Centre for the New Economy and Society

Chief Economists Outlook

May 2024

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This quarterly briefing builds on the latest policy development research as well as consultations and surveys with leading chief economists from both the public and private sectors, organized by the World Economic Forum's Centre for the New Economy and Society.

It aims to summarize the emerging contours of the current economic environment and identify priorities for further action by policy-makers and business leaders in response to the compounding shocks to the global economy from geoeconomic and geopolitical events.

The survey featured in this briefing was conducted in April 2024.

Contents

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Executive summary

The May 2024 *Chief Economists Outlook* launches amid a mood of cautious optimism about the global economy. Uncertainty persists, but signs of brightening are reflected in the latest survey, with a sharp fall in the share of chief economists expecting global conditions to weaken this year, from 56% in January to 17%.

There is near unanimity among respondents (97%) that geopolitics will be a source of global economic volatility in the remainder of 2024. With almost half of the world's population heading to the polls this year, a large majority (83%) also expect domestic politics to be a source of volatility. Chief economists are more sanguine about the likely short-term impact of rapid technological advances, with over two-thirds against the idea that artificial intelligence (AI) will cause volatility this year.

Regionally, the chief economists' growth outlook has become more optimistic, although it remains patchy. The most notable uptick is expected in the US, with the share of respondents expecting moderate or stronger growth in 2024 rising to 97% from 59% in January. The survey points to buoyant activity in the economies of Asia, with all respondents expecting at least moderate growth in South Asia and East Asia and Pacific. China remains an exception in Asia, with about three-quarters expecting moderate growth, up from 69% in January.

In Europe, the outlook remains broadly unchanged since the previous edition, and almost seven in 10 still foresee weak growth this year. Elsewhere in the world, broadly moderate growth is expected, with a slight improvement since the last edition.

Inflation expectations continue to converge towards a broadly moderate outlook across most regions. This is driven, in part, by optimism about the condition of global supply chains, although, on the other hand, expectations for looser labour-market conditions have weakened since January. Respondents expect monetary policy to become less synchronized over the remainder of 2024, with signs of loosening in some regions. The fiscal stance is expected to remain unchanged in most regions.

The latest survey focuses on the growing challenges confronting businesses and policy-makers. Almost four-fifths (79%) of chief economists said heightened complexity is a growing challenge for decision-makers, while even more (86%) said the same of tensions between political and economic dynamics.

When asked about the factors expected to drive corporate decision-making this year, core economic factors featured prominently in responses, including the overall health of the global economy (100%), monetary policy (86%), financial markets (86%) and labour market conditions (79%). A strong majority cited geopolitical (86%) and domestic political factors (71%). Almost twice as many chief economists (73%) highlight the role of companies' growth targets in decision-making compared to their environmental and social targets (37%).

Turning to the longer-term prospects for the global economy, the results reveal further optimism, with almost seven in 10 respondents expecting global growth to return to 4% within the next five years, including 42% expecting it within the next three years. Chief economists are unambiguous in expecting technological transformation, AI, and the green and energy transition to be growth drivers in high-income economies over the next five years, with more divided views regarding the impact on low-income economies.

By contrast, geopolitics, domestic politics, debt levels, climate change and social polarization are all expected to have a negative impact on growth in both high- and low-income economies.

When asked about the policies that are likely to be most effective at boosting growth in the next five years, respondents highlighted innovation, infrastructure development, education and skills improvement, and looser monetary policy as the most promising across the board. In several other policy areas, including institutions, social services and access to finance, a notably higher share of respondents sees them as effective growth drivers for low-income rather than high-income economies. The results also show a lack of consensus on how environmental policy and industrial policy might affect growth.

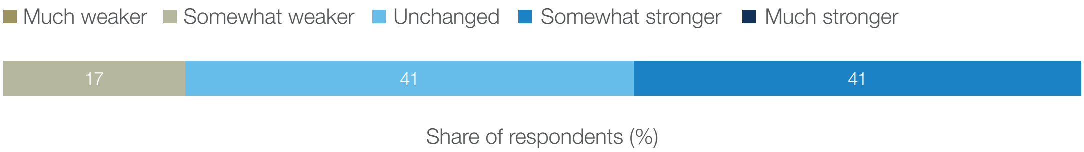
1. A mood of cautious optimism

Growth is weak, but building

The outlook for the global economy is improving, according to the latest World Economic Forum survey of chief economists. Whereas in the January 2024 edition[1] of the *Chief Economists Outlook,* 56% of respondents said the global economy would weaken this year, the latest survey sees that figure drop to 17%, with more than eight in 10 respondents now expecting the global economy to strengthen or remain unchanged over the remainder of 2024 (Figure 1).

Figure 1. The global economic outlook

Looking ahead to the remainder of 2024, what are your expectations for the future condition of the global economy?



Note: The numbers in the graphs may not add up to 100% because figures have been rounded up/down.

Source: Chief Economists Survey, April 2024

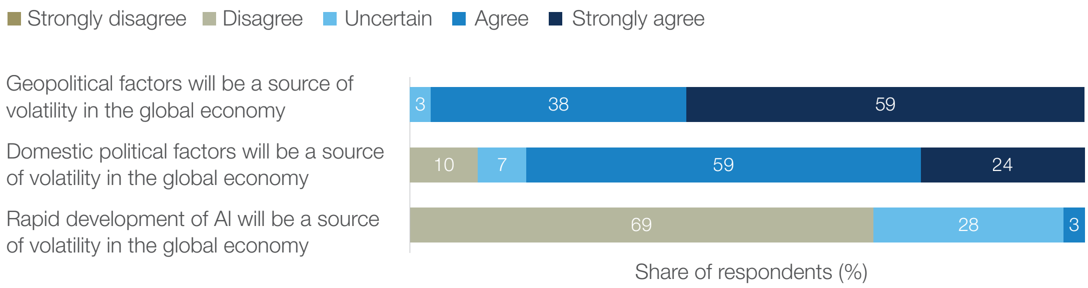
The developing economic mood is one of cautious optimism. Signs of recovery in the manufacturing sector,[2] coupled with improvements in business and household confidence,[3] have bolstered the view that the sharpest risks to the near-term outlook have begun to stabilize. However, these improvements take place against a backdrop of continuing high levels of uncertainty, not least because of global economic and geopolitical divergences and rifts.

1 World Economic Forum (2024b, January).
2 S&P Global (2024, April).
3 World Bank (2024b, April).

In successive surveys, chief economists have drawn attention to geopolitics, domestic politics and rapid technological advances as among the most consequential global developments affecting the economy. The latest survey reveals a further intensification of concern around these trends (Figure 2). For example, it is now almost the unanimous view (97%) that geopolitical factors will be a source of global economic volatility this year, up from 90% in September 2023.

Figure 2. Global context

Looking ahead to the remainder of 2024, do you agree/disagree with the following statements?



Source: Chief Economists Survey, April 2024

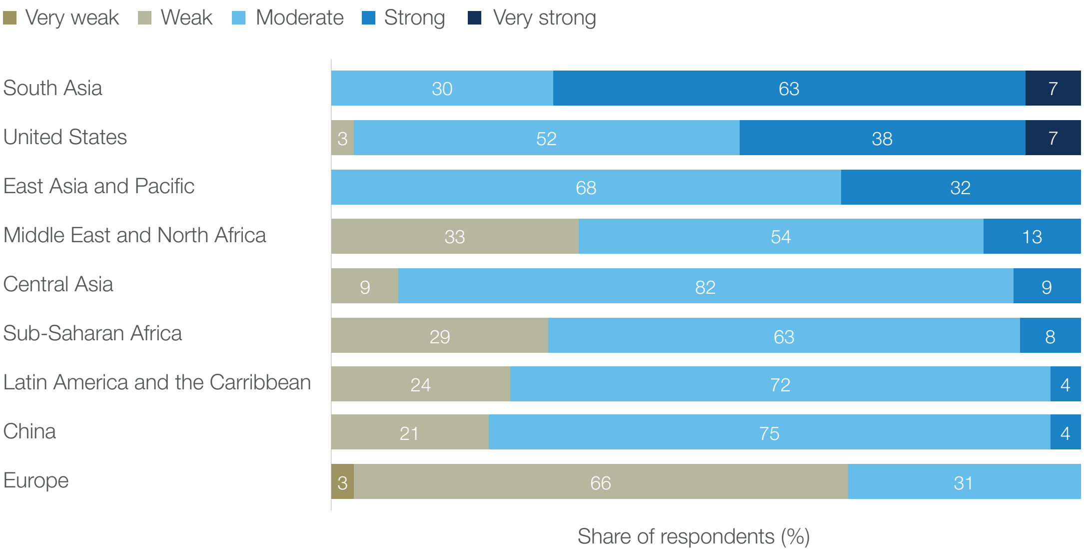
In a year when almost half of the world's population will head to the polls, the chief economists also highlight the growing economic importance of domestic political considerations, with 83% saying these will be a source of volatility this year. By contrast, in artificial intelligence (AI), there is a strong consensus that it will not be a source of volatility this year, and, as discussed later, the chief economists also expect AI to be a driver of growth in the global economy.

The chief economists' expectation of overall stronger global conditions is subject to significant regional variation. This echoes the latest International Monetary Fund (IMF) analysis, which upgrades the 2024 global growth forecast by 0.1 percentage point to 3.2% but also points to widening regional divergences.[4]

4 IMF. (2024c, April).

Figure 3. Growth expectations

What is your expectation for economic growth in the following geographies in the remainder of 2024?



Source: Chief Economists Survey, April 2024

The most notable improvement recorded in the latest survey is in the outlook for the US. Chief economists are almost unanimous (97%) in expecting at least moderate growth in 2024, a marked jump in optimism compared to the 59% recorded in January. Moreover, this uptick is driven by a jump in the share of respondents expecting strong or very strong growth this year, from 3% to 45%. The brightening in the outlook is in line with encouraging data releases in the early months of 2024.[5] That said, renewed inflation concerns, as well as interlocking geopolitical and domestic political factors, may weigh on the outlook in the remainder of 2024.

Chief economists foresee consistently buoyant activity in the economies of Asia, with 100% of respondents now expecting moderate or stronger growth in the remainder of 2024. For South Asia, in particular, there was a marked increase in the share of respondents expecting strong or very strong growth this year, up to 70% from 52% in the previous edition. In East Asia and Pacific, the improvement is less pronounced and is mostly driven by an increase in the share of respondents expecting moderate growth. China remains an exception among the Asian economies, with only 4% of respondents pointing to strong growth for 2024, as weak consumption and property market worries weigh on near-term prospects.[6]

In Europe, economic activity remains lacklustre. This is the sixth consecutive edition of the *Chief Economists Outlook* in which Europe records the weakest regional prospects. In part, this reflects mounting short-term economic and geopolitical pressures, but it is also a factor of structural challenges that are likely to weigh on the region for years to come, including a protracted slowdown in the manufacturing sector,[7] an ageing population and growing signs of fiscal strain.

5 OECD. (2024, May).
6 IMF. (2024b, April).
7 S&P Global. (2024, March).

Elsewhere in the world, the expectations are for broadly moderate growth, with a slight increase in respondents' optimism since the last edition. The most pronounced increase can be seen in Central Asia, where 91% now expect moderate or higher growth, compared to 84% in January. In Latin America and the Caribbean, the pattern is similar, with the share of respondents expecting at least moderate growth, increasing from 70% to 76%. About seven out of 10 respondents also foresee moderate or higher growth in Sub-Saharan Africa in 2024, a slight improvement from January.

The outlook for the Middle East and North Africa remains largely unchanged since the previous edition. Economic activity in much of the region is being hit by headwinds related to conflict, but about two-thirds of respondents still expect at least moderate growth this year.

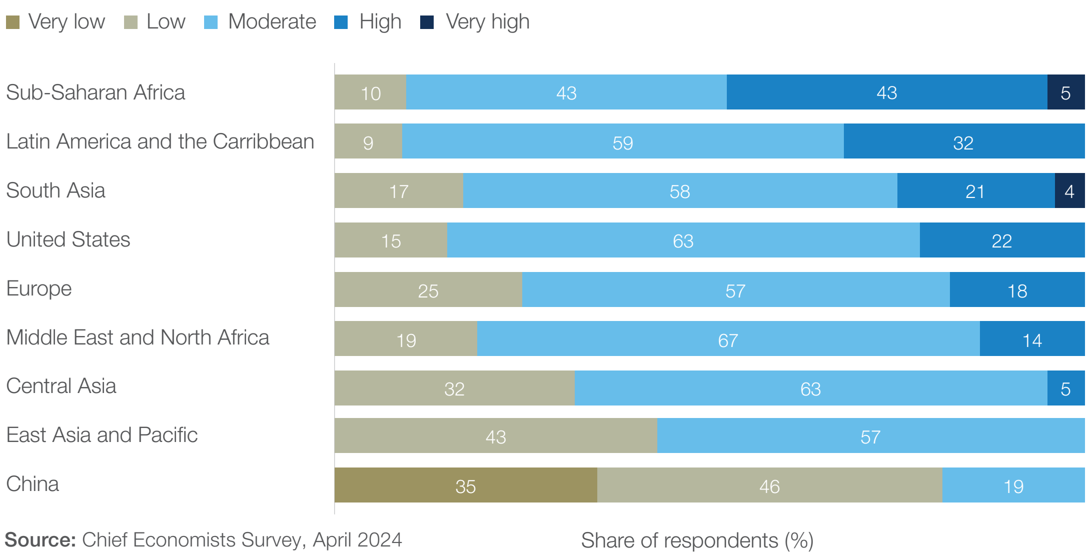
Inflation is elevated, but easing

The trajectory of global inflation has been broadly benign in the first half of 2024. Global headline inflation is now projected to settle at 5.9% in 2024 and 4.5% next year, down from 6.8% in 2023.[8] Core inflation is declining, too, despite the stubbornness of price rises for core services.[9] However, it is worth noting that despite these disinflationary developments, elevated price levels continue to weigh on households, particularly in the US, where consumer sentiment dropped by 10 points to 67.4 between April and May 2024.[10]

Moreover, these global figures mask varying regional patterns and prospects. Broadly speaking, the advanced economies appear to be in a better position. For example, inflation is on track to return to target in 2025 in the US and possibly even this year in Europe.[11] By contrast, many emerging market and developing economies face stubbornly high rates, averaging a projected 8% in 2024.[12] Similar patterns of divergence are reflected in the latest survey results (Figure 4), although the expectations continue to converge towards moderate inflation across most regions.

Figure 4. Inflation expectations

What is your expectation for inflation in the following geographies in the remainder of 2024?



Source: Chief Economists Survey, April 2024

8 IMF. (2024c, April).
9 J.P. Morgan. (2024, February).
10 University of Michigan (2024, May).
11 IMF. (2024c, April).
12 Ibid.

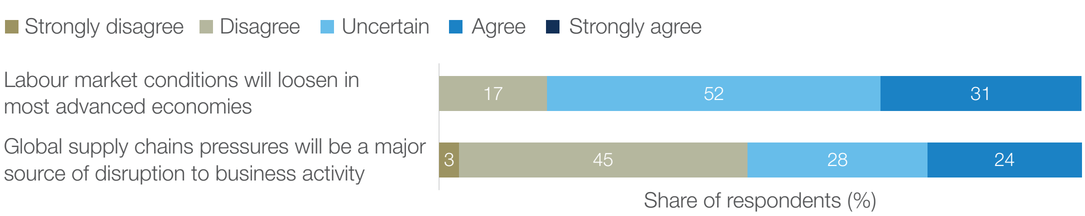
About two-thirds of chief economists still expect moderate inflation in the US, unchanged since January, whereas there has been an increase (to 22%) in the share of respondents expecting high inflation. For Europe, the outlook is broadly unchanged since the last edition, with 57% expecting moderate inflation and a quarter expecting low inflation this year. China remains a notable outlier in terms of deflationary risks. About 81% of respondents expect low or very low inflation this year, with the share of those expecting very low inflation almost doubling to 35% since January.

The results point to a slight increase in high-inflation expectations for Latin America and the Caribbean (32%) and for South Asia (25%), although in both regions the majority still point to moderate inflation. For Sub-Saharan Africa, the expectation of problematic inflation is even more pronounced, with almost half of respondents expecting high or very high inflation, while another 43% foresee moderate inflation in the region. Elsewhere in the world, expectations of lower inflation have solidified somewhat. In East Asia and Pacific and in Central Asia, 43% and 32%, respectively, now expect low inflation. In both cases, this marks an increase of more than 10 percentage points since January.

It is worth noting that inflation forecasts currently remain unusually vulnerable to revision given the prevailing level of uncertainty and the elevated risk of shocks. Some of the disruptions highlighted in the previous edition (such as heightened climate volatility, the impact of El Niño and commodity pressures) are already having an impact to a varying extent across different sectors and geographies. The geopolitical landscape also remains febrile, and according to one estimate, an escalation of conflict in the Middle East could cause oil prices to spike by up to 30%, a development that would accelerate inflation and dampen global growth.[13] More generally, the global trading system remains vulnerable to shocks. For example, despite a marked trend towards diversification and localization of supply chains in recent years, almost 20% of global trade in goods still happens between geopolitically unaligned economies, with the share reaching 40% for highly concentrated products.[14]

Figure 5. Global context

Looking ahead to the remainder of 2024, do you agree/disagree with the following statements?



Source: Chief Economists Survey, April 2024

13 World Bank. (2024a, April).

14 McKinsey. (2024, January).

Despite the prevalence of risks to the global economy, it is notable that the chief economists remain relatively sanguine on the condition of global supply chains, which have been a key source of upward price pressures in recent years. Only a quarter of respondents expect major disruption in 2024, compared to 48% who disagree (Figure 5). On the other hand, labour market conditions may continue to push up on prices in some parts of the world. The latest survey points to a significant shift in chief economists' expectations on labour market conditions this year, with the proportion of respondents expecting labour markets to loosen in advanced economies falling sharply from more than three-quarters to one-third since the last edition.

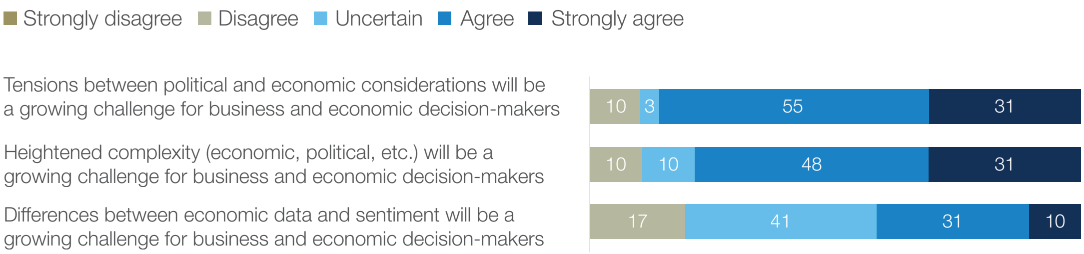
2. A challenging global landscape

Complexity is becoming a feature of the global economy

Deep uncertainty has characterized the global landscape in recent years, and there appears to be little prospect of a near-term return to greater predictability. International conflicts, growing social strains, technological shifts and tight financial conditions have all contributed to heightened volatility and continue to reshape patterns of economic activity in profound ways. This makes for a particularly challenging environment for decision-makers in government and business, and almost eight in 10 chief economists (79%) expect heightened complexity to be a growing challenge for decision-makers as 2024 progresses (Figure 6).

Figure 6. Growing challenges

Looking ahead to the remainder of 2024, do you agree/disagree with the following statements?



Source: Chief Economists Survey, April 2024

The increasing polarization and volatility of domestic politics in many countries have been an important contributor to this complexity, and the wave of elections across the globe in 2024 intensifies its destabilising potential. There are already indications that businesses are hedging against the potential for sharp policy swings if power changes hands.[15] Moreover, this domestic political instability is compounded by the deteriorating international political environment. Accordingly, 86% of chief economists see tensions between politics and economics as a growing challenge for decision-makers.

One notable recent development in many countries – especially the US – has been the emergence of divergence between modestly encouraging economic data and stubbornly gloomy public sentiment. Core economic indicators – including growth, inflation, employment and stock market performance

15 The Economist. (2024, January).

– have all shown signs of improvement since the pandemic, but economic sentiment has remained weak.

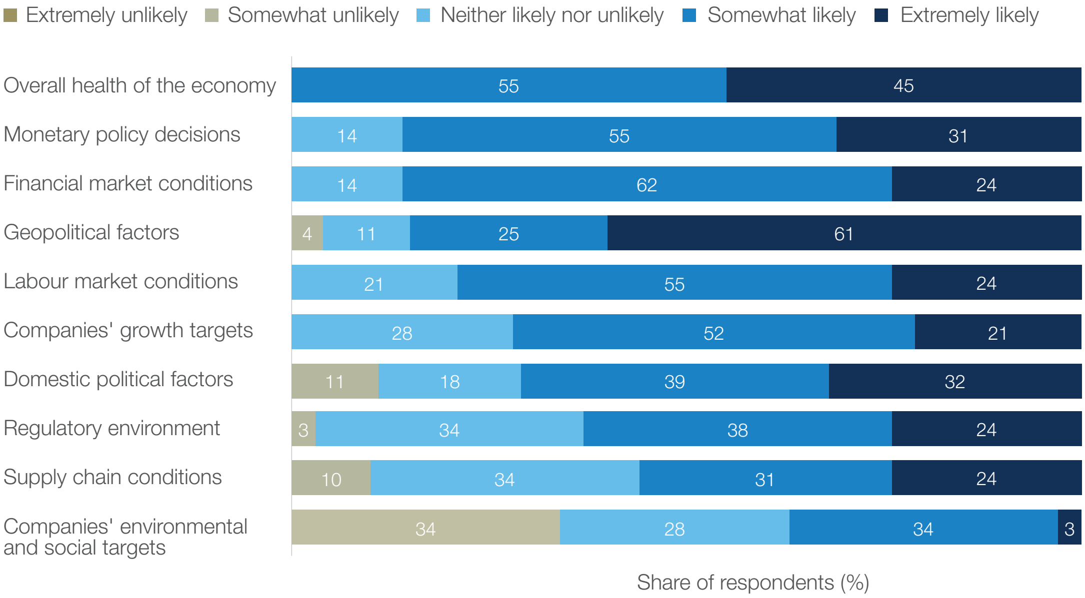
Multiple factors are likely to be driving this divergence. The latest chief economists survey results point to a number of potential drivers, from price levels and inequality to heightened uncertainty about political, social and technological developments. This divergence may be a temporary phenomenon, with greater time needed for hard-data improvements to be reflected in brightening sentiment. However, around four in 10 chief economists expect the data-sentiment divergence to be a challenge for decision-makers, with a similar proportion uncertain on this point.

Businesses navigate growing headwinds

The backdrop of growing complexity poses numerous challenges for businesses. While business decisions are likely to vary given the era of heightened instability, the latest chief economists survey provides an indication of some of the key factors that are expected to drive corporate decision-making this year (Figure 7).

Figure 7. Factors driving corporate decision-making

Which of the following factors are likely to drive corporate decision-making in the remainder of 2024?



Source: Chief Economists Survey, April 2024

Unsurprisingly, core economic factors feature most prominently. There is unanimity among respondents on the overall health of the global economy being a driver of decision-making, and the overwhelming majority of respondents also pointed to the role of monetary policy (86%), financial markets (86%) and labour market conditions (79%).

Perhaps more notably, there is also a strong consensus on the importance of geopolitical and domestic political factors. About 86% of respondents agree that geopolitics will drive corporate decision-making this year, with the proportion viewing this as extremely likely (61%) significantly higher than for any other factor cited, including companies' growth targets. In line with this trend, about 71% of chief economists also expect businesses strategies to be shaped by domestic political factors.

Both of these results highlight increasing interconnectedness between global political and economic developments and uncertainty about the extent of political and geopolitical risks. There are signs that some businesses are focusing on preparedness for potential disruptions ahead. Corporate bond issuance has spiked to its highest since the 1990s, suggesting that businesses are trying to secure their financing before a period of market turbulence.[16] Given the systemic importance of developments in the US, the forthcoming election is weighing on corporate decision-making. Morgan Stanley points out that the share of investors concerned about the US election reached 31% in the first quarter of 2024, up from 26% at the end of 2023.[17]

Despite the role of geopolitics, a smaller proportion of respondents (55%) expect supply-chain conditions to be a driver of corporate decision-making this year. This is likely, in part, a reflection of the steps businesses have already taken to restructure their supply chains in recent years. Almost two-thirds of chief economists also cited the regulatory environment as a driver of decision-making, perhaps unsurprising given the connection between political volatility and regulatory upheaval.

There is also considerable regulatory uncertainty surrounding major areas of economic activity, AI to climate policy and trade.

Looking at the role of companies' performance targets in decision-making for the remainder of 2024, almost three-quarters of respondents highlighted the role of corporate growth targets. This is much higher than the proportion (37%) that expect companies' environmental and social targets to drive decision-making this year. This pattern echoes ongoing debates about the relevance and effectiveness of environmental, social and governance (ESG) and similar frameworks focused on shifting corporate priorities. In a recent survey of chief executive officers three-quarters expressed scepticism about ESG while 23% reported de-prioritizing sustainability in the last 12 months due to challenging economic conditions or a greater focus on other priorities.[18] However, there may be an important distinction between short-term and long-term priorities here. Over a three-year horizon, the same survey found 43% of chief executive officers highlighting decarbonizing their business model and achieving net-zero as an important strategic priority.

Against this backdrop of numerous challenges for corporate decision-makers, the latest survey of chief economists asked which strategies businesses might adopt in response to low growth and heightened volatility in 2024. Four answers featured most prominently: 1) adjustment of supply chain strategies, including localization and diversification into new geographies, 2) improving internal efficiency and shifting to leaner business models, 3) investing in innovation and human capital to unlock productivity growth, and 4) greater caution in capital allocation.

16 Clarfelt. (2024, March).
17 Morgan Stanley. (2024, April).
18 Guerzoni et al. (2024, April).

Policy-makers calibrate their responses

The resilience and agility of policy-makers continues to be stretched and tested too. The twin pressure of growing global fractures and deepening interconnectedness of economics and politics have increased the pressure on fiscal and monetary policy-makers as they seek to sequence and calibrate their interventions.

A globally synchronized cycle of monetary policy tightening proved effective at taming the worst of the recent inflationary spike in many advanced economies without causing significant contraction in economic activity. However, as the global backdrop remains fraught with uncertainty and risks, policy-makers are still proceeding cautiously and continue to navigate trade-offs between tightening too much and too little. At the time of writing, market expectations of multiple rate cuts by the Federal Reserve and European Central Bank (ECB) this year are being tempered by markedly cautious communication from the central banks, which could signal that policy-makers are girding for looming risks.

Chief economists expect monetary policy to become less synchronized over the remainder of 2024, with possible pivots in the tightening cycle in some geographies (Figure 8). A strong majority expects a loosening of monetary policy in Europe (86%). The corresponding figures are slightly lower for China (67%) and the US (61%), and in both cases around a third of respondents expect the policy stance to remain unchanged this year.

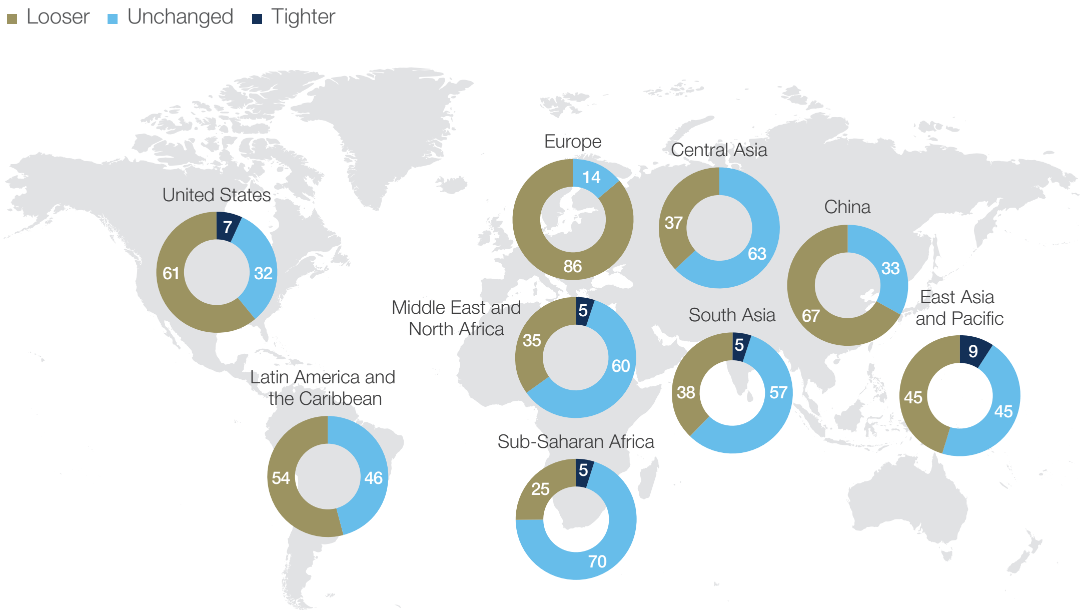
These results are broadly in line with the latest central bank communications. While the Federal Reserve has noted that it is assessing the trajectory of inflation and labour market developments,[19] the expectation of an imminent interest rate cut in Europe is strong in part because of hints in that direction from the ECB.[20] The slow recovery in China also means that policy-makers might use monetary policy levers to buck tepid consumption and production dynamics.

Views are divided on the monetary policy outlook for Latin America and the Caribbean and East Asia and Pacific with almost the same share of respondents foreseeing looser and unchanged conditions. Elsewhere in the world, the expectations point to policy continuity throughout 2024.

19 Federal Reserve. (2024, May).
20 Reid. (2024, April).

Figure 8. Monetary policy outlook

Looking ahead to the remainder of 2024, what is your expectation for monetary policy in the following geographies?



Source: Chief Economists Survey, April 2024

Fiscal policy-makers face significant challenges too. Tepid growth prospects, combined with high interest rates and growing international fractures, limit policy-makers' capacity to offset potential shocks and create space for much needed investments and structural reforms, particularly in developing markets.

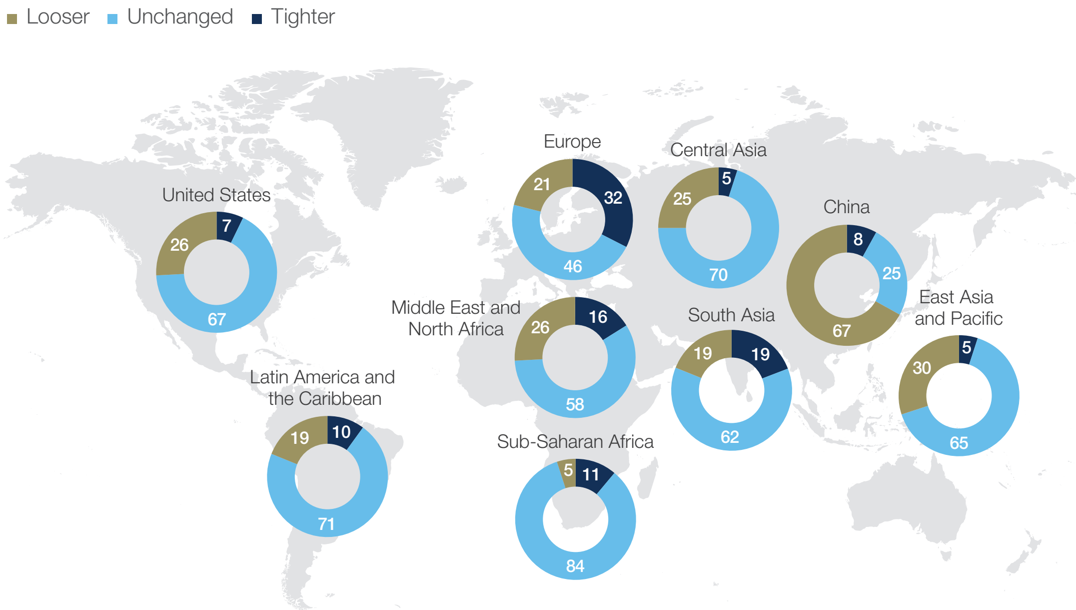
On the current trajectory, global public debt is set to reach almost 100% of gross domestic product (GDP) by 2029,[21] up from about 93% today and 84% in 2019.[22] The near-term pressures are growing too, with debt servicing costs spiking by 10% in developing economies, and by almost 40% in low-income economies, in 2023-2024.[23]

21 IMF. (2024a, April).

22 Ibid.

23 World Bank. (2023, December).

Figure 9. Fiscal policy outlook
Looking ahead to the remainder of 2024, what is your expectation for fiscal policy in the following geographies?



Source: Chief Economists Survey, April 2024

Looking at the trajectory for fiscal policy in the remainder of 2024, chief economists expect most regions to maintain their current fiscal policy stance (Figure 9). For example, about two-thirds of respondents foresee policy continuity in the US as policy-makers contend with challenging international and domestic conditions. China is an exception to the broad global trend, with about two-thirds of respondents expecting further loosening by the end of the year, which is in line with government efforts to ramp up stimulus packages to revive consumption and business confidence. For Europe, the results reveal a notable lack of consensus, with 32% expecting fiscal tightening, 21% expecting loosening and 46% expecting unchanged conditions.

3. Long-term prospects

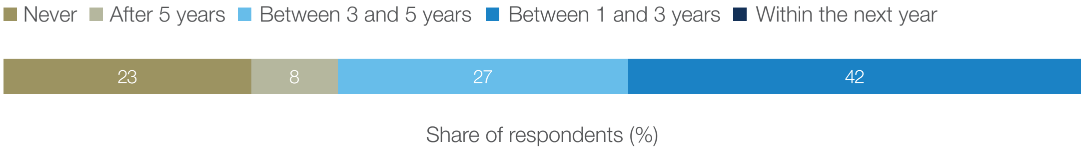
The outlook for growth

Many of the global developments that have been highlighted as sources of heightened volatility and complexity in this and recent editions of the *Chief Economists Outlook* – including geopolitical rifts and technological transformation – have profound and far-reaching implications for the future pace and trajectory of the global economy. With this in mind, the latest survey of chief economists assesses the prospects for global growth in the next five years, and asks which are the most promising policy levers for reviving growth across high-income and low-income economies.

Global growth has lost steam since the start of the century. In advanced economies, estimates suggest that GDP growth has declined from an average of 2% in the early 2000s to less than 1.5% after COVID-19.[24] The deceleration is much more pronounced in emerging and developing economies over the same period, with GDP growth falling from 6% to less than 2%.[25] The IMF warns that without the right policies, the world is heading into a historically low growth period with five-year growth rate settling at 2.8% by 2030, significantly below the historical average of 3.8%.[26] Among the challenges that will need to be overcome if growth is to accelerate again are a worrying decrease in total factor productivity,[27] as well as declines in capital formation and labour force participation.

The latest survey results reveal some optimism among chief economists about the prospects of a sustained rebound in global growth (Figure 10). Almost seven out of 10 expect global growth to return to 4% within the next five years, with 42% expecting it within the next three years. However, a sizeable minority (23%) of chief economists were much more pessimistic, stating that global growth will never return to 4%, pointing to the past era of higher growth as having been an anomaly rather than the norm.

Figure 10. Expectations of growth rebound
When do you expect global growth rates to cross and sustain rates above 4%?



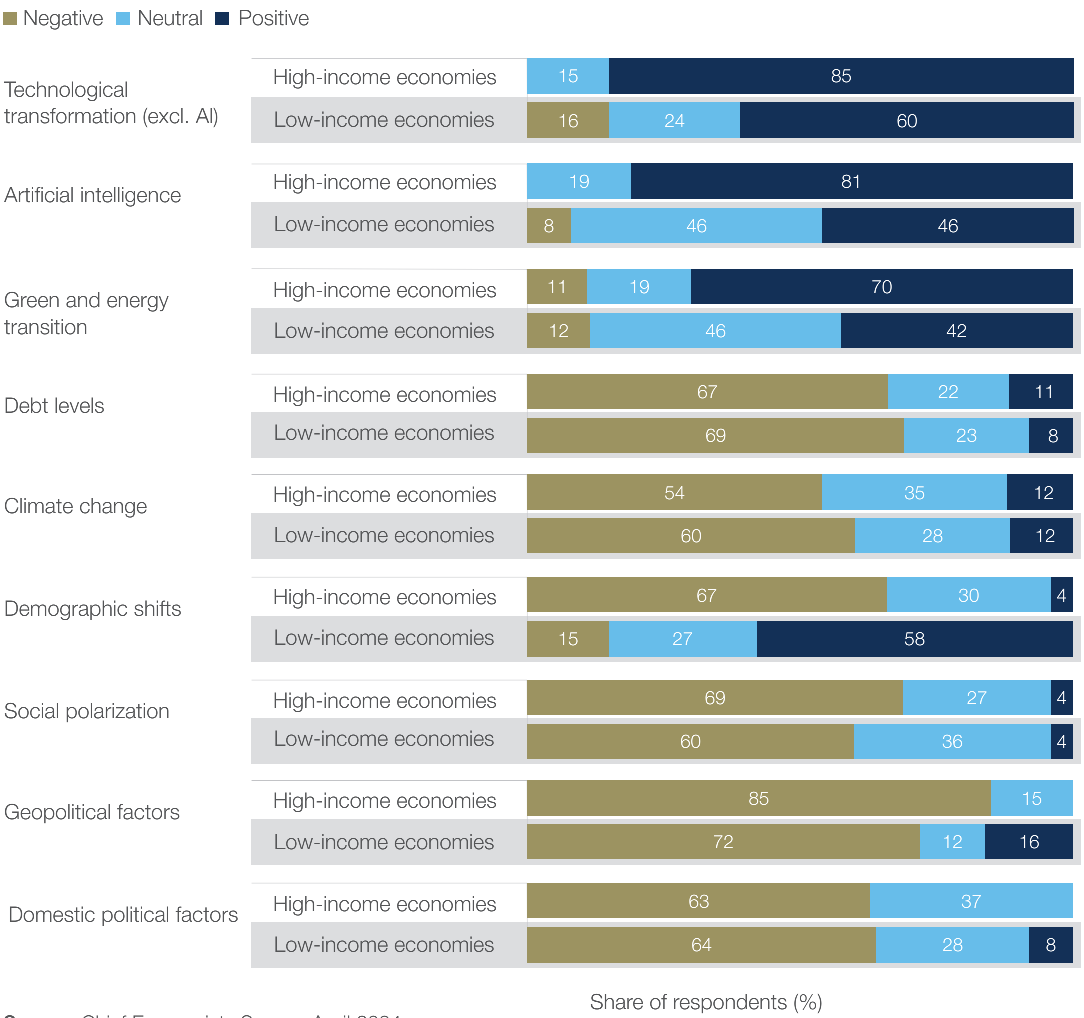
Source: Chief Economists Survey, April 2024

24 World Economic Forum. (2024c, January).
25 Ibid.
26 IMF. (2024c, April).
27 Ibid.

When asked about the positive and negative impact of various global developments on the trajectory of global growth over the next five years (Figure 11), respondents were unambiguous in viewing technology as a key positive growth driver, particularly for high-income economies. About 85% of respondents said technological transformation (excluding AI) will have a positive impact on economic growth in high-income economies, with 81% saying the same about AI. The views are slightly more divided about the impact of technology in low-income economies. Although a solid majority (60%) still expect technological transformation to have a positive impact, there is less consensus on AI, with 46% expecting a positive impact but another 46% saying it will be neutral. The divided views on the potential growth impact of technology between high-income and low-income economies are broadly consistent with estimates suggesting the level of AI preparedness is almost twice as high in advanced economies compared to low-income economies.[28]

Figure 11. Impact of global trends on growth

Which developments are likely to have positive or negative impact on economic growth in the next five years?



Source: Chief Economists Survey, April 2024

28 Cazzaniga et al. (2024, January).

Only a slightly lower share of respondents (70%) expects the green and energy transition to have a positive impact on growth in high-income economies. The views for low-income economies are once again divided, with 42% saying the transition will be beneficial to growth and another 46% saying it will be neutral. In part this reflects the complexity of the transition for lower-income economies, which, on the one hand, have lower emissions compared to their high-income counterparts, but, on the other hand, face high social and economic costs from the process of global decarbonization.[29] There is much stronger consensus on the impact across high- and low-income economies when it comes to climate change, with 54% and 60% of respondents foreseeing a negative impact on growth in high-income and low-income economies, respectively.

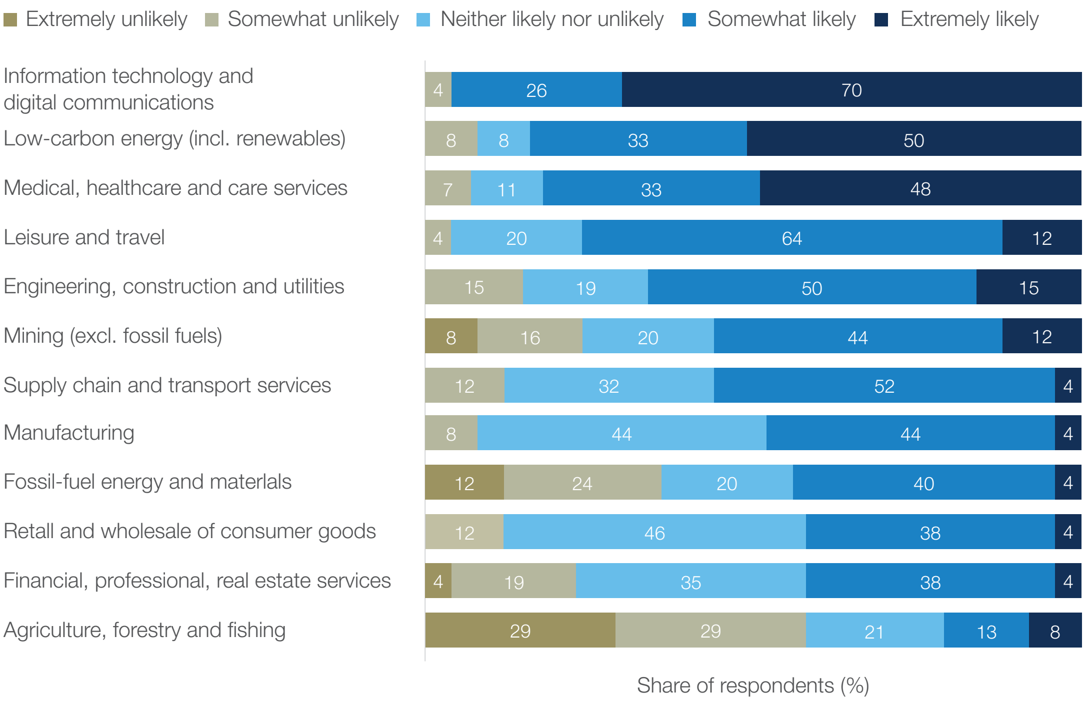
Looking at other developments, about two-thirds of respondents expect debt levels, social polarization and domestic political factors to have a negative impact on growth for high- and low-income economies alike, echoing the role of these factors in the heightened global complexity discussed in the previous section. Geopolitical factors feature prominently too, with 85% saying they will be detrimental for growth in high-income economies, and 72% for low-income economies. This is in line with stark projections from the IMF that growing global fractures could lead to worst-case economic losses equivalent to 7% of global GDP.[30]

Another area where there is a notable divergence between chief economists' expectations for high- and low-income countries is demographic change. About two-thirds of respondents think demographics will have a negative impact on growth in high-income economies, while 58% expect a positive impact in low-income countries. This divergence in expected outcomes reflects the differing ways that ageing, youth populations and migration trends are playing out in different parts of the world.

29 World Economic Forum. (2024a, January).
30 Bolhuis et al. (2023, March).

Figure 12. Industries driving growth

Looking at the next five years, which sectors and industries are likely to be a significant driver of global growth?



Source: Chief Economists Survey, April 2024

The survey also asked chief economists about the industries most likely to drive global growth in the next five years (Figure 12). The answers were in line with respondents' views on the importance of the growth of technology and the green transition. The sectors seen as having the strongest positive effect on growth were information technology and digital communications, low-carbon energy (including renewables), and medical, healthcare and care services. A strong majority also expects leisure and travel and engineering and construction to support growth. There was a lack of consensus on the role of other industries, including mining, supply chain and transport services, manufacturing, fossil-fuel energy and materials, retail and wholesale of consumer goods, and financial, professional and real estate services.

Policy priorities

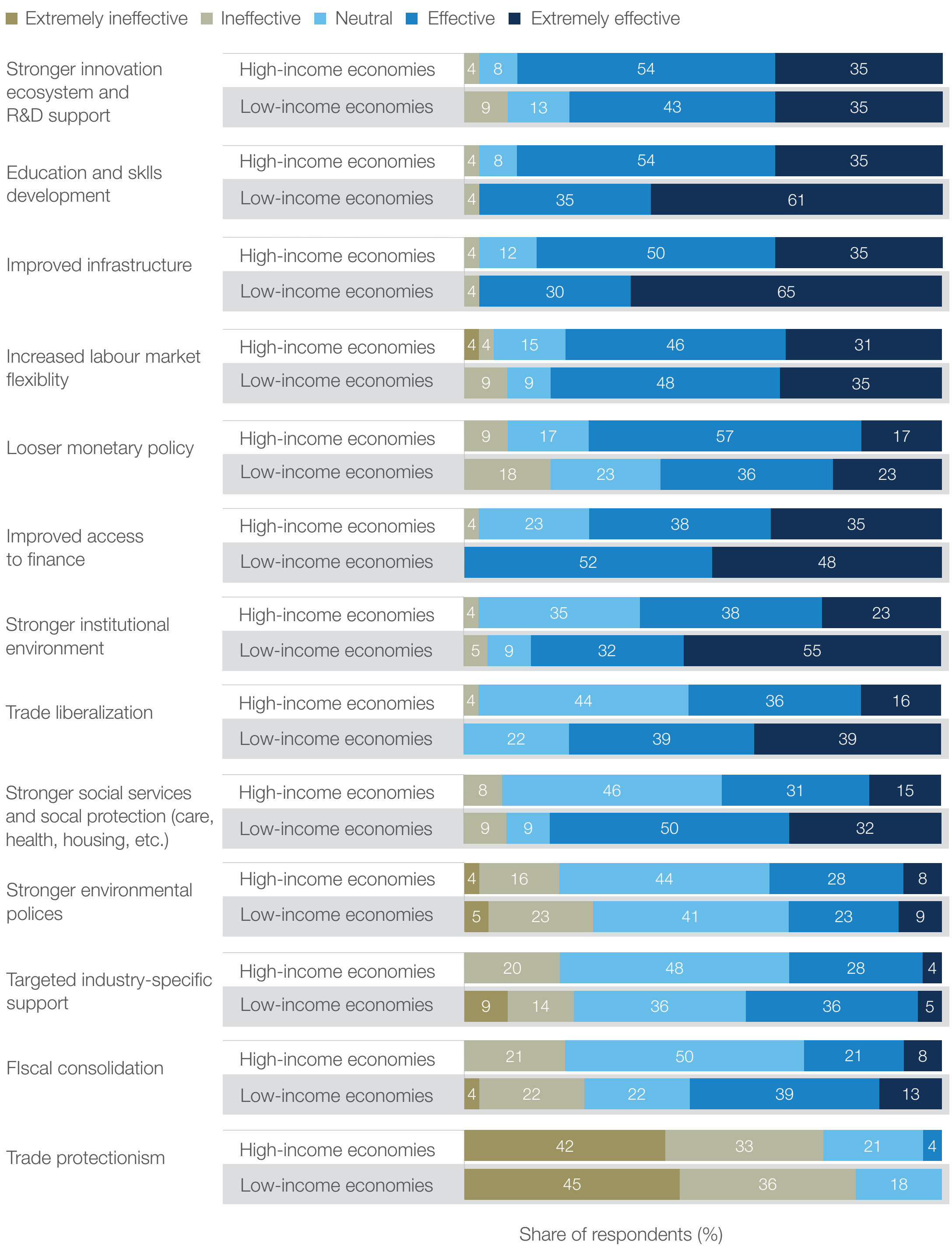
The long-term prospects for growth hinge on the capacity of policy-makers to put in place the necessary foundations for sustained economic activity. This means leveraging appropriate structural reforms and finding the fiscal space to balance resource allocation between acute needs and policies designed to unlocking long-term progress. According to one estimate, productivity growth could have been 50% higher today if misallocation of capital and labour had been addressed in recent decades.[31] In a similar vein, despite current headwinds, the World Bank estimates that anaemic growth trends can still be reversed in this decade with tailored policy approaches.[32]

31 IMF. (2024c, April).

32 World Bank. (2023, March).

Figure 13. Growth policy levers

Looking at the next five years, which policy levers are likely to be most effective for boosting economic growth?



Source: Chief Economists Survey, April 2024

The latest survey asked chief economists for their views on which policies would be the most effective at boosting growth over the next five years. Their answers highlighted policy levers related to fundamental development components: innovation, infrastructure, institutions, education, social services and access to finance (Figure 13).

In terms of policies viewed as highly effective across both high- and low-income economies, innovation, infrastructure and education and skills stand out. About 89% of respondents said high-income economies could benefit significantly from a stronger innovation ecosystem and research and development (R&D) support, with only a slightly lower share of respondents (79%) saying the same for low-income economies. According to one estimate, each $1 spent on innovation policies can boost long-term growth by $4.[33] An increase in the share of R&D expenditure to GDP by 0.5 percentage points can also boost the GDP of an average advanced economy by 2%.[34]

More than eight out of 10 chief economists expect education and skills development policies (89%) and improved infrastructure (85%) to be effective in crafting new growth opportunities in high-income economies. Respondents are even more optimistic about the role of these policies in low-income economies, with 96% and 95% of respondents foreseeing significant potential in education and skills development and improved infrastructure, respectively. One estimate suggests that a 1 percentage point increase in education spending in emerging markets and developing economies can boost foreign direct investment (FDI) inflows to these countries by 32% and increase GDP by 1.9% in the medium term.[35] A comparable increase in infrastructure spending could add 0.6% to the GDP of an average low-income economy.[36]

For many other policy levers, a notably higher share of respondents expects a greater impact on growth in low-income compared to high-income economies. These include improvements in the institutional environment, access to finance, labour market flexibility and social services. The pattern is slightly more pronounced for trade liberalization, with about two-thirds of respondents saying it will drive growth for low-income economies, compared to just 52% for high-income economies. On the other hand, there is little divergence on trade protectionism, with 75% and 81% seeing it as ineffective for growth in high-income and low-income economies, respectively.

Looser monetary policy is viewed as a broadly effective driver of medium-term growth across both high-income (74%) and low-income economies (59%). However, the results reveal uncertainty about fiscal consolidation's impact on growth. For high-income economies, in particular, the views are widely dispersed, with 29% saying it is effective, 21% ineffective and 50% neutral. The views are slightly more optimistic for low-income economies, with a slight majority (52%) saying fiscal consolidation is an effective way to boost growth in the next five years.

33 IMF. (2024a, April).
34 Ibid.
35 Ibid.
36 Ibid.

The survey also shows a lack of consensus on how environmental policy and industrial policy might affect growth, with a high degree of uncertainty and near-equal numbers seeing them as ineffective or effective policy levers. Policy in these areas is informed by goals and values that are distinct from growth and responding to the world's growing challenges requires more than a simple increase in the growth rate. Yet a focus on the character or composition of economic activity has the potential for driving better growth, with a better balance between the quantity and quality of growth. According to the World Economic Forum's *The Future of Growth Report 2024*, the world is only halfway to fully innovative, inclusive, sustainable and resilient growth.[37] Arguably, these factors are emerging as key long-term growth targets if national and global challenges are to be met.

37 World Economic Forum. (2024c, January).

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World Economic Forum

Aengus Collins, Head, Economic Growth and Transformation,
Centre for the New Economy and Society

Kateryna Karunska, Insight Lead, Economic Growth and Transformation,
Centre for the New Economy and Society

Saadia Zahidi, Managing Director, World Economic Forum and Head,
Centre for the New Economy and Society

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Members of the Community of Chief Economists

André Almeida, SONAE

Mansueto Almeida, Banco BTG Pactual

Musaab Almulla, Saudi Aramco

Shusong Ba, Hong Kong Exchanges and Clearing Limited (HKEX)

Rima Bhatia, Gulf International Bank BSC (GIB)

Marieke Blom, ING Group

Philipp Carlsson-Szlezak, Boston Consulting Group

Tomas Castagnino, Accenture

Juan Cerruti, Banco Santander

Samy Chaar, Bank Lombard Odier

Ahmet Çimenoglu, Koç Holding

Pedro Conceição, United Nations Development Programme (UNDP)

Fabien Curto Millet, Google

Gregory Daco, EY-Parthenon

Eralp Denktas, Eczacıbaşı Holding

Erica Diniz Oliveira, Ifood.com

Paul Donovan, UBS

Carsten Fink, World Intellectual Property Organization (WIPO)

David Folkerts-Landau, Deutsche Bank

Indermit Gill, The World Bank

Tyler Goodspeed, ExxonMobil

Pierre-Olivier Gourinchas, International Monetary Fund (IMF)

Svenja Gudell, Indeed

Jérôme Haegeli, Swiss Re Management

Karen Harris, Bain & Company

Janet Henry, HSBC Holdings

Fernando Honorato Barbosa, Banco Bradesco

Beata Javorcik, European Bank for Reconstruction and Development (EBRD)

Ira Kalish, Deloitte

Seisaku Kameda, Sompo Institute Plus

Christian Keller, Barclays

Steffen Kern, European Securities and Markets Authority

Razia Khan, Standard Chartered Bank

Raja Asad Khan, Saudi National Bank

Karin Kimbrough, LinkedIn

Kyle Kretschman, Spotify

Barret Kupelian, PwC

Valérie Lemaigre, The Swiss Bank of Geneva (BCGE)

Gordon Liao, Circle Internet Financial

Mario Magalhães Carvalho Mesquita, Itaú Unibanco

Jens Magnusson, Skandinaviska Enskilda Banken (SEB)

Giulio Martini, Lord Abbett

Huw McKay, BHP Group

Guy Miller, Zurich Insurance

Gilles Moëc, AXA Investment

Millan Mulraine, Ontario Teachers' Pension Plan

Dhiraj Nayyar, Vedanta Resources

Dirk-Jan Omtzigt, United Nations Office for the Coordination of Humanitarian Affairs (OCHA)

Ralph Ossa, World Trade Organization (WTO)

Eric Parrado, The Inter-American Development Bank

Erik Peterson, Kearney

Sandra Phlippen, ABN AMRO

Renan Pinheiro Silverio, Petroleo Brasileiro - PETROBRAS

Saad Rahim, Trafigura

Debora Revoltella, European Investment Bank (EIB)

Nela Richardson, Automatic Data Processing (ADP)

Nadir Salar Qureshi, Engro

Michael Schwarz, Microsoft

Jorge Sicilia, BBVA

Graham Slack, A.P. Møller-Maersk

Ludovic Subran, Allianz

Eirik Waerness, Equinor

Coram Williams, Adecco Group

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World Economic Forum
91–93 route de la Capite
CH-1223 Cologny/Geneva
Switzerland

Tel.: +41 (0) 22 869 1212
Fax: +41 (0) 22 786 2744

contact@weforum.org
www.weforum.org