The outlook and downside risk scenarios for 2024-2025

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The global economy remains in recovery mode from the burst of high inflation of 2022 and monetary tightening that followed and is still under threat of rising geopolitical tensions and armed conflicts. For most regions and countries, GDP growth rates will remain far below the pre-Covid 2010-2019 averages. Much of the slowdown is due to China's underperformance and to Europe, which should be close to a stand-still in 2024.

There are a number of downside risk scenarios to the baseline forecasts in recent economic and risk reports (IMF, Economist Intelligence Unit, Moody's, Standard & Poor's, OECD, US Federal Reserve Bank and Black Rock). Many of them are related to persistent inflation and the risk for excessive monetary policy responses. Related scenarios would see greater financial volatility and financial stress in the banking sector, as well as further strain on households, businesses and real estate. The possibility of a broader sovereign debt crisis in the Global South remains a central concern for the IMF.

Other than inflation and rising interest rates matters, the most cited stand-alone economic downside scenario is a more pronounced than expected slowdown in China in 2024, which would "hit global growth", "cause ripple effects globally", "strain markets worldwide". By contrast, there are less reference to energy and commodity crises compared to previous editions of the outlook reports. Climate risks (both physical and transition risks) are mentioned, as well as cyber and AI risks.

The recent reports also highlight the continuing rise in the number of scenarios related to geopolitical tensions. "Geoeconomic fragmentation" resulting from strategic competition and decoupling between US and China would hamper both trade and multilateralism. And there are the unpredictable consequences of armed conflicts, the Gaza conflict adding to Ukraine in the list of conflicts that could escalate regionally.

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Growth forecasts

Recently economic and risk outlook reports for 2024 foresee a continuing slowdown of the global economy, which is still in recovery mode from the burst of high inflation in 2022 and the following monetary tightening and is still under threat of rising geopolitical tensions.

Global GDP growth rates are forecasted at 2.5-3.3% for 2023 and 2.1%-2.9% for 2024, levels that are substantially lower than the 3.7% average during the pre-Covid 2010-2019 period. Much of the slowdown is due to China's underperformance – which growth rates will be far away from its 7.7% average in 2010-2019 – and of course to Europe, which should be close to a stand-still in 2024, with Germany barely recovering from its current recession. The US should experience comparatively robust growth. The titles of recent economic and risk outlook reports are telling: "Navigating Global Divergences" (IMF), "Continued high interest rates could lead to global recession" (Economist Intelligence Unit), "G-20 growth dynamics diverge amid ongoing global slowdown" (Moody's), "New Risks, New Playbook" (S&P).

GDP growth forecasts

Country	2023	2024	2025	*Average 2010/2019*
World	2.5 > 3.3	2.1 > 2.9	2.6 > 3.2	3.7
United States	2.1 > 2.4	1.0 >1.5	1.4 > 1.8	2.3
China	5.0 > 5.4	4.0 > 4.7	4 > 4.8	7.7
Euro Area	0.5 > 0.7	0.7 > 1.2	1.5 > 1.8	1.4
Germany	*-0.5 > -0.1*	*0.5 > 0.9*	*1.2 > 2.0*	*2*
France	*0.8 > 1*	*0.8 > 1.3*	*1.2 > 1.8*	*1.4*
Italy	*0.7 > 0.8*	*0.6 > 0.7*	*1.0 > 1.2*	*0.3*
UK	0.4 > 0.5	0.4 > 0.7	1 > 1.5	2
Japan	1.7 > 2.0	0.9 > 1.0	0.7 > 1.2	1.2
Korea	1.4 > 1.5	2.0 > 2.3	2.0 > 2.3	3.3
India	6.3 > 6.7	6.1 > 6.4	6.3 > 6.9	7
Brazil	2.9 > 3.1	1.5 > 2.0	1.6 > 2.0	1.4

Source: IMF (Oct.) Moody's (Nov.), OECD (Nov.), S&P (Dec.), GS (Nov.)

Downside risk scenarios

Looking at a selection of recent economic and risk outlook reports (IMF, Economist Intelligence Unit, Moody's, Standard & Poor's, OECD, US Federal Reserve Bank and Black Rock), the downside risk scenarios have not substantially changed compared to the previous editions.

Many of them are indeed related to persistent inflation and the risk for excessive monetary policy responses. For the EIU, “monetary policy tightening [could extend] deep into 2024, leading to a global recession and financial volatility”.

Related scenarios would see greater financial volatility and stress in the bank and non-bank financial sectors, as well as further strain on the weakest borrowers among households and businesses. The IMF for instance considers a broader “Financial markets reprice” scenario. The real estate sector is of particular concern: “stresses in global real estate markets result in materially higher credit losses and spillovers to broader economies and markets” (S&P), “a significant slowdown in economic growth could pose risks to the financial system and precipitate strains in commercial real estate” (US Fed). The possibility of a broader sovereign debt crisis in the Global South remains a central concern for the IMF.

Overview of downside risk scenarios for 2024 (as of Oct. - Dec. 2023)

	IMF	OECD	US Fed & Survey	S&P	Moody's	EIU	Black Rock
Further monetary tightening	√	√	√			√	
Financial stress	√	√	√	√	√		
Global South debt crises	√	√			√		
China slowdown	√	√	√	√		√	
Energy / Commodity crises	√				√		
Climate risks				√	√	√	√
Digital risks				√	√	√	√
Geoeconomic fragmentation	√	√	√		√	√	√
Armed conflicts & escalation		√	√	√		√	√
Political / Social unrests	√		√			√	√

Source: IMF (Oct.) EIU (Oct.), US Fed (Oct.), Moody’s (Nov.), OECD (Nov.), S&P (Dec.), Black Rock (Oct.)

Other than inflation and rising interest rates matters, the most cited stand-alone economic downside scenario is a more pronounced than expected slowdown in China in 2024, which would “hit global growth” (OECD), “cause ripple effects globally” (S&P), “strain markets worldwide” (US Fed).

Compared to previous editions of the outlook reports, there is less reference to the risk of energy or commodity crises. Other non-geopolitical risks are related to climate risks: physical risk and extreme weather events, as well as transition risks such as a “green technology subsidy race becomes a global trade war” (EIU). Digital risk scenarios are related to cyber-attacks and to the disruptive nature of AI.

The recent reports also highlight the continuing rise in the number of scenarios related to geopolitical tensions. There is the risk of further “geoeconomic fragmentation” resulting from strategic competition and decoupling between US and China, hampering global production and supply structures (Moody's) and multilateral cooperation (IMF), and the “increasingly inward-looking orientation of trade and investment policies” (OECD).

There is also the unpredictable consequences of armed conflicts and their risk for escalation. In addition to the Russian invasion of Ukraine, the Israel-Palestine conflict is a new source of tension that could also escalate into a regional conflict.

Finally there are political and social risk scenarios, such as a change in the US Administration policy stance following next year US elections (EIU), fragmentation of Europe (Black Rock), and social unrest and industrial actions spreading worldwide (IMF & EIU).

Annex

List of downside risk scenarios for 2024

Source:

- IMF "World Economic Outlook - Navigating Global Divergences" (Oct.)
- The Economist Intelligence Unit "Risk outlook 2024: continued high interest rates could lead to global recession" (Oct.)
- US Federal Reserve "Financial Stability Report" (Oct.)
- Moody's "G-20 growth dynamics diverge amid ongoing global slowdown" (Nov.)
- OECD "Economic Outlook: Restoring growth" (Nov.)
- S&P "Global Credit Outlook 2024: New Risks, New Playbook" (Dec.)
- Black Rock "Geopolitical risk dashboard" (Oct.)

	Further monetary tightening
EIU (Oct.)	Monetary policy tightening extends deep into 2024, leading to a global recession and financial volatility
OECD (Nov.)	The extent and full impact of monetary policy tightening remains uncertain
S&P (Dec.)	An extended period of high real interest rate levels further strains the weakest borrowers
US Fed (Oct.)	Persistent inflation in the U.S. and other advanced economies could pose risks to the global financial system
US Fed Survey (Oct.)	Persistent inflation and monetary tightening
IMF (Oct.)	Underlying inflation persists

	Financial stress
US Fed Survey (Oct.)	Reemergence of banking-sector stress
IMF (Oct.)	Financial markets reprice
OECD (Nov.)	Tighter financial conditions could expose financial vulnerabilities
S&P (Dec.)	Stresses in global real estate markets result in materially higher credit losses and spillovers to broader economies and markets
US Fed (Oct.)	A significant slowdown in economic growth could pose risks to the financial system and precipitate strains in commercial real estate
Moody's (Nov.)	Macro and financial stability risk from high interest rates.
S&P (Dec.)	An economic hard landing leads to greater credit stress
US Fed Survey (Oct.)	Market liquidity strains and volatility

	Global South debt crises
Moody's (Nov.)	Macro and financial stability risk from high interest rates.
OECD (Nov.)	In emerging-market economies, debt vulnerabilities compound risks from tight global financial conditions
IMF (Oct.)	Sovereign debt distress increases

	China slowdown
EIU (Oct.)	Stimulus policy failures in China lead to increased state controls and diminished growth prospects
OECD (Nov.)	A further slowdown in China would hit global growth

S&P (Dec.)	China's economic growth challenges cause ripple effects globally
US Fed (Oct.)	A further slowdown in Chinese growth could worsen financial stresses in China and strain markets worldwide
US Fed Survey (Oct.)	Weakness in the Chinese economy and financial sector
IMF (Oct.)	China's economic growth slows further.

Energy / Commodity crises

Moody's (Nov.)	Quickening inflation from supply shocks, including in energy and food prices
IMF (Oct.)	Commodity prices become more volatile amid climate and geopolitical shocks.

Climate risks

EIU (Oct.)	Extreme weather events caused by climate change disrupt global supply chains
Moody's (Nov.)	Climate risks: climate-change related shocks or climate-induced loss of agricultural output in major food-producing regions
S&P (Dec.)	Increased financial, business and human implications from climate physical and transition risks
BlackRock (Oct.)	Climate policy gridlock
EIU (Oct.)	Green technology subsidy race becomes a global trade war

Digital risks

S&P (Dec.)	Cyberattacks and the potential for rapid technological change threaten global business and government infrastructure
EIU (Oct.)	Artificial intelligence disrupts elections and undermines trust in political institutions
BlackRock (Oct.)	Major cyber-attack(s)

Geoeconomic fragmentation

BlackRock (Oct.)	Global technology decoupling
BlackRock (Oct.)	U.S. China strategic competition
OECD (Nov.)	The anticipated pick-up in global trade could fail to materialise (increasingly inward-looking orientation of trade and investment policies and heightened geopolitical tensions)
BlackRock (Oct.)	Emerging markets political crisis
IMF (Oct.)	Geoeconomic fragmentation intensifies, hampering multilateral cooperation
Moody's (Nov.)	Evolving geopolitical landscape will reorganize global production and supply structures

Armed conflicts & escalation

S&P (Dec.)	Geopolitical tensions threaten market and business confidence, trade, and a renewal of inflation
BlackRock (Oct.)	Gulf tensions: Regional conflict escalates, threatening energy infrastructure and increasing volatility.
EIU (Oct.)	The Israel-Hamas war escalates into a regional conflict
OECD (Nov.)	Heightened geopolitical tensions remain a key source of near-term uncertainty and have been raised further following Hamas' terrorist attacks on Israel and the subsequent conflict.
BlackRock (Oct.)	North Korea conflict
EIU (Oct.)	China moves to annex Taiwan, forcing a sudden global decoupling
BlackRock (Oct.)	Major terror attack(s)
BlackRock (Oct.)	The war in Ukraine becomes protracted, raising the risk of escalation with NATO.
EIU (Oct.)	The Ukraine-Russia war spirals into a global conflict
US Fed (Oct.)	A worsening of global geopolitical tensions could lead to broad adverse spillovers to global markets

Political / Social unrests

BlackRock (Oct.)	European fragmentation

EIU (Oct.)	Industrial action spreads, disrupting global productivity
IMF (Oct.)	Social unrest resumes
EIU (Oct.)	A change in the US administration leads to abrupt foreign policy shifts, straining alliances

GDP Growth forecasts 2024-2025

Country	**Forecasts**	**2023**	**2024**	**2025**	***Average 2010/2019***
World	Consensus (Nov.)	2.5	2.1	2.7	*3.7*
	IMF (Oct.)	3	2.9	3.2	
	Moody's (Nov.)	2.8	2.1	2.6	
	OECD (Nov.)	2.9	2.7	3	
	S&P (Dec.)	3.3	2.8	3.2	
China	Consensus (Nov.)	5.2	4.5	4.5	*7.7*
	IMF (Oct.)	5	4.2	4.1	
	Moody's (Nov.)	5	4	4	
	OECD (Nov.)	5.2	4.7	4.2	
	S&P (Dec.)	5.4	4.6	4.8	
United States	IMF (Oct.)	2.1	1.5	1.8	*2.3*
	OECD (Nov.)	2.4	1.5	1.7	
	Consensus (Nov.)	2.3	1	1.8	
	Moody's (Nov.)	2.4	1	2	
	S&P (Dec.)	2.4	1.5	1.4	
Euro Area	Consensus (Nov.)	0.5	0.7	1.5	*1.4*
	IMF (Oct.)	0.7	1.2	1.8	
	Moody's (Nov.)	0.7	1.1	1.7	
	OECD (Nov.)	0.6	0.9	1.5	
	S&P (Dec.)	0.6	0.8	1.5	
India	Consensus (Nov.)	6.5	6.1	6.4	*7*
	IMF (Oct.)	6.3	6.3	6.3	
	Moody's (Nov.)	6.7	6.1	6.3	
	OECD (Nov.)	6.3	6.1	6.5	
	S&P (Dec.)	6.4	6.4	6.9	
Brazil	Consensus (Nov.)	3	1.6	2	*1.4*
	IMF (Oct.)	3.1	1.5	1.9	
	Moody's (Nov.)	3	2	2	
	OECD (Nov.)	3	1.8	2	
	S&P (Dec.)	2.9	1.5	1.6	
Japan	Consensus (Nov.)	1.9	1	1	*1.2*
	IMF (Oct.)	2	1	0.7	
	Moody's (Nov.)	1.8	1	0.8	
	OECD (Nov.)	1.7	1	1.2	
	S&P (Dec.)	1.7	0.9	1	
France	Consensus (Nov.)	0.8	0.8	1.4	*1.4*
	IMF (Oct.)	1	1.3	1.8	
	Moody's (Nov.)	0.8	0.7	1.6	
	OECD (Nov.)	0.9	0.8	1.2	

	S&P (Dec.)	0.9	0.9	1.5	
Germany	Consensus (Nov.)	-0.4	0.5	1.5	*2*
	IMF (Oct.)	-0.5	0.9	2	
	Moody's (Nov.)	-0.4	0.8	1.9	
	OECD (Nov.)	-0.1	0.6	1.2	
	S&P (Dec.)	-0.2	0.5	1.5	
Italy	Consensus (Nov.)	0.7	0.6	1.2	*0.3*
	IMF (Oct.)	0.7	0.7	1	
	Moody's (Nov.)	0.8	0.7	1	
	OECD (Nov.)	0.7	0.7	1.2	
	S&P (Dec.)	0.7	0.6	1.2	
Korea	IMF (Oct.)	1.4	2.2	2.3	*3.3*
	Moody's (Nov.)	1.5	2	2	
	OECD (Nov.)	1.4	2.3	2.1	
UK	Consensus (Nov.)	0.4	0.4	1.3	*2*
	IMF (Oct.)	0.5	0.6	2	
	Moody's (Nov.)	0.5	0.7	1	
	OECD (Nov.)	0.5	0.7	1.2	
	S&P (Dec.)	0.5	0.4	1.5	