WORLD DEVELOPMENT REPORT 2024

A World Bank Group Flagship Report

The Middle-Income Trap

Global Economic Prospects

ENTERPRISE SURVEYS

DEVELOPMENT ECONOMICS • GLOBAL INDICATORS

Challenges & Opportunities for Growth in Middle Income Countries

WORLD BANK GROUP

Part I Insights from Global Economic Prospects: a macro perspective

- Global growth forecasts and key risks to global outlook
- Harnessing the benefits from public investments
- Fiscal challenges: weathering storms and rebuilding resilience

Part II: Insights from the World Bank Enterprise Surveys: a micro perspective`

- Women's participation in the workforce is higher with better financial development
- Infrastructure improves with the level of development
- Digitalization of payments is higher in firms that do not face credit constraints
- Productivity gap decreases substantially with the level of income

Part III: Insights from World Development Report: a creative destruction perspective

- What does it takes for a country to switch from middle to high income?
- The 3i Growth Strategies: investment, infusion and innovation
- How to balance the forces of creation, preservation and destruction

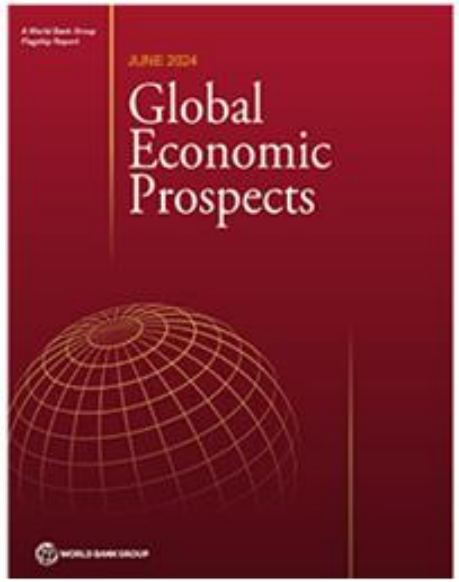
Global Economic Prospects
June 2024

www.worldbank.org/gep

Global Economic Prospects – *June 2024*

Underlying data and charts can be found at

www.worldbank.org/gep



Growth Stabilizing But at a Weak Pace

Despite an improvement in near-term prospects, the global outlook remains subdued by historical standards. In 2024-25, growth is set to underperform its 2010s average in nearly 60 percent of economies, comprising over 80 percent of the global population. Downside risks predominate, including geopolitical tensions, trade fragmentation, higher-for-longer interest rates, and climate-related disasters. Global cooperation is needed to safeguard trade, support green and digital transitions, deliver debt relief, and improve food security. In EMDEs, public investment can boost productivity and catalyze private investment, promoting long-run growth. Comprehensive fiscal reforms are essential to address ongoing fiscal challenges in small states, including those arising from heightened exposure to external shocks.

Global Growth Forecasts

Broadly Stable Near-Term Growth; Weaker Than the 2010s Average

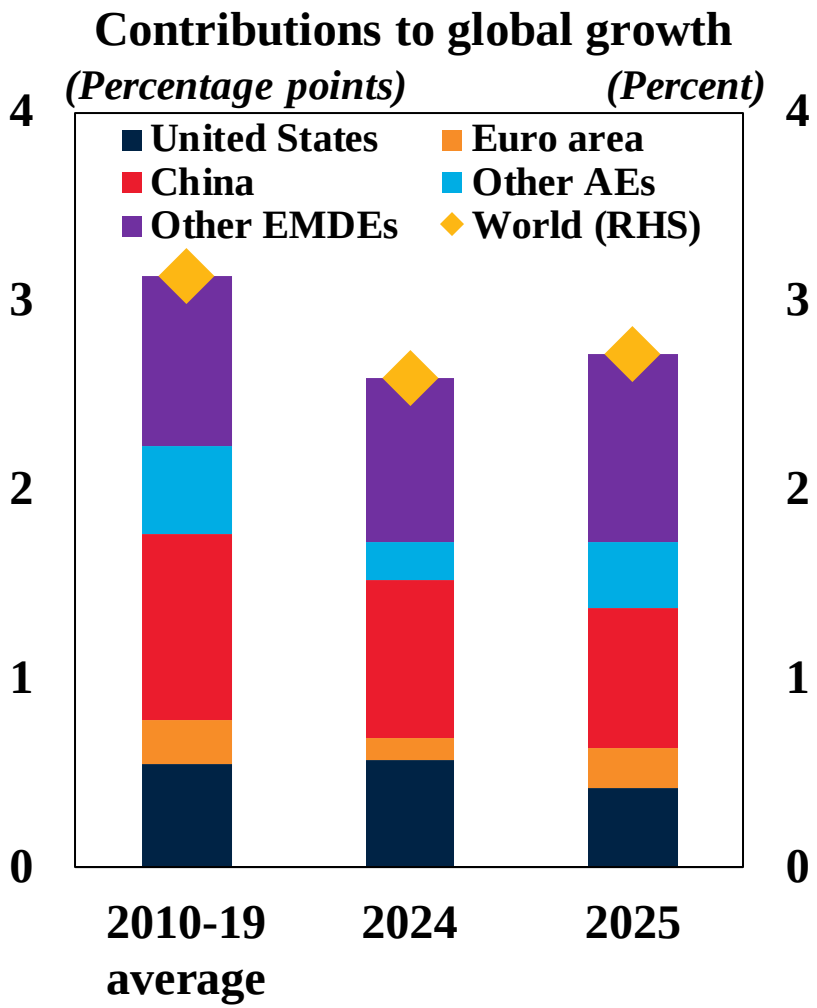
GDP growth
(Percent)

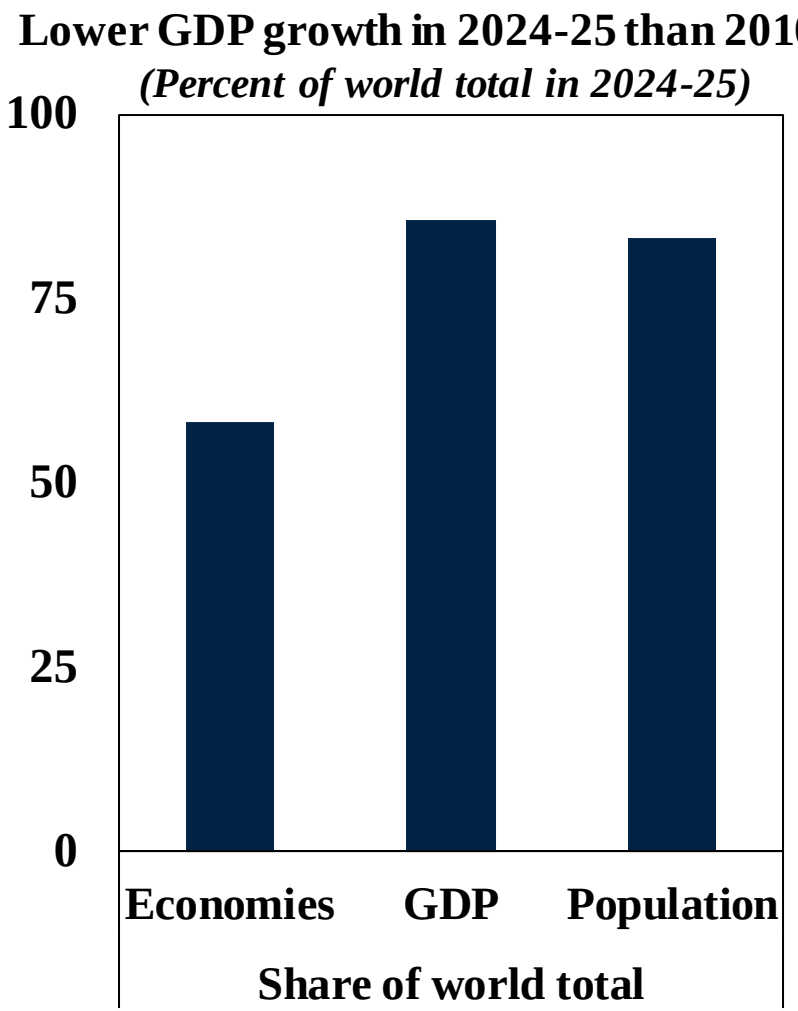
	2010-19	2022	2023e	2024f	2025f	*Change from January 2024* 2024	2025
World	**3.1**	**3.0**	**2.6**	**2.6**	**2.7**	**0.2**	**0.0**
Advanced economies	**2.0**	**2.6**	**1.5**	**1.5**	**1.7**	**0.3**	**0.1**
Excluding the United States	***1.8***	***3.0***	***0.9***	***0.9***	***1.7***	***0.0***	***0.1***
EMDEs	**5.1**	**3.7**	**4.2**	**4.0**	**4.0**	**0.1**	**0.0**
Excluding China	***3.7***	***4.3***	***3.4***	***3.5***	***4.0***	***0.0***	***0.2***
East Asia and Pacific	**7.2**	**3.4**	**5.1**	**4.8**	**4.2**	**0.3**	**-0.2**
Europe and Central Asia	**3.2**	**1.6**	**3.2**	**3.0**	**2.9**	**0.6**	**0.2**
Latin America and the Caribbean	**2.2**	**3.9**	**2.2**	**1.8**	**2.7**	**-0.5**	**0.2**
Middle East and North Africa	**3.3**	**5.9**	**1.5**	**2.8**	**4.2**	**-0.7**	**0.7**
South Asia	**6.7**	**5.8**	**6.6**	**6.0**	**6.1**	**0.4**	**0.2**
Sub-Saharan Africa	**3.6**	**3.8**	**3.0**	**3.5**	**3.9**	**-0.3**	**-0.2**

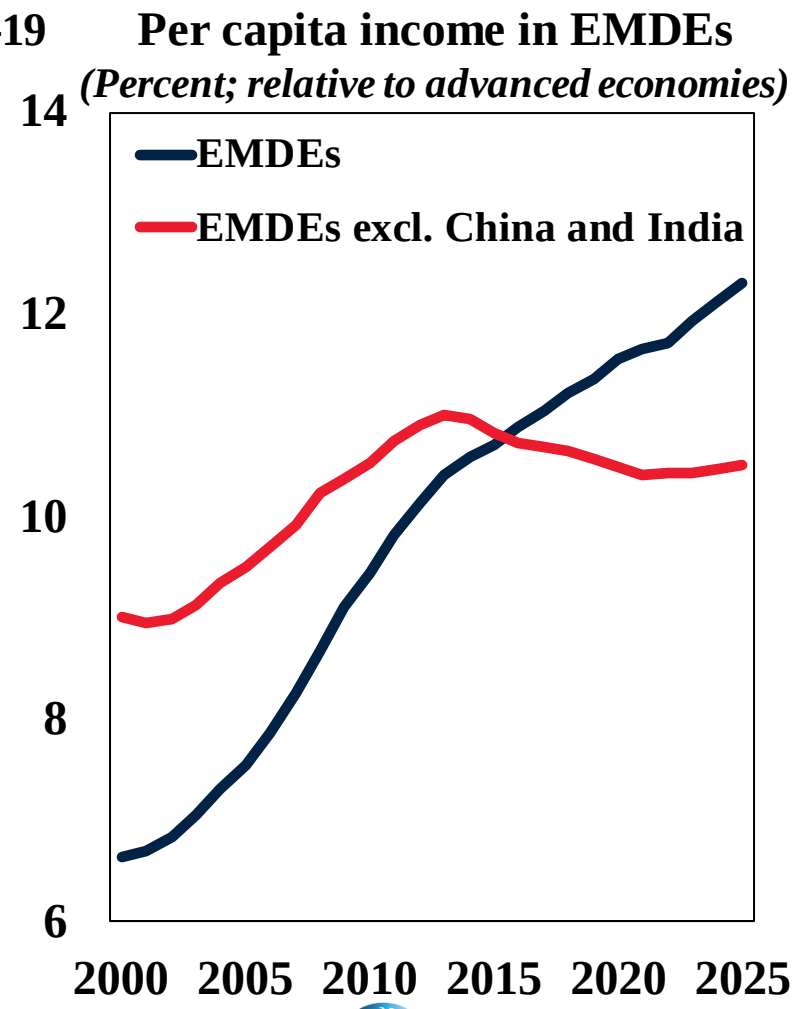
Source: World Bank, *Global Economic Prospects*, June 2024.
Note: Table 1.1 of Global Economic Prospects. EMDEs = emerging market and developing economies. www.worldbank.org/gep

Growth and Income Catch-Up

Shifting Growth Distribution; Broad-Based Weakness; Few EMDEs Catching Up







Sources: UN World Population Prospects; World Bank.

Note: AEs = advanced economies. GDP aggregates are calculated using real U.S. dollar GDP weights at average 2010-19 prices and market exchange rates. GDP per capita aggregates are calculated as aggregated GDP divided by the aggregate population. Data for 2024 are estimates, and data for 2025 are forecasts. Left Panel. Contributions to global growth by respective economies (in percentage points). Center Panel. Economies refers to the share of countries, GDP the share of world GDP, and population the share of the world population. Right Panel. Per capita income in EMDEs as a percentage of the per capita income in advanced economies.

www.worldbank.org/gep

Risks to the Global Outlook

Downside Risks Dominate But Presence of Some Upside Risks

Geopolitical tensions and armed conflicts

Further trade fragmentation

Heightened policy uncertainty

Higher-for-longer interest rates

More frequent natural disasters

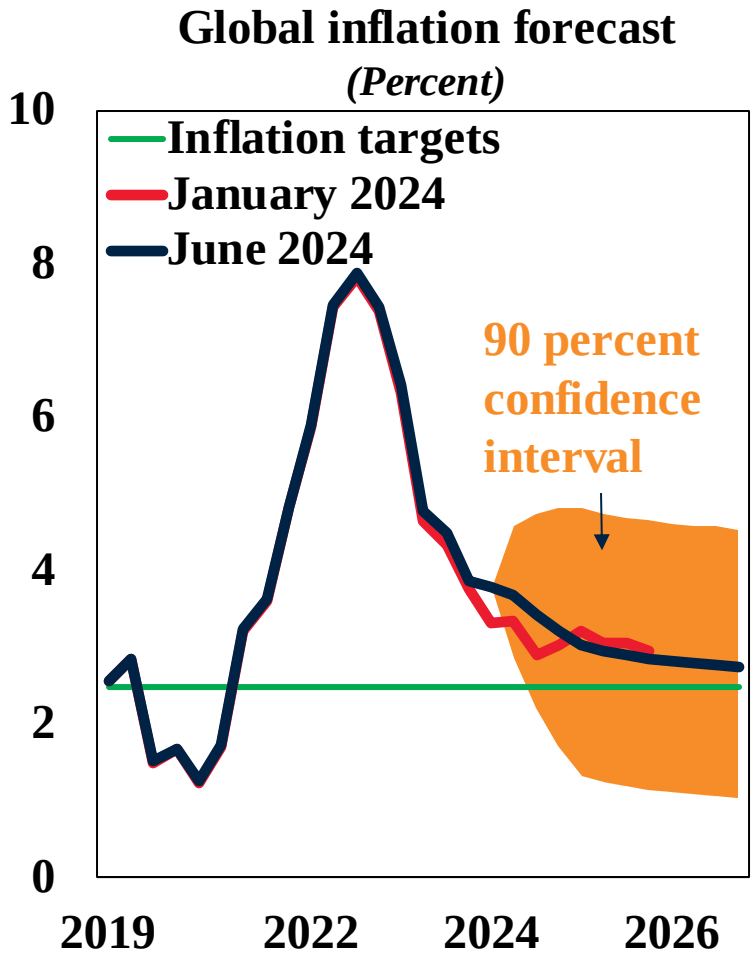
Weaker-than-expected long-term growth

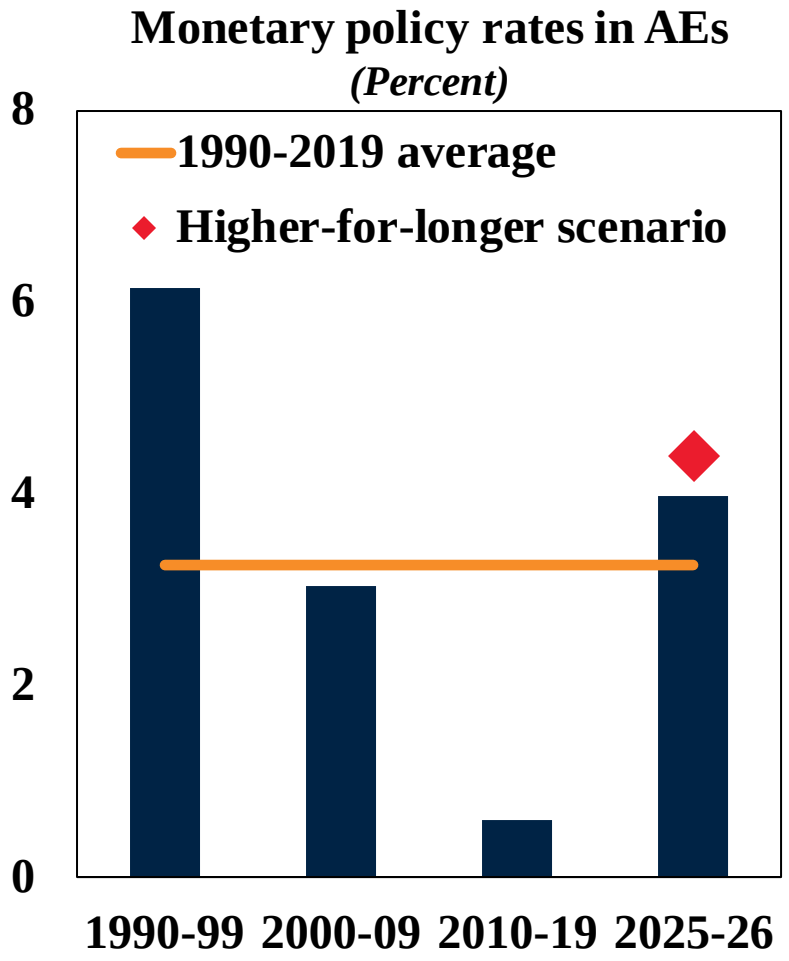
Faster monetary easing with lower inflation

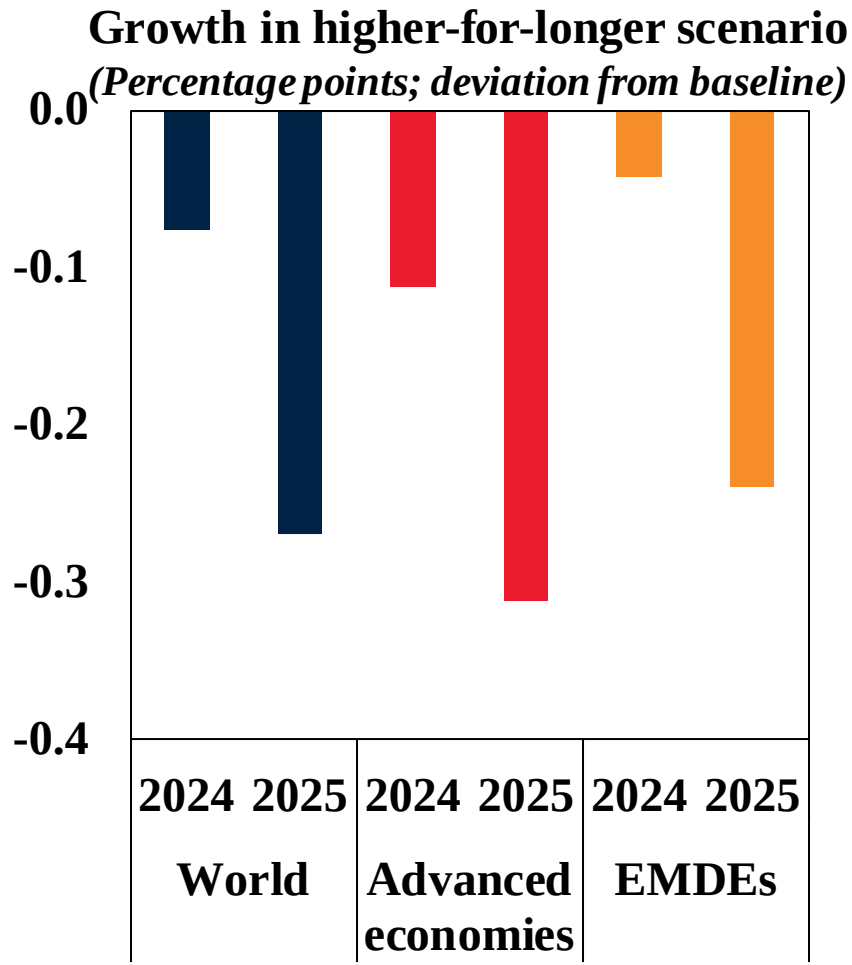
Stronger-than-expected growth in the United States

Global Inflation, Interest Rates, and Growth Scenarios

Slower Disinflation; Elevated Interest Rates; Negative Impact of "Higher for Longer" on Growth





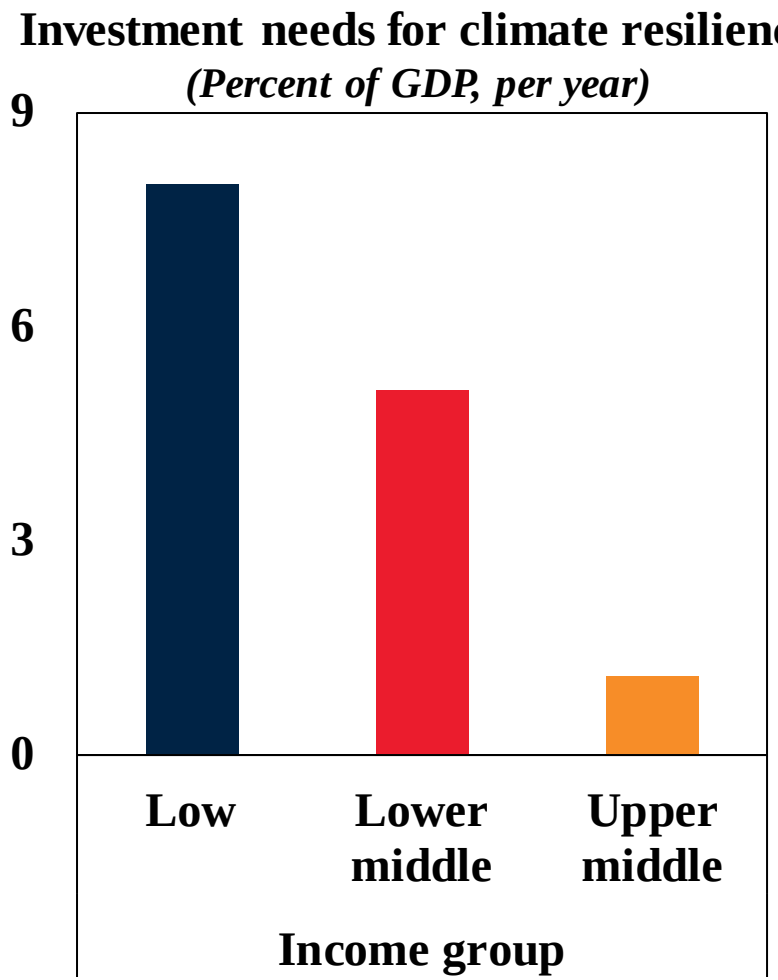


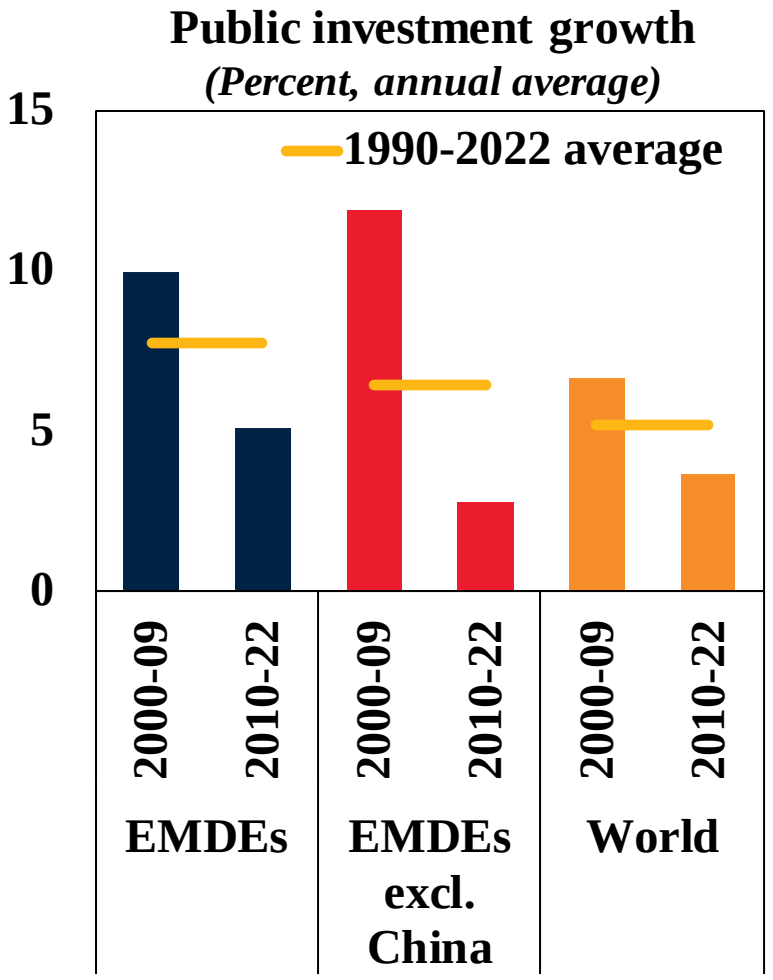
Sources: Bloomberg; Consensus Economics; Haver Analytics; Oxford Economics; World Bank.

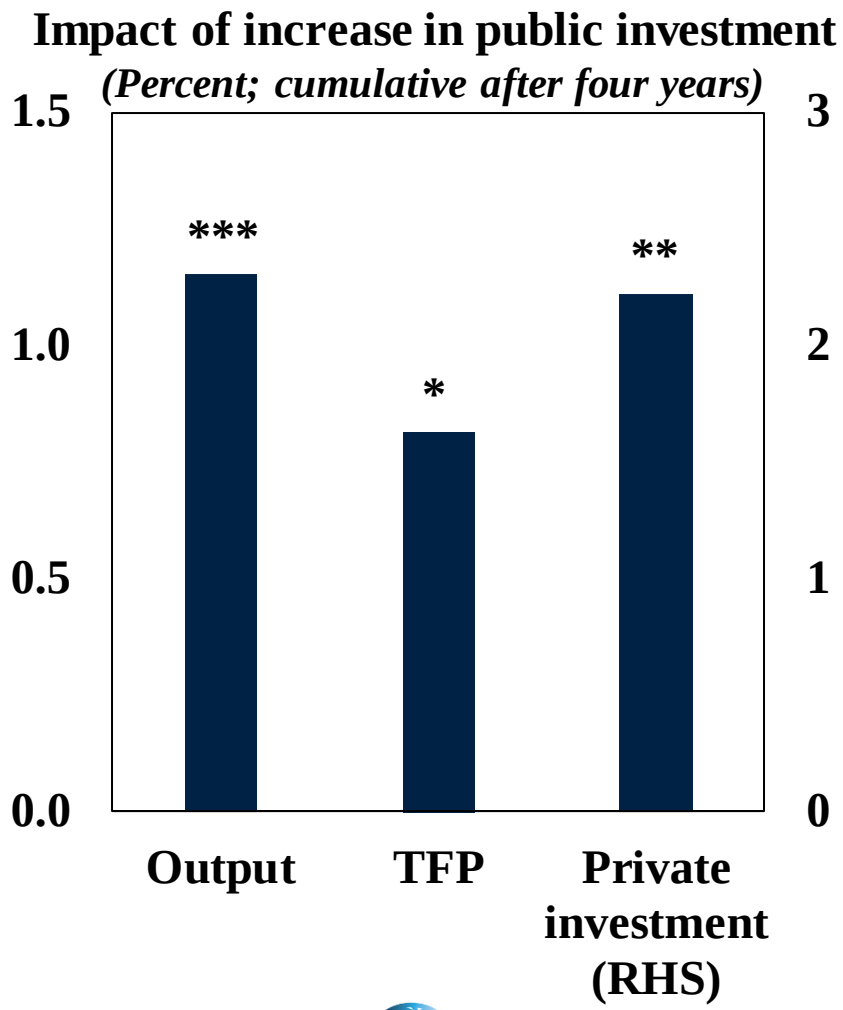
Note: AEs= advanced economies. Left Panel. Model-based GDP-weighted projections of consumer price inflation using Oxford Economics' Global Economic Model. Sample includes 65 countries, including 31 EMDEs. Confidence bands are derived from Consensus Economics forecast errors using the pre-pandemic sample. Center Panel. Average annual policy interest rates. Aggregates are calculated as GDP-weighted averages of the policy rates and policy rate expectations (for 2025-26) for the United States, the euro area, and the United Kingdom. Policy rate expectations are based on futures curves observed on May 31, 2024. Diamond shows the expected policy rate under the higher-for-longer policy rates scenario. Right Panel. Deviation in global growth under the higher-for-longer scenario relative to the baseline. Scenarios are produced using the Oxford Economics' Global Economic Model. www.worldbank.org/gep

Investment Needs, Impact of Public Investment on Growth

Slower Public Investment Growth Despite Large Needs and Positive Impacts





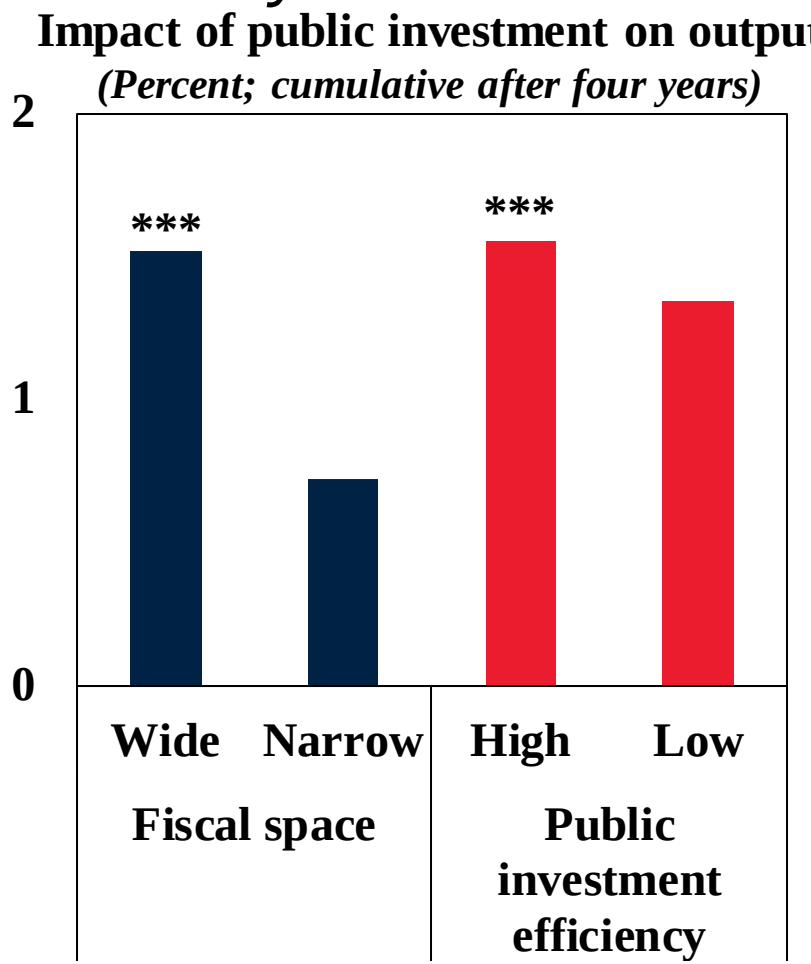


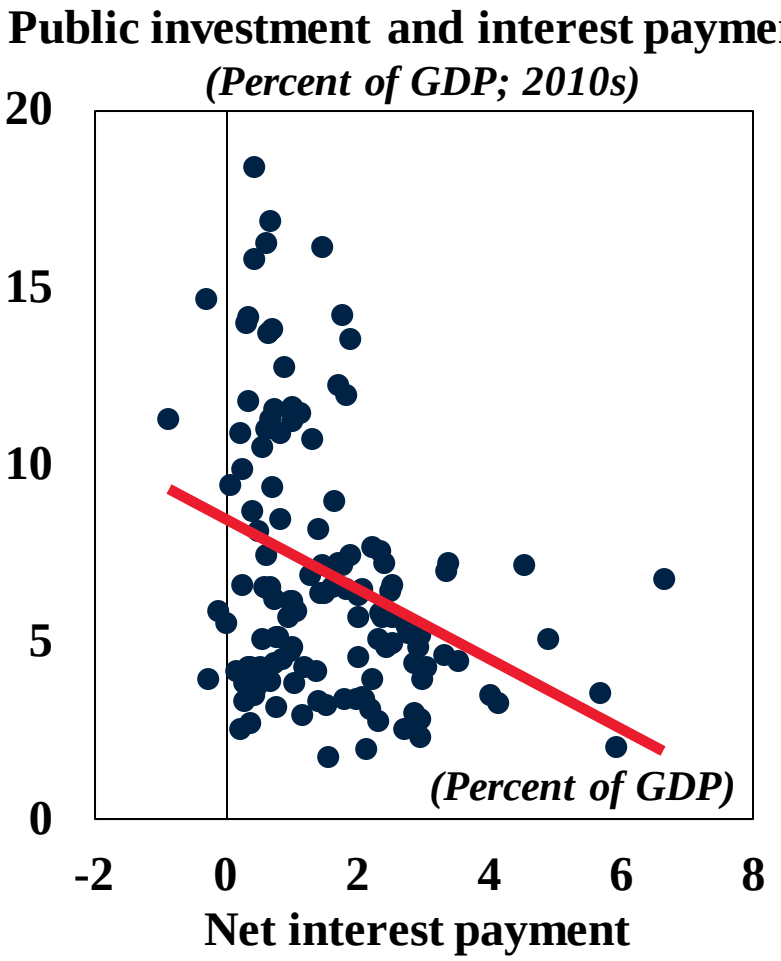
Sources: Haver Analytics; IMF Investment and Capital Stock Dataset; WDI (database); World Bank.

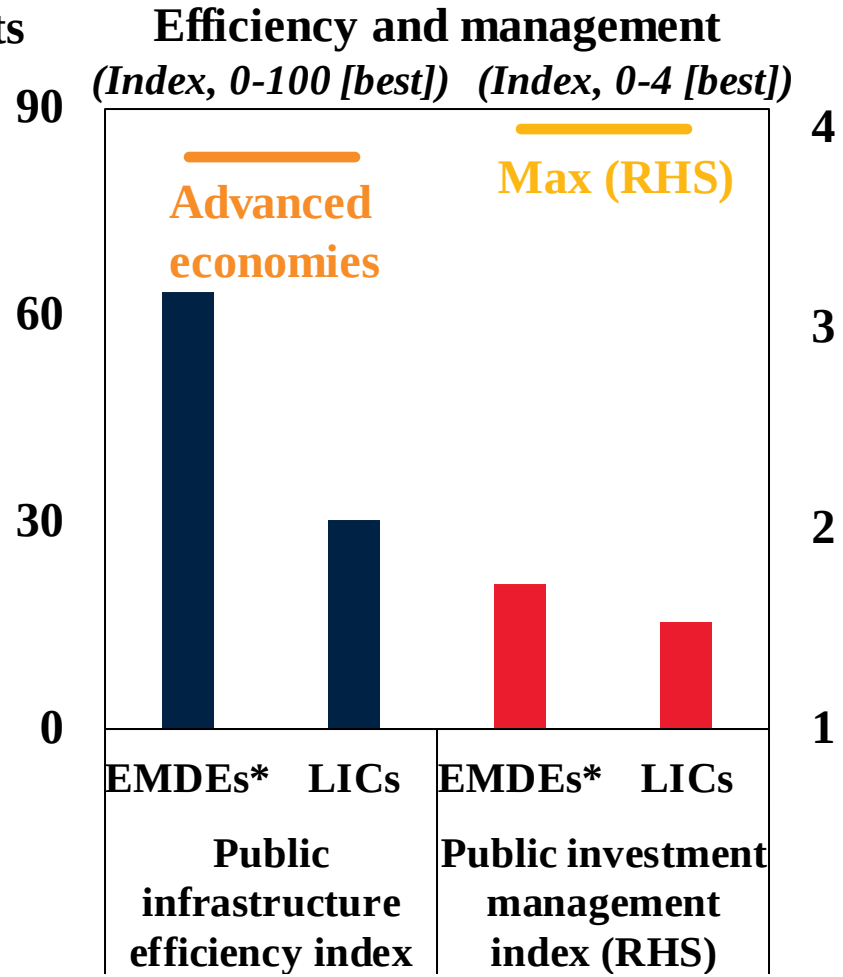
Note: TFP = total factor productivity. Left Panel. Estimates of the annual investment needs to build resilience to climate change and put countries on track to reduce emissions by 70 percent by 2050. Depending on data availability, estimates http://www.worldbank.org/gep include investment needs for transport, energy, water, urban adaptations, industry, and landscape. Center Panel. Public investment refers to general government gross fixed capital formation. Sample includes up to 162 economies, of which 126 are EMDEs. Average annual public investment growth calculated with countries' real public investment in constant international dollars as weights. Right Panel. Response of real GDP, TFP, and real private investment (cumulative change in year t = 4 relative to year t = -1, in percent) to a public investment shock equivalent to one percent of GDP; t = 0 is the year of the shock. ***, **, * indicate statistical significance at 1, 5, and 10 percent levels, respectively. Sample includes up to 129 EMDEs. www.worldbank.org/gep

Public Investment: Fiscal Space & Investment Efficiency

Greater Growth Impact with Wider Fiscal Space and Higher Public Investment Efficiency





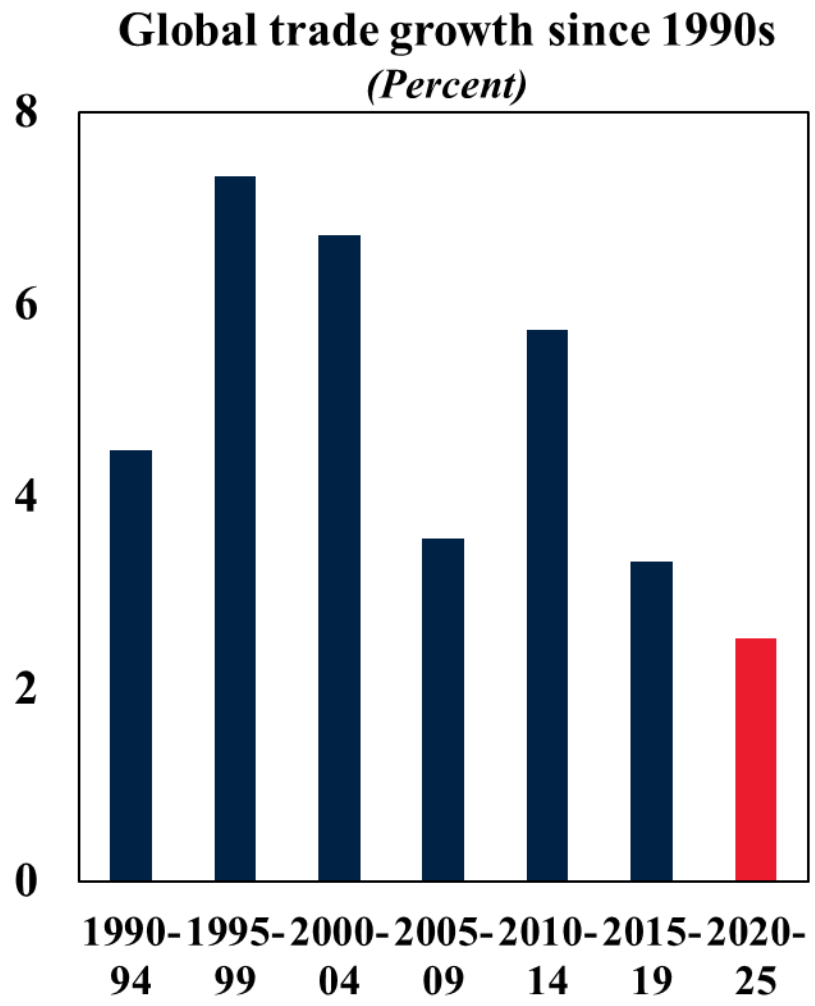


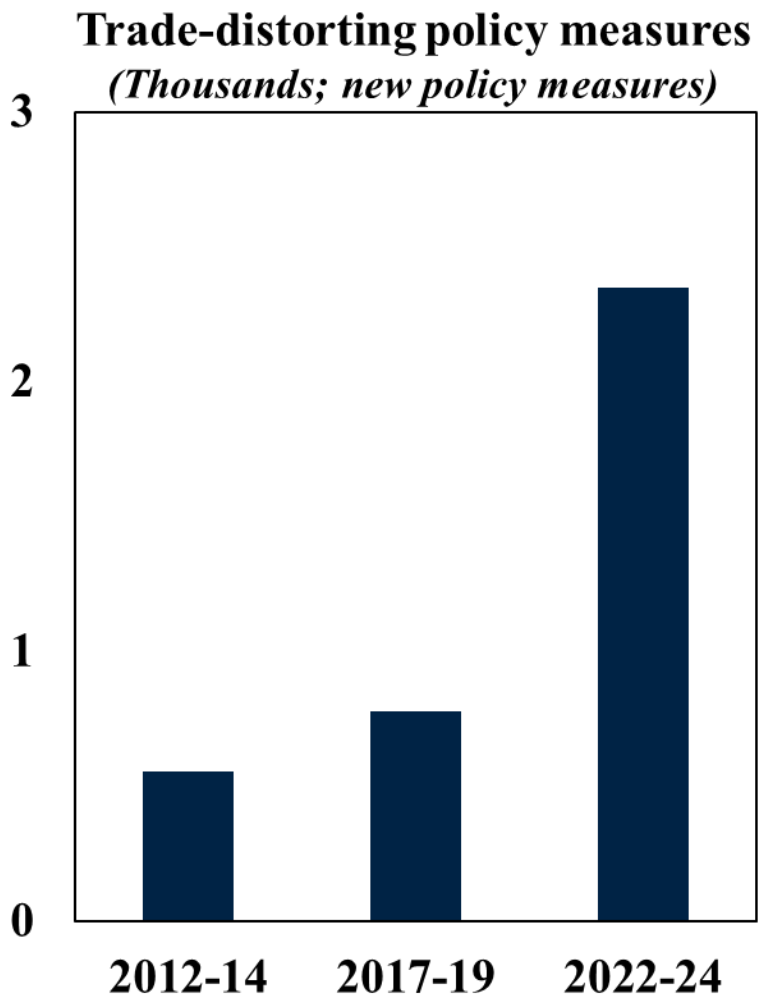
Sources: Dabla-Norris et al. (2012); International Monetary Fund; World Bank.

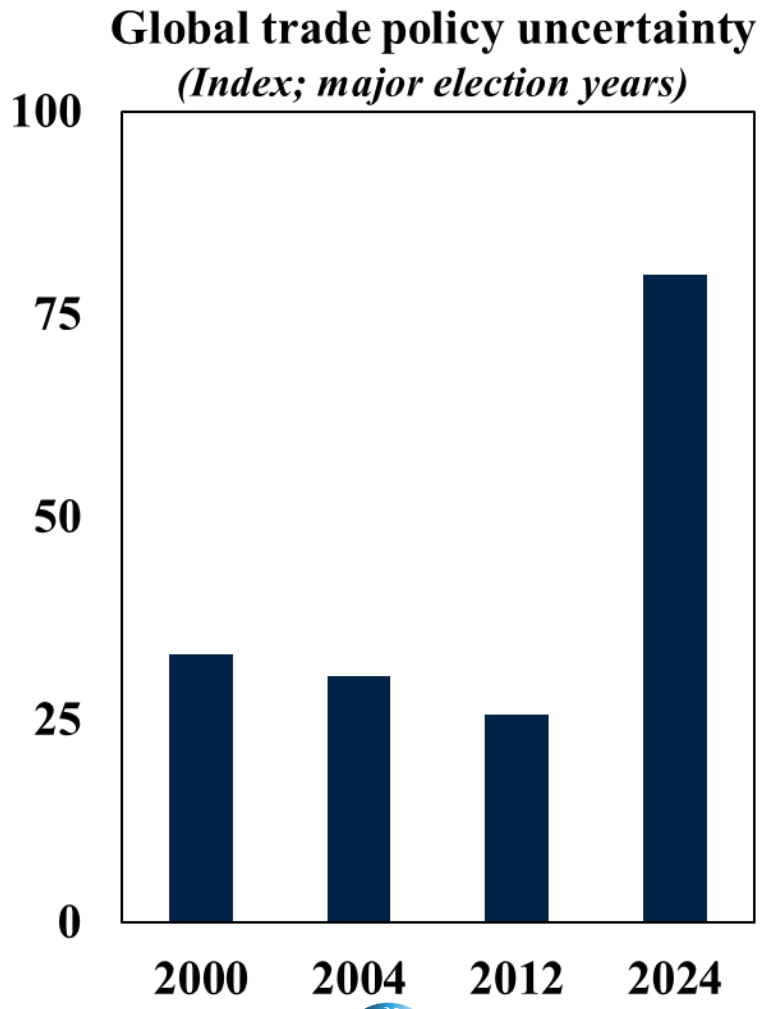
Note: EMDEs* = EMDEs excl. low-income countries (LICs). Left Panel. Response of real GDP (cumulative change in year t = 4 relative to year t = -1, in percent) to a public investment shock equivalent to one percent of GDP, based on local projections. *** indicates statistical significance at the 1 percent level. Wide and narrow fiscal space state corresponds to historically lowest and highest debt ratios for a given country in public investment shock years. High and low efficiency corresponds to the top and bottom quartiles of the IMF's public infrastructure efficiency index. Center Panel. Relationship between public investment and net interest payments, computed as differences between primary balances and fiscal balances (in percent of GDP) in EMDEs. Right Panel. Blue bars show group medians of the IMF' public infrastructure efficiency index. Red bars show group medians of the Dabla-Norris et al. (2012) public investment management index. www.worldbank.org/gep

Trade Policy

Weakest Half-Decade Growth; MoreTrade Distortions; Higher Trade Policy Uncertainty







Sources: EPU Indices (database); Global Trade Alert (database); World Bank.
Left Panel. Global trade growth calculated as the percentage change in average global exports and imports of goods and nonfactor services measured in real U.S. dollars. Center Panel. Implemented interventions that discriminate against foreign commercial interests. Adjusted data (for reporting lags) as of May 30, 2024. Right Panel. Average trade policy uncertainty index in the first 4 months of each year in which elections were held in countries cumulatively representing more than 30 percent of global GDP. Last observation is April 2024. www.worldbank.org/gep

ENTERPRISE SURVEYS

DEVELOPMENT ECONOMICS • GLOBAL INDICATORS

What Businesses Experience

Insights from the Latest 50 Enterprise Surveys

How Are They Implemented?

SURVEY DESIGN

Questionnaire design
Sampling frame and universe

SAMPLING

Representative at size, industry, location level

FIELDWORK

Local private contractor
Close monitoring

DATA QUALITY CONTROL

Regular and consistent checks

PUBLICATION

Data published right after all checks

Surveys are directly relevant to <u>all</u> five verticals

The World Bank's five vertical knowledge vice presidencies

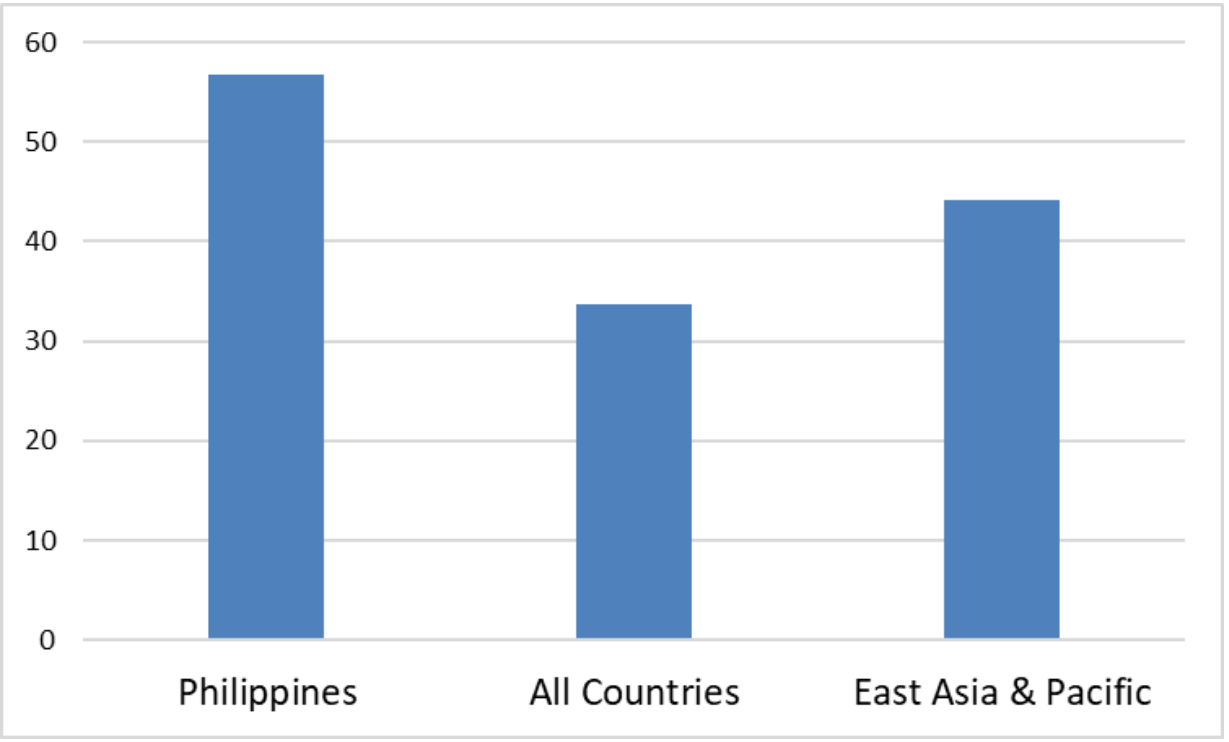
- PEOPLE
- PLANET
- INFRASTRUCTURE
- DIGITAL
- PROSPERITY

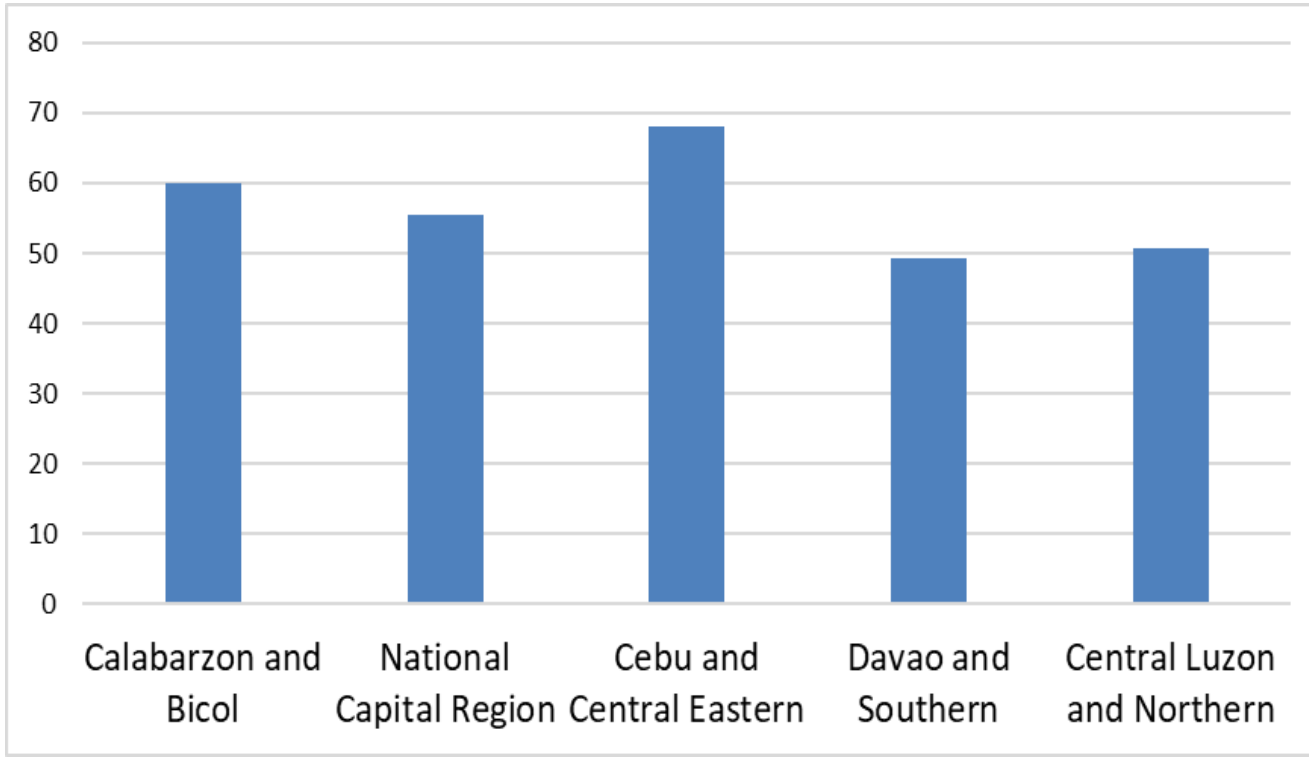
ENTERPRISE SURVEYS
DEVELOPMENT ECONOMICS • GLOBAL INDICATORS

PEOPLE

Women's participation in the workforce is higher with better financial development

Women's participation is higher in the Philippines compared to the EAP region and the world's average but it varies considerably across location

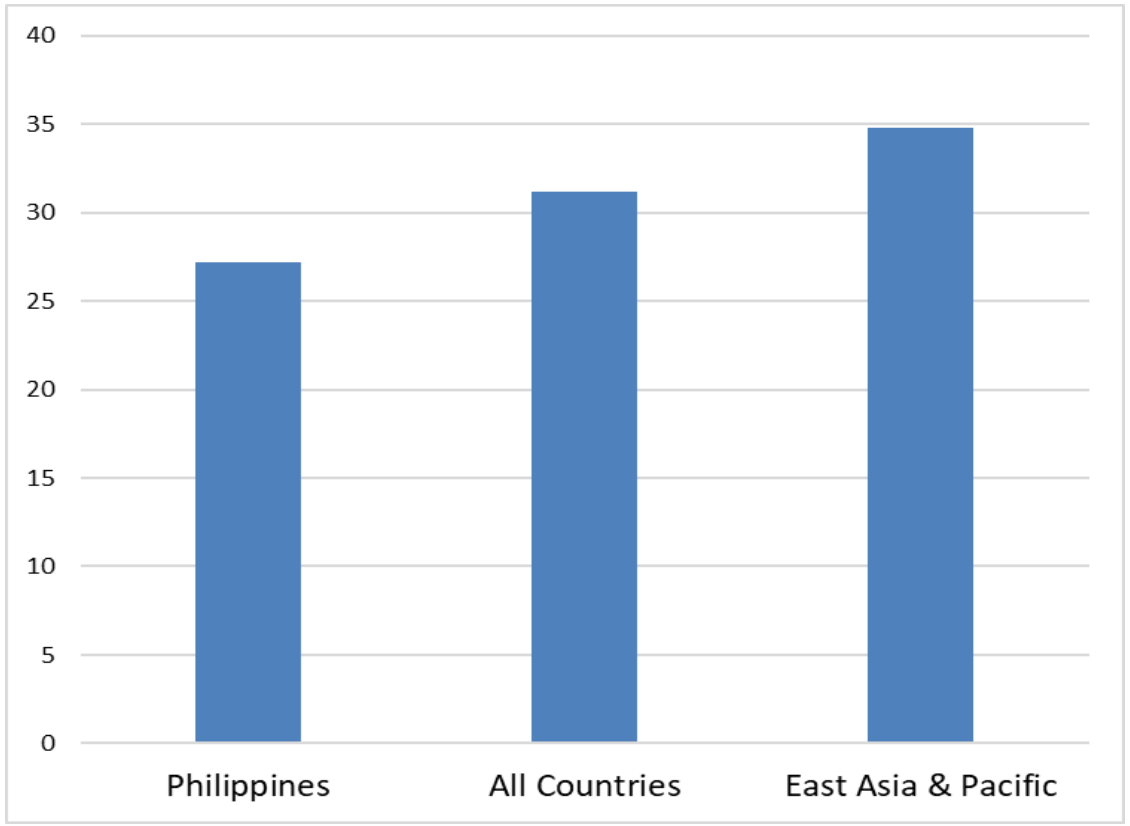


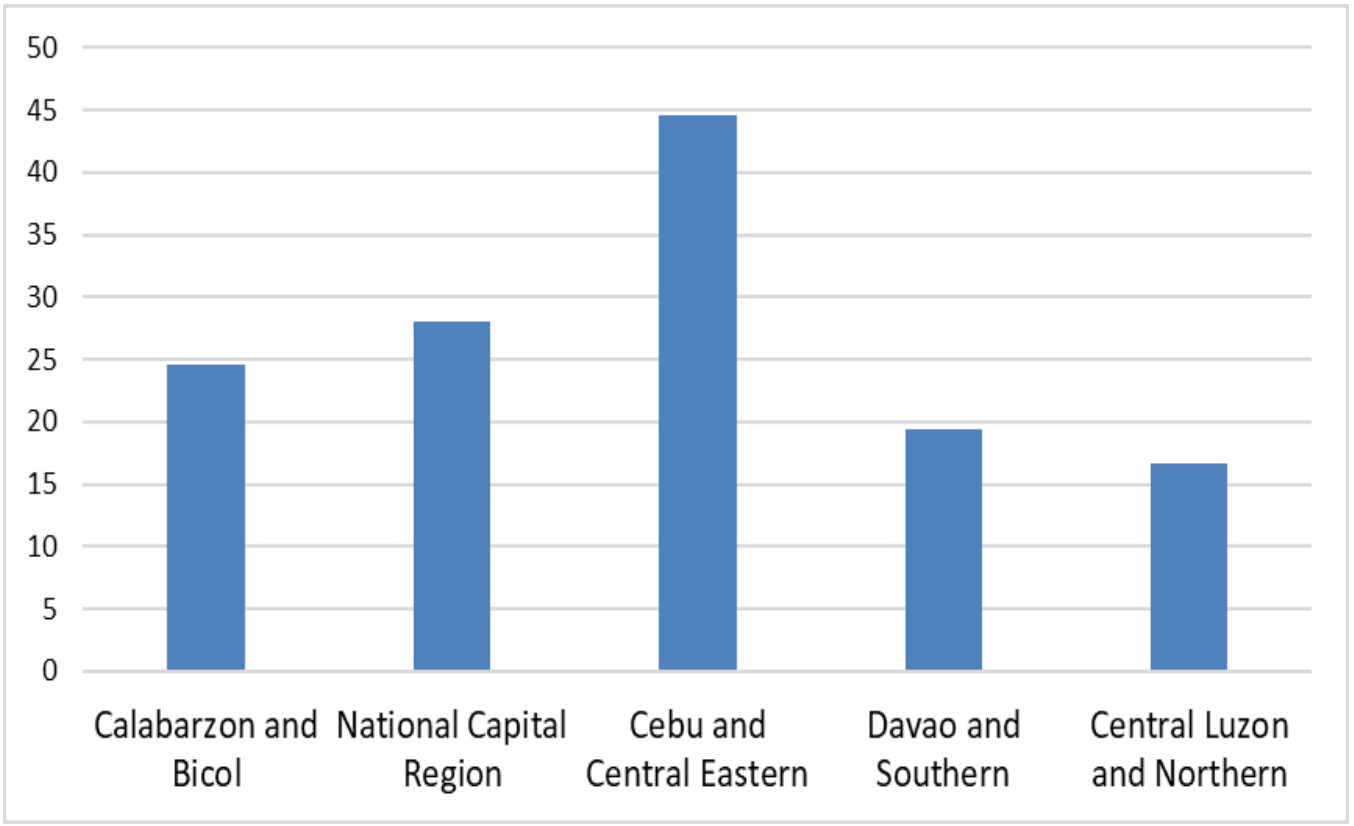


PLANET

Measures to reduce emissions, waste, or pollution are adopted more by better-managed firms

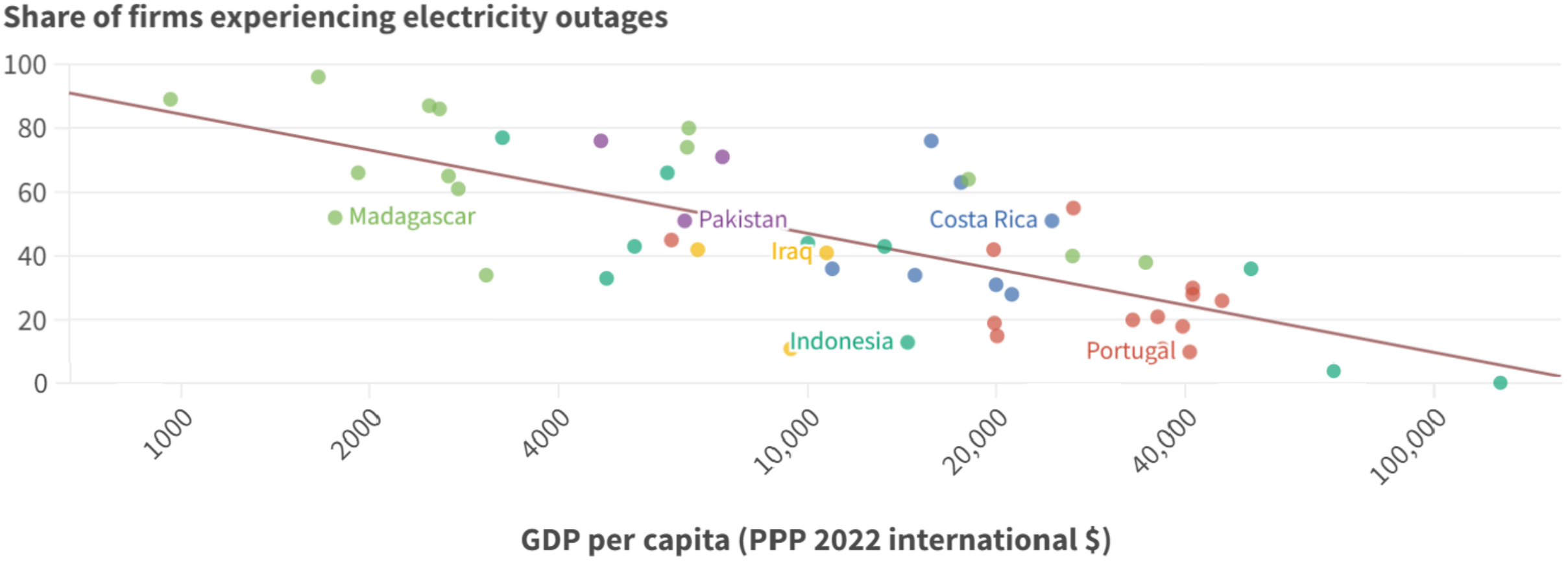
Energy efficiency adoptions lags behind in the Philippines compared to the EAP region and the world's average and it varies considerably across location within the country





INFRASTRUCTURE

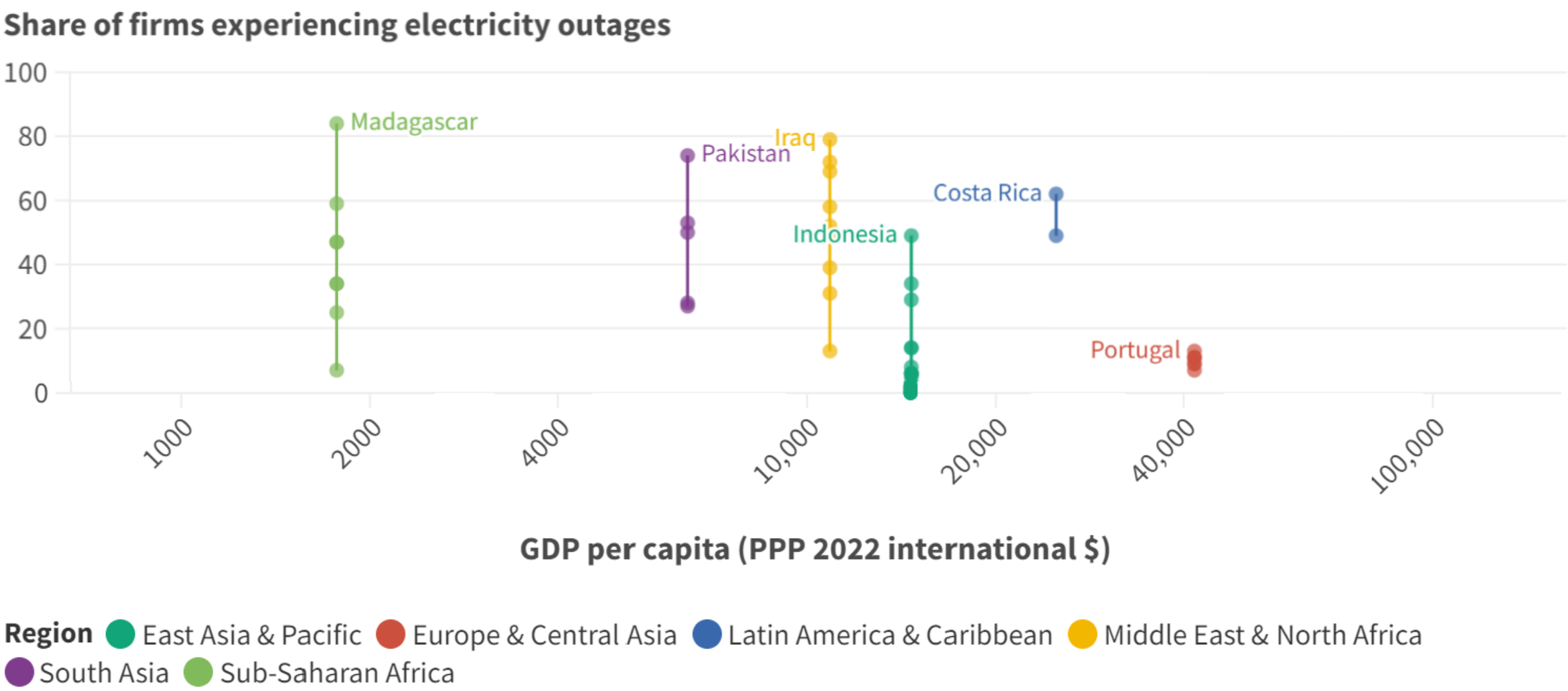
Infrastructure improves with the level of development



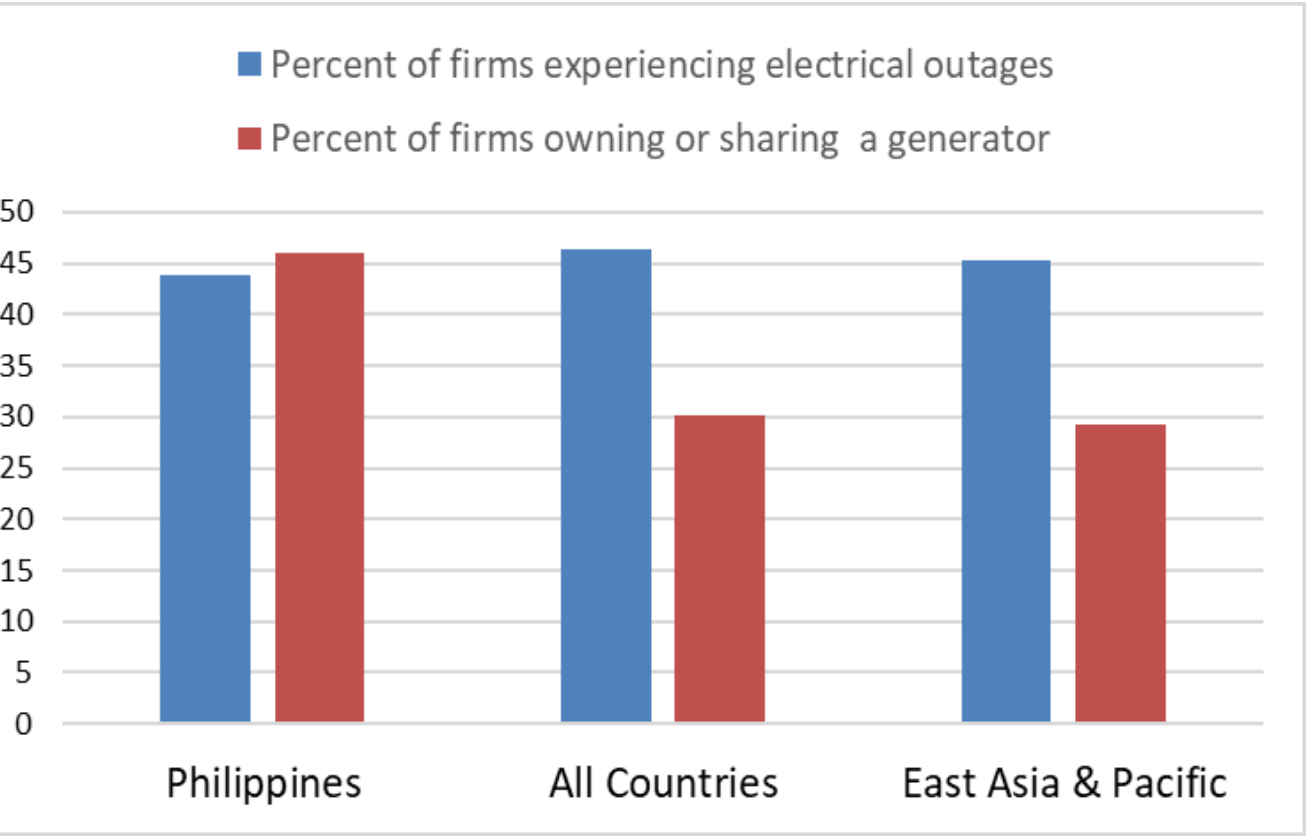
Region East Asia & Pacific · Europe & Central Asia · Latin America & Caribbean · Middle East & North Africa · South Asia · Sub-Saharan Africa

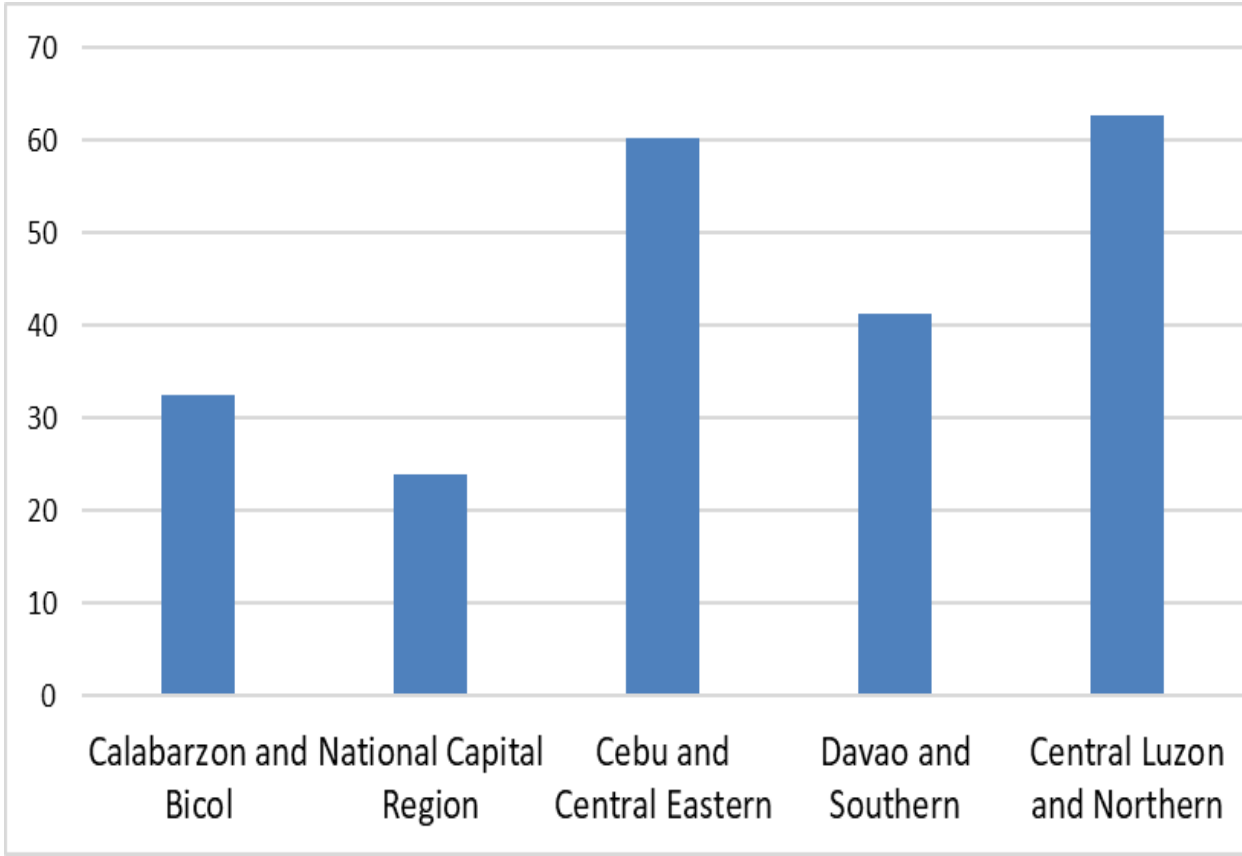
INFRASTRUCTURE

… but differences within economies are substantial



Infrastructure quality in the Philippines is in line with the EAP region and the world's average but it varies considerably across location

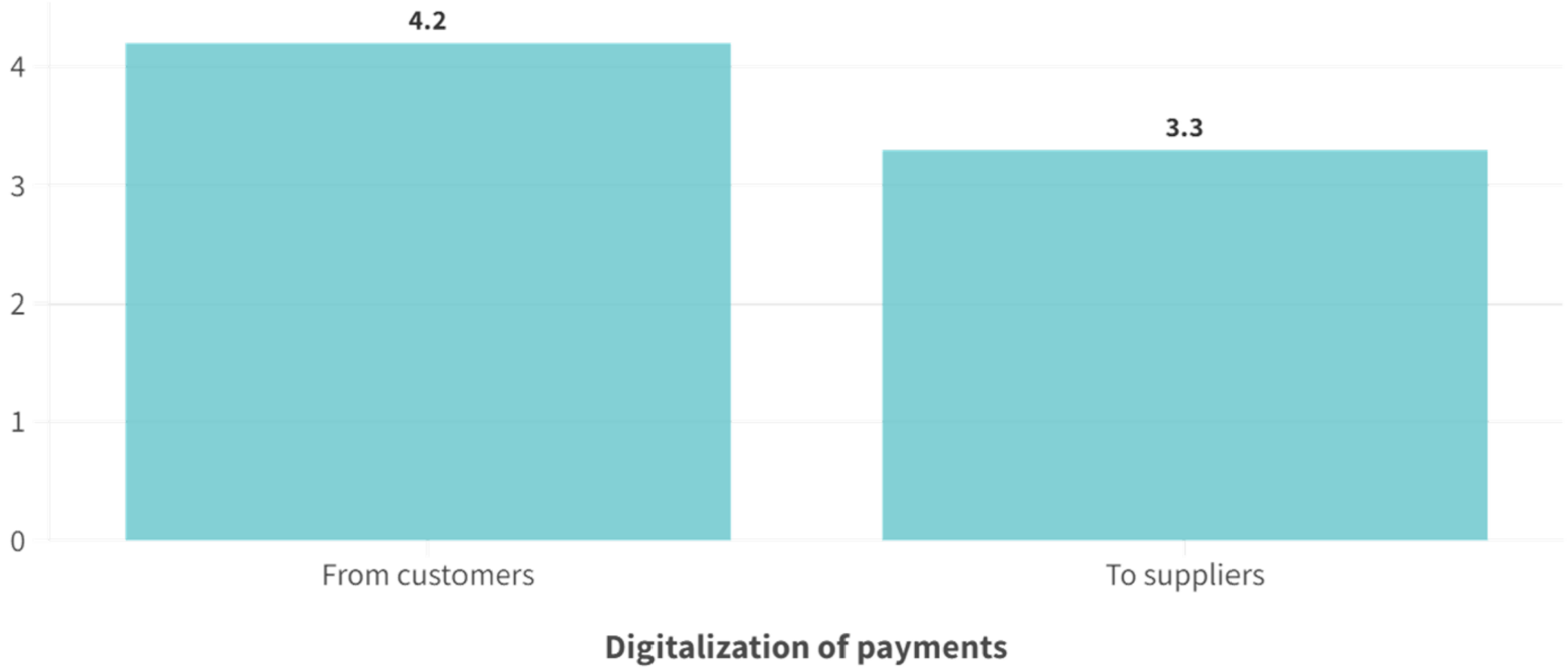




DIGITAL

Digitalization of payments is higher in firms that do not face credit constraints

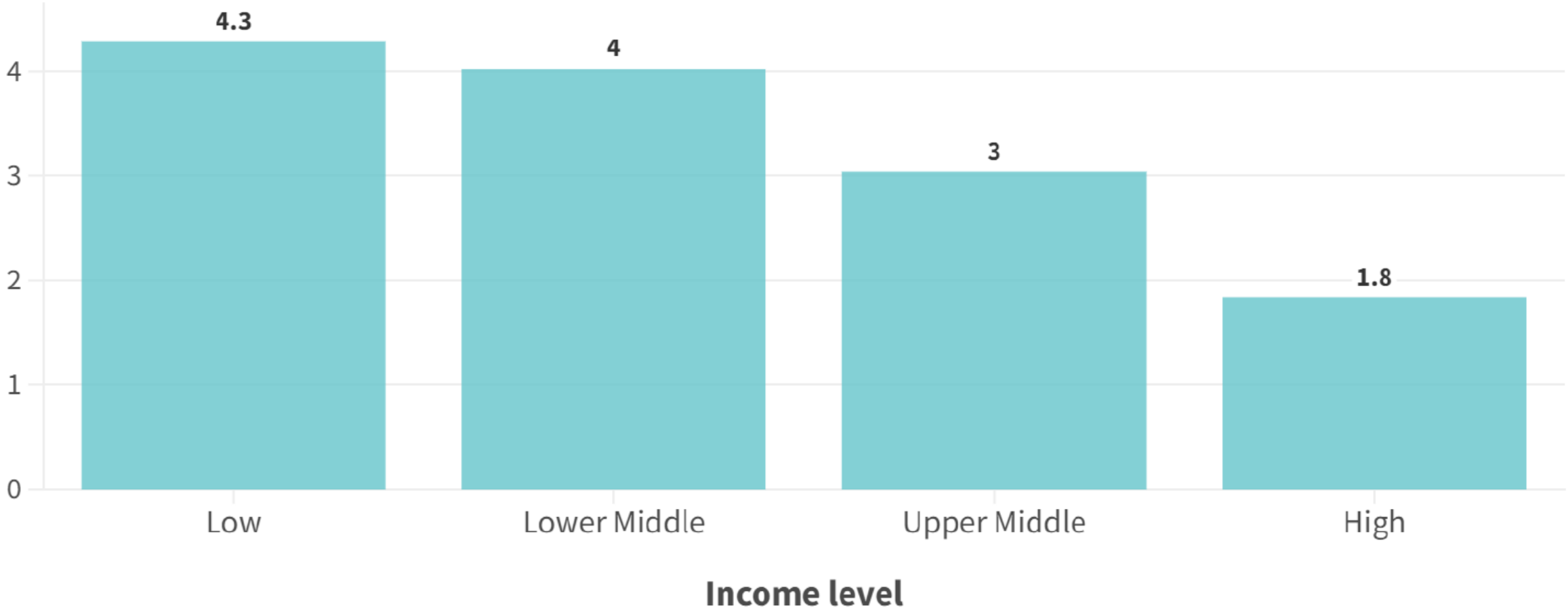
Difference between credit unconstrained and constrained firms (percentage points)



PROSPERITY

Productivity gap decreases substantially with the level of income

Gap in labor productivity between the top and bottom 25 percentile of firms (ratio)



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MIDDLE-INCOME ECONOMIES

	POPULATION *(share of global population)*	**GDP** *(share of global economic activity)*	**POPULATION LIVING IN EXTREME POVERTY** *(share of global population)*	**CO_2 EMISSIONS** *(share of global emissions)*
LOW INCOME	8.9%	0.6%	36.5%	0.5%
LOWER MIDDLE INCOME *($1,136-$4,465 GNI per capita)*	40.3%	8.3%	55.4%	15.7%
UPPER MIDDLE INCOME *($4,466-$13,845 GNI per capita)*	35.1%	30.3%	7.1%	48.6%
HIGH INCOME	15.7%	60.8%	1.0%	35.2%

Source: WDR 2024 staff using the World Bank WDI, WB Poverty and Inequality Platform, and Global Carbon Project 2022 data.

TO GET RICH IS GLORIOUS

China → 14th Five-Year Plan → median per capita GDP of developed nations by 2035—greatly expanding the middle class.

India → Prime minister's vision to make the nation a developed economy by 2047, the centennial of independence.

Viet Nam → Socio-Economic Development Strategy for sustained per capita GDP growth of 7 percent through this decade, with a transition to high-income status by 2045.

South Africa → 2030 National Development Plan aims to raise per capita incomes from $2,800 in 2010 to $7,000 by 2030.

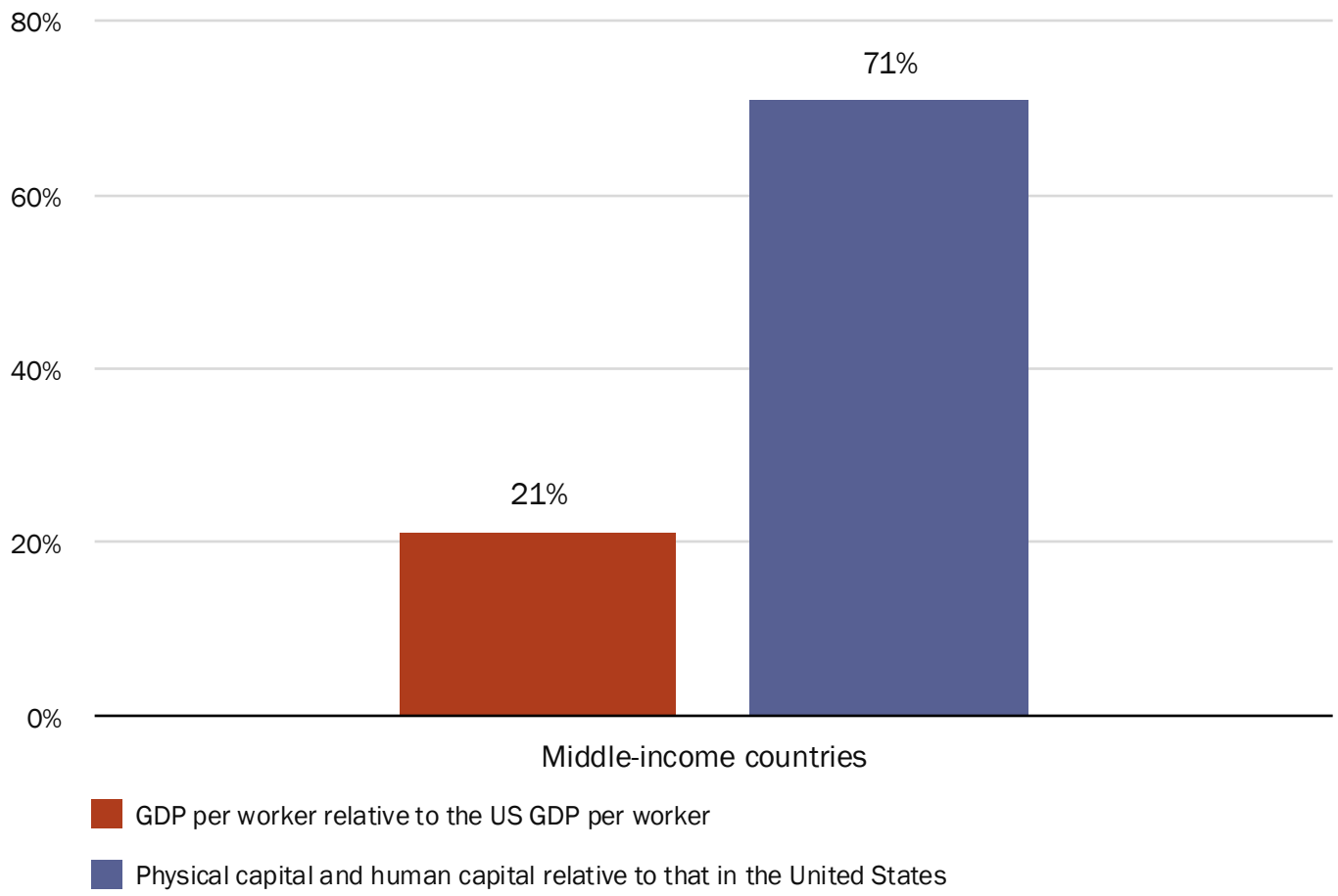
Other middle-income countries have similar aspirations.

BIG PLANS, BIG PROBLEM

PER CAPITA INCOME OF MIDDLE-INCOME COUNTRIES RELATIVE TO THE UNITED STATES HAS STAGNATED FOR DECADES

Source: WDR 2024 team using the World Development Indicators.

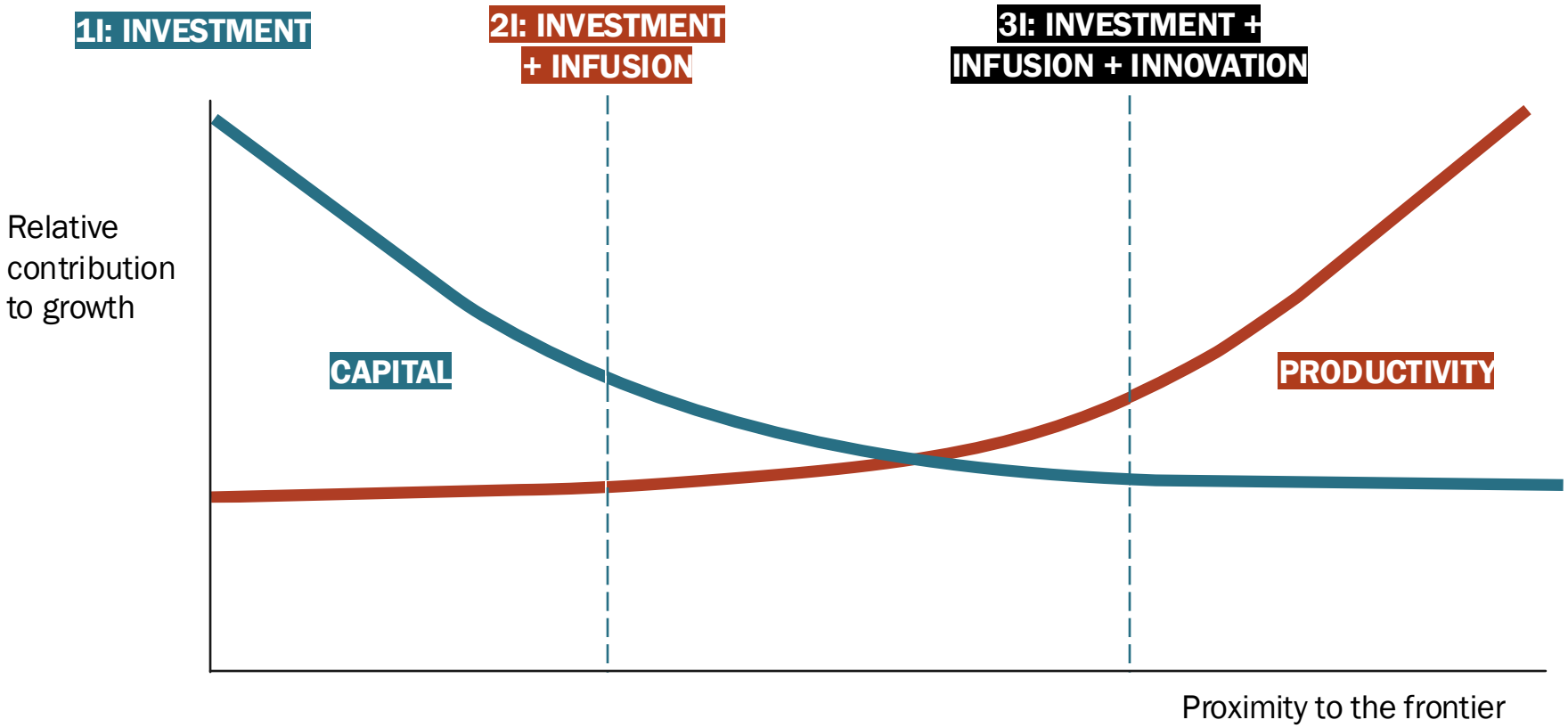
GROWTH IN MIDDLE-INCOME COUNTRIES IS DIFFERENT



IF CAPITAL ACCUMULATION WERE ENOUGH, WORK IN MIDDLE-INCOME ECONOMIES WOULD BE THREE-QUARTERS AS REWARDING AS IN THE US, NOT JUST A FIFTH

Source: WDR 2024 team using data from the Penn World Tables 10.01.

GROWTH STRATEGIES THAT SERVED COUNTRIES WELL IN THEIR LOW-INCOME PHASE RUN OUT OF STEAM



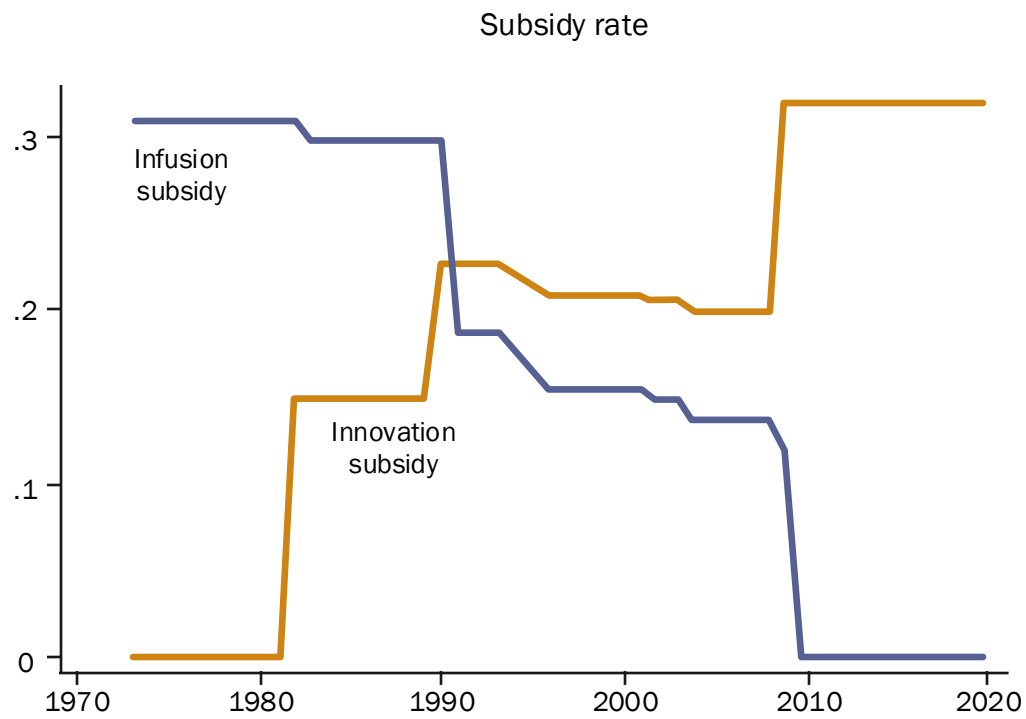
Source: WDR 2024 team.

KOREA: TWO SUCCESSIVE TRANSITIONS – COMBINE INVESTMENT WITH INFUSION, FOLLOWED BY INNOVATION

FIRST INFUSION

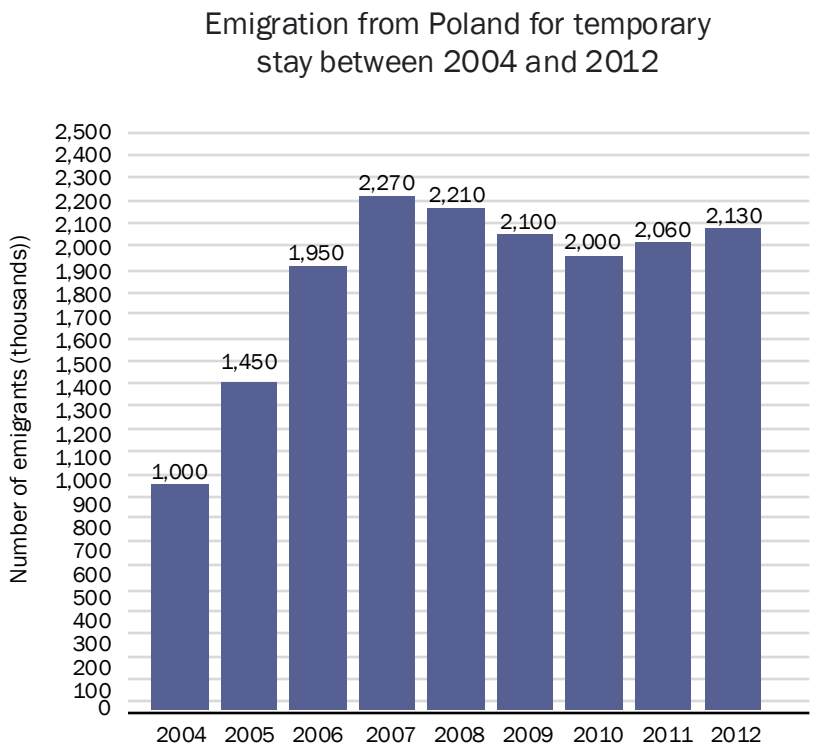
Source: https://news.samsung.com/global/the-history-of-samsung-electronics-1-paving-a-new-path-19681970.

THEN INNOVATION

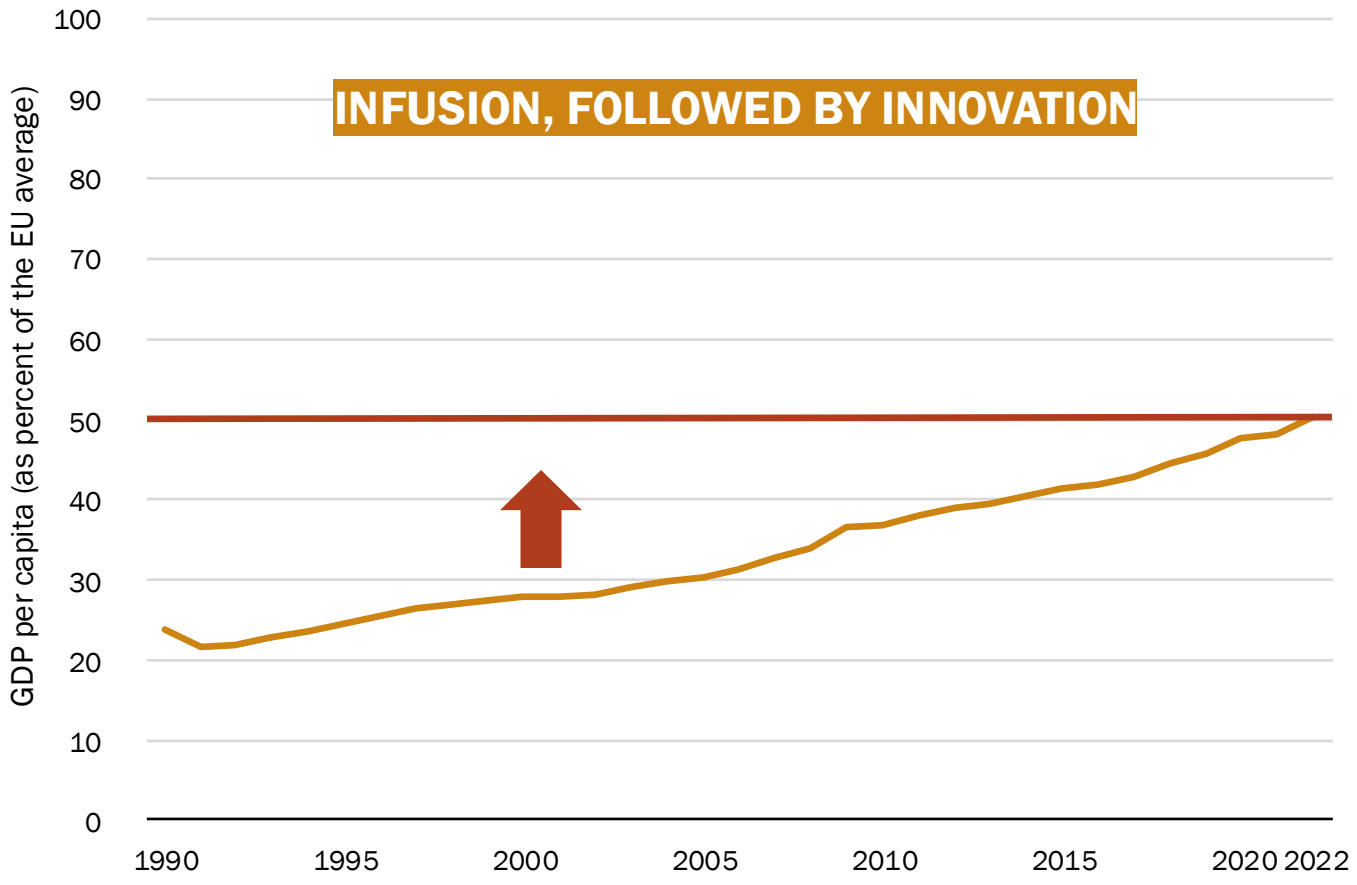


Source: Choi, Jaedo, and Younghun Shim. 2023. "From Adoption to Innovation: State-Dependent Technology Policy in Developing Countries." https://younghunshim.com /uploads/Shim_JMP.pdf.

POLAND FOLLOWED A SIMILAR PATH AND GREW FROM 22 PERCENT OF AVERAGE EU PER CAPITA INCOME IN THE 1990S TO 50 PERCENT IN 2022



EMIGRATION ('000S) AFTER EU ACCESSION



Source: Migration – Poland Statistical Office (www.stat.gov.pl).

CHILE: FIRST IN LATIN AMERICA TO REACH HIGH-INCOME, COMBINING INVESTMENT WITH INFUSION

PROMOTING TECHNOLOGY TRANSFERS

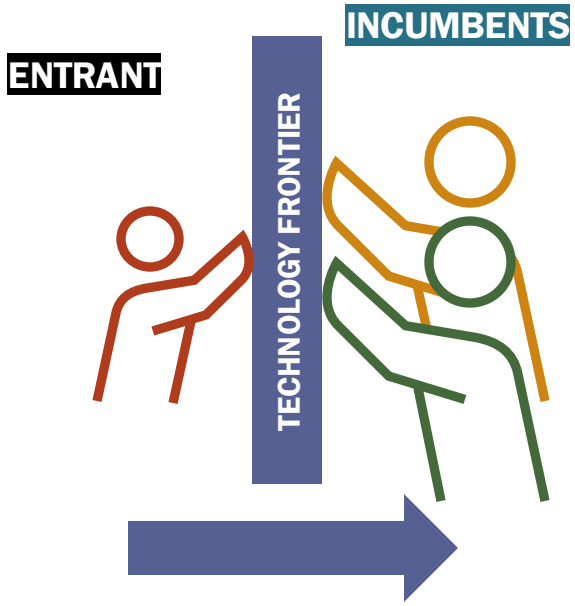
EXPANDING PROFESSIONAL EDUCATION

ENERGY SECURITY AND COMPETITIVENESS

WHO ADDS VALUE AND WHO STIFFENS THE STATUS-QUO?

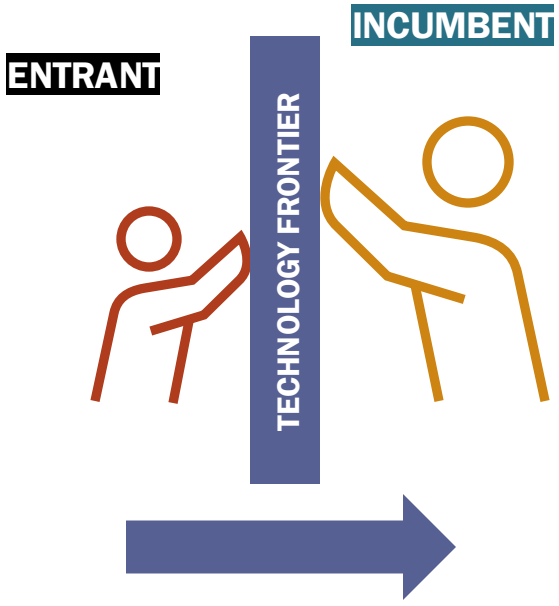
THREE VIEWS OF CREATIVE DESTRUCTION

ENERGY (SCHUMPETER)



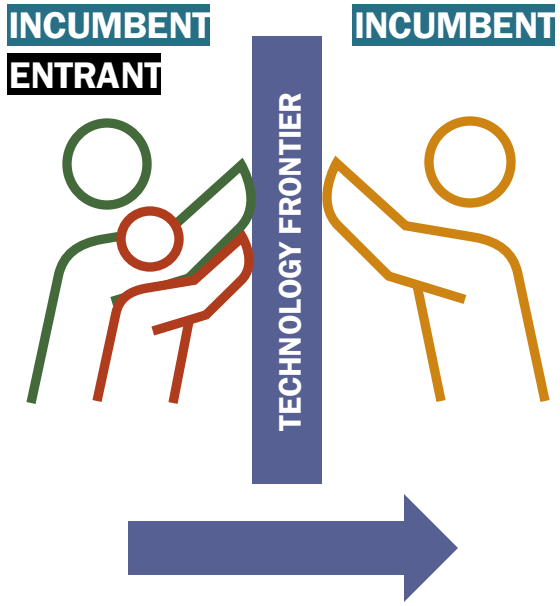
SCHUMPETER'S VIEW:
Incumbents can collude

TALENT (AHGION AND HOWITT)



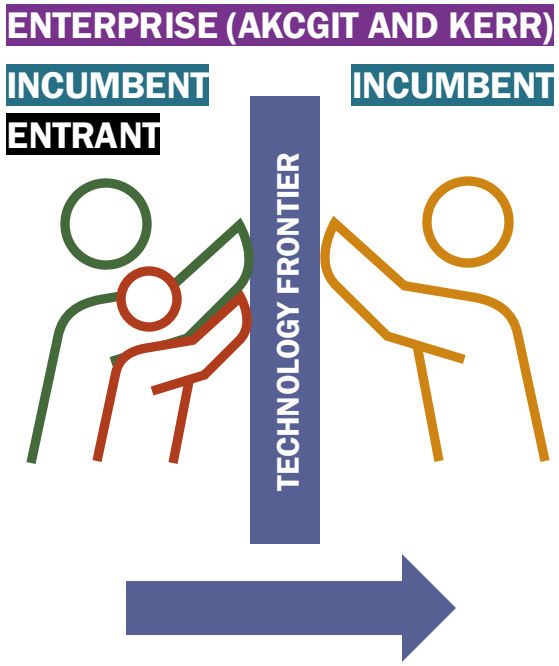
AGHION AND HOWITT'S VIEW:
Entrants create value and displace incumbents

ENTERPRISE (AKCGIT AND KERR)



AKCIGIT AND KERR'S VIEW:
Incumbents and entrants add value

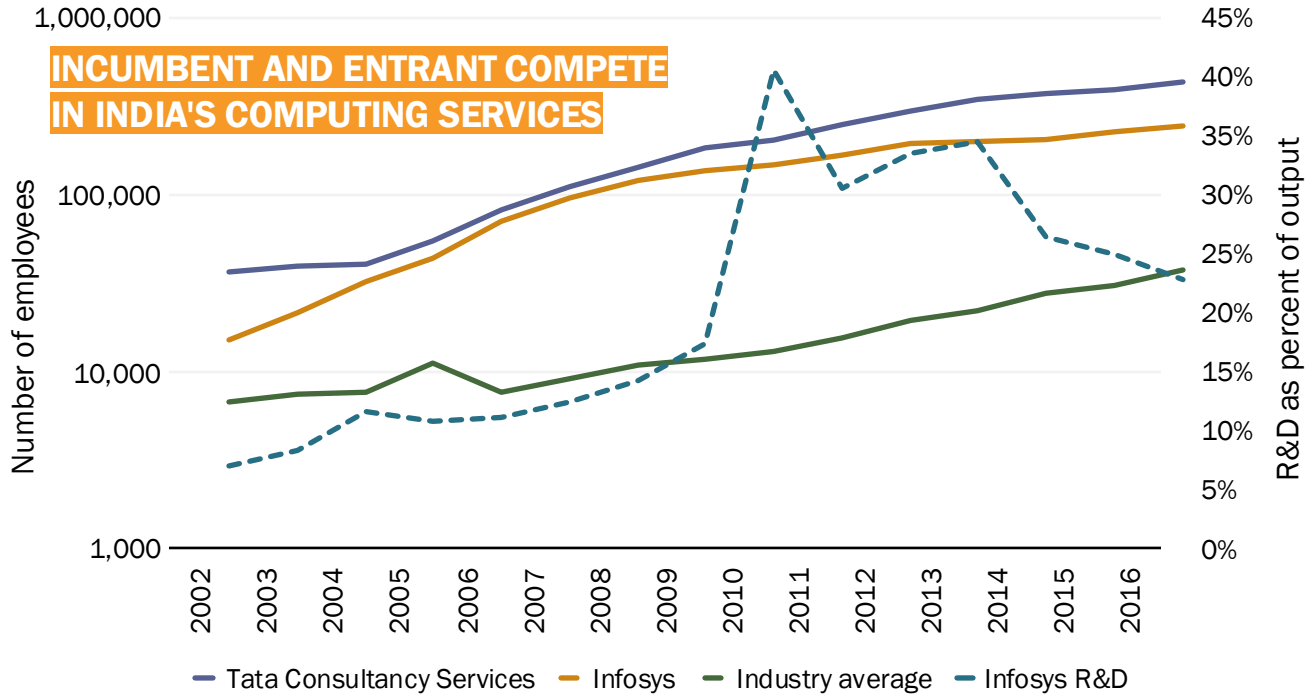
INCUMBENTS AND ENTRANTS CAN ADD VALUE-- ENTERPRISE



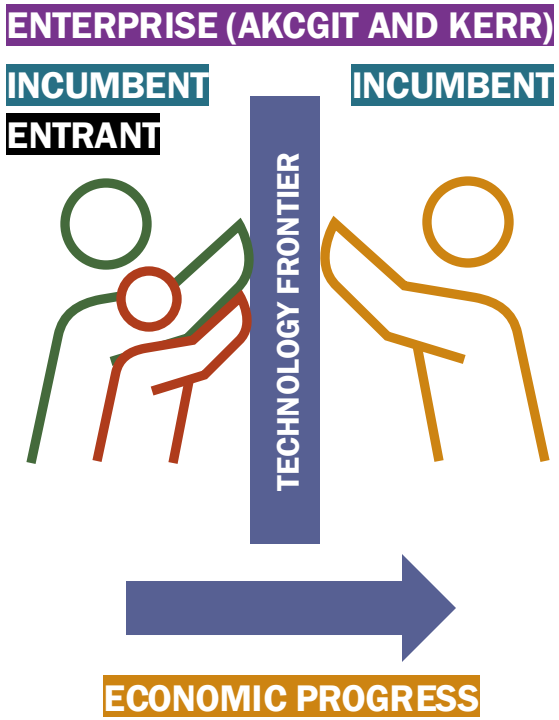
AKCIGIT AND KERR'S VIEW:

Incumbents and entrants add value

IN INDIA, YOUNG FIRMS LIKE INFOSYS INVESTED IN R&D TO BECOME MARKET LEADERS



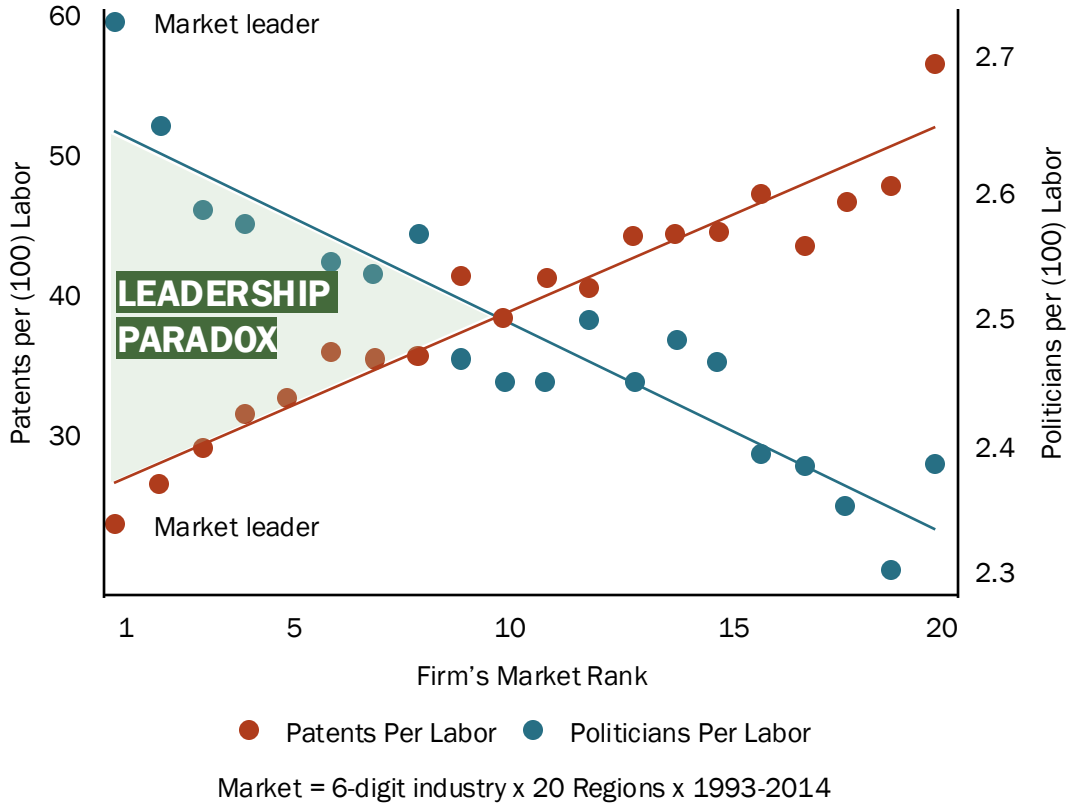
HOWEVER, MARKET LEADERS CAN CAPTURE INSTITUTIONS



AKCIGIT AND KERR'S VIEW:

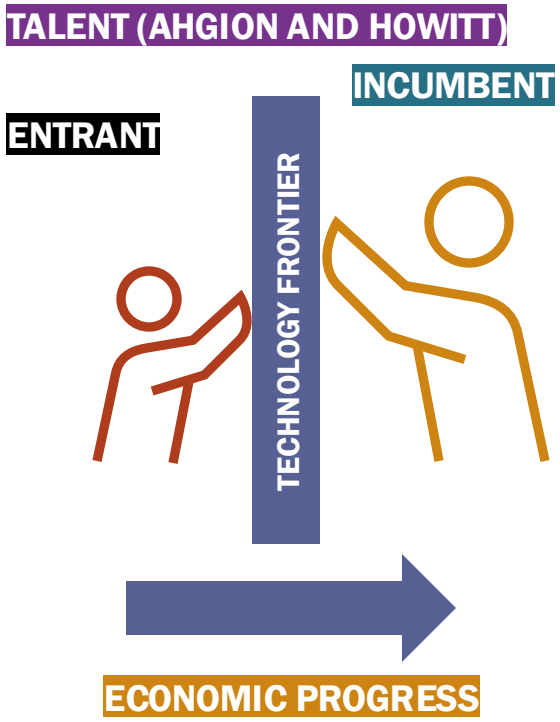
Incumbents and entrants add value

LEADERSHIP PARADOX: INNOVATION AND CONNECTION



Market = 6-digit industry x 20 Regions x 1993-2014

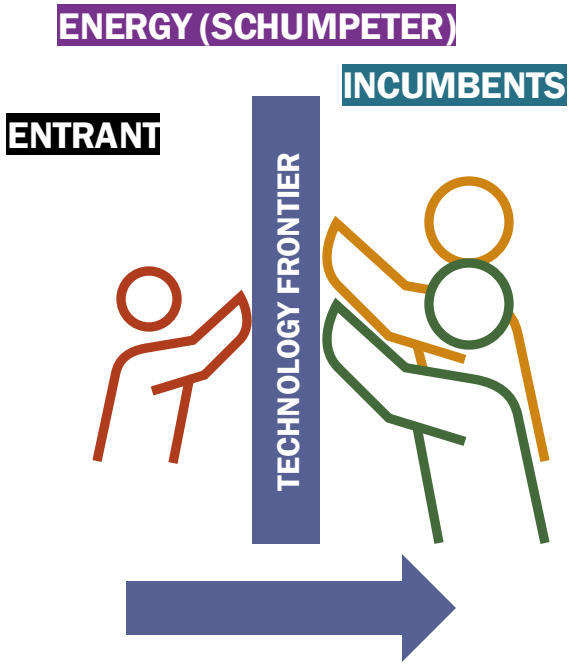
ENTRANTS ADD VALUE – TALENT (OF WOMEN)



AGHION AND HOWITT'S VIEW:
Entrants create value and displace incumbents

REDUCTIONS IN LABOR MARKET DISCRIMINATION BARRIERS TO HUMAN CAPITAL TO WOMEN AND MINORITIES DURING THE 1970S

ENTRANTS CAN ADD VALUE BUT INCUMBENTS ‘LOCK IN’ THE STATUS QUO -- ENERGY



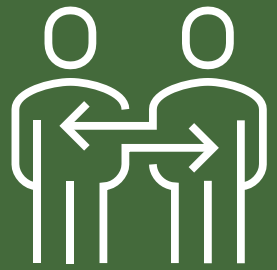
SCHUMPETER’S VIEW:
Incumbents can collude

- Incumbents in high-carbon industries erect barriers to entry for low-carbon technology.
- Incentives favoring higher-carbon industries and production processes are higher in middle-income countries.
- State involvement and weak corporate governance strengthen the status quo.
- Legacy transmission networks built to serve large fossil fuel plants slow diffusion of low-carbon energy.

TOTAL EFFICIENCY—ECONOMIC, SOCIAL AND ECOLOGICAL—REQUIRES SHIFTS IN THINKING

FROM FIRM SIZE

TO VALUE ADDED



FROM INEQUALITY

TO SOCIAL MOBILITY

FROM SOURCES OF ENERGY

TO EMISSIONS INTENSITY

BALANCING CREATION, PRESERVATION AND DESTRUCTION

DISCIPLINING INCUMBENCY TO WEAKEN PRESERVATION

REWARDING MERIT TO STRENGHTEN CREATION

CAPITALIZING ON CRISES TO SHED OUTDATED ARRANGEMENTS