Global
Economic
Prospects

Global Economic Prospects – 2024

Subdued Growth, Multiple Challenges

M. Ayhan Kose

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Global Economic Prospects – *January 2024*

- Global Outlook (Chapter 1)
- Regional Outlooks (Chapter 2)
- The Magic of Investment Accelerations (Chapter 3)
- Fiscal Policy in Commodity Exporters: An Enduring Challenge (Chapter 4)

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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.*

3 ** EMDEs = Emerging Market and Developing Economies*

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Global Growth Forecasts

Slowdown in 2024 for Third Consecutive Year

GDP growth
(Percent)

							Change from June 2023		
	2010-19	2021	2022	2023e	2024f	2025f	2023	2024	2025
World	3.1	6.2	3.0	2.6	2.4	2.7	0.5	0.0	-0.3
Advanced economies	2.0	5.5	2.5	1.5	1.2	1.6	0.8	0.0	-0.6
Excluding the United States	*1.8*	*5.4*	*2.9*	*0.8*	*0.9*	*1.6*	*0.3*	*-0.6*	*-0.6*
EMDEs	5.1	7.0	3.7	4.0	3.9	4.0	0.0	0.0	0.0
Excluding China	*3.7*	*6.0*	*4.2*	*3.2*	*3.5*	*3.8*	*0.3*	*0.1*	*0.0*
East Asia and Pacific	7.2	7.5	3.4	5.1	4.5	4.4	-0.4	-0.1	-0.1
Europe and Central Asia	3.2	7.1	1.2	2.7	2.4	2.7	1.3	-0.3	0.0
Latin America and the Caribbean	2.2	7.2	3.9	2.2	2.3	2.5	0.7	0.3	-0.1
Middle East and North Africa	3.1	3.8	5.8	1.9	3.5	3.5	-0.3	0.2	0.5
South Asia	6.7	8.3	5.9	5.7	5.6	5.9	-0.2	0.5	-0.5
Sub-Saharan Africa	3.7	4.4	3.7	2.9	3.8	4.1	-0.3	-0.1	0.1

4 Source: World Bank.
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.

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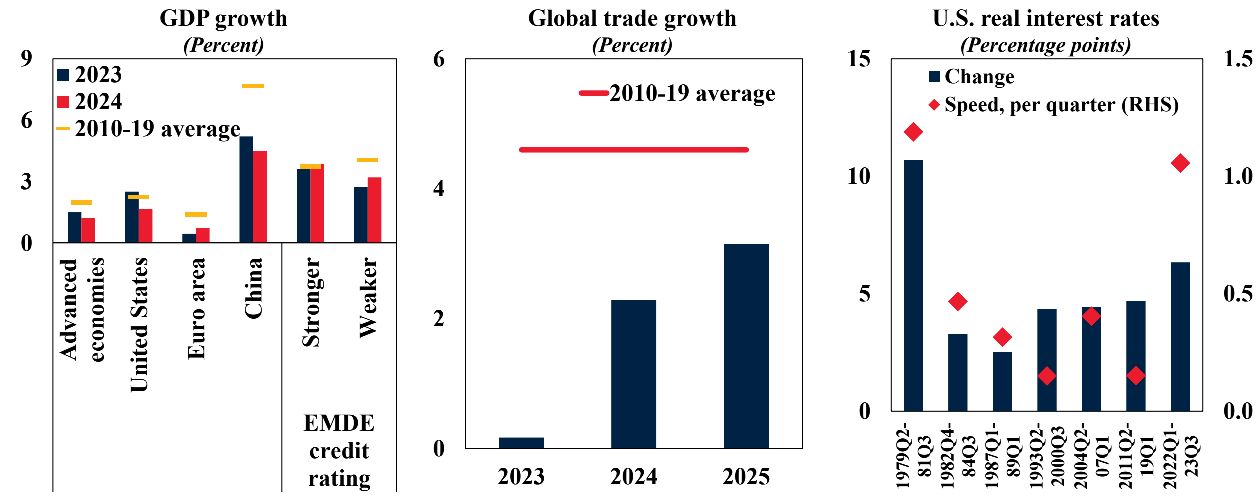
Global Backdrop

Divergent Growth; Weak Trade; High Real Rates



Sources: Federal Reserve Bank of St. Louis; Moody's Analytics; World Bank.
Left Panel. For advanced economies, the United States, euro area, and China, the bars represent growth forecasts, while the tickers indicate the average growth for 2010-19. For EMDE subgroups, both bars and tickers denote medians. Weak credit rating is defined as ratings below B; B and above is defined as strong credit rating, and classification is based on Moody's sovereign foreign currency credit ratings. Center Panel. Trade is measured as the average of export and import volumes of goods and services. Right Panel. Change (per quarter for the slope) in the U.S. real rate over the course of tightening cycles since 1979.

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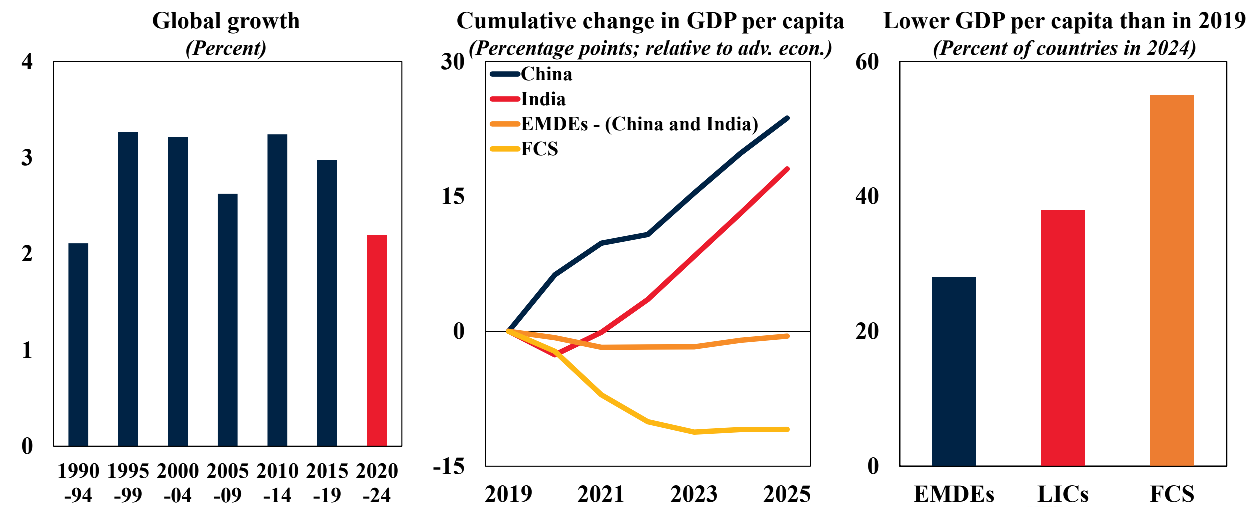
Growth and Income

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



Sources: 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.

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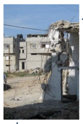
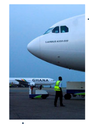
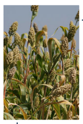
Risks to the Global Outlook

Multiple Downside Risks Clouding Outlook

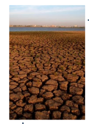

Conflict and geopolitical tensions

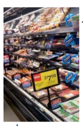

Persistently high real interest rates


Trade fragmentation

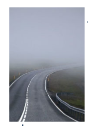

Food and energy market disruptions

Financial stress


Climate-related disasters


Additional inflation shocks


Weaker-than-expected near-term growth in major economies


Weaker-than-expected long-term growth

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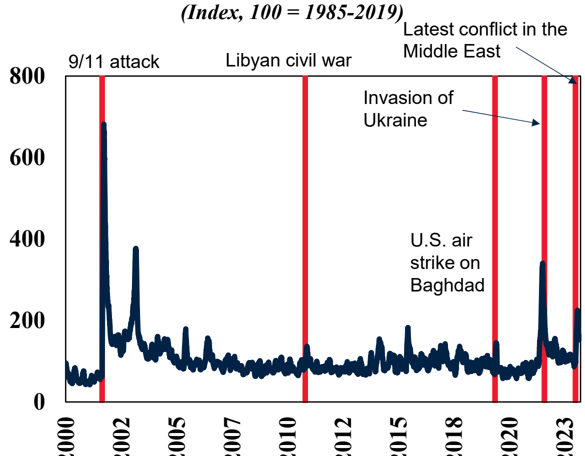
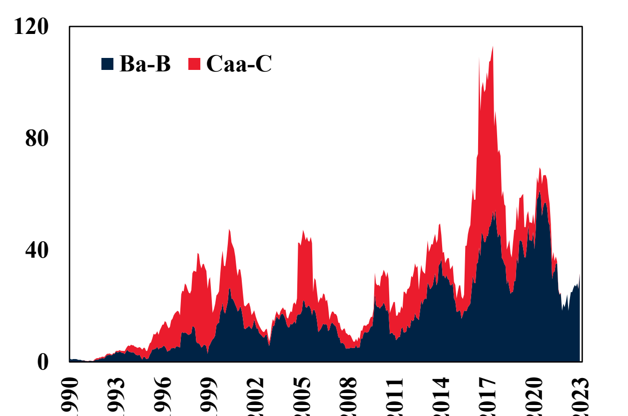
Geopolitical and Financial Pressure Risks

Conflict Escalation Could Disrupt Markets; EMDEs Face Financing Constraints

Geopolitical risk index and conflicts
(Index, 100 = 1985-2019)



Government bond issuance by non-investment-grade EMDEs
(US$, billions)



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.

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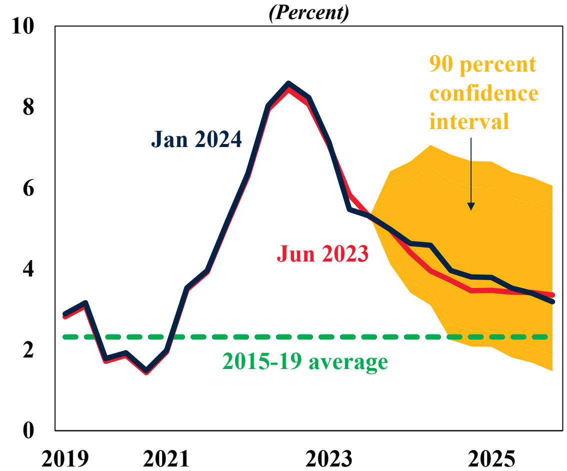
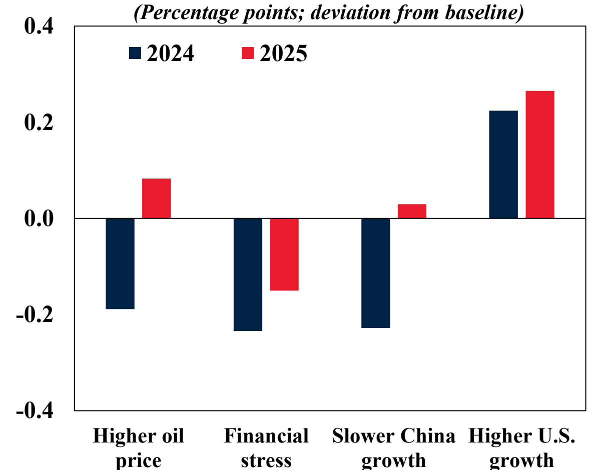
Global Inflation and Alternative Risk Scenarios

Declining but Elevated Inflation; Weaker Growth Outcomes If Risks Materialize

Global CPI inflation
(Percent)



Changes in global growth under risk scenarios
(Percentage points; deviation from baseline)



Sources: Consensus Economics; Federal Reserve Bank of St. Louis; International Monetary Fund; J.P. Morgan; Kose et al. (2022); Oxford Economics; World Bank.
Left Panel. Model-based GDP-weighted projections of year-on-year CPI inflation using the Global Economic Model by Oxford Economics, using global oil price forecasts presented in January 2024 *Global Economic Prospects*. Confidence interval is constructed from the distribution of forecast errors for total CPI from Consensus Economics for an unbalanced panel of 18 economies.
Right Panel. Deviation in global growth under alternative scenarios relative to the baseline. Scenarios are produced using the Global Economic Model by Oxford Economics.

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Three Questions

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.*

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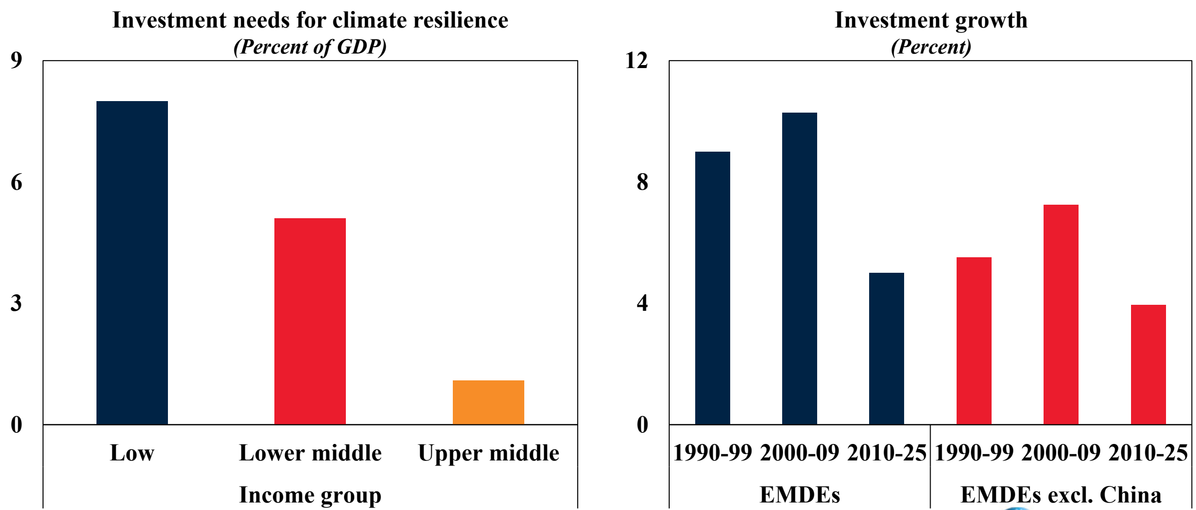
Climate Needs and Investment Growth

Large Needs; Weaker Growth



Sources: Feenstra, Inklaar, and Timmer (2015); Haver Analytics; Kose et al. (2022); World Bank (2022); World Bank.
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.

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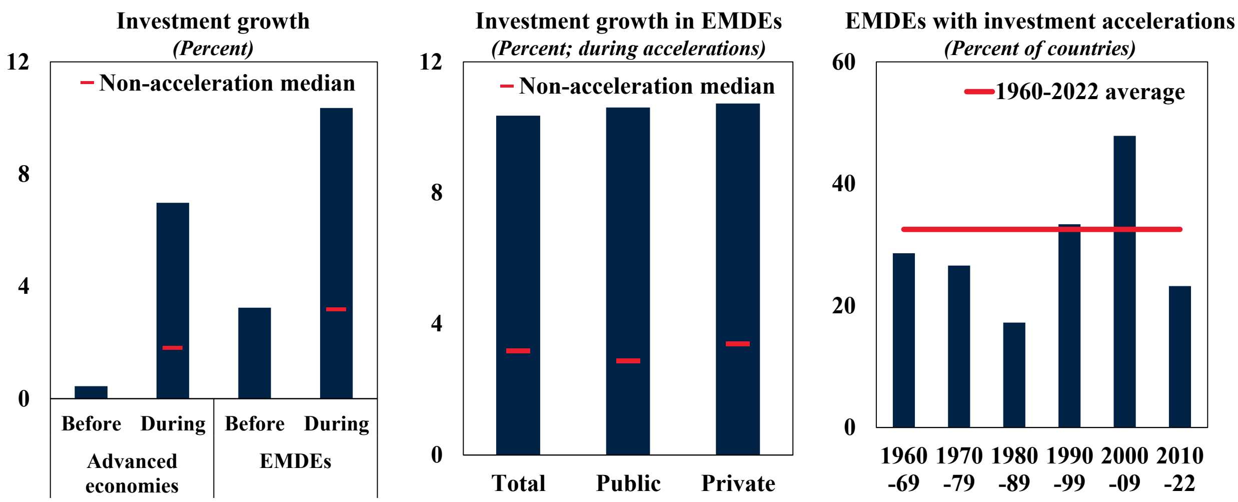
Features of Investment Accelerations

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



Sources: Feenstra, Inklaar, and Timmer (2015); Haver Analytics; World Bank.
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 how 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.

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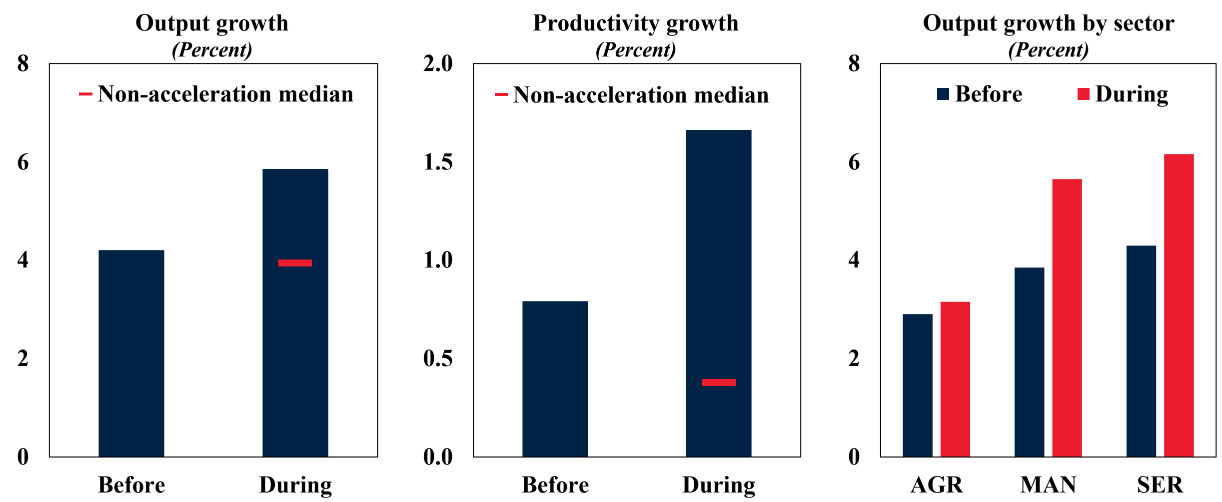
Growth During Investment Accelerations

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 an investment 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.

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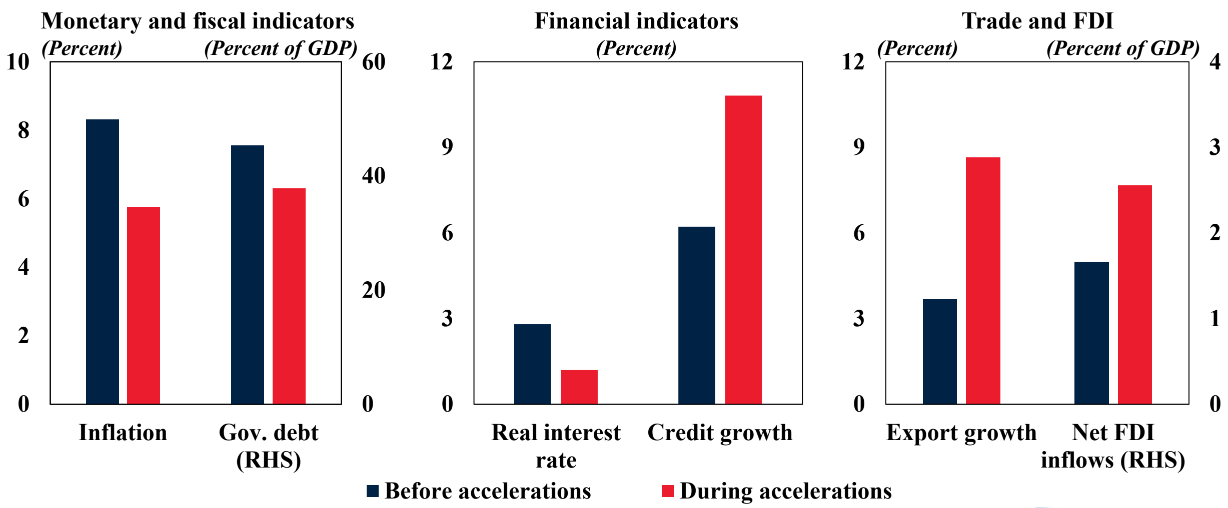
Macroeconomic Developments in EMDEs

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.

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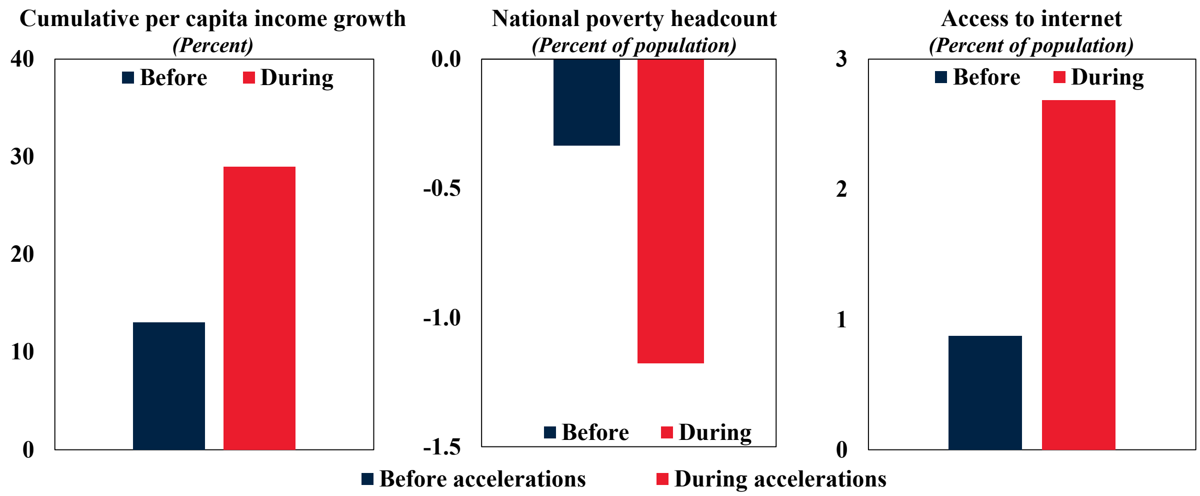
Development Outcomes in EMDEs

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



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.

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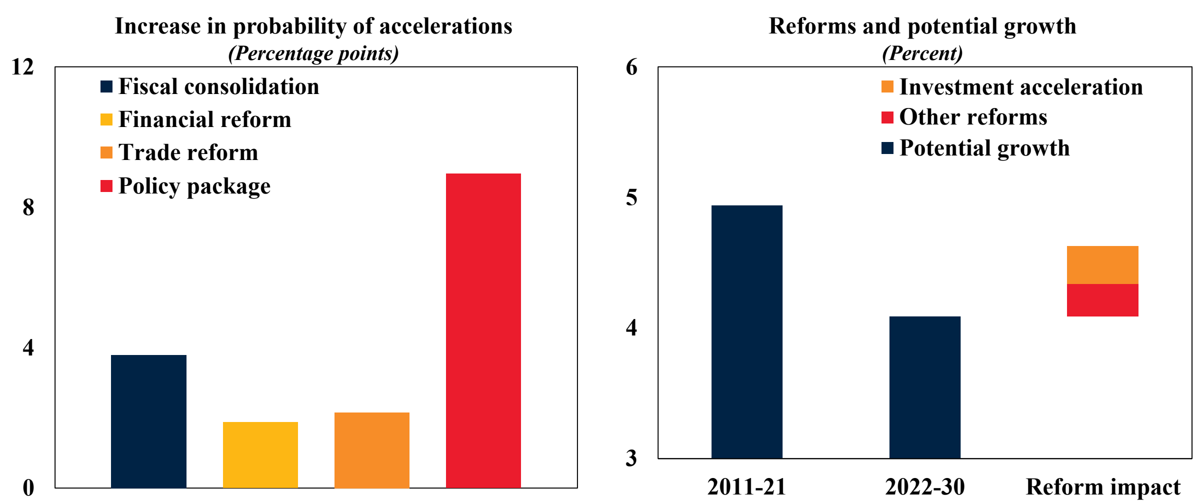
Reforms and Investment Accelerations

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



Sources: Feenstra, Inklaar, and Timmer (2015); Haver Analytics; International Country Risk Guide; World Bank.
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.

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Three Questions

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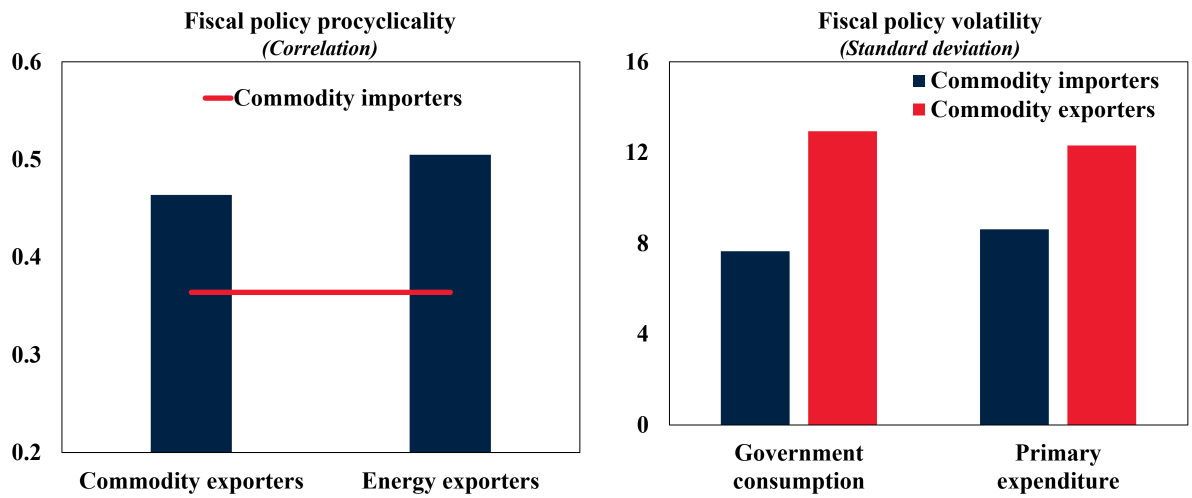
Fiscal Policy in EMDEs

More Procyclical and More Volatile in Commodity Exporters



Sources: Arroyo Marioli and Vegh (2023); Arroyo Marioli, Fatas, and Vasishtha (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 includes148 EMDEs.

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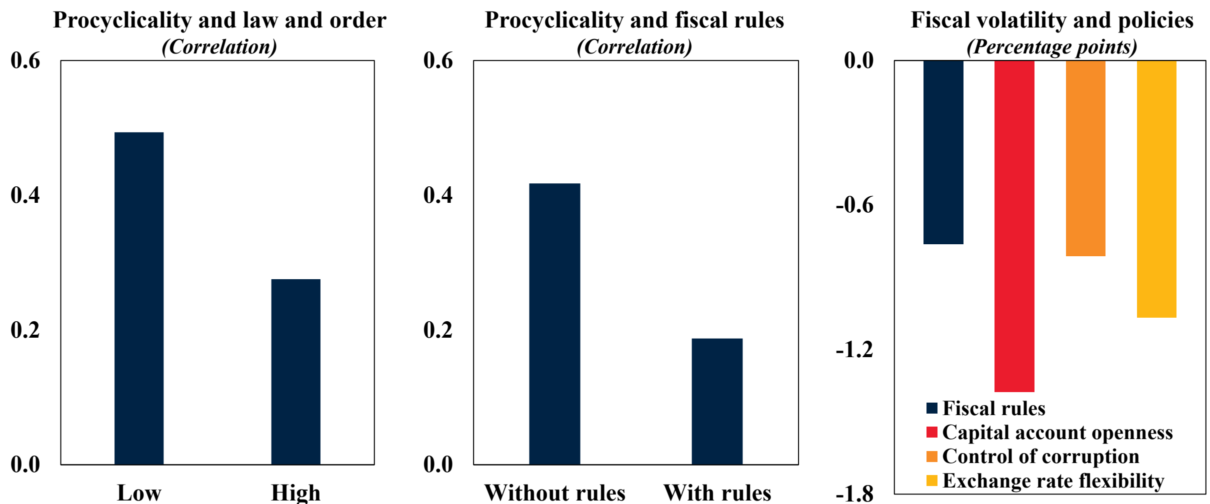
Fiscal Procyclicality, Volatility, and Policies

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.

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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

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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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