World Economic Situation and Prospects

Executive Summary

2024

United Nations

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A fragile resilience masks underlying risks and vulnerabilities

The world economy proved more resilient than expected in 2023 amid significant monetary tightening and lingering policy uncertainties worldwide, even as multiple shocks arising from conflict and climate change wrought havoc on the lives and livelihoods of millions, further jeopardizing progress towards sustainable development. Several large developed economies showed remarkable resilience, with robust labour markets supporting consumer spending despite sharp monetary tightening. At the same time, inflation gradually declined in most regions on the back of lower energy and food prices, allowing central banks to slow or pause interest rate hikes.

This veneer of resilience, however, masks both short-term risks and structural vulnerabilities. Underlying price pressures are still elevated in many countries. A further escalation of conflicts in the Middle East poses the risk of disrupting energy markets and renewing inflationary pressures worldwide. As the global economy braces for the lagged effect of sharp interest rate increases, the major developed country central banks have signalled their intention to keep interest rates higher for longer. The prospects of a prolonged period of higher borrowing costs and tighter credit conditions present strong headwinds for a world economy that is saddled with high levels of debt but also in need of increased investment, not only to resuscitate growth but also to fight climate change and accelerate progress towards the Sustainable Development Goals (SDGs). Moreover, tight financial conditions, coupled with a growing risk of geopolitical fragmentation, pose increasing risks to global trade and industrial production.

Against this backdrop of lingering risks and uncertainties, global GDP growth is projected to slow from an estimated 2.7 per cent in 2023 to 2.4 per cent in 2024. Growth is forecast to improve moderately to 2.7 per cent in 2025 but will remain below the pre-pandemic trend growth rate of 3.0 per cent. While the world economy avoided the worst-case scenario of a recession in 2023, a protracted period of low growth looms large. Growth prospects for many developing countries, especially vulnerable and low-income countries, have remained weak, making a full recovery of pandemic losses ever more elusive.

Further slowdown in the developed economies

The economy of the **United States of America** – the largest in the world – performed remarkably well during the past year, but growth is expected to decelerate from an estimated 2.5 per cent in 2023 to 1.4 per cent in 2024. Robust consumer spending on the back of strong household balance sheets and resilient labour and housing markets supported the better-than-expected performance in 2023. Despite aggressive monetary tightening by the Federal Reserve, the unemployment rate stood at only 3.7 per cent in the third quarter of 2023. Robust house

prices boosted and sustained the net worth of homeowners, exerting a strong wealth effect and supporting high levels of household spending. This may change quickly, especially if housing and asset prices drop and effectively reduce household net worth. Amid falling household savings, high interest rates, and a gradually softening labour market, consumer spending is expected to weaken in 2024 and investment is projected to remain sluggish. While the likelihood of a hard landing has declined considerably, the United States economy will face significant downside risks from deteriorating labour, housing and financial markets.

Europe faces a challenging economic outlook amid still elevated inflation and high interest rates. In the European Union, GDP is projected to expand by 1.2 per cent in 2024, up from 0.5 per cent in 2023. The mild recovery is expected to be driven by a pick-up in consumer spending as price pressures ease, real wages rise, and labour markets remain robust. The continued and lagged effects of tight financial conditions and the withdrawal of fiscal support measures will partly offset the positive effects of these key drivers of growth in 2024.

Growth in **Japan** is projected to slow from 1.7 per cent in 2023 to 1.2 per cent in 2024 despite accommodative monetary and fiscal policy stances. Rising inflation may signal an exit from the deflationary trend that persisted for more than two decades. Slowing growth in China and the United States – the country's main trading partners – is expected to curb net exports in 2024.

In the **Commonwealth of Independent States (CIS)**, economic growth beat earlier projections, reflecting higher-than-expected growth in the Russian Federation, a moderate rebound in Ukraine after a deep contraction in 2022, and strong performance in the Caucasus and Central Asia. The aggregate GDP of the CIS and Georgia expanded by an estimated 3.3 per cent in 2023 and is projected to grow by 2.3 per cent in 2024. Higher inflation and the resumption of monetary policy tightening in the Russian Federation are expected to weigh negatively on the region's growth in 2024.

Developing countries face divergent near-term growth prospects

In **China**, the economic recovery from COVID-19-related lockdowns has been more gradual than expected amid domestic and international headwinds. The economy turned a corner during the second half of 2023, with the growth rate reaching 5.3 per cent for the year, an increase from 3.0 per cent in 2022. Reduced policy and mortgage rates and increased public sector investment financed with new bonds boosted growth. While consumption has been a major driver of growth, consumer confidence remained tepid in 2023. A combination of continued weakness in the property sector and faltering external demand – negatively affecting the growth of fixed investment, industrial production and exports – will nudge growth down moderately to 4.7 per cent in 2024.

Economic growth in **Africa** is projected to remain weak, increasing from an average of 3.3 per cent in 2023 to 3.5 per cent in 2024. The global economic slowdown, tighter monetary and fiscal conditions, and high debt sustainability risks will remain a drag on the region's growth prospects. The unfolding climate crisis and extreme weather events will undermine agricultural output and tourism, while geopolitical instability will continue to adversely impact several subregions in Africa, especially the Sahel and North Africa.

The economies of **East Asia** are projected to experience a moderate slowdown, with growth declining from 4.9 per cent in 2023 to 4.6 per cent in 2024. In most economies, private consumption growth is expected to remain firm, supported by easing inflationary pressure and steady recovery in the labour market. While the recovery of services exports – particularly tourism – has been robust, a slowdown in global demand will likely depress merchandise exports, which have been the major driver of growth for many countries in the region.

Gross domestic product in **South Asia** grew by an estimated 5.3 per cent in 2023 and is projected to increase by 5.2 per cent in 2024, driven by a robust expansion in India, which remains the

fastest-growing large economy in the world. Growth in India is projected to reach 6.2 per cent in 2024, slightly lower than the 6.3 per cent estimate for 2023, amid robust domestic demand and strong growth in the manufacturing and services sectors. Growth in several economies in the region will face downward pressures from tighter financial and fiscal conditions, balance-of-payments challenges, and the return of the El Niño climate phenomenon.

In **Western Asia**, GDP is forecast to grow by 2.9 per cent in 2024, up from 1.7 per cent in 2023. High prices of essential food imports continue to create upward pressure on inflation, which is projected to decline only gradually in 2024. In Türkiye, the authorities aggressively tightened monetary policy to rein in inflation, which is expected to negatively impact growth in 2024.

The outlook for **Latin America and the Caribbean** remains challenging, with GDP growth expected to slow from 2.2 per cent in 2023 to 1.6 per cent in 2024. Growth performance exceeded expectations in 2023 amid resilient consumption and investment, robust capital inflows, and solid external demand. While inflation has been receding, it remains elevated, and structural and macroeconomic policy challenges persist. In 2024, tighter financial conditions will undermine domestic demand, and slower growth in China and the United States will constrain exports.

The **least developed countries (LDCs)** are projected to grow by 5.0 per cent in 2024, up from 4.4 per cent in 2023 but still well below the 7.0 per cent growth target set in the SDGs. Investment in LDCs will remain subdued. Volatile commodity prices – especially for metals, oil and cotton – continue to undermine growth prospects, with 38 of the 46 LDCs classified as commodity-dependent economies. External debt service is estimated to have increased from $46 billion in 2021 to approximately $60 billion in 2023 (about 4 per cent of GDP for the LDCs), further squeezing fiscal space and constraining the ability of Governments to stimulate recovery and growth.

Many **small island developing States (SIDS)** benefited from a strong rebound in tourism inflows in 2023, and the outlook for 2024 is largely positive. On average, SIDS are projected to grow by 3.1 per cent in 2024, up from 2.3 per cent in 2023. However, the economic prospects for SIDS remain vulnerable to the increasing impacts of climate change and to fluctuations in oil prices, which directly affect both tourism flows and consumer prices. Economic growth in the **landlocked developing countries (LLDCs)** is projected to accelerate from 4.4 per cent in 2023 to 4.7 per cent in 2024. Several economies are benefiting from stronger investment, including foreign direct investment, especially in infrastructure.

Uneven labour market recovery

The global labour market has rebounded quickly since the pandemic, outpacing the recovery after the 2008 financial crisis. By 2023, unemployment rates in many economies had fallen below pre-pandemic levels, reaching near-historic lows in the United States and several European economies. This recovery was uneven, however, with the developing economies in particular experiencing divergent trends. Brazil, China and Türkiye saw declining unemployment rates, but many developing countries, especially in Western Asia and Africa, struggled with high unemployment. In most economies, wage growth failed to offset the impact of inflation and exacerbated the cost-of-living crisis. The labour market in the developing countries continued to face the persistent challenges of informal employment, gender disparities, and high youth unemployment. Labour market conditions in many developing countries will likely deteriorate in 2024 amid weaker prospects, with the lagged effect of monetary tightening taking a toll on employment.

Global inflation is ebbing, but food price inflation can exacerbate food insecurity and poverty

After surging for two years, global inflation eased in 2023 but remained above the 2010-2019 average. Global headline inflation fell from 8.1 per cent in

2022, the highest value in almost three decades, to an estimated 5.7 per cent in 2023. A further decline to 3.9 per cent in 2024 is projected due to further moderation in international commodity prices and the weakening of demand amid monetary tightening. Developed economies have experienced a pronounced deceleration in inflation, though core inflation rates remain relatively high, influenced by rising service sector prices and tight labour markets. Inflation in most developing countries peaked in 2023 and is projected to moderate further in 2024.

Despite these promising developments, food prices showed signs of an uptick in the second half of 2023, particularly in Africa, South Asia and Western Asia, due to limited pass-through from international prices to local prices, weak local currencies, and climate-related shocks.

High food prices have been a significant driver of food insecurity in developing countries, disproportionately affecting the poorest households, which spend a larger share of their income on food. In 2023, an estimated 238 million people experienced acute food insecurity, an increase of 21.6 million people from the previous year. Women and children are particularly vulnerable. The inflationary trend in developing countries has also aggravated poverty, reversing some of the hard-won progress in poverty reduction. In low-income countries – particularly those in Africa and Western Asia – poverty rates remained well above pre-pandemic levels.

As headline inflation has started to subside, monetary policy stances across the world have begun to diverge. As many as 28 out of 130 central banks lowered policy interest rates during the first ten months of 2023. However, the global monetary policy stance remains largely restrictive. The Federal Reserve and the European Central Bank continued to raise interest rates in 2023, albeit at a slower pace, as core inflation remained above the target. Major developed country central banks are likely to keep the rates higher for longer, as rising nominal wage growth has signalled the risk of second-round effects, and escalating geopolitical tensions may create renewed inflationary pressure.

Quantitative tightening replaces quantitative easing

In addition to raising interest rates, the major developed country central banks (with the exception of the Bank of Japan) started reducing the assets on their balance sheets, a process known as quantitative tightening (QT), in 2022 and accelerated the pace in 2023 to reduce excess liquidity. From the global financial crisis in 2008 onward, quantitative easing (QE) – the purchase of financial assets by central banks – remained a key monetary policy tool for boosting investment and growth and ensuring financial stability. During the pandemic, monetary authorities reverted to QE to inject liquidity and stabilize financial markets. Many developing country central banks implemented QE for the first time during the pandemic. However, persistent inflationary pressures in the second half of 2021 required most developed country central banks to shrink their balance sheets with a view to reducing liquidity and taming inflationary pressures.

The implementation of QT has entailed significant challenges, including financial instability risks and fiscal concerns. The government bond market stress in the United Kingdom of Great Britain and Northern Ireland in September 2022 and the banking sector turmoil in the United States in March 2023 respectively forced the Bank of England and the Federal Reserve to rethink and recalibrate QT implementation strategies. Although QT has contributed to tighter financial conditions, the impact on long-term bond yields has been less pronounced given that QT is being implemented more gradually than QE, which has typically been rolled out relatively quickly to avert financial crises.

Higher borrowing costs will exacerbate debt sustainability risks for developing countries

Monetary tightening (including QT) by major developed country central banks will have significant spillover effects on developing

countries. Although international financial conditions remained moderately benign amid rising equity prices and low volatility, especially in the first half of 2023, many developing countries continue to face high borrowing costs, constrained access to international capital markets, and depreciating exchange rates. In the six months after the Federal Reserve stopped net asset purchases in March 2022, currencies of the emerging market economies collectively depreciated by about 9 per cent against the United States dollar.

Rising borrowing costs and currency depreciations have exacerbated debt sustainability risks in many developing countries. During the post-pandemic period, fiscal revenue has stagnated or even shrunk while the debt-servicing burden has continued to increase, especially in developing countries with higher levels of United-States-dollar- or euro-denominated debt, in the face of rising interest rates. This is particularly concerning at a time when developing economies need additional external financing to stimulate investment and growth, address climate-change-related risks, and accelerate progress towards the SDGs.

The LDCs have experienced a decline in official development assistance (ODA), further exacerbating the financing squeeze. ODA flows to Africa fell by more than 7 per cent in 2022 even though global ODA flows reached an all-time high. The financial support provided by developed countries for Ukraine largely accounted for the sharp increase in ODA in 2022. A further reduction in ODA flows to the LDCs will risk reversing some of the development gains made by these countries in recent decades.

Global investment trends will remain weak

Global investment growth is likely to remain subdued. Real gross fixed capital formation grew by an estimated 1.9 per cent in 2023, down from 3.3 per cent in 2022 and far below the average growth rate of 4.0 per cent during the period 2011-2019. Both developed and developing economies experienced a slowdown in investment growth even before the pandemic. Ultra-loose monetary policy adopted in the aftermath of the global financial crisis (and the excess liquidity generated by QE) was not associated with increasing investment. The current environment of rising borrowing costs and economic uncertainties will further weigh on investment growth. Residential investment weakened significantly in the developed economies, particularly in the United States. Among the developing regions, Africa, Western Asia, and Latin America and the Caribbean continue to struggle with high borrowing costs and other challenges that hinder investment growth. Investment prospects in China face headwinds from a struggling property sector, though government-led infrastructure investments are partially offsetting the shortfall in private investments. In contrast, India registered strong investment performance in 2023, driven by government infrastructure projects and multinational investments.

Global investment in the energy sector grew faster than total investment in 2023. Notably, investment in clean energy rose for the third consecutive year since the COVID-19 pandemic. These investments, however, have not increased fast enough for countries to meet the net-zero-emissions goal by 2050. A considerable investment gap in renewables persists, especially outside of the developed economies and China. At the same time, investment in fossil fuels has risen, surpassing pre-pandemic levels in 2022 and 2023.

International trade is losing steam as a driver of growth

In 2023, global trade growth weakened significantly to an estimated 0.6 per cent, a sharp decline from 5.7 per cent in 2022. It is expected to recover to 2.4 per cent in 2024, remaining below the pre-pandemic trend of 3.2 per cent. This slowdown is attributed to a slump in merchandise trade. By contrast, trade in services, particularly tourism and transport, continued to recover. A shift in consumer spending from goods to services, monetary tightening, a strong United States dollar, and geopolitical tensions

impeded global trade. Exports from developing economies suffered setbacks, with demand from developed countries weakening and financial conditions restricting trade financing. On a more positive note, international tourism showed signs of a robust recovery, particularly in East Asia and Western Asia, and is expected to reach pre-pandemic levels by 2024. There is an emerging trend of realignment in international trade relations, with countries seeking to secure supply chains closer to home or from more resilient sources.

Central banks must navigate a delicate balance between inflation, growth and financial stability

Central banks worldwide are expected to continue facing a delicate balancing act and difficult trade-offs in 2024 as they strive to manage inflation, revive growth, and ensure financial stability. Policy uncertainties – particularly those surrounding the direction and duration of the monetary tightening stance of the United States Federal Reserve and the European Central Bank – loom large for both the real economy and the financial markets. It is worth noting that the full impact of monetary tightening, including the ongoing QT undertaking, is yet to materialize because of large and variable lags in monetary transmission. Central banks in developing economies will face the additional challenges of growing balance-of-payments concerns and debt sustainability risks.

Developing country central banks will need to use a broad range of tools – including capital flow management, macroprudential policies, and exchange rate management – to minimize the adverse spillover effects of monetary tightening by developed economies. Precautionary and pre-emptive deployment of these policies could create a buffer and increase flexibility in monetary policy responses to prioritize growth and employment over financial stability. Developing countries need to strengthen their technical and institutional capacities – focusing on priorities such as timely economic and financial data collection and strengthened supervisory capabilities – to prepare themselves for policy implementation. A range of early warning indicators and country risk models can help monetary authorities spot domestic and external risks and vulnerabilities. In addition, the implementation of fiscal policies, including the adoption of prudent fiscal measures and the establishment of sovereign stabilization funds, can act as a shield against external economic shocks.

While a growing number of central banks are expected to shift towards monetary easing to support aggregate demand in 2024, their policy choices will largely depend on the actions taken by the Federal Reserve and the European Central Bank. Central banks need to strengthen international monetary policy cooperation or coordination to minimize the spillover effects of the major developed country central banks, even when such cooperation may prove extremely difficult. There is the opportunity to improve communication and signalling between monetary authorities across the world, with developed country central banks adopting clear, transparent and robust communication strategies that reflect a cross-border view. Central banks also need to strengthen collaboration in monitoring and maintaining financial stability, including identifying and addressing financial risks stemming from climate change.

Fiscal space is shrinking amid higher interest rates and tighter liquidity

Countries implemented bold and timely fiscal policy measures in response to the pandemic crisis and to stimulate recovery. Governments around the world have also relied on fiscal policy to confront higher food prices and food insecurity risks resulting from the war in Ukraine. Sharp increases in interest rates since the first quarter of 2022 and tighter liquidity conditions have adversely affected fiscal balances, renewing concerns about fiscal deficits and debt

sustainability. Fiscal space remains very limited, especially in developing countries; for many of these countries the lack of fiscal space presents special risks, as it restricts their capacity to invest in sustainable development and respond to new shocks. In 2022, more than 50 developing economies spent more than 10 per cent of total government revenues on interest payments, and 25 countries spent more than 20 per cent. Market expectations that interest rates in major economies will remain higher for longer than previously anticipated have led to a further rise in sovereign bond yields, adding pressure on fiscal balances. In the medium term, subdued growth prospects, together with the need for increased investment in education, health and infrastructure, will put pressure on government budgets and exacerbate fiscal vulnerabilities.

In developing countries with less vulnerable fiscal positions, it will be crucial for Governments to avoid self-defeating fiscal consolidation. Many of these economies will need to bolster fiscal revenues to expand their fiscal space. In the short term, the increased use of digital technologies can help developing countries reduce tax avoidance and evasion. In the medium term, Governments will need to expand revenues through more progressive income, wealth and green taxes. Many economies also need to improve the efficiency of fiscal spending and the effectiveness of subsidies and better target social protection programmes.

Low-income countries, as well as middle-income countries with vulnerable fiscal situations, will need debt relief and restructuring measures to avoid devastating debt crises and protracted cycles of weak investment, slow growth, and high debt-servicing burdens.

Industrial policy is being deployed for sustainable development

Industrial policy, increasingly seen as crucial for fostering structural changes and supporting a green transition, is being revived and transformed. This shift is aimed at fixing market failures and aligning innovation with broader development goals. Innovation policies are also changing, with more ambitious, systemic and strategic approaches being employed. Governments are deploying specific targets, incentive measures and conditionalities to promote socially and environmentally desirable technologies. Essentially, innovation policies are exhibiting greater directionality.

The COVID-19 pandemic and geopolitical tensions have underscored the importance of domestic resilience, leading countries and regions such as China, the United States and the European Union to invest heavily in the high-tech and green energy sectors. However, circumstances vary from one country to another. Developed economies and several large developing economies such as China are investing unprecedented amounts in research and development and in targeted sectors, while many developing economies, constrained by limited fiscal space and structural difficulties, continue to struggle to fund industrial and innovation policies. This growing technological divide could further hinder the ability of developing countries to strengthen their productive capacities and move closer to realizing the SDGs.

Strengthening multilateralism will accelerate SDG progress

At the midpoint of the implementation of the 2030 Agenda for Sustainable Development, the world remains vulnerable to disruptive shocks, including a rapidly unfolding climate crisis and escalating conflicts. The urgency and imperative of achieving sustainable development underscore that strong global cooperation is needed now more than ever. The United Nations remains at the forefront of efforts to reinvigorate effective multilateralism. The High-level Political Forum on Sustainable Development, convened under the auspices of the General Assembly in September 2023, adopted a political declaration to accelerate the implementation of the 2030 Agenda through a set of actions that include advancing the SDG Stimulus launched by the United Nations Secretary-General; bridging science, technology and innovation divides; and

enhancing the collective ambition for climate action. The Summit of the Future, to be held in September 2024, will offer a platform for various stakeholders to discuss necessary reforms with a view to formulating "multilateral solutions for a better tomorrow".

In the context of the present report, some of the critical priorities for the international community – aimed at stimulating growth but also accelerating progress towards the SDGs – include reinvigorating the multilateral trading system; reforming development finance and the global financial architecture and addressing the debt sustainability challenges of low- and middle-income countries; and massively scaling up climate financing.

The protracted slowdown in global trade – which in part reflects increased scepticism about the benefits of globalization in some countries – points to the need for reform of the multilateral trading system. As internal governance issues remain unresolved and new external challenges emerge, the multilateral trading system under the auspices of the World Trade Organization (WTO) continues to face significant challenges. Maintaining a rules-based, inclusive and transparent trading system remains key to boosting global trade and supporting sustainable development, including the energy transition. Urgent reforms are needed to ensure that the WTO can resolve disagreements among member countries, accelerate progress on global trade agreements, and address new challenges, including the growing use of trade restrictions.

Addressing international financing and debt sustainability issues is key to achieving the SDGs, easing financial constraints, reducing debt distress, and increasing the volume of financing flows to developing economies. The SDG Stimulus initiative launched by the Secretary-General of the United Nations outlines urgently needed reforms in the international financial system and calls for an increase of at least $500 billion per year in SDG investments. At present, progress in financing sustainable development remains very slow and fragmented. With many developing countries in debt distress, urgent and more effective international cooperation is needed to restructure debt and address refinancing challenges. The Global Sovereign Debt Roundtable, established in February 2023, aims to facilitate collaboration between stakeholders and enable coordination, information-sharing and transparency. Efforts are under way to improve contractual clauses to prevent and more effectively resolve debt distress and crises. There is a need for more robust and effective multilateral initiatives that provide clarity regarding steps and timelines for processes, the provision of debt standstills during negotiations, and better ways to ensure adherence to the "comparability of treatment" principle among different creditors.

Scaling up climate finance is crucial to achieving SDG 13, which urges countries to combat climate change and its impacts. It is estimated that $150 trillion in investment will be needed by 2050 for energy transition technologies and infrastructure, with $5.3 trillion required annually to transform the global energy sector alone. However, climate finance remains far below the required level of green investment to limit the temperature rise to 1.5°C above pre-industrial levels, as set out in the Paris Agreement in 2015. The pledge by developed countries to provide $100 billion in climate finance annually by 2020 was never fully met, with funding totalling only $89.6 billion in 2021. The effective operationalization of the Loss and Damage Fund, formally adopted at the twenty-eighth Conference of the Parties to the United Nations Framework Convention on Climate Change (COP28), and the scaling up of financing commitments made in connection with this Fund will be critical for helping vulnerable countries cope with the impacts of climate disasters. Reducing fossil fuel subsidies, strengthening the role of multilateral development banks in climate finance, and promoting technology transfer are vital for strengthening climate action worldwide.

For more information
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