2024 Trade and development report

Chapter I

The macroeconomics of discontent

Global output growth shows signs of stabilizing at rates below those registered in the years prior to the pandemic, which itself marked a period of unsatisfactory global growth. Current growth trajectories are insufficient to meet global development and climate challenges and goals.

Prevailing global conditions are particularly worrisome in terms of debt dynamics as the combination of low growth and high interest rates exacerbates debt burdens. High public debt ratios in many economies are equally concerning. A hallmark of the new, post-pandemic norm, they heighten the risk of a return to austerity as a policy guideline.

The post-pandemic inflation spike was largely a supply issue, created by bottlenecks in global value chains and excessive concentration in key sectors. Overreliance on prolonged monetary tightening as the sole policy tool to lower inflation has been only partially effective while inflicting undue hardship domestically and internationally.

The post-COVID-19 recovery has seen widespread discontent as higher consumer prices and credit costs eat into household disposable income. Household consumption spending has been suppressed, remaining below pre-pandemic levels in a number of countries. This fuels feelings of economic insecurity in both advanced and developing countries, a factor driving widespread disaffection with globalization.

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Key policy takeaways

- **The public debt build-up caused by the pandemic as well as the size of investments needed to address prevailing development and climate challenges have made it clear that rebalancing State budgets requires greater revenues.** The path ahead calls for a coordinated move on global taxation, particularly on high-net-worth individuals and large corporations, and to reverse the trickle-down logic that dominated economic policy during the era of hyperglobalization.

- **Greater access to affordable, reliable and longer-term financing options – particularly for the most vulnerable developing countries – is key to adequate public investment in development goals.** To this end, priority policy actions on the international sphere include increased concessional finance through the capitalization of multilateral and regional banks, the issuance of new and the reallocation of existing special drawing rights and the utilization of innovative financial instruments, among other measures.

- **A more balanced policy mix addressing the different forces driving inflationary pressures** would be more effective and entail less "collateral damage". It would include concerted actions to rein in anti-competitive practices, abuses of dominant market positions and corporate concentration in key markets, as well as revisions to the existing regulatory framework for commodity-trading activities.

- **Monetary authorities should deliberate on the wider impacts of their decisions.** Among the factors to consider are the impacts of monetary decisions on debt trajectories and servicing costs, the financing of critically needed investments and financial sustainability. Changes in the criteria and functioning of policymaking need to be embedded in the mandates of monetary institutions.

A. Introduction

For the global economy, 2024 marks a testing moment. On one hand, all regions are registering positive growth rates, and some developing economies, such as India, Rwanda and Viet Nam, are expanding at an accelerated pace. Inflation rates are coming down in advanced and developing economies, albeit slowly and unevenly. Against initial fears, the turbulence that disrupted international financial markets in August 2024 has not translated into a wider financial contagion, although sources of uncertainty remain.

Controlling spending to stabilize public debt is insufficient given the investments needed to reduce poverty and income inequality.

The path ahead requires a coordinated move to increase global taxation on high-net-worth individuals and large corporations.

Yet stabilization brings with it a widening sense of discontent. Nearly four years after the COVID-19 shock and 15 years after the global financial crisis of 2008/09, a new normal has emerged for the world economy, characterized by sluggish growth amid a gradual disinflationary process and positive real interest rates. In a major challenge to development, global growth is stabilizing at rates insufficient for countries of the global South to address the economic, social, development and environmental challenges they face.

Trends in economic policymaking feed concerns. Current international conditions are particularly worrisome for debt dynamics as the combination of low growth and high interest rates exacerbates debt burdens (chapter II, section D). High public debt ratios in many economies are equally worrisome. As a hallmark of the new, post-pandemic norm, they heighten the risk of a return to austerity as a policy guideline.

Austerity, however, is not a solution to the issues confronting the global economy today. Given the build-up of public debt caused by the pandemic and the size of investments needed to manage prevailing development and climate challenges, rebalancing State budgets requires greater revenues. This, in turn, also depends on more dynamic economic growth.

The mantra of controlling spending to consolidate public debt is simply insufficient, given that the global economy urgently needs more investments in universal public services to reduce poverty and income inequality and address the impending climate crisis. Since these investments are often not current priority areas of government expenditure, they are most vulnerable to political pressures aimed at reducing primary fiscal deficits. The path ahead requires a coordinated move to increase the global taxation of high-net-worth individuals and large corporations, reversing the trickle-down logic that dominated economic policy during the era of hyperglobalization.

On the monetary side, the gradual reduction in inflation rates since mid-2022 has occurred without supposedly required commensurate increases in unemployment. This indicates that the post-pandemic inflation spike was largely a supply issue, created by bottlenecks in global value chains (Weber and Wasner, 2023; Stiglitz, 2023) and excessive oligopolistic power in key sectors, notably agrifood and energy (UNCTAD, 2023b). Overly restrictive monetary policy stances, particularly in major advanced economies, risk inflicting undue hardship both at home and abroad. A more gradualist approach, by contrast, would give more time for demand growth to stimulate investment, thereby raising labour productivity and potential output. The expansion of productive capacity, in turn, would help to alleviate inflationary pressures in the medium term.

Beyond short-term economic policies, industrial policy has returned explicitly to the agenda of advanced economies, particularly in the United States of America. Yet it is still frowned upon as a policy tool in developing economies, on the assumption that the risks outweigh the benefits when a country does not have an appropriate institutional framework. Successful development cases indicate, however, that the sequencing may be the opposite (chapter IV). While industrial policies inevitably create risks, these induce improvements in governance structures and regulatory frameworks that in turn increase the effectiveness and success of industrial policies.

The explicit return to industrial or development strategies requires coordinated climate policies, with scientific indicators pointing to accelerating climate impacts. In 2023–2024, record-high temperatures have occurred around the world, along with more frequent floods and droughts, a continuous degradation of forest and water resources, and deteriorating biodiversity. The easing of climate risks would, among many positive outcomes, reduce inflationary pressures stemming from extreme weather conditions and cut the costs of mitigating climate change.

Overall, the short-term scenario is not a favourable one. Rising geopolitical tensions have pushed environmental concerns and progressive economic policies from the priority list of many Governments (chapter III). In this context, the role of multilateral institutions, such as UNCTAD, is key in pressing for better policy coordination between advanced and developing economies.

In light of these challenges, this report suggests that:

- Elevated public debt burdens and the magnitude of investments needed to address prevailing development and climate challenges make clear that rebalancing State budgets requires greater revenues. The path ahead requires coordinated actions, including to increase global taxation on high-net-worth individuals and large corporations.
- Improved access to affordable, reliable and long-term financing options – particularly for the most vulnerable developing countries – is key in securing adequate public investment towards development goals. Important policy actions on the international sphere comprise increased concessional finance through the capitalization of multilateral and regional banks, the issuance of new and reallocation of existing special drawing rights, and the utilization of innovative financial instruments, among other measures.
- A balanced policy mix that addresses the different forces driving inflationary pressures would be both more effective and entail less "collateral damage". Such policies include concerted actions to rein in anti-competitive practices, abuses of dominant market positions and corporate concentration in key markets, as well as revisions to the existing regulatory framework for commodity-trading activities.
- Monetary authorities should deliberate on the wider impacts of their decisions. Among the factors to consider are the impacts of monetary decisions on debt trajectories and servicing costs, the financing of critically needed investments and financial sustainability. Such changes in the criteria and functioning of policymaking need to be embedded in the mandates of monetary institutions.

In this chapter, section B presents the global macroeconomic outlook, focusing on the growth of gross domestic product (GDP) and inflation. Section C discusses the burgeoning discontent triggered by high prices in advanced and developing economies. Section D analyses recent trends in and expectations for interest and exchange rates. Section E moves to fiscal policy and describes the impact of the COVID-19 shock on public debt in the Group of 20 economies. Section F presents simulations of functional income distribution and the most recent data on the impact of the pandemic shock on personal income distribution. Section G details the global economic outlook by region.

Industrial policy has returned explicitly to the policy agenda of advanced economies.

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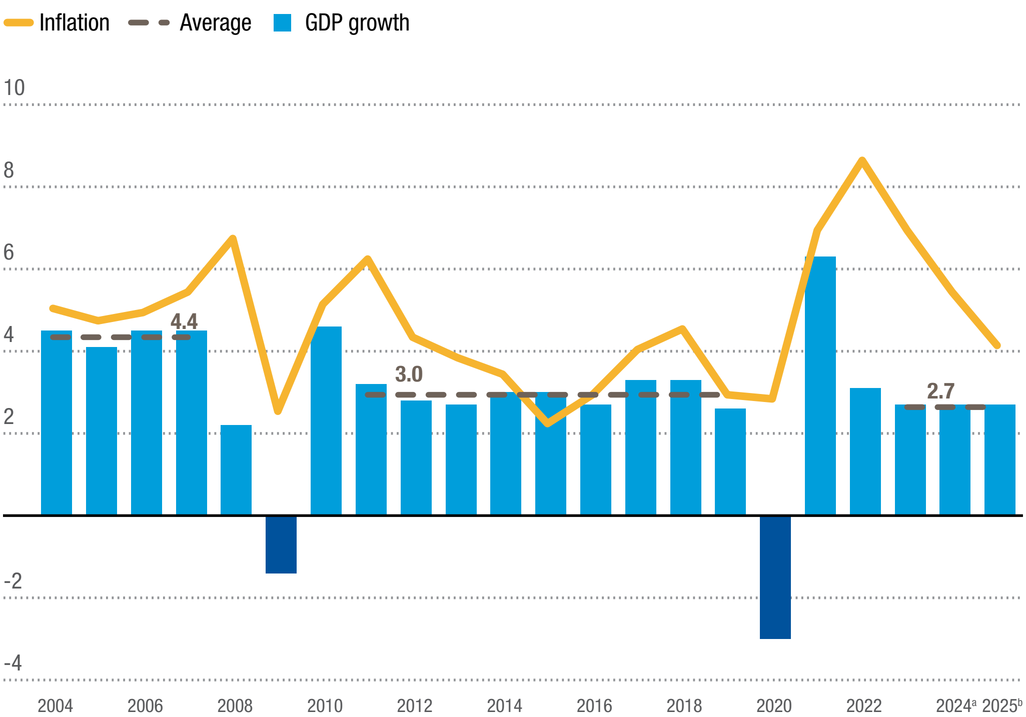
B. Depressed global growth sets in

As stimulus measures to respond to the COVID-19 pandemic were phased out, the primary concern of macroeconomic policy globally became restoring inflation to central bank target ranges. Global output subsequently decelerated from 3.1 per cent in 2022 to 2.7 per cent in 2023. UNCTAD expects the world economy to maintain the same subdued growth rate of 2.7 per cent in 2024 and 2025, marking three years of stable but stagnating growth amid gradual global disinflation (figure I.1 and table I.1).

To put the current situation into historical perspective, the global financial crisis also bore witness to a brief spike in inflation in 2008, albeit of a much smaller magnitude. It led the governments of the largest advanced economies to pursue a "growth-friendly" fiscal consolidation based on the "expansionary fiscal contraction" hypothesis (Alesina and Ardagna, 1998; Jayadev and Konczal, 2010). As a result, fiscal stimulus fell far short of what was necessary to compensate for the shortfall in demand. At the same time, inflation remained below the typical 2 per cent annual target rates in advanced economies.

Figure I.1
Easing inflationary pressures have accompanied lacklustre growth in global output
World output growth and inflation
(Percentage)



Source: UNCTAD based on the United Nations Global Policy Model.
Notes: Output growth is based on GDP at constant 2015 prices (market exchange rates). Grey dashed lines denote average annual growth rates for 2004–2007, 2011–2019 and 2023–2025. Inflation corresponds to a weighted average of national and regional GDP deflators.
a Estimate.
b Projection.

Table I.1
World output growth, 1991–2025
GDP growth rates
(Annual percentage change)

Country groups	1991–1999[a]	2000–2009[a]	2010–2014[a]	2015–2019[a]	2019	2020	2021	2022	2023	2024[b]	2025[b]
World	**2.9**	**3.4**	**3.2**	**3.0**	**2.6**	**-3.0**	**6.3**	**3.1**	**2.7**	**2.7**	**2.7**
▶ Africa	**2.4**	**5.5**	**2.6**	**2.9**	**2.6**	**-2.4**	**4.6**	**3.4**	**3.0**	**3.0**	**3.2**
South Africa	2.7	4.0	2.5	1.0	0.3	-6.0	4.7	1.9	0.6	0.9	1.4
▶ North Africa (incl. South Sudan)	2.7	5.3	-1.9	3.8	2.3	-3.3	4.7	2.6	2.5	2.6	3.2
▶ Sub-Saharan Africa (excl. South Africa and South Sudan)	2.0	6.4	6.2	2.9	3.4	-1.0	4.4	4.3	3.8	3.8	3.6
▶ America	**3.4**	**2.5**	**2.4**	**1.9**	**1.8**	**-3.4**	**6.0**	**2.5**	**2.4**	**2.3**	**2.0**
▶ Latin America and the Caribbean	3.2	3.4	3.4	0.1	-0.6	-7.3	7.1	4.1	2.1	2.0	2.5
Mexico	3.0	1.9	3.2	2.0	-0.4	-8.4	6.0	3.7	3.2	2.0	1.5
▶ Central America (excl. Mexico) and Caribbean	2.8	4.4	3.6	3.0	2.2	-8.7	8.3	4.8	3.6	3.1	3.0
▶ South America	3.4	3.9	3.4	-0.9	-1.1	-6.7	7.3	4.1	1.5	1.8	2.8
Argentina	4.6	3.8	2.7	-0.3	-2.0	-9.9	10.4	5.0	-1.6	-3.5	4.8
Brazil	2.9	3.6	3.2	-0.4	1.2	-3.3	4.8	3.0	2.9	2.8	2.2
▶ Northern America	3.4	2.3	2.1	2.3	2.4	-2.4	5.8	2.1	2.4	2.4	1.8
Canada	2.8	2.3	2.6	2.0	1.9	-5.0	5.3	3.8	1.2	1.1	2.1
United States	3.5	2.3	2.1	2.4	2.5	-2.2	5.8	1.9	2.5	2.5	1.8
▶ Asia (excl. Cyprus)	**4.4**	**5.6**	**5.7**	**4.8**	**3.8**	**-0.9**	**6.7**	**3.6**	**4.2**	**4.0**	**4.0**
▶ Central Asia	-4.4	8.1	6.7	3.7	4.2	-1.2	5.4	4.1	5.6	3.6	3.5
▶ East Asia	4.4	5.6	5.8	4.8	4.0	0.4	6.9	2.5	4.2	3.9	3.7
China	11.0	10.6	8.6	6.8	6.0	2.2	8.4	3.0	5.2	4.9	4.6
Japan	1.2	0.9	1.4	0.9	-0.4	-4.2	2.7	1.2	1.8	0.9	1.0
Republic of Korea	6.8	4.9	3.7	3.1	2.3	-0.7	4.6	2.7	1.4	2.3	2.1
▶ South Asia	4.7	6.3	5.4	6.1	3.7	-3.8	8.1	5.7	6.1	5.7	5.5
India	5.9	7.2	6.6	7.0	4.6	-5.9	9.4	6.5	7.7	6.8	6.3
▶ South-East Asia	5.3	5.5	5.7	5.0	4.4	-3.8	3.6	5.6	3.9	4.5	4.4
Indonesia	4.8	5.2	5.8	5.1	5.0	-2.1	3.7	5.3	5.0	5.1	5.2
▶ Western Asia (excl. Cyprus)	4.3	5.1	5.4	2.9	1.6	-2.9	6.9	6.2	2.0	2.4	3.9
Saudi Arabia	2.2	4.3	5.7	2.2	1.1	-3.6	5.1	7.5	-0.8	1.7	4.7
Türkiye	3.9	5.0	7.6	4.3	0.9	1.7	11.8	5.3	4.5	3.5	3.8
▶ Europe (incl. Cyprus)	**1.4**	**2.2**	**1.2**	**2.1**	**1.8**	**-5.9**	**6.3**	**3.0**	**0.7**	**1.2**	**1.6**
Russian Federation	-5.9	6.2	3.1	1.2	2.2	-2.7	5.9	-1.2	3.6	3.5	1.5
United Kingdom	2.6	2.0	1.8	2.0	1.6	-10.4	8.7	4.3	0.1	0.9	1.4
▶ European Union	1.9	1.8	0.8	2.2	1.8	-5.6	6.1	3.5	0.5	1.0	1.6
▶ Euro area	1.9	1.6	0.6	2.0	1.6	-6.1	6.0	3.5	0.5	0.9	1.4
France	1.8	1.6	1.1	1.7	1.8	-7.5	6.4	2.6	1.1	1.0	1.3
Germany	1.6	1.0	2.0	1.8	1.1	-3.8	3.2	1.8	-0.2	0.2	1.2
Italy	1.4	0.7	-0.8	1.1	0.5	-9.0	8.3	4.0	0.9	0.9	1.0
▶ Oceania	**3.7**	**3.2**	**2.8**	**2.7**	**2.0**	**-2.1**	**5.4**	**3.7**	**1.9**	**1.4**	**2.1**
Australia	3.7	3.3	2.8	2.5	1.8	-2.1	5.5	3.9	2.0	1.4	2.1
▶ Developed countries	**2.3**	**2.2**	**1.7**	**2.1**	**1.9**	**-3.9**	**5.7**	**2.5**	**1.6**	**1.8**	**1.7**
▶ Developing countries	**4.9**	**6.4**	**5.8**	**4.4**	**3.6**	**-1.6**	**7.2**	**3.9**	**4.2**	**4.1**	**4.2**

Sources: UNCTAD based on the United Nations Global Policy Model; United Nations, Department of Economic and Social Affairs, National Accounts Main Aggregates database; United Nations, Department of Economic and Social Affairs, World Economic Situation and Prospects, update as of June 2024; Economic Commission for Latin America and the Caribbean, 2024; Organisation for Economic Co-operation and Development (OECD), 2024; International Monetary Fund (IMF), World Economic Outlook; Economist Intelligence Unit, EIU Country Data database; JP Morgan, Global Data Watch; and national sources.
Notes: The composition of the five geographical regions follows the M49 standard of the United Nations Statistics Division. The distinction between developed and developing countries is based on the updated M49 classification of May 2022. Calculations for country aggregates are based on GDP at constant 2015 dollars.
a Average.
b Forecast.

Given these circumstances, monetary authorities stepped in to stimulate demand through a drastic loosening of monetary policy (UNCTAD, 2013; Palley, 2016). Yet despite negative real interest rates in many economies after the global financial crisis, global growth did not recover to levels necessary to diminish government debt levels sufficiently in relation to GDP (section E).

Twelve years later, as fallout from the COVID-19 pandemic pushed the global economy into another deep recession, the policy response by advanced economies differed substantially from that seen in the aftermath of the global financial crisis. Very low or negative interest rates and the expansion of liquidity in capital markets through quantitative easing allowed Governments to offer relatively cheap fiscal support to households and firms. Particularly in advanced economies, Governments implemented a far more significant budgetary stimulus. By providing massive and temporary income transfers, they attenuated the sudden stop of their economies in 2020 and helped to propel the recovery in 2021.

Global output growth is stabilizing at rates below those registered prior to the pandemic.

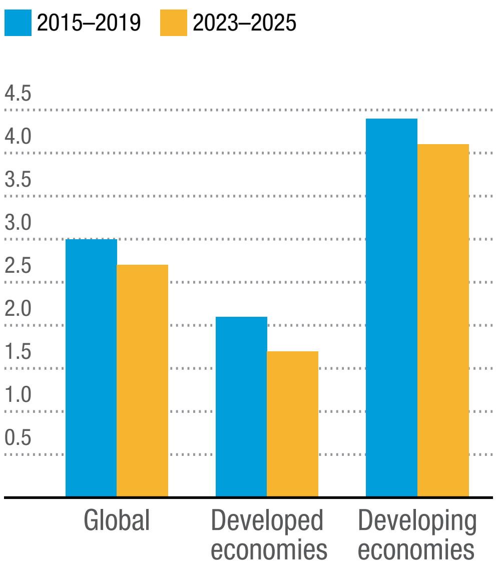
As proof of the effectiveness of fiscal policy when it is both concerted and of sufficient magnitude, the global economy bounced back strongly in 2021. In a context of tightening fiscal and already very restrictive monetary stances, however, global output growth from 2023 through projections for 2025 shows signs of stabilizing at rates below those registered in the years prior to the pandemic for both developed and developing economies (figure I.2). Even the pre-pandemic global growth trajectory was far from satisfactory, at over a full percentage point lower than before the global financial crisis. Growth was and continues to be insufficient to meet current global development challenges and goals.

Global growth stagnation reflects the trajectories of the world's principal economic regions.

The situation is particularly concerning for the 46 least developed countries. Total output growth for them is expected to average 3.9 per cent annually from 2023 to 2025, a rate woefully short of the "at least 7 per cent annual growth" set for these countries in the Sustainable Development Goals.[1] Only one, Rwanda, is expected to attain this growth rate.

Figure I.2
Economic growth is plateauing at rates below pre-pandemic levels in both developed and developing economies

Real GDP growth rate averages
(Percentage)



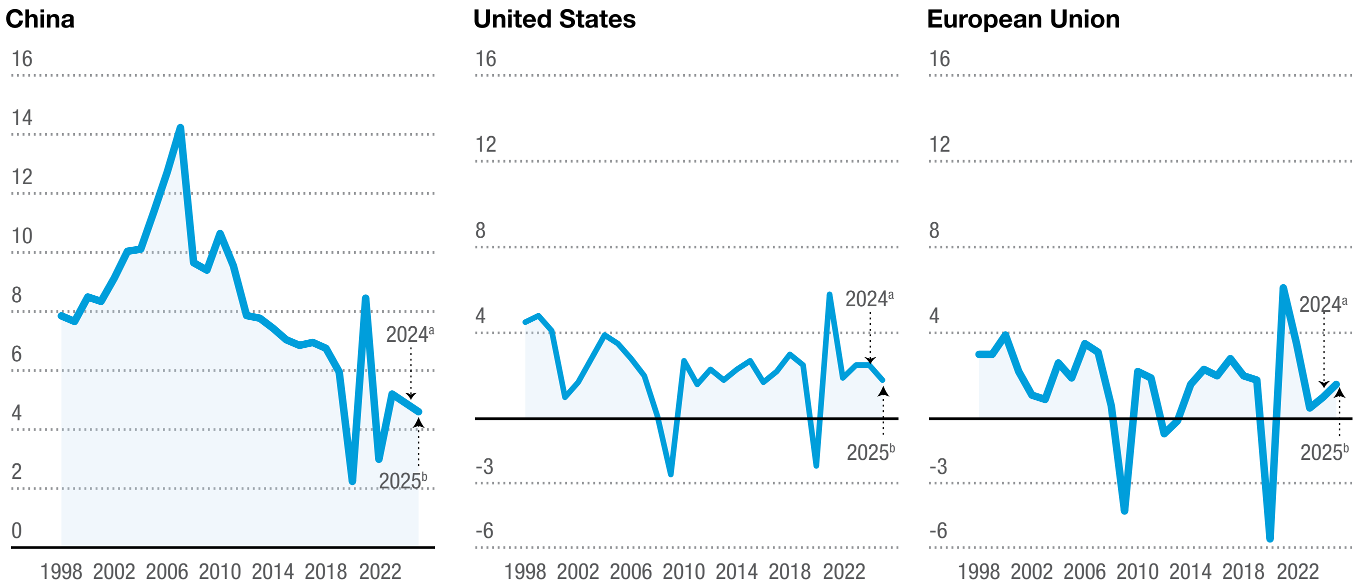
Source: UNCTAD based on the United Nations Global Policy Model.

Note: Output growth is based on GDP at constant 2015 prices (market exchange rates). Data for 2024 are estimates and those for 2025 are projections.

The stagnation in global growth reflects the trajectories of the world's principal economic regions, with ongoing depressed growth in the United States and European Union, and a marked deceleration of the economy of China that began after the global financial crisis (figure I.3). In China, the slowdown partly reflects a reversion to the mean; as the economy grows larger, the same amount of additional real spending results in a lower GDP growth rate. The

[1] See more from the United Nations on Sustainable Development Goal 8, on decent work and economic growth, available at https://www.un.org/sustainabledevelopment/economic-growth/.

Figure I.3
Stagnation and deceleration afflict the world's major economies
Real GDP growth, selected economies
(Percentage)



Source: UNCTAD based on the United Nations Global Policy Model.
Note: Based on GDP at constant 2015 prices.
a Estimate.
b Projection.

deceleration, however, also results from the exhaustion of the construction boom, in both infrastructure and housing, which had substituted for net exports as the main driver of growth in China during the last decade.

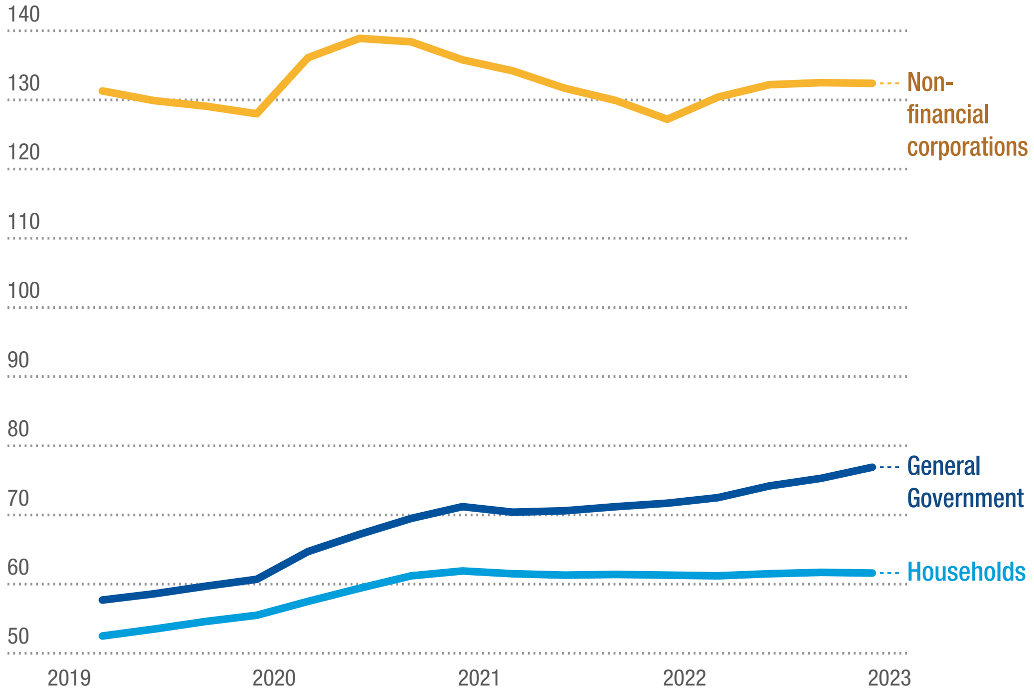
Looking forward, it is unlikely that the main drivers of growth in China over the last two decades – the export sector and a debt-financed construction boom – will continue to provide the same economic impetus. The relatively high (by local standards) debt-to-GDP ratio of Chinese families (at 62 per cent), along with the increasing leverage of non-financial corporations after the Evergrande Group adjustment of 2021–2022 and the continuous growth in the public debt ratio since the outbreak of COVID-19 (figure I.4), suggest that current financial conditions are not conducive for a debt-led domestic construction boom that could act as the main growth driver of the economy. Although net exports have accelerated recently, there is nevertheless heightened uncertainty around the viability of another export-led boom. On the international side, the price policy of Chinese firms has prompted anti-dumping measures in many economies (Friedberg, 2024). On the domestic side, despite rising export quantities, Chinese firms have not registered high profits and are, instead, increasing their debt levels.

The strategy of the Government of China points towards deceleration in GDP growth as the current expansion of investment in innovation, science and technology does not have the same demand effect as previous development phases galvanized by net exports and construction. Rising investments in research and development and science, technology, engineering and mathematics tend to raise productivity and will help to keep China at the forefront of many technologies. But they also mark the beginning of a period of more moderate growth in the absence of government policies to raise domestic private and public consumption.

Figure I.4

The upward trajectory in public and corporate debt in China resumed from early 2022 onwards

Credit-to-GDP ratios of non-financial corporations, General Government and households in China
(Percentage)



Source: UNCTAD based on the Bank for International Settlements.
Notes: Households include non-profit institutions serving households. General Government refers to central, State and local governments and the social security funds controlled by these bodies.

In terms of the global economy, its near paralysis in 2020 and bounce back in 2021 created numerous supply bottlenecks, with significant but temporary inflationary pressures in global value chains (UNCTAD, 2023b; Stiglitz, 2023). These supply pressures were exacerbated by transitory shifts in consumption patterns towards durable goods (UNCTAD, 2022) as well as a surge in commodity prices (chapter II). Monetary authorities across the financially advanced economies reacted to the uptick in inflation with a sharp increase in policy rates that saw real interest rates move back to positive values in these countries (chapter I, section D).

The acceleration of prices has proven to be chiefly a supply issue.

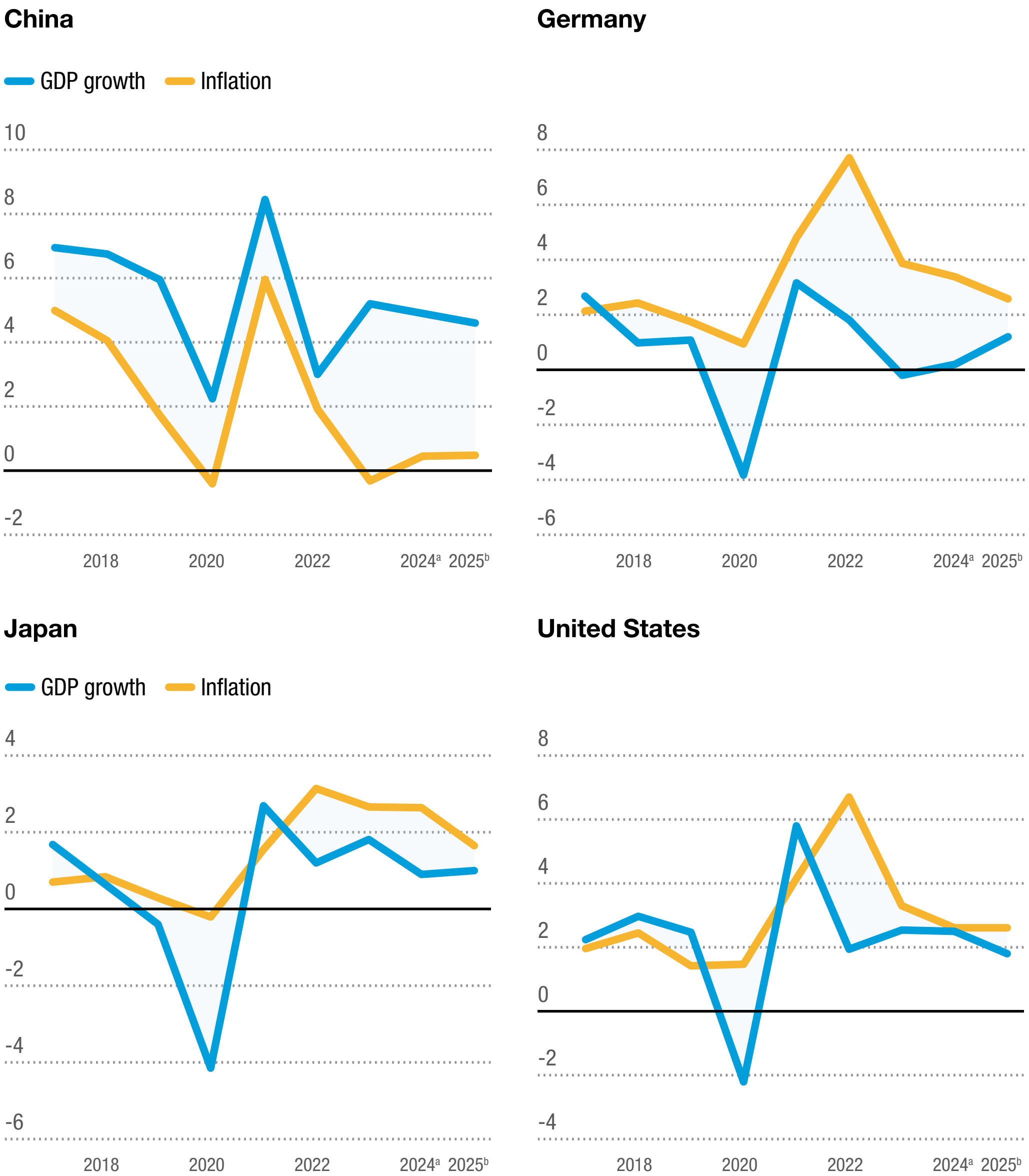
Nearly five years after the pandemic, monetarist worries about a "great post-pandemic inflation" seem misplaced. The acceleration in prices has proven to be chiefly a supply issue – a sellers' instead of a buyers' inflation. Along with other contributing factors, firms adapted to structural changes in relative prices and used their market power to transfer cost increases to consumers (UNCTAD, 2023b; Weber and Wasner, 2023). As of mid-2024, the upward trajectory in prices has slowed across the globe. This disinflationary process is taking place amid significantly diverging growth trajectories, however, including among the economies of the Group of 20 (chapter I, section G).

In numbers, the United States is set for a relatively soft landing in 2024 as the economy settles on a 2 per cent growth trend. China continues to decelerate to a still uncertain trend growth rate. Japan seems to be on the path to a stable 1 per cent growth rate, while Germany continues to struggle to reach the same, fairly meagre 1 per cent rate after being hit hard by the twin shocks of the pandemic and the war in Ukraine (figure I.5).

Figure I.5

Economic growth rates have diverged among the largest countries

Real GDP growth and inflation, selected countries of the Group of 20
(Percentage)



Source: UNCTAD based on the United Nations Global Policy Model.
Notes: Output growth is based on GDP at constant 2015 prices. Inflation corresponds to the GDP deflator.
a Estimate.
b Projection.

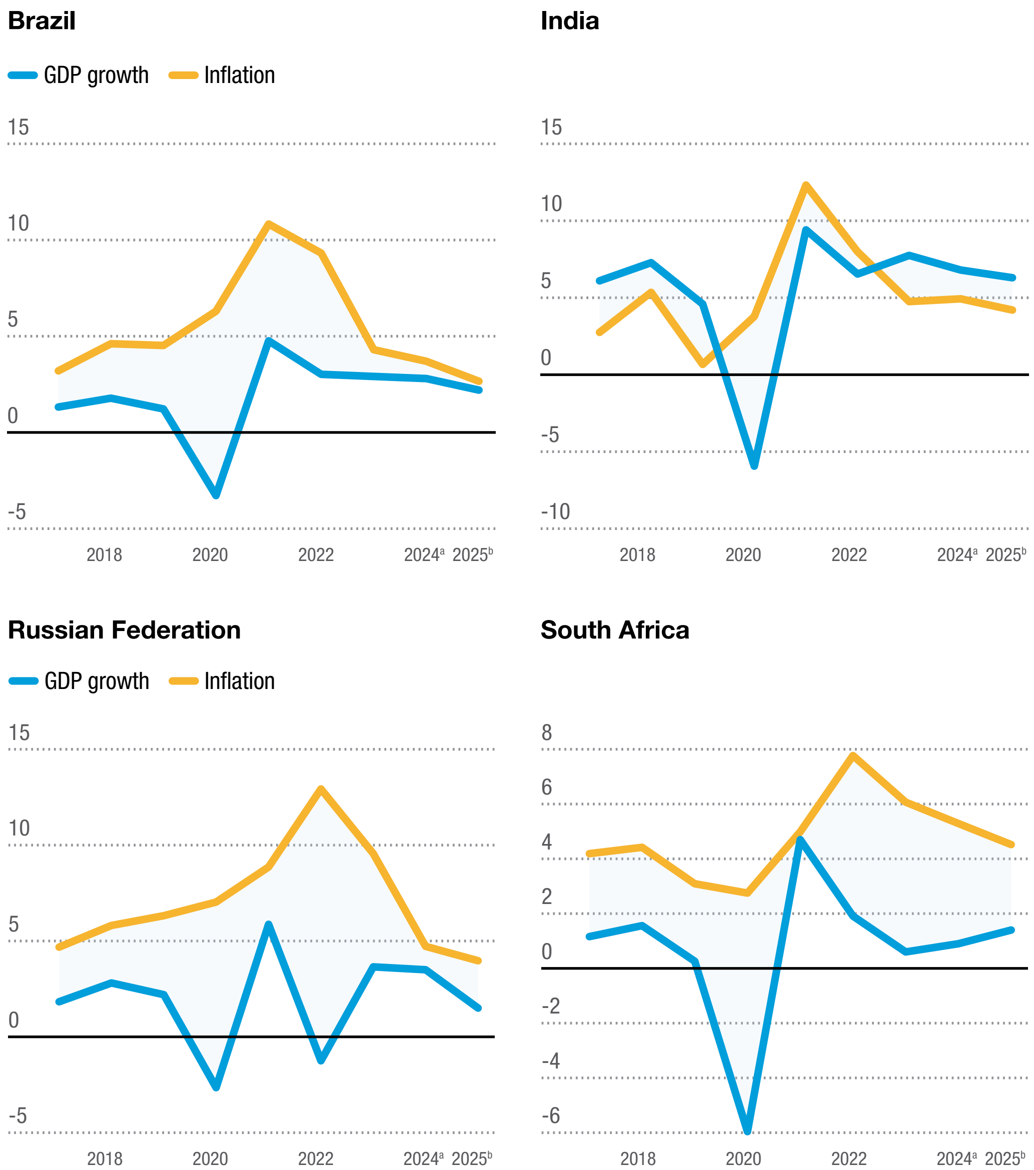
The economies of Brazil, the Russian Federation, India, China and South Africa (BRICS), apart from China, also saw a post-pandemic spike in inflation but with very different growth and price trajectories (figure I.6). Specifically, after a decade of stagnation, Brazil seems to be converging to a 2 per cent growth rate and a 3 per cent inflation rate. In contrast, the economy of the Russian Federation appears to be converging to a 4 per cent inflation rate. Much uncertainty persists regarding its

GDP growth due to a "W" growth pattern caused by shocks from the COVID-19 pandemic and the impact of the war in Ukraine on Russian trade and investment. The GDP growth of India appears stable at 6 per cent, with an accompanying inflation rate of 4 per cent, while South Africa is struggling to reach a 2 per cent growth rate and a 4 per cent inflation rate by 2025.

Figure I.6

Diverging growth and inflation trajectories prevail among BRICS economies (excluding China)

Real GDP growth and inflation
(Percentage)



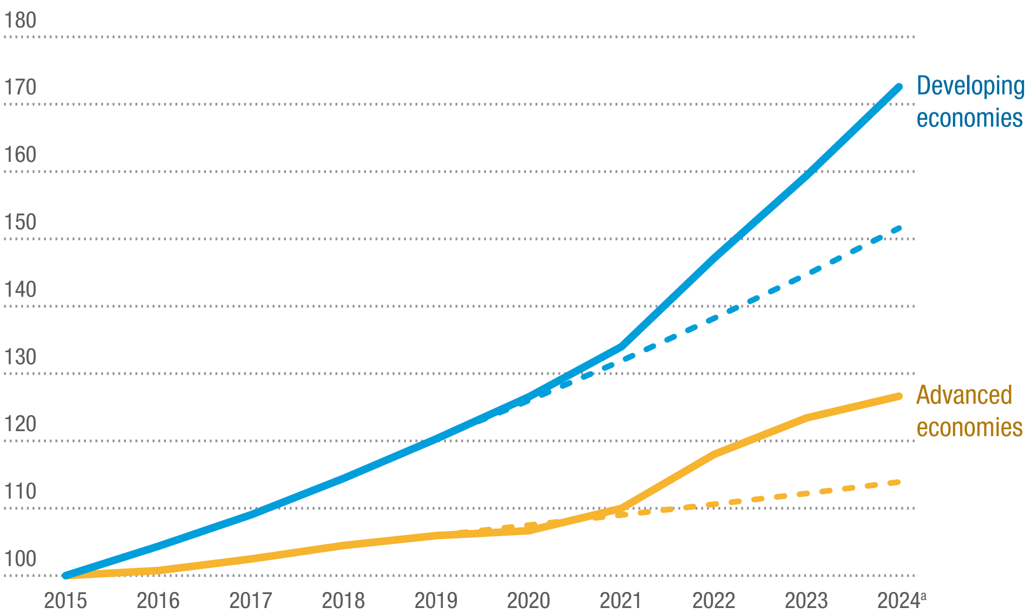
Source: UNCTAD based on the United Nations Global Policy Model.
Notes: Output growth is based on GDP at constant 2015 prices. Inflation corresponds to the GDP deflator.
a Estimate.
b Projection.

C. The macroeconomics of consumer discontent

The post-COVID-19 recovery and disinflation have been accompanied by widespread discontent across countries. The sharp increase in the cost of credit – a result of hiking interest rates – has hit households particularly hard amid high household debt levels. Consequently, far too many households have had to cut spending as their disposable income shrinks. Similarly, the trajectory of consumer prices, which despite the disinflation of recent years has not returned to its pre-pandemic trend, has significantly eroded household purchasing power. Consumer prices are 11 and 14 per cent higher for advanced and developing countries, respectively, than the levels indicated by the pre-pandemic trend (figure I.7).

Higher prices and credit costs are eating into household disposable income.

Figure I.7
The uptick in consumer prices has eroded household purchasing power in both advanced and developing countries
Consumer price index
(2015=100)



Source: UNCTAD based on data from the IMF World Economic Outlook, April 2024.
Notes: Dashed lines correspond to estimates based on the pre-pandemic trend (2015–2019). Aggregations for advanced and developing economies are computed using geometric means.
a Estimate.

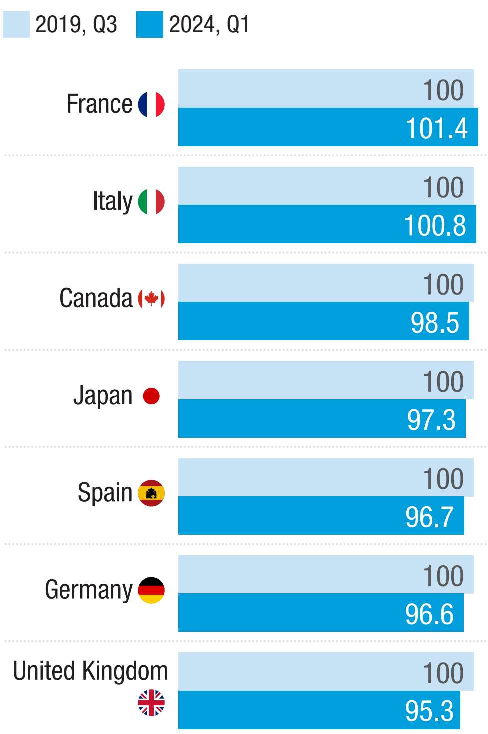
Real spending by households in many countries is still below pre-pandemic levels.

These price dynamics and the accompanying reduction in consumer purchasing power have, in some countries, led to a stagnation and, in others – particularly where fiscal support for households during the pandemic was more restrained – a decline in household per capita real consumption spending relative to before the pandemic (figure I.8).

Figure I.8

Consumption spending by households in numerous countries has yet to recover to its pre-pandemic level

Real final consumption expenditure per capita of households, selected OECD countries
(Third quarter of 2019=100)



Source: UNCTAD based on OECD database.
Abbreviations: Q1, first quarter; Q3, third quarter.

The post-pandemic spike in inflation was the product of a combination of factors.

A key feature of economic activity in the post-pandemic period concerns policy responses to the uptick in inflation that began in 2021. As outlined by UNCTAD in recent editions of the Trade and Development Report, the post-pandemic spike in inflation was not simply a result of overheating economies in which too much money was chasing too few goods and services. It was instead the product of a combination of factors, including transitory supply bottlenecks, shifting consumption patterns, surging commodity prices, heightened market concentration and the pricing behaviour of large corporations in certain sectors, most notably agrifood and energy (UNCTAD, 2023b).

The structure of inflation – with many supply-side issues unresolved to this day – raises questions about the efficacy of the monetary stance. Excessive reliance on sharp and prolonged monetary tightening as the sole policy tool to bring inflation down to target rates in the major advanced economies is destined to be only partially effective, just as the loosening of monetary policy in the deflationary period after the global financial crisis was unable to push inflation up to target rates. At the same time, monetary tightening has been costly as a major factor in restricting economic activity; increasing financing costs for households, firms and Governments; exacerbating financial instability risks; adding pressure on currencies; and amplifying debt burdens across developing countries (UNCTAD, 2024c). A more balanced policy mix that addresses the different forces driving inflationary pressures would be more effective and entail less "collateral damage".

Such a mix would include concerted actions to rein in anti-competitive practices, abuses of dominant market positions and corporate concentration in key sectors. It would comprise price stabilization tools and revisions to the existing regulatory framework for commodity-trading activities to curb excessive financial speculation, and put a stronger focus in monetary policy on financial stability and liquidity management in the financial system (UNCTAD, 2020, 2023).

D. Delayed monetary loosening and a strengthening dollar

Discussions among economists before the pandemic on whether the global economy had entered an era of secular stagnation appear to have been settled by the COVID-19 shock. Proponents of secular stagnation had insisted that subdued growth trends after the global financial crisis were a by-product of diminished investment levels despite historically low interest rates – due to increases in the savings rate – that brought about a persistent shortfall in aggregate demand. In fact, the negative real interest rates of the 2010s resulted from an insufficient fiscal impulse to offset the fall in private sector fixed capital investment after the financial crisis (UNCTAD, 2015; Cooper, 2022).

The combination of supply bottlenecks and a series of other factors during and after the pandemic created a temporary inflationary spike worldwide, igniting an almost synchronized increase in interest rates in the major advanced economies (figure I.9). Policy rates in the United Kingdom and United States as well as the euro area jumped sharply from late 2021 through the middle of 2023. Despite expectations at the beginning of 2024 that monetary loosening cycles would begin shortly and would by now be well under way, there have been repeated delays to the much-anticipated start of the loosening cycle.

After numerous postponements, the European Central Bank finally began its process of monetary loosening with a 25-basis-point reduction in its key interest rates on 6 June 2024. A further 25-basis-point cut to its deposit rate occurred on 12 September. Interest rate cuts in the United Kingdom and United States were pushed back to the second half of 2024, with the Bank of England reducing its bank rate by 25 basis points on 16 August and the Federal Reserve System lowering its federal funds target rate by 50 basis points on 18 September. Despite these initial steps towards monetary loosening, the cumulative magnitude of rate increases from 2021 to 2023 has resulted in monetary stances that remain highly restrictive.

The increase in policy rates in the major advanced economies was replicated throughout much of the developing world (figure I.9). In the case of these countries, the pace of monetary normalization will inevitably diverge somewhat based on differing inflationary and exchange-rate trajectories as well as other specific domestic factors at play in each country. In Latin America, Brazil and Chile were the first to hike interest rates, followed by Colombia and Mexico. As of mid-2024, the Brazilian situation is uncertain, with possible new hikes in 2025, whereas Mexico has yet to start its monetary easing. In Chile and Colombia, central banks are expected to continue cutting rates gradually.

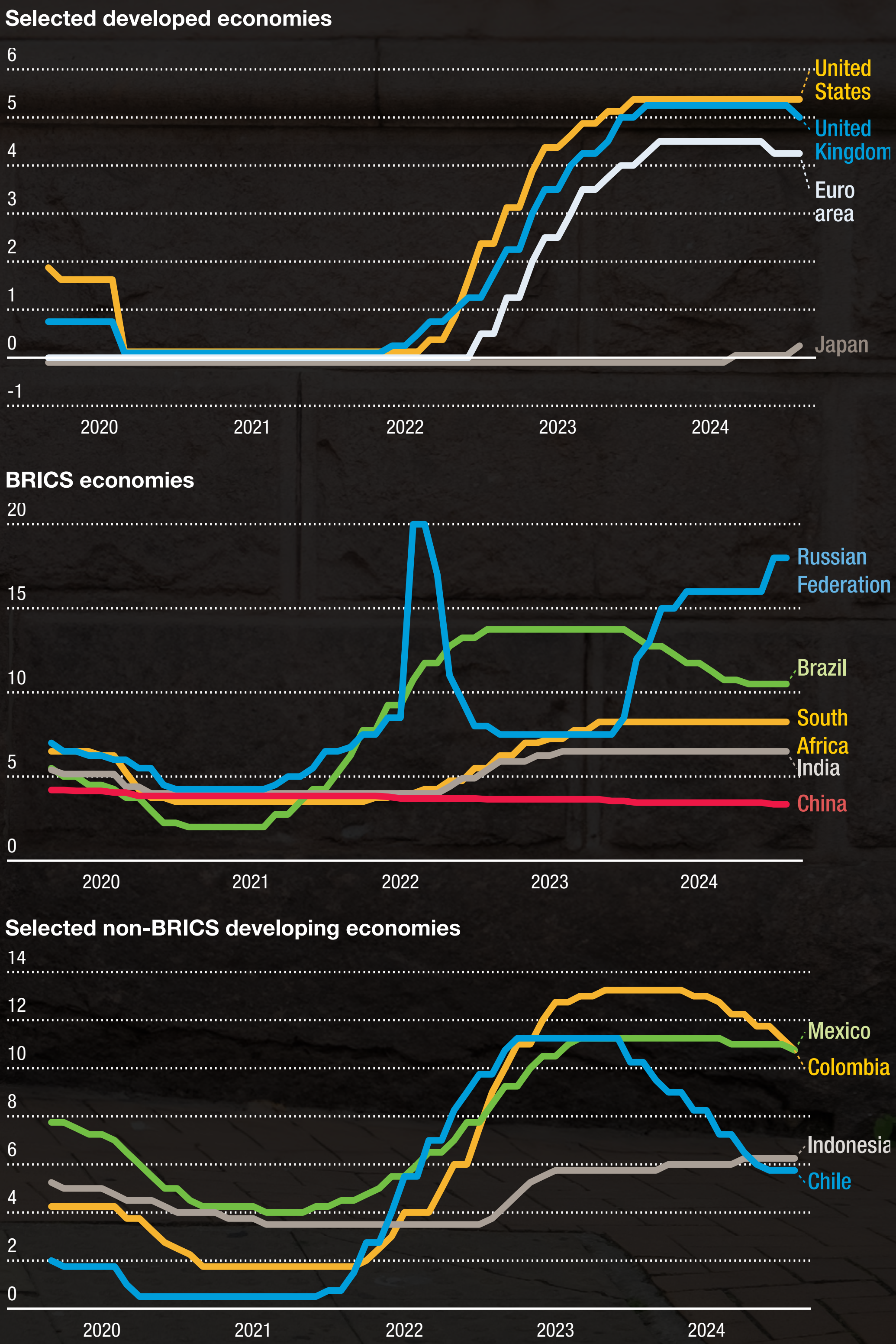
There have been repeated delays to the much-anticipated start of monetary loosening.

India, Indonesia and South Africa are still in the high nominal rate phase, with no significant cuts predicted for 2024–2025. China continues its gradual monetary easing, with the possibility of further cuts in 2024–2025 to avoid a deceleration in economic growth. In the Russian Federation, the central bank is expected

Figure I.9

Monetary policy rates remain high across the globe

Central bank policy (short-term) interest rates
(Percentage)



Source: Bank for International Settlements.

to maintain its high interest rate to deal with ongoing exchange rate and price pressures imposed by the war in Ukraine.

Along with specific domestic factors in each country, the delay in monetary loosening in major developed economies is a key factor in exerting pressure on central banks across developing countries. As a result, these banks see the need to maintain a tighter monetary policy than would otherwise be necessary to avoid interest rate differentials that might stoke capital outflows and domestic currency depreciations. At the same time, the ending of quantitative easing raises new challenges in rolling over foreign currency bonds issued by developing country Governments during the period when key central banks had facilitated the issuance of such bonds through their quantitative easing programmes.

The main monetary novelty so far in 2024 has happened in Japan, where the Bank of Japan ended its almost eight-year negative nominal interest rate. The Japanese policy interest rate is still close to zero, and the real interest rate is negative, but the recent 20-basis-point change in the short-term carry trade that uses the yen as the borrowing counterpart is expected to attenuate the sharp post-pandemic depreciation of the Japanese currency against other main reserve currencies (figure I.10).

Outside Japan, the currencies of other major advanced economies have registered a gradual appreciation over 2024 (figure I.10). In developing economies, despite tight stances adopted by monetary authorities, most have seen a depreciation of their currencies vis-à-vis the dollar. Out of 94 developing economies that operate under non-fixed exchange rate regimes and for which data are available,[2] 79 registered a nominal depreciation in the first half of 2024.

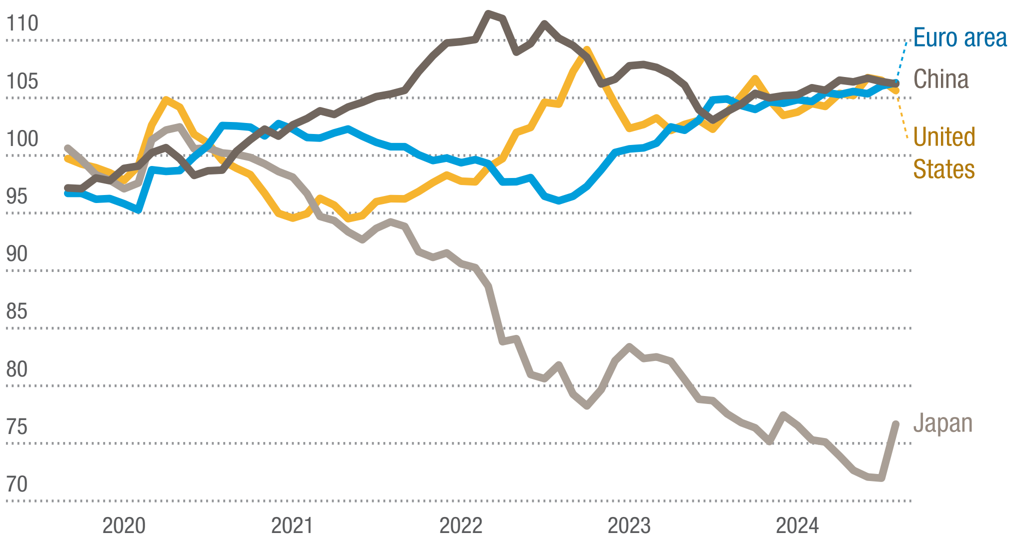
Delays in monetary loosening in developed economies have exerted pressure on central banks across the global South.

Of 94 developing economies under non-fixed exchange-rate regimes, 79 registered a depreciation against the dollar in 2024.

Figure I.10

Except for the yen, main reserve currencies are registering a gradual appreciation in 2024

Effective nominal exchange rate index (2020=100)



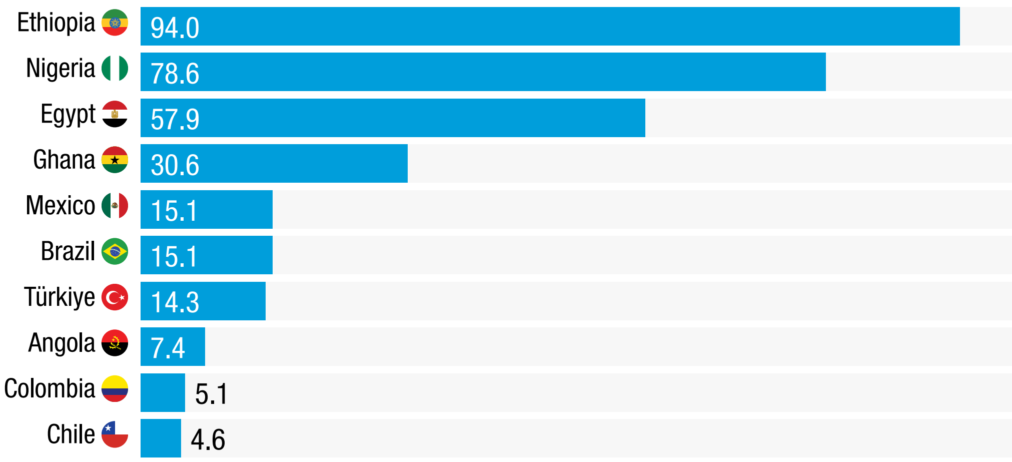
Source: Bank for International Settlements.
Note: Nominal effective exchange rates are calculated as geometric trade-weighted averages of bilateral exchange rates.

2 See the BIS Data Portal on bilateral exchange rates, available at https://data.bis.org/topics/XRU/data.

Figure I.11

Several developing economies have suffered sharp depreciations of their currencies in 2024

Bilateral exchange rate depreciations relative to the United States dollar in nominal terms, selected developing countries, January–August 2024
(Percentage)



Source: UNCTAD based on London Stock Exchange Group Eikon.
Note: Percentage change in the nominal exchange rate against the United States dollar between 1 January 2024 and 22 August 2024.

Ongoing tight international monetary conditions have put additional pressure on developing country currencies.

Some have experienced particularly severe drops (figure I.11) that are fuelling inflationary pressures in their economies. While specific domestic factors are also at play (section G), particularly in countries undergoing very sharp depreciations, ongoing tight international monetary conditions have exacerbated pressures on local currencies across the developing world.

The combination of continuing high policy rates in major advanced economies and depreciating domestic currencies is severely limiting the policy space available to authorities in developing countries. It is also increasing the servicing costs of foreign currency-denominated debt. This situation is squeezing fiscal accounts and heightening potential risks to financial stability.

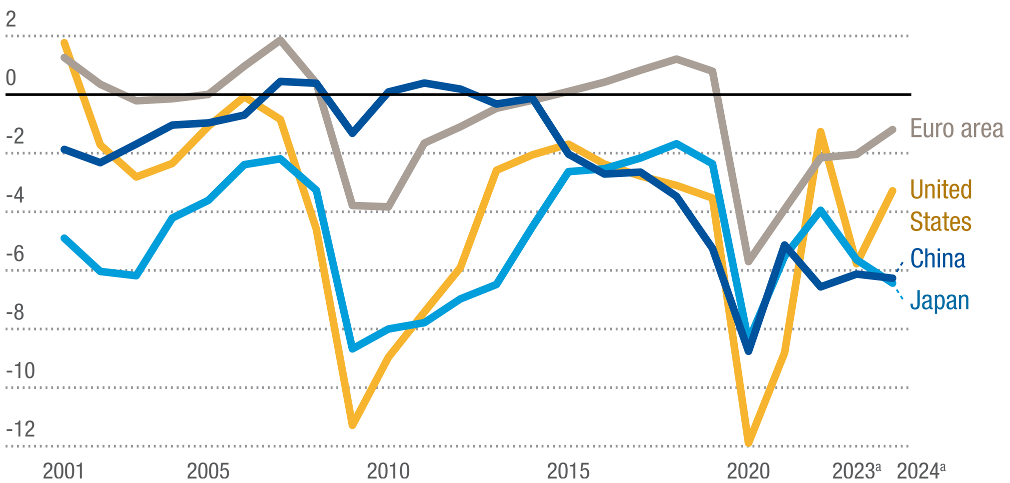
E. The phasing out of fiscal stimulus and increased public debt levels

The largest economies of the Group of 20 responded to the COVID-19 shock with fiscal stimuli of very different sizes. In the United States, the primary balance fell from a deficit of 3.5 per cent of GDP in 2019 to almost 12 per cent of GDP in 2020. The fiscal consolidation taking place since then is expected to bring fiscal accounts back to a primary deficit of 4 per cent of GDP in 2024. Comparing the response in the United States to the global financial crisis and the COVID-19 shock, the fiscal impulse or change in the primary deficit was more significant in 2020 than in 2009 (figure I.12).

The euro area's fiscal response to the global financial crisis and the COVID-19 shock was also a stimulus but of a smaller magnitude and with a faster budgetary consolidation than in the United States. In recent years, the primary balance has fallen from a surplus of 0.7 per cent of GDP in 2019 to a deficit of approximately 6 per cent in 2020. Fiscal consolidation started in 2021 and is expected to bring the euro area to a deficit of roughly 1 per cent of GDP in 2024.

In Asia, Japan responded to both the global financial crisis and COVID-19 shock with a similar fiscal impulse, a 5-percentage-point increase in the ratio of the primary deficit to

Figure I.12
Diverging fiscal balance dynamics among the world's largest economies
Primary fiscal balance in selected economies of the Group of 20
(Percentage of GDP)



Source: IMF World Economic Outlook, April 2024.
a Estimate.

The COVID-19 shock raised public debt in almost all economies of the Group of 20.

GDP. In contrast, China became much more fiscally active after the pandemic compared to the global financial crisis. In 2009, China had a temporary and small primary deficit, followed by an almost balanced primary budget in 2010–2014. The situation started to change in 2015, when the primary deficit started to increase. By 2019, the deficit had reached 5 per cent of GDP; the COVID-19 shock saw it deepen to almost 9 per cent of GDP in 2020. For 2024–2025, the expectation is for the primary deficit to stabilize at approximately 6 per cent of GDP. As outlined below, increases in primary deficits are reflected in the swelling of public debt stocks.

As expected after a recession, the COVID-19 shock raised public debt in almost all Group of 20 economies (table I.2). The exceptions were Brazil and Türkiye, for

Table I.2

Public debt levels spiked in the aftermath of the COVID-19 shock

General government gross debt in the economies of the Group of 20
(Percentage of GDP)

Country	COVID-19 shock period 2019	2020	2021	2022	2023[a]	Change 2019–2023
Argentina	90	104	81	85	155	65
Australia	47	57	56	50	49	3
Brazil	87	96	89	84	85	-2
Canada	90	118	114	107	107	17
China	60	70	72	77	84	23
Euro area	84	97	95	91	89	5
France	97	115	113	112	111	13
Germany	60	69	69	66	64	5
Italy	134	155	147	141	137	3
India	75	88	84	82	83	8
Indonesia	31	40	41	40	40	9
Japan	236	258	254	257	252	16
Mexico	52	59	57	54	53	1
Republic of Korea	42	49	51	54	55	13
Russian Federation	14	19	16	19	20	6
Saudi Arabia	22	31	29	24	26	5
South Africa	56	69	69	71	74	18
Türkiye	32	39	40	31	29	-4
United Kingdom	86	106	105	100	101	15
United States	108	132	125	120	122	14

Source: IMF World Economic Outlook, April 2024.
a Estimate.

idiosyncratic reasons. In Brazil, there was already a large public debt build-up before the crisis, and the Government was in the middle of fiscal restructuring when the pandemic hit. In Türkiye, high inflation, fast growth and low real interest rates attenuated the impact of the COVID-19 shock on debt dynamics.

In the remaining Group of 20 countries, the most significant debt expansion happened in Argentina, mostly in 2023, due to the maxi-depreciation of the peso that year. Since most government debt is indexed to the United States dollar, the Argentine stabilization strategy had an outsized negative impact on fiscal solvency. The second largest public debt build-up was registered in China (up 23 percentage points of GDP) but it had a relatively low debt ratio before the pandemic. In most of the largest advanced economies, the pandemic increased gross public debt by about 13 to 17 percentage points of GDP. In the remaining developing economies, the most significant debt increase happened in South Africa, with a rise of 18 percentage points of GDP.

The burden of increased debt levels in terms of the quantity of public resources that have to be dedicated to servicing these liabilities is further aggravated by tight international financial conditions (chapter II) and depreciating currencies. A greater proportion of public funds have to be channelled to debt servicing instead of much needed public services and investments in areas key to achieving development and climate goals.

While some proponents of fiscal consolidation point to increased deficits and public debt stocks as evidence of the need for Governments to restrict spending, this policy prescription does nothing to address shortfalls in needed public outlays to tackle development challenges facing developing economies. In fact, it worsens these challenges. Addressing the adverse effects of fiscal imbalances and resulting debt dynamics while simultaneously maintaining sufficient public investment in closing developmental gaps requires a far more proactive response.

On the fiscal side, a key factor in responding to fiscal imbalances and heightened government debt liabilities entails making sure that fiscal revenues adequately reflect the economic and financial gains reaped by larger corporations and top earners. Corporations use myriad tools to avoid tax obligations,[3] draining public coffers and severely hindering government capacities to mobilize resources for essential public services and investments (UNCTAD, 2017). Progress in redressing these practices requires a coordinated clamping down on corporate arbitrage practices, tax havens and conduit jurisdictions, but also a multilateral mechanism that can enable developing countries to reverse asymmetries in negotiating positions over double taxation agreements (chapter V).

Greater access to affordable, reliable and longer-term financing options – particularly for the most vulnerable developing countries – is another key factor in ensuring adequate public outlays towards development goals. Important policy actions on the international sphere include increased concessional finance through the capitalization of multilateral and regional banks, the issuance of new and the reallocation of existing special drawing rights, the use of innovative financial instruments (e.g. sustainable development bonds and resilience bonds), and the expansion of currency swap facilities, pioneered by the Federal Reserve, to facilitate borrowing in domestic currency over foreign currency (UNCTAD, 2023b).

On the monetary side, rather than focusing exclusively on inflation targets in determining policy, monetary authorities – particularly those in major advanced economies – should consider the wider impacts of their

A clamping down on tax avoidance by corporations and a multilateral mechanism to strengthen negotiating positions of developing countries are needed.

[3] The most important of these tax-planning tools entail shifting profits to affiliates located in tax havens, shifting liabilities to affiliates located in high-tax jurisdictions, transfer pricing through deliberately inaccurate valuations of intra-firm cross-border transactions, and exploiting tax loopholes in domestic tax laws and international tax treaties (UNCTAD, 2020).

Monetary authorities should consider the wider impacts of their decisions.

decisions. Factors to deliberate include the impacts of monetary decisions on debt trajectories and servicing costs, the financing of critically needed investments, financial sustainability and gaps in capital provision (UNCTAD, 2023b, box I.2).

Changes in the criteria and functioning of policymaking cannot be ad hoc. They need to be embedded in the mandates of monetary institutions. The quantitative easing response to the global financial crisis demonstrated that monetary policy is most effective when used for financial stabilization rather than simply for regulating inflation and the business cycle, where the lags and uncertain functioning of monetary transmission mechanisms weaken policy effectiveness.

Box I.1
Pleasant and unpleasant fiscal arithmetic

The rise in public debt after the COVID-19 shock raised the usual concerns about government solvency worldwide, with different calls for action depending on the economy under analysis. In developing economies, there have been recommendations for fast fiscal consolidation to gain policy credibility, even if that requires a significant slowdown or even contraction in GDP at the beginning of the cycle. In contrast, advanced economies have adopted a more gradualistic approach, tolerating higher primary deficits for a more extended period of time, as well as lengthening the time horizon necessary to converge to their inflation targets in order to avoid a spike in real interest rates (Taylor and Barbosa-Filho, 2021).

Theoretically, proper policy coordination and international support could end the double fiscal and monetary standard between advanced and developing economies, allowing developing economies to adopt the same gradualistic adjustment under way in high-income economies. In practice, the challenge lies in reducing the cost of public debt in developing countries, what economists call the “r minus g”, the difference between the real interest rate on government bonds (r) and a country’s GDP growth rate (g).

Advanced economies can grow out of high debt ratios through moderate primary budget deficits.

Recent research has shown that, in the long run, the real interest rate is lower than GDP growth in advanced economies (Mehrotra and Sergeyev, 2021), creating a pleasant fiscal arithmetic: a country can grow out of high debt ratios through moderate primary budget deficits. In most developing and some advanced economies, by contrast, the “r minus g” is highly positive. This results in an unpleasant fiscal arithmetic for these countries as it necessitates large primary surpluses to keep public debt under control. Since developing countries also need more public spending on universal public services and infrastructure, the current fiscal constraint is incompatible with progress towards the Sustainable Development Goals.

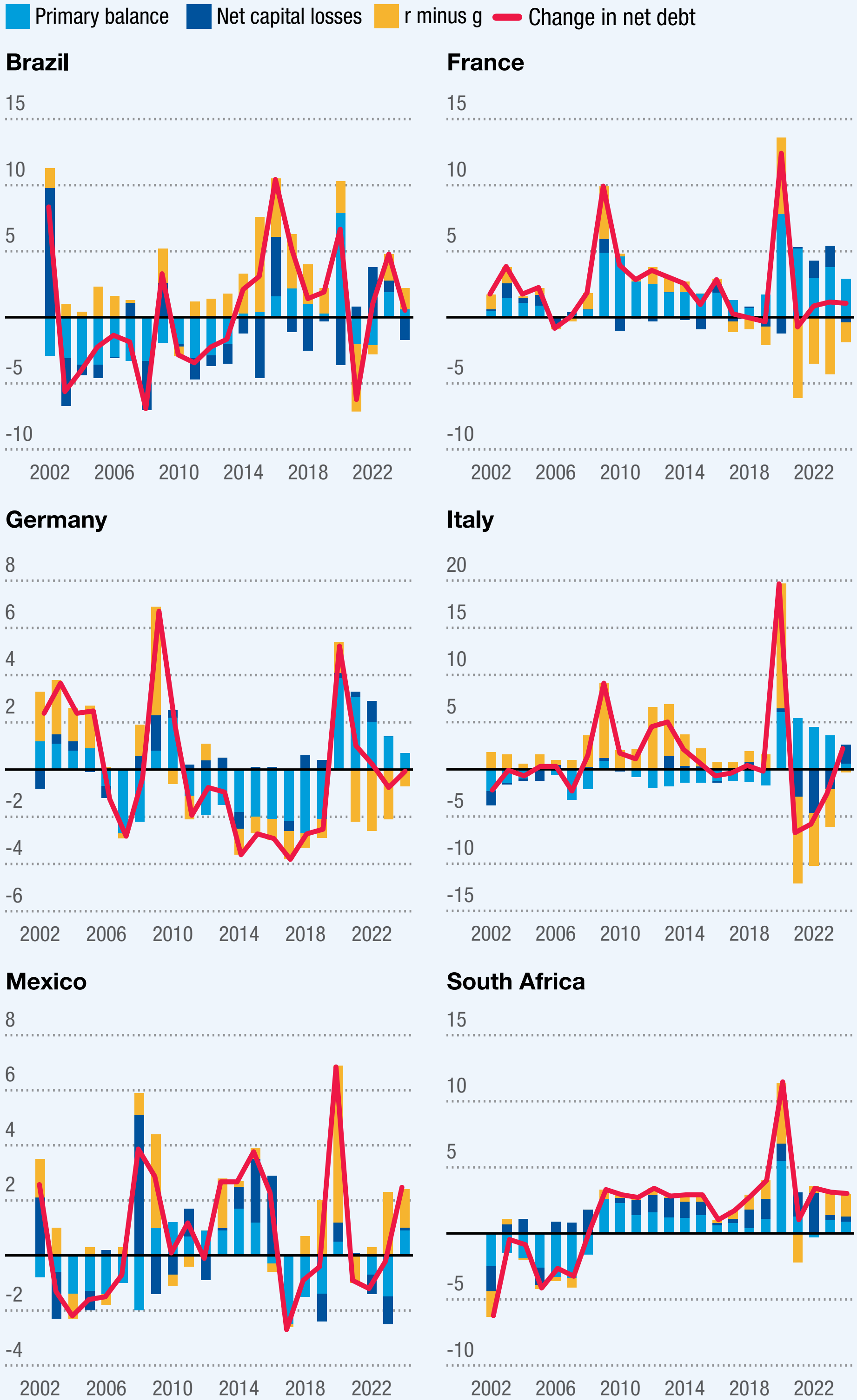
For developing countries, current fiscal constraints are incompatible with progress on sustainable development.

In addition to domestic actions, developing countries’ unpleasant fiscal arithmetic requires at least two global responses. The first entails a coordinated increase in taxation on cross-border activities, especially on high net worth individuals and large corporations, to raise government primary balances (Ocampo, 2014). The second involves a multilateral initiative to reduce the risk premia on selected government investments in developing countries, with the IMF and similar institutions acting as a hedge of last resort for the exchange-rate risk from global shocks.

Box I.1 **Pleasant and unpleasant fiscal arithmetic**

The real interest rate plays a key role in driving debt dynamics

Sources of the change in the net debt-to-GDP ratio, selected economies
(Percentage of GDP)



Source: IMF World Economic Outlook, April 2024.
Notes: The formula "r minus g" is the difference between the real interest rate on government bonds (r) and the country's GDP growth rate (g). Data for 2023 and 2024 are estimates.

Box I.2
Closing the capital gap: The State and central banking

> **Gaps in the provision of long-term finance become prominent in times of economic difficulties.**

Capital markets offer opportunities to end the undue reliance on short-term bank financing, allowing businesses not only to fix financing costs and economize on cash flow but also to get through longer periods of losses before returns on investments in capital equipment start to come in. At the same time, stock markets allow buyers of stocks to provide capital needed by industry in the “primary” market for stocks and shares without having to commit to holding the stocks until the company repays its investors. Stocks can be sold in a “secondary” market to some other financial investor willing to hold them.

Yet the offer of long-term finance is by no means comprehensive. Gaps in provision illustrate how reliance on such finance is far from efficient when it comes to social and economic development. Gaps in capital market provision become especially prominent in times of economic difficulties, when Governments and businesses find themselves financially constrained, or when they face a pressing need such as climate change investments where cash flow benefits are incalculable.

During the Great Depression of the 1930s, in an effort to revive their economies, Governments took over capital market functions and made them available to corporations on the condition that they participated in State-sponsored infrastructure and other investments that were also supported by central banks. This entry of Governments and central banks into investment banking was not an embrace of Keynes’s “socialization of investment” (Keynes, 1936). It came about as a result of the failure of capital market functions in the economy. Corporations in industrialized countries found themselves unable to “fund” their balance sheets with stocks and bonds. It was this breakdown, rather than any politically motivated consensus, that laid the foundation for industrial policy and planning after the Second World War (Engerman, 2015).

The flaw in short-term bank finance is the possibility that banks will not roll over borrowing or will only do so at a higher rate of interest. Long-term finance is the obvious solution. But such finance comes with its own distinctive limitations: the narrow scope of its availability and, as demonstrated in successive collapses in stock market trading, the possible illiquidity of stockholders, leading to capital market failure.

In developing countries, most economists have argued that, in a global economy dominated by the first industrial powers, the State needs to take the lead on industrial policy in order to industrialize. But given central bank mandates for managing government debts and monetary policy, it is considered inappropriate for a central bank to manage industrial projects directly. In many developing countries and emerging markets, special purpose “development banks” therefore provide long-term finance for industrial projects. These may have favourable refinancing terms at the central bank to allow them to finance projects over long periods of time without regard to the liquidity of stockholders.

Such a model seems highly appropriate for building infrastructure and developing industry and construction (such as housing). Where the benefit is a common good, such as the green transition, it can provide finance for projects that work rather than using projects for financial (funding) purposes.

The consensus among monetary economists framing central bank operations is that countries at all stages of economic development should apply inflation-targeting, using a short-term policy rate of interest to regulate the inflation rate. There is a disconnect here, however, between the use of an interest rate instrument affecting

Box I.2 Closing the capital gap: The State and central banking

principally banking and short-term credit flows and the capital market through which monetary policy transmission is supposed to work (Toporowski, 2024).

Financial crises in the financially advanced countries, notably after the global financial crisis in the United States and most recently the COVID 19 pandemic, have tempered inflation targeting with considerations of financial stability to provide liquidity assistance to capital markets. But central banks have not, in general, sought to fill gaps in capital market provision for productive investment, innovation and the green transition (UNCTAD, 2023b).

While there are good reasons for keeping such provision off the balance sheets of central banks, this does not mean that central banks cannot support agencies that can fill gaps in capital markets. Such gaps should not also become holes in central bank policy frameworks.

Central banks have not sought to fill gaps in capital market provision.

F. Income inequality on the rise

UNCTAD has maintained that the increase in the labour share of income during the pandemic was a temporary phenomenon due to the relatively larger fall in profits compared to wages and the exclusion of low-wage workers from statistics during lockdowns. Data on the post-pandemic period confirm these expectations.

Using the United Nations Global Policy Model to simulate the evolution of functional income distribution – or the distribution of value added among wages, profits, rents and taxes – in the Group of 20 countries indicates that the labour share of income is continuing to fall in most advanced economies but with divergent real-wage trajectories. In Canada, Germany, the United Kingdom and the United States, the labour share tends to fall in parallel to an increase in the real wage. In Australia, France, Italy and Japan, the labour share has fallen with a stagnant or declining real wage (figure I.13). The combination of declines in the labour share and real wages is particularly troublesome as it points to structural and conjunctural pressures leaving workers increasingly worse off in these countries.

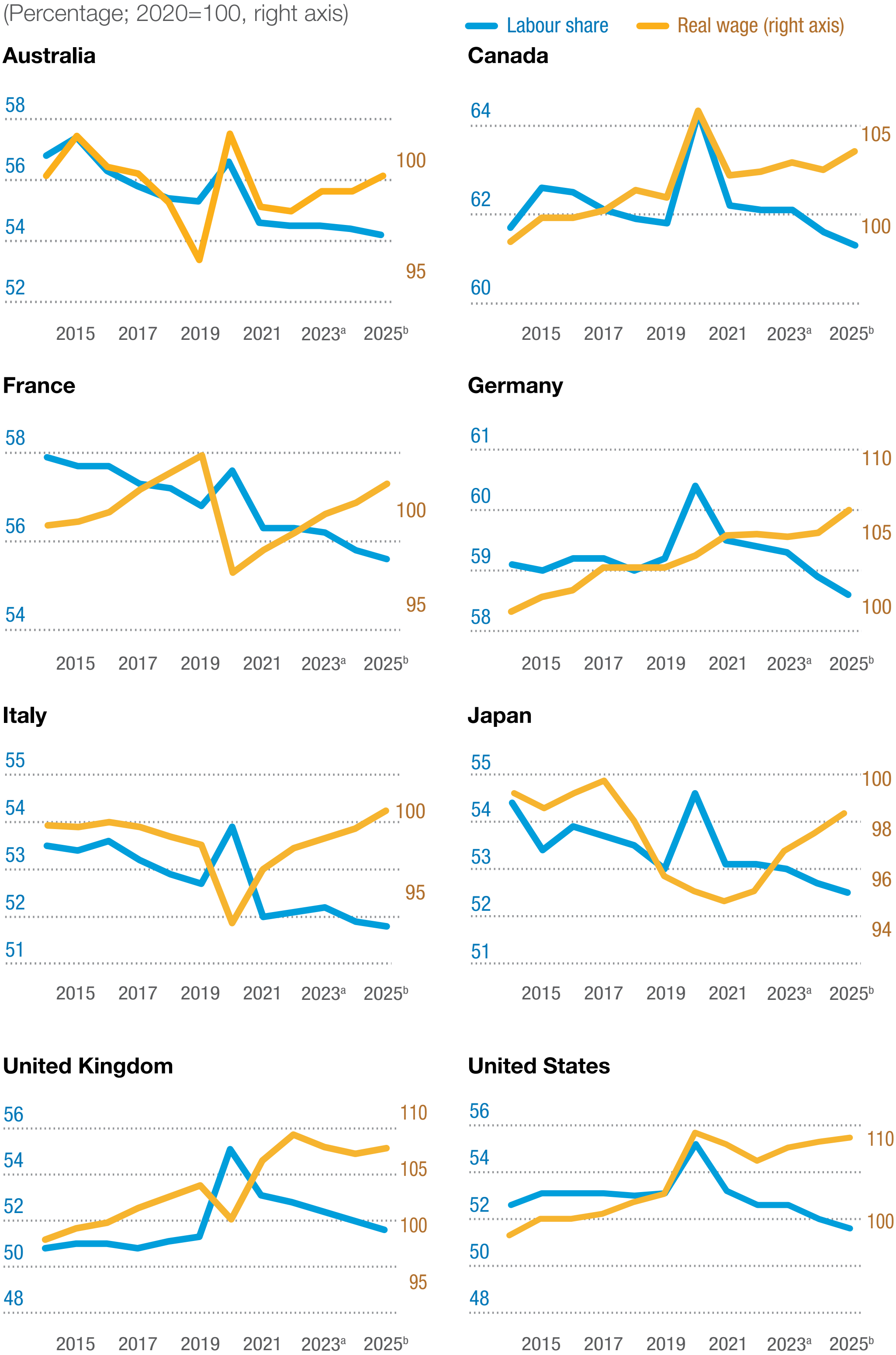
All five BRICS economies have seen reductions in the labour share, while real wages in these countries are taking diverging paths (figure I.14). In China and India, rapid economic growth is producing fast productivity growth along the Kaldor-Verdoorn hypothesis (Barbosa-Filho, 2008), which allows for a more dynamic uptick in real wages. The opposite is observed in Brazil and South Africa, where the real wage has stagnated or fallen. The Russian Federation falls between these two poles, with a drop in the labour share and a modest increase in the real wage.

A combined decline in the labour share of income and real wages is particularly troublesome.

Figure I.13

A universal fall in the labour share unfolds across developed economies amid diverging trajectories in real wages

Labour share of income and real-wage index, selected developed economies
(Percentage; 2020=100, right axis)

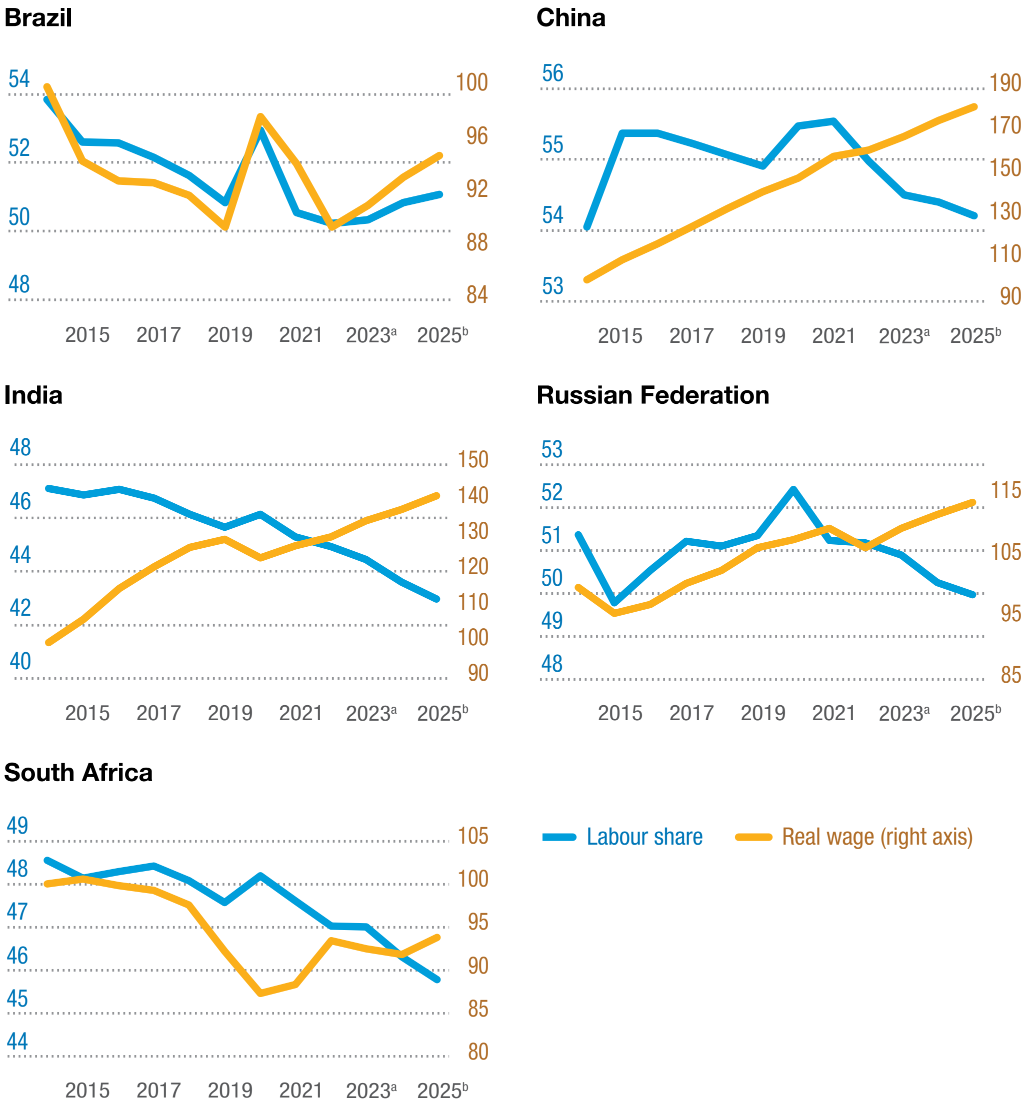


Source: UNCTAD based on the United Nations Global Policy Model.
2023ª, 2024ª Estimate.
2025ᵇ Projection.

Figure I.14

BRICS economies are following trends similar to those in the developed economies

Labour share of income and real-wage index
(Percentage; 2020=100, right axis)



Source: UNCTAD based on the United Nations Global Policy Model.
2023ª, 2024ª Estimate.
2025ᵇ Projection.

Is a reversal in the downward trajectory of the labour share plausible under current circumstances? The prospects are not encouraging. The labour share has trended down across both developed and developing countries since the 1980s, with a corresponding rise in the profit share. If pre-pandemic trends resume, the labour share is likely to continue to decline, with negative consequences not only for a sustainable pick-up in the global economy but also for income inequality (UNCTAD, 2019).

While the functional distribution of income helps to analyse real-wage dynamics, it does not necessarily capture the income share of the bottom and middle part of the income distribution. A substantial proportion of the labour share goes to high-wage workers

The labour share of income is likely to decline, with negative consequences for the global economy and income inequality.

at the top of the income distribution. Conversely, a share of capital income is distributed to the middle through pensions and progressive tax-and-transfer social security systems. Other metrics are required to reveal the distribution of personal income among different strata of income earners.

People at the lower end of the income distribution often bear the brunt of the declining labour share.

Macroeconomic theory and policy are slowly incorporating the dynamics of personal income distribution in their analyses. The main difficulty in doing so lies in the low frequency of, as well as lags in, data on individual distribution. Such data usually come from household surveys and income-tax data that are typically available with a two-to-three-year lag. As a result, data on personal income distribution for 2021 and 2022 are the most recent available, giving a first insight into the impact of the pandemic on personal income inequality.

Based on the World Inequality Database, it is possible to get a glimpse of the changes in personal income distribution in several advanced economies since the pandemic. To facilitate analysis, the total population is divided into four income groups: the low-income group (bottom 50 per cent), the middle class (the next 40 per cent), the upper-middle class (the following 9 per cent) and the rich (the top 1 per cent).

Data on pre-tax personal income distribution in the United States indicate a sharp fall for low-income families, stability for the middle class and a gain for the top 10 per cent, most of which is concentrated in the top 1 per cent (figure I.15). In Italy, the qualitative situation is similar, with an increase for the top 10 per cent and a fall for the bottom 50 per cent. A difference in Italy is that the middle 40 per cent have also lost income share since the pandemic (figure I.15).

The pandemic had a drastically different impact on Germany and the United Kingdom compared to the United States. In the United Kingdom, the bottom 50 per cent and the upper-middle class returned to almost the same income share after the pandemic, while the middle 40 per cent gained and the top 1 per cent lost shares. In Germany, after an initial loss, the bottom 50 per cent and the middle 40 per cent gained income shares at the expense of the top 10 per cent (figure I.16).

The broad fall in the labour share across both developed and developing economies, together with the increasing concentration of income at the higher end of the spectrum in some countries, points to the fact that those at the lower end of the income distribution are often bearing the brunt of the reduction in the labour share. This has fed widespread dissatisfaction and discontent, with disquiet magnified in countries where the real wage has remained below the pre-pandemic trend, as in France, Japan and South Africa.

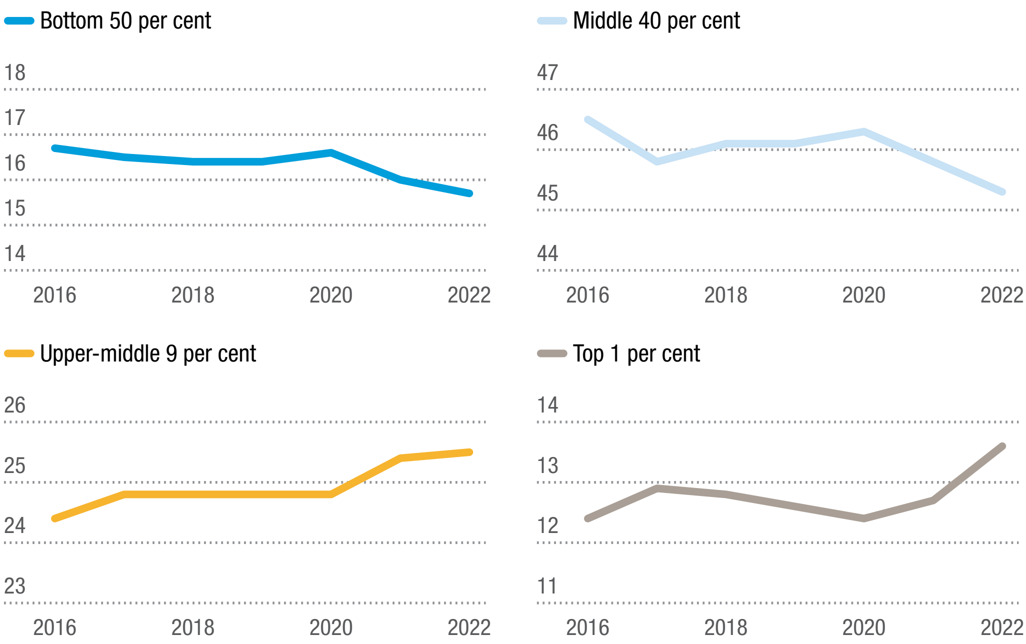
Reversing the trends of a diminishing labour share, growing income inequality and stagnant or declining real wages must be a policy priority in developed and developing countries alike, one addressed through more equitable policy solutions. Concrete commitments to more comprehensive social protection are a necessary starting point. Systematic policy measures to help lower inequalities and deliver more inclusive growth should be essential components of development and growth strategies (UNCTAD, 2023b).

Figure I.15

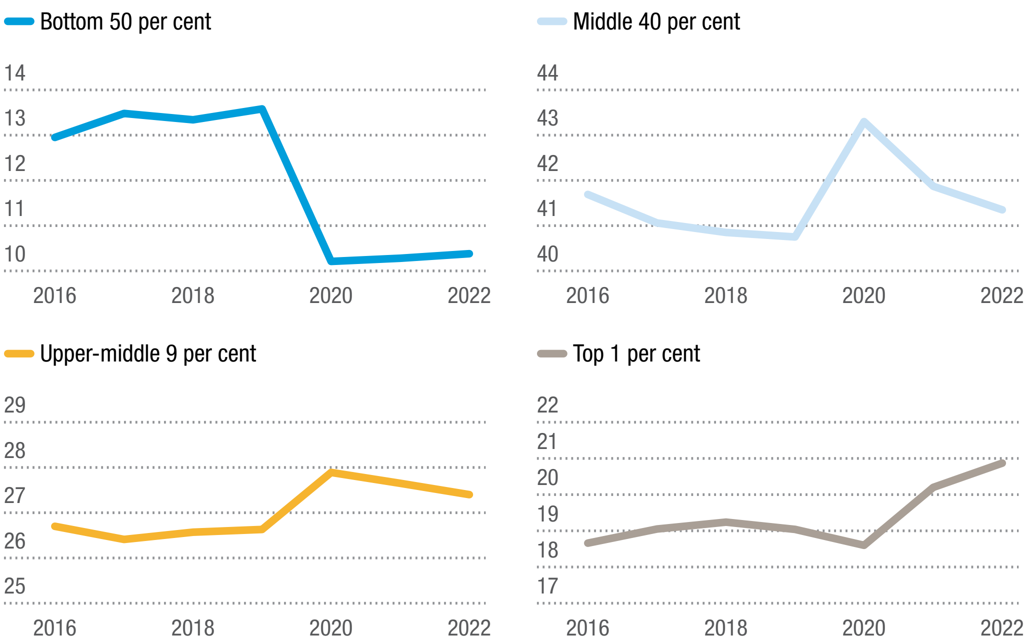
Those with lower income bear the brunt of the decline in the labour share of income in some developed countries

Pre-tax personal income distribution
(Percentage of total personal income)

Italy



United States

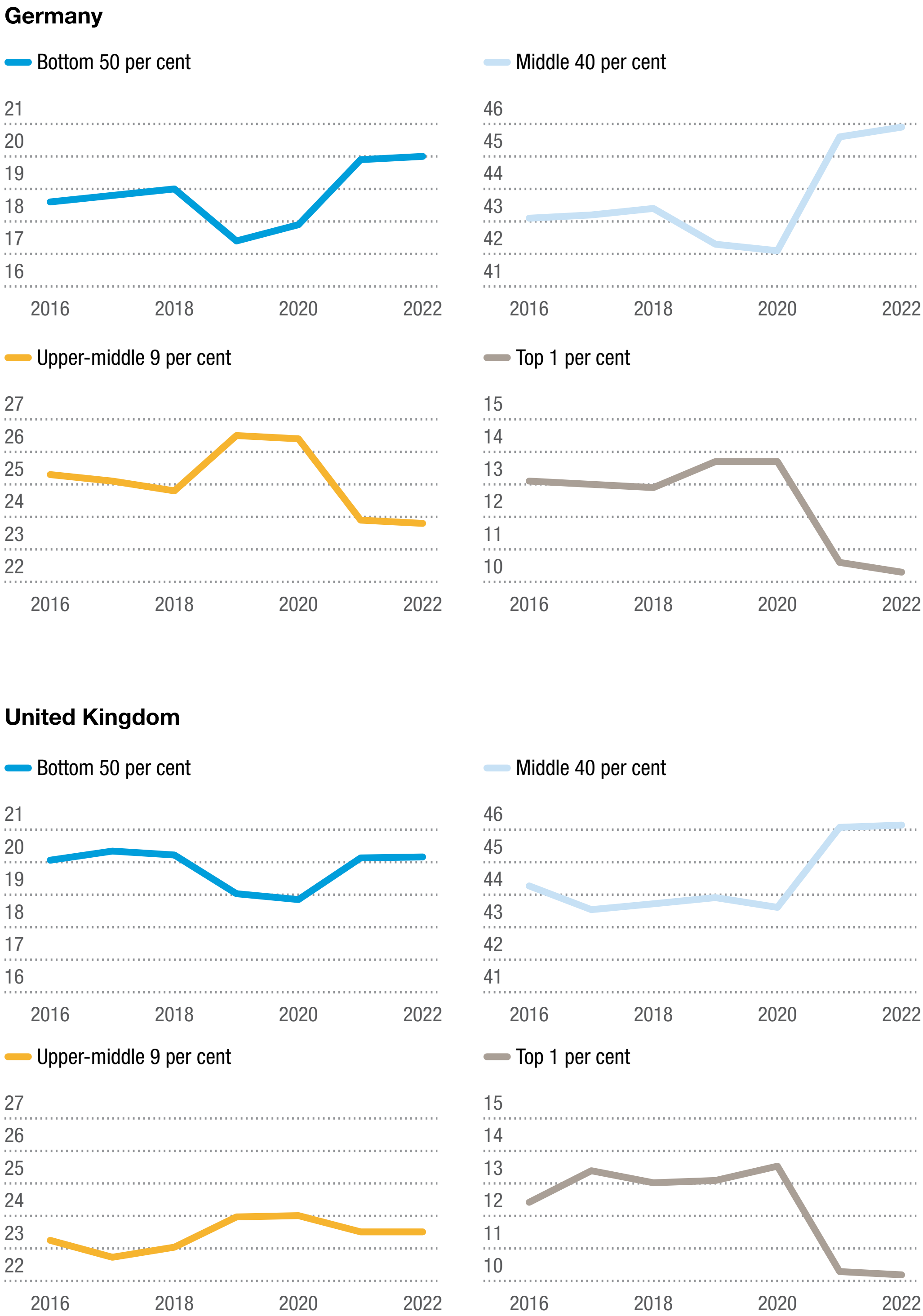


Source: UNCTAD based on the World Inequality Database.

Figure I.16

Some advanced economies saw a more progressive evolution in income shares post-pandemic

Pre-tax personal income distribution
(Percentage of total personal income)



Source: UNCTAD based on the World Inequality Database.

G. Regional Trends

The Americas

UNCTAD estimates that the economy of the **United States** will maintain its growth rate in 2024 at 2.5 per cent, largely due to three fundamental factors. First, on the fiscal side, investment incentives under the Inflation Reduction Act and the Creating Helpful Incentives to Produce Semiconductors (CHIPS) and Science Act have more than compensated for waning COVID-19 transfers and subsidies (Ahmad et al., 2024). Second, on the monetary side, the Federal Reserve's gradualist disinflation strategy has kept the 10 year real interest rate practically constant through 2023 and 2024, at between 1.5 and 2 per cent, which has allowed a cyclical recovery in residential investment after a double-digit fall in 2023. Third, the artificial intelligence boom has boosted investment in intellectual property, which is expected to register an annual growth of approximately 5 per cent in 2024 and next year.

For 2025, UNCTAD expects the expansion of the United States economy to decelerate to 1.8 per cent, mainly due to a negative fiscal impulse. Although monetary easing could play an important role in changing the macroeconomic outlook, since core inflation indexes are still running at 1.5 percentage points above the Federal Reserve's 2 per cent target, there is still high uncertainty regarding the path and speed of monetary easing after the first rate cut of 50 basis points in September 2024.

Canada is expected to register a slight moderation in its economic expansion, from 1.2 per cent in 2023 to 1.1 per cent in 2024, driven in part by the lagged effects of a relatively more aggressive disinflation monetary policy and fiscal consolidation strategy. In a context of core inflation indexes falling to the Central Bank's 2 per cent inflation target and an almost stagnant economy, the Bank of Canada started cutting its policy rate in mid-2024. A more accommodative monetary stance should help raise GDP growth to 2.1 per cent in 2025.

UNCTAD predicts that in **Mexico**, the growth rate will decelerate from 3.2 per cent in 2023 to 2.0 per cent in 2024 as ongoing restrictive macrofinancial conditions, particularly during the first half of the year, and a weakening external environment tamp down activity. The financial market reaction to uncertain government debt trends has already caused a sharp depreciation of the Mexican peso, which tends to generally have a short-run recessive impact in Latin American economies. For 2025, UNCTAD foresees a further slowdown of the economy of Mexico, to 1.5 per cent. The expected deceleration of the economy in the United States and the likely end of COVID-19-induced nearshoring to Mexico could weigh on economic activity next year. On the upside, the expectation of monetary policy turning expansionary by the end of this year as inflation falls to 4 per cent as well as more expansionary fiscal policy could help to strengthen growth.

In South America, the economy of **Brazil** is expected to decelerate slightly this year, from a growth rate of 2.9 per cent in 2023 to 2.8 per cent in 2024. The slowdown reflects a divergent macroeconomic policy mix, as authorities have pursued a restrictive monetary policy and an expansionary fiscal policy. As a result, inflation seems to have stabilized at 4 per cent, 1 percentage point above the Central Bank target, forcing monetary policy to remain restrictive into 2025. There is heightened uncertainty around the direction of fiscal policy, particularly after a mini-speculative attack against the currency in the first half of 2024. On the expansionary side, the economy continues to benefit from increasing food and oil exports. These factors may not be sufficient, however, to neutralize decelerating domestic demand. As a result, GDP growth is expected to slow to 2.2 per cent in 2025.

The recession in **Argentina** in 2023, with the economy shrinking by 1.6 per cent, is expected to continue into 2024. GDP is projected to fall by 3.5 per cent this year due to a sharp monetary and fiscal contraction. The recession is part of the Government's disinflation strategy, based on the "expansionary fiscal contraction" hypothesis (Alesina and Ardagna, 1998). Macroeconomic policy included a maxi-devaluation of the domestic currency in late 2023, which has already been eroded by double-digit domestic inflation. The initial change in domestic relative prices benefited the export sector, which has been growing and is expected to pull the economy out of recession in 2025, leading UNCTAD to estimate an expansion of 4.8 per cent for next year. The downside of stabilization has been increased poverty rates and heightened uncertainty around the sustainability of the managed exchange rate. Moreover, external solvency depends on IMF support. The potential for another maxi-devaluation of the Argentine peso could inhibit growth prospects in 2025.

Largely due to restrictive monetary and fiscal policies, the largest Andean economies experienced a sharp deceleration in 2023, with almost zero growth in **Colombia** and **Peru** and a mild recession in **Chile**. A fall in inflation in these countries will be accompanied by a recovery in growth in 2024. Furthermore, monetary easing from mid-2024 onwards, together with competitive exchange rates and favourable terms of trade, could help maintain GDP growth in 2025. On the downside, high exposure to external shocks, particularly from sudden changes in the interest rate in the United States, could push the Andean economies back to slow growth in 2025.

European Union

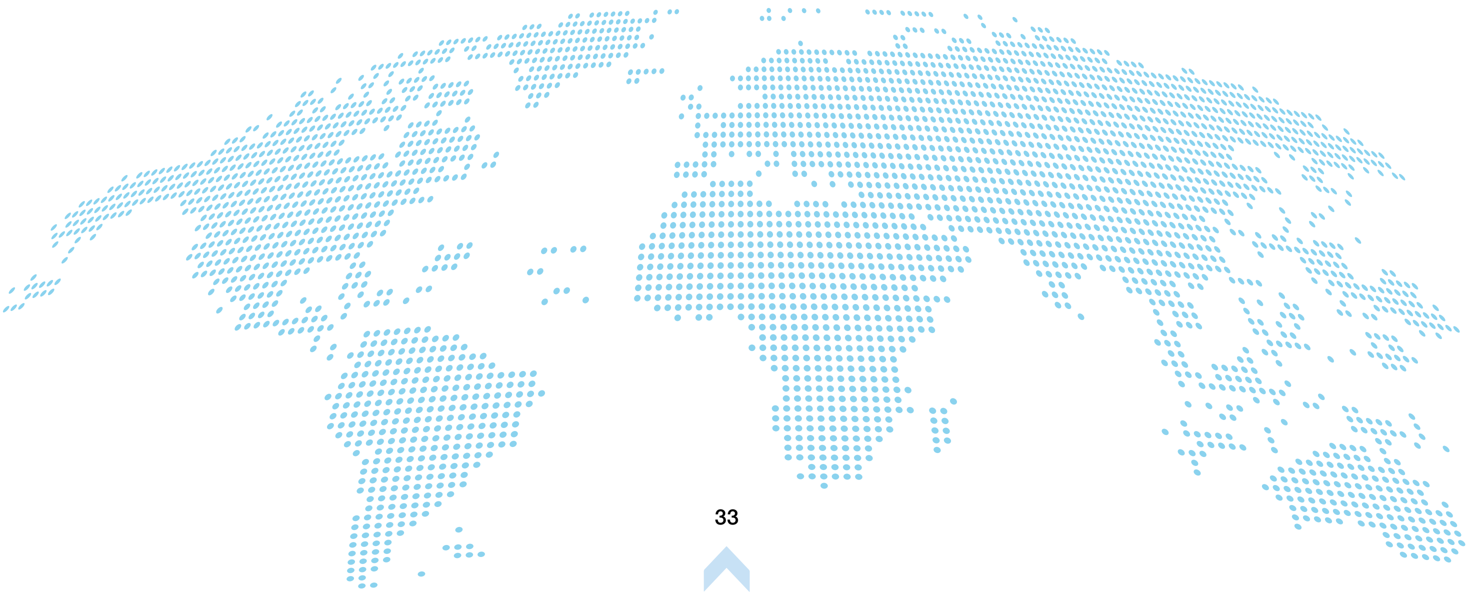
UNCTAD expects GDP growth in the economies of the European Union to pick up in 2024 relative to the 0.5 per cent expansion in 2023. But rates are expected to remain relatively weak at 1 per cent. Improved performance is mostly driven by stronger activity in the services sector. The European Central Bank decision in June to finally begin monetary easing by cutting its key policy rate by 25 basis points should help to partially ease financing conditions. The move puts the euro area ahead of the United States in the monetary easing cycle, as the latter delayed the start of its own process. Since cumulative rate increases by the European Central Bank totalled 450 basis points over the past two years, however, the policy rate remains historically high. This is reflected in ongoing high borrowing costs for businesses and households across the euro area. Additionally, the withdrawal of fiscal support measures introduced to mitigate increased energy prices are reflected in a tightening fiscal policy stance in 2024.

UNCTAD foresees growth picking up further in 2025, to 1.6 per cent as domestic demand strengthens amid gradual monetary policy easing and subsequent lower financing costs. Ongoing tight fiscal stances, however, would continue to hinder growth. The European Union decision in July 2024 to impose tariffs of up to 38 per cent on imports of Chinese built electric vehicles risks setting off tit-for-tat measures that could include retaliatory tariffs on exports from the European Union to China. Such a development could have a strongly adverse impact on the external sectors of a number of European countries for which China is a major export destination.

UNCTAD estimates that economic expansion in **France** will decelerate marginally from 1.1 per cent in 2023 to 1.0 per cent in 2024. Ongoing high interest rates continue to weigh on private investment and consumption while subdued external demand from major trading partners dampens economic activity. Two rounds of spending cuts announced in the first half of the year, totalling 20 billion euros (approximately 1 per cent of GDP), will be reflected in slowing public consumption and investment spending. The Olympic Games in Paris provided a moderate boost to GDP growth in the third quarter. UNCTAD expects the French economy to rebound slightly in 2025, to register growth of 1.3 per cent, as falling inflation and further monetary easing help to stimulate private spending.

In **Germany**, UNCTAD predicts a minor improvement in the growth rate to 0.2 per cent in 2024, after the 0.2 per cent contraction in 2023. The drag on the economy from elevated interest rates has been recently compounded by heightened policy uncertainty regarding the financing of planned investment incentives for the green transition, which could in turn hamper investment spending. The uncertainty is due to a Federal Constitutional Court ruling at the end of 2023 that determined the use of special funds to finance investments as unconstitutional, thus reducing available resources from the Climate and Transformation Fund by 60 billion euros. The knock-on effect may be to greatly reduce public investment spending and hinder fiscal incentives for private investments in the green transition. This is of particular concern given the investment deficit Germany currently exhibits compared to other similar developed economies. This deficit is likely to widen as investment spending on the green transition as well as needed transport infrastructure and the digital transition may continue to lag behind levels of the country's peers. UNCTAD estimates that growth will see a moderate uptick up in 2025, to 1.2 per cent, largely due to easing monetary conditions and stronger household spending.

UNCTAD expects **Italy** to maintain its pace of growth from last year and to register an expansion of 0.9 per cent in 2024. The combination of high inflation and low wage growth has resulted in stagnating real wages, which continue to weigh on private consumption and investment spending. This has been further compounded by continuing tight financial conditions and the withdrawal of exceptional fiscal measures introduced in the wake of the energy crisis. Recent strength in real-estate investment is likely to soften as generous subsidies to the construction sector, known as the "superbonus", are phased out. Partially offsetting these negative trends is increased public investment from the European Union's Next Generation funds. UNCTAD foresees a broadly similar expansion of the economy in Italy in 2025, at 1 per cent, as the easing of financing conditions and improved external demand from some principal trading partners could offset the prospect of a further tightening in fiscal policy.



United Kingdom

Although improving from the almost flat growth performance of 0.1 per cent registered in 2023, the United Kingdom, based on UNCTAD estimates, will continue to exhibit a weak expansion in 2024, at 0.9 per cent. The lack of dynamism is largely due to continuing softness in private consumption, in the context of the ongoing albeit improving cost-of-living crisis as well as trade frictions from the Brexit process that continue to hamper exports. The monetary stance of the Bank of England has remained restrictive; the start of the expected easing cycle was delayed repeatedly despite inflation returning to the 2 per cent target in May. The bank rate was finally cut by 25 basis points in August. As a result, both business and consumer spending continue to be held back by high borrowing costs. Government spending remains flat with persistent shortfalls in public expenditure on services and investment outlays.

UNCTAD expects growth to pick up to 1.4 per cent in 2025 as lower inflation and reduced interest rates will help to boost household spending. The prospect of new public investment spending on green energy and infrastructure by the incoming government could also spur growth. Ongoing trade frictions, however, could continue to have a dampening impact on exports.

Russian Federation

UNCTAD estimates that the Russian Federation will register growth of 3.5 per cent in 2024 compared to 3.6 per cent in 2023. Economic activity is being mainly driven by growing personal incomes and consumer spending. The latter results from a delayed reaction to suppressed demand during 2022 and 2023 and a significant fiscal stimulus last year as well as tightening labour markets. The estimated workforce deficit was approximately 1.7 million workers in mid-2024; the unemployment rate reached a record low of 2.6 per cent. Investment demand is being sustained by previous fiscal stimuli and high corporate profits, although both are likely to plateau through the second half of 2024. Tight credit and foreign exchange policies have kept inflation rates between 4.3 and 4.8 per cent in 2024. The rouble, while stable during the year, is nevertheless weathering the adverse impacts of capital flight as well as heightened demand for foreign currency for purchases of foreign-owned assets in the country and increased budgetary expenditure.

UNCTAD foresees a deceleration of growth in 2025, to 1.5 per cent, as a tightening credit environment internally, expected increases in business taxes and growing trade and financial pressures weigh on economic activity.

East Asia

UNCTAD estimates a moderation in the growth rate in East Asia to 3.9 per cent this year, compared to 4.2 per cent in 2023. The slowdown at the aggregate regional level is largely driven by the evolution of the economy of **China**. For 2025, UNCTAD expects the region's growth to slow further, to 3.7 per cent.

UNCTAD envisages a modest deceleration in economic activity in China, from 5.2 per cent in 2023 to 4.9 per cent in 2024. Growth has been bolstered by strong net exports and the resilient performance of the industrial sector. Strengthening investment in manufacturing, particularly in high-technology industries, has buoyed growth. Both employment and corporate profits have registered slight improvements. Ongoing sluggishness in the real estate sector as well as subdued consumption are tempering economic expansion, however. Consumption has yet to recover to its pre-pandemic trend, indicating continuing fragility in terms of consumer confidence and expectations. The real estate sector, once a pillar of growth, has contracted sharply since early 2022. The trend continued into 2024, with both real estate investment and sales shrinking significantly during the first half of the year, by 10 and 25 per cent, respectively.

The yet-to-be-stabilized housing market constitutes a significant risk and has become a policy focus of authorities. Local government debt, which is closely linked to the housing market, represents a further downside risk. In response to these issues, the Government is scaling up rescue policy measures to stabilize the real estate market. Similarly, on the monetary side, the Central Bank has enacted further measures to shore up the real estate market and boost consumption. The measures include cuts to reserve ratio requirements, the prime rate, the seven-day reverse repurchase interest rate and the one-year medium-term lending facility. The monetary authority has earmarked two relending loan facilities and provided 300 billion renminbi for affordable housing as well as 500 billion renminbi for innovation and technology upgrading.

UNCTAD expects a further moderation in growth in 2025, to 4.6 per cent. Increasing trade tensions, particularly with the United States and European Union around electronic vehicles and related products, is causing growing uncertainty for the external sector. The diversified nature of trade partnerships and products, strong capacities across a wide array of green energy products, and technical and supply chain advantages should help to expand exports. The third Plenum of the Communist Party of China Central Committee, held in July, adopted its Resolution on Further Deepening Reform Comprehensively to Advance Chinese Modernization. It includes structural reform proposals to promote "high-quality economic development". Should China stabilize the real estate sector towards the end of the year and effectively advance its reform proposals, it is still possible for the economy to maintain reasonable growth in the medium term.

UNCTAD estimates that the **Republic of Korea** will see an uptick in its growth rate to 2.3 per cent in 2024, compared to 1.4 per cent in 2023. The acceleration largely reflects the strong performance of exports, including a pick-up in inward tourism flows. Despite significant easing in inflation compared to last year, however, the Central Bank has maintained its tight monetary stance, and high borrowing costs continue to depress domestic demand. High levels of household debt are hampering household spending and remain a concern for policymakers. The restrictive monetary stance accompanies a similarly tight fiscal policy; government expenditure is expected to record its lowest annual increase in the last 20 years. For 2025, UNCTAD foresees a moderation in the growth rate to 2.1 per cent, with an expected slowdown in exports and ongoing sluggish domestic demand expected to weigh on economic activity.

UNCTAD estimates that **Japan** will register a significant slowdown in its growth rate from 1.8 per cent in 2023 to 0.9 per cent in 2024. The strong external demand for goods manufactured in Japan that emerged during the post-COVID-19 phase has not been sustained. Resulting sluggishness in the external sector along with the country's ageing population is moderating economic growth. Although wages are rising at the highest rate in more than 30 years, the impact on consumer spending is expected to be muted largely due to the heavier social burden and increase in the number of pensioners. Rises in consumption to date have been mostly driven by households drawing down savings accumulated during the pandemic.

In a significant change in policy stance, the Central Bank of Japan hiked interest rates in March 2024 for the first time in 17 years. The increase put an end to an eight-year period of negative interest rates and marked the start of efforts towards policy normalization. The decision to increase the policy rate again in July, to 0.25 per cent, surprised markets and propelled the yen higher. Shrinking interest rate spreads with other major economies sparked a rapid sell-off as heavily leveraged traders and investors exited carry-trade and related markets. The prospect of further rate hikes was mitigated by assurances from the Central Bank Governor that policy rates would not rise again while markets remained unstable. On the fiscal side, in late 2023, the Government announced a $113 billion package of tax cuts and subsidies for fuel and utility bills along with major commitments to achieving net-zero carbon emissions.

UNCTAD expects the economy in Japan to maintain its growth rate in 2025 at 1 per cent, as the normalization of monetary policy could constrain domestic demand and inhibit growth.

South Asia

South Asia's economic perspectives remain strong, supported by robust growth in India and recoveries in Pakistan and Sri Lanka. The regional economy will expand by 5.7 per cent in 2024, compared to 6.1 per cent in 2023. UNCTAD expects the region to grow at a slightly slower but elevated pace of 5.5 per cent in 2025, in sync with the evolution of its largest economy, India, and supported by economic rebounds in countries recovering from extreme climate events or prolonged political instability and debt distress, namely, Pakistan and Sri Lanka. External imbalances and growing dependence on extraregional fossil fuel energy imports will keep the region vulnerable to inflationary pressures, however, and political coalitions could complicate sustained public spending.

Economic growth in **India** will remain elevated at 6.8 per cent in 2024 compared to 7.7 per cent in 2023. This expansion is supported by continued strong public and private investment and consumption as well as rising exports of services. Despite the latter, along with increased exports of certain goods, such as chemicals and pharmaceuticals, the structural current account deficit in India will persist, owing to relatively weaker external demand and high fossil energy import bills. As the world's most populous country and third-largest energy consumer, India is simultaneously expanding its domestic non-fossil and fossil fuel energy supply to support growing economic output. While the former has increased fourfold over the last eight years, the latter also grew rapidly; domestic coal production rose by 80 per cent, reaching a new record of 1 billion tons in 2024. This rise was driven by public investment in the wake of the war in Ukraine and the resulting energy crisis. As inflation is expected to decline to 4 per cent by the end of the year, the Reserve Bank of India may initiate monetary easing and trim its repurchase rate. The rate has remained unchanged at 6.5 per cent since early 2023, maintaining high financing costs for leveraged corporates. As public spending may exceed revenues by 5.1 per cent in the current fiscal year, and absent financial instability or external shocks, GDP growth is projected to remain strong at 6.3 per cent in 2025.

South-East Asia

UNCTAD estimates an acceleration in the growth rate in South-East Asia from 3.9 per cent in 2023 to 4.5 per cent in 2024 as a gradual recovery in global demand for electronics helps to boost the region's trade. Ongoing tight monetary stances amid fears of capital outflows and depreciation pressures on local currencies given restrictive monetary conditions elsewhere, particularly in the United States, continue to hold back domestic demand within the region. UNCTAD expects growth to remain fairly stable in 2025, at 4.4 per cent, as domestic demand firms up in a context of declining borrowing costs and supports growth.

UNCTAD estimates that **Indonesia** will continue to grow at a brisk pace in 2024, at 5.1 per cent compared to 5.0 per cent in 2023. Private consumption continues to be the main driver of growth despite elevated interest rates. The Central Bank further increased its policy rate in April to avoid significant interest rate differentials with the United States in light of its ongoing tight monetary stance. Such differentials could put further downward pressure on the Indonesian rupiah, which has historically been particularly sensitive to divergent interest rate paths. The high cost of borrowing resulting from a restrictive domestic monetary stance is reflected in slowing private investment expenditures.

Increased fiscal spending on infrastructure plans and social assistance schemes is helping to support growth. Rising tourism arrivals, particularly from within Asia, is bolstering services exports, while increasing volumes of base metals exports, particularly nickel, enhance the external sector balance. UNCTAD expects the Indonesian economy to maintain strong growth in 2025, with the prospect of lower interest rates as well as an improving external context helping to shore up growth at 5.2 per cent.

UNCTAD expects an acceleration in the growth rate of **Malaysia** from 3.6 per cent in 2023 to 4.4 per cent in 2024, as falling inflation and a national cash transfer programme help to boost private consumption. Investment expenditures remain robust as progress continues on a series of multi-year infrastructure projects. The services sector is benefiting from the continuing recovery of tourism inflows, which are now nearing pre-pandemic levels. Ongoing tight international monetary conditions, however, continue to put depreciation pressure on the Malaysian ringgit. UNCTAD estimates that economic activity will expand at a rate of 4.0 per cent in 2025, with private consumption and investment expenditures continuing to provide the basis for growth.

In **Thailand**, UNCTAD estimates a significant uptick in growth to 2.9 per cent in 2024 compared to 1.9 per cent in 2023. Robust private consumption is being helped by a strong labour market, while services exports are seeing dynamic growth as the tourism sector continues to rebound strongly. Public spending is set to pick up with the approval of the fiscal budget after significant delays. A planned digital cash transfer programme could provide additional impetus to household consumption. Investment spending broadly remains muted, although certain sectors, namely electronics and electric vehicles, continue to attract significant investments. UNCTAD expects the expansion of the economy of Thailand to remain steady at 2.9 per cent in 2025.

Viet Nam continues to register among the fastest growth rates in the region, with economic growth accelerating from 5.0 per cent in 2023 to 5.6 per cent in 2024. A series of wage reform measures is helping to improve household incomes and boost private consumption expenditures. The ramped-up disbursement of public investment funds supports investment outlays. While the country is less reliant on tourism inflows than other countries in the region, the ongoing upturn in international arrivals provides a boost to the external sector. Growth in the property sector remains subdued due to tight credit conditions and continues to act as a drag on growth. UNCTAD expects the economy of Viet Nam to expand by 5.4 per cent in 2025, with the prospect of a more accommodative monetary stance helping to ease the current credit crunch and spur recovery in the construction sector.

Western Asia

UNCTAD estimates that Western Asia will register growth of 2.4 per cent in 2024, up from 2.0 per cent in 2023. The pick-up in economic activity results mainly from the stabilization of oil prices and a rebound in major oil-exporting economies. Significant risks remain as widening conflicts spur tensions throughout the region, with ripple effects for international shipping in the Red Sea.[4] While a significant risk of escalating tensions could impact economic performance across the entire region and beyond, the effects are particularly detrimental to certain countries, namely Israel, Lebanon, Yemen and the State of Palestine.[5] In the absence of a further escalation of tensions, the region's growth is projected to accelerate to 3.9 per cent in 2025.

UNCTAD expects economic growth in **Saudi Arabia** to rebound to 1.7 per cent in 2024, after a historic 0.8 per cent contraction in 2023. As the Organization of the Petroleum Exporting Countries (OPEC) manages oil output, including through production limits to maintain oil prices between 70 and 90 United States dollars per barrel, oil export revenues will likely move in tandem with external demand. Non-oil sectors are forecast to contribute to growth even though investment in pharaonic projects in the Neom development is being curtailed, dimming expected activity in construction and related upstream and downstream sectors. Investment in renewable energy still represents less than 20 per cent of total energy investment, delaying much needed diversification and the transition away from fossil fuels. In 2025, Saudi Arabia is expected to grow by 4.7 per cent as strong activity in both the oil and non-oil sectors – particularly tourism, logistics and manufacturing – will serve to boost growth.

UNCTAD estimates that **Türkiye** will register growth of 3.5 per cent in 2024 compared to 4.5 per cent in 2023. Domestic demand has suffered from the effects of spiralling year-on-year inflation, which peaked at 75 per cent in May. The Central Bank began monetary tightening in June 2023 and hiked the policy rate from 8.5 to 50 per cent by March 2024, where it has remained. High financing costs continue to adversely impact demand and employment. Despite the tight monetary stance, the Turkish lira has continued to depreciate against other hard currencies, such as the United States dollar. While this devaluation has increased the servicing costs of foreign currency-denominated external debts – with elevated levels held by private companies – the lower value of the currency has boosted exports and weakened imports, except for fossil fuel energy imports. Turkish exporters of manufactured goods and machinery and transport equipment have performed particularly well, along with the tourism sector.

Current monetary tightening in Türkiye is expected to end in the second half of 2024, resulting in a gradual recovery of consumption and strengthening of economic activity in the coming year. In this context, UNCTAD expects the economy to grow by 3.8 per cent in 2025.

4 For further information, see UNCTAD (2024a).
5 For further information on the impact of the Israeli military operation on Gaza and the West Bank, see UNCTAD (2023a, 2024b).

Africa

Africa's growth is set to remain subdued after decelerating gradually during 2021–2023. As recent efforts to restore macroeconomic stability should start to yield some positive results from the second half of 2024 onwards, especially in several large economies, aggregated economic activity for the continent is expected to expand from a more sluggish 3.0 per cent in 2024 to 3.2 per cent in 2025. These rates, however, do not exceed by much the 2.4 per cent annual growth of Africa's population in recent years. GDP growth will therefore remain short of what is needed to make major strides towards economic development and structural transformation. Various difficulties weigh on economic prospects and livelihoods across the continent.

Often confronting an unfavourable economic environment on all three levels – global, regional and national – following the COVID-19 pandemic, African policymakers have frequently had to swiftly undertake policy actions to manage complex challenges. While there is scope for well-calibrated structural reforms to lift growth over the medium term, hasty shifts in policy stances have often led to significant economic disturbances in the short run, disproportionately affecting ordinary African citizens, particularly the poor.

One concern relates to deteriorating external accounts in many African economies. This has triggered sharp falls in the value of several African currencies with managed floating or fixed exchanges rates amid weaker import cover ratios and subdued financial flows. These significant depreciations, often coupled with limited supplies of basic staples and sometimes also the uncontrolled provision of liquidity, have pushed inflation rates far above their historical averages, as is the case in Angola, Egypt, Ethiopia and Nigeria, for instance. In reaction, several monetary authorities raised interest rates to levels between 20 and 30 per cent in August 2024.

On the fiscal front, the current stance across the continent is typically geared towards consolidation in response to challenging debt situations and higher financing costs, declining aid flows, large budget deficits compounded by limited success in scaling up domestic resource mobilization after COVID-19, and subdued export revenues, including for some large hydrocarbon-exporting economies that have registered declining export volumes.

Violent protests have emerged across the continent in response to economic hardship, elevated inflation rates, particularly for basic staples, and hasty reforms. In Kenya, for instance, deadly demonstrations pushed the Government to withdraw a controversial tax bill. Overall, this highlights the complexity of implementing reforms when economies are experiencing tough conditions.

More broadly, even as inflationary pressures begin to gradually abate across the continent, other key factors continue to hinder development. These include ongoing conflicts, including in Libya as well as several areas of Sahelian countries and the Middle Africa region. The negative impacts of climate change and extreme weather shocks are expected to increase levels of acute food insecurity in 2024 and 2025, even as 33 African countries already need external food assistance and the region's total annual cereal production is expected to drop by 3 per cent in 2024 compared to 2023. El Niño-linked droughts have caused widespread crop damage and wilting, especially in Southern Africa (FAO, 2024).

In **South Africa**, UNCTAD estimates that a more reliable electricity supply and improving logistics is likely to support a meagre rebound of the economy, from 0.6 per cent growth in 2023 to 0.9 per cent in 2024. As in Egypt and Nigeria – the two other major African economies that have recorded lower growth rates in recent years compared to historical averages – significant headwinds remain for the South African economy. UNCTAD expects relatively weak growth to persist in 2025, at 1.4 per cent.

Oceania

In **Australia**, UNCTAD estimates that the economy will continue its gradual deceleration and register 1.4 per cent growth in 2024, compared to 2.0 per cent in 2023. Most of the slowdown can be explained by the tight monetary policy enacted to bring post-pandemic inflation back to target, which could take some time as unit labour costs grew at 6 per cent year on year as of mid-2024. Consumer inflation is expected to close this year at around 3 per cent, 1 percentage point higher than the Central Bank's 2 per cent target. The expectation of monetary easing next year will help GDP growth to rebound to 2.1 per cent in 2025.

Due to a tight monetary policy and a negative fiscal impulse for this year, **New Zealand** will grow by only 0.9 per cent in 2024, according to UNCTAD estimates, slightly higher than the 0.6 per cent registered in 2023. As in Australia, inflation is expected to fall gradually through 2024 and 2025, resulting in an expected loosening of monetary policy next year. UNCTAD expects growth to pick up to 2.0 per cent in 2025.

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