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The Risks and the Opportunity of post-Covid Recovery

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THE DEVELOPMENT DIMENSION

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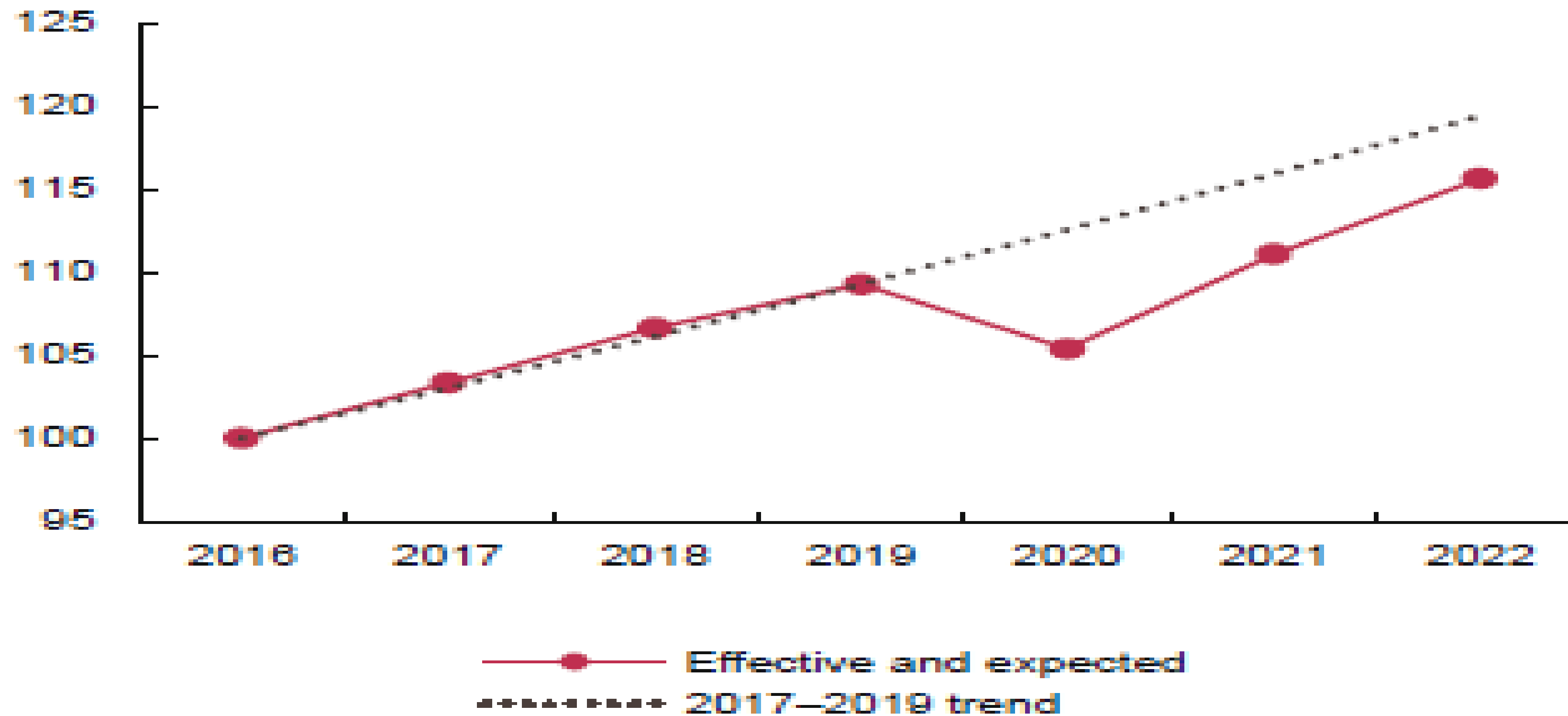
The 2021 rebound and the risks of apparent success

- 5.3% growth of the global economy, the highest rate in the past 50 years
- 9.5% increase in global trade
- Recovery in labour markets
- A wave of sovereign defaults has been avoided
- Political will can deliver tangible gains

- "*Building back, better*"

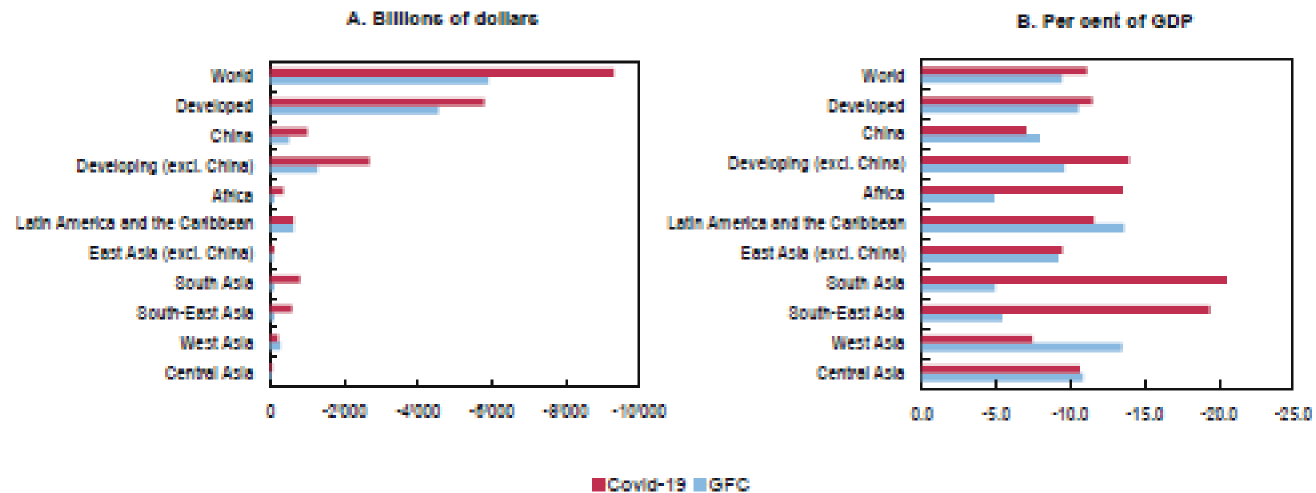
Being misled by short-term success



Risk 1. Complacency of the 2021 rebound

- Even barring significant setbacks, global output will only resume its 2016-19 trend by 2030.
- This fact conceals the deeper problem that the pre-COVID-19 income growth trend was itself unsatisfactory.
- Average annual global growth in the decade after the GFC was the slowest since 1945.
- 2022: global growth to slow to 3.6%, leaving world income still 3.7% below where its pre-pandemic trend would have put it.
- Recovery has been highly uneven across geographical, income and sectoral lines.

Fragmented and fragile recovery: economic impact



Across the world, but particularly in developing regions, the damage from the COVID-19 crisis has been greater than that from the global financial crisis (GFC), most notably in Africa and South Asia.

Scale of monetary and fiscal maneuver differs vastly between advanced ad developing countries

Globally, 2007 and 2020 are very different contexts).

Fragmented and fragile recovery: inflation

Inflation is a structural, not a monetary phenomenon, and it has a differential effect on countries.

In advanced economies, after decades of declining wage share, real wages need to rise well above productivity for a long time before a better balance between wages and profits is achieved again.

Rising food prices could pose a serious threat to vulnerable populations in the South, already financially weakened by the health crisis.

The real risk of temporary price hikes caused by unsynchronized supply and demand side pressures may become excuses to reverse policies required to sustain recovery in advanced economies.

Timid policy, backsliding and reversal to austerity could pull growth down further.

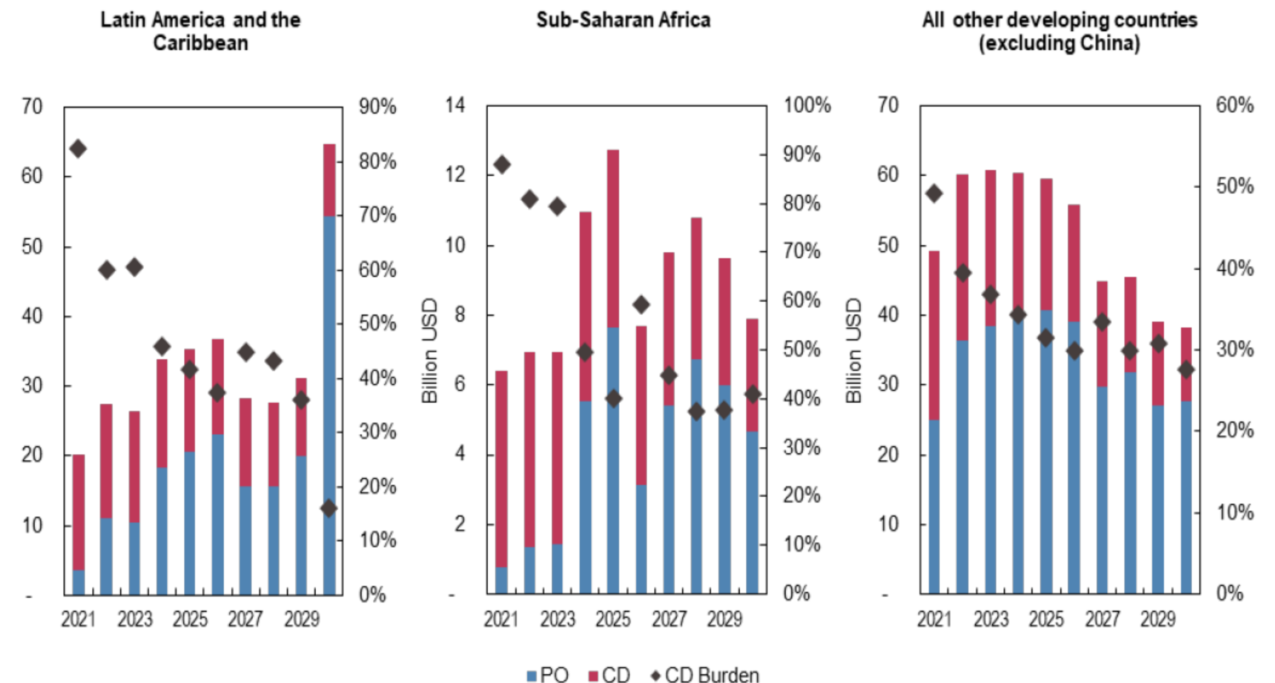
Fragmented and fragile recovery: debt

- Although spiraling sovereign debt crises were avoided in 2020/2021, developing countries’ external debt sustainability deteriorated further.

- Higher interest rates could spark a run-o developing country assets; while balance-of-payments problems persist.

- External solvency and international liquidity constraints suggest that many developing countries remain vulnerable to financial crises and face a lost decade

Figure 6: Sovereign bond repayment profiles, selected regions, 2021–2030
(Billions of current United States dollars (left scale) and percentage of total debt service (right scale))



PO= Principal outstanding and maturing. CD=Coupon disbursement (left-hand side).
CD Burden = Coupon disbursement burden (percent of total debt service, right-hand side).

Risk 2. Misdiagnosing the nature of the pandemic-induced crisis

"The pandemic is an unanticipated, exogenous shock"	"The pandemic is an externally triggered crisis of the system"
• It is short-term and external to the economy	It is complex, being exacerbated by unresolved problems of the global economic system
• Requires firefighting measures (fiscal, monetary, international)	It requires multilateral reforms that would address the inequities of the pre-pandemic era.
• Once the pandemic is over, policies should return to 'normal.'	There is no 'normal' to return to if we want a sustainable future and resilient economy

Risk 3. Missed opportunities

2010-11: The world missed the opportunity to reform the international financial system and the global economy.

As a result, not only the impact of the pandemic has bene aggravated by the legacy of the GFC, but we are all weaker in its aftermath.

2021: Our vision for a set of reforms is system-wide.

At its core is the premise that you cannot separate finance from development;

and you cannot separate both from the environmental challenge.

Green structural transformation:

Proactive government policies and effective regulations.

Green financial instruments.

Green industrial policy.

State-society relations that not only break existing fossil-fuel interests but also establish clear rules and mechanisms of accountability .

Embeddedness. The close relationships between private actors and government officials that can ensure a mutual exchange of information and common understandings.

Financing green development state

Given the scale of adaptation needs and the fact that those who suffer the most are the least responsible for the cause of the problem and least able to pay for them, advanced economies will be the main source of finance.

Domestic resource mobilization will need to be strengthened, including through more active Central Banks and dedicated public banks.

A climate conscious developmental state must catalyse a public investment-led strategy of diversification.

Locally-led climate finance efforts need to be driven by principles that ensure the most effective way of responding to governance and climate challenges and risks, including:

i) community-led planning anchored within existing devolved institutions, which promotes
ii) social inclusion of climate marginalized people;

iii) a process that is flexible and adaptive management towards the creation of resilience investments, with

iv) an emphasis on public goods provisioning.

Financing climate-constrained development: beyond de-risking

The complexity of systemic risks requires the state to become a regulator and coordinator of private green finance and not simply serve to “de-risk” the opportunity for others to make profit and take more than their share of the benefit.

As Central Banks around the world were able to help support governments directly during the Covid pandemic, they can follow this path to support climate-related investments.

Central Banks could do more to discontinue support for carbon-intensive and maladaptive activities which means a change in the current programmes that continue to give financial support to fossil fuel industries.

In addition to properly regulating the financial sector, Central Banks should also use a fuller range of tools to create and guide finance to green activities.

Collateral policy is one of the main tools towards greener central banking: central banks should adjust their collateral regulations and accept financial institutions’ green bonds as collateral.

International finance

- International trade and financial systems are not geared to supporting structural transformation, particularly in developing countries.
- ODA commitment and pledges need to be met and go further. Grants and extremely concessional loans ae essential for adaptation.
- Debt relief and debt restructuring for developing countries should be placed firmly on climate agenda.
- Multilateral development banks need additional capital to support green investments and economic diversification.
- Green bond markets can help raise long-term financing. Due to lagging regulatory framework, greenwashing is rife.
- Therefore, regulatory framework for the green bond market needs to be supported by corresponding levels of financing and staffing, at national and international levels.

International Trade

There is a need to align special differential treatment and common but differentiated responsibility for a development-oriented approach to trade includes two key steps.

1. Widening non-reciprocal SDT measures to expand policy space for climate and development initiatives. Legal tools (waivers and peace clauses can help diminish the number of restrictive rules and expand policy space).
2. International community could support initiatives to transform rules governing IP rights, with a view to expand TRIPs flexibilities for developing countries in relation to climate-relate goods and services.
3. This can serve as a basis for innovating mechanisms for promoting access to patent-protected green technology.
4. Open-sourcing of key green technologies as global public goods and South-South cooperation on low emission research and design.

- The scope of our proposals is system-wide.
- It needs international corporation and effective multilateral effort to be effective, and we do not underestimate this challenge.
- But the dangers of ‘returning to normal’ are serious.

In a sobering parallel to 1944-1945, there is no ‘normal’ to return to.

Let us not make resilience and growth “luxuries for the few.”

“These widening gaps, both domestic and international, are a reminder that underlying conditions, if left in place, will make resilience and growth luxuries enjoyed by fewer and fewer privileged people.

Without bolder policies that reflect reinvigorated multilateralism, the post-pandemic recovery will lack equity, and fail to meet the challenges of our time.”

Rebeca Grynspan, the secretary-general of UNCTAD.

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