QNB Economics
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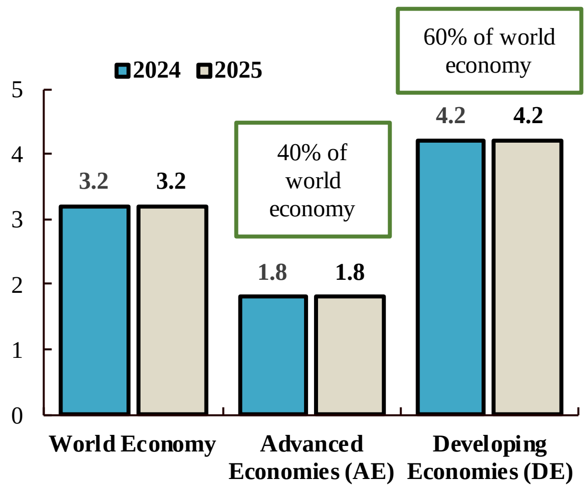
What lies beneath steady global economic growth?

At the beginning of the year, significant headwinds outlined a bleak global growth outlook for 2024. But the global economy has once again demonstrated remarkable resilience in the face of significant headwinds. Although the 3.2% growth expected for this year is below the 3.6% average during 2000-2023, it is still comfortably above the threshold of 2.5% below which the global economy is considered to be in a recession. Moreover, expectations for next year also stand at 3.2%, signalling continued stability.

WEO GDP Growth Forecasts
(% year-over-year, expected for 2024 and 2025)



Source: IMF, QNB Economics

The World Economic Outlook (WEO) is a valuable tool to discuss the global economic prospects. The WEO is the flagship publication crafted by the International Monetary Fund (IMF) twice a year, and is a standard benchmark for industry and markets. It provides a coherent and unified analysis of global economic conditions, trends and risks, and is therefore a useful complement to the consensus outlook, which is a summary of diverse views. The recent publication of the WEO offers a timely opportunity to revisit and reassess the global outlook. In this article, we shed light on the main factors that underline the stability of the growth outlook for the global economy.

First, stable global economic growth is supported by steady growth in the major groups of economies. While economic growth in the US is expected to decelerate from 2.8% to 2.2% according to the IMF, this decrease would be compensated by the improvement in the Euro Area, UK, Japan and other developed nations. As a result, the group of Advanced Economies (AE), which represents 40% of the world economy, would grow steadily at 1.8% per year in 2024-2025, in spite of diverging trends within the group.

Growth in Developing Economies (DE) is also expected to remain stable, at a much higher 4.2% per year in both 2024 and 2025. In this case, a modest deceleration in Emerging and Developing Asia, as well as in Emerging and Developing Europe, will be compensated by the improvement in Latin America, the Middle East and Central Asia, and Subsaharan Africa. Thus, stable world economic growth is a result of steady growth in both the AE and DE groups.

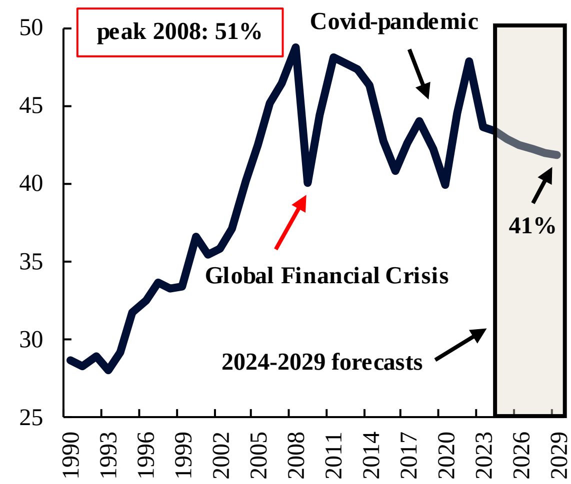
Second, the monetary policy easing cycles by major central banks will help contain headwinds, contributing to the stability of the global economy. Bringing inflation under control has allowed the US Federal Reserve and the European Central Bank, the two most important central banks in advanced economies, to kick-start their interest rate cutting cycles. This monetary easing will support activity at a time when labor markets there start to soften, and will have positive spillovers to DE.

Additionally, the new monetary cycle will weigh against potential headwinds for the global economy. The intensification of regional conflicts could lead to renewed spikes in commodity prices, which would result in higher inflation, and restrict policy of central banks. A deeper or longer contraction of the property sector in China could generate negative global spillovers given China's importance in global trade. Sudden eruptions in financial market volatility, as seen during August this year, could tighten financial constraints and weigh on investment and growth. Against looming risks and uncertainty, monetary easing by major central banks in AE will contribute to a global growth performance in 2025 that will be overall similar to 2024.

Third, healthy international trade flows represent another key factor contributing to global growth stability. Despite ongoing geopolitical tensions, global trade volumes as a share of GDP are set to remain relatively unchanged. International trade boosts productivity and investment and is therefore vital for global growth. There is increasing evidence that geopolitical tensions are resulting in geoeconomic fragementation, affecting primarily trade between geopolitical blocs, which could potentially be compensated by increased trade within blocs. This process could have gradual effects in the long-run, via lower market efficiency and slower transfers of knowledge and technology. However, changes in trade flows will not be significant enough in the short run to lead to dramatic effects on global growth, absent a severe trade war between major economic blocs.

All in all, global economic growth is set to remain stable on the back of steady growth in both the AE and the DE, easing monetary policy in advanced economies, and the absence of radical shifts in international trade volumes.

Global Goods Trade as a Share of GDP
(%, forecasts for 2024-2029)



Source: IMF, QNB Economics

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