughly in line with the graduation rate since 2010—with a further two becoming middle-income countries by 2050.

FIGURE 5.A Sectoral employment in LICs and LTMs

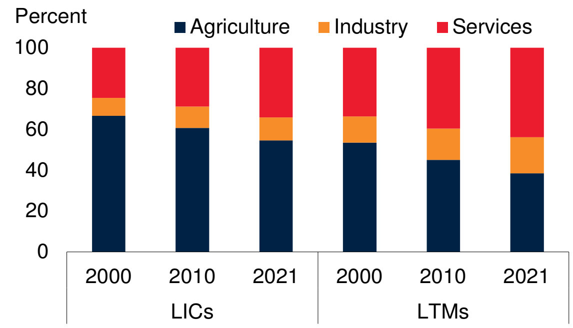


FIGURE 5.B Decomposition of productivity growth in LICs

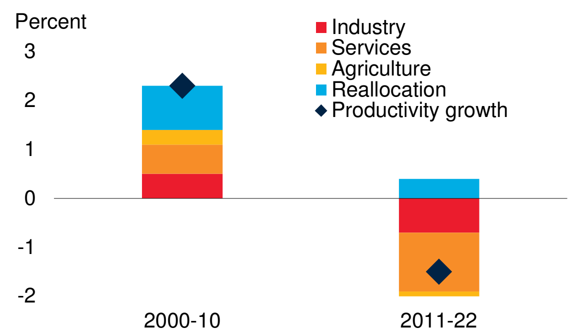
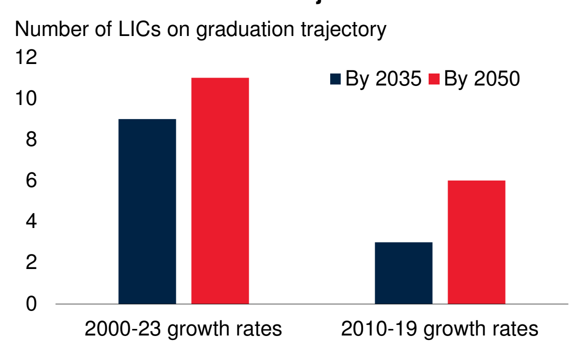


FIGURE 5.C Graduation trajectories



Sources: International Labor Organization; WDI (database); World Bank.
Note: LICs = low-income countries; LTMs = LICs turned into middle-income countries.
A. The shares of agriculture, industry, and services in total output. Bars show the simple unweighted average. Blue markers show the median. Orange whiskers show the interquartile range.
B. Based on ILO estimates. Within-sector contributions to growth are calculated by assuming constant sectoral employment shares across 2000–10 and 2011–22. The reallocation contribution is the residual, due to reallocation of labor across sectors between the first and final year of each period.
C. Graduation trajectories assume that the threshold for LIC status increases at the same pace as it has on average since 2000.

Recent Prospects Group Publications

[Global Economic Prospects—January 2025]
[Commodity Markets Outlook—October 2024]
[Resolving Puzzles of Monetary Policy Transmission in Emerging Markets]
[Identifying Growth Accelerations]
[Digitalization and Inclusive Growth: A Review of the Evidence]

Recent World Bank Working Papers

[Fiscal Policy Procyclicality and Volatility in Commodity-Exporting Emerging and Developing Economies : Determinants and Implications for Growth]
[The Changing Landscape of Africa's Growth]
[Unveiling Multidimensional Poverty: Insights from the EU]
[Financial Inclusion and Economic Development : A Review of the Data and Evidence]

Recent World Bank Reports

[International Debt Report 2024]
[Leveling the Playing Field: Addressing Structural Inequalities to Accelerate Poverty Reduction in Africa]
[Services Unbound: Digital Technologies and Policy Reform in East Asia and Pacific]
[Data for Better Governance: Building Government Analytics Ecosystems in Latin America and the Caribbean]
[The State of Economic Inclusion Report 2024: Pathways to Scale]
[People in a Changing Climate: From Vulnerability to Action - Insights from World Bank Group Country Climate and Development Reports covering 72 economies]

TABLE: Major Data Releases

(Percent change, y/y)

Recent releases: December 31, 2024 - January 30, 2025					
Country	**Date**	**Indicator**	**Period**	**Actual**	**Previous**
Indonesia	1/1/25	CPI	DEC	1.6%	1.5%
Türkiye	1/3/25	CPI	DEC	44.4%	47.1%
China	1/8/25	CPI	DEC	0.1%	0.2%
Brazil	1/10/25	CPI	DEC	4.8%	4.9%
India	1/13/25	CPI	DEC	5.2%	5.5%
Argentina	1/14/25	CPI	DEC	117.8%	166.0%
Germany	1/15/25	GDP	Q4	-0.1%	-0.3%
Nigeria	1/15/25	CPI	DEC	34.8%	34.6%
Russian Federation	1/15/25	CPI	DEC	9.5%	8.9%
Saudi Arabia	1/15/25	CPI	DEC	1.9%	2.0%
United Kingdom	1/15/25	CPI	DEC	3.5%	3.5%
United States	1/15/25	CPI	DEC	2.9%	2.7%
China	1/16/25	IP	DEC	6.2%	5.4%
Euro area	1/17/25	CPI	DEC	2.4%	2.2%
United States	1/17/25	IP	DEC	0.5%	-0.6%
China	1/21/25	GDP	Q4	5.4%	4.6%
Korea, Rep.	1/22/25	GDP	Q4	1.2%	1.5%
South Africa	1/22/25	CPI	DEC	2.9%	2.8%
Euro area	1/30/25	GDP	Q4	0.9%	0.9%
Mexico	1/30/25	GDP	Q4	0.6%	1.6%
United States	1/30/25	GDP	Q4	2.5%	2.7%

(Percent change y/y)

Upcoming releases: January 31, 2025 - February 28, 2025				
Country	**Date**	**Indicator**	**Period**	**Previous**
Thailand	1/30/25	IP	DEC	-3.6%
Korea, Rep.	2/2/25	IP	DEC	0.1%
Korea, Rep.	2/4/25	CPI	JAN	1.9%
Brazil	2/5/25	IP	DEC	1.7%
France	2/5/25	IP	DEC	-1.1%
Russian Federation	2/5/25	IP	DEC	3.6%
Argentina	2/7/25	IP	DEC	-1.7%
Germany	2/7/25	IP	DEC	-2.8%
Mexico	2/7/25	CPI	JAN	4.2%
Mexico	2/11/25	IP	DEC	-1.4%
India	2/12/25	CPI	JAN	5.2%
India	2/12/25	IP	DEC	5.2%
United States	2/12/25	CPI	JAN	2.9%
Euro area	2/13/25	IP	DEC	-1.9%
Thailand	2/16/25	GDP	Q4	3.0%
Canada	2/18/25	CPI	JAN	1.8%
South Africa	2/19/25	CPI	JAN	2.9%
Poland	2/27/25	GDP	Q4	1.6%
Canada	2/28/25	GDP	Q4	1.5%
India	2/28/25	GDP	Q4	5.4%
Türkiye	2/28/25	GDP	Q4	2.1%