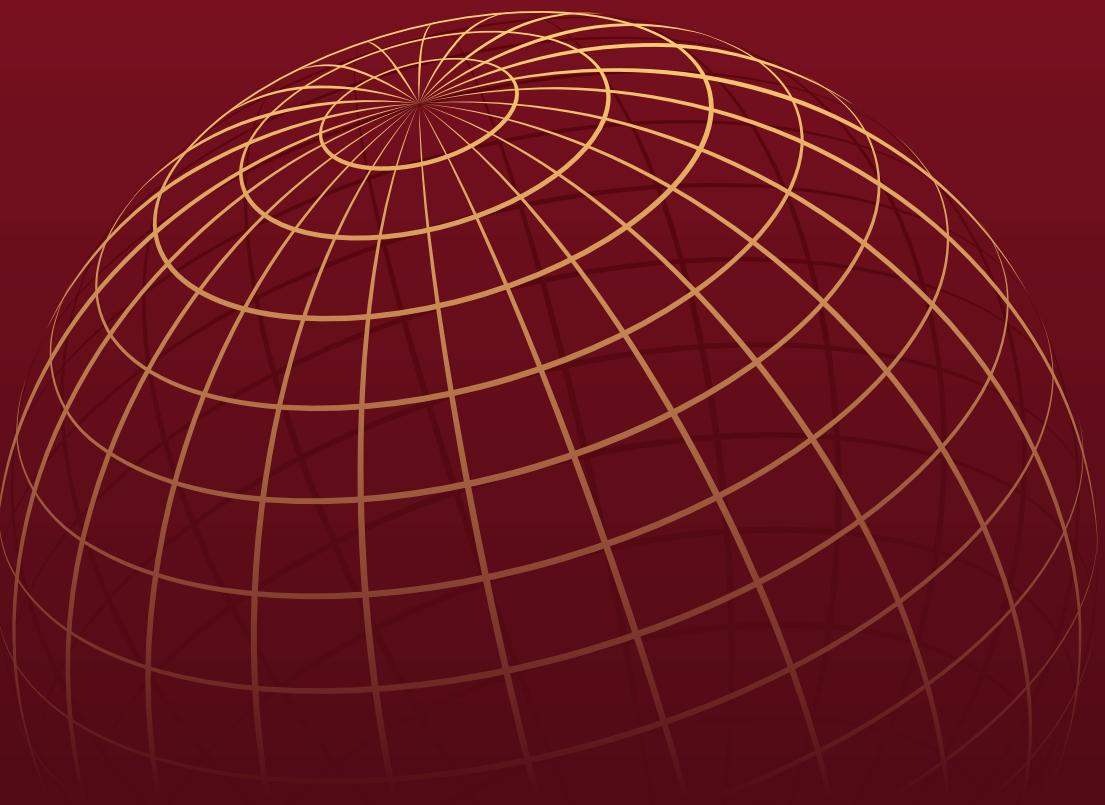
A World Bank Group Flagship Report

JUNE 2025

Global Economic Prospects



WORLD BANK GROUP

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Foreword

Only six months ago, a "soft landing" appeared to be in sight: the global economy was stabilizing after an extraordinary string of calamities both natural and man-made over the past few years. That moment has passed. The world economy today is once more running into turbulence. Without a swift course correction, the harm to living standards could be deep.

International discord—about trade, in particular—has upended many of the policy certainties that helped shrink extreme poverty and expand prosperity after the end of World War II. This year alone, our forecasts indicate the upheaval will slice nearly half a percentage point off the global GDP growth rate that had been expected at the start of the year, cutting it to 2.3 percent. That's the weakest performance in 17 years, outside of outright global recessions. By 2027, global GDP growth is expected to average just 2.5 percent in the 2020s—the slowest pace of any decade since the 1960s.

As this edition of *Global Economic Prospects* makes clear, the poorest countries will suffer the most. By 2027, the per capita GDP of high-income economies will be roughly where it had been expected to be before the COVID-19 pandemic. But developing economies would be worse off, with per capita GDP levels 6 percent lower. Except for China, it could take these economies about two decades to recoup the economic losses of the 2020s.

This grim predicament did not arrive by stealth. It has been advertising itself for at least a decade. Growth in developing economies has now been ratcheting downward for three decades in a row—from an average of 5.9 percent in the 2000s to 5.1 percent in the 2010s to 3.7 percent in the 2020s. That happens to track the declining trajectory of growth in global trade—which has fallen from an average of 5.1 percent in the 2000s to 4.6 percent in the 2010s to 2.6 percent in the 2020s. Investment, meanwhile, has been growing at a progressively weaker pace. But debt is piling up.

In short, many of the forces behind the great economic miracle of the last 50 years—when per capita GDP in developing countries nearly quadrupled and more than 1 billion people escaped extreme poverty—have swung into reverse. Conditions that might have facilitated relatively painless policy corrections have come and gone—the record-low interest rates that prevailed in the first two decades of this century, for example, are now a thing of the past. Through it all, policymakers mostly stood still, hoping that conditions would somehow improve on their own. That was a false hope, but it is never too late to do the right thing. This report outlines three priorities:

First, *rebuild trade relations*. The evidence is clear: economic cooperation is better than any of the alternatives—for all parties. Our analysis suggests that if today's trade disputes were resolved with agreements that halve tariffs relative to their levels in late May, 2025, global growth could be stronger by about 0.2 percentage point on average over the course of 2025 and 2026.

Most developing economies today tend to have far higher tariffs than high-income economies. If their goal is to accelerate growth, their best course of action will be to lower tariffs with respect to *all* trading partners. Converting preferential trade agreements—mainly involving tariffs—into "deep trade agreements" that span the full range of cross-border regulatory policies could also juice GDP growth. Developing economies also have a crucial role to play in restoring a fully functional, rules-based trade system, specifically through the World Trade Organization (WTO). Predictability cuts trade costs, which in turn boosts GDP growth.

Second, *restore fiscal order*. It's fair to say that the succession of economic shocks in the 2020s has made a mess of government finances in many developing economies. But they were hardly the sole cause: in the era of easy money that preceded the COVID-19 pandemic, governments opted to take too many risks for far too long. The bill is

now due: fiscal deficits so far in the 2020s have averaged nearly 6 percent in developing economies, the highest level of this century. Interest costs alone account for about a third of the deficits. In low-income countries, the budget squeeze has been intensified by a drop in foreign aid, which finances a big share of critical needs such as health care. It should be no surprise that more than half of low-income countries are now either in debt distress or at high risk of it.

Developing economies need to expand their fiscal room to maneuver. They have a lot of work to do in this regard, because they collect far less in revenues than high-income economies do—about 25 percent of GDP compared with nearly 40 percent of GDP in the wealthiest economies. They should step up efforts to mobilize greater domestic resources—by broadening the tax base and strengthening tax administration and collection to reduce tax avoidance and profit-shifting. They can also reap significant gains by narrowing the focus of costly food and fuel subsidies, channeling them simply toward low-income households.

Third, *accelerate job creation*. Across the world, a historic demographic shift is underway—one that is intensifying the need for jobs in many of the poorest countries. Sub-Saharan Africa's working-age population is forecast to almost double by 2050, growing by more than 600 million, more than any region has ever experienced over a 25-year period. South Asia's working-age population is expected to expand by nearly 300 million over the same timeframe, and the Middle East and North Africa's by more than 100 million.

Whether these regions succeed or fail in tackling the challenge will determine the outlook for long-term global peace and prosperity. They will need to accelerate economic growth, upgrade the workforce's education and skills, and set the stage for labor markets to function efficiently.

The global economy today is at an inflection point. The forces that once drove economic convergence and lifted billions out of poverty are now in retreat. But this moment offers a chance to reset the agenda—with renewed global cooperation, restored fiscal responsibility, and a relentless focus on creating jobs. With decisive action, governments across the world can still regain the momentum of poverty reduction—and deliver rising living standards for the next generation.

Indermit Gill
Senior Vice President and Chief Economist
The World Bank Group

Executive Summary

After a succession of adverse shocks in recent years, the global economy is facing another substantial headwind, with increased trade tension and heightened policy uncertainty. This is contributing to a deterioration in prospects across most of the world's economies. For emerging market and developing economies (EMDEs), the ability to narrow per capita income gaps with richer countries, boost job creation, and reduce extreme poverty remains insufficient. Downside risks to the outlook predominate, including an escalation of trade barriers, persistent policy uncertainty, rising geopolitical tensions, and an increased incidence of extreme climate events. Conversely, policy uncertainty and trade tensions may ease if major economies succeed in reaching lasting agreements that address ongoing trade disputes. The challenging global context faced by EMDEs is compounded by the fact that foreign direct investment inflows into these economies have fallen to less than half of their peak level in 2008 and are likely to remain subdued. Global cooperation is needed to restore a more stable and transparent global trade environment and scale up support for vulnerable countries grappling with conflict, debt burdens, and climate change. Across EMDEs, domestic policy action is also critical to contain inflation risks, strengthen fiscal resilience through improved revenue mobilization, and reprioritize spending. To unlock job creation and long-term growth, structural reforms must focus on raising institutional quality, attracting private investment, and strengthening human capital and labor markets. In particular, countries in fragile and conflict situations (FCS) face daunting development challenges that will require tailored domestic policy reforms, underpinned by well-coordinated multilateral support.

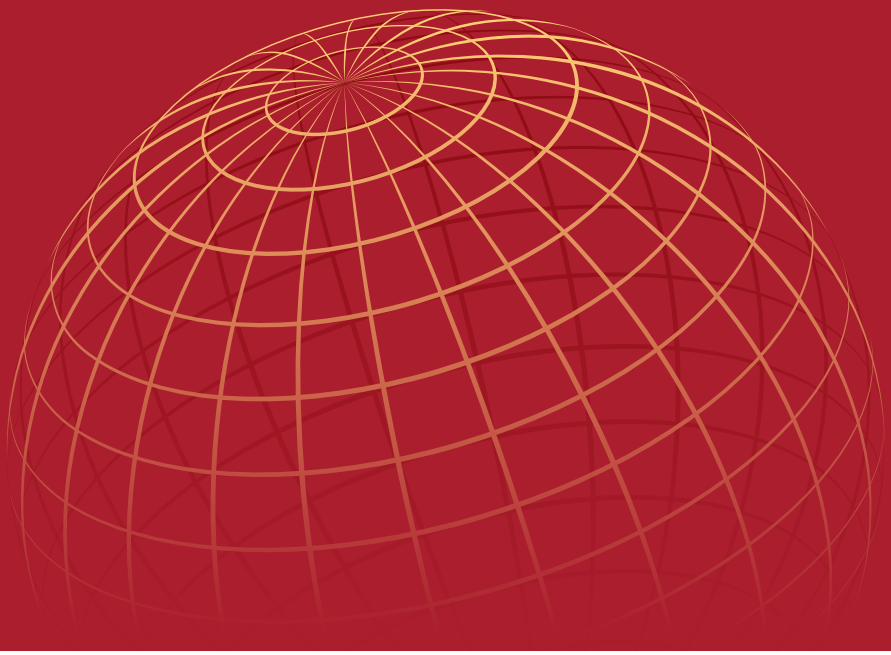
Global Outlook. Global growth is slowing due to a substantial rise in trade barriers and the pervasive effects of an uncertain global policy environment. Growth is expected to weaken to 2.3 percent in 2025, with deceleration in most economies relative to last year. This would mark the slowest rate of global growth since 2008, aside from outright global recessions. In 2026-27, a tepid recovery is expected, leaving global output materially below January projections. Progress by emerging market and developing economies (EMDEs) in closing per capita income gaps with advanced economies and reducing extreme poverty is anticipated to remain insufficient. The outlook largely hinges on the evolution of trade policy globally. Growth could turn out to be lower if trade restrictions escalate or if policy uncertainty persists, which could also result in a build-up of financial stress. Other downside risks include weaker-than-expected growth in major economies with adverse global spillovers, worsening conflicts, and extreme weather events. On the upside, uncertainty and trade barriers could diminish if major economies reach lasting agreements that address trade tensions. The ongoing global headwinds underscore the need for determined multilateral policy efforts to foster a more predictable and transparent environment for resolving trade tensions, some of which stem from macroeconomic imbalances. Global policy efforts are also needed to confront the deteriorating circumstances of vulnerable EMDEs amid prevalent conflict and debt distress, while addressing long-standing challenges, including the effects of climate change. National policy makers need to contain risks related to inflation as well as strengthen their fiscal positions by raising additional domestic revenues and re-prioritizing spending. To facilitate job creation and boost long-term growth prospects in EMDEs, reforms are essential to enhance institutional quality, stimulate private investment growth, develop human capital, and improve labor market functioning.

Regional Prospects. All EMDE regions face a challenging outlook amid the rise in trade tensions and heightened global uncertainty. In 2025, growth is projected to slow in East Asia and Pacific as well as in Europe and Central Asia—both regions that are highly reliant on global trade—and, to a lesser extent, in South Asia. In Latin America and the Caribbean, growth is projected to be the lowest among

EMDE regions over the forecast horizon, as activity is held back by high trade barriers and long-standing structural weaknesses. In regions with a large number of commodity exporters, including in the Middle East and North Africa and Sub-Saharan Africa, growth is anticipated to face drags from the weakening outlook for external commodity demand. Against the backdrop of a deteriorating global environment, growth forecasts for 2025 have been downgraded in all EMDE regions relative to January projections.

Abbreviations

AE	advanced economy
AI	artificial intelligence
CFA	African Financial Community
CPI	consumer price index
EAP	East Asia and Pacific
ECA	Europe and Central Asia
EM7	Brazil, China, India, Indonesia, Mexico, the Russian Federation, and Türkiye
EMBI	Emerging Markets Bond Index
EMDEs	emerging market and developing economies
EU	European Union
FCS	fragile and conflict-affected situations
FDI	foreign direct investment
FY	fiscal year
GCC	Gulf Cooperation Council
GDP	gross domestic product
GNI	gross national income
GVCs	global value chains
IDA	International Development Association
IMF	International Monetary Fund
KNOMAD	Global Knowledge Partnership on Migration and Development
LAC	Latin America and the Caribbean
LIC	low-income country
LNG	liquefied natural gas
M&A	mergers and acquisitions
MNA	Middle East and North Africa
MNEs	multinational enterprises
NDVIs	normalized difference vegetation indices
ODA	official development assistance
OECD	Organisation for Economic Co-operation and Development
OPEC+	Organization of the Petroleum Exporting Countries and other affiliated oil producers
PMI	purchasing managers' index
PPP	purchasing power parity
PVAR	panel vector autoregression
R&D	research and development
SAR	South Asia
SSA	Sub-Saharan Africa
SVAR	structural vector autoregression
TFP	total factor productivity
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
VAR	vector autoregression
WDI	World Development Indicators
WTO	World Trade Organization



CHAPTER 1

GLOBAL OUTLOOK

Global growth is slowing due to a substantial rise in trade barriers and the pervasive effects of an uncertain global policy environment. Growth is expected to weaken to 2.3 percent in 2025, with deceleration in most economies relative to last year. This would mark the slowest rate of global growth since 2008, aside from outright global recessions. In 2026-27, a tepid recovery is expected, leaving global output materially below January projections. Progress by emerging market and developing economies (EMDEs) in closing per capita income gaps with advanced economies and reducing extreme poverty is anticipated to remain insufficient. The outlook largely hinges on the evolution of trade policy globally. Growth could turn out to be lower if trade restrictions escalate or if policy uncertainty persists, which could also result in a build-up of financial stress. Other downside risks include weaker-than-expected growth in major economies with adverse global spillovers, worsening conflicts, and extreme weather events. On the upside, uncertainty and trade barriers could diminish if major economies reach lasting agreements that address trade tensions. The ongoing global headwinds underscore the need for determined multilateral policy efforts to foster a more predictable and transparent environment for resolving trade tensions, some of which stem from macroeconomic imbalances. Global policy efforts are also needed to confront the deteriorating circumstances of vulnerable EMDEs amid prevalent conflict and debt distress, while addressing long-standing challenges, including the effects of climate change. National policy makers need to contain risks related to inflation as well as strengthen their fiscal positions by raising additional domestic revenues and re-prioritizing spending. To facilitate job creation and boost long-term growth prospects in EMDEs, reforms are essential to enhance institutional quality, stimulate private investment growth, develop human capital, and improve labor market functioning.

Summary

After being buffeted by a series of adverse shocks over 2020-24, the global economy is facing another significant headwind this year, with increased trade barriers and heightened policy uncertainty leading to a notable deterioration of the outlook relative to January (figure 1.1.A). In particular, global output is expected to grow at its weakest pace since 2008, aside from outright global recessions (figure 1.1.B). The sharp increase in tariffs and the ensuing uncertainty are contributing to a broad-based growth slowdown and deteriorating prospects in most of the world's economies (figure 1.1.C). Subdued global growth prospects are unlikely to improve materially without policy actions to address increasing trade restrictions, geopolitical tensions, heightened uncertainty, and limited fiscal space.

The global outlook is predicated on tariff rates close to those of late May prevailing throughout the forecast horizon. Accordingly, pauses to previously announced tariff hikes between the United States and its trading partners are assumed to persist. This baseline nonetheless entails the highest U.S. average effective tariff rate in nearly a century. In addition, in view of recent rapid shifts in trade policies and the potential for a return to even higher tariffs, consumers and businesses continue to grapple with unusually elevated uncertainty (figure 1.1.D). In this context, a prospective recovery in global trade and investment—two important drivers of long-term development that have been relatively subdued in recent years—has been disrupted.

Commodity prices plunged in early April in response to deteriorating growth prospects. Oil prices posted an especially large decline, with the effects of a notable hike in oil production by OPEC+ nations compounded by a muted outlook for oil demand growth (figure 1.1.E). Base metal prices also dropped as markets priced in substantial headwinds to global manufacturing and industrial activity but have since partially recovered. Overall commodity prices are forecast to decline by 10 percent in 2025, softening further in 2026—mainly due to falling oil prices.

Global headline inflation generally remains elevated relative to central bank targets and pre-pandemic averages and has even risen in some advanced economies since late last year. Slower

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Note: This chapter was prepared by Carlos Arteta, Phil Kenworthy, Nikita Perevalov, Peter Selcuk, Garima Vasishtha, and Collette Wheeler, with contributions from Mirco Balatti, Jongrim Ha, Samuel Hill, Gitanjali Kumar, Dawit Mekonnen, Alen Mulabdic, Edoardo Palombo, Shijie Shi, Naotaka Sugawara, and Takuma Tanaka.

TABLE 1.1 Real GDP[1]

(Percent change from previous year unless indicated otherwise)

	2022	2023	2024e	2025f	2026f	2027f	Percentage-point differences from January 2025 projections 2025f	2026f
World	**3.3**	**2.8**	**2.8**	**2.3**	**2.4**	**2.6**	**-0.4**	**-0.3**
Advanced economies	**2.9**	**1.7**	**1.7**	**1.2**	**1.4**	**1.5**	**-0.5**	**-0.4**
United States	2.5	2.9	2.8	1.4	1.6	1.9	-0.9	-0.4
Euro area	3.5	0.4	0.9	0.7	0.8	1.0	-0.3	-0.4
Japan	0.9	1.4	0.2	0.7	0.8	0.8	-0.5	-0.1
Emerging market and developing economies	**3.8**	**4.4**	**4.2**	**3.8**	**3.8**	**3.9**	**-0.3**	**-0.2**
East Asia and Pacific	3.6	5.2	5.0	4.5	4.0	4.0	-0.1	-0.1
China	3.1	5.4	5.0	4.5	4.0	3.9	0.0	0.0
Indonesia	5.3	5.0	5.0	4.7	4.8	5.0	-0.4	-0.3
Thailand	2.6	2.0	2.5	1.8	1.7	2.3	-1.1	-1.0
Europe and Central Asia	1.5	3.6	3.6	2.4	2.5	2.7	-0.1	-0.2
Russian Federation	-1.4	4.1	4.3	1.4	1.2	1.2	-0.2	0.1
Türkiye	5.5	5.1	3.2	3.1	3.6	4.2	0.5	-0.2
Poland	5.3	0.2	2.9	3.2	3.0	2.9	-0.2	-0.2
Latin America and the Caribbean	4.0	2.4	2.3	2.3	2.4	2.6	-0.2	-0.2
Brazil	3.0	3.2	3.4	2.4	2.2	2.3	0.2	-0.1
Mexico	3.7	3.3	1.5	0.2	1.1	1.8	-1.3	-0.5
Argentina	5.3	-1.6	-1.8	5.5	4.5	4.0	0.5	-0.2
Middle East and North Africa	5.4	1.6	1.9	2.7	3.7	4.1	-0.7	-0.4
Saudi Arabia	7.5	-0.8	1.3	2.8	4.5	4.6	-0.6	-0.9
Iran, Islamic Rep.[2]	3.8	5.0	3.0	-0.5	0.3	1.8	-3.2	-1.9
Egypt, Arab Rep.[2]	6.6	3.8	2.4	3.8	4.2	4.6	0.3	0.0
South Asia	6.0	7.4	6.0	5.8	6.1	6.2	-0.4	-0.1
India[2]	7.6	9.2	6.5	6.3	6.5	6.7	-0.4	-0.2
Bangladesh[2]	7.1	5.8	4.2	3.3	4.9	5.7	-0.8	-0.5
Pakistan[2]	6.2	-0.2	2.5	2.7	3.1	3.4	-0.1	-0.1
Sub-Saharan Africa	3.9	2.9	3.5	3.7	4.1	4.3	-0.4	-0.2
Nigeria	3.3	2.9	3.4	3.6	3.7	3.8	0.1	0.0
South Africa	2.1	0.8	0.5	0.7	1.1	1.3	-1.1	-0.8
Angola	3.0	1.0	4.4	2.7	2.6	3.2	-0.2	-0.3
Memorandum items:								
Real GDP[1]								
High-income countries	2.9	1.7	1.9	1.3	1.5	1.7	-0.5	-0.4
Middle-income countries	3.9	4.8	4.4	4.1	4.0	4.0	-0.2	-0.1
Low-income countries	4.4	2.8	4.6	5.3	6.1	6.0	-0.4	0.2
EMDEs excluding China	4.2	3.7	3.6	3.4	3.7	4.0	-0.4	-0.2
Commodity-exporting EMDEs	3.3	2.7	3.1	2.9	3.2	3.4	-0.3	-0.2
Commodity-importing EMDEs	4.0	5.2	4.7	4.3	4.1	4.2	-0.2	-0.1
Commodity-importing EMDEs excluding China	5.4	4.9	4.2	3.9	4.4	4.6	-0.5	-0.2
EM7	3.5	5.4	4.8	4.1	3.9	3.9	-0.1	0.0
World (PPP weights)[3]	3.5	3.4	3.3	2.9	3.0	3.1	-0.3	-0.2
World trade volume[4]	**5.9**	**0.8**	**3.4**	**1.8**	**2.4**	**2.7**	**-1.3**	**-0.8**
							Level differences from January 2025 projections	
Commodity prices[5]								
WBG commodity price index	142.5	108.0	105.1	94.2	89.0	91.9	-4.3	-7.7
Energy index	152.6	106.9	101.5	86.2	80.2	84.4	-7.4	-11.5
Oil (US$ per barrel)	99.8	82.6	80.7	66.0	61.0	65.0	-6.0	-10.0
Non-energy index	122.1	110.2	112.5	110.3	106.8	107.1	1.8	-0.2

Source: World Bank.

Note: e = estimate; f = forecast. EM7 = Brazil, China, India, Indonesia, Mexico, the Russian Federation, and Türkiye. WBG = World Bank Group. World Bank forecasts are frequently updated based on new information. Consequently, projections presented here may differ from those contained in other World Bank documents, even if basic assessments of countries' prospects do not differ at any given date. For the definition of EMDEs, developing countries, commodity exporters, and commodity importers, please refer to table 1.2. The World Bank is currently not publishing economic output, income, or growth data for Turkmenistan and República Bolivariana de Venezuela owing to lack of reliable data of adequate quality. Turkmenistan and República Bolivariana de Venezuela are excluded from cross-country macroeconomic aggregates.

1. Headline aggregate growth rates are calculated using GDP weights at average 2010-19 prices and market exchange rates.
2. GDP growth rates are on a fiscal year (FY) basis. Aggregates that include these countries are calculated using data compiled on a calendar year basis. For India and the Islamic Republic of Iran, the column for 2022 refers to FY2022/23. For Bangladesh, the Arab Republic of Egypt, and Pakistan, the column for 2022 refers to FY2021/22. Pakistan's growth rates are based on GDP at factor cost.
3. World growth rates are calculated using average 2010-19 purchasing power parity (PPP) weights, which attribute a greater share of global GDP to emerging market and developing economies (EMDEs) than market exchange rates.
4. World trade volume of goods and nonfactor services.
5. Indexes are expressed in nominal U.S. dollars (2010 = 100). Oil refers to the Brent crude oil benchmark. For weights and composition of indexes, see https://worldbank.org/commodities.

disinflation globally over the last six months has largely reflected continuing inflationary pressures from services prices. The recent rise in consumer inflation expectations has been influenced by the implementation of trade restrictions. In addition, core inflation in some economies is expected to remain high due to persistent services price increases. In all, GDP-weighted global inflation is projected to average 2.9 percent in 2025 and 2026—still a little above the average inflation target—but with notable heterogeneity across economies.

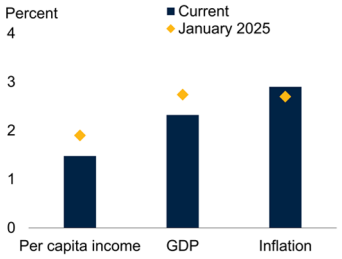
Global financial conditions have been tighter this year, on average, relative to late 2024, principally reflecting trade policy uncertainty. Volatility in financial markets spiked and equity markets plunged globally as trade tensions escalated in early April; however, asset prices largely recovered after an initial 90-day tariff pause was announced and following the rollback in U.S.-China tariffs in May (figure 1.1.F). Long-term government bond yields in major advanced economies have increased since late last year, albeit with pronounced volatility. EMDE financial conditions are also somewhat tighter, on average, relative to late last year. In early April, many EMDEs saw sharp declines in equity markets amid a surge in capital outflows. Sovereign spreads rose, albeit to differing degrees based on economies' exposure to announced trade barriers. Nevertheless, EMDE equity markets regained ground and spreads narrowed again following the partial de-escalation in trade tensions.

Against this backdrop, global growth is set to slow this year, to 2.3 percent—substantially weaker than previously projected amid the impact of higher trade barriers, elevated uncertainty, increased financial volatility, and weakened confidence. Thereafter, growth is forecast to firm to about 2.5 percent over 2026-27, as trade flows continue adjusting to higher tariffs such that global trade edges up, while policy uncertainty moderates from record-high levels. The downgrade to global growth this year is principally driven by advanced economies (figure 1.2.A). This slowdown is projected to be concentrated on investment, including foreign direct investment (FDI) and portfolio flows—which tend to respond

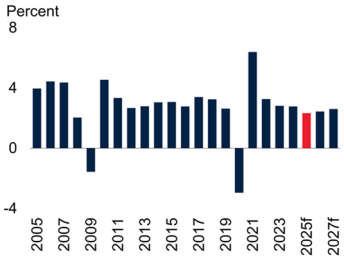
FIGURE 1.1 Global economic prospects

The global outlook has deteriorated substantially relative to January, with global growth in 2025 expected to register its weakest pace since 2008, aside from outright global recessions. This deterioration is broad-based across the world's economies and follows sharp increases in trade tensions and policy uncertainty. The slowdown in global growth will erode demand for oil and various other commodities, weighing on the outlook for many EMDE commodity exporters. Following U.S. tariff announcements, financial markets experienced substantial turbulence, with a spike in equity market volatility and a rise in EMDE sovereign bond spreads, although these subsequently subsided.

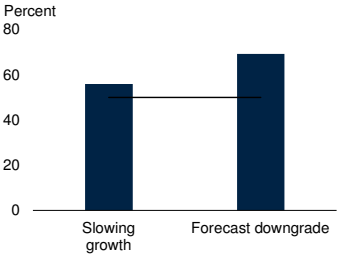
A. Global growth, per capita income growth, and inflation in 2025



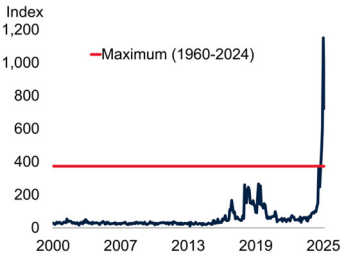
B. Global output growth



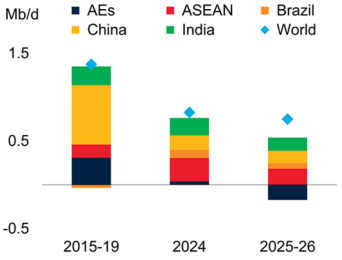
C. Share of economies with slowing/ downgraded growth in 2025



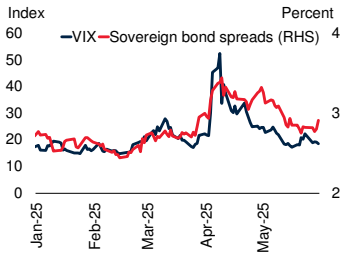
D. Global trade policy uncertainty



E. Change in global oil demand



F. Equity market volatility and EMDE bond spreads



Sources: Caldara et al. (2020); Haver Analytics; International Energy Agency (IEA); J.P. Morgan; UN World Population Prospects; World Bank.

Note: f = forecast. AEs = advanced economies; ASEAN = Association of Southeast Asian Nations; EMDEs = emerging market and developing economies; mb/d = million barrels per day; GDP aggregates calculated using real U.S. dollar GDP weights at average 2010-19 prices and market exchange rates.

A. Blue bars "current" correspond to the current edition of the *Global Economic Prospects* (GEP) report and yellow diamonds "January 2025" correspond to the January 2025 edition of the GEP.

B. Data for 2024 are estimates; data for 2025–27 are forecasts.

C. Panel shows the share of economies with slowing growth and with growth outlook downgraded relative to January 2025 forecasts. Horizontal line shows 50 percent.

D. Trade Policy Uncertainty Index, based on automated text searches of the electronic archives of seven newspapers. A higher value indicates higher trade policy uncertainty. Last observation is May 2025.

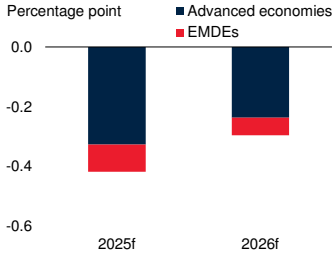
E. Bars indicate the average change in annual oil demand in mb/d for the selected periods. Data based on IEA's Oil Market Report, May 2025 edition. 2025 and 2026 are projections.

F. Blue line represents the daily CBOE Volatility Index, which measures market expectations of near-term volatility conveyed by stock index option prices. Red line represents the median sovereign bond spread for a sample of up to 71 EMDEs. Last observation is May 30, 2025.

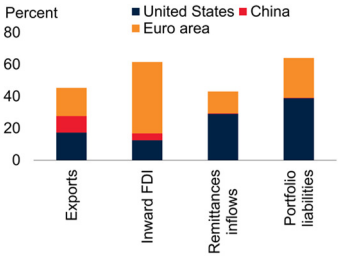
FIGURE 1.2 Global economic prospects (*continued*)

The deterioration in the global outlook has largely emanated from trade shocks, with forecasts for advanced economies downgraded markedly. These shocks are set to weigh on EMDEs via trade, financial, and investment flows with major economies. Risks are tilted to the downside. Global growth could be even lower if an escalation of trade tensions and uncertainty further weakens investment, trade, and confidence. Geopolitical fragmentation could accelerate if trade or geopolitical tensions worsen. In EMDEs, a higher incidence of conflict could lead to lasting output losses. A downside scenario of renewed trade tensions could push the world economy into an extended period of anemic growth.

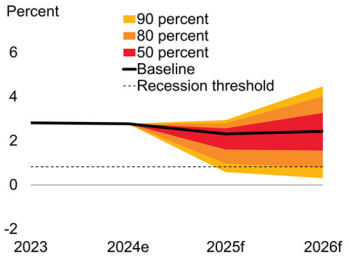
A. Contributions to global growth downgrades in 2025 and 2026



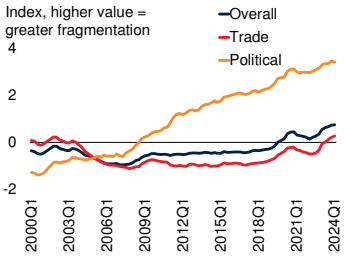
B. Trade and financial linkages between major economies and EMDEs excluding China



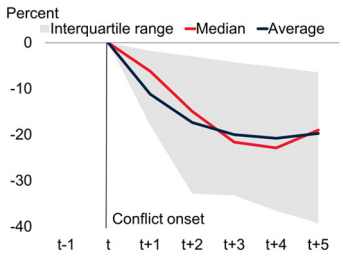
C. Probability distribution around global growth forecast



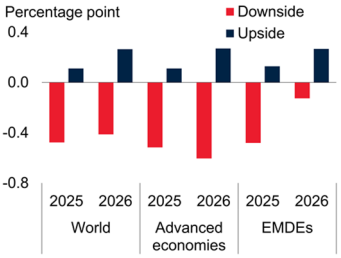
D. Geopolitical Fragmentation Index



E. Cumulative loss of per capita GDP following the onset of high-intensity conflicts



F. Change in global growth in alternative scenarios



Sources: BIS (database); Bloomberg; Consensus Economics; Fernández-Villaverde, Mineyama, and Song (2025); IMF Coordinated Direct Investment Survey (database); Ohnsorge, Stocker, and Some (2016); Uppsala Conflict Data Program; Oxford Economics; World Bank (WITS; KNOMAD).

Note: e = estimate; f = forecast. EMDEs = emerging market and developing economies; FDI = foreign direct investment; GDP aggregates calculated using real U.S. dollar GDP weights at average 2010-19 prices and market exchange rates.

A. Contributions to the global growth downgrade between the current and the January 2025 editions of *Global Economic Prospects*.

B. Bars show, for EMDEs excluding China, the share of total exports (total inward FDI positions, remittance inflows, and portfolio liabilities) that are to (from) China, the euro area, and the United States. See figure 1.11.C for details.

C. The dashed line is the global recession threshold (below zero per capita growth). Probabilities use the range and skewness implied by oil and equity price derivatives, and term spread forecasts. Last observation is May 2025.

D. Last observation is 2024Q1. See figure 1.13.B for details.

E. Lines show the cumulative gap between forecasted and actual per capita GDP following high-intensity conflict. Sample includes 14 conflicts in 14 EMDEs (3 not currently FCS) from 2006–23. See figure 1.12.E for details.

F. Panel shows the deviation of aggregate growth in the upside and downside scenarios, using Oxford Economics' Global Economic Model.

more to demand shifts than aggregate output—and trade, with widespread adverse spillovers to other economies (figure 1.2.B).

Growth in EMDEs is expected to slow in 2025, to 3.8 percent, before edging up a touch over 2026-27, to 3.9 percent. China's economy is projected to decelerate across the forecast horizon, as a near-term boost from fiscal policy fades amid slowing potential growth. Meanwhile, near-term growth in many other EMDEs is anticipated to decelerate amid weakening investment, which is likely to more than offset any possible benefits from trade diversion during the forecast period. Against the backdrop of a deteriorating external environment, progress by EMDEs in closing sizable per capita income gaps with advanced economies, spurring job creation, or reducing extreme poverty rates is anticipated to remain insufficient, leaving poverty rates above pre-pandemic levels in many poorer or fragile EMDEs. At the same time, many of these economies are set to face a looming jobs challenge in the coming decades, especially if employment growth continues to be outstripped by population growth.

Risks to the global outlook remain tilted decidedly to the downside (figure 1.2.C). High and persistent policy uncertainty—particularly related to trade—could lead to greater-than-expected weakening in investment, trade, and confidence. Renewed increases in trade restrictions could push inflation higher in key economies, magnifying real income losses and limiting the scope for major central banks to support flagging growth by lowering policy rates. This backdrop also implies several potential triggers for a souring of financial risk appetite, which could reverberate globally and amplify downside surprises to growth. Even with efforts to resolve some major conflicts, geopolitical tensions and regional conflict risks persist in many parts of the world and could contribute to further geopolitical fragmentation (figure 1.2.D). Moreover, worsening conflict could generate lasting, concentrated output losses, particularly in EMDEs (figure 1.2.E). Natural disasters, the frequency and intensity of which have increased over time, pose another ever-present threat in many economies.

Nonetheless, there are also some notable upside risks to growth. A cooling of trade tensions on the back of recent and ongoing negotiations—for instance, through further trade agreements between large economies that secure lower tariffs—would curb uncertainty, limit trade disruptions, and strengthen business and consumer confidence. A synchronous loosening of fiscal policy in several large economies could mitigate the downward pressures on demand, albeit while also exerting upward pressure on inflation, government debt levels, and interest rates. Efforts to widely employ recent advances in technology—notably artificial intelligence (AI)—could give rise to stronger-than-anticipated global investment growth and start to feed into broad productivity improvements.

To quantify downside risks concerning trade policy, a scenario is modeled in which U.S. weighted average tariffs increase by about 10 percentage points relative to the baseline, with proportional retaliation from trading partners. This sudden escalation in trade barriers results in global trade seizing up in the second half of this year and is accompanied by a widespread collapse in confidence, surging uncertainty, and turmoil in financial markets. The combination of these multiplying shocks reduces global growth, by 0.5 and 0.4 percentage point in 2025 and 2026, relative to the baseline, tipping the world economy into an extended period of anemic growth (figure 1.2.F). In contrast, an upside scenario features further trade agreements that halve tariffs relative to the baseline and reduce trade-related uncertainty. Under these conditions, global growth would be higher compared with the baseline by 0.1 and 0.3 percentage point in the next two years.

The challenging global context highlights the need for policy action at both global and national levels. To mitigate the adverse impact of elevated trade barriers and policy uncertainty on global growth, a key priority is to foster dialogue and cooperation to address global imbalances and restore a more predictable, transparent, and rules-based approach to resolving trade tensions and avoiding escalation. The global community also needs to confront the worsening circumstances of many vulnerable EMDEs amid debt distress, acute food insecurity, and prevalent conflict. Tackling these severe headwinds to growth and development has become more challenging considering declining aid flows from key donors. Meanwhile, reinvigorating global efforts toward climate change adaptation and mitigation is vital to limit the future economic and social costs of increasingly frequent natural disasters.

Policy action at the domestic level is critical. Some EMDE central banks will face a difficult balancing act between addressing continuing price pressures, on the one hand, and seeking to moderate the contractionary effects of trade restrictions and policy uncertainty, on the other. This will require careful calibration of monetary policy tailored to each economy's circumstances. At the current juncture, some EMDEs may be especially prone to financial volatility and capital outflows, underscoring the importance of central bank credibility. With respect to fiscal policy, many EMDEs are not well positioned for the expected slowdown in growth, with fiscal deficits remaining above pre-pandemic averages and debt levels rising in many economies. To build fiscal space, EMDEs need to raise additional domestic revenues, especially where other sources of financing are drying up, while reprioritizing spending toward growth-enhancing measures and protecting vulnerable populations.

In the long run, the most sustainable solution to the wide range of challenges facing EMDEs—including insufficient job creation, slow poverty reduction, debt-related challenges, and scarce fiscal resources—is to foster stronger environments for private investment and raise potential growth. Reinvigorating FDI deserves particular attention, given its historical role as a vector of technology diffusion and productivity gains. Doing so would require improving institutions and safeguarding political, regulatory, and socioeconomic stability.

To help EMDEs create productive employment for growing working-age populations, measures to strengthen foundational infrastructure, address structural bottlenecks, and enhance private sector dynamism are critical. Priorities could include

policies that encourage upskilling workers, ease access to finance, and promote labor markets that better match workers and employers. Moreover, policy makers need to consider not only aggregate job creation but also the quality of jobs—for instance, by seeking to improve productivity, ensure good working conditions, and reduce barriers to firms expanding and formalizing. For EMDEs recently or currently embroiled in conflict, attaining durable peace and stability is paramount not only for limiting the human toll but also as a prerequisite for raising employment, human capital, and income levels.

Global context

Against the backdrop of heightened policy uncertainty and increased trade barriers, the global economic context has become more challenging, with the risk of further adverse policy shifts materializing, particularly with respect to trade relations among the largest economies. The rise in trade restrictions clouds the near-term trade outlook—despite solid trade growth earlier this year, which partly reflected the front-loading of imports by some large economies in anticipation of tariff hikes. Beyond the direct impact of higher tariffs, the potential for further rapid shifts in the timelines and magnitudes of trade-restrictive measures is a source of sentiment-sapping policy uncertainty. Commodity prices have fallen substantially, reflecting new headwinds to global manufacturing and broader industrial activity. With re-emerging pressures in core inflation globally, the pace of global disinflation has slowed, while survey-based inflation expectations in key countries have risen alongside tariff-related developments. Trade policy shifts and the associated increase in uncertainty weighed substantially on financial markets earlier this year, although risk appetite has largely recovered in recent weeks.

Global trade

Global trade conditions experienced a large shock in early April when the United States announced prospective tariffs on most trading partners, with rates proportional to bilateral goods trade deficits, in addition to previously announced tariffs. A sharp escalation of trade barriers between China and the United States followed. Subsequently, country-specific tariffs were reduced to a universal 10 percent—including in the case of China, with initially prohibitively high tariff rates being rolled back sharply in May. However, other tariff increases remain on China and other large trade partners. As a result, the effective U.S. tariff rate has been brought to levels not seen in almost a century (figure 1.3.A). Tariff rates in effect as of May 27 are assumed to prevail throughout the forecast period, but there is notable uncertainty in this regard. The baseline projections for global trade also incorporate important carve-outs for USMCA-compliant goods, pharmaceuticals, semiconductors, bullion, energy, copper, and other critical minerals, as well as retaliatory measures in place as of late May.

Shifting policy announcements have led to heightened global trade policy uncertainty, measures of which reached historical highs over the past few months (figure 1.3.B). This reflects uncertainty over whether current tariff rates will endure, their implementation, and the scale and timing of potential retaliatory responses. New tariff measures mark an intensification of the upward trend in trade-restrictive measures seen in recent years, with a significant risk of further escalation in trade barriers, as announced policies could generate substantial spillovers to third markets. These markets may respond by adopting protectionist measures to shield domestic industries from a surge in imports.

Prior to the recent tariff announcements, growth in global goods trade had accelerated at the turn of the year, partly reflecting inventory build-ups in anticipation of changes in trade policy in major economies (figure 1.3.C). The growth in goods trade has been relatively widespread, albeit with the pace of expansion in advanced economies exceeding that in EMDEs. Likely driven by the rush to front-load imports before tariffs took effect, the global new export orders manufacturing PMI subindex briefly entered expansionary territory in March, signaling temporary improvements in goods trade, before falling in April to its lowest level in 20 months. Global services trade growth has flattened out after several years of recovery from the pandemic, with travel activity approaching pre-pandemic levels. The

stabilization in services trade is also reflected in the continued softening of the expansion in the global services PMI.

Global trade growth in goods and services is projected to slow sharply in 2025, to 1.8 percent, from 3.4 percent in 2024 (figure 1.3.D). The forecast has been revised down by 1.3 percentage points since January, reflecting changes in trade policies in key economies and higher trade policy uncertainty. Increased tariffs are expected to weigh on global trade over the forecast horizon. In tandem with the projected pickup in global growth, trade growth is nonetheless forecast to firm from a feeble pace this year, reaching 2.4 percent in 2026 and 2.7 percent in 2027—still well below its pre-pandemic average of 4.6 percent. The forecast for global trade growth masks significant heterogeneity. Countries with greater export exposure to EMDE markets are projected to recover more rapidly than those more reliant on advanced economies, though elevated policy uncertainty and weakening demand could weigh on the recovery more broadly.

The outlook for global trade is subject to substantial downside risks, notably a renewed escalation of trade restrictions. Even absent further escalation, a related risk is that uncertainty about trade and other policies could slow investment, an import-intensive component of GDP, dampening trade more than anticipated.

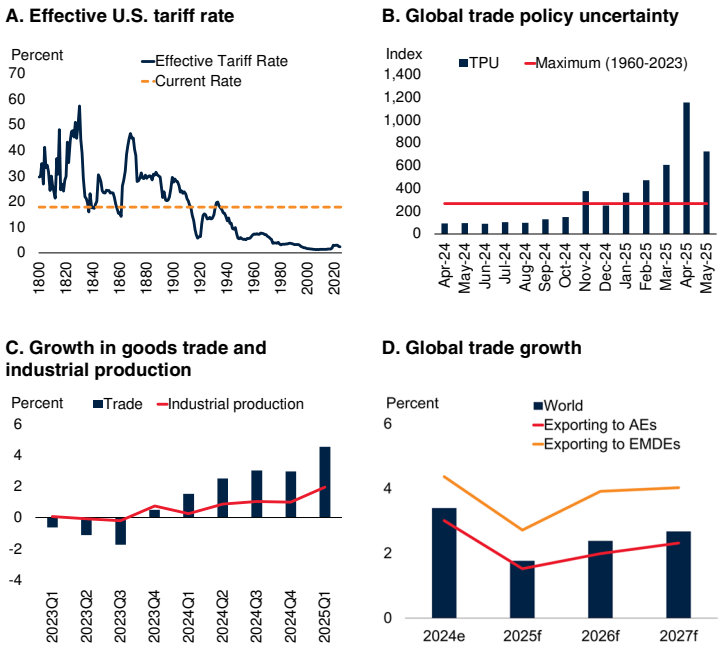
Commodity markets

Commodity prices have fallen since February, largely owing to weaker growth prospects amid increased trade barriers and policy uncertainty (figure 1.4.A). Largely reflecting these movements, annual average commodity prices are expected to decline by 10 percent in 2025 (figure 1.4.B). In 2026, commodity prices are projected to soften further, by 6 percent, as production of some energy and metals commodities expands and supply constraints on several agricultural commodities ease. Thereafter, commodity prices are projected to edge up as global growth continues to recover, supporting commodity consumption. Risks to the commodity price projections are tilted to the downside, as a renewed escalation of trade tensions between major economies could further weaken global trade and investment, undermining commodity demand.

Oil prices declined precipitously in early April, as worries about the effect of rising trade tensions on demand coincided with OPEC+ pivoting toward relatively rapid increases in oil production. Brent oil prices are projected to average $66 per barrel this year and $61 per barrel next year, with demand growth set to remain well below 2015-19

FIGURE 1.3 Global trade

The effective U.S. tariff rate has risen sharply in 2025 to its highest level in almost a century. Trade policy uncertainty, which has reached record-high levels, could further weaken trade prospects. Global goods trade growth had firmed at the turn of the year, partly reflecting inventory build-ups ahead of new tariff announcements. Global trade growth is projected to slow substantially in 2025 and then firm in 2026–27, in line with the projected pickup in global growth.



Sources: Caldara et al. (2020); CPB Netherlands Bureau of Economic Analysis; IMF; The Budget Lab; World Bank.

Note: e = estimate; f = forecast. AEs = advanced economies; EMDEs = emerging market and developing economies. Trade in goods and services is measured as the average of export and import volumes.

A. Panel shows historical and projected customs duty revenues based on tariffs in force as of May 12, 2025, as a share of goods imports, without accounting for potential shifts in consumer and business purchasing behavior in response to tariff increases.

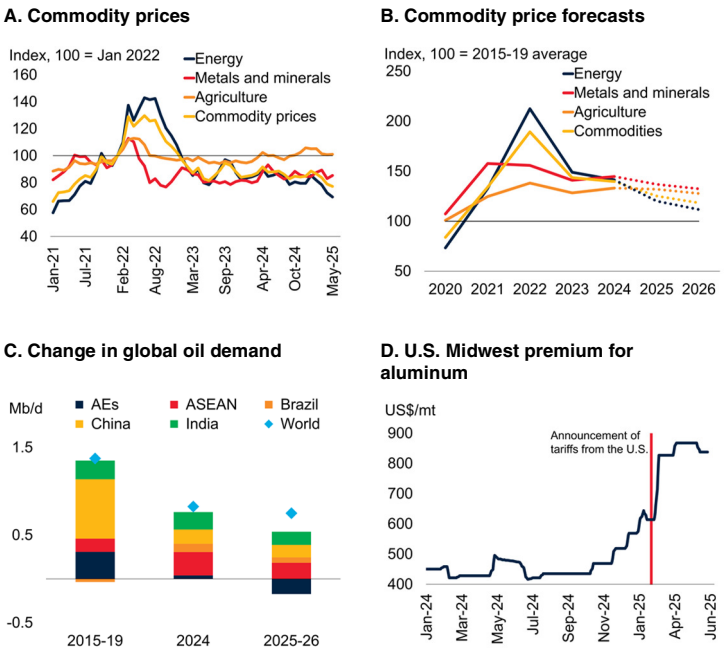
B. Trade Policy Uncertainty index, based on automated text searches of the electronic archives of seven newspapers: *Boston Globe, Chicago Tribune, Guardian, Los Angeles Times, New York Times, Wall Street Journal*, and *Washington Post*. A higher value indicates higher trade policy uncertainty. Last observation is May 2025.

C. Panel shows the annual percentage change in goods trade volume and industrial production. Last observation is March 2025.

D. Panel shows the growth of global trade volume in goods and services. "Exporting to AEs" refers to trade growth for countries with over 50 percent of exports to advanced economies during the 2015-19 period; "Exporting to EMDEs" refers to trade growth for countries with over 50 percent of exports to EMDEs during the 2015-19 period.

FIGURE 1.4 Commodity markets

Commodity prices have fallen, partly reflecting deteriorating growth prospects due to increased trade tensions and policy uncertainty. Annual average prices are expected to decline markedly in 2025 and soften further in 2026. Energy prices are forecast to decrease by 15 percent this year, reflecting increases in oil production from OPEC+ and weakening demand growth, which is set to remain well below 2015-19 levels. From early in 2025, the front-running of new trade-restrictive measures buoyed aluminum prices to well above global benchmarks.



Sources: Bloomberg; International Energy Agency (IEA); World Bank.
Note: AEs = advanced economies; ASEAN = Association of Southeast Asian Nations; IEA = International Energy Agency; mb/d = million barrels per day.
A.B. "Commodity prices"/ "Commodities" line refers to the World Bank Commodity Price Index, excluding precious metals.
A. Monthly prices. Last observation is May 2025.
B. Dashed lines indicate forecasts.
C. Bars indicate the average change in annual oil demand in mb/d for the selected periods. Data based on IEA's Oil Market Report, May 2025 edition. 2025 and 2026 are projections. ASEAN includes the following members: Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Viet Nam. Data for Lao PDR is excluded from the calculations due to its unavailability.
D. Five-day moving average of July 2025 futures contract for aluminum Midwest premium. Premium reflects the additional cost above the London Metal Exchange price for aluminum delivered to U.S. Midwest. Last observation is June 3, 2025.

levels (figure 1.4.C). In contrast, annual average natural gas prices are set to climb markedly this year, due mainly to a more than 50 percent jump in U.S. natural gas prices. While European natural gas prices have generally fallen in recent months due to mild weather and adequate inventories, U.S. prices have been buoyed by the ongoing structural expansion of LNG exports. In all, energy prices are projected to decrease by 15 percent in 2025 and 7 percent in 2026, before increasing somewhat in 2027 as oil prices firm.

Agricultural commodity prices are forecast to be little changed this year and decrease slightly in 2026-27. In 2025, a surge in beverage prices—reflecting weather-related supply shocks to coffee and cocoa—is expected to be offset by a decline in food commodity prices, partly owing to mounting rice stocks and record-high soybean production. In addition, maize prices are projected to edge down, in part due to lower oil prices reducing demand for maize-derived ethanol. In 2026-27, beverage prices are expected to start normalizing, with food prices broadly holding steady, such that overall agricultural prices are forecast to soften slightly.

Metal prices (excluding precious metals) fell sharply in early April as global growth prospects deteriorated, before partially recovering as trade tensions cooled somewhat. From earlier in the year, copper and aluminum prices were bolstered by the front-running of prospective tariff increases, with U.S. aluminum prices substantially exceeding the global benchmark (figure 1.4.D). In all, the metals index is projected to drop by 5 percent in 2025 and drift lower in 2026 before stabilizing. Prices for most base metals are set to decline this year, reflecting trade-related headwinds to global manufacturing. The precious metals price index—reflecting principally gold but also silver and platinum—is projected to buck the broader trend, increasing by more than 30 percent in 2025. Annual average gold prices are expected to reach a record high this year, supported by safe haven flows, before plateauing in 2026-27.

Global inflation

Global headline consumer price inflation has remained elevated above pre-pandemic norms over the past year, briefly edging higher in some advanced economies in early 2025 (figure 1.5.A). Continued tightness in labor markets has kept core inflation at a somewhat elevated level in many economies. In EMDEs, monthly headline inflation readings were volatile earlier this year, with a pickup in core inflation partly reflecting rising services prices and wage pressures.

The outlook for global inflation has become more uncertain since last year due to a combination of shocks. Most notably, substantial tariff hikes are

set to exert upward pressure on consumer inflation in key economies by raising prices for imported consumer goods and inputs into production and redirecting demand toward domestic production that is relatively inelastic in the short run (Barbiero and Stein 2025). Indeed, manufacturing purchasing managers in advanced economies have already reported accelerating input and output prices so far this year (figure 1.5.B). Even so, outside economies where import duties have significantly increased, higher trade barriers are likely to be generally deflationary as they weaken external demand. There may nevertheless be other upside risks to inflation in these economies that are indirectly associated with trade restrictions. These include the potential for damage to global supply chains to push up prices in unpredictable ways, and the possibility of sizable currency depreciations.

Inflation expectations, particularly at the shorter horizon, have picked up in 2025, mainly in some major economies (figure 1.5.C). This is likely explained by the expected impact of tariff increases on consumer prices, even as trade tensions weigh on economic activity and commodity prices. Persistent underlying inflationary pressures, coupled with the impact of rising tariffs and trade-protectionist measures, are anticipated to delay the normalization of global inflation to levels broadly consistent with inflation targets. On a GDP-weighted basis, global inflation is projected to average 2.9 percent in both 2025 and 2026, before easing to 2.5 percent in 2027—about in line with the average inflation target. However, there is significant heterogeneity across countries, with inflation projections revised slightly lower in EMDEs in 2025 due to the impact of weaker demand for traded goods, while being revised significantly higher in advanced economies, primarily the United States (figure 1.5.D).

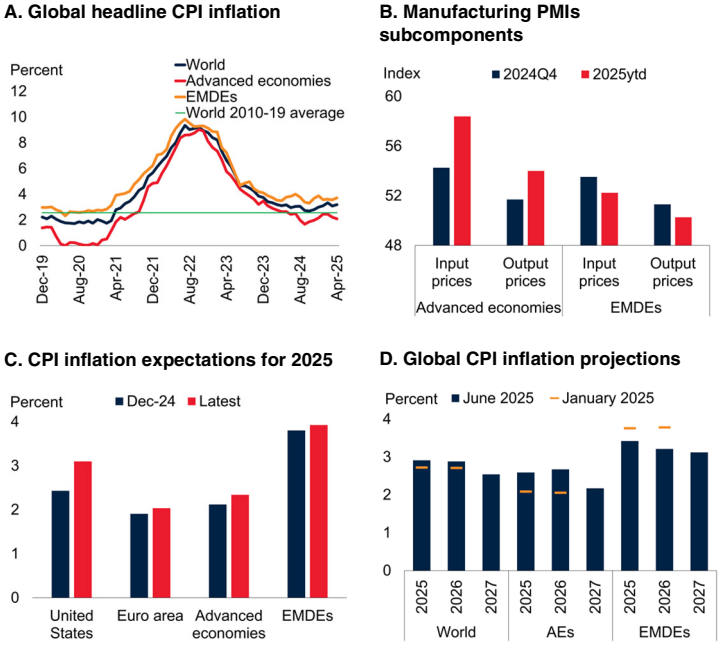
Global financial developments

Global financial conditions have been tighter this year, on average, compared to late 2024, due to financial market volatility and some decline in risk appetite, fueled by elevated trade policy uncertainty (figure 1.6.A). The surge in and then partial de-escalation of trade tensions in the second quarter led to marked financial market turbulence, including in core government bond markets. Global equity markets plunged in early April, followed by a recovery driven by the postponement of some tariffs and the partial rollback of tariffs between the United States and China. Risk premia in U.S. equity and corporate credit markets, as gauged by cyclically adjusted equity earnings relative to the risk-free rate and high-yield spreads, have increased this year, albeit from very low levels (figure 1.6.B).

Monetary policy in the United States remains restrictive, with policy rates unchanged so far this

FIGURE 1.5 Global inflation

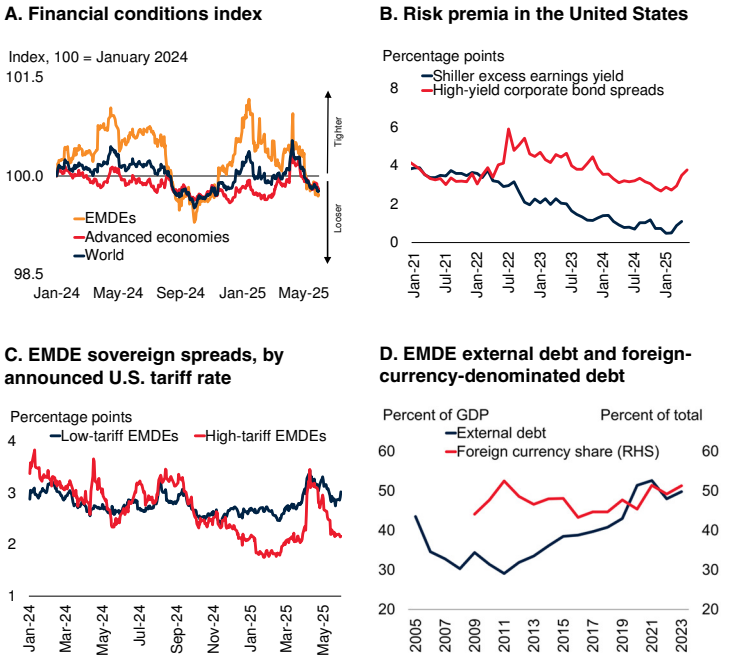
Global headline inflation has remained somewhat elevated over the past year, briefly edging higher in advanced economies in early 2025. Tariff-induced upward pressure on prices has begun to build along supply chains, particularly in advanced economies, with manufacturing surveys pointing to rising input and output prices. Inflation expectations have picked up in 2025, especially in some major economies. Inflation projections in 2025-26 have been revised slightly lower in EMDEs on account of weaker demand for traded goods, while being revised notably higher in advanced economies, primarily the United States.



Sources: Consensus Economics; Haver Analytics; Oxford Economics; World Bank.
Note: CPI = consumer price index; EMDEs = emerging market and developing economies; PMI = purchasing managers' index; ytd = year to date.
A. Aggregates are calculated as medians. Sample includes up to 36 advanced economies and 99 EMDEs. Last observation is April 2025.
B. Aggregated by source. PMI readings above (below) 50 indicate expansion (contraction). Last observation is April 2025.
C. Panel shows median inflation expectations. Latest survey is May 2025.
D. Model-based GDP-weighted projections of consumer price inflation using Oxford Economics' Global Economic Model. Sample includes 69 countries, out of which 35 are EMDEs, and excludes Argentina and República Bolivariana de Venezuela.

FIGURE 1.6 Global financial developments

Global financial conditions have been tighter this year, on average, relative to late 2024 amid increased trade barriers, elevated trade policy uncertainty, and concerns of a slowdown in global growth. Risk premia in U.S. equity and high-yield bond markets have edged up, albeit from very low levels. Sovereign spreads have increased overall in EMDEs, although a spike in the spreads of countries exposed to higher U.S. tariffs largely unwound when tariffs were paused. A rise in borrowing costs would put pressure on vulnerable EMDEs with elevated levels of external debt and foreign-currency-denominated government debt, which have increased in recent years.



Sources: Barclays Investment Bank; Bloomberg; Federal Reserve Bank of St. Louis; Goldman Sachs; J.P. Morgan; Kose et al. (2022); White House; World Bank.

Note: EMDEs = emerging market and developing economies.

A. Higher index values represent tighter financial conditions. Last observation is May 30, 2025.

B. "Shiller excess earnings yield" is the inverse of the cyclically adjusted price-to-earnings ratio minus the yield on 10-year U.S. Treasury inflation-protected securities. "High-yield corporate bond spreads" are measured by ICE BofA Option-Adjusted Spreads (OASs). These represent the calculated differences between a computed OAS index for all bonds rated below Baa/BBB and the spot U.S. Treasury curve. Last observation is April 2025 for the yield and May 2025 for the bond spreads.

C. Median spreads for 6 high-tariff EMDEs and 58 low-tariff EMDEs. "Low tariff" is defined as a tariff rate of up to 30 percent, as announced on April 2. Last observation is May 30, 2025.

D. External debt (percent of GDP) is the median of up to 137 EMDEs. Foreign-currency share of government debt is the median of up to 36 EMDEs. Last observation is 2023.

year and anticipated to decline only gradually, despite expectations of a slowdown in growth. This partly reflects the Federal Reserve's communications regarding the need to ensure that near-term inflationary pressures do not become persistent and long-term inflation expectations remain anchored. Meanwhile, policy rates have been lowered in the euro area since January, with further cuts expected by the end of the year. Even so, long-term yields have risen, reflecting fiscal announcements earlier in the year.

EMDE financial conditions have been somewhat tighter, on average, relative to late last year. Tariff announcements in April led to portfolio outflows along with broad-based declines in EMDE equity markets, although these moves largely reversed after the pauses in tariffs were announced. Most EMDE currencies have appreciated against the U.S. dollar since the start of the year, except for some economies with pre-existing domestic vulnerabilities. EMDE sovereign spreads have increased overall in recent months, jumping in April among economies that faced higher prospective trade barriers (figure 1.6.C). However, this surge proved short-lived, with spreads generally retreating when trade tensions partially de-escalated. Despite this volatility, from a longer-term perspective, spreads have remained at manageable levels in most economies.

Monetary policy in EMDEs has become more cautious, with many central banks easing or holding their policy rates unchanged as they assess the consequences for inflation and growth of higher trade barriers, elevated uncertainty, and potential shifts in investor appetite for EMDE financial assets. Policy rates may be kept higher for longer to ward off possible capital outflows and currency depreciations that could result from a renewed escalation of trade tensions. As a result, higher borrowing costs and weaker domestic currencies could put pressure on many EMDEs, especially those with weak credit ratings and large debt-refinancing burdens. External debt and the share of foreign-currency-denominated government debt in EMDEs have risen in recent years and are currently at elevated levels (figure 1.6.D).

Major economies: Recent developments and outlook

Advanced economies

In advanced economies, growth forecasts for 2025 have declined substantially since January, driven by downgrades in some of the world's largest economies. This reflects the shock dealt by the increases in trade barriers—even with the partial 90-day pause in U.S. tariff increases—and the associated policy uncertainty, financial volatility, and dampening effects on confidence. As a result,

growth is expected to remain below potential growth estimates over the forecast horizon in some advanced economies, including in the United States and the euro area.

In the **United States**, the announcement of trade policy changes did not provide much-needed clarity or reduce policy uncertainty, given the scale and scope of new tariffs, shifting timelines for their implementation, and fluid lists of exemptions. Furthermore, the implications of such large policy shifts, including potential steps that could be taken by other governments in response, remain highly unpredictable.

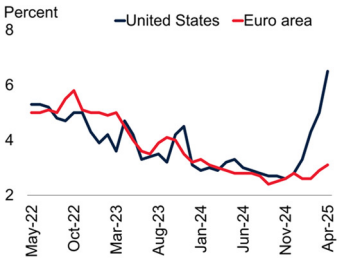
Prior to recent tariffs coming into effect, U.S. activity had already begun to slow in early 2025 as spending on imports surged at the expense of domestically produced goods. Private consumption growth has eased somewhat, despite a brief pickup toward the end of the first quarter in anticipation of new tariffs in categories such as autos. Consumer sentiment has fallen sharply amid declines in equity markets and risk appetite. In addition, U.S. consumer inflation expectations have risen markedly since the start of the year (figure 1.7.A). Treasury yields have increased, and corporate risk spreads have widened, while some corporate sectors faced the risk of disruption to tightly integrated supply chains, particularly in the U.S. auto industry. Policy uncertainty has remained high, with many firms highlighting concerns about the impact of trade policy changes on prices (Federal Reserve Board 2025). In tandem, the resilience in U.S. labor markets has continued to gradually diminish, with nonfarm payroll growth below the 2015-19 average and easing further, and other labor market indicators signaling reduced dynamism (figure 1.7.B).

The outlook for U.S. growth and inflation in 2025 has deteriorated relative to January forecasts. The rise in trade barriers, heightened uncertainty, and the spike in financial market volatility are set to weigh on private consumption, international trade, and investment. As a result, U.S. growth is expected to decelerate sharply in 2025, to 1.4 percent. Investment spending is projected to be particularly hard-hit following the earlier front-loading of imported investment goods. Going forward, the supply of investment goods is anticipated to be disproportionately impacted by tariffs due to their high import content, at the same time as investment demand cools due to record-high uncertainty, the rise in financing costs, and reduced domestic and external demand. In 2026, growth is anticipated to edge up to 1.6 percent as the economy adjusts to higher trade barriers and policy uncertainty gradually declines.

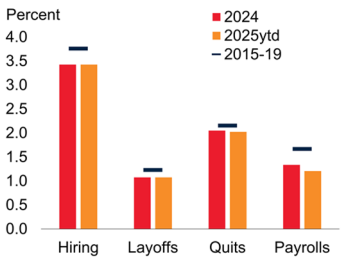
FIGURE 1.7 Major economies: Recent developments and outlook

U.S. consumer inflation expectations have risen markedly this year amid escalating trade tensions. Increased trade restrictions, weak confidence, and the resulting slowdown in aggregate demand are expected to contribute to reduced dynamism in the U.S. labor market. In the euro area, activity is expected to remain anemic, particularly given its deep integration in global value chains, which leaves the bloc highly exposed to adverse shifts in trade policy. In China, goods exports expanded in early 2025, reflecting continued front-loading, but are expected to slow as the effects of rising trade restrictions and the associated policy uncertainty are felt.

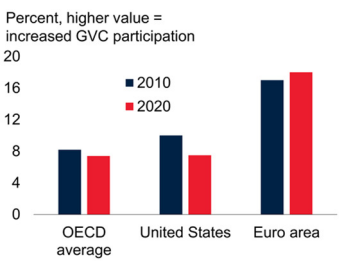
A. 12-month-ahead inflation expectations



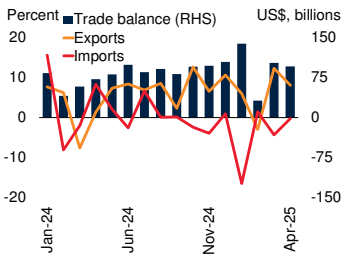
B. U.S. labor market indicators



C. Global value chain exposure: Share of foreign value added in gross exports



D. Merchandise trade in China



Sources: ECB; Federal Reserve Bank of St. Louis; Haver Analytics; Organisation of Economic Co-operation and Development (OECD); University of Michigan; World Bank.

A. Panel shows 12-month-ahead consumer inflation expectations from the Michigan Consumer Sentiment Survey and the European Central Bank (ECB) Consumer Expectations Survey. Last observation is April 2025.

B. Hiring, layoffs, and quits and separations are shown as percent of employment. Payrolls are shown as year-over-year percent change. Panel shows simple averages for the indicated periods. Last observation is April 2025. ytd = year to date.

C. Data measure the extent to which a country is a user of foreign inputs, which is considered as a measure of backward linkages in analyses of global value chains, as computed by the OECD. Euro area aggregates exclude intra-regional trade. Due to data constraints, euro area excludes Croatia.

D. Lines indicate year-on-year percent change in goods exports and imports in U.S. dollars. Last observation is April 2025.

Growth could prove to be stronger over the next few years if proposals to extend some expiring provisions of the Tax Cuts and Jobs Act and introduce other new fiscal measures clear the legislative process and are implemented. The resulting increase in the federal budget deficit would then be likely to broadly offset the budgetary impact of additional tariff-related revenues, with the latter estimated to reduce the primary deficit by $2.5 trillion over 10 years (CBO 2025).

In the **euro area**, the recent surge in policy uncertainty and financial volatility, as well as increases in tariffs on the European Union (EU), are set to prolong the bloc's economic weakness, holding back a recovery in investment and trade. The EU is exposed to adverse shifts in trade policies and related uncertainty given its high openness to trade, with extra-EU trade in value terms placing the bloc as the second largest exporter and importer of global goods in 2022 (ECB 2019; Eurostat 2024). The bloc is also vulnerable to these external shocks owing to its deep integration into global value chains (figure 1.7.C; Gunnella and Quaglietti 2019). Together, these developments are set to further dent exports, compounding the losses in competitiveness and global export market shares stemming from high energy prices in the past few years.

Growth in the euro area is projected to slow in 2025, to 0.7 percent, and remain a touch below its trend of about 1 percent, averaging 0.9 percent over 2026-27. Substantial downgrades to growth forecasts relative to January projections reflect a combination of higher U.S. tariffs on imports from the EU, heightened uncertainty and financial market volatility, and weaker external demand, which are expected to more than offset newly legislated fiscal spending on defense and infrastructure—particularly in Germany. Although trade spillovers from higher spending in Germany to other euro area economies are expected to be positive, they are likely to be somewhat muted by the slow implementation of the package given Germany's capacity constraints.

The baseline is also predicated on additional policy rate cuts as inflation is expected to hover near the ECB's medium-term target. Although possible price pressures could arise from increased trade barriers and additional government spending, they would likely be somewhat countered by weaker demand, softer commodity prices, and the potential redirection of exports from China to the EU (Attinasi et al. 2024; ECB 2025). The baseline assumptions include U.S. tariffs, including those on sectoral goods, as of late May and do not include any potential retaliatory trade measures.

In **Japan**, growth is expected to firm from an estimated 0.2 percent in 2024 to 0.7 percent in 2025, underpinned by a rebound in consumption and the reopening of automobile plants after longer-than-expected shutdowns last year. However, the growth outlook has been downgraded by 0.5 percentage point this year relative to previous projections, largely due to slowing external demand amid increased trade barriers and weaker-than-expected real wage growth owing to elevated food inflation. Over 2026-27, growth is forecast to average 0.8 percent, assuming a slow but continued recovery in consumer spending, as well as modest growth in capital investment, even if it is partly moderated by policy interest rate hikes as the Bank of Japan normalizes its policy stance.

China

In China, the imposition of tariffs by the United States, the ensuing retaliation, and the subsequent partial rollback will have notable implications for the outlook of trade and broader economic activity. Before these policy actions, China's growth remained resilient in the first quarter of 2025, driven by a front-loading of exports ahead of the implementation of tariffs (figure 1.7.D). In contrast, imports were sluggish, held back by continued tepid domestic demand amid the property sector downturn, now approaching the four-year mark. Resulting soft underlying price pressures, as well as falling food and energy prices, led to decreasing consumer prices earlier in 2025. Producer prices also continued to fall, reflecting declining global commodity prices and competition among firms for market share.

To help strengthen domestic demand and counter headwinds from trade tensions and heightened

trade policy uncertainty, additional fiscal support was announced in early 2025, implying an estimated consolidated fiscal deficit of 8.1 percent of GDP in 2025, wider than the 6.5 percent of GDP in 2024.[1] These measures are aimed at further boosting infrastructure-related spending and, to a much lesser extent, consumer spending. More recently, additional monetary policy easing and financial measures targeted at several sectors were announced to support domestic economic activity.

Going forward, growth is forecast to slow from 5 percent in 2024 to 4.5 percent this year—in line with previous projections, as the impact of higher trade barriers and weaker external demand is assumed to be offset by the boost from additional fiscal policy support. Export growth is expected to slow as the impact of U.S. tariff increases materializes. A soft labor market and a subdued property sector are expected to weigh on consumption. However, announced additional fiscal support will help buoy non-property-related investment, consumption, and industrial activity. Growth is projected to slow to 4 percent in 2026 and edge down to 3.9 percent in 2027, as the growth of potential output decelerates, reflecting the effects of slowing productivity growth, an aging population, and high debt levels.

Emerging market and developing economies

Against the backdrop of a more challenging external environment, EMDE growth is forecast to slow significantly in 2025, to 3.8 percent, with only a modest projected pickup in 2026-27. The expected rate of growth is well below pre-pandemic averages and the pace that is needed to create sufficient jobs to meet working-age population growth and make progress in closing large per capita income gaps with advanced economies. The deterioration in EMDE growth prospects is driven in large part by economies with a high degree of trade and investment openness. In these economies, large manufacturing sectors, high global value chain participation, and reliance on global financial markets amplify the negative spillovers from the recent shocks to global trade and confidence and the sharp rises in uncertainty and financial market volatility. However, the softness in the EMDE outlook is anticipated to be broad-based, with growth expected to slow in nearly 60 percent of EMDEs in 2025. More generally, the capacity of many EMDEs to respond to negative shocks has diminished due to sharp pandemic-related increases in debt, elevated poverty rates, and waning official development assistance.

Recent developments

Prior to the recent deterioration in the external environment this year, activity in EMDEs had generally steadied over 2024, with domestic demand supported by generally benign financial conditions and solid credit growth (figure 1.8.A). Although domestic activity indicators remained relatively resilient over the first quarter of 2025, the rapid rise in uncertainty and slowdown in external demand have begun to act as a drag on activity. Gauges of manufacturing activity, including headline manufacturing PMIs and goods trade indicators, have eased recently. Some trade-exposed EMDEs—such as Malaysia, Mexico, Romania, and Viet Nam—have seen the new export orders component of the manufacturing PMI weaken markedly since November amid increasing global trade policy uncertainty (figure 1.8.B).

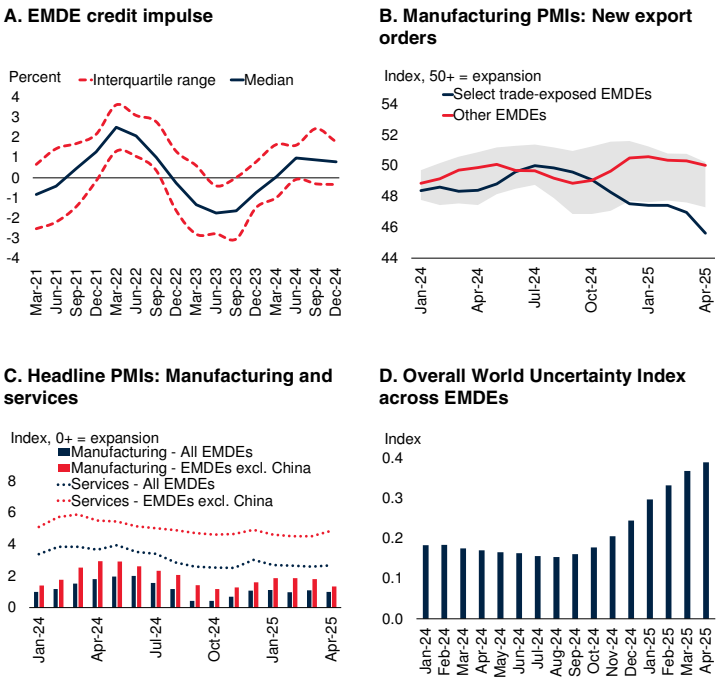
On the services side, PMIs have remained in expansionary territory but nonetheless have trended lower this year (figure 1.8.C). High-frequency consumption indicators also point to a similar dynamic, with both consumer confidence and retail sales losing some momentum in recent months. Nonetheless, the so-far generally resilient trends are expected to lose momentum amid the sharp rise in uncertainty following increases in trade restrictions and other policy shifts (figure 1.8.D).

Growth has continued to diverge across EMDEs so far in 2025, with a slower pace of activity in some commodity-exporting EMDEs and somewhat more solid conditions across other

[1] For China, the World Bank uses a definition of the consolidated fiscal balance that allows for comparisons across countries. See chapter 2 for details.

FIGURE 1.8 Recent developments in emerging market and developing economies

Before the recent deterioration in the external environment, activity in EMDEs had been supported by solid credit growth, in line with earlier domestic and global monetary policy easing. More recently, some trade-exposed EMDEs have seen a marked decline in new export orders, while services activity and other high-frequency indicators have trended lower. Against the backdrop of a sharp rise in uncertainty, momentum across EMDEs is expected to ease further.



Sources: Ahir, Bloom, and Furceri (2022); Haver Analytics; World Bank.
Note: EMDEs = emerging market and developing economies; PMI = purchasing managers' index.
A. Sample includes up to 36 EMDEs. Last observation is December 2024.
B. Blue line shows a 3-month moving average for a sample of select trade-exposed EMDEs that includes Malaysia, Mexico, Romania and Viet Nam. Red line shows a 3-month moving average for a sample of 12 EMDEs. Last observation is April 2025. Shaded area indicates the interquartile range for all 16 EMDEs.
C. PMI readings above (below) zero indicate expansion (contraction). Monthly readings are centered on 50, the expansionary threshold. Last observation is April 2025.
D. Panel shows the 3-month moving average of the unweighted average of the country-specific measure of overall uncertainty based on the World Uncertainty Index (WUI). All indices have been computed by counting the frequency of the world uncertainty (or its variant) in EIU country reports. The indices are normalized by total number of words and rescaled by multiplying by 1,000. A higher number means higher uncertainty and vice versa. Sample includes 49 EMDEs. Last observation is April 2025.

economies. The weaker performance among the former was mostly concentrated in energy-exporting economies and related to softness in global energy demand; ongoing OPEC+ production cuts; notable declines in commodity prices amid rising trade tensions, which weighed on net exports, revenues, and investment; and new sanctions on some oil-exporting economies. Prior to the deterioration in the external environment, earlier activity readings had modestly surprised to the upside in some large energy-exporting EMDEs—including Russian Federation, Saudi Arabia, and Nigeria—largely owing to domestic factors outside of the energy sector.

In commodity-importing EMDEs excluding China, activity had remained broadly steady before the sharp rise in trade tensions, supported by a pickup in private consumption and investment, with the latter benefiting from firm manufacturing activity. Despite overall solid performance, some economies have seen a material weakening in activity in recent quarters, largely reflecting an increase in uncertainty related to domestic developments or rising trade barriers.

In LICs, growth is estimated to have firmed to 4.6 percent in 2024, up from 2.8 percent a year earlier. The pickup in activity last year was driven mainly by major LICs facing fragile and conflict-affected situations (FCS)—including the Democratic Republic of Congo, where mining activity surprised on the upside, and in Ethiopia, where mining and agriculture output was better than expected. Such positive momentum hinged on tailwinds from commodity markets and favorable financing conditions prevailing in 2024, which may give way to headwinds as global growth and trade slow, commodity prices weaken, and uncertainty dampens risk appetite. Moreover, pervasive violence and political instability have resulted in persistently challenging economic and humanitarian situations, particularly in the Sahel region and its adjacent countries. Sudan has continued to experience a deep contraction related to ongoing violent conflict, which has also hampered activity in neighboring South Sudan, leading to a steeper-than-anticipated decline in output.

EMDE outlook

Following the trade shocks that have rippled through the global economy, growth in EMDEs is forecast to slow to 3.8 percent in 2025, then edge up to an average of 3.9 percent over 2026-27, about 1.2 percentage points below the 2010-19 average (figure 1.9.A). In large part, the aggregate EMDE profile continues to be shaped by China's outlook, especially as the ongoing structural deceleration is exacerbated by the escalation in

trade tensions. Nevertheless, the projected slowdown in EMDE growth this year is anticipated to be broad-based, affecting nearly 60 percent of EMDEs.

Excluding China, growth in EMDEs is forecast to decelerate from an estimated 3.6 percent in 2024 to 3.4 percent in 2025 and then pick up to about 3.9 percent over 2026-27. EMDE growth this year and next is projected to be notably weaker than expected in January. This reflects a combination of adverse policy shifts at the global level announced since the beginning of 2025—and the limited space to respond to such headwinds in most EMDEs—and weaker external demand related to slowing growth in advanced economies, as well as lower prices for some commodities. These global shocks are propagating to EMDEs through trade, investment, and confidence channels, all of which are being amplified by record-high global policy uncertainty and financial market volatility.

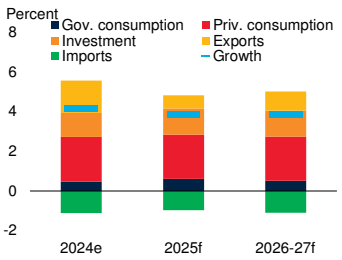
The ability of EMDE governments to respond to these global shocks is constrained by limited fiscal policy space amid elevated debt levels and the tightening of financial conditions. As such, fiscal policy is expected to either dampen or have a neutral effect on growth in about three-quarters of EMDEs, while financial conditions across EMDEs have tightened somewhat since the start of 2025 more broadly.

Over the forecast horizon, domestic demand is expected to continue to anchor growth, despite the substantial downgrade to its outlook since January. Among EMDEs excluding China, investment growth is envisaged to substantially weaken in 2025, with forecasts for investment and trade downgraded relative to January owing to declining business confidence and rising uncertainty—particularly in some trade-exposed EMDEs (figure 1.9.B). The slowdown in investment this year is expected to be broad-based, affecting nearly 60 percent of EMDEs. Private consumption is anticipated to be the principal driver of domestic demand, but it is also expected to decelerate steeply in 2025, in line with declining consumer confidence and rising uncertainty. Over 2026-27, consumption growth

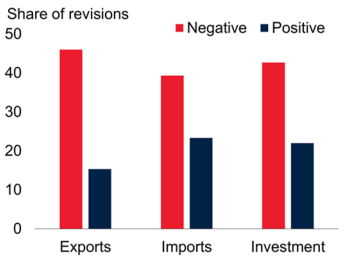
FIGURE 1.9 Outlook for emerging market and developing economies

EMDE growth is expected to slow this year, with forecasts for trade and investment revised down markedly across many economies. The deterioration of the external environment and ongoing trade policy uncertainty is anticipated to weigh materially on advanced-economy demand for EMDE exports, as well as foreign direct investment (FDI) flows to EMDEs. Against the backdrop of elevated uncertainty and growing protectionism, FDI—which has historically served as a key long-term driver of growth across EMDEs—will likely weaken. This could compound the challenge many EMDEs face to ensure the creation of sufficient employment for swiftly expanding working-age populations.

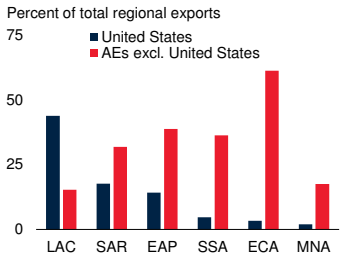
A. Contributions to growth in EMDEs



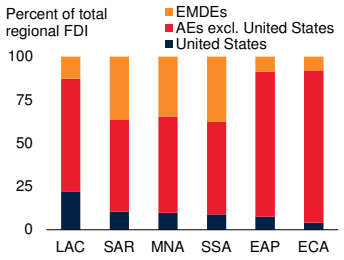
B. Share of forecast revisions across EMDEs for 2025, by component



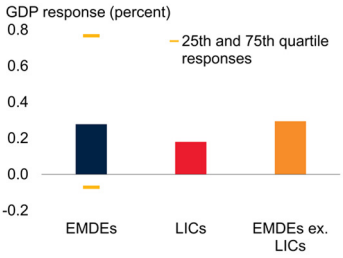
C. Share of EMDE exports to advanced economies



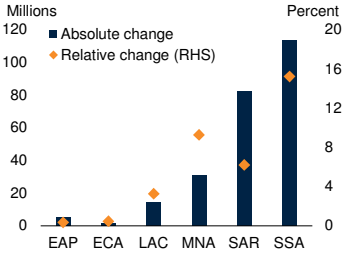
D. Inward foreign direct investment to EMDE regions, by source



E. Impact of FDI on output in EMDEs



F. Change in the working-age population from 2025 to 2030



Sources: IMF Coordinated Direct Investment Survey (IMF-CDIS) (database); UN Population Prospects (database); WITS (database); World Bank.

Note: e = estimate; f = forecast. AEs = advanced economies; EAP = East Asia and Pacific; ECA = Europe and Central Asia; FDI = foreign direct investment; LAC = Latin America and the Caribbean; LICs = low-income countries; MNA = Middle East and North Africa; PVAR = panel vector autoregression; SAR = South Asia; SSA = Sub-Saharan Africa.

A. Discrepancies between GDP growth and the sum of its components reflect inventories and residuals.

B. Forecast revisions relative to the January 2025 *Global Economic Prospects* for up to 150 EMDEs.

C.D. Data is for 2023. Sample includes 169 economies for panel C and 189 for panel D.

E. Impact after 3 years of a 10-percent increase in net FDI inflows on real GDP level (in percent), based on heterogenous PVAR model estimations. Bars show average country group responses. Horizontal lines show impact in countries at the 75th percentile and 25th percentile responses of GDP to FDI inflows. Sample includes 74 EMDEs, 11 of which are LICs.

F. Panel shows the change in the working-age population over 2025-30.

in EMDEs excluding China is envisioned to remain subdued, as real wage and productivity growth weaken amid adverse policy shifts impacting trade and investment flows to EMDEs, while idiosyncratic factors in several large economies, such as India and Russia, see consumption growth moderate.

In many EMDEs, net exports are expected to be dampened by weaker external demand from key trading partners, especially given tight trade linkages with advanced economies in some EMDE regions (figure 1.9.C; box 1.1). In parallel, ongoing trade policy uncertainty and concern over market access to advanced economies are expected to weigh on foreign investment flows from key trading partners to EMDEs (figures 1.9.D).

With the rise in trade barriers and elevated uncertainty, the recovery in EMDEs from the shocks of the past five years remains incomplete. In EMDEs excluding China, the level of output is anticipated to remain about 4 percent below the pre-pandemic trajectory in 2027. Indeed, if growth were to continue at the pace forecast for 2027, it would take about two decades for output to return to the pre-pandemic path.

Against the backdrop of another delay in the post-pandemic recovery across EMDEs, uncertainty and risks continue to mount, with trade growth in EMDEs set to come under further pressure after weak performance in recent years. These developments will likely place further strain on global value chains and slow the pace of investment—including foreign direct investment, which has been a key driver of economic growth in many EMDEs (figure 1.9.E). Indeed, participation in global value chains linked to advanced economies remains substantial in some EMDE regions, which has historically fostered productivity growth and technological adoption across EMDEs—but also has the potential to amplify the effects of trade fragmentation (World Bank 2021).

Over the longer run, a major jobs challenge—ensuring the creation of sufficient employment opportunities for rapidly growing working-age populations—is looming in many EMDEs, including in the poorest two regions—SSA and SAR—and MNA (figure 1.9.F). Taken together, SSA, SAR, and MNA are envisaged to add about 1 billion people to their working-age populations between 2025 and 2050. This increase is historically large relative to previous episodes of rapid working-age population expansion, in both numerical and percentage terms. Most of these additional people will need jobs. In almost all SSA countries, the expected average annual growth in the working-age population between 2025 and 2030 is set to exceed the average annual employment growth seen over 2010-19. Absent sufficient new job creation, various economic, social, and political pressures could rise in countries with fast-growing populations.

LICs outlook

With the backdrop of deteriorating global economic prospects, projected growth across LICs has been downgraded by 0.4 percentage point in 2025, to 5.3 percent. Although this represents an uptick in growth from last year, the rebound hinges on a recovery that is already being hindered by violent conflict in parts of SSA, particularly Sudan (box 1.2).

Growth in LICs is expected to rise to 6.1 percent over 2026-27. Yet the LICs' outlook remains highly uncertain and depends on the evolving circumstances in economies marred by conflict, where substantial improvements in security situations will need to take place. Furthermore, the forecast assumes that no new conflicts or debt crises in LICs emerge, and that inflation continues to broadly abate. Moreover, given LICs' high dependence on commodity exports, weakening external demand and lower global commodity prices could still dampen growth and government revenues in many economies.

Notwithstanding the expected pickup in growth, the level of output across LICs is projected to remain about 3.7 percent below the pre-pandemic trajectory by 2027. Growth prospects of non-FCS economies have deteriorated materially, while the near-term outlook for FCS LICs has been marginally revised up from last January. Nevertheless, many LICs continue to face severe challenges related to conflict, including the destruction of productive capacity and significant

BOX 1.1 Regional perspectives: Outlook and risks

All emerging market and developing economy (EMDE) regions face a challenging outlook amid the rise in global trade tensions and heightened uncertainty. In 2025, growth is projected to slow in East Asia and Pacific (EAP) as well as in Europe and Central Asia (ECA)—both regions that are highly reliant on global trade—and, to a lesser extent, in South Asia (SAR). In Latin America and the Caribbean (LAC), growth is projected to be the lowest among EMDE regions over the forecast horizon, as activity is held back by high trade barriers and long-standing structural weaknesses. In regions with a large number of commodity exporters, including in the Middle East and North Africa (MNA) and Sub-Saharan Africa (SSA), growth is anticipated to face drags from the weakening outlook for external commodity demand. Against the backdrop of a deteriorating global environment, growth forecasts for 2025 have been downgraded in all EMDE regions relative to January projections. The looming jobs challenge faced by EMDEs could intensify already weak trends in per capita income catch-up and extreme poverty reduction. Risks to the outlook remain tilted to the downside and stem especially from additional increases in trade restrictions and policy uncertainty, as well as the further weakening in external demand and heightened financial volatility. To varying degrees, EMDE regions also face downside risks from declining global risk appetite, worsening or increasing conflict and violence, and more frequent natural disasters.

Introduction

Emerging market and developing economy (EMDE) regions are being buffeted by a variety of adverse factors—in particular, the wide-ranging repercussions of a rise in trade tensions and the ensuing increase in global policy uncertainty, which are affecting EMDEs through trade, commodity, financial, and confidence channels. In addition to the increase in trade barriers and uncertainty and the subsequent weakening in external demand, the projected deceleration in growth is also related to idiosyncratic factors across regions, including headwinds from elevated levels of violence and conflict, heightened domestic political uncertainty, and the impact of recent natural disasters.

Growth is projected to slow in most EMDE regions this year, particularly in the trade-reliant economies of East Asia and Pacific (EAP) and Europe and Central Asia (ECA), and to a lesser extent in South Asia (SAR). In Latin America and the Caribbean (LAC), growth is expected to be the lowest among the EMDE regions over 2025-27, as structural weaknesses are amplified by softening activity in the United States and China via tight linkages through trade, financial flows (including remittances), and commodity markets (in the case of China). Although growth is set to edge up in the Middle East and North Africa (MNA) and Sub-Saharan Africa (SSA) in 2025, this follows soft activity over the past couple of years, partly related to conflict and, in some economies, oil production cuts. Furthermore, lower global commodity prices are set to weigh on activity and government revenues in some commodity exporters in MNA and SSA, as well as in LAC and ECA. As a result of this weak outlook, prospects for spurring the job creation that is needed to lift incomes and reduce poverty are subdued.

In this context, this box considers two questions:

- What are the cross-regional differences in the outlook for growth?
- What are the key risks to the outlook for EMDE regions?

Outlook

While the economic outlook varies across EMDE regions, it remains challenging for all amid the deterioration in the global economic environment (figure B1.1.1.A; chapter 1). Increases in global trade barriers and uncertainty, as well as the subsequent projected weakening in external demand, have contributed to downgrades to growth forecasts for this year and next in most EMDE regions (figure B1.1.1.B). In some trade-exposed regions, the growth slowdown in 2025 relative to last year is expected to be broad-based, affecting 78 percent of EAP economies and 73 percent of ECA economies. In many commodity-exporting regions—including ECA, LAC, MNA, and SSA—activity and fiscal revenues in some large commodity exporters are expected to come under pressure this year and next from softening global commodity demand. Among the regions, aggregate growth in LAC is expected to be the lowest over 2025-27, followed by ECA, as the weakening in the external environment amplifies domestic challenges and exacerbates the deceleration in growth.

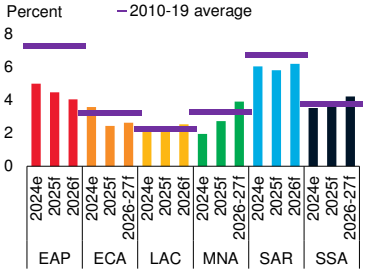
Note: This box was prepared by Samuel Hill and Collette Wheeler.

BOX 1.1 Regional perspectives: Outlook and risks (*continued*)

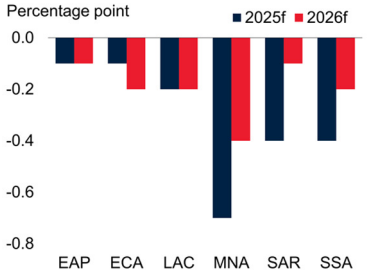
FIGURE B1.1.1 Regional outlooks

Growth in all EMDE regions is facing considerable headwinds amid a notable deterioration in the external environment, resulting in weaker growth projections this year relative to pre-pandemic trends and previous forecasts. For most regions, increased trade barriers and heightened policy uncertainty at the global level—including the impacts on external demand, financial and commodity markets, and broader sentiment—are offsetting tailwinds to domestic demand from moderating inflation and, in some cases, macroeconomic policy support. The pace of per capita income catch-up with advanced economies is projected to be slower in many EMDE regions than in 2010-19, with income gaps widening in some—notably in Sub-Saharan Africa, the poorest region. The rapid deterioration in the external environment is likely to further weigh on progress in per capita income catchup.

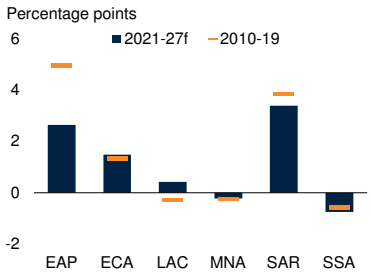
A. Output growth



B. Growth forecast revisions



C. Differences between per capita income growth in EMDE regions and advanced economies



Source: World Bank.

Note: e = estimate; f = forecast. EAP = East Asia and Pacific; ECA = Europe and Central Asia; EMDEs = emerging market and developing economies; LAC = Latin America and the Caribbean; MNA = Middle East and North Africa; SAR = South Asia; SSA = Sub-Saharan Africa.

A. Aggregated growth rates are calculated using GDP weights at average 2000-18 prices and market exchange rates. "2010-19" refers to period averages of regional growth rates. Data for 2025, 2026, and 2027 are World Bank forecasts.

B. Revisions reflect differences in forecasts presented in the January 2025 edition of the *Global Economic Prospects* report and the current forecasts. Data for 2025 and 2026 are World Bank forecasts.

C. Bars and dashes represent annual average GDP per capita growth in EMDE regions minus the annual average GDP per capita growth in advanced economies, expressed in percentage points.

In EAP, the slowdown this year largely reflects tight trade linkages—both globally and within the region, especially with China, where macroeconomic policy support is expected to counter the adverse impact of recent increases in trade tensions with the United States. In some EAP economies, including Myanmar, Thailand, and Vanuatu, activity has been disrupted by powerful earthquakes in recent months. In ECA, although the deceleration in growth is broad-based, in tandem with the projected weakening of euro area growth—one of ECA's largest export markets—it also reflects the slowdown in activity in the Russian Federation amid the lagged effects of monetary policy tightening.

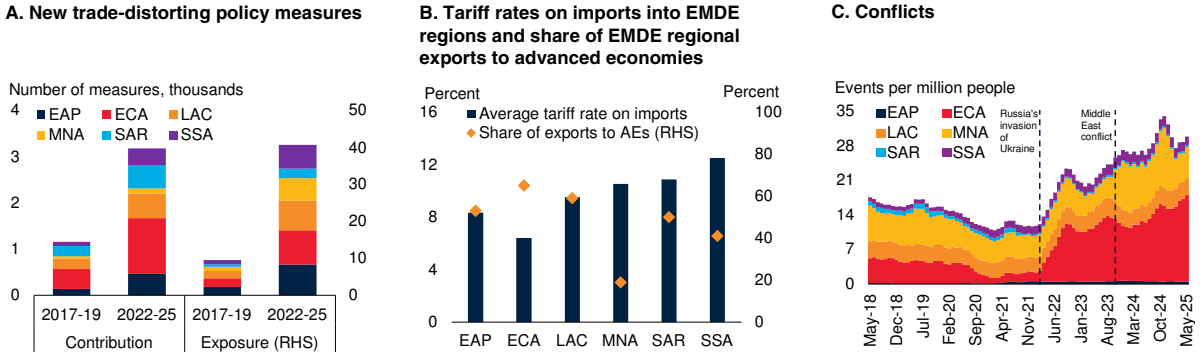
In LAC, although growth is expected to remain at the same pace in 2025 as in 2024, activity in many economies is likely to be impacted by the recent rise in trade barriers and policy uncertainty. Mexico will be particularly affected, largely through its high integration with the United States via goods' trade—particularly the automotive sector. Other LAC economies, particularly those in Central America and the Caribbean, will also be affected through trade, investment, and remittance flows. These drags on LAC's growth are expected to offset the rebound in Argentina following two years of recession.

In contrast to most other regions, growth is forecast to pick up this year in MNA as activity in oil exporters benefits from rising oil production amid the phase-out of OPEC+ oil production cuts. This improvement is expected to counter the adverse effects of weakening external demand and lower oil prices. Growth is also contingent on expanding activity in MNA's oil importers, assuming that armed conflicts in the region stabilize and inflationary pressures ease. Although growth in SAR is projected to remain the fastest among

BOX 1.1 Regional perspectives: Outlook and risks (*continued*)

FIGURE B1.1.2 Regional risks

Additional increases in global trade barriers and policy uncertainty could further weaken activity in many EMDE regions, particularly in those with tight trade linkages to advanced economies. Import tariffs, which were already elevated in EMDE regions prior to this year, could rise if EMDEs undertake retaliatory measures in response to recent increases in trade restrictions. Heightened conflict and its fallout continue to pose a major risk to activity in all regions, particularly in ECA, MNA, and SSA.



Sources: ACLED (database); WDI (database); World Bank.

Note: AEs = advanced economies; EAP = East Asia and Pacific; ECA = Europe and Central Asia; EMDEs = emerging market and developing economies; LAC = Latin America and the Caribbean; MNA = Middle East and North Africa; RHS = right-hand scale; SAR = South Asia; SSA = Sub-Saharan Africa.

A. The number of harmful trade measures implemented by and affecting different EMDE regions. These measures include the sum of "Amber" and "Red" measures classified as harmful in the Global Trade Alert database. Each measure may be implemented by, and target, multiple countries. Data are adjusted for reporting lags as of June 4, 2025.

B. Bars show the most favored nation tariff rate for each EMDE region, based on unweighted average across all products, 2022 or the latest available. Markers show, for EMDE regions, the share of total exports that are directed to advanced economies. Export data refer to 2023. Sample includes 106 EMDEs for exports data.

C. Stacked bars show three-month moving averages of the number of reported individual conflict events per million people in each of the six EMDE regions. Major conflicts involve multiple conflict events, including battles, explosions, riots, and violence against civilians. The date of Russia's invasion of Ukraine is February 24, 2022. The date of the conflict in the Middle East is October 7, 2023. Last observation is May 2025.

the regions, the rise in global trade barriers and elevated uncertainty is set to keep growth below the pre-pandemic average. In some SAR economies, the effect from heightened global uncertainty is expected to be somewhat countered by reduced domestic political uncertainty, which should help support confidence and investment. In SSA, growth is forecast to edge up this year, but the outlook remains highly uncertain and depends on an easing in inflation and de-escalation of conflict in some fragile and conflict-affected situations (FCS; box 1.2). However, lower global commodity prices are expected to weigh on regional activity and revenues. Moreover, elevated government debt, still-high interest rates, and rising debt-servicing costs have further narrowed fiscal space, prompting fiscal consolidation efforts in many countries, while financing needs remain high as international development assistance is cut back.

Inflation has diverged somewhat across EMDE regions so far in 2025. In ECA, inflation edged up in late 2024 and early 2025 on the back of food price increases and robust wage growth in some cases. More recently, it has moderated somewhat alongside easing energy prices in some economies but remains above 4 percent in most ECA subregions. In LAC, price pressures have mostly subsided, with inflation above central bank target ranges in only a couple of large economies. The disinflation process in SSA has stalled, largely owing to rising food prices. Conversely, inflation has softened in MNA and SAR but has remained high in some notable cases. Meanwhile, inflation mostly declined across EAP given falling commodity prices. On average for 2025, inflation is generally expected to remain stable or decline modestly across regions, supported by softening energy prices.

The outlook for trade in all EMDE regions remains challenging due to elevated global policy uncertainty, ratcheting trade tensions between major economies, and an expected slowdown in external demand this year. Although some EMDEs benefited from the front-

BOX 1.1 Regional perspectives: Outlook and risks (*continued*)

loading of exports ahead of anticipated tariffs, additional uncertainty and restrictions are set to dampen investment and dent global value chains, leading to downward revisions to trade growth forecasts for this year in nearly every region. With global tourism near pre-pandemic levels, tailwinds to service exports from the recovery in inbound tourists have also faded. Trade growth is projected to slow markedly in EAP and LAC and, to a lesser extent, in SSA; meanwhile, it is expected to pick up in MNA as oil production cuts unwind, though this is curbed somewhat by weaker external demand. Trade growth in SAR is projected to firm, as robust domestic demand in India supports an improvement in imports.

Investment growth slowed across most regions last year amid high interest rates, subdued global manufacturing and trade activity, and idiosyncratic drivers, including lower extractive production or conflict. Investment growth is anticipated to slow this year in MNA, SAR, and SSA, and remain subdued in ECA and LAC due to the rise in global policy uncertainty and weaker confidence. In EAP, firming investment growth largely reflects additional fiscal support in China; excluding China, it is anticipated to soften owing to global trends. In SAR, investment growth is anticipated firm over 2026-27, partly because of reduced domestic political uncertainty and monetary policy easing in several economies, helping to counter the rise in global uncertainty. In all, most regions are expected to experience weaker investment growth this year relative to their 2010-19 averages.

Private consumption growth, while projected to moderate in many regions, will still underpin activity, assuming that inflation moderates and supports real incomes. However, the outlook for private consumption is expected to be dampened by the rise in global uncertainty and, in some cases, modest fiscal consolidation. In a few regions, private consumption is anticipated to be further contained amid persistent underlying price pressures, which have kept inflation close to the upper end of central bank target ranges in some countries, limiting central banks' scope to reduce policy rates. Central banks many across regions continue to make headway on taming inflation but remain watchful for a resurgence in inflation and the possibility of financial instability stoked by further global policy uncertainty. Uncertainty surrounding the pace and extent of monetary policy easing in some major economies is adding to caution and restricting room to maneuver.

The stance of fiscal policy is expected to vary across regions and thus has a mixed influence on activity. In LAC, SAR, and SSA, needed—albeit gradual—fiscal consolidation will impose some headwinds to growth but should help address fiscal deficits and stabilize public debt if these efforts are sustained. In ECA, fiscal policy is expected to be somewhat supportive of activity, with deficits set to increase further this year, partly due to rising military expenditures, before a gradual shift toward consolidation. Meanwhile, in EAP, increased government spending is expected to provide notable support to demand in China and, to a lesser extent, in Thailand; in many other large EAP economies, fiscal policy support—including from social spending programs and public investment—is anticipated to be more modest and have a relatively neutral impact on growth.

Over the forecast horizon, catch-up toward advanced-economy per capita GDP levels is anticipated to be limited, particularly in MNA and SSA (figure B1.1.1.C). Absent the sufficient creation of new jobs, EMDE regions with fast-growing populations face especially subdued prospects for per capita income catch-up with advanced economies and poverty reduction (Chrimes, Kose, and Stamm forthcoming). This jobs challenge is concentrated in SSA—which accounts for two-thirds of the world's population living in extreme poverty—but it also looms large in several economies in SAR and MNA. In these regions, job growth has not met the pace of growth of the working-age population in recent years, and this trend of subdued job growth is set to intensify amid the projected slowdown in long-term growth in many cases (Kose and Ohnsorge 2024). For example, in almost all SSA economies, the expected average annual growth in the working-age population between 2025 and 2030 exceeds the average annual employment growth seen over 2010-19. Most countries that face a surge in their working-age populations are not well-placed to cope with the challenge due to limited fiscal space, weak government capacity, pervasive informality, high levels of low-productivity employment, widespread economic inactivity (such as high youth unemployment), and heightened levels of conflict or extreme poverty.

BOX 1.1 Regional perspectives: Outlook and risks (*continued*)

Risks

Risks to the outlook remain tilted to the downside across all EMDE regions. Persistently elevated or renewed policy uncertainty and additional trade tensions at the global level pose significant risks, especially for trade-exposed regions with large manufacturing sectors. Further risks relate to a marked deterioration in global risk appetite, which could dampen capital flows to EMDEs, as well as increased conflict and rising frequency and severity of natural disasters.

Global policy uncertainty has increased markedly in recent months and could be persistent, posing a substantial downside risk to all EMDE regions. Abrupt policy changes, particularly relating to trade, could again unnerve financial markets and cause firms to hold off committing to investments or shelve them completely. Regions more dependent on investment-led growth, particularly where it is tied to trade-intensive production, are especially exposed to the cooling effects of heightened policy uncertainty. This includes EAP and ECA, and to a lesser extent LAC, MNA, SAR, and SSA.

A substantial rise in global trade barriers has affected EMDE regions in recent years, and the imposition of new tariffs earlier this year adds to these earlier increases (figure B1.1.2.A). Additional trade policy restrictions beyond those implemented by late May could negatively impact all EMDE regions through various channels. Beyond worsening global trade fragmentation, additional trade barriers could weaken trade growth, suppress economic activity, drive up prices, and reduce purchasing power, causing real wages to decline. Regions could suffer directly if their exports face new restrictive trade measures, and indirectly if external demand weakens owing to slower growth in key trading partners or if mounting policy uncertainty dents investment. Export-reliant regions with substantial manufacturing bases, such as EAP, ECA, and, to a lesser extent, LAC, are particularly vulnerable to the adverse effects of heightened protectionism and supply chain reorientation. If taken by EMDEs, retaliatory measures could ramp up import tariffs in EMDE regions, which were already high (figure B1.1.2.B). This would magnify risks related to trade and inflation.

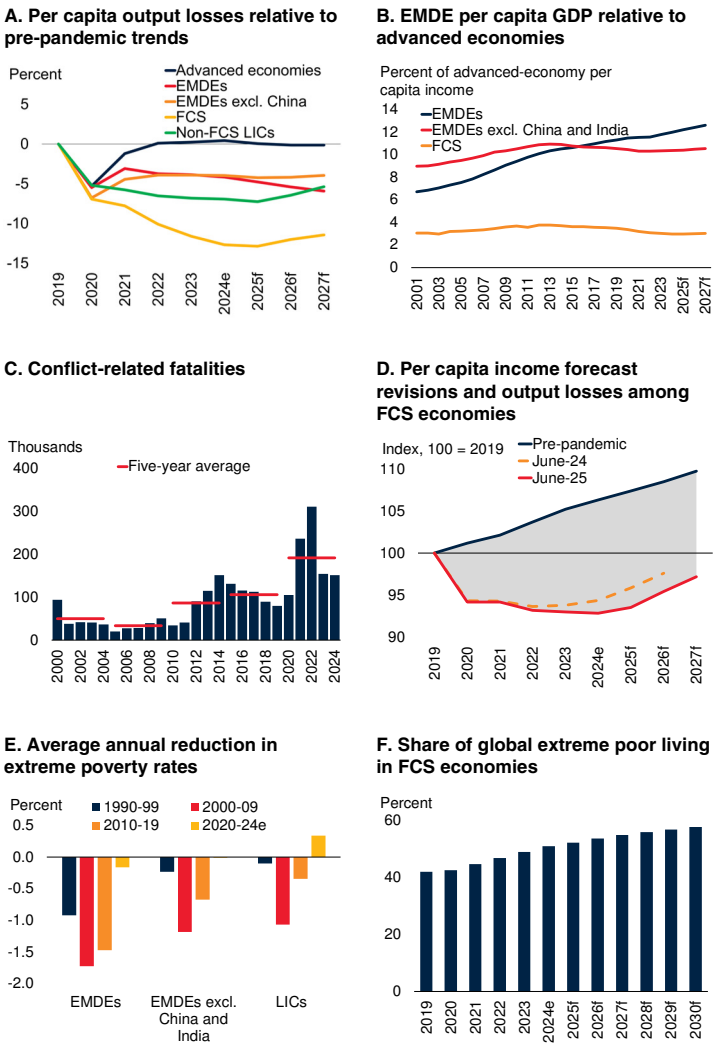
Worsening policy uncertainty could also trigger a marked erosion in global risk appetite, which could reduce capital flows to EMDE regions, push up borrowing costs, and lead to currency depreciation and further inflationary pressures. Regions with a preponderance of less-creditworthy borrowers, as well as high levels of external debt with elevated exposure to foreign currency or shorter maturities, are vulnerable to sudden adverse shifts in market sentiment and external financing. This could particularly affect LAC and SSA, but also several economies in ECA, MNA, and SAR.

All regions continue to experience varying degrees of violence, including from high insecurity, and conflict (figure B1.1.2.C). A key downside risk to growth is the possibility of conflicts flaring and broadening, especially given that baseline assumptions in several regions, especially in MNA and SSA, hinge on a de-escalation in violence and conflict (chapter 2). Given the loss of life and large economic losses caused by armed conflict, this could substantially set back growth and the catch-up of per capita income with advanced economies. Regions where major armed conflicts continue to be centered, including ECA, MNA, and SSA, are particularly vulnerable to the effects of escalating instability and violence.

Natural disasters—including those related to climate change, which are becoming more frequent and severe—pose further downside risks to all regions. These can amplify other challenges, notably food insecurity and population displacement, particularly in regions with concentrations of fragile and conflict affected situations, notably MNA and SSA. The ability to respond to such events is hampered by narrow fiscal space, still elevated borrowing costs, and weak institutional capacity in some cases.

FIGURE 1.10 Per capita income growth

Relative to pre-pandemic trends, per capita income losses in EMDEs are expected to remain large. Excluding China and India, income levels relative to advanced economies are envisaged to remain stagnant. Conflict-related casualties have risen since the 2000s, with conflict having become an increasingly important driver of per capita output losses across FCS. Following steady progress before the pandemic, the extreme poverty rate in EMDEs excluding China and India, and especially LICs, remains higher than in 2019, driven in large part by rising poverty across FCS.



Sources: Mahler, Yonzan, and Lakner (2022); UN World Population Prospects; Uppsala Conflict Data Program; World Bank Poverty and Inequality Platform (database); World Bank.

Note: e = estimate; f = forecast. EMDEs = emerging market and developing economies; FCS = fragile and conflict-affected situations; LICs = low-income countries; PPP = purchasing power parity. FCS country group based on current World Bank FCS classification.

A.C. Sample includes 179 economies, of which 37 are advanced economies and 142 are EMDEs.

A.D. For 2023 and beyond, the pre-pandemic trend is the January 2020 baseline projection extended using the projected growth rate for 2022.

A. Panel shows the percent deviation between the latest forecast and the January 2020 *Global Economic Prospects* report.

C. Bars show the number of fatalities per year; lines show the simple average for the period indicated. Last observation is December 2024. Sample includes up to 82 economies. The Uppsala Conflict Data Program defines a conflict "event" as an incident in which armed force was used by an organized actor against another organized actor, or against civilians, resulting in at least one direct death.

D. "June-24" and "June-25" refer to the forecasts presented in the corresponding editions of the *Global Economic Prospects* report. For 2023 and beyond, the pre-pandemic trend is the January 2020 baseline projection extended using the projected growth rate for 2022. Shaded area indicates the output loss since 2019.

E.F. "Extreme poverty" is defined as living on less than $3 per day in 2021 PPP. Estimates after 2023 are nowcasts. Sample includes 192 countries, of which 39 are currently classified as FCS economies.

population displacement, with adverse effects on poverty reduction efforts (Wu et al. 2024). Severely constrained fiscal space, high levels of indebtedness, slow progress in debt restructuring, and limited access to new external financing continue to pose headwinds to the outlook. Progress in poverty reduction, conflict prevention, infant mortality, and institutional capacity may be further damaged as major international donors reduce their support to LICs, and especially to FCS.

Per capita income growth

Per capita GDP in many EMDEs is on a trajectory that implies a very slow pace of convergence with advanced-economy incomes, with the recent deterioration in external conditions hindering progress. This comes on top of an incomplete recovery from the pandemic, combined with an escalation of conflict in some economies, all of which have slowed the pace of poverty reduction and hampered per capita income catch-up. Per capita income growth in EMDEs over 2025-27 is projected to be 2.9 percent—about 1.1 percentage point below its 2000-19 average. Excluding China and India, both key drivers of income convergence over the forecast horizon, per capita income growth is expected to be even slower, at 1.8 percent over 2025-27. Across numerous LICs and FCS—many of which have large gaps in per capita income with other EMDEs and advanced economies—per capita income growth is projected to be lower still, contributing to slowing progress in poverty reduction. Moreover, absent the rapid economic growth and supportive policies needed to spur job creation, many EMDEs will continue to struggle to lift incomes and thus reduce poverty in the coming years.

In level terms, per capita income in EMDEs is estimated to remain nearly 5 percent below pre-pandemic trends in 2025, compared to marginally above for advanced economies, with the gap on track to widen through 2027 (figure 1.10.A). Indeed, most EMDEs are in a notably worse position in terms of output losses relative to the pre-pandemic trend, compared to advanced economies, given their weaker initial recoveries. This has been exacerbated further by the

BOX 1.2 Low-income countries: Recent developments and outlook

In low-income countries (LICs), growth is projected to rise to 5.3 percent in 2025 and average 6.1 percent in 2026-27, yet this outlook hinges on a de-escalation of conflict in some countries and a moderation in inflation. Crucially, the weaker global environment has led to a significant downward revision of LICs' growth this year. Although per capita income is set to increase by an average of 3 percent annually during the forecast period, this pace remains too weak to fully recover pandemic-related losses or foster the rapid expansion of jobs needed to lift incomes and reduce extreme poverty. In this context, extreme poverty will remain high, exacerbated in many cases by the effects of violent conflict. A weaker global environment amid the rise in trade tensions and uncertainty weighs on the outlook for LICs, especially those that rely heavily on commodity exports. Reduced fiscal space, arising partly from increased debt-servicing costs and exacerbated by falling donor support, has heightened the challenges many countries face in addressing their development needs and confronting recent global shocks. Risks to the growth outlook are tilted to the downside. They include intensifying insecurity and violent conflict, which could result in negative spillovers for many LICs, including increased food insecurity. Other downside risks include weaker external demand due to heightened trade tensions and related policy uncertainty, more persistent inflation, increased risk of government debt distress, further withdrawals of donor support, and more frequent or intense extreme weather events.

Introduction

Last year, output in low-income countries (LICs) grew by an estimated 4.6 percent—still below the 2010-19 average of 5 percent. While growth in LICs is expected to strengthen further, to 5.3 percent in 2025 and to an average of 6.1 percent in 2026-27, such a forecast is contingent on substantial improvements in security in several LICs in fragile and conflict situations (FCS; figure B1.2.1.A). Notwithstanding such a rebound, the projections for this year represent a significant downgrade in LICs' growth prospects compared to January forecasts, in line with the deterioration of the global economic environment. Indeed, at these projected rates, per capita income growth will remain too weak to fully unwind losses in per capita income from the pandemic and spur the rapid growth in jobs needed to lift millions from extreme poverty.

In many LICs, the outlook is clouded due to the worsening in the external environment—including rising trade tensions and uncertainty, tighter global financing conditions, and lower demand and prices for commodities—even if their exposure is somewhat contained by more limited trade in manufactured goods than in other EMDEs. Growth in LICs also remains hindered by lingering structural constraints, including pervasive violence. In several LICs, elevated violence has increased extreme poverty, food insecurity, and the number of displaced people (figure B1.2.1.B). Additionally, increased debt-servicing payments, in part reflecting higher borrowing costs, have required budgetary tightening and constrained the ability of governments to support the poor and promote development. To this end, many LICs have reduced their capital spending, which constrains their ability to address wide infrastructure gaps, weighing on longer-term growth prospects.

Risks to the growth outlook are skewed to the downside. Growth in LICs could fall short of current projections if the global environment deteriorates further. Intensification of global trade tensions and uncertainty could weigh on activity, especially in commodity-exporting LICs. Weaker external demand could exacerbate other risks in LICs, including further increases in domestic political instability and violent conflict, as well as more persistent inflation than projected, which could delay the easing of financial conditions. Greater frequency or intensity of adverse weather events could also dampen economic activity, as could further reductions in donor support.

Against this backdrop, this box addresses the following questions:

- What have been the main recent economic developments in LICs?
- What is the outlook for LICs?
- What are the risks to the outlook?

Recent developments

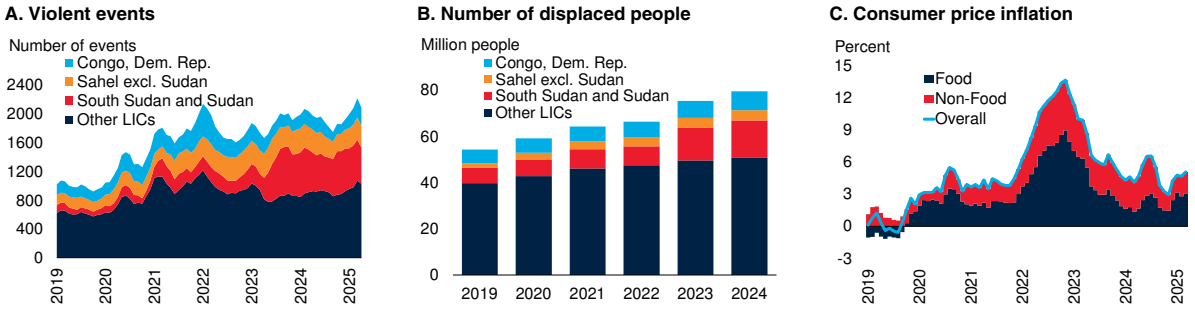
Growth in LICs strengthened to 4.6 percent in 2024 but remained below pre-pandemic average rates. The growth momentum was driven by accelerated activity in agricultural exporters, including Ethiopia; solid invest-

Note: This box was prepared by Edoardo Palombo and Dominik Peschel.

BOX 1.2 Low-income countries: Recent developments and outlook (*continued*)

FIGURE B1.2.1 LICs: Recent developments

Despite growth in LICs strengthening to 4.6 percent in 2024, domestic factors—such as violent conflict, displacement, and inflationary pressures—continue to hinder economic and humanitarian development. The incidence of violence has remained high in LICs, mainly reflecting violent conflicts in East Africa and the Sahel. Consequently, the number of displaced people has increased, driven by conflicts in Sub-Saharan Africa. Median consumer price inflation in LICs has been on a downward trend since early 2023, but a resurgence in food inflation caused it to spike in mid-2024, and it has edged up again more recently.



Sources: ACLED (database); Haver Analytics; UNHCR Refugee Population Statistics Database; World Bank.
Note: excl. = excluding; LICs = low-income countries.
A. Three-month moving average. Violent events include battles, explosions, violence against civilians, and riots. Last observation is April 2025.
B. Statistics cover forcibly displaced persons by country of origin, including refugees under UNHCR's mandate, asylum-seekers, and internally displaced persons of concern to UNHCR. Sample includes 26 LICs, of which 6 are in the Sahel.
C. Change in prices from 12 months earlier. Unweighted average for the sample of seven LICs. Last observation is March 2025.

ment growth in Uganda; and still-above-average growth in the Democratic Republic of Congo, spurred by mining activity. Part of the improvement in aggregate growth also reflects a smaller-than-anticipated economic contraction in Sudan's economy. In 2024, growth picked up in 15 of the 25 LICs for which data are available, and it has been revised up since January for nearly two-thirds of them, including the two largest LICs—the Democratic Republic of Congo and Ethiopia. For LICs as a group, growth in 2024 has been revised up by 1.0 percentage point since the January forecast.

Fragility and conflict have been key differentiators of growth performance. Among non-FCS LICs, activity expanded by 5.7 percent in 2024, helped in part by the oil-related construction boom in Uganda. However, output grew by only 0.5 percent in FCS LICs when the Democratic Republic of Congo and Ethiopia are excluded. The conflict-related contraction in Sudan contributed markedly to this weak performance, with government institutions collapsing and a sizable portion of the population displaced. In Ethiopia, growth accelerated to 8.1 percent last year, boosted by good agricultural output, increased mining, and higher electricity generation activity. In the Democratic Republic of Congo, output grew by 6.5 percent, despite intensifying conflict in the eastern part of the country, which has further increased the number of internally displaced persons, already in the millions, as a result of ongoing violence.

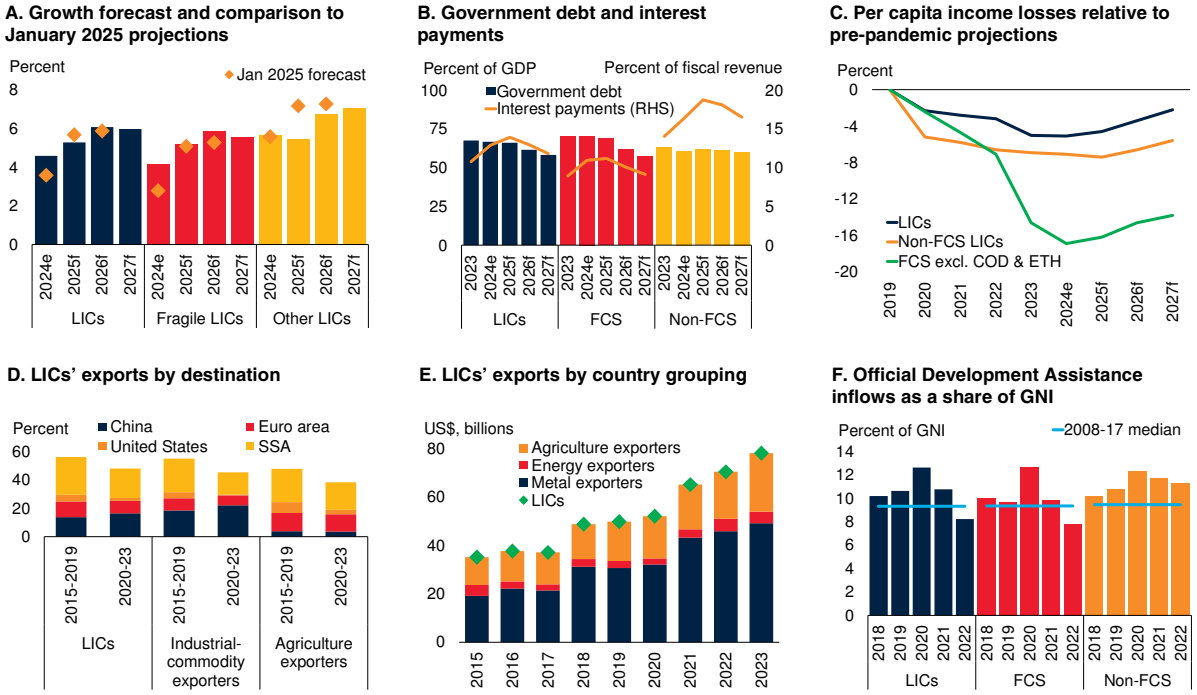
In early 2025, improved weather conditions helped agricultural output recover in some LICs affected by severe climate-related shocks last year, such as Malawi, which experienced droughts, and Mozambique, which experienced heavy rains and floods. In South Sudan, returning households have resumed agricultural activities, which has increased farming production and helped prevent an even more severe economic downturn.

While annual consumer price inflation in the median LIC has come down from its mid-2022 peaks, food prices temporarily edged up in many LICs in mid-2024 (figure B1.2.1.C). In 2024, floods in East Africa and the Sahel and droughts in Southern Africa adversely affected some harvests, raising local food prices. However, recent satellite data show that, since the start of 2025, drought conditions have worsened in East Africa, with Rwanda and Uganda particularly affected. In early 2025, food price inflation remained very high in some LICs

BOX 1.2 Low-income countries: Recent developments and outlook (*continued*)

FIGURE B1.2.2 LICs: Outlook and risks

Although growth in LICs is expected to firm in 2025, it will be weaker than previously expected, reflecting a more challenging external environment. Debt-to-GDP ratios in LICs are set to decline, but interest payments are set to remain elevated relative to fiscal revenues. Despite recoveries in FCS economies, LIC per capita incomes are not set to reach pre-pandemic trends by 2027. LICs export a small share to the United States, with a greater share directed to China, the euro area, and other SSA economies. Metal exporters drove the doubling in LIC exports from 2015 to 2023. Growing dependence on development assistance (2018-22) makes LICs vulnerable to aid withdrawal, which would worsen fiscal pressures, growth, and humanitarian conditions.



Sources: International Monetary Fund; World Bank.

Note: e = estimate; excl. = excluding; f = forecast. COD = Democratic Republic of Congo; ETH = Ethiopia; FCS = fragile and conflict-affected situations; GDP = gross domestic product; GNI = gross national income; LICs = low-income countries; SSA = Sub-Saharan Africa.

A. Data are GDP growth forecasts, as reported respectively in the June 2025 and January 2025 editions of the *Global Economic Prospects*. Sample comprises 22 LICs.

B. Simple averages of country groupings. Sample includes 21 LIC economies.

C. Panel shows percent deviation from the 2020 January *Global Economic Prospects* baseline projections for GDP per capita.

D.-E. Subgroupings include LICs only. The sample contains 22 LICs.

D. The figure shows the share in total exports.

E. Countries are categorized according to their main export items.

F. Sample includes up to 23 LIC economies. The blue line represents the median from 2008 to 2017 for each grouping.

(Burundi and Malawi), while conflict has kept food prices elevated in other LICs (South Sudan and Sudan).

Outlook

Growth in LICs is projected to firm to 5.3 percent in 2025 and strengthen further to an average of 6.1 percent a year in 2026-27 (figure B1.2.2.A). Compared to previous projections, the forecast has been trimmed by 0.4 percentage point for 2025. This largely reflects slower global growth amid increases in trade barriers, heightened trade policy uncertainty, and waning investor sentiment. While weaker growth prospects in 2025 have also been driven by a large downward revision for conflict-affected South Sudan, the deterioration in prospects is broad-based. Specifically, growth forecasts have been downgraded for nearly 60 percent of LICs in 2025 and in 2026. Although the growth forecast in LICs has been upgraded by 0.2 percentage point for 2026, this is driven by the large upward revisions for South Sudan and Sudan, where

BOX 1.2 Low-income countries: Recent developments and outlook (*continued*)

TABLE B1.2.1 Low-income country forecasts[a]

(Real GDP growth at market prices in percent, unless indicated otherwise)

	2022	2023	2024e	2025f	2026f	2027f	Percentage-point differences from January 2025 projections: 2025f	2026f
Low-Income Countries, GDP[b]	**4.4**	**2.8**	**4.6**	**5.3**	**6.1**	**6.0**	**-0.4**	**0.2**
GDP per capita (U.S. dollars)	1.6	0.1	1.8	2.5	3.3	3.2	-0.4	0.2
Afghanistan[c d]	-6.2	2.3	2.5	2.2	2.4	2.5	..	..
Burkina Faso	1.5	3.0	4.9	4.3	4.7	5.0	0.4	0.6
Burundi	1.8	2.7	3.5	3.5	3.7	4.0	0.0	-0.5
Central African Republic	0.5	0.7	1.5	2.1	2.2	2.8	1.0	0.2
Chad	13.0	4.1	3.7	3.5	4.5	4.4	1.4	1.0
Congo, Dem. Rep.	8.9	8.6	6.5	4.8	5.0	5.3	-0.2	0.4
Eritrea	2.5	2.6	2.9	3.1	3.4	3.5	0.1	0.1
Ethiopia[d]	6.4	7.2	8.1	6.4	6.5	7.2	-0.1	-0.6
Gambia, The	5.5	4.8	5.7	5.6	5.3	5.5	-0.2	-0.1
Guinea-Bissau	5.6	4.4	4.8	5.1	5.2	5.2	0.1	0.2
Liberia	4.8	4.7	4.8	5.1	5.5	5.7	-0.6	-0.3
Madagascar	4.2	4.2	4.2	3.7	3.9	4.4	-0.9	-0.8
Malawi	0.9	1.9	1.8	2.0	2.4	3.2	-2.2	-0.9
Mali	3.5	3.5	4.0	4.8	4.8	4.7	0.8	0.3
Mozambique	4.4	5.4	1.8	3.0	3.5	3.5	-1.0	-0.5
Niger	11.5	2.0	8.4	7.1	5.1	4.5	-1.4	0.5
Rwanda	8.2	8.2	8.9	7.0	7.3	7.3	-0.8	-0.2
Sierra Leone	5.3	5.7	4.0	4.1	4.2	4.2	-0.6	-0.5
Somalia, Fed. Rep.	2.7	4.2	4.0	3.0	3.5	3.5	-1.5	-1.0
South Sudan[d]	-2.3	-1.3	-7.2	-34.7	41.1	21.2	-23.3	35.0
Sudan	-1.0	-29.4	-13.5	5.0	9.3	4.1	3.7	6.4
Syrian Arab Republic[c]	0.7	-1.2	-1.5	1.0	..	..	2.0	..
Togo	5.8	6.4	5.3	5.0	5.4	5.5	-0.4	-0.4
Uganda[d]	4.7	5.3	6.1	6.2	6.2	10.4	0.0	-4.6
Yemen, Rep.[c]	1.5	-2.0	-1.5	-1.5	0.5	..	-3.0	..

Source: World Bank.
Note: e = estimate; f = forecast. World Bank forecasts are frequently updated based on new information and changing (global) circumstances. Consequently, projections presented here may differ from those contained in other Bank documents, even if basic assessments of countries' prospects do not significantly differ at any given moment in time.
a. The Democratic People's Republic of Korea is not projected due to data limitations.
b. Aggregate growth rates are calculated using GDP weights at average 2010-19 prices and market exchange rates. Data for the Syrian Arab Republic and the Republic of Yemen are excluded.
c. Forecasts for the Syrian Arab Republic (beyond 2025) and the Republic of Yemen (beyond 2026) are excluded because of a high degree of uncertainty. Forecasts for Afghanistan (2024-26) and the Republic of Yemen (2026) were not included in January 2025 *Global Economic Prospects*; therefore, the differences from January 2025 projection are not computed.
d. GDP growth rates are on a fiscal year basis. For example, the column for 2022 refers to FY2021/22.

conflict is assumed to de-escalate and oil exports resume in the latter, outweighing the impact of lower global growth on other LICs.

Activity in LICs will continue to face multiple challenges arising from domestic factors, including high public debt, limited access to financing, and external factors, such as a slowdown in global growth, fragmented trade, and falling donor support. Against this backdrop, the outlook remains highly uncertain and hinges on a substantial improvement in the security situation in a number of LICs, no new violent conflicts breaking out, inflation abating, debt crises being avoided, donor support not retrenching further, and the absence of major adverse weather events.

Government debt-to-GDP ratios in LICs are expected to decline gradually from recent highs but remain above

BOX 1.2 Low-income countries: Recent developments and outlook (*continued*)

60 percent, on average, by the end of 2027 (figure B1.2.2.B). The projected decline in debt ratios partly reflects primary fiscal surpluses amid consolidation efforts. Interest payments are expected to stay elevated across LICs and to remain above 10 percent of fiscal revenues by 2027, partially offsetting the improvements in the projected primary fiscal balance.

Anticipating improvements in the security situation in some countries, growth in FCS LICs is forecast to increase to 5.2 percent in 2025 and average 5.8 percent a year in 2026-27. The pick-up reflects a projected return to growth in Sudan and recovery of oil production in South Sudan. Growth is projected to remain solid in both the Democratic Republic of Congo and Ethiopia, albeit at a lower rate than in the last two years.

Growth in non-FCS LICs, which include 8 economies out of a total of 22 LICs, is forecast to weaken marginally from 5.7 percent in 2024 to 5.5 percent in 2025, before picking up to an average of 7.0 percent a year in 2026-27. This acceleration partly reflects stronger growth in Uganda due to oil-related capital investment and the anticipated start of oil production in 2027.

Per capita income growth in LICs is expected to increase from 1.8 percent in 2024 to an average of 3.0 percent a year in 2025-27, with per capita income growth in non-FCS LICs averaging 3.9 percent a year. However, these growth rates in average per capita incomes are not enough to close the gap with their pre-pandemic trend by the end of 2027 (figure B1.2.2.C). Indeed, per capita incomes growth in FCS LICs, excluding the Democratic Republic of Congo and Ethiopia—the two countries driving growth in this group—is expected to be only 1.7 percent a year in 2025-27. Per capita incomes in more than one-third of 24 LICs are expected to be below pre-pandemic projections by the end of 2027, down from half in 2024.

Despite gains in per capita income, many LICs will likely see limited progress in reducing poverty. One contributing factor is that SSA—home to most LICs—has a high growth inelasticity of poverty, requiring stronger economic growth rates than other regions to achieve similar poverty reduction results (Wu et al. 2024). The high inelasticity reflects a lower pass-through between growth in GDP per capita and growth in private consumption. Moreover, populations in several countries continue to suffer from violent conflicts, political instability, and their repercussions, including displacement and food shortages, exacerbating the often-dire conditions in FCS LICs.

Without sufficient job creation in LICs, however, these countries' economic and humanitarian challenges will not be resolved. Indeed, the challenge to spur jobs remains large, given growth headwinds and a further doubling of populations over the next 25 years in many LICs. This is likely to exacerbate pre-existing employment constraints, such as pervasive informality and widespread economic inactivity, including large-scale youth unemployment. In many cases, labor productivity remains subdued, notably in the agricultural sector, which accounts for a larger share of employment in LICs than in other EMDEs.

Risks

Risks to the growth outlook remain tilted to the downside, especially for FCS LICs, as projections are predicated on positive regional developments, which may fail to materialize. Should the intensity of ongoing conflicts not ease as assumed or escalate further—especially in the Democratic Republic of Congo, South Sudan, and Sudan—it could lead to extended humanitarian crises and exacerbate already severe food insecurity across LICs in the region, as many of these countries rely heavily on food imports.

Growth in LICs could prove weaker than projected if global economic conditions deteriorate. Specifically, unexpected adverse changes in trade policies among major economies and persistently high policy uncertainty could negatively impact LICs' growth prospects. While the direct effect of tariff increases by major economies would likely be relatively moderate for LICs given their limited export exposure to advanced economies, indirect effects could be substantial (figure B1.2.2.D). A primary concern is the potential for trade barriers to escalate and trigger a larger-than-expected global slowdown, which would particularly affect metal exporters, given their reliance on world export markets (figure B1.2.2.E). Overall, LICs remain vulnerable to global commodity price fluctuations and shifts in investor sentiment that could result from heightened international trade tensions.

BOX 1.2 Low-income countries: Recent developments and outlook (*continued*)

Lower-than-expected official development assistance (ODA) inflows to LICs pose another important downside risk to the growth outlook, as well as fiscal burdens and humanitarian challenges. The loss of aid financing for various projects, such as infrastructure development, education, and healthcare, could lead to a deterioration in economic activity and the drivers of long-term growth. Moreover, withdrawal of donor support may exacerbate the fiscal challenges of LICs as governments may have to substitute the missing ODA inflows, representing a median of 8 percent of GNI in 2022 (figure B1.2.2.F). Although, on average, there is not a significant difference in exposure to donor support between FCS and non-FCS LICs, three FCS economies—Afghanistan, Central African Republic and the Syrian Arab Republic—are among the most exposed LICs to a sharp decline in ODA inflows, given their high reliance on donor support.

Domestic inflationary pressures in LICs could intensify due to several factors, including further debt monetization, exchange rate depreciations, regional conflicts disrupting supply chains, and adverse weather conditions affecting food prices. This may push central banks in SSA to slow the pace of monetary policy easing, resulting in a slower-than-expected improvement in LICs' financial conditions. While high debt-servicing costs remain a burden for many LICs, liquidity concerns and foreign reserve adequacy are also pressing challenges. These challenges, which often disproportionately impact vulnerable populations, may be compounded by global developments, especially should global inflation prove more persistent than expected and global interest rates remain high.

A deterioration in financing conditions facing LICs could further heighten the risk of government debt distress in some countries. Despite the efforts of several LICs to reduce vulnerabilities to external shocks—through an increased share of domestic debt and the extension of its maturity—15 out of 25 LICs were in or at high risk of government debt distress in 2024. Indeed, sizable primary deficits have driven the debt buildup in LICs, reflecting expenditure pressures amid persistent revenue weakness (Chuku et al. 2023). In the forecast horizon, government debt-to-GDP ratios in LICs are expected to improve (IMF 2025). However, overall debt burdens are set to remain elevated, and fiscal consolidation efforts are expected to be slower and more uncertain than anticipated in January, given the challenging external environment.

If the adverse effects of climate change intensify, the pace of poverty reduction in LICs could be markedly slower (Jafino et al. 2020). Extreme weather events, such as droughts and floods, have frequently had catastrophic consequences in LICs. Such experiences could be repeated, as these countries have limited institutional capacity to cope with natural disasters and generally lack the financial resources needed to help mitigate their adverse effects.

deteriorating outlook for global growth amid increasing uncertainty and rising trade restrictions, as well as by limited policy space. Excluding China and India, progress in closing the gap in income levels with advanced economies has stalled since the early 2010s and is envisaged to remain stagnant (figure 1.10.B).

In LICs, per capita growth is expected to pick up over the forecast horizon but remain too slow to make up for ground lost since the pandemic. Indeed, despite LICs' comparatively lesser exposure to increased trade tensions, their recovery in per capita income is projected to be slower than was anticipated in January's forecasts, with softer global commodity demand and subdued investor confidence weighing on the outlook this year and next. FCS countries continue to fare much worse than was foreseen in the 2010s, as conflict has become an increasingly prominent driver of per capita output losses. Since the early 2000s, the number of conflicts and conflict-related deaths has risen substantially (figure 1.10.C). As a result, by 2027, per capita incomes in FCS are projected to remain over 11 percent lower than the pre-pandemic trend, compared to about 4 percent for LICs as a whole (figure 1.10.D).

After considerable headway in reducing extreme poverty rates until the 2010s, moderating per

capita income growth across EMDEs has slowed progress on poverty reduction (figure 1.10.E) While some regions, such as SAR, have made notable reductions in extreme poverty, the extreme poverty rates in EMDEs excluding China and India, and especially across LICs—many of which are FCS economies—are expected to remain higher than prior to the pandemic through 2026. Slowing progress on poverty reduction has coincided with an intensification in conflict since the mid-2010s. As of 2025, FCS, which are home to nearly 1.1 billion people, account for nearly half of the global population living in extreme poverty, up from about 40 percent in 2019. By 2030, almost 60 percent of the world's poor, or 365 million people, are expected to reside in FCS (figure 1.10.F).

Global outlook and risks

Summary of global outlook

In all, global growth prospects have substantially weakened since January, with some of the downside risks related to trade having materialized in recent months—most notably, a significant increase in trade barriers and policy uncertainty. In view of these developments, the forecasts assume that tariff rates in place as of late May prevail throughout the forecast horizon. Accordingly, previously announced pauses to tariff hikes between the United States and its trading partners are assumed to be extended with at most limited modifications. In this context, global growth is projected to slow markedly to 2.3 percent in 2025—the slowest pace since 2008, aside from two years of outright global recession in 2009 and 2020. Over 2026-27, a pickup in domestic demand is expected to lift global growth to a still-subdued 2.5 percent—far below the pre-pandemic decadal average of 3.1 percent (figure 1.11.A). The expected deterioration in growth is broad-based, with many of the world's economies likely to experience slower growth relative to last year as well as previous forecasts (figure 1.11.B). EMDEs with tight trade and investment linkages with the three largest economies—the United States, euro area, and China—are expected to be adversely impacted by the spillovers from a concurrent slowdown in these economies this year (figures 1.11.C and 1.11.D).

Although central banks are anticipated to continue lowering monetary policy rates, the future path of interest rates is uncertain considering the potential risks that higher tariffs pose for the disinflation process, particularly in the United States. Fiscal policy is assumed to be broadly neutral in many economies, excluding some European countries where increased defense and infrastructure spending is included in the baseline. In some major economies, aggregate fiscal policy shifts could prove materially more expansionary than the baseline assumptions.

Against this backdrop, global trade and investment growth are also expected to be notably lower relative to previous projections, mostly owing to a sharp deterioration in business and consumer confidence. Uncertainty about future trade policies is likely to amplify the negative effect of increased trade barriers on near-term investment and activity, especially as firms delay or reconsider capital spending, which tends to be trade-intensive (IMF 2018; Kose, Ohnsorge et al. 2017). As global trade and investment weaken, labor demand and private consumption growth in key advanced economies are also set to slow. Although some countries may benefit from trade diversion in the short run depending on the distribution of tariffs across U.S. trading partners, mounting trade restrictions could disrupt global value chains, contributing to higher prices in some sectors. Protectionism, if it becomes entrenched, is also likely to stifle cross-border flows of commerce, capital, and technology in the longer term, weighing on productivity and global potential growth.

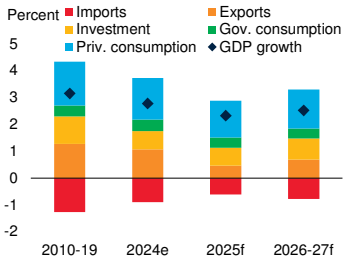
Risks to the outlook

Downside risks to the outlook continue to dominate (figure 1.12.A). Higher or more persistent trade policy uncertainty presents a major risk to global trade, investment, and overall activity. Renewed increases in trade tensions and barriers could further weigh on consumer and business confidence, weakening demand. A reappraisal of risk appetite and deleveraging in financial markets could generate financial stress that curbs economic activity globally, with large capital outflows from vulnerable EMDEs. Some

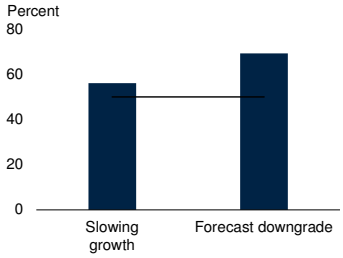
FIGURE 1.11 Global outlook

Global growth is anticipated to weaken in the near term, reflecting a sharp increase in trade barriers and heightened uncertainty. The deterioration in growth prospects is expected to be broad-based, affecting most of the world's economies. The slowdown this year in the three major engines of global growth—the United States, euro area, and China—is expected to dampen activity in other EMDEs, especially those with tight trade and investment linkages to these economies.

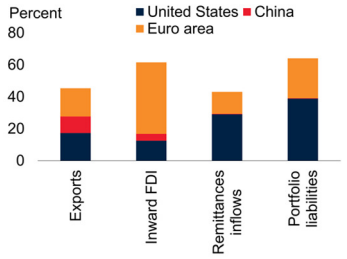
A. Contributions to global growth



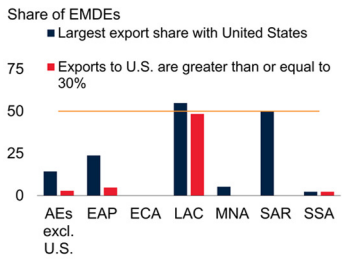
B. Share of economies with slowing/ downgraded growth in 2025



C. Trade and financial linkages between major economies and EMDEs excluding China



D. Share of economies for which the United States is a major goods export destination, 2010-23



Sources: BIS (database); IMF Coordinated Direct Investment Survey (database); World Bank; World Integrated Trade Solution (database); WBG-KNOMAD.
Note: e = estimate; f = forecast. AEs = advanced economies; EAP = East Asia and the Pacific; ECA = Eastern Europe and Central Asia; EMDEs = emerging market and developing economies; LAC = Latin America and the Caribbean; MNA = the Middle East and North Africa; SAR = South Asia; SSA = Sub-Saharan Africa; U.S. = United States.
A. Aggregates are calculated using real U.S. dollar GDP weights at average 2010-19 prices and market exchange rates. Discrepancies between GDP growth and the sum of its components reflect inventories and residuals.
B. Panel shows the share of economies with slowing growth and with growth outlook downgraded relative to January 2025 forecasts. Horizontal line shows 50 percent.
C. Bars show, for EMDEs excluding China, the share of total exports that are directed to China, the euro area, and the United States, and the shares of total inward FDI positions, remittance inflows, and portfolio liabilities that originate from China, the euro area, and the United States. Data refer to 2023 apart from remittance inflows, which refer to 2021. Sample includes 106 EMDEs for exports, 144 EMDEs for FDI, 153 EMDEs for remittances, and 81 EMDEs for portfolio liabilities.
D. Share of EMDEs in each region for which exports to the United States account for the single largest share of total exports or for which exports to the United States account for at least 30 percent of total exports.

major economies may experience a mutually reinforcing combination of downside risks, resulting in notably weaker growth with adverse global spillovers. Increased conflict and geopolitical stress, as well as more frequent and intense natural disasters, could also push growth below expectations. On the upside, the drag from uncertainty and increased trade barriers could be attenuated if negotiations give rise to tariff reductions between major economies. In addition, global growth could be stronger than projected due to a technology-led investment boost and additional fiscal spending in major economies—though the latter could also generate inflationary pressures and undermine efforts to restore medium-term fiscal sustainability.

Downside risks

Persistently elevated policy uncertainty

Policy uncertainty—especially about trade policy—remains very high. The imposition of higher trade barriers has already unsettled financial markets and dampened business and consumer sentiment. Despite recent trade negotiations, concerns remain that global trade tensions could escalate in unpredictable ways. The speed and scope of policy shifts have also made it challenging for firms to plan, leading to reduced capital investment and hiring plans.

The duration of this period of acute uncertainty could be a key determinant of global growth, on top of the direct impacts of policies that are enacted. In the baseline, uncertainty is expected to wane as tariff rates stabilize and trade patterns adjust. If, however, elevated uncertainty persists for longer or rises further over the forecast period, the adverse implications for economic activity could compound, pushing global growth notably below expectations.

An unexpected rise in trade policy uncertainty could weigh more on the sentiment of consumers, investors, and businesses, which, in turn, would have adverse impacts on output and employment globally, especially in export-intensive industries. A sharp further increase in uncertainty, particularly for an extended period, would likely drive EMDE investment and growth markedly lower (figure 1.12.B). It could, for example, delay investments in productive capacity in exporting countries, speed up exit of firms from exporting industries most likely to be affected by tariffs, and lead to costly trade diversion (Crowley, Exton, and Han 2020; Douch, Du, and Vanino 2019; Handley and Limão 2019). Weaker investor sentiment and a lack of clarity over future trading arrangements could particularly curtail the flow of

FDI linked to establishing supply chains, which has historically been a major driver of economic development.

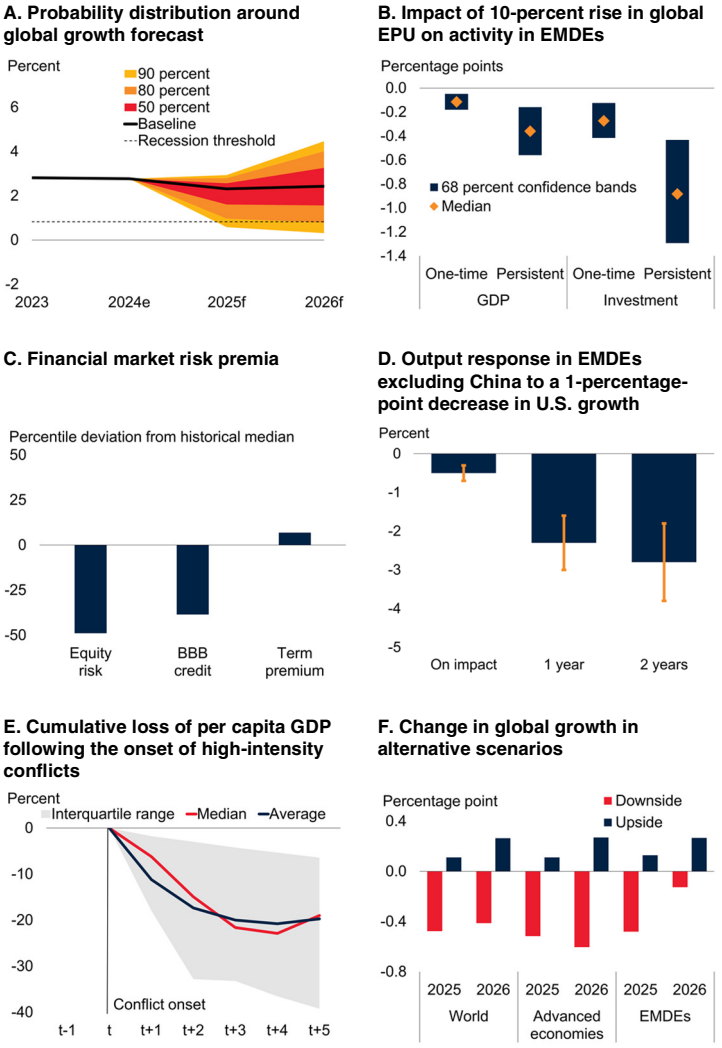
Escalation of trade tensions

Although the baseline encompasses a significant increase in trade barriers, there remains a substantial risk that the trend of rising trade protectionism and inward-looking policies in major economies intensifies further. This could include a reversion to previously announced higher tariffs and the reintroduction and expansion of retaliatory measures. A renewed escalation in trade tensions and trade costs would amplify their negative consequences for the global economy. Such an outcome might become more likely if tariffs and ongoing shifts in trading relations put downward pressure on export prices in large goods exporters, such that domestic producers in economies that have not increased import levies face suddenly intensifying competition.

Further increases in tariffs would likely lead to higher inflation in the implementing jurisdictions (Amiti, Redding, and Weinstein 2019). Prices for imported consumer and intermediate goods would rise directly, with at least a sizable portion of tariffs likely to be passed on to domestic buyers. In the near term, substitution toward domestic alternatives would not be feasible for every product affected—such adjustments would take time and be costly. This would further push up prices—including on domestically assembled products as already suggested by high-frequency data—raising consumer inflation generally (Cavallo, Llamas, and Vazquez 2025). Higher prices would reduce real income and consumption further, which, in turn, could dampen private investment. These effects could be especially pronounced in export-intensive economies, as importers move parts of the supply chain onshore. Consumer and business confidence would also decline in the context of escalating trade conflicts, further reducing economic activity. In the long run, sustained high trade barriers and reduced trade would dampen productivity growth, including by impeding the diffusion of technology across borders.

FIGURE 1.12 Risks to the outlook

Downside risks continue to dominate. Further uncertainty would lower EMDE investment and growth. Despite recent market turmoil, risk premia in key markets remain relatively narrow, leaving asset prices vulnerable to large negative adjustments. A marked slowdown in major economies, especially the United States, would have sizable adverse spillovers. A rising number of EMDEs face acute risks from armed conflicts, which have proliferated in recent years, often culminating in deep recessions. Globally, a downside scenario of renewed trade tensions could push global growth sharply lower. In contrast, an upside scenario of trade negotiations that de-escalate tensions could mitigate the expected slowdown in global growth.



Sources: Barclays; Bloomberg; Consensus Economics; Federal Reserve Banks of New York and St. Louis; Haver Analytics; Oxford Economics; Uppsala Conflict Data Program; World Bank.

Note: BVAR = Bayesian vector autoregression; EPU = economic policy uncertainty.

A. Dashed line indicates global recession (below zero per capita growth). Probabilities use range and skewness implied by oil and equity options, and term spread forecasts. Values for 2025-26 use 6-month- and 18-month-ahead forecast distributions. Last observation is May 2025.

B. GDP-weighted cumulative impulse responses of growth to a 10-percent increase ("one-time") or ongoing 4-quarter 10-percent increase ("persistent") in global EPU (Davis 2016), one year after the first shock. BVAR estimated over 1998Q1-2023Q4 for 39 EMDEs, with four lags.

C. Equity risk proxied by the U.S. Shiller excess earnings yield. BBB credit spread is for the U.S. Term premium is an average of Kim and Wright, and Adrian, Crump, and Moench models of the U.S. 10-year premium. Data from 2003 for equities; 2000 for other variables. Last observation May 2025.

D. Median cumulative responses from BVAR covering 2000Q1-23Q4. Whiskers show 16-84 percent confidence bands. For details, see Annex 3.2 in the Jan 2025 *Global Economic Prospects*.

E. High-intensity conflict means 150+ deaths per million at onset, with that threshold not exceeded in four prior years. Lines show the cumulative gap between World Bank forecast one year before onset and actual per capita GDP. Sample of 14 conflicts in 14 EMDEs from 2006–23.

F. Growth deviation in upside/downside scenarios, using Oxford Economics' Global Economic Model.

Damage to global supply could, over time, push up prices even in countries that do not raise their own tariffs and are not significantly affected by rising tariffs elsewhere. A bout of higher inflation and weaker growth would pose substantial challenges to central banks in affected economies, especially if inflation expectations showed signs of de-anchoring following several years of above-target price gains.

Disorderly asset price corrections and financial stress

Heightened volatility in financial markets and the potential for large asset price adjustments pose additional risks to global economic activity and could amplify the effects of other risks materializing. Despite recent volatility spikes, risk premia in key equity and credit markets remain narrow compared with historical norms (figure 1.12.C). In this context, a material reappraisal of risk appetite could lead to sharp asset price corrections in advanced economies, which would reverberate through global markets and might become disorderly if synchronous deleveraging by market participants leads to liquidity strains. The resulting repricing of equities in both advanced economies and EMDEs could lower consumption through wealth and confidence effects, whereas widening corporate spreads would weigh on investment globally. Banks might also retrench from riskier lending, slowing credit growth and curbing some cross-border intermediation. For example, with heightened trade policy uncertainty, tighter lending conditions could see the availability of trade credit decline, exacerbating the slowdown in global trade and EMDE exports.

It is also possible that weakening risk sentiment might coincide with a rise in the term premium on advanced-economy government bonds, given uncertainty about the outlook for inflation and policy rates in key economies. This would further tighten global financial conditions. Against a backdrop of reduced global risk appetite and still-elevated benchmark interest rates, EMDEs with heightened domestic vulnerabilities would be prone to large capital outflows. Shifting interest rate differentials could constrain some EMDE central banks from supporting domestic activity, as they might slow or delay policy easing to mitigate capital outflows and inflationary pressures resulting from currency depreciation. In EMDEs with weak credit ratings and high debt levels, market access for refinancing maturing debts could be disrupted, necessitating sudden fiscal adjustments. More broadly, higher borrowing costs would raise debt-servicing burdens over time, worsening fiscal pressures in many EMDEs.

Weaker-than-expected growth in major economies

In some major economies, downside risks could become mutually reinforcing or interact with pre-existing vulnerabilities. In the United States, business investment, hiring, and consumer spending could retrench markedly due to pessimism about future economic activity and job prospects, increases in trade barriers, and resurgent financial market volatility. Household spending may be further curtailed by weaker disposable income growth. Reduced private spending could precipitate a sharp deceleration in U.S. economic activity or even a recession. A confluence of factors such as weaker external demand, heightened uncertainty, supply chain disruptions, and tighter financial conditions could also challenge large economies seeking to overcome domestic headwinds. In China, for example, robust export performance in recent years has helped attenuate the drag on growth from the property sector slowdown.

Markedly weaker-than-expected growth in major economies could have considerable negative global spillovers. For EMDEs, external demand could soften, with exports of manufactured goods and traded services such as travel likely to weaken. Commodity prices would fall below the baseline projections, weighing on terms of trade and curbing export earnings in many commodity-exporting EMDEs, some of which might tighten fiscal policy pro-cyclically given diminishing commodity-linked revenues. Additionally, deteriorating labor markets in large economies could curtail remittance flows to some EMDEs. In general, the spillovers to EMDEs from weak growth in the United States are particularly sizable—a one percentage point decrease in U.S.

growth is estimated to lower output in EMDEs excluding China by about 3 percent after 2 years (figure 1.12.D).

Increased conflict and geopolitical stress

The incidence of armed conflicts has risen substantially in recent years. While the baseline assumes a partial resolution of some major conflicts, the risk of continued or escalating conflict remains high—both at the interstate and intrastate level—against a backdrop of elevated geopolitical tensions globally. Armed conflicts result in the destruction of physical and human capital and can lead to sharp increases in poverty and food insecurity. They often culminate in deep recessions, reduced private investment, and persistent output losses in the countries involved (figure 1.12.E). Neighboring countries can also experience weaker private investment, as they often become less stable and more susceptible to conflict themselves. In addition, some large conflicts can have global consequences, as they can lead to large waves of refugees and disrupt trade networks and international commodity and financial markets.

In countries directly involved in conflict, elevated military spending can squeeze public resources for economic capacity-building spending, such as that on education, health, and civilian infrastructure. More broadly, conflict-induced declines in productive capacity lower future expected incomes, raising risk premia and increasing the probability of debt default.

Among current major episodes, a re-intensification of conflict in the Middle East could disrupt oil and natural gas supplies, causing energy prices to rise, exerting upward pressure on inflation. Uncertainty around Russia's ongoing invasion of Ukraine and its future economic implications also remains elevated, although a negotiated end of active hostilities could be reached at some point. More generally, EMDEs can be particularly vulnerable to various knock-on consequences of conflicts, including from the impact of sanctions on trade or through weaker global investor confidence impacting capital flows.

Increasing frequency and severity of natural disasters

The growing incidence of natural disasters poses significant risks to lives, livelihoods, and the global economy. It is likely that the frequency and severity of extreme weather events, including natural disasters, will continue to escalate with global warming (IPCC 2014; 2022). As these events become more prevalent and intense, their future impacts are likely to be more significant. The immediate impacts of extreme weather events can materialize through various channels: loss of life, destruction of physical and infrastructure capital, displacement or migration of the labor force, and disruption of economic activity. Although empirical estimates of the economic costs of extreme weather events vary widely, such events have been shown to have major impacts on economic activity (Dell, Jones, and Olken 2014; Burke, Hsiang, and Miguel 2015). In the longer term, climate-change-related natural disasters can weaken investment and trend productivity growth as well as impede human capital development, with long-lasting impacts on vulnerable households (Angeli et al. 2022; World Bank 2025a; Zhang and Borja-Vega 2024).

Natural disaster risks are more acute for EMDEs given their higher vulnerability to such events, including typhoons, extreme heat, and severe precipitation (Hsiang and Jina 2018). Small island developing states are among the most vulnerable, owing to narrow production bases and undiversified economies, with estimated annual average losses from natural disasters ranging between 1 and 9 percent of their GDP over 2000-15 (OECD 2018). Moreover, the impacts of natural disasters across EMDEs may be amplified by weak institutional capacity, including those related to governance, and constrained fiscal space.

Extreme weather events can also lead to upward price pressures in the short run, with inflation becoming more volatile in areas subject to more frequent occurrence of such events (Angeli et al. 2022). Droughts have been found to increase food price volatility, with disproportionate impacts on poorer households.

Upside risks

Dissipating trade policy uncertainty and reduced trade tensions

A partial resolution of trade tensions between the United States and its trading partners—for example, through further trade negotiations or unliteral tariff reductions—could help stabilize the global trade policy environment and reduce uncertainty. These measures would enable firms to plan better and, where necessary, reorganize supply chains over a longer horizon, mitigating the adjustment costs and limiting trade disruptions (Grossman, Helpman, and Redding 2024). Such measures could also lower effective tariff rates between the United States and its major trading partners compared to the assumptions embedded in the baseline.

Relative to the baseline, lower tariffs would ease upward pressure on consumer prices and raise profit margins for both importing and exporting firms (Amiti, Redding, and Weinstein 2019). These disinflationary impacts would likely be most pronounced in the United States and any countries rolling back retaliatory measures. Diminishing trade policy uncertainty would have wider beneficial impacts, raising business and consumer confidence and thereby partially reversing the widespread drag on investment and consumption assumed in the baseline (Caldara et al. 2020). It is likely that tailwinds to global activity would also be reinforced by further easing of financial conditions, with risky asset prices incorporating a lower possibility of weak growth or debt-related strains.

Fiscal expansion in major economies

In major economies, fiscal policy may become more supportive of growth relative to baseline assumptions. In the United States, fiscal policy may prove expansionary over the forecast horizon, in contrast to the slightly contractionary stance embedded in the baseline. This could result from a renewal of expiring individual and business tax provisions of the Tax Cuts and Jobs Act or other tax reductions, potentially partly offset by federal spending cuts. In the near term, this could reduce personal and corporate taxes and boost disposable incomes, supporting consumption and business investment.

In the euro area, the outlook is subject to some upside risk following announced plans to relax fiscal rules rather than slightly tighten policy as assumed in the baseline. The EU has paved the way for allowing member states to significantly increase spending by exempting defense categories from its existing clauses in debt and deficit rules, with some economies already approving additional spending. In China, additional fiscal policy stimulus could result in higher-than-expected growth.

A combination of fiscal support in major economies would lift domestic demand in the near term and trigger positive spillovers via trade, despite the relatively low import content of defense spending and the ongoing trend toward greater trade fragmentation. However, the boost from additional fiscal support would likely be dampened somewhat by the crowding out of private investment due to higher government borrowing rates, and with wider fiscal deficits and increases in government debt worsening fiscal sustainability in some key economies.

Technology-led investment growth and productivity gains

Heightened optimism about the growth potential of new technologies—including generative AI—has become widespread in recent years. Already, many large public companies are drastically increasing capital expenditures to ramp-up their technological capabilities, while many governments are also dedicating increased resources to supporting burgeoning industries. If this optimism broadens or intensifies—perhaps fueled by further technological breakthroughs—a large wave of technology-led investment could follow. This could manifest in increased global investment in energy infrastructure, data centers, and research and development, as well as foster more trade in ICT components and services.

Even if centered mostly in advanced economies and wealthier EMDEs, the benefits of such investments could spill over to EMDEs more broadly in the form of stronger external demand.

Moreover, as applications of new technologies proliferate and mature, a greater number of firms across EMDEs may make investments to enable adoption. Over the longer term, new technologies could potentially support a pickup in productivity growth in both advanced economies and EMDEs. However, this remains contingent on many broader factors, such as institutional arrangements, and whether commercially successful applications tend to be labor augmenting or labor replacing.

Growth outcomes under alternative scenarios

If some of the risks discussed above were to materialize, global growth could deviate materially from the baseline projection. The risks around key trade policy assumptions are particularly notable, and their implications are examined below using a global macroeconomic model.[2]

Downside scenario: Renewed increases in trade barriers

This scenario assumes the weighted average U.S. tariff increases by about an additional 10 percentage points, resulting in significantly higher U.S. tariffs compared to those incorporated in the baseline. These developments are assumed to spark retaliation from trading partners. The renewed rise in trade tensions also leads to a more persistent increase in uncertainty and rising financial market volatility, accompanied by a sizable and widespread shock to confidence.

The resulting seizing up of global trade, elevated uncertainty, declines in confidence, and falling asset prices tip the global economy into an extended period of anemic expansion, reducing global growth by 0.5 and 0.4 percentage point in 2025 and 2026 relative to the baseline (figure 1.12.F). Under this scenario, the impact on growth in advanced and developing economies in 2025 is broadly similar, as the global shock to financial markets and confidence leads to a widespread reduction in activity. Compared with the baseline, advanced-economy growth is weaker by 0.5 and 0.6 percentage point in 2025 and 2026, whereas EMDE growth is reduced by 0.5 and 0.1 percentage point.[3]

Much of the softness in global growth is attributable to weaker global demand amid sharply higher trade barriers and souring sentiment, which also leads to lower energy prices. This combination initially reduces global inflation by 0.4 percentage point compared with the baseline in 2025, before the upward pressure on prices from higher tariffs begins to dominate, raising inflation to 0.5 percentage point above the baseline in 2026. In this context, central banks in many advanced economies and EMDEs are constrained from significantly easing monetary policy over the next two years.

Upside scenario: Faster resolution of trade tensions

Under an upside scenario, the U.S. effective tariff rate, while still remaining above 2024 levels, is assumed to be reduced by roughly half compared to the baseline, with all retaliatory tariffs receding. Such an outcome might occur following negotiations between the United States and its main trading partners, resulting in a series of bilateral trade agreements and a general cooling of trade tensions. The lower tariffs are assumed to be accompanied by a reduction in uncertainty and an increase in confidence starting in the second half of 2025.

The more benign global trade backdrop and widespread improvement in confidence would raise global growth by 0.1 and 0.3 percentage point in 2025 and 2026 relative to the baseline. The impact is anticipated to be generally uniform across economies, with growth in both advanced economies and EMDEs boosted by 0.1 and 0.3 percentage point in 2025 and 2026 compared with the baseline. Across major economies,

[2] These simulations are conducted using the Oxford Economics Global Economic Model, a semi-structural macroeconomic projection model that includes 188 individual country blocks in its extended version, available at quarterly or annual frequencies (Oxford Economics 2019).

[3] These results are consistent with other studies that analyze the impact of comparable increases in U.S. tariffs. For instance, without retaliation from trading partners, higher tariffs are found to have a larger effect on U.S. growth compared to other economies. Furthermore, in line with the simulation results, recent studies also suggest that retaliation by trading partners would amplify the negative impact of higher tariffs on U.S. output (McKibbin, Hogan, and Noland 2024; The Budget Lab 2025).

tailwinds from stronger real income growth and better sentiment are reinforced by gradual monetary easing and rising asset prices.

Policy challenges

With increased trade barriers, heightened policy uncertainty, and multiple downside risks weighing on the outlook, revitalizing and re-energizing global dialogue and cooperation are paramount. Global policy efforts are needed to safeguard international trade by fostering the resolution of trade disputes and mitigating the adverse impacts of geopolitical tensions on trade networks. Collective action is also needed to tackle the myriad of overlapping challenges, including widespread conflict, decline in official development assistance, and severe food insecurity, facing many vulnerable EMDEs. Furthermore, revitalizing global efforts toward climate change mitigation and adaptation is essential to limit future costs from increasingly frequent climate-related natural disasters. At the national level, shoring up economic stability requires focusing on sound monetary and financial policies to contain risks related to inflation and capital flow volatility. Amid narrow fiscal space and substantial development needs, it is critical for EMDE fiscal policy makers to adopt measures to mobilize domestic revenues, reprioritize fiscal spending, and strengthen fiscal frameworks. To bolster long-term growth prospects in EMDEs, structural reforms are needed to strengthen institutional quality, accelerate investment growth, develop human capital, and improve the functioning of labor markets. For EMDEs affected by conflict, achieving lasting peace and stability is crucial to reducing human suffering and improving economic well-being.

Key global challenges

Confronting rising trade barriers and fragmentation

The recent rise in trade barriers and ongoing trade fragmentation are critical challenges that require appropriate policy action. These developments come against the backdrop of already sluggish global trade, where the once-rapid increase in trade openness has stalled since the early 2010s, as the maturation of global supply networks has limited the scope for further gains from specialization (figure 1.13.A). Supply-chain disruptions associated with the pandemic and elevated geopolitical tensions have highlighted the vulnerabilities of the global trade system, prompting some countries to pursue reshoring strategies through increased use of trade restrictions and industrial policies. As a result, the momentum for trade globalization has slowed while geopolitical fragmentation has intensified (figure 1.13.B).

From a longer-term perspective, EMDEs have become increasingly integrated into the global economy since the early 2000s. This integration helped their economic development but also made them more vulnerable to rising protectionism, value chain disruptions, and trade policy uncertainty. The recent increase in trade barriers imposed by key economies, and possible ensuing retaliation, pose a significant threat to the global trading system. The international community has a role in fostering dialogue and cooperation to address global trade imbalances in an orderly and transparent manner. EMDEs, in particular, would benefit more by liberalizing broadly rather than imposing retaliatory tariffs. Across-the-board liberalization lowers trade costs and promotes investment, supporting long-term growth.

In tandem, countries need to design other policies to mitigate the adverse consequences of higher trade restrictions while taking advantage of opportunities for cross-border cooperation and improvements in domestic conditions. In EMDEs, such an approach can involve seeking strategic trade and investment partnerships with other EMDEs, reducing regulatory and trade barriers, and pursuing opportunities to diversify trade, including through regional trade agreements (World Bank 2025a). The negative consequences of rising trade barriers in certain markets can be partially offset by fostering deeper integration with other countries, including intra-regional partners, and by expanding the liberalization of current trade agreements. For example, deepening all existing preferential trade agreements to their highest level of ambition could increase GDP by

an estimated 0.8 percent in Sub-Saharan Africa and by 1.7 percent in South Asia (Fernandes et al. 2021). Deeper trade agreements can also limit the negative spillovers on excluded countries and reduce trade policy uncertainty (Handley and Limão 2015; Lee, Mulabdic, and Ruta 2023; Mattoo, Mulabdic, and Ruta 2022). Additionally, priority needs to be placed on reforming the multilateral trading system to address emerging challenges. Estimates indicate that trade cost reductions between 1995 and 2020, including those related to WTO accession commitments, boosted global real GDP by nearly 7 percent over the period, with low-income countries growing by over 30 percent (WTO 2024).

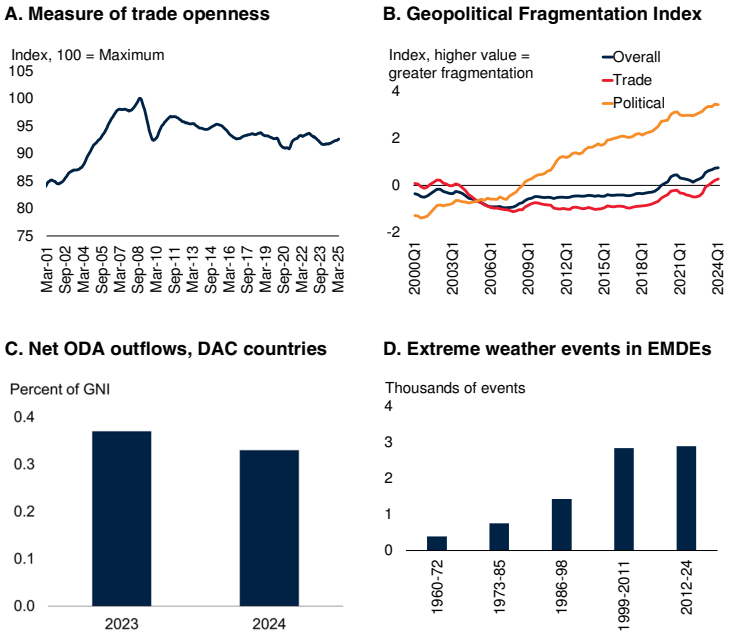
Insufficient support for vulnerable EMDEs

A range of adverse trends—including the rise in global trade-restrictive measures, the incidence of conflict, the increase in displaced populations, and acute food insecurity—point to escalating challenges in many of the most vulnerable EMDEs. At the same time, many of these countries are facing extraordinary financial pressures with elevated public debt, fiscal constraints, and obstacles in mobilizing private finance. These financing challenges are compounded by declining aid flows from the international community (figure 1.13.C). Cross-border and domestic crises have led to increased humanitarian needs that necessitate swift financial responses, with governments often redirecting official development assistance (ODA) funds from other priorities to meet emergent needs (Ahmed, Calleja, and Jacquet 2025).

In a global economy susceptible to additional adverse shocks, collective action is needed to help vulnerable EMDEs make progress on key development goals and avert potentially adverse spillovers to other economies, including pressures for outward migration. Vulnerable EMDEs will need international support to mobilize additional resources and strengthen institutions for lasting reforms. Multilateral institutions can also help ensure the availability of vital goods, such as food and medical equipment, that are urgently needed during crises—as was evident during the COVID-19 pandemic (World Bank 2025a).

FIGURE 1.13 Global policy challenges

The global economic environment has shifted significantly, with increased trade barriers and ensuing policy uncertainty coming on the heels of already sluggish global trade. The once-rapid advance in goods trade openness has stalled since the early 2010s, partly due to the maturation of global supply networks. This, together with pandemic-related supply chain disruptions and escalating geopolitical tensions, has slowed the momentum for trade globalization and exacerbated geopolitical fragmentation. Meanwhile, declining official development assistance flows are compounding the financing hurdles facing many vulnerable EMDEs. Climate change remains a major challenge, with EMDEs increasingly exposed to extreme weather events.



Sources: CPB Netherlands Bureau for Economic Policy Analysis; EM-DAT (database); Fernández-Villaverde, Mineyama, and Song (2025); OECD (2025); WDI (database); World Bank.

Note: DAC = Development Assistance Committee; EMDEs = emerging market and developing economies; GNI = gross national income; LICs = low-income countries; ODA = Official Development Assistance.

A. Trade openness is measured as the 12-month moving average of the ratio of global merchandise export volumes to global industrial production volumes (excluding construction). Last observation is March 2025.

B. The Geopolitical Fragmentation Index extracts the common factor across various indicators relating to trade, finance, mobility of people and ideas, and geopolitical instability and misalignment (Fernández-Villaverde, Mineyama, and Song 2025). Lines show the common factor derived from standardized variables with zero mean and unit standard deviation. A higher value implies greater fragmentation. Last observation is 2024Q1.

C. Panel shows ODA flows and grant equivalents as a share of GNI by Development Assistance Committee (DAC) countries.

D. Extreme weather events include droughts, floods, and storms. Sample includes 122 economies for droughts, 144 for floods, and 127 for storms.

In the case of LICs and FCS, given their substantial financing needs and limited state capacity, coordinated efforts from the global community can help these countries expand fiscal space. Measures include concessional financing and debt relief, where appropriate, as well as technical assistance to strengthen fiscal policies and build resilient macroeconomic frameworks. Countries in active conflicts will continue to

depend on the global community for emergency relief and peace-building support.

Natural disasters and biodiversity loss

Natural disasters and the concomitant economic impacts are a growing concern for policy makers. EMDEs are particularly exposed to the adverse effects of climate-related natural disasters, with a steady increase in the frequency and intensity of storms, floods, and droughts over the past decades (figure 1.13.D). At the same time, loss of biodiversity—defined as the variety of plant and animal life in habitats or ecosystems—is proceeding at an unprecedented rate and scale, with dire implications for economies and livelihoods. Biodiversity and climate change are inextricably linked, with climate change being a key driver of biodiversity loss. Biodiversity can also provide protection against natural disasters and promote ecosystem resilience (Seymour, Wolosin, and Gray 2022).

As with natural disasters, the loss and degradation of biodiversity impacts low income and lower middle-income countries disproportionately. Renewable natural capital, including agricultural land and forests, and blue assets, such as fisheries and mangroves, account for 23 percent of the wealth in low-income and 10 percent in lower-middle income countries (Kemper and Pathak 2021). Estimates indicate that about $44 trillion of global value added is generated in industries that depend moderately or heavily on nature and, consequently, exposed to risks from biodiversity loss (World Economic Forum 2020). Loss of biodiversity also presents a major risk to global food security by undermining the resilience of agricultural systems to climate change and other factors, such as pests and pathogens.

Comprehensive policies are needed to support climate change mitigation and adaptation and address biodiversity loss. These include incentivizing green investments and technologies; strengthening environmental standards and regulations; promoting debt-for-climate swaps; and reducing environmentally harmful subsidies to agriculture, fisheries, and fossil fuels (Damania et al. 2023; World Bank 2021). Well-targeted social benefit systems can help reduce the damage done by adverse shocks. Furthermore, facilitating trade and investment in green technologies will enhance green investments in EMDEs and promote knowledge spillovers to these economies.

Reversing global trends in biodiversity loss will require efforts to reduce global pressures on food systems, including practices such as sustainable intensification and reducing food losses and waste (Leclère et al. 2020). Better allocation and management of land, water, and other inputs could boost income from agriculture and forestry as well as increase food production to meet the caloric needs of growing global populations (Damania et al. 2023). Additionally, applying rigorous safeguards and standards for development finance in line with best practices can help minimize and manage the impact of land use, infrastructure development, and energy and extractive sectors on biodiversity at the global scale (Narain et al. 2023; WEF 2020).

EMDE monetary and financial policy challenges

With core inflation across EMDEs plateauing since mid-2024 about half a percentage point above the pre-pandemic pace, risks to inflation persist (figure 1.14.A). As trade policies shift, the economic impacts that follow should determine the appropriate monetary policy response. Elevated policy uncertainty and increased global trade barriers may have notable negative impacts on economic activity that could require some central banks to ease policy, particularly if inflation falls in response to such shocks (Baker et al. 2016; Caldara et al. 2020). Yet, given challenges in foreseeing these effects with precision, it may be best for central banks to delay taking action until incoming data clarify the state of economic activity. In other cases, central banks may need to proactively respond to emerging inflationary pressures, even at the cost of some softening of economic activity to avoid de-anchoring of inflation expectations (Mendes, Murchison, and Wilkins 2017).

With capital inflows to EMDEs declining since late 2024, some EMDEs may be particularly

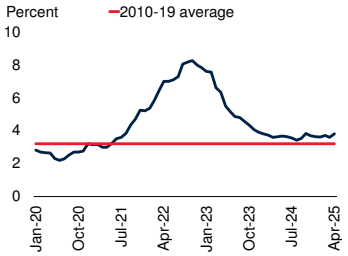
prone to destabilizing capital outflows amid increased uncertainty, ongoing inflation risks, and currency volatility (figure 1.14.B). To reduce the likelihood of such sudden shifts, EMDE policy makers can reaffirm their commitments to price stability (Kalemli-Özcan and Unsal 2024). EMDE monetary policy credibility can be reinforced through clear communications, robust monetary frameworks, and the safeguarding of central bank independence, which has steadily improved over the last two decades but nevertheless remains below advanced economy levels, on average (figure 1.14.C). To bolster credibility some EMDE central banks may need to tighten monetary policy in the face of potential capital outflows and financial volatility. Doing so could help anchor inflation expectations, reinforce investor confidence, and reduce domestic market volatility. Indeed, a proactive tightening of monetary policy by many EMDE central banks during the post-pandemic inflationary surge helped create conditions for a sustained decline in inflation, in addition to bolstering financial stability amid the rise in global interest rates at the time (Evdokimova et al. 2024).

EMDEs policy makers also need to be prepared to deploy tools that manage risks to financial stability, arising, for example, from reduced international investor risk appetite, capital outflows, and rising bond yields—all of which might stem from heightened trade tensions and policy uncertainty. Weakening growth in EMDEs—especially if downside risks materialize—could imperil financial sector balance sheets, increase corporate borrowing costs, and curtail funding access in the nonfinancial sector, particularly among trade-exposed EMDEs. Such strains could also worsen extant financial sector vulnerabilities in some countries, such as overreliance on domestic banks for sovereign financing. To promote financial sector resilience, precautionary steps can include comprehensive stress tests for financial institutions and the scrutiny of bank credit quality and capital levels, as well as enhanced liquidity and liability management, among other sound macroprudential rules. Building on progress in recent years, continued efforts to ensure adequate foreign reserves are also important (figure 1.14.D).

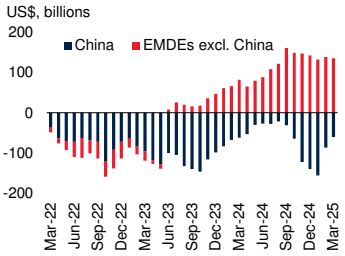
FIGURE 1.14 EMDE monetary and financial policy challenges

EMDE core inflation has plateaued above the pre-pandemic average. Cumulative capital inflows to EMDEs have been declining since late 2024 and could come under further strain amid heightened uncertainty, currency volatility, and inflationary pressures. EMDE central banks can make use of clear communications and credible monetary frameworks that reinforce confidence in policy independence, which remains below advanced-economy levels, on average. Additionally, foreign reserves could help protect against sudden shifts in sentiment and deterioration in financing conditions.

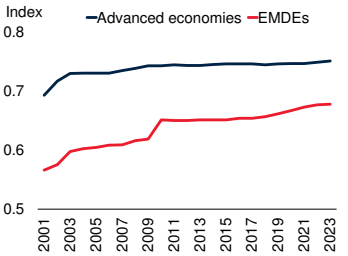
A. Core inflation in EMDEs



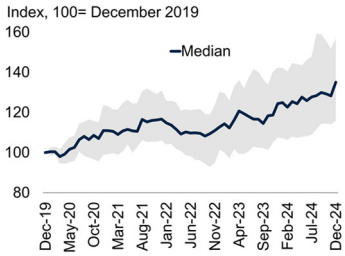
B. Cumulative capital inflows to EMDEs



C. Central Bank Independence Index, by country group



D. Change in official reserves relative to December 2019



Sources: Haver Analytics; Romelli (2022, 2024); World Bank.
Note: EMDEs = emerging market and developing economies.
A. Panel shows year-over-year core inflation for up to 46 EMDEs. Last observation is April 2025.
B. Panel shows the cumulative capital inflows from March 2022, using monthly data. Sample includes up to 32 EMDEs. Last observation is March 2025.
C. Lines represent the average Central Bank Independence Index score by country group, ranging from 0 to 1, with higher scores indicating greater independence. Sample includes up to 37 advanced economies and 117 EMDEs. Last observation is 2023.
D. Official reserves and other foreign currency assets, presented as an index compared to December 2019 levels. Shaded area indicates the interquartile range. Last observation is December 2024.

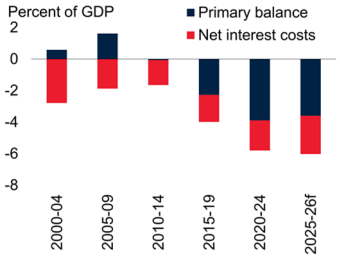
EMDE fiscal policy challenges

EMDEs require considerable fiscal resources to tackle development challenges, but the space to do so has been constrained by overlapping shocks in the last few years, which have increased government debt and widened fiscal deficits (figure 1.15.A). As a result, governments continue to face the difficult task of meeting critical public spending needs and supporting vulnerable households while shoring up fiscal sustainability. Despite progress in extending the maturity of

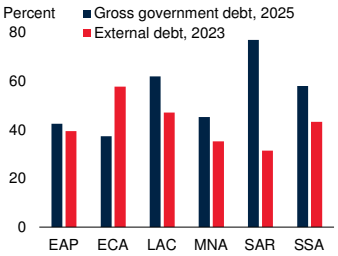
FIGURE 1.15 EMDE fiscal policy challenges

Fiscal space has narrowed in recent years, with fiscal deficits remaining wider than pre-pandemic averages in EMDEs, pointing to the need for these economies to mobilize domestic revenues and reprioritize spending. High government and external debt levels leave some EMDE regions vulnerable to sudden rises in borrowing costs. In LICs and FCS, retrenchment in official development assistance could reduce the spending envelope for critical categories, including health care. Revenue collection continues to substantially lag in EMDEs, especially in LICs, relative to advanced economies.

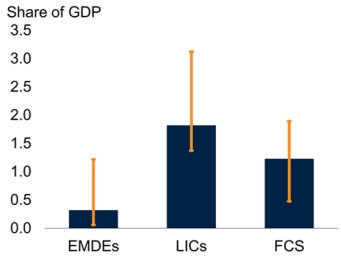
A. EMDE fiscal balance



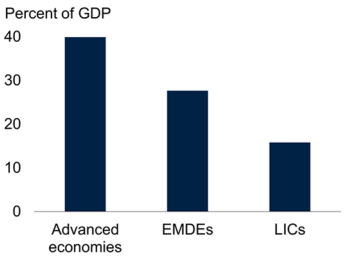
B. Gross government and external debt



C. Share of received official development assistance on health spending



D. Government revenues as a share of GDP



Sources: Center for Global Development; IMF; Kose et al. (2022); World Bank.

Note: f = forecast. EAP = East Asia and Pacific; ECA = Europe and Central Asia; EMDEs = emerging market and developing economies; FCS = fragile and conflict-affected situations; LAC = Latin America and the Caribbean; LICs = low-income countries; MNA = Middle East and North Africa; SAR = South Asia; SSA = Sub-Saharan Africa.

A. Panel shows GDP-weighted aggregate fiscal balance for 154 EMDEs. Bars represent simple averages for each time period.

B. Bars show the median debt-to-GDP ratio for each EMDE region. Gross government debt includes domestic and external debt; external debt includes government and private debt.

C. Panel shows median official development assistance (gross disbursements) for health spending received in 2023 as a share of GDP. Sample includes 133 EMDEs, of which 38 are FCS and 25 are LICs. Orange whiskers indicate interquartile range.

D. Panel shows average general government revenue as a share of GDP in 2024. Sample includes 38 advanced economies and 149 EMDEs, of which 22 are LICs.

domestic debt in recent years, some EMDE regions remain vulnerable to further rises in borrowing costs and adverse shifts in market sentiment amid already high debt-servicing costs and sizable debt levels (figure 1.15.B).

Although many EMDEs have undertaken measures to strengthen fiscal positions in recent years, including the unwinding of pandemic-era spending, fiscal deficits remain above pre-pandemic averages and debt levels continue to rise in about half of EMDEs and, in some cases, to levels that appear unsustainable. It will be critical for EMDEs, particularly those with fiscal space constraints, to raise additional domestic revenues, especially as debt-servicing costs grow and some external sources of financing, including development assistance, dwindle. LICs have become more vulnerable to rising debt-servicing costs, as their debt has increasingly shifted from concessional to market-based financing. Nearly half of LICs are either in debt distress or at high risk of it—double the share in 2015—and no LIC is at low risk. This inhibits their ability to repair the economic damage generated by recent shocks. Moreover, in LICs and FCS, since official development assistance represents a large share of critical spending, including in health, the partial loss of these flows could put further pressure on budgets (figure 1.15.C).

EMDEs, especially LICs, continue to substantially lag advanced economies in revenue collection (figure 1.15.D). Building tax capacity is a crucial step toward mobilizing domestic resources, maintaining sustainable debt dynamics, providing essential public services, supporting vulnerable populations, and rebuilding fiscal buffers (Choudhary, Ruch, and Skrok 2024). This can include measures that broaden revenue bases, including the introduction of new tax instruments (De Mooij et al. 2020). Additionally, to balance the tradeoff between generating revenue and economic growth, reducing costly loopholes—such as incentives, deductions, and exemptions—can be complemented with reforms that reinforce tax administration and collection to curb avoidance, base erosion, and profit shifting (Bachas et al. 2025). These reforms can also be combined with those that strengthen institutions and legal systems, which would help unlock tax potential in EMDEs (Benitez et al. 2023). Careful sequencing of various reform elements is also required to harness their mutually reinforcing effects for maximizing the boost to fiscal revenue (World Bank 2025b).

Reprioritizing fiscal spending away from broad, untargeted support and costly subsidies can free up resources that can be redirected to low-income households. In particular, governments can provide vulnerable households with means-tested

cash transfers, which tend to be less costly than food and fuel subsidies. Over the longer term, EMDEs can enhance internet connectivity and leverage digital tools to better identify vulnerable households, especially in countries where registries are outdated, and surveys are costly (Chowdhury et al. 2022). Protecting spending in growth-enhancing categories, such as health and education, is critical given setbacks from the pandemic, increased spending pressures due to rapid price increases in recent years, and persistently large investment gaps—all of which are likely to reduce the space for spending in these critical categories in future years (Kurowski et al. 2024).

Improvements to the expenditure review process—such as strengthening mechanisms that prioritize and evaluate the efficacy of public projects—can enhance the quality and efficiency of public spending. Policies that aim at strengthening public procurement practices, administrative capacity, and transparency can also bolster public investment efficiency, foster a more favorable business climate for private investment, and help reinvigorate productivity.

More broadly, fiscal sustainability can be enhanced by credible and well-designed frameworks, including fiscal rules, stabilization funds, and medium-term expenditure frameworks. Such measures can help reduce the procyclicality of fiscal policy, build fiscal space, and improve fiscal policy outcomes—particularly in the context of fiscal challenges posed by commodity price volatility in commodity-exporting EMDEs (Arroyo Marioli and Vasishtha 2025). In the case of fiscal rules, a supportive institutional environment and broad political consensus are key for sustained fiscal discipline (Fatas, Gootjes, and Mawejje 2025).

EMDE structural policy challenges

Boosting long-term growth and investment

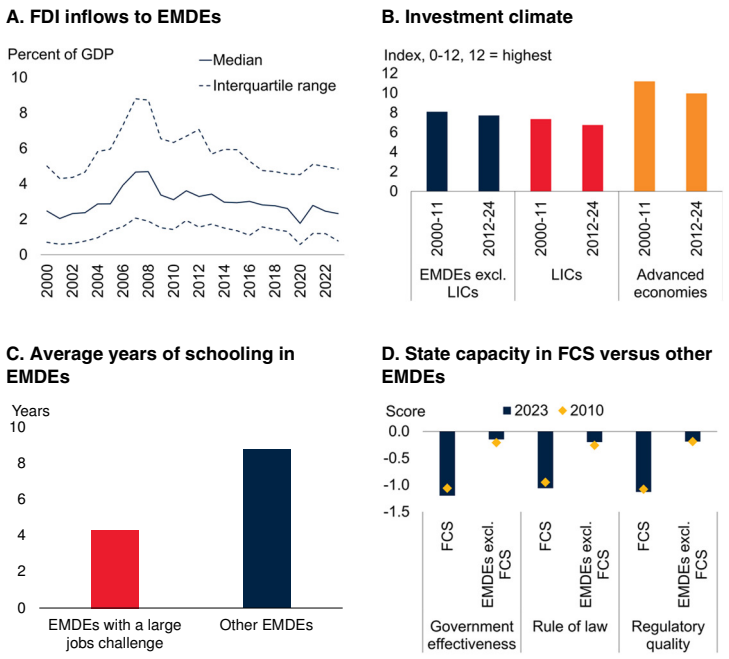
The ongoing headwinds to the global economy exacerbate the broad-based and sustained slowdown in growth that EMDEs have experienced since the global financial crisis. This has reflected a slowdown in underlying potential growth, mirroring trends in investment, labor productivity, and labor supply growth. Policies that advance R&D, innovation, and adoption of technology can boost the growth of productivity and potential output (Cirera and Maloney 2017; Kose and Ohnsorge 2024). Reversing the prolonged, widespread slowdown in investment growth is critical for addressing large investment gaps and making progress toward development goals. FDI can help boost domestic investment, generate employment, spread technological innovation, and spur productivity (Amighini, McMillan, and Sanfilippo 2017; Javorcik 2015; Kose, Prasad, and Terrones 2009). Thus, FDI can be a key driver of growth, particularly in countries with sufficiently well-developed financial markets or high levels of human capital (Benetrix, Pallan, and Panizza 2023). Yet, FDI flows to EMDEs as a share of their GDP have also trended down, reflecting a combination of global and country-specific factors (figure 1.16.A). Globally, macroeconomic shocks, elevated uncertainty, and escalating geopolitical tensions have dampened FDI. In many EMDEs, progress with institutional reforms has stalled since the 2000s, weakening the investment climate and discouraging FDI inflows (World Bank 2025a).

To bolster long-term growth prospects, EMDEs need to reinvigorate key policy reforms to accelerate investment growth, including by improving the institutional and business environment. Regulatory reforms can enable innovation by lowering barriers to entry, reducing bureaucratic hurdles, and stimulating competition (World Bank 2025a). In the medium to long term, such reforms can also promote economic diversification. In addition, enhancing competition policy is vital for creating a fair and dynamic market landscape. By curbing monopolistic practices and enabling a level playing field, and by effectively regulating markets that lack competitiveness, such policies can boost innovation and improve economic efficiency (World Bank 2020, 2024a).

Supportive structural conditions are also essential for attracting FDI inflows. These include solid macroeconomic fundamentals; high-quality institutions; political, regulatory, and socioeconomic stability; strong human capital and productivity growth; financial development; and trade and

FIGURE 1.16 EMDE structural policy challenges

FDI inflows to EMDEs, as a share of their GDP, have trended down since the 2010s. Institutional quality in EMDEs, especially in LICs, generally lags advanced economies, with no progress seen in investment climate indicators over the past decade. To confront the jobs challenge, EMDEs need to enhance human capital, including by boosting spending on education to increase the average years and quality of schooling. FCS face persistent risks of violence and instability, often fueled by weak state capacity, as indicated by measures of government effectiveness, rule of law, and regulatory quality.



Sources: PRS Group's International Country Risk Guide (ICRG); UN Population Prospects (database); WDI (database); World Bank; Worldwide Governance Indicators (database).
Note: EMDEs = emerging market and developing economies; FCS = fragile and conflict-affected situations; FDI = foreign direct investment; LICs = low-income countries. The FCS group is based on the current World Bank classification.
A. Annual medians and interquartile ranges of FDI-to-GDP ratios. Balanced sample of 134 EMDEs.
B. Medians of ICRG Investment Profile Index. Sample includes 36 advanced economies and 102 EMDEs, of which 18 are LICs.
C. Panel shows the unweighted average years of schooling by EMDE group at the latest years of observations. EMDEs facing a large jobs challenge are those with a projected working-age population increase of 50 percent or more between 2025 and 2050.
D. Panel shows simple averages. Higher values reflect better outcomes across each indicator, which range from a minimum of –2.5 to a maximum of 2.5. Sample includes 148 EMDEs, of which 34 are FCS.

investment openness. EMDEs, especially LICs, generally lag advanced economies in terms of the quality of institutions, having made no progress over the past decade in improving features such as the investment climate (figure 1.16.B). Given the significance of institutional quality for both encouraging FDI and enhancing its macroeconomic benefits, it is imperative for EMDEs, particularly LICs, to intensify reform efforts in this area.

Meeting the jobs challenge amid structural change

The challenge of creating sufficient employment opportunities for growing working-age populations is looming in many EMDEs, particularly in the poorest regions (Chrimes, Kose, and Stamm forthcoming). Between 2025 and 2030, over 600 million young people are expected to join the ranks of the working-age population in EMDEs, with the net working-age population increasing by around 250 million over the same period. SSA, especially FCS economies in the region, and SAR will account for four-fifths of this net increase. In addition, in some regions, such as SAR, the jobs challenge reflects low employment prospects for the female labor force (World Bank 2024b). The challenge also extends over the longer term in some regions: the projected increase in the working-age population over the next quarter-century in SSA is larger than any region has experienced over a 25-year period in the past.

The task of creating sufficient employment opportunities is complicated by the challenging global context, especially as key drivers of growth—notably, trade integration—have weakened significantly over recent decades and now face an even more extreme disruption (Kose and Ohnsorge 2024). Overlapping crises that have hit the global economy since 2020 have damaged fiscal positions, including in many of the countries most affected by the jobs challenge (Mawejje 2024). Evolving structural shifts, including shifts in trade relations and uncertainty about new technologies such as AI, as well as the need to manage the energy transition, add to uncertainty around employment prospects (Cazzaniga et al. 2024; Feriga et al. 2024; IMF 2022a).

Job creation strategies should focus on three pillars: foundational infrastructure for jobs; strengthening governance and supporting business-enabling policies; and mobilizing private capital. These broad pillars include measures to accelerate economic growth, upskill workers, and improve the functioning of labor markets to better match potential workers and firms (Chrimes, Kose, and Stamm forthcoming). Policies to promote macroeconomic stability and robust, effective institutions are crucial. These need to be

complemented with targeted interventions to encourage a more flexible and responsive labor market (including by reducing labor barriers to the formal sector), improve access to finance, address structural bottlenecks (such as barriers to competition, trade, and investment), and support a facilitative business regulatory environment (Kose and Ohnsorge 2024). Investments in key physical and digital infrastructure are also vital. To enhance human capital, EMDEs need to boost spending on education to increase the average years of schooling and the quality of education (figure 1.16.C). Moreover, aggregate job creation is not the only employment-related consideration for policy makers: the quality of jobs is also critically important. Job quality can be enhanced by boosting productivity, in part through the up-skilling of existing, including younger, workers; addressing informality; and ensuring adequate working conditions. Strategies can also pay particular attention to sectors with high job-creation potential.

Tackling rising conflicts and associated damage

Addressing the rising incidence of conflict in EMDEs is essential for fostering peace and promoting growth and development in some of the most vulnerable countries. Intense armed conflicts lead to destruction of human and physical capital, often culminating in deep recessions and large output losses (Dieppe, Kilic Celik, and Okou 2020; Federle et al. 2024). Conflicts can also have adverse spillovers, decreasing trade flows and reducing private investment in neighboring states (Abdel-Latif et al. 2024; Rauschendorfer and Shepherd 2022). FCS face persistent risks of violence and instability, often fueled by deep-seated grievances, exclusion, inequality, and weak governance (World Bank 2020). For instance, state capacity in FCS, as indicated by measures of government effectiveness, rule of law, and regulatory quality, lags other EMDEs (figure 1.16.D).

Although the roots of armed conflicts and instability are complex and context-specific, addressing these challenges requires a proactive approach—tailored to each country's needs—that prioritizes conflict prevention, fosters inclusive development, and strengthens resilience to adverse shocks (United Nations and World Bank 2018). Investing in early-warning systems and conflict prediction mechanisms enables proactive interventions, which are more cost-effective than post-violence responses (Mueller et al. 2024). For example, counter-cyclical macroeconomic policies and job creation programs can help reduce the risk of violent conflict (Akanbi et al. 2021; Blattman and Annan 2016). During active conflicts, protecting civilians, providing humanitarian relief, and preserving critical institutions—such as central banks, legal systems, and public service infrastructure—can lessen the costs of violence while supporting faster, more inclusive recoveries (Gillard 2024). Effective disarmament, demobilization, and reintegration programs are also crucial for stabilizing post-conflict societies, alongside policies that strengthen institutions, including electoral and justice systems (Ayissi 2020). Sustaining recovery requires investments in basic infrastructure, education, healthcare, and social protection, while expanding financial inclusion and leveraging the private sector to drive inclusive growth.

TABLE 1.2 Emerging market and developing economies[1]

Commodity exporters[2]		Commodity importers[3]	
Algeria*	Lao PDR	Afghanistan	Serbia
Angola*	Liberia	Albania	Somalia, Fed. Rep.
Argentina	Libya*	Antigua and Barbuda	Sri Lanka
Armenia	Madagascar	Bahamas, The	St. Kitts and Nevis
Azerbaijan*	Malawi	Bangladesh	St. Lucia
Bahrain*	Mali	Barbados	St. Vincent and the Grenadines
Belize	Mauritania	Belarus	Syrian Arab Republic
Benin	Mongolia	Bosnia and Herzegovina	Thailand
Bhutan*	Mozambique	Bulgaria	Tonga
Bolivia*	Myanmar*	Cambodia	Tunisia
Botswana	Namibia	China	Türkiye
Brazil	Nicaragua	Djibouti	Tuvalu
Burkina Faso	Niger	Dominica	Vanuatu
Burundi	Nigeria*	Dominican Republic	Viet Nam
Cabo Verde	Oman*	Egypt, Arab Rep.	
Cameroon*	Papua New Guinea	El Salvador	
Central African Republic	Paraguay	Eswatini	
Chad*	Peru	Georgia	
Chile	Qatar*	Grenada	
Colombia*	Russian Federation*	Haiti	
Comoros	Rwanda	Hungary	
Congo, Dem. Rep.	São Tomé and Príncipe	India	
Congo, Rep.*	Saudi Arabia*	Jamaica	
Costa Rica	Senegal	Jordan	
Côte d'Ivoire	Seychelles	Kiribati	
Ecuador*	Sierra Leone	Lebanon	
Equatorial Guinea*	Solomon Islands	Lesotho	
Eritrea	South Africa	Malaysia	
Ethiopia	South Sudan*	Maldives	
Fiji	Sudan	Marshall Islands	
Gabon*	Suriname	Mauritius	
Gambia, The	Tajikistan	Mexico	
Ghana*	Tanzania	Micronesia, Fed. Sts.	
Guatemala	Timor-Leste*	Moldova	
Guinea	Togo	Montenegro	
Guinea-Bissau	Trinidad and Tobago*	Morocco	
Guyana*	Uganda	Nauru	
Honduras	Ukraine	Nepal	
Indonesia*	United Arab Emirates*	North Macedonia	
Iran, Islamic Rep.*	Uruguay	Pakistan	
Iraq*	Uzbekistan	Palau	
Kazakhstan*	West Bank and Gaza	Panama	
Kenya	Yemen, Rep.*	Philippines	
Kosovo	Zambia	Poland	
Kuwait*	Zimbabwe	Romania	
Kyrgyz Republic		Samoa	

* Energy exporters.

1. Emerging market and developing economies (EMDEs) include all those that are not classified as advanced economies and for which a forecast is published for this report. Dependent territories are excluded. Advanced economies include Australia; Austria; Belgium; Canada; Cyprus; Czechia; Denmark; Estonia; Finland; France; Germany; Greece; Hong Kong SAR, China; Iceland; Ireland; Israel; Italy; Japan; the Republic of Korea; Latvia; Lithuania; Luxembourg; Malta; the Netherlands; New Zealand; Norway; Portugal; Singapore; the Slovak Republic; Slovenia; Spain; Sweden; Switzerland; the United Kingdom; and the United States. Since Croatia became a member of the euro area on January 1, 2023, it has been removed from the list of EMDEs, and related growth aggregates, to avoid double counting.

2. An economy is defined as commodity exporter when, on average in 2017-19, either (1) total commodities exports accounted for 30 percent or more of total exports or (2) exports of any single commodity accounted for 20 percent or more of total exports. Economies for which these thresholds were met as a result of re-exports were excluded. When data were not available, judgment was used. This taxonomy results in the classification of some well-diversified economies as importers, even if they are exporters of certain commodities (for example, Mexico).

3. Commodity importers are EMDEs not classified as commodity exporters.

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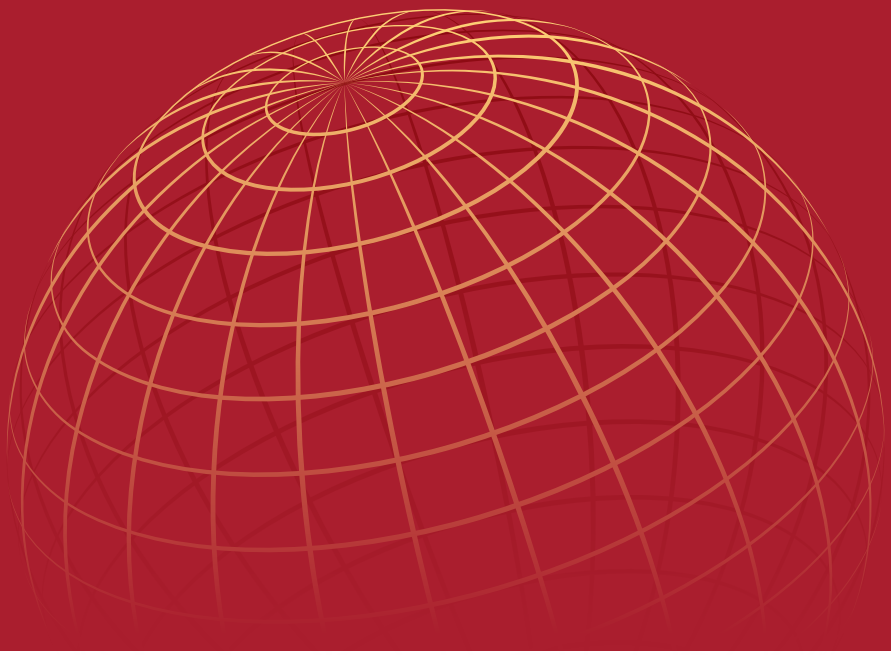


CHAPTER 2

REGIONAL OUTLOOKS

EAST ASIA and PACIFIC

Growth in East Asia and Pacific (EAP) is projected to slow from 5 percent in 2024 to 4.5 percent in 2025, slightly lower than previously expected owing to increases in trade barriers and related policy uncertainty. In China, growth is expected to decelerate to 4.5 percent in 2025, in line with previous projections, with fiscal support assumed to offset the impact of trade tensions with the United States—China's largest market for exports. In EAP excluding China, growth is projected to slow to 4.2 percent this year due to the direct effects of higher trade barriers and the indirect effects of a weaker external environment and softer confidence. In 2026 and 2027, growth in EAP is projected to remain subdued at 4 percent, slightly below previous projections and potential growth estimates, weighing on job creation and income convergence. Risks to the outlook remain tilted to the downside, with persistently elevated policy uncertainty and the potential for increases in trade tensions. Other downside risks include tighter global financial conditions, spillovers from weaker growth in major economies, higher geopolitical tensions, and natural disasters. On the upside, growth in EAP could be stronger than expected due to a partial resolution of trade tensions, greater-than-expected fiscal support in China or major advanced economies, or an unexpected increase in digital investment and technology adoption.

Recent developments

Activity in EAP is slowing alongside escalating global trade tensions and related increases in policy uncertainty, which are spilling over to the region via trade, investment, financial, and confidence channels. After substantial increases in U.S. tariffs were announced in April, these were subsequently limited to 10 percent for all economies in the region except China, which faces a tariff of 30 percent along with sector-specific levies. The baseline projections assume that the tariff rates as of late May will persist over the forecast horizon. However, there is significant uncertainty about their duration and whether there will be further escalation in trade tensions.

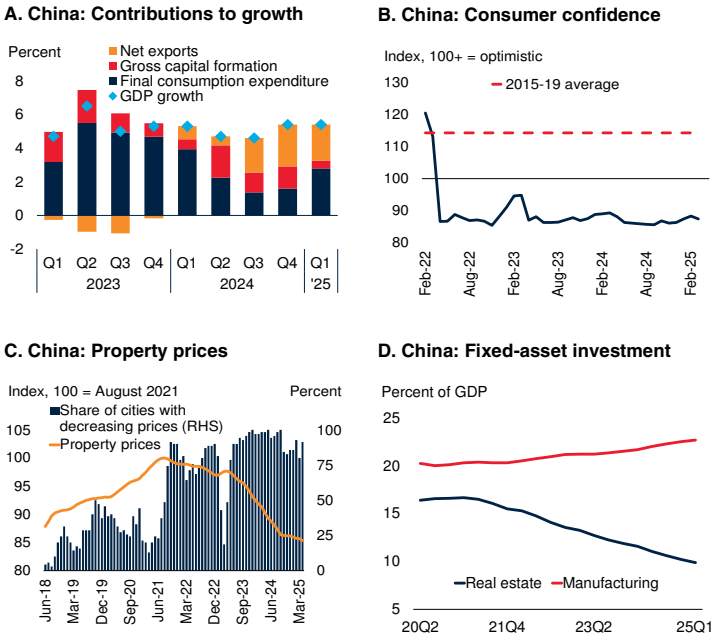
Prior to these policy actions, economic activity in EAP was generally solid in early 2025. In China, growth remained resilient, and the strong export-led expansion at the end of last year continued into the first quarter of this year, despite the initial round of tariffs announced before April 2 (figure 2.1.1.A). Consumption growth picked up, benefiting from fiscal support measures announced late last year, which helped counter subdued consumer confidence amid ongoing property sector softness (figure 2.1.1.B). Real estate investment continued to fall, but the decline in property prices eased (figure 2.1.1.C). A sustained expansion in infrastructure-related and manufacturing investment, which has increased its share of output in recent years, helped offset the decrease in real estate investment (figure 2.1.1.D). In March, China's authorities announced substantial fiscal support, mainly by boosting infrastructure investment, with a smaller share targeting household consumption through government subsidies and some increases in social spending. More recently, authorities announced further monetary policy easing and financial measures to support several sectors of the economy.

Elsewhere in EAP, growth remained strong in early 2025 (figure 2.1.2.A). Export growth was solid in the first quarter, reflecting front-loading in anticipation of tariff hikes (figures 2.1.2.B and 2.1.2.C). However, services export growth from tourism showed signs of easing, as tourist arrivals

Note: This section was prepared by Samuel Hill and Gitanjali Kumar.

FIGURE 2.1.1 China: Recent developments

Growth in China remained resilient in early 2025 as the export-led expansion in late 2024 continued in anticipation of higher tariffs. Consumer confidence has been subdued despite some pickup in consumption growth on the back of fiscal support. While the decline in property prices eased, real estate investment declined further. Nonetheless, continued expansion of manufacturing and infrastructure investment has supported activity.



Sources: Haver Analytics; World Bank.

A. Year-on-year real GDP growth and expenditure contributions. Last observation is 2025Q1.

B. Consumer confidence on a scale of 0 to 200, where 200 indicates extreme optimism, 0 indicates extreme pessimism, and 100 indicates neutrality. Last observation is March 2025.

C. Orange line denotes the price index of existing residential buildings. Blue bars denote share of cities with falling month-on-month prices for existing residential buildings. Sample includes 70 major cities. Last observation is April 2025.

D. Lines denote nominal fixed asset investment subcomponents as shares of GDP. Last observation is 2025Q1.

in key markets reached or rose above pre-pandemic levels (World Bank 2025a). Manufacturing activity softened, with purchasing managers' indexes declining in some of the region's largest economies. Private consumption remained steady across the region, aided by accommodative monetary policy. However, activity in Myanmar was severely disrupted by a powerful 7.7-magnitude earthquake in late March, with Thailand also affected.

Consumer price inflation in most EAP economies has remained low so far in 2025, reflecting a combination of easing commodity prices, moderate demand pressures, and, in some cases, price controls. In recent months, both headline and core inflation have been below or within official target ranges. In China, both consumer and producer price inflation have been particularly low, reflecting soft prices for global commodities, notably energy and metals; relatively insufficient domestic demand; and competition among firms for market share.

Across the region, financial conditions tightened after the U.S. announcement of higher tariffs in April. Equity prices declined sharply, and currencies depreciated against the U.S. dollar amid capital outflows (figure 2.1.2.D). Indonesia's currency, already under pressure due to domestic policy uncertainty, fell to its lowest recorded value in early April. Most asset prices largely recovered in the weeks following the initial postponement in tariff increases and the partial rollback of tariffs by the United States and China. In a context of low inflation and concerns about growth alongside mounting global policy uncertainty, central banks have cut interest rates further in major EAP economies, including in China, Indonesia, the Philippines, and Thailand.

Outlook

Growth in EAP is projected to decelerate to 4.5 percent this year from 5 percent in 2024, as the direct effects of higher trade barriers and the indirect effects of heightened policy uncertainty, a weaker global growth outlook, and softer confidence weigh on investment, exports, and consumption in the region (figure 2.1.3.A; table 2.1.1). Due to their high trade openness, EAP economies are more exposed to trade policy shifts. Growth is expected to remain roughly steady at 4 percent in 2026 and 2027, still below estimates of its potential pace (figure 2.1.3.B). Compared with January projections, growth in EAP is expected to be 0.1 percentage point lower in both 2025 and 2026. The downgrade reflects the impact of higher tariffs on growth, which is expected to be partly offset by policy support measures in EAP economies, notably China. In many regional economies, the deterioration in the outlook will weigh on the pace of job creation and per capita income catch-up with advanced economies, which over 2021-27 is set to roughly halve relative to the 2010-19 average (box 1.1).

In China, growth is projected to slow to 4.5 percent this year. This is in line with the January

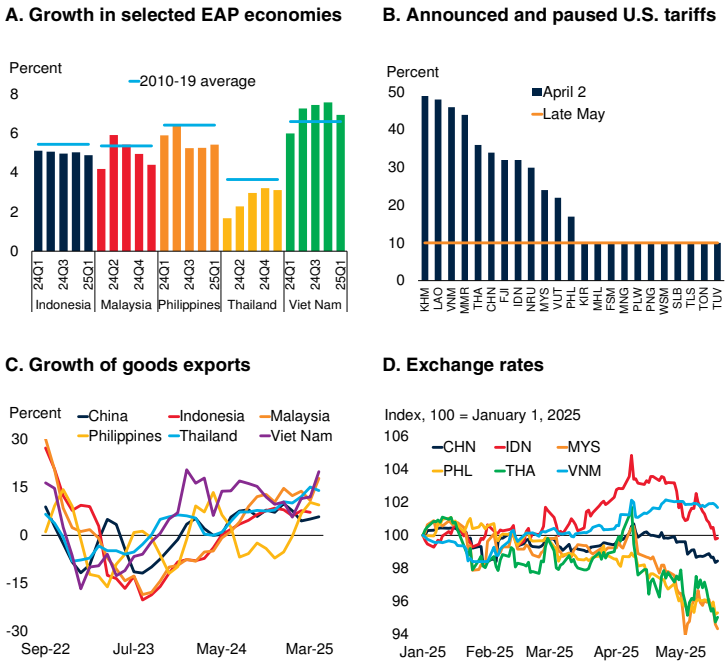
forecast, reflecting the impacts of higher U.S. tariffs and slower growth in major advanced economies, which are assumed to be offset by the announced fiscal policy support measures. A soft labor market and a subdued property sector are expected to weigh on consumption, countered somewhat by fiscal stimulus. Export growth is expected to slow in 2025 as the impact of higher tariffs is felt and the earlier boost from the front-loading of exports fades. Although China has increased its goods exports to other economies in recent years, the United States remains its largest destination market. Growth is projected to remain unchanged at 4 percent in 2026 and edge down to 3.9 percent in 2027, in line with decelerating potential output growth, reflecting the effects of slowing productivity growth, an aging population, and high debt levels.

In EAP excluding China, growth is expected to slow to 4.2 percent in 2025, mainly due to trade tensions. The increase in trade policy uncertainty, reduced confidence, and spillovers from softer external demand in major advanced economies and China are likely to curtail exports and private investment in the region, since there are several economies with large exposures to global trade, notably Cambodia, Thailand, and Viet Nam (World Bank 2025b). While some economies will benefit from fiscal policy support—such as social spending programs and public investment in Indonesia, Malaysia, Thailand, and Viet Nam—the full macroeconomic effects of higher trade barriers, which are hard to predict, could weigh on growth. Growth in the Pacific Island economies is projected to decline over the forecast horizon, largely driven by weaker global demand as a result of elevated trade tensions, as well as a normalization of mining activity in Papua New Guinea and fiscal tightening in Fiji (table 2.1.2).

Across EAP, fiscal policy is expected to support growth in China and Thailand in 2025 but to be broadly neutral elsewhere (figure 2.1.3.C). In China, the announcement of additional spending measures in March implies an increase in the consolidated fiscal deficit to 8.1 percent of GDP in 2025 from 6.5 percent of GDP in 2024.[1] In Thailand, the Digital Wallet program—a one-time transfer to 45 million Thai citizens—is expected to provide near-term support to activity (World Bank

FIGURE 2.1.2 EAP excluding China: Recent developments

In East Asia and Pacific excluding China, growth was strong in early 2025. The United States announced and subsequently paused substantial increases in tariffs, with all economies in the region except China facing an across-the-board 10 percent tariff rate. Export growth remained solid as front-loading ahead of the implementation of higher tariffs continued. Economies experienced sharp currency depreciations in the aftermath of U.S. tariff increases announced in early April, with most currencies recovering after the initial pause and subsequent de-escalation in trade tensions.

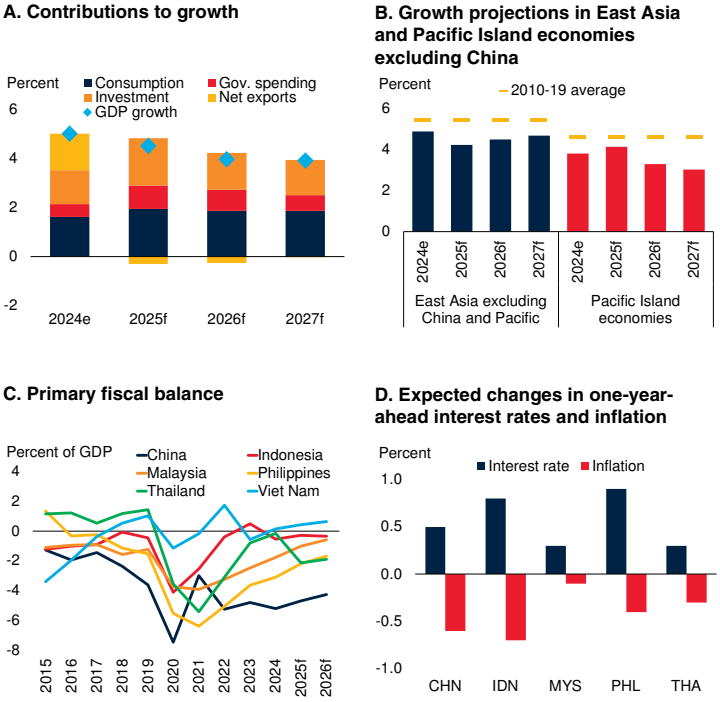


Sources: Haver Analytics; White House; World Bank.
Note: CHN = China; EAP = East Asia and Pacific; FJI = Fiji; FSM = the Federated States of Micronesia; IDN = Indonesia; KHM = Cambodia; KIR = Kiribati; LAO = Lao PDR; MHL = Marshall Islands; MMR = Myanmar; MNG = Mongolia; MYS = Malaysia; NRU = Nauru; PHL = the Philippines; PLW = Palau; PNG = Papua New Guinea; SLB = Solomon Islands; THA = Thailand; TLS = Timor-Leste; TON = Tonga; TUV = Tuvalu; VNM = Viet Nam; VUT = Vanuatu; WSM = Samoa.
A. Year-on-year real GDP growth. Last observation is 2025Q1.
B. Bars denote tariffs on imports from trading partners announced by the United States on April 2, 2025, and subsequently paused. Line denotes tariffs as of late May. The 20 percent tariff on Chinese imports announced prior to April 2 remains in place.
C. Value of goods exports in U.S. dollars. Three-month moving average of year-on-year change. Last observation is April 2025 for China, Malaysia, the Philippines, Thailand, and Viet Nam; March 2025 for Indonesia.
D. Lines denote indexed daily exchange rates of selected currencies against the U.S. dollar. Last observation is May 26, 2025.

[1] The consolidated budget includes (i) the Public Finance Budget which includes tax and non-tax revenues, current expenditures, and a portion of capital expenditures; (ii) the Government Fund Budget which reflects mainly local land-lease revenues and expenditures for infrastructure and social projects; (iii) the Social Security Fund Budget; and (iv) the state-owned asset operation budget. The consolidated budget balance refers to the sum of (i), (ii), (iii), and (iv) minus net withdrawals from the stabilization fund.

FIGURE 2.1.3 EAP: Outlook

Growth in East Asia and Pacific is projected to slow to 4.5 percent this year, reflecting the impact of trade tensions and policy support in the region, with a further decline to 4 percent in 2026 and 2027 amid slowing potential growth in China. In the Pacific Island economies, growth is expected to ease owing to weaker global demand. This year, fiscal policy is expected to bolster growth in China and Thailand but exert a more neutral influence in other major EAP economies. EAP central banks are expected to remain accommodative to support growth and cushion the impact of higher trade barriers.



Sources: Consensus Economics; Haver Analytics; Macro Poverty Outlook (database); World Bank.
Note: e = estimate; f = forecast. CHN = China; EAP = East Asia and Pacific; Gov. = government; IDN = Indonesia; MYS = Malaysia; PHL = the Philippines; THA = Thailand.
A. Annual real GDP growth and contributions of expenditure components. Projections for 2025, 2026, and 2027 are by the World Bank. Discrepancies between GDP growth and the sum of its components reflect inventories and residuals.
B. Annual real GDP growth. Projections for 2025, 2026, and 2027 are by the World Bank. Aggregate growth rates are calculated using average 2010-19 GDP weights and market exchange rates.
C. Lines denote the primary fiscal balance. Projections for 2025 and 2026 are obtained from the Macro Poverty Outlook (database).
D. Change in interest rate (or inflation) is the difference between the current nominal interest rate (or inflation rate) and its expectation in 2026, based on data from Consensus Economics. Last observation is May 2025.

2025c). Modest fiscal consolidation is expected to continue in Malaysia and the Philippines.

With global commodity prices expected to decline this year and demand pressures remaining limited, inflation is likely to remain contained across the region. In China, relatively insufficient domestic demand and declining global commodity prices are expected to maintain downward pressure on consumer and producer prices, with headline consumer inflation expected to remain below this year's downwardly adjusted target of 2 percent. As a result, monetary policy in the region is expected to remain accommodative to support growth and cushion the impact of higher trade barriers (figure 2.1.3.D).

Risks

Downside risks to the baseline projections for EAP dominate and have intensified since January, including the possibility of a reversion to previously announced higher trade barriers and persistently elevated policy uncertainty. Additional shifts in trade policy would likely have large impacts on economies across the region, owing to their high trade openness and links to global production networks. Other downside risks include tighter global financial conditions, substantially weaker growth in major economies, increased geopolitical stress, and natural disasters. There are, however, some upside risks associated with a partial resolution of trade tensions, larger-than-expected fiscal expansions in major economies, and productivity gains from technological adoption.

Persistently elevated global policy uncertainty could have a range of adverse effects on EAP growth. It could lead firms, particularly those focused on exporting goods, to further delay capital spending, resulting in weaker-than-anticipated investment and output growth. These factors could compound other risks in China, where prolonged softness in the property sector could weigh on activity. Compared with other regions, EAP economies are especially vulnerable to the effects of heightened uncertainty because of their relatively larger exposure to trade and, therefore, higher shares of investment in GDP (figure 2.1.4.A).

A reemergence of trade tensions and higher trade costs, as well as negative demand spillovers from weaker growth in major economies, present a significant downside risk to regional growth. Economies with large export-oriented manufacturing sectors, including China, Malaysia, Thailand, and Viet Nam, are particularly exposed (figure 2.1.4.B). In addition, potential diversion of Chinese goods to markets other than the United

States could lead other economies to impose barriers on imports from China. Indeed, such responses have been seen in recent months, with duties imposed by Malaysia and Viet Nam on steel products, following measures by other economies including Brazil, India, and the Republic of Korea.

Tighter financial conditions globally and weakening risk appetite for EMDE assets could lead to capital outflows and currency depreciations. The resulting increases in inflation and shifting interest rate differentials could reduce the scope for EAP central banks to cut policy rates to support domestic activity and cushion the impact of heightened trade tensions and policy uncertainty. Higher borrowing costs, in turn, would raise debt-servicing burdens, particularly in economies with elevated debt levels, adversely affecting their fiscal positions (figure 2.1.4.C).

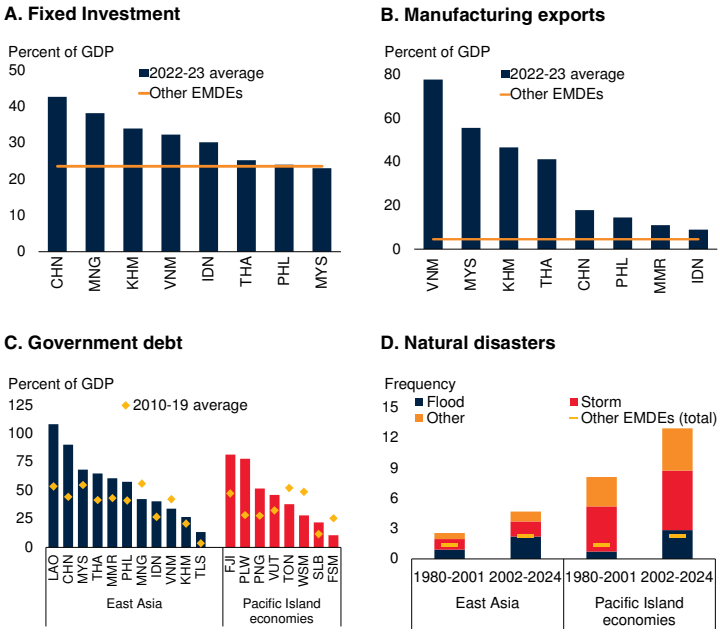
EAP economies, most of which are energy importers, are particularly vulnerable to an escalation of geopolitical tensions. Intensified conflict could disrupt global energy supplies and raise energy prices, negatively impacting economies in the region. Within EAP, persistent armed conflict could further depress activity in Myanmar, including by causing inflation to spike, business sentiment to weaken, and the displacement of populations.

Across EAP, more frequent climate-related natural disasters pose considerable downside risks, especially destructive tropical storms, whose incidence has increased in recent years, costing many lives and causing substantial economic losses (figure 2.1.4.D). For instance, extreme cold weather in Mongolia caused around 12.5 percent of the country's livestock to perish by the middle of 2024 (World Bank 2024a). Vulnerability to natural disasters also poses downside risks, as underscored by the substantial damage caused by powerful earthquakes in Myanmar and Thailand in late March, and Vanuatu late last year.

On the upside, a partial resolution of trade tensions and reduction in trade policy uncertainty would likely lift growth prospects in the region above the baseline. More expansionary fiscal policy in China or in major advanced economies could support faster-than-expected activity. In addition, surging digital investment and technological adoption could boost productivity growth, since major economies in the region rank high in terms of readiness for AI adoption, which could underpin stronger-than-expected regional growth (Cazzaniga et al. 2024; World Bank 2024b). Gains from higher technology-led investment in advanced economies could also spill over to the EAP region.

FIGURE 2.1.4 EAP: Risks

EAP is especially vulnerable to the impacts of heightened trade policy uncertainty given its openness and larger shares of investment in GDP in many regional economies. Economies with large export-oriented manufacturing sectors are at particular risk if there is a reemergence of trade tensions and higher trade barriers. Higher borrowing costs could put financial pressure and dampen investment in many economies in the region, especially in those that have elevated debt levels. Climate-related and other natural disasters, notably storms and earthquakes, pose an important downside risk, especially in the region's numerous small states.



Sources: EM-DAT (database); Haver Analytics; International Monetary Fund; World Bank.
Note: CHN = China; EMDEs = emerging market and developing economies; FJI = Fiji; FSM = the Federated States of Micronesia; IDN = Indonesia; KHM = Cambodia; LAO = Lao PDR; MMR = Myanmar; MNG = Mongolia; MYS = Malaysia; PHL = the Philippines; PLW = Palau; PNG = Papua New Guinea; SLB = Solomon Islands; THA = Thailand; TLS = Timor-Leste; TON = Tonga; VNM = Viet Nam; VUT = Vanuatu; WSM = Samoa.
A. Gross fixed capital formation as a percent of GDP. Line is the median of 108 EMDEs.
B. Line is the median of 102 EMDEs.
C. General government gross debt as a percent of GDP. Bars refer to the share in 2024. Diamonds show 2010-19 averages.
D. Frequency is calculated based on the annual number of natural disasters per 1 million square kilometers of land area. Natural disasters include droughts, earthquakes, extreme temperatures, floods, storms, volcanic activities, and wildfires. Last observation is end-2024.

TABLE 2.1.1 East Asia and Pacific forecast summary

(Real GDP growth at market prices in percent, unless indicated otherwise)

	2022	2023	2024e	2025f	2026f	2027f	Percentage-point differences from January 2025 projections: 2025f	2026f
EMDE EAP, GDP [1]	**3.6**	**5.2**	**5.0**	**4.5**	**4.0**	**4.0**	**-0.1**	**-0.1**
GDP per capita (U.S. dollars)	3.4	5.1	4.9	4.4	4.0	3.9	-0.1	-0.0
(Average including countries that report expenditure components in national accounts) [2]								
EMDE EAP, GDP [2]	3.6	5.3	5.0	4.5	4.0	4.0	-0.1	-0.1
PPP GDP	3.8	5.2	5.0	4.5	4.1	4.1	-0.1	-0.1
Private consumption	2.8	8.1	4.5	4.9	4.8	4.8	-0.2	-0.5
Public consumption	4.8	6.6	3.5	5.4	5.0	3.7	2.1	1.7
Fixed investment	3.5	4.4	3.8	4.7	4.0	3.8	0.9	0.2
Exports, GNFS [3]	1.5	0.4	10.8	2.3	2.7	2.9	-2.3	-0.3
Imports, GNFS [3]	-0.5	2.5	5.9	4.1	4.4	3.6	0.6	0.7
Net exports, contribution to growth	0.5	-0.4	1.3	-0.3	-0.2	0.0	-0.7	-0.2
Memo items: GDP								
China	3.1	5.4	5.0	4.5	4.0	3.9	0.0	0.0
East Asia and Pacific excluding China	6.0	4.3	4.9	4.2	4.5	4.7	-0.7	-0.2
Indonesia	5.3	5.0	5.0	4.7	4.8	5.0	-0.4	-0.3
Thailand	2.6	2.0	2.5	1.8	1.7	2.3	-1.1	-1.0
Commodity exporters	5.3	4.8	4.7	4.3	4.7	4.7	-0.6	-0.1
Commodity importers excluding China	6.6	3.9	5.0	4.1	4.3	4.6	-0.8	-0.4
Pacific Island Economies [4]	6.8	4.2	3.8	4.1	3.3	3.0	-0.2	-0.1

Source: World Bank.

Note: e = estimate; f = forecast. EMDE = emerging market and developing economy; PPP = purchasing power parity. World Bank forecasts are frequently updated based on new information and changing (global) circumstances. Consequently, projections presented here may differ from those contained in other World Bank documents, even if basic assessments of countries' prospects do not differ at any given moment in time.

1. GDP and expenditure components are measured in average 2010-19 prices and market exchange rates. Excludes the Democratic People's Republic of Korea and dependent territories.
2. Subregion aggregate excludes the Democratic People's Republic of Korea, dependent territories, Fiji, Kiribati, the Marshall Islands, the Federated States of Micronesia, Myanmar, Palau, Papua New Guinea, Samoa, Timor-Leste, Tonga, Tuvalu, and Vanuatu, for which data limitations prevent the forecasting of GDP components.
3. Exports and imports of goods and nonfactor services (GNFS).
4. Includes Fiji, Kiribati, the Marshall Islands, the Federated States of Micronesia, Nauru, Palau, Papua New Guinea, Samoa, the Solomon Islands, Tonga, Tuvalu, and Vanuatu.

TABLE 2.1.2 East Asia and Pacific country forecasts [1]

(Real GDP growth at market prices in percent, unless indicated otherwise)

	2022	2023	2024e	2025f	2026f	2027f	Percentage-point differences from January 2025 projections: 2025f	2026f
Cambodia	5.1	5.0	6.0	4.0	4.5	5.1	-1.5	-1.0
China	3.1	5.4	5.0	4.5	4.0	3.9	0.0	0.0
Fiji	19.8	7.5	3.8	2.6	2.9	3.2	-1.0	-0.4
Indonesia	5.3	5.0	5.0	4.7	4.8	5.0	-0.4	-0.3
Kiribati	4.6	2.7	5.2	3.9	3.0	2.2	-0.2	-0.3
Lao PDR	2.7	3.7	4.1	3.5	3.4	3.4	-0.2	-0.3
Malaysia	8.9	3.6	5.1	3.9	4.3	4.3	-0.6	0.0
Marshall Islands [2]	-1.1	-3.9	3.4	3.3	2.7	2.3	-0.7	-0.5
Micronesia, Fed. Sts. [2]	-0.9	0.8	1.1	1.3	1.4	0.7	-0.4	0.3
Mongolia	5.0	7.2	5.0	6.3	5.2	5.2	-0.2	-0.9
Myanmar [2 3]	4.7	1.0	-1.0	-2.5	3.0	..	-4.5	..
Nauru [2]	2.8	0.6	1.8	1.4	1.3	1.3	-0.6	-0.6
Palau [2]	-1.3	1.9	9.3	8.6	3.5	2.4	-2.4	0.0
Papua New Guinea	5.7	3.8	3.8	4.7	3.5	3.1	0.1	0.0
Philippines	7.6	5.5	5.7	5.3	5.4	5.5	-0.8	-0.6
Samoa [2]	-5.3	9.2	9.4	5.3	2.6	2.1	-0.2	-0.2
Solomon Islands	2.4	2.7	2.5	2.6	2.7	2.9	-0.3	-0.2
Thailand	2.6	2.0	2.5	1.8	1.7	2.3	-1.1	-1.0
Timor-Leste	4.0	2.4	4.1	3.5	3.4	3.5	0.1	-0.2
Tonga [2]	0.0	2.0	1.8	2.2	1.8	1.6	-0.2	-0.2
Tuvalu	0.4	3.9	3.5	2.8	2.3	2.2	-0.2	-0.2
Vanuatu	5.2	2.2	0.9	-1.8	2.3	2.6	-3.3	0.2
Viet Nam	8.5	5.1	7.1	5.8	6.1	6.4	-0.8	-0.2

Source: World Bank.

Note: e = estimate; f = forecast. World Bank forecasts are frequently updated based on new information and changing (global) circumstances. Consequently, projections presented here may differ from those contained in other World Bank documents, even if basic assessments of countries' prospects do not significantly differ at any given moment in time.

1. Data are based on GDP measured in average 2010-19 prices and market exchange rates.

2. Values for Timor-Leste represent non-oil GDP. For the following countries, values correspond to the fiscal year: the Marshall Islands, the Federated States of Micronesia, and Palau (October 1–September 30); Myanmar (April 1–March 31); Nauru, Samoa, and Tonga (July 1–June 30).

3. Data for Myanmar beyond 2026 (which corresponds to the year ending March 2027) are excluded because of a high degree of uncertainty. The 2026 forecast was not included in January 2025 *Global Economic Prospects*; therefore, the differences from January 2025 projection are not computed.

EUROPE and CENTRAL ASIA

Growth in Europe and Central Asia (ECA) is projected to slow to 2.4 percent in 2025. Although growth is expected to edge up to 2.6 percent in 2026-27, it will remain below its 2010-19 average, limiting progress in job creation and income convergence. A challenging external environment—marked by rising trade restrictions and heightened policy uncertainty—is expected to weigh on ECA activity this year, given the region's strong linkages to the global economy via trade, commodities, investment, financial, and confidence channels. The substantial deceleration in regional growth in 2025 reflects a stepdown in activity in the Russian Federation due to monetary tightening, while the slowdown is set to be more modest in many other ECA economies. Downside risks to the outlook include a prolonged extension or intensification of Russia's invasion of Ukraine, a further escalation of global trade tensions and policy uncertainty—which could particularly harm economies dependent on manufacturing and commodity exports—weaker-than-expected euro area growth, and more persistent inflation. On the upside, growth could be boosted by an earlier-than-expected end of active hostilities associated with the invasion, or by faster and broader adoption of artificial intelligence (AI) technologies, particularly in economies with adequate digital infrastructure and human capital.

Recent developments

Growth in Europe and Central Asia (ECA) is estimated to have stabilized at 3.6 percent in 2024, with softening private consumption and investment balanced by a modest rebound in exports after two years of substantial weakness in trade. Excluding Russia, Türkiye, and Ukraine, growth in the region rose to an estimated 3.1 percent, led by a recovery in Poland on the back of strong private consumption supported by rising wages. Most high-frequency economic indicators pointed to a slowdown in early 2025 in the largest economies, particularly in new export orders owing to the anticipated impacts of rising trade barriers (figure 2.1.1.A). The announcement of higher U.S. tariffs in early April—building on previous measures—triggered a marked tightening of financial conditions in EMDEs, including ECA, where equity markets fell and sovereign spreads widened (figure 2.1.1.B). Conditions improved after these tariff increases were paused.

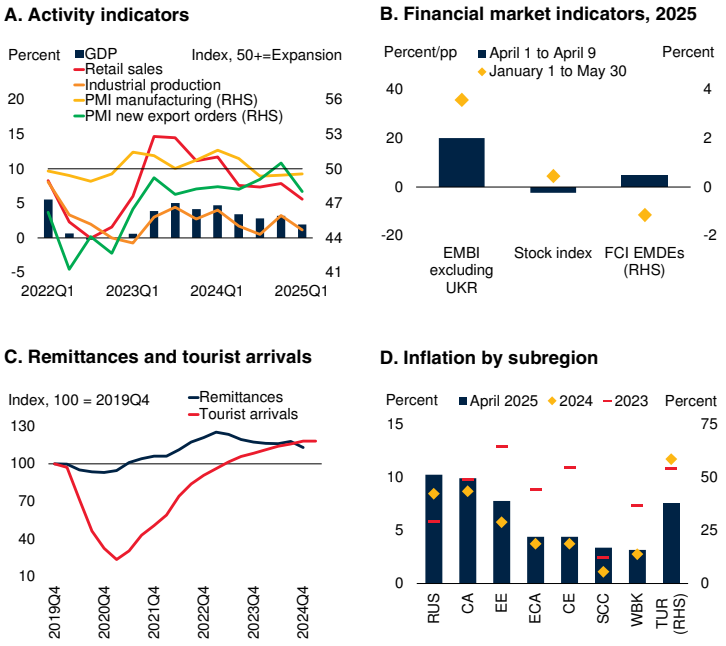
Activity in the region continued to face external headwinds, with weak growth in key trading partners, particularly the euro area, restraining exports in Central Europe and the Western Balkans. Tourism and remittances remained notable growth drivers, although their contribution to activity was more moderate than in previous years. Tourist arrivals in early 2025 exceeded pre-pandemic levels by 18 percent, while remittance inflows through end-2024 held steady at around 11 percent above pre-invasion levels (figure 2.1.1.C).

In Russia, growth rose to 4.3 percent in 2024, supported by solid growth in manufacturing activity, particularly in military-related and import-substituting industries. However, the sharp year-on-year slowdown in the first-quarter suggests a weakening in economic activity. Despite policy rate hikes, to a record high of 21 percent in October 2024, headline inflation exceeded 10 percent in early 2025 amid elevated fiscal spending and labor shortages. In addition, the corporate profit tax rate was raised from 20 to 25 percent in January, weighing on domestic demand. Oil output is estimated to have declined slightly to 9.1 mb/d in early 2025, down 0.2 mb/d from 2024 (IEA 2025).

Note: This section was prepared by Marie Albert.

FIGURE 2.2.1 ECA: Recent developments

Leading activity indicators in the three largest ECA economies—the Russian Federation, Türkiye, and Poland—point to a slowdown in activity in early 2025. The early-April announcement of U.S. tariffs was accompanied by tighter financial conditions, equity price declines, and wider sovereign spreads, though these trends have improved following some de-escalation in trade tensions. As of the end of 2024, remittance inflows and tourist arrivals continued to exceed pre-pandemic levels, although their pace has moderated. Inflation remains elevated across most subregions.



Sources: Bloomberg; Goldman Sachs; Haver Analytics; World Bank.

Note: CA = Central Asia; CE = Central Europe; ECA = Europe and Central Asia; EE = Eastern Europe; FCI = Financial Conditions Index; pp = percentage point; RUS = Russian Federation; SCC = South Caucasus; TUR = Türkiye; UKR = Ukraine; WBK = Western Balkans.

A. GDP, retail sales, and industrial production are GDP-weighted averages of year-on-year growth rates for Poland, the Russian Federation, and Türkiye. PMI indices are GDP-weighted indices. Last observation is 2025Q1.

B. Bars denote the change in the stock index and FCI and the change for the EMBI spread in percentage points between April 1 and April 9, 2025. Diamonds show the changes between January 1, 2025 and May 30, 2025. The EMBI average spread for ECA, excluding Ukraine, includes 8 economies. ECA average of national benchmark stock indexes includes 16 countries. FCI is computed by Goldman Sachs for EMDEs, and larger positive changes indicate tighter financial conditions. Last observation is May 30, 2025.

C. Blue line shows the four-quarter moving average of remittance inflows. Remittance inflows are the sum of personal transfers and compensation of employees. Red line represents the 12-month moving average of tourist arrivals. Sample includes 22 ECA economies in remittance inflows data and 13 economies in tourist arrivals. Last observation is 2024Q4 for remittances and 2025Q1 for tourist arrivals.

D. Bars represent average year-on-year inflation in April 2025. Diamonds and dashes show the average year-on-year inflation in 2024 and 2023, respectively.

Türkiye's growth softened slightly in 2024 to 3.2 percent, primarily reflecting earlier policy interest rate hikes, and decelerated further early 2025. Financial market volatility intensified in mid-March 2025 owing to domestic uncertainties before stabilizing: the Turkish lira hit a record low, reserves declined sharply, and sovereign credit default swap premia rose. Although monetary policy has remained tight, since December 2024 the central bank has cut its policy rate from 50 to 42.5 percent by March 2025, as inflation had nearly halved over the year. However, the policy rate was raised in April due to domestic and global market volatility, signaling a commitment to price stability.

Growth in Ukraine slowed to 2.9 percent in 2024, as the output gap narrowed and energy shortages caused by Russian attacks on infrastructure continued to disrupt activity. Services activity remained resilient, supported by strong consumption. Inflation jumped to 15.1 percent year-on-year in April, largely driven by rising wages and energy tariffs, currency depreciation, and a weaker harvest. Since November, the central bank has raised interest rates three times, from 13 percent to 15.5 percent. Discussions of a potential ceasefire began earlier in the year, but prospects of a lasting resolution remain uncertain.

Median regional headline inflation rose for about six months following September 2024, reflecting faster growth of food prices, an increase in regulated prices, and robust wage growth—particularly in Central Asia, where recent wage growth has exceeded pre-pandemic rates (EBRD 2025; IMF 2025). Since March 2025, inflation has moderated somewhat but remained above 4 percent in most ECA subregions (figure 2.1.1.D). Combined with the ECA median real interest rate remining below 2 percent since early 2025—lower than in the previous year—most central banks have paused further policy easing, given the limited room for additional cuts.

Outlook

Growth in ECA is forecast to slow to 2.4 percent in 2025 before firming slightly to an average of 2.6 percent in 2026-27—below the region's 2010-19 pace of 3.2 percent—reflecting the weakening external environment and a stepdown in growth in Russia (figure 2.2.1.A; table 2.2.1).[1] The slowdown projected for this year is expected to be broad-based across the region, with about three-quarters of ECA's economies anticipated to

[1] The baseline projections assume that the tariffs in place in late May will prevail for the rest of the forecast horizon.

decelerate. Over 2026-27, growth is expected to edge up, supported by a modest increase in investment as the impact of previous monetary tightening fades and by a gradual recovery of exports as growth in the euro area firms.

Given the region's close ties to the global economy, the deterioration in the external environment—including rising trade tensions, elevated global uncertainty, weakening confidence, and renewed financial market volatility—is expected to dampen activity. Growth forecasts this year have been downgraded in nearly three-quarters of ECA's economies. Trade and financial flows this year are expected to be hampered by the euro area slowdown, the region's largest partner. Heightened global uncertainty and weaker confidence are anticipated to weigh on the region's investment outlook. Lower global commodity demand and prices are expected to have mixed effects across the region—negatively affecting energy exporters, such as Azerbaijan, Kazakhstan, and Russia, and metal exporters particularly exposed to China's slowdown, such as Tajikistan, while benefiting energy importers like Türkiye (World Bank 2025d).

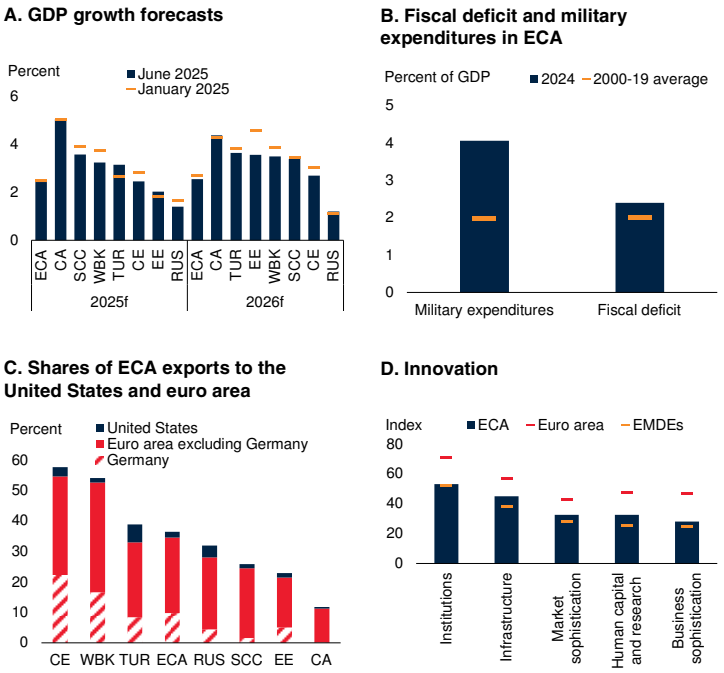
Inflation is projected to remain above target in most ECA countries, limiting the room for monetary policy easing. In addition to persistent underlying domestic pressures—such as tight labor markets and sustained demand in the services sector—the increase in trade barriers is expected to slow the disinflation process, notably by raising input costs, although this may be partly offset by declining commodity prices.

Fiscal deficits have widened relative to the pre-pandemic decade, partly due to rising military expenditures, and are expected to increase further in 2025, before a gradual shift toward fiscal consolidation (figure 2.2.2.B). Poland and Romania are under the European Union's excessive deficit procedures, and their fiscal deficits, projected to exceed 5 percent of GDP in 2025, highlight rising fiscal risks.

In Russia, growth is forecast to decelerate to 1.4 percent in 2025 and average 1.2 percent in 2026-27 (table 2.2.2). The marked slowdown this year is largely driven by weakening private and public consumption amid the lagged effects of previous monetary policy tightening, sluggish growth in real wages, and a moderation of state-led corporate lending. Growth and fiscal revenues are expected to be dampened by lower global energy prices. Export growth is expected to be muted, while imports are projected to slow due to weaker domestic demand and tighter payment sanctions. Labor shortages, exacerbated by negative demo-

FIGURE 2.2.2 ECA: Outlook

Growth in ECA is projected to slow to 2.4 percent in 2025, before edging up to 2.5 percent in 2026. Fiscal deficits have widened relative to the pre-pandemic decade, partly due to an increase in military expenditures, and may rise further this year. Central Europe and the Western Balkans are likely to be most affected by weak euro area growth, given their tight economic linkages with the bloc, though Germany's fiscal support package may provide some offset. Insufficient innovation, which remains below euro area levels, limits potential growth.



Sources: Digital Progress and Trends Report 2023 (World Bank); International Monetary Fund; Stockholm International Peace Research Institute; World Bank; World Integrated Trade Solution; World Intellectual Property Organization (database).

Note: f = forecast. CA = Central Asia; CE = Central Europe; ECA = Europe and Central Asia; EE = Eastern Europe; RUS = Russian Federation; SCC = South Caucasus; TUR = Türkiye; WBK = Western Balkans.

A. Bars and dashes represent GDP growth forecasts for 2025 and 2026, as reported in the June 2025 and January 2025 editions of *Global Economic Prospects*.

B. Bars show average military expenditures in ECA and the fiscal deficit for 2024 in percentage of GDP; dashes indicate the average values for the period 2000-19. Sample includes 21 ECA economies for military expenditures data and 22 economies for fiscal deficit.

C. Blue bars show the share of exports to the United States. Red solid bars represent the share of exports to the euro area except Germany, and red striped bars the share of exports to Germany. Last observation is 2023 (2021 for Belarus, the Russian Federation, and Tajikistan).

D. Bars show normalized scores (on a 0-100 scale) for the five input pillars captured by the Global Innovation Index for 2022. Red and orange dashes represent the normalized scores for the euro area and EMDEs, respectively. Higher scores indicate a higher degree of innovation. Sample includes 21 ECA economies and 96 EMDEs. Last observation is 2022.

graphic trends, and restricted access to markets and technologies are expected to continue to limit long-term growth (CEPR 2024).

In Türkiye, growth is projected to slow to 3.1 percent in 2025, before edging up to 3.6 percent in 2026 and 4.2 percent in 2027. Relatively moderate growth in 2025 reflects the effects of still-tight monetary policy, expected fiscal consolidation, and subdued global activity amid heightened uncertainty. The 0.5 percentage point upward revision for growth in 2025 since January largely stems from previous momentum, including stronger-than-expected growth in the fourth quarter of 2024, and lower global oil prices. Private consumption is expected to remain the main growth driver in 2026-27, supported by continuing disinflation. Export growth is likely to be limited by the real appreciation of the lira, subdued euro area demand, and uncertainty surrounding trade policies in major economies.

Ukraine's growth is projected to rise from 2 percent in 2025 to 5.2 percent in 2026 and then ease to 4.5 percent in 2027, assuming the invasion extends through end-2025, with active hostilities winding down afterward. Shortages of labor, energy, and other inputs are expected to constrain activity this year. The projected pick-up in growth for 2026 assumes a surge in investment in manufacturing and reconstruction, while the export recovery is expected to remain limited due to a challenging trade environment and economic uncertainty. The reconstruction and recovery costs are estimated at $524 billion—almost three times Ukraine's GDP in 2024 (World Bank 2025e).

In contrast to other subregions, and despite a challenging external environment, growth in Central Europe is forecast to firm to 2.4 percent in 2025, driven by Poland. The country's growth is expected to be supported by robust wage growth and a projected increase in investment from EU funding. Weak euro area demand is envisaged to weigh on exports, while its subdued recovery is expected to support a modest rebound of the subregion to 2.7 percent in 2026-27. Germany's newly legislated fiscal support package may help offset some of the external drag—particularly in the coming years—benefiting the subregion, which sends about 22 percent of its exports to Germany, notably Poland and Romania (figure 2.2.2.C).

Growth in the Western Balkans is forecast to slow slightly to 3.2 percent in 2025 before picking up to an average of 3.6 percent in 2026-27. While subdued euro area growth and ongoing global trade policy uncertainty are expected to limit export expansion, private consumption, supported mainly by robust real wages, is projected to drive growth, especially in Kosovo, Montenegro, and Serbia (World Bank 2025f).

In the South Caucasus, growth is projected to slow to 3.6 percent in 2025 and 3.4 percent in 2026-27. Growth in Azerbaijan is expected to be affected by declining oil production alongside weakening global demand and lower oil prices. Growth in Armenia and Georgia is projected to ease—reflecting softer domestic demand and a slowdown in re-exports—and converge toward potential rates.

Central Asia's growth is forecast to decelerate to 5.0 percent in 2025 and 4.3 percent in 2026-27. Private consumption is expected to soften due to persistently high inflation. Trade growth in the subregion is projected to remain subdued, reflecting weaker growth in China and Russia, along with ongoing global trade uncertainty. Energy and metal exporters, in particular, are likely to face headwinds from lower global oil and metal prices, which will reduce exports and fiscal revenues.

Since the global financial crisis, many ECA countries have faced growing challenges in achieving sustainable growth, exacerbated in recent years by the pandemic and the invasion of Ukraine. Progress with structural reforms has slowed. Key constraints on growth include shortages of skilled labor, declining educational quality, and limited innovation—below euro area levels—further compounded by the dominance of state-owned enterprises and a lack of competition in many cases (figure 2.2.2.D; Iacovone et al. 2025; World Bank 2025g). Structural challenges continue to hold back the pace of growth needed to support job creation and retain skilled labor, contributing to emigration to advanced European economies.

Risks

Risks to the regional outlook remain tilted to the downside, including the possibility of prolonged extension or intensification of Russia's invasion of Ukraine, a further escalation of global trade tensions, weaker-than-expected euro area growth, and more persistent inflation. Higher uncertainty surrounding these risks has intensified since the beginning of the year. On the upside, an early and durable resolution of the invasion could boost regional growth, while faster and broader adoption of AI technologies could strengthen growth in the longer term, particularly in economies with adequate digital infrastructure and human capital skills.

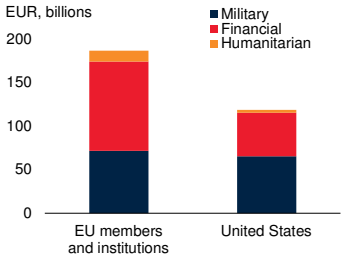
The uncertain trajectory of the invasion presents a two-sided risk for the region. On the upside, an earlier-than-expected end of hostilities could accelerate reconstruction-driven investment in Ukraine and improve Russia's outlook through sanctions relief (BOFIT 2025). A boost in confidence would benefit the broader ECA region, though direct trade spillovers are likely to be limited given many countries' relatively low economic exposure to Russia and Ukraine. On the downside, without a strong peace agreement, a prolonged extension or intensification of the invasion could further weaken Ukraine's economy, deepen distortions in Russia, and keep geopolitical tensions high. A disruption to financing flows to Ukraine would heighten these risks, as the country's external funding remains heavily reliant on continued support from the EU and the United States (figure 2.2.3.A).

A renewed escalation of global trade tensions, leading to additional increases in trade restrictions and policy uncertainty, would hinder trade and growth in the region. While the direct impact on ECA would likely be limited by the region's modest trade exposure to the United States—averaging about 2 percent of goods exports, with Türkiye the highest at nearly 6 percent—indirect effects could be more substantial due to euro area exposure and increased competition in third markets (figure 2.2.2.C). With over half of the region's exports going to the euro area, any further weakening in EU demand could generate significant negative spillovers for ECA. Central Europe and the Western Balkans would be particularly vulnerable, given their high trade openness, strong integration into European value chains, and reliance on the manufacturing sector—especially the German automotive sector, which has already been targeted by U.S. trade

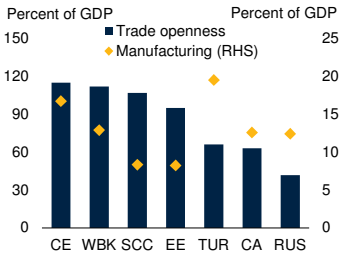
FIGURE 2.2.3 ECA: Risks

Risks to the outlook remain tilted to the downside. The evolution of Russia's invasion of Ukraine remains highly uncertain, with European and U.S. support playing a key role for Ukraine. Central Europe and the Western Balkans, the most trade-open subregions and with significant manufacturing sectors, could be among the most affected by trade disruptions. Elevated inflation may persist longer than expected, with risks of further increases and inflation remaining above central bank targets in many ECA economies. Countries with a high value-added share in GDP and strong AI preparedness, such as those in Central Europe, are likely to see significant productivity gains from the adoption of advanced technologies.

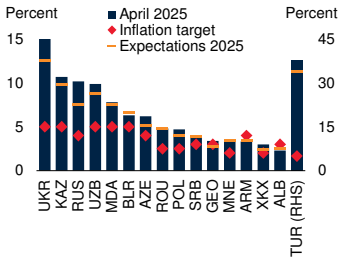
A. Ukraine aid by donor and type, 2022-24



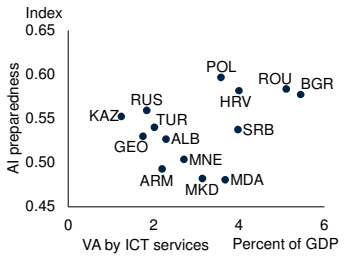
B. Trade openness and manufacturing value added



C. Inflation expectations



D. AI preparedness and ICT services



Sources: Cazzaniga et al. (2024); Consensus Economics; Haver Analytics; International Monetary Fund; Kiel Institute for the World Economy (database); Trebesch et al. (2023); World Bank.

Note: AI = artificial intelligence; ALB = Albania; ARM = Armenia; AZE = Azerbaijan; BGR = Bulgaria; BLR = Belarus; CA = Central Asia; CE = Central Europe; EE = Eastern Europe; EU = European Union; GEO = Georgia; HRV = Croatia; ICT = information and communication technology; KAZ = Kazakhstan; MDA = Moldova; MNE = Montenegro; MKD = North Macedonia; POL = Poland; ROU = Romania; RUS = Russian Federation; SCC = South Caucasus; SRB = Serbia; TUR = Türkiye; UKR = Ukraine; UZB = Uzbekistan; VA = value added; WBK = Western Balkans; XKX = Kosovo.

A. Bars show total military and non-military support to Ukraine, representing commitments made between January 24, 2022, and February 28, 2025.

B. Bars show the GDP share of exports and imports by ECA subregion. Diamonds represent the GDP share of value added by the manufacturing sector. Last observation is 2023.

C. Figure shows the Consensus Economics forecast of year-on-year inflation for 2025, based on the May 2025 surveys of 16 ECA economies. Inflation targets are as of May 2025. Last observation for headline inflation is April 2025.

D. Scatter plot shows the AI Preparedness Index calculated by the International Monetary Fund and the share of VA of ICT services in percentage of nominal GDP. The index scale ranges from 0 to 1, with higher values indicating greater AI preparedness. Last observation is 2023.

restrictions (figure 2.2.3.B). Additional trade disruptions could weaken household real incomes, reduce labor demand and profitability in exposed sectors, and dampen investment. A deterioration in consumer and business confidence—amplified by elevated or persistent policy uncertainty, particularly around trade—could further weigh on activity.

Persistently high inflation may lead to tighter monetary policy, which would weigh on growth. Inflation is already projected to remain above targets in 2025 in most ECA countries (figure 2.2.3.C). Tighter-than-expected labor markets, stronger wage growth, additional or larger tariffs on imported goods, and supply chains disruptions—particularly relevant for Central Europe—could further exacerbate inflationary pressures. Shifts in policy rate expectations or rising financial stress could trigger capital outflows and currency depreciation in vulnerable countries.

Climate change remains an important downside risk. Without adaptation, climate-related damages could reduce GDP by 5–6 percent in Tajikistan and up to 14 percent in Bosnia and Herzegovina by 2050, while flooding in Kazakhstan could lower GDP by 1.3 percent by 2060 (World Bank 2022, 2024c, 2024d). The energy transition also poses adjustment challenges—notably in the Western Balkans, where about 20 percent of the workforce in this subregion is likely to be at risk, particularly in high-emission sectors such as heavy manufacturing (World Bank 2025f).

The possibility of an accelerated adoption of new technologies, including generative AI, presents an upside risk to ECA's growth. With education reforms to equip workers for a technology-driven labor market, increased global investment in energy infrastructure, data centers, and R&D could generate spillovers through stronger external demand and rising trade in information and communications technology (Dalvit et al. 2023; World Bank 2024e). Central European countries, with the highest ICT value-added share of GDP and the region's strongest AI preparedness, are likely to benefit from significant productivity gains from the adoption of technology advances (figure 2.2.3.D).

TABLE 2.2.1 Europe and Central Asia forecast summary

(Real GDP growth at market prices in percent, unless indicated otherwise)

	2022	2023	2024e	2025f	2026f	2027f	Percentage-point differences from January 2025 projections: 2025f	2026f
EMDE ECA, GDP [1]	**1.5**	**3.6**	**3.6**	**2.4**	**2.5**	**2.7**	**-0.1**	**-0.2**
GDP per capita (U.S. dollars)	1.9	3.9	3.4	2.2	2.4	2.6	-0.1	-0.1
EMDE ECA excluding Russian Federation, Türkiye, and Ukraine, GDP	4.3	2.0	3.1	3.0	3.0	3.1	-0.3	-0.3
EMDE ECA excluding Russian Federation and Ukraine, GDP	4.8	3.2	3.1	3.1	3.3	3.6	0.1	-0.2
EMDE ECA excluding Türkiye, GDP	0.3	3.1	3.7	2.2	2.2	2.2	-0.3	-0.1
(Average including countries that report expenditure components in national accounts) [2]								
EMDE ECA, GDP [2]	1.2	3.5	3.4	2.2	2.4	2.6	-0.1	-0.1
PPP GDP	0.6	3.6	3.4	2.2	2.4	2.6	-0.1	-0.2
Private consumption	5.0	6.6	4.3	3.0	2.9	3.0	0.6	0.1
Public consumption	3.6	3.7	3.3	1.6	1.6	1.5	-1.0	-0.2
Fixed investment	1.9	11.4	1.9	2.3	3.1	3.2	-1.0	-0.5
Exports, GNFS [3]	0.0	-1.1	0.6	1.4	2.1	2.6	-1.2	-1.2
Imports, GNFS [3]	1.9	6.2	1.1	2.7	3.1	3.2	-1.1	-1.0
Net exports, contribution to growth	-0.7	-2.6	-0.2	-0.5	-0.4	-0.2	-0.1	-0.1
Memo items: GDP								
Commodity exporters [4]	-1.9	4.3	4.4	2.0	1.9	1.9	-0.2	0.0
Commodity exporters excl. Russian Federation and Ukraine	4.6	5.1	5.3	4.6	4.1	4.0	-0.1	0.1
Commodity importers [5]	4.8	2.9	2.8	2.8	3.1	3.5	0.0	-0.3
Central Europe [6]	4.8	0.6	2.1	2.4	2.7	2.8	-0.4	-0.3
Western Balkans [7]	3.4	3.4	3.6	3.2	3.5	3.7	-0.5	-0.4
Eastern Europe [8]	-20.0	4.6	3.1	2.0	3.6	3.2	0.2	-1.0
South Caucasus [9]	7.3	3.8	5.7	3.6	3.4	3.4	-0.3	0.0
Central Asia [10]	4.3	5.6	5.5	5.0	4.4	4.3	0.0	0.2
Russian Federation	-1.4	4.1	4.3	1.4	1.2	1.2	-0.2	0.1
Türkiye	5.5	5.1	3.2	3.1	3.6	4.2	0.5	-0.2
Poland	5.3	0.2	2.9	3.2	3.0	2.9	-0.2	-0.2

Source: World Bank.

Note: e = estimate; f = forecast. EMDE = emerging market and developing economy; PPP = purchasing power parity. World Bank forecasts are frequently updated based on new information and changing (global) circumstances. Consequently, projections presented here may differ from those contained in other World Bank documents, even if basic assessments of countries' prospects do not differ at any given moment in time. The World Bank is currently not publishing economic output, income, or growth data for Turkmenistan owing to a lack of reliable data of adequate quality. Turkmenistan is excluded from cross-country macroeconomic aggregates. Since Croatia became a member of the euro area on January 1, 2023, it has been added to the euro area aggregate and removed from the ECA aggregate in all tables to avoid double counting.

1. GDP and expenditure components are measured in average 2010-19 prices and market exchange rates, thus aggregates presented here may differ from other World Bank documents.
2. Aggregates presented here exclude Azerbaijan, Bosnia and Herzegovina, Kazakhstan, Kosovo, the Kyrgyz Republic, Montenegro, Serbia, Tajikistan, and Uzbekistan.
3. Exports and imports of goods and nonfactor services (GNFS).
4. Includes Armenia, Azerbaijan, Kazakhstan, the Kyrgyz Republic, Kosovo, the Russian Federation, Tajikistan, Ukraine, and Uzbekistan.
5. Includes Albania, Belarus, Bosnia and Herzegovina, Bulgaria, Georgia, Hungary, Moldova, Montenegro, North Macedonia, Poland, Romania, Serbia, and Türkiye.
6. Includes Bulgaria, Hungary, Poland, and Romania.
7. Includes Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, and Serbia.
8. Includes Belarus, Moldova, and Ukraine.
9. Includes Armenia, Azerbaijan, and Georgia.
10. Includes Kazakhstan, the Kyrgyz Republic, Tajikistan, and Uzbekistan.

TABLE 2.2.2 Europe and Central Asia country forecasts [1]

(Real GDP growth at market prices in percent, unless indicated otherwise)

	2022	2023	2024e	2025f	2026f	2027f	Percentage-point differences from January 2025 projections: 2025f	2026f
Albania	4.8	3.9	4.0	3.2	3.1	3.1	-0.3	-0.2
Armenia	12.6	8.3	5.9	4.0	4.2	4.5	-1.0	-0.4
Azerbaijan	4.6	1.1	4.1	2.6	2.4	2.3	-0.1	0.0
Belarus	-4.7	3.9	4.0	2.2	1.2	0.8	1.0	0.4
Bosnia and Herzegovina [2]	4.2	2.0	2.6	2.7	3.1	3.5	-0.5	-0.8
Bulgaria	4.0	1.9	2.8	2.0	2.2	2.4	-0.8	-0.5
Croatia	7.3	3.3	3.9	3.1	3.0	2.8	0.1	0.2
Georgia	11.0	7.8	9.4	5.5	5.0	5.0	-0.5	0.0
Kazakhstan	3.2	5.1	4.8	4.5	3.6	3.5	-0.2	0.1
Kosovo	4.3	4.1	4.4	3.8	3.8	3.8	-0.1	-0.2
Kyrgyz Republic	9.0	9.0	9.0	6.8	5.5	5.8	2.3	1.0
Moldova	-4.6	1.2	0.1	0.9	2.4	4.4	-3.0	-2.1
Montenegro	6.4	6.3	3.0	3.0	2.9	3.0	-0.5	-0.3
North Macedonia	2.8	2.1	2.8	2.6	2.7	2.8	-0.4	-0.5
Poland	5.3	0.2	2.9	3.2	3.0	2.9	-0.2	-0.2
Romania	4.0	2.4	0.8	1.3	1.9	2.5	-0.8	-0.7
Russian Federation	-1.4	4.1	4.3	1.4	1.2	1.2	-0.2	0.1
Serbia	2.6	3.8	3.9	3.5	3.9	4.2	-0.7	-0.3
Tajikistan	8.0	8.3	8.4	7.0	4.9	4.7	1.0	-0.1
Türkiye	5.5	5.1	3.2	3.1	3.6	4.2	0.5	-0.2
Ukraine	-28.8	5.5	2.9	2.0	5.2	4.5	0.0	-1.8
Uzbekistan	6.0	6.3	6.5	5.9	5.9	5.8	0.1	0.0

Source: World Bank.

Note: e = estimate; f = forecast. World Bank forecasts are frequently updated based on new information and changing (global) circumstances. Consequently, projections presented here may differ from those contained in other World Bank documents, even if basic assessments of countries' prospects do not significantly differ at any given moment in time. The World Bank is currently not publishing economic output, income, or growth data for Turkmenistan owing to a lack of reliable data of adequate quality. Turkmenistan is excluded from cross-country macroeconomic aggregates.

1. Data are based on GDP measured in average 2010-19 prices and market exchange rates, unless indicated otherwise.
2. GDP growth rate at constant prices is based on production approach.

LATIN AMERICA and THE CARIBBEAN

Growth in Latin America and the Caribbean (LAC) is forecast to remain steady at 2.3 percent in 2025 and then firm to 2.5 percent, on average, in 2026-27. While Mexico is expected to be the economy most directly affected by the recent rise in trade barriers, the entire region will be indirectly impacted. Mexico, Central America, and the Caribbean are highly integrated into the U.S. economy through trade, investment, remittances, and financial linkages. Although domestic demand remains resilient, exports throughout the region are expected to weaken this year amid rising trade protectionism and policy uncertainty. The projected softening in commodity prices is set to weigh moderately on regional growth, as many countries are commodity exporters. Risks to the outlook remain tilted to the downside. More persistent or heightened policy uncertainty, additional trade barriers, and weaker-than-expected growth in major economies could further dampen activity. Tightening global financial conditions may continue to raise debt-servicing costs, possibly delaying ongoing fiscal consolidation in key LAC economies. The relatively subdued regional outlook, combined with lingering structural bottlenecks, could weaken momentum in job creation and further constrain per capita income gains.

Recent developments

Rising trade barriers and heightened uncertainty globally are weighing on activity in Latin America and the Caribbean (LAC), particularly through exports, investment, remittances, and confidence channels. Mexico, the region's second-largest economy, has been the most directly affected, with 25 percent tariff on non-United States-Mexico-Canada-Agreement (USMCA)-compliant imports into the United States. This has dampened Mexico's exports and increased uncertainty regarding its future trade with the United States, where 80 percent of its exports were destined in 2024, about half of which were non-compliant with the USMCA. Other major LAC economies, such as Argentina and Brazil, have been less impacted than Mexico because their share of exports to the United States is much smaller and they do not have the same tight manufacturing links (figure 2.3.1.A). Besides Mexico, all countries in the region face an increase in U.S. tariffs of 10 percent. Some countries, notably Brazil and Jamaica, also face tariffs on U.S.-bound steel and aluminum exports. However, key commodities, such as energy and copper, have been excluded from tariffs, reducing the overall impact on the region.

After a generally solid regional growth performance in the second half of 2024, early indicators for the first quarter of 2025 point to some weakening across large economies, particularly in industry. A continued rebound in Argentina and steady growth in Chile and Colombia were offset by weaker or subdued growth elsewhere. In Brazil and Mexico, a strong recovery in the agricultural sectors in the first quarter countered a contraction in industrial activity and nearly stagnant service sector growth. Recent Purchasing Managers' Indexes (PMIs) have signaled continued softness in activity. Consumer and business confidence in several large LAC economies have been volatile, with a gradual decline in consumer confidence in Brazil amid fiscal concerns. Indicators have been generally solid in Argentina (figures 2.3.1.B and 2.3.1.C).

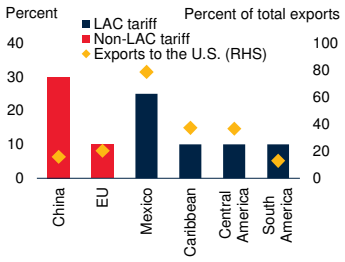
Progress continues in keeping inflation relatively contained, although the final part of the disinflation process is proving difficult to tackle given the recent uptick in food inflation and the slowdown

Note: This section was prepared by Francisco Arroyo-Marioli and Valerie Mercer-Blackman.

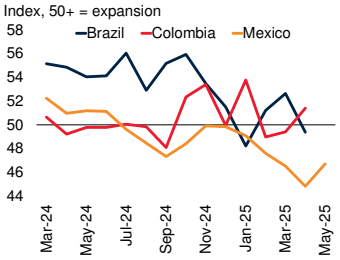
FIGURE 2.3.1 LAC: Recent developments

LAC countries face a 10 percent tariff increase on exports to the United States, except for Mexico, which faces a 25 percent tariff on non-USMCA-compliant goods. Eighty percent of Mexico's goods exports go to the United States, heightening its vulnerability to shifting U.S. trade policy. PMIs have softened in Mexico while remaining relatively volatile in Brazil and Colombia. In recent months, business confidence has gradually declined in Brazil amid fiscal concerns, while it has increased in Argentina on the back of key structural reforms. Headline inflation in some of the largest economies has hovered around 5 percent since early 2024 amid a recent uptick in food prices, while core inflation remains slightly above central bank targets.

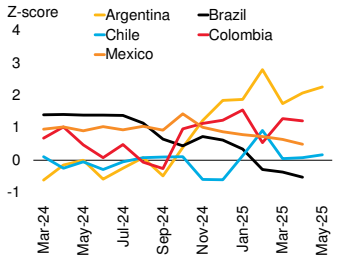
A. U.S. tariffs and good exports to the U.S.



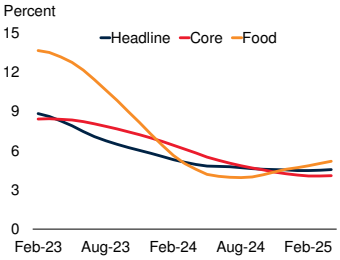
B. Purchasing managers' indices



C. Consumer and business confidence



D. Consumer price inflation



Sources: Haver Analytics; White House; UN Comtrade (database); World Bank.

Note: EU = European Union; LAC = Latin America and the Caribbean.

A. Bars denote general ad valorem tariffs on imports from trading partners imposed by the United States as of May 2025. Excludes product-specific tariffs. Shares of exports to the U.S. are calculated as the average of annual goods exports to the U.S. from 2020 to 2023, expressed as a percentage of each country's total goods exports. Central America includes Costa Rica, El Salvador, Guatemala, Honduras, and Panama. South America includes Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Paraguay, Peru, and Uruguay. The Caribbean includes Antigua and Barbuda, The Bahamas, Barbados, Belize, Dominica, the Dominican Republic, Grenada, Guyana, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, and Trinidad and Tobago.

B. A purchasing managers' index (PMI) of 50 or higher (lower) indicates expansion (contraction). Panel shows the composite PMI for Brazil and manufacturing PMI for Colombia and Mexico. Last observation is May 2025.

C. Panel shows the z-scores for business confidence in Chile and consumer confidence in Argentina, Brazil, Colombia, and Mexico. Last observation is May 2025.

D. Year-over-year consumer price inflation. Aggregate is 12-month moving weighted average for Brazil, Chile, Colombia, Mexico, and Peru. Last observation is April 2025.

in the pace of interest rate reductions. Twelve-month headline and core inflation have changed little since late 2023 despite easing commodity price pressures and slower demand growth (figure 2.3.1.D). In Brazil, inflation has exceeded 5 percent in recent months—above the central bank's target range—prompting increases in the policy rate. Chile's policy rates remained unchanged as inflation hovers around the upper end of its 4 percent target. In contrast, inflation rates in both Mexico and Peru have returned to targets as disinflationary policies have taken effect and demand has moderated. Mexico's central bank hastened the pace of policy rate cuts this year following a period of more cautious easing. Meanwhile, inflation in Colombia has remained above target as the monetary policy approach has led to continued easing.

Fiscal vulnerabilities have persisted amid declining commodity prices. Falling oil prices have complicated government finances in Colombia, Ecuador, and Mexico—and especially in Colombia, where the central government's budget deficit widened in 2024 and worsened further at the start of this year. In Brazil, the general government's primary fiscal deficit narrowed in 2024, driven by strong revenue growth and reduced expenditures. Overall, fiscal deficits remained in negative territory in 2024 in all the major South American countries except for Argentina, in large part due to high debt-servicing costs amid high interest rates.

In contrast, improved private savings led to an improvement in external balances. Falling oil prices helped to improve the external finances of net oil importers such as Chile, Peru, and most of Central America and the Caribbean. In contrast, agriculturally dependent economies, such as Brazil and Paraguay saw a dampening of export revenues as global grain prices moderated.

Outlook

Regional growth is projected to hold steady at 2.3 percent in 2025, with most major economies outside the Caribbean showing little dynamism, with the exception of Argentina, which is undergoing a recovery after two years of recession. It will then edge up to 2.5 percent on average in 2026-27, slightly above the region's subdued rate of potential growth (figure 2.3.2.A; table 2.3.1). Despite the projected improvement over the forecast horizon, LAC's growth is expected to be the lowest of all six emerging market and developing economy (EMDE) regions. Given the changes in the external environment, including

increased trade tensions and falling commodity prices, the forecast implies a downward revision for the region's growth of 0.2 percentage point, with more than half of LAC economies experiencing a downgrade from previous projections.

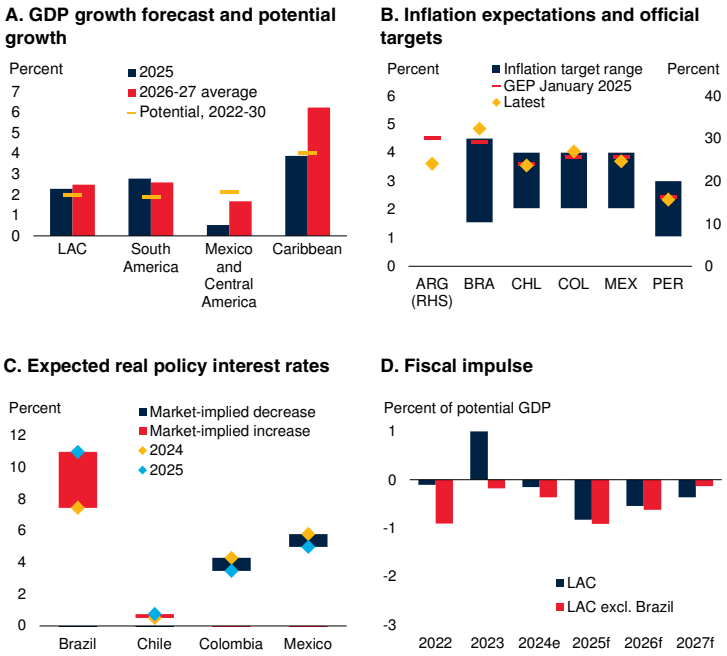
Following a rise in trade barriers with the United States and an associated increase in uncertainty, weaker export demand and private consumption growth are set to act as the main drag on growth in 2025. The baseline projections assume that the tariffs in place as of late May will prevail for the rest of the forecast horizon. Crude oil is exempt from U.S. tariffs, except for a 10 percent tariff on imports from Canada and a 25 percent tariff in imports from Mexico. Canada accounted for 77 percent of heavy U.S. crude oil imports in 2024. Consequently, oil exporters such as Colombia, Ecuador, and Guyana could benefit on the margin from trade diversion. For most other products, the region is unlikely to see gains from tariff-induced trade diversion toward China or other countries but instead will be weighed down by the dampening effect of uncertainty.

The growth forecast is constrained by limited room for policy maneuver. As inflation is forecast to remain close to the upper end of central bank target ranges in the short run in several countries, particularly in Brazil and Colombia, some central banks are expected to have little scope to reduce policy rates (figures 2.3.2.B and 2.3.3.C). Fiscal policies are projected to remain broadly contractionary in 2025, shifting toward a more neutral stance in 2026-27 (figure 2.3.2.D).

Growth in Brazil is expected to fall by a third, from 3.4 percent in 2024 to 2.4 percent in 2025, owing to slower consumption and much weaker investment growth amid tighter financial conditions and external headwinds, and is projected average 2.2 percent in 2026-27. The tightening of monetary policy since last September—with increases in the policy rate from 10.50 to 14.75 percent—should help reduce inflationary pressures, though it will weigh on investment and consumer spending. Fiscal sustainability concerns, combined with statutory limitations on adjusting the size and composition of its budget, are expected to limit Brazil's ability to strengthen growth through fiscal expansion in the short run.

FIGURE 2.3.2 LAC: Outlook

Growth in the region is expected to hold steady at 2.3 percent in 2025 and then pick up slightly in 2026-27 to stay above potential. Inflation in the largest LAC economies is generally expected to remain close to the upper limit of most central banks' target ranges. Consequently, market participants expect real policy interest rates to remain close to 2024 levels, apart from Brazil, where interest rates are expected to remain relatively high. The forecast assumes that fiscal consolidation in LAC will continue over the next few years.



Sources: Bloomberg; Consensus Economics; Haver Analytics; IMF *World Economic Outlook* (database); World Bank.

Note: e = estimate; f = forecast. ARG = Argentina; BRA = Brazil; CHL = Chile; COL = Colombia; EMBI = Emerging Market Bond index; LAC = Latin America and the Caribbean; MEX = Mexico; PER = Peru. RHS = right-hand side axis.

A. Period averages of annual GDP-weighted values. GDP weights are based on average real U.S. dollar GDP (at average 2010-19 prices and market exchange rates) for the period 2000-24. Data for 2022-30 are forecasts. Potential growth estimates are based on the production function approach. Country coverage for potential growth is based on data availability: South America includes Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Peru, Paraguay, and Uruguay. Mexico and Central America include Costa Rica, Guatemala, Honduras, Mexico, and Nicaragua. The Caribbean includes the Dominican Republic and Jamaica.

B. Red lines show one-year-ahead inflation expectations reported in the January 2025 *Global Economic Prospects* report. Yellow diamonds show the latest one-year-ahead inflation expectations based on Consensus Economics in May 2025. Blue bars denote inflation target ranges, which are set by the respective central banks.

C. Yellow diamonds denote the December 2024 policy rate minus the 2024 inflation expectation from Consensus Economics. Blue diamonds denote the 30-day rolling average of the one-year-ahead market-implied policy rate, using daily data from December 2024, minus the 2025 inflation expectation from Consensus Economics. Bars show the expected change in real interest rates from 2024 to 2025. Last observation is December 31, 2024.

D. Fiscal impulse is the annual change in the structural primary balance for 18 LAC economies, using data from the April 2025 IMF *World Economic Outlook* (database). A positive value indicates fiscal expansion, while a negative value indicates contraction. The structural primary balance refers to the general government structural balance excluding net interest costs.

However, maintaining credible fiscal consolidation efforts will yield growth dividends beyond the short term.

Mexico's growth forecast for this year has been downgraded markedly—by 1.3 percentage

points—relative to previous projections, reflecting the impact of higher U.S. tariffs and slower U.S. growth, owing to Mexico's close integration with the U.S. economy. Growth is projected to drop to 0.2 percent in 2025 and then firm to 1.5 percent on average in 2026-27. Uncertainty related to the review of the USMCA is expected to dampen investor confidence and exports. Given Mexico's strong linkages with the U.S. auto industry, manufacturing exports are expected to be hard-hit. Additionally, real interest rates, though decreasing, are likely to remain elevated, which, combined with a declining fiscal deficit, is expected to restrain domestic demand.

Argentina's economy is forecast to rebound this year, expanding 5.5 percent, following two years of recession. For 2026-27, growth is projected to average 4.3 percent. The recovery is expected to be driven mainly by developments in the agriculture, energy, and mining sectors. Growth will be supported by macroeconomic stabilization, the elimination of currency controls, and newly enacted business-friendly reforms, which should enhance consumer and investor confidence. As part of the stabilization process, disinflation is expected to lead to real income gains for households, further supporting the recovery. The government is expected to continue maintaining fiscal surpluses in line with the new IMF-supported policy program.

Colombia's growth is projected to firm to 2.5 percent in 2025 and 2.8 percent on average in 2026-27, driven by private consumption and a partial recovery in private investment, supported by easing monetary conditions as inflation continues to moderate. The forecast assumes that the authorities will stabilize public debt through credible measures to reduce large budget deficits. Still, persistent uncertainty surrounding structural economic policies is expected to continue weighing on investor confidence, posing risks to medium-term growth prospects.

Chile's economy is projected to grow 2.1 percent in 2025, and an average of 2.2 percent in 2026-27. Domestic demand is expected to strengthen gradually as inflation returns to the central bank's target by the second half of 2025. Mining investments will bolster growth in the medium term. Continuing external demand for copper and lithium, critical inputs into renewable-energy technologies, should support export performance, particularly strong demand from China's renewable technologies sector. This would partially offset the impact of weak growth in the Chinese real estate sector, which was traditionally the largest buyer of copper and other industrial metals.

Peru's growth is expected to moderate slightly—to 2.9 percent in 2025 and an average of 2.5 percent in 2026-27. The slowdown reflects waning private consumption growth, an increase in uncertainty regarding domestic policy, heightened global volatility, and fiscal consolidation amid greater moderation in government consumption. Like Chile, growth is nonetheless expected to be underpinned by sustained investment in the mining sector, particularly in copper production, and in infrastructure projects.

Growth in the Caribbean economies is projected to remain solid, reflecting Guyana's continuing oil boom, with aggregate GDP expanding by 3.9 percent in 2025 and 6.2 percent on average in 2026-27. Guyana's strong performance has significantly boosted the subregion's overall growth prospects despite international oil price volatility. Growth in the subregion excluding Guyana will moderate to 3 percent in 2025 and 3.3 percent on average in 2026-27, underpinned by tourism and other services activities. The Dominican Republic is forecast to grow by 4 percent in 2025 and by an average of 4.3 percent in 2026-27, as it benefits from structural reforms aimed at attracting foreign investment. Jamaica's growth is projected to be more tepid, at 1.7 percent on average over 2025-27, mainly supported by reconstruction efforts, but converging to its potential growth rate. Haiti's economic outlook remains fragile and highly uncertain amid persistent political instability and security challenges, with the economy expected to contract 2.2 percent in 2025.

Central America's economic growth is projected to be 3.3 percent in 2025 and to rise to an average of 3.7 percent in 2026-27, despite headwinds from weaker growth in the United States. Activity is expected to be primarily supported by services exports and improved consumption amid

gradually easing monetary policies across the subregion. Panama's growth is expected to rebound to 3.5 percent in 2025 and average 4.1 percent in 2026-27, bolstered by solid trade services growth related to the Panama Canal. Costa Rica's growth is projected to remain solid at 3.5 percent in 2025 and average 3.8 percent in 2026-27, supported by buoyant household consumption.

The estimated potential economic growth rate of LAC during 2011–21 was the lowest of all EMDE regions. Projected potential growth for the remainder of the 2020s implies a further slowdown amid declines in the growth rates of both total factor productivity and the labor force (figure 2.3.2.A; Kose and Ohnsorge 2023). While real wages have risen in most large countries amid tight labor markets, the challenge ahead will be to boost employment while raising comparatively low labor productivity. Although the region is projected to see only modest additions to its working-age population over the coming decades, some LAC economies are expected to see significant increases, compounding the jobs challenge.

Risks

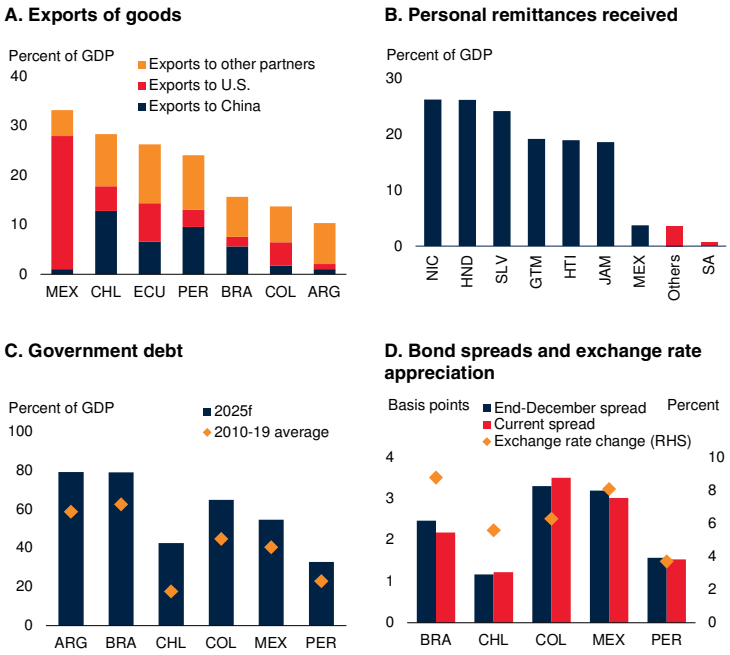
Risks are firmly tilted to the downside, reflecting the uncertain policy environment. Many of the identified risks, if they materialize, could have compounding effects. The direct effects of escalating trade barriers, the indirect dampening effects on export demand, and lower-than-expected commodity prices amid sluggish global growth could contribute to lower export revenue and undermine ongoing fiscal consolidation efforts in the region. The risks of weaker remittance flows is also a key obstacle to LAC's prospects.

Trade restrictions had been rising globally even before the increase in U.S. tariffs earlier this year, leaving growth in LAC vulnerable to downside risks from additional restrictive measures. For example, the USMCA contains a clause allowing for revisions in 2026, which could potentially trigger new protectionist actions and further weigh on Mexico's exports and economic outlook. The share of goods exports to GDP of Mexico, Chile, Ecuador, and Peru is between 25 and 35 percent, though exports from the latter three countries are much-more geographically diversified than Mexico's (figure 2.3.3.A). Additional trade measures would reduce growth by lowering demand for LAC's exports.

A sharper-than-expected slowdown in U.S. growth would significantly reduce demand for LAC countries' goods and services. Mexico is most vulnerable to a slowdown via its large manufacturing exports to the United States, which are part of tightly linked North American supply chains.

FIGURE 2.3.3 LAC: Risks

Downside risks to the outlook include a potential increase in trade tensions, which could dampen exports—particularly in Mexico, where exports to the U.S. alone comprise a large share of GDP. Lower global growth could affect remittance receipts, which are an important source of income, especially in Central America and the Caribbean. Lower growth could also make the needed fiscal consolidation more challenging, as LAC's major economies aim to lower government debt to levels closer to pre-pandemic averages. Although they are currently stable, bond spreads could increase if risk appetite weakens.



Sources: Haver Analytics; J.P. Morgan; UN Comtrade (database); World Bank.

Note: f = forecast. ARG = Argentina; BRA = Brazil; CHL = Chile; COL = Colombia; ECU = Ecuador; EMBI = Emerging Market Bond Index.; GTM = Guatemala; HND = Honduras; HTI = Haiti; JAM = Jamaica; MEX = Mexico; NIC = Nicaragua; SA = South America; SLV = El Salvador; PER = Peru.

A. Goods exports to the United States and China as a share of GDP. Last observation is 2023.

B. Bars show personal remittances received as a percentage of GDP in 2023. "Others" refers to other Central American and Caribbean countries not displayed individually in the figure.

C. General government gross debt as a percentage of GDP. Period averages of general government gross debt during 2010-19. Data for 2025 are projections.

D. EMBI bond spread and currency exchange rate in LAC countries. Exchange rate change refers to the nominal change in value against the U.S. dollar since end-2024. Last observation is May 19, 2025 for bond spreads and June 3, 2025 for exchange rates.

Activity in Central American and Caribbean economies would be affected, as these economies rely on the U.S. as a key market for their exports, particularly tourism and remittances. Remittance receipts could become less stable with slower U.S. growth or reduced employment opportunities for migrants: Labor markets in some LAC countries are already stretched as they integrate migrants from neighboring countries (World Bank 2025i). An erosion in the ability for migrants to transmit remittances could have additional negative impacts on incomes of remittance-receiving households; particularly in some Central American and Caribbean countries where remittances constitute about 20 percent of GDP (Figure 2.3.3.B). Aggregate spillover effects from the United States are significant, as declines in U.S. growth are generally associated with even larger growth declines in most EMDE economies (World Bank 2025h).

In many LAC economies—particularly those in South America—China is a key trading partner and commodity importer. If China's demand slowed, especially demand for metals, prices of industrial commodities such as copper could fall further (World Bank 2025d). This could dampen growth and fiscal revenues through lower demand for exports, particularly from Chile and Peru.

Fiscal positions have deteriorated since the decade before the pandemic, with increased debt burdens and higher borrowing costs (figure 2.3.3.C). While fiscal deficits across most LAC economies have narrowed since the pandemic's peak, they remain substantial. Should investors' concerns about the sustainability of these deficits increase amid tighter financial conditions, demand for government bonds issued by some governments in the region could fall. This could trigger further increases in borrowing costs, despite appreciating currencies amid an elevated current account deficit (figure 2.3.3.D). The resultant increase in debt-servicing costs could force more aggressive fiscal adjustments than currently planned, with contractionary effects on growth.

TABLE 2.3.1 Latin America and the Caribbean forecast summary

(Real GDP growth at market prices in percent, unless indicated otherwise)

	2022	2023	2024e	2025f	2026f	2027f	Percentage-point differences from January 2025 projections: 2025f	2026f
EMDE LAC, GDP [1]	**4.0**	**2.4**	**2.3**	**2.3**	**2.4**	**2.6**	**-0.2**	**-0.2**
GDP per capita (U.S. dollars)	3.3	1.7	1.6	1.5	1.7	2.0	-0.3	-0.2
(Average including countries that report expenditure components in national accounts)[2]								
EMDE LAC, GDP [2]	3.9	2.3	2.2	2.2	2.3	2.5	-0.3	-0.2
PPP GDP	4.0	2.3	2.1	2.2	2.3	2.5	-0.3	-0.2
Private consumption	5.1	2.6	2.8	2.6	2.5	2.7	0.3	0.0
Public consumption	2.3	2.9	0.8	1.7	1.5	1.2	0.6	0.3
Fixed investment	5.1	2.4	2.5	2.1	2.0	2.3	-1.2	-1.5
Exports, GNFS [3]	8.2	-0.4	4.3	0.2	2.2	2.7	-2.8	-1.2
Imports, GNFS [3]	8.0	0.3	4.5	1.9	2.2	2.6	-0.7	-1.1
Net exports, contribution to growth	-0.1	-0.2	-0.1	-0.4	-0.1	0.0	-0.4	-0.1
Memo items: GDP								
South America [4]	3.7	1.8	2.3	2.8	2.6	2.6	0.1	-0.1
Central America [5]	5.7	4.9	3.5	3.3	3.6	3.8	-0.2	0.1
Caribbean [6]	7.8	4.3	6.9	3.9	5.8	6.7	-0.7	0.6
Caribbean excluding Guyana	5.0	2.0	3.2	3.0	3.1	3.5	-0.5	-0.4
Brazil	3.0	3.2	3.4	2.4	2.2	2.3	0.2	-0.1
Mexico	3.7	3.3	1.5	0.2	1.1	1.8	-1.3	-0.5
Argentina	5.3	-1.6	-1.8	5.5	4.5	4.0	0.5	-0.2

Source: World Bank.

Note: e = estimate; f = forecast. EMDE = emerging market and developing economy; PPP = purchasing power parity. World Bank forecasts are frequently updated based on new information and changing (global) circumstances. Consequently, projections presented here may differ from those contained in other World Bank documents, even if basic assessments of countries' prospects do not differ at any given moment in time. The World Bank is currently not publishing economic output, income, or growth data for República Bolivariana de Venezuela owing to a lack of reliable data of adequate quality. República Bolivariana de Venezuela is excluded from cross-country macroeconomic aggregates.

1. GDP and expenditure components are measured in average 2010-19 prices and market exchange rates.
2. Aggregate includes all countries in notes 4, 5, and 6, plus Mexico, but excludes Antigua and Barbuda, Barbados, Dominica, Grenada, Guyana, Haiti, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, and Suriname.
3. Exports and imports of goods and nonfactor services (GNFS).
4. Includes Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Paraguay, Peru, and Uruguay.
5. Includes Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and Panama.
6. Includes Antigua and Barbuda, The Bahamas, Barbados, Belize, Dominica, the Dominican Republic, Grenada, Guyana, Haiti, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, and Trinidad and Tobago.

TABLE 2.3.2 Latin America and the Caribbean country forecasts [1]

(Real GDP growth at market prices in percent, unless indicated otherwise)

	2022	2023	2024e	2025f	2026f	2027f	Percentage-point differences from January 2025 projections: 2025f	2026f
Argentina	5.3	-1.6	-1.8	5.5	4.5	4.0	0.5	-0.2
Bahamas, The	10.8	2.6	1.9	1.1	1.2	1.3	-0.7	-0.4
Barbados	17.8	4.1	3.8	2.8	2.0	1.7	0.0	-0.3
Belize	9.4	1.1	8.2	2.8	2.4	2.3	1.6	1.9
Bolivia	3.6	3.1	1.4	1.2	1.1	1.1	-0.3	-0.4
Brazil	3.0	3.2	3.4	2.4	2.2	2.3	0.2	-0.1
Chile	2.2	0.5	2.6	2.1	2.2	2.1	-0.1	0.0
Colombia	7.3	0.7	1.6	2.5	2.7	2.9	-0.5	-0.2
Costa Rica	4.6	5.1	4.3	3.5	3.7	3.8	0.0	0.3
Dominica	5.6	4.7	4.6	4.3	3.4	2.8	0.1	0.2
Dominican Republic	5.2	2.2	5.0	4.0	4.2	4.4	-0.7	-0.8
Ecuador	5.9	2.0	-2.5	1.9	2.0	2.1	-0.1	-0.2
El Salvador	3.0	3.5	2.6	2.2	2.4	2.9	-0.5	-0.1
Grenada	7.3	4.7	3.7	3.8	3.4	2.7	0.0	0.0
Guatemala	4.2	3.5	3.7	3.5	3.8	3.8	-0.5	-0.2
Guyana	63.3	33.8	43.4	10.0	23.0	24.3	-2.3	7.3
Haiti [2]	-1.7	-1.9	-4.2	-2.2	2.0	2.5	-2.7	0.5
Honduras	4.1	3.6	3.6	2.8	3.4	3.7	-0.8	-0.2
Jamaica	5.2	2.6	-0.7	1.7	1.7	1.6	-0.5	0.1
Mexico	3.7	3.3	1.5	0.2	1.1	1.8	-1.3	-0.5
Nicaragua	3.8	4.6	3.6	3.4	3.3	3.3	-0.1	-0.3
Panama	10.8	7.4	2.9	3.5	3.8	4.3	0.5	0.3
Paraguay	0.2	5.0	4.2	3.7	3.6	3.6	0.1	0.0
Peru	2.8	-0.4	3.3	2.9	2.5	2.5	0.4	0.0
St. Lucia	20.4	2.2	3.7	2.8	2.3	1.9	0.0	0.0
St. Vincent and the Grenadines	5.0	5.8	4.5	4.9	2.9	2.7	1.4	0.0
Suriname	2.4	2.5	2.8	3.1	3.3	3.5	0.1	0.2
Trinidad and Tobago [3]	1.1	1.4	1.7	2.8	1.3	3.2	0.5	0.4
Uruguay	4.5	0.7	3.1	2.3	2.2	2.2	-0.3	-0.4

Source: World Bank.
Note: e = estimate; f = forecast. World Bank forecasts are frequently updated based on new information and changing (global) circumstances. Consequently, projections presented here may differ from those contained in other World Bank documents, even if basic assessments of countries' prospects do not significantly differ at any given moment in time.
1. Data are based on GDP measured in average 2010-19 prices and market exchange rates.
2. GDP is based on fiscal year, which runs from October to September of next year.
3. Percentage point differences are relative to the World Bank's October 2024 forecast. The January 2025 *Global Economic Prospects* did not include forecast for Trinidad and Tobago.

MIDDLE EAST and NORTH AFRICA

Growth in the Middle East and North Africa (MNA) region is projected to strengthen to 2.7 percent in 2025 and average 3.9 percent in 2026-27, mainly due to an expansion of oil activity in oil exporters, which more than offsets the adverse effects of weakening external demand and lower oil prices. Growth in oil importers is also expected to rise, reflecting an assumed stabilization of armed conflicts in the region and waning inflationary pressures. Despite firming activity, growth forecasts for MNA this year and next have been downgraded from January projections amid a rise in trade barriers. Moreover, weaker growth prospects will exacerbate the region's looming jobs challenge, hindering the job creation needed to keep pace with rapidly expanding working-age populations. Downside risks to the outlook stem from the possibility that global trade tensions escalate further, policy uncertainty remains elevated, or global financial conditions deteriorate, possibly driven by higher global inflation. Also, lower-than-expected oil prices could adversely affect growth and fiscal revenue prospects in oil exporters, while a re-escalation of armed conflicts in the region could increase uncertainty and dampen growth.

Recent developments

Despite the rise in global trade tensions and heightened uncertainty, activity in MNA has strengthened, partly reflecting increased oil production and easing geopolitical tensions in the region. In oil exporters, oil activity is recovering following the April 2025 announcement of the phase-out of the voluntary oil production cuts by member countries of the Organization of the Petroleum Exporting Countries and other affiliated oil producers (OPEC+). Growth of non-oil activity in oil exporters has been resilient, particularly in the manufacturing and services sectors (figure 2.4.1.A).

In oil importers, growth of private sector activity, particularly industrial production, resumed in 2024, partly owing to reduced political tensions and macroeconomic stabilization in several economies, including the Arab Republic of Egypt (figure 2.4.1.B). Industrial activity, particularly in construction, has strengthened in Morocco, accompanied by a recovery in domestic demand. In contrast, activity in West Bank and Gaza has been devastated, with significant destruction of physical capital and massive humanitarian costs in Gaza, as well as heightened tensions in West Bank.

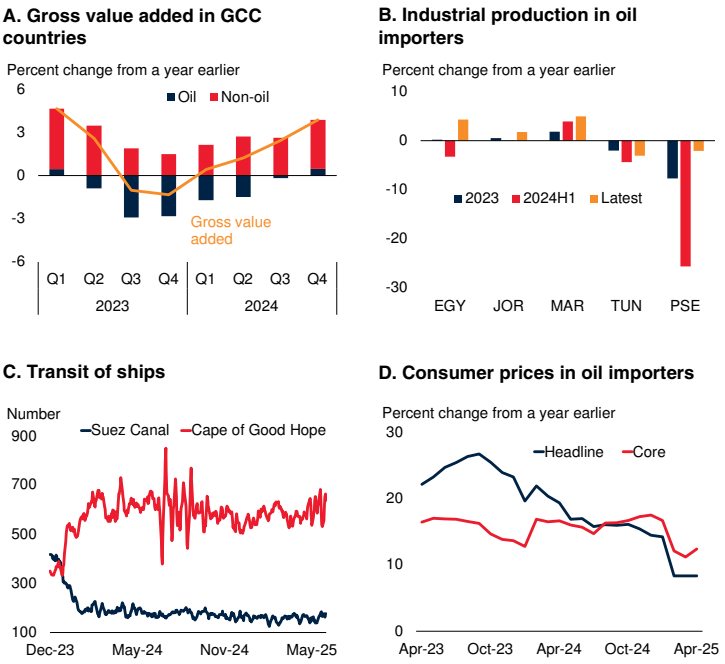
Geopolitical tensions in the Middle East moderated somewhat following ceasefires in late 2024 and early 2025 involving Israel, Lebanon, and West Bank and Gaza. However, violence has resumed in Gaza and Lebanon, and the situation remains highly fragile and uncertain. Tensions have remained high in other countries in fragile and conflict-affected situations (FCS). In the Syrian Arab Republic, the fragile situation has continued since the regime change last December. Transit of ships through the Suez Canal has remained limited by security concerns in the Republic of Yemen (figure 2.4.1.C).

The external positions of member countries of the Gulf Cooperation Council (GCC) have remained resilient. Growth of non-oil merchandise and services exports, including transportation and tourism, has been robust, mitigating the impact of reduced oil production on current accounts. A worsening of goods trade balances has heightened external sector pressures in non-GCC oil export-

Note: This section was prepared by Naotaka Sugawara.

FIGURE 2.4.1 MNA: Recent developments

Economic activity has been recovering in oil exporters, mainly reflecting a gradual increase in oil production with a phase-out of voluntary oil production cuts by major producers. In oil importers, growth in industrial production has strengthened, partly because of moderating political tensions and stabilizing macroeconomic conditions, and inflation has continued to decline. With the security situation in the Middle East remaining highly fragile, transit through the Suez Canal has remained low by historical standards.



Sources: Bloomberg; Haver Analytics; World Bank.

Note: EGY = Arab Republic of Egypt; FCS = fragile and conflict-affected situations; GCC = Gulf Cooperation Council; JOR = Jordan; MAR = Morocco; MNA = Middle East and North Africa; PSE = West Bank and Gaza; TUN = Tunisia.

A. Percent change in non-seasonally adjusted real output (gross value added) from a year earlier and contributions of respective components. Aggregates are calculated as weighted averages using value added at 2019 prices and market exchange rates as weights. Sample includes up to six countries.

B. Percent change in non-seasonally adjusted industrial production (or manufacturing production in the case of Morocco) from a year earlier. Latest refers to: March 2025 for the Arab Republic of Egypt, Jordan, and West Bank and Gaza; December 2024 for Tunisia; and 2024Q4 for Morocco.

C. The number of commercial ships—including container ships, bulk carriers, and tankers—that transit the Suez Canal and the Cape of Good Hope. Data are shown as a 7-day rolling sum. Last observation is May 30, 2025.

D. Percent change in non-seasonally adjusted headline and core consumer prices from a year earlier. Aggregates are calculated as weighted averages using nominal GDP in U.S. dollars as weights. Sample includes up to five oil importers excluding FCS countries. Last observation is April 2025.

ers, particularly those implementing OPEC+ production adjustments, including Algeria and Iraq. In oil importers, external pressures have eased, partly reflecting recoveries in tourism, spurred in part by moderating regional tensions. Foreign exchange reserves in Egypt have continued to rise, supported by a one-off large-scale investment deal with the United Arab Emirates, in addition to international financing. However, external accounts have continued to face pressure, as evidenced by the weak foreign asset position of commercial banks. In addition, the increases in U.S. import tariff rates announced in early April have raised uncertainty about prospects for exports from the region.

Inflation has remained well-contained in GCC countries, partly aided by their fixed exchange rate regimes. Headline and core inflation have eased in non-GCC oil exporters, primarily because of tight monetary policies, albeit with still-elevated price pressures, in the Islamic Republic of Iran. In oil importers, headline inflation has declined, while core inflation has remained persistent, keeping policy rates elevated (figure 2.4.1.D).

Outlook

Growth in MNA is expected to pick up to 2.7 percent in 2025 and strengthen further to 3.7 percent in 2026 and 4.1 percent in 2027. This primarily reflects a gradual expansion of oil production more than offsetting the effects of lower oil prices and weaker global demand, and despite the constraints on export activity from rising trade barriers (figure 2.4.2.A; table 2.4.1). Projected growth rates for 2025 and 2026 have been downgraded by 0.7 and 0.4 percentage point, respectively, from January projections, mainly due to the impact of increased trade restrictions and uncertainty on investment and export activity in the region, and for 2026, an expected delay in the start of reconstruction in West Bank and Gaza. Growth forecasts for 2025 or fiscal year (FY) 2025/26 have been downgraded in more than half of the countries.

The growth projections assume a continuation of the ceasefire agreement in Lebanon, and a resumption of truce involving West Bank and Gaza, as well as political stability in Syria, but there is considerable uncertainty surrounding these assumptions. The outlook also assumes that the tariffs in place in late May will prevail for the rest of the forecast horizon, with crude oil, natural gas, and refined products exempted from these tariffs.

Growth in GCC countries is forecast to increase to 3.2 percent in 2025, 4.5 percent in 2026, and 4.8 percent in 2027. The phase-out of OPEC+ oil production cuts starting in April 2025 is expected to lead to rising oil production, despite projected lower oil prices amid weakening global demand. Growth is also anticipated to continue to be boosted by expanding non-oil activity, particularly in the manufacturing, construction, and services sectors, in several economies, including Bahrain, Kuwait, Oman, and the United Arab Emirates. In Saudi Arabia, growth is set to increase to 2.8 percent this year, reflecting a gradual expansion of oil production (table 2.4.2). However, the forecast for 2025 has been downgraded by 0.6 percentage point, mainly because of expected lower oil prices and fiscal revenues leading to lower export proceeds, as well as heightened uncertainty curbing investment.

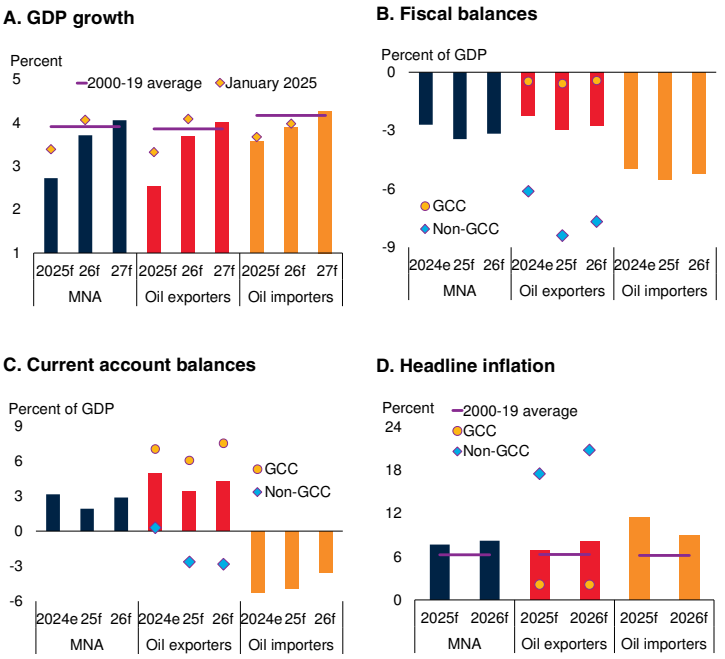
Among the oil exporters outside the GCC, GDP in the Islamic Republic of Iran is projected to contract by 0.5 percent in FY2025/26 (late-March 2025 to late-March 2026) and then increase at a subdued rate of 1.1 percent a year, on average, in the next two fiscal years. The outlook is weaker than in January, partly reflecting reduced oil demand from China, energy shortages, and elevated uncertainty constraining non-oil activity. Growth in Algeria is forecast to slow in 2025, mainly because of weaker public investment driven by lower oil prices and revenues, despite a production increase (World Bank 2025j). An expected adjustment in oil production—compensating for past over-production—and slower growth in non-oil activity are projected to moderate a rebound in activity in Iraq this year. In Libya, stronger growth in 2025 will be driven by an expansion of oil production and oil-related investments, assuming the maintenance of political stability.

In oil importers, growth is projected to pick up to 3.6 percent in 2025, 3.9 percent in 2026, and 4.3 percent in 2027, mostly owing to strengthening private consumption as inflation softens, a recovery in agricultural output, and assumed moderation of geopolitical tensions. In Egypt, growth is expected to inch up from 3.8 percent in FY2024/25 (July 2024 to June 2025) to 4.2 percent in FY2025/26 and 4.6 percent in FY2026/27, reflecting stronger private consumption, higher private investment—spurred by the implementation of the investment deal with the United Arab Emirates and anticipated monetary easing—and a gradual rebound in manufacturing activity. Growth in Jordan is projected to pick up over the forecast horizon, benefiting from expected greater stability in the region.

Growth in Morocco and Tunisia is expected to pick up to 3.6 percent and 1.9 percent, respectively, in 2025, assuming an improvement in weather conditions that allows a recovery in agricultural production (Cali et al. 2025). Industrial activity is set to weaken in Morocco, partly reflecting lower

FIGURE 2.4.2 MNA: Outlook

Growth in MNA is expected to strengthen to 2.7 percent in 2025 and to an average of 3.9 percent in 2026-27, driven mainly by a gradual expansion in oil production by oil exporters. In oil importers, growth is also expected to increase, supported partly by moderating inflation stimulating private consumption, even though fiscal policies are expected to become contractionary. Lower oil prices will contribute to a decline in current account deficits in oil importers but shrink surpluses in oil exporters.



Source: World Bank.
Note: e = estimate; f = forecast. GCC = Gulf Cooperation Council; MNA = Middle East and North Africa.
A. Aggregates are calculated as weighted averages using GDP at average 2010-19 prices and market exchange rates as weights. Diamonds for January 2025 refer to data presented in the January 2025 edition of the *Global Economic Prospects* report.
B.-D. Aggregates are calculated as weighted averages using nominal GDP in U.S. dollars as weights.

phosphate prices amid reduced external demand. In Djibouti, growth is projected to soften to a still-healthy 5.1 percent a year, on average, over the forecast period, fueled by port activity, export earnings, and major foreign investments in port infrastructure development.

In Lebanon, growth is projected to reach 4.7 percent this year, reflecting a rebound in tourism, a recovery in private sector activity, and a gradual increase in capital inflows, assuming the truce holds. In West Bank and Gaza, growth is expected to strengthen to 4 percent in 2026 and 16 percent in 2027 after a contraction of 1.6 percent in 2025, assuming reconstruction starts in 2026. Compared to previous projections, growth in 2026 has been downgraded by 12.5 percentage points, reflecting the recent resumption of violence, the lingering effects of the massive destruction of fixed assets in Gaza and mobility restrictions in West Bank, and resulting delays in expected reconstruction activity. In these two economies, the costs of recovery and reconstruction from the conflict are expected to be heightened (World Bank 2025k, 2025l). In Syria, activity is forecast to expand this year after two years of negative growth, mainly reflecting the improvement of foreign relations with major economies. In contrast, given the security situation, GDP in the Republic of Yemen is projected to contract again this year (World Bank 2025m).

Fiscal deficits in GCC countries are expected to widen in 2025, with declines in revenue stemming from lower global oil prices outweighing reductions in expenditure. In 2026, oil revenues are projected to increase, but deficits are anticipated to remain, partly owing to spending pressures, including in Saudi Arabia. Fiscal deficits in non-GCC oil exporters are forecast to deteriorate, mainly reflecting the effect of lower oil prices on revenues. In Libya, larger oil receipts, due to production expansion, are expected to improve fiscal balances. Fiscal deficits in oil importers are projected to widen in 2025, partly because of Egypt's higher interest payments and decline in non-tax revenues after a significant one-time increase from the investment deal with the United Arab Emirates. Fiscal policies in other oil importers, including Djibouti, Jordan, Morocco, and Tunisia, are expected to be contractionary this year. In 2026, deficits in oil importers are projected to decline slightly, as fiscal consolidation proceeds in Egypt in FY2025/26, by implementing a reduction in energy subsidies and enhancing tax revenue mobilization efforts.

GCC countries' current account surpluses are projected to shrink this year, with downward pressures on oil export receipts due to lower global oil prices (figure 2.4.2.C). In non-GCC oil exporters, current account balances are expected to deteriorate, mainly reflecting lower oil prices and a slowdown in oil exports, with increases in imports in Algeria and Iraq. In several oil importers, including Jordan, recoveries in tourism are expected to contribute to a shrinking of current account deficits, but in Morocco, increasing domestic demand is expected to contribute to a widening of its deficit. In Egypt, the current account deficit is forecast to narrow in FY2025/26, partly reflecting lower oil and natural gas prices, sustained strong remittances, and a vibrant tourism sector. Additionally, the non-oil trade deficit is likely to decrease as the effects of clearing import backlogs from FY2024/25 subside.

Inflation in GCC countries is projected to remain contained (figure 2.4.2.D). In contrast, it is expected to rise in non-GCC oil exporters, including the Islamic Republic of Iran, where rising fiscal and currency pressures are forecast to translate into rising prices. In oil importers, inflation is anticipated to decline further, allowing central banks to lower interest rates in several of them, supporting activity.

In oil importers, per capita income growth is projected to rise to 2.3 percent in 2025 and 2.8 percent a year, on average, in 2026-27, but the expected pace of growth is mixed across the group. Poverty rates will then increase this year in oil importers, particularly in FCS countries, including Syria and West Bank and Gaza. Poverty is also expected to remain elevated in Egypt, partly owing to persistent, though reduced, inflation, especially for food. Over 2026-27, poverty is forecast to decline gradually in oil importers, as per capita growth strengthens and inflationary pressures moderate.

Progress in reducing poverty will remain challenging in the longer term, absent structural reforms to lift growth and reduce labor market bottlenecks, especially in the context of a growing jobs challenge. In several economies, including Algeria, Egypt, Morocco, and Tunisia, expected average annual growth in the working-age population over the forecast horizon exceeds the average annual employment growth seen over 2010-19.

Risks

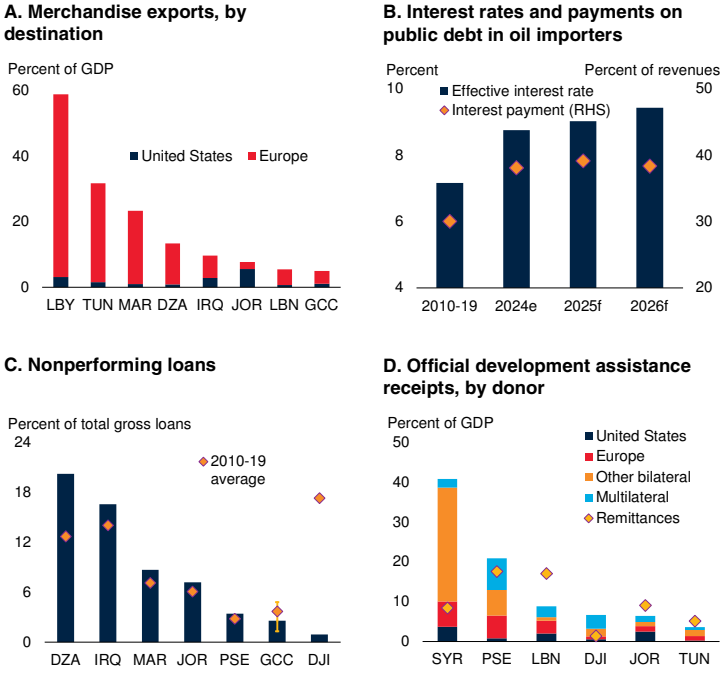
Risks to the outlook are tilted to the downside. The possibility of an intensification of trade protectionist measures by the region's trading partners remains a key risk. Heightened uncertainty regarding global trade policies, if sustained for an extended period, could also dampen business confidence, reducing investment in the region. Tighter-than-expected monetary policies due to stronger global inflationary pressures could raise borrowing costs and lead to capital outflows and currency depreciations. In oil exporters, declines in oil prices beyond what is embedded in the baseline could reduce fiscal revenues and growth prospects. A re-escalation of armed conflicts in the region, as well as surges in domestic violence and social unrest, along with more frequent and severe natural disasters could also dampen activity in the region.

Unexpected shifts in global trade policy, particularly intensified protectionist measures by trading partners, including Europe and the United States, could not only have direct effects on the region's exports—especially in oil importers—but also could have severe indirect effects on the region's economies through reduced external demand, affecting oil exporters as well. In most economies in the region, the direct impact of U.S. trade policy shifts is likely to be limited, given the small shares of exports to that country (figure 2.4.3.A). However, the intensification of protectionist policies against major export destinations, specifically in Europe, could indirectly damage economic activity in the region.

The recently heightened level of global economic policy uncertainty could reduce activity, including investment, in the region. Elevated uncertainty, especially if it is sustained for a longer period, could dampen business sentiment, resulting in reduced foreign investment in the region and increasing borrowing costs. In addition, increased trade policy uncertainty, such as the lack of clarity in future global trade arrangements, could lead to higher producer prices, as firms may raise prices to protect their profits amid reduced demand and

FIGURE 2.4.3 MNA: Risks

While the increase in U.S. tariffs may have limited direct effects on most economies in the region, they could be indirectly affected through lower growth of global trade and output, highlighting the possible impact of a further escalation in trade barriers. Heightened policy uncertainty could reduce investor confidence, raising borrowing costs, particularly in oil importers, where interest rates are already expected to remain high. The impact of tightening financial conditions could be exacerbated in economies with already high financial sector vulnerabilities, including bank balance sheets burdened by extensive non-performing loans. As foreign aid has been critical in fragile economies, further reductions in assistance could significantly worsen the situation in these economies.



Sources: International Monetary Fund; Organisation for Economic Co-operation and Development; United Nations Conference on Trade and Development; World Bank.

Note: e = estimate; f = forecast. DJI = Djibouti; DZA = Algeria; GCC = Gulf Cooperation Council; IRQ = Iraq; JOR = Jordan; LBN = Lebanon; LBY = Libya; MAR = Morocco; MNA = Middle East and North Africa; PSE = West Bank and Gaza; SYR = Syrian Arab Republic; TUN = Tunisia. Europe includes members of the European Union and the European Free Trade Association, European microstates, the United Kingdom, and their dependent territories.

A. Merchandise exports to the United States and Europe as a percent of GDP in 2024.

B. The effective interest rate is computed as interest payment divided by the average of government debt at the end of the current and previous years. Aggregates are calculated as weighted averages using nominal GDP in U.S. dollars (for the effective interest rate) and government revenues in U.S. dollars (for interest payment) as weights.

C. Blue bars are for the latest period with data: 2024Q4 for Iraq; 2024Q3 for GCC and Jordan; 2024Q2 for Djibouti and West Bank and Gaza; 2022Q4 for Morocco; and 2022 for Algeria. Data for GCC are computed as simple averages of data for Kuwait, Saudi Arabia, and the United Arab Emirates; a vertical yellow line shows the minimum-maximum range.

D. Gross official development assistance from donors, and receipts of remittances, as a percent of GDP in 2023.

heightened uncertainty. It could subsequently bring about increases in consumer prices and inflation expectations.

Global inflationary pressures could be higher, possibly triggered by price impacts of the rising trade restrictions and damage to global supply. A bout of higher inflation could pose substantial challenges to central banks and force a slower-than-expected pace of monetary policy easing, especially if inflation expectations show signs of de-anchoring. The resulting higher borrowing costs would weigh on private consumption and investment and also raise costs to service public debt, particularly in oil importers, whose debt-servicing burdens are projected to remain heavy (figure 2.4.3.B).

Tightening financial conditions, or weaker confidence, could also trigger capital outflows, particularly from countries in the region with weak and vulnerable financial sectors (figure 2.4.3.C). External financing needs remain large in several economies, and reduced access to foreign borrowing could dampen activity. In economies with constrained fiscal positions, further deteriorations of financial conditions could amplify macroeconomic vulnerabilities, raising inflation expectations.

In oil exporters, further declines in oil prices—resulting, for instance, from weaker global growth—and weaker demand from major export destinations, including China, could increase fiscal pressures and diminish growth prospects. While the phase-out of oil production cuts by OPEC+ members will benefit growth in oil exporters, lower oil prices could lessen the positive effects, including on revenue collection. If faced with a decline in oil revenues, several oil exporters—including the GCC countries—particularly those more dependent on oil, might need to tighten fiscal policy, which would weaken growth and slow economic diversification efforts. In contrast, lower oil prices could mitigate fiscal and external pressures in oil importers. However, such benefits could be partially offset by lower remittances, as the GCC countries are major destinations of workers in most oil importers (Gatti et al. 2025).

A re-escalation of armed conflicts, including in West Bank and Gaza, and of attacks in the Red Sea, could worsen consumer and business sentiment, particularly in neighboring economies. It could also trigger a wider increase in policy uncertainty and a tightening of financial conditions, dampening investment and overall activity. Heightened levels of domestic violence and social unrest could weigh on productivity and investment, particularly in FCS economies, and also worsen food insecurity in these economies and undermine economic development. In FCS economies, official aid from donor countries and institutions tends to be larger than remittance inflows and has been critical in reducing poverty and accelerating growth and development (figure 2.4.3.D). Further shrinkage of such assistance could amplify the risks of growth slowdown and stalled poverty reduction.

Many economies in the region are prone to severe weather events, including extreme heat, droughts, and floods, which could lower the growth of output and productivity. Drought conditions could acutely affect economies with large agricultural sectors, including Morocco and Tunisia, worsening living standards and increasing poverty (World Bank 2025n). More frequent and widespread severe weather events could also cause food price spikes and exacerbate poverty and food insecurity. They could displace workers and reduce employment opportunities, while disruptions to schooling due to such events could impair learning, diminishing human capital over the long run. Other natural disasters, including earthquakes, could also cause massive and lingering humanitarian and physical capital losses, particularly in economies with limited fiscal and institutional capacity to maintain infrastructure.

TABLE 2.4.1 Middle East and North Africa forecast summary

(Real GDP growth at market prices in percent, unless indicated otherwise)

	2022	2023	2024e	2025f	2026f	2027f	Percentage-point differences from January 2025 projections 2025f	2026f
EMDE MNA, GDP[1]	**5.4**	**1.6**	**1.9**	**2.7**	**3.7**	**4.1**	**-0.7**	**-0.4**
GDP per capita (U.S. dollars)	3.7	-0.2	0.3	1.3	2.4	2.7	-0.7	-0.3
(Average including countries that report expenditure components in national accounts)[2]								
EMDE MNA, GDP[2]	5.5	1.6	1.9	2.7	3.7	4.1	-0.7	-0.4
PPP GDP	5.3	1.9	2.1	2.7	3.6	3.9	-0.7	-0.4
Private consumption	4.8	4.6	4.5	3.8	3.5	3.4	0.1	-0.2
Public consumption	3.8	3.4	3.1	2.9	2.8	2.9	-0.2	0.1
Fixed investment	7.6	2.9	2.6	1.1	4.0	4.6	-3.4	-1.0
Exports, GNFS	12.0	1.4	1.1	3.7	6.3	6.1	-1.4	1.1
Imports, GNFS	9.7	6.3	6.6	4.5	5.8	5.5	-0.7	0.9
Net exports, contribution to growth	2.0	-1.5	-1.9	0.0	0.7	0.7	-0.3	0.2
Memo items: GDP								
Oil exporters[3]	5.8	1.3	1.9	2.5	3.7	4.0	-0.8	-0.4
GCC countries[4]	7.0	0.4	1.8	3.2	4.5	4.8	-0.1	-0.1
Non-GCC oil exporters[5]	3.5	3.1	1.9	1.3	2.2	2.5	-2.1	-0.8
Oil importers[6]	4.0	2.7	2.3	3.6	3.9	4.3	-0.1	-0.1

Source: World Bank.

Note: e = estimate; f = forecast. EMDE = emerging market and developing economy; GCC = Gulf Cooperation Council; GNFS = goods and non-factor services; MNA = Middle East and North Africa; PPP = purchasing power parity. World Bank forecasts are frequently updated based on new information and changing (global) circumstances. Consequently, projections presented here may differ from those contained in other World Bank documents, even if basic assessments of countries' prospects do not differ at any given moment in time.

1. GDP and expenditure components are measured in average 2010-19 prices and market exchange rates. Excludes Lebanon, the Syrian Arab Republic, and the Republic of Yemen as a result of the high degree of uncertainty.
2. Aggregate includes all economies in notes 3 and 6 except Jordan, for which data limitations prevent the forecasting of GDP components.
3. Algeria, Bahrain, the Islamic Republic of Iran, Iraq, Kuwait, Libya, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.
4. Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.
5. Algeria, the Islamic Republic of Iran, Iraq, and Libya.
6. Djibouti, the Arab Republic of Egypt, Jordan, Morocco, Tunisia, and West Bank and Gaza.

TABLE 2.4.2 Middle East and North Africa economy forecasts[1]

(Real GDP growth at market prices in percent, unless indicated otherwise)

	2022	2023	2024e	2025f	2026f	2027f	Percentage-point differences from January 2025 projections 2025f	2026f
Calendar year basis								
Algeria	3.6	4.1	3.6	3.3	3.2	2.9	-0.1	-0.1
Bahrain	6.2	3.9	3.0	3.5	3.0	2.8	0.2	-0.3
Djibouti	3.7	6.7	6.0	5.2	5.1	5.0	-0.1	0.2
Iraq[1]	8.0	0.5	-1.5	1.2	4.4	3.1	-2.3	1.4
Jordan	2.6	2.7	2.5	2.4	2.5	2.8	-0.2	-0.1
Kuwait	6.3	-3.6	-2.9	2.2	2.7	2.7	0.5	0.6
Lebanon[2]	-0.6	-0.8	-7.1	4.7	..	..	..	..
Libya	-8.3	10.2	-2.9	12.3	6.4	5.6	2.7	-2.0
Morocco	1.5	3.4	3.2	3.6	3.5	3.6	-0.3	0.1
Oman	8.0	1.2	1.7	3.0	3.7	4.0	0.6	0.9
Qatar	4.2	1.4	2.6	2.4	5.4	7.6	-0.3	-0.1
Saudi Arabia	7.5	-0.8	1.3	2.8	4.5	4.6	-0.6	-0.9
Syrian Arab Republic[2]	0.7	-1.2	-1.5	1.0	..	..	2.0	..
Tunisia	2.7	0.0	1.4	1.9	1.6	1.7	-0.3	-0.7
United Arab Emirates	7.6	2.9	3.9	4.6	4.9	4.9	0.6	0.8
West Bank and Gaza	4.1	-4.6	-26.6	-1.6	4.0	16.0	-6.3	-12.5
Yemen, Rep.[2]	1.5	-2.0	-1.5	-1.5	0.5	..	-3.0	..
Fiscal year basis[3]	**2022/23**	**2023/24**	**2024/25e**	**2025/26f**	**2026/27f**	**2027/28f**	**2025/26f**	**2026/27f**
Iran, Islamic Rep.	3.8	5.0	3.0	-0.5	0.3	1.8	-3.2	-1.9
	2021/22	**2022/23**	**2023/24**	**2024/25e**	**2025/26f**	**2026/27f**	**2024/25e**	**2025/26f**
Egypt, Arab Rep.	6.6	3.8	2.4	3.8	4.2	4.6	0.3	0.0

Source: World Bank.

Note: e = estimate; f = forecast. World Bank forecasts are frequently updated based on new information and changing (global) circumstances. Consequently, projections presented here may differ from those contained in other World Bank documents, even if basic assessments of economies' prospects do not significantly differ at any given moment in time.

1. Data are reported on a factor cost basis.

2. Forecasts for Lebanon (beyond 2025), the Syrian Arab Republic (beyond 2025), and the Republic of Yemen (beyond 2026) are excluded because of a high degree of uncertainty. Forecasts for Lebanon (2025) and the Republic of Yemen (2026) were not included in January 2025 *Global Economic Prospects*; therefore, the differences from January 2025 projection are not computed.

3. The fiscal year runs from March 21 to March 20 in the Islamic Republic of Iran, and from July 1 to June 30 in the Arab Republic of Egypt.

SOUTH ASIA

Although growth in South Asia (SAR) is projected to remain the fastest among the emerging market and developing economy regions, regional prospects are dimming alongside a rise in global trade barriers and elevated uncertainty. Growth is expected to moderate to 5.8 percent in 2025, and then average 6.2 percent in 2026-27, remaining below the pre-pandemic average and limiting the scope to spur a rapid expansion in jobs. Regional per capita income growth is anticipated to average 5 percent over the forecast period; however, excluding India, the pace is projected to be far more tepid, implying weak progress in poverty reduction and per capita income catch-up gains. Risks to the growth outlook are tilted to the downside, with intensified trade barriers and heightened global policy uncertainty representing the most pressing risks. Other downside risks include a tightening of global financial conditions—driven either by unexpectedly higher global inflation or a decline in global risk appetite—instability in the financial sector, surges in violence and social unrest, further declines in official aid, and extreme weather events.

Recent developments

After an unexpectedly weak outturn of 6 percent in 2024, activity in SAR is decelerating amid rising global trade barriers, heightened policy uncertainty, and financial market volatility. In India, growth moderated, reflecting a slowdown in investment on the demand side and a deceleration in industrial output growth on the supply side (figure 2.5.1.A). However, growth in construction and services activity remained steady, and agricultural output recovered from earlier severe drought conditions, supported by resilient demand in rural areas.

Growth in SAR excluding India has generally firmed. In Pakistan, growth is estimated to have inched up to 2.7 percent in FY2024/25 (July 2024 to June 2025), from 2.5 percent in the previous fiscal year, with modest expansions in both agricultural production and industrial output. In several countries, including Bhutan, Maldives, and Sri Lanka, the tourism sector performed strongly in early 2025. Industrial output growth rebounded in Sri Lanka in 2024, backed by increasing construction activity, while hydropower production in Bhutan gained steam, boosting cross-border sales and revenues. In Nepal, manufacturing production benefited from increased hydroelectricity generation.

However, in Bangladesh, growth is estimated to have slowed to 3.3 percent in FY2024/25 (July 2024 to June 2025), mainly reflecting the adverse effects of political turmoil in 2024. Heightened uncertainty and increased input costs impeded private investment, while industrial output declined due to a slowdown in imports of capital goods.

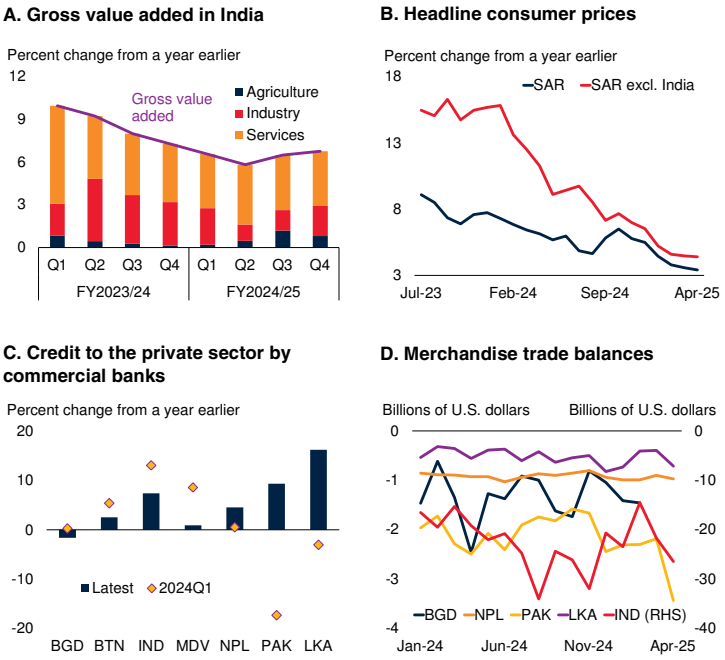
Inflation in the region, on average, has declined gradually (figure 2.5.1.B). Headline inflation has recently been within central banks' target ranges or below the targets in most economies, allowing for policy interest rate cuts. In India, the policy rate, which had remained unchanged since early 2023, was lowered in early 2025. In Pakistan, headline inflation fell below 2 percent in early 2025, while Sri Lanka has experienced deflation since September 2024. However, in Bangladesh, headline inflation has remained persistently above target, even after several increases in interest rates last year.

Expansion of private sector credit by commercial banks has slowed in India, mainly reflecting the

Note: This section was prepared by Naotaka Sugawara.

FIGURE 2.5.1 SAR: Recent developments

Activity has moderated in India—South Asia's largest economy—largely reflecting a slowdown in industrial production, offsetting steady services activity and the recovery in agricultural output. Inflation has declined in the region since early 2023, to rates within or below official target ranges in most countries. Although credit growth has weakened in most countries in the region, it strengthened in Pakistan and Sri Lanka as these economies recovered from earlier downturns. Goods trade balances have worsened in several countries, in part reflecting a rise in trade barriers.



Sources: Haver Analytics; World Bank.

Note: BGD = Bangladesh; BTN = Bhutan; IND = India; LKA = Sri Lanka; MDV = Maldives; NPL = Nepal; PAK = Pakistan; SAR = South Asia.

A. Percent change in non-seasonally adjusted real output (gross value added) from a year earlier and contributions of respective components.

B. Percent change in headline consumer price index from a year earlier. Aggregates are calculated as weighted averages, using nominal GDP in U.S. dollars as weights. Last observation is April 2025. Sample includes up to eight countries.

C. Percent change in non-seasonally adjusted real credit to the private sector from a year earlier. Price levels are adjusted by headline consumer prices. Diamonds for 2024Q1 refer to average growth from January to March 2024. Latest refers to: April 2025 for Maldives, Nepal, and Pakistan; March 2025 for Bangladesh, India, and Sri Lanka; and November 2024 for Bhutan.

D. Merchandise trade balances in billions of U.S. dollars. Last observation is April 2025.

central bank's efforts to curb risks from unsecured credit (figure 2.5.1.C). Rising interest rates have led to softer credit growth in Bangladesh. In Nepal, bank credit expansion has remained low, due in part to subdued demand, while the quality of bank assets has deteriorated. In contrast, credit growth has increased in Pakistan and Sri Lanka, accompanied by recovering domestic demand and lower policy interest rates.

The region has seen solid inflows of remittances and large tourist revenues, contributing to reductions in external imbalances. Current account balances have improved in several countries in the region. However, India's merchandise trade deficit widened in April 2025, with imports—particularly of oil—increasing faster than exports, while services trade remained in surplus. In Pakistan, an increase in the merchandise trade deficit in April largely reflected a sharp decline in exports, which was in part attributable to increases in U.S. import tariff rates in early April (figure 2.5.1.D).

Outlook

Growth in SAR is expected to slow to 5.8 percent in 2025, as rising trade barriers weigh on exports, dampen business confidence, and weaken investment in the region (figure 2.5.2.A; table 2.5.1). As a result, the forecast for SAR growth has been downgraded by 0.4 percentage point relative to previous projections. Growth is then set to increase to 6.2 percent a year, on average, in 2026-27, supported by improving activity in India and accelerations elsewhere, broadly consistent with the region's potential growth estimates (Kose and Ohnsorge 2024). Still, the pace of projected growth will make tackling the looming jobs challenge in SAR difficult. In some countries, including Pakistan, the expected average annual growth in the working-age population over the forecast period exceeds the average annual employment growth seen over 2010-19. Meanwhile, in other countries, including Bhutan and Sri Lanka, the challenge is associated with emigration, especially among skilled workers, partly due to limited employment opportunities.

Excluding India, regional growth is forecast to inch up to 3.6 percent in 2025 and firm to 4.4 percent a year in 2026-27, on average. Compared with previous forecasts, the projection for 2025 is 0.4 percentage point lower, mainly due to weaker projected activity in major economies in the region. The growth outlook assumes that the tariffs in place in late May will prevail for the rest of the forecast horizon.

India is projected to maintain the fastest growth rate among the world's largest economies, at 6.3 percent in FY2025/26 (April 2025 to March 2026; table 2.5.2). Nevertheless, the forecast for

growth in FY2025/26 has been downgraded by 0.4 percentage point relative to January projections, with exports dampened by weaker activity in key trading partners and rising global trade barriers. Investment growth is expected to slow, primarily reflecting a surge in global policy uncertainty. In FY2026/27 and FY2027/28, growth is expected to recover to 6.6 percent a year, on average, partly supported by robust services activity that contributes to a pickup in exports.

Growth in Bangladesh is projected to increase to 4.9 percent in FY2025/26 and 5.7 percent in FY2026/27. Despite rising global policy uncertainty, investment is expected to rebound, predicated on improving political stability and the successful implementation of reforms to strengthen the business environment and advance job creation. Resilient remittances and easing inflation are anticipated to contribute to stronger growth in private consumption, despite a slowdown in export activity due to weaker growth in major trading partners and higher trade barriers (Sharma et al. 2025).

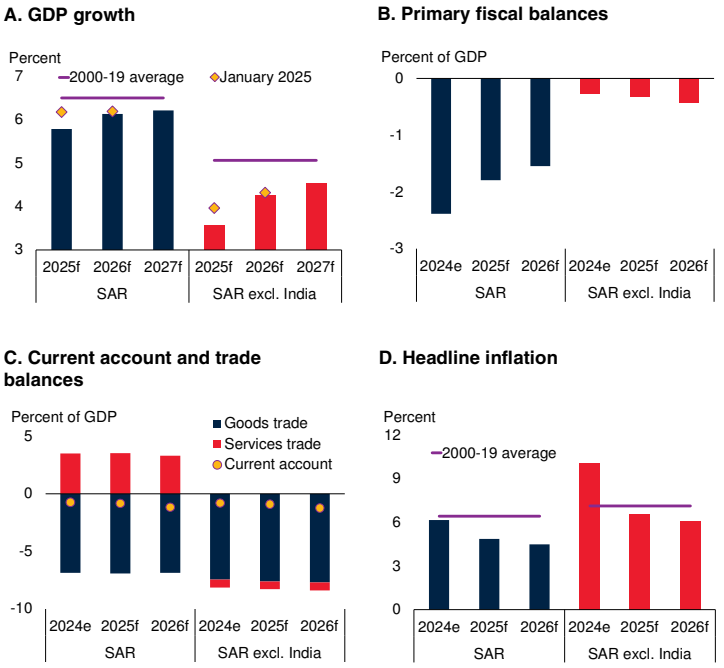
In Pakistan, growth is expected to strengthen to 3.1 percent in FY2025/26 and 3.4 percent in FY2026/27. With inflation contained and borrowing costs declining, industrial and services activity is forecast to firm, and business confidence is anticipated to continue improving owing to reduced domestic policy uncertainty. However, projected growth will remain subdued, reflecting still-high—though easing—real interest rates and fiscal consolidation intended to mitigate vulnerabilities and rebuild policy buffers (World Bank 2025o).

Growth in Sri Lanka is forecast to decelerate to 3.5 percent this year, reflecting the scarring effects of the crisis, structural impediments to growth, and heightened global economic uncertainty. In 2026-27, growth will moderate further to an average of 3.1 percent, with a slowdown in overall investment, while the adverse effect is projected to be eased by the implementation of structural reforms. In Maldives, GDP is expected to expand by 5.7 percent this year and then moderate to 5.3 percent in 2026, partly reflecting global trade uncertainty and a projected weakening in external demand. The forecasts are upgraded by 1 and 0.7 percentage point for 2025 and 2026, respectively, relative to previous projections, mainly because of stronger tourism sector performance, supported by the completion of a new airport terminal, which will underpin a rise in tourist arrivals (World Bank 2025p).

In Nepal and Bhutan, growth is anticipated to strengthen over the forecast period. Growth in Nepal is expected to rise to 5.2 percent in FY2025/26 (mid-July 2025 to mid-July 2026) and 5.5 percent in the following fiscal year. Services sector activity is expected to pick up, while further expansion of hydroelectricity generation will support the growth of industrial production and allow exports to neighboring

FIGURE 2.5.2 SAR: Outlook

Growth in SAR is expected to moderate to 5.8 percent in 2025 and then strengthen to an average of 6.2 percent in 2026-27. Excluding India, growth in the region will be weaker over the forecast horizon. While fiscal consolidation is forecast to proceed in India, fiscal policies elsewhere in the region are envisaged to support demand and activity. The region is projected to run modest current account deficits, with large merchandise trade deficits. Easing inflationary pressures are likely to bolster growth and contribute to the reduction in poverty.



Source: World Bank.
Note: e = estimate; f = forecast. SAR = South Asia.
A. Aggregates are calculated as weighted averages, using GDP at average 2010-19 prices and market exchange rates as weights. Diamonds for January 2025 refer to data presented in the January 2025 edition of the *Global Economic Prospects* report.
B.-D. Aggregates are calculated as weighted averages, using nominal GDP in U.S. dollars as weights.

countries, including India (World Bank 2025q). In Bhutan, growth is projected to increase to 7.6 percent in FY2025/26 (July 2025 to June 2026)—1 percentage point higher than projected in January—mainly reflecting the commissioning of a large hydropower plant and stronger construction activity associated with new power plants, supporting investment and exports (World Bank 2025r).

Growth in Afghanistan is expected to remain subdued at 2.2 percent in FY2025/26 (late-March 2025 to late-March 2026), partly reflecting disruptions in aid from donor countries (World Bank 2025s). Assuming no further external shocks, growth is set to inch up to 2.5 percent a year, on average, over the following two fiscal years, supported by steady growth in agricultural output.

Fiscal consolidation is expected to continue in India over the forecast horizon, with growing tax revenues and declining current expenditures projected to contribute to a gradual decline in the public debt-to-GDP ratio. Elsewhere in the region, on average, primary deficits are likely to increase gradually, supporting activity in several economies (figure 2.5.2.B). Capital expenditures are forecast to increase in Bhutan and Nepal, while in Bangladesh, a projected decline in capital spending will be offset by increases in current expenditures, including subsidies. In contrast, fiscal consolidation is expected to continue in Sri Lanka. Overall fiscal deficits as a share of GDP are forecast to remain large in the region, partly due to elevated interest payments, including in Pakistan.

The region is forecast to run moderate current account deficits over the forecast horizon (figure 2.5.2.C). India's projected merchandise trade deficits are expected to be only partly offset by surpluses in the services trade. In SAR excluding India, current account deficits are anticipated to widen slightly in 2025, mainly due to an increase in merchandise trade deficits stemming from a slowdown in exports, despite stronger remittance inflows in most countries. The deficits will widen further in 2026 as imports increase amid recoveries in domestic demand in several countries, including Pakistan and Sri Lanka.

In most countries in the region, inflation is expected to ease over the forecast horizon, allowing monetary policy to become more supportive of activity (figure 2.5.2.D). In Bangladesh, inflation is projected to moderate from FY2025/26, leading to gradual monetary easing. In India, inflation will remain contained over the forecast horizon, assuming normal seasonal conditions. In contrast, in Pakistan and Sri Lanka, inflation is expected to increase amid strengthening demand (World Bank 2025t).

Per capita income growth in SAR is forecast to stabilize at 5 percent a year, on average, over 2025-27, further reducing poverty in the region. Excluding India, per capita income growth is expected to accelerate from 2.1 percent in 2025 to 3 percent in 2027. However, the forecasts for per capita income growth in Bangladesh, Pakistan, and Sri Lanka are lower than the average growth rates in the decade preceding the COVID-19 pandemic, implying a slower pace of poverty reduction amid persistently high poverty rates. In addition, food insecurity will remain widespread, particularly in Afghanistan, exacerbated by a decline in aid flows.

Risks

Risks to the growth outlook are tilted to the downside. Key risks include a possible further intensification of trade barriers by major trading partners and heightened global trade policy uncertainty. Higher-than-expected global inflation and a decline in risk appetite could lead to a tightening of global financial conditions, potentially weakening regional currencies and causing capital outflows. Other downside risks include the possibility of a surge in violence and social unrest in the region, as well as more frequent and severe natural disasters.

Additional trade barriers could reduce the growth of global trade and external demand, lowering regional growth prospects. Because economies in the region are less open to global trade, the direct effects of such shifts in trade policy would likely be relatively small. However, the United States is a major export destination for several economies, including Sri Lanka (figure 2.5.3.A). In addition,

a surge in protectionist policies targeting other major export destinations, specifically in Europe, could indirectly hurt activity in the region.

Heightened global economic policy uncertainty could weigh on business and investor confidence, reducing investment, including foreign investment. It could also cause a tightening of financial conditions and lead to an increase in domestic borrowing costs. Heightened policy uncertainty could lead firms to delay investment and raise prices to maintain their profits amid reduced demand. An increase in producer prices could translate into higher consumer prices and inflation expectations, leading to tighter monetary policy stances and weighing on activity.

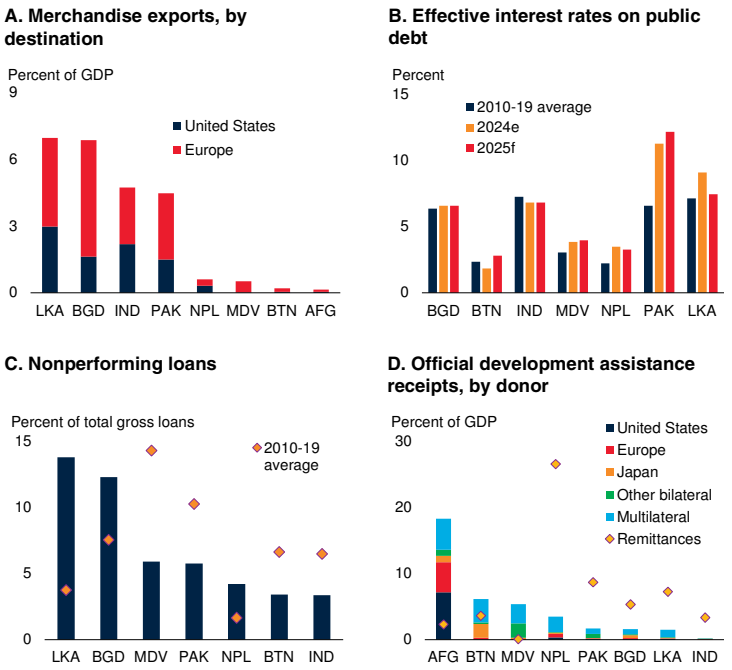
Higher-than-expected global inflation—possibly arising from higher trade barriers and damage to global supply chains—or a sudden decline in global risk appetite could also cause the pace of monetary policy easing to slow and global financial conditions to tighten. As a result, interest rates could rise, worsening debt-servicing dynamics (figure 2.5.3.B). Tightening global financial conditions could also trigger capital outflows from the region, particularly from economies with large macroeconomic vulnerabilities, including Maldives and Pakistan. Unfavorable domestic developments, including an unexpected increase in inflation, could also result in large capital outflows (World Bank 2025u).

Pressures stemming from high government indebtedness could be amplified by instability in financial markets in the region. Market sentiment and funding pressures could worsen suddenly due to a change in global financial conditions, leading to a deterioration in commercial banks' balance sheets, which have weakened in some economies since the 2010s (figure 2.5.3.C). Such weakening in the banking sector could exacerbate fiscal vulnerabilities, particularly in economies where commercial banks hold a significant portion of public debt. Fragile financial systems could lead to reduced credit availability, with repercussions on economic activity. In addition, with limited fiscal space, delays in reform efforts to improve spending effectiveness and strengthen the financial sector could constrain the impact of increased public investment, weighing on growth, including in Nepal.

Elevated domestic violence and social unrest, as well as the eruption of cross-border conflict, could weigh on investment and productivity, increase uncertainty, and weaken investor confidence, reducing foreign investment and weakening financial market performance in affected countries. The incidence of political violence has

FIGURE 2.5.3 SAR: Risks

Additional trade tensions and a further increase in policy uncertainty could dampen external demand, particularly from major trading partners such as Europe and the United States. Further increases in interest rates on public debt would increase debt-service burdens. Financial system instability could exacerbate pressures related to high government indebtedness, especially because several economies have tight linkages between the government and the banking sector. Foreign aid has been vital to several economies, and further reductions could weigh on development progress and weaken growth prospects.



Sources: International Monetary Fund; Organisation for Economic Co-operation and Development; United Nations Conference on Trade and Development; World Bank.

Note: e = estimate; f = forecast. AFG = Afghanistan; BGD = Bangladesh; BTN = Bhutan; IND = India; LKA = Sri Lanka; MDV = Maldives; NPL = Nepal; PAK = Pakistan; SAR = South Asia. Europe includes members of the European Union and the European Free Trade Association, European microstates, the United Kingdom, and their dependent territories.

A. Merchandise exports to the United States and Europe as a percent of GDP in 2024.

B. The effective interest rate is computed as interest payment divided by the average of government debt at the end of the current and previous years.

C. Based on the Financial Soundness Indicators by the International Monetary Fund. Blue bars are for the latest period with data: 2024Q4 for Maldives and Pakistan; 2024Q3 for Nepal; 2024Q2 for Bangladesh and Bhutan; 2023Q4 for India; and 2023Q3 for Sri Lanka.

D. Gross official development assistance from donors, and receipts of remittances, as a percent of GDP in 2023.

increased in several countries in the region, and the region has experienced a number of large-scale protest events. These events could also destroy physical capital, including essential infrastructure, and disrupt businesses, causing economic losses and resulting in surges in food insecurity and poverty. Moreover, adverse effects could be more pronounced in countries with weak institutional frameworks and limited policy space (World Bank 2024f). If the incidence intensifies, increased military spending could deteriorate the fiscal position, possibly leading to spending cuts in other areas, including growth-enhancing public investment. Any response perceived negatively by creditor countries could curtail access to external financing, increasing macroeconomic vulnerabilities, particularly in countries with high financing needs.

In several economies in the region—particularly Afghanistan and, to a lesser extent, Bhutan and Maldives—official aid from donor countries and institutions has exceeded remittance inflows and contributed significantly to improved living standards and economic development (figure 2.5.3.D). Further reductions of foreign official assistance, beyond those recently announced, particularly from major donor countries, would likely weigh heavily on development progress in these economies.

More frequent extreme weather events could cause declines in food production, increasing inflation in food prices and dampening consumption. The poor and vulnerable are disproportionately affected by higher prices as food accounts for a significant share of household consumption baskets across the region, resulting in an increase in poverty and inequality. In addition, employment could be reduced due to the displacement of workers, while impaired learning through disruptions to schooling could diminish human capital over the long run. Other types of natural disasters, including earthquakes, could also cause major damage to infrastructure and lower growth and productivity, particularly in economies with limited capacity to maintain infrastructure (Dieppe, Kilic Celik, and Okou 2020).

TABLE 2.5.1 South Asia forecast summary

(Real GDP growth at market prices in percent, unless indicated otherwise)

	2022	2023	2024e	2025f	2026f	2027f	Percentage-point differences from January 2025 projections 2025f	2026f
EMDE South Asia, GDP[1]	**6.0**	**7.4**	**6.0**	**5.8**	**6.1**	**6.2**	**-0.4**	**-0.1**
GDP per capita (U.S. dollars)	5.0	6.3	4.9	4.7	5.1	5.1	-0.4	-0.1
(Average including countries that report expenditure components in national accounts)[2]								
EMDE South Asia, GDP[2]	5.9	7.4	6.0	5.8	6.1	6.2	-0.4	-0.1
PPP GDP	5.9	7.4	6.0	5.8	6.1	6.2	-0.4	-0.1
Private consumption	7.2	5.3	6.2	6.3	6.3	6.3	1.1	0.9
Public consumption	2.1	5.2	3.0	4.6	5.1	5.1	-0.5	-0.5
Fixed investment	8.3	7.0	6.6	6.1	6.5	6.6	-1.2	-0.9
Exports, GNFS	13.8	3.0	4.1	5.9	5.9	6.6	-0.4	-1.1
Imports, GNFS	9.9	7.0	1.1	5.3	7.0	7.0	0.3	0.6
Net exports, contribution to growth	0.0	-1.4	0.5	-0.2	-0.7	-0.6	-0.1	-0.4
Memo items: GDP								
	2022/23	**2023/24**	**2024/25e**	**2025/26f**	**2026/27f**	**2027/28f**	**2025/26f**	**2026/27f**
India[3]	7.6	9.2	6.5	6.3	6.5	6.7	-0.4	-0.2
	2022	**2023**	**2024e**	**2025f**	**2026f**	**2027f**	**2025f**	**2026f**
South Asia excluding India	2.8	2.7	3.5	3.6	4.3	4.5	-0.4	0.0

Source: World Bank.
Note: e = estimate; f = forecast. EMDE = emerging market and developing economy; GNFS = goods and non-factor services; PPP = purchasing power parity. World Bank forecasts are frequently updated based on new information and changing (global) circumstances. Consequently, projections presented here may differ from those contained in other World Bank documents, even if basic assessments of countries' prospects do not differ at any given moment in time.
1. GDP and expenditure components are measured in average 2010-19 prices and market exchange rates. Aggregates are presented in calendar year terms.
2. Aggregate excludes Maldives, for which data limitations prevent the forecasting of GDP components.
3. The fiscal year runs from April 1 to March 31.

TABLE 2.5.2 South Asia country forecasts

(Real GDP growth at market prices in percent, unless indicated otherwise)

	2022	2023	2024e	2025f	2026f	2027f	Percentage-point differences from January 2025 projections 2025f	2026f
Calendar year basis								
Maldives	13.8	4.7	5.5	5.7	5.3	4.7	1.0	0.7
Sri Lanka	-7.3	-2.3	5.0	3.5	3.1	3.1	0.0	0.0
Fiscal year basis[1]	**2022/23**	**2023/24**	**2024/25e**	**2025/26f**	**2026/27f**	**2027/28f**	**2025/26f**	**2026/27f**
Afghanistan[2]	-6.2	2.3	2.5	2.2	2.4	2.5	..	..
India	7.6	9.2	6.5	6.3	6.5	6.7	-0.4	-0.2
	2021/22	**2022/23**	**2023/24**	**2024/25e**	**2025/26f**	**2026/27f**	**2024/25e**	**2025/26f**
Bangladesh	7.1	5.8	4.2	3.3	4.9	5.7	-0.8	-0.5
Bhutan	4.8	5.0	4.9	6.6	7.6	5.3	-0.6	1.0
Nepal	5.6	2.0	3.9	4.5	5.2	5.5	-0.6	-0.3
Pakistan[3]	6.2	-0.2	2.5	2.7	3.1	3.4	-0.1	-0.1

Source: World Bank.
Note: e = estimate; f = forecast. World Bank forecasts are frequently updated based on new information and changing (global) circumstances. Consequently, projections presented here may differ from those contained in other World Bank documents, even if basic assessments of countries' prospects do not significantly differ at any given moment in time.
1. The fiscal year runs from March 21 to March 20 in Afghanistan; from April 1 to March 31 in India; from July 1 to June 30 in Bangladesh, Bhutan, and Pakistan; and from July 16 to July 15 in Nepal.
2. Estimates and forecasts were not included in January 2025 *Global Economic Prospects*; therefore, the differences from January 2025 projections are not computed.
3. Data are reported on a factor cost basis.

SUB-SAHARAN AFRICA

Growth in Sub-Saharan Africa (SSA) is forecast to edge up from 3.5 percent in 2024 to 3.7 percent this year and then average 4.2 percent in 2026-27. Growth this year and next is anticipated to be weaker than previously expected, owing to the deterioration in the external environment and domestic headwinds. Elevated government debt, still-high interest rates, and rising debt-servicing costs have narrowed fiscal space, prompting fiscal consolidation efforts in many countries, especially as financing needs remain high as international development assistance is cut back. Per capita income gains will remain inadequate to make significant progress in reducing extreme poverty in the region, which is home to most of the world's poor. Progress in these areas is likely to be impeded by the looming jobs challenge, which is expected to be the most acute in SSA relative to other regions, as the pace of job creation struggles to match the rapid expansion of working-age populations. Risks to the outlook remain tilted to the downside. The more significant risks are the possibility of weaker external demand in response to heightened trade policy tensions and a sharper-than-expected slowdown in China. Increased regional political instability poses an important risk to the growth outlook. Rising sovereign spreads and the possibility of higher-for-longer global interest rates, along with further reductions in donor support, risk pushing even more SSA economies into government debt distress. Intensification of ongoing droughts and greater frequency and intensity of other adverse weather events represent persistent risks to the SSA outlook.

Recent developments

Growth in SSA picked up to an estimated 3.5 percent in 2024, largely owing to increased public investment and rising commodity exports. The strengthening in activity was broad-based, with over 60 percent of the region's economies experiencing an acceleration in growth. However, in the region's two largest economies—Nigeria and South Africa—growth diverged. Elsewhere in the region, growth improved overall. Angola's growth picked up, driven by commerce and transport services, diamond extraction, the oil industry, and fishing. Similarly, Ethiopia grew thanks to strong harvests, increased mining activity, and electricity generation. Survey data indicate that economic activity held up well in some of the major economies in the region in early 2025 (figure 2.6.1.A).

In Nigeria, growth rose to 3.4 percent in 2024, primarily driven by financial and telecommunication services, a recovery in the transportation sector, and a slight rebound in oil production. In response to high inflation, the central bank raised its policy rate six times last year. Although inflation has cooled somewhat in recent months, it remains elevated relative to the central bank target and pre-pandemic trends. Nigeria's fiscal position strengthened last year owing to a surge in revenues driven by the elimination of the implicit foreign exchange subsidy, ongoing improvements in revenue administration, increased revenues at the state level, and higher remittances from government-owned enterprises.

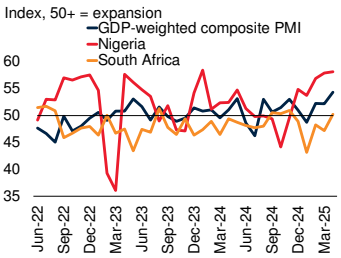
In South Africa, growth edged down in 2024 to 0.5 percent. Ongoing structural constraints, inefficient fiscal spending, and bad weather offset the boost to business activity from improved electricity supply, easing inflation, and lower monetary policy rates. Severe drought conditions caused by the 2023/2024 El Niño event contributed to the sharpest contraction in agricultural production in nearly three decades. Moreover, persistent structural constraints—especially transport bottlenecks, inefficient state-owned enterprises, and insuffi-

Note: This section was prepared by Edoardo Palombo and Dominik Peschel.

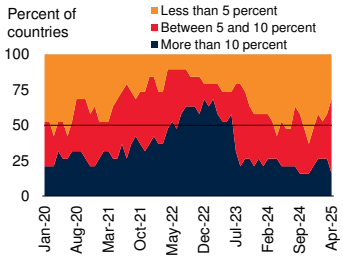
FIGURE 2.6.1 SSA: Recent developments

High-frequency data point to an improvement in private sector economic activity in some SSA economies in early 2025. Food price inflation remains a challenge in many SSA economies. Droughts in Eastern Africa, especially in Kenya, Rwanda, and Uganda, have led to a sustained decline in agricultural conditions and crop yields, increasing pressure on food prices. While monetary policy continues to ease, persistent inflation in some countries has pushed central banks to pause easing or to increase policy rates.

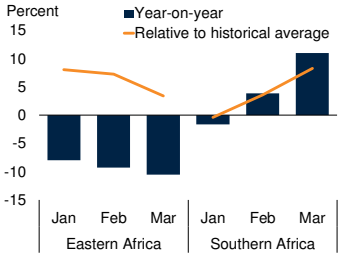
A. Composite Purchasing Managers' Indexes



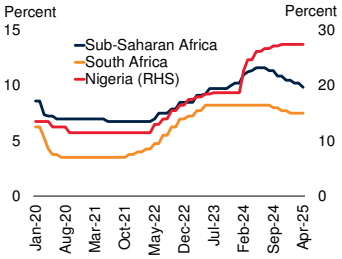
B. Food price inflation



C. Agricultural conditions in 2025



D. Monetary policy interest rates



Sources: Bloomberg; Haver Analytics; The Humanitarian Data Exchange; USDA; World Bank.
Note: GDP = gross domestic product; NDVIs = normalized difference vegetation indices; PMI = purchasing managers' index; SSA = Sub-Saharan Africa.
A. GDP-weighted average includes Ghana, Kenya, Mozambique, Uganda, and Zambia. Last observation is April 2025.
B. Change in food prices from 12 months earlier. The sample includes 19 SSA EMDEs.
C. Chart shows the average changes in NDVIs for countries in subregions where January to March overlaps with the main growing season. NDVIs for each country are weighted by subnational region based on relative crop production using USDA weights. Eastern Africa sample includes Kenya, Rwanda, the Federal Republic of Somalia, Tanzania, and Uganda; Southern Africa sample includes Angola, Botswana, Democratic Republic of Congo, Madagascar, Mozambique, Malawi, South Africa, Zambia, and Zimbabwe.
D. Median for the sample of 14 SSA EMDEs.

cient job creation—continued to impede economic activity as the industrial and construction sectors contracted.

Elsewhere in the region, growth in industrial-commodity-exporting countries, excluding Sudan, improved to 4.2 percent in 2024. In the Democratic Republic of Congo, growth was driven by the copper and cobalt extractive sector, which continued to expand at double-digit rates due to increased domestic production from the Kamoa-Kakula mining project. By contrast, in Sudan and South Sudan, continued violent conflict caused output to contract for a third consecutive year, leaving GDP 40 percent and 9 percent below the pre-conflict levels, respectively.

Growth in non-resource-rich countries dropped to 5.7 percent in 2024, mainly driven by a slowdown in Kenya—where growth eased to 4.7 percent as construction softened, and Zimbabwe—where growth more than halved to 2 percent due to a steep decline in agricultural output. However, two-thirds of non-resource-rich economies still experienced an uptick in growth. Ethiopia's strong harvests, increased mining, and higher electricity generation helped offset the slowdown, while oil-related investments boosted Uganda's growth above 6 percent.

Disinflation in SSA has stalled as consumer price inflation edged up in early 2025, driven by rising food prices (figure 2.6.1.B). Recent droughts in parts of Eastern Africa have worsened agricultural conditions, with falling crop yields increasing pressure on food prices and inflation (figure 2.6.1.C). Yet, central banks continued easing monetary policy as broader inflationary pressures waned (figure 2.6.1.D). Some large economies that experienced high inflation, such as Angola, Ethiopia, and Nigeria, have paused further policy rate hikes due to progress in the disinflation process.

Food insecurity remained elevated across the region in 2024, affecting almost a third of the population (Cardell et al. 2024). This partly reflects ongoing conflict in the region, as well as adverse weather events such as severe droughts in Southern Africa and floods elsewhere. Continued violent conflict has exacerbated hunger vulnerability. In particular, more than half of the populations of South Sudan and Sudan suffered high levels of acute food insecurity in 2024, while the Federal Republic of Somalia and the Central African Republic faced persistently high levels of it (FSIN and GNAFC 2024).

Outlook

Growth in SSA is forecast to firm to 3.7 percent in 2025 and strengthen to an average of 4.2 percent in 2026-27, assuming the external environment does not deteriorate further, inflation eases as anticipated, and conflict de-escalates (figure

2.6.2.A). Against a backdrop of weakening EMDE growth, SSA is one of two regions where growth is projected to increase through the forecast horizon. However, this growth is expected to fall short of its long-term average over 2000-19, and it is insufficient to make significant strides in reducing extreme poverty. Moreover, growth projections have been revised down by 0.4 percentage point for 2025 and 0.2 percentage point for 2026 (figure 2.6.2.B). The region's outlook has worsened following the deterioration in global conditions, dampened by the rise in trade barriers, heightened trade policy uncertainty, and weakening confidence. Although the direct effects of escalating trade tensions and a weakening global investor appetite are expected to be moderate, the outlook for SSA is affected by global spillovers from these shocks, primarily through lower global commodity demand.

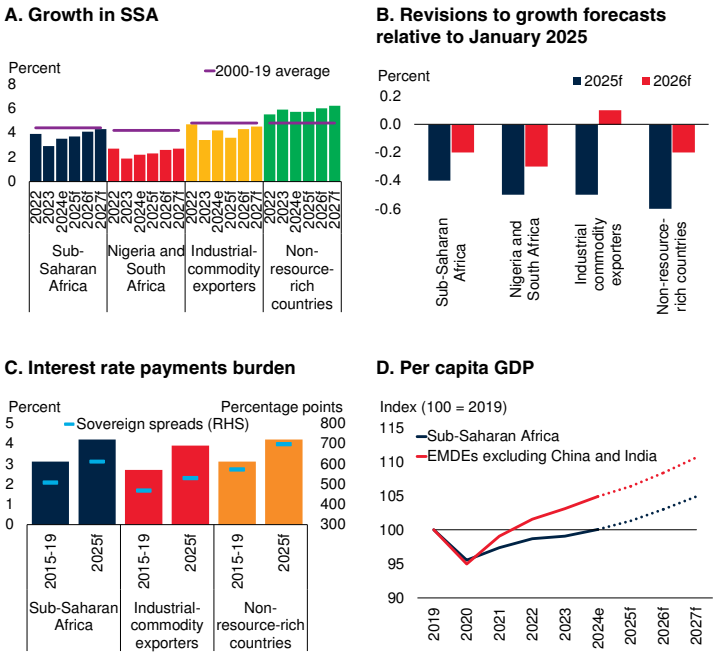
The baseline projections assume that the tariffs in place as of late May will prevail for the rest of the forecast horizon. The regional outlook is also predicated on a gradual easing of monetary policy interest rates within the region, which should bolster private consumption and investment. However, elevated public debt and high borrowing costs necessitate continued fiscal consolidation efforts, which will weigh on demand. Fiscal balances are expected to improve, with the average primary fiscal deficit projected to reach balance within the forecast horizon. This reflects budgetary discipline in 2024 and narrowing primary deficits in non-resource-rich countries. However, weaker export demand means revenues for commodity exporters are set to fall, increasing pressure on their public finances. Furthermore, interest rate burdens across the region are set to rise further in 2025, partly offsetting the expected improvements in primary fiscal balances (figure 2.6.2.C).

Growth in Nigeria is forecast to strengthen to 3.6 percent in 2025 and to an average of 3.8 percent in 2026-27. Following monetary policy tightening in 2024 to address rapid currency depreciation, inflation is projected to decline gradually. Domestic reforms have helped spur investment, supporting growth in the services sector, especially in financial services and information and communication technology. Services activity will continue to be the main driver of growth, while the industrial sector will remain constrained by subdued crude oil production as last year's slight rebound wanes.

Growth in South Africa is projected to improve marginally to 0.7 percent in 2025 and to increase to a still weak average of 1.2 percent in 2026-27. For 2025 and 2026, this represents an average downgrade of 1 percentage point a year from previous forecasts. The significant downward

FIGURE 2.6.2 SSA: Outlook

Growth in SSA is forecast to pick up in 2025 and further firm in 2026-27 as industrial-commodity-exporting economies recover, while non-resource-rich countries are expected to expand above their long-term trend rates. However, revisions to growth forecasts relative to previous projections are generally downward. While primary fiscal balances are expected to improve amid continued consolidation efforts and firming growth, interest rate burdens are likely to weigh on public finances. Per capita incomes in the region are projected to rise at a faster pace in the forecast horizon, but the income gap with other EMDEs excluding China and India is set to widen.

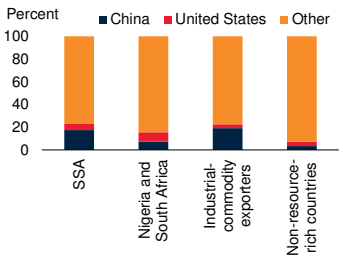


Sources: International Monetary Fund; J.P. Morgan; World Bank.
Note: e = estimates; f = forecast. EMDEs = emerging market and developing economies; GDP = gross domestic product; SSA = Sub-Saharan Africa.
Industrial-commodity exporters exclude Nigeria, South Africa, and Sudan. Non-resource-rich countries represent agricultural-commodity-exporting and commodity-importing countries.
A. Aggregate growth rates are calculated using constant GDP weights at average 2010-19 prices and market exchange rates.
B. Revisions relative to forecasts published in the January 2025 edition of the *Global Economic Prospects* report.
C. Bars show interest payments as a share of government debt. Simple averages of country groupings. The sample includes 45 SSA economies. Blue whiskers represent the sovereign spreads of a sample of 14 SSA economies. Last observation is May 29, 2025.
D. Chart shows the evolution of real per capita GDP in constant U.S. dollars at average 2010-19 prices and market exchange rates, rebased to 100 in 2019. SSA comprises 47 countries.

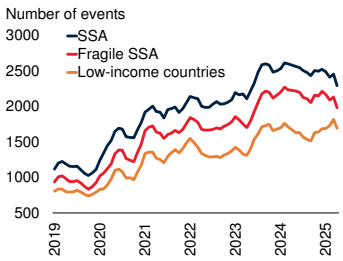
FIGURE 2.6.3 SSA: Risks

The direct impact on SSA growth of further escalation in global trade tensions may be contained owing to the limited direct exposure to export markets in China and the United States, apart from commodity demand. Levels of violence in SSA remain high, weighing on economic activity. While public debt-to-GDP ratios are expected to decline gradually, debt servicing costs remain elevated, limiting fiscal space in many SSA economies for development-promoting expenditures, especially given the recent rise in sovereign spreads. Further declines in official development assistance inflows risk worsening humanitarian and fiscal challenges. The share of the population affected by adverse weather events, which destroy crops and dampen economic activity, has increased sharply in recent years.

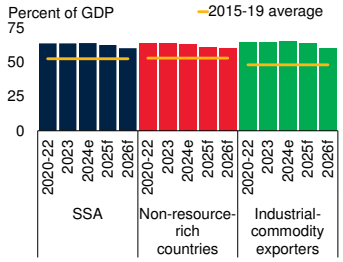
A. Goods export destinations



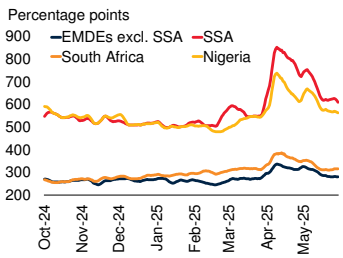
B. Violent events



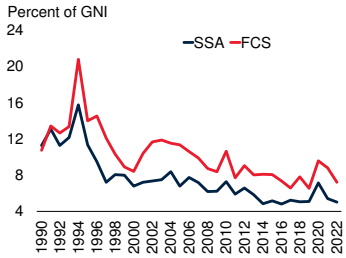
C. Public debt



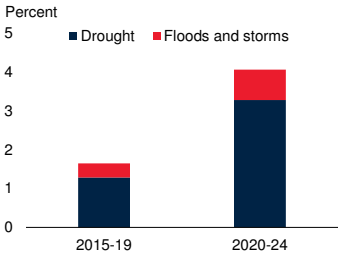
D. Sovereign spreads



E. Official development assistance



F. Share of the population affected by adverse weather events



Sources: ACLED (database); EM-DAT (database); International Monetary Fund; J.P. Morgan; World Bank.

Note: e = estimates; EMDE = emerging market and developing economy; FCS = fragile and conflict-affected situations; f = forecast; GDP = gross domestic product; GNI = gross national income; LICs = low-income countries; SSA = Sub-Saharan Africa.

A. Share of total exports by destination. Data from 2024 (estimates). Sample includes 48 SSA countries.

B. Three-month moving average. Violent events include battles, explosions, riots, and violence against civilians. Last observation is April 2025.

C. Simple averages of country groupings. The sample includes 45 SSA economies. Industrial-commodity exporters exclude Nigeria and South Africa. Non-resource-rich countries represent agricultural-commodity-exporting and commodity-importing countries.

D. Ten-year sovereign spreads of government bonds over 10-year U.S. treasuries. The EMDE excluding SSA median is from a sample of 56 EMDEs, and the SSA median is from a sample of 14 SSA economies. Data are shown as 5-day moving averages. The last observation is May 29, 2025.

E. Median of official development assistance. The blue line shows the median across 45 SSA economies; the red line shows the median across 20 FCS economies in SSA.

F. Bars indicate the percentage of the population affected.

revision throughout the forecast horizon reflects a more challenging environment marred by global trade tensions, rising export tariffs, and low potential growth. Despite the growth downgrades, the weak recovery will be supported by rising consumption and investment amid a more accommodative monetary policy stance in the context of subdued inflation. Increased energy availability and improvements in freight transport infrastructure and logistics are also expected to underpin activity. Additionally, several planned reforms aim to strengthen the capacity of local governments to deliver better social services and infrastructure to firms and households.

While non-resource-rich countries are expected to expand above their long-term trend rates, growth in industrial-commodity exporters is expected to lag, given that rising trade tensions are set to weigh on external demand. Growth in industrial-commodity exporters, excluding the region's two largest economies and Sudan, is projected to decelerate to 3.6 percent in 2025, before recovering to an average of 4.4 percent a year in 2026-27. In Angola, slower growth in oil output is expected to be partly offset by non-oil activity. In particular, service activity is set to benefit from further moderation in inflation. Conversely, in non-resource-rich countries, growth is forecast to steady at 5.7 percent in 2025 and to an average of 6.1 percent a year in 2026-27. The momentum is driven by an oil discovery boom in Uganda, where oil production is expected to start during the forecast horizon, as growth plateaus in most other economies.

Per capita income in SSA is projected to expand by an average of 1.6 percent a year in 2025-27, with growth in 2025 revised down by 0.4 percentage point. This pace would mean that, in terms of living standards, the region would fall even further behind other emerging markets and developing economies, excluding China and India (figure 2.6.2.D). These per capita income gains will remain inadequate for significantly reducing extreme poverty in the region, home to most of the world's poor. Per capita income growth in SSA is also expected to remain uneven, with incomes falling in some countries, particularly those plagued by violent conflict. By 2027, per capita income in over one-fourth of the region's economies will not

have recovered to their pre-pandemic levels. Lifting per capita incomes and reducing extreme poverty in the region are likely to remain difficult as the jobs challenge intensifies in the coming years. The projected increase in SSA's working-age population is set to rise rapidly over the next five years and almost double between 2025-50, the largest numerical increase that any region has recorded over a 25-year period. Absent the policies needed to reinvigorate growth and address longstanding structural bottlenecks, it is unlikely that economies in SSA will be able to generate the job growth needed to keep pace with this unprecedented expansion in the region's working-age population.

Risks

Risks to the SSA growth outlook are tilted to the downside. Global growth could be weaker than projected if global trade tensions were to escalate further (chapter 1). The direct effects of the increased U.S. trade barriers on SSA economies are expected to be contained, as the region exports relatively few manufacturing goods to the United States (figure 2.6.3.A). However, should trade fragmentation increase further or lead to a sharper slowdown in global growth, the adverse effects on SSA economies could be considerable due to their dependence on commodity trade (Bolhuis et al. 2024). Indeed, a worse-than-expected economic slowdown in China would adversely affect the demand for minerals and metals. Lower prices for these commodities, which are the main exports of several SSA countries, would have particularly negative effects on these countries through diminished economic activity and even tighter fiscal space. Conversely, should global trade tensions subside, the growth outlook for SSA would benefit from improved global economic activity, lower export tariffs, higher demand for commodities, reduced uncertainty, and stronger global investors' risk appetite.

Another prominent downside risk is the possibility of worsening political instability within SSA, with violent conflicts lasting longer or escalating further, especially in East Africa and the Sahel. An intensification of armed conflict in Sudan could drive up food prices in parts of SSA due to reduced supply and increased transportation costs. The conflict in the eastern part of the Democratic Republic of Congo, which started in 2022, adds to the humanitarian challenges in the region. Even without these conflicts escalating, food insecurity in SSA is expected to exceed that in other regions over the next decade (Cardell et al. 2024). Further destabilization of East and Central Africa could result in a rise in violence that would lead to extended humanitarian crises in many of SSA's most economically vulnerable countries (figure 2.6.3.B). The rise of protests and social unrest in the region is also a byproduct of insufficient economic opportunities and inadequate public service provision (World Bank 2025v). Besides the risk of rising food price inflation from intensifying conflicts, broader inflationary pressures could be reignited by disruptions to international trade.

If regional or global policy interest rates decline more slowly than expected, there may be adverse effects on debt-servicing costs and debt dynamics. Similarly, a decrease in global investors' risk appetite could increase the costs of debt refinancing. Coping with high debt servicing costs is already a challenge for many countries in the region (figure 2.6.3.C). Persistently high global interest rates could heighten the risk of government debt distress by further increasing interest rates on non-concessional debt. Indeed, heightened global uncertainty and reduced investor risk appetite have already led to sharp jumps in the cost of government borrowing in SSA, putting at risk the recent progress in fiscal consolidation. Following the surge in trade tensions and uncertainty in April, the median SSA sovereign spreads jumped by almost 300 basis points but later retreated somewhat, highlighting the vulnerability of financial conditions in the region to external conditions (figure 2.6.3.D).

Fiscal challenges in SSA countries could be further exacerbated by reductions in donor support, which could also worsen humanitarian conditions, especially in the region's poorest countries. Although reliance on international aid has declined materially since the 1990s and early 2000s, further withdrawals of donor support could jeopardize debt sustainability in several of the poorest countries in the region and add to humanitarian chal-

lenges, especially in countries that face fragile and conflict-affected situations (figure 2.6.3.E).

The SSA region has become more vulnerable to extreme weather events related to climate change, with the number of droughts, floods, and storms more than doubling from 2015-19 to 2020-24 (figure 2.6.3.F). This vulnerability is especially pronounced in the Horn of Africa, the Sahel, and Southern Africa, where recurring drought cycles have devastated livestock and crops (FAO et al. 2023). In particular, a further increase in the frequency or severity of these weather events would exacerbate poverty across fragile economies like Niger, and Mozambique, and South Sudan, with low-income agrarian communities hit particularly hard. In the longer term, increases in average temperatures could hurt crop yields across the region, reducing food supplies and exports while worsening food insecurity.

TABLE 2.6.1 Sub-Saharan Africa forecast summary

(Real GDP growth at market prices in percent, unless indicated otherwise)

							Percentage-point differences from January 2025 projections	
	2022	2023	2024e	2025f	2026f	2027f	2025f	2026f
EMDE SSA, GDP [1]	**3.9**	**2.9**	**3.5**	**3.7**	**4.1**	**4.3**	**-0.4**	**-0.2**
GDP per capita (U.S. dollars)	1.3	0.4	1.0	1.2	1.7	1.8	-0.4	-0.1
(Average including countries that report expenditure components in national accounts) [2]								
EMDE SSA, GDP [2,3]	4.1	2.9	3.6	3.7	4.2	4.3	-0.6	-0.2
PPP GDP	4.1	2.3	3.5	4.0	4.5	4.6	-0.5	-0.1
Private consumption	3.8	2.8	3.2	4.0	4.0	4.0	0.2	0.0
Public consumption	3.1	0.5	3.9	3.1	2.2	2.5	0.8	0.2
Fixed investment	8.7	9.3	5.6	4.4	6.7	6.6	-2.0	-0.3
Exports, GNFS [4]	9.1	2.0	4.1	2.4	4.6	5.2	-3.7	-1.2
Imports, GNFS [4]	12.8	7.7	3.0	3.5	5.3	5.2	-2.1	-0.2
Net exports, contribution to growth	-1.4	-1.9	0.1	-0.5	-0.5	-0.4	-0.3	-0.3
Memo items: GDP								
Eastern and Southern Africa	3.8	2.5	3.0	3.4	4.0	4.1	-0.7	-0.2
Western and Central Africa	4.0	3.3	4.2	4.1	4.3	4.5	-0.1	0.0
SSA excluding Nigeria and South Africa	4.9	3.7	4.6	4.8	5.3	5.4	-0.4	0.0
Oil exporters [5]	3.4	2.5	3.6	3.4	3.7	3.8	0.0	0.0
CFA countries [6]	5.1	3.9	4.9	4.8	4.9	5.0	-0.3	0.0
CEMAC	4.3	2.0	3.0	2.5	3.2	3.2	0.1	0.0
WAEMU	5.5	5.0	5.9	6.1	5.8	6.0	-0.5	0.0
SSA2	2.7	1.9	2.2	2.3	2.6	2.7	-0.5	-0.3
Nigeria	3.3	2.9	3.4	3.6	3.7	3.8	0.1	0.0
South Africa	2.1	0.8	0.5	0.7	1.1	1.3	-1.1	-0.8

Source: World Bank.

Note: e = estimate; f = forecast. PPP = purchasing power parity; EMDE = emerging market and developing economy. World Bank forecasts are frequently updated based on new information and changing (global) circumstances. Consequently, projections presented here may differ from those contained in other World Bank documents, even if basic assessments of countries' prospects do not differ at any given moment in time.

1. GDP and expenditure components are measured in average 2010-19 prices and market exchange rates.

2. Subregion aggregate excludes the Central African Republic, Eritrea, Guinea, Nigeria, São Tomé and Príncipe, Somalia, and South Sudan, for which data limitations prevent the forecasting of GDP components.

3. Subregion growth rates may differ from the most recent edition of Africa's Pulse (https://www.worldbank.org/en/publication/africa-pulse) because of data revisions.

4. Exports and imports of goods and nonfactor services (GNFS).

5. Includes Angola, Cameroon, Chad, the Republic of Congo, Equatorial Guinea, Gabon, Ghana, Nigeria, and South Sudan.

6. The African Financial Community (CFA) franc zone consists of 14 countries in Sub-Saharan Africa, each affiliated with one of two monetary unions. The Central African Economic and Monetary Union (CEMAC) comprises Cameroon, the Central African Republic, Chad, the Republic of Congo, Equatorial Guinea, and Gabon; the West African Economic and Monetary Union (WAEMU) comprises Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, and Togo.

TABLE 2.6.2 Sub-Saharan Africa country forecasts[1]

(Real GDP growth at market prices in percent, unless indicated otherwise)

	2022	2023	2024e	2025f	2026f	2027f	Percentage-point differences from January 2025 projections 2025f	2026f
Angola	3.0	1.0	4.4	2.7	2.6	3.2	-0.2	-0.3
Benin	6.3	6.4	7.5	7.2	7.1	7.0	0.8	0.8
Botswana	5.6	3.2	-3.0	0.6	4.2	3.8	-4.7	-0.7
Burkina Faso	1.5	3.0	4.9	4.3	4.7	5.0	0.4	0.6
Burundi	1.8	2.7	3.5	3.5	3.7	4.0	0.0	-0.5
Central African Republic	0.5	0.7	1.5	2.1	2.2	2.8	1.0	0.2
Cabo Verde	15.8	5.4	7.3	5.9	5.3	4.9	1.0	0.5
Cameroon	3.7	3.2	3.5	3.7	3.8	3.9	-0.3	-0.4
Chad	13.0	4.1	3.7	3.5	4.5	4.4	1.4	1.0
Comoros	2.8	3.0	3.4	3.7	3.8	4.0	-0.3	-0.5
Congo, Dem. Rep.	8.9	8.6	6.5	4.8	5.0	5.3	-0.2	0.4
Congo, Rep.	1.5	1.9	2.6	2.8	3.2	2.9	-0.7	-0.1
Côte d'Ivoire	6.4	6.5	6.0	5.8	6.1	6.4	-0.6	-0.5
Equatorial Guinea	3.2	-5.1	0.9	-3.1	0.6	-1.1	1.3	1.4
Eritrea	2.5	2.6	2.9	3.1	3.4	3.5	0.1	0.1
Eswatini	1.1	3.4	4.8	5.0	4.0	2.8	1.5	1.1
Ethiopia[2]	6.4	7.2	8.1	6.4	6.5	7.2	-0.1	-0.6
Gabon	3.0	2.4	2.9	2.1	2.2	3.0	-0.3	-0.8
Gambia, The	5.5	4.8	5.7	5.6	5.3	5.5	-0.2	-0.1
Ghana	3.8	3.1	5.7	3.9	4.6	4.8	-0.3	-0.3
Guinea	4.0	5.5	5.7	6.5	8.8	11.3	0.5	2.4
Guinea-Bissau	5.6	4.4	4.8	5.1	5.2	5.2	0.1	0.2
Kenya	4.9	5.7	4.7	4.5	4.9	5.0	-0.5	-0.2
Lesotho	2.4	1.8	2.3	1.5	0.9	0.6	-0.8	-1.1
Liberia	4.8	4.7	4.8	5.1	5.5	5.7	-0.6	-0.3
Madagascar	4.2	4.2	4.2	3.7	3.9	4.4	-0.9	-0.8
Malawi	0.9	1.9	1.8	2.0	2.4	3.2	-2.2	-0.9
Mali	3.5	3.5	4.0	4.8	4.8	4.7	0.8	0.3
Mauritania	6.8	6.5	5.2	4.9	4.5	5.4	-2.9	-3.0
Mauritius	8.7	5.0	4.7	3.2	3.0	2.9	-1.2	-0.8
Mozambique	4.4	5.4	1.8	3.0	3.5	3.5	-1.0	-0.5
Namibia	5.4	4.4	3.7	2.9	3.4	3.5	-0.8	-0.5
Niger	11.5	2.0	8.4	7.1	5.1	4.5	-1.4	0.5
Nigeria	3.3	2.9	3.4	3.6	3.7	3.8	0.1	0.0
Rwanda	8.2	8.2	8.9	7.0	7.3	7.3	-0.8	-0.2
São Tomé and Príncipe	0.2	0.4	0.9	3.1	4.8	4.1	-0.2	1.2
Senegal	3.9	4.3	5.8	7.9	5.9	6.7	-1.8	-0.1
Seychelles	12.7	2.3	2.4	3.1	3.0	2.9	-1.0	-0.5
Sierra Leone	5.3	5.7	4.0	4.1	4.2	4.2	-0.6	-0.5
Somalia, Fed. Rep.	2.7	4.2	4.0	3.0	3.5	3.5	-1.5	-1.0
South Africa	2.1	0.8	0.5	0.7	1.1	1.3	-1.1	-0.8
Sudan	-1.0	-29.4	-13.5	5.0	9.3	4.1	3.7	6.4
South Sudan[2]	-2.3	-1.3	-7.2	-34.7	41.1	21.2	-23.3	35.0
Tanzania	4.6	5.1	5.5	5.9	6.1	6.4	0.1	-0.1
Togo	5.8	6.4	5.3	5.0	5.4	5.5	-0.4	-0.4
Uganda[2]	4.7	5.3	6.1	6.2	6.2	10.4	0.0	-4.6
Zambia	5.2	5.4	4.0	5.8	6.4	6.5	-0.4	-0.2
Zimbabwe	6.1	5.3	2.0	6.0	4.6	3.6	-0.2	-0.2

Source: World Bank.

Note: e = estimate; f = forecast. World Bank forecasts are frequently updated based on new information and changing (global) circumstances. Consequently, projections presented here may differ from those contained in other Bank documents, even if basic assessments of countries' prospects do not significantly differ at any given moment in time.

1. Data are based on GDP measured in average 2010-19 prices and market exchange rates.
2. Fiscal-year-based numbers.

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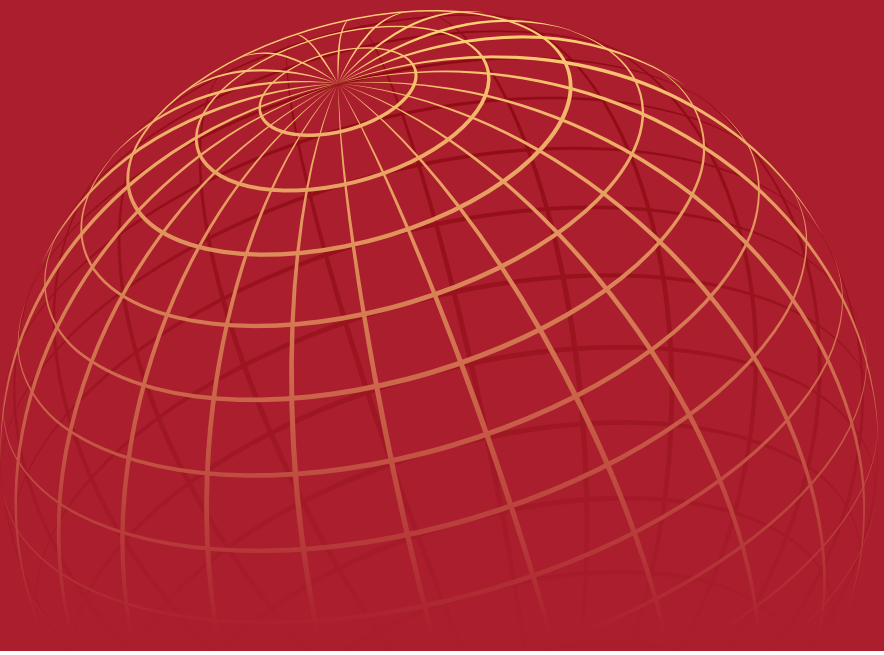

STATISTICAL APPENDIX

Real GDP growth

	Annual estimates and forecasts [1] (Percent change)						Quarterly estimates [2] (Percent change, year-on-year)					
	2022	2023	2024e	2025f	2026f	2027f	23Q4	24Q1	24Q2	24Q3	24Q4	25Q1e
World	**3.3**	**2.8**	**2.8**	**2.3**	**2.4**	**2.6**	**2.7**	**2.7**	**2.7**	**2.7**	**..**	**..**
Advanced economies	**2.9**	**1.7**	**1.7**	**1.2**	**1.4**	**1.5**	**1.5**	**1.6**	**1.8**	**1.8**	**2.0**	**..**
United States	2.5	2.9	2.8	1.4	1.6	1.9	3.2	2.9	3.0	2.7	2.5	2.1
Euro area	3.5	0.4	0.9	0.7	0.8	1.0	0.2	0.5	0.5	1.0	1.2	1.2
Japan	0.9	1.4	0.2	0.7	0.8	0.8	0.7	-0.9	-0.5	0.7	1.4	1.6
Emerging market and developing economies	**3.8**	**4.4**	**4.2**	**3.8**	**3.8**	**3.9**	**4.4**	**4.4**	**4.0**	**3.9**	**..**	**..**
East Asia and Pacific	**3.6**	**5.2**	**5.0**	**4.5**	**4.0**	**4.0**	**5.2**	**5.2**	**4.8**	**4.7**	**5.4**	**5.3**
Cambodia	5.1	5.0	6.0	4.0	4.5	5.1	..	..	..	..	..	..
China	3.1	5.4	5.0	4.5	4.0	3.9	5.3	5.3	4.7	4.6	5.4	5.4
Fiji	19.8	7.5	3.8	2.6	2.9	3.2	..	..	..	..	..	..
Indonesia	5.3	5.0	5.0	4.7	4.8	5.0	5.0	5.1	5.0	4.9	5.0	4.9
Kiribati	4.6	2.7	5.2	3.9	3.0	2.2	..	..	..	..	..	..
Lao PDR	2.7	3.7	4.1	3.5	3.4	3.4	..	..	..	..	..	..
Malaysia	8.9	3.6	5.1	3.9	4.3	4.3	2.8	4.2	5.9	5.4	4.9	4.4
Marshall Islands [3]	-1.1	-3.9	3.4	3.3	2.7	2.3	..	..	..	..	..	..
Micronesia, Fed. Sts. [3]	-0.9	0.8	1.1	1.3	1.4	0.7	..	..	..	..	..	..
Mongolia	5.0	7.2	5.0	6.3	5.2	5.2	7.2	8.0	3.9	3.5	5.4	2.4
Myanmar [3 4]	4.7	1.0	-1.0	-2.5	3.0	..	..	..	..	..	..	..
Nauru [3]	2.8	0.6	1.8	1.4	1.3	1.3	..	..	..	..	..	..
Palau [3]	-1.3	1.9	9.3	8.6	3.5	2.4	..	..	..	..	..	..
Papua New Guinea	5.7	3.8	3.8	4.7	3.5	3.1	..	..	..	..	..	..
Philippines	7.6	5.5	5.7	5.3	5.4	5.5	5.5	5.9	6.5	5.2	5.3	5.4
Samoa [3]	-5.3	9.2	9.4	5.3	2.6	2.1	..	..	..	..	..	..
Solomon Islands	2.4	2.7	2.5	2.6	2.7	2.9	..	..	..	..	..	..
Thailand	2.6	2.0	2.5	1.8	1.7	2.3	1.8	1.7	2.3	3.0	3.3	3.1
Timor-Leste [5]	4.0	2.4	4.1	3.5	3.4	3.5	..	..	..	..	..	..
Tonga [3]	0.0	2.0	1.8	2.2	1.8	1.6	..	..	..	..	..	..
Tuvalu	0.4	3.9	3.5	2.8	2.3	2.2	..	..	..	..	..	..
Vanuatu	5.2	2.2	0.9	-1.8	2.3	2.6	..	..	..	..	..	..
Viet Nam	8.5	5.1	7.1	5.8	6.1	6.4	6.8	6.0	7.2	7.4	7.6	6.9
Europe and Central Asia	**1.5**	**3.6**	**3.6**	**2.4**	**2.5**	**2.7**	**4.1**	**4.5**	**3.3**	**2.8**	**3.6**	**..**
Albania	4.8	3.9	4.0	3.2	3.1	3.1	4.2	4.0	4.0	4.2	3.6	..
Armenia	12.6	8.3	5.9	4.0	4.2	4.5	6.2	7.2	7.1	6.3	3.8	5.2
Azerbaijan	4.6	1.1	4.1	2.6	2.4	2.3	..	..	..	..	..	..
Belarus	-4.7	3.9	4.0	2.2	1.2	0.8	5.3	4.3	5.6	3.8	2.5	..
Bosnia and Herzegovina [5]	4.2	2.0	2.6	2.7	3.1	3.5	1.4	2.5	2.3	2.6	2.5	..
Bulgaria	4.0	1.9	2.8	2.0	2.2	2.4	1.8	1.9	2.3	2.6	4.1	2.8
Croatia	7.3	3.3	3.9	3.1	3.0	2.8	5.3	4.1	3.7	4.0	3.9	2.9
Georgia	11.0	7.8	9.4	5.5	5.0	5.0	7.3	8.7	9.7	11.0	8.3	9.3
Kazakhstan	3.2	5.1	4.8	4.5	3.6	3.5	5.6	3.8	2.6	5.8	6.5	..
Kosovo	4.3	4.1	4.4	3.8	3.8	3.8	..	..	..	..	..	..
Kyrgyz Republic	9.0	9.0	9.0	6.8	5.5	5.8	..	..	..	..	..	..
Moldova	-4.6	1.2	0.1	0.9	2.4	4.4	0.5	2.0	2.5	-1.9	-1.3	..
Montenegro [2]	6.4	6.3	3.0	3.0	2.9	3.0	4.7	4.4	2.7	2.6	2.9	..
North Macedonia	2.8	2.1	2.8	2.6	2.7	2.8	3.1	1.9	2.8	3.0	3.2	3.0
Poland	5.3	0.2	2.9	3.2	3.0	2.9	1.2	2.2	3.2	2.8	3.4	3.2
Romania	4.0	2.4	0.8	1.3	1.9	2.5	2.0	2.1	0.9	0.1	0.5	0.4
Russian Federation	-1.4	4.1	4.3	1.4	1.2	1.2	5.3	5.4	4.3	3.3	4.5	1.4
Serbia	2.6	3.8	3.9	3.5	3.9	4.2	5.1	4.6	4.5	3.2	3.3	2.0
Tajikistan	8.0	8.3	8.4	7.0	4.9	4.7	..	..	..	..	..	..
Türkiye	5.5	5.1	3.2	3.1	3.6	4.2	4.6	5.4	2.4	2.2	3.0	2.0
Ukraine	-28.8	5.5	2.9	2.0	5.2	4.5	5.2	6.8	4.0	2.2	-0.1	..
Uzbekistan	6.0	6.3	6.5	5.9	5.9	5.8	..	..	..	..	..	..

Real GDP growth (*continued*)

	Annual estimates and forecasts [1] (Percent change)						Quarterly estimates [2] (Percent change, year-on-year)					
	2022	2023	2024e	2025f	2026f	2027f	23Q4	24Q1	24Q2	24Q3	24Q4	25Q1e
Latin America and the Caribbean	**4.0**	**2.4**	**2.3**	**2.3**	**2.4**	**2.6**	**1.9**	**1.6**	**2.5**	**2.6**	**..**	**..**
Argentina	5.3	-1.6	-1.8	5.5	4.5	4.0	-1.2	-5.2	-1.7	-2.0	2.1	..
Bahamas, The	10.8	2.6	1.9	1.1	1.2	1.3	..	..	..	..	..	..
Barbados	17.8	4.1	3.8	2.8	2.0	1.7	..	..	..	..	..	..
Belize	9.4	1.1	8.2	2.8	2.4	2.3	1.7	8.5	10.5	6.3	7.1	..
Bolivia	3.6	3.1	1.4	1.2	1.1	1.1	5.1	1.3	3.8	1.3	..	..
Brazil	3.0	3.2	3.4	2.4	2.2	2.3	2.4	2.6	3.3	4.0	3.6	2.9
Chile	2.2	0.5	2.6	2.1	2.2	2.1	1.1	3.3	1.2	2.0	4.0	2.3
Colombia	7.3	0.7	1.6	2.5	2.7	2.9	0.6	0.3	1.7	1.8	2.5	2.7
Costa Rica	4.6	5.1	4.3	3.5	3.7	3.8	4.6	3.6	5.5	3.7	4.6	3.8
Dominica	5.6	4.7	4.6	4.3	3.4	2.8	..	..	..	..	..	..
Dominican Republic	5.2	2.2	5.0	4.0	4.2	4.4	2.2	4.6	6.1	5.1	4.1	..
Ecuador [2]	5.9	2.0	-2.5	1.9	2.0	2.1	0.7	-1.2	-4.1	-1.8	-0.9	..
El Salvador	3.0	3.5	2.6	2.2	2.4	2.9	4.9	3.5	2.6	1.0	3.4	..
Grenada	7.3	4.7	3.7	3.8	3.4	2.7	..	..	..	..	..	..
Guatemala	4.2	3.5	3.7	3.5	3.8	3.8	1.9	2.9	3.7	3.5	4.5	..
Guyana	63.3	33.8	43.4	10.0	23.0	24.3	20.3	50.4	49.8	39.5	36.1	..
Haiti [3]	-1.7	-1.9	-4.2	-2.2	2.0	2.5	..	..	..	..	..	..
Honduras	4.1	3.6	3.6	2.8	3.4	3.7	5.2	3.6	4.3	3.3	3.1	..
Jamaica [2]	5.2	2.6	-0.7	1.7	1.7	1.6	1.7	1.0	0.2	-3.3	-0.8	..
Mexico	3.7	3.3	1.5	0.2	1.1	1.8	2.5	1.5	2.2	1.6	0.4	0.8
Nicaragua	3.8	4.6	3.6	3.4	3.3	3.3	5.2	5.6	4.0	1.1	3.7	..
Panama	10.8	7.4	2.9	3.5	3.8	4.3	3.3	1.8	2.5	2.0	4.9	..
Paraguay	0.2	5.0	4.2	3.7	3.6	3.6	5.4	4.9	5.3	3.1	3.6	..
Peru	2.8	-0.4	3.3	2.9	2.5	2.5	-0.3	1.4	3.7	3.9	4.2	3.9
St. Lucia	20.4	2.2	3.7	2.8	2.3	1.9	..	..	..	..	..	..
St. Vincent and the Grenadines	5.0	5.8	4.5	4.9	2.9	2.7	..	..	..	..	..	..
Suriname	2.4	2.5	2.8	3.1	3.3	3.5	..	..	..	..	..	..
Trinidad and Tobago	1.1	1.4	1.7	2.8	1.3	3.2	-1.0	0.7	-1.9	2.0	..	..
Uruguay	4.5	0.7	3.1	2.3	2.2	2.2	2.9	0.0	4.5	4.4	3.5	..
Middle East and North Africa	**5.4**	**1.6**	**1.9**	**2.7**	**3.7**	**4.1**	**0.9**	**1.3**	**1.7**	**2.2**	**..**	**..**
Algeria [2]	3.6	4.1	3.6	3.3	3.2	2.9	3.0	4.2	3.7	2.3	4.2	..
Bahrain	6.2	3.9	3.0	3.5	3.0	2.8	6.9	3.1	1.0	2.9	3.4	..
Djibouti	3.7	6.7	6.0	5.2	5.1	5.0	..	..	..	..	..	..
Egypt, Arab Rep. [3]	6.6	3.8	2.4	3.8	4.2	4.6	2.3	2.2	2.4	3.5	4.3	..
Iran, Islamic Rep. [3]	3.8	5.0	3.0	-0.5	0.3	1.8	4.2	6.3	3.9	3.5	3.9	..
Iraq [2 5]	8.0	0.5	-1.5	1.2	4.4	3.1	3.8	-6.5	-1.9	-4.2	..	..
Jordan	2.6	2.7	2.5	2.4	2.5	2.8	2.5	2.2	2.4	2.6	2.7	..
Kuwait	6.3	-3.6	-2.9	2.2	2.7	2.7	-3.7	-3.4	-2.2	-3.9	-0.7	..
Lebanon [4]	-0.6	-0.8	-7.1	4.7	..	..	..	..	..	..	..	..
Libya	-8.3	10.2	-2.9	12.3	6.4	5.6	..	..	..	..	..	..
Morocco [2]	1.5	3.4	3.2	3.6	3.5	3.6	4.2	2.5	2.4	4.3	3.7	4.2
Oman	8.0	1.2	1.7	3.0	3.7	4.0	0.6	1.3	2.9	0.9	1.6	..
Qatar	4.2	1.4	2.6	2.4	5.4	7.6	-3.6	0.8	0.6	2.0	6.1	..
Saudi Arabia	7.5	-0.8	1.3	2.8	4.5	4.6	-2.9	-0.6	0.5	2.9	4.4	2.7
Syrian Arab Republic [4]	0.7	-1.2	-1.5	1.0	..	..	..	..	..	..	..	..
Tunisia [2]	2.7	0.0	1.4	1.9	1.6	1.7	-0.6	0.3	1.0	1.8	2.4	1.6
United Arab Emirates	7.6	2.9	3.9	4.6	4.9	4.9	4.3	3.4	3.9	4.0	..	..
West Bank and Gaza	4.1	-4.6	-26.6	-1.6	4.0	16.0	-28.6	-34.9	-32.3	-30.9	-0.9	..
Yemen, Rep. [4]	1.5	-2.0	-1.5	-1.5	0.5	..	..	..	..	..	..	..

Real GDP growth (*continued*)

	Annual estimates and forecasts [1] (Percent change)						Quarterly estimates [2] (Percent change, year-on-year)					
	2022	2023	2024e	2025f	2026f	2027f	23Q4	24Q1	24Q2	24Q3	24Q4	25Q1e
South Asia	**6.0**	**7.4**	**6.0**	**5.8**	**6.1**	**6.2**	**8.1**	**7.4**	**5.7**	**4.8**	**5.7**	**..**
Afghanistan [3]	-6.2	2.3	2.5	2.2	2.4	2.5	..	..	..	..	..	..
Bangladesh [3]	7.1	5.8	4.2	3.3	4.9	5.7	4.5	4.6	2.1	2.0	4.5	..
Bhutan [3]	4.8	5.0	4.9	6.6	7.6	5.3	..	..	..	..	..	..
India [3]	7.6	9.2	6.5	6.3	6.5	6.7	9.5	8.4	6.5	5.6	6.4	7.4
Maldives	13.8	4.7	5.5	5.7	5.3	4.7	5.8	7.6	3.4	6.6	3.0	..
Nepal [2 3]	5.6	2.0	3.9	4.5	5.2	5.5	5.3	2.6	3.1	4.0	5.1	..
Pakistan [2 3 5]	6.2	-0.2	2.5	2.7	3.1	3.4	1.8	2.5	3.3	1.4	1.5	2.4
Sri Lanka	-7.3	-2.3	5.0	3.5	3.1	3.1	4.3	5.1	4.1	5.3	5.4	..
Sub-Saharan Africa	**3.9**	**2.9**	**3.5**	**3.7**	**4.1**	**4.3**	**3.2**	**2.7**	**3.1**	**2.9**	**3.3**	**..**
Angola	3.0	1.0	4.4	2.7	2.6	3.2	-0.3	3.8	6.9	4.4	2.6	3.5
Benin	6.3	6.4	7.5	7.2	7.1	7.0	6.4	6.3	6.7	7.3	9.2	..
Botswana	5.6	3.2	-3.0	0.6	4.2	3.8	2.3	-5.2	-0.4	-4.2	-2.0	..
Burkina Faso	1.5	3.0	4.9	4.3	4.7	5.0	..	..	..	..	..	..
Burundi	1.8	2.7	3.5	3.5	3.7	4.0	..	..	..	..	..	..
Cabo Verde	15.8	5.4	7.3	5.9	5.3	4.9	..	..	..	..	..	..
Cameroon	3.7	3.2	3.5	3.7	3.8	3.9	..	..	..	..	..	..
Central African Republic	0.5	0.7	1.5	2.1	2.2	2.8	..	..	..	..	..	..
Chad	13.0	4.1	3.7	3.5	4.5	4.4	..	..	..	..	..	..
Comoros	2.8	3.0	3.4	3.7	3.8	4.0	..	..	..	..	..	..
Congo, Dem. Rep.	8.9	8.6	6.5	4.8	5.0	5.3	..	..	..	..	..	..
Congo, Rep.	1.5	1.9	2.6	2.8	3.2	2.9	..	..	..	..	..	..
Côte d'Ivoire	6.4	6.5	6.0	5.8	6.1	6.4	..	..	..	..	..	..
Equatorial Guinea	3.2	-5.1	0.9	-3.1	0.6	-1.1	..	..	..	..	..	..
Eritrea	2.5	2.6	2.9	3.1	3.4	3.5	..	..	..	..	..	..
Eswatini	1.1	3.4	4.8	5.0	4.0	2.8	..	..	..	..	..	..
Ethiopia [3]	6.4	7.2	8.1	6.4	6.5	7.2	..	..	..	..	..	..
Gabon	3.0	2.4	2.9	2.1	2.2	3.0	..	..	..	..	..	..
Gambia, The	5.5	4.8	5.7	5.6	5.3	5.5	..	..	..	..	..	..
Ghana	3.8	3.1	5.7	3.9	4.6	4.8	5.1	4.9	7.5	7.2	3.6	..
Guinea	4.0	5.5	5.7	6.5	8.8	11.3	..	..	..	..	..	..
Guinea-Bissau	5.6	4.4	4.8	5.1	5.2	5.2	..	..	..	..	..	..
Kenya	4.9	5.7	4.7	4.5	4.9	5.0	6.1	4.9	4.6	4.2	5.1	..
Lesotho	2.4	1.8	2.3	1.5	0.9	0.6	3.0	2.2	0.6	4.6	3.5	..
Liberia	4.8	4.7	4.8	5.1	5.5	5.7	..	..	..	..	..	..
Madagascar	4.2	4.2	4.2	3.7	3.9	4.4	..	..	..	..	..	..
Malawi	0.9	1.9	1.8	2.0	2.4	3.2	..	..	..	..	..	..
Mali	3.5	3.5	4.0	4.8	4.8	4.7	..	..	..	..	..	..
Mauritania	6.8	6.5	5.2	4.9	4.5	5.4	..	..	..	..	..	..
Mauritius	8.7	5.0	4.7	3.2	3.0	2.9	4.1	4.8	3.9	5.2	4.8	..
Mozambique	4.4	5.4	1.8	3.0	3.5	3.5	4.8	3.2	4.5	3.7	-4.9	..
Namibia	5.4	4.4	3.7	2.9	3.4	3.5	5.7	5.1	3.5	3.2	3.1	..
Niger	11.5	2.0	8.4	7.1	5.1	4.5	..	..	..	..	..	..
Nigeria	3.3	2.9	3.4	3.6	3.7	3.8	3.2	2.8	3.0	3.1	4.6	..
Rwanda	8.2	8.2	8.9	7.0	7.3	7.3	10.0	9.7	9.8	8.1	8.1	..
São Tomé and Príncipe	0.2	0.4	0.9	3.1	4.8	4.1	..	..	..	..	..	..
Senegal	3.9	4.3	5.8	7.9	5.9	6.7	..	..	..	..	..	..
Seychelles	12.7	2.3	2.4	3.1	3.0	2.9	-2.6	-5.4	3.2	10.0	7.2	..
Sierra Leone	5.3	5.7	4.0	4.1	4.2	4.2	..	..	..	..	..	..

Real GDP growth (*continued*)

	Annual estimates and forecasts [1] (Percent change)						Quarterly estimates [2] (Percent change, year-on-year)					
	2022	2023	2024e	2025f	2026f	2027f	23Q4	24Q1	24Q2	24Q3	24Q4	25Q1e
Sub-Saharan Africa (*continued*)												
Somalia, Fed. Rep.	2.7	4.2	4.0	3.0	3.5	3.5	..	..	..	..	..	..
South Africa	2.1	0.8	0.5	0.7	1.1	1.3	1.6	0.5	0.4	0.4	0.8	0.8
South Sudan [3]	-2.3	-1.3	-7.2	-34.7	41.1	21.2	..	..	..	..	..	..
Sudan	-1.0	-29.4	-13.5	5.0	9.3	4.1	..	..	..	..	..	..
Tanzania	4.6	5.1	5.5	5.9	6.1	6.4	..	..	..	..	..	..
Togo	5.8	6.4	5.3	5.0	5.4	5.5	..	..	..	..	..	..
Uganda [3]	4.7	5.3	6.1	6.2	6.2	10.4	5.8	7.1	6.2	6.7	5.3	..
Zambia	5.2	5.4	4.0	5.8	6.4	6.5	7.9	2.2	1.9	3.0	8.6	..
Zimbabwe	6.1	5.3	2.0	6.0	4.6	3.6	..	..	..	..	..	..

Sources: Haver Analytics; World Bank.

Note: e = estimate; f = forecast.

1. Aggregate growth rates calculated using GDP weights at average 2010-19 prices and market exchange rates.

2. Quarterly estimates are based on non-seasonally-adjusted real GDP, except for advanced economies, as well as Algeria, Ecuador, Morocco, and Tunisia. In some instances, quarterly growth paths may not align to annual growth estimates, owing to the timing of GDP releases. Quarterly data for Iraq, Jamaica, Nepal, and Pakistan are gross value added. Quarterly data for Montenegro are preliminary.

Regional averages are calculated based on data from the following economies.

East Asia and Pacific: China, Indonesia, Malaysia, Mongolia, the Philippines, Thailand, and Viet Nam.

Europe and Central Asia: Albania, Armenia, Belarus, Bosnia and Herzegovina, Bulgaria, Georgia, Hungary, Kazakhstan, Moldova, Montenegro, North Macedonia, Poland, Romania, the Russian Federation, Serbia, Türkiye, and Ukraine.

Latin America and the Caribbean: Argentina, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Trinidad and Tobago, and Uruguay.

Middle East and North Africa: Algeria, Bahrain, the Arab Republic of Egypt, the Islamic Republic of Iran, Iraq, Jordan, Kuwait, Morocco, Oman, Qatar, Saudi Arabia, Tunisia, the United Arab Emirates, and West Bank and Gaza.

South Asia: Bangladesh, India, Maldives, Nepal, Pakistan, and Sri Lanka.

Sub-Saharan Africa: Angola, Benin, Botswana, Ghana, Kenya, Lesotho, Mauritius, Mozambique, Namibia, Nigeria, Rwanda, the Seychelles, South Africa, Uganda, and Zambia.

3. Annual GDP is on fiscal year basis, as per reporting practice in the country. For Bangladesh, Bhutan, Egypt, Nepal, and Pakistan, the column for 2022 refers to FY2021/22. For Afghanistan, India, and the Islamic Republic of Iran, the column for 2022 refers to FY2022/23.

4. Data for Lebanon (beyond 2025), Myanmar (beyond 2026), the Syrian Arab Republic (beyond 2025), and the Republic of Yemen (beyond 2026) are excluded because of a high degree of uncertainty.

5. Data for Bosnia and Herzegovina are from the production approach. Annual data for Iraq and Pakistan are based on factor cost. Data for Timor-Leste represent non-oil GDP.

Data and Forecast Conventions

The macroeconomic forecasts presented in this report are prepared by staff of the Prospects Group of the Development Economics Vice Presidency, in coordination with staff from the Economic Policy Global Practice of the Prosperity Vice Presidency and from regional and country offices, and with input from regional Chief Economist offices. They are the result of an iterative process that incorporates data, macroeconometric models, and judgment.

Data. Data used to prepare country forecasts come from a variety of sources. National Income Accounts (NIA), Balance of Payments (BOP), and fiscal data are from Haver Analytics; the World Development Indicators by the World Bank; the *World Economic Outlook*, *Balance of Payments Statistics*, and *International Financial Statistics* by the International Monetary Fund. Population data and forecasts are from the United Nations World Population Prospects. Country- and lending-group classifications are from the World Bank. The Prospects Group's internal databases include high-frequency indicators such as industrial production, consumer price indexes, emerging markets bond index (EMBI), exchange rates, exports, imports, policy rates, and stock market indexes, based on data from Bloomberg, Haver Analytics, IMF *Balance of Payments Statistics*, IMF *International Financial Statistics*, and J.P. Morgan.

Aggregations. Aggregate growth rates for the world and all subgroups of countries (such as regions and income groups) are weighted averages of country-specific growth rates, calculated using GDP weights at average 2010-19 prices and market exchange rates. Income groups are defined as in the World Bank's classification of country groups.

Output growth forecast process. The process starts with initial assumptions about advanced-economy growth and commodity price forecasts. These are used as conditioning assumptions for the first set of growth forecasts for EMDEs, which are produced using macroeconometric models, accounting frameworks to ensure national account identities and global consistency, estimates of spillovers from major economies, and high-frequency indicators. These forecasts are then evaluated to ensure consistency of treatment across similar EMDEs. This is followed by extensive discussions with World Bank country teams, who conduct continuous macroeconomic monitoring and dialogue with country authorities and finalize growth forecasts for EMDEs. The Prospects Group prepares advanced-economy and commodity price forecasts. Throughout the forecasting process, staff use macroeconometric models that allow the combination of judgment and consistency with model-based insights.

Global trade growth forecast process. Global trade growth is calculated as the percentage change in the average of global exports and imports of goods and nonfactor services, both measured in real U.S. dollars. Forecasts for global exports and imports are derived from a bottom-up approach, using country-level forecasts for real exports and imports produced during the forecasting process as described above.

Global Economic Prospects: Selected Topics, 2015-25

Growth and business cycles		
Economics of pandemics		
	Impact of COVID-19 on global income inequality	January 2022, chapter 4
	Regional macroeconomic implications of COVID-19	June 2020, special focus
	Lasting scars of the COVID-19 pandemic	June 2020, chapter 3
	Adding fuel to the fire: Cheap oil during the pandemic	June 2020, chapter 4
	How deep will the COVID-19 recession be?	June 2020, box 1.1
	Scenarios of possible global growth outcomes	June 2020, box 1.3
	How does informality aggravate the impact of COVID-19?	June 2020, box 1.4
	The impact of COVID-19 on global value chains	June 2020, box SF1
	How do deep recessions affect potential output?	June 2020, box 3.1
	How do disasters affect productivity?	June 2020, box 3.2
	Reforms after the 2014-16 oil price plunge	June 2020, box 4.1
	The macroeconomic effects of pandemics and epidemics: A literature review	June 2020, annex 3.1
Informality		
	How does informality aggravate the impact of COVID-19?	June 2020, box 1.4
	Growing in the shadow: Challenges of informality	January 2019, chapter 3
	Linkages between formal and informal sectors	January 2019, box 3.1
	Regional dimensions of informality: An overview	January 2019, box 3.2
	Casting a shadow: Productivity in formal and informal firms	January 2019, box 3.3
	Under the magnifying glass: How do policies affect informality?	January 2019, box 3.4
Inflation		
	Global stagflation	June 2022, special focus 1
	Emerging inflation pressures: Cause for alarm?	June 2021, chapter 4
	Low for how much longer? Inflation in low-income countries	January 2020, special focus 2
	Currency depreciation, inflation, and central bank independence	June 2019, special focus 1.2
	The great disinflation	January 2019, box 1.1
Growth prospects		
	From tailwinds to headwinds: Emerging and developing economies in the twenty-first century	January 2025, chapter 3
	Falling graduation prospects: Low-income countries in the twenty-first century	January 2025, chapter 4
	Small states: Overlapping crises, multiple challenges	January 2023, chapter 4
	Global stagflation	June 2022, special focus 1
	Global growth scenarios	January 2021, box 1.4
	The macroeconomic effects of pandemics and epidemics: A literature review	June 2020, annex 3.1
	How deep will the COVID-19 recession be?	June 2020, box 1.1
	Lasting Scars of the COVID-19 Pandemic	June 2020, chapter 3
	Regional macroeconomic implications of COVID-19	June 2020, special focus
	Growth in low-income countries: Evolution, prospects, and policies	June 2019, special focus 2.1
	Long-term growth prospects: Downgraded no more?	June 2018, box 1.1
Global output gap		
	Is the global economy turning the corner?	January 2018, box 1.1
Potential growth		
	Global economy: Heading into a decade of disappointments?	January 2021, chapter 3
	How do deep recessions affect potential output in EMDEs?	June 2020, box 3.1
	Building solid foundations: How to promote potential growth	January 2018, chapter 3
	What is potential growth?	January 2018, box 3.1
	Understanding the recent productivity slowdown: Facts and explanations	January 2018, box 3.2
	Moving together? Investment and potential output	January 2018, box 3.3
	The long shadow of contractions over potential output	January 2018, box 3.4
	Productivity and investment growth during reforms	January 2018, box 3.5
Cross-border spillovers		
	Who catches a cold when emerging markets sneeze?	January 2016, chapter 3
	Sources of the growth slowdown in BRICS	January 2016, box 3.1
	Understanding cross-border growth spillovers	January 2016, box 3.2
	Within-region spillovers	January 2016, box 3.3

Global Economic Prospects: Selected Topics, 2015-25

Growth and business cycles		
Productivity		
	How do disasters affect productivity?	June 2020, box 3.2
	Fading promise: How to rekindle productivity growth	January 2020, chapter 3
	EMDE regional productivity trends and bottlenecks	January 2020, box 3.1
	Sectoral sources of productivity growth	January 2020, box 3.2
	Patterns of total factor productivity: A firm perspective	January 2020, box 3.3
	Debt, financial crises, and productivity	January 2020, box 3.4
Investment		
	Foreign direct investment in retreat: Policies to turn the tide	June 2025, chapter 3
	Harnessing the benefits of public investment	June 2024, chapter 3
	Public investment dynamics around adverse events	June 2024, box 3.1
	Macroeconomic impacts of public investment: A literature review	June 2024, box 3.2
	The magic of investment accelerations	January 2024, chapter 3
	Sparking investment accelerations: Lessons from country case studies	January 2024, box 3.1
	Investment growth after the pandemic	January 2023, chapter 3
	Investment: Subdued prospects, strong needs	June 2019, special focus 1.1
	Weak investment in uncertain times: Causes, implications, and policy responses	January 2017, chapter 3
	Investment-less credit booms	January 2017, box 3.1
	Implications of rising uncertainty for investment in EMDEs	January 2017, box 3.2
	Investment slowdown in China	January 2017, box 3.3
	Interactions between public and private investment	January 2017, box 3.4
Forecast uncertainty		
	Scenarios of possible global growth outcomes	June 2020, box 1.3
	Quantifying uncertainties in global growth forecasts	June 2016, special focus 2
Fiscal space		
	Having space and using it: Fiscal policy challenges and developing economies	January 2015, chapter 3
	Fiscal policy in low-income countries	January 2015, box 3.1
	What affects the size of fiscal multipliers?	January 2015, box 3.2
	Chile's fiscal rule—an example of success	January 2015, box 3.3
	Narrow fiscal space and the risk of a debt crisis	January 2015, box 3.4
	Revenue mobilization in South Asia: Policy challenges and recommendations	January 2015, box 2.3
Other topics		
	Fragile and conflict-affected situations: Intertwined crises, multiple vulnerabilities	June 2025, chapter 4
	Education demographics and global inequality	January 2018, special focus 2
	Recent developments in emerging and developing country labor markets	June 2015, box 1.3
	Linkages between China and Sub-Saharan Africa	June 2015, box 2.1
	What does weak growth mean for poverty in the future?	January 2015, box 1.1
	What does a slowdown in China mean for Latin America and the Caribbean?	January 2015, box 2.2

Monetary and exchange rate policies	
Financial spillovers of rising U.S. interest rates	June 2023, chapter 3
Asset purchases in emerging markets: Unconventional policies, unconventional times	January 2021, chapter 4
The fourth wave: Rapid debt buildup	January 2020, chapter 4
Price controls: Good intentions, bad outcomes	January 2020, special focus 1
Low for how much longer? Inflation in low-income countries	January 2020, special focus 2
Currency depreciation, inflation, and central bank independence	June 2019, special focus 1.2
The great disinflation	January 2019, box 1.1
Corporate debt: Financial stability and investment implications	June 2018, special focus 2
Recent credit surge in historical context	June 2016, special focus 1
Peg and control? The links between exchange rate regimes and capital account policies	January 2016, chapter 4
Negative interest rates in Europe: A glance at their causes and implications	June 2015, box 1.1
Hoping for the best, preparing for the worst: Risks around U.S. rate liftoff and policy options	June 2015, special focus 1
Countercyclical monetary policy in emerging markets: Review and evidence	January 2015, box 1.2

Global Economic Prospects: Selected Topics, 2015-25

Fiscal policies	
Fiscal challenges in small states: Weathering storms, rebuilding resilience	June 2024, chapter 4
Fiscal policy in commodity exporters: An enduring challenge	January 2024, chapter 4
How does procyclical fiscal policy affect output growth?	January 2024, box 4.1
Do fiscal rules and sovereign wealth funds make a difference? Lessons from country case studies	January 2024, box 4.2
Fiscal policy challenges in low-income countries	June 2023, chapter 4
Resolving high debt after the pandemic: lessons from past episodes of debt relief	January 2022, special focus
How has the pandemic made the fourth wave of debt more dangerous?	January 2021, box 1.1
The fourth wave: Rapid debt buildup	January 2020, chapter 4
Debt: No free lunch	June 2019, box 1.1
Debt in low-income countries: Evolution, implications, and remedies	January 2019, chapter 4
Debt dynamics in emerging market and developing economies: Time to act?	June 2017, special focus 1
Having fiscal space and using it: FiscFal challenges in developing economies	January 2015, chapter 3
Revenue mobilization in South Asia: Policy challenges and recommendations	January 2015, box 2.3
Fiscal policy in low-income countries	January 2015, box 3.1
What affects the size of fiscal multipliers?	January 2015, box 3.2
Chile's fiscal rule—an example of success	January 2015, box 3.3
Narrow fiscal space and the risk of a debt crisis	January 2015, box 3.4

Commodity markets	
Russia's invasion of Ukraine: Implications for energy markets and activity	June 2022, special focus 2
Commodity price cycles: Underlying drivers and policy options	January 2022, chapter 3
Reforms after the 2014-16 oil price plunge	June 2020, box 4.1
Adding fuel to the fire: Cheap oil in the pandemic	June 2020, chapter 4
The role of major emerging markets in global commodity demand	June 2018, special focus 1
The role of the EM7 in commodity production	June 2018, SF1, box SF1.1
Commodity consumption: Implications of government policies	June 2018, SF1, box SF1.2
With the benefit of hindsight: The impact of the 2014–16 oil price collapse	January 2018, special focus 1
From commodity discovery to production: Vulnerabilities and policies in LICs	January 2016, special focus
After the commodities boom: What next for low-income countries?	June 2015, special focus 2
Low oil prices in perspective	June 2015, box 1.2
Understanding the plunge in oil prices: Sources and implications	January 2015, chapter 4
What do we know about the impact of oil prices on output and inflation? A brief survey	January 2015, box 4.1

Globalization of trade and financial flows	
High trade costs: causes and remedies	June 2021, chapter 3
The impact of COVID-19 on global value chains	June 2020, box SF1
Poverty impact of food price shocks and policies	January 2019, chapter 4
Arm's-length trade: A source of post-crisis trade weakness	June 2017, Special Focus 2
The U.S. economy and the world	January 2017, Special Focus
Potential macroeconomic implications of the Trans-Pacific Partnership Agreement	January 2016, chapter 4
Regulatory convergence in mega-regional trade agreements	January 2016, box 4.1.1
China's integration in global supply chains: Review and implications	January 2015, box 2.1
Can remittances help promote consumption stability?	January 2015, chapter 4
What lies behind the global trade slowdown?	January 2015, chapter 4

Prospects Group: Selected Other Publications on the Global Economy, 2015-25

Commodity Markets Outlook	
Post-pandemic commodity cycles: A new era?	April 2025
Commodity price synchronization: A new era?	October 2024
Forecasting industrial commodity prices: An assessment	April 2024
Potential near-term implications of the conflict in the Middle East for commodity markets: A preliminary assessment	October 2023
Forecasting industrial commodity prices	April 2023
Pandemic, war, recession: Drivers of aluminum and copper prices	October 2022
The impact of the war in Ukraine on commodity markets	April 2022
Urbanization and commodity demand	October 2021
Causes and consequences of metal price shocks	April 2021
Persistence of commodity shocks	October 2020
Food price shocks: Channels and implications	April 2019
The implications of tariffs for commodity markets	October 2018, box
The changing of the guard: Shifts in industrial commodity demand	October 2018
Oil exporters: Policies and challenges	April 2018
Investment weakness in commodity exporters	January 2017
OPEC in historical context: Commodity agreements and market fundamentals	October 2016
From energy prices to food prices: Moving in tandem?	July 2016
Resource development in an era of cheap commodities	April 2016
Weak growth in emerging market economies: What does it imply for commodity markets?	January 2016
Understanding El Niño: What does it mean for commodity markets?	October 2015
How important are China and India in global commodity consumption?	July 2015
Anatomy of the last four oil price crashes	April 2015
Putting the recent plunge in oil prices in perspective	January 2015

Inflation in Emerging and Developing Economies: Evolution, Drivers, and Policies	
Inflation: Concepts, evolution, and correlates	Chapter 1
Understanding global inflation synchronization	Chapter 2
Sources of inflation: Global and domestic drivers	Chapter 3
Inflation expectations: Review and evidence	Chapter 4
Inflation and exchange rate pass-through	Chapter 5
Inflation in low-income countries	Chapter 6
Poverty impact of food price shocks and policies	Chapter 7

A Decade After the Global Recession: Lessons and Challenges for Emerging and Developing Economies	
A decade after the global recession: Lessons and challenges	Chapter 1
What happens during global recessions?	Chapter 2
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High-frequency monitoring
Global Monthly newsletter

The global economy is facing another substantial headwind, emanating largely from an increase in trade tensions and heightened global policy uncertainty. For emerging market and developing economies (EMDEs), the ability to boost job creation and reduce extreme poverty has declined. Key downside risks include a further escalation of trade barriers and continued policy uncertainty. These challenges are exacerbated by subdued foreign direct investment into EMDEs. Global cooperation is needed to restore a more stable international trade environment and scale up support for vulnerable countries grappling with conflict, debt burdens, and climate change. Domestic policy action is also critical to contain inflation risks and strengthen fiscal resilience. To accelerate job creation and long-term growth, structural reforms must focus on raising institutional quality, attracting private investment, and strengthening human capital and labor markets. Countries in fragile and conflict situations face daunting development challenges that will require tailored domestic policy reforms and well-coordinated multilateral support.

Global Economic Prospects is a World Bank Group Flagship Report that examines global economic developments and prospects, with a special focus on emerging market and developing economies, on a semiannual basis (in January and June). Each edition includes analytical pieces on topical policy challenges faced by these economies.

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