

Global economic outlook

Global growth prospects

The growth outlook in a pandemic world

Global economic recovery from the COVID-19 pandemic hinges on a delicate balance amid new waves of infection, labour market challenges, lingering supply-side constraints and rising inflationary pressures weighing heavily on near-term growth prospects. The global economy grew by 5.5 per cent in 2021 – the highest growth rate since 1976 – after contracting by 3.4 per cent in 2020. World gross product in 2021 was 1.9 per cent higher than in 2019 but still 3.3 per cent below the level projected before COVID-19. The recovery of output in 2021 largely represented the resumption of household spending and investment, which had come to a screeching halt in 2020 amid lockdown measures worldwide. The world economy is projected to grow by 4 per cent in 2022 and 3.5 per cent in 2023, converging towards its long-term trend of around 3 per cent per year between 2010 and 2019. But these aggregate figures mask strong divergence in growth prospects as a significant number of developing countries are struggling to recover from the pandemic.

The projected growth rates for 2022 mark a small upward revision from the forecasts in the *World Economic Situation and Prospects 2021*, even as significant downside risks emerged during the fourth quarter of 2021 (table I.1). The growth momentum of the first three quarters of 2021 – especially in the United States, the European Union and China – slowed as the stimulating effects of fiscal and monetary measures began to dissipate and supply-side challenges emerged at the end of the year. The easing of supply-side constraints and the taming of inflationary pressures will remain critical to keep the global economy on the projected near-term growth trajectory. Growth prospects, however, face significant risks and uncertainties, including new mutations of COVID-19, such as the Omicron variant that began spreading in late November 2021. Growth forecasts presented in this report remain susceptible to potential lockdowns and other restrictive measures worldwide. In addition, as major central banks start to withdraw their extraordinary policy support, global financial conditions may tighten considerably, weighing on global recovery.

According to current forecasts, the gross domestic product (GDP) of 16 hard-hit developing countries – including many small island developing States – will be more than 5 per cent smaller in 2022 than in 2019.¹ Well over a fifth of developing countries, 28 in total, will have to wait until 2022 to see GDP return to pre-crisis levels. Twenty or nearly a fifth of developing countries will still be below their 2019

Global growth is gradually converging to its long-term trend

Easing supply-side disruptions and containing inflation are crucial to support global growth

Output losses relative to pre-pandemic projections will remain substantial in developing countries

¹ The GDPs of the Bolivarian Republic of Venezuela and Lebanon will be more than 30 per cent smaller than before the pandemic. These sharp contractions are due to domestic economic fragilities compounded by the impact of the pandemic.

output levels by the end of 2023. On the other hand, by 2023, more than half of the world's economies will exceed their 2019 output levels by at least 7 per cent. In East and South Asia, average GDP in 2023 is projected to be 18.4 per cent above its 2019 level, compared to only 3.4 per cent in Latin America and the Caribbean (figure I.1). But this does not mean that countries will regain lost output. In fact, despite the robust recovery, East and South Asia's GDP in 2023 is projected to be 1.7 per cent below the level forecast prior to the pandemic. Africa and Latin America and the Caribbean are expected to see losses of 5.5 and 4.2 per cent, respectively, compared to pre-pandemic projections.

Figure I.1
Change from 2019 average gross domestic product



Source: UN DESA estimates and forecasts.

Notes: Africa excludes Libya; Latin America and the Caribbean excludes the Bolivarian Republic of Venezuela.

Inequality between countries is widening

A full economic recovery measured in terms of GDP per capita will remain elusive for developing countries in the near term. In 2022, the per capita output of developing countries and economies in transition is projected to be more than 2 per cent below the level expected prior to the pandemic. The GDP per capita gap between what they will achieve and what they could have achieved without the pandemic will persist well into 2023 (figure I.2). On the other hand, the GDP per capita of the developed economies is projected to almost fully recover by 2023 relative to pre-pandemic projections. The uneven pace of recovery between developed and developing countries will widen income inequality across countries and make it all but impossible to reduce global inequality by 2030, as targeted in the global Sustainable Development Goals.

The recovery of GDP per capita across developed and developing countries is uneven

Figure I.2
GDP per capita losses by development status

Percentage change between current and pre-pandemic forecasts



Source: UN DESA estimates and forecasts.

Table I.1
Growth of world output and gross domestic product, 2020-2023

Annual percentage change	2020	2021 ^a	2022 ^b	2023 ^b	Change from WESP 2021	
					2021	2022
World	-3.4	5.5	4.0	3.5	0.8	0.6
Developed economies	-4.8	4.8	3.7	2.5	0.8	1.1
United States of America	-3.4	5.5	3.5	2.4	2.1	0.8
Japan	-4.6	2.2	3.3	2.7	-0.8	1.5
European Union	-6.0	4.7	3.9	2.6	-0.1	1.2
Euro area	-6.5	4.7	4.0	2.5	-0.3	1.4
United Kingdom of Great Britain and Northern Ireland	-9.8	6.2	4.5	2.0	-0.6	2.5
Other developed countries	-3.3	4.0	3.7	2.7	-1.0	1.5
Economies in transition	-2.6	4.4	3.2	2.9	1.0	0.2
South-Eastern Europe	-3.1	6.2	4.0	3.6	2.2	0.9
Commonwealth of Independent States and Georgia	-2.6	4.3	3.2	2.8	0.9	0.2
Russian Federation	-3.0	4.2	2.7	2.3	1.2	0.3
Developing economies	-1.6	6.4	4.5	4.7	0.8	0.0
Africa^c	-2.2	3.8	4.0	3.6	0.3	0.4
Northern Africa ^c	-2.4	4.8	4.8	2.8	-0.1	0.7
East Africa	1.3	4.0	4.8	5.7	1.0	0.7
Central Africa	-2.4	2.0	3.3	3.5	-0.9	-0.3
West Africa	-0.8	3.2	3.7	4.0	0.7	0.1
Southern Africa	-6.2	2.9	2.6	2.9	0.1	0.0
East and South Asia	0.0	6.8	5.0	5.4	0.4	-0.2
East Asia	1.0	6.7	4.9	5.4	0.3	-0.3
China	2.3	7.8	5.2	5.5	0.7	-0.6
South Asia ^d	-4.7	7.4	5.9	5.6	0.5	0.6
India ^d	-7.1	9.0	6.7	6.1	1.7	0.8
Western Asia	-3.4	4.7	4.8	3.5	0.8	1.4
Latin America and the Caribbean	-7.4	6.5	2.2	2.5	2.7	-0.3
South America	-7.0	6.7	1.6	2.4	2.9	-1.1
Brazil	-4.1	4.7	0.5	1.9	1.5	-1.7
Mexico and Central America	-8.2	6.1	3.4	2.7	2.3	1.0
Caribbean	-7.2	3.2	11.5	3.7	-0.6	8.7
Least developed countries	0.8	1.4	4.0	5.7	-3.5	-0.6
Memorandum items						
World trade ^e	-8.3	11.0	5.7	4.0	4.0	1.9
World output growth with PPP weights ^f	-3.3	5.6	4.2	3.8	0.7	0.4

Source: UN DESA.

Notes: (a) estimated, (b) forecast, (c) excludes Libya, (d) growth rates are on a calendar year basis (for fiscal year growth figures, please refer to the statistical annex), (e) includes goods and services, and (f) based on a 2015 benchmark.

The pandemic is far from over

Despite the roll-out of vaccines from early 2021, the COVID-19 pandemic is far from over. From 1 April through 1 December 2021, an average of 9,432 people died every day around the world, significantly higher than the 6,061 deaths per day recorded during the same period in 2020.² By early December 2021, COVID-19-related deaths since the start of the pandemic had reached 5.2 million. Yet the total number of deaths directly and indirectly attributable to the pandemic is much higher. Excess deaths have been highest in some economies in transition and a number of Eastern European and Latin American countries.³

Over 2021, the epicentre of the pandemic shifted multiple times. For much of the year, developing and transition countries saw a growing share of infections and deaths as they lagged in vaccination. But in the fourth quarter of 2021, as colder temperatures in the Northern Hemisphere led to more indoor social activities, Europe and the United States began to experience new outbreaks, with severe cases mostly affecting the unvaccinated. Countries in Europe with relatively lower vaccination rates have experienced stronger increases in cases. Moreover, the emergence in late November 2021 of the Omicron variant, which is likely to be more transmissible than earlier variants and with a better ability to evade vaccines, sounded new alarm bells across the world. Governments from major developed countries, including in Europe, Japan and the United States, responded by introducing travel restrictions from Southern Africa⁴ where Omicron was first detected. A number of developing countries also swiftly imposed entry restrictions on travellers from Southern Africa.

New COVID-19 variants and the reintroduction of quarantine and mobility restrictions could significantly restrain economic activities. Although the actual impact is impossible to assess in advance, new variants could severely impair market confidence and derail economic recoveries. The willingness to work in person could decline again, posing downside risks to an already slow recovery of labour markets and intensifying supply-chain disruptions. The long-awaited recovery of service industries, from hospitality to international travel and conferences, could also be further postponed. Efforts to push ahead with reopening and attract tourists in tourism-dependent countries, particularly the small island developing States, could be easily reversed.

The emergence of a more transmissible and deadly COVID-19 variant poses a major risk...

...with potentially significant impacts on economic activity

² According to the [COVID-19 Data Repository](#) at John Hopkins University (last accessed 21 December 2021).

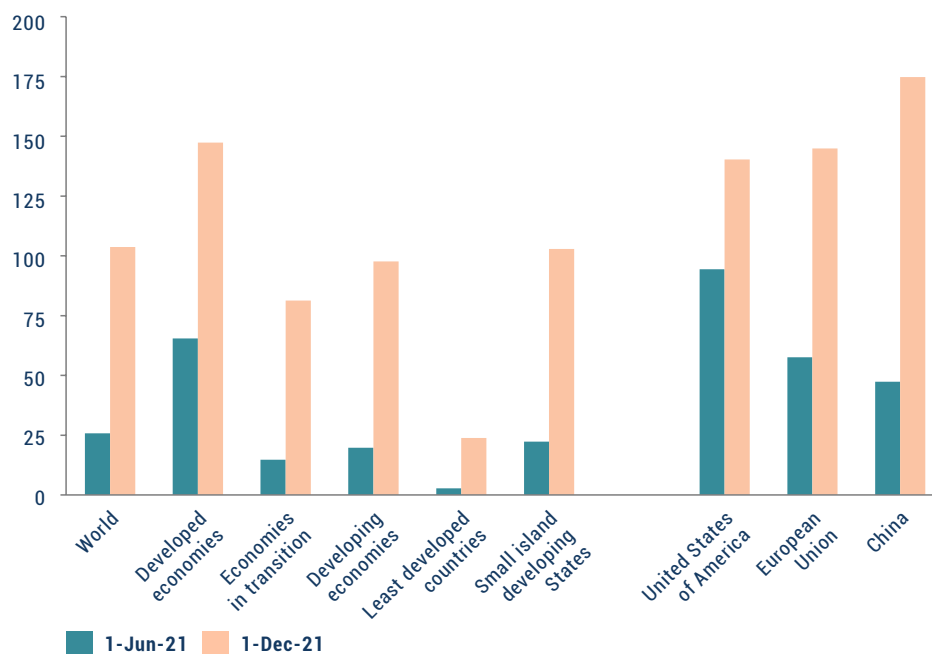
³ See [The Economist's COVID-19 tracker](#) (accessed on 14 December 2021).

⁴ The list of countries included Angola, Botswana, Eswatini, Lesotho, Malawi, Mozambique, Namibia, South Africa and Zimbabwe.

Vaccine inequities remain a formidable challenge

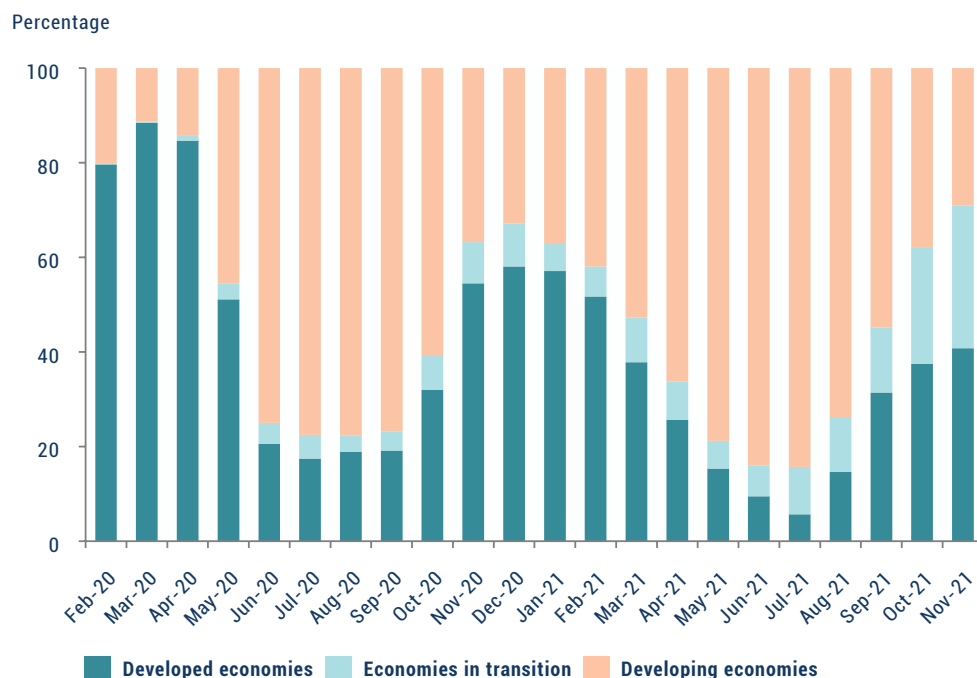
Access to COVID-19 vaccines remains a challenge in many developing countries and transition economies, driven in many cases by fiscal constraints. By the end of 2021, the number of doses per 100 people in the least developed countries stood at just 23.9, against 147.4 in the developed countries (figure I.3). In most developing countries, acute vaccine shortages – as opposed to vaccine hesitancy – continue to prevent higher vaccination coverage, leaving these countries highly vulnerable to renewed waves of infection. Unsurprisingly, the concentration of deaths due to COVID-19 shifted from developed to developing countries through much of 2021 (figure I.4), yet a few major developed countries, such as the United States, still experienced among the highest numbers of deaths per 100,000 people.

Figure I.3
Number of doses per 100 people



Source: UN DESA, based on data from [Our World in Data](#) (accessed on 20 December 2021).

Figure I.4
Share of monthly COVID-19 related deaths by development status



Source: UN DESA, based on data from Johns Hopkins University.

Progress in vaccination was critical to resume economic activities and recover output in 2021. Countries with high vaccination rates managed to ease restrictions, allowing demand to surge and economic growth to come back more quickly. Low vaccination rates and recurring waves of infection in many developing countries, on the other hand, demanded continued restrictions. If they had achieved levels of vaccination similar to those in high-income countries, low-income countries could have raised output in 2021 by \$38 billion or 8 per cent of their collective GDP (UNDP, 2021).⁵ Vaccination is clearly a necessary condition for reopening economies but not a sufficient condition for accelerating growth and recovery. Many other factors, including public and private investments to improve labour markets and create jobs, will also determine the size and pace of recovery.

This report's baseline scenario assumes sufficient progress in vaccination to allow the lifting of restrictions on economic activities and obviate the need for new restrictions during the forecast horizon. It remains particularly crucial to scale up vaccination in developing countries to restore confidence and boost aggregate demand. This will, however, remain contingent on accelerating vaccine deliveries. COVAX, the global vaccine distribution initiative, announced in September 2021 that it aims to ship 2 billion doses by the end of the first quarter of 2022. Achieving this target would yield a fully vaccinated

Uneven progress in vaccination imposes large economic costs globally

Export controls and prioritization of bilateral agreements continue to affect access to vaccines in developing countries

⁵ Further, the global GDP loss from not vaccinating people in all countries, relative to a counterfactual of global vaccinations, is higher than the cost of manufacturing and distributing vaccines worldwide (Cakmakli and others, 2021).

coverage rate of about 35 per cent. As of early December 2021, however, only about 610 million doses had been shipped. The COVAX target faces significant uncertainty amid the export controls of major suppliers, the prioritization of bilateral agreements over COVAX and regulatory approval processes (COVAX, 2021).

The Group of 20 (G20) summit in Rome in October 2021 affirmed the clear imperative of vaccinating at least 40 per cent of the population in all countries by the end of 2021 and 70 per cent by mid-2022, in line with WHO's global vaccination strategy. The G20 will need to take urgent measures to boost the supply of vaccines in developing countries and mitigate relevant supply and financing constraints.

Rising inflation is emerging as a new risk

Global inflation increased significantly in 2021...

Global inflation largely remained restrained, often below central bank targets, in the past decade, despite massive increases in global liquidity after the 2008–2009 global financial crisis. Global headline inflation surged to an estimated 5.2 per cent in 2021, however, more than 2 percentage points above its trend rate in the past 10 years. The rise was particularly pronounced in the United States and the euro area, and in Latin America and the Caribbean. Medium-term market-implied inflation expectations over a five-year period in the United States and the euro area increased slightly throughout 2021 but remained moderate, below 2.5 and 1.8 per cent, respectively (IMF, 2021d). This would suggest that inflation expectations remain well anchored and should allow inflation to return to its pre-pandemic rates if labour shortages and supply-side bottlenecks dissipate and global food and energy prices stabilize in 2022.

...amid supply-side disruptions, the release of pent-up demand and high commodity prices

The rise in inflation in 2021 was largely due to a unique combination of idiosyncratic supply-side bottlenecks, a stronger-than-anticipated rebound of demand and high commodity prices. Commodity prices surged, with steep increases in metals, coal, crude oil and natural gas. Crude oil prices rose by 70 per cent to \$70 per barrel on average. The drivers of escalating energy prices included high electricity demand caused by hot weather in some countries, low renewable energy production due to unfavourable weather conditions and high energy demand overall (World Bank, 2021a). Food prices shot up by 22 per cent in 2021, reaching their highest level in a decade, spurred by sharp increases in vegetable oil, cereal and dairy prices (FAO, 2021). High food prices hurt the consumption of the poor, whose situation is already very strained. Underlying drivers encompassed reduced harvests due to adverse weather, labour shortages and high consumption demand. Major supply bottlenecks and port congestion raised shipping costs and led to higher import prices.

In 2022, some upward pressure on prices is expected to ease as central banks tighten monetary policy. The timing and sequencing of central bank responses to inflationary pressures will remain critical, however. If monetary policy stances are tightened too quickly, they will inevitably derail recovery. On the other hand, if monetary tightening and normalization are delayed for too long, inflation expectations may become entrenched and self-fulfilling. Major central banks will need to coordinate and clearly communicate their responses to inflationary pressures to ensure financial market stability and support recovery.

Under the baseline scenario, the global headline inflation rate is forecast to fall to 3.8 per cent in 2022 and 3.1 per cent in 2023, returning to its pre-pandemic trend. These forecasts are contingent on the dissipation of the supply-chain disruptions plaguing the global economy by the second half of 2022. Renewed restrictions due to new COVID-19 variants could translate into higher inflationary pressures, however. In addition, climate change has increased the frequency and severity of extreme weather events, which may also adversely affect supply chains and cause upward pressures on prices.

Inflationary pressures are projected to gradually ease throughout 2022

Employment, poverty and inequality

Labour markets are lagging

Global employment has yet to fully recover from the unprecedented shock of the COVID-19 pandemic, despite the gradual lifting of lockdown restrictions, immense efforts to protect employment and support businesses, and the rebound in global output. While aggregate output in 2021 returned to pre-pandemic levels in most major economies, the recovery of employment lagged and even stalled in many parts of the world. According to the International Labour Organization (ILO), by the third quarter of 2021, total working hours remained 4.7 per cent below pre-pandemic levels, equivalent to the loss of 137 million full-time jobs (ILO, 2021d). The sluggish speed of job creation cannot compensate for earlier employment losses particularly in sectors hit hardest by the pandemic. New waves of infection, for example in Europe and the Commonwealth of Independent States (CIS), are forcing the reintroduction of partial lockdowns and slowing job recovery, especially in the services sector.

Global output recovered but employment remains well below pre-pandemic levels

The crisis has had a devastating impact on employment in tourism, hospitality, travel and retail trade. It has disproportionately affected vulnerable groups, including youth, women and migrant workers, as well as workers with lower educational attainment and skills. Exacerbation of the gender divide is evident, especially in developing countries, with women seeing greater declines in employment and labour force participation than men (IMF, 2021d). Currently, many women confront serious barriers to re-entering the labour force, especially women with young children (Fabrizio and others, 2021). Supporting unpaid domestic work, including childcare, as well as reopening schools will be crucial in reversing gendered labour outcomes going forward.

In countries able to implement large-scale fiscal stimulus measures, mechanisms to protect businesses and jobs helped mitigate fallout from the crisis on employment (figure I.5). The ILO finds that, on average, a 1 per cent increase in annual GDP in the fiscal policy response is associated with a 0.3 percentage point increase in working hours (ILO, 2021d). The Organisation for Economic Co-operation and Development (OECD) estimates that without government-funded job retention schemes, the fall in the number of employees would have been 50 per cent larger, resulting in a decline in employment of more than 6 per cent (OECD, 2021a). Specific stimulus programmes, such as the Paycheck Protection

Income support and job retention schemes prevented larger downturns in labour markets

Program in the United States and the Australian JobKeeper Payment programme, have had significant positive impacts in preventing larger job losses.⁶

Institutional settings have determined different strategies to mediate impacts on employment. In the United States, substantial income support accompanied a rise in unemployment, while in European countries, furlough and short-time work schemes allowed a reduction in working hours. In the long-term, countries that experienced higher unemployment will be more likely to suffer from a long-lasting decline in labour force participation but may eventually see a more efficient redeployment of labour (Bartholomew and Diggle, 2021).

Figure I.5
Fiscal stimulus and changes in working hours, 2020



Source: UN DESA, based on data from the ILO and the IMF World Economic Outlook database, October 2021.
Note: Changes in working hours are based on ILO modelled estimates.

6 The Paycheck Protection Program increased employment by 2 million jobs (about a 3 per cent increase) between April and June 2020 (Autor and others, 2020). The JobKeeper programme reduced total employment losses by at least 700,000 positions between April and July 2020 (Bishop and Day, 2020). Andrews and others (2021) point to the importance of measures being temporary, targeted and adaptive as economic conditions change. They highlight that it is not only size but also policy design that matters.

A notable divergence has emerged between developed and developing economies in part due to uneven progress in vaccination and the size of fiscal stimulus packages. In 2021, employment largely recovered in developed countries. While the rise in working hours in the euro area and Japan reflected workers taking on more hours at the same firms where they were previously employed, in the United States it was associated with lower unemployment rates (Shin, 2021). By contrast, employment growth in developing countries stalled; some countries continued to experience employment losses.⁷ Jobs in the informal sector in developing countries were hit hard as job retention programmes only protected the formal sector. This divergence in employment outcomes between developed and developing countries is projected to widen in the near term given the faster growth of the working-age population in developing countries and more limited fiscal space to support recovery.

Although headline unemployment rates moderated in 2021 and further reductions are expected in 2022, especially in developed economies, the figures are less representative of actual labour market conditions as millions of prospective workers remain outside the labour force. In 2020, 81 million workers globally became inactive compared with 33 million who moved to formal unemployment (ILO, 2021c). Currently, many workers are reluctant to return to work because of health concerns. Employment numbers also do not reflect large variations in incomes, skill mismatches, and job quality and satisfaction levels. In developing economies, a precise assessment of unemployment is further complicated by rising informality. In addition, the slow job recovery is weighing on the quality of human capital as workers lose skills or skills become obsolete, which may contribute to increases in structural and long-term unemployment and lead to a higher youth employment gap.

Among developed economies, the United States has been steadily adding jobs since early 2021, including in the most affected sectors, such as travel, leisure and hospitality. The unemployment rate declined from 8.1 per cent in 2020 to 5.6 per cent in 2021 and is projected to subside further in 2022. Yet the labour market remains more than 6 million jobs short relative to pre-pandemic levels (Furman, 2021). Further, the labour force participation rate remains well below pre-crisis levels at about 61.6 per cent. It is especially low for individuals aged 55 or older and those without a college education. Paradoxically, the United States is facing an acute shortage of workers, with job openings increasing significantly and hires largely stable since the end of 2020 (figure I.6). As the recovery gathers momentum, shortages may gradually subside, but the reluctance to return to work, especially among low-pay workers who left employment in massive numbers in 2021, could delay the process. In the medium term, implementation of a massive infrastructure plan may lead to higher demand for workers and further improvement in labour markets.

In Europe, labour market conditions in 2021 varied significantly (figure I.7). Unemployment rates fell to low single-digit levels, around or below 3 per cent, in the Czech Republic, Germany and Poland, while unemployment rates remained elevated in Greece, Italy and Spain. Despite supply-side disruptions and the resurgence of COVID-19 cases in some countries by the end of 2021, labour demand is expected to

Fear and discouragement are keeping many workers from rejoining the labour force

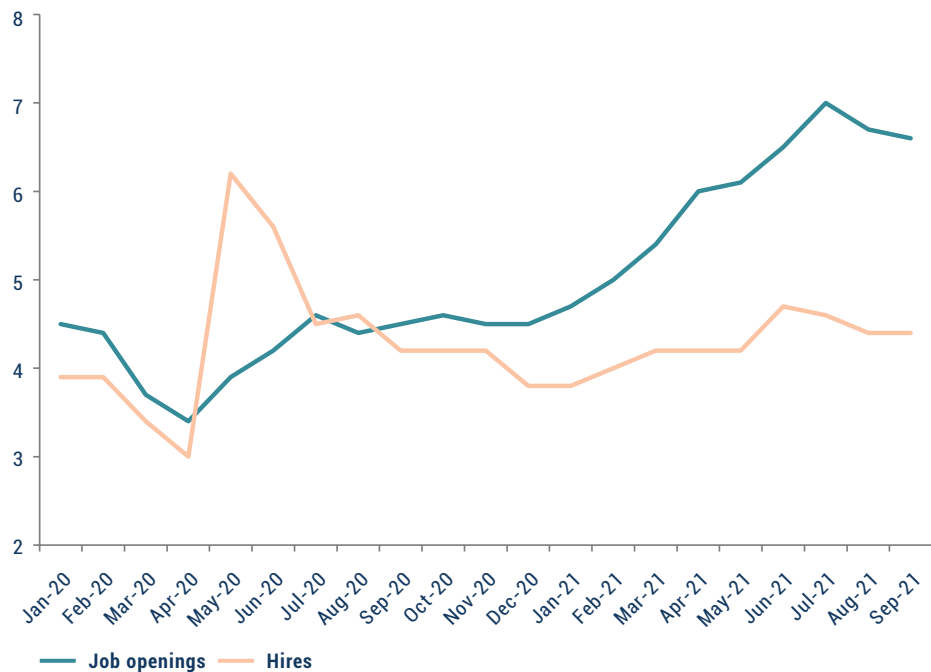
Enormous labour shortages affect labour markets in both the United States and Europe

⁷ Between the fourth quarter of 2020 and the third quarter of 2021, the deficit in working hours in high-income countries decreased from 5.4 per cent to 3.6 per cent over pre-pandemic levels. In the same period, the gap in working hours in low-income countries expanded from 3.7 per cent to 5.7 per cent (ILO, 2021d).

strengthen in the near term as service sectors gradually return to full activity. Manufacturing output has recovered, and firms are attempting to expand output to deal with massive backlogs of earlier orders. This is subject to the evolution of new virus variants and mobility restrictions, however. European countries are also facing massive labour shortages that are causing significant logistical bottlenecks. At the same time, many workers remain furloughed, which complicates an accurate assessment of labour utilization rates. As furlough schemes are phased out, workers may not necessarily be employed in their previous jobs and may be unwilling to seek employment in sectors with worker shortages.

Figure I.6
Growth in job openings and hires in the United States

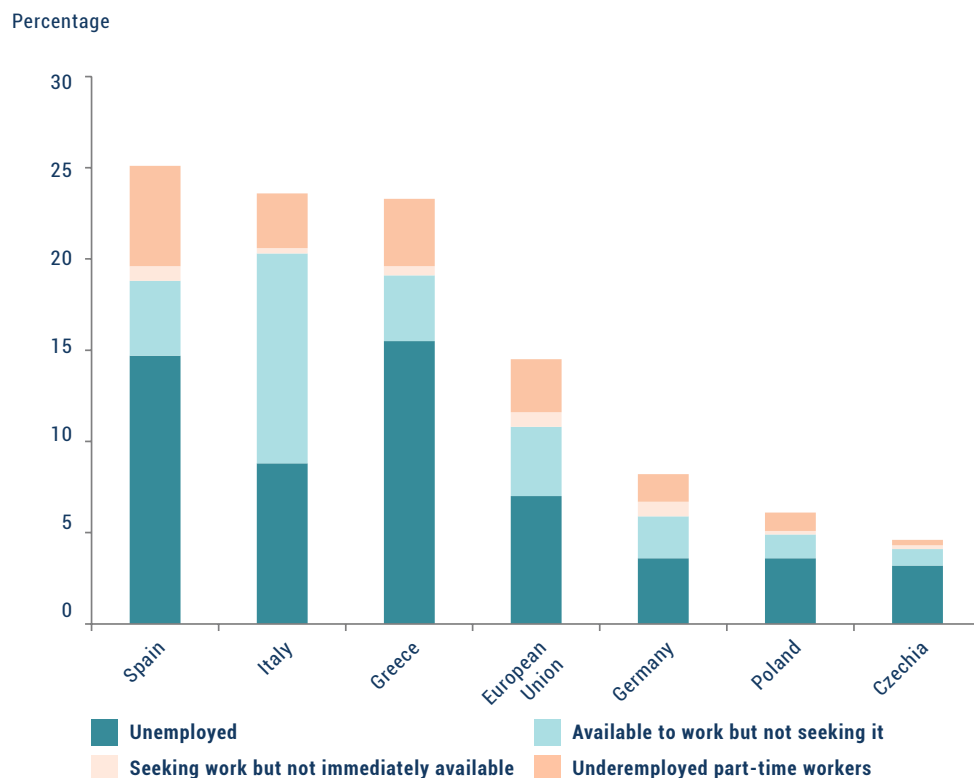
Percentage



Source: UN DESA, based on data from the United States Bureau of Labour Statistics.

Note: The job openings rate is computed by dividing the number of job openings by the sum of employment and job openings; the hires rate is computed by dividing the number of hires by employment.

Figure I.7
Labour market slack in selected European Union countries, second quarter of 2021



Source: UN DESA, based on data from Eurostat.

Although unemployment rates remain above pre-pandemic levels, certain sectors are experiencing massive labour shortages, especially in Australia, Canada, European countries and the United States (United Nations, 2021b). Two factors help to explain this situation. First, despite the gradual recovery of labour markets, many available jobs appear to be low quality and/or poorly paid and thus are unattractive. In OECD countries, the persistent increase in “domestic outsourcing”, which means contracting out work to another company in the same country, is one reason explaining the increase in low-pay jobs with mediocre working conditions (OECD, 2021a).

Second, the pandemic triggered a large-scale labour reallocation shock, especially in developed economies, altering both labour demand and supply. Demand for certain professions, such as in information technology, data analysis, project management and numerous other occupations, has strengthened during the pandemic. Demand for construction and travel-related workers, street vendors and medium-skilled clerks crumbled. Changes in the pattern of labour demand were accompanied by shifts in the labour supply. Many workers abandoned their jobs over safety considerations or because of pay dissatisfaction. Some opted for retirement earlier than planned or began looking for better and more stable positions.

Unattractive job offerings and labour market uncertainties help explain labour shortages

Many developing countries face the prospect of long-lasting slack in labour markets

Among developing regions, unemployment remains precariously high in Latin America and the Caribbean, often at double digits. In 2021, most job recovery took place in the large informal sector, which suffered the bulk of job losses. To address growing working poverty, including food insecurity, governments extended social protection programmes to informal workers, such as in Argentina, Brazil, Peru and the Plurinational State of Bolivia. While growth has recovered, registered unemployment rates may continue to increase as some workers who dropped out of the labour force early in the pandemic gradually start to look for jobs (ECLAC, 2021a). In most of sub-Saharan Africa, fiscal space remains severely constrained to supporting job growth. In the third quarter of 2021, unemployment in South Africa reached 34.9 per cent, the highest rate in the world. In comparison, employment in the Russian Federation has almost returned to its pre-pandemic level, with the unemployment rate below 5 per cent since early 2021. Unemployment in China has fallen since early 2020 and was back to the pre-pandemic level by mid-2021.

The recovery of labour markets in developing countries is not expected before 2023

Labour market conditions in developed economies are expected to improve but a full employment recovery is projected only in 2023. For low-income countries, this may be as far out as 2024. In Africa, Latin America and the Caribbean, and Western Asia in particular, lasting slack in labour markets calls for continued fiscal support and active labour market policies. The outlook is marred, however, by uncertainties associated with the pandemic and the effectiveness of policies to revitalize job creation. Many longer-term impacts of the pandemic on employment, such as the accelerated pace of automation, the reconfiguration of supply chains and offshoring, and teleworking, are not yet fully understood.

Poverty to remain at a decade high amid rising inequalities

The COVID-19 pandemic has significantly increased poverty and inequality globally, causing a substantial reversal in progress towards sustainable development. According to estimates by the United Nations Department of Economic and Social Affairs, progress in reducing extreme poverty has been set back by several years in most countries. Botswana, Kenya, Morocco and Samoa are among the countries that have lost up to a decade's worth of poverty eradication efforts. Developed countries, in contrast, were mostly able to support household incomes and even reduce the number of people in poverty through strong transfer and social protection programmes. Even wider gaps in prosperity levels among world regions may be one of the lasting legacies of the crisis.

The number of extremely poor people may remain at record highs in the coming years

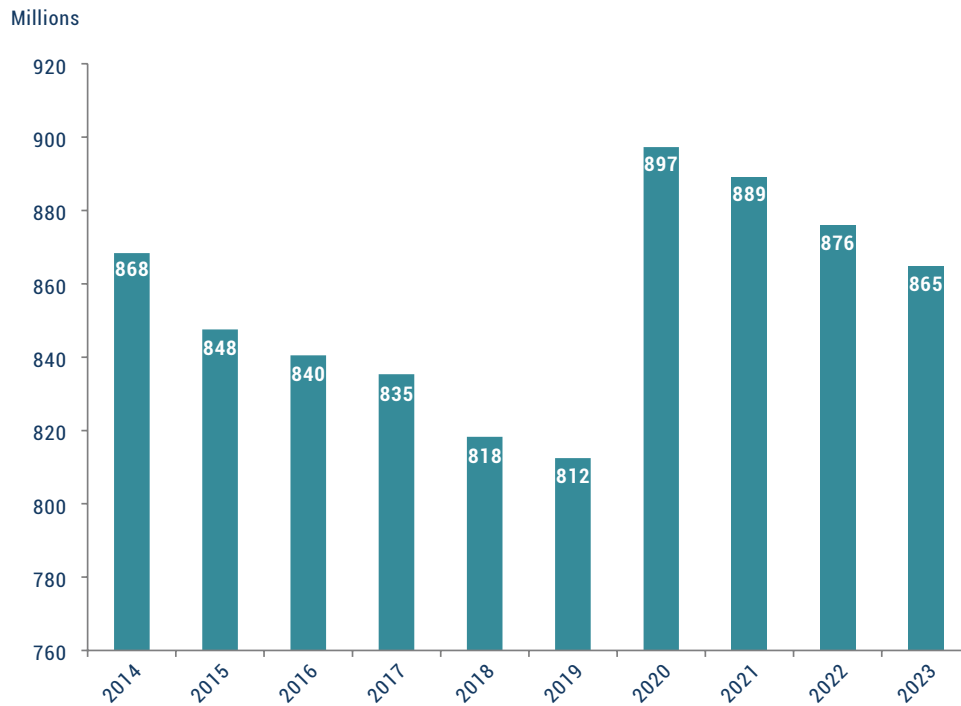
An unprecedented 85 million more people entered extreme poverty in 2020 globally.⁸ The number is projected to remain well above pre-pandemic levels for the next several years, likely at record highs for the last decade (figure I.8). Only slight declines are expected in 2022, to about 876 million people. Fast-developing economies in East and South Asia as well as developed economies will likely see a reduction in poverty in the near term. But it is anticipated to increase further in the world's most vulnerable economies. In Africa, home to almost 70 per cent of the world's extremely poor people, the

⁸ This figure is comparable to the latest World Bank estimates, which showed that the number of people in extreme poverty increased by 77 million from 2019-2020 and by 97 million relative to pre-pandemic projections (Gerszon Maler and others, 2021).

absolute number of people in poverty is projected to rise through 2023 (figure I.9). This will take place amid rapidly growing populations, weak income growth and limited fiscal space. In sub-Saharan Africa, high rates of multidimensional poverty are expected to amplify pandemic-related shocks in education and employment (UNDP and OPHI, 2021).

Poverty projections are subject to major uncertainties, though. The economic outlook could easily worsen with a more transmissible and deadly COVID-19 variant or new waves of infection, especially in countries with low vaccination rates. In addition, the capacity to reduce poverty will be largely constrained by insufficient fiscal space across the developing world, the slow recovery of employment in some countries and tightening global monetary conditions. Extreme weather, conflicts and political fragility could also further affect poverty prospects.

Figure I.8
Global number of people living in extreme poverty



Source: UN DESA.

Note: Estimates were derived using the latest growth forecasts from the World Economic Forecasting Model. Extreme poverty refers to \$1.90 per day (in 2011 PPP).

Figure I.9
Change in the number of people living in extreme poverty in developing countries



Source: UN DESA.

Note: Estimates derived using the latest growth forecasts from the World Economic Forecasting Model. Extreme poverty refers to \$1.90 per day (in 2011 PPP). Numbers above the bar represent the number of people living in extreme poverty in 2020.

Conditions for faster poverty reduction have worsened

Projections suggest that poverty reduction rates have returned to the pre-pandemic pace of 2-4 per cent per year. This is too slow to eradicate extreme poverty by the global goal of 2030, however, barring major changes in global economic conditions, such as another commodity supercycle boosting growth in commodity-dependent developing economies. Most developing countries experienced structural investment challenges in the previous decade, leading to relatively low growth and insufficient reduction in poverty rates, as in Africa and Latin America and the Caribbean. If anything, conditions for significant poverty reduction have deteriorated, including through greater informality, higher public debt and persistent slack in labour markets.

People on lower incomes globally face a larger hit from the pandemic

The COVID-19 pandemic is increasing inequalities between and within countries, amid disparities in unemployment rates and shares of labour income in developed and developing economies. In the first two quarters of 2021, global labour income fell by 5.3 per cent. About 108 million workers are now extremely and moderately poor, a vast majority of them in developing countries (ILO, 2021e). Further, the pandemic has taken a harsher toll on those at the bottom of the income distribution. While average incomes of people in the bottom 40 per cent of the global income distribution were estimated to be 6.7 per cent lower in 2021 compared to 2019, those of people in the top 40 per cent were down only 2.8 per cent (Sanchez-Paramo and others, 2021). Divergent employment prospects between developed and developing countries will likely prevent major reductions in inequality across countries in the near term.

Asymmetric impacts on employment and income between population groups are increasing inequality within countries.⁹ The divide between high-skilled and low-skilled occupations continues to grow. This is due not only to different levels of pay and benefits and varying degrees of employment vulnerability but also crucially to the ability to work remotely.¹⁰ Many low-skilled workers face more hazardous working conditions in front-line sectors, such as retail, catering, health care and personal care services, which are associated with high risks of COVID-19 exposure. The pandemic has accelerated the ongoing disappearance of medium-skilled jobs, further contributing to the increasing polarization of incomes. In 2020, global employment decreased the most for medium-skilled workers (-4.7 per cent), followed by low-skilled workers (-3.3 per cent) and high-skilled workers (-1.3 per cent), compared to 2019 (ILO, 2021d).

The pandemic has worsened prospects for a dramatic loss in human capital and the most dire education crisis in a century for developing countries. This is due to prolonged school closures, lasting up to 250 days, or in some cases, with schools yet to reopen. Poor learning outcomes have resulted despite government efforts to deliver remote learning. The share of 10-year-olds in developing economies who cannot read a basic text has reached an estimated 70 per cent, an increase of 17 percentage points from 2019 (World Bank, 2021d). Without robust, large-scale plans to recover these losses, the effects of delayed education will likely be felt for decades, widening inequality between and within countries, especially for girls.

Other pre-pandemic transformations in work, such as rising precarity, pose significant challenges. The pandemic sped up expansion of the gig economy, where workers are often classified as self-employed rather than employees. While expanding livelihood opportunities, this trend will preclude more workers from collective bargaining, including for basic benefits such as paid sick leave and access to unemployment insurance. Amid shrinking fiscal space and the phasing out of social protection measures, the withdrawal of fiscal support could further increase inequality within countries by adversely affecting the most vulnerable workers.

The pandemic is exacerbating pre-pandemic divergences in job conditions

An increase in learning poverty in developing countries will have long-term repercussions

⁹ The trajectories of stock markets in developed economies also point to rising inequalities within countries. Since the start of the pandemic, stock prices have surged to unprecedentedly high levels, leading to large increases in wealth for the richest segments of the population.

¹⁰ The digital divide aggravates inequalities. Even for those professions where telecommuting is feasible, insufficient access to the Internet and inadequate digital infrastructure remain impediments to remote work in many countries, especially in rural areas. While over 95 per cent of the population in Denmark, Norway and the Republic of Korea used the Internet in 2020, the figure was only 35 per cent in Sri Lanka and 11 per cent in Chad.

International trade, investment and financial markets

Demand recovery has buoyed international trade and commodity prices

A divergent recovery in trade flows

Recovery of goods trade beat expectation but services trade has remained subdued

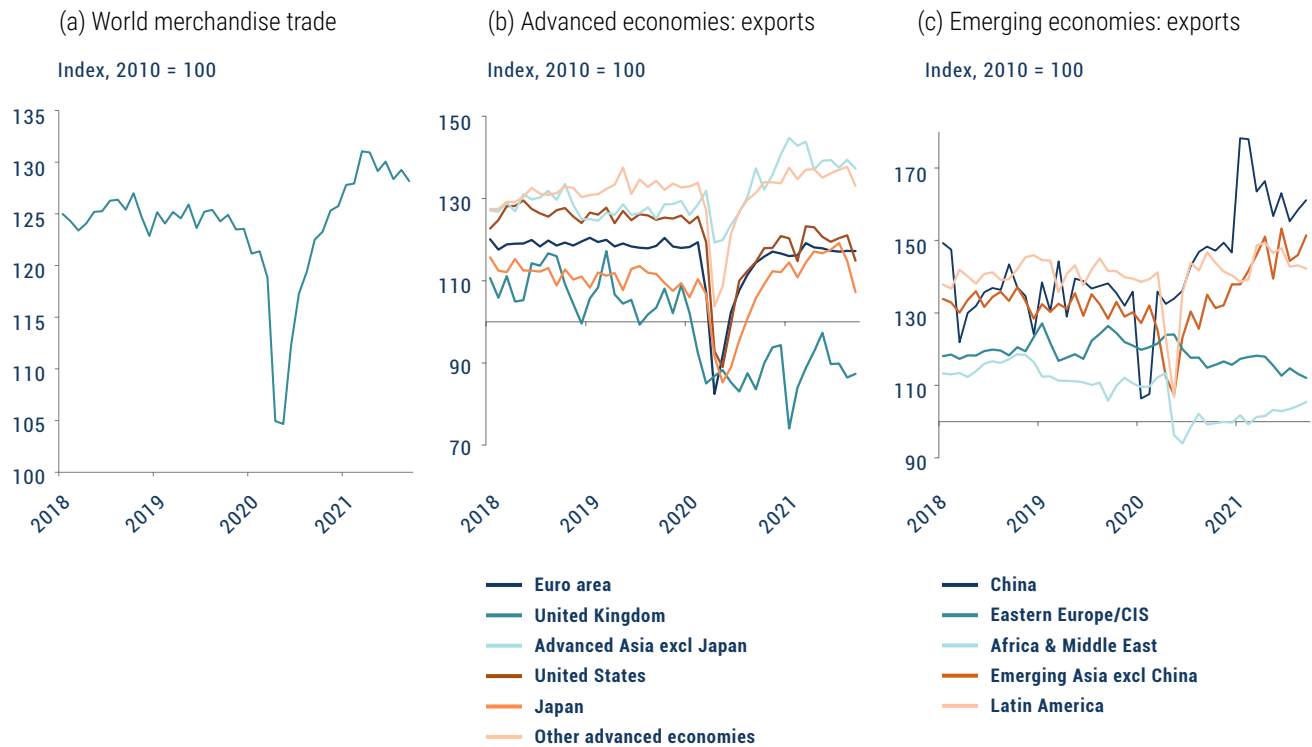
International trade performance was mixed in 2021. Merchandise trade was stronger than expected, with global trade in goods surpassing pre-pandemic levels (figure I.10a). Strong demand for pandemic-related goods such as medical supplies and goods related to lifestyle changes such as electronic devices buoyed merchandise trade in the first half of the year. In the second half, however, supply-chain challenges amid labour shortages in Europe and the United States and new waves of COVID-19 slowed growth. Trade in services remains subdued as the COVID-19 pandemic lingers; many countries have yet to fully reopen their borders.

The pandemic weighs on the outlook for international trade...

World trade is expected to continue improving, fuelled by stronger demand as more countries reopen and restart productive activities. The baseline scenario projects that global trade in goods and services will grow by 5.7 per cent in 2022 after an expansion of 11.0 per cent in 2021. Risks to forecasts are still on the downside, however. The pandemic remains the largest risk, particularly if more transmissible and deadly variants take hold and disrupt economic activities. Trade tensions, including unresolved ones between China and the United States, and between the European Union and the United Kingdom,¹¹ could weigh on trade flows. Although trade in services could strengthen due to the normalization of patterns of demand, with the relative increase in demand for durable goods expected to shift back, services could stabilize along a lower trajectory if the impact of the pandemic turns out to be long-lasting (UNCTAD, 2021d; WTO, 2021).

¹¹ Trade tensions between the European Union and the United Kingdom intensified during 2021, particularly over the Northern Ireland Protocol to the Brexit Withdrawal Agreement, which prevents checks along the border between Northern Ireland (in the United Kingdom) and the Republic of Ireland (in the European Union). This could impose border checks within the United Kingdom when goods flow to Northern Ireland from other parts of the country.

Figure I.10
World merchandise trade, by volume, January 2018 to September 2021



Source: CPB Netherlands Bureau for Economic Policy Analysis, World Trade Monitor database (accessed on 3 December 2021).

Note: Regional groupings are not strictly comparable to those in the World Economic Situation and Prospects 2022 but illustrate regional tendencies.

Ongoing supply shortages and network disruptions will continue to be a drag on global merchandise trade in the near term. Although they are expected to recede over time, their duration and severity are uncertain. Supply-chain constraints are likely to persist in 2022 for several reasons. First, businesses usually do not hold excessive inventory to avoid additional storage costs, which means that producers and retailers may not effectively respond to consumer demand swings due to renewed waves of COVID-19 infection. Second, industry consolidation and dependence on key manufacturers contribute to supply-chain chokepoints. For instance, in 2021, strong demand for semiconductor-related goods and disruptions in the output of some major producers increased delivery times¹² and constrained output in related industries, particularly car production.

...along with unresolved supply-side constraints

¹² The average delivery time of semiconductors increased from 12 weeks in early 2020 to more than 20 weeks in July 2021 (King, 2021).

Third, possible renewed virus waves as well as extreme weather events could keep costs of shipping high and disrupt operations at a few critical international container ports,¹³ impeding the growth of merchandise trade. During the pandemic, misallocation of containers led to a significant rise in shipping costs, which increased sevenfold from an average of \$1,446 per container at the end of 2019 to above \$10,000 in September and November 2021.¹⁴ The recovery in energy prices also contributed to higher rates. New virus variants could prolong bottlenecks in international shipping, resulting in delays and further cost hikes. Furthermore, labour shortages, ageing infrastructure, a lack of warehouse abilities at ports as well as shortages of truck drivers in key destination countries have increased port congestion, which is still not fully resolved.

The rebound in exports has been particularly strong in China and other Asian economies

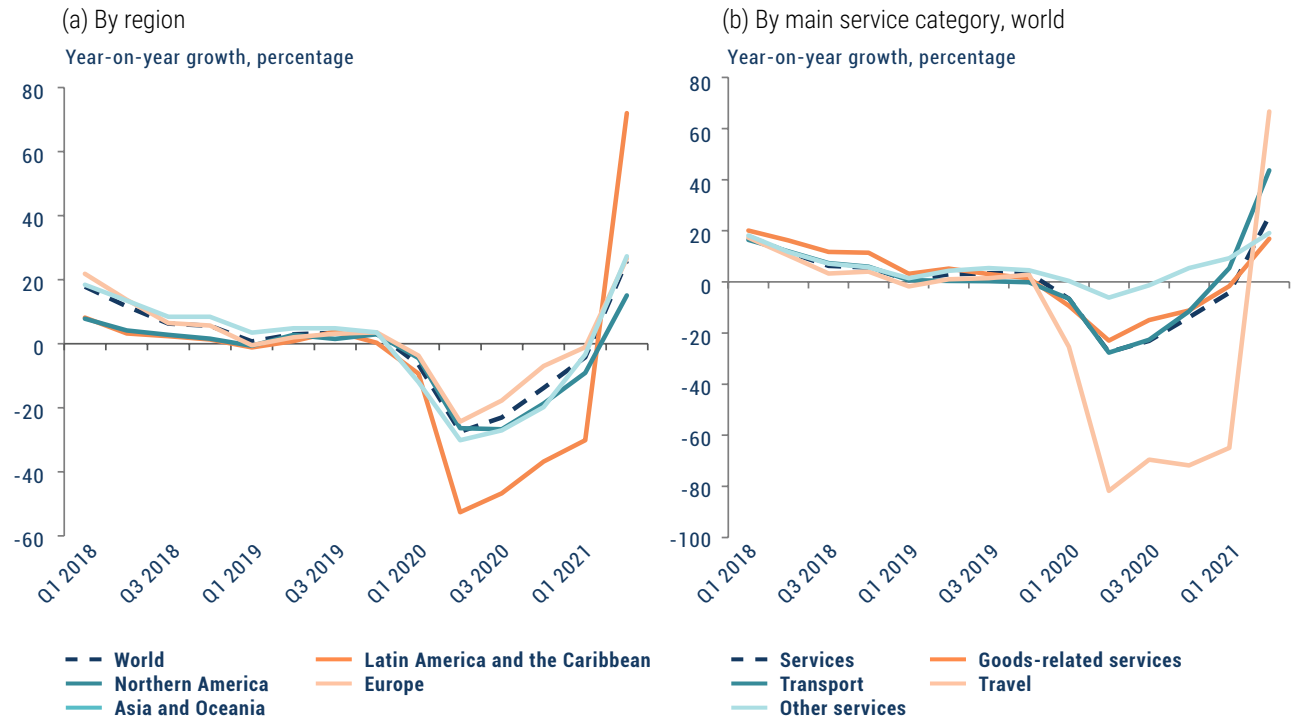
While global merchandise trade has recovered to the pre-pandemic level, there is clear regional divergence (figure I.10). Rebounds in goods exports are more evident in China and other developing Asian countries. Given China's strict virus containment measures and policy stimulus, its factories continued to operate at full capacity in the first half of 2021 and managed to increase exports to meet recovering demand in developed countries. Strong demand from developed countries as well as China buoyed trade performance in several other Asian and Latin American economies. In contrast, merchandise trade in the United Kingdom, Africa and the Middle East has remained subdued. For the United Kingdom, the weakness reflects trade disputes with the European Union. For Africa and the Middle East, the agreement by the Organization of Petroleum Exporting Countries Plus (OPEC+) to reduce oil production has largely suppressed exports. Contingent on the evolution of COVID-19, such geographical variations are expected to recede over time as more countries reopen and resume local productive activities.

Although trade in services has seen weaker performance than trade in goods, it is expected to gradually improve as external demand patterns normalize. Services trade registered positive growth in the second quarter of 2021 across regions but from a low base (figure I.11). During 2021, the global Services Purchasing Manager's Index expanded, recently edging up for both developed and developing countries after a slowdown due to the Delta wave of COVID-19.

¹³ Disruptions to maritime transport and port operations have also triggered a humanitarian crew-change crisis. Hundreds of thousands of seafarers have been unable to leave ships, remaining stranded at sea far beyond the expiration dates of their contracts (UNCTAD, 2021b).

¹⁴ [Freightos Data](#) (accessed on 6 November 2021).

Figure I.11.
Growth in services exports



Source: UNCTADStat (accessed on 6 November 2021).

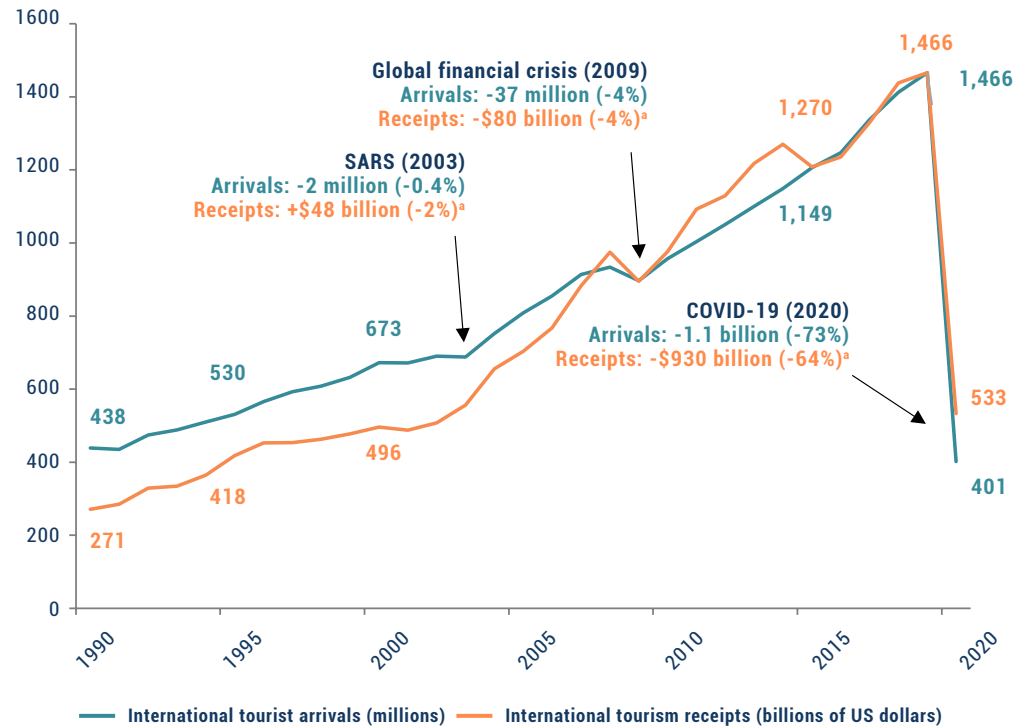
Note: On panel (a), there are no data for Africa.

International tourism experienced a modest improvement in the third quarter of 2021, underpinned by reopening mostly in Europe and the Americas. This was due to progress in vaccination and the resulting relaxation of travel restrictions. From January to September 2021, however, international tourist arrivals were 20 per cent below levels in 2020 and 76 per cent below levels in 2019 (UNWTO, 2021a). Despite an important rebound projected in 2022, driven by unleashed demand, international tourism is unlikely to return to the pre-pandemic level in the near term. As figure I.12 shows, international tourist arrivals plunged by 73 per cent in 2020, dropping to levels of several decades ago. Further restrictive measures and limits on non-essential travel due to new variants could cause a significant setback to the recovery of tourism-dependent economies, in particular the small island developing States.¹⁵

International tourism is still well below the pre-pandemic level

¹⁵ Tourism revenues in the small island developing States declined by \$43 billion in 2020, a 70 per cent drop in nominal terms. This represents 43 per cent of the total decline in the exports of goods and services in these countries.

Figure I.12
International tourist arrivals and tourism receipts



Source: UNWTO.

Note: (a) Real percentage change (local currencies, constant prices).

Targeted trade policies can mitigate pandemic impacts

While the global trade outlook is subject to downside risks, appropriate and targeted policy measures could help mitigate these. There is a clear need for multilateral efforts to address on-going trade tensions and ensure “vaccines for all”. Negotiations under the 12th World Trade Organization Ministerial Conference¹⁶ are expected to put forward a strong global response to the pandemic and provide a foundation for more rapid and equitable vaccine production and distribution.

In addition, there is an acute need for tourism-dependent countries to find alternative revenue sources. Some are developing domestic and rural tourism,¹⁷ which could simultaneously help local economies in rural and depressed areas to boost job creation and protect natural resources and cultural heritage, while empowering women, youth and indigenous peoples. For small island developing States, expanding information and communications technology (ICT) and digitally enabled services could open economic opportunities (box I.1). Amid ongoing trade tensions and supply-chain disruptions, many countries

¹⁶ The 12th World Trade Organization Ministerial Conference, scheduled to take place from 30 November to 3 December 2021, was postponed due to the emergence of the Omicron variant. Negotiations on the response to the pandemic are still going on with a call for agreement by the end of February 2022.

¹⁷ Domestic tourism proved its resilience in 2021. While international air traffic was down by 82 per cent from January to October 2021, compared to 2019 levels, domestic traffic tapered off by 31 per cent, according to the International Air Transport Association.

have also started to shift production closer to consumers. The European Union and the United States have announced ambitious plans to boost domestic production of semiconductors.

Box I.1**The COVID-19 crisis: an opportunity for information and communications technology and digitally enabled services in small island developing States**

The COVID-19 pandemic triggered the largest drop in economic output since the Great Depression. Yet ICT and digitally enabled services have exhibited strong resilience since they allow individuals and businesses to operate remotely (figure I.1.a). Developing ICT and digitally enabled services has emerged as an important opportunity for small island developing States to move towards a post-pandemic recovery. This could potentially help them improve virtual connectivity to markets and enhance tourism-related services, which could at least partially offset massive losses from reduced exports of travel services. Economic losses in tourism due to the pandemic led Jamaica's economy to contract by 11 per cent in 2020. Fiji's GDP declined by 19 per cent in 2020, with unemployment rising to 35 per cent and government revenue shrinking by 40-50 per cent.

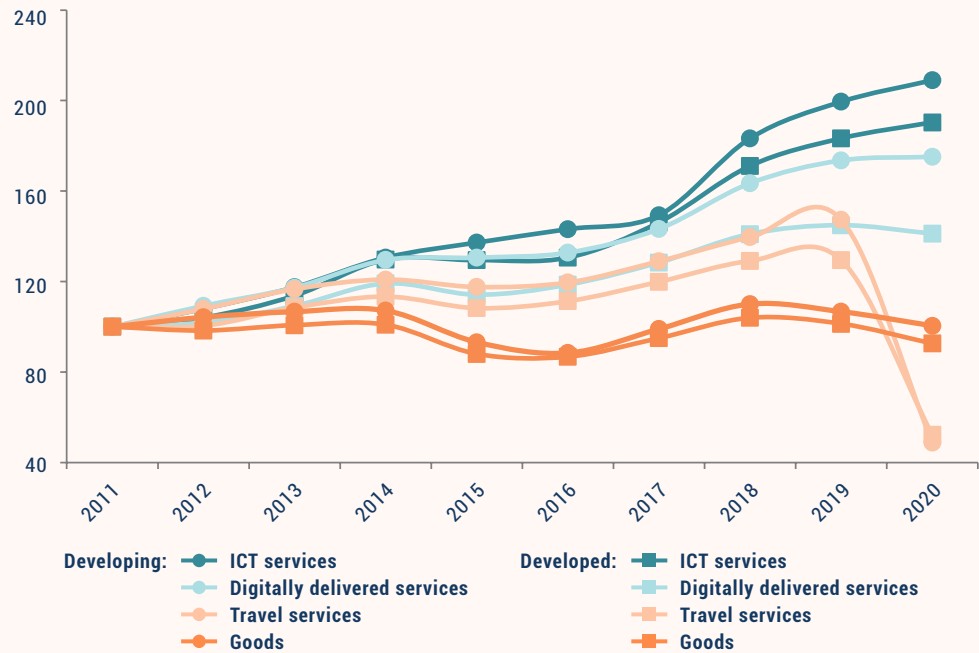
A number of small island developing States have developed ICT and digitally enabled services, both before and during the pandemic. In 2019, exports of ICT services reached 30.7 per cent of Guinea-Bissau's services exports. During the pandemic, Samoa developed a payment system called MauaPay to connect domestic and international banking systems and facilitate international trade in goods and services. In Vanuatu, drones were used to deliver childhood vaccinations to remote areas (ITU, 2019). Several Caribbean countries built a partnership with a hospital in Canada to provide digital health services to help children suffering from cancer.

Small island developing States still face multiple challenges, however, in leveraging ICT services as an engine for growth and development. Small domestic markets and a limited number of suppliers compound a lack of awareness and inability to fully use available tools such as online maps and streaming services. The latter is partly due to the absence of relevant local online content in local languages. Taking advantage of the recent paradigm shift to move personal data storage to the cloud is complicated by requirements for more data usage and the fact that small island developing States have higher connection costs than most countries.

Improving digital infrastructure, such as through submarine cables connecting to the Internet via optical fibre, has brought cheaper and faster access compared to the more costly and slower alternatives of satellite transmission and microwave radio. Many small island developing States lag behind, however. Plans to develop submarine cable access have not progressed in Kiribati, Nauru, Timor-Leste and Tuvalu, for instance (Johnson, 2021). Since costs could be substantial, countries may need to seek financing from various sources such as private companies and multilateral development banks.

Figure I.1.a
Evolution of global exports

Index, 2011 = 100



Source: Elaboration based on UNCTADstat (accessed in October 2021).

Small island developing States could also develop tourism-related digital services, such as to enhance travel intermediaries. Some studies show that a substantial amount of money spent by tourists is not retained by local businesses or workers but ends up leaving countries via foreign-owned tour operators, airlines, hotels, and imported drinks and food. Such “tourism leakage” is estimated to amount to about 80 per cent of all money spent by tourists in the Caribbean (WTTC, 2017). Countries could establish and manage online travel platforms that usually take a commission of 15–18 per cent of the price of a hotel room or 3–4 per cent of airfares (The Economist, 2017).

Authors: Dong Wu, Vincent Valentine and Bruno Antunes, United Nations Conference on Trade and Development

While the pandemic has hit small island developing States disproportionately, ICT and digitally enabled services could help them overcome geographical remoteness. Reliable, fast and affordable connectivity through enhanced digital infrastructure, platforms and services has significant potential. It can help SIDS recover, diversify their economies and make progress towards sustainable development.

Commodity prices rise amid strong demand and supply-side disruptions

Prices of almost all commodity products trended upward in 2021.¹⁸ Demand for commodities accelerated in tandem with sizeable policy stimulus and vaccine-led reopening plans. The supply side was slower to catch up due to the resurgence of COVID-19, extreme weather events and logistical problems. Overall, the commodity price index of the United Nations Conference on Trade and Development increased by 30 per cent in the first nine months of 2021 (figure I.13a). Rising prices coupled with supply-side disruptions increased inflationary pressures in different parts of the world throughout 2021.

Commodity prices have increased across the board...

Looking forward, a modest and gradual decrease in commodity prices is expected. While the factors that drove up prices will gradually dissipate in 2022, there is rising downward pressure on prices. OPEC+ members could loosen supply restraints on oil production while monetary tightening in the United States and a potential slowdown in China's growth could also ease global demand. In the coming years, a global green energy transition could bring mixed impacts on commodity prices as demand will decline for fossil fuels but accelerate for key minerals for electric vehicles and green infrastructure, such as copper and lithium (UNCTAD, 2021d).

...but are expected to weaken

Fuel price hikes have taken the lead across all commodity groups (figure I.13b). The OPEC+ agreement on unprecedented crude oil production cuts in early 2020 brought the price above the pre-pandemic level. In October 2021, the West Texas Intermediate spot price of crude oil crossed \$80 per barrel, a seven-year high. Higher oil prices have increased inflationary pressures in oil-importing countries such as Brazil, India and Singapore, which could trigger additional monetary policy tightening and cause a setback to recovery. While OPEC+ is phasing out production cuts to meet recovering demand, major oil producers remain reluctant to unleash spare production capacity due to COVID-19 related uncertainties.

Prices of minerals, ores and metals have also bounced back to pre-pandemic levels. After prices reached an all-time peak in July 2021¹⁹ due to recovering demand, however, mining disruptions in Australia, Chile and Peru as well higher shipping costs and disruptions in logistics sent prices down. In 2022, prices are expected to moderate further as global demand shifts from goods to services.

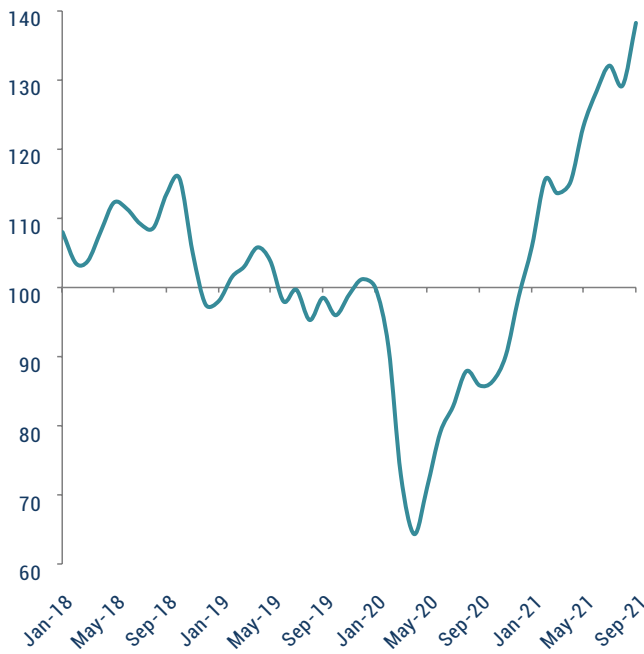
¹⁸ All commodity prices increased in 2021 except for precious metals. Prices of precious metals moderated in 2021 after reaching an all-time high in August 2020. This was driven by changing demand for gold, perceived as a safe haven in times of crisis and uncertainty.

¹⁹ The UNCTAD minerals, ores and non-precious metals price index began in January 1995. The reading in July 2021 was the highest since that point.

Figure I.13
Major commodity prices, January 2018 to September 2021

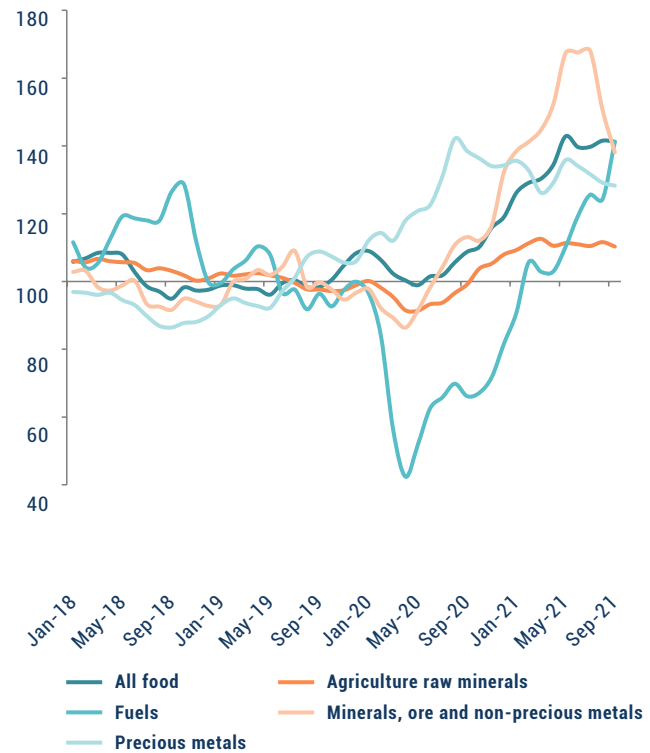
(a) UNCTAD commodity price index, all groups

Index, 2019 = 100



(b) UNCTAD commodity price subindices

Index, 2019 = 100



Source: UNCTAD.

Surging food prices threaten food security in low-income countries

Food prices rose in 2021 given lower elasticity of demand along with unfavourable weather conditions for key agricultural commodities such as soybeans, sugar and cereals.²⁰ Disruptions in supply chains and logistics networks increased transport costs. Higher fuel prices also boosted the costs of agricultural inputs and drove up the prices of grains and oilseeds. While food prices appeared to stabilize in the third quarter of 2021, they had increased nearly 20 per cent since the end of 2020. Low-income countries have been particularly vulnerable as surging food prices feed inflation and threaten food security. The Food and Agriculture Organization and World Food Programme (2021) warn that continued high food prices could undercut food access in many countries, including Afghanistan, the Bolivarian Republic of Venezuela, Haiti, Liberia, Nigeria and Sierra Leone.

²⁰ Adverse weather conditions linked to La Niña severely affected grain production in South America and the United States towards the end of 2020 and into 2021.

Global investment rebounds but structural challenges lie ahead

In many parts of the world, investment has rebounded from the pandemic-induced slump, supported by an easing of COVID-19 restrictions, large fiscal stimulus packages and ultraloose monetary policies. After contracting by 2.7 per cent in 2020, global investment expanded an estimated 7.5 per cent in 2021.

Macroeconomic stimuli have contributed to strong investment growth

The recovery has been driven by strong albeit moderating growth in China and the United States, which together accounted for almost 50 per cent of gross fixed capital formation in 2021. In the United States, gross fixed investment rose by 9 per cent in the first three quarters of 2021. Amid strong monetary and fiscal policy support and buoyant consumer demand, investment in machinery and equipment and intellectual property products soared (figure I.14). Investment growth is projected to moderate in 2022 as sentiment indicators have softened in recent months and the Federal Reserve is shifting to a less accommodative policy stance. The recently passed Infrastructure Investment and Jobs Act, however, will provide a boost to public investment over the coming years. The \$1.2 trillion package includes about \$550 billion in new spending, which will be spread over five years.²¹

In China, strong export performance and government stimulus buoyed investment in manufacturing and real estate in the first half of 2021. Yet investment growth slowed in the second half of the year as the Government restarted restrictions in line with its “zero-COVID-19” policy and implemented measures to curb the property market. Investment nevertheless is expected to remain an engine of economic growth in the coming years. While the construction boom is likely to end, targeted fiscal policies, including tax incentives and subsidies, will support investment in innovation and technological upgrading as well as in green industries.

21 Since annual fixed investment is about \$4 trillion, additional spending of \$110 billion would provide a stimulus of about 2.5 per cent.

Figure I.14
Annual investment growth in selected developed economies, by asset type



Source: UN DESA, based on data from CEIC and EuroStat.

Note: Figures are in constant prices. Data for the United Kingdom, euro area and Japan are total investment; data for the United States are private investment.

Strong investment growth may not last as the policy landscape changes

Beyond the headline figures, the global investment picture is more troubling. In many countries, the 2021 rebound did not signal sustained improvement in investment conditions but primarily resulted from favourable base effects and exceptionally supportive fiscal and monetary policies. As financial conditions tighten and fiscal support is withdrawn, investment growth will likely return to the slow pace that prevailed before the pandemic (figure I.15). In some cases, investment performance may worsen as the crisis has reinforced structural obstacles to investment such as the lack of skilled workers.

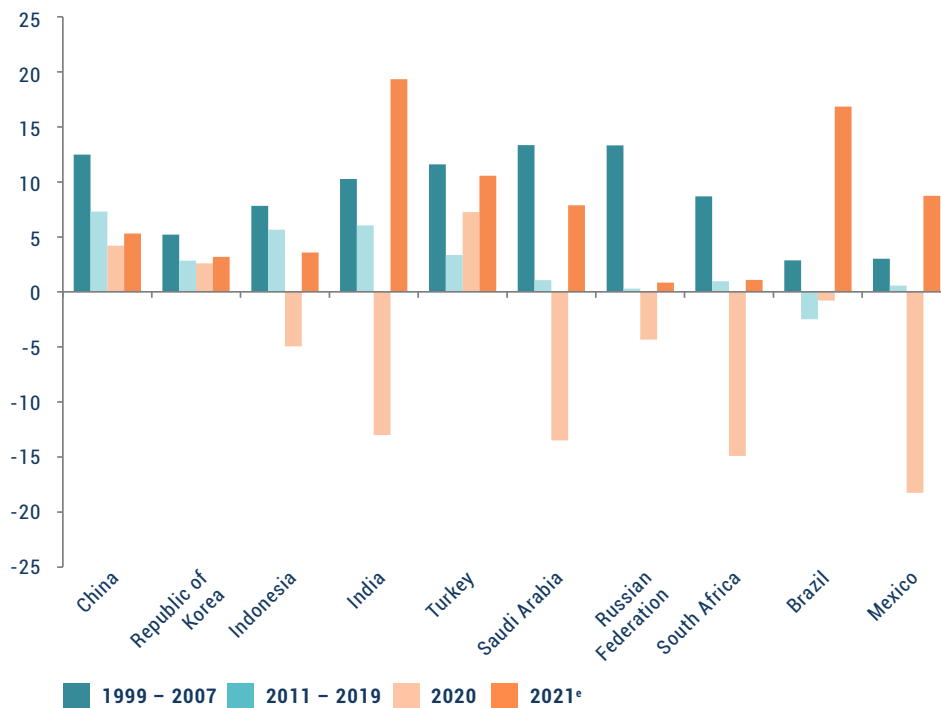
A low-carbon transition weighs on the investment prospects of fossil fuel-dependent countries

Medium-term investment prospects are particularly challenging for developing and transition economies that heavily depend on fossil fuels. In fact, despite the sharp rise in oil and gas prices over the past year, investment in many large fossil fuel producers has been slow to recover. As the world transitions towards net-zero carbon emissions, these countries face massive economic and financial losses. Comprehensive plans are therefore needed to ensure that investment promotes economic diversification towards new low-carbon technology sectors. In addition, the issue of stranded assets

needs to be addressed.²² A recent study estimates that fossil fuel assets worth \$11 trillion to \$14 trillion could become worthless by 2036 (Mercure and others, 2021).

Figure I.15
Annual investment growth in selected developing and transition economies

Percentage



Source: UN DESA, based on data from national authorities.
Note: e = estimates.

Global financial conditions remain highly accommodative

Exceptionally accommodative global financial conditions largely supported the recovery of output while maintaining short-term financial stability and keeping financial market volatility relatively contained throughout 2021. Financing conditions for businesses remained largely favourable and corporate balance sheets generally strengthened (Standard and Poor's, 2021). Corporate bond issuance was strong as firms took advantage of the favourable funding environment. Bond spreads for investment grade and high-yield issuers in developed countries narrowed further in 2021 and remain close to all-

Loose global financial conditions have supported economic recovery...

²² Stranded assets comprise investments, infrastructure, equipment, contracts and know-how that suffer from unforeseen or premature write-downs or devaluation due to the energy transition. See *World Economic Situation and Prospects 2020* for a discussion on coping with stranded fossil fuel assets (United Nations, 2020).

time lows. At the same time, unprecedented policy support that included massive injections of liquidity provided by the major central banks in developed countries has resulted in excessive risk-taking and a further build-up of financial vulnerabilities.

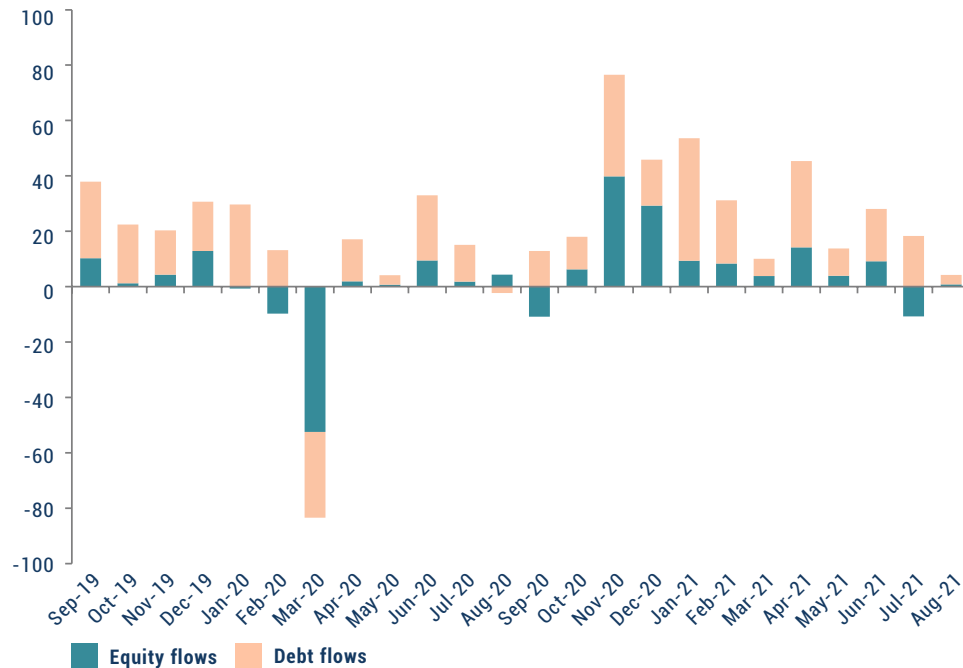
With inflationary pressures rising quickly, a growing number of central banks in both developed and developing countries have started tightening their monetary policy stances or signalled their intention to do so. With shifts in monetary policy, global financial conditions are expected to tighten substantially in 2022. The move away from ultraloose financial conditions poses significant risks for the full recovery of the world economy, amid record levels of private and public debt and elevated asset prices. Developing countries with elevated external debt, insufficient international reserves and large current account deficits and external financing needs are particularly vulnerable to a sharper-than-expected tightening of financial conditions.

**...but may not sufficiently
benefit low-income
countries**

Net capital flows to emerging markets and developing countries remained moderate throughout 2021, although large emerging economies recorded sizeable inflows of portfolio capital, especially in the first half of the year (figure I.16). Foreign direct investment inflows rebounded more quickly than expected, driven by cross-border infrastructure investment, especially in the power sector (UNCTAD, 2021a). This allowed most central banks to build up foreign exchange reserves. But trends in different asset categories diverged (IMF, 2021d). While hard currency debt issuance and equity flows recovered, cumulative local currency debt flows since January 2020 (excluding China) are still negative. Many low-income countries have not benefited from benign global financing conditions. According to UNCTAD (2021a) estimates, foreign direct investment flows to low-income countries further declined in the first half of 2021.

Figure I.16
Portfolio flows to emerging market economies

Billions of United States dollars

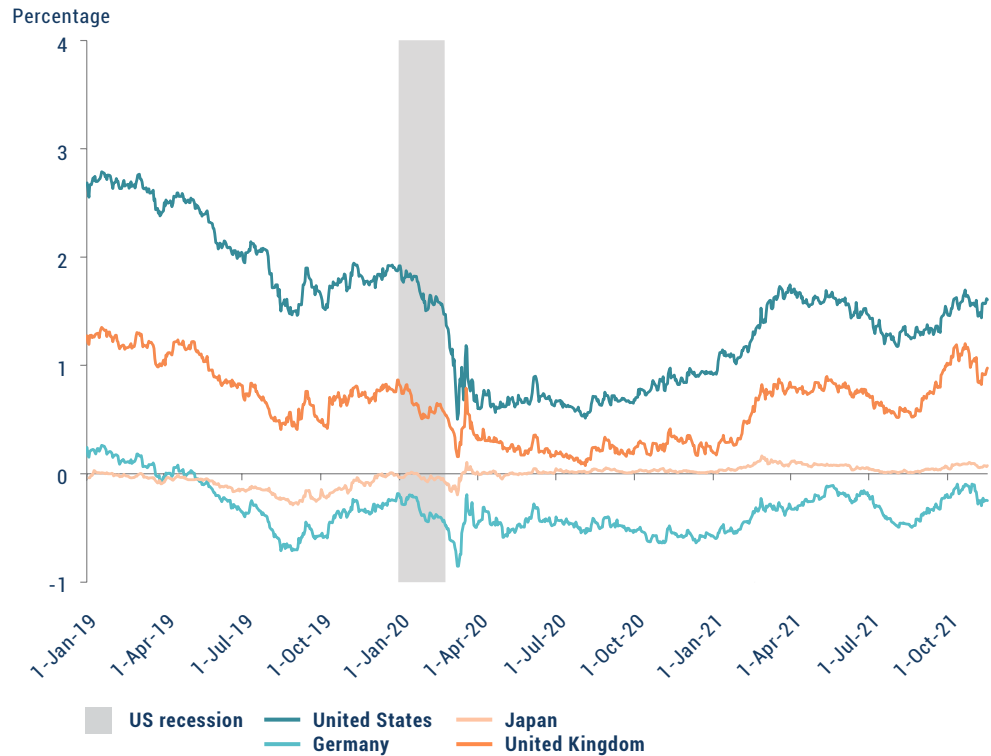


Source: Institute of International Finance.

The prospect of the gradual withdrawal of monetary support has pushed up longer-term government bond yields in developed economies from a very low base (figure I.17). Yield spreads among major economies are projected to further widen as monetary policy paths diverge. In fact, while the emergence of the Omicron variant of COVID-19 has added a fresh bout of uncertainty, the Federal Reserve and the Bank of England are expected to tighten monetary policy relatively sooner and more aggressively than the European Central Bank and the Bank of Japan. Rising expectations of a faster-than-expected adjustment by the Federal Reserve have also pushed up the value of the dollar. The dollar index, which measures the value of the dollar against the currencies of six developed countries, increased by 7 per cent between January and November 2021, which shows persistently strong global demand for dollar-denominated assets. The dollar may appreciate even further if monetary conditions in the United States tighten, which will make the servicing of dollar-denominated external debt costlier for many developing countries and present significant challenges to debt sustainability.

Tighter financial conditions may trigger market corrections and undermine debt sustainability

Figure I.17
Ten-year government bond yields in selected developed economies



Sources: Federal Reserve, European Central Bank and investing.com.

The combination of low interest rates in developed countries, abundant global liquidity and prospects of economic recovery has resulted in lower volatility across asset classes. This has boosted risk appetite among investors, leading to a broad increase in the prices of risky assets. As a result, equity markets recorded significant gains in 2021. In the United States, for example, the major stock indices reached record highs. While this was also supported by strong earnings and rising profit margins, stock prices in the United States and several other countries appear to be significantly overvalued relative to long-term trends and fundamentals, exacerbating fears of market corrections in response to tighter financial conditions. An abrupt tightening of financial conditions could create large negative spillover effects for developing countries, including capital outflows and depreciation of domestic currencies, as experienced during the 2013 “taper tantrum”.

A changing policy landscape

Fiscal asymmetries are shaping recovery and development prospects

The pandemic underscored the critical importance of fiscal policy for fighting a catastrophic crisis and supporting recovery. Proactive fiscal policies or the lack thereof are playing decisive roles in how countries are managing the pandemic, mitigating its impacts and supporting recovery. Yet enormous fiscal asymmetries and financing gaps across countries are leading to profound differences in vaccination progress, financial support to firms and households, and economic recovery prospects. While developed countries have deployed large fiscal packages, developing countries, especially low-income countries, struggle with enormous fiscal challenges. Many are at risk of a sovereign debt crisis. This fiscal and financing divide is contributing to sharply divergent prospects for recovery and, at the same time, preventing effective containment of the pandemic and endangering economic recovery globally.²³

In developed countries, massive fiscal stimulus packages have played a crucial role in containing the crisis and supporting ongoing recovery (Gourinchas and others, 2021). Loose monetary policy and expanded central bank balance sheets have allowed governments to borrow at low costs while reducing debt-servicing costs and rollover risks. As the pandemic becomes more contained, priorities are shifting towards strengthening social protection and supporting long-term investments and productive capacities, such as in green energy and digital technologies, and enhanced research and development. Examples include the Next Generation EU recovery plan in the European Union and the Infrastructure Investment and Jobs Act in the United States.

Policymakers need to resist the temptation of a premature fiscal consolidation as previous crises have proven such a step to be self-defeating. In developed countries, for example, fiscal consolidation after the global financial crisis had strong adverse effects on growth, resulting in even higher debt-to-GDP ratios (Fatas and Summers, 2018). Fiscal measures should continue to focus on essential pandemic-related expenditures, provide relief to the most vulnerable and support employment growth, with strategies broadly aligned towards supporting sustainable development. The composition of fiscal outlays should take a strategic approach, such as by boosting public investments in physical and digital infrastructure that can crowd-in private investments, and through targeted fiscal incentives to promote decarbonization, renewable energy and innovation. Investments in human capital, education and public health care should remain priorities.

Pressures for fiscal consolidation will intensify, especially in developing countries. Faster-than-expected monetary tightening in the United States would have severe implications for fiscal positions, especially as the recent rise in public debt has increased the vulnerability of fiscal policy to higher

Proactive fiscal policies are essential to mitigate the pandemic

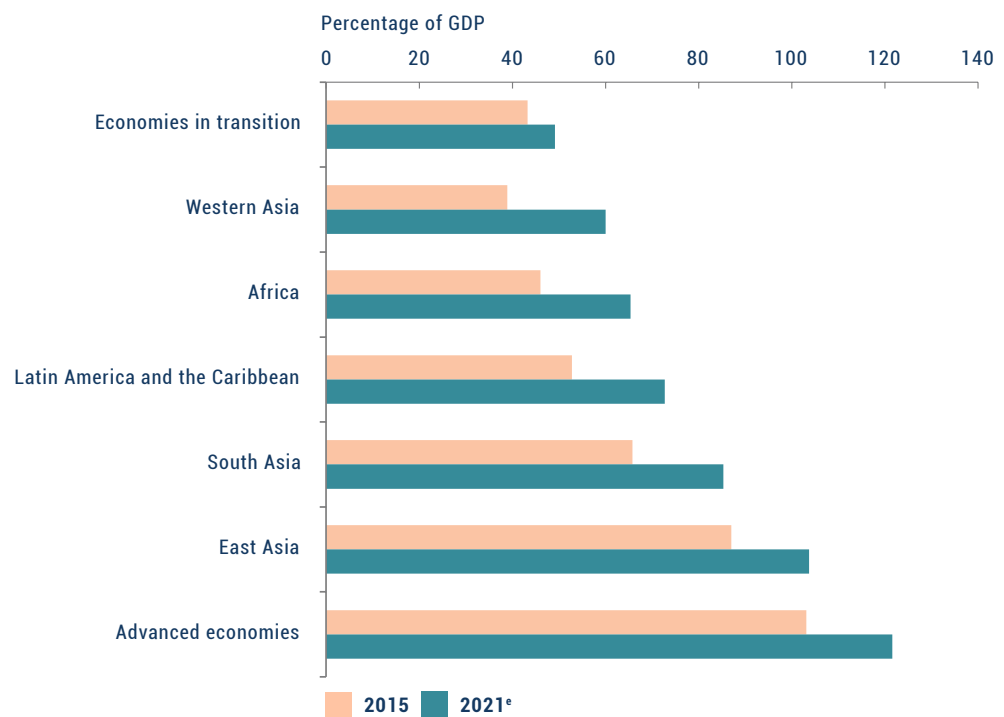
Fiscal stimulus packages are supporting recovery in developed countries

Premature fiscal consolidation would be very costly for recovery...

²³ History generally shows that government capacity to issue debt is crucial in tackling emergencies, including wars, economic and financial crises, and pandemics (Eichengreen and others, 2021).

debt-servicing and rollover costs. Countries will need to assess their fiscal rules and establish credible debt sustainability frameworks. In the medium-term, addressing debt sustainability will require a combination of fiscal restraint when appropriate, robust growth and moderate inflation, according to country-specific circumstances. Countries with unsustainable external debt need fast and coordinated international support for debt relief.

Figure I.18
General government gross debt



Source: IMF World Economic Outlook Database.

Note: e = estimates.

...but limited fiscal space constitutes a major constraint in developing countries

Many developing countries lack the fiscal space to effectively address the shock of the pandemic much less invest in sustainable development. Countries in Africa and Latin America entered the crisis with weak fiscal positions, which constrained their ability to pursue stimulus measures, roll out vaccination and expand social protection. Amid higher public debt, lower fiscal revenues and tightening global conditions, developing countries now face rising pressures for consolidation (figure I.18) even as escalating debt-servicing costs are already diverting resources from public investments and the COVID-19 response. In addition, most developing countries lack fiscal capacities for dealing with mounting climate risks. Enlarging fiscal space, in the short term, will require further international

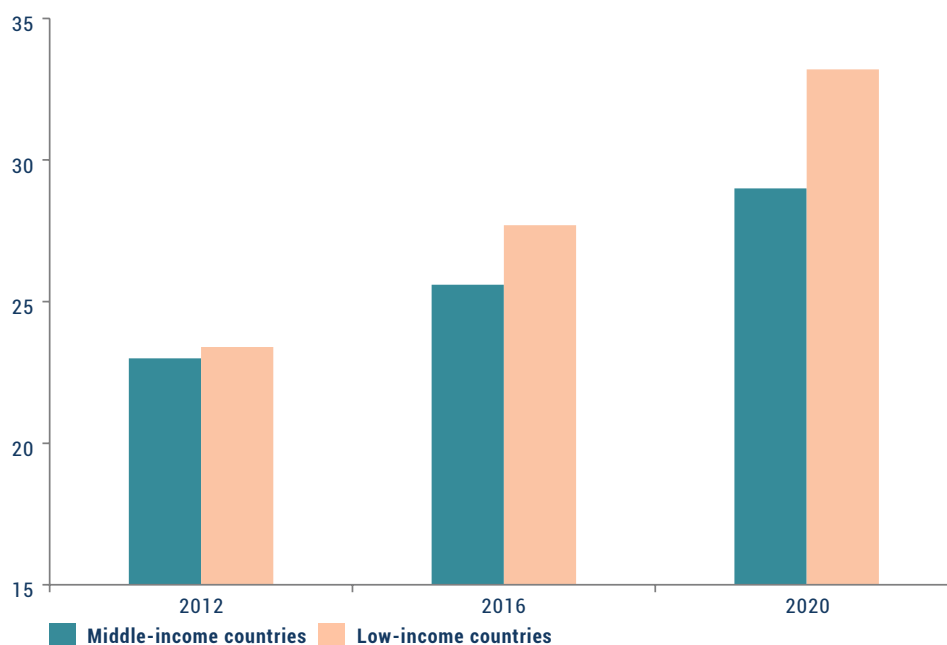
support, including increased liquidity, debt relief and concessional financing.²⁴ In the medium term, though, greater fiscal space depends on strengthening tax revenues through progressive taxation and establishing a multilateral mechanism for debt restructuring.

The fiscal and debt situation is extremely difficult in low-income developing countries. Nearly half are in debt distress or at risk of it (IMF, 2021a). Elevated external debt burdens (figure I.19), additional borrowing during the pandemic and increasing debt-servicing costs have pushed a rising number of these countries to the brink of a debt crisis. For more than half the countries in sub-Saharan Africa, debt-servicing costs account for a quarter of government revenue. Worryingly, many low-income countries have cut public investment and capital spending and have implemented major reallocations of resources from key development areas, including Cameroon, Liberia and Mauritania in Africa, Myanmar and Nepal in Asia, and some small island developing States such as Tonga and Samoa (IMF, 2021a). About two-thirds of low- and lower-middle income countries have cut education budgets since the onset of the pandemic (World Bank and UNESCO, 2021). Some estimates also suggest that the pandemic has impacted social spending on child protection, nutrition, and water and sanitation (UNICEF, 2021).

Low-income developing countries are in a very fragile fiscal and debt position

Figure I.19
External debt stock as a share of gross national income

Percentage



Source: World Bank International Debt Statistics, October 2021.

²⁴ Countries could also explore new avenues, like intragovernmental borrowing. Intragovernmental debt, or the difference between gross debt and net debt, is still very low in developing countries. Intragovernmental borrowing from government-owned pension funds and insurance funds can help to ease some financing constraints. This is a short-term solution that creates a critical long-term liability, however. Countries with weak revenues that consider using this option for financing investments that do not stimulate productivity and growth should proceed with caution.

Support from the international community to low-income countries has been insufficient

The international community's policy responses to the plight of low-income countries have been significant but not sufficient. The G20 Debt Service Suspension Initiative, which paused debt servicing to bilateral and multilateral creditors until December 2021, did not write off or reduce debt burdens and provided limited debt relief to low-income countries. Of 73 eligible countries, only 50 requested suspended debt servicing in 2020 and 2021. Many refrained from this option because they feared credit downgrades.²⁵ The initiative delivered an estimated \$12.7 billion in debt relief (G20, 2021) or about 23 per cent of debt repayments (IMF and World Bank, 2021). Moving forward, the Common Framework for Debt Treatment beyond the DSSI is an agreement between G20 and Paris Club countries to coordinate and cooperate on debt treatment for low-income developing countries. While this is a step in the right direction, including through its consideration of debt cancellations, it only applies to low-income developing countries.

The new allocation of Special Drawing Rights increases liquidity but does not solve financing challenges in developing countries

In August 2021, the International Monetary Fund (IMF) increased the allocation of Special Drawing Rights, distributing an extra \$650 billion among member States proportionate to their existing quotas. The least developed countries received 2.4 per cent of the new allocation, which is about 1.3 per cent of their GDP. While this is an important measure to enhance liquidity and ease financing constraints (box I.2), it is not expected to solve the financing challenges in developing countries. Even if the Special Drawing Rights are redistributed through IMF trust funds, a country can only access these additional resources through an IMF-supported programme that presupposes a balance of payments need. It is unclear whether additional Special Drawing Rights on the balance sheets of central banks can prevent exchange rate depreciation and minimize exchange rate risks if foreign reserves dwindle.

Box I.2

Strengthening the impact of Special Drawing Rights

Special Drawing Rights are an international reserve asset that the IMF can issue to supplement existing reserves required for addressing a long-term global crisis. Special Drawing Rights represent unconditional liquidity and are not considered a loan from the IMF. Once they are allocated, IMF member countries can hold them as part of their foreign exchange reserves or exchange them with other countries (or prescribed holders) for freely usable currencies. Contrary to wide belief, the IMF Articles of Agreement do not require Special Drawing Rights to be administered by countries' central banks. Fiscal agencies can decide on their use in accordance with national legal frameworks. Allocations are cost free, but use incurs an interest cost (currently 0.05 per cent) paid to the IMF on the difference between a country's cumulative allocations and its holdings. Countries with holdings that exceed their allocations receive interest payments on the difference from the IMF.

In August 2021, the IMF issued a historic new allocation of Special Drawing Rights, equivalent to \$650 billion. Several countries with strong external positions have expressed interest in a voluntary

²⁵ Strikingly, 35 of the 37 beneficiaries of the Heavily Indebted Poor Countries Initiative are now on the list of the Debt Service Suspension Initiative. These countries received bilateral debt relief during the first decade of the twenty-first century only to return to the same debt crisis situation a decade later, illustrating the systemic nature of debt problems in the developing world.

channelling of these to countries most in need while preserving their reserve asset characteristics. In their June 2021 Carbis Bay Communiqué, Group of 7 (G7) countries called for a total global reallocation of \$100 billion. Three mechanisms are currently under discussion to address both immediate liquidity needs and longer-term financing requirements for sustainable development.

A first option is the donation or on-lending of Special Drawing Rights through the IMF Poverty Reduction and Growth Trust, which facilitates concessional lending for low-income and other vulnerable countries through IMF programmes. It allows lending countries to earn the interest rate on the Special Drawing Rights, thus offsetting the cost of a deficit in their accounts. A reserve account covers the credit risk associated with on-lending. Lenders can also seek early repayment if needed, allowing on-lent Special Drawing Rights to retain their reserve asset characteristics. Some countries have already channelled their existing allocations this way, which tripled the concessional lending capacity of the IMF in 2020 (Georgieva, 2021).

As a second option, the IMF is developing a new Resilience and Sustainability Trust to channel Special Drawing Rights towards affordable long-term financing for low-income countries, small island developing States and vulnerable middle-income countries, with a focus on tackling the climate crisis. This is in line with calls from the United Nations Secretary-General to establish a new trust fund at the IMF to address the needs of such countries (United Nations, 2021a). The design of such a trust could include safeguards to cover interest payments and credit risk, similar to those of the Poverty Reduction and Growth Trust, and preserve the reserve asset characteristics of Special Drawing Rights.^a The facility should be finalized quickly and ensure broad accessibility to low- and middle-income countries.

A third option is to channel Special Drawing Rights through new or existing trust funds at multilateral development banks and/or regional development banks, which are already prescribed holders of Special Drawing Rights. Such funds have or could develop financial mechanisms to allow the Special Drawing Rights to retain their reserve asset characteristics, based on the model of the Poverty Reduction and Growth Trust. These funds could leverage new resources for sustainable development, including near-term needs such as vaccine purchases and longer-term sustainable development priorities. Some of this new financing could be channelled through national development banks to leverage their local knowledge and expertise.

While these options can provide much needed additional financing, they should do so at a zero or minimal interest rate to minimize additional debt burdens for developing countries. Further, they should not be subject to onerous conditions, including for fiscal consolidation, which would hamper a sustainable recovery and risk further long-term economic damage. Given the enormous financial needs in confronting the pandemic and supporting recovery, countries in a position to channel their excess Special Drawing Rights should act quickly. Crucially, this should not crowd out official resources for development cooperation, such as official development assistance.

^a In their October 2021 Communiqué, the G20 finance ministers and central bank governors endorsed the establishment of such a mechanism and called on the IMF and World Bank to collaborate closely to develop and implement financing under the new trust.

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Gearing up labour market policies and social protection

Policies supporting employment

Countries have implemented a variety of policies to minimize pandemic fallout on employment. Labour market policies, focusing on formal workers, were adopted or expanded. They comprised wage subsidies, reforms to labour regulations, shorter working-time arrangements and job retention schemes, along with active labour market policies to provide skills training and job placement support. Social safety nets expanded at a historic speed to assist vulnerable groups in the informal sector who are not covered by contributory social programmes. These introduced new temporary benefits, expanded the coverage and generosity of existing benefits, and changed eligibility criteria.²⁶ Demand-side measures aimed at increasing liquidity for firms and providing tax relief and credit facilities, often through deferrals of taxes on income and profits or postponement of the payment of value added taxes.

Supporting job creation is critical to avoid long-lasting scars from the pandemic

While there is still uncertainty around the magnitude, scope and durability of changes in labour markets, the pandemic will likely have long-lasting effects on employment. Making recovery inclusive hinges on speeding up job creation and the placement and reallocation of workers. Policymakers should not underestimate the role of fiscal and labour market policies in this. Continued fiscal support is required to sustain social safety nets for those who remain in need. Measures to ensure workplace safety must accompany steps to ramp up employment programmes, create incentives for hiring and enact active labour market policies.

Job retention schemes have prevented a further rise in unemployment in developed countries, especially in Europe. Developing countries have focused on policy measures like shorter working-time arrangements and changes in labour regulations. In Latin America, Colombia, Costa Rica and Peru reduced working hours or wages and instituted advance annual leave or even temporary work suspensions (Blofield and others, 2020). Argentina, Brazil and Chile provided wage subsidies to employers and workers to retain jobs and provide income stability. Low-income developing countries were proactive in implementing regulatory changes and shorter working hours while wage subsidies were less common due to budgetary and financing constraints.

Public employment services should target women, youth, migrants and low-skilled workers

As vaccinations progress and mobility increases, countries need to expand active labour market policies. These could include support to small and medium enterprises, targeted sectoral policies, active promotion of employment, assistance in job searches, and skills training through investment in public employment services, with a focus on youth, women, migrants, and low-skilled and self-employed workers. Active labour market policies can advance the reallocation of workers into sectors with growing job opportunities, improve the acquisition of new skills and generate better matches between jobs and jobseekers. These policies can also help the labour market reintegration of groups

²⁶ About 186 countries have implemented 734 conditional or unconditional cash transfer programmes, the most utilized social protection response during the pandemic and particularly important for low-income countries (Gentilini and others, 2020).

that suffered disproportionate displacement. Previous evidence confirms the potential of these policies in labour market recovery.²⁷

Governments need to take proactive measures to incorporate gender dimensions across social protection and labour market policies. Initiatives might include reforms to unemployment benefits, better targeted and designed training programmes, specific hiring incentives and increased availability of childcare. Canada, Switzerland and Mexico have undertaken institutional coordination and information sharing to advance gender-inclusive policies that improve women's employment and income prospects, reduce the unequal distribution of unpaid care responsibilities and address gender-based violence. Support to specific sectors where women are overrepresented should also be considered, for example, hospitality, essential services and social care.²⁸

To make employment programmes more effective, public employment services should use skills demand and supply surveys to understand and cater to labour market needs. Services and firms need to work together to assess needs for skills and design training programmes accordingly for those who are un- and underemployed. Enhancing efforts to assess changing demands and provide targeted reskilling programmes can help avoid skills mismatches that may occur due to structural changes, like digitalization and automation, or those caused by the pandemic. Many countries are currently working on redesigning public employment services. In Europe, Austria has established comprehensive, long-term measures aimed at workers who lost jobs during the pandemic. France and the United Kingdom plan to expand services focusing on young people by increasing front-line staff in public employment services.

Social protection to build resilience

Social protection systems are essential to resilience as amply demonstrated during the pandemic. Yet the extent to which new social assistance policies will persist in developing countries is largely uncertain. Governments will need to expand public revenues and mobilize financial resources in the medium term to strengthen social protection systems. The pandemic has led to some important policy innovations, for example, in the delivery of social assistance in urban areas and through accelerated crisis preparedness. These offer insights that could be applied to more comprehensive and integrated social protection systems moving forward. Adaptive social protection offers an integrated approach that combines traditional social protection with disaster risk management and climate change adaptation. It can help to build resilience in vulnerable households before, during and after shocks such as droughts, floods or pandemics. This constitutes a shift towards a more long-term approach centred on investing in the capacity of households to deal with and adapt to sudden crises.

Gender policy measures are essential for an inclusive recovery of employment

Expanding public revenue in the medium term is critical to strengthening social protection

²⁷ In OECD countries, active labour market policies have shown particularly positive effects in the long run, especially training programmes (Kluve, 2016).

²⁸ Previous analysis of the effectiveness of active labour market policies in Latin America shows that programmes focusing on women had better outcomes than those focusing on men (Ibarraran and Rosas, 2009; Kluve, 2016).

New technologies can help better identify social programme beneficiaries

Determining social programme beneficiaries requires up-to-date information on incomes and living situations. Since the onset of the pandemic, many countries have used innovative data-driven methods to find new ways to identify beneficiaries. For instance, Pakistan combined information on several factors to qualify nearly 100 million people for the Ehssas emergency cash programme, including assessments of household property, vehicles and telephone bills. Nigeria used a mixed approach blending census data and satellite imagery, processed with machine learning algorithms, to calculate the size and location of dwellings as part of determining poverty levels. These technology-enabled interventions expanded the reach of cash transfers compared to pre-pandemic levels (Gentilini and others, 2020).²⁹ Such innovations could create dynamic social registries that are updated throughout the year and can help quickly identify households in need in times of crisis.

Central banks deployed a wide range of monetary measures to support the recovery...

Global monetary policy responses to the COVID-19 crisis were extraordinary around the world. Central banks cut short-term interest rates, lowered reserve bank requirements, established new lending facilities, used forward guidance and changed their monetary policy frameworks. Major central banks such as the Federal Reserve, the European Central Bank and the Bank of Japan and some central banks in developing countries engaged in asset purchase programmes (see chapter 2). The Federal Reserve also temporarily expanded the number of countries that were offered swap lines from 5 to 14, including 4 developing countries. Such measures helped stabilize financial markets, reduce uncertainty and support the recovery.

...but as inflation gathers pace, monetary conditions are expected to tighten quickly

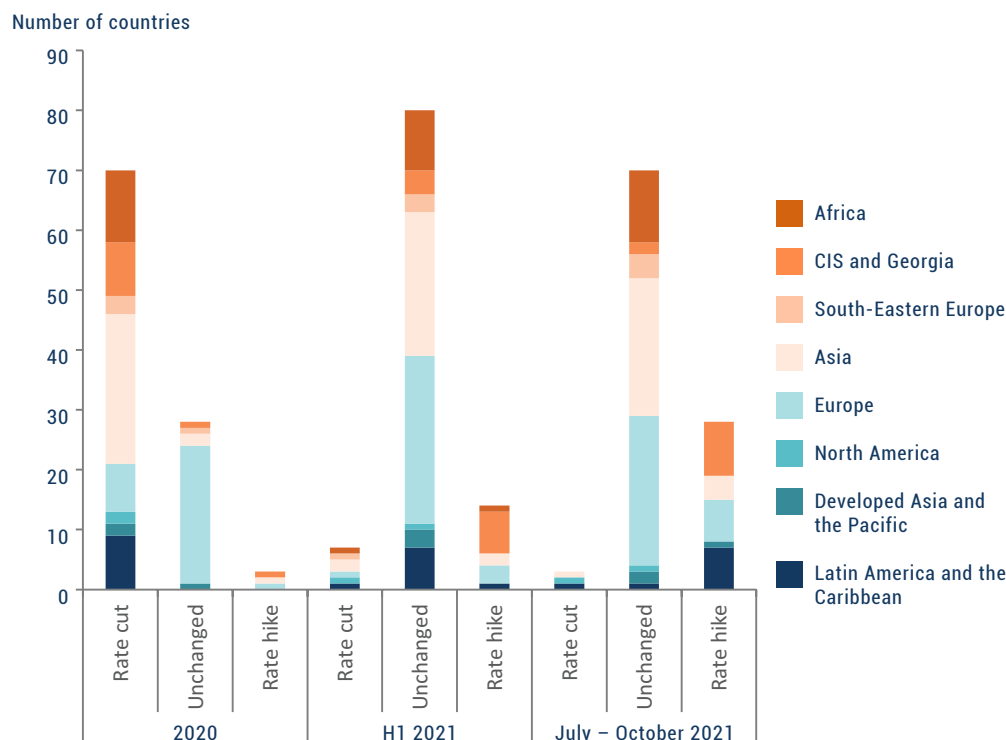
As economic activity gathers pace and inflationary pressures gain momentum in the United States and many developing countries, exceptionally accommodative monetary policy stances are gradually shifting. A few major central banks have announced plans for or started gradual normalization. The Federal Reserve, for example, initiated the tapering of its asset purchase programme by the end of November 2021 while the Bank of Canada scaled back its programme even earlier.³⁰ Changes in monetary conditions have been rapidly gaining steam in developing and transition economies especially since the second half of 2021 (figure I.20). Central banks have increased interest rates in a growing number of countries, including Brazil, Chile, Hungary, Mexico, the Russian Federation and South Africa.³¹ In 2021, a few central banks, for example in Brazil and the Russian Federation, took drastic measures, increasing interest rates by 725 and 325 basis points, respectively.

²⁹ Other approaches, such as the use of electricity consumption data in Guatemala or a voter database paired with satellite image data and phone records in Togo, also showed encouraging early results.

³⁰ The European Central Bank and the Bank of Japan have not yet signalled changes in their policy stances as of December 2021.

³¹ One of the few exceptions is Turkey, where the central bank cut interest rates by 2 percentage points in October 2021, prompting a significant depreciation of the domestic currency.

Figure I.20
Central bank interest rate decisions, 2020 and 2021



The shift in monetary policy support is a major challenge for the world economy amid a still raging pandemic, elevated levels of sovereign and private sector debt and record-high stock market valuations in developed countries. The challenge that monetary policymakers face is exacerbated by the difficulty in assessing trade-offs between growth, employment and inflation, given the significant and simultaneous impacts of the crisis on labour markets, global supply chains and potential output.³² In addition, the trajectory of inflation is surrounded by major uncertainties associated with the pandemic, the rapid spending of accumulated savings and changes in consumption patterns. Supply-chain problems seem to be intensifying inflationary pressures as supply has not kept up with the release of pent-up demand in many sectors.

In particular, the Federal Reserve faces the challenge of scaling down its asset purchase programme. It must ensure appropriate timing and pacing to maintain global financial stability and prevent premature fiscal consolidation. The recent rise in inflation has raised serious concerns in the United States that this could become a longer-term phenomenon. If that proves to be the case, faster-than-expected

Amid rising inflation and persistent slack in labour markets, monetary policymakers face major challenges ahead

³² The uneven impact of the COVID-19 pandemic across sectors and the massive reallocation of resources further complicates assessment of overheating points. Guerrieri and others (2021) discuss how a desire to facilitate the reallocation process can lead to favouring a more expansionary monetary policy because higher inflation can facilitate the adjustment of relative wages and provide the right price signals to encourage mobility.

monetary tightening, with the Federal Reserve raising interest rates several times throughout 2022, could derail recovery at a time when the economy is still operating with 6 million fewer people in the labour market. It could also trigger global financial turmoil, including large corrections in asset prices. For many developing countries, a sudden rise in interest rates could trigger capital outflows and worsen their growth outlook and debt situation, especially those with elevated foreign-denominated external debt.

Developing countries should prepare for monetary tightening in the United States

In developing countries, monetary policy normalization needs to proceed with caution. Where economic activity is on a relatively robust trajectory and vaccination rates are elevated, central banks may act to tame rising inflationary pressures. Yet overly aggressive tightening could undermine the recovery of employment. Developing countries should also prepare for a faster-than-expected monetary adjustment in the United States, for example, by limiting maturity mismatches in their balance sheets. Foreign exchange interventions and temporary capital controls can help strengthen the capacity of monetary policy to respond to country-specific inflation and growth dynamics.

Multilateralism in a world of crises

Reinvigorating multilateralism remains essential to confronting the health and climate crises

The pandemic has been a stark reminder that the world must remain united and respond collectively to global crises. The need for a well-functioning multilateral system is more evident than ever. Yet vast disparities in vaccine roll-outs between developed and developing countries, limited progress in tackling mounting climate risks and inadequate commitments to addressing debt challenges show that multilateralism falls short of effective responses to global challenges. Ongoing crises are exacerbating development asymmetries and increasing inequalities, worsening the health and climate emergencies, and making progress towards the 2030 Agenda for Sustainable Development more difficult if not impossible. Reinvigorating multilateralism will determine whether the world can get back on a track towards sustainable development. The draft Doha Programme of Action for the least developed countries addresses these issues and requires comprehensive action by all stakeholders to ensure that these most vulnerable countries are not left behind.³³

Addressing intellectual property issues would strengthen the global vaccine supply

Developing countries, especially low-income countries, continue to face enormous hurdles in securing access to vaccines. Realizing an agreed target to vaccinate 70 per cent of the global population by mid-2022 (WHO, 2021) requires accelerated vaccine redistribution. Countries with high volumes of vaccines must provide doses to low- and lower-middle-income countries through swaps delivery schedules with COVAX and the African Vaccine Acquisition Trust, fulfil donation pledges and release manufacturers from previous contracts so they can channel doses to countries with low vaccination rates. Other crucial elements are the elimination of trade restrictions on exports of medical equipment, raw materials and vaccines, and the expansion and diversification of the global vaccine supply

³³ On 21 December 2021, the Preparatory Committee approved the draft Doha Programme of Action for the least developed countries and decided to recommend it to the Fifth United Nations Conference on the least developed countries for adoption.

chain.³⁴ The multilateral system needs to address intellectual property and technology transfer issues as a priority. Absent a clear path to approve and scale up the production of new vaccines, enacting intellectual property waivers remains the best option to improve supplies.

Climate change poses an urgent global challenge requiring highly ambitious actions on mitigation and adaptation. In August 2021, the Intergovernmental Panel on Climate Change issued its Sixth Assessment Report (IPCC, 2021a). It provides stark warnings of increasingly extreme heatwaves, droughts and flooding, among many other forms of climate fallout.³⁵ In November 2021, the 26th Conference of the Parties to the United Nations Framework Convention on Climate Change concluded with significant new commitments to climate action intended to move towards net-zero emissions in the next few decades. Led by the European Union and the United States, over 100 countries pledged to reduce methane emissions by 30 per cent by 2030. Backed by \$19.2 billion in public and private funding, 100 countries agreed to end and reverse deforestation by 2030. India set a goal of reaching net-zero emissions by 2070 and ensuring renewable energy makes up 50 per cent of its energy mix by 2030. China promised to reduce its methane emissions this decade. In total, net-zero commitments now cover 80 per cent of total emissions, but even so, pledges fell short of keeping warming below 1.5 degrees Celsius, considered the threshold for avoiding the worst consequences of climate change. Global temperatures are estimated to rise from 1.8–2.7 degrees Celsius by the end of the century, depending on the implementation of announced targets (Climate Action Tracker, 2021). In terms of net-zero goals, only Chile, Costa Rica, the European Union and the United Kingdom have adequately designed targets.³⁶

To avoid the worst damages from global warming, the world needs to halve global carbon emissions by 2030 and reach net-zero emissions by 2050, yet it is uncertain that countries will do what is necessary before the climate crisis becomes unmanageable. There are significant risks that climate change could push 132 million more people into poverty in the next decade and displace more than 216 million individuals by mid-century (World Bank, 2021b). Climate impacts on essential infrastructure could be enormous, especially for the most vulnerable countries, including the small island developing States.³⁷ Accelerated capacity building and adaptation of infrastructure will be critical.³⁸ Progress will largely

The world is falling short on climate action despite commitments to reduce carbon emissions

Climate impacts on infrastructure could be enormous for small island developing States

³⁴ The 12th World Trade Organization Ministerial Conference offers an opportunity for member States to achieve more rapid vaccine production and more equitable distribution.

³⁵ The report projects that, depending on the scenario, a mean global temperature increase of 1.5 degrees Celsius relative to pre-industrial times will likely be reached by 2040. If emissions are not slashed in the next few years, this temperature rise may be realized even earlier.

³⁶ Of major importance is the EU Climate Law, which entered into force in July 2021. It sets a binding objective of climate neutrality in the European Union by 2050 and a binding target of reducing net domestic greenhouse gas emissions by at least 55 per cent compared to 1990 levels by 2030. The law also envisages strong action on climate change adaptation and resilience-building as well as related stocktaking, assessment and review, starting in 2023.

³⁷ In many small island developing States, critical infrastructure assets are at high and growing risk of climate change impacts such as coastal flooding from as early as the 2030s (Monioudi and others, 2018; IPCC, 2018).

³⁸ Recent research emphasises the role of resilient infrastructure as “a lifeline for sustainable development”, with large net benefits of investing in more resilient infrastructure in low- and middle-income countries (Hallegatte and others, 2019).

depend on better access to affordable financing, which should favour more grants over loans to avoid increasing already onerous debt burdens.

Debt relief measures for low-income countries remain insufficient to confront the pandemic and support the recovery

For many developing countries with unsustainable debt levels, a comprehensive approach to debt relief is needed. This includes plans for timely and orderly debt restructuring. The “doing too little, too late” approach has proven harmful in previous crisis, delaying recoveries, fuelling unsustainable social tensions and raising the cost of debt restructurings. Since debt relief efforts have been insufficient, many countries are facing unbearable trade-offs between servicing debt, containing the crisis and promoting recovery.

The Common Framework for Debt Treatments beyond the DSSI agreed by G20 and Paris Club countries could kickstart a more permanent and comprehensive debt restructuring mechanism. But some aspects need further consideration. Only low-income countries are eligible to participate, even though many middle-income countries also need urgent debt relief. In addition, there is no clear mechanism to ensure the participation of private creditors, who account for a large share of creditors in many countries (figure I.21). Many countries also hesitate to join the Common Framework due to the fear of triggering technical defaults or sovereign rating downgrades, which would in turn raise borrowing costs and limit access to financial markets.³⁹ Finally, the Common Framework lacks commitments by creditors and debtor countries to align newly found fiscal space with agreed climate and development goals.⁴⁰

A new accord to reform the international tax system aims at reducing tax avoidance by large multinational firms...

In 2021, 136 countries reached a landmark accord to reform the international tax system, a major policy development geared towards reducing tax avoidance.⁴¹ The agreement aims to redistribute a share of the profits of the 100 largest multinationals to increase tax revenues in countries where firms earn their profits. It applies to multinationals with global sales above 20 billion euros and profitability above 10 per cent. The new rules stipulate that 25 per cent of residual profits (profit beyond 10 per cent of revenue) will be allocated to market jurisdictions. The OECD has estimated that up to \$125 billion in profits could be reallocated to more than 130 countries a year by 2023 (OECD, 2021b). The agreement also commits to introducing a global minimum corporate tax rate of 15 per cent for firms with revenues above 750 million euros to minimize their use of tax havens and low-tax jurisdictions. As such, it helps to reduce race-to-the-bottom tax strategies.⁴² The agreement is expected to increase global tax revenue by \$150 billion annually.

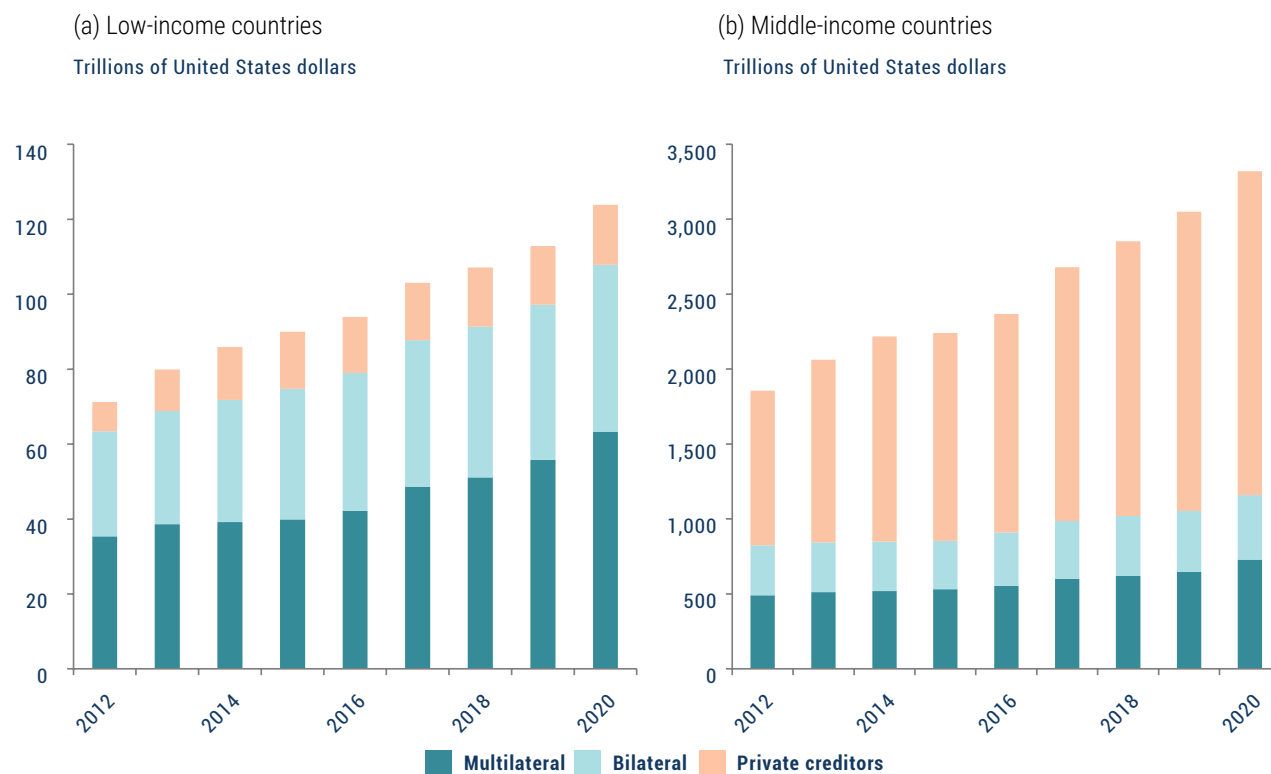
³⁹ As of November 2021, only three countries (Chad, Ethiopia and Zambia) had requested to participate in the Common Framework.

⁴⁰ This is an important issue as climate vulnerable countries pay higher costs to service their debt and climate risks increase sovereign risks (Volz and others, 2020).

⁴¹ Estimates suggest that governments forego about \$240 billion annually through multinational practices such as base erosion and profit shifting (OECD, 2021c).

⁴² Between 1985 and 2018, the global average corporate tax rate fell from 49 per cent to 24 per cent; estimates suggest that about 36 per cent of multinational profits are shifted to tax heavens (Torslov, Wier and Zucman, 2021).

Figure I.21
Public and publicly guaranteed external debt, by creditor



Source: World Bank, International Debt Statistics, October 2021.

While this agreement represents a commitment to reforming the status quo in global taxation, it still has major shortfalls that need to be fixed so that benefits reach developing countries and not just a few large developed economies. A 15 per cent global minimum corporate tax sets the bar too low, for instance, and potentially makes this a global standard. This would particularly affect developing countries that rely relatively more on corporate taxes as a source of government revenue.⁴³ Further, the main beneficiaries will likely be a small number of developed countries with existing multinational headquarters, undermining the principle of fairness assumed to underlie the accord (ICRICT, 2021). Developing countries in fact stand to lose out due to its allocation principles and absence of dispute resolution mechanisms. In response, the Group of 77, representing 134 developing countries, has reiterated its long-standing call to establish a global tax body within the United Nations. It could spearhead further reforms to tax regulations globally through transforming the United Nations Committee of Experts on International Cooperation in Tax Matters into an intergovernmental forum (Ocampo, 2021).

...but most beneficiaries will likely be a few large developed countries

⁴³ A report by the Tax Justice Network (2021) highlights that developed countries lose more in absolute terms due to corporate tax abuse by multinationals but that the relative hardship caused by these practices is much higher in poorer countries. Losses due to corporate tax abuse in low- and lower-middle-income countries account for 48 per cent of their public health budgets, while in high- and upper-middle-income countries they account for 10 per cent.