GLOBAL TRENDS AND PROSPECTS: POSITIVE VIBRATIONS OR WAITING IN VAIN?

A. Introduction

At this writing, eighteen months have passed since the Covid-19 outbreak was declared a pandemic by WHO. It has tested the responsiveness of governments and the resilience of economic systems everywhere; it has changed social behaviour and personal habits in ways previously unthinkable. The dedication of essential workers has shone through dark times, while the scientific community has harnessed the power of collaborative research and public money to develop a vaccine at breakneck speed.

At the same time, the pandemic has exposed just how unprepared countries, including the wealthiest, are for unexpected shocks, a point underscored by a series of extreme weather events this year, and just how deeply divided the global economy has become. Four decades of eroding government services, heightened inequalities, unchecked financialization and impunity for financial and corporate elites have taken their toll.

On the economic front, the dramatic collapse of output, as countries locked down to contain the spread of the virus, was so dramatic as to trigger unprecedented responses. Massive Central Bank action in rich countries stabilized financial markets and unparalleled (at least in recent times) government spending cushioned firms and households against the worst of the downturn. A global recovery began in the second half of 2020, as countries adopted less draconian ways to manage the health risks, and is still unfolding, even as regional and country prospects vary widely amid disparities in fiscal space, new virus variants and uneven vaccination rates.

Global growth is expected to hit 5.3 per cent this year, the fastest in almost half a century, with some countries restoring (or even surpassing) their output level of 2019 by the end of 2021. The global picture beyond 2021, however, remains shrouded in uncertainty.

Next year will see a deceleration in global growth but for how long and by how much will depend on policy decisions, particularly in the leading economies. Even assuming no further shocks, a return to the pre-pandemic income trend could, under reasonable assumptions, still take until 2030 – a trend that, it should be remembered, itself reflected the weakest growth rate since the end of the Second World War. This is a worrying prospect for many countries. The damage from the Covid-19 crisis has exceeded that from the global financial crisis (GFC) in most parts of the global economy but has been particularly draining on the developing world. The recent decision by the IMF Executive Board to allow a $650 billion issue of special drawing rights (SDRs), the largest in its history, offers a glimmer of hope but the international community has still to acknowledge the scale of the challenge facing many developing countries.

Any crisis does, however, bring with it an opportunity. The scope and scale of governmental support in 2020–21, particularly in advanced economies but also in some emerging markets, broke new ground, or, for those with a sense of history, rediscovered old territory. This response brushed aside entrenched policy dogmas and opened the political space to change the balance of power between the state and the market in managing the economy even as it has

served to highlight the constraints on fiscal and policy space that many countries continue to face in a world of footloose capital. In less than a year President Biden's wide ranging policy initiatives have begun to effect concrete change. Domestically, legislation to expand social protection, financed through more progressive taxation, breaks with a long-term trend that has transferred income to top and risk to the bottom of the income distribution. Internationally, the support from the United States for the new SDR allocation, global minimum corporate taxation, and a waiver of vaccine-related intellectual property rights in the World Trade Organization (WTO) anticipate a renewal of multilateralism that could begin to rein in hyperglobalization and resolve the deepening environmental crisis.

Whether or not the world builds back better from the pandemic will not, however, depend on the actions of a single country but on concerted efforts to rebalance the global economy. Hurdling the barriers to greater prosperity will depend on improved coordination of the policy choices made in leading economies over the coming years as they push to maintain the momentum of recovery and build resilience against future shocks (see Chapter II). The reluctance of other advanced economies to follow the lead of the United States on the vaccine waiver is a worrying sign and a costly one; on one recent estimate, the cumulative cost (in terms of lost income) of delayed vaccination will, by 2025, amount to $2.3 trillion with the developing world shouldering the bulk of that cost (EIU, 2021).

But coordination among the leading economies will not be sufficient either. Renewed international support is needed for developing countries, many of which face, given their limited access to vaccines and the spread of new virus variants, a spiralling health crisis, even as they struggle with a growing burden of debt and face the prospects of a lost decade. That effort should also prompt us to rethink – or, perhaps, revive – the role that fiscal policy can play, beyond the countercyclical interventions of late. Delivering the necessary support will also require the kind of systemic reforms to the international economic architecture that were promised after the global GFC but were quickly abandoned in the face of resistance from the winners of hyperglobalization (*TDR 2017*). And amid all these efforts, policymakers will need to stay wary of inflation scaremongering that would derail progress before it has really taken off.

This chapter is organized into four sections. Section B outlines key developments in the global economy in 2020–21, focusing, in particular, on misguided fears of inflation and the role of fiscal policy and public debt beyond the pandemic. Section C analyses the situation of developing countries in the system of global finance, focusing on the issue of debt sustainability and counter-cyclical measures. Section D reviews the trends in global trade and commodities markets. Section E surveys regional macroeconomic trends in greater depth.

B. The Global Economy: Building Back Separately?

1. Global growth prospects

The global economy is set for a strong recovery in 2021, albeit with a good deal of uncertainty clouding the details at the regional and country levels over the second half of the year. As in the past, policy makers continue to pay undue attention to financial markets, whose horizon rarely stretches beyond quarterly macroeconomic and earnings data and whose sentiment appears jittery even in the face of small changes in leading indicators.

After a 3.5 per cent fall in 2020, UNCTAD expects world output to grow 5.3 per cent this year, partially recovering the ground lost in 2020. However, considering the average annual global growth rate of 3 per cent in 2017–2019, world income will still be 3.7 per cent below where its pre-pandemic trend would have put it by 2022 (Figure 1.1). Based on the nominal gross domestic product (GDP) estimates for this year, the expected shortfall represents a cumulative income loss of about USD 10 trillion[1] in 2020–21. Looking ahead UNCTAD expects world output to grow 3.6 per cent in 2022 (Table 1.1).

Despite this two-year boost to the global economy, it will take several years for world income to recover the loss from the Covid-19 shock. Assuming, for example, an annual growth rate of 3.5 per cent from 2023 onwards (an optimistic assumption), global output will only revert to its 2016–2019 trend by 2030. Since the pre-Covid 19 trend was, as discussed in previous *Reports*, unsatisfactory – average annual global growth in the decade after the 2009–10 financial crisis was the slowest since the end of the Second World War – this is a prospect that should raise alarm in policy circles.

TABLE 1.1 World output growth, 1991–2022
(Annual percentage change)

Country groups	1991–2000[a]	2001–2008[a]	2009–2018[a]	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021[b]	2022[b]
World	**3.0**	**3.6**	**2.9**	**-1.3**	**4.5**	**3.3**	**2.8**	**2.7**	**3.1**	**3.1**	**2.7**	**3.4**	**3.2**	**2.5**	**-3.5**	**5.3**	**3.6**
Africa	**2.5**	**5.7**	**3.0**	**3.9**	**5.6**	**-1.0**	**8.0**	**0.7**	**3.3**	**2.6**	**1.7**	**3.4**	**3.3**	**2.9**	**-3.4**	**3.2**	**2.9**
North Africa (incl. South Sudan)	3.1	5.4	1.0	3.7	4.7	-11.1	13.3	-6.8	-0.3	1.7	2.7	5.1	4.1	3.2	-5.2	4.2	3.1
South Africa	2.1	4.4	1.8	-1.5	3.0	3.3	2.2	2.5	1.8	1.2	0.4	1.4	0.8	0.2	-7.0	4.0	2.3
Sub-Saharan Africa (excl. South Africa and South Sudan)	2.1	6.5	4.8	5.7	7.1	5.7	6.1	5.5	5.9	3.4	1.5	3.0	3.5	3.4	-1.5	2.5	2.9
America	**3.5**	**2.8**	**2.0**	**-2.5**	**3.3**	**2.3**	**2.3**	**2.1**	**2.2**	**2.3**	**1.1**	**2.2**	**2.6**	**1.7**	**-4.4**	**5.6**	**2.9**
Latin America and the Caribbean	3.2	3.9	1.9	-2.1	6.2	4.6	2.7	2.9	1.1	0.3	-0.9	1.3	1.1	0.1	-7.1	5.5	2.6
Central America (excl. Mexico) and Caribbean	3.1	4.8	3.3	-0.7	3.5	3.9	3.6	3.3	3.3	4.2	2.9	3.0	3.1	2.1	-8.1	3.9	2.9
Mexico	3.2	2.2	2.6	-5.3	5.1	3.7	3.6	1.4	2.8	3.3	2.6	2.1	2.2	0.0	-8.3	6.2	2.8
South America *of which:*	3.2	4.3	1.5	-1.3	6.9	4.9	2.3	3.3	0.3	-1.1	-2.5	0.8	0.4	-0.2	-6.5	5.5	2.5
Argentina	4.0	5.0	1.2	-5.9	10.1	6.0	-1.0	2.4	-2.5	2.7	-2.1	2.7	-2.5	-2.1	-9.9	6.7	2.9
Brazil	2.8	3.7	1.1	-0.1	7.5	4.0	1.9	3.0	0.5	-3.5	-3.3	1.3	1.8	1.4	-4.1	4.9	1.8
North America *of which:*	3.6	2.5	2.0	-2.6	2.6	1.7	2.2	1.9	2.6	2.9	1.7	2.4	3.0	2.1	-3.7	5.7	3.0
Canada	3.0	2.5	1.9	-2.9	3.1	3.2	1.8	2.3	2.9	0.7	1.0	3.0	2.4	1.9	-5.4	5.1	2.9
United States	3.6	2.6	2.0	-2.5	2.6	1.6	2.3	1.8	2.5	3.1	1.7	2.3	3.0	2.2	-3.5	5.7	3.0
Asia (excl. Cyprus)	**4.3**	**5.9**	**5.2**	**2.4**	**7.8**	**6.0**	**5.0**	**5.4**	**4.9**	**4.9**	**4.9**	**5.1**	**4.6**	**3.8**	**-1.1**	**5.9**	**4.7**
Central Asia	-3.3	8.5	5.5	3.3	7.6	8.1	6.0	6.9	5.6	3.5	3.2	4.5	4.7	4.7	-0.3	4.3	3.1
East Asia *of which:*	4.4	5.8	5.3	2.8	8.0	5.9	5.2	5.5	5.0	4.8	4.7	5.2	4.8	4.3	0.3	6.7	4.7
China	10.6	10.9	7.9	9.4	10.4	9.6	7.9	7.8	7.4	6.9	6.7	6.9	6.7	6.1	2.3	8.3	5.7
Japan	1.2	1.2	1.0	-5.7	4.1	0.0	1.4	2.0	0.3	1.6	0.8	1.7	0.6	0.3	-4.7	2.4	2.1
Republic of Korea	6.8	4.9	3.2	0.8	6.8	3.7	2.4	3.2	3.2	2.8	3.0	3.2	2.9	2.0	-0.9	3.9	2.8
South Asia *of which:*	4.8	6.7	5.9	4.0	8.7	5.6	3.4	5.0	6.1	6.4	8.0	6.6	4.9	3.1	-5.6	5.8	5.7
India	5.9	7.6	7.0	5.0	11.0	6.2	4.8	6.1	7.0	7.9	8.2	7.2	6.6	4.6	-7.0	7.2	6.7
South-East Asia *of which:*	4.9	5.7	5.1	2.0	7.8	4.9	6.0	5.0	4.5	4.7	4.8	5.3	5.1	4.4	-3.9	3.5	4.7
Indonesia	4.2	5.2	5.4	4.6	6.2	6.2	6.0	5.6	5.0	4.9	5.0	5.1	5.2	5.0	-2.1	3.6	4.9
Western Asia (excl. Cyprus) of which:	4.1	5.5	4.1	-1.3	5.7	8.0	4.6	4.9	3.3	3.8	3.2	2.3	2.1	1.3	-2.9	3.5	3.2
Saudi Arabia	1.7	4.5	3.7	-2.1	5.0	10.0	5.4	2.7	3.7	4.1	1.7	-0.7	2.4	0.3	-4.1	2.7	3.3
Turkey	3.9	6.0	6.0	-4.8	8.4	11.2	4.8	8.5	4.9	6.1	3.3	7.5	3.0	0.9	1.8	3.9	3.6
Europe (incl. Cyprus) *of which:*	**1.6**	**2.5**	**1.2**	**-4.5**	**2.4**	**2.0**	**0.1**	**0.5**	**1.7**	**1.9**	**1.8**	**2.5**	**2.0**	**1.5**	**-6.2**	**4.3**	**3.0**
European Union (EU 27) *of which:*	2.1	2.1	1.1	-4.4	2.3	1.9	-0.7	0.0	1.6	2.3	2.0	2.8	2.1	1.6	-6.2	4.0	3.3
Euro area *of which:*	2.1	1.9	1.0	-4.5	2.2	1.7	-0.9	-0.2	1.4	2.1	1.9	2.6	1.9	1.3	-6.6	4.1	3.4
France	2.0	1.8	1.0	-2.9	2.0	2.2	0.3	0.6	1.0	1.1	1.1	2.3	1.8	1.5	-8.0	5.2	3.4
Germany	1.6	1.3	1.6	-5.7	4.2	3.9	0.4	0.4	2.2	1.5	2.2	2.6	1.3	0.6	-4.9	2.2	3.2
Italy	1.6	0.9	-0.3	-5.3	1.7	0.7	-3.0	-1.8	0.0	0.8	1.3	1.7	0.9	0.3	-8.9	5.5	3.0
Russian Federation	-4.7	6.8	1.3	-7.8	4.5	4.3	4.0	1.8	0.7	-2.0	0.2	1.8	2.5	1.3	-3.0	3.8	2.3
United Kingdom	2.9	2.5	1.7	-4.1	2.1	1.3	1.4	2.2	2.9	2.4	1.7	1.7	1.3	1.4	-9.9	6.7	2.1
Oceania *of which:*	**3.7**	**3.4**	**2.7**	**1.9**	**2.4**	**2.7**	**3.7**	**2.1**	**2.8**	**2.6**	**2.9**	**2.7**	**2.8**	**1.9**	**-2.4**	**3.1**	**2.8**
Australia	3.8	3.4	2.6	1.9	2.4	2.7	3.9	2.1	2.6	2.3	2.8	2.5	2.8	1.8	-2.5	3.2	2.8
Memo items:																	
Developed (M49, incl. Republic of Korea)	**2.5**	**2.5**	**1.7**	**-3.5**	**2.8**	**1.7**	**1.3**	**1.4**	**2.0**	**2.3**	**1.7**	**2.4**	**2.4**	**1.7**	**-4.7**	**4.7**	**2.9**
Developing (M49)	**4.9**	**6.7**	**5.2**	**3.3**	**8.1**	**6.3**	**5.6**	**5.1**	**4.9**	**4.5**	**4.3**	**4.9**	**4.6**	**3.7**	**-1.8**	**6.2**	**4.7**

Source: UNCTAD secretariat calculations, based on United Nations Global Policy Model; United Nations, Department of Economic and Social Affairs (UNDESA), National Accounts *Main Aggregates* database, and *World Economic Situation and Prospects* (WESP): *Update as of mid-2021*; ECLAC, 2021; Organisation for Economic Co-operation and Development (OECD), 2021; International Monetary Fund (IMF), *World Economic Outlook, April 2021;* Economist Intelligence Unit, *EIU CountryData database*; JP Morgan, *Global Data Watch*; and national sources.

Note: Calculations for country aggregates are based on GDP at constant 2015 dollars.

a Average.

b Forecasts.

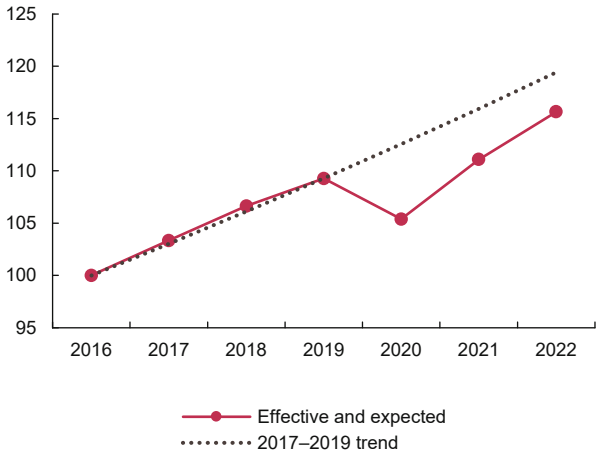
Such an environment would not get the 2030 Agenda for Sustainable Development back on track and would hinder efforts to mobilize the additional resources needed to address the climate challenge. Moreover, if unanticipated shocks – whether of an epidemiological, financial or climatic nature – hit again, or policy efforts to sustain the current recovery begin to falter, the negative economic impact of Covid-19 would last longer. This is an outcome that cannot be dismissed lightly, given what happened in the aftermath of the GFC and the current, broken state of international policy coordination (see also Chapter II).

The recovery has to date been unbalanced reflecting fault lines that were present before the pandemic. There have been substantial differences in GDP growth between regions and countries, with many developing countries falling behind; a sectoral divide between the recovery in services and goods production but also within the service sector between booming financial and digital services and the depressed hospitality and entertainment sectors; and a sharp divergence in income (and wealth) gains amongst social groups. So far, the world economy appears to be building back separately.

In most regions, but particularly in the developing world, the damage from the Covid-19 crisis has been much greater than after the GFC, notably in Africa and South Asia (Figure 1.2). Geographically, as of mid-2021, post-lockdown growth accelerations were concentrated mostly in North America, with close regional trade linkages reinforcing a strong fiscal stimulus and monetary accommodation in the United States, and in East Asia, where an infrastructure investment drive (through state-owned enterprises) in China has helped growth ripple across the region.

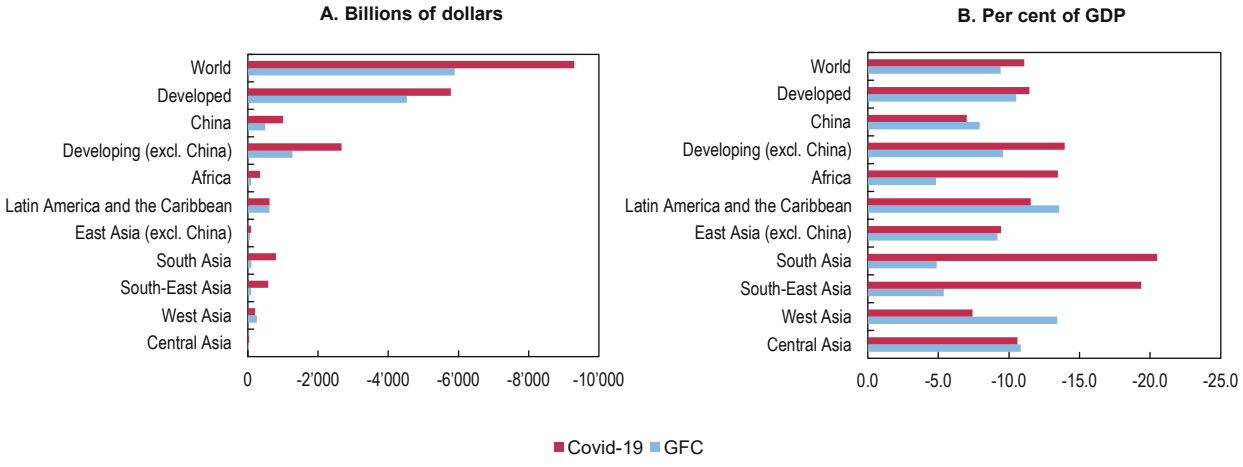
Regional trends in the world economy are surveyed in the final section of this chapter. Here, an initial evaluation of differences in the speed of recovery can be made by examining expected cumulative GDP growth between 2019 and 2021 in countries in the Group of Twenty (G20)[2] (Figure 1.3).

FIGURE 1.1 **World output level, 2016–2022**
(Index numbers, 2016 = 100)



Source: See Table 1.1.

FIGURE 1.2 **The economic impact of GFC, 2009–2010, vs. Covid-19, 2020–2021**



Source: UNCTAD secretariat calculations, based on official data and estimates generated by United Nations Global Policy Model.
Note: Estimated loss from GFC corresponds to the accumulated income loss of 2009 and 2010, relative to 2006 to 2008 trend; and the estimated loss from Covid-19 corresponds to the accumulated income loss of 2020 and 2021, relative to 2017 to 2019 trend.

The standout performances, on this measure, have taken place in the two G20 countries that avoided a recession in 2020: China and Turkey. In the case of China, an early lockdown policy, combined with massive testing and related public health measures, followed by a rapid vaccine roll out from the middle of 2021, helped to contain the spread of the virus and allow for a relatively swift rebound of activity. On the demand side, the maintenance of domestic investment projects and the post-lockdown surge in the foreign demand for industrial goods have helped maintain the pace of recovery, although concerns remain about the financial position of some highly indebted state-owned enterprises and the danger of new virus variants.

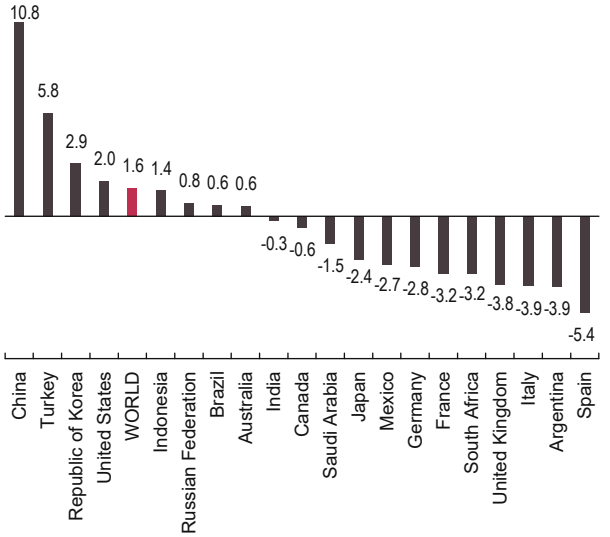
Turkey did see a sharp contraction in the second quarter of 2020, but this was followed by strong growth in the third quarter, largely thanks to accommodative monetary policy and the ensuing credit boom. Despite a resurgence in infections during the second quarter of 2021, growth has been driven by the country's industrial sector and budgetary support to businesses from the government. Rising prices and pressures on the lira are, however, clouding growth prospects for the second half of 2021, raising concerns about its sustainability.

China's growth and the resulting demand for manufactures is expected to help the Republic of Korea make a full recovery from the pandemic in 2021. The same holds for Australia, albeit less rapidly due to extended lockdowns in 2021, and propelled by commodity exports rather than manufactures. In contrast, despite the expansion in net export demand of goods, sluggish domestic demand is expected to keep GDP in Japan below its pre-Covid level.

India suffered a contraction of 7 per cent in 2020 and is expected to grow 7.2 per cent in 2021, while Indonesia had a milder contraction of 2.1 per cent in 2020 and is expected to grow 3.6 per cent in 2021, which is fairly weak given its growth rates in recent years. As the discussion of regional trends shows in section E, the recovery in India is constrained by the ongoing human and economic cost of Covid-19, and the negative impact of food price inflation on private consumption.

Rising commodity prices will help recovery in oil-exporting countries, albeit unevenly. The Russian Federation will almost triple its 2019 GDP growth of 1.3 per cent this year, but a similar bounce back will not hold for Saudi Arabia, due to the greater reliance of its economy on oil production and OPEC's output quotas (even if it raises them). The spike in commodity demand and relative prices will also be insufficient to raise South Africa's 2021 GDP above its 2019 level, due to a weak investment climate (which pre-dates the pandemic) and stringent fiscal constraints.

FIGURE 1.3 **Real income growth, selected countries, 2021 over 2019**
(Per cent)



Source: See Table 1.1.

In the Americas, the fast recovery in the United States recovery is expected to raise GDP to 2 per cent above its pre-Covid-19 level. This should help Canada to approach its 2019 level. In contrast, despite the pull of demand of the United States, Mexico will fall short of its pre-Covid-19 income in 2021 because of its relatively deeper recession and small domestic fiscal relief in 2020. Argentina is in a similar situation due to tight financial constraints, resulting in large part from its heavy pre-pandemic external borrowing. Brazil should grow slightly above its 2019 GDP this year, thanks to the positive effect of higher commodity exports and a relatively larger and well-targeted fiscal stimulus than in Mexico and Argentina.

Europe is experiencing a disappointing growth recovery, despite a very accommodative monetary policy stance adopted by the ECB. The policies agreed by eurozone governments have been too little and too late. In numbers, despite the recovery in its net exports, the German GDP in 2021 is expected to be almost 3 per cent below its 2019 level. The recovery tends to be even weaker in France, Italy and the United Kingdom, where Brexit disruptions have counteracted the effects of fiscal expansion and rapid vaccine roll out. Europe's historical coordination problem will be felt hardest in Spain and Italy, where

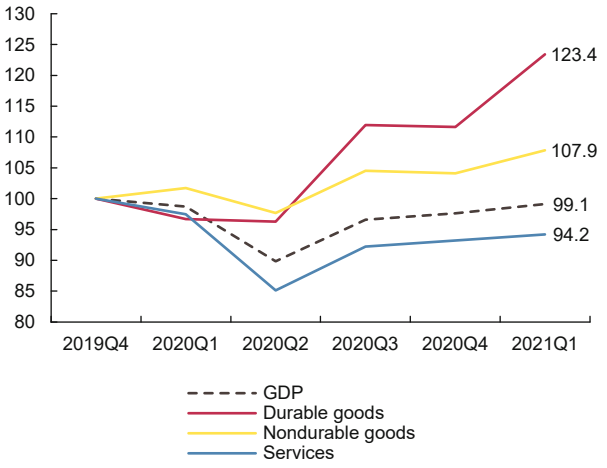
the 2021 GDP is expected to be 5.6 and 3.8 per cent below their pre-pandemic level, respectively.

In terms of the sectoral composition of the recovery, the disruptive effects of the pandemic on some global value chains and the rebound in the demand for goods have created bottlenecks (Goodman and Chokshi 2021). The problem has been most acute in semiconductors, which has had a knock-on impact on electronics and auto production in many countries (Wu and Pogkas, 2021), and construction materials, which raised the cost of residential investment (AGC 2021).

In the service sector, as of mid-2021, output was still depressed in relation to its pre-pandemic level in many economies, especially in personal urban services (Furman and Powell III 2021). The increased adoption of remote work is expected to have a long-lasting negative effect on business travel and lodging (McKinsey 2021), but the reopening of many economies after their vaccination drives should see a partial recovery in personal recreational services by the end of 2021 and beginning of 2022 (European Commission, 2020).

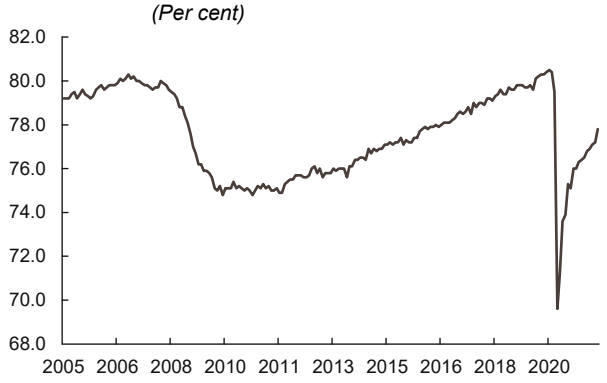
Even in the United States, where the economy is recovering quickly from the Covid-19 shock, there was still a large gap between the rebound in the demand for goods and the demand for services in the beginning of 2021 (Figure 1.4). Since services account for most jobs in advanced economies, the rebound to pre-pandemic levels in the United States labour market is likely to be incomplete during 2021, especially if we measure labour slack by the employment-population ratio of prime-age workers *and* factor in the previous negative impact of the GFC (Figure 1.5).

FIGURE 1.4 **Real GDP and personal consumption expenditures in the United States, 2019–2021**
(Index numbers, Q4 2019=100)



Source: United States Bureau of Economic Analysis.

FIGURE 1.5 **Employment-population ration in the United States, January 2005–July 2021**
(Per cent)



Source: St. Louis Federal Reserve bank.

2. Inflationary Pressures: Nothing to Fear but Fear Itself

The initial economic impact of Covid-19 were the deep recession and lower inflation. However, since the second half of 2020, due to a combination of the quick recovery of global aggregate demand and some adverse supply shocks, prices have been accelerating in the world's advanced economies.

Globally, the rise in commodity prices has pushed the cost of basic inputs higher. Since mid-2020, metal and oil prices have been on the rise and, in May of 2021, annual food inflation reached almost 40 per cent, its highest value in ten years according to the FAO food price index. The increase in food prices has contributed to the rise in the world hunger index since the pandemic, with the greatest harm in developing countries (see Box 1.4 and FAO, 2021a). The pandemic has caused bottlenecks in global value chains, especially in sectors that depend heavily on semiconductors, which, in turn, has raised the price of capital goods and durable consumer goods around the world, with a stronger impact in advanced economies. Figure 1.6 shows the inflation history of the main economies of the world since 2005.

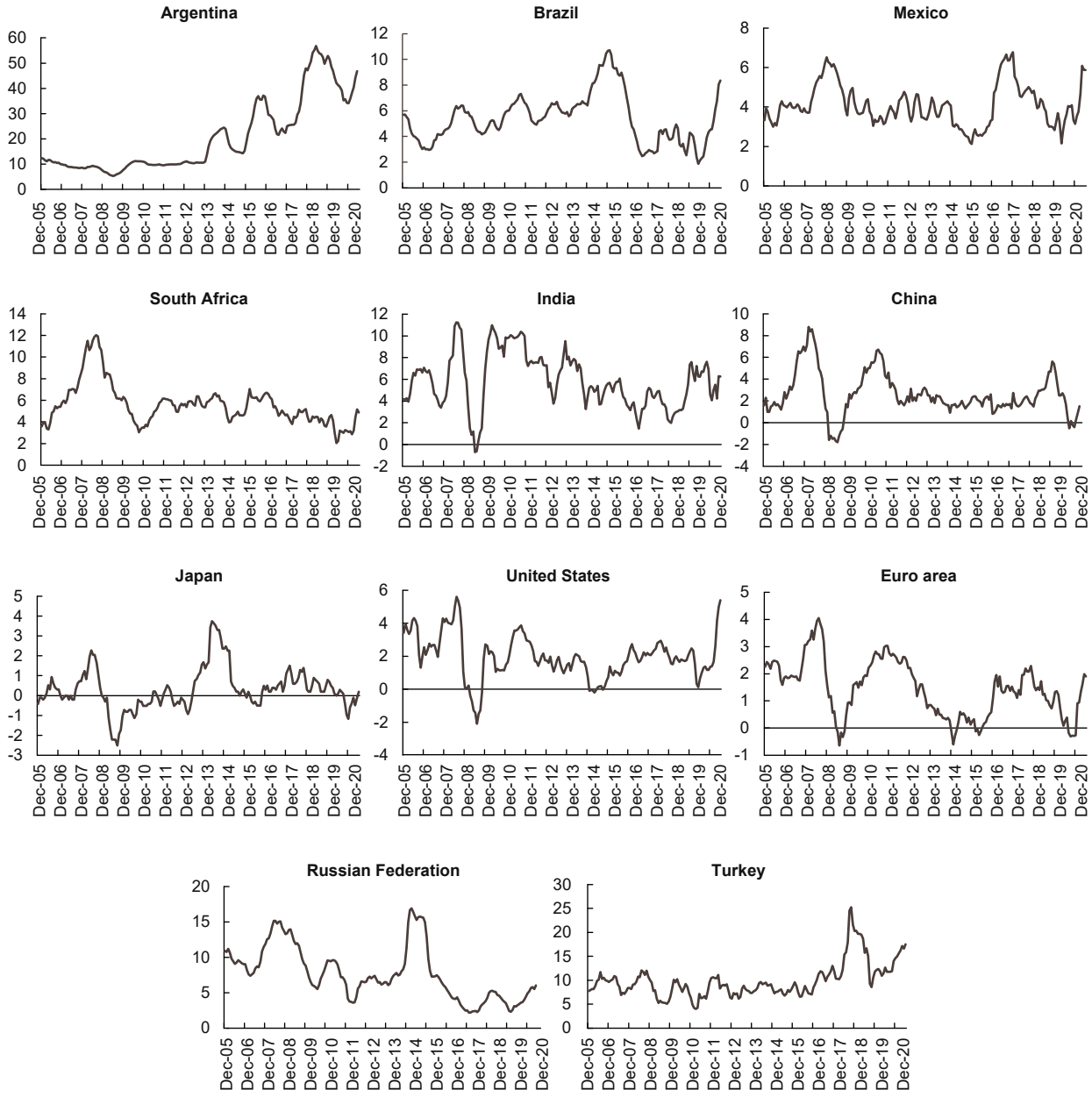
Unsurprisingly, prices have been accelerating faster in countries which had been experiencing higher inflation before the pandemic due to exchange-rate pressures, such as Argentina and Turkey (see Figure 1.7). In Brazil, domestic political factors drove a

depreciation of the domestic currency relatively faster than in other developing countries, while a severe drought pushed the economy to use more expensive sources of electrical power. In mid-2021, the two adverse shocks increased inflation to almost 9 per cent, prompting the Brazilian Central Bank to hike its short-run interest rate.

Currency depreciations and commodity price rises have also pushed inflation up in Mexico, South Africa, and the Russian Federation, but so far at a more moderate pace than in Brazil. As of mid-2021, these three economies have registered consumer price inflation between 4 and 6 per cent, which, in turn, has prompted the Central Banks in Mexico and the Russian Federation to tighten monetary policy.

In India, consumer inflation was already at 6 per cent before the pandemic. The Covid-19 shock caused a temporary dip in prices, but as the economy recovered and food prices accelerated, the country returned to a 6 per cent inflation rate in mid-2021.

FIGURE 1.6 **Consumer inflation, selected economies, December 2005–December 2020**
(Per cent)



Source: UNCTAD secretariat calculations based on Refinitiv data.

In contrast, in China, the government had been adopting restrictive measures to fight inflation before the Covid-19 shock. In mid-2020, the sudden stop of the economy increased the impact of the restrictive measures and pushed the economy briefly into deflation. As the economy recovered, inflation became positive again, yet still low (around 2 per cent) by international standards.

In the advanced world, Japan is still struggling with a deflationary trend, meaning the recent acceleration in prices has been insufficient to offset the deflationary pressures caused by the pandemic. A more moderate version of the Japanese story is unfolding in Europe, where inflation has been on the rise, but still not sufficiently to compensate for almost eight years of effective price stagnation with annual increases below the target of 2 per cent.

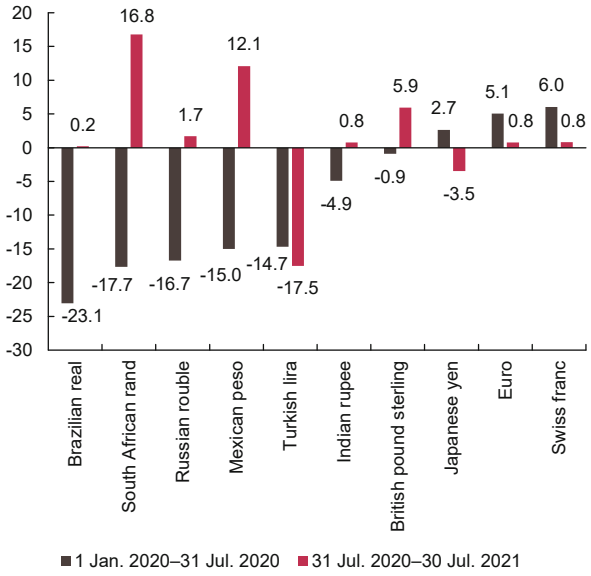
So far, in the advanced world, stronger inflationary pressures seem to be a feature of the United States recovery. As of mid-2021, the United States economy registered its highest consumer inflation in ten years (5.4 per cent), which some have taken as indication that macroeconomic policy has been too expansionary. To emphasize how the United States has deviated from its pattern in the last ten years, Figure 1.8 compares the United States with the euro area inflation. The two regions fluctuate together, but contrary to what happened after the GFC, the inflation in the United States has been deviating from its previous "European path" since mid-2021.

To analyse the inflation picture in the main advanced economies, it is important to see whether the recent price accelerations deviate from an average inflation target of 2 per cent. Setting December 2005 as a benchmark, Figure 1.9 shows the current price gap in the United States, Japan and Europe. The recent rise in inflation has been clearly insufficient to bring euro area prices back to where they would have been if the ECB had met its 2 per cent inflation target. In Japan, the situation is even more striking. Despite annual fluctuations, the cumulative price gap shows inflation of just 5 per cent since 2005. In contrast, the United States price index ran slightly above the two per cent inflation trend until 2014, and slightly below it from 2014 to 2020. The recent price acceleration pushed the United States price index once more above the two per cent inflation trend, which in turn will probably lead to tighter Federal Reserve monetary policy in the near future.

Temporary inflation spikes are normal after deep recessions; they occurred in the recovery from the GFC and are happening again now. The question for policy makers is whether or not temporary price hikes are likely to trigger a self-perpetuating process of accelerating price rises. Is inflation becoming a structural problem? Probably not.

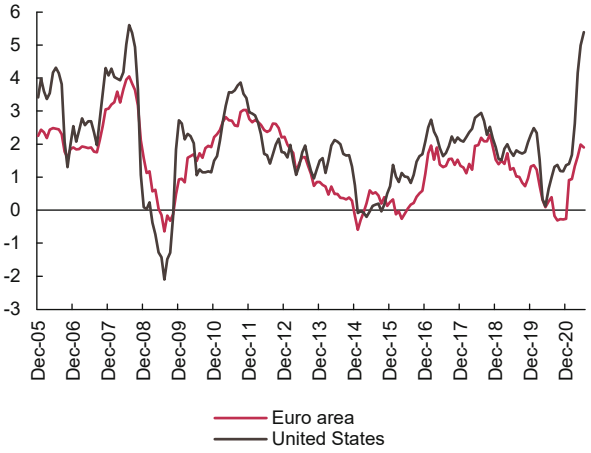
To see why, it is necessary to put inflation expectations and long-term interest rates into the picture. If the inflation shock is temporary, expected inflation remains anchored on the government's target

FIGURE 1.7 **Variation in exchange rate of selected currencies vis-à-vis the dollar of the United States, selected time periods, 1 Jan. 2020–30 Jul. 2021**
(Per cent)



Source: UNCTAD secretariat calculations, based on Refinitiv data.
Note: A positive value corresponds to an appreciation.

FIGURE 1.8 **Consumer inflation in the United States and the euro area**
(Per cent)



Source: UNCTAD secretariat calculations based on Refinitiv data.

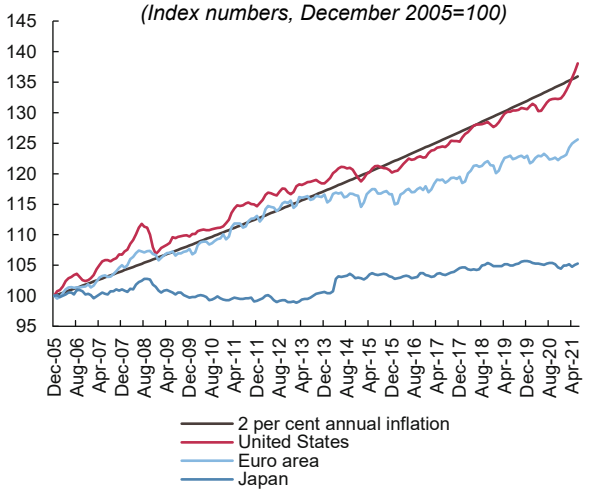
and long-run interest rates show a reversion to the mean. Focusing on the United States, which sets the standard for bond markets elsewhere, Figure 1.10 shows the 10-year breakeven inflation implicit in United States Treasury Securities. The number is the expected inflation that makes the return on inflation-indexed bonds equal to the return on non-indexed bonds. Because of risk aversion, the breakeven inflation tends to overestimate expected inflation by a constant value.

As of mid-2021, the 10-year breakeven inflation implicit in the United States government bonds was 2.4 per cent, a substantial increase from the depth of the Covid-19 shock in 2020, when this variable fell to 0.5 per cent. However, when the change in expected inflation is put in historical perspective, the recent increase seems to be a return to normal. The same thing happened after the GFC and the current breakeven inflation is approximately equal to its value in 2005–07 and 2011–13. So far, there is no evidence of rising inflation expectations in the United States economy. In fact, the recent increase in expected inflation seems to be a correction of the low-inflation forecasts that predominated in 2014–19.

Inflation tends to become a problem when it ignites a price-wage spiral that feeds on itself, as happened in many economies during the 1970s, when two oil shocks and a productivity slowdown in overheating economies led to a cost-induced inflation, wage increases, and another round of cost-induced inflation. Today, because of the relatively lower bargaining power of workers in the United States economy, it is unlikely that the recent price acceleration will turn explosive. On one side, (see Figure 1.11) the United States labour market does show a recovery in real wages, which started before Covid-19 and for statistical reasons was amplified during the critical months of the pandemic (lower-wage workers lost their jobs and this pushed the mean real wage up). However, on the other side, the recent increase in real wage is happening after 35 years of stagnation, meaning it is simply too early to state that the current recovery will start a wage-price spiral.

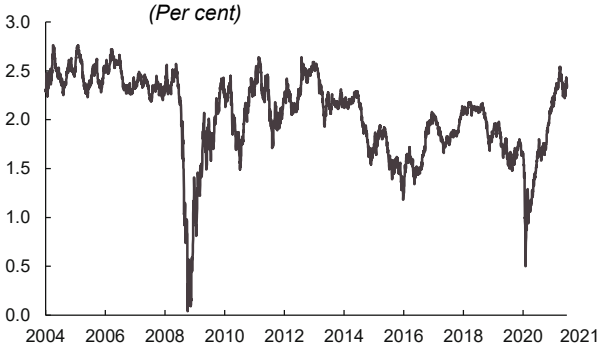
The inflationary impact of the real wage depends on labour productivity. If the real wage grows but labour productivity grows faster, the labour share of output falls. As a result, the profit share goes up and prices may even fall, if firms decide or are forced to pass the gain to customers (Barbosa-Filho and Taylor 2006; *TDR 2020*). The data from the United States economy shows an increase in the workers' share of

FIGURE 1.9 **Price gap from a 2 per cent inflation trend, selected economies, December 2005–April 2021**
(Index numbers, December 2005=100)



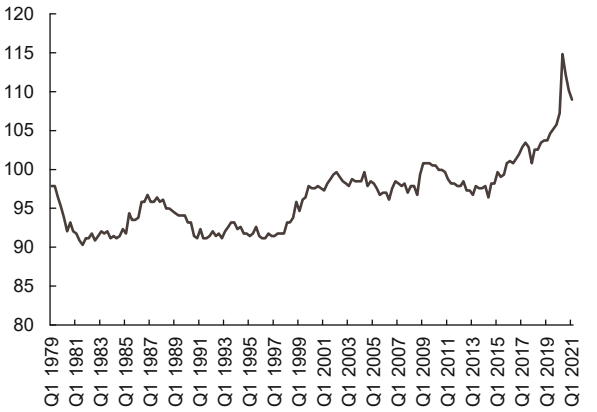
Source: UNCTAD secretariat calculations, based on national sources.

FIGURE 1.10 **Ten year break even inflation in the United States**
(Per cent)



Source: FRED, Federal Reserve Bank of St. Louis.

FIGURE 1.11 **Real wage in the United States, January 1979–March 2021**
(Index numbers, 2010=100)



Source: FRED, Federal Reserve Bank of St. Louis.

income immediately after the Covid-19 shock and subsequently a fall, but like with the real wage rise, it is too early to know whether these fluctuations in income distribution will cause a structural change in inflation, for two reasons.

First, the initial impact of a sudden stop of the economy is to reduce profits, and the labour share jumps up for temporary reasons; and as discussed in Chapter II, this may already have been reversed. Second, even with the recent increase, the United States labour share only just returned to its value reached before the GFC, which in turn was approximately 5 per cent below its average in 1980–90. In other words, since 2000, there has been a substantial wage squeeze in the United States. Because of the low starting point in 2019, firms in the United States still have large profit margins to absorb a higher real wage without raising inflation. In an extreme case, the economy's recovery and initial increase in the labour cost may push firms to innovate, which, in turn, raises productivity and accommodates the higher real wage without excessive inflationary pressures (Storm and Nastepaad 2012).

3. Fiscal Policy and Public Debt

In developed countries the aggressive spread of the virus prompted a set of equally aggressive measures to counter its paralyzing consequences. In contrast, most of the developing world faced the same financial, structural and political constraints that had hampered their ability to intervene in the economy over previous decades, resulting – in most cases – in an exacerbation of domestic and international inequities.

However, even in countries with fiscal space, there is a risk of premature withdrawal of fiscal (as well as monetary) stimulus. While a consensus has emerged about the need for significant public sector intervention, there is no clear agreement yet about its composition or duration. If, as in previous recessions, state intervention is confined to absorbing the immediate shock, it is likely that the deep sources of instability will not be addressed.[3] If that becomes the case, the much-heralded post-pandemic paradigm shift in policymaking would prove to be more a matter of rhetoric than reality.

The lesson from previous crises and recovery experiences strongly suggests that the political space created by the pandemic should be used to re-assess the role of fiscal policy in the global economy, as well as the practices which have widened inequalities.

(a) Speculation and austerity: tame one to stop the other

At the onset of the pandemic, most governments were quick to announce large spending packages, as recommended by international organizations (IMF, 2020a; *TDR 2020*). Yet, in the absence of an internationally coordinated effort, the global stimulus was not as effective as it could have been. In many cases, actual measures were insufficient and considerably smaller than initial announcements (see Box 1.1).

According to IMF data, 41 developing countries actually reduced their total expenditures in 2020, 33 of which nonetheless saw their public debt-to-GDP ratios increase. A similar divergence is evident also within the group of developed economies (Box 1.1, Table B1.1),[4] but Figure 1.12 shows how the constraints between the two groups remain significantly different: developed countries were able to increase their total primary outlays, relative to the past, significantly more than developing countries with similar or lower public debt ratios in 2019.

To understand why this has happened, two relevant factors are worth recalling. First, while modern economies are structured to create money for the purpose of public and private spending, liquidity creation does not necessarily improve access to foreign currency for developing countries, an essential requirement to sustain spending in an open and financialized system (*TDR 2020*), nor for developed countries in common currency arrangements (Izurieta, 2001). Second, under these conditions, a government's budgetary strategy is subject to private, mostly foreign, investors' willingness to lend, which is, under current structures and practices, influenced by a short-term and speculative logic and a pro-austerity bias (Chandrasekhar, 2016). As such, global financial markets as currently structured exert considerable influence on policy, to the detriment of its public functions (Nesvetailova and Palan, 2020).

Agreement on practical solutions to reduce fiscal constraints has proven elusive. Actions taken over the past months to lessen foreign exchange constraints on developing economies have been narrow in scope and temporary in nature: the G20 granted a suspension of the debt servicing of bilateral loans to a small number of countries, and the IMF and the World Bank offered emergency credit. No significant action was taken regarding private financial claims, or to address the urgent need of direct assistance (in cash, services or

BOX 1.1 Fiscal stimuli in 2020: An ex-post assessment

In response to the economic damage caused by the pandemic and accompanying lockdowns, governments across the globe adopted a series of fiscal stimulus measures and support packages during 2020. Key components of these packages included the channelling of significant resources to specific economic sectors, the provision of temporary wage support or replacement schemes, increases in unemployment benefits in terms of both amount and duration, direct cash transfer to households, as well as the ramping up of health expenditures (*TDR 2020*).

While these fiscal packages differed considerably across countries, particularly between developed and developing countries, they were in many cases of an unprecedented scale and scope. At the time of their introduction, estimates were tentative relying on the announcements made by the governments. Now that data is available for 2020, it is possible to derive more detailed estimates and compare them to recent historical benchmarks.

Table B1.1 summarizes the main findings for selected economies.[18] The table compares *a priori* announcements of the fiscal responses with the estimates of the effectively applied fiscal stimuli. These are separated into two categories:

(a) additional amount of Government spending (*G*) on goods, services and investment. These are direct injections to the stream of aggregate demand; and

(b) transfers (including subsidies and unemployment benefits) from the Government to the private sector (*T*), net of taxes and contributions to social security (after rebates and deferrals are taken into account). These are additions to the flow of income for the private sector.

Estimates of *G* and *T* are based on levels of spending and transfers that would have likely materialized absent the pandemic. The relevant benchmark for government spending on goods, services and investment (*G*) is their trend level in real terms. For net transfers (*T*) the benchmark is the average proportion of GDP of past years, applied to the level of GDP of 2020 (to take account of the fact that the bulk of such flows depends, in large part, on the level of economic activity and incomes generated).

Main observations

i. Large gaps between announcements and actual stimuli

As can be seen from *Table B1.1*, there are substantial differences between the announced and effective size of the Covid-19 fiscal stimuli measures introduced in 2020. This is particularly the case for several developed countries, namely Australia, Canada, Germany, Japan and the United Kingdom. In these countries, the actual size of the Covid-19 fiscal stimuli packages was between 6 and 9 percentage points of GDP lower than the announced size of these packages.

TABLE B1.1 Estimated size of Covid-19 fiscal stimuli, 2020
(Per cent of GDP)

	Government Spending (G)	*Government Transfers (T)*	*G + T*	*Announced measures*
Argentina	-0.5	4.1	3.3	3.8
Australia	0.1	10.0	10.2	16.1
Canada	-0.4	8.8	8.3	14.7
France	-0.5	4.6	3.3	7.6
Germany	0.5	3.0	3.3	11.0
India	-0.9	3.4	2.4	3.3
Italy	0.5	4.9	5.4	6.8
Japan	0.3	7.5	8.0	15.5
Mexico	0.2	1.8	2.0	0.7
Republic of Korea	-0.5	2.0	1.8	3.4
South Africa	-0.4	4.2	4.2	5.3
Spain	0.2	4.7	4.9	4.1
Turkey	-0.5	1.7	1.4	1.0
United Kingdom	2.1	5.6	7.1	16.3
United States	-0.4	9.2	9.1	10.6

Note:
G refers to general government gross fixed capital spending and consumption spending in goods and services (excluding payments or transfers) and is estimated as that above the trend over the recent past (2017–2019).
T refers to net transfers from the government to the private sector. It encompasses transfers, including subsidies and all payments to other sectors (including unemployment benefits and direct income transfers), minus government revenues (including personal current taxes and contributions to government social security); and it is estimated as the difference with its past average (2017–2019) as a proportion of GDP applied to 2020 GDP.

There are various possible explanations for the discrepancies. Although the initial announcements intended to show the strength of the policy responses to the Covid-19 shock, the packages may have included outlays that were already budgeted, and which would have occurred absent the pandemic. Moreover, spending in other areas was in many cases cut to compensate for the increases in Covid-19-related outlays. Likewise, included in the packages were tax deferrals and accelerated spending measures that would have taken place later in the same cycle, i.e. spending brought forward from the fourth quarter to the second quarter. Lastly, the announced packages often included spending presumably to be deployed in 2021 or beyond.

ii. Significant divergences between developed and developing economies

The results underscore that the size of the stimuli enacted by governments of most developed countries are significantly larger than those of developing countries.[19] Policymakers in developing countries are particularly vulnerable to the policies imposed on them by international investors, credit-rating agencies and lending institutions to cut debt ratios (even if these are smaller than those of developed economies). Furthermore, their vulnerability to external economic shocks requires greater caution when increasing public debt because of recurring private sector bankruptcies prompting government bailouts. Finally, larger fiscal programmes in developing countries tend to involve larger current account deficits, which cannot be filled by domestic liquidity injections alone without triggering currency vulnerabilities.

iii. Biases in the composition of the fiscal packages

Another key result from Table B1.1 is that actual additional government spending (*G*) was systematically lower than net transfers to the private sector (*T*), in addition to the fact that direct spending was either only marginally larger than historic norms or even smaller. This is relevant from a macroeconomic perspective for two reasons. First, the impact of direct spending on aggregate demand is larger than that of reductions of taxes or increases of transfers (*TDR 2013*; *TDR 2019*). With larger multipliers, funds injected into the economy represent a more effective cushion to economic shocks. Second, while not all goods and services can receive a demand boost during a lockdown, many can and should. For example, medical services, training, production of equipment; educational programmes online to maintain or improve labour skills; planning activities to lay down infrastructure projects, and more.

Thus, the bulk of fiscal stimulus came in the form of net transfers (*T*), i.e. tax cuts, income transfers, additional or extended unemployment benefits, and subsidies. There is no denying that programmes to protect the incomes of households, especially of those who were out of work, have been necessary during the pandemic. This is especially the case for wage-earners in the lower income deciles, who live from pay-check to pay-check, both in developed and developing countries. In the latter case, moreover, where a large proportion of workers are involved in informal sectors and activities relying on personal contact, such transfers represent the only effective livelihood support tool. Other forms of financial support via existing welfare or unemployment benefits programmes are out of reach for the majority of households in developing economies. By contrast, the prevalence of transfers over direct spending in developed economies is harder to justify, all the more while public spending, educational and health-related, as well as infrastructure provisions were partially left unattended or even reduced in some cases.

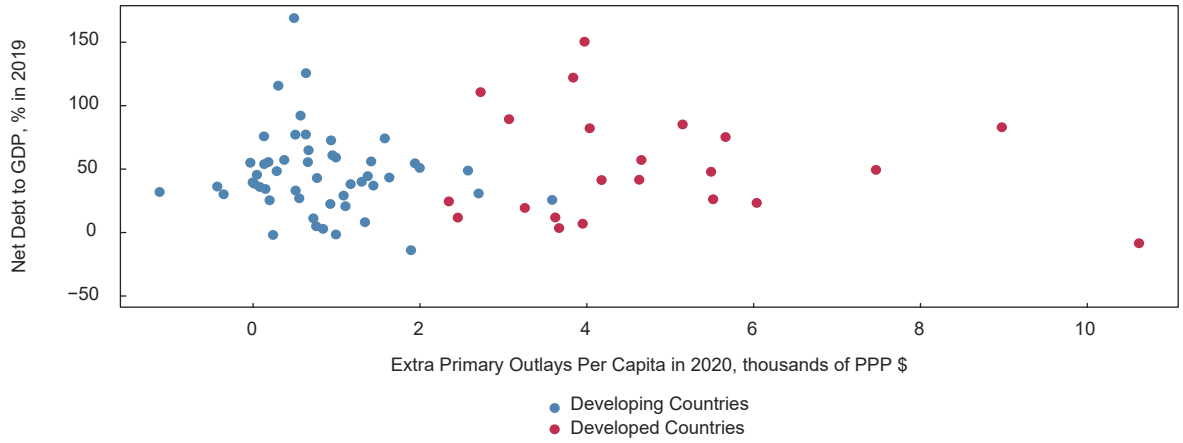
The unprecedented build up in household savings in some countries in 2020, resulting in part from the additional net transfers enacted, cannot be ignored. To mention the clearest example, households in the United States[20] increased their savings in 2020 from $1.2 to $2.9 trillion[21] — representing nearly 8 per cent of GDP, while the economy contracted by 3.5 per cent. In this case, as in most other cases, the build-up of savings was concentrated in the upper income deciles (Rennison, 2021), while low-earning households continue to remain financially constrained, as well as subject to more precarious employment prospects (Dua et al., 2021). Not unrelated to such disparities is the observation that an outsized share of the build-up in household savings during 2020 was funnelled towards stock markets, thus fuelling financial speculation and inflating equity prices as opposed to propping up real spending and demand within the economy. In this way, the over-reliance on transfer payments can not only prove ineffective, it can also be destabilizing as well as increase wealth inequality (Stiglitz and Rashid, 2020).

Finally, while fiscal support and stimulus measures have the primary aim of counteracting a downturn in economic activity in order to keep businesses afloat and maintain employment, as well as providing assistance to households in need, they also represent an opportunity to plan and undertake investments in physical and social infrastructure, including education, that will boost productivity and push towards more sustainable and resilient productive models (Jotzo et al., 2020). This is especially pertinent when economies face the imminent

challenge of revamping the productive structure and consumption patterns to drastically reduce greenhouse gas emissions.

While the immediate priority of fiscal measures in 2020 was to support households and businesses, the chance to capitalize on fiscal injections to boost aggregate demand with proactive investments that have a long-lasting and positive impact in terms of productivity, growth and climate goals was largely missed, as evidenced by the broadly subdued nature of government spending in 2020. Fiscal packages, moreover, have tended to exacerbate the disparities between developed and developing economies, with lasting consequences.

FIGURE 1.12 Additional primary outlays in 2020 relative to inherited debt ratios in developing and developed economies[5]



Source: UNCTAD secretariat calculations from IMF WEO database, April 2021.
Note: Extra primary outlays refer to the difference between the primary outlays of the general government in 2020 and its average over the period 2016–2019. *Developing economies are:* Albania, Algeria, Barbados, Bolivia, Bosnia and Herzegovina, Botswana, Brazil, Cabo Verde, Cameroon, Chile, Colombia, Djibouti, Dominican Republic, Egypt, Equatorial Guinea, Eswatini, Ethiopia, Fiji, Ghana, Guyana, Indonesia, Islamic Republic of Iran, Jordan, Kazakhstan, Kenya, Lebanon, Lesotho, Liberia, Mali, Mauritania, Mexico, Morocco, Namibia, Niger, Nigeria, North Macedonia, Oman, Pakistan, Panama, Paraguay, Peru, Saudi Arabia, Serbia, South Africa, St. Vincent and the Grenadines, Taiwan Province of China, Trinidad and Tobago, Turkey, Uruguay, Yemen, Zambia. The grouping excludes former transition economies that are part of the European Union, the Solomon Islands and the Seychelles and all the countries for which data is not available. *Developed economies are:* Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Israel, Italy, Japan, Korea, Luxembourg, Netherlands, New Zealand, Portugal, Spain, Sweden, Switzerland, United Kingdom United States. It excludes former transition economies and all the countries for which data is not available.

equipment, let alone waivers on patents) to combat the health crisis.

Thus, while massive amounts of public money were used by the major Central Banks to keep private credit institutions afloat, governments in developing countries continued to experience severe constraints both on servicing their external debt and supporting production, exports, income and employment throughout the pandemic. The overriding concern continues to be avoiding domestic actions that could trigger financial turmoil or anticipating when the major Central Banks will decide to withdraw their massive liquidity injections or raise their interest rates (see Box 1.2). Moreover, fear of upsetting private creditors has prevented many eligible countries from taking advantage of the G20 Debt Service Suspension Initiative: only 46 of 73 eligible countries have participated (World Bank, 2021).

Hence, whilst the pandemic has brought back the shock-absorbing dimension of fiscal policy into the mainstream of counter-cyclical demand management, it is clear that additional steps are necessary to guarantee that all countries can employ even those minimal fiscal measures in line with their own domestic circumstances and to the benefit of global recovery and financial stability.

This view, long held by many developing countries, has recently received support from some G7 members. United States Treasury secretary Janet Yellen has finally endorsed a proposal to create $650bn of new SDRs, an important, if still insufficient, step in the right direction (see Section C). Similarly, supportive signals have emerged in the European Union, where member countries have no lender of last resort and, according to Mario Draghi, former ECB president and current Italian Prime Minister, "we must reason on how to allow all [EMU] member states to issue safe debt to stabilize economies in case of recession" (Draghi, 2021, *our translation*). Since Italy holds the G20 presidency in 2021, there is hope that this argument can also be extended beyond the borders of the European Union.

With these small steps in the right direction, the debate will continue. But the world has not yet absorbed the central lesson. For state to re-emerge as a central institution of *public* policy, the autonomy and impunity enjoyed by global finance over the past decades, need to be seriously circumscribed.

4. Timing counter-cyclical measures or targeting development?

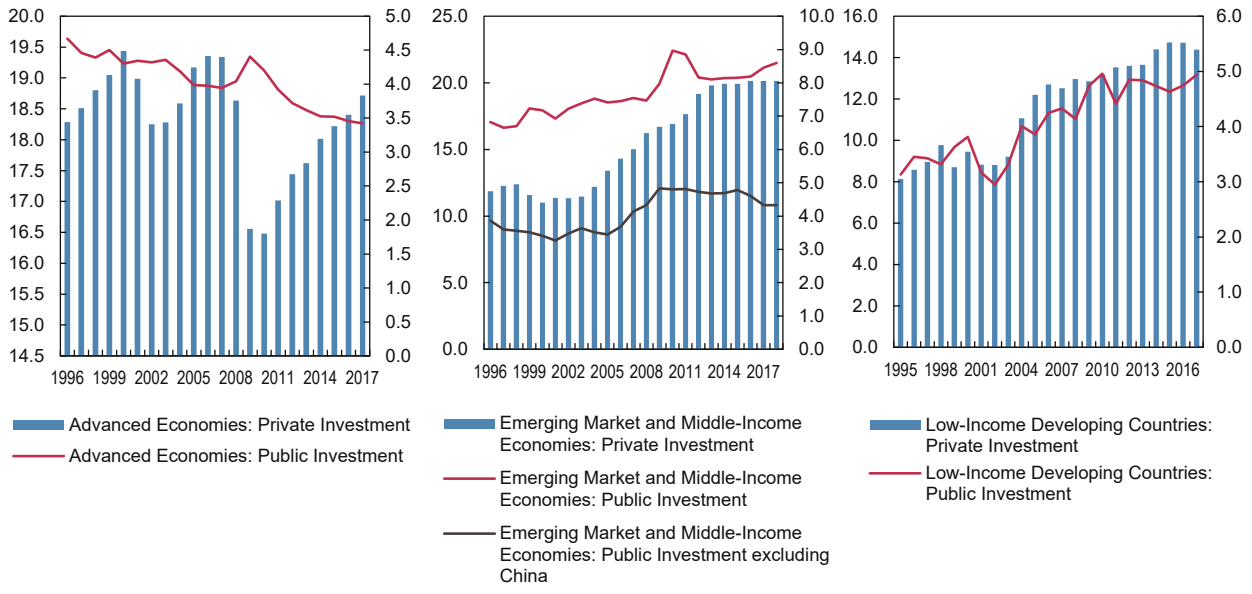
During the GFC, the need to rescue the private sector after years of ample credit creation once again showed the limits of monetary policy as an instrument to smooth out recessions (Godley and Izurieta, 2009). This experience helped revive the legitimacy of active fiscal policy as a temporary shock absorber that should, however, be promptly withdrawn, leaving market forces to shape the eventual recovery (Bernanke, 2008). By 2010, the G20 and the IMF started to signal the need for fiscal withdrawal. Many of these same voices have since recognized their mistake. Public support ended too soon, leaving economies in a fragile situation and threatened by debt deflation (IMF, 2012; Fatàs and Summers, 2015).

Mindful of this experience, since the beginning of the pandemic a consensus seems to have materialized in favour of maintaining fiscal and monetary support beyond the immediate recovery (*TDR 2020*; IMF, 2020b). However, the question remains whether fiscal policy will remain a countercyclical tool for macroeconomic emergencies, or if it merits a more structural role to promote development and sustained job creation (Costantini, 2020), especially in developing economies where leaving structural change to market forces has, invariably, ended in disappointment (see Figure 1.13).

A fiscal policy that withdraws stimulus at the earliest possible point in the cycle, even if extended to prevent possible damage to long-term growth from skill obsolescence or debt deflation, cannot play its necessary structural role. The current approach, despite giving fiscal policy a relatively longer span of action, continues to imply that governments cannot actively prevent or pre-emptively reduce the size of downturns, which simply occur from time to time despite demand-management policy. The function of fiscal policy then should be solely countercyclical, mostly prompted in the downward part of the cycle.

More ambitiously, measures such as guaranteed minimum income schemes and progressive taxation can provide a floor to the fall in disposable income. As championed by Gunnar Myrdal in the 1930s, and more recently suggested by Haughwout (2019) and Orszag et al. (2021), public investments, pre-approved and scheduled to start at the earliest manifestation of a downturn, can also play a similar role.[5] But this type of proactive steps rarely materialize, and did not in 2020, when the fiscal response was disproportionately geared toward transfers (see Box 1.1).

FIGURE 1.13 **Public and private investment in selected country groups, 1995–2016**
(Per cent of GDP)



Source: IMF, Fiscal Monitor. April 2020.

BOX 1.2 The rocky road to public debt sustainability: A developmental perspective

In an accounting framework for the closed economy, where international and macroeconomic constraints, as well as policy and institutional feedbacks are put aside, it is possible to identify the specific relation between primary budget balance, interest rate, and rate of GDP growth that, given an initial debt to GDP ratio, guarantees, on average, its stability over time (Domar, 1944; Blanchard et al., 1994; Pasinetti, 1998). In particular, if the interest rate that applies to the stock of debt is higher than the rate of growth of income (that determines the size of GDP), the primary budget must be in surplus to avoid an unrelenting increase in the debt ratio.

Real world situations, as reviewed in the *TDR 2020* (Chapter IV) are far more complex, given a variety of exogenous factors (domestic and external to each economy) that alter the 'r minus g' measure, such as changes in expectations or sudden external shocks affecting exchange and interest rates (Barbosa-Filho and Izurieta, 2020). But there are also different ways in which structural constraints and policy choices influence the fiscal budget, the rate of economic growth, prices and interest rates. Indeed, frameworks of policy analysis that target public debt sustainability by means of primary budget surpluses and assume that economies are organically geared to grow, with small oscillations around technologically driven output potential and well-tuned expectations about prices and interest rates, are misleading.

Alternative paths ahead need to rely on a different set of internationally agreed financial conditions, with respect to liquidity provision as well as debt management and restructuring, and most importantly on a more realistic set of assumptions about the functioning of developing economies, as discussed below.

By abandoning the mainstream approach to macroeconomic analysis, a first question is about the correct interpretation of fiscal deficits in the circumstances at hand (Godley and Izurieta, 2004). For instance, a deficit today can be an indication that the government is spending too little rather than too much: it may conceal an austerity policy that is reducing growth to a point that budget cuts do not produce the desired reduction in net spending while eroding fiscal revenues. This would not only worsen current conditions but threaten debt sustainability. Conversely, deficits can be a sign that the government is supporting a growth strategy, investing in social and physical infrastructure, growth capacity and the expansion of the productive potential. If those policies are successful and sustained for a sufficiently long period, debt-to-GDP ratios may not only be stable but possibly declining over time. As the growth rate of income exceeds the real interest rate, a moderate primary deficit (rather than a surplus) could become a structural feature of a successfully developing economy. Within this long-term perspective, it makes sense to allow the debt-to-GDP ratio to increase and, depending on the stage of a country's development, until the targets of sustainable growth and wellbeing are achieved.

Conversely, especially in economies operating with unemployed or underemployed resources, when governments cut their budgets to reduce public debt, they affect aggregate private income to the extent that unemployment tends to increase, especially those of the income groups which are more reliant on public services. They also constrain the ability of private wealth holders to acquire non-risky public debt as assets, thus increasing overall portfolio risks (Lisandrou and Nesvetailova, 2020). All this affects the resilience of the economy and of the society to economic shocks. Similarly, if the size of the public sector shrinks, for example due to privatizations, a larger part of the economy depends on private expectations. As a result, income fluctuations tend to be larger and increasingly driven by unchecked and fickle private credit movements.

In sum, public debt solvency indicators and targets of any kind gain some meaning only in the presence of a framework that determines the macroeconomic relationship among variables as well as the appropriate horizon for the analysis (Costantini, forthcoming). The problem is that access to finance is a pre-requisite for determining the timing and direction of the development process as well as of any reconfiguration of the debt sustainability profile when external shocks occur or international macroeconomic conditions change significantly.

Indeed, even if macroeconomic dynamics are put aside, several factors can stand in the way of public debt sustainability, which are especially relevant in developing economies, where a significant proportion of assets and liabilities of the public sector are denominated in foreign currency (Barbosa-Filho, 2021). A speculative attack on the domestic currency, leading to exchange rate depreciations, inflationary spirals and interest rate adjustments can derive from political instability in response to contractionary fiscal policies, triggering a vicious circle of growth collapse, rising fiscal deficits and a debt crisis. Several other outcomes are possible,

exposing as a common feature that aiming at primary surpluses becomes an elusive means to contain debt ratios, be it because changes in expectations could adversely affect the discount rates when fiscal prudence is interpreted as a worrying sign of trouble ahead (Guzman and Lombardi, 2017), or because shocks beyond policy control alter exchange rates or foreign interest rates. The accounting framework can be expanded to allow for the real-world case where governments also hold fixed-income financial assets, which can soften the required fiscal adjustment when either governments accumulate fixed assets at a faster rate of GDP growth, or when the interest rate on assets is greater than on liabilities. For most developing economies, where the accumulation of financial assets is limited and where most often the interest payments on fixed assets or loans are low, debt dynamics can be worsened (Akyüz, 2021). Exchange rate complications would tend to exacerbate these patterns, because earnings on foreign reserves are typically lower than debt payments, and even more so when foreign interest rate premiums rise faster than the pace of domestic currency depreciations after external shocks or changes in foreign investors' expectations (Barbosa-Filho, 2021).

More generally, the liquidity risk associated with an expansionary fiscal policy is higher, the tighter the balance of payment constraint. This means that different stages of development are associated with typical liquidity risk configurations (Akyüz, 2007). On the one hand, least developed countries and low-income developing countries have trouble accessing credit and exports are often the only source of foreign currency. On the other hand, middle and high-income developing countries can sometimes be the destination of speculative capital inflows which can overwhelm the domestic financial and credit market, induce misallocation of assets and push inflation and imports.

From this point of view, it is market discipline, or being exposed to liquidity risk, that prevents countries spending their way to a structurally sustainable path of debt sustainability. If, partly, mitigating liquidity risks can be an immediate national policy target, addressed for example by price and capital controls, it is mainly something that only international coordination can tackle and solve, creating the policy space needed for a reduction of the external dependency of countries on global finance. Achieving the required degrees of policy coordination around a pro-development revamp of the global financial architecture is not trivial and, in many respects, may look unachievable. But intermediate steps carried out at regional or South-South level of cooperation can help approach the goal (Kregel, 2016; *TDR 2019*).

The widespread, underlying assumption is that the economy's growth and development path is fully determined by its factors of production and technology with cyclical and mostly self-correcting features. In this view, "well-crafted automatic stabilizers are the best way to deliver fiscal stimulus in a timely, targeted, and temporary way" (Boushey and Shambaugh 2019: 5). Since in normal times no such support should be present, these programs should "contain triggers, which assure markets that neither excess spending nor premature austerity will harm the economy going forward" (Altman et al., 2019: 3).

However, it has been amply documented that such counter-cyclical expansions do not allow economies to develop sufficiently or for a sufficiently long time to *sustain* the increase in potential output that results from a stable growth of income, aggregate demand and technical progress (McCombie, 2002; Ocampo et al., 2009; Storm and Naastepad, 2012). For instance, for the United States, Storm (2017), Taylor (2020), and earlier Minsky (1969) show that the failure to contribute to income generation and effective aggregate demand has produced subdued productivity growth and a systematic displacement of jobs from high- to low-wage sectors. Celi et al. (2018) show how austerity and an abandonment of industrial policy in Southern Europe have produced slow productivity growth, increased dependency on imports and, in many cases, high private indebtedness.

Sustained fiscal support is even more necessary for developing countries. Wade (1992) shows this in the NIEs of East Asia centred on the simultaneous promotion of exports and domestic absorption as the infrastructure and technology transfers triggered the expansion of the industrial sector.[6] Meanwhile, Palma (2011) shows that the abandonment of active import substitution policies in Latin America brought premature de-industrialization and productivity slowdown (see also Khan and Blankenburg, 2009; Tregenna, 2016).

The countercyclical approach to fiscal policy not only appears inappropriate to face the great challenges of reducing inequality and mitigating the impact of climate change, but it is even detrimental to its own declared objective of fiscal sustainability (see Box 1.2). Decades spent in (often failed) pursuit of balanced budgets have intensified the cyclical fluctuations of income and employment, at the same time reducing fiscal space in the downturn.

C. Global Finance and Developing Country Vulnerabilities

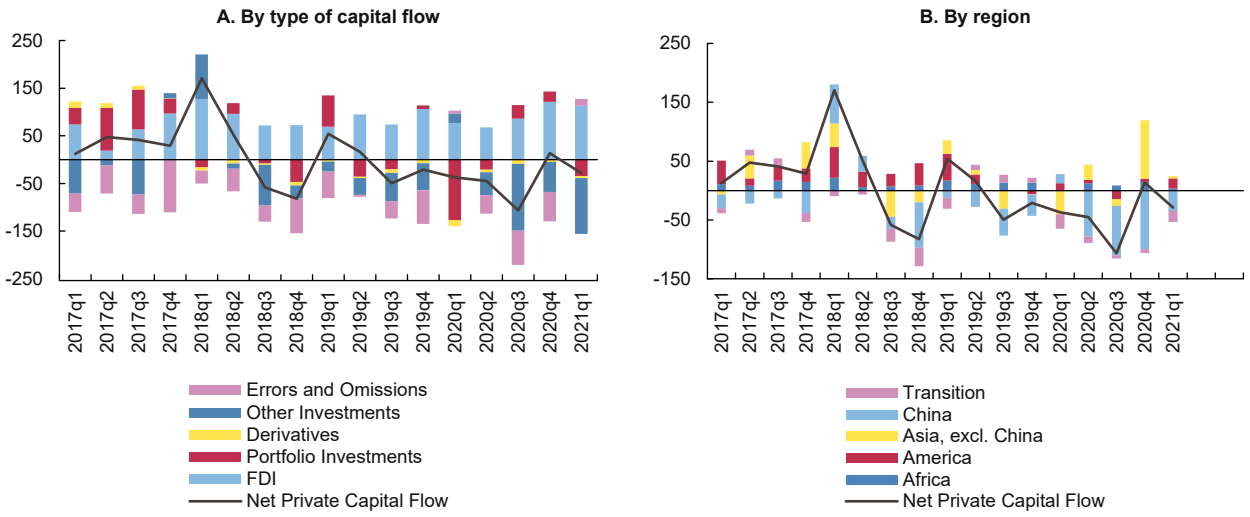
As highlighted in previous *Reports* (see Chapter II), developing countries have integrated into global financial markets: since the 1990s in high-income emerging market economies, and more recently, low- and middle-income so-called frontier economies.[7] This change has left them vulnerable to the volatility and procyclical nature of private capital flows. Subject primarily to external factors (such as monetary and fiscal policy decisions in the United States or commodity price movements) rather than local factors, these flows pose substantive challenges for the management of macroeconomic imbalances, debt sustainability and monetary and fiscal spaces in developing countries (see also Section B.3).

The ongoing Covid-19 pandemic has thrown these vulnerabilities into sharp relief. As Figure 1.14 shows, the deterioration of net capital flows to developing countries in the initial phase of the pandemic was led by record portfolio outflows in the first quarter of 2020, amounting to $127 billion. Since then, the picture has been one of much reduced, but still volatile, portfolio flows, with outflows of $21 billion in the second quarter of 2020 followed by inflows of $51.6 billion in the second half of the year, and another round of outflows ($34.5 billion) in the first quarter of 2021. From the second quarter of 2020, massive outflows of 'other investments', totalling just under $370 billion between the 2020Q2 and 2021Q1, have accounted for overall net negative capital flows to developing countries in this period.[8] By contrast, FDI flows to developing countries have remained stable overall, despite their initial reduction in the first quarter of 2020.

This broad picture shrouds more complex dynamics of net capital flows to developing countries in the wake of the pandemic, including uneven regional impacts (see also Figure 1.14 right hand side - By region).

Net portfolio flows to developing countries are largely driven by non-resident investment in debt and equity (*TDR 2020*: 6; UNCTAD 2021: 3; IMF, 2021). Following the record negative shock to these flows in the first quarter of 2020 that hit all developing regions, the earlier-than-expected return of portfolio funds is likely to have been bolstered by prospects

FIGURE 1.14 **Net private capital flows to developing countries, 2017–2021**
(Billions of dollars)



Source: UNCTAD secretariat calculations based on national data.
Note: Negatives values indicate outflows. The samples of economies by country group are as follows:
Transition Economies are: Kazakhstan, Kyrgyzstan, the Russian Federation and Ukraine. *Africa:* Botswana, Republic of Cabo Verde, Egypt, Ghana, Mauritius, Morocco, Mozambique, Namibia, Nigeria, South Africa, the Sudan and Uganda. *Latin America:* Argentina, the Plurinational State of Bolivia, Brazil, Chile, Colombia, Ecuador, El Salvador, Mexico, Nicaragua, Paraguay, Uruguay and the Bolivarian Republic of Venezuela. *Asia excluding China:* Hong Kong (China), India, Indonesia, Jordan, Lebanon, Malaysia, Mongolia, Pakistan, Philippines, Saudi Arabia, Singapore, Sri Lanka, Thailand and Viet Nam.

of a substantive new allocation of SDRs and by a growing consensus around the need to recycle unused SDRs from advanced to developing countries (see Box 1.3), whereas investor expectations of rising long-term interest rates in the United States have driven outflows in early 2021 (Wheatley, 2021). While the high volatility and reduced volume of portfolio flows since the second half of 2020 reflect financial markets' uncertainty regarding the future trajectory of the virus and to uneven economic recovery patterns in developed and developing countries, their impact on developing countries has been amplified by deepening financial vulnerabilities after the GFC of 2007–09.

As pointed out previously (*TDR 2020*, Box 1.1), this new round of financial integration was marked by a number of trends. First, the expansion of the external balance sheets of emerging market economies gained momentum,[9] with asset managers from advanced economies, in addition to targeting foreign-currency denominated corporate bond markets, increasing their participation in domestic sovereign bond markets. While greater reliance on domestic-currency denominated public debt mitigates the currency mismatch in the balance sheets of developing country governments, it also creates maturity mismatches, arising from the prohibitive costs of issuing long-term government securities in most developing countries. It also shifts the currency risk to global lenders, thus heightening exposure to speculative, non-resident investor behaviour (Berensmann et al., 2015).

Second, non-resident portfolio investments in foreign-currency denominated sovereign debt in frontier economies increased sharply, reflecting both investors' search for yield and dwindling public international resource mobilization. Third and relatedly, the rise of asset management as an industry within global finance has resulted in highly synchronized pro-cyclical portfolio investment strategies (Haldane, 2014; Miyajima and Shim, 2014; Raddatz et al., 2017).[10]

Fourth, during the crisis, sovereign ratings and outlooks by the "Big Three" private credit rating agencies (CRAs) have played an increasingly problematic role in further limiting access to international financial markets, just as beleaguered developing countries needed it most, to help bolster financial (and fiscal) breathing space. In addition to driving up refinancing costs in these markets, CRAs hampered the effective implementation of international emergency initiatives, such as the G20 Debt Service Suspension Initiative (DSSI). While participation in the DSSI was not considered a default event, seeking equal treatment under the terms of this initiative from private creditors has been deterring participating countries from taking such action (Li, 2021; Griffith-Jones et al., forthcoming).

As a result of these vulnerabilities, strongly net negative, if fluctuating, portfolio flows to developing countries translated into a vicious cycle of currency depreciations, weakening debt sustainability and reduced fiscal spaces. During 2020, emerging market currencies depreciated against the United States dollar by more than 20 per cent and some frontier economies' currencies by between 20 to 50 per cent,[11] triggering hikes in sovereign credit spreads and driving up the value of their foreign-currency denominated debt, thus also affecting private borrowers' balance sheets and refinancing risks (Hofmann et al., 2020).

A stop-go pattern of portfolio flows has been particularly prevalent in Africa and in Latin America and the Caribbean (LAC). In 2020 in Africa, portfolio outflows were the primary factor reducing the regions' total private capital inflows. Although, in 2019, the region recorded portfolio inflows of just over $39 billion, this trend was all but wiped out in 2020. Most African governments and companies faced difficulties in issuing new debt in international financial markets from the second quarter of 2020. High borrowing costs compared to other regions combined with deteriorating credit ratings, hampered their ability to raise capital in these markets. It is not a coincidence that African sovereign bond issuance in 2020 was equivalent to one third of 2019 and almost no issuance occurred after the second quarter of 2020 (Munevar, 2021).

The LAC region has been similarly affected by high portfolio flow volatility, with outflows in the first half of 2020 amounting to $30 billion, followed by a partial reversal at $19 billion in the second half of the year and renewed outflows in the first quarter of 2021, albeit at a lower level (-$2.6 billions). At the same time, while FDI flows into African regions have remained fairly stable, the LAC region has seen a brief but sharp decline in FDI in the second half of 2020, returning only partially to more normal levels, compared to pre-crisis trends, in the first quarter of 2021.

BOX 1.3 Money for something: Moving on to an expanded role for Special Drawing Rights

The record new allocation of Special Drawing Rights (SDRs) of $650 billion (or around 457 billion SDRs at the current SDR/$ exchange rate[22]) – approved by the IMF's Board of Governors in August 2021 – more than doubles the total stock of SDRs (currently SDR 204 billion) amounting to more than 2.5 times the general allocation of SDRs made in 2009 following the global financial crisis.

First created by IMF in 1969, SDRs are an international reserve asset to supplement the foreign exchange reserves of member countries. They represent a potential claim on freely usable currencies of IMF members[23] for use in transactions between member states' central banks and between them and IMF, but not directly for operations in private markets (see also *TDR 2020*, Box 4.5).

TABLE B1.2 Proposed 2021 SDR allocation to developing country groups
(as per cent of total allocation, in billions of current United States dollars, and as per cent of 2019 GDP, international reserves and short-term debt)

Country group	No. of countries	Quota (% of total SDRs)	2021 Allocation (billion USD)	SDR/ GDP	SDR/ Reserves	SDR/ ST debt
Transition economies	18	4,2	27,52	1,1%	3,8%	23,8%
Low-income developing countries (LICs)	29	1,4	9,21	1,9%	18,4%	70,3%
Middle-income developing countries (MICs)	58	9,6	62,12	0,8%	4,8%	19,4%
High-income developing countries (HICs)	45	22,2	144,01	0,6%	2,5%	6,3%
Total all developing countries and transition economies	**150**	**37,4**	**242,86**	**0,7%**	**3,1%**	**8,9%**

Source: UNCTAD secretariat calculations, based on World bank, IMF and national sources.
Note: As per World bank International Debt Statistics, Short Term (ST) debt includes all debt with an original maturity of one year or less and interest in arrears on long-term debt.

SDRs are unique: they are allocated to IMF member states without eligibility criteria, do not create new debt[24], while boosting a country's international reserves and providing unconditional liquidity support with regard to a country's macroeconomic policies. For developing countries, simply holding SDRs as a reserve asset may benefit the way they are perceived by global investors and credit rating agencies (see also *TDR 2020* and Hawkins and Prates, 2021).

The 2021 SDR allocation is, however, based of IMF's historical quota system which, as has long been noted, favours developed countries.[25] Of the 190 IMF member countries, 40 developed countries will receive roughly 63 per cent of this allocation (around $407 billion) and 150 developing countries, taken together, will receive just over 37 per cent ($243 billion) of this allocation, which on average accounts for 0.7 per cent of their combined 2019 GDP (see Table B1.2). While the quantum of the proposed SDR allocation for low-income countries (LICs) is significantly smaller than for other country groups, at $9.2 billion, its relative share to GDP at 1.9 per cent, of reserve assets at 18.4 per cent and of short-term debt at 70.3 per cent shows how potentially important this SDR allocation is to LICs. By contrast, the economic impact of the new SDR allocation is considerably less in MICs, many of which, including Small Island Development States (SIDS), face particularly high levels of debt as well as environmental vulnerabilities.

It is not only the historically skewed quota system for SDR allocations that rankles but the low utilization rate of SDR allocations by developed countries. As shown in Table B1.3, 71 per cent (108) of IMF members have employed their SDRs. But whereas 82 per cent of SIDS have made use of 44 per cent their SDR allocations and 69 per cent of LICs have used 86 per cent of their allocations, the 65 per cent of developed countries that employed their allocations made use of only 13 per cent of their allocations. This raises the question of whether (and how), in addition to new allocations, voluntary reallocations of unused SDRs (sometimes referred to as SDR recycling) from developed to developing member states could be undertaken.

SDR recycling: Old wine in new bottles?

Broad estimates for SDR recycling from the Group of Seven (G7) to developing countries (excluding the planned new 2021 SDR allocation) suggest a figure in the region of $100 billion (Reuters, 2021). Compared to $266.5 of the new SDR allocation going to these countries, and if broadened beyond the G7, such SDR recycling could be significant. The most prominent proposals for such SDR recycling currently mooted include channelling SDR reallocations through of IMF's poverty reduction growth trust (PRGT) and the establishment of a separate

IMF Resilience and Sustainability Fund for vulnerable economies including MICs, aimed at supporting their Covid-19 recovery and promoting climate change (Shahal and Jones, 2021). The idea is that recycled SDRs (to IMF) will be used to boost the funding of concessional IMF lending facilities. This, however, not only compromises the non-debt creating characteristic of SDRs, but recycling SDRs through IMF lending facilities runs the danger of stripping them of their role as policy-unconditional liquidity support that (indirectly) helps to free up much needed fiscal space in developing countries.

TABLE B1.3 Utilization of existing SDR allocations by country group, as of 31 May 2021

Country group (total number of counties in brackets)	*Share of countries that utilized past SDR allocations*	*SDR utilization (Share of allocation)*
Transition economies (18)	67%	38%
Low-income developing countries - LICs (29)	69%	86%
Middle-income developing countries - MICs (44)	73%	63%
High-income developing countries - HICs (31)	68%	35%
Small Island Developing States - SIDS (28)	82%	44%
Total all developing economies (150)	72%	47%
Developed countries (40)	65%	13%
Total (190)	71%	28%

Source: UNCTAD secretariat calculations, based on World Bank, IMF and national sources.
Note: LICs and MICs exclude SIDS.

Other proposals include the creation of earmarked funds outside the IMF, such as a Covid-19 response investment fund, a Global Vaccine Fund or a Global Social Protection Fund, but without clear answers as to how country eligibility criteria, potentially competitive priority setting for ear-marked purposes and the more detailed functioning of such funds in regard to their lending activities should be designed (e.g. Ghosh, 2021). The alternative is to allow decision-making in developed countries with a low utilization rate of their allocated SDRs to lend or donate unused allocations to developing country partners on a unilateral basis (e.g. Plant, 2020).

A bolder option: Leveraging SDRs for multilateral cooperation to achieve global goals

Under the pressure of global emergencies quick responses will inevitably entail working within given structures to achieve the best short-term outcome. But this should not obscure the urgent need to move beyond the use of SDRs solely as a "fire-fighting" crisis-response tool.[26] The most obvious option would be a further and deeper review of IMF's quota system to address current biases in favour of developed countries. Given the many years it took to arrive at the marginal 14th General Quota Review, implemented in 2016, this is also the least realistic option due to lack of political consensus. Another still challenging, but perhaps more achievable, option is the creation of new ear-marked types of SDRs – such as Special Environmental Drawing Rights or Special 2030 Agenda Drawing Rights – to establish SDR-based global funds for purposes that command a high degree of collective and multilateral support. Under this proposal, participating countries would develop national investment plans to meet specific (environmental and/or SDG-related) targets and specify budgetary requirements. For countries that cannot self-finance these plans, a zero-interest loan facility at the IMF could be put into place, whose maximum funding capacity would be measured using Special Purpose Drawing Rights that link claims on these directly to planned earmarked investments (*TDR 2019*: 92-93). This would have several advantages:

i. It would de-link an *expansion* (and more regular use) of *new types* of SDRs from the IMF quota system.

ii. It would provide a flexible and, in principle, unlimited mechanism for the predictable, stable and affordable financing of environmental and development targets and objectives without mechanical reliance on counter-productive policy conditionalities or ad-hoc eligibility criteria.

ii. It could also channel recycled 'standard' SDRs in coordinated fashion towards complementary global environmental and developmental goals.

While this idea, as with other proposals,[27] will likely require changes to IMF's Articles of Agreements, action is urgent, if the achievement of interrelated environmental and developmental goals is to be taken seriously.

Looking at both parts of Figure 1.12 in conjunction, it becomes clear that net private capital flows to developing regions in 2020 and the first quarter of 2021 have been dominated by a few emerging market economies, in particular China, as well as other emerging Asian economies and to a lesser extent, large emerging market economies in Latin America. For these countries, changes in the net external assets of their residents are significant, since the expansion of their external balance sheets over the last decade has involved the build-up not only of international reserves but also of other foreign assets (Akyüz, 2021). Although China was the main recipient of net portfolio and foreign direct investments between mid-2020 and the first quarter of 2021 (with non-resident portfolio inflows and FDI much larger than Chinese portfolio and direct investments abroad), as mentioned, substantive outflows of Chinese other investments in corporate and commercial bank deposits overseas, bank lending abroad and, to a lesser extent, trade credits and advances, have been important in accounting for net negative capital flows to developing countries overall in this period (SAFE, 2021; Westbrook and Zhou, 2021). While other Asian economies have, throughout 2020 and into 2021, seen the largest portfolio outflows of all regions – including substantive non-resident investor flight from domestic sovereign bond markets in some cases – the region overall has benefited most from inflows of other investments as well as from strong FDI, in particular, into India (UNCTAD, 2021a; World Bank, 2021).

1. Debt sustainability in developing countries: No sign of relief on the horizon

Even though spiralling sovereign debt crises were avoided in 2020, developing countries' external debt sustainability further deteriorated, revealing growing pressures on external solvency in addition to immediate international liquidity constraints. Growing optimism about financial resilience in developing countries is premature.

The external debt stocks of developing countries reached $11.3 trillion in 2020, 4.6 per cent above the figure for 2019 and 2.5 times that for 2009 ($4.5 trillion).[12] The slower growth of these stocks in 2020 compared to average annual growth rates between 2009 and 2020 (7.7 per cent) reflects a combination of more limited access to international financial markets, increased reliance on concessional financing sources and the temporary impact of partial debt service payment suspensions through the G20 DSSI for low-income economies. Rising commodity prices from around the 2020Q2 helped to alleviate balance of payment constraints in developing country commodity-exporters, but also were a contributory factor to inflationary pressures and to rising food insecurity in commodity-importing developing countries, while the recovery of remittances has been very gradual (Malik, 2021) and tourism revenues have remained subdued (see Section D). But these rebounds, as well as the gradual return of global investors to some developing countries (see above), have been insufficient to compensate the impact of their drastic collapse in the first half of the year on the ability of developing countries to service their external debt obligations.

At the same time, substantive debt relief has not materialized. The only lasting multilateral relief is being provided by the IMF through the cancellation of debt service obligations in 29 countries due to it, amounting to $727 million between April 2020 and October 2021. The G20 DSSI delivered around $5.7 billion in debt service suspensions by participating bilateral creditors to 46 out of 73 eligible recipient countries in 2020, with a further $7.3 billion expected to apply in the first half of 2021.[13] This not only is at best a proverbial drop in the bucket, but also will increases debt repayment burdens from the end of the DSSI in December 2021 for participating countries who will have to add suspended payments to their repayment schedules from 2022. The provision of emergency concessional financing by the IMF, the World Bank and – to a lesser degree – other multilateral development banks,[14] while required, also represents new debt that needs to be serviced.

Numerous sovereign debt crises across the developing world have, therefore, been postponed rather than resolved. As Figure 1.15 shows, the external debt stocks of developing countries have been growing faster than their export earnings again since 2018, with this trend clearly accelerating in 2020, pointing to rising external solvency constraints. The consequent strong rise in the ratio of total external debt stocks to exports from 110 per cent in 2019 to 129 per cent in 2020 for developing countries overall has been driven by much sharper increases, from higher levels, in low-income developing countries (from 179 per cent in 2019 to 220 per cent in 2020), least developed countries (from 158 to 202 per cent, respectively) and in particular, in small island developing states (SIDS), from 158 to no less than 293 per cent in the space of a year. This trend has been most

pronounced in African countries and the LAC region (Figure 1.16, right side).

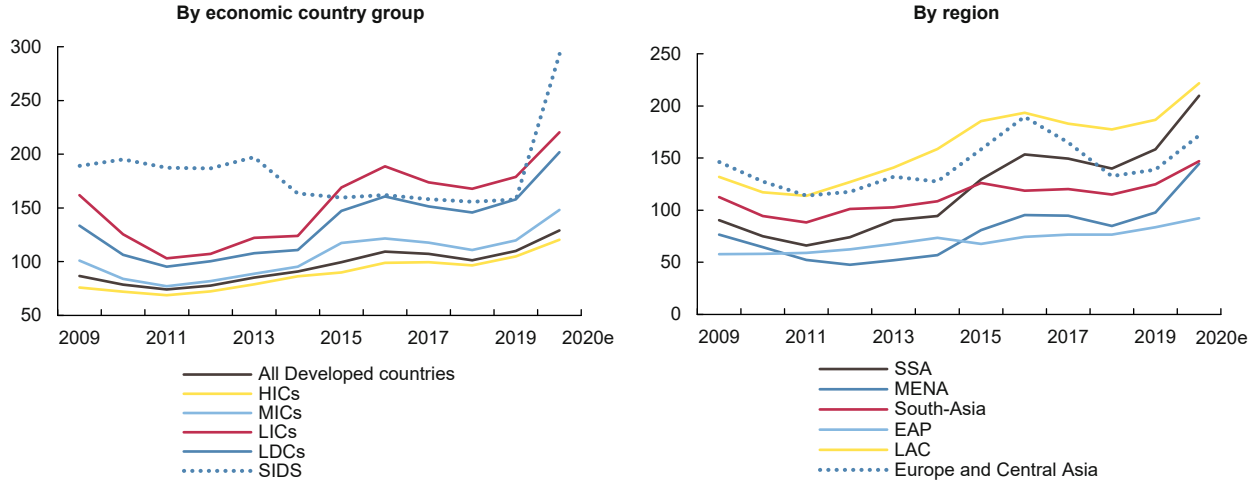
Debt service on total external debt, as a percentage of exports, thus rose to 15.8 per cent in 2020 for all developing countries, from 14.7 per cent in 2019 and compared to an annual average of 11.3 per cent between 2009 and 2020. This figure reached 17.5 per cent in middle-income countries and an unprecedented 34.1 per cent in SIDS, both country groups with a substantive exposure to the refinancing of public external debt in international financial markets and to growing shares of private in total external debt. In this context, it is worth recalling that the 1953 London Agreement on German external debt considered that the amount of export revenues that West Germany could spend on debt servicing should be limited to 5 per cent of the total in any year in order not to impede its post-war recovery (*TDR 2015*: 134).

Pressures on external debt sustainability are set to remain high over the coming years since many developing countries face a wall of upcoming sovereign debt repayments in international bond markets (Figure 1.16). Taken together, developing countries (excluding China) face total repayments on sovereign bonds already issued to a value of $936 billion until 2030, the year earmarked for achievement of the Sustainable Development Goals (SDGs), consisting of $571 billion in repayments of principals and $365 billion in coupons or the annual interest rate paid on a bond's face (or nominal) value.

Of particular concern are countries in sub-Saharan Africa, many of whom are low-income countries. At the time of writing, the third wave of the pandemic is rampant across the African continent with very low levels of vaccination, and there is no assurance that countries in sub-Saharan Africa will be in a position to meet bond obligations scheduled for 2023, nor that they will have time to recover by 2025, a watershed year in which these countries need to repay $13 billion (in principal outstanding and coupon disbursement).

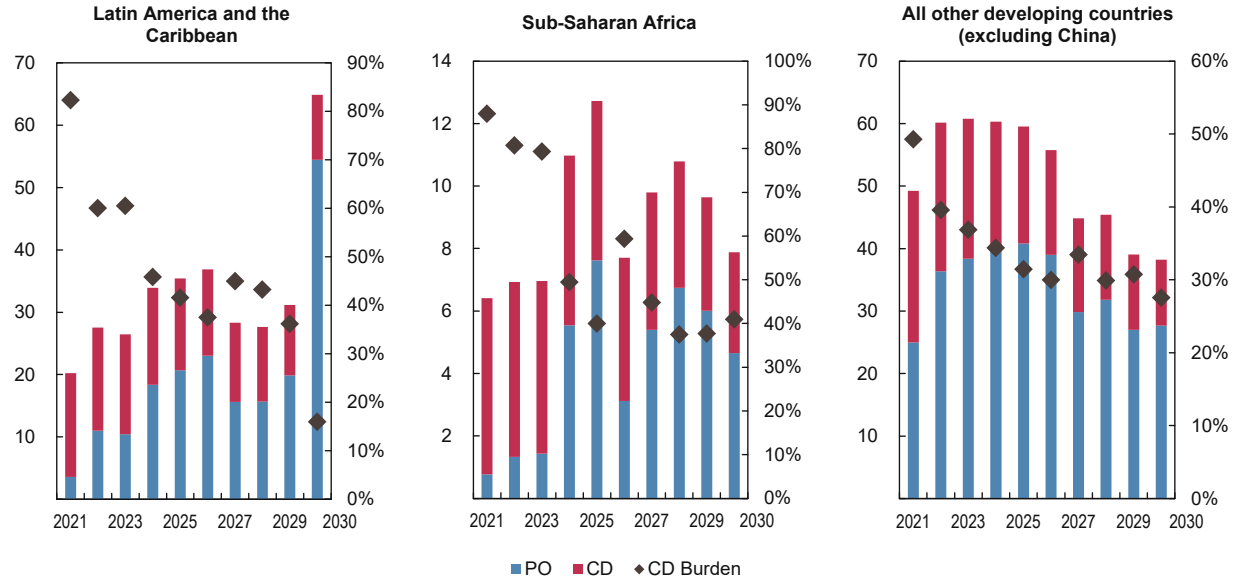
In mostly middle-income LAC countries, the wall of sovereign bond debt immediately following the pandemic is also palpable, with over $25 billion due in 2024 and 2025. Both regions also face high coupon disbursement burdens (or shares of coupon disbursements in total repayments on foreign-currency denominated sovereign bonds due in any one year under the period of observation), well above those in other developing countries (excluding China), in particular in the first half of this decade. This challenge reflects the fact that countries in these regions pay higher coupon or annual interest rates on their sovereign bonds in international financial markets than the average for developing countries as a whole (Munevar, 2021). Thus, the data highlights the consequence of historically high coupons in LAC countries, with the coupon disbursement burden well above 60 per cent until 2023, only gradually falling in subsequent years to reach 16 per cent in 2030. For countries in sub-Saharan Africa, the coupon disbursement burden is very high at the start of the period

FIGURE 1.15 **Total external debt to export revenues, developing countries, 2009–2020**
(Percentage)



Source: UNCTAD secretariat calculations, based on World Bank International Debt Statistics.
Note: 2020 = estimates.

FIGURE 1.16 **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 (per cent of total debt service, right-hand side).

Source: UNCTAD secretariat calculations based on Refinitiv.
Note: Sovereign bonds included are those issued in foreign currencies. Coupon disbursements reflect currently available information and may underestimate the coupon disbursement burdens since a number of sovereign bond contracts have variable interest rates (coupons) over the period under consideration. Red dot represents the average coupon, as of current information available.

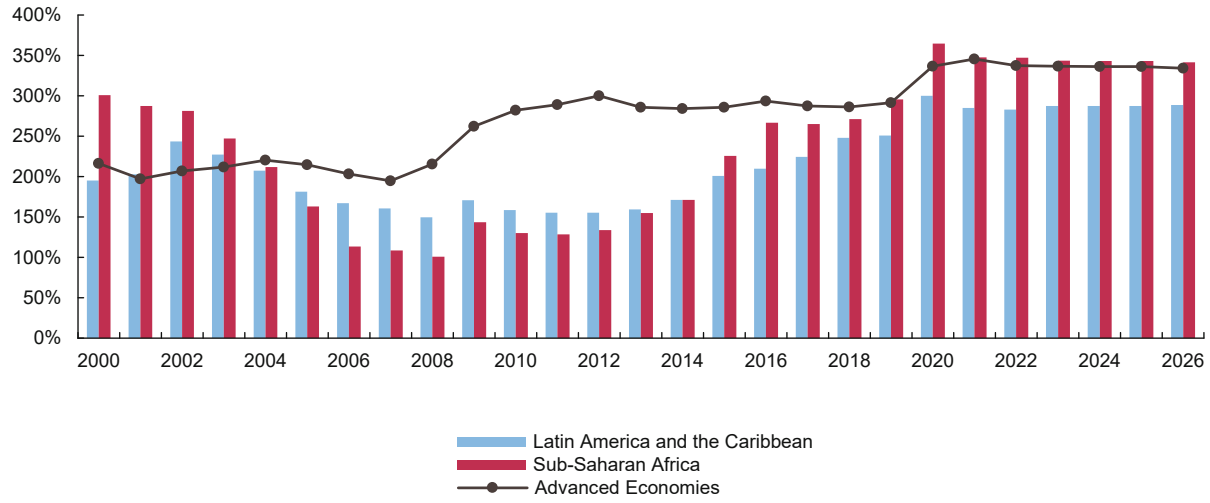
at over 80 per cent, and although it then declines somewhat, is still estimated to stand at 41 per cent of the total debt servicing bill in 2030.

Beyond sovereign bond debt, the overall composition of external debt has changed, with public and publicly guaranteed long-term external (PPG) debt overtaking private non-guaranteed long-term external (PNG) debt as the main component of developing countries' external debt profiles in most countries since 2018, a trend clearly reinforced by the onset of the Covid-19 pandemic. While PNG debt became a driving factor of developing countries' overall indebtedness in the aftermath of the GFC (see *TDR 2019*), the recent faster growth of PPG compared to PNG debt reflects the stronger reliance on public borrowing in times of crises. Thus, while PPG debt grew at 8.7 per cent in 2020 – well above its average annual growth rate since 2009 of 7.5 per cent – PNG debt grew at only 2.9 per cent. Current shares of PNG debt, in both long- and short-term external debt, nevertheless remain high by historical standards (amounting to 48 and 34.7 per cent, respectively, in 2020), entailing considerable contingent liabilities for public sectors.

Finally, and to fully grasp the severity of the situation, it is necessary to look beyond external debt burdens to the evolution of public debt burdens overall, as an indicator of pressures on fiscal space and on repayment capacities in developing countries. As Figure 1.17 shows, the economic fallout from the Covid-19 pandemic has, unsurprisingly, spurred a build-up in public debt as government revenues have collapsed and health and social expenditure has increased. As a percentage of government revenues, total gross government debt reached unprecedented levels in sub-Saharan Africa (364 per cent) and LAC (300 per cent), surpassing high levels at the start of the century. In the case of sub-Saharan Africa, this also means that the success of the multilateral debt relief initiatives of the 1990s and early 2000s has been obliterated. Such high levels of public debt are more typically associated with advanced countries, whose management of this degree of indebtedness benefits from far lower debt service costs and the ability to issue internationally accepted domestic currencies to finance their government budget deficits. For developing countries, the outcome is likely to be higher balance of payments constraints. While the degree of policy space and the link between the fiscal and external constraints varies across developing countries (see *TDR 2020*, p. 98-100), there is little reason to doubt current IMF projections that these high public debt ratios will continue into 2026.

Given this outlook, more concerted and bolder international action is urgently needed to reduce the debt overhang in developing countries through substantive debt relief and outright cancellation. The alternative to addressing structural solvency constraints and putting developing countries' external debt burdens on a more sustainable, long-term footing is another lost decade for development marked by developing countries struggling under unsustainable debt burdens rather than investing in more promising approaches after the pandemic and achieving the 2030 Agenda.

FIGURE 1.17 **Gross government debt to government revenues, selected developing country regions and advanced economies, 2000–2026**
(Per cent)



Source: UNCTAD Secretariat calculations, based on IMF WEO April 2021. Country grouped by IMF WEO country classification.
Note: 2021 to 2026 = estimates.

D. Trends in International Trade

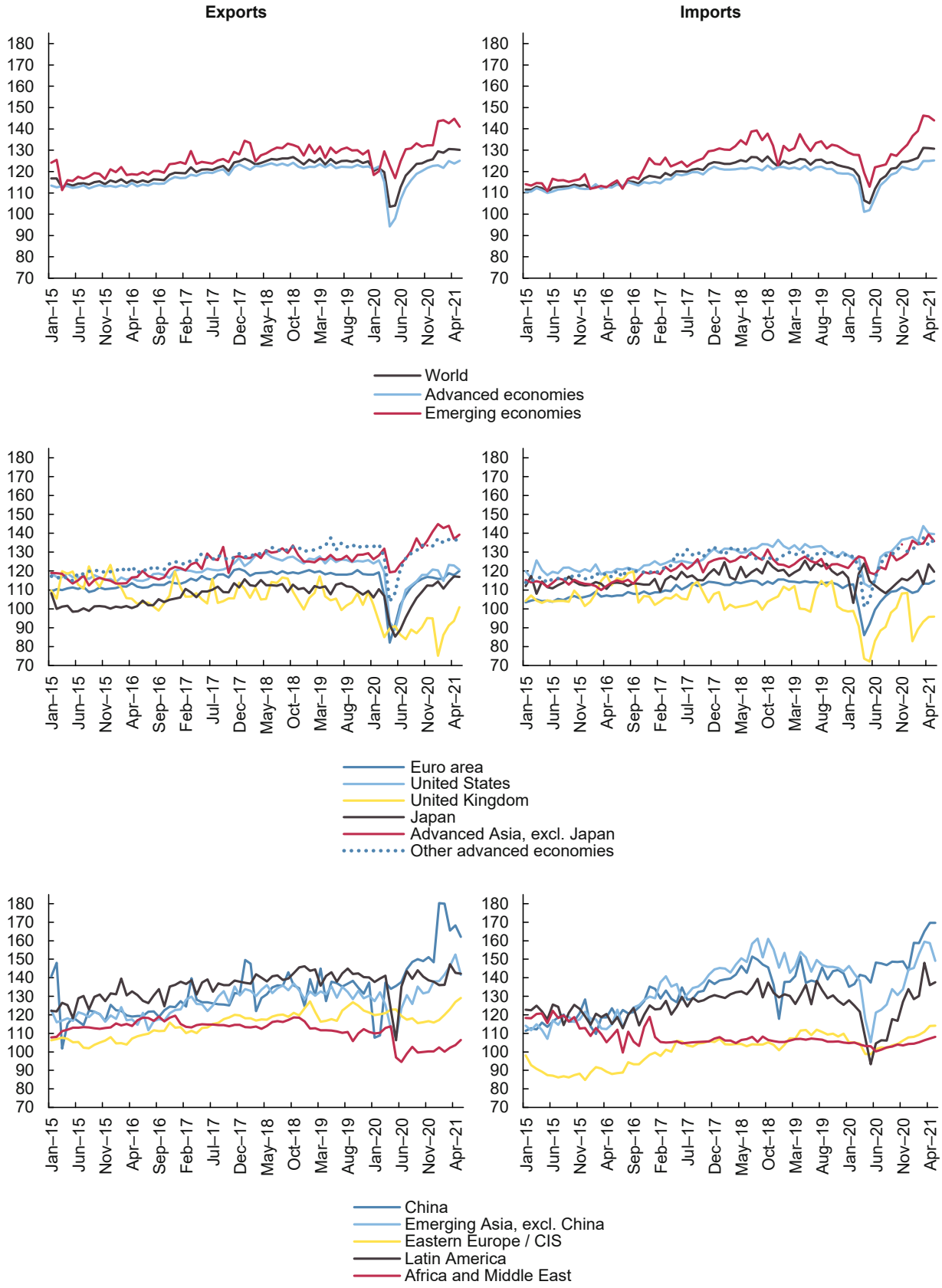
1. Goods and services

Extraordinary measures such as lockdowns, quarantines and travel restrictions had dramatic effects on trade; the international flow of goods and services drop by 5.6 per cent in 2020. Nevertheless, this downturn proved less severe than had been anticipated, as month-on-month merchandise trade flows in the latter part of 2020 rebounded almost as strongly as they had fallen earlier (Figure 1.18). The modelling projections underpinning the economic growth results in Section B yield an annual real growth of global trade in goods and services of 9.5 per cent in 2021. Still, the recovery has been extremely uneven, and scars will continue to weigh on the trade performance in the years ahead.

Risks remain tilted to the downside. First, the recent uptick in international trade may be short-lived, as it partly reflects an inventory restocking cycle in early 2021 after very low inventory-to-sales ratios were registered in many developed economies. Furthermore, the pandemic-induced shift in consumption habits, notably the relative increase in demand for goods, is expected to shift back as demand patterns normalize in high-contact sectors. This dynamic could boost trade in services if the rollout of vaccines improves worldwide. Yet, as of mid-2021, the spread of the Delta variant, including in the advanced economies with relatively high vaccination rates, is a reminder of just how fragile and uncertain the current situation is. The new variant could also prolong bottlenecks in international shipping caused by the pandemic, resulting in delays and price hikes in container shipping rates.

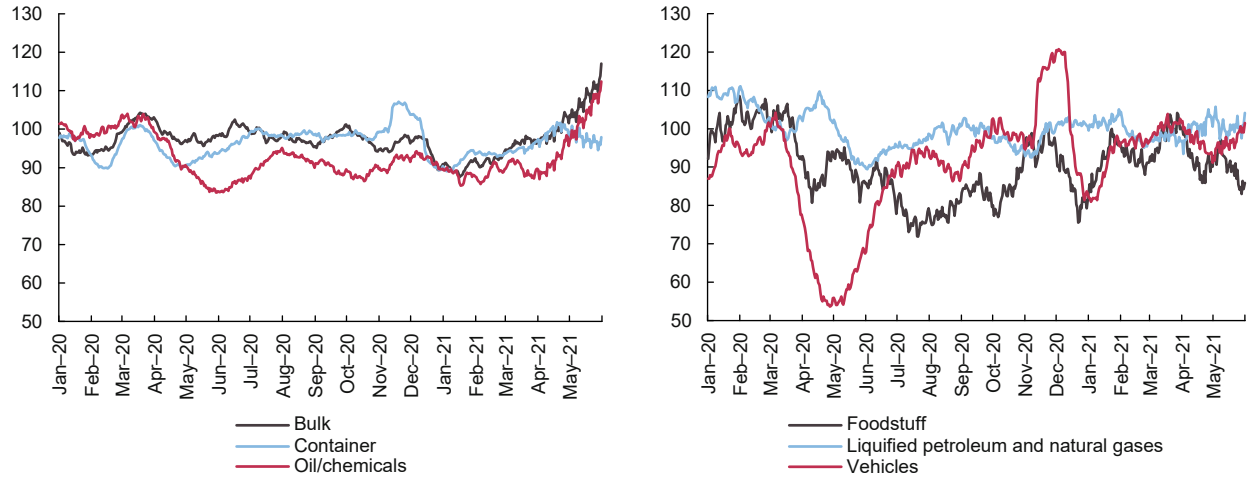
Apart from these near-term effects, trade tensions between the United States and China remain elevated. Similarly, global disputes over trade more broadly remain unresolved. These wrangles include the failure to end a deadlock on appointments to the Appellate Body of the World Trade Organization

FIGURE 1.18 **World merchandise trade, January 2015–May 2021**
(Index numbers, average 2010 = 100)



Source: CPB Netherlands Bureau for Economic Policy Analysis, World Trade Monitor database.
Note: Country group classification in this figure relies on Ebregt (2020).

FIGURE 1.19 **Metric tons of world exports by vessel type, 1 January 2020–31 May 2021**
(Index numbers: average 2019 = 100 ; 31-day centred moving averages)



Source: UNCTAD secretariat calculations, based on Cerdeiro et al. (2020) and AIS data collected by MarineTraffic (available at UN COMTRADE Monitor).
Note: Data after 15 June 2021 were not used because by the cut-off date the coverage was still insufficient to get a meaningful world aggregate.

(WTO), the highly uncertain future of the Doha Round and persistent differences over reform of the multilateral trading system. The upcoming WTO Ministerial in December, where calls for a more development-friendly trade agenda are likely to clash with efforts to add an environmental dimension to the trading rules, seems unlikely to iron out major differences.

Geographically, trade patterns have diverged since the beginning of 2020. The dominant position of Asia has prevailed, with an increased contribution to world trade in 2020 and 2021. China rebounded earlier and sharper than most other countries, both in terms of exports and imports. During the first half of 2021, China's monthly trade flows already exceeded their pre-pandemic levels by more than 10 per cent. Moreover, Chinese imports appear as an outlier as they do not show a strong decline in the first semester of 2020 compared to their historical trend. Robust domestic investment led to a strong appetite for raw materials that has persisted through 2021. In a similar vein, several other Asian economies have also performed strongly. These include, inter alia, Hong Kong (SAR), Taiwan (Province of China) and Viet Nam, which all saw their monthly exports exceed their pre-Covid-19 peak by late 2020 or early 2021 and have continued to surge through this year.

A number of other large economies saw their monthly merchandise trade flows, both exports and imports, close to the pre-Covid-19-crisis peaks by mid-2021. Lagging are the United Kingdom, Africa and the Middle East region, whose figures remained in many cases more than 20 per cent below their historical high by mid-2021. In the United Kingdom, weaknesses mostly resulting from post-referendum uncertainties, have severely disrupted trade with the European Union. In early 2021, lockdown measures, together with the winding-down of a rush to stockpile products ahead of the end of the Brexit transition period in late 2020, led to a second significant collapse of trade flows in less than 12 months. In Africa and the Middle East, total export volumes largely depend on oil. As its extraction has been sharply reduced after the OPEC+ agreement of April 2020, this largely explains why exports remain depressed, even though positive price effects have boosted external revenues for the large oil-exporting economies. Meanwhile, imports of this group have remained extremely flat, mirroring the subdued rebound in economic activities in these countries.

The evolution of trade flows since the emergence of Covid-19 has also diverged markedly from pre-pandemic patterns, as measured by their components. Overall, trade in goods has shown greater resilience than trade in services, though large disparities exist within these two broad categories.

For goods, estimates of world seaborne exports from Cerdeiro et al. (2020) track maritime merchandise trade by their respective vessels in real time (Figure 1.19). These can be used as proxies to unravel specific patterns in real time, which is especially relevant in

the current environment. As seaborne trade represents more than half of the value of all trade in goods – compared to 'air' and 'other transport modes' (i.e. mostly land) which account respectively for only 12 per cent and 31 per cent of the global freight services in 2019 (WTO, 2020) – these data provide a good sense of what is currently happening to these specific segments.

Seaborne transportation also experienced mixed patterns. As for the other dimensions of trade, data point to a multi-paced recovery. Containers, which represent roughly two thirds of the world maritime transport in terms of metric tons of cargo, registered a kind of W-shaped trajectory between March 2020 and June 2021.[15] Overall, this type of vessels did not register more than 5 per cent decline in activity in the first half of 2021 compared to 2019 and 2020, though a misallocation of containers led to a significant surge in shipping costs, especially from East Asia to Europe (see below). By contrast, compared to 2017 and 2018, container shipments were about 18 per cent lower, reflecting trade disputes and general subdued economic activities preceding the Covid-19 shock.

For the other two main categories of maritime transport – i.e., bulk and oil/chemicals, both accounting for slightly less than one fifth of the total – the patterns also differ markedly. Bulk has been much more constant than any other type of cargo. Indeed, the Covid-19 shock is hardly visible in the data when compared to previous oscillations. In the second quarter of 2021, however, it gradually increased, to reach an all-time high towards the end of May amid strong demand for raw materials.

Tanker shipping, by contrast, oscillated between the 2020Q1 and 2021Q1 at a level roughly one-tenth below its pre-pandemic plateau. Gas shipments have been relatively resilient while vehicles point to a deep drop in March-April 2020 due to the closure of many automotive assembly plants and the decline in the purchasing of vehicles in Europe and North America. After this episode, vehicle shipments rebounded quickly owing to the release of pent-up demand, especially in Asia, followed by a continued increase in the second half of 2020.

In trade in services, the shock from the pandemic has been sharper, with key sectors within this catch-all category still suffering severely from the pandemic-related disruptions. Tourism, at one-fourth of the total the largest component of trade in services prior to the pandemic, dropped to only one tenth in 2020 due to the collapse in travel and remains heavily depressed. Recent estimates point to global financial losses of $2.4 trillion in 2020 followed by another $1.7–2.4 trillion in 2021 depending on the scenarios for the rest of the year (UNCTAD, 2021b). Aside from these projections, recent data shows that in January–May 2021, international tourist arrivals worldwide remained 85 per cent lower than their corresponding levels of 2019. Asia and the Pacific continued to register the largest declines with a 95 per cent drop in international arrivals during the first five months of 2021, compared to the same period two years ago. The situation was slightly better in North America and the Caribbean, though the evolution in these figures still point to declines of 70 per cent and 60 per cent, respectively (UNWTO, 2021a).

Confidence in this industry has been slowly rising as the vaccination rollout in some key source markets together with policies to restart tourism safely have boosted hopes for a rebound in some locations. However, uncertainty remains high due to the uneven rollout of vaccines and the surge of new variants, which altogether tend to have a greater impact on long-haul destinations given the likelihood to have greater asymmetries in terms of health conditions and lesser harmonization of travel measures against Covid-19. In this context, almost half of all experts saw a return to 2019 levels only in 2024 or later (UNWTO, 2021b).

Transport, accounting for about one sixth of the trade in services, registered its lowest level of activity since 2010, with a 19-per cent drop in 2020. Apart from the sea transport described above, which weathered the crisis relatively well, except for most of the world's 1.7 million commercial seafarers who have been left stranded by the pandemic, air transport services remain severely depressed as passenger flights struggle to recover. In this context, airlines passenger revenues were down 74 per cent in the first quarter of 2021, compared to the same quarter in 2019. By contrast, air cargo has registered intense activity owing to the pandemic-induced logjams in maritime transport that prevent on-time delivery for high-value goods. The sudden rush for medical appliances and PPE at the onset of the pandemic and the subsequent rise of e-commerce, have further supported this subsector. In this context, cash-strapped airlines have converted passenger planes to cargo carriers as they looked for alternatives to limit their financial losses. This switch led to a year-on-year increase in cargo revenues by 50 per cent during the first quarter of 2021, though it was insufficient to compensate for the sharp loss

in passenger flows, which resulted in a 65 per cent drop in overall revenues.[16]

As of mid-2021, several other types of trade in services remain depressed. These include commercial, maintenance and repair, construction and to a lesser extent personal, cultural, and recreational services. By contrast, trade in ICT, insurance, pension, and financial services, have benefitted to an extent from pandemic-induced effects, such as the rise of activities being conducted over the Internet due to social distancing and remote work.

Aside from these specific developments, disruptions of all kinds have interrupted international trade in 2020 and 2021. Some of these disruptions still weigh on the outlook. Crippling supply chain bottlenecks that may have bolstered shipping profitability have also increased pressure on supply chains and thus trade. By early 2021, maritime freight rates surged, surcharges proliferated, service reliability declined, congestion in ports increased while delays and dwell times went up (UNCTAD, 2021c).

Supply chains have come under considerable pressure over the last year for a variety of unrelated reasons: the surge in consumer demand for manufactured goods, especially in the United States; transport capacity constraints; shortages affecting equipment and container; renewed virus infections in some parts of the world, including in Yantian terminal, a critical international container port in China; and a week-long blockage of the Suez Canal caused by the grounded container ship *Ever Given*. These disruptions are holding up the recovery for some major industries, especially in Europe. In parallel, the self-isolation of workers in large factories or warehouses, like in the United Kingdom also disrupted the production of manufactured goods. Automotive industry plants, for instance, had to close temporarily due to missing critical components and parts or at least to cut production because of labour shortages. Together, these experiences heightened the push back against long-haul trade, extended supply chains and the over-reliance on single-source suppliers.

2. Commodity markets

Commodity prices have, through mid-2021, continued their upward trajectory observed since mid-2020, with all commodity groups recovering to pre-pandemic levels, and some groups far exceeding those. The aggregate commodity index registered a drop of over 35 per cent from December 2019 to April 2020 – the date at which the price index reached its lowest point – with fuel commodities experiencing a fall of just shy of 60 per cent during this period (Figure 1.20).

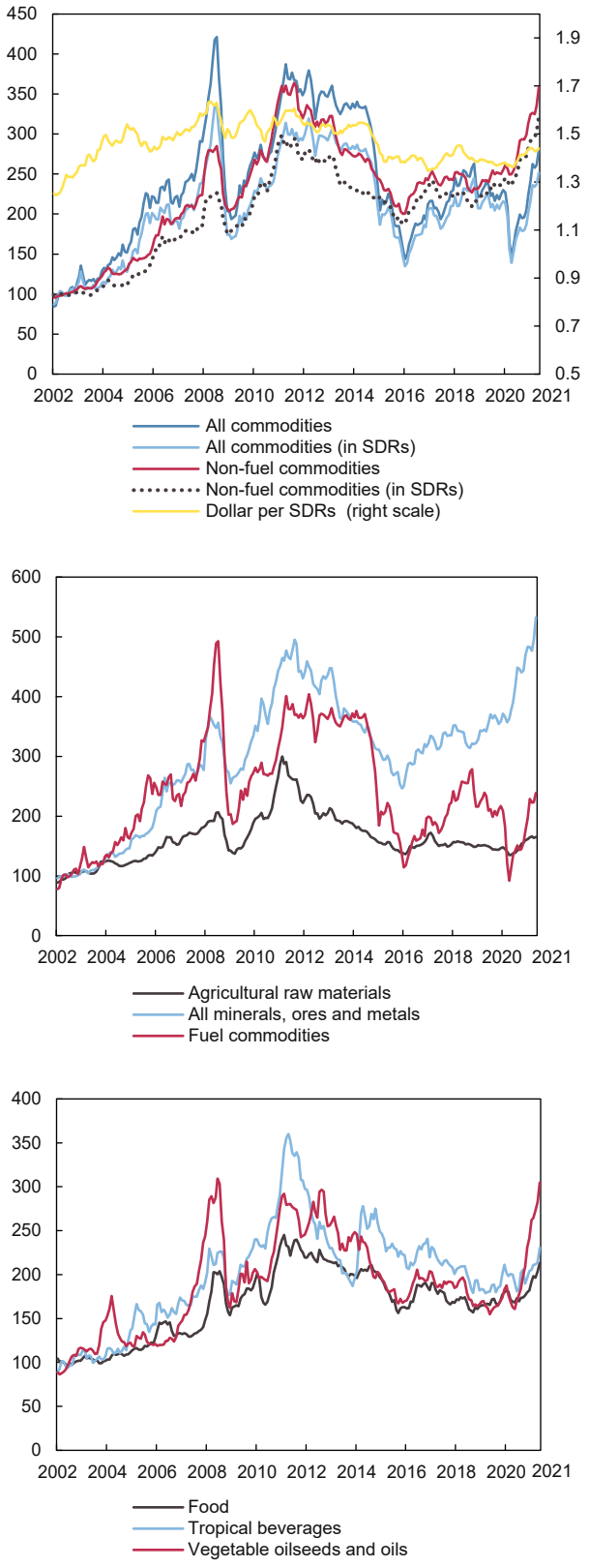
The imbalance between global oil supply and demand explains the unprecedented decline of international crude oil prices. A subsequent agreement reached by OPEC+ members in April 2020 to reduce daily oil production by 10 million barrels a day – the largest ever coordinated cut in production – proved effective in stabilizing crude prices.

A slightly positive trajectory for minerals, ores and metals during the first months of 2020 reflects the significant price gains registered for precious metals, a main refuge for financial investors during times of market uncertainty. These gains compensated the decline in the prices of industrial metals as international demand for these materials plunged.

Lastly, the commodity groups of food, beverages and vegetable oilseeds saw fairly moderate price declines at the beginning of 2020. Despite the weakening aggregate demand outlook and the sharp drop in fuel prices (which particularly affects the prices of biofuel crops such as corn and soybeans), as well as record high production for some food groups (particularly grains), the downward pressure on food prices during the first few months of 2020 was not as acute as that of other commodity groups. This was in part due to their lower income elasticity of demand. Similarly, increasing concerns regarding food security amidst the spread of the pandemic – particularly for poorer developing nations – due to disruptions in supply chains and transport networks also served to attenuate the downward pressure on food prices. The implementation of trade restrictions (including export bans) and increased imports with the intention of stockpiling certain food commodities further eased any downward pressure on prices. These factors account for the modest price declines in these commodity groups during the initial phase of the pandemic.

By the end of 2020, the aggregate commodity price index lay only marginally below the level observed in December 2019. The only group which remained significantly below the level observed prior to the pandemic was fuels, which ended 2020 with their price level 18 per cent below that registered a year earlier. By contrast, the prices of minerals, ores and metals and of vegetable oilseeds and oils, ended the year over 30 per cent above their pre-pandemic levels. In the case of metals, a ramping up of investment

FIGURE 1.20 **Monthly commodity price indices by commodity group, January 2002–May 2021**
(Index numbers, 2002 = 100)



Source: UNCTAD secretariat calculations, based on *UNCTADstat*. For more detailes on the data sources see https://unctadstat.unctad.org/wds/TableViewer/tableView.aspx?ReportId=140864.

spending in infrastructure projects in China as well as the Chinese authorities' decision to replenish strategic stockpiles led to a vertiginous increase in import demand for industrial metals such as copper and iron ore during the second half of the year. At the same time, the closure of key mines in Brazil due to virus outbreaks constrained supply and applied further upward pressure on the prices of these metals. Likewise, in the cases of food and vegetable oilseeds, increased demand for soybeans and wheat from China, coupled with lower-than-usual rainfalls in key producers in South America – due to the periodic cooling of ocean surface temperatures in the Pacific known as La Niña – which resulted in depressed grain volumes, lifted the prices of these agricultural goods towards the end of the year.

In 2021, the positive trajectory of commodity prices from the trough observed in the second quarter of 2020 has continued. The aggregate commodity index registered an increase of 25 per cent from December 2020 to May 2021, mainly due to the price of fuels, which surged by 35 per cent, while that of minerals, ores and metals registered an increase of 13 per cent.

The principal factors on the demand side exerting upward pressure on industrial commodity prices in 2021 include the ongoing rebound in industrial output in China and the strong recovery observed in the United States. These developments helped lift growth prospects and provide greater buoyancy to industrial commodities in 2021. Similarly, the Biden Administration's initial proposals to ramp up investment spending on major infrastructure projects further raised the growth outlook, and particularly boosted the demand for commodities such as aluminium, copper, iron ore and crude oil in the near term. Yet subsequent revisions and clarifications of the investment plans point to a significantly smaller increase in spending than that originally indicated, dampening the expected boost to demand.

Similarly, the surge seen in the prices of industrial metals in 2021 has been supported by supply constraints. Copper prices, which rose by 24 per cent over the course of the first half of 2021, have been lifted by mining disruptions in Peru and Chile. Likewise, iron ore prices, which surged by 38 per cent during the same period, were bolstered by disruptions to supply in Australia. Adding to the upward pressure on metal prices have been problems with regards to transportation of these goods largely due to increased congestion at strategically important ports, as well as difficulties with shipping personnel linked to

quarantine requirements in certain locations. Finally, the strong recovery in fuel prices has also increased transportation costs.

Moderating somewhat the uptick in the price of minerals, ores and metals has been the negative, albeit mild, trajectory in the price of gold. The downturn corresponds to a decline in demand for the commodity – which is seen as a safe asset – as the real yield on United States Treasury securities has nudged upward in 2021.

The commodity groups of food, beverages, and vegetable oilseeds and oils saw increases of 17 per cent, 13 per cent and 26 per cent, respectively, through the first half of 2021. Food insecurity concerns continue to be a factor in driving up prices. Meanwhile, sustained robust demand from China – particularly for feed commodities such as soybeans and maize as the country's livestock sector recovers from an outbreak of African Swine Fever – has been a factor driving global demand for these goods. The surge in fuel prices has also boosted the prices of grains and oilseeds that are used as biofuels.

On the supply side, the previously mentioned adverse weather conditions linked to La Niña towards the end of 2020 and into 2021 have severely affected grain production in South America and the United States, adding upward pressure to grain prices in 2021.

Despite the continued buoyancy in commodities prices since mid-2020, sources of fragility remain. In June 2021, the suggestion that the Fed may move to tighten policy earlier than had been previously envisaged was sufficient to drive down the prices of raw materials such as copper and lumber – both of which are key inputs in the construction sector – in the week following the Fed's announcement. Strategic policy turns can also sway the trajectory of prices. For instance, in June Chinese authorities released national reserves of various industrial metals, including copper, aluminium and zinc, in order to moderate their steep price increases over the first half of 2021.

Continued curbs on oil production by the OPEC+ alliance has supported the upward movement in fuel prices. Maintaining these limits on supply is contingent on adherence to the agreed output cuts within the OPEC+ framework. Recent fractious negotiations among OPEC+ members to extend production curbs highlights the possibility of loosening supply restraints, which would inevitably lead to a swift ramping up of global oil output. The sharp decline in

TABLE 1.2 World primary commodity prices, 2008–2021
(Percentage change over previous year, unless otherwise indicated)

Commodity groups	*2008*	*2009*	*2010*	*2011*	*2012*	*2013*	*2014*	*2015*	*2016*	*2017*	*2018*	*2019*	*2020*	*2021*[a]
All commodities[b]	33.4	-31.6	24.3	28.6	-3.0	-3.7	-7.9	-36.2	-9.4	17.4	16.0	-7.4	-15.9	43.5
Non fuel commodities[c]	22.2	-17.8	26.1	18.9	-12.7	-6.5	-8.0	-18.9	2.3	9.1	-2.2	0.1	4.2	41.0
Non fuel commodities (in SDRs)[c]	18.3	-15.7	27.3	14.9	-10.0	-5.7	-8.0	-11.9	3.0	9.4	-4.2	2.5	3.4	34.5
All food	32.6	-10.4	12.0	24.0	-6.5	-9.6	-0.8	-15.6	3.6	-1.3	-6.5	-2.0	6.5	28.1
Food and tropical beverages	31.1	-2.2	11.6	23.6	-9.9	-9.1	3.8	-14.2	2.2	-1.6	-6.7	0.3	3.6	13.7
Tropical beverages	19.2	1.1	19.8	31.2	-22.4	-19.8	24.1	-10.3	-3.3	-3.1	-8.5	-5.1	4.8	8.2
Food	34.9	-3.2	9.1	21.1	-5.6	-6.0	-1.2	-15.4	4.0	-1.2	-6.1	1.9	3.3	15.2
Vegetable oilseeds and oils	35.2	-24.1	13.0	24.8	0.7	-10.5	-9.6	-18.8	7.0	-0.5	-6.2	-6.9	13.4	61.8
Agricultural raw materials	8.4	-16.4	37.0	24.5	-19.2	-8.8	-11.8	-13.3	-0.4	5.3	-1.8	-3.9	-2.0	16.6
Minerals, ores and metals	19.7	-12.9	33.6	20.5	-6.9	-9.5	-12.8	-17.2	4.6	11.3	1.3	6.2	15.5	34.6
Minerals, ores and non-precious metals	17.5	-25.4	39.0	12.2	-16.8	-2.0	-14.6	-24.8	1.4	25.7	2.6	3.4	3.7	62.7
Precious metals	23.4	7.5	27.5	30.8	3.4	-15.8	-11.0	-9.9	7.1	0.4	0.0	8.9	26.3	14.3
Fuel commodities	37.9	-38.6	23.1	32.0	-0.5	-1.2	-7.5	-44.4	-17.5	25.9	27.5	-12.6	-32.1	54.8
Memo item: Manufactures[d]	4.9	-5.6	1.9	10.3	-2.2	4.0	-1.8	-9.5	-1.1	4.7	4.7	-2.1	1.4	

Source: UNCTAD secretariat calculations, based on UNCTAD, *Commodity Price Statistics Online*; and United Nations Statistics Division (UNSD), *Monthly Bulletin of Statistics*, various issues.
Note: In current dollars unless otherwise specified.
a Percentage change between the average for the period January to May 2021 and January to May 2020.
b Including fuel commodities and precious metals. Average 2014-2016 weights are used for aggregation.
c Excluding fuel commodities and precious metals. SDRs = special drawing rights.
d Unit value of exports of manufactured goods of developed countries.

oil demand and prices in the first half of 2020 caused a string of bankruptcies among shale producers in the United States, as well as a severe drop in investments in new shale production facilities. However, going forward persistently high oil prices would likely translate into greater investment and production in the United States.

Looking beyond 2021, the shift towards renewable energy sources has important implications for the commodities sector, and not necessarily in the direction one might assume, particularly in the short-term. In the case of certain materials such as copper, lithium and cobalt, the move away from internal combustion engines will lead to a strong uptick in their demand as these products are key inputs in electric vehicles. The recent proposal put forward by the European Union to ban the sale of new petrol and diesel cars by 2035 will only bolster this trend. Moreover, copper is not only used in electric vehicles but is also a key input for green infrastructures such as solar and wind energy. The green transition will therefore actually exert sustained upward pressure on the demand and prices for certain commodities. In fact, somewhat paradoxically, the investment drive to build the renewable energy infrastructure required for the green transition – with the accompanying rise in employment and economic growth associated with this investment push – will likely provoke, in the nearer term, an increase in the prices of the very same traditional energy commodities that this green infrastructure will later replace.

E. Regional Trends

1. North America and Europe

In 2020, the GDP of the United States contracted 3.5 per cent, the worst recession since the end of the Second World War. While all components of private demand contributed to the drop, a sharp fall in private consumption was responsible for three-quarters of the contraction, despite massive transfers from the Federal government. In response, the government expanded its net contribution to aggregate demand by the largest amount on record, including through the $1.9 trillion (9 per cent of GDP) American Rescue Plan, but this only offset the downturn by a small fraction.

After slowing down amid the second wave of Covid-19 contagion in 2020 Q4, the recovery picked up again in 2021 Q1–Q2, as sanitary restrictions eased, and the impact of stimulus packages cascaded through the system. The expansion was driven by private consumption (especially of durable goods), professional services and residential investment; individual cash transfers ended by mid-year. Overall, growth is projected to be 5.7 per cent in 2021 and 3 per cent in 2022.

In Canada GDP contracted by 5.4 per cent in 2020, dragged down by consumption and investment spending, like in the United States, despite a substantial increase of government's contribution to aggregate demand. However, recovery has been moderately strong in 2021, partly thanks to an expansion of spending for social protection and partly on the back of fast growth in the United States. Growth is projected to reach 5.1 per cent in 2021 and 2.9 per cent in 2022.

In Europe, between March 2020 and 2021 Q2, the three largest economies of the eurozone repeatedly went into lockdowns with adverse effects on growth. Indeed, France, Germany and Italy registered, respectively, -8.0, -4.9 and -8.9 per cent in 2020, while growth rates in the first quarter of 2021 relative to the first quarter of 2020 were negative for Germany and Italy (-3 and -1 per cent, respectively). In response, governments introduced extraordinary measures, which prevented layoffs and many bankruptcies and preserved the accumulation of aggregate private savings. In France, the total primary outlays of the general government grew by 12.8 per cent; in Germany by 13.5 per cent. Italy saw an 18.8 per cent increase, which reflects the extremely austere budgetary policies of the previous years.

At the same time, the intra-eurozone differences reflect a long-standing lack of coordination in the area, with the strongest economy, Germany, running a relatively small primary fiscal deficit-to-GDP ratio, -3.5 per cent, while the same ratio was -7.9 per cent in France and -6 per cent in Italy, the hardest hit eurozone economy. European Union-level measures were unprecedented but insufficient to overcome this structural limitation. In particular, ECB's support, including a € 1.85 trillion emergency bond purchasing program, reduced, but did not eliminate, the yield spread between national

government bonds and guaranteed liquidity access to banks and firms.

In France and Germany, the fiscal effort more than compensated the steep fall in primary incomes of households but could not prevent the dramatic reduction in personal consumption, most of which was concentrated in the sectors directly affected by the public health restrictions. In Italy, total after-tax household income fell slightly despite a 10.6 per cent increase in social transfers in cash and an almost 50 per cent increase in its non-pension share from 2019. The fall in personal consumption was almost twice as large as that in the other two economies (-11.8 per cent). Investment shrank at a similar rate everywhere and across the spectrum of activities, but most dramatically in the transport sector. Overall, there was no significant disruption in exports and net external demand bounced back quickly with the recovery of the global economy and an easing of travel restrictions, especially in Italy and Germany.

As the three countries progress with vaccinations and ease public health restrictions for the summer, tourism and consumption are projected to resume, together with some private investment. Both fiscal and monetary supports will remain in place for the time being, while early signs of pressure on prices have generally been taken as temporary. With growth expected in the remaining quarters of the year, and barring any new negative health developments, the real growth rate in 2021 is expected to reach 5.5 per cent for Italy and 5.2 per cent for France. The projected rate for Germany is 2.2 per cent, reflecting the smaller contraction of the past year together with the significant contraction of the first quarter. These rates will leave the respective economies below 2019 GDP levels. Given the already stagnant pre-Covid-19 conditions, prolonging a recovery beyond the bounce-back will depend on the capacity of new planned fiscal stimulus to expand public and private investment in a durable way, reinforcing domestic demand.

The European Union has suspended its fiscal rules throughout 2022, allowing room for further expansionary fiscal policies. Moreover, in June 2021, the European Union Commission began disbursement of the Next Generation EU funds, which will finance stimulus measures complementing the national budgets. The national recovery plans (only partly funded by European Union grants) include public investments which amount to an estimated 6.4 per cent of 2019 GDP spread over 6 years in Italy, 4.1 per cent in France and 0.7 per cent in Germany. Considering the small size of these investment programs, the outcome of the ongoing debate about reforming the fiscal rules, as well as the criteria for the ECB bond purchasing programs, is crucial. Uncertainty on the matter is especially binding for Italy, which is the only country of the triad that we do not project to return to the 2019 GDP level in 2022, when it is projected to achieve a 3.0 per cent GDP growth rate. France and Germany with respectively 3.4 per cent and 3.2 per cent growth rates next year are both expected to reach previous levels in 2022.

The United Kingdom's GDP fell by nearly 10 per cent in 2020, the second largest contraction in the region, largely owing to plummeting domestic demand. The government's net contribution to aggregate demand increased more than 10 per cent of GDP compared with 2019, a record amount, partially absorbing the shock. A second wave of Covid-19 infections, met with restrictions to economic activity and school closures, led to a large contraction of retail sales in 2021 Q1, which brought GDP down by 1.5 per cent and its level 8.7 per cent below where it was in the last quarter of 2019. However, during this period employment began to recover. For 2021, growth is projected at 6.7 per cent and for 2022 at 2.1 per cent, assuming no more restrictions will be imposed and employment will continue to recover toward its 2019 level. However, post-Brexit adjustment processes still weigh over medium-term growth prospects of the United Kingdom.

2. Latin America and the Caribbean

The Latin American and the Caribbean region was severely hit by Covid-19, with high contagion and mortality rates, together with a sharp economic downturn. The GDP of the whole region fell 7.1 per cent in 2020 and is expected to grow just 5.5 per cent in 2021. Latin America is also struggling with rising inflation, due to the international spike in food prices, and volatile exchange rates, caused by the region's overspecialization on commodity exports and high exposure to speculative international capital flows (Campello and Zucco, 2020).

The Mexican economy contracted 8.3 per cent in 2020 and is expected to rebound 6.2 per cent this year. Part of the recovery reflects the booming United States economy, through higher Mexican non-oil exports. The other part is domestic, due to the easing of social distancing and the vaccination of the general population, which should pull up the demand for urban services. Fiscal policy has been a drag, since

Mexico continues to have the smallest fiscal impulse to fight the Covid-19 recession. In contrast, despite the increase in the short-term interest rates, monetary policy has tended to remain neutral, as the Bank of Mexico raised its base interest rate in line with the increase in expected inflation. The acceleration of the economy in the second half of 2021 will create a positive base effect for 2022, helping the economy grow 2.8 per cent next year, slightly above the country's pre-Covid-19 growth trend.

In Brazil, despite the heavy human cost of the pandemic, the economy contracted by just 4.1 per cent in 2020, the smallest impact among the largest Latin American economies. Expansionary fiscal and monetary policy helped Brazil wither the economic impact of Covid-19 and, in 2021, the recovery in commodity prices and a gradual phase out of the fiscal stimulus is expected to help GDP grow by 4.9 per cent. On the upside, vaccination and services' demand tend to accelerate in the second half of 2021. On the downside, supply shortages from hydropower plants have been pushing inflation up, which in turn is forcing the Brazilian Central Bank to hike the short-term interest rate to a contractionary level. The negative forces and political uncertainty associated with Brazil's next presidential election is likely to weigh on prospects in 2022, with growth slowing to just 1.8 per cent .

Similar to Mexico, Argentina's GDP was also heavily affected by the Covid-19 shock, falling by almost 10 per cent in 2020. The country's pre-pandemic recession and balance-of-payments problems also account for the sharp contraction, since the Argentine government had limited flexibility to attenuate the pandemic shock. In 2021, the increase in commodity prices, especially of food items, reduced the country's financial constraint and is expected to help the economy grow by 6.7 per cent. Going forward, the structural public and foreign-exchange imbalances remain a challenge, together with rising inflation. Assuming the government manages its foreign liabilities and the central bank avoids a wage-price spiral, economic growth is estimated at 2.9 per cent in 2022, a positive result in view of the Argentine performance before Covid-19.

The Andean economies have also been hard hit by Covid-19 in 2020, with double-digit GDP contraction in Peru, and a fall between 6 per cent and 8 per cent in Colombia, Chile, and Ecuador. The recovery in commodity prices, especially copper in the case of Chile, is helping most of the region recover to nearly 6 per cent this year. The exception is Ecuador, where the currency peg limits the stabilizing role of fiscal and monetary policy. For 2022, the Andean economies can expect to return to their pre-Covid-19 trend, growing around 3.4 per cent.

Finally, the reduction in tourism and remittances from the United States pushed Central America (ex-Mexico) and the Caribbean into a deep recession in 2020, with double-digit GDP contractions in many island economies. In contrast, assuming vaccination accelerates and most of the restrictions on international traveling come down, the region tends to recover fast by the end of 2021 and return to its pre-pandemic 3.0 per cent growth trend in 2022.

3. The Russian Federation and Central Asia

In 2020, the Russian Federation GDP dropped by 3 per cent, slightly better than some of the official expectations, which had forecast a 3.9 per cent contraction. Like in other oil-exporters, the decline is accounted for by Covid-19 restrictions internally, as well as sharp fall in the external demand for energy exports. More specifically, the downward dynamics of GDP in 2020 was affected by the 5 per cent fall in final consumption, and the net trade balance, where deceleration in imports (-13.7 per cent) dominated over exports (-5.1 per cent).

In 2021, recovery was observed across most economic sectors, with manufacturing, investment, retail trade, as well as people's disposable incomes, growing, after having dropped by 2-5 per cent, on average, in 2020. By mid-2021, consumer activity had reached its pre-pandemic levels. The major factor that has slowed growth internally was a 6.4 per cent inflation of food prices. It pushed the overall inflation rates above the Central Bank's target, prompting the central bank to raise interest rates repeatedly in 2021. In 2021, inflation is projected at 4.6 per cent. The financial buffers built during the two decades of relative prosperity have allowed the government to add stimulus which sustained aggregate demand during the pandemic. The key to the 2021 growth has been growth in consumption, continued decline in Covid-19 cases (at least until the summer of 2021), and investments, which were partly funded out of the National Wealth Fund (NWF). The July 2021 decision by OPEC to expand the volume of oil extraction has further brightened the prospects for short-term recovery. UNCTAD estimates that the Russian GDP will growth by 3.8 per cent in 2021 and by 2.3 per cent in 2022.

The Central Asian region, which includes the countries in the Eurasian Economic Union, registered a mild contraction of 0.3 per cent in 2020. The sharp downturn in economic activity in many of the region's key trading partners and the drop in the international price of commodities (amongst which hydrocarbons and industrial metals represent key export products for several countries in the region) during the first half of 2020 were partially offset by the introduction of targeted fiscal and monetary support measures and a recovery in external demand, particularly from the European Union, during the second half of the year. For 2021, UNCTAD expects relatively moderate growth of 4.3 per cent, as the continued recovery in external demand and international commodity prices provide the main impetus for growth, while a winding down of fiscal support measures and more restrictive monetary policy stances in several countries in the region inhibit the rebound in economic activity. A growth rate of 3.1 per cent is expected for 2022 as domestic demand recovers more fully from the economic shock of the pandemic.

The region's largest economy, Kazakhstan, was particularly affected by the drastic reduction in the international price of crude oil, its main export, during the first half of 2020. The subsequent stabilization and recovery in international crude prices, together with the application of substantial fiscal and monetary stimulus measures helped to moderate the economic contraction in 2020, at 2.6 per cent. For 2021, the Kazakh economy is expected to register growth of 3.6 per cent as the rebound in global demand, a gradual uptick in international oil prices and production helps to boost economic activity. UNCTAD expects a moderate acceleration of growth in 2022, to 4.0 per cent, as an increase in production in the country's energy sector and recovering domestic demand will help to drive productive activity.

4. East Asia

East Asia was the region which demonstrated most resilience in 2020, registering a growth rate of 0.3 per cent. Likewise, the region is expected to register the most dynamic recovery in 2021 with 6.7 per cent growth estimated for 2021, moderating to 4.7 per cent in 2022.

East Asia's growth pattern is driven mostly by China, where the imposition of restrictions following the initial outbreak and subsequent mass test and trace programmes proved largely successful in containing the virus within the country. The Chinese economy is expected to comfortably outperform the minimum target of 6 per cent growth set for this year by the authorities, accelerating to 8.3 per cent in 2021 as a continuing recovery of global demand and the country's role as a key player in the global supply chains of electronics and communications goods as well as healthcare equipment and vaccines will provide a strong boost to the export sector. Similarly, a gradual bounce back in domestic demand is expected, albeit partly contingent on the success of the domestic roll-out of vaccines. For its part, continued support from the government for new infrastructure projects will ensure a healthy expansion of public expenditures.

UNCTAD expects the growth rate to moderate to 5.7 per cent in 2022, as fiscal and liquidity support measures wind down. More stringent macroprudential policies and a tightening of regulations in the financial and real estate sectors, amid elevated debt burdens and rising housing prices, should also restrain growth.

In the Republic of Korea during 2020, containment policies which proved to be very effective without causing excessive disruptions to productive activities helped minimize the negative impact of the pandemic. However, an unexpected rise in infections at the end of 2020 necessitated the introduction of tighter restrictions and social distancing rules, which in turn had a detrimental impact on employment and private consumption. Tempering this downturn in consumption was the positive performance of the export sector which, much like in China, enjoyed buoyant demand, in particular, for electronic and communications equipment. The combination of these factors resulted in only a modest contraction of 0.9 per cent in 2020.

An expansion of 3.9 per cent is expected in 2021, as the country's external sector benefits from strong international demand for its exports of consumer electronics, semiconductors and automobiles. For its part, investment spending remains resilient helped by public outlays on digital and infrastructure in the context of the Korean Green New Deal. Likewise, the fiscal and monetary support measures introduced by the government during 2020 have largely remained in place, along with increased public expenditures targeted towards lower income households and small businesses in 2021. UNCTAD expects a moderation of the growth rate in 2022 to a fairly robust 2.8 per cent, as policy support, an uptick in investment and private consumption, and continued strength of the

export sector drive the expansion in economic activity. However, rising debt levels among households, elevated real estate prices and growing inequality remain policy concerns for the government.

During 2020, Japan experienced a double hit from the two consecutive quarters of contraction in 2019Q4 and 2020Q1, and the ensuing Covid-19 shock, producing an annual contraction of 4.7 per cent, which could have been more severe without the remarkable growth of government spending in goods and services. This stimulus played its role in creating a good momentum in the second half of the year, but was halted due to a severe second wave of the pandemic, leading to a fall in GDP of 1.0 per cent in the first quarter of 2021. The government continued to support the shocked economy but at a more moderate pace. Private sector activity shifted to positive territory from the second quarter onwards, but as restrictions and lockdowns continue to different degrees, growth will only stabilize from the fourth quarter and into the year 2022.

The Olympics, held under lockdown, will have a very marginal effect on effective demand. Net external demand, which has been disappointing since 2019 is expected to play a more favourable role, pulled by the global rebound and assuming that bottlenecks in global value chains are overcome. Given all uncertainties, growth for 2021 is projected at 2.4 per cent. In 2022, external demand will likely gain firmer traction, leading to more private sector activity and consumer demand. By contrast, the fiscal stance will likely shift towards adjustment, responding to pressure to contain the rise of debt. On these assumptions, the economy will yield 2.1 per cent growth, a stronger performance than the pre-Covid-19 average, but barely overpassing at the end of the year the level of 2019.

5. South Asia

South Asia suffered a sharp contraction of 5.6 per cent in 2020, with the region's economic activity brought to a halt thanks to widespread restrictions. Deficient public healthcare systems and high levels of informality magnified the impact of the pandemic in terms of both health and economic outcomes, which was reflected in a stark rise in poverty rates. UNCTAD expects the region to expand by 5.8 per cent in 2021, with the more vigorous recovery signalled at the beginning of the year muted by a rapid surge in infections during the second quarter of 2021. Moreover, the limited progress made in terms of vaccine rollouts continues to leave the countries of the region susceptible to future outbreaks. For 2022, UNCTAD expects the region's growth rate to moderate to 5.7 per cent.

India, which experienced a contraction of 7.0 per cent in 2020, showed a strong quarterly growth of 1.9 per cent growth in the first quarter 2021, on the back of the momentum of the second half of 2020 and supported by government spending in goods and services. Meanwhile, a severe and broadly unanticipated second wave of the pandemic, compounded by bottlenecks in the vaccine roll out, hit the country in the second quarter, on top of rising food and general price inflation, forcing widespread lockdowns and drastic consumption and investment adjustments.

Income and wealth inequalities have widened, and social unrest has increased. The Central Bank estimates another sharp contraction (quarter-on-quarter) in the second quarter followed by a rebound afterwards. Given the inherent fragilities in coping with the pandemic and restoring employment and incomes, growth in 2021 as a whole is estimated at 7.2 per cent, insufficient to regain the pre-Covid-19 income level. Going forward, assuming away a resurgence of the pandemic to the degree experienced in the second wave, a revitalization of private sector activity, subject still to a slow recovery of jobs, is likely to be matched with a more adverse policy environment, especially on the fiscal front, and with continuing pressures on the trade balance. On these conditions, the economy is expected to decelerate to 6.7 per cent growth in 2022.

6. South-East Asia

South-East Asia registered a contraction of 3.9 per cent in 2020, as several of the larger economies in the region, notably Malaysia and the Philippines, struggled with elevated and persistent infection rates that were met with restrictions on population movements. The economic fallout of these restrictions was predictably severe. In Indonesia, the contraction of output was not as severe as other countries in the region, at 2.1 per cent, as the country benefitted from its relatively limited reliance on external demand and tourism flows, and less-stringent lockdowns. Those countries reliant on tourism (particularly Thailand) were especially hard hit by the widespread travel restrictions that were introduced to limit the spread of the pandemic. One positive note in the region was Viet Nam, which registered an economic expansion in 2020. The country's success in containing the virus helped to ensure a quick bounce back in activity,

while the export sector also performed well as global demand recovered during the second half of the year.

The prospect of a more rapid recovery in 2021 has been interrupted by a resurgence in infection rates throughout the region and the reintroduction of lockdowns (including in Indonesia, Malaysia and Thailand), with a knock-on effect on travel and tourism. Even in the case of Viet Nam, a significant increase in the number of cases was registered towards the end of the first quarter of 2021. Moreover, the slow pace of vaccinations and the prospect of a withdrawal of policy support measures have acted as further drags on growth in the region. In Indonesia, the region's largest economy, although significant public investments in infrastructure will help boost economic activity, the rise in infections will dampen the recovery in household consumption, resulting in growth of 3.6 per cent in 2021, a weak expansion compared to the growth rates observed prior to the pandemic.

UNCTAD expects the region to expand by 3.5 per cent in 2021, increasing to 4.7 per cent in 2022. A significant factor behind the expectation of a somewhat subdued recovery is the prospect of a relatively slow reversal of the numerous job losses suffered in 2020, many of which were low-skilled jobs in the services sector. As such, the bounce back in private consumption is expected to be gradual.

7. Western Asia

Western Asia registered a contraction of 2.9 per cent in 2020, as the oil-exporting countries in the region suffered the simultaneous shocks from the pandemic and the precipitous drop in the demand and price of oil during the first months of 2020. As in the case of other oil exporters, a gradual uptick in crude prices during the second half of 2020 as global demand recovered did drive a partial recovery in oil revenues. UNCTAD expects the region to expand by 3.5 per cent in 2021 as international crude prices continue to return to the levels observed prior to the onset of the pandemic. Virus-related disruptions to economic activity will continue to hamper the recovery, although the economic impact of these outbreaks have proven to be less severe than those observed during 2020. For 2022, the region is expected to grow by 3.2 per cent as domestic demand increasingly gains traction and global demand remains firm.

The economy of Saudi Arabia contracted by 4.1 per cent in 2020 as the government's efforts to provide budgetary support to households and firms was compromised by the growing pressures coming from the sharp reduction in fiscal revenues due to the drop in oil prices. For 2021, the Saudi economy is expected to register a modest bounce back in growth of 2.7 per cent. The somewhat subdued recovery is explained in part by the relevant authorities' decision to make additional cuts in oil production beyond those agreed in the OPEC+ quota agreement. A reversal of these self-imposed cuts along with a winding down of the production caps from the OPEC+ agreement and the rebound in global oil demand will help growth pick up during the second half of 2021. For 2022, UNCTAD expects the economy to expand by 3.3 per cent as domestic demand recovers more fully and a planned ramping up of public investments coming from the country's sovereign wealth fund takes hold.

Turkey was one of the few countries to register an expansion in 2020, with growth of 1.8 per cent. Despite suffering a deep contraction in the second quarter, a period of record growth ensued during the third quarter as a substantial cut in the Central Bank's policy rate prompted real interest rates to turn significantly negative. At the same time, a change in banking regulations compelled the country's banks to extend credit lines. These moves triggered an unprecedented credit boom and a subsequent sharp uptick in economic activity. For 2021, UNCTAD expects the Turkish economy to grow by 3.9 per cent. Although a resurgence in infections and consequent introduction of restrictions hampered the recovery during the second quarter of the year, the government's response in providing budgetary support to businesses, along with a pickup in the export sector thanks to the rebound in external demand and the sustained resilience of the country's industrial sector will help to boost economic activity during the latter part of the year. UNCTAD expects an expansion of 3.6 per cent in 2022 as domestic demand gains more traction and provides a greater impetus to growth. However, the country continues to face severe vulnerabilities due its outsized reliance on short-term capital flows and the elevated level of foreign-currency denominated debt obligations among its domestic firms.

8. Oceania

Oceania registered a contraction of 2.4 per cent in 2020. The negative result was the first in almost 30 years for the region. However, UNCTAD expects a robust rebound in economic activity in 2021, with an estimated growth rate of 3.1 per cent for this year, followed by 2.8 per cent growth in 2022. The region's

performance is determined to a large degree by that of its largest economy, Australia, which accounts for over 80 per cent of the region's total GDP.

After contracting by 2.5 per cent in 2020, the Australian economy is experiencing a rapid rebound, following the growth momentum that started in the second half of the year thanks to strong fiscal and monetary stimuli. Commodity prices and favourable supply in the exporting sectors also helped. This led to a rapid recovery of household consumption and business investment in the first quarter of 2021, especially as the full border isolation and partial internal lockdowns helped contain the pandemic despite the scarcity of vaccines.

However, new headwinds have emerged. On the domestic front, new partial lockdowns in relatively populated areas were needed, affecting private activity and confidence. On the external front, while the rapid rise of commodity prices continues to boost export earnings, tensions with China, the main export market, present a potential constraint on the rebound. All in all, UNCTAD projects the Australian economy to grow at 3.2 per cent in 2021. Growth will moderately decelerate to 2.8 per cent in 2022, partly as the main private and external growth drivers resume a more 'normal' pace, and partly because of curbs on government spending in goods and services, which have already started in early 2021 and will gather pace going forward.

9. Africa

Most African economies have entered a phase of cyclical recovery in 2021 after the pandemic brought an unprecedented recession of 3.4 per cent, which wiped out years of development gains. In this context, the entire continent is expected to grow 3.2 per cent in 2021, before slowing to 2.9 per cent in 2020. The underlying level of activity, however, remains depressed, and scars will endure. This is particularly unfortunate because several large sub-Saharan African economies – such as Angola, Nigeria, and South Africa – had already been stuck in low growth trajectories since the middle of the last decade. As a result, current estimates predict that the regional GDP per capita will not return, even in the best-case scenario, to its pre-pandemic level before 2024. In particular, South Africa, which experienced a contraction of 7 per cent in 2020, is expected to grow by a moderate 4 per cent in 2021 and by 2.3 per cent in 2022. As tens of millions of African citizens have already fallen back into extreme poverty (World Bank, 2021a and 2021b), such development will make the SDGs even more elusive.

The economic upturn has in many cases rested on improved external conditions, especially in developed economies and China, which have supported African exports. In parallel, exchange rates have continued to rebound, for example in Botswana, Morocco, and South Africa, after being severely hit in March–April 2020. By mid-2021, exchanges rates of these three economies reached levels that were close to their pre-pandemic ones, if not higher. By contrast, foreign exchanges rates have trended downward in several other countries, notably in Nigeria where acute hard-currency scarcity has forced multiple devaluations since the beginning of the Covid-19 crisis. Fortunately, the terms of trade of major commodity-exporters had reversed after reaching a trough during the second quarter of 2020. PMI indicators for manufacturing activities (and services when available) had been, almost always, above the 50-point mark in Kenya and South Africa during the last quarter of 2020 and the first half of 2021. By contrast, they had mostly remained in contraction territories in Egypt and in Nigeria during this period.

In situations of subdued economic activity and generally low inflation pressures, monetary policies have often been accommodative, despite soaring food prices that have created tensions, especially in Central and West Africa. Nevertheless, several countries have registered double-digit inflation (or even triple-digit in the case of Sudan). These include, inter alia, Zimbabwe, South Sudan, Angola, Libya, Zambia, Nigeria, and Ethiopia, which all face stagflationary threats.

On the fiscal front, pressure has mounted to reduce, or even withdraw completely, the (limited) support that a handful of countries had initially been able to introduce in response to the Covid-19 shock. The fact that many governments had lost control of the public debt trajectory due to the widening budget deficits (sometimes reaching double-digit figures) and growing government debt (often by at least 15 percentage points of GDP) has significantly constrained public demand. Meanwhile, external financial assistance has fallen dismally short of what was deemed necessary to cope with the social, sanitary, and economic needs. Official Development Assistance to sub-Saharan Africa averaged US$ 27.1 billion in 2018 and 2019 but fell to US$22.6 billion in (OECD, 2021) In the outlook period, a resumption of tourism and the

rollback of pandemic-induced restrictions should provide some relief to the region. The gradual increase in oil production for OPEC+ African countries will also support export revenues. Yet, these positive elements will fail short of taking many African economies out of their low-growth environment. Moreover, the weak recovery has recently been jeopardized by the third wave of virus infection, starting in June 2021, given the lagging vaccine rollout.[1] Such outbreaks will hamper the situation, especially if fast-spreading variants develop. Though at this stage it remains unclear how strong this negative effect will be, there is no doubt that no serious improvement will be made until vaccination campaigns reach the herd immunity threshold. Prior to that, sectors linked to the hospitality industry, though not only these ones, will remain heavily depressed. The situation will therefore remain dramatic in most of the tourist-reliant economies, which have already experienced the largest shocks.

In this outlook, two main factors could further damage economic prospects. One is elevated food prices (see Box 1.4.), which have already exacerbated hunger across the continent. The other is renewed social protests and conflicts – which have already escalated in several parts of sub-Saharan Africa, including in Central African Republic, Eswatini, Ethiopia, Mozambique, the Sahel region, and South Africa – as these now threaten to hinder the recovery, with potentially long-lasting economic consequences. Should these factors persist, they will add to Covid-19 related shocks – such as the disruption of education, the worsening of health, and the setback of investment – whose negative effects had already altered the growth prospects for the years ahead.[17]

BOX 1.4 Increased food insecurity amid rising food prices

The global goal of achieving 'zero hunger' by 2030 (SDG 2) seems increasingly out of reach as the number of people facing acute food insecurity and requiring urgent food, nutrition and livelihoods assistance has been on the rise. In 2020, at least 155 million people, across 55 jurisdictions, faced a situation of food crisis or worse (IPC/CH Phase 3 or above).[28] This represents an increase of about 20 million people from 2019 and roughly a 50 per cent increase from 2016. In absolute terms, the situation was particularly acute in Afghanistan, the Democratic Republic of the Congo, the Sudan and Yemen, since in each country, at least 2 million people were categorized in an emergency phase of or worse (IPC/CH Phase 4 or above), requiring urgent action to save lives and livelihoods (FSIN and GNAFC, 2021). The FAO (2021b) estimates that globally 45 countries, including 34 in Africa, 9 in Asia and 2 in Latin America and the Caribbean, will need external assistance due to severe food insecurity.

While conflict is often the main reason behind hunger, climate disruption and economic shocks, aggravated by the Covid-19 pandemic, have further compounded the situation. In this context, international food prices have rising from the second quarter of 2020 after 5 years of relative stability; the FAO Monthly Food Price Index increased steadily by 37 per cent between May 2020 (a 4-year low) and May 2021 (a 10-year high).

On domestic markets, increasing food prices – particularly in import-dependent countries that experienced currency depreciation – weighed heavily on household access to food. In parallel, damaged public finances often constrained governments' capacity to support vulnerable households as needs increased. In this context, six countries – Argentina, Brazil, Nigeria, South Sudan, Sudan, and Zimbabwe – saw prices of one or more basic food commodity at abnormally high levels in mid-2021 that could negatively impact on access to food (FAO, 2021a).

Overall, food crises are becoming increasingly protracted and the ability to recover from new adverse events is becoming more difficult. Conflicts, the Covid-19 pandemic, and prolonged economic stress are expected to extend food crises beyond 2021.

Notes

1 Based on 2015 constant dollars and exchange rates.

2 Since the European Union is one of the G20 economies, together with Germany, France, and Italy, we included Spain as the 20th economy in figure 1 to avoid double counting.

3 The full impact of expansionary fiscal measures on income distribution across households is still

not clear. There is also a growing debate about the impact of monetary policies, although with only a very small percentage of the population directly benefiting from the massive monetary injections by Central Banks that eased liquidity constraints and prevented financial meltdown its magnifying effect on wealth inequality seems more certain (Petrou, 2021).

4 Not incidentally, a large proportion of countries are expected to engage in aggressive austerity packages down the road (Ortiz and Cummins, 2021).

5 For a historical account of the concepts see Costantini (2018).

6 See *TDR 1994* and *TDR 1996*, also Storm and Naastepad, 2005; Wade, 2014.

7 Defined, by the IMF, as those economies "that resemble emerging markets with regards to international market access" (IMF 2020, p.46).

8 Other investments conventionally include other equity, currency and deposits, loans, insurance and pensions, trade credits and advances, guarantee schemes as well as Special Drawing Rights (SDRs).

9 This expansion and the changes in the composition of emerging economies' foreign liabilities and assets have amplified the susceptibility of gross external assets and liabilities and of net foreign asset positions to variations in asset prices and exchange rates, entailing large transfers of wealth and income from emerging economies to advanced economies (see *TDR 2019* and Akyüz, 2021).

10 Haldane A (2014). The age of asset management? Speech by Mr. Andrew G Haldane, Executive Director, Financial Stability. Bank of England, at the London Business School. London. 4 April.

11 UNCTAD secretariat calculations, based on Refinitiv. See also UNCTAD (2021) and IMF (2021).

12 Unless otherwise indicated, figures quoted in the text are UNCTAD secretariat calculations based on World Bank, IMF and national sources.

13 See https://www.imf.org/en/About/FAQ/sovereign-debt.

14 Between March 2020 and June 2021, Covid-19-related lending by the IMF to 85 countries amounted to $113 billion (see: https://www.imf.org/en/Topics/imf-and-covid19/COVID-Lending-Tracker#REGION), while the World Bank committed $104 billion for the period between April 2020 and June 2021. According to the World Bank, this has been as high as the commitments of all other multilateral development banks taken together. See: https://www.worldbank.org/en/news/factsheet/2020/10/14/world-bank-covid-19-response.

15 The first dip relates to the great lockdown of the spring 2020. The second happened during the first quarter of 2021, reflecting a mixture of new lockdowns in some large economies, together with the traditional seasonal slowdown in international trade which occurs during the first two months of the year.

16 IATA (2021). Airlines Financial Monitor, May. Available at https://www.iata.org/en/iata-repository/publications/economic-reports/airlines-financial-monitor---may-2021/.

17 World Bank (2021a). Sub-Saharan Africa: Macro Poverty Outlook. Spring Meeting 2021. World Bank. Washington DC. World Bank (2021b). Middle East and North Africa: Macro Poverty Outlook. Spring Meeting 2021. World Bank. Washington DC.

18 In reading the estimated size of the Covid-19 stimuli packages, it is important to take note of the extent of the economic shock in the case of each country. This is particularly so for those countries that are part of the European Union, where, as discussed in section E, the differences in the scale of fiscal stimuli also respond to the disparities in the magnitude of the shock to economic activity in each country.

19 Problems of data availability and comparability did not allow straightforward inclusion of smaller developing economies or LDCs, which would most likely show even greater disparities.

20 The United States stands out among developed economies for its outsized reliance on direct income transfers in its Covid-19 fiscal support measures. As discussed in section B, the dependence on these transfers for providing support to households in the midst of the pandemic points to the inadequacies and poorly calibrated nature of the country's existing welfare protection systems.

21 United States Bureau of Economic Analysis, GDP (Advanced) Estimate of 2021 second Quarter, Table 8.

22 At the SDR/US$ exchange rate of 0.7026 on 7 July 2021.

23 Currently, SDRs can be exchanged for US dollars, euros, renminbi, Japanese yen, and pound sterling.

24 The use of SDRs is not entirely cost-free, since when countries use (or reduce) their allocated holdings of SDRs in transactions with the IMF or other member countries, they incur an interest charge at a non-concessional rate. Net interest payments due to the IMF are based on the difference between a country's cumulative allocation of SDRs and its effective holdings. The same interest rate applies for allocations and holdings, as set by the IMF based on a weighted average of representative interest rates on 3-month debt in the money markets of the five SDR basket currencies. At present, this rate stands at a mere 0.05 per cent per year, reflecting strongly accommodative

monetary policies in issuer countries of SDR basket currencies.

25 The current IMF quota formula is a weighted average of GDP (50 per cent), openness (30 per cent), economic variability (15 per cent) and international reserves (5 per cent). This systematically favours the status quo of the distribution of economic power between developed and developing countries rather than facilitating the use of SDRs for agreed global goals, including inclusive and sustainable development.

26 UNCTAD has been a longstanding advocate of linking SDRs to development finance, see Park, 1973

27 Thus, Plant and Andrews (2021) suggest that proposals limited to the use or recycled 'standard' SDRs' for current Covid-19 responses would require changes to the IMF's legal and policy framework (including its Articles of Agreement).

28 The scale of the Integrated Food Security Phase Classification (IPC) and the Cadre Harmonisé (CH) ranges between 1 (none/minimal) and 5 (catastrophe/famine).

29 The reader should note that generally T is used to described net or gross taxes, that is transfers from the private sector to the government. Here the definition carries the opposite sign so that the difference dT (as presented above) is interpreted as a fiscal stimulus.

30 Net Transfers from the Government to the Private Sector encompass the sum of government transfers to the private sector (including unemployment benefits and direct income transfers) minus taxes and contributions to government social security.

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Annex: Methodological Note for Box 1.1

The estimates for *G* and *T* in Table B1.1 are calculated on the basis of the decomposition of the following two identities. The identities are valid in both nominal and constant values; in this note, unless otherwise specified, constant values (chained) are used:

(1) $Y_x = C_x + I_x + G_x + NX_x$ with Y_x: GDP, C_x: Private Consumption spending, I_x: Private Investment spending, G_x: Total Government Consumption and Investment spending, NX_x: Net Exports.

(2) $-NL_{G\,x} = T_x + G_x \Leftrightarrow T_x = -NL_{G\,x} - G_x$ with $NL_{G\,x}$: Net Lending by the General Government sector, T_x: Net Transfers *from* the Government to the private sector[29], G_x: Total Government Consumption and Investment spending.

For the selection of countries in Table B1.1, annual data for G_x is extracted from National Accounts datasets, as expressed in equation (1). Likewise, annual data on $NL_{G\,x}$ is extracted from Government accounts or fiscal data for these countries.

In order to estimate *dG*, that is the additional amount of Government consumption and investment spending relative to the expected level in 2020, first the expected level of Government consumption and investment spending in 2020 ($\hat{G}_{2020}$) is estimated as the average growth rate of G_x ($\widehat{growth}[G]$) over the last 3 years, 2017 to 2019, applied to G_{2019}:

$$\hat{G}_{2020} = G_{2019} * (1 + \widehat{growth}[G]$$

and dG_{2020} as the difference between the expected and observed value of G_{2020}:

$$dG_{2020} = G_{2020} - \hat{G}_{2020}$$

In order to estimate *dT*, that is the additional amount of Net Transfers from the Government to the Private Sector[30] relative to the expected level in 2020, first the expected level of Net Transfers in 2020 ($\hat{T}_{2020}$) is estimated as the average ratio of T_x / GDP_x ($\widehat{ratio}[T]$) over the last 3 years, 2017–2019, applied to the value of GDP in 2020 (GDP_{2020}):

$$\hat{T}_{2020} = \widehat{ratio}[T] * GDP_{2020}$$

and dT_{2020} as the difference between the expected and observed value of T_{2020}:

$$dT_{2020} = T_{2020} - \hat{T}_{2020}$$

For simplicity, the variable dG_{2020} is presented as *G* and the variable dT_{2020} is presented as *T* in Table B1.1.