Global Economic Prospects – 2024

Subdued Growth, Multiple Challenges

M. Ayhan Kose
Three Questions

1. What are the near-term prospects for the global economy? Global growth set to decelerate in 2024 for the third consecutive year, partly owing to tight monetary policy and subdued trade and investment. Risks are slightly more balanced but still tilted to the downside amid heightened geopolitical tensions.


3. What are the policy priorities? Strengthen global cooperation to address climate change, food insecurity, debt distress, and trade fragmentation. Improve fiscal and monetary policy frameworks. Mitigate tradeoffs between debt sustainability and critical investment needs. Reduce gender gaps and bolster inclusion.

* EMDEs = Emerging Market and Developing Economies

Global Growth Forecasts
Slowdown in 2024 for Third Consecutive Year

<table>
<thead>
<tr>
<th>GDP growth (Percent)</th>
<th>Change from June 2023</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2010-19</td>
</tr>
<tr>
<td>World</td>
<td>3.1</td>
</tr>
<tr>
<td>Advanced economies</td>
<td>2.0</td>
</tr>
<tr>
<td>Excluding the United States</td>
<td>1.8</td>
</tr>
<tr>
<td>EMDEs</td>
<td>5.1</td>
</tr>
<tr>
<td>Excluding China</td>
<td>3.7</td>
</tr>
<tr>
<td>East Asia and Pacific</td>
<td>7.2</td>
</tr>
<tr>
<td>Europe and Central Asia</td>
<td>3.2</td>
</tr>
<tr>
<td>Latin America and the Caribbean</td>
<td>2.2</td>
</tr>
<tr>
<td>Middle East and North Africa</td>
<td>3.1</td>
</tr>
<tr>
<td>South Asia</td>
<td>6.7</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>3.7</td>
</tr>
</tbody>
</table>

Note: Aggregate growth rates are calculated using GDP weights at average 2010-19 prices and market exchange rates; e and f refer to estimates and forecasts, respectively.
Global Backdrop

Divergent Growth; Weak Trade; High Real Rates

Global trade growth (Percent)

Global growth (Percent)

Lower GDP per capita than in 2019

Growth and Income

Weakest Half-Decade Growth since 1995; Many EMDEs Losing Ground; Stagnation in Income

Cumulative change in GDP per capita (Percentage points; relative to adv. econ.)

Source: United Nations; World Bank.

Note: GDP per capita is calculated as GDP divided by population. GDP aggregates are calculated using real U.S. dollar GDP weights at average 2010-19 prices and market exchange rates. Left Panel: Non-overlapping 5-year average growth. Center Panel: Cumulative percentage point differences compared to growth of GDP per capita in advanced economies. Right Panel: Share of countries in respective groups with real per capita GDP in 2024 lower than in 2019.
Risks to the Global Outlook

Multiple Downside Risks Clouding Outlook

- Conflict and geopolitical tensions
- Persistently high real interest rates
- Trade fragmentation
- Food and energy market disruptions
- Financial stress
- Climate-related disasters
- Trade fragmentation
- Additional inflation shocks
- Weaker-than-expected near-term growth in major economies
- Weaker-than-expected long-term growth

Geopolitical and Financial Pressure Risks

Conflict Escalation Could Disrupt Markets; EMDEs Face Financing Constraints

Geopolitical risk index and conflicts

Government bond issuance by non-investment-grade EMDEs

Sources: Caldara and Iacoviello (2022); Dealogic; Moody’s Analytics; World Bank.
Left Panel: Geopolitical risk index reflects an automated text-search of electronic articles from 10 newspapers, related to adverse geopolitical events. Last observation is December 11, 2023. Right Panel: EMDEs = emerging market and developing economies. Panel shows rolling 12-month totals for bond issuance by EMDE governments, categorized by Moody’s long-term foreign currency sovereign credit ratings. Last observation is November 2023.
Global Inflation and Alternative Risk Scenarios
Declining but Elevated Inflation; Weaker Growth Outcomes If Risks Materialize


Right Panel. Deviation in global growth under alternative scenarios relative to the baseline. Scenarios are produced using the Global Economic Model by Oxford Economics.

Three Questions


*EMDEs = Emerging Market and Developing Economies*
Climate Needs and Investment Growth

Large Needs; Weaker Growth

Investment needs for climate resilience
(Percent of GDP)

<table>
<thead>
<tr>
<th>Income group</th>
<th>0</th>
<th>3</th>
<th>6</th>
<th>9</th>
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<tbody>
<tr>
<td>Low</td>
<td>9</td>
<td>6</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>Lower middle</td>
<td>6</td>
<td>3</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Upper middle</td>
<td>3</td>
<td>0</td>
<td>0</td>
<td>0</td>
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</table>

Investment growth
(Percent)

<table>
<thead>
<tr>
<th>Period</th>
<th>0</th>
<th>4</th>
<th>8</th>
<th>12</th>
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<tr>
<td>1990-99</td>
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<td>3</td>
<td>6</td>
<td>9</td>
</tr>
<tr>
<td>2000-09</td>
<td>7</td>
<td>10</td>
<td>13</td>
<td>16</td>
</tr>
<tr>
<td>2010-25</td>
<td>10</td>
<td>13</td>
<td>16</td>
<td>19</td>
</tr>
</tbody>
</table>

Left Panel. Annual investment needs for climate resilience and a 70 percent emissions reduction by 2050, covering transport, energy, water, urban, industry, and landscape sectors. Right Panel. Weighted averages of investment growth based on real annual investment in up to 68 EMDEs. Data for 2010-25 include estimates for 2023 and forecasts for 2024-25.

Features of Investment Accelerations

Higher Public and Private Investment Growth; Fewer Accelerations in 2010s

Investment growth
(Percent)

<table>
<thead>
<tr>
<th>Period</th>
<th>0</th>
<th>4</th>
<th>8</th>
<th>12</th>
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<tbody>
<tr>
<td>1960</td>
<td>0</td>
<td>3</td>
<td>6</td>
<td>9</td>
</tr>
<tr>
<td>1970</td>
<td>7</td>
<td>10</td>
<td>13</td>
<td>16</td>
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<td>1980</td>
<td>10</td>
<td>13</td>
<td>16</td>
<td>19</td>
</tr>
<tr>
<td>1990</td>
<td>12</td>
<td>13</td>
<td>16</td>
<td>19</td>
</tr>
<tr>
<td>2000</td>
<td>10</td>
<td>13</td>
<td>16</td>
<td>19</td>
</tr>
<tr>
<td>2010</td>
<td>12</td>
<td>13</td>
<td>16</td>
<td>19</td>
</tr>
</tbody>
</table>

Left Panel. Bars show median annual investment growth during the six years before and the full duration of an investment acceleration. Red tickers indicate the median investment growth rate during non-acceleration years in the sample. Center Panel. Bars show median annual total, public, and private investment growth during the full duration of an investment acceleration. Red tickers indicate the median growth rate during non-acceleration years in the sample. Right Panel. Bars show the share of EMDEs that started an investment acceleration during the corresponding periods. The red line shows the average share of countries that started an investment acceleration over the past six decades. Only episodes starting between 1960 and 2017 are included.
Growth During Investment Accelerations
Faster Output and Productivity Growth; Rapid Expansion of Manufacturing and Services

Sources: Feenstra, Inklaar, and Timmer (2015); Haver Analytics; World Bank.
Note: “Before” corresponds to the six years before an investment acceleration. “During” corresponds to the full duration of the acceleration. The red tickers indicate median growth during non-acceleration years in the sample. Left Panel. Bars show median annual GDP growth. Center Panel. Bars show median annual total factor productivity (TFP) growth. Right Panel. Bars show median annual median annual sector output growth. AGR, MAN, and SER refer to agriculture, manufacturing, and services sectors, respectively.

Macroeconomic Developments in EMDEs
Improvements in Fiscal and Financial Conditions; Higher Trade and FDI

Sources: Bank for International Settlements; Feenstra, Inklaar, and Timmer (2015); Haver Analytics; IMF international financial statistics; WDI database; World Bank.
Note: “Before” corresponds to the six years before investment accelerations. “During” corresponds to the full duration of the acceleration. Left panel. Inflation and government debt show median annual inflation in percent, and median annual debt as percent of GDP, respectively. Center panel. Bars show the median annual growth rates of credit growth and the median annual short-term interest rate during the respective periods. Right panel. Export growth is measured in median annual percent growth. Net FDI inflows show median annual ratios in percent of GDP.
Development Outcomes in EMDEs

Faster Per-Capita Income Growth; Sharper Poverty Reduction; Better Access to Infrastructure

Cumulative per capita income growth

National poverty headcount

Access to internet

Sources: SDG data dashboard; WDI (database); World Bank.
Note: “Before” corresponds to the six years before investment accelerations. “During” corresponds to the full duration of the acceleration. Indicator values closest to the beginning and end but within the covered periods were used to calculate changes due to data limitations. Left panel. Cumulative per-capita output growth for six-year periods based on before and during median annual growth rates. Center panel. Bars show the median annual change in the poverty headcount ratio using national poverty line(s). Right panel. Bars show the median annual change in the percent of population with access to the internet as measured by SDG 9.

Reforms and Investment Accelerations

Accelerations More Likely with Bold Reforms; Critical to Mitigate the Growth Slowdown

Increase in probability of accelerations

Reforms and potential growth

Left Panel. Bars show the increase in the probability of an investment acceleration following a one standard deviation improvement in economic policy. Right bar (“Policy package”) shows the combined impact of increasing all three policy variables by one standard deviation. Right Panel. The scenario assumes that an investment acceleration episode takes place in 40 EMDEs (excluding China) over the period 2023-28. This pattern mirrors median investment growth in EMDEs during 1950-2022 accelerations. Other reforms include social benefit and labor market reforms as well as health and education reforms.
Three Questions

3 What are the policy priorities? Strengthen global cooperation to address climate change, food insecurity, debt distress, and trade fragmentation. Improve fiscal and monetary policy frameworks. Mitigate tradeoffs between debt sustainability and critical investment needs. Reduce gender gaps and bolster inclusion.

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Fiscal Policy in EMDEs

More Procyclical and More Volatile in Commodity Exporters

Sources: Arroyo Marioli and Vigfus (2023); Arroyo Marioli, Fatas, and Vrasidhiko (2023) International Monetary Fund; World Bank.

Left Panel. Bars and line show the average correlation between the (HP-filtered) cyclical components of real GDP and real government spending within groups. The sample period is 1980-2020.

Sample of EMDEs includes 59 commodity importers and 87 commodity exporters, including 31 energy exporters. Right Panel. Figure shows the averages, by country group, of the standard deviations of the residuals obtained from regressing two dependent variables—log differences of real government consumption and real primary expenditure—on real GDP growth. Sample includes 148 EMDEs.

Commodity importers

Commodity exporters

Energy exporters

Commodity importers

Commodity exporters

Government consumption

Primary expenditure
Fiscal Procyclicality, Volatility, and Policies

Institutions, Fiscal Rules, Capital Account Openness, and Exchange Rate Flexibility Matter

Sources: Arroyo Marioli, Fatas, and Vasishtha (2023); Arroyo Marioli and Vegh (2023); International Country Risk Guide; International Monetary Fund.

Left and Center Panels. Average correlation between the (HP-filtered) cyclical components of real GDP and real government spending within groups. Left Panel. Countries with high scores (above sample median) in the index of law and order and countries with low (below sample median) scores. Center Panel. Sample includes 58 countries with fiscal rules and 47 countries without fiscal rules. Right Panel. Impact on fiscal volatility of a one-standard-deviation change in each variable, all statistically significant at the 10 percent level or better.

Policy Priorities - 1
Policies at Global and National Levels

Global challenges

• Bolster international cooperation to address climate change, food insecurity, and EMDE debt distress
• Guard against fragmentation of trade and investment networks by preserving the rules-based international order and expanding trade agreements
• Accelerate decarbonization of the global economy by raising climate finance, introducing carbon pricing instruments, reducing and repurposing fossil fuel subsidies, and boosting green R&D

Monetary and financial policy challenges

• Ensure inflation comes durably back to target with inflation expectations well-anchored
• Communicate policy actions clearly and leverage credible frameworks
• Strengthen macroprudential and supervisory policies to improve transparency and reduce financial stability risks

Fiscal policy challenges

• Reduce spending inefficiency and regressive subsidies to fund climate-related initiatives and other development needs
• Improve revenue collection by broadening the tax base, enhancing tax administration, and leveraging digitalization
• Strengthen debt management practices, including by bolstering transparency and legal frameworks
• In commodity exporters, strengthen fiscal frameworks, institutional environment, and commitment to fiscal discipline to build buffers in commodity price booms in preparation for slumps
**Policy Priorities - 2**

*Policies to Boost Growth and Resilience*

**Boosting investment**
- Strengthen investment to accelerate job creation, poverty reduction, and climate transition by implementing packages of reforms that promote macroeconomic stability and private-sector development
- Improve public spending efficiency and reallocate spending toward priority investments
- Foster private investment by improving governance, streamlining regulations, facilitating trade, and upgrading digital infrastructure

**Lifting long-term growth**
- Foster trade by reducing trade costs and promoting FDI, including by encouraging the diversification of trade partners and inputs
- Invest in raising productivity through digitization, R&D, and infrastructure investment
- Strengthen education systems, healthcare, worker skills, and management capabilities

**Strengthening resilience and inclusion**
- Establish adequate and well-targeted social protection systems to support vulnerable groups
- Reduce food insecurity by avoiding market distortions and export restrictions, investing in agricultural R&D, formalizing land rights, employing climate-smart technologies, and diversifying food sources
- Increase female labor force participation, including by improving social safety nets, public safety, access to finance, business development, and the legislative and regulatory environment

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**Three Questions**

1. **What are the near-term prospects for the global economy?** Global growth set to decelerate in 2024 for the third consecutive year, partly owing to tight monetary policy and subdued trade and investment. Risks are slightly more balanced but still tilted to the downside amid heightened geopolitical tensions.

2. **What happens during investment accelerations?** Output and productivity grow faster. Inflation falls, and fiscal and external positions improve. Poverty declines, and progress on broader development goals accelerates. Bold, comprehensive reforms are needed to spark investment accelerations.

3. **What are the policy priorities?** Strengthen global cooperation to address climate change, food insecurity, debt distress, and trade fragmentation. Improve fiscal and monetary policy frameworks. Mitigate tradeoffs between debt sustainability and critical investment needs. Reduce gender gaps and bolster inclusion.

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Questions & Comments

Thanks!

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Global Productivity

A Decade after the Global Recession

Global Waves of Debt

Initiative in Emerging and Developing Economies

June 2023 Global Economic Prospects

Commodity Markets Outlook

Study on the Situation of Sub-Saharan Africa