

# Global Economic Outlook and Emerging Market & Developing Economies (EMDEs)

## Opening Remarks

by

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## **Excellencies, Governors, Ministers, Distinguished Colleagues,**

It is a pleasure to welcome you to this gathering of policymakers from the G-24 and partner institutions. At a time of heightened uncertainty, policy fragmentation, and structural transformation, conversations like this are not merely valuable — they are essential.

We meet at a moment of *measured resilience but constrained ambition* in the global economy. For many EMDEs, the challenge is no longer simply to “recover,” but to *restore* development trajectories, protect macroeconomic stability, and finance transformation in a world of higher volatility.

Today, I would like to highlight five themes:

1. The global outlook is stable but with divergent forces
2. The policy space for EMDEs is tightening
3. There are near-term risks beneath the surface
4. There are policies essential for transformation in the medium-term
5. Finally, the reform of **Bretton Woods institutions** is more urgent than ever

## I. The Global Outlook: Stability Without Dynamism, Divergent forces

The world economy has shown a degree of adaptability that deserves recognition—supply-side disruptions have eased compared to the worst years, inflation has moderated in many places, and real incomes have improved for segments of households. But resilience is not the same as robustness, and three “divergent forces” stand out.

**First, disinflation has progressed—but the job is not finished everywhere.**

Some advanced economies are moving into a phase of extended policy pauses as inflation cools. Yet, global inflation dynamics remain sensitive to renewed supply shocks, climate events, and geopolitical disruptions.

**Second, though the global financial conditions have eased, but the cost of capital remains high for many developing economies.**

The reality for many sovereigns and firms in developing economies is that spreads, rollover risks, and debt-service burdens remain materially above pre-pandemic norms.

**Third, trade policy uncertainty has intensified, and the drag from fragmentation is becoming more visible.**

Trade, historically an engine of convergence, is no longer providing the same impulse. WTO projections show sharply moderated trade expansion, with global merchandise trade growth for 2026 projected at 0.5%, sharply down from earlier forecasts—explicitly reflecting the accumulated effects of tariffs and uncertainty. UNCTAD’s January 2026 trade update similarly highlights rising tariffs and protectionism as a key trend reshaping 2026 trade dynamics.

So this resilience is fragile. It is not a crisis environment. But it is not a convergence environment either precisely because resilience without robustness is not a strategy.

## II. The Policy Space for EMDEs is Tightening

*For emerging market and developing economies, current global conditions have created a more challenging policy environment driven by three factors.*

***Growth is insufficient***

The World Bank forecasts EMDE growth at around 4 percent—higher than advanced economies, yet still insufficient to make significant progress in closing income disparities, both within and among nations. Excluding China, this growth is even more muted. In Sub-Saharan Africa, while growth has picked up somewhat, results remain uneven; for instance, Nigeria is experiencing improved growth due to macroeconomic adjustments and exchange rate reforms, but still faces

fiscal pressures and infrastructure shortfalls. Meanwhile, South Africa's focus on fiscal consolidation and debt sustainability is vital for macroeconomic stability, although structural growth stays moderate.

In South Asia, countries like India are driving global growth momentum, spurred by strong domestic demand and advancements in digitalization, while Pakistan is cautiously balancing recovery with ongoing reform needs. Latin America continues to see modest growth, with some nations, including Mexico contending with weak external demand and sluggish investment. In the Middle East and Central Asia, there is a concerted effort to diversify economies away from commodities and enhance macroeconomic resilience.

Across all these regions, a clear pattern emerges: while growth exists, it lacks the power needed for sustainable, job-rich economic transformation that would ensure substantial economic progress and convergence.

### ***Constrained fiscal space magnifies vulnerabilities.***

One important outcome is the extent to which the growing fiscal-financial linkages are significantly constraining fiscal space in many EMDEs, with debt service now absorbing an increasing share of government revenues. The World Bank's Global Economic Prospects further emphasizes that public investment in many developing countries remains below the levels needed to achieve essential infrastructure and climate objectives, meaning that current investment shortfalls will likely result in lower potential growth in the future. Amid these challenges, countries are expected to simultaneously consolidate fiscally, invest in climate resilience, protect social spending, strengthen human capital, and manage debt burdens—all at once. These would be difficult to achieve, since developing countries face high and rising costs of external public debt, with external debt service reaching **\$487 billion in 2023**, and many countries devoting a large share of export revenues to servicing obligations, according to UNCTAD. This points to a deeper, structural financing gap as debt, development, and stability collide.

### ***Uneven Financial Conditions Remain.***

Although global financial conditions have become somewhat more accommodative compared to periods of intense monetary tightening, lower-rated countries continue to face high capital costs. The IMF's Global Financial Stability Report highlights that highly indebted emerging market and developing economies (EMDEs) remain particularly vulnerable to abrupt changes in global risk sentiment, including rapid reversal of capital flows in response to geopolitical or trade disruptions. Little wonder that as of early 2026, the top 7 countries with sovereign bonds trading at wide spreads—indicating high perceived risk, potential default concerns, or high-inflation environments—are our member countries

### III. Near-term risks beneath the surface

Let me highlight five risk clusters that as policymakers in central banks and finance ministries we should be watching closely:

**(i) A renewed inflation or supply shock—especially via food, energy, and logistics.**

For many EMDEs, food and fuel weights in consumption baskets remain high, and exchange rate pass-through can be significant.

**(ii) A sudden tightening of external financing conditions.**

Episodes of risk-off behavior or domestic policies can trigger sharp outflows, exchange rate pressures, and refinancing stress—particularly where domestic bond markets are shallow.

**(iii) Trade fragmentation and slower trade growth.**

When merchandise trade growth projections fall toward 0.5%, that is not just a number—it is weaker external demand, fewer opportunities for scale, slower diffusion of technology, and more complex supply chains for producers trying to integrate globally.

**(iv) Debt distress and protracted restructurings.**

When restructuring processes are slow or uncertain, they discourage investment, depress growth, and impose large social costs. The world cannot normalize prolonged debt crises as a “new equilibrium.”

**(v) Human Capital Erosion**

Recent World Bank analysis warns that deteriorating education and health outcomes in many low-income countries may reduce long-run earning potential. This is not only a social issue — it is a macroeconomic one. Lower human capital translates directly into lower productivity and weaker fiscal sustainability in the long run.

### IV. Medium-Term Policies for Resilient Transformation

The theme of the 2026 TGM is *Promoting Sustainable, Inclusive, and Job-Rich Economic Transformation*. The question is how a country transforms a period of steady but sluggish growth into inclusive, sustainable transformation. As the 2020s threaten to become a decade marked by sluggish growth, policymakers must respond with bold and comprehensive strategies. This calls for:

**A) Strong Macroeconomic Frameworks**

Fiscal authorities should strengthen fiscal and debt sustainability frameworks, as these are central to anchoring expectations and mobilizing investment. Central banks should enhance the credibility of monetary and financial stability frameworks, prioritize exchange rate management, maintain adequate reserves, anchor inflation expectations, and strengthen macroprudential policies. Some of these issues are highlighted in our fourth panel.

## **B) Domestic Resource Mobilization & Public Investment**

Policies that expanding the tax base and strengthen public spending efficiency — especially in infrastructure, education, and health — amplify long-run productive capacity and enlarge fiscal buffers. Our second panel will provide additional context to this.

## **C) Climate and Human Capital as Core Growth Drivers**

Climate adaptation, green investment, and human capital development must be at the heart of medium-term strategies to future-proof economies. We will have more to say on this in the third panel.

## **D) Strategic Trade & Investment Partnerships**

Diversifying markets and deepening regional integration can help mitigate external shocks and unlock scaling opportunities. Our fifth panel will shine further light on this.

These priorities are not theoretical — they relate directly to the lived experience of the citizens in our countries: expanding opportunities in Lagos, Karachi, Johannesburg, Mexico City, and beyond.

## **V. Why This Is a Bretton Woods@80 Moment**

Excellencies, eighty years after the founding of the Bretton Woods institutions, the global economy is larger, more multipolar, more interconnected than ever before, but also facing the challenge of fragmentation.

This period is not much different from 1971, when the G-24 was founded amidst the global uncertainty as the US ended the direct convertibility of the U.S. dollar to gold for foreign governments. Since then, our work has consistently focused on advocating for fairer international financial architecture, especially for developing countries.

As we navigate a world facing new sets of challenges, our deliberations at the 2026 TGM will focus on the key issues relating to the Bretton Woods@80 reform initiative, which is about renewal, not replacement.

The global outlook tells us growth will continue. But it will not automatically deliver convergence. That requires deliberate reform — nationally and multilaterally.

And that is precisely why this gathering matters.

Thank you.