

# Executive Summary

*Global growth is expected to hold steady at 2.7 percent in 2025-26. However, the global economy appears to be settling at a low growth rate that will be insufficient to foster sustained economic development—with the possibility of further headwinds from heightened policy uncertainty and adverse trade policy shifts, geopolitical tensions, persistent inflation, and climate-related natural disasters. Against this backdrop, emerging market and developing economies (EMDEs)—which fuel 60 percent of global growth—are set to enter the second quarter of the twenty-first century with per capita incomes on a trajectory that implies substantially slower catch-up toward advanced-economy living standards than they previously experienced. Without course corrections, most low-income countries are unlikely to graduate to middle-income status by the middle of the century. Policy action at both global and national levels is needed to foster a more favorable external environment, enhance macroeconomic stability, reduce structural constraints, address the effects of climate change, and thus accelerate long-term growth and development.*

**Global Outlook.** Global growth is stabilizing as inflation returns closer to targets and monetary easing supports activity in both advanced economies and emerging market and developing economies (EMDEs). This should give rise to a broad-based, moderate global expansion over 2025-26, at 2.7 percent per year, as trade and investment firm. However, growth prospects appear insufficient to offset the damage done to the global economy by several years of successive negative shocks, with particularly detrimental outcomes in the most vulnerable countries.

From a longer-term perspective, catch-up toward advanced economy income levels has steadily weakened across EMDEs over the first quarter of the twenty-first century. Heightened policy uncertainty and adverse trade policy shifts represent key downside risks to the outlook. Other risks include escalating conflicts and geopolitical tensions, higher inflation, more extreme weather events related to climate change,

and weaker growth in major economies. On the upside, faster progress on disinflation and stronger demand in key economies could result in greater-than-expected global activity.

The subdued growth outlook and multiple headwinds underscore the need for decisive policy action. Global policy efforts are required to safeguard trade, address debt vulnerabilities, and combat climate change. National policy makers need to resolutely pursue price stability, as well as boost tax revenues and rationalize expenditures in order to achieve fiscal sustainability and finance needed investments. Moreover, to raise longer-term growth and put development goals on track, interventions that mitigate the impact of conflicts, lift human capital, bolster labor force inclusion, and confront food insecurity will be critical.

**Regional Prospects.** Against a backdrop of heightened trade restrictive measures and subdued global growth, EMDE regions face varying growth prospects this year. Growth is projected to moderate in East Asia and Pacific, amid weak domestic demand in China, as well as in Europe and Central Asia due to decelerations in some large economies following strong growth last year. In contrast, a pickup is anticipated in Latin America and the Caribbean, the Middle East and North Africa, South Asia, and Sub-Saharan Africa, partly underpinned by robust domestic demand. In 2026, growth is expected to strengthen in most regions.

The year 2025 will mark the end of the first quarter of the twenty-first century—a good time to review the performance of emerging and developing economies since 2000 and assess their prospects. This edition of the *Global Economic Prospects* report features two analytical chapters that offer a quarter-century report card. One chapter provides insights into the prospects and challenges of middle-income emerging and developing economies; the other covers the performance of the poorest countries.

**From Tailwinds to Headwinds: Emerging and Developing Economies in the Twenty-First Century.**

The first quarter of the twenty-first century has been transformative for EMDEs. These economies now account for about 45 percent of global GDP, up from 25 percent in 2000, a trend driven by robust collective growth in the three largest EMDEs—China, India, and Brazil (the EM3). Collectively, EMDEs have contributed about 60 percent of annual global growth since 2000, on average, double the share during the 1990s. Their ascendance was powered by swift global trade and financial integration, especially during the first decade of the century. Interdependence among these economies has also increased markedly. Today, nearly half of goods exports from EMDEs go to other EMDEs, compared to one-quarter in 2000. As cross-border linkages have strengthened, business cycles among EMDEs and between EMDEs and advanced economies have become more synchronized, and a distinct EMDE business cycle has emerged. Cross-border business cycle spillovers from the EM3 to other EMDEs are sizable, at about half of the magnitude of spillovers from the largest advanced economies (the United States, the euro area, and Japan).

Yet EMDEs confront a host of headwinds at the turn of the second quarter of the century. Progress implementing structural reforms in many of these economies has stalled. Globally, protectionist measures and geopolitical fragmentation have risen sharply. High debt burdens, demographic shifts, and the rising costs of climate change weigh on economic prospects. A successful policy approach to accelerate growth and development should focus on boosting investment and productivity, navigating a difficult external environment, and enhancing macroeconomic stability.

**Falling Graduation Prospects: Low-Income Countries in the Twenty-First Century.**

Rapid growth underpinned by domestic reforms and a benign global environment allowed many low-income countries (LICs) to attain middle-income status in the first decade of the twenty-first century. Since then, the rate at which LICs are graduating to middle-income status has slowed markedly. The prospects for today's LICs appear much more challenging. In recent years, per capita growth has been anemic amid heightened levels of conflict and fragility and adverse global developments. Across a wide array of development metrics, today's LICs are behind where LICs that since turned middle-income stood in 2000. They are also more susceptible to domestic shocks, including those related to climate change.

Many LICs that graduated in the past underwent growth accelerations—extended periods of robust economic expansion, during which output became far more trade- and investment-intensive. These accelerations were generally preceded by reforms that tended to increase market orientation and channeled resources into rapid investment growth. To kick-start stronger growth, today's LICs can harness large resource endowments to, among other things, supply the green transition, and find advantage in youthful and growing populations, untapped tourism potential, and regional trade integration. However, harnessing these factors and improving productivity hinges on engineering increased investment in human and physical capital, closing gender gaps, addressing fiscal risks, and improving governance. For LICs in fragile and conflict-affected situations, attaining greater peace and stability is paramount. LICs will also need international support to mobilize additional resources and foster institutions that can drive durable reforms. Throughout, policy makers should be guided by deep knowledge of country circumstances—there is no one-size-fits-all recipe for growth and graduation to middle-income status in LICs.