World Economic Situation and Prospects

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World Economic Situation and Prospects

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Robust consumer spending in several large developed and developing economies – buoyed by high levels of employment, rising real wages, and relatively healthy household balance sheets – has sustained economic resilience

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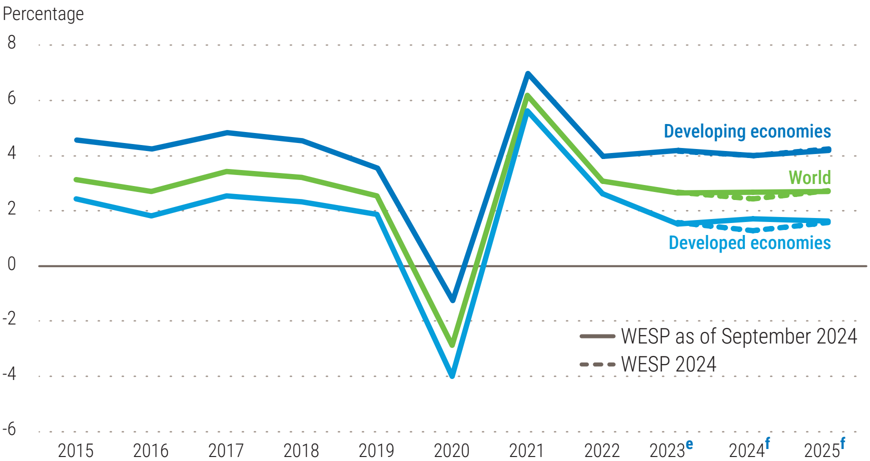
Global economic overview

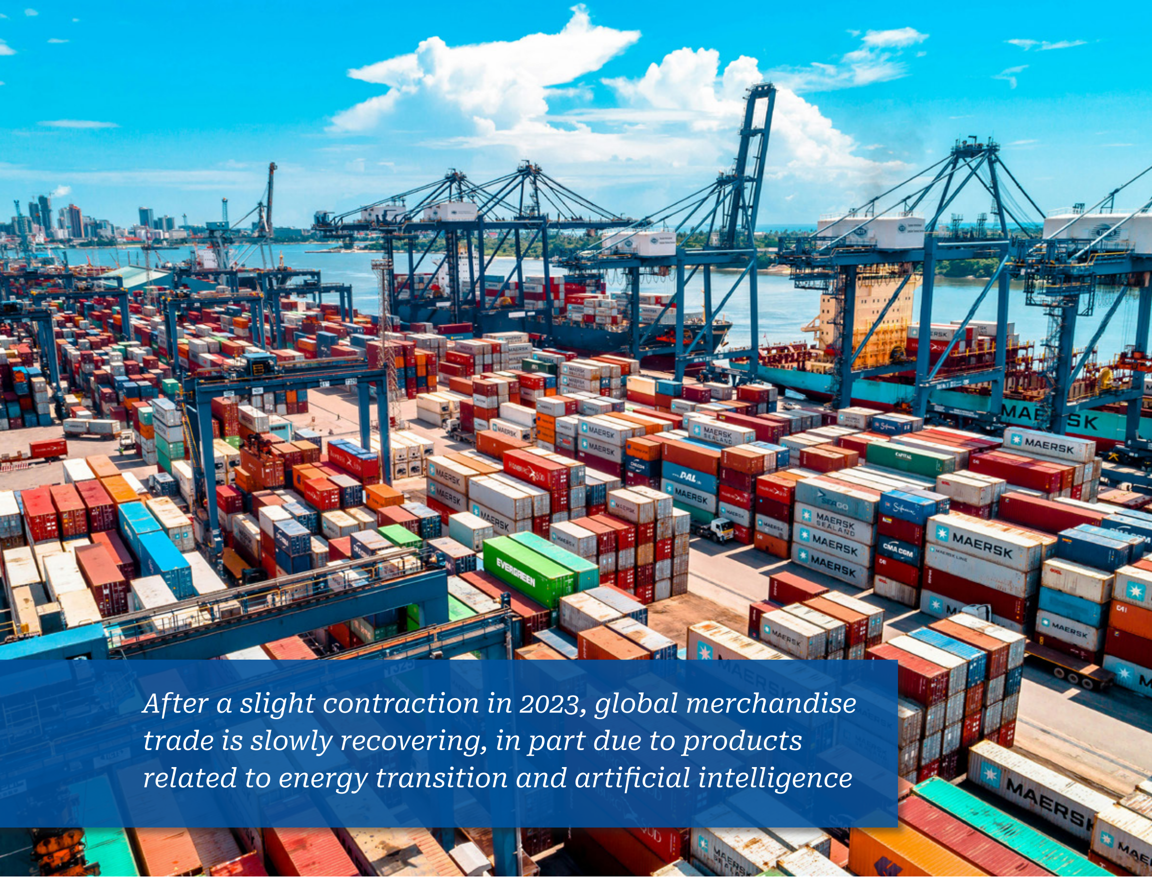
After years of turbulence and significant volatility in economic output, the world economy is on a more stable trajectory. Global growth performance has held up surprisingly well in the face of recent shocks, including aggressive interest rate hikes by major central banks during 2022–2023 and an escalation of conflicts with international spillovers. Robust consumer spending in several large developed and developing economies – buoyed by high levels of employment, rising real wages, and relatively healthy household balance sheets – has sustained economic resilience. In a large number of economies, inflation has slowed considerably and is approaching central bank targets, providing room for monetary easing. In most cases, economies experienced disinflation without a significant deterioration in labour market conditions or contraction in economic activity.

Against this backdrop, global growth is projected to remain steady at 2.7 per cent in both 2024 and 2025 (figure 1). This represents an upward revision by 0.3 percentage points for 2024 from the forecasts in January, which mainly reflects a better-than-expected economic performance in the United States, but also improved short-term growth prospects in other large economies, notably Brazil, India and the United Kingdom.

Figure 1
Growth of economic output



Source: UN DESA, based on estimates and forecasts produced with the World Economic Forecasting Model.
Note: e = partially estimated, f = forecast.



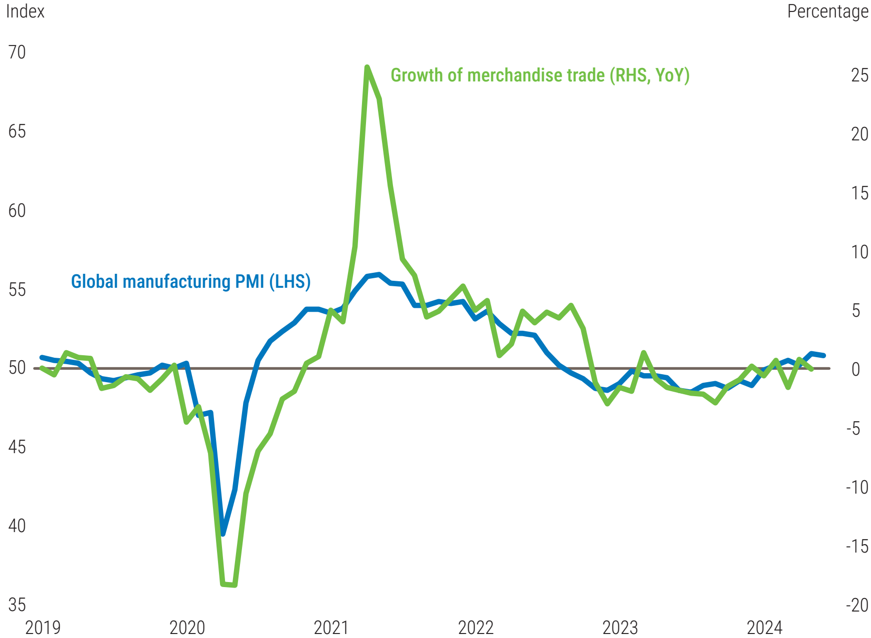
After a slight contraction in 2023, global merchandise trade is slowly recovering, in part due to products related to energy transition and artificial intelligence

In 2025, an anticipated slowdown in the United States and China is expected to be offset by a pickup in growth in Canada, Japan and Europe and several large developing economies including Argentina, Brazil and South Africa (see Annex for further details).

Despite outperforming forecasts, global growth remains subdued by recent historical standards, falling short of the average pre-pandemic rate of 3.2 per cent recorded during 2010–2019. Prevailing high interest rates, limited fiscal space and ongoing geopolitical uncertainties continue to cloud economic prospects. In early August, fears of a sharper-than-expected slowdown of the United States economy and an escalation of the war in the Middle East, coupled with an unwinding of yen-based carry trade amid an interest rate hike by the Bank of Japan, triggered a short episode of turbulence in financial markets. Although markets quickly stabilized, risks to global financial stability and growth forecasts remain. Moreover, a large number of low-income countries, especially in Africa, continue to face weak growth prospects against the backdrop of tight financial conditions, rising debt service costs, the threat of devastating debt crises, and the ever-worsening impacts of climate change.

Figure 2

Global manufacturing Purchasing Managers' Index and merchandise trade



Source: UN DESA, based on data from CEIC and CPB Netherlands Bureau for Economic Policy Analysis.
Note: LHS = left-hand scale; RHS = right-hand scale; YoY = year-over-year.

The lackluster outlook for global growth does not bode well for boosting investments in the Sustainable Development Goals (SDGs) or tackling the climate emergency. Targeted policy actions at the global, regional and national levels are urgently required to bridge the SDG investment gap for developing countries, which is estimated at $4 trillion per year.[1]

After a slight contraction in 2023, global merchandise trade is slowly recovering, in part due to products related to energy transition and artificial intelligence (figure 2).[2] Geographically, the recovery has been driven by increased exports from Asia and North America, whereas Africa and the Pacific region have seen a decline in trade activities in early 2024.[3] Services trade growth is moderating as tourism activity has almost fully recovered to pre-pandemic levels in

1 United Nations (2024). *The Sustainable Development Goals Report 2024*. New York.
2 For example, in the first quarter of 2024, the traded value of high-performance data processing machines rose by 17 per cent compared with the previous quarter.
3 UNCTAD (2024). *Global Trade Update, July 2024*.

Increased use of trade restrictions, higher freight costs and geopolitical uncertainties threaten the recovery in trade and industrial output

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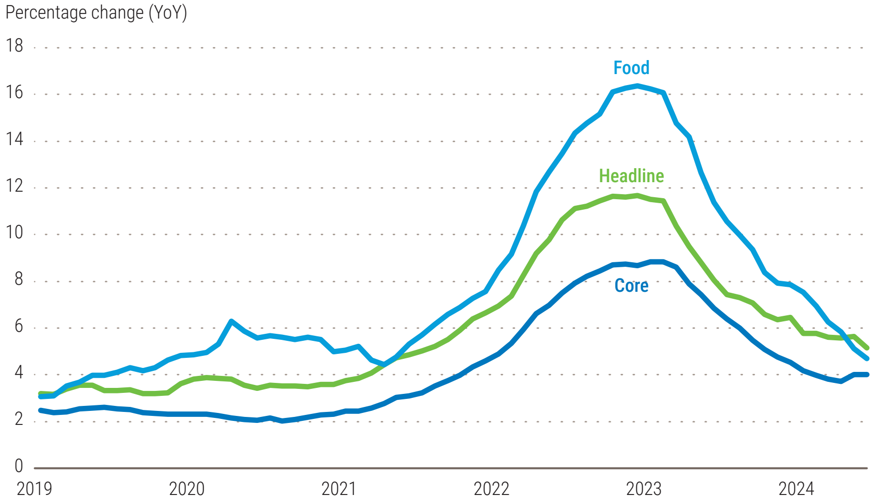
most regions. The upturn in global trade has been accompanied by a slight increase in manufacturing activities. The global manufacturing Purchasing Managers' Index (PMI) – a leading indicator of economic conditions – remained in expansionary territory in the first half of 2024. Nevertheless, increased use of trade-restrictive measures, higher freight costs and geopolitical uncertainties pose threats to the recovery in global trade and industrial output.

Global headline inflation further eased in the first half of 2024 amid a broad-based decline in price pressures (figure 3). In many developed countries, inflation is gradually approaching the respective central bank's target rate, even as wage growth and services price inflation remain elevated. In June, both the Personal Consumption Expenditures (PCE) price index in the United States and the Harmonized Index of Consumer Prices (HICP) in the euro area increased by only 2.5 per cent year over year, broadly approaching the 2 per cent inflation target of the central banks. Inflation in many developing economies has also fallen but generally remains higher than in developed economies. A notable exception is China, which continues to grapple with low inflation amid weak consumer demand. While global inflation is forecast to moderate further in 2025, upside risks remain: geopolitical tensions and extreme weather events threaten to disrupt shipping routes, raising freight costs and exerting upward pressure on commodity prices.

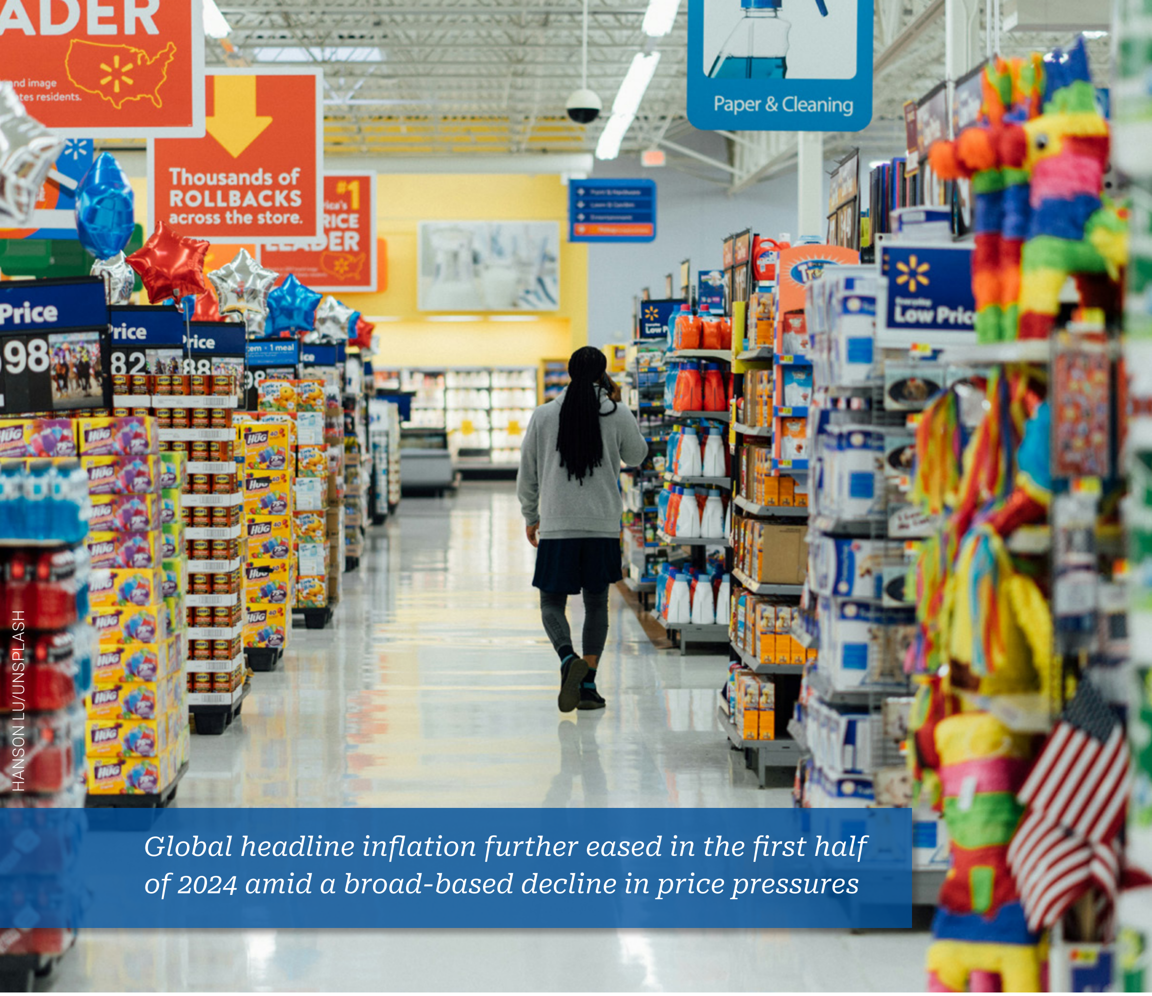
Figure 3
Global headline inflation and components



Source: UN DESA, based on data from CEIC and Trading Economics.
Notes: YoY = year-over-year. Country group data are an unweighted 10 per cent trimmed mean, excluding the 10 per cent largest and 10 per cent smallest values from the sample. Core inflation excludes food and energy.

Declining inflationary pressures have provided room for monetary easing in many countries. In the first half of 2024, more central banks lowered rates than raised them (figure 4). But as core inflation and services inflation have been slow to ease, monetary authorities have generally remained cautious in pivoting to rate cuts. The European Central Bank and the Bank of England each have so far only implemented a single 25 basis-point cut. The United States Federal Reserve Bank has kept its benchmark interest rate unchanged since July 2023, at its highest level in two decades, while hinting at rate cuts in the coming months. The pace of monetary easing by major developed country central banks over the coming quarters will depend on further progress in disinflation and potential changes in the growth and employment outlook. In contrast to other developed country central banks, the Bank of Japan began a tightening cycle, having raised interest rates in March and July to support the yen and cope with elevated inflation.

Among developing economies, many central banks in Asia and Africa left their policy rates unchanged in the first half of 2024, in part awaiting the Federal Reserve's first cut. In contrast, the People's Bank of China reduced several benchmark rates to boost domestic demand.

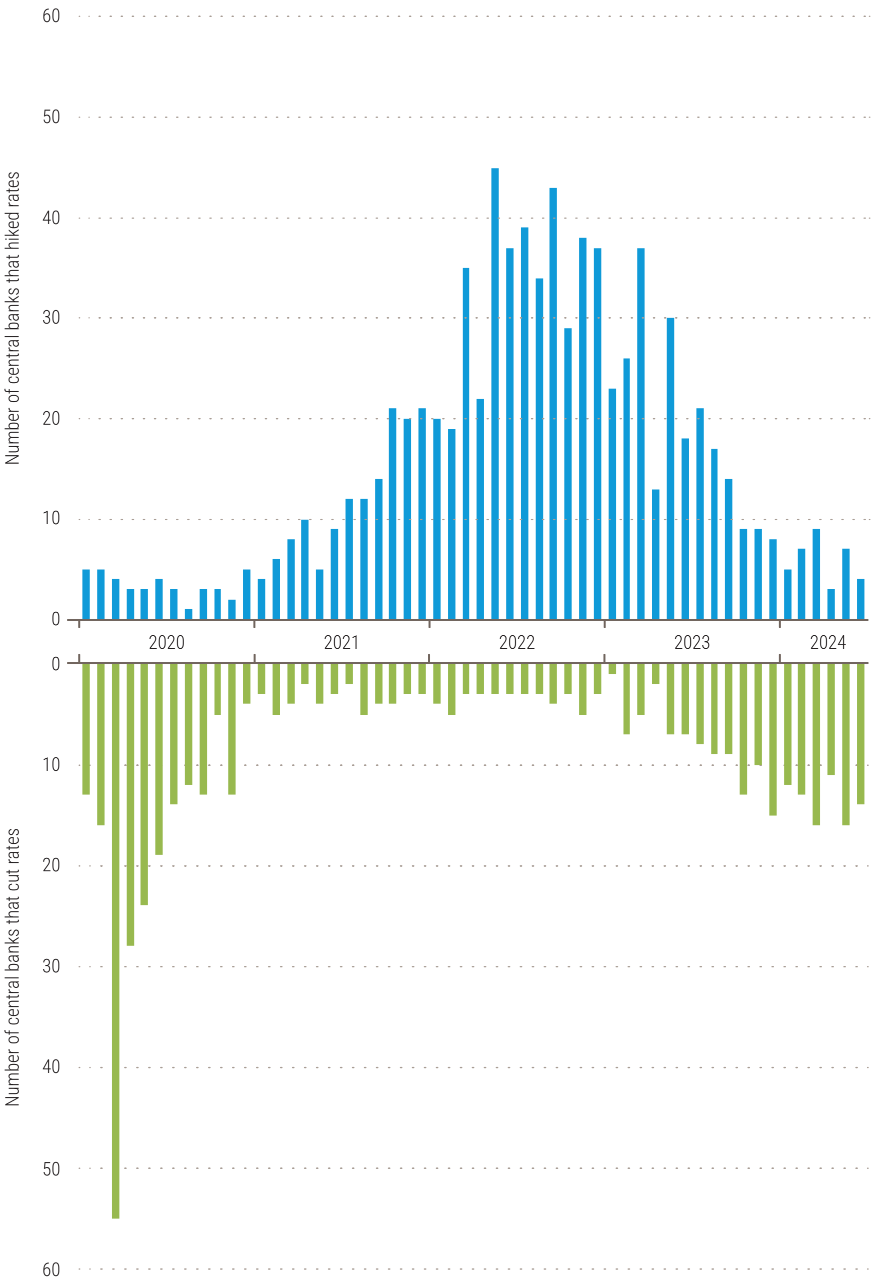


Global headline inflation further eased in the first half of 2024 amid a broad-based decline in price pressures

The COVID-19 pandemic and the multiple shocks that followed have exacerbated fiscal and debt vulnerabilities, especially in many low-income countries. As global interest rates remain elevated, the costs of servicing government debt have continued to increase. Interest and principal payments are absorbing a growing share of fiscal revenues in many developing countries, especially in Africa and South Asia, diverting public funds away from investment in human capital and sustainable infrastructure. Overall, fiscal policy is expected to tighten in 2024 relative to 2023. Over half of developed economies are expected to reduce fiscal deficits in 2024. Many developing country governments are pursuing gradual fiscal consolidation, phasing out supportive measures that helped mitigate the impact of recent crises. While the aim is to bring down fiscal deficits, improve debt sustainability and create room for targeted spending, the withdrawal of fiscal support risks weakening economic activity and employment, especially in developing countries.

Figure 4

Central bank monetary policy stances



Source: UN DESA, based on data from CEIC.
Note: The figure includes data from 82 central banks.

Macroeconomic trends in major developed economies and economies in transition

United States of America and Canada

The economy of the **United States** expanded at a robust pace in the first half of 2024, continuing to outperform expectations. Growth momentum is, however, expected to moderate as the labour market weakens and private sector demand slows. Growth has been revised up significantly to 2.5 per cent in 2024 and remains unchanged at 1.7 per cent in 2025.

In the United States, as inflation declined faster than nominal wage growth, real wages have risen over the past year, boosting household purchasing power

Consumer spending – which accounts for nearly 70 per cent of GDP – and business investment have remained surprisingly resilient in spite of high interest rates that prevailed since 2022. As inflation declined faster than nominal wage growth, real wages have risen over the past year, boosting household purchasing power. But headwinds to consumption are mounting as pandemic savings are largely depleted, consumer confidence has fallen, and the labour market has started to weaken. In July, the unemployment rate rose to 4.3 per cent, the highest level in nearly three years. With inflation gradually nearing the 2 per cent target and risks of a downturn increasing, the Federal Reserve is expected to start cutting rates in September.

Canada's economy grew stronger than expected in the first half of 2024, buoyed by strong household spending – especially on services – and non-residential investment. Amid easing price pressures, the Bank of Canada lowered its policy rate in June and July to support the recovery. Economic growth projections are raised to 1.2 per cent in 2024 and 1.7 per cent in 2025.

European Union and United Kingdom

The **European Union**'s economy is on track for a modest recovery, supported by a robust labour market, rising real incomes and a pick-up in external demand. Economic growth is projected at 1.0 per cent in 2024 and 1.5 per cent in 2025, a small downward revision from the forecast in January. The revision primarily reflects a weaker-than-expected performance of the German economy, which continues to

The EU economy is on track for a modest recovery, supported by a robust labour market, rising real incomes and a pick-up in external demand

suffer from sluggish domestic demand and a prolonged downturn in the manufacturing sector. In contrast, the economies of France and Italy expanded at a robust pace in the first half of 2024 amid strong services sector performance. Annual inflation in the European Union hovered around 2.5 per cent in mid-2024 as inflation in the labour-intensive services sector remained sticky at about 4 per cent. The European Central Bank lowered its three key interest rates in June by 25 basis points to bolster the nascent recovery.

The **United Kingdom**'s economy has rebounded stronger than expected from last year's recession as business investment and consumer spending recovered amid falling inflation and rising real incomes. The growth projections have been revised up to 1.0 per cent in 2024 and 1.7 per cent in 2025.

Developed Asia and the Pacific

Japan's GDP growth projections have been lowered to 0.8 per cent for 2024, while remaining unchanged at 1.1 per cent for 2025. While corporate profits and business confidence have improved, private consumption remains weak amid negative real wage growth since 2022. The Bank of Japan further tightened monetary policy in late July, aiming to curb the yen's slide against the dollar. This move contributed to massive financial market turmoil. In response, the central bank signaled a temporary shift to a more dovish policy stance, pledging to refrain from hiking interest rates when financial markets are unstable.

In Japan, corporate profits and business confidence have improved, but private consumption remains weak amid falling real wages

The 2024 growth projections for **Australia** and the **Republic of Korea** have been revised up slightly to 1.6 per cent and 2.6 per cent, respectively. In Australia, rapid wage growth and resilient domestic demand are contributing to persistent inflationary pressures. Consequently, the Reserve Bank of Australia has remained cautious about monetary easing, keeping policy rates at a 12-year high. In the Republic of Korea, weak growth in domestic consumption and investment amid a tight monetary policy stance has been counterbalanced by strong external demand, especially for semiconductors and other technology devices.

Commonwealth of Independent States (CIS) and Georgia

Economic growth in the CIS and Georgia region is projected at 3.9 per cent in 2024 (up by 1.6 percentage points from January) and 2.4 per cent in 2025 (unchanged). The upward revision in 2024 is driven by the stronger-than-expected performance of the **Russian Federation**. The Russian economy expanded by an estimated 4.6 per cent in the first half of 2024, despite a further expansion of economic sanctions. Large-scale military spending, construction activities supported by subsidized mortgages, and higher social payments boosted economic activity.

The Russian economy expanded by an estimated 4.6 per cent in the first half of 2024, despite a further expansion of economic sanctions

The country has largely managed to avoid the oil price cap imposed by the Group of Seven countries and the European Union and circumvent many import restrictions. However, growth momentum is expected to moderate, with GDP projected to increase by 3.6 per cent in 2024 and 1.5 per cent in 2025. Labour shortages are curbing output, with the unemployment rate falling to a record low of 2.4 per cent in June. The central bank, acknowledging that inflation persists and the economy operates at excess capacity, raised its key policy rate sharply in July.

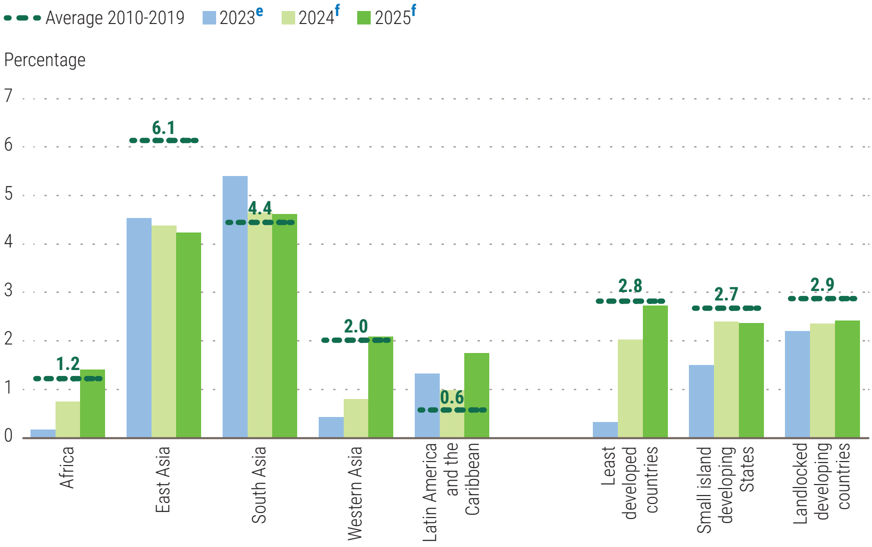
The economy of **Ukraine** expanded by 6.5 per cent year on year in the first quarter, supported by construction activities, agricultural exports, and robust investment, including in the military industry. However, large-scale attacks against the country's energy infrastructure threaten to undermine productive activities.

Macroeconomic trends in developing economies

Africa

Africa's growth projections for 2024 and 2025 have been revised downward to 3.3 per cent and 3.9 per cent, respectively. In per capita

Figure 5
Growth of gross domestic product per capita in developing country regions and selected country groups



Source: UN DESA, based on estimates and forecasts produced with the World Economic Forecasting Model.
Note: e = partially estimated, f = forecast.

terms, growth will remain lower than in most other developing regions (figure 5). In many economies, tight monetary and fiscal policies constrain domestic demand amid persistent balance-of-payments pressures. Sluggish growth in several large countries, most notably in Nigeria and South Africa, weighs on the region's overall performance. **South Africa**'s 2024 growth forecast has been lowered to 1.1 per cent due to weak mining, manufacturing and construction activities and an uncertain political outlook, despite improving electricity supply.

In many African economies, tight monetary and fiscal policies constrain domestic demand amid persistent balance-of-payments pressures

Egypt, Kenya, and Nigeria are implementing economic reforms, under IMF programs, amid persisting external imbalances and fiscal pressures. Food insecurity remains a key concern, especially in West Africa and the Horn of Africa, driven by conflicts, extreme weather events and higher grain prices.

East Asia

East Asian economies are forecast to grow by 4.6 per cent in 2024 and 4.5 per cent in 2025, unchanged from the forecasts in January. Solid domestic demand and strong export growth have contributed to the economic resilience. Inflation continues to moderate. However, downside risks persist, including geopolitical tensions, trade fragmentation, continuing high interest rates in major developed economies (despite some recent easing), and climate risks.

Solid domestic demand and strong export growth have contributed to the economic resilience in East Asia

China's GDP is forecast to expand by 4.8 per cent in 2024 and 4.5 per cent in 2025. In the first half of 2024, industrial production and exports have grown steadily, while consumer sentiment has remained tepid. Public sectors investments are helping to offset the lingering weakness in the property sector. The government has maintained accommodative monetary and proactive fiscal policies to support growth. **Indonesia**'s growth is forecast at 5 per cent in 2024 and 5.2 per cent in 2025. Domestic demand remains the key driver. After the election in March, the economy has benefitted from an increase in public spending.

South Asia

South Asia's economic outlook is forecast to remain strong, driven by a robust performance of India's economy. Regional GDP is projected to grow by 5.8 per cent in 2024 and 5.7 per cent in 2025, outperforming other regions. Growth in **India** is projected at 6.9 per cent in 2024 and 6.6 per cent in 2025 amid resilient domestic demand. Despite recent spikes in food prices, inflation is projected to remain within the Reserve Bank of India's target range. The central bank has kept the policy rate at 6.5 per cent, its highest level since 2016, following the end of the tightening cycle in February 2023. **Bangladesh**'s economic outlook faces significant risks amid ongoing political turmoil and uncertainty. Risks to the region's prospects are tilted to the downside.

South Asia's economic outlook is forecast to remain strong, driven by a robust performance of India's economy

Further escalation of geopolitical conflicts and adverse weather conditions could disrupt supply chains and induce commodity price volatility.

Western Asia

Western Asia faces mounting economic challenges, including prolonged reductions in oil output, rising geopolitical conflicts, and disruptions to trade routes in the Red Sea. The regional growth projections have been revised downward to 2.3 per cent in 2024 and 3.6 per cent in 2025, mostly owing to a weakened outlook in Saudi Arabia.

> *Western Asia faces mounting economic challenges, including prolonged reductions in oil output, rising geopolitical conflicts, and disruptions to trade routes in the Red Sea*

Growth in **Saudi Arabia** is downgraded to 1.2 per cent in 2024, mainly due to the extension of production cuts led by OPEC Plus. High interest rates have curtailed public spending and private investment, slowing the growth of the non-oil economy. **Türkiye**'s growth has been revised upward to 3.2 per cent in 2024, thanks to a strong expansion in the first quarter. However, the impact of tight monetary policy and the accelerating fiscal consolidation are projected to constrain growth in 2024. The disinflation process, which started in June 2024, is expected to continue in the second half of the year.

Latin America and the Caribbean

Economic prospects in Latin America and the Caribbean remain relatively weak compared to other regions. Regional GDP growth is projected at 1.8 per cent in 2024 and 2.5 per cent in 2025, a slight upward revision from the forecasts in January. Most central banks are easing monetary policy, yet the pace of rate cuts may slow as inflationary pressures remain stubborn. On the fiscal front, many economies face major constraints owing to elevated levels of debt

> *Economic prospects in Latin America and the Caribbean remain relatively weak compared to other regions*

and relatively subdued fiscal revenues. Among the major economies, **Brazil**'s GDP is projected to grow by 2.2 percent in 2024, following an expansion of 2.9 percent in 2023. Weaker agricultural harvests and disastrous flooding are weighing on economic activity. However, interest rate cuts, increased government spending and an improving labor market are expected to prevent a further growth deterioration, paving the way for stronger growth in 2025. In **Mexico**, GDP growth is projected to slow down from 3.2 per cent in 2023 to 2.3 per cent in 2024, due to an expected moderation of economic activity in the United States. **Argentina**'s economy remains in deep recession, with a projected contraction of 3.3 per cent in 2024, amid a severe austerity program and major policy reforms. GDP growth is anticipated to return to positive territory in 2025.

Least developed countries, landlocked developing countries and small island developing States

Growth of **least developed countries (LDCs)** is forecast to improve from 4.2 per cent in 2023 to 4.8 per cent in 2024 and 5.3 per cent in 2025 but will remain well below the 7 per cent target set in the Sustainable Development Goals. Limited fiscal space and insufficient investment weigh on the prospects of many economies, especially those in sub-Saharan Africa.

Growth of **landlocked developing countries (LLDCs)** is forecast at 4.7 per cent in 2024 and 4.8 per cent in 2025, largely unchanged from 2023. As global commodity prices continue to ease, average inflation is projected to moderate from 14 per cent in 2023 to 10.5 per cent in 2024. Fragile security situations, volatile commodity prices and climate events continue to undermine agricultural production and growth prospects in many LLDCs. Regional geopolitical tensions have negatively affected LLDCs' access to international trade routes. Debt crisis risks persist, with four LLDCs in debt distress and seven at high risk of debt distress.[4]

For **small island developing States (SIDS)**, a sustained rebound in tourism is expected to lift GDP growth to 3.3 per cent in both 2024 and 2025, up from 2.4 per cent in 2023. Nevertheless, high levels of public debt and rising debt service burdens limit their capacity to invest in human capital and resilient and sustainable infrastructure.

4 IMF (2024). *List of LIC DSAs for PRGT-Eligible Countries, As of April 30, 2024*.

Annex

Growth of world output and gross domestic product, 2022 to 2025

					Change from January 2024 forecasts	
Annual percentage change	**2022**	**2023[a]**	**2024[b]**	**2025[b]**	**2024**	**2025**
World	**3.1**	**2.7**	**2.7**	**2.7**	**0.3**	**0.0**
Developed economies	**2.6**	**1.5**	**1.7**	**1.6**	**0.4**	**0.0**
United States of America	1.9	2.5	2.5	1.7	1.1	0.0
Japan	1.0	1.9	0.8	1.1	-0.4	0.0
European Union	3.5	0.5	1.0	1.5	-0.2	-0.1
Euro area	3.4	0.5	0.8	1.3	-0.3	-0.2
United Kingdom of Great Britain and Northern Ireland	4.3	0.1	1.0	1.7	0.6	0.7
Other developed countries	3.3	1.3	1.7	2.0	0.3	0.1
Economies in transition	**-1.1**	**4.0**	**3.9**	**2.5**	**1.6**	**0.1**
South-Eastern Europe	3.4	2.5	3.2	3.3	0.3	0.2
Commonwealth of Independent States and Georgia	-1.3	4.0	3.9	2.4	1.6	0.0
Russian Federation	-1.2	3.6	3.6	1.5	2.3	0.0
Developing economies	**4.0**	**4.2**	**4.0**	**4.2**	**0.0**	**0.0**
Africa[c]	3.5	3.2	3.3	3.9	-0.2	-0.3
North Africa[c]	3.0	3.1	3.0	3.8	-0.2	-0.4
East Africa	5.4	5.1	5.6	6.1	0.1	0.2
Central Africa	3.1	2.2	2.9	3.4	-0.2	-0.3
West Africa	3.8	3.7	3.4	3.8	-0.4	-0.3
Southern Africa	2.8	1.5	1.8	2.5	-0.5	-0.5
East and South Asia[d]	3.7	5.1	4.8	4.7	0.1	0.0
East Asia	3.2	4.8	4.6	4.5	0.0	0.0
China	3.0	5.2	4.8	4.5	0.1	0.0
South Asia[d,e]	6.3	6.5	5.8	5.7	0.6	0.0
India[e]	7.7	7.9	6.9	6.6	0.7	0.0
Western Asia[f]	6.3	2.0	2.3	3.6	-0.6	-0.1
Latin America and the Caribbean	4.0	2.1	1.8	2.5	0.2	0.2
South America	3.8	1.3	1.3	2.5	0.3	0.2
Brazil	2.9	2.9	2.2	2.5	0.6	0.2
Mexico and Central America	4.1	3.3	2.6	2.2	0.0	-0.1
Caribbean[g]	5.7	3.2	2.5	2.7	0.1	0.0
Least developed countries[h]	**3.5**	**4.2**	**4.8**	**5.3**	**-0.2**	**-0.2**
Small island developing States	**4.7**	**2.4**	**3.3**	**3.3**	**0.2**	**0.1**
Landlocked developing countries[d]	**4.0**	**4.8**	**4.7**	**4.8**	**0.0**	**0.0**

Source: UN DESA, based on estimates and forecasts produced with the World Economic Forecasting Model.
Notes: **a** partially estimated; **b** forecast; **c** excludes Libya for the whole period and Sudan for the period 2023-2025; **d** excludes Afghanistan for the period 2023-2025; **e** growth rates are on a calendar-year basis; **f** excludes the State of Palestine for the period 2023-2025; **g** excludes Guyana for the whole period as the rapid expansion of oil production distorts the regional economic assessment; **h** excludes Afghanistan and Sudan for the period 2023-2025.

For more information

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