United Nations | Department of Economic and Social Affairs

MONTHLY BRIEFING
WORLD ECONOMIC SITUATION AND PROSPECTS

Economic Analysis | No. 181 | June 2024

Enhanced global economic outlook amid persistent vulnerabilities

Global macroeconomic outlook

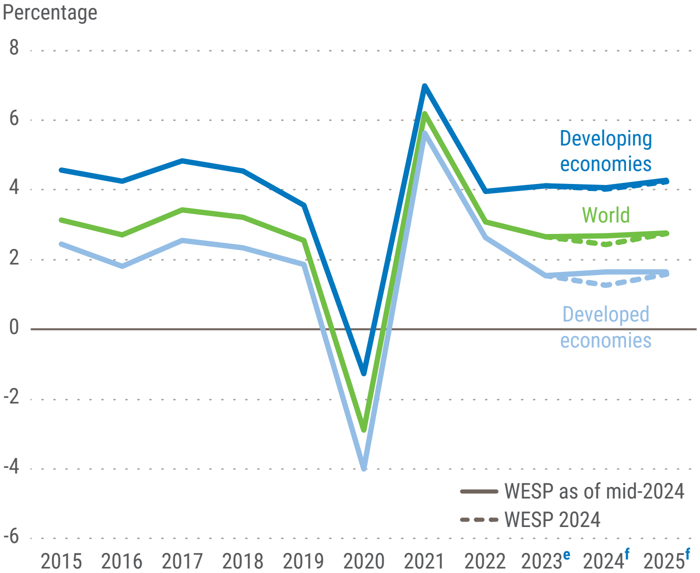
The global economic outlook has improved since the previous forecast released in January 2024. Despite the most aggressive monetary tightening in decades, a hard landing scenario of the United States economy has largely receded. Most major economies have managed to bring down inflation without increasing unemployment and triggering a recession. However, the outlook is only cautiously optimistic as higher-for-longer interest rates, debt difficulties, and escalating geopolitical risks will continue to challenge stable and sustained economic growth. Ever-worsening climate shocks continue to pose additional challenges to the global economic outlook, threatening decades of development gains, especially for least developed countries (LDCs) and small islands developing States (SIDS). The breakneck pace of technological change – including in machine learning and artificial intelligence – presents new opportunities and risks to the global economy, promising to boost productivity and advance knowledge on the one hand, while exacerbating technological divides and reshaping labour markets on the other.

KEY MESSAGES

- The global economic outlook has improved since January. The world economy is now projected to grow by 2.7 per cent in 2024, instead of 2.4 per cent forecasted earlier, on the back of better-than-expected performance of the United States economy and some improvement in the outlook for several large emerging economies.
- This is partly offset by downward revisions of the growth outlook for the European Union, Africa, and Western Asia. On balance, the near-term outlook is only cautiously optimistic as major vulnerabilities remain, amid persistently high interest rates, continuing geopolitical tensions, and increasing climate risks.
- The majority of central banks kept their policy rates unchanged in the first quarter of 2024, closely watching the decisions of the United States Federal Reserve and the European Central Bank. On the fiscal front, the recent crises continue to stretch the limits of public finances, exacerbating fiscal pressures and debt challenges in many economies.

Figure 1

Growth of economic output



Source: UN DESA, based on estimates and forecasts produced with the World Economic Forecasting Model.

Note: **e** = estimates; **f** = forecasts.

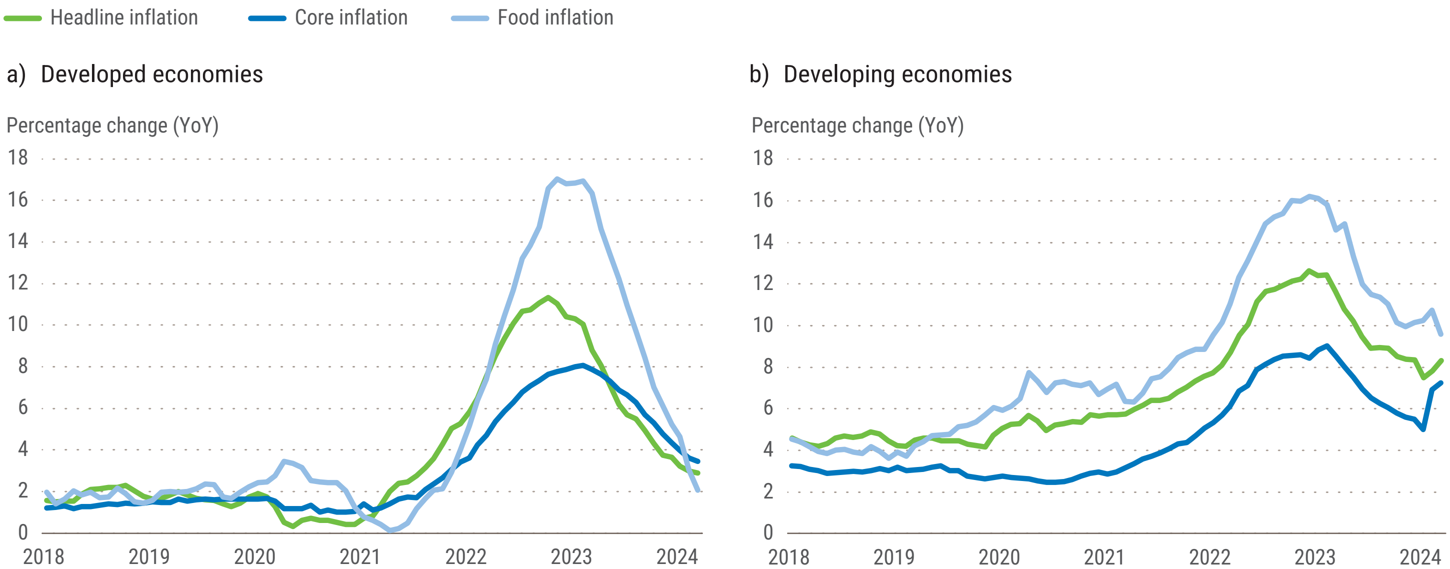
The world economy is now forecast to grow by 2.7 per cent in 2024 (an increase of 0.3 percentage points from the forecast in January) and 2.8 per cent in 2025 (an increase of 0.1 percentage points) (figure 1). The upward revisions mainly reflect improved prospects in the United States and several large developing economies, notably India and Brazil. However, the economic outlook for many African countries has deteriorated since the last release. On average, global growth in the coming years is expected to remain below the average of 3.2 per cent during 2010–2019.

The near-term growth prospects for major economies diverge. The outlook of the United States continues to improve, now expected to grow by 2.3 per cent in 2024. A strong labour market has continued to deliver jobs and real income growth, while stronger household balance sheets support additional consumption. The European

The Monthly Briefing on the World Economic Situation and Prospect is part of the monitoring and analysis activities of the Global Economic Monitoring Branch (GEMB) of the Economic Analysis and Policy Division (EAPD) of UN DESA. This issue, based on the *World Economic Situation and Prospects as of mid-2024* launched on 16 May, was prepared by Sebastian Vergara under the supervision of Hamid Rashid (Chief, GEMB) and general guidance of Shantanu Mukherjee (Director, EAPD). Andrea Dominovic provided statistical assistance.

Figure 2

Headline inflation and components



Source: UN DESA, based on data from CEIC and Ha, Kose and Ohnsorge (2021), One-stop source: a global database of inflation, Policy Research Working Paper, No. 9737, Washington, D.C., World Bank.
Notes: YoY = year-over-year. Country group data are an unweighted 10 per cent trimmed mean, excluding the 10 per cent largest and 10 per cent smallest values from the sample. Core inflation excludes food and energy.

Union and the United Kingdom of Great Britain and Northern Ireland are expected to register modest improvement this year, after barely growing in 2023. A few economies in the European Union experienced a recession in 2023 – albeit a very shallow one – amid tight financing conditions and the withdrawal of fiscal support. Nevertheless, declining inflation, robust wage growth and projected rate cuts by the European Central Bank and the Bank of England are expected to provide some impetus to regional growth in the near term. China's growth is projected to moderate to 4.8 per cent in 2024, from 5.2 per cent in 2023. Pent-up consumer demand – released after the lifting of pandemic-related restrictions – has largely dissipated. While enhanced policy support is expected to boost investments in public infrastructure and strategic sectors, the property sector poses a significant downside risk to the Chinese economy.

Several large developing economies – India, Indonesia, and Mexico – are benefiting from strong domestic and external demand. In comparison, many economies in Africa and Latin America and the Caribbean are on a low-growth trajectory, facing high inflation, elevated borrowing costs, persistent exchange rate pressures and lingering political instability.[1] The possible intensification and spreading of conflicts in Gaza and the Red Sea add further uncertainties to the near-term outlook for the Middle East.

Growth in the LDCs is forecast to improve slightly from 4.2 per cent in 2023 to 4.8 per cent in 2024. Debt sustainability remains precarious in many LDCs, with 5 countries in debt distress and another 15 at a high risk of debt distress.[2] The landlocked developing countries (LLDCs) are expected to grow by 4.7 per cent in 2024, largely unchanged from 2023. Geopolitical tensions have particularly affected the economic outlook of a few LLDCs due to their dependence on neighbouring transit countries to access international trade routes. The economic outlook for the SIDS is set to improve, with GDP growth projected to increase from 2.4 per cent in 2023 to 3.3 per cent in 2024, primarily fuelled by a sustained rebound in tourism. However, the outlook is subject to elevated downside risks, amid more frequent natural disasters and extreme weather events. Heightened geopolitical tensions could increase pressures on domestic inflation and input costs. High public debt continues to be a major structural challenge.

Meanwhile, inflation has declined in most countries since their peaks in 2023 (figure 2). Several countries, including Hungary, Latvia, Republic of Moldova, Rwanda

1 For more detailed GDP growth and inflation data across different regions, please see the *World Economic Situation and Prospects as of mid-2024*.

2 IMF (2024), List of Low-Income Countries Debt Sustainability Analysis, as of February 29, 2024.

and Ukraine, have experienced steep disinflation over a twelve-month period. The declining and stabilizing international energy and food prices and weak second-round pass-through effects largely explain the sharp disinflation. Core inflation, which typically excludes food and energy prices, is also approaching the range that can encourage policymakers to loosen their tight monetary policy stances in many countries. Concerns remain that inflation could resurge, as food and energy prices have edged up in recent months, amid geopolitical tensions in the Red Sea and transit challenges in the Panama Canal. With near historically low unemployment rates, wages are still under upward pressure in many developed economies.

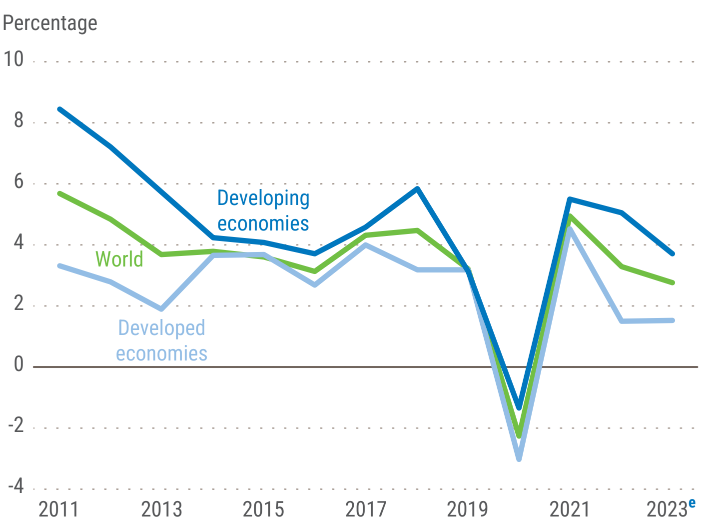
In developing countries, countries such as Angola, Argentina, Democratic Republic of Congo, Egypt, Ethiopia, Gambia, Ghana, Lebanon, Malawi, Nigeria, Sierra Leone, Türkiye, Venezuela (Bolivarian Republic of) and Zimbabwe continue to experience high inflation against the backdrop of persistent balance of payments challenges, exchange rate devaluation and pass-through effects. Inflation in the State of Palestine surged in the first quarter of 2024, reflecting the dire economic situation in the Gaza Strip.

International trade and investment

Global investment has been on a downward trajectory since 2021, with growth of investment –measured by real gross fixed capital formation – estimated at 2.8 per cent in 2023. This reflects the sharp decline in investment

Figure 3

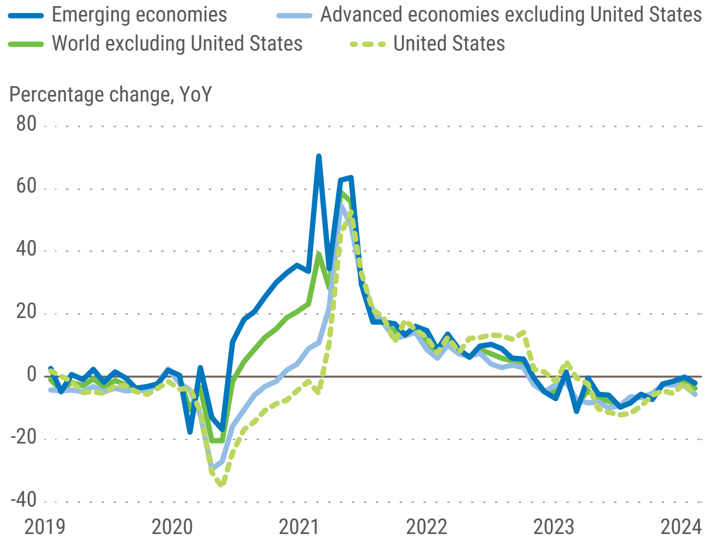
Annual investment growth



Source: UN DESA, based on estimates produced with the World Economic Forecasting Model.
Note: **e** = estimates.

Figure 4

Merchandise exports



Source: UN DESA, based on Federal Reserve Bank of Dallas.
Notes: YoY = year-over-year. Monthly data is available until January 2024.

growth in the developing economies from 5.1 per cent in 2022 to 3.7 per cent in 2023 (figure 3). High real interest rates, tight fiscal space, and geopolitical risks undermined investment growth.

Residential investment – a key component in gross fixed capital formation – contracted in the United States, the United Kingdom, and the euro area due to high interest rates, affecting both demand and supply of housing. Residential investment slowed down in Japan but remained positive. Non-residential fixed investment in the United States saw the strongest growth with 1.9 per cent after three years of negative growth. Investment in machinery and equipment registered sharp increases in the United Kingdom and the euro area due to new industrial policies, supporting energy transition and supply chain resilience. The weak investment growth in developed countries is projected to continue in 2024, as expectations of interest rate cuts led to the postponing of investment decisions during the first half of 2024.

Growth in global trade in goods remained weak in 2023 (figure 4). The value of global merchandise trade has been on a continuous decline since mid-2022 and further contracted by 5 per cent in 2023.[3] In contrast, the volume of merchandise trade growth remained slightly positive indicating resiliency in global demand for imported goods. The overall decline in merchandise trade is partly driven by weakening industrial output. A strong United States dollar has also weighed on import demand,

3 UNCTAD (2024), Global Trade Update, March 2024.

particularly in developing countries, with South-South trade declining by 7 per cent in 2023.[3] Trade in services remained more resilient and grew by 8 per cent in 2023, although it moderated in the fourth quarter.

Global trade is expected to recover in 2024. The early boost to trade flows in the first months of the year can be attributed to destocking of the inventory that piled up amid supply-chain disruptions in 2021–22. China's foreign trade grew faster than expected in the first two months in 2024, driven largely by exports to emerging markets, particularly to Brazil, India and the Russian Federation. However, persistent geopolitical tensions in the Middle East and disruptions in the Red Sea, and escalating cost of freight continue to pose challenges to global trade. A more pronounced rebound in global trade is likely in the second half of 2024, especially if the United States Federal Reserve and the European Central Bank begin to cut policy rates.

Monetary and fiscal policies

In the first quarter of 2024, the majority of central banks maintained their policy rates unchanged, closely watching the policy decisions of the United States Federal Reserve and the European Central Bank. Despite expectations for both central banks to pivot to interest rate cuts in the second half of the year, the timing and magnitude of monetary easing remain uncertain as inflation remains above the central bank targets. Government bond yields in the United States and the euro area trended upward recently as quantitative tightening measures increased bond supplies to the markets. The central banks that peg their currencies to the United States dollar are expected to closely follow the Federal Reserve's policy decisions. The European Central Bank's policy shift will affect the Central African Economic and Monetary Community and the West African Economic and Monetary Union.

Deviating from the predominant "wait and see" stances, central banks from several economies, including Armenia, Brazil, Chile, Czechia, Hungary, Sri Lanka and others, implemented additional rate cuts in the first quarter of 2024 after initiating monetary easing in 2023. In addition, central banks in Argentina, Ghana, Israel, Mexico, Mongolia and Mozambique pivoted to the easing phase during the first quarter of 2024. After lowering the five-year loan prime rate and the reserve requirement ratio in the first quarter of 2024, the People's Bank of China is expected to maintain an accommodative stance.[4] In contrast, central banks in countries such as Angola, Egypt, Kenya, Nigeria, Türkiye, Uganda, Zambia and others continued monetary tightening with additional policy interest rate hikes during the first quarter of 2024. Tight external financing conditions and balance-of-payments constraints increased depreciation pressures, prompting central banks to tighten monetary policy to defend the value of the national currencies.

On the fiscal front, the COVID-19 pandemic and global energy and food crises stretched the limits of public finances across all country groups, exacerbating fiscal pressures and debt challenges in many economies. In the aftermath of these shocks, high levels of public debt, rising interest costs and subdued economic growth constrained fiscal space. At the same time, public spending pressures continued to increase. Aging populations are pushing up pension, healthcare, and long-term care costs, while governments are facing growing demands to increase policy support for high-tech industries, climate adaptation and green energy transition. In addition, ongoing military conflicts in Ukraine and the Middle East, and rising geopolitical tensions worldwide, have prompted many countries to increase defence spending. This trend is likely to continue, and may even accelerate, in the coming years, potentially crowding out public investments in sustainable development.

The general government debt-to-GDP ratio globally stood at an estimated 94.4 per cent in 2023. While this rate is slightly below the 2020 peak, it is 11 percentage points above the pre-pandemic level in 2019. With interest rates expected to stay higher for longer, the costs of servicing government debt will remain a challenge, absorbing a growing share of fiscal revenues in many developing countries and diverting public funds away from health, education, social protection, and sustainable infrastructure. In 2024, governments in Africa are projected to spend on average more than a quarter of total public revenues on interest payments. Debt service burdens are particularly high in several large economies, most notably Angola, Egypt, Kenya, Nigeria, Senegal, South Africa, and Zambia. By contrast, the share of interest expenditures in government revenues remains low in most developed economies, except for the United States.

Against this backdrop, most countries are projected to gradually tighten fiscal outlays in 2024–25. In 2024, 31 out of 37 developed economies are projected to see an increase in the general government cyclically adjusted primary balance, implying a tightening of the fiscal stance. Many developing country governments are pursuing gradual fiscal consolidation after phasing out support measures to fight the pandemic and the cost-of-living crisis. In Africa, governments are generally aiming to maintain a tight fiscal stance as countries are struggling with large public debt burdens and large fiscal deficits. In Latin America and the Caribbean, most countries have also embarked on fiscal consolidation, aiming to improve debt sustainability through better targeted and more efficient spending.

4 Xinhua (2024), There is Ample Room for China's Monetary Policy: Central Bank Governor.