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World Economic Outlook in Spring 2024 Moderate and Uneven Growth

Directorate General of the Treasury (DG Trésor) International Forecasting Teams

- Global growth is projected at 3.1% in 2024, mirroring the pace set in 2023, with a slight uptick expected in 2025 to 3.2%. This outlook marks a modest improvement over previous forecasts from autumn 2023. Despite easing production constraints and a confirmed inflationary pullback, the global economy remains shackled by the lingering effects of monetary tightening and geopolitical uncertainties. The global economy's growth trajectory, therefore, slightly lags behind the late 2010s average.

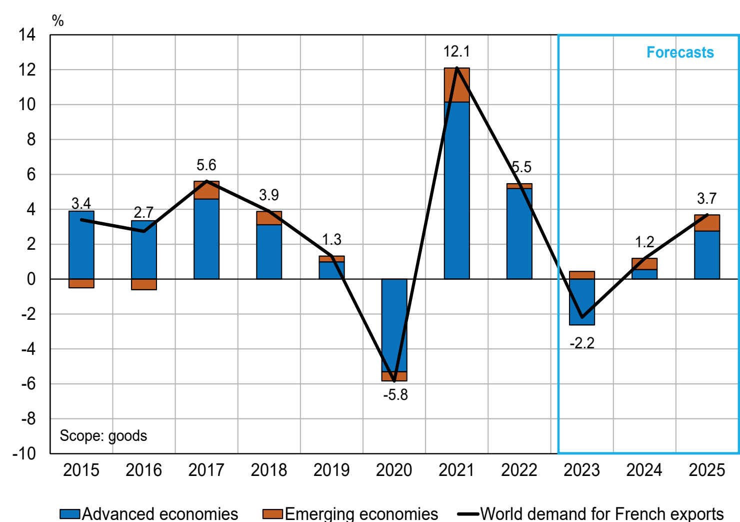
- Growth in advanced economies is anticipated to remain subdued, with significant disparities among countries. In 2024, economic activity is expected to be robust in the United States and Spain but sluggish in other major advanced economies like the United Kingdom and Germany. By 2025, growth rates are anticipated to converge, driven by an acceleration in the euro area and a slowdown in the United States, assuming a gradual return of the savings rate to its historical average.

- Major emerging economies like India, Turkey and Brazil should see a slowdown in 2024, followed by a rebound in 2025. China's economy is projected to continue slowing, hampered by its failure to pivot its growth model towards domestic demand.

- After a decline in 2023, global trade is expected to recover in 2024 and 2025. However, the global demand for French exports is predicted to be less robust than international trade. This reflects the more sluggish activity in the euro area, which is expected to rebound modestly in 2024, before accelerating in 2025 (see Chart on this page).

- Geopolitical uncertainties, the timing and magnitude of key rate cuts, and shifts in consumer behaviour emerge as the primary risks surrounding this scenario.

Annual growth in global demand for French exports



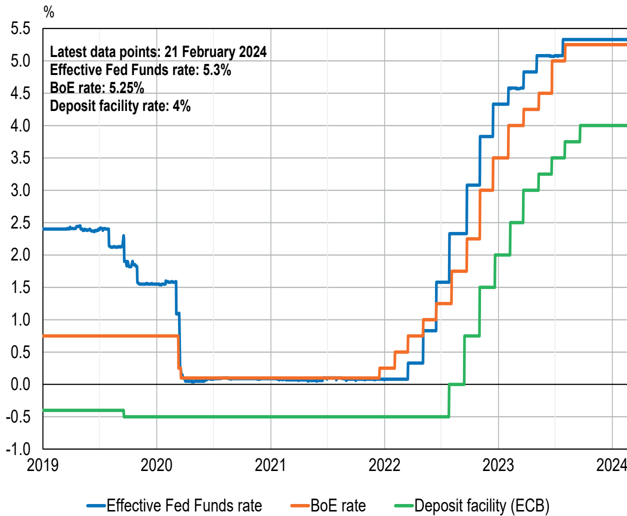
Source: DG Trésor.

1. Scenario assumptions: easing of interest rates[1]

The assumptions underpinning these global economic forecasts were set on 20 February 2024 regarding the evolution of financial conditions, commodity prices, and fiscal policy.

After the monetary tightening of 2022 and 2023, the key rates of central banks in major advanced economies are now at elevated levels (see Chart 1). A decrease in these rates is anticipated from mid-2024 amid a significant drop in inflation. Similar trajectories for the Federal Reserve (Fed) and the Bank of England (BoE) are expected, with rapid decreases in the second half of 2024, followed by a more moderate pace in 2025, aligning with market expectations. The European Central Bank (ECB) is also projected to reduce rates in the latter half of 2024, before stabilising in 2025.

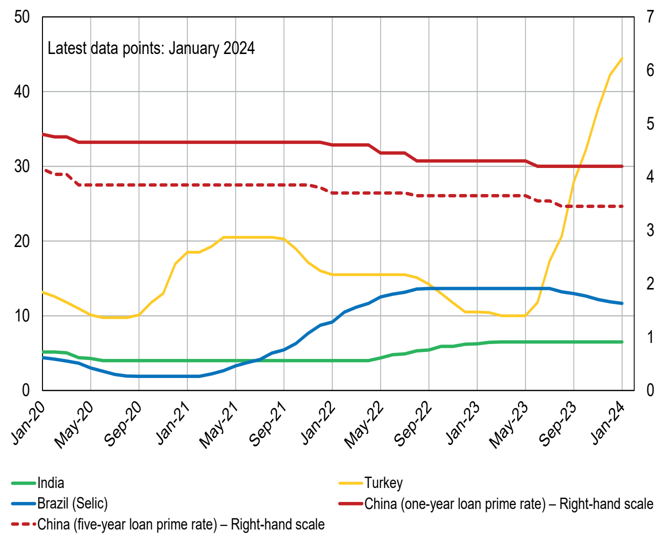
Chart 1: Main key rates (%)



Source: Federal Reserve, Bank of England, European Central Bank.

Monetary policies within large emerging economies are expected to remain heterogeneous, partly influenced by the Fed's stance. While Turkey should continue its monetary tightening in 2024 to fight inflation, India is expected to keep rates steady until inflation meets with a 4.0% target. Both China and Brazil are likely to pursue monetary easing[2] (see Chart 2).

Chart 2: Key rates in major emerging economies (%)



Source: National central banks.

Following a slight increase in the first three quarters of 2023, sovereign rates dipped towards year's end amid a marked decline in inflation and adjusted expectations for central bank key rate cuts. They then marginally increased again at the onset of 2024 as central banks signalled a more gradual rate reduction than initially anticipated by the markets. Sovereign rates in major advanced economies, already factoring in future key rate cuts, will likely remain relatively stable through 2024 and 2025.

In the euro area, fiscal policy should be characterised by the phasing out of energy price shock mitigation measures. Spain and Italy, however, are expected to benefit from expedited disbursements under the EU's National Recovery and Resilience Plan (RRP). A federal constitutional court ruling in Germany forced the government to tighten its fiscal policy, potentially curbing growth in 2024 and posing a significant risk in 2025 if further consolidation measures are required. The fiscal impulse in the United States is also expected to be negative, despite support from investment programmes (Inflation Reduction Act – IRA – and CHIPS Act)[3] in infrastructure, energy transition, and

(1) The forecasts were prepared by Louis Adjiman, Raphaël Beaujeu, Louis Bertrand, Guillaume Blin-Vialart, Léocadie Darpas, Rizlaine Embarek, Juliette Flament, Adama Hawa Diallo, Patrick Kanda Tunda, Paul Mainguet, Laure Noël, Cyprien Ronze-Spilliaert and Eloïse Villani.

(2) The Chinese central bank cut its 5-year rates (a benchmark for the real estate sector) by 25 basis points to 3.95% in February 2024, marking a new historic low.

(3) Creating Helpful Incentives to Produce Semiconductors and Science Act.

industry competitiveness. The United Kingdom's fiscal policy appears slightly restrictive, with an increase in the corporation tax rate only partially offset by a "super-deduction" tax break for investments. China plans to increase fiscal support in 2024 to inch closer to its 5.0% growth target.

The average price of a barrel of Brent crude oil (European benchmark) experienced a significant drop in 2023 to $82.5 from $100.9 in 2022, despite intermittent shortages in summer 2023 resulting from production cuts by some OPEC+ countries. However, the price remains above pre-pandemic levels. The decline over the year reflects an increase in non-OPEC+ supply (with US production reaching a historical high) and concerns over global growth dynamics. Tensions in the Middle East have not had a lasting impact on oil prices. For forecasting purposes, the price of Brent crude oil is fixed at $82.2 (€76.2), its average from 27 January to 15 February 2024, with the euro exchange rate set at $1.08, its average over the same period.

2. International scenario: vigorous growth continues in emerging markets, more moderate growth in advanced countries

Table 1: Global growth forecasts

	2015-2019 average	2021	2022	2023[a]	2024	2025	2023	2024
				(forecasts, working-day ajusted)			(adjustments since the 2024 Budget Bill)	
Global growth	**3.4**	**6.4**	**3.5**	**3.1**	**3.1**	**3.2**	**0.1**	**0.1**
Advanced economies[b]	**2.2**	**5.7**	**2.6**	**1.6**	**1.5**	**1.6**	**–0.1**	**0.2**
Euro area[c]	2.0	5.9	3.4	0.5	0.7	1.6	–0.4	–0.6
Germany	*1.7*	*3.1*	*1.9*	*–0.1*	*0.3*	*1.2*	*0.0*	*–0.8*
Spain	*2.8*	*6.4*	*5.8*	*2.5*	*1.8*	*2.2*	*0.1*	*0.3*
Italy	*1.0*	*8.3*	*3.9*	*0.7*	*0.7*	*1.1*	*–0.3*	*0.0*
United Kingdom	2.0	8.7	4.3	0.1	0.3	1.1	–0.4	–0.5
United States	2.5	5.8	1.9	2.5	2.3	1.4	0.4	1.5
Japan[d]	0.8	2.2	1.0	1.9	0.9	0.8	–0.4	–0.3
Emerging economies[b]	**4.3**	**6.9**	**4.1**	**4.1**	**4.1**	**4.3**	**0.1**	**–0.1**
Brazil	–0.5	5.0	3.0	3.1	1.7	2.0	0.8	0.4
China	6.7	8.5	3.0	5.2	4.7	4.4	0.2	0.2
India[e]	6.7	9.1	7.2	6.9	6.0	6.5	0.7	–0.5
Turkey	4.1	11.4	5.5	4.2	3.3	3.6	0.4	–0.3
World trade in goods[f]	2.9	12.8	4.2	–0.8	2.4	4.0	–1.1	–1.2
World demand for French exports	3.4	12.1	5.5	–2.2	1.2	3.7	–1.7	–1.8

a The 2023 figures are estimates based on data available as of the forecast cut-off date (20 February 2024) for advanced economies, and projections for emerging economies and aggregates.
b Aggregate forecast figures for "advanced economies" and "emerging economies" are estimated based on IMF projections with forecast figures adjusted using DG Trésor projections for the countries in the table above and past figures adjusted for revisions to national accounts. The forecast of global demand for French exports no longer includes predictions for the Russian economy due to the drop in bilateral flows following trade sanctions against Russia.
c The euro area aggregate derives from quarterly accounts adjusted for working days. Forecast figures are estimated based on European Commission projections adjusted by those of DG Trésor for Germany, France, Italy and Spain.
d The forecasts for Japan are those of the IMF.
e India's growth is for the fiscal year running from the beginning of April to the end of March.
f Global trade, calculated as the sum of imports, covers 40 countries representing 85% of global imports.

Sources: IMF, World Economic Outlook Update, January 2024; OECD, Economic Outlook, Interim Report, February 2024; European Commission Winter 2024 Economic Forecast; DG Trésor calculations and forecasts.

2.1 Slight upward revision in global growth for 2023 and 2024

For 2024, the global economy is expected to expand at a rate of 3.1%, mirroring the growth rate of 2023 (see Table 1) and presenting a scenario slightly more optimistic than the projections from last autumn[4] (which predicted a 3.0% growth rate for both 2023 and 2024). This adjustment reflects a second half of 2023 that outperformed expectations in the United States and most emerging economies, especially China, which more than offset the disappointing growth in the euro area.

In 2025, global growth is anticipated to increase slightly to 3.2%, albeit still shy of the pre-pandemic average of 3.4%,[5] due to a more restrictive policy mix and lingering geopolitical uncertainties.

The persistent gap between the growth rates of advanced and emerging economies – significant at 1.5% and 4.1% in 2024, respectively – and widening slightly in 2025 to 1.6% and 4.3%, underscores the higher potential growth in emerging countries undergoing convergence. This gap is notably wider than the pre-pandemic average of 2.1 percentage points over the 2015-2019 period.

Despite this economic resilience, global trade took a hit in 2023, declining by 0.8%. This downturn was driven by the late 2022 COVID-19 wave in China, a slowdown in domestic demand and industrial activity in advanced economies, and the use of inventories built up during peak supply-chain tensions. However, global trade is expected to bounce back in 2024 (2.4%), albeit at a pace slower than overall economic activity, partly due to lower demand for investment goods (typically of a trade-intensive nature) affected by monetary tightening effects in 2024. By 2025, trade growth is projected to outpace economic activity at 4.0%, reflecting a catch-up in trade among advanced economies following their sluggish performance in 2023 and 2024.

World demand for French exports is expected to lag behind global trade, growing by 1.2% in 2024 and 3.7% in 2025. Despite a slight upward revision in global growth from last autumn's forecasts, the international environment appears less favourable for the French economy than hoped in autumn. In 2024, the growth in global trade is expected to be driven more by emerging countries than advanced ones, particularly those in Europe, which are France's main trading partners and whose economic activity has been downgraded. In 2025, however, the global demand for French exports is set to accelerate significantly, fuelled by more robust economic growth in the euro area.

2.2 A diverse set of growth trajectories within advanced economies

In the United States, economic activity in 2023 was considerably more dynamic than anticipated, especially in the second half of the year. Consumer spending held up firmer, buoyed by a larger-than-projected cushion of stock of excess savings. Fiscal support through the IRA and the CHIPS Act further bolstered investments in new manufacturing infrastructures, nudging growth upwards by 0.2 percentage points in 2023. This greater momentum in 2023 largely explains the upward revision in growth forecasts for 2024, to 2.3%. However, a deceleration to 1.4% is anticipated in 2025, as household consumption should face headwinds from depleted excess savings (see Box 1) and heightened credit costs, alongside the resumption of student loan repayments. Despite this, business investment is expected to accelerate, particularly in artificial intelligence, while household investment, having seemingly bottomed out in 2023, is set to rebound amid falling mortgage rates.

Germany experienced a slight contraction in 2023, with growth of -0.1%. The economy is expected to only modestly bounce back in 2024, with a projected growth of 0.3%. This tepid recovery is attributed to the lingering effects of monetary tightening, the phasing out of support measures, and a climate of budgetary uncertainty – all of which weigh heavily on investment. German exports should remain hamstrung by subdued global trade dynamics. However, a more promising growth of 1.2% is projected for 2025, driven by investment and exports, with household consumption gradually picking up, supported by greater wage increases than in other major economies thanks to a tight labour market, and by a reduction in the savings rate, still above its historical average

(4) See R. Beaujeu et al. (2023), "World Economic Outlook in Autumn 2023: The Economy is Holding out Against Rising Interest Rates", *Tresor-Economics*, No. 332.

(5) Calculated for the 2015-2019 period.

Box 1: Will pandemic-related excess savings bolster consumption in advanced economies?

In 2020 and 2021, the world grappled with the COVID-19 crisis, which led to unprecedented constraints on consumption. This period saw a significant increase in the savings rates of advanced economies compared to the 2015-2019 average, resulting in an accumulated stock of excess savings.[a] In 2022, the dynamics of savings and consumption began to diverge across regions:

- In Germany, Spain, and the euro area at large, households continued to accumulate excess savings. By the third quarter of 2023, savings rates in Germany and Spain were still above their 2015-2019 averages by 2.6 and 2.4 percentage points respectively. In the euro area, the savings rate was 1.4 percentage points above its average (see Chart 3).
- In contrast, households in Italy and the United States started to dip into these excess savings to bolster their consumption, with their savings rates falling below the pre-pandemic average by 1.5 and 1.4 percentage points respectively in the third quarter of 2023.

The OECD suggests that the nature of public support can explain part of this divergence during the pandemic.[b] In the United States, stimulus cheques initially boosted the savings of lower-income households, which were then quickly spent due to their higher marginal propensity to consume. Conversely, European measures focused more on job retention, and the excess savings accumulated were largely a by-product of consumption constraints, not directly related to income effects.

Another differentiating factor between the United States and the euro area is the greater exposure of European consumers to the repercussions of the Ukraine war and associated uncertainties, which may have spurred an increase in precautionary savings.

Differences in savings trajectories among major euro area countries could be attributed to variations in purchasing power dynamics:

- In Spain, a surge in inflation during the third quarter of 2022 temporarily eroded purchasing power, prompting a corresponding dip in household savings. However, purchasing power rebounded quickly, thanks to public support measures directed primarily at households and an earlier easing of inflation, resulting in a recovery of the savings rate.
- Germany witnessed a more substantial cumulative inflation impact,[c] yet the support for households was also more substantiald compare[d] to its neighbours, keeping the savings rate above its historical average.
- Italy, facing a sharp decline in purchasing power due to high inflation, reportedly tapped into their savings to support consumption, with public aid more skewed towards businesses than households.[e]

a. Excess savings are defined as the accumulated differences between actual savings flows since 2020 and a pre-COVID trend from 2015 to 2019. This trend is calculated using gross disposable income multiplied by the medium-term savings rate for each country.

b. See Geoff Barnard and Patrice Ollivaud (2024), “Whither excess household savings? A key known unknown”, *OECD Ecoscope*.

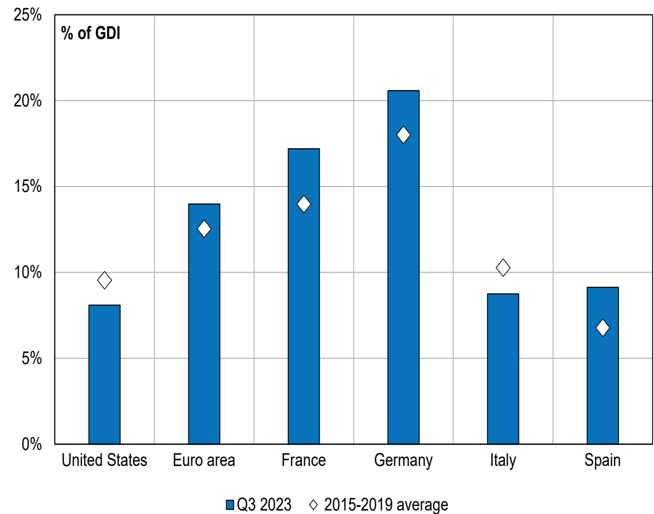
c. From January 2019 to January 2024, cumulative inflation – as measured by the Harmonised Index of Consumer Prices (HICP) – reached 17.4% in France, 18.4% in Spain, 19.9% in Italy, and 22.4% in Germany.

d. These include permanent tax relief measures and adjustments to income tax brackets, an energy allowance of €300 for workers (later extended to pensioners), reductions in fuel prices at the pump, a €9 public transport ticket valid from June to August 2022, a VAT reduction on gas consumption, and energy price caps.

e. Including, for example, substantial tax credits on gas and electricity for businesses.

The scenario adopted in this case assumes a gradual return to pre-crisis savings rates for European and American households in 2024 and 2025. Savings rates are expected to decrease for German and Spanish households, supporting consumption, but to increase for Italian and American households. The normalisation of the savings rate does not imply that the excess savings accumulated since 2020 would be completely depleted. In the United States and Italy, a portion of the excess savings, especially those held by wealthier households with a lower propensity to consume and invested in less liquid assets, is likely to remain. For Germany and Spain, a return to average savings rates indicates that the excess savings accumulated since 2020 will not be fully utilised by the end of 2025.

Chart 3: Savings rate in Q3 2023 compared to the 2015-2019 average

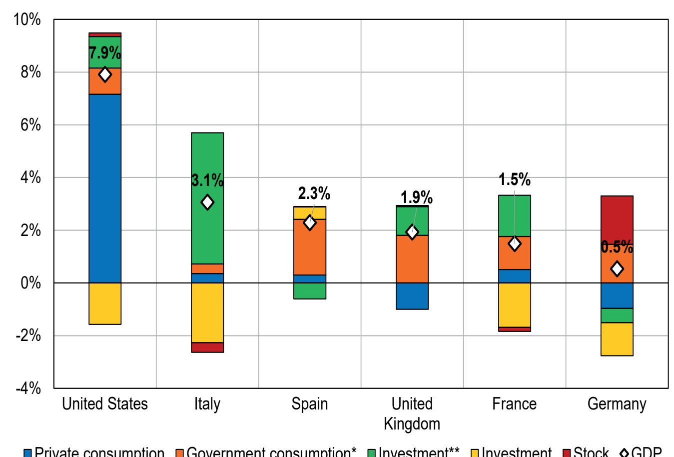


Sources: Eurostat, BEA, DG Trésor calculations.

In 2023, the United Kingdom's economic growth hovered near stagnation, posting a mere 0.1% increase. This sluggish pace is predicted to persist into 2024 with a slightly improved growth rate of 0.3% before experiencing a recovery of 1.1% in 2025. This anticipated rebound is primarily attributed to an upturn in household consumption, buoyed by easing inflation and sustained wage growth. However, the recovery is expected to be tempered by fiscal tightening and the lagged effects of monetary tightening. These factors are poised to exert downward pressure on private investment (projected to decline in 2024 and 2025), particularly in household spending, even as businesses stand to benefit from investment tax relief measures.

After a strong post-pandemic recovery, particularly as a result of a boom in investments (see Chart 4), Italy faces a slowdown, with growth expected to fall to 0.7% in 2024, mirroring the rate of 2023.[6] This slowdown primarily reflects a pullback in private investment, impacted by reduced energy retrofit incentives (the so-called "Superbonus") and the transmission of past monetary tightening to businesses. Nonetheless, a modest acceleration to 1.1% is anticipated in 2025, contingent upon ramped-up public investments under the RRP. However, growth is projected to once again fall below the euro area average, as was the case before the pandemic: consumption dynamics are expected to remain subdued as Italian households have already tapped into their excess savings accumulated during the pandemic.

Chart 4: Breakdown of GDP change between 2019 and 2023



* for the US, this covers public demand (including consumption and investment)
** for the US, this covers total private investment (including residential investment but excluding public investment)

Sources: National statistics institutes.

Spain saw robust growth of 2.5% in 2023, outpacing other major European economies, fuelled by a buoyant labour market (with an unemployment rate at 12.1% in 2023, its lowest level since 2008) and a surge in government consumption. This momentum is expected to continue into 2024 and 2025, with growth rates of 1.8% and 2.2%, respectively. Household consumption is projected to be a driver of growth over these two years, supported by favourable labour market conditions and strong wage growth, while investment should benefit from strategic projects for economic recovery and transformation (PERTE) financed through the RRP.

(6) Given the cut-off date for these projections (20 February 2024), these figures do not account for the latest GDP estimate released on 5 March 2024, which revised Italy's annual growth upward to 1.0% for 2023.

Box 2: The potential reversal of growth dynamics between the euro area and the United States

From 2010 to 2019, the United States posted an average annual GDP growth of 2.3%, compared to just 1.3% in the euro area, which was significantly impacted by the sovereign debt crisis. This divergence was not solely a matter of demographics, as GDP per capita in the United States grew by 1.7% annually, outpacing the euro area's 1.1%. The COVID-19 crisis had a greater impact on the euro area, where GDP contracted by 6.2% in 2020, compared to a 2.2% contraction in the United States. Although subsequent recovery efforts and stimulus measures bolstered growth on both continents, the gap was only partly bridged, with the euro area's annual growth averaging 4.7% in 2021-2022 versus 3.8% in the United States.

In 2023, despite monetary tightening on both sides of the Atlantic, economic activity in the United States remained particularly robust at 2.5%, while it markedly slowed down in the euro area to 0.5%. This reflects not just stronger support mechanisms in the United States but also more significant hurdles in the euro area:

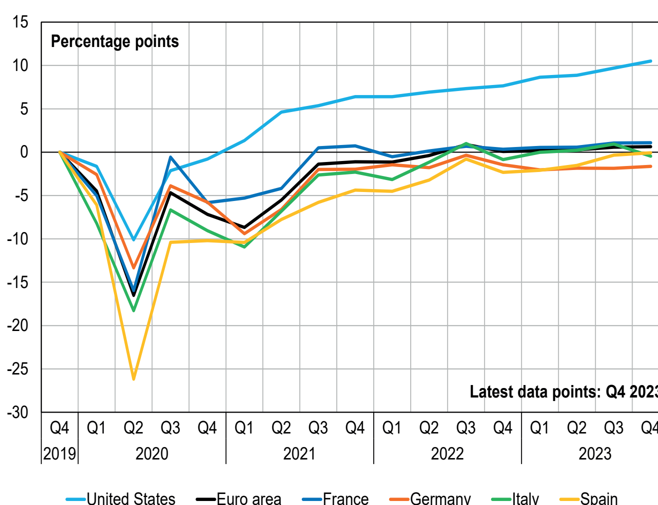
- American households, unlike their euro-area counterparts, tapped into the excess savings accumulated during the pandemic (see Box 1), fuelling consumption: by the end of 2023, American household consumption was 10 points higher than at the end of 2019, whereas it barely returned to pre-pandemic levels in the euro area (see Chart 5).
- The euro area felt the brunt of the Russian invasion of Ukraine more acutely, given its trade exposure to Russia, the impact on energy markets, and a shock to economic confidence. While the United States benefits from being a net energy exporter, the euro area relies on imports. Despite avoiding gas supply disruptions over the past two winters, gas prices experienced a greater rise on the European market. The European benchmark price[a] was five times higher than the American one over the 2021-2023 period, compared to twice as high in the 2015-2019 period. This energy price hike not only affected household purchasing power but also weighed on business competitiveness, particularly in energy-intensive industries.
- China's economic slowdown in 2022 hit the euro area harder, especially Germany. In that year, exports to China constituted 1.6% of the euro area's GDP, compared to just 0.6% for the United States.

This trend is poised to reverse in 2024 and 2025. Growth in the euro area is set to gain momentum (1.6% in 2025 after 0.7% in 2024), while activity in the United States is projected to decelerate (1.4% after 2.3%):

- The euro area has significant catch-up potential in household consumption, as savings rates remain above pre-pandemic levels (see Box 1), unlike in the United States.
- The euro area stands to benefit more from the fall in gas prices since the peak observed in the summer of 2022.
- Fiscal policy is anticipated to be more supportive in the euro area,[b] where planned investment disbursements (notably for the RRP) are expected to remain higher than in the United States (IIJA, CHIPS Act, and IRA).[c]

However, the activity level gap between 2025 and 2019 is projected to remain significantly wider in the United States (+12 points) than in the euro area (+6 points).

Chart 5: Private consumption (compared to Q4 2019)



Source: National statistics institutes.

a. For the European market, the Dutch TTF serves as the price benchmark. The Henry Hub fulfils this role for the American market.
b. According to the IMF's Fiscal Monitor from October 2023, the cyclically adjusted primary balance in the United States is expected to narrow by 1.4 percentage points in 2024 (to −4.6% of potential GDP, after −6.0% in 2023), as opposed to a reduction of 1.0 percentage point in the euro area (to −0.7% of potential GDP, after −1.7%).
c. Budgetary expenditure estimates under the RRP in Italy and Spain, the Climate and Transformation Fund (KTF) in Germany, and the France2030 budget commitments outlined in the 2024 Budget Bill. In the United States, included are the budgetary expenditures anticipated from the Infrastructure Investment and Jobs Act (IIJA), CHIPS Act, and Inflation Reduction Act. Budgeting is expected to average 0.5% of GDP in 2024 and 2025 (after 0.3% of GDP in 2023) in the United States, versus 1.4% of GDP (after 1.2% of GDP in 2023) on average in the four major European countries. However, the disbursements from these plans are subject to significant uncertainties.

2.3 Economic activity in major emerging markets is expected to slow in 2024 before rebounding in 2025 – except in China

In China, growth is projected to decrease to 4.7% in 2024 (due to a less favourable base effect and waning confidence among households and businesses), dipping further to 4.4% in 2025. Despite a cautious monetary policy aimed at stabilising the yuan against the dollar, fiscal policy is expected to continue fuelling activity, notwithstanding the country's high indebtedness. The real estate sector might find its equilibrium, aligning sales more closely with actual demand. However, China faces downside risks, including deflationary pressures (see Box 3), escalating financial risks, a production surplus relative to domestic demand, and tensions with the United States. The extent of the economic slowdown will also hinge on China's ability to pivot its growth model and position itself in new technologies.

Turkey, facing monetary tightening,[7] is expected to experience a slowdown in 2024, with growth at 3.3%. This policy is likely to dampen investment in the first half of the year and, to a lesser extent, private consumption – supported by an increase in the minimum wage. By the second half of the year, as inflation recedes and the effects of monetary policy soften, activity is anticipated to recover slightly. In 2025, growth is projected to accelerate to 3.6%, driven by domestic demand as inflation recedes and monetary policy eases.

In India, economic growth is expected to dip slightly to 6.0% for the 2024-2025 financial year,[8] impacted by a still-restrictive monetary stance in the first half of the year. However, growth should climb to 6.5% in 2025-2026, bolstered by monetary easing and the continuation of the recovery plan in infrastructure. Fiscal consolidation efforts are anticipated to persist across both years.[9]

In Brazil, growth is projected to decline to 1.7% in 2024, affected by weaker agricultural exports and the lingering effects of high interest rates in 2023. However, recovery is anticipated in late 2024, spurred by ongoing monetary easing that should support consumption, industry, and services. In 2025, economic growth is expected to reach 2.0%, bolstered by the government's fiscal reforms and efforts to simplify the tax system.

(7) After nearly two years of monetary easing, the Central Bank of Turkey reverted to orthodox policies in June 2023, tightening its rates from 8.5% to 45% by January 2024. This hike in the key rate is complemented by an easing of the macro-prudential framework.
(8) The reference period for these projections is the fiscal year which starts in April of year N and ends in March of year N+1.
(9) Indian authorities have pledged to reduce the central government's deficit from 5.8% of GDP in 2023-2024 to 4.5% in 2025-2026.

Box 3: Assessing the risk of deflation in China

In China, the inflation rate for 2023 hovered near zero (0.2% on an annual average), sparking concerns of deflation – a sustained and generalised decrease in prices – across the country.

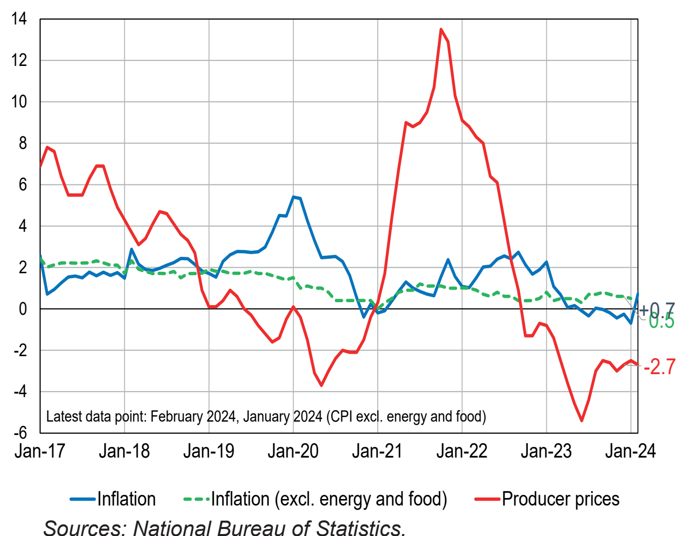
The Consumer Price Index (CPI) experienced declines in July, and then from October to December, reflecting a drop in food prices, particularly pork, and energy prices (fuel prices were down 5.1% year-on-year). Manufactured goods prices also decreased due to a significant imbalance between modest demand and abundant supply, including production overcapacity in several sectors. Supply was exacerbated by pandemic-related stockpiling, lower commodity prices, and government production incentives in the second half of 2023. Consequently, the Producer Price Index (PPI) experienced a noticeable decline (−3.0%) in 2023, contributing to a contraction in consumer goods prices (−0.3% in 2023) and vehicle prices (−4.0%). Service prices only saw a modest increase (1.0% over the year) despite the reopening of the economy and the resurgence of tourism, particularly with stagnating rents. Labour market challenges (such as high youth unemployment of 14.9% in December, poor job prospects, and reduced corporate investment demand) also exerted downward pressure on wages and prices.

Beyond cyclical elements, China has historically recorded limited inflation (2.0% on average from 2012 to 2022, compared to 3.9% globally), attributed to: (i) a structural imbalance between supply and demand; (ii) ongoing rural-to-urban migration and the influx of new urban workers willing to accept lower wages; and (iii) more regulated food and energy prices than in advanced countries, partly through strategic reserves of agricultural products and regulated energy prices.

Inflation might see a slight increase in 2024 but is expected to remain subdued due to the persistence of these structural factors. The IMF's latest Article IV consultation forecasts a total inflation rate of 1.3% for 2024, slightly below the core inflation rate (1.4%), supported by decreasing food and energy prices. Producer prices should also benefit from a stabilisation in commodity costs. Conversely, a rise in household consumption is likely to be modest amid ongoing struggles in the real estate sector, a major component of household wealth.

While the risks of a deflationary spiral (a sustained and generalised drop in prices, wages, investment, consumption, and production) remain limited at this stage, the mechanisms to combat such a scenario are equally constrained, as authorities currently refrain from direct support for consumption. Monetary policy remains minimally utilised in China, prioritising exchange rate stability, and structural reforms that would bolster demand (such as direct transfer policies to households and more extensive social safety nets) remain in their infancy.

Chart 6: Inflation and producer prices (year-on-year, %)



Sources: National Bureau of Statistics.

3. More balanced risks amid diminishing uncertainties

Risks appear more balanced than in the autumn of 2023, with some of them receding into the background. The global economy has demonstrated resilience in the face of rising interest rates, benefiting from a confirmed retreat in inflation. Consequently, the spectre of a hard landing, once feared due to tightening monetary policies, seems to have significantly dissipated. Similarly, the risk of another sudden spike in energy prices appears to have diminished. Gas prices in the European market have hit their lowest since 2021, and European countries have diversified their energy sources and adopted energy-saving policies to mitigate the risk of winter energy shortages. Since the summer of 2023, oil prices have softened, thanks to increased production outside of OPEC+, especially in the United States, and a reduction in OPEC+'s credibility following Angola's departure in December, lowering the likelihood of sharp price increases in oil markets.

Geopolitical tensions remain the primary cloud of uncertainty over this macroeconomic scenario. While conflicts in the Near and Middle East have so far had a limited impact on the global economy, any escalation could affect oil prices and shipping costs, particularly if tensions persist in the Red Sea area. The ongoing war in Ukraine and tensions in the South China Sea continue to pose significant risks to global economic activity. Beyond their impact on commodities and transportation, geopolitical friction could influence trade policies, posing a threat to the momentum of global trade.

Elections set for 2024 in major countries like the United States, the United Kingdom, and India, along with the European elections, could sway the direction of fiscal, trade, and diplomatic policies, positively or negatively impacting economic activity.

Regarding fiscal policy, the scope of disbursements from the Recovery and Resilience Facility in Italy and Spain, and potential consolidation measures in Germany in 2025, will play a critical role in shaping growth in the euro area. Similarly, the extent of fiscal consolidation in India and economic support measures in China, both yet to be determined, will significantly influence activity in these countries.

The trajectory of inflation within advanced economies remains uncertain. It will determine the pace at which key rates can be lowered, thereby influencing the recovery of consumption and investment. Moreover, the time it takes for monetary easing to affect economic activity is uncertain as the negative impacts of past rate hikes continue to unfold. The scenario assumes a gradual return to historical savings rates in advanced economies; a lasting change in the savings rate could significantly alter household consumption dynamics and, thus, the growth trajectory.

Monetary policy in advanced economies, particularly the United States, is crucial for emerging markets. A quicker reduction in interest rate differentials between emerging markets and the United States – meaning emerging markets lower their rates faster than the Fed – could lead to capital outflows from the former. However, emerging economies have grown more resilient over time, with stronger economic fundamentals, more independent central banks, and better-capitalised banking systems. In China, the economy's exposure to its troubled real estate sector remains a critical determinant of activity.

Finally, climate change poses an immediate threat to both the economy and public finances through extreme weather events. The El Niño phenomenon, in particular, could hamper economic activity and infrastructure, especially in emerging economies. Episodes of increased drought could put pressure on agricultural commodity prices or affect maritime trade, such as through the Panama Canal.

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