C40·CENTRE CITY CLIMATE POLICY AND ECONOMY

Cities Economic Outlook

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Slow economic growth is not the end of the world if cities are enabled to take targeted action.

An economy that grows more slowly can still build shared prosperity, but public policies need to be better targeted to prioritise health, climate, and human wellbeing. Over the past 75 years, global improvements in welfare and living standards have been enabled by the all-boats-lifting tide of sustained economic growth. The latest analysis from the International Monetary Fund (IMF) shows that global growth forecasts are at their lowest level in decades, following a nearly 20-year long downward trend. The tide going out calls for a more proactive policy approach.

The reasons behind the slowdown are structural and not easily solved, from demographic changes to more frequent global tensions. Cities in the Global South must also face the challenge that the industrialisation model through which countries historically built their wealth is no longer a reliable avenue for prosperity—and that a "new model" based on services and the digital economy is yet to prove itself successful.

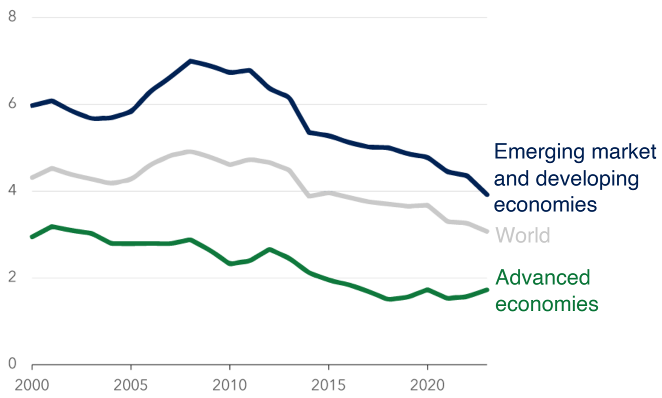
2.8% **the rate of global GDP growth by 2028, down from over 4.5% in the early 2010s, according to the IMF.**

Slower economic growth will make it harder to prepare for the impacts of the climate crisis, not least because of the resulting strain it will put on borrowing costs for cities and businesses, but also as public funds may be diverted towards different political priorities. Despite this, opportunities for action remain.

First, cities should stop considering economic growth as an end in itself. Growth should be a means to achieve a city's objectives, and slow growth should not lower this ambition. Relying on sectors that promise faster growth while they extract local resources and fail to build community wealth and human capital would be counterproductive.

Global GDP growth forecasts for the next five years are at their lowest levels in decades

(percent, 5-year ahead projections of GDP growth)



Note: the horizontal axis show the year in which the 5-year forecast was made. Source: IMF analysis

Second, cities should find better ways to measure their success. If the aim of city policies is to improve the health, happiness, and overall wellbeing of residents, the metrics of a city's success should be amended to reflect this. Whether buses are on time, roads are safe for all to cycle, the air is clean, and housing is affordable may be better indicators of a city's progress than how well it attracts international investment.

Third, new technologies can help cities, but they may harm them too. New technologies, specifically Artificial Intelligence (AI), have the potential to transform our economies, but the scale of their impact is still unclear. Cities have much to gain from AI-powered systems that can make them more resilient to natural disasters or simply better managers of their resources, but they are also on the frontline should AI cause job losses. National governments will largely be responsible for ensuring that the benefits of AI are distributed fairly. Let us hope they act more decisively than they have on climate action.

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