

World Economic Situation and Prospects



United Nations
New York, 2020

Chapter I

Global economic outlook

Prospects for the world economy in 2020 and 2021

Global growth

In the current environment of protracted trade tensions and high policy uncertainty, the global growth outlook has weakened significantly. This threatens to undermine progress towards eradicating poverty, raising living standards, and creating a sufficient number of decent jobs. The broad-based growth slowdown in the world economy over the past year has been accompanied by a sharp slowdown in international trade flows and global manufacturing activity. Amid rising tariffs and rapid shifts in trade policies, business confidence has deteriorated, dampening investment growth across most regions. Softening demand has also weighed on global commodity prices, in particular crude oil and industrial metals. While the global shift towards more accommodative monetary policies has eased short-term financial market pressures somewhat, long-term fault lines create significant uncertainty.

Against this backdrop, the United Nations estimates that global growth slowed to a 10-year low of 2.3 per cent in 2019. A modest acceleration is expected going forward, with average world gross product growth projected at 2.5 per cent in 2020 and 2.7 per cent in 2021 (see figure I.1).¹ Per capita income growth is projected to average only 1.5 per cent in 2020 and 1.7 per cent in 2021, with wide disparities across regions. The pickup in global activity will likely be driven by somewhat faster growth in developing regions, where several large economies are expected to recover from adverse shocks. The risks to the baseline forecasts are strongly tilted to the downside, however. These risks include a further escalation of trade disputes, a sharp decline in investor risk appetite, and an increase in geopolitical tensions. Financial fragilities, in particular elevated indebtedness, represent a source of risk to financial stability and reduce economies' resilience to shocks. At the same time, short- and long-term risks associated with the climate crisis are becoming an ever-greater challenge for many countries. Compounded by deepening political polarization, these difficult near-term headwinds pose a considerable threat to the prospects for achieving the Sustainable Development Goals by 2030.

Beyond these immediate risks, the world economy faces a series of fundamental macroeconomic and structural challenges that stand in the way of robust and inclusive growth.² Despite loose monetary conditions and soaring debt, productive investment in many countries has remained weak over the past decade. In many economies, the socioeconomic impact of low labour productivity growth has been aggravated by declines in labour shares and increases in wage inequality. For many developing economies, continued overdependence on commodities remains a key challenge. A significant number of countries are still suffering from the effects of the 2014-2016 commodity price downturn, which has resulted in persistent output losses and setbacks in poverty reduction.

Slower world growth threatens to set back sustainable development efforts

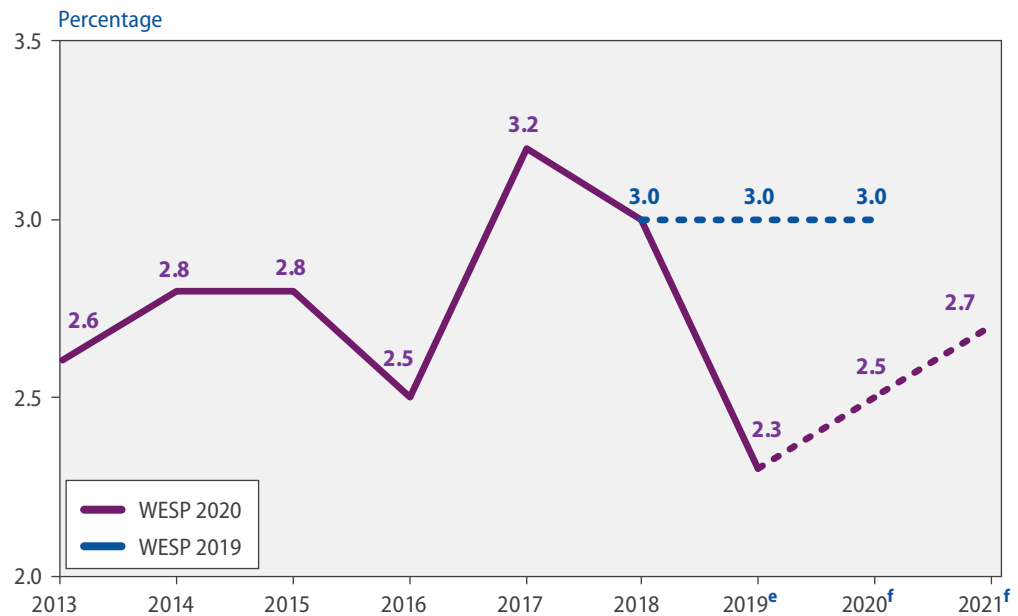
Risks are strongly tilted to the downside

Fundamental macroeconomic challenges impede robust and inclusive growth

¹ When using purchasing power parity (PPP) for aggregation—a methodology that gives greater weight to developing countries—global growth is estimated to have slowed to 2.9 per cent in 2019. PPP-weighted growth is projected to pick up to 3.2 per cent in 2020 and 3.4 per cent in 2021, as reported in table I.1.

² See UNCTAD (2019d).

Figure I.1
Growth of world gross product



A more balanced policy mix is urgently needed

Without decisive policy action on multiple fronts, a significant and prolonged downturn in global economic activity is a distinct possibility. Amid concerns over the unintended effects of overstretched monetary policies, there are growing calls for a more balanced policy mix—one that includes a more active role for fiscal policies in supporting growth. Policymakers also need to remain focused on advancing structural reforms that strengthen economic resilience and boost long-term development prospects. Key priorities include climate change adaption strategies, policies to accelerate the energy transition, reforms of labour markets and pension systems, investments in infrastructure and education, and measures to promote economic diversification.

The global economic downturn has affected nearly all major economies

In 2019, the world economy expanded at its slowest pace since the global financial crisis. The downturn in economic activity has been highly synchronized, with growth trending down in virtually all major economies (see table I.1). Annual growth decelerated in all geographic regions except Africa. About two thirds of the world's countries are estimated to have seen lower growth in gross domestic product (GDP) in 2019 than in 2018. While trade negotiations are ongoing, a high degree of uncertainty remains, contributing to a global economic environment that is likely to remain challenging over the outlook period.

The global growth slowdown is largely attributed to weaker trade and investment activity

The slowdown in GDP growth across developed and developing regions in 2019 is mainly attributed to weakening trade activity and more subdued domestic investment. In tandem with slowing merchandise trade, world industrial production weakened and the Global Manufacturing Purchasing Managers' Index (PMI) fell to its lowest level since 2012 (see figure I.2). By contrast, private consumption held up relatively well for most countries during the year, supported by firm labour markets and modest inflationary pressures. Nevertheless, there are signs that household spending has started to moderate in several large economies, with consumers becoming less optimistic.³

³ In October 2019, the OECD consumer confidence index fell to its lowest level in four years.

Table I.1

Growth of world output and gross domestic product

Annual percentage change						Change from WESP 2019	
	2017	2018	2019 ^a	2020 ^b	2021 ^b	2019	2020
World	3.2	3.0	2.3	2.5	2.7	-0.7	-0.5
Developed economies	2.4	2.2	1.7	1.5	1.7	-0.4	-0.4
United States of America	2.4	2.9	2.2	1.7	1.8	-0.3	-0.3
Japan	1.9	0.8	0.7	0.9	1.3	-0.7	-0.3
European Union	2.6	2.0	1.4	1.6	1.7	-0.6	-0.4
EU-15	2.4	1.8	1.2	1.4	1.6	-0.6	-0.4
EU-13	4.8	4.3	3.8	3.3	3.2	0.2	-0.2
Euro area	2.5	1.9	1.2	1.4	1.5	-0.7	-0.5
Other developed countries	2.6	2.3	1.7	1.8	1.9	-0.5	-0.4
Economies in transition	2.2	2.7	1.9	2.3	2.5	-0.2	-0.3
South-Eastern Europe	2.5	3.9	3.1	3.4	3.4	-0.6	-0.3
Commonwealth of Independent States and Georgia	2.1	2.7	1.8	2.3	2.4	-0.2	-0.3
Russian Federation	1.6	2.3	1.1	1.8	2.0	-0.3	-0.3
Developing economies	4.5	4.2	3.4	4.0	4.3	-0.9	-0.6
Africa	2.9	2.7	2.9	3.2	3.5	-0.5	-0.5
North Africa	4.0	2.6	3.4	3.6	3.7	0.0	0.0
East Africa	5.4	6.3	6.0	6.0	6.2	-0.3	-0.5
Central Africa	0.3	1.6	2.7	2.9	3.1	0.1	-0.9
West Africa	2.7	3.3	3.5	3.6	3.8	0.0	-0.2
Southern Africa	1.1	0.9	0.3	0.9	1.9	-1.8	-1.7
East and South Asia	6.1	5.7	4.8	5.2	5.2	-0.7	-0.4
East Asia	5.9	5.7	5.2	5.2	5.2	-0.3	-0.2
China	6.8	6.6	6.1	6.0	5.9	-0.2	-0.2
South Asia	6.8	5.6	3.3	5.1	5.3	-2.4	-1.0
India ^c	7.2	6.8	5.7	6.6	6.3	-1.9	-0.8
Western Asia	2.6	2.3	1.0	2.4	2.8	-1.3	-1.0
Latin America and the Caribbean	1.2	0.9	0.1	1.3	2.0	-1.6	-1.0
South America	0.7	0.4	-0.1	1.1	2.0	-1.4	-1.2
Brazil	1.3	1.1	1.0	1.7	2.3	-1.1	-0.8
Mexico and Central America	2.4	2.3	0.5	1.6	1.9	-2.0	-0.7
Caribbean	-0.2	1.6	1.2	5.7	3.4	-0.8	3.7
Least developed countries	4.5	4.6	4.9	5.1	5.4	-0.1	-0.6
Memorandum items							
World trade ^d	5.7	3.9	0.3	2.3	3.2	-3.4	-1.6
World output growth with PPP weights ^e	3.8	3.6	2.9	3.2	3.4	-0.7	-0.5

Source: UN DESA.

^a Partly estimated.^b Forecast.^c Fiscal year basis.^d Includes goods and services.^e Based on 2010 benchmark.

Table I.2

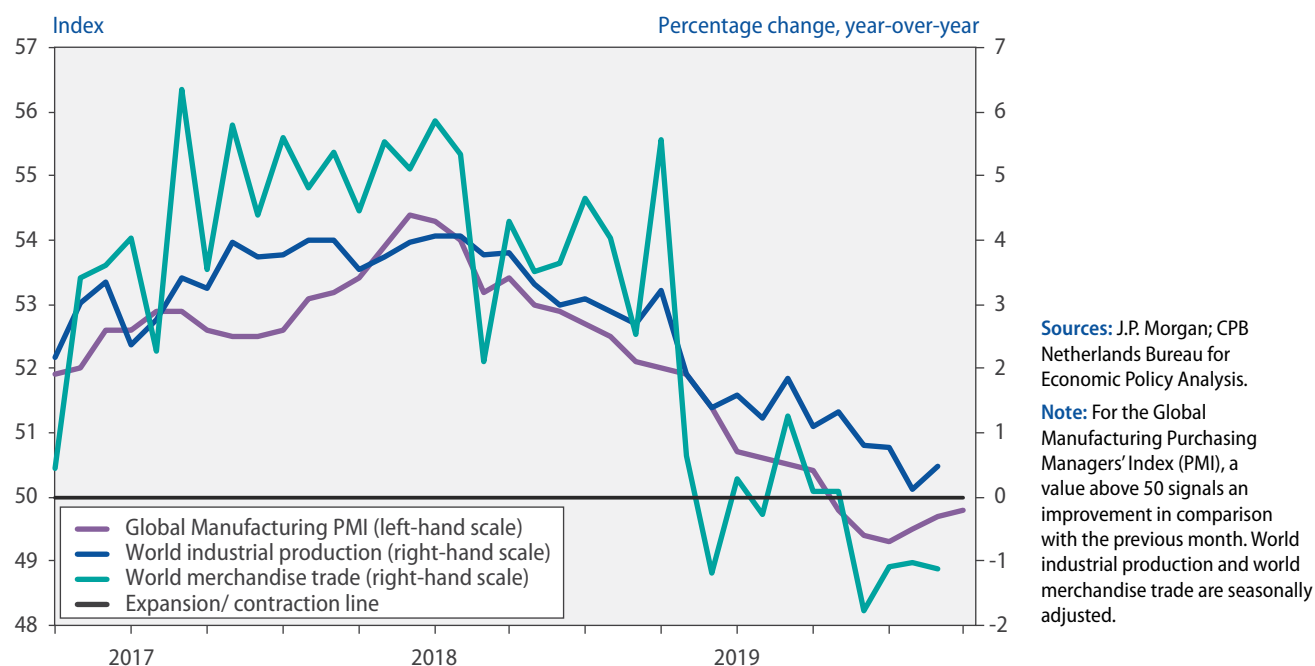
Growth of world output and gross domestic product per capita

Annual percentage change					
	2017	2018	2019 ^a	2020 ^b	2021 ^b
World	2.1	1.9	1.2	1.5	1.7
Developed economies	2.1	1.9	1.3	1.3	1.4
United States of America	1.7	2.3	1.6	1.1	1.2
Japan	2.1	1.0	1.0	1.2	1.6
European Union	2.4	1.8	1.3	1.5	1.6
EU-15	2.0	1.5	0.9	1.2	1.4
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East Africa	2.5	3.3	3.1	3.2	3.4
Central Africa	-2.3	-1.1	0.0	0.2	0.4
West Africa	0.0	0.6	0.8	0.9	1.1
Southern Africa	-1.2	-1.4	-1.9	-1.3	-0.3
East and South Asia	5.1	4.8	3.9	4.3	4.4
East Asia	5.2	5.1	4.6	4.6	4.6
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India ^c	6.3	5.8	4.3	5.6	5.4
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Latin America and the Caribbean	0.2	0.0	-0.8	0.4	1.1
South America	-0.1	-0.5	-1.0	0.3	1.2
Brazil	0.5	0.3	0.2	0.9	1.6
Mexico and Central America	1.2	1.1	-0.6	0.5	0.8
Caribbean	-0.8	1.0	0.6	5.1	2.8
Least developed countries	2.1	2.2	2.5	2.7	3.0

Source: UN DESA.

^a Partly estimated.^b Forecast.^c Calendar year basis.

Figure I.2
Global Manufacturing PMI, industrial production and merchandise trade



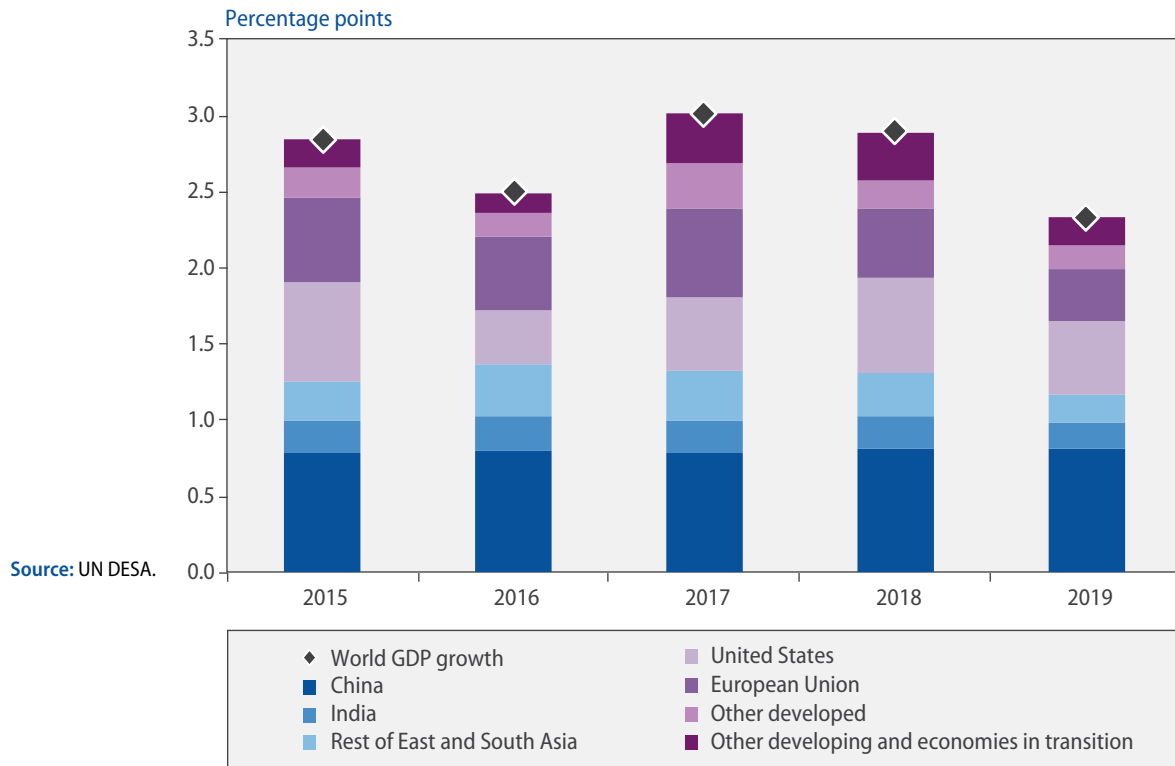
Across the developed economies, the growth momentum has slowed considerably since mid-2018. In the United States of America (hereafter referred to as the United States), the pace of expansion is projected to moderate further in 2020, though the recent cuts in the federal funds rate may lend some support to economic activity. Continued policy uncertainty, weak business confidence and slowing job growth are likely to weigh on domestic demand. In Europe, average growth is expected to remain modest in the outlook period. The manufacturing sector will continue to be adversely affected by international trade tensions, the economic slowdown in China, and elevated policy uncertainty, including over the exit of the United Kingdom of Great Britain and Northern Ireland (hereafter referred to as the United Kingdom) from the European Union. This will be partially offset by continued solid growth in private consumption on the back of robust labour markets and additional monetary stimulus. Economic performance in Japan will remain subdued in 2020 as a consumption tax rise, declining real wages and sluggish exports to East Asian economies drag on growth.

Growth prospects across developing and transition economies have been revised downward. In several countries, domestic weaknesses such as heightened political uncertainty, financial fragilities and supply disruptions are compounding the difficulties linked to the challenging external environment. Despite facing significant headwinds, East Asia remains the world's fastest growing region and the largest contributor to global growth (see figure I.3). Going forward, more accommodative monetary and fiscal policies will support domestic demand. The region's average growth is projected to remain stable, even with the continued gradual economic slowdown in China. In South Asia, economic growth is expected to recover in the outlook period following a weaker-than-expected performance in 2019. In India, economic activity will regain some momentum as the effects of a credit crunch ease and fiscal stimulus measures kick in. The economy of the Islamic Republic

Headwinds in developed economies will likely persist in 2020

The challenging global environment and policy uncertainty weigh on the outlook for developing countries

Figure I.3
Contributions to world GDP growth, by region



Iran is projected to further contract as the impact of subdued oil prices is compounded by the United States sanctions and domestic social unrest. The economic outlook for Africa, Western Asia, Latin America and the Caribbean, and the economies in transition is clouded by relatively low commodity prices and protracted weaknesses in some large countries. While average growth in Africa is projected to pick up during the forecast period, the pace of expansion will remain insufficient to address pressing development challenges, especially in West, Central and Southern Africa. There is a need for further structural reforms to raise potential growth and promote economic diversification in the medium term (see box I.1). Western Asia is expected to see a moderate recovery in 2020 on the back of stronger domestic demand. However, subdued oil prices and geopolitical issues will continue to weigh on the region's growth performance. Latin America and the Caribbean remains mired in a prolonged economic slump amid adverse domestic and global conditions. A slow and uneven recovery is projected in the outlook period, supported by expansionary monetary policy and improved business confidence in several large economies, including Brazil and Mexico. However, the region faces significant downside risks, especially given the limited policy space going forward. Among the economies in transition, average growth in the Commonwealth of Independent States (CIS) and Georgia is projected to strengthen moderately in the forecast period, driven by increased fiscal spending in the Russian Federation and other energy exporters.

Box I.1

Exporters in Africa: what role for trade costs?

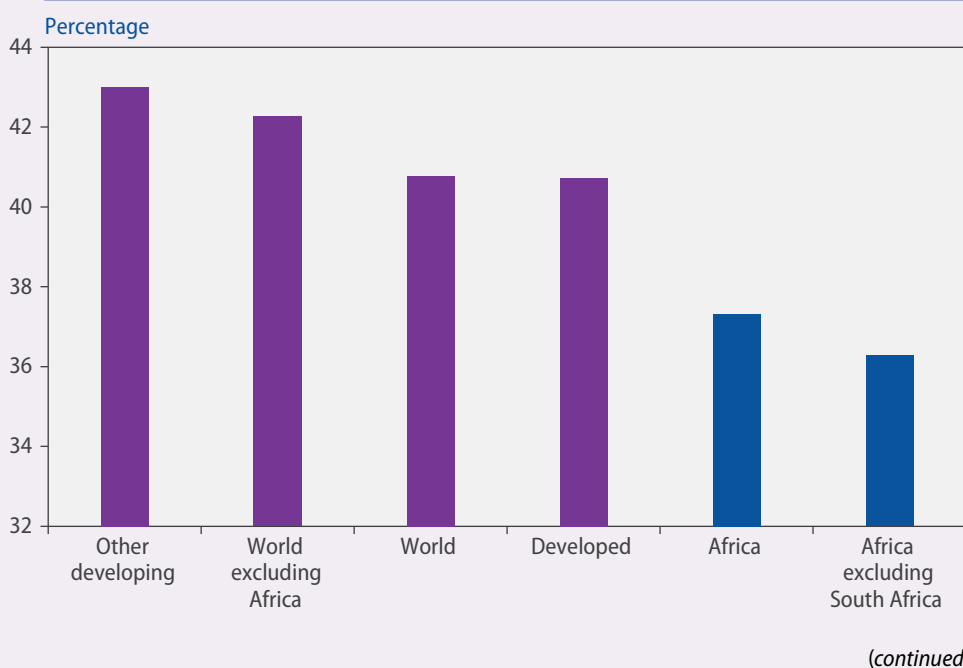
Exports are a major factor in growth fluctuations and strongly influence development trajectories. In the short term, exports are a crucial source of foreign exchange, promoting economic growth and reducing balance-of-payments constraints. In the medium term, the diversification of exports leads to higher and more sustainable growth, and exports are also crucial to productivity growth through “learning by exporting”.

A critical aspect that shapes the performance and competitiveness of exports is trade costs. Trade costs not only include tariffs and tariff equivalents such as quotas and trade barriers, but also factor in connectivity, logistics, regulations, and cultural and historical aspects of international trade. In Africa, trade costs remain relatively high and continue to exert an enormous influence on trade activity (World Bank, 2015). The lack of transport infrastructure, ineffective enforcement of laws (in particular those related to property rights), poor business services and logistics, and regulatory deficiencies all have a negative impact on trade costs. Elevated trade costs affect comparative advantages, limit access to technology and intermediate inputs, and preclude participation in global value chains, making economic diversification more difficult.

Afonso and Vergara (2019) analysed the performance of exporters in Africa and the role of trade costs using a range of export indicators from the World Bank’s Exporter Dynamics Database. The results show that exporting firm entry and exit rates are higher in Africa than in other regions of the world. This high turnover means that many firms in Africa begin exporting but stop almost immediately. Box figure I.1.1 illustrates the exceptionally low survival rate of exporting firms in Africa. On average, less than 30 per cent of firms in Cameroon, Guinea and Malawi continue exporting after their first year, in comparison with 41 per cent in developed countries and 43 per cent in other developing regions.

African countries also exhibit higher rates of entry and exit for export products and low rates of export product survival. Among incumbents in Botswana, for example, more than 70 per cent of exported products, on average, had not been exported the year prior. At the same time, over 70 per cent of products exported the year prior were not exported the following year. This contrasts with rates of only

Figure I.1.1
Average entrant first-year survival rate, 2009–2012



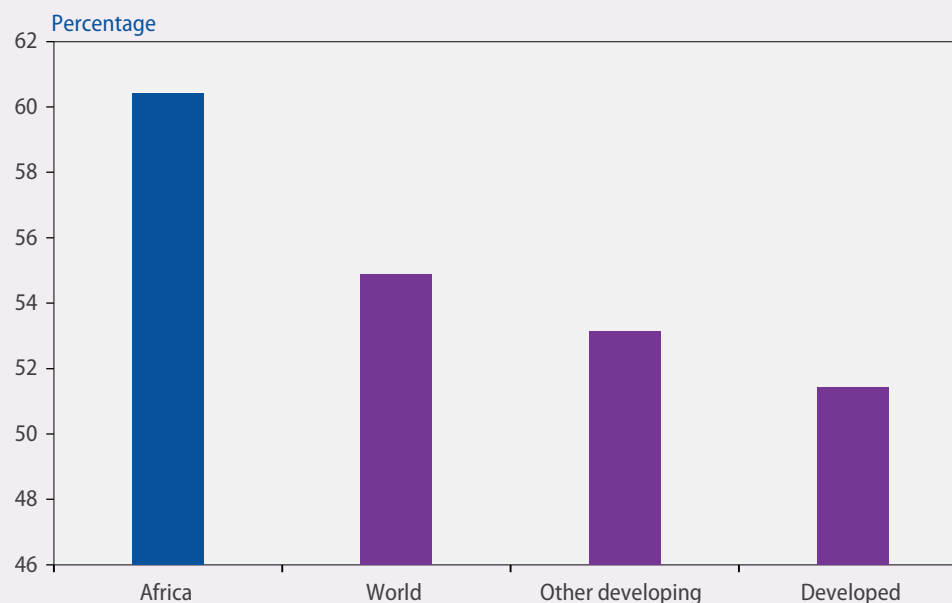
Source: Authors’ calculations, based on data from the Exporter Dynamics Database (World Bank Group).

Box I.1 (continued)

about 40 per cent of products in developed countries. Entry and exit (turnover) rates for export destinations are also higher in Africa (see box figure I.1.2). In Guinea and Senegal, about 40 per cent of markets were new destinations (not explored the previous year), and about 40 per cent of export destinations used the year prior were not used again the following year.

Figure I.1.2

Average destination turnover rate, 2009–2012



Source: Authors' calculations, based on data from the Exporter Dynamics Database (World Bank Group).

Note: Turnover is the sum of entry and exit rates.

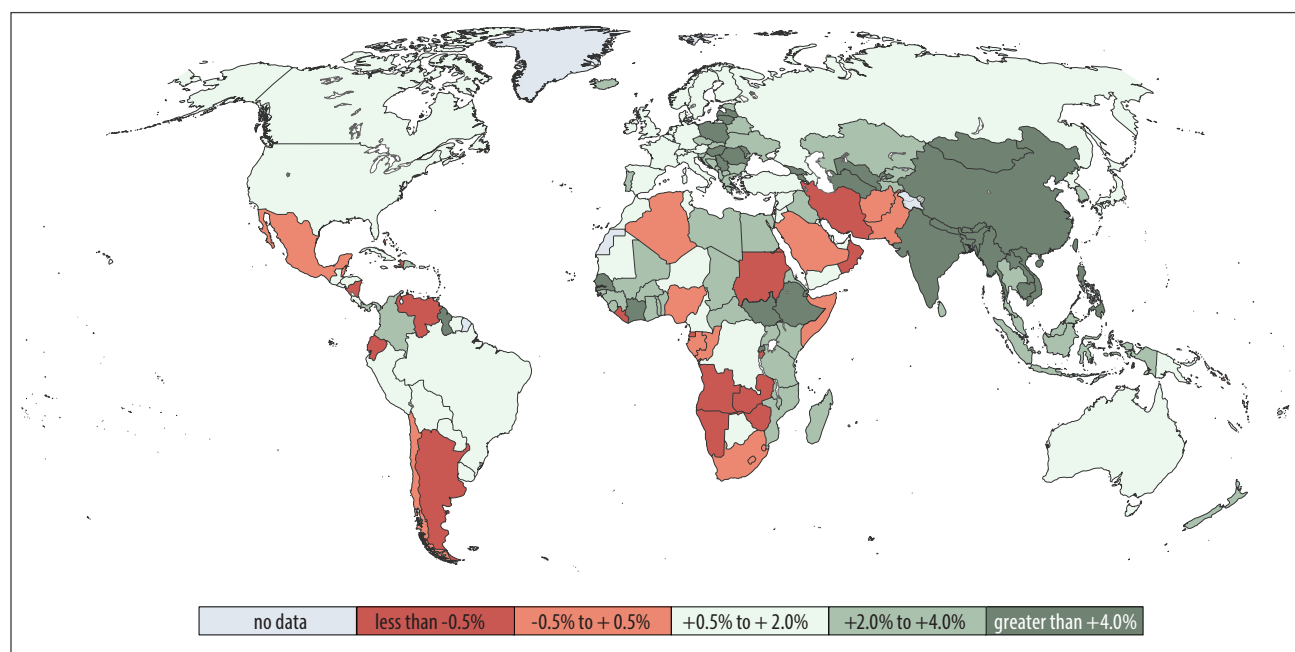
The elevated rates of entry and exit for exporting firms, export products and export destinations underscore the volatility of export activity in Africa. This reflects a lot of experimentation, but it also suggests that African exporters have difficulties in maintaining trade relationships. While this is certainly associated with the level of development, there are many underlying factors that could be at play as well, including market inefficiencies, profit uncertainties, a lack of information about foreign markets, and limited productive capacities.

Econometric analysis confirms that trade costs are a key factor explaining differences in the behaviour of exporting firms in Africa compared to exporting firms in other regions. In addition, trade costs partly explain differences in the characteristics of exporting firms among African countries (Afonso and Vergara, 2019). In fact, trade costs play a disproportionate role in affecting the size and survival of new African exporters in comparison with exporters from other regions. For instance, a reduction of 20 per cent in trade costs has been associated with a 14 per cent increase in the average size of new exporters and a 0.5 per cent increase in the one-year survival probability. In addition, differences in trade costs across African countries are a relevant factor in explaining the lower market diversification of exporters from landlocked countries. However, trade costs seem not to play a significant role in product diversification.

A key implication of the analysis is that reducing trade costs through the measures outlined in the Agreement establishing the African Continental Free Trade Area (AfCFTA) may yield significant benefits in the medium run in terms of export flows and the diversification of destination markets. Yet empirical evidence suggests that the effects on product diversification will remain limited unless productive capacities are strengthened. This is consistent with the established development view that while trade liberalization can allow countries to exploit comparative advantages, liberalization is insufficient for diversification and structural change. Thus, there is a need for a much broader, strategic and targeted set of productive and industrial policies that are aligned with national development priorities.

Authors: Helena Afonso and Sebastian Vergara (UN DESA/EAPD).

Figure I.4
GDP per capita growth, 2020 ^{a, b}



Source: UN DESA.

a Disclaimer: The designations employed and the presentation of material on this map do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries. Dotted line represents approximately the Line of Control in Jammu and Kashmir agreed upon by India and Pakistan. The final status of Jammu and Kashmir has not yet been agreed upon by the parties. Final boundary between the Republic of Sudan and the Republic of South Sudan has not yet been determined. A dispute exists between the Governments of Argentina and the United Kingdom of Great Britain and Northern Ireland concerning sovereignty over the Falkland Islands (Malvinas).

b The map represents countries and/or territories or parts thereof for which data is available and/or analysed in *World Economic Situation and Prospects 2020*. The shaded areas therefore do not necessarily overlap entirely with the delimitation of their frontiers or boundaries.

In the least developed countries (LDCs), economic growth is projected to accelerate moderately in the outlook period. After increasing at an average rate of 4.3 per cent over the past five years, aggregate GDP is expected to expand by 5.1 per cent in 2020 and 5.4 per cent in 2021. This acceleration will be driven mainly by stronger domestic demand in many countries, including some large economies (Angola, Ethiopia, Myanmar and Sudan). Angola and Sudan are projected to recover from major downturns experienced in recent years. Given the importance of domestic drivers of growth, the LDCs as a group have remained largely unaffected by the global slowdown. Still, the economic outlook is not improving across the board; more than a third of these countries are expected to witness slower growth in 2020 in comparison with 2019. Furthermore, LDCs collectively remain far from achieving “at least 7 per cent gross domestic product growth per annum”, as spelled out in target 8.1 of Sustainable Development Goal 8. Only 15 per cent of the countries—Bangladesh, Benin, Cambodia, Ethiopia, Rwanda, Senegal and South Sudan—are growing at about that rate. The following countries are scheduled to graduate from LDC status in the coming years: Vanuatu in 2020; Angola in 2021; Bhutan in 2023; and Sao Tome and Principe and the Solomon Islands in 2024. This process will further advance the “Africanization” of the LDC group.

Although the baseline scenario forecasts a modest acceleration in growth in 2020 in many developing regions, per capita GDP is projected to stagnate or fall in a significant

Average growth in the least developed countries is projected to accelerate

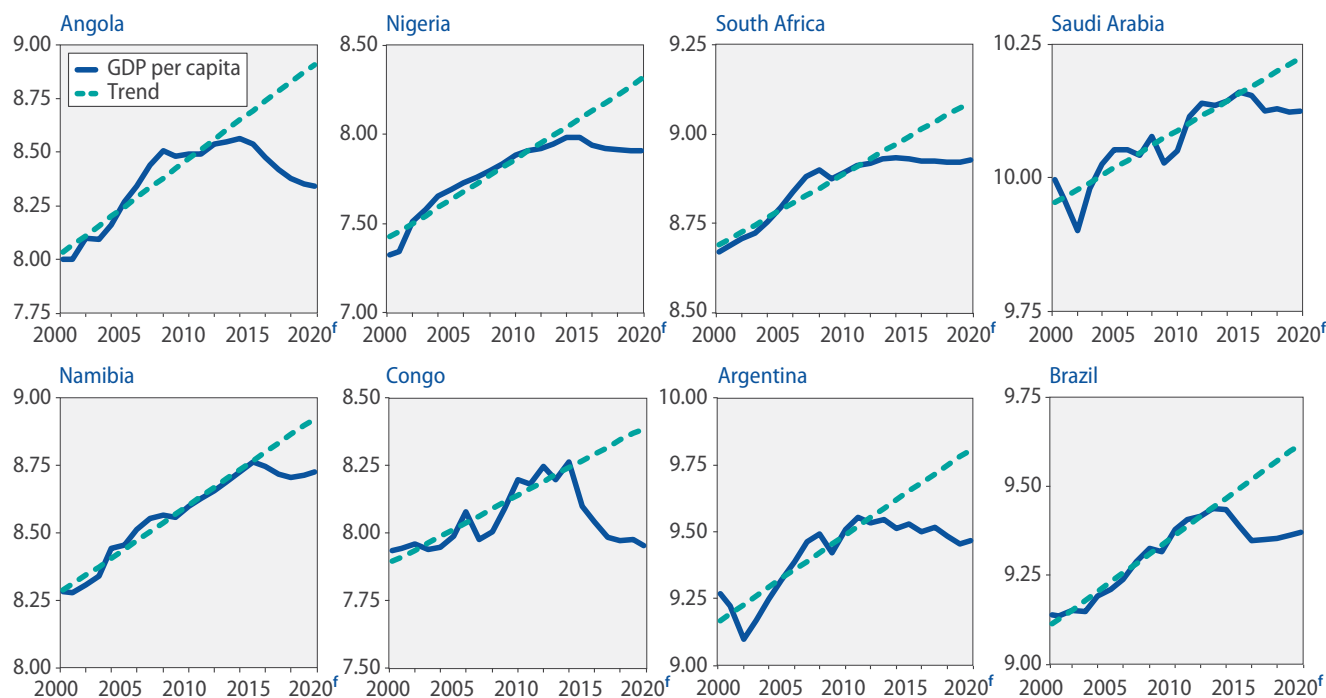
Many commodity-dependent countries are still suffering from the downturn in prices

number of countries (see figure I.4). Many commodity-dependent countries, in particular oil exporters, are still suffering from the 2014-2016 commodity price downturn.⁴ Average (population-weighted) growth of GDP per capita for commodity-dependent developing countries has fallen from 2.9 per cent per annum in the period 2010-2014 to only 0.5 per cent in 2015-2019. Most worryingly, in about one third of the countries, average real per capita incomes are lower today than in 2014. What initially appeared to be a temporary negative shock to the terms of trade of commodity exporters has in many cases transformed into a more fundamental and longer-lasting economic slump. Figure I.5 illustrates the persistent income losses incurred by selected countries following the commodity price shock. As shown, these countries have not been able to recover the output losses they suffered. Compounding this, many of them have experienced a marked downward shift in trend growth. This suggests that potential output growth today is significantly lower than it was in 2014 and that the gap between the pre-crisis trend and actual output will widen over time.⁵

The commodity price decline exposed major weaknesses in economic structures

These recent trends raise the question as to why the commodity price downturn has been associated with such profound and lasting economic slumps. While the specific dynamics vary between countries, there is a common thread: rather than simply causing a

Figure I.5
GDP per capita trends for selected commodity exporting countries



Source: UN DESA.

Note: Scale expressed in terms of log of GDP per capita. Figures for 2018-2020 include UN DESA estimates and forecasts.

⁴ The downturn was most pronounced for energy prices, which fell by 70 per cent between June 2014 and January 2016. For non-energy commodities, which include agricultural products, metals and minerals, the downward trend had already begun (in early 2011), with a peak-to-trough decline of about 42 per cent.

⁵ This finding is in line with previous research studies that found large and highly persistent output losses associated with the Asian financial crisis and the global financial crisis (Cerra and Saxena, 2008; Ball, 2014).

deterioration of the terms of trade, the commodity price decline has exposed major weaknesses in the economic structures of countries. Excessive reliance on commodity revenues to finance public spending has required dramatic fiscal adjustments. Moreover, in many cases, governance deficits and the lack of institutional capacity have precluded effective policy responses to support economic activity. Sharp declines in public and private investment have weighed on current growth while also constraining productivity going forward. Often, these economic challenges have been exacerbated by political factors, triggering a vicious cycle of increasing uncertainty and weakening activity. The magnitude of the existing challenges not only clouds the medium-term macroeconomic outlook, but also hampers progress towards achieving the Sustainable Development Goals—especially poverty eradication.

Inflation

Amid weakening economic activity and lower commodity prices, global inflation has moderated further. In developed economies, the trend of persistently low inflation observed since the global financial crisis continues. Headline consumer price inflation in the major developed economies ranged from 0.7 per cent in Japan to 1.8 per cent in the United States in 2019. The escalation of tariffs in major economies has pushed up producer prices in some sectors, but lower energy prices and limited services sector inflation have generally more than offset any impact on average consumer price inflation. Anchored inflationary expectations, slow wage growth and weakened pass-through from wages to inflation are contributing to the low inflation rates. In some developed economies, the persistent under-shooting of the inflation target is weakening the credibility of central banks.

The inflation picture is more heterogeneous in transition and developing economies. In the CIS, average inflation rose in 2019 following a value added tax (VAT) rate increase in the Russian Federation. As this effect dissipates, inflation is expected to moderate. Average inflation in developing countries remained fairly stable in 2019, with price pressures falling in Africa and Western Asia while increasing in South Asia and Latin America and the Caribbean. Going forward, most developing countries are expected to see low to moderate inflation. There are, however, some major exceptions that will continue to drive up regional and subregional averages. Annual inflation in 2019 will continue to exceed 30 per cent in several countries experiencing severe macroeconomic imbalances or supply constraints, including Argentina, the Islamic Republic of Iran, South Sudan, Sudan, and the Bolivarian Republic of Venezuela.

With the exception of these cases, inflation in developing countries today is significantly lower than in previous decades and is also more stable. Figure I.6 shows that the volatility of inflation rates for many developing countries has declined significantly in comparison with the 1990s and 2000s.

With the deteriorating economic outlook, increased downside risks and falling inflation, central banks around the world have once again become the main line of defence. By the end of November, a total of 64 central banks had reduced interest rates in 2019 (see figure I.7). About 85 per cent of all changes to the monetary policy stance have gone towards easing rather than tightening. This marks the broadest shift in monetary policy since the global financial crisis.

Among the major central banks, the United States Federal Reserve reversed course, cutting interest rates for the first time since December 2008. Between July and October 2019, the benchmark federal funds rate was reduced by a total of 75 basis points. While

Inflationary pressures remain muted

Inflation in developing countries is lower and more stable today than in previous decades

Central banks are once again the main line of defence against a slowdown

Figure I.6
Inflation volatility in selected developing countries

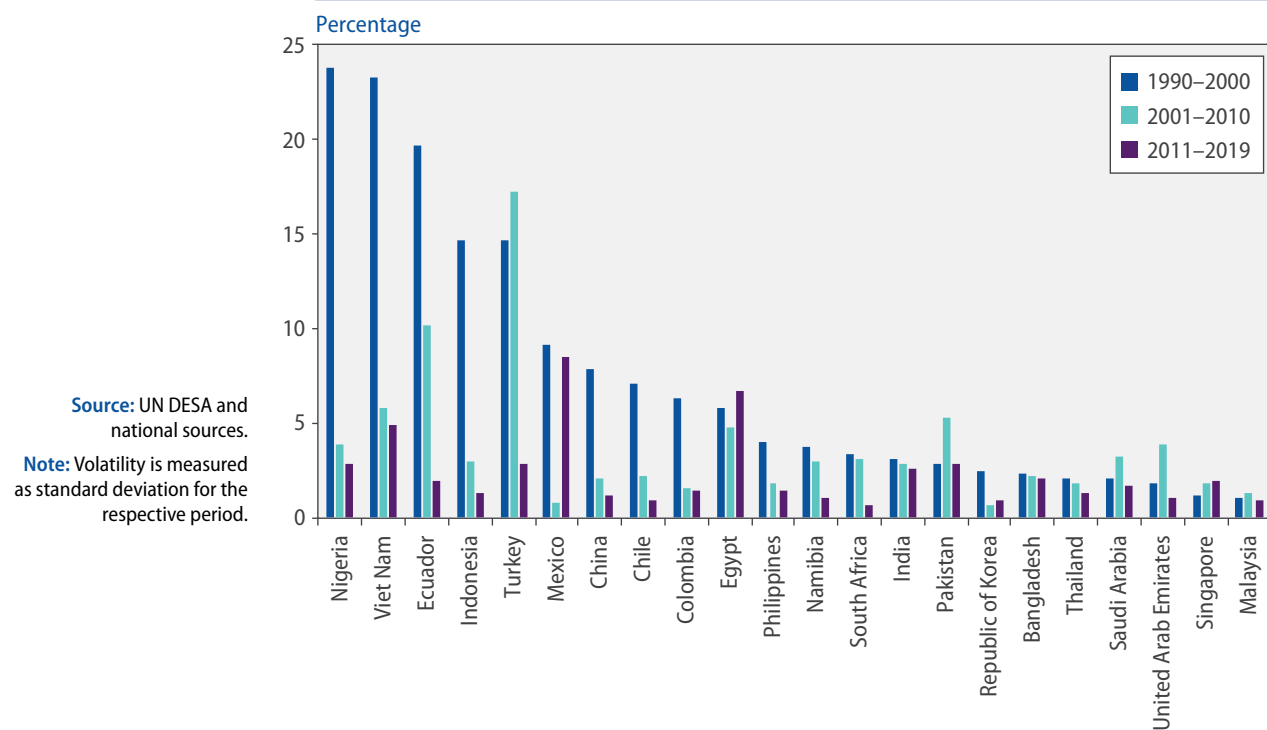
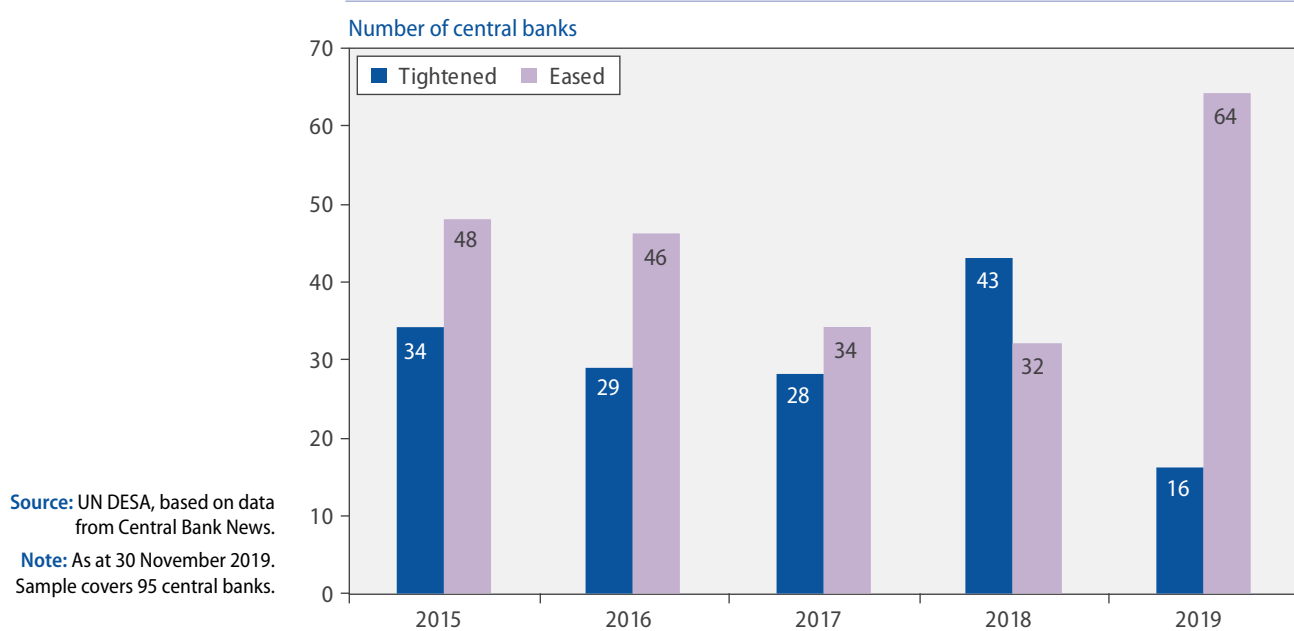


Figure I.7
Monetary policy stances



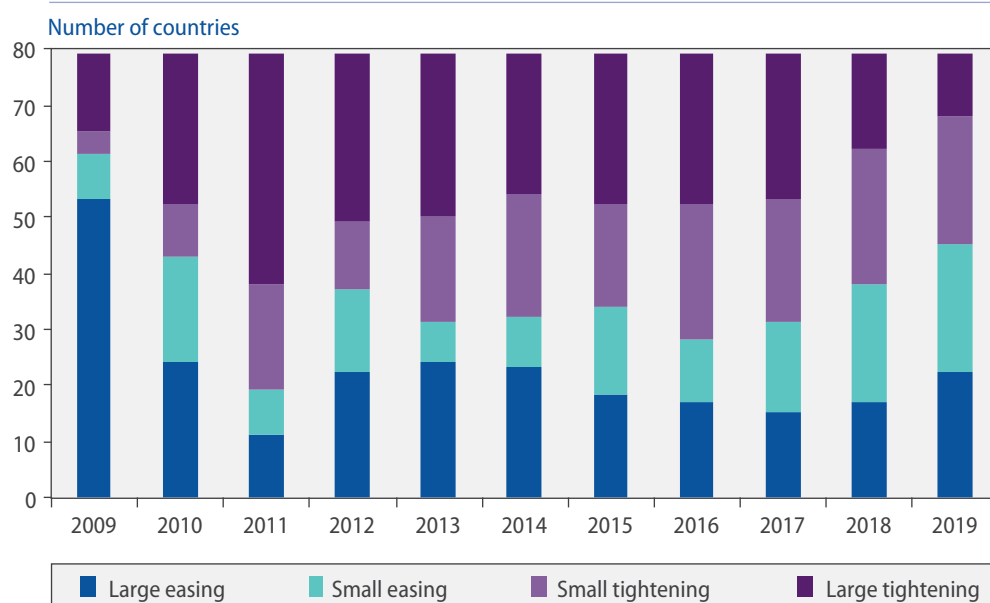
the baseline scenario foresees no further reductions in the policy rate over the coming year, the authorities have left open the possibility of additional easing. Meanwhile, the European Central Bank (ECB) took interest rates deeper into negative territory, while also launching a new large-scale bond-buying programme to stimulate the economy. The Bank of Japan maintained its ultra-easy monetary policy while hinting at the possibility of additional measures, including a further cut to short-term interest rates. As monetary policy was loosened in developed economies, many developing and transition economies followed suit; among others, the central banks in Brazil, China, India, Mexico and the Russian Federation lowered their policy rates in 2019.

With interest rates being at or near historical lows, the room for further monetary easing in developed countries is limited. Moreover, it is unclear how effective additional monetary easing measures—such as more negative policy rates or further bond-buying programmes—would be in stimulating the real economy and what side effects this would have. Developing and transition economies will generally have more room for further cuts in 2020.

While central banks have responded swiftly to the deteriorating global situation and outlook, changes in fiscal policy have so far been generally modest. Figure I.8 shows that a growing number of countries moved towards fiscal easing in 2019. Aggressive fiscal expansions have occurred in a few East Asian economies, which have relatively ample fiscal space. Despite record-low yields on government bonds in developed economies, a broad-based move towards a more expansionary fiscal stance is unlikely. Many developed countries, including large economies such as the United States, Italy and Japan, have high public debt levels and elevated budget deficits. Moreover, in developed economies with stronger fiscal positions, such as Germany and the Netherlands, there is a reluctance to significantly loosen the fiscal stance and boost spending.

Some fiscal easing is taking place, but no significant shift is in sight

Figure I.8
Fiscal policy stances



Source: UN DESA, based on data from IMF, World Economic Outlook database, October 2019.

Notes: Small easing/tightening is defined as a change in the structural fiscal balance of less than 0.5 per cent of GDP. Large easing/tightening is greater than 0.5 per cent of GDP.

Figure I.9
Economic policy and trade
uncertainty indices

Index, 2006=1

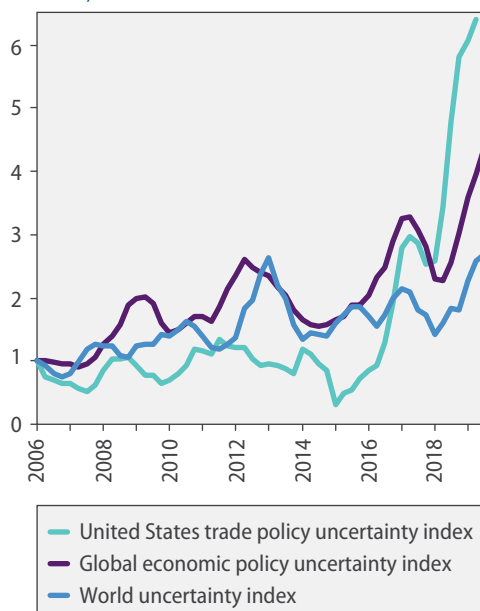


Figure I.9

Source: Economic Policy Uncertainty project (<https://www.policyuncertainty.com>).

Note: Values are four-quarter moving averages.

Figure I.10

Source: OECD (2019a), Business confidence index (BCI) (indicator). doi: 10.1787/3092dc4f-en.

Note: Values below 100 indicate pessimism towards future business performance.

Figure I.10
Business confidence

Index, long-term average=100

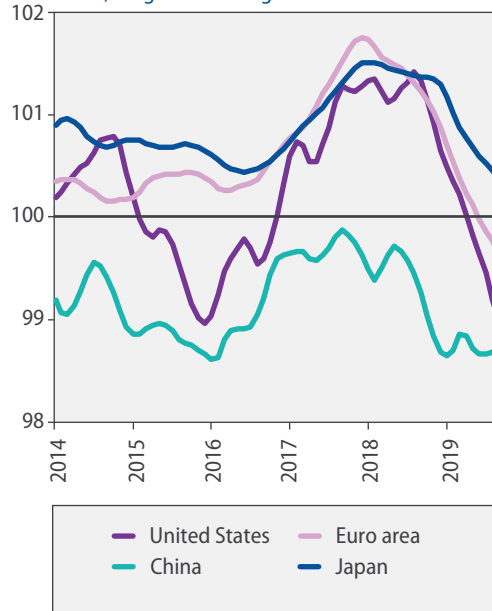
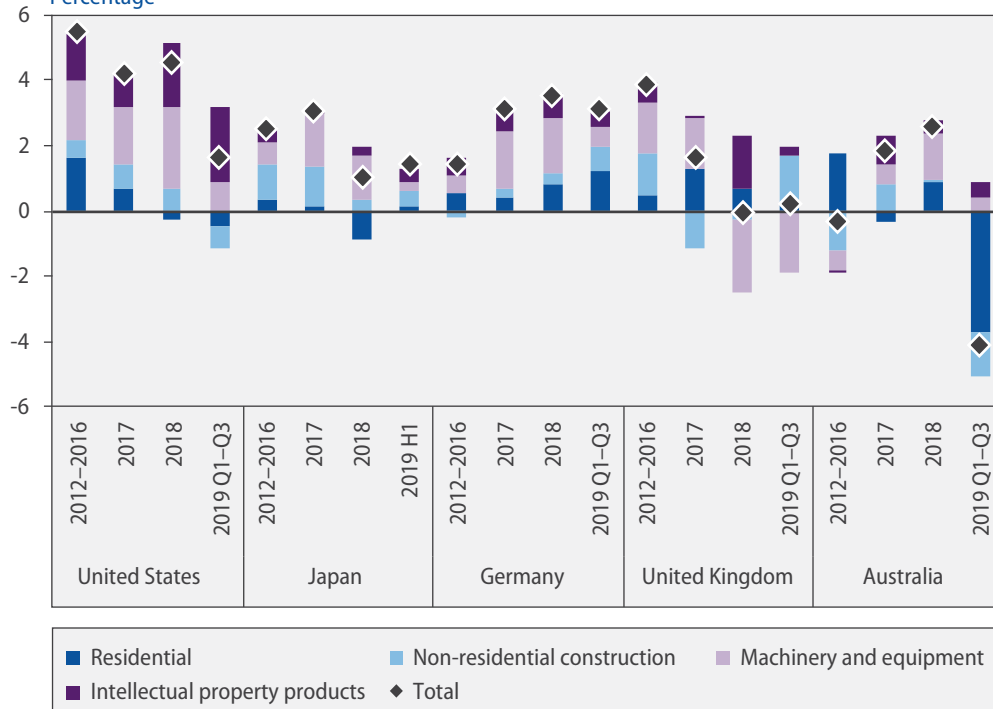


Figure I.11
Annual investment growth in selected developed economies, decomposed
by asset type

Percentage



Sources: UN DESA, based on data from United States Bureau of Economic Analysis; Japan, Cabinet Office; Eurostat; Australian Bureau of Statistics.

Notes: Figures are in constant prices. Data for Germany, Japan and the United Kingdom are for total investment; data for Australia and the United States are for private investment.

Investment and productivity

Since the introduction of new trade-restrictive measures in mid-2018 and as trade tensions have intensified, trade policy uncertainty has soared in the United States and globally (see figure I.9). In its wake, economic and financial uncertainty have also been increasing, albeit less dramatically. Factors other than the trade disputes—including more elevated geopolitical risks, shifts in monetary policy among major economies, and uncertainty over “Brexit”⁶—have also contributed to rising global uncertainty.

Against this backdrop, firms have become increasingly pessimistic about near-term prospects. Business confidence fell sharply during 2019 (see figure I.10), and investment took a hit in many countries. Among developed economies, investment in machinery and equipment weakened significantly as a result of the sharp slowdown in industrial production, and residential investment also slackened (see figure I.11). In the United States, this was accompanied by a contraction in non-residential investment, which was negatively affected by economic uncertainty and lower capital investment in the oil and gas sector. In most large developing and transition economies, investment also performed poorly in 2019 (see figure I.12). Factors contributing to this weakness included low commodity prices, slowing global trade, heightened policy uncertainty and, especially in Argentina and Turkey, an adjustment to severe macroeconomic imbalances. Moreover, in many commodity-exporting countries, public investment remained weak amid ongoing fiscal consolidation pressures.

As firms around the globe have become more reluctant to invest, productivity growth has continued to decelerate. Figure I.13 illustrates the downward trend in labour productivity growth experienced by major developed economies over the past few decades. Much of the slowdown is attributable to significantly lower contributions from capital deepening—especially non-information and communications technology (non-ICT) assets—and from total factor productivity (TFP). Since there are no signs of an investment revival in the near term, labour productivity growth across the developed economies will likely remain subdued during the outlook period.

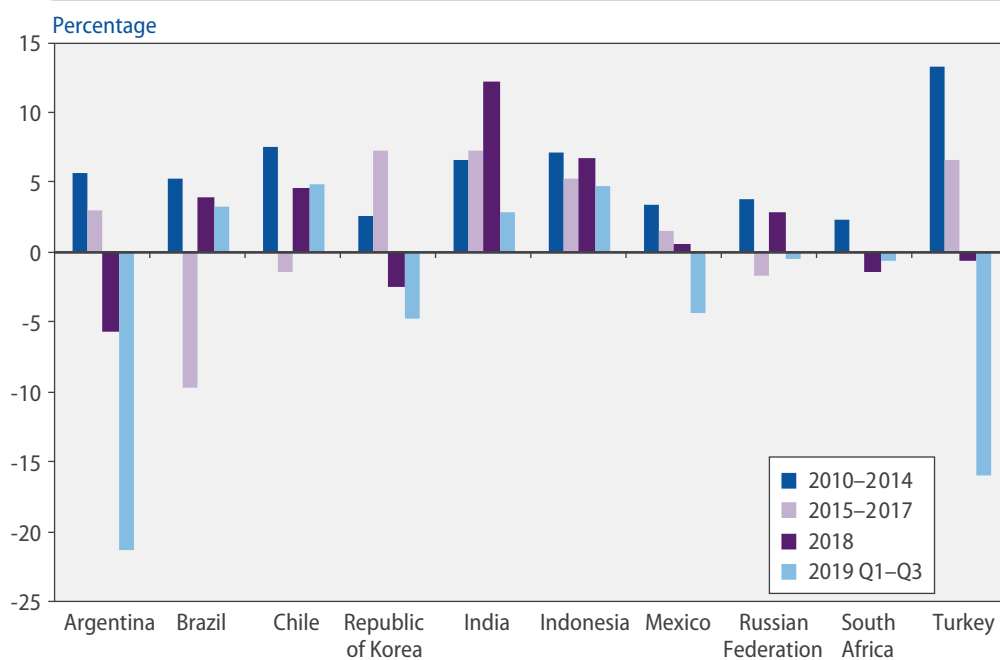
Average labour productivity in developing and transition economies is also growing more slowly than in the decade before the global financial crisis. However, aggregate figures mask stark differences among the various world regions (see figure I.14). While East Asia and South Asia continue to see rapid productivity growth, this is not the case in the other developing regions. In Western Asia and Latin America and the Caribbean, average labour productivity declined between 2016 and 2019 following sluggish growth during the period 2011–2015. In Africa, labour productivity growth fell to one seventh the rate of the period 2001–2010. Slowing capital accumulation and weakening labour productivity growth do not bode well for the long-term economic development prospects in these regions. Without strong policy measures to boost productivity—including large-scale infrastructure investment, improvements to the quality of education, and the promotion of innovation capacity—solid progress towards achieving the Sustainable Development Goals will remain elusive in many countries.

Amid mounting uncertainty, firms have become increasingly pessimistic

Weak investment is weighing on productivity growth

⁶ Brexit is a term coined from the combination of Britain and exit and represents the decision of the United Kingdom to leave the European Union.

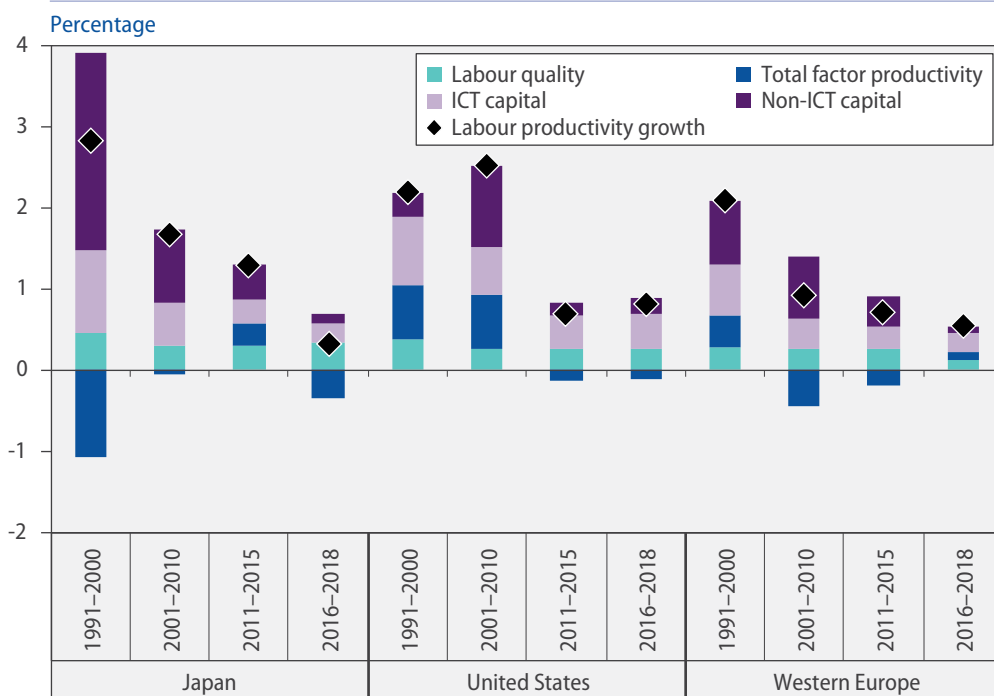
Figure I.12
Annual investment growth in selected developing economies



Source: UN DESA, based on data from national authorities.

Note: Data for Argentina, Mexico and the Russian Federation up to 2019 H1.

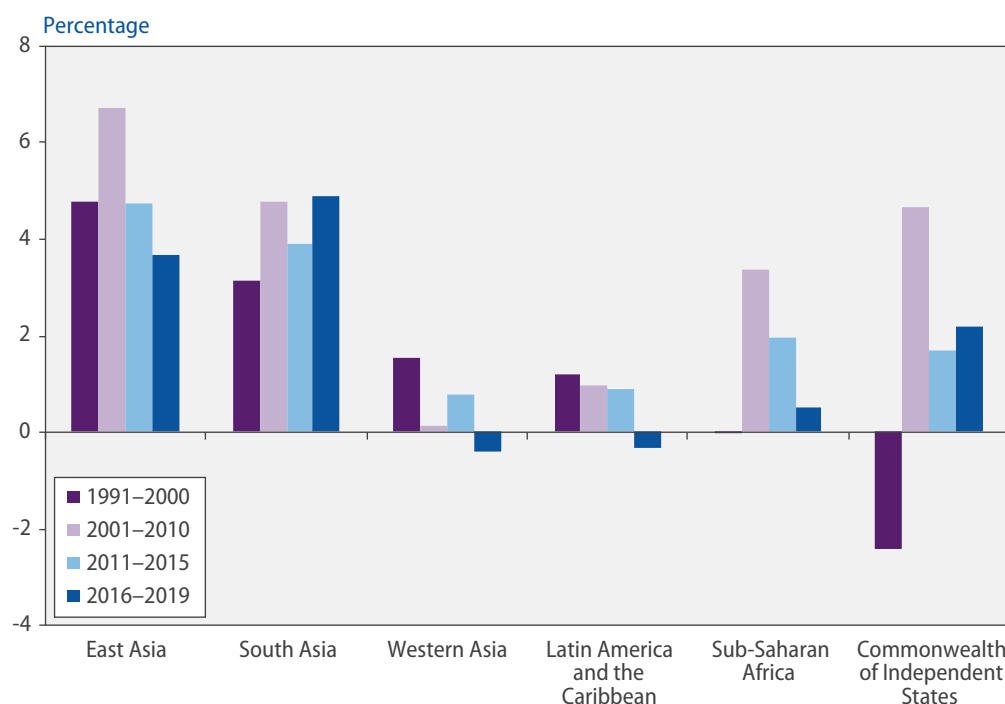
Figure I.13
Decomposition of labour productivity growth in developed economies



Source: UN DESA, based on data from The Conference Board Total Economy Database.

Note: Regional growth rates are weighted by real GDP.

Figure I.14
Labour productivity growth in developing countries



Source: UN DESA, based on data from The Conference Board Total Economy Database.

Notes: Labour productivity is measured as output per person employed. Regional growth rates are weighted by real GDP. Data for 2019 are estimated.

Labour markets

While unemployment figures have so far remained largely insulated from the global economic slowdown, the overall labour market situation is less rosy. In several regions, real wages continue to grow slowly due to subdued productivity gains or rising productivity-pay gaps. The quality of employment is often poor, especially for the most vulnerable. Informal employment and working poverty are still very common and are worryingly persistent in many developing countries. Women, the young, the poor and the uneducated, in particular, often struggle to secure labour market access and find decent employment. The current precarious economic situation and global trends such as the expansion of non-traditional employment threaten to make these problems even more severe in the coming years.

On the surface, global employment trends were generally positive in 2019; according to the latest estimates from the International Labour Organization (ILO), the world unemployment rate fell to slightly under 5 per cent—about the same level as before the global financial crisis (ILO, 2019). Unemployment averages 5.4 per cent for women, compared with 4.7 per cent for men, though women have a lower labour participation rate than do men. The decline in global unemployment over the past year is mainly the result of further job gains in major developed economies. In the European Union, the average unemployment rate declined to an estimated 7.4 per cent, the lowest level since 2008. In the United States, unemployment fell in 2019 to a 50-year low of 3.6 per cent. Unemployment in Japan stands at 2.2 per cent, its lowest rate in 27 years. During 2019, however, the outlook for unemployment trends became more uncertain. Employment growth in the European Union is projected to decelerate in 2020 and 2021, but as the labour force is shrinking, the average unemployment rate may decline a little further, especially in Eastern Europe.

Unemployment has thus far been insulated from the global slowdown

Real wage growth has
stagnated in many
countries...

Unemployment figures could worsen considerably if the slowdown in economic activity turns out to be more severe than what is predicted in the baseline forecast. More importantly, headline unemployment rates provide only a partial picture of labour market dynamics and often mask underlying structural weaknesses. A comprehensive assessment of employment trends reveals a more nuanced—and in many countries a more worrisome—picture.

One concern is that in many countries labour market shortages have not been accompanied by a significant rise in real wages, despite ongoing productivity growth. Japanese companies, for example, are struggling with labour shortages, yet real wages have been declining, while inflation is sticky at 0.7 per cent. Across Organization for Economic Cooperation and Development (OECD) countries, real median wages grew by an annualized rate of only 1.0 per cent between 1995 and 2018. While productivity in the United States increased by 1.6 per cent per year in this period, average real wage growth was only 1.3 per cent. Moreover, real median wages grew by only 0.5 per cent per year, implying a stark decoupling of wages from productivity growth as well as increasing wage inequality. The same patterns of a decoupling of wages from productivity and increasing wage inequality have been observed in many other developed countries. In several developing regions, real wages have been adversely affected by slowing productivity growth in recent years. In Latin America and the Caribbean, for example, average real wage growth in 2018 fell to the lowest level in a decade, potentially contributing to inequality and increasing the incidence of working poor. In all regions of the world, gender pay gaps remain significant (see box I.2).

...and employment is
often informal or of poor
quality

A second concern is that employment is often of low quality, with poor labour conditions. In developed economies, many of the new jobs that have been created in the construction sector, market services (mainly trade, transportation, accommodation and food, and business and administrative services) and non-market services (public administration, community, social and other services) are of low quality. Temporary and part-time employment are on the rise and are often resorted to involuntarily. In East Asia, vulnerable employment still accounts for around half of total employment in Cambodia, Indonesia, Myanmar and Thailand. The expansion of non-traditional jobs in the digital economy and the continued increase in the size of the self-employed workforce pose further challenges in terms of working conditions.

Informal employment (especially in the agricultural sector), accompanied by insecurity, low pay and a lack of social protection, remains a serious challenge globally. Informality is most prevalent in parts of Latin America and the Caribbean, Eastern Europe and Asia and in sub-Saharan Africa, where the bulk of the population lives in rural areas and relies on subsistence farming. Most of the new jobs in Latin America and the Caribbean have been created in the informal sector, though in some countries active employment policy measures have helped bring workers into the formal labour market. The widespread prevalence of informal employment is associated with the persistence of working poverty in many developing countries. Globally, around 700 million workers are estimated to live in extreme or moderate poverty.⁷ While substantial progress has been made in reducing the number of working poor in China and some other middle-income countries, the opposite is true in sub-Saharan Africa, where almost two thirds of workers live in poverty. With rapid labour force growth expected to continue in sub-Saharan Africa, employment pressures are likely to increase further over the coming decade.

⁷ As defined by the World Bank, the extreme poverty threshold is \$1.90 per day and the moderate poverty threshold is \$3.20.

Box I.2

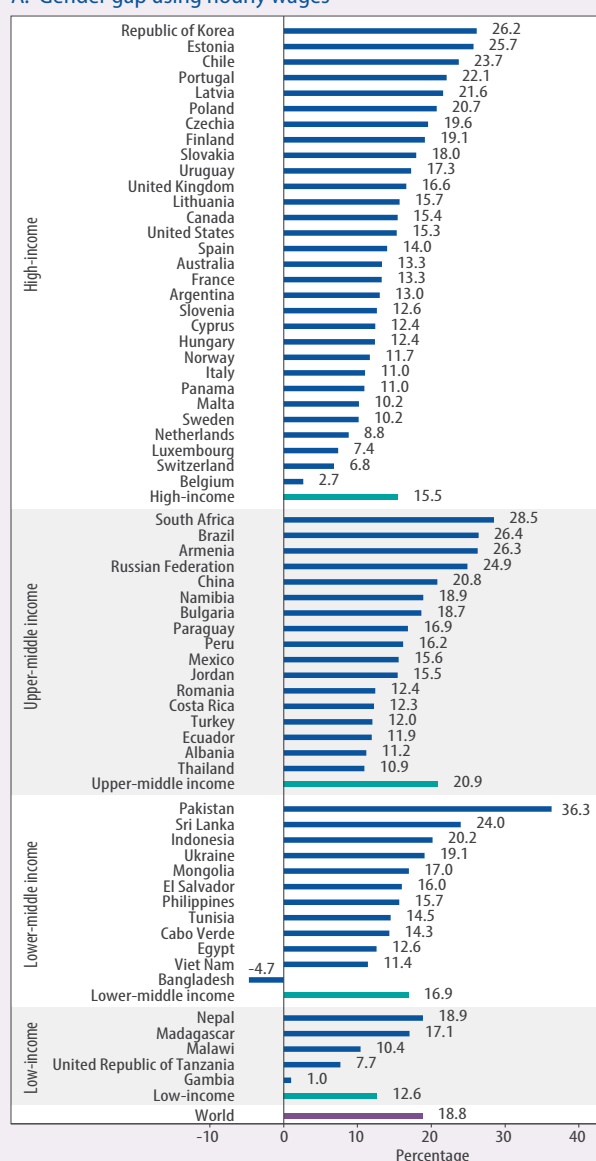
Gender pay gaps: latest estimates and policy implications^a

Despite the advances made by and for women over the past century, particularly in education and labour market participation, gender inequalities in the labour market persist. One of the measures that best reflects such inequalities is the gender pay gap (GPG), typically estimated as the percentage difference in pay between men and women. Box figure I.2.1 shows estimates of the GPG for a broad range of countries,

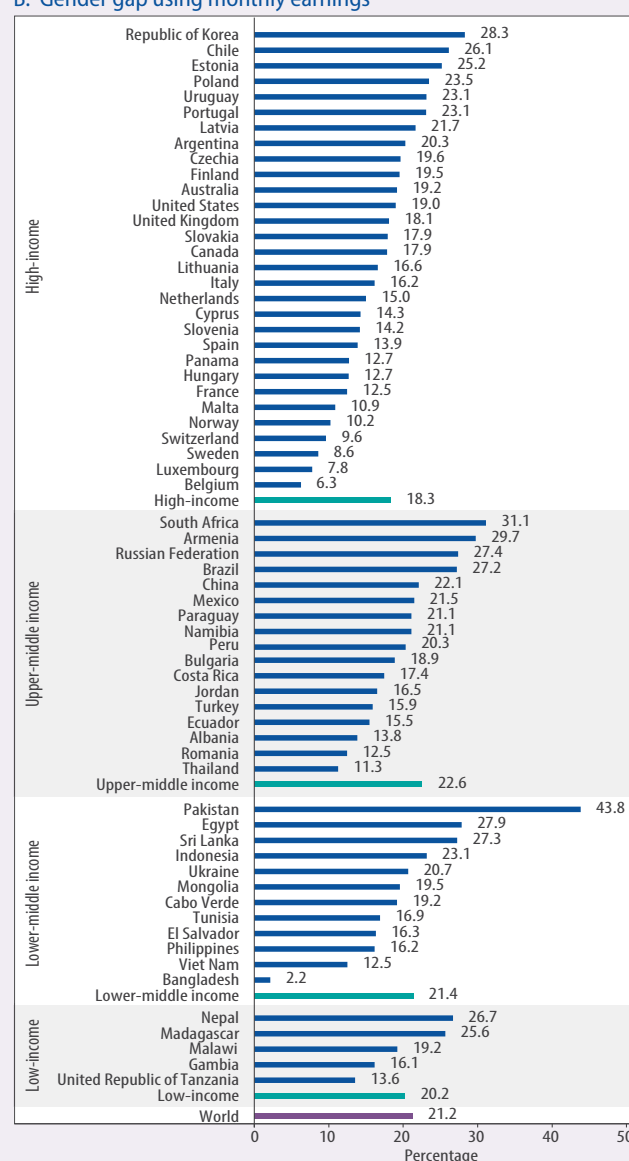
Figure I.2.1

Factor-weighted mean gender pay gaps, most recent years

A. Gender gap using hourly wages



B. Gender gap using monthly earnings



Source: ILO (2018a).

Note: The factor-weighted gender pay gap is a summary measure that estimates gender pay gaps for subgroups based on education, age, part-time/full-time work, public/private work, and so on, then takes a weighted average of these subgroups. This corrects for estimation biases that may arise as a result of “compositional effects” stemming from gender differences in key labour market characteristics.

(continued)

Box I.2 (continued)

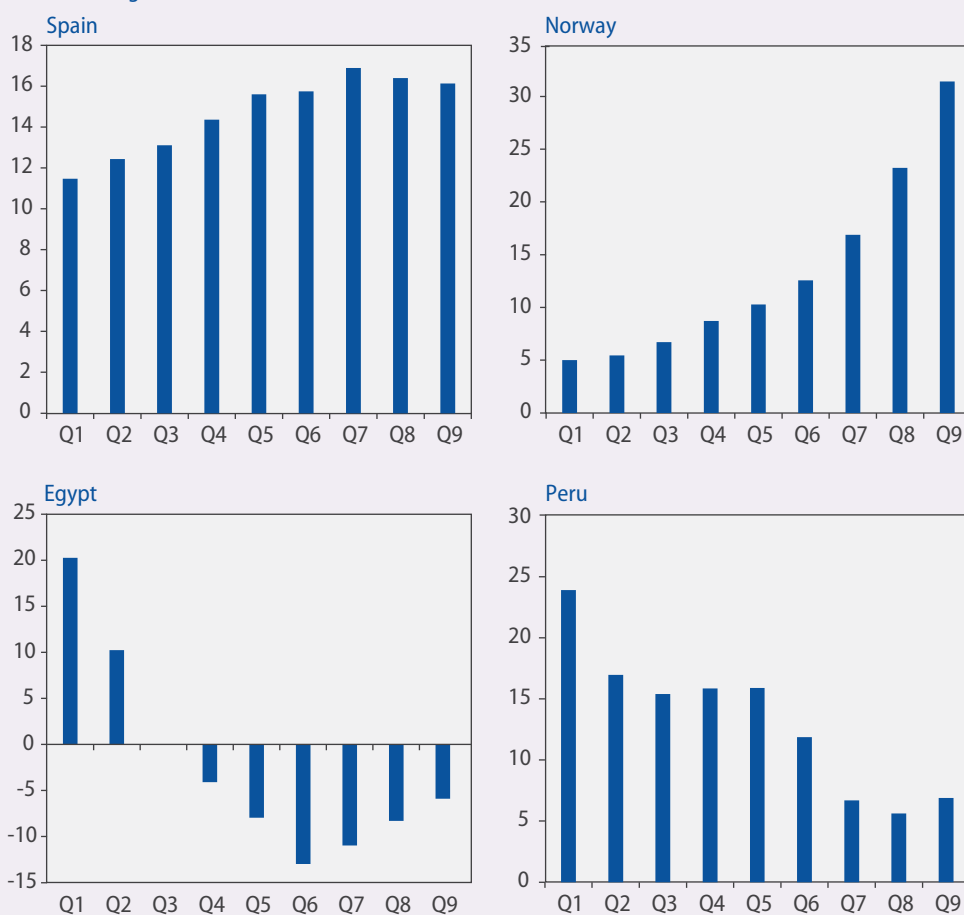
ranked highest to lowest according to income group; together, these countries represent all regions and about 75 per cent of the world's wage employees. The figure demonstrates that pay gaps between men and women are positive across all regions in the world, confirming that the GPG is a universal phenomenon. Globally, the hourly GPG is about 19 per cent. Estimating the GPG in monthly earnings rather than hourly wages raises the weighted global average to about 21 per cent, reflecting the greater incidence of part-time employment among women, which is often involuntary.

To identify the most effective policies to address the GPG—minimum wages, collective pay agreements and corporate pay policies, for example—it is helpful to further explore the depth of the GPG across the wage distribution. Box figure I.2.2 highlights the differences in GPGs across the wage distribution for a selection of countries. Whereas the gap tends to be higher at the upper end of the income distribution for high-income countries—evidence of the glass ceiling effect for women at the top—the gap is much higher at the lower end for low- and middle-income countries. There are several possible explanations for this pattern. In high-income countries, effective minimum wage policies (statutory or via collective agreements) reduce the gap at the low end, whereas gender-biased corporate pay policies lead to a substantial gap at the top. In low- and middle-income countries, women at the lower end of the wage distribution are typically in informal employment, diminishing the effectiveness of minimum wages at lowering the gap.

Figure I.2.2

Gender pay gaps across the wage distribution for selected countries, most recent years

Percentage



Source: ILO (2018a).

Note: Gender pay gaps showing the difference in logarithm at each quantile of the wage distribution. The term "Q(j)", for $j=1, \dots, 9$, corresponds to the j -th quantile at the threshold value.

(continued)

Although wage-related policies can go some way towards helping reduce the GPG, the reality is that pay differentials between women and men are the result of multiple factors that vary from one country to another. Therefore, the progressive reduction of the GPG will require a range of country-specific policies and measures. There is a clear need for better survey data in low- and middle-income countries, whereas in better-resourced countries there is an urgent need to include gender-pay-specific modules in panel data structures. Better measurement will help in the design of better policy. Action needs to be taken to move beyond summary measures and explore pay gaps across the wage distributions to identify the underlying factors. In several countries, the decomposition of the gender pay gap shows that women need access to better educational outcomes, particularly in emerging economies and low-income countries. Drawing more women into science and technology studies could help address the gender stereotyping that leads to a high concentration of women in lower-paying occupations and industries.

Much of the pay gap remains unexplained by objective differences between women and men. Therefore, effective legislation and transparency measures are needed to eliminate gender pay gaps. To this end, countries can make substantial progress by adopting the full principle of “equal pay for work of equal value” (as opposed to the narrower principle of “equal pay for equal work”) through proactive pay equity laws that compel enterprises to examine their compensation practices. The undervaluation of work in highly feminized occupations and industries (in the health and education sectors, for example) will need to be addressed to also attract more men to these areas of work. Finally, the motherhood gap remains a reality, resulting from an unequal distribution of family duties between women and men and from inadequate childcare and elder care services. Equality in parental leave options would in many instances lead to more equitable labour market choices.

Box I.2 (*continued*)

^a This box draws from ILO (2018a).

Authors: Patrick Belser and Rosalia Vazquez-Alvarez (ILO).

Finally, there are still significant disparities in access to employment among different population groups, with age and gender representing key factors. Labour underutilization (persons neither looking for a job nor available to start working within a short time) is estimated at almost 1.5 million in the United States. The incidence of long-term unemployment also remains high, particularly among the older generation, increasing the risk that substantial numbers within this group will become permanently stranded. Youth unemployment and underemployment is a major concern throughout much of the world. A significant share of the population remains outside of the labour force altogether, and young people have seen their share continue to increase, with a sizeable proportion not in education, employment or training (NEET). In South Asia, a third of the youth in Afghanistan, Bangladesh, Pakistan and Sri Lanka are NEET, and in India the rate is over 40 per cent. Gender barriers in accessing labour market opportunities lead to large discrepancies between the labour force participation rates for men and women around the world. In South Asia, for example, only around one in four women participates in the labour force. Situations such as these undermine efforts to achieve gender equality goals and reinforce the significant underutilization of labour.

Youth and women find it particularly difficult to secure access to employment

Poverty, inequality and well-being

A dynamic and inclusive global economy is central to delivering on the ambitious targets of the 2030 Agenda for Sustainable Development. The recent slowdown in global economic activity poses an enormous challenge as countries strive to reduce poverty, develop essential infrastructure, create jobs, and broaden access to affordable and clean energy. Weak economic performance is also linked to insufficient investment in quality education, health services, social protection, programmes for marginalized groups, and climate change mitigation and adaptation—all of which are essential to advance the 2030 Agenda.

Risks of further setbacks in poverty eradication

Progress towards poverty reduction has slowed in recent years, reflecting the weak growth in per capita incomes in many regions (United Nations, 2019a). Close to 10 per cent of the world population continues to live below the extreme poverty line of \$1.90 per day. A number of countries, notably commodity exporters, have even experienced setbacks in poverty reduction in recent years. The number of people living in extreme poverty has risen in several sub-Saharan African countries, where poverty levels are already very high. Poverty rates have also edged up in parts of Latin America and the Caribbean and Western Asia.

Over half of the world's extreme poor live in middle-income countries

As per capita income growth is expected to remain weak in many countries, poverty eradication will increasingly rely on efforts to address high levels of inequality. Ensuring an adequate standard of living for all inhabitants of a country depends critically on how income is distributed across the population. Even in a country where the average level of income is high relative to the extreme poverty threshold of \$1.90 per day, poverty may be pervasive if income is very unequally distributed. In fact, over half of the world's extreme poor live in middle-income countries, with India and Nigeria together accounting for roughly one third of the extreme poor.

Eradicating global poverty will require much faster income growth and steep declines in inequality

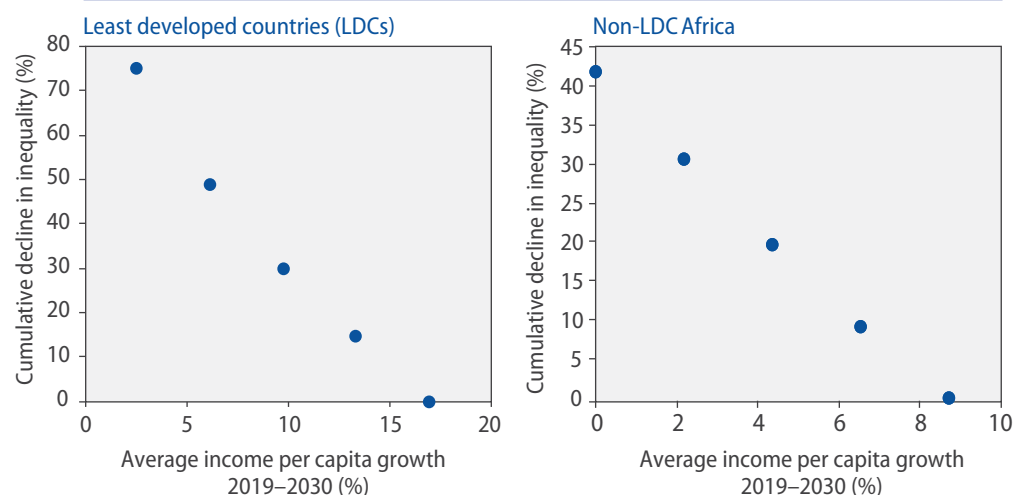
Eradicating global poverty by 2030 will require both a sharp acceleration in income growth and a steep decline in inequality. In the LDCs, for example, if per capita income continues to rise at the average yearly pace of 2.5 per cent seen over the past decade, income inequality would need to decline by 75 per cent to come close to the Sustainable Development Goal poverty targets (see figure I.15). This is roughly equivalent to a decline in the Gini coefficient from among the highest in the world to the absolute lowest in the world and quite some more. The highest ten-year decreases observed since the World Bank began calculating the Gini coefficient are somewhere around 30 per cent in several CIS countries. Even if per capita income growth were to rise to an average annual rate of 6 per cent, income inequality would still need to be reduced by half to eradicate poverty. Eliminating extreme poverty in the non-LDCs in Africa (home to a large share of the world's extremely poor) without any improvement in inequality would require per capita incomes to rise at an average annual rate of 8.7 per cent until 2030. This compares with average growth over the past decade of less than 0.5 per cent, a rate that is woefully inadequate to meet development goals.

Source: UN DESA, based on projections and scenarios produced with the World Economic Forecasting Model (WEFM).

Note: The decline in inequality is measured as the percentage decline in the standard deviation of log income. The iso-poverty curves illustrated assume income follows an approximate lognormal distribution, with the poverty headcount ratio modeled as the cumulative distribution function of the lognormal distribution, evaluated at the \$1.90 per day poverty line, as described in Bourguignon (2003).

Figure I.15

Per capita income growth and decline in inequality required to meet poverty targets



Amid rising perceptions that inequality is increasing not only in income and wealth but also in opportunities, there is a strong mandate for policies that ensure a fairer distribution of resources. Key elements are a progressive fiscal structure, a sound social protection system, labour market policies that provide an adequate supply of quality employment, and measures to broaden access to education, health care and jobs. Accelerating progress towards greater income equality is essential for achieving many other Sustainable Development Goal targets and improving well-being across society more generally.

A healthy and well-functioning economy is one that can deliver an adequate standard of living for all its inhabitants—both now and in the future. A closer look at the quality of growth underpinning the headline figures of GDP is needed to understand the way in which income is distributed across the population, the impact of the production and consumption underpinning economic activity on natural resources and the environment, and the quality of life enjoyed by the population (based on indicators such as education, health, personal safety and leisure time).

While GDP is the measure most commonly used to assess economic prosperity and performance, it cannot capture all the diverse aspects of well-being. It measures the monetary value of officially recorded final goods and services produced in a country in a given period of time but largely excludes informal activity and the damaging effects of production (such as environmental degradation). Nor can it account for distributional effects, and behavioural economics emphasizes that “relative” well-being is at least as important as “absolute” well-being. Relying only on this single metric as a yardstick for policymaking can therefore be counterproductive or even harmful to society.

Policymakers around the world are increasingly adopting a multidimensional framework or dashboard of both objective and subjective indicators of well-being, and growing emphasis is being placed on composite measures and systems of accounts that allow a broader understanding of key aspects of the quality of economic growth. For example, natural capital accounting, standardized by the System of Environmental-Economic Accounting (SEEA),⁸ provides a more comprehensive view of the interrelationships between the economy and the environment (see box II.4). The framework integrates standard economic data with the energy use, water consumption, air emissions and waste associated with production.

Prominent composite measures of well-being include the Human Development Index created by United Nations Development Programme (UNDP),⁹ the OECD Better Life Index,¹⁰ and the United Nations Sustainable Development Solutions Network’s World Happiness Report,¹¹ each produced with the aim of providing a more holistic assessment of the state of a country’s human development, well-being or happiness. Figure I.16 compares rankings of these three composite measures of well-being and GDP per capita relative to that of the United States for twenty large countries that are ranked highest in the Human Development Index. The figure illustrates that the relationship between GDP per capita and well-being is not always straightforward. Most countries in the sample have a lower level of GDP per capita than the United States but score higher on the measures that include

Tackling inequality will require significant structural change

Headline GDP growth does not reflect crucial aspects of sustainability and well-being

Composite measures provide a broader assessment of well-being

⁸ See <https://seea.un.org/>.

⁹ The Human Development Index is a composite of per capita income, education and life expectancy indices (UNDP, 2019).

¹⁰ The Better Life Index assesses countries’ relative positions against measures relating to housing, income, jobs, community, education, environment, civic engagement, health, life satisfaction, safety and work-life balance (OECD, 2017).

¹¹ In addition to income and health measures, the World Happiness Report rankings are based on subjective answers to the main life-evaluation questions in the Gallup World Poll on social support, freedom to make life choices, generosity, perceptions of corruption and mood (Helliwell, Layard and Sachs, 2019).

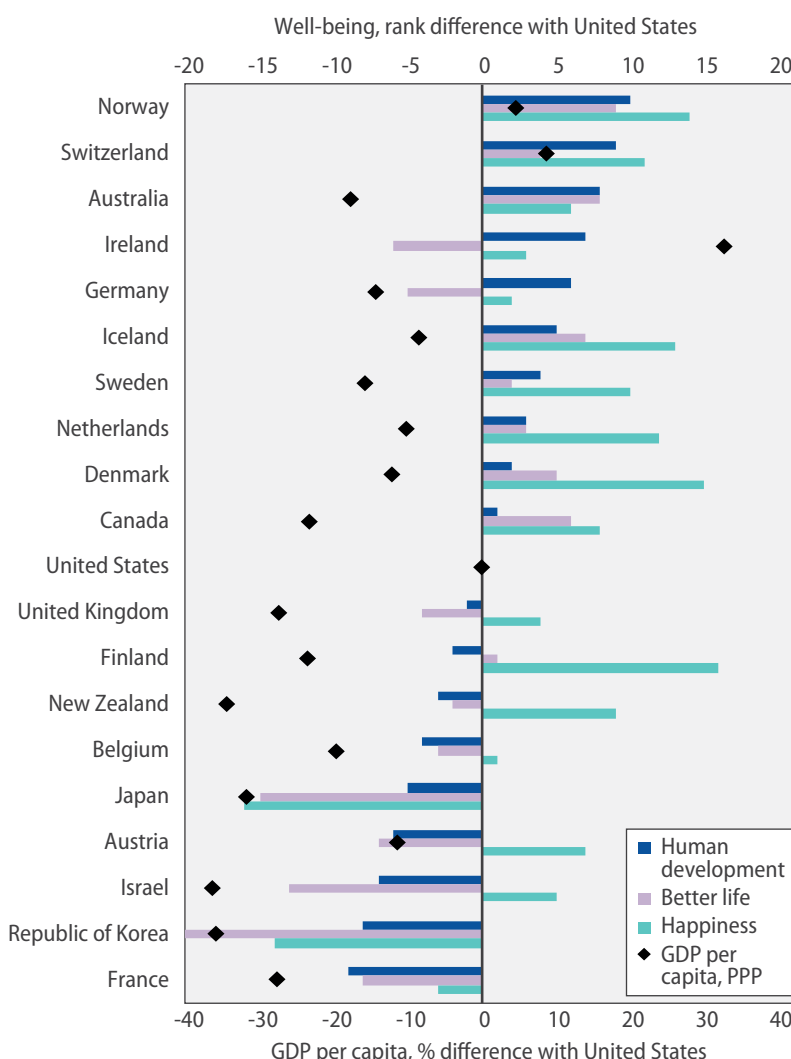
Countries are increasingly including broader measures of well-being in policy frameworks

non-monetary dimensions of well-being. While there is some correlation between well-being measures, several stark discrepancies also emerge. Notably, the inclusion of subjective measures of well-being from the Better Life Index and Happiness Index appears to boost the performance of several Northern European countries while deflating that of Asian countries in the comparison.

Assessing quality of life and well-being is highly subjective, differing among individuals and across cultures and encompassing emotional, physical, material and social dimensions. The OECD-hosted High-Level Expert Group on the Measurement of Economic Performance and Social Progress advises policymakers to adopt a multidimensional framework or dashboard of both objective and subjective indicators of well-being that are identified through public consultations (OECD, 2018a). This type of policymaking framework has already been developed in many countries, including Bhutan, Colombia, Costa Rica, Ecuador, France, Germany, Israel, Italy, Mexico, the Netherlands, New Zealand, Slovenia, Sweden and the United Kingdom. The choice of indicators and the application of the

Figure I.16

Comparison of well-being indicators and GDP, 2017



Sources: UN DESA, based on data from World Bank, World Development Indicators database; UNDP (2019); OECD Better Life Index dataset; and Helliwell, Layard and Sachs (2019).

Note: The abbreviated key reflects the Human Development Index, the Better Life Index, the Happiness Index, and GDP per capita (on a PPP basis).

framework are very diverse in these countries, but it is encouraging to note the strong institutional backing deriving from the adoption of accountability mechanisms, parliamentary resolutions or even constitutional grounding, matched by investments in building the capacity of the national statistical systems to produce the required data. Given the universal nature of human development and well-being, it is equally encouraging to note that such frameworks are being embraced in developed and developing countries alike.

Globally, the quality of life continues to improve along some dimensions; for example, life expectancy is continuing to rise, and there have been reductions in infant and child mortality. However, deadly conflicts, the climate crisis and stark inequalities persist, with serious effects on the quality of life across the globe. Food insecurity and the number of undernourished people in the world have been on the rise since 2015, reflecting pockets of rising unemployment, currency depreciations and high food prices, often allied with conflicts or natural disasters. By many metrics the global quality of life falls well short of adequate levels.

The quality of life continues to fall short along many dimensions

International trade and commodity prices

International trade flows

Protracted trade tensions and slowing economic activity have exacerbated a slump in global trade. In 2019, growth in the volume of global trade in goods and services decelerated sharply to a post-crisis low of 0.3 per cent from 3.9 per cent in 2018. During the year, global trade tensions also became more pervasive, extending beyond China and the United States to involve more countries and product groups; sources of these tensions included trade uncertainty related to Brexit, complaints against Indian tariffs by several countries, mutual allegations of protectionism between the European Union and the United States, and a trade dispute between the Republic of Korea and Japan. As trade tensions have escalated, there have been signs of disruptions to global supply chains. Notably, the trade disputes have amplified cyclical headwinds in the electronics and automobile sectors, both of which have extensive cross-country production networks. High uncertainty surrounding future trade actions has resulted in a deterioration in business confidence, denting investment growth in many countries. These developments have in turn suppressed global demand for capital and intermediate goods, contributing to the slump in international trade activity.

World trade growth fell to a post-crisis low in 2019

Looking ahead, global trade growth is expected to rebound only modestly to 2.3 per cent in 2020 and 3.2 per cent in 2021. These projections assume that trade uncertainties will persist but not further escalate. While an easing of the tensions between the United States and China would lead to higher global trade growth than the baseline, the trade effects of Brexit have yet to be fully priced in. Meanwhile, the trade dispute between the Republic of Korea and Japan could disrupt the highly globalized value chain of semiconductors, affecting all electronics and high-tech industries that require these components. As such, the modest rebound projected for 2020 is subject to high risks.

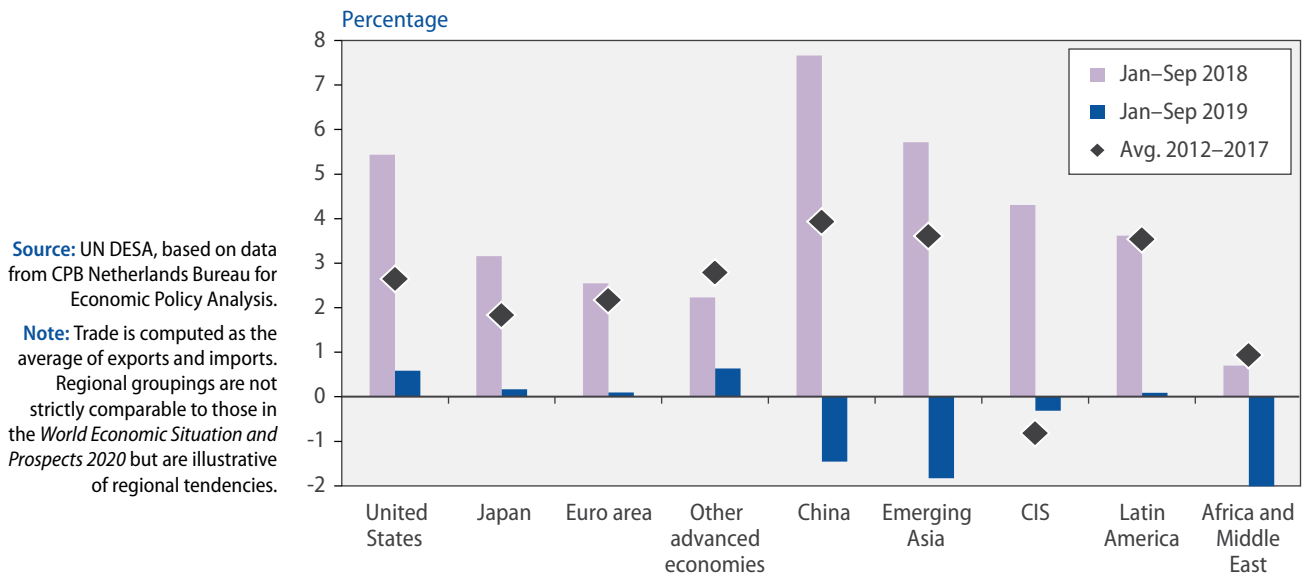
Global trade is likely to see a modest recovery, but the outlook is subject to high risks

World merchandise trade registered a mild contraction in the first nine months of 2019 in comparison with the same period the previous year. Figure I.17 shows that across developed and developing regions, merchandise trade growth has not only weakened significantly since 2018 but has actually fallen well below the average growth rates for the preceding six years.

Escalating trade tensions contributed to a collapse in global import demand

The sharp downturn in global merchandise trade growth in 2019 was mainly driven by a contraction in import demand from China and the other emerging Asian economies

Figure I.17
Annual growth in merchandise trade volumes, by region



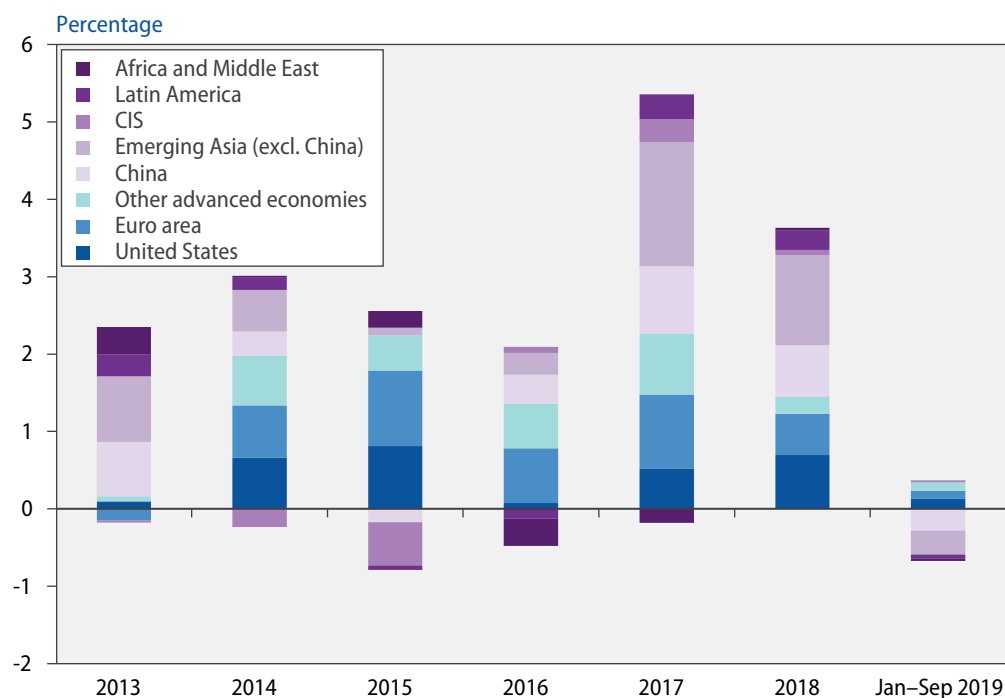
(see figure I.18). To a large extent, this reflects the impact of trade tensions on the region's vast cross-border production networks, as well as slowing domestic demand in China. In the United States, overall import growth slowed considerably, as the increase in tariffs contributed to a double-digit decline in imports from China during the year. Amid weak business sentiment, slowing capital expenditure as well as disruptions in the automotive industry dampened import demand in the euro area.

Among the other developing regions, the impact of trade tensions on import growth has been exacerbated by country- or region-specific factors. For the large commodity exporters, including several economies in Africa, Western Asia and Latin America, import growth has remained weak, as subdued commodity prices continue to weigh on domestic investment activity. In Latin America, the deepening economic crisis in Argentina has resulted in a collapse in import demand amid a sharp contraction in capital spending. An economic slowdown in India and other large economies in South Asia has similarly suppressed demand for merchandise imports.

Global trade in services has been more resilient but has started to lose momentum

Global trade in services—exports of which account for about a quarter of world exports—has exhibited more resilience to rising trade tensions than has world trade in goods. In 2018, global exports of services (as measured in current United States dollars) sustained strong growth of 7.7 per cent, even as exports of goods moderated during the year (UNCTAD, 2019c). As investor confidence continues to worsen, however, there are signs that the impact of the trade conflict is spreading from the manufacturing sector to the services sector. Most recent PMI surveys indicate that the services sector in several major countries, including China, Germany and the United States, is expanding at a slower pace. According to the World Trade Organization (WTO), growth in the volume of world services trade lost momentum through the second quarter of 2019, with passenger air travel, financial services and construction services expanding below their respective trends (WTO, 2019). Amid an increasingly challenging global environment, international tourism lost some momentum during 2019 (see box I.3).

Figure I.18

Contribution to global merchandise import volume growth, by region

Source: UN DESA, based on data from CPB Netherlands Bureau for Economic Policy Analysis.

Note: Regional groupings are not strictly comparable to those in the *World Economic Situation and Prospects 2020* but are illustrative of regional tendencies.

Box I.3**International tourism****Growth returns to historical trends in the first half of 2019**

International tourist arrivals grew 5 per cent and hit the 1.4 billion mark in 2018, two years ahead of the long-term forecast published by the United Nations World Tourism Organization (UNWTO) in 2010, which projected this figure for 2020. Global arrivals have seen nine consecutive years of 4 per cent growth or higher, with a peak of 7 per cent in 2017.

Strong outbound demand from major source markets, in particular China, India and the United States, fuelled growth in 2018, supported by enhanced air connectivity and visa facilitation in many parts of the world. The UNWTO Visa Openness Index shows that the share of the world population requiring a traditional visa to travel abroad declined from 75 per cent in 1980 to 53 per cent in 2018 (UNWTO, 2018).

During the period January-June 2019, international arrivals increased 4 per cent in comparison with the same period a year earlier, reflecting sustained demand for international travel in a generally favourable economic environment. This figure is more in line with the historical trend of 4.2 per cent average annual growth recorded in the past ten years (2008-2018) (UNWTO, 2019).

Results for the first half of 2019 show that growth was led by the Middle East (8 per cent) and Asia and the Pacific (6 per cent), followed by Europe (4 per cent), Africa (3 per cent) and the Americas (2 per cent). By subregion, the Caribbean (11 per cent) enjoyed the highest growth in arrivals as the recovery from the 2017 hurricanes consolidated in many island destinations; North Africa (9 per cent), South Asia and North-East Asia (both 7 per cent) also performed strongly in this part of 2019.

(continued)

Box I.3 (continued)

UNWTO Confidence Index points to slower growth in the last months of 2019

Confidence in global tourism remains positive yet cautious for the remainder of 2019. Weakening economic indicators, trade tensions and Brexit-related uncertainties have started to take a toll on business and consumer confidence. The UNWTO Confidence Index points to more moderate growth in arrivals during the period September–December 2019, particularly in Europe and the Americas.

The collapse of the travel group Thomas Cook and several small European airlines has disrupted some tourism flows, though existing travel service providers have moved in to absorb the current demand and offset the decline in capacity. Uncertainties surrounding Brexit are prompting a wait-and-see attitude among British tourists, which is affecting travel bookings to some European Union destinations. Spending in the United Kingdom on outbound travel continued to grow in the first half of 2019, while inbound tourism flows decreased. Trade tensions between the United States and China are exerting some influence on destination choice by Chinese travelers. The devaluation of the renminbi moderated Chinese spending on international tourism in the first half of 2019.

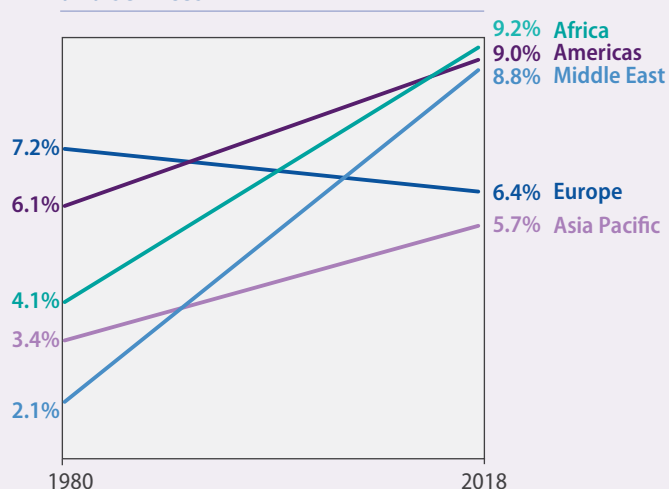
UNWTO estimates 3 to 4 per cent growth in international arrivals globally for 2019, reflecting rising tourism demand overall, though at a slower pace. At the regional level, prospects are strongest for Asia and the Pacific, where arrivals are expected to have grown 5 to 6 per cent.

Preliminary projections for 2020 suggest slightly higher growth, in line with a modest improvement in the global economic outlook.

Tourism has become a growing pillar for export policies

Total export earnings (travel and passenger transport) from international tourism amounted to \$1.7 trillion in 2018, or almost \$5 billion a day on average. For the seventh year in a row, growth in exports from international tourism (4 per cent) was higher than growth in merchandise exports (3 per cent).

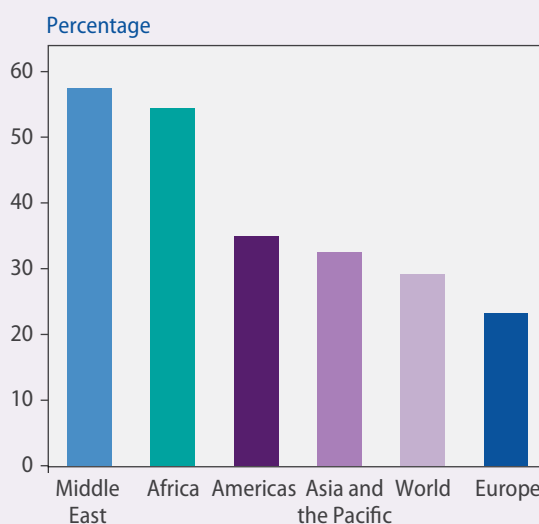
Figure I.3.1

Share of international tourism (BOP travel and passenger transport) in total exports of goods and services

Sources: UNWTO and World Trade Organization.

Note: BOP = balance of payments.

Figure I.3.2

Share of international tourism (BOP travel and passenger transport) in services exports, 2018

Sources: UNWTO and World Trade Organization.

Note: BOP = balance of payments.

(continued)

International tourism accounts for 29 per cent of the world's services exports and 7 per cent of overall exports of goods and services. Export earnings from tourism are an important source of foreign revenue for many destinations around the world, helping to create jobs, promote entrepreneurship and develop local economies.

As such, tourism is an increasingly important component of export diversification policies for both emerging and advanced economies, often with a strong capacity to reduce trade deficits and to compensate for weaker export revenues from other goods and services.

This points to the importance of mainstreaming tourism in national export policies and strategies, as doing so would provide policymakers with a major opportunity to maximize exports and address trade deficits through the effective coordination of trade and tourism policies.

By region, the share of international tourism in total exports is highest in Africa, the Middle East and the Americas, where it represents 9 per cent of regional export earnings. In Europe and Asia and the Pacific (both 6 per cent), the corresponding share is slightly below the world average of 7 per cent.

Most relevant is the significant increase in the share of tourism in exports over the past several decades in the Middle East (from 2 per cent in 1980 to 9 per cent in 2018) and in Africa (from 4 to 9 per cent). The Middle East, in particular, has seen remarkable growth in export revenues from international tourism (though from a lower base), thanks to infrastructure and product development, the establishment of major airport hubs and enhanced connectivity. International tourism accounts for more than 50 per cent of services exports in both Africa and the Middle East.

In Asia and the Pacific, the share of tourism in exports increased from 3 to 6 per cent, with rapid economic growth, rising middle classes and market openness contributing to the surge in tourism. Asia is the world's second largest earner of international tourism receipts, accounting for 30 per cent of the world total (up from 16 per cent in 2000). It is also the world's most open region in terms of travel facilitation.

International tourism in the Americas represented 9 per cent of total exports in 2018 (up from 6 per cent in 1980) and one third of services exports in the region, benefiting many smaller economies—particularly island nations such as the Bahamas or Aruba, where tourism accounts for 80 per cent or more of total exports. Tourism also has huge growth potential in many commodity-based economies in the region, such as Brazil, Argentina or Chile, where tourism revenues represent less than 10 per cent of total exports of goods and services.

Box I.3 (*continued*)

Authors: Sandra Carvão, Michel Julian and Javier Ruescas (UNWTO).

The trade dispute between China and the United States first escalated in early 2018 and extended into 2019. During the year, the trade policies of the two countries fluctuated rapidly between the intensification and de-escalation of tensions, fuelling the already elevated uncertainty in the international trade environment. Figure I.19 illustrates the share of bilateral trade between China and the United States that has been the target of tariffs during the three phases of the trade conflict. In the initial phase, the United States focused its tariffs on Chinese machinery, transport equipment and precision instruments. In contrast, retaliatory tariffs imposed by China on the United States targeted the agri-food sector and transport equipment. In the subsequent stages of escalation, the United States expanded its tariffs on China to encompass almost all bilateral trade between the two countries. However, United States imports of some precision instruments from China were excluded from additional United States tariffs. Meanwhile, imports by China of some communication equipment (such as microprocessors) and transport equipment (including large aircraft) from the United States were excluded from Chinese tariffs.

The trade conflict between the United States and China has had an immediate and direct impact on trade between the two countries. In the first three quarters of 2019, the value of United States imports from China fell by about 13 per cent in comparison with the first three quarters of 2018. During the same period, United States exports to China fell

Rapid shifts in trade policies have further fuelled investor uncertainty

The trade conflict has had a significant impact on trade between China and the United States

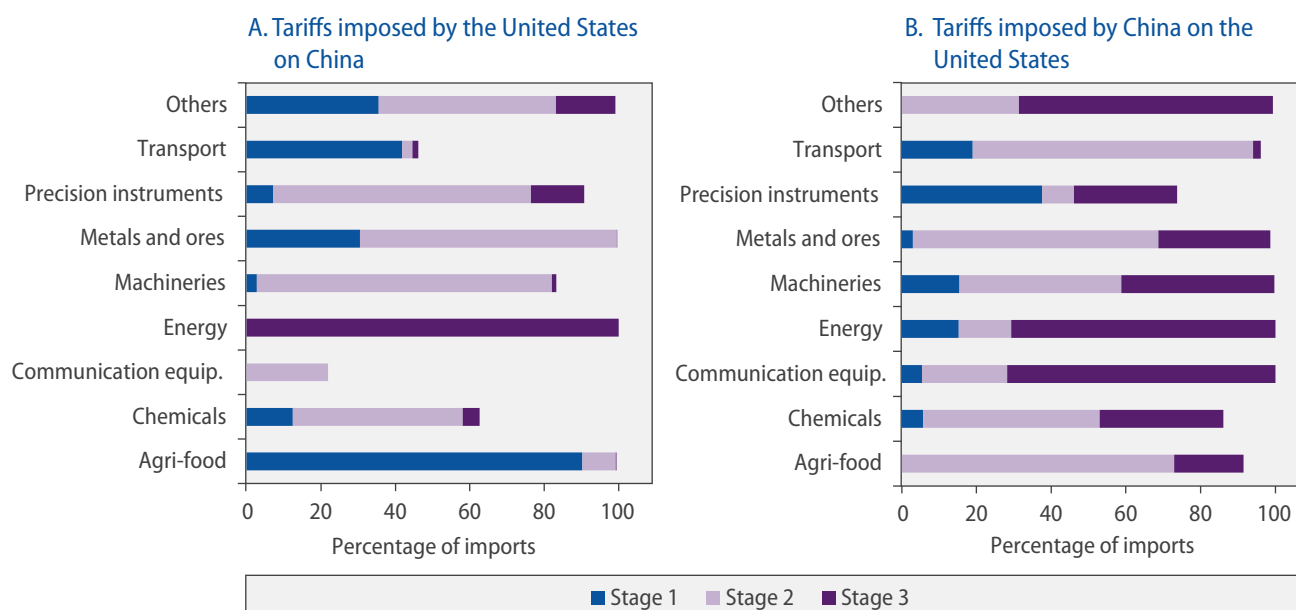
at a slightly faster pace, declining by about 16 per cent.¹² The United States goods deficit with China has been shrinking steadily but remains substantial at \$263.2 billion for the first three quarters of 2019.

The trade dispute has had varying impacts across sectors in both countries (see figure I.20). Exports of mineral products from China to the United States were hit particularly hard during the first three quarters of 2019, declining by 44 per cent, and exports of animal products fell by 27 per cent. Among the largest declines in United States exports to China, mineral products decreased by 57 per cent, base metals by 35 per cent, and aircraft, railway equipment and ships by 32 per cent. In contrast, the United States saw an increase in exports of vegetable products to China, with the upturn linked to a low base level in 2018 and an easing of the Chinese quota on soybean imports. Nevertheless, exports of vegetable products from the United States to China are still significantly below pre-2018 levels.

The prolonged trade tensions have also led to some trade diversion. A recent study by Nicita (2019) shows that the United States tariffs on China resulted in trade diversion amounting to an estimated \$21 billion in the first half of 2019, with several countries experiencing a surge in exports as firms sought to source inputs from countries not directly affected by the tariffs (see figure I.21). There are also indications that manufacturers are beginning to relocate production from China to other countries, particularly those in East Asia. Mexico, meanwhile, is said to have benefited from a trade diversion effect in the vehicles, auto parts, electronics and machinery sectors. Nevertheless, reconfigurations to exist-

Figure I.19

Tariffs by sector and stage

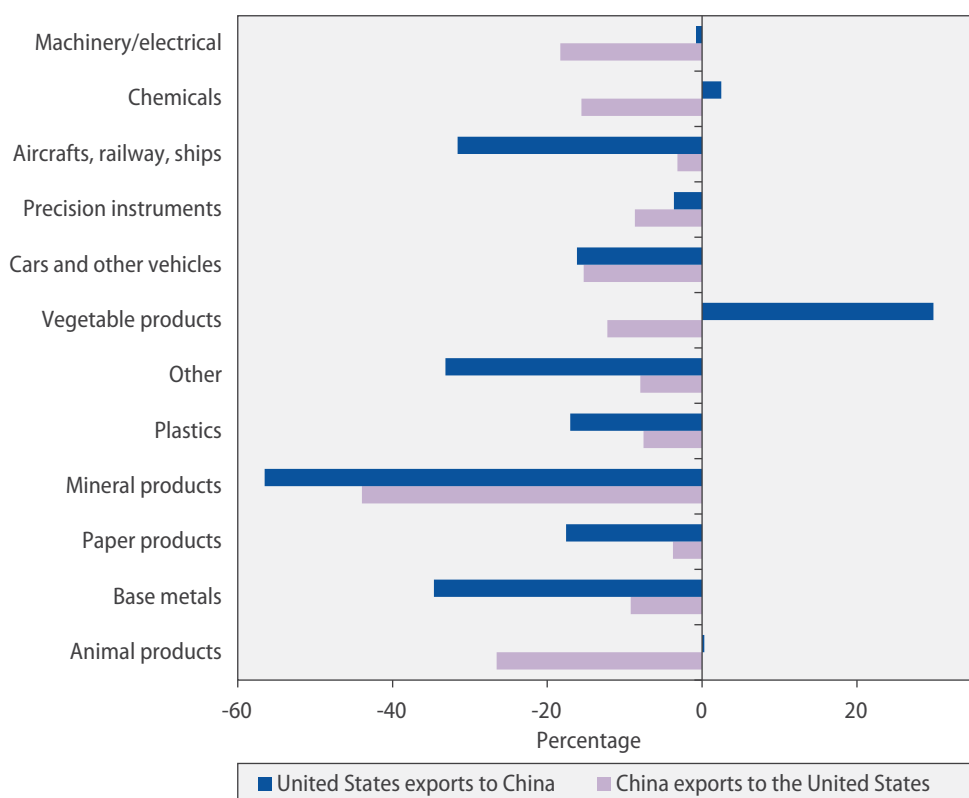


Source: UNCTAD, based on data from the United States International Trade Commission and the Ministry of Finance of the People's Republic of China.

Note: Stage 1 of the trade conflict occurred in early 2018, stage 2 in September 2018, and stage 3 in September 2019.

¹² See United States Census Bureau (2019).

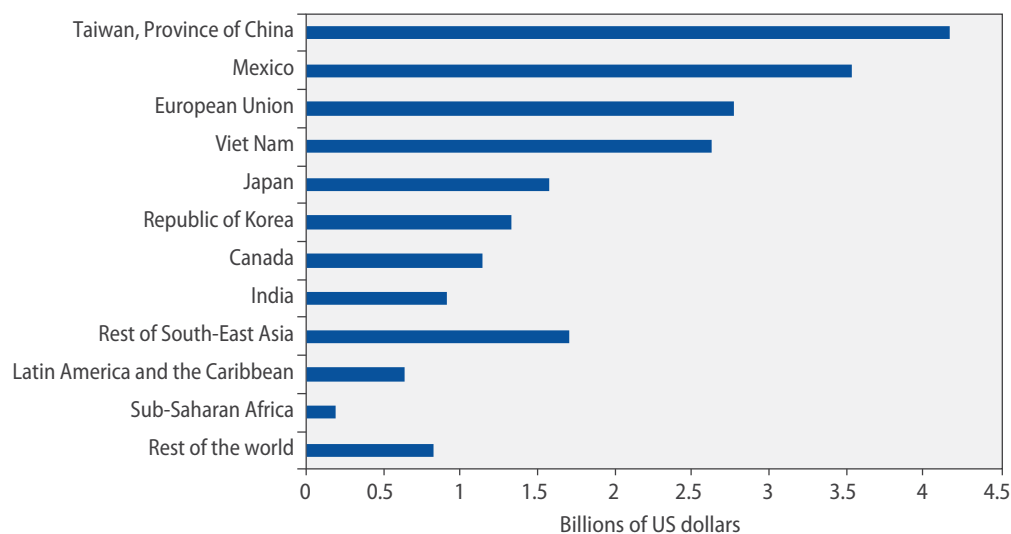
Figure I.20
Change in China – United States bilateral trade,
2019Q1–Q3 vs. 2018Q1–Q3



Source: UN DESA, based on data from the United States International Trade Commission.

Note: Trade is in value terms. Categories are sorted by size (largest at the top).

Figure I.21
Estimated trade diversion effects of United States tariffs,
by economy and regional grouping



Source: Nicita (2019).

ing global value chains (GVCs) are likely to take time given the complexity of production processes and uncertainty over the future policy landscape.

While trade tensions persist between China and the United States, several other countries have continued to make progress on the formation of regional trading blocs or the negotiation of new trade agreements. In 2019, the European Union reached a tentative trade agreement with the Southern Common Market (MERCOSUR) States, which include Argentina, Brazil, Paraguay and Uruguay. Asia has also moved forward on a few large trade agreements, including the Japan-led Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), signed in 2018, and the Regional Comprehensive Economic Partnership (RCEP) agreement, which will be signed in 2020.

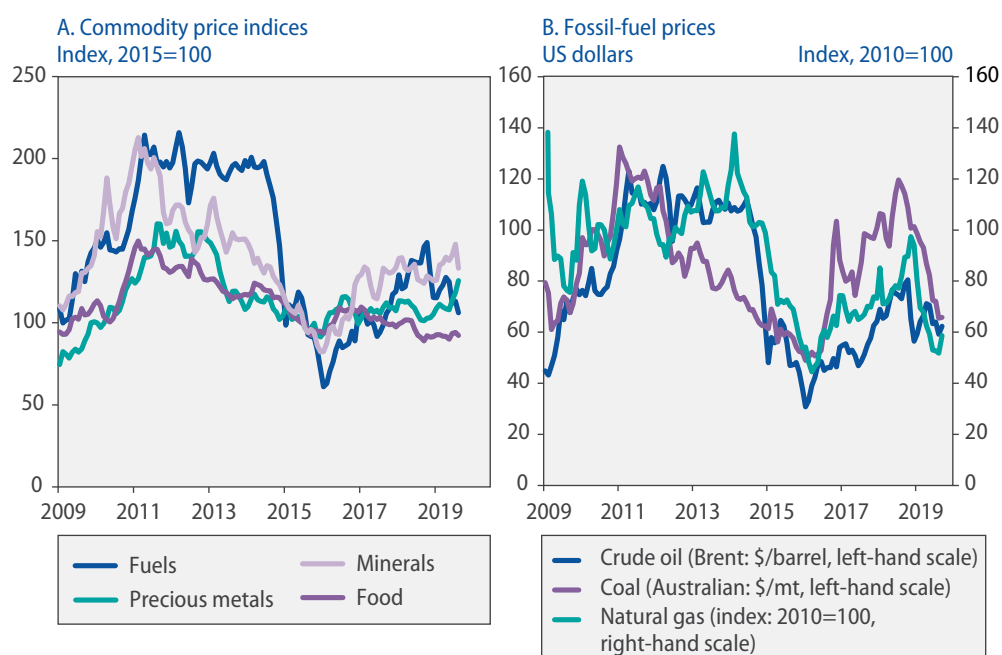
Commodity prices

**Weak demand prospects
weigh on commodity
prices**

Commodity prices remained subdued in 2019 as slowing global growth and high trade tensions weighed on demand. In August 2019, the UNCTAD free-market commodity price index, which tracks the price movements of primary commodities exported by the developing economies, was about 12 per cent lower than a year earlier and well below the 2011 level (see figure I.22.A). In a few commodity markets, including crude oil, supply disruptions during the year triggered bouts of speculative purchases of futures contracts. Nevertheless, the resultant price spikes were mostly short-lived as increasing concerns over weakening global demand continued to depress prices. Looking ahead, most commodity prices are forecast to remain weak as the softer demand outlook outweighs supply constraints.

The extension of crude oil production cuts led by the Organization of the Petroleum Exporting Countries (OPEC) and the Russian Federation has prevented oversupply in the context of weakening global demand and rapidly growing supply from the United States. In some smaller oil-producing countries, production capacities have fallen owing to weak

Figure I.22
Major commodity prices, 2009–2019



capital investments since the oil price plunge in 2014. Crude oil prices fluctuated violently in September 2019 after the armed attack on a critical crude oil processing facility in Saudi Arabia, shooting up by \$8 from \$62 per barrel of Brent crude, but the prices soon plummeted below the \$60 mark once again owing to demand concerns. Oil markets are forecast to remain volatile in 2020, with Brent crude averaging \$59.50 per barrel.

The prices of coal and natural gas have dropped significantly from 2018 levels (see figure I.22.B). Lower natural gas prices have accelerated coal-to-gas conversions in thermal power plants in North America, where demand for coal has been in decline. In East Asia, however, demand for coal is still on the rise, despite growing environmental concerns.

The price recovery for minerals, ores and non-precious metals that began in late 2015 appears to have plateaued. Iron ore prices surged in the first half of 2019 due to supply disruptions in Brazil but fell considerably in the third quarter amid concerns over demand growth in China, the largest importer of iron ore. Other commodities in this category, including copper, lead, zinc and aluminium, have entered the downward phases of mid-term price cycles owing to lower industry demand. As demand for non-precious metals depends heavily on the growth prospects for China, prices of these commodities are forecast to remain subdued in 2020. By contrast, the subindex for precious metals shows a continuing upward trend, reflecting rising prices of gold, platinum, palladium and silver, as risk-averse investors have been fleeing to these commodities. The copper-to-gold price ratio, an indicator of the risk appetite in commodity markets, reached a historic low in October 2019.

Food prices have shown a flat trend, fluctuating around 2015 levels (see figure I.22.A). Heavy rains in the Midwest region of the United States in May 2019 caused a price spike in grains internationally. Average food prices are projected to remain flat in 2020. Recent extreme weather events, such as drought in Australia, are expected to cause poor grain harvests in several areas. However, as grain stocks remain at comfortable levels, such events are expected to have limited impact on international grain prices. Nevertheless, food prices continue to be prone to area-specific price hikes, particularly in developing countries.

Global financial flows and sources of vulnerability

Financial market trends

Recent trends in global financial markets have been shaped by the evolution of trade tensions between the United States and China, deteriorating growth prospects for the world economy, and adjustments to monetary policies across major central banks. As trade policies shifted rapidly during 2019, global financial markets experienced episodes of heightened volatility. In May and August, new rounds of tariffs between the United States and China triggered a sell-off in equities. At the time, rising fears of worsening global economic conditions fuelled an increase in investor demand for safe assets, depressing sovereign yields in several developed countries. But as central banks responded by easing monetary policy, global liquidity conditions remained highly accommodative, pushing some major stock markets to record highs. The United States Federal Reserve embarked on a series of rate cuts in 2019, and the major United States stock indexes reached all-time highs in November.

The simultaneous occurrence of deteriorating global economic prospects and rising stock markets illustrates the disconnect between financial markets and real economic activity—a problem that has been affecting the world economy since the global financial crisis. Abundant liquidity has further incentivized search-for-yield behaviour by encouraging

Trade tensions, the growth slowdown and monetary policy shifts drive financial market trends

Financial markets and real economic activity have become increasingly disconnected

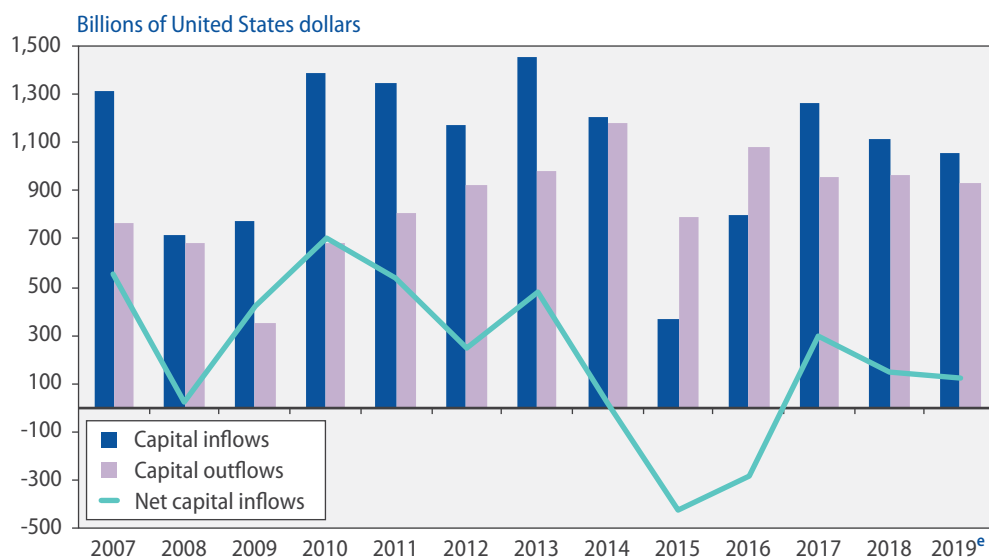
short-term investments such as mergers and acquisitions (M&A) and share buy-backs rather than encouraging productive investment. This has boosted asset valuations in some market segments, including stock markets in the United States, creating a source of financial risk. More generally, the decoupling of the credit channel from productive investment in the global economy is a worrisome trend, particularly given the large investment needs associated with the 2030 Agenda for Sustainable Development. Clearly, there is a need to make debt finance play a more relevant development role in the world economy, which requires channelling funds towards financing productivity-enhancing investments.

Amid the synchronized global monetary easing, the United States dollar remained relatively stable against other developed economy currencies. Lower interest rates in developed countries and easier global liquidity also allowed for more accommodative monetary stances in emerging economies. However, some emerging market currencies experienced downward pressure as external and domestic headwinds intensified. The renminbi depreciated to a multi-year low against the dollar amid weak capital inflows and the decision from the People's Bank of China (PBOC) to modify the official reference rate for the Chinese currency to above 7 yuan per dollar. Several Latin American economies, including Brazil, Chile and Colombia, also experienced significant currency depreciations.

Against this backdrop, net capital flows to emerging economies remained broadly stable in 2019 and are expected to gain some momentum in the near term, driven by easier monetary policies and the search-for-yield behaviour among investors. According to the Institute of International Finance (IIF), private non-resident capital inflows to emerging economies are estimated to have totalled slightly over \$1 trillion in 2019 (see figure I.23). There were, however, significant differences across emerging economies owing to the diversity of their economic and political situations. For example, non-resident capital inflows increased in Brazil and the Russian Federation amid a gradually improving economic outlook and in Indonesia due to stable and relatively robust growth. By contrast, non-resident capital inflows to China declined visibly amid fears that trade tensions would have a more pronounced impact on economic activity. Capital inflows to emerging econ-

Total net capital flows to emerging economies are expected to gain some momentum

Figure I.23
Capital flows of emerging economies



Source: Institute of International Finance (2019a).

Note: e = estimate.

omies in crisis or with poor growth prospects, elevated debt or high political uncertainty declined significantly, with examples including Argentina, South Africa and the Bolivarian Republic of Venezuela. In Argentina, financial conditions deteriorated visibly amid an escalating economic crisis that forced the Government to impose capital controls.

Portfolio flows (including both equity and debt flows) to emerging economies recovered in 2019. Africa, emerging Europe and some countries in East Asia saw the most significant increases (Institute of International Finance, 2019a). However, equities remained sensitive to trade tensions, not only in China but also in other large emerging economies such as Indonesia, Mexico and Taiwan, Province of China. Portfolio flows to China declined throughout 2019, with large sell-offs in stock markets and a visible widening of corporate spreads in May and August. In contrast with the general recovery for portfolio flows, cross-border banking flows showed weaker performance in 2019. This decline, which was relatively consistent across regions, is largely explained by falling cross-border flows to China as trade tensions led to heightened uncertainty.

Estimates for 2019 indicate that foreign direct investment (FDI) flows to emerging economies remained fairly stable at about \$535 billion—a trend that is likely to continue in the outlook period (Institute of International Finance, 2019a). Moderately higher inflows than in previous years are expected for East Asia, especially Thailand and Indonesia, amid relatively robust growth. Meanwhile, FDI flows have remained weak in several other regions, most notably Latin America.

Greenfield FDI (the establishment of new productive capacity) in developing countries has fallen significantly since its 2008 high point, though it recovered somewhat in 2018 (UNCTAD, 2019e). By contrast, M&A flows are largely on par with pre-crisis levels. This has important implications, as greenfield investments are far more beneficial for growth than are M&A flows (Harms and Méon, 2018).

The development impact of FDI also depends on the sectoral composition. Foreign investments in technologically advanced sectors tend to generate positive spillover effects through gains in productivity and wages as well as technology transfer. Investments in the primary sector and extractive industries, by contrast, are often less beneficial for the host country. They can have a detrimental impact on the environment while creating only limited linkages with the domestic economy (Farole and Winkler, 2013). Data show that greenfield investments in developing countries have been largely concentrated in mining, petroleum extraction and refining, construction, and electricity, gas and water services (UNCTAD, 2019e). This suggests that recent FDI flows may not have been very conducive to long-term sustainable development.

More worryingly, an increasing share of FDI seems to pass through empty corporate shells rather than being invested in productive activities in the receiving economies (Damgaard, Elkjaer and Johannesen, 2019). This type of FDI is concentrated in a few tax havens or in special-purpose entities that can be used for intra-company financing or to hold intellectual property and other assets.

Net official development assistance (ODA) flows declined in 2018 for the second consecutive year, despite pledges from donor countries to increase development finance. ODA flows from the 30 members of the OECD Development Assistance Committee (DAC) amounted to \$153 billion in 2018 (OECD, 2019b). This amount was calculated using the grant-equivalent methodology, recently adopted to improve the measuring of donors' efforts.¹³ Using the previous cash-flow-basis methodology, ODA totalled \$149.3

Portfolio flows to emerging economies remain sensitive to trade tensions

Total FDI flows to emerging economies remain largely stable

The sectoral composition of FDI flows raises concerns

Official development assistance continues to decline

¹³ For more details, see <http://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/modernisation-dac-statistical-system.htm>.

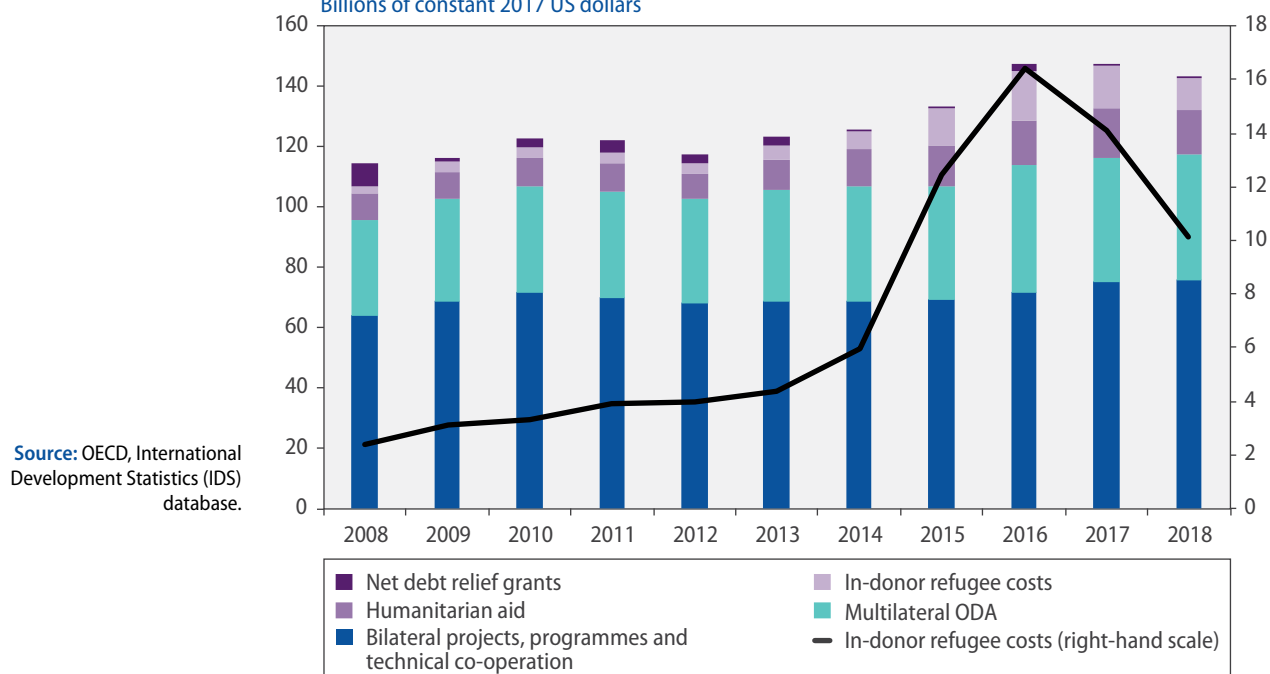
billion in 2018, 2.7 per cent lower in real terms than in 2017 (see figure I.24).¹⁴ ODA flows are equivalent to less than 10 per cent of global military spending and remain well below the United Nations target of 0.7 per cent of gross national income (GNI) for donor countries. As of 2018, only five DAC members—Denmark, Luxembourg, Norway, Sweden and the United Kingdom—had met or exceeded the target. Notably, non-DAC donors such as Turkey and the United Arab Emirates provided about 1 per cent of their GNI in development assistance in 2018—including coverage of expenses for refugees living in the donor countries.

In-donor refugee costs continue to be the most volatile component of ODA. Excluding aid spent on processing and hosting refugees, ODA was relatively stable in 2018. Meanwhile, bilateral ODA to LDCs fell by 3.0 per cent in real terms, mostly because of lower flows to African countries (OECD, 2019b). This worrying trend could undermine development prospects, as ODA represents a substantial share of external finance in many LDCs.

Figure I.24

Net official development assistance, by expenditure component

Billions of constant 2017 US dollars



Global debt and financial vulnerabilities

The rise in global debt has been most pronounced in the non-financial corporate sector

High indebtedness is a key feature of the global economy, with global debt more than four times world gross product (UNCTAD, 2019b). Debt expansion has been most pronounced in the non-financial corporate sectors and to a lesser extent in government sectors. In developing countries, total debt reached about 190 per cent of GDP in 2017—the highest level

¹⁴ The total ODA figure for 2018 is slightly higher than the sum of the components in figure I.24, as the full breakdown is not yet available.

on record (UNCTAD, 2019d). The synchronized easing of monetary policy in the world economy reduces short-term risks but may increase medium-term risks, as it encourages a further rise in debt and necessitates a sharper adjustment for negative shocks that occur in the future.

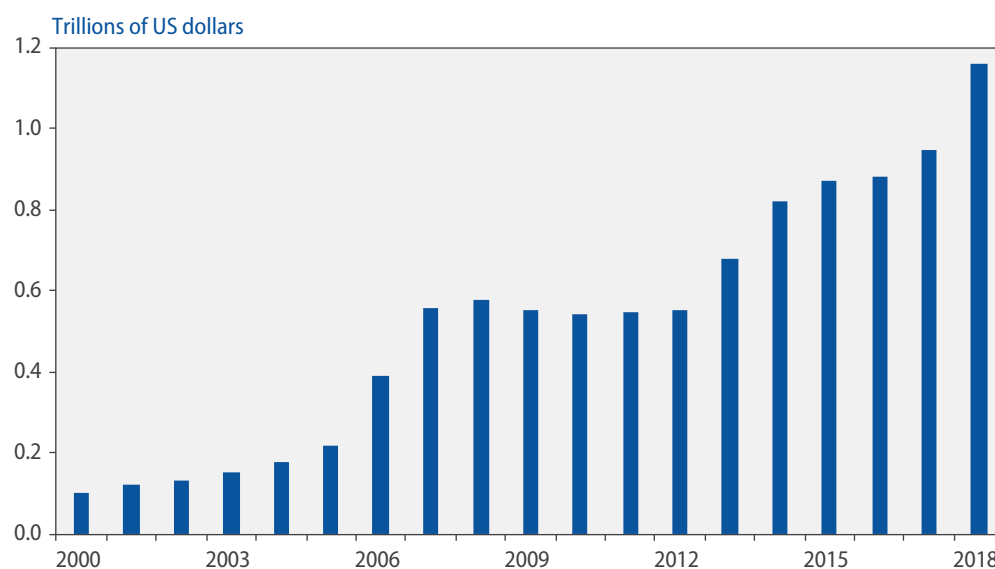
Overvaluation and leveraged loans in the United States

Amid loose financial conditions, asset valuations in the United States increased further in 2019. The cyclically adjusted price-earnings ratio of the Standard and Poor's 500 index (S&P 500) remains well above its long-term average. In the context of a slowing economy, this suggests an underpricing of risk and represents a significant source of financial vulnerability going forward. Share buy-backs have played a prominent role in boosting equity valuations. In the current challenging environment, stock markets are prone to sudden and large corrections amid a widespread deterioration in sentiment, with significant spillovers to economic activity.

The rise of leveraged loans in the United States represents another source of vulnerability and a potential risk for financial stability.¹⁵ The leveraged loan market is about \$1.2 trillion, more than double the size of a decade ago (see figure I.25) and larger than the high-yield corporate bond market. The rise in leveraged loans has been facilitated by abundant financial liquidity, the search for yield, and the increase in securitization through collateralized loan obligations (CLOs), where payments from multiple firms are pooled together and then sold to investors in tranches. Highly indebted firms have also favoured this type of financing, which is more flexible than bonds and easy to repay.

Figure I.25

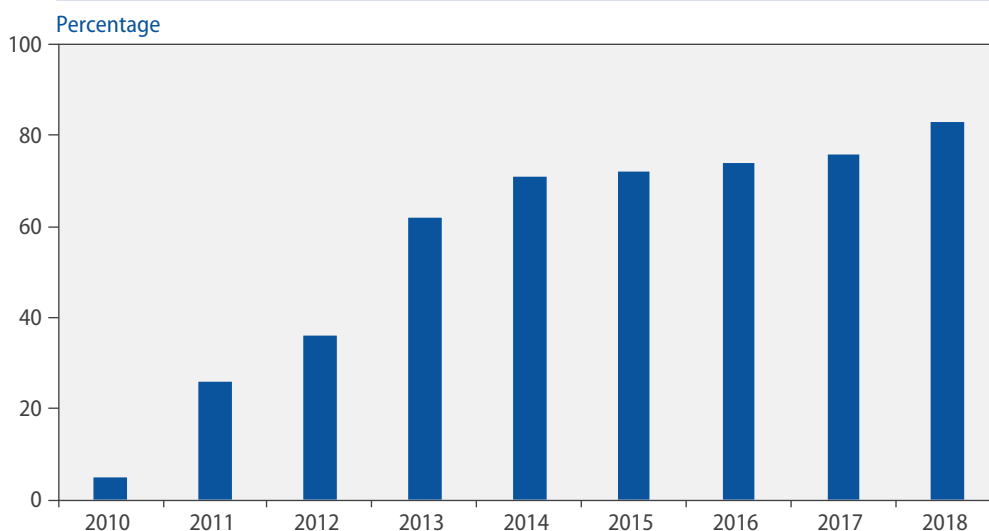
Total outstanding leveraged loans in the United States



Source: Standard and Poor's Leverage Commentary and Data via Financial Times (2019).

¹⁵ While there is no universal definition, leveraged loans are typically described as syndicated loans at floating interest rates given to firms that have relatively high levels of debt relative to earnings and poor credit standards.

Figure I.26
Share of “covenant lite” leveraged loans



Source: Standard and Poor's
Leverage Commentary and Data
via Financial Times (2019).

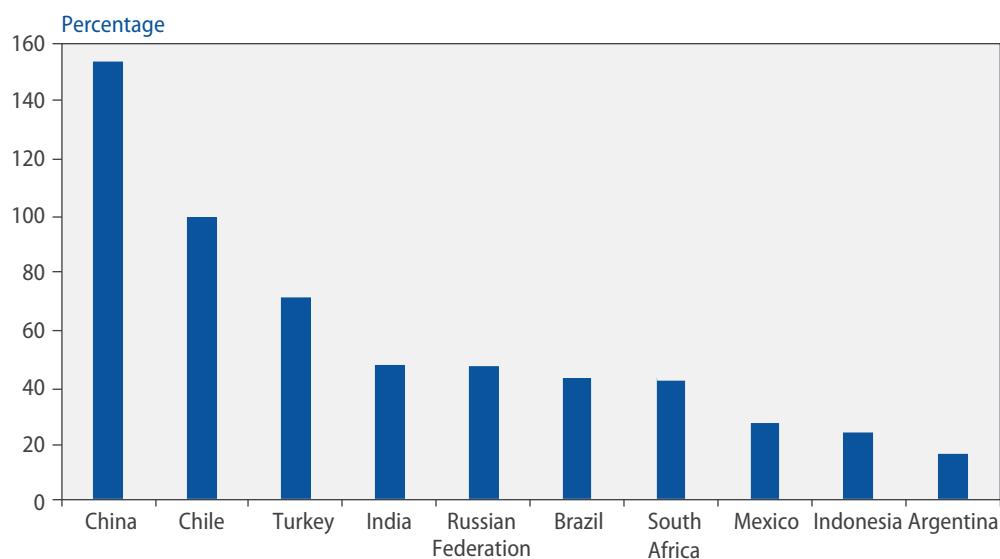
The issuance of leveraged loans is expected to have slowed in 2019 as a result of lower interest rates, which make flexible interest rate loans less attractive. Yet there are still concerns over a continued build-up of vulnerabilities. Rising demand among investors, coupled with the willingness of firms to take on more debt, has led to a deterioration in underwriting standards and credit quality. The share of “covenant lite” loans—for which investors do not require borrowers to maintain certain financial ratios—has risen to a record high of about 80 per cent in recent years (see figure I.26). The leverage of borrowers, coupled with more liberal repayment terms, has also visibly increased (Bank of England, 2018). In addition, borrowers in the leveraged loan market depend on capital markets for their refinancing needs, which make them vulnerable to liquidity stress and potential defaults.

Corporate debt in China and other large emerging economies

In the past decade, corporate debt in emerging economies has increased visibly amid abundant global liquidity and search-for-yield behaviour. Between 2008 and 2019, the combined corporate debt of 30 large emerging economies increased from about 63 per cent to more than 90 per cent of GDP (Institute of International Finance, 2019b). The levels of corporate debt are especially elevated in China but are also quite high in countries such as Brazil, Chile, India, the Russian Federation and Turkey (see figure I.27). Corporate debt in China, mainly held by State-owned enterprises, increased from about 100 per cent to 155 per cent of GDP over the past decade. In India, corporate debt exceeds 40 per cent of GDP, and the share of non-performing loans in the banking system is relatively high.

Amid slowing global growth, rising trade tensions and, in some cases, heightened political uncertainty, high corporate debt in emerging economies represents a major source of financial vulnerability. In some countries, the vulnerabilities are aggravated by a rising dollar-denominated debt. In addition, some indicators show that a significant part of this corporate debt has been channelled neither to productive investments nor to high productivity sectors (UNCTAD, 2019d). This trend has adversely impacted medium-term growth and has also raised concerns over debt sustainability.

Figure I.27
Corporate debt-to-GDP ratio in selected economies, 2019 Q1



Source: Bank for International Settlements, total credit statistics.

Note: Data show the amount of outstanding credit to the private non-financial sector at the end of March 2019, relative to annual GDP.

Risks to the outlook

Trade risks

While the Phase One Trade Agreement between China and the United States in December 2019 has provided temporary respite for financial markets, a final resolution to the trade dispute in the outlook period is far from certain. In fact, there is a high risk that trade tensions may continue or even intensify going forward. For example, the United States reserves the possibility of raising tariffs on automotive products and parts, which would affect an estimated \$350 billion in imports from major trading partners such as the European Union and Japan; if introduced, this would likely trigger retaliatory measures. Other trade tensions that might extend into 2020 include the trade dispute and rising bilateral tariffs between the European Union and the United States and the trade dispute between Japan and the Republic of Korea. Increased trade-restrictive measures could spread beyond the involved parties, impacting economies around the world through both direct and indirect channels. Moreover, the rules-based trading system has come under particular pressure as countries, out of discontent with perceived design flaws in multilateral institutions, increasingly resort to unilateralist strategies to resolve their disputes.

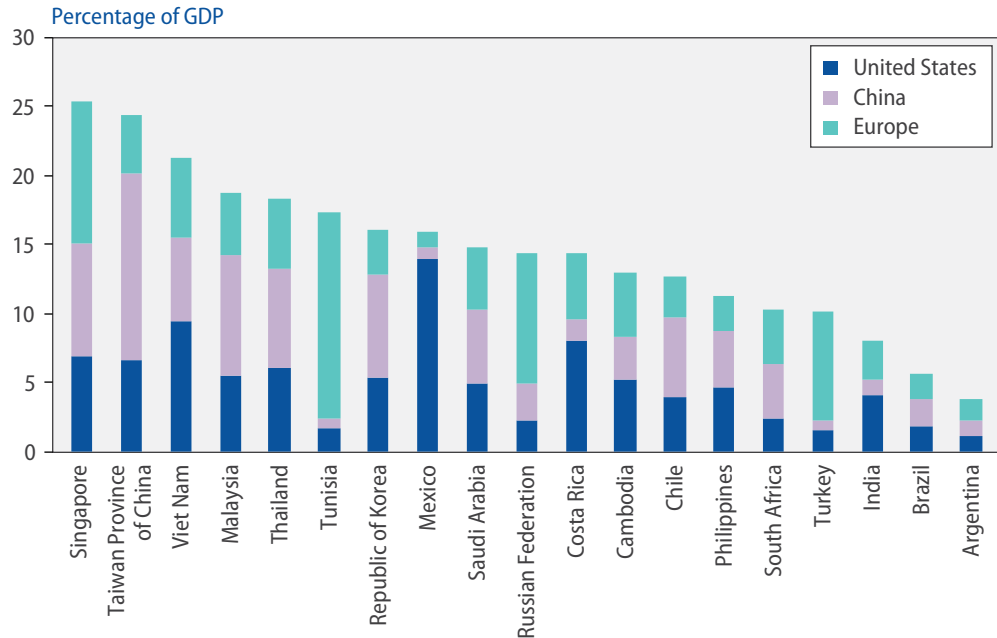
Prolonged trade tensions could significantly dampen domestic demand growth in all major economies, including China, Europe and the United States, which would directly affect economies with a high final demand exposure to these large markets. Figure I.28 shows that China is presently the main source of final demand for many East Asian exporters, including Malaysia, the Republic of Korea and Thailand.¹⁶ Resource-rich countries with a high exposure to China are similarly at risk, as a slowdown in Chinese demand growth and improved efficiency in production will weigh on Chinese resource imports. Meanwhile, Costa Rica and Mexico are highly vulnerable to a demand slowdown in the

Further intensification of trade tensions could inflict long-lasting damage on growth prospects

¹⁶ UNESCAP (2019a) provides a comprehensive assessment of the regional impact of China's economic transformation.

Figure I.28

Selected economies' exposure to final demand from China, Europe and the United States



Source: UN DESA, based on data from OECD Trade in Value-Added (TiVA) database, December 2018; and World Bank, World Development Indicators database.

Note: Data reflect economic structures in 2015.

United States, while the Russian Federation and Turkey are more sensitive to changes in European demand. Slower growth in China and the United States would also weigh on global demand for commodities, significantly impacting commodity-dependent countries. Some countries, however, would see an increase in exports to the countries engaged in trade disputes thanks to trade diversion effects. Indeed, this is already occurring; Nicita (2019) has estimated that about 63 per cent of the bilateral loss in trade between the United States and China in the first half of 2019 was diverted to other countries, with Taiwan, Province of China, Mexico, the European Union and Viet Nam enjoying the largest gains.

Worsening trade tensions would hurt countries around the world through several other channels. First, trade tensions affect countries that are deeply integrated into global value chains, as these countries suffer lower demand for intermediate inputs. Furthermore, the intensification of trade conflicts and the resulting increase in trade policy uncertainty would lead to a prolonged slump in investment activity, dampening future productivity growth and thus damaging growth prospects in the medium and long term. Trade policy uncertainty particularly reduces investments in export entry and technology upgrading, effectively decreasing trade flows and real incomes (Handley and Limão, 2017). Indeed, the increase in trade policy uncertainty over the past year may have decreased aggregate investment in the United States by over 1 per cent (Caldara and others, 2019). Recent data reveal that investment growth has slowed sharply across developed and developing economies amid such policy uncertainty, softening global demand and country-specific issues. Finally, the increase in prices of goods as a result of tariffs would lower household

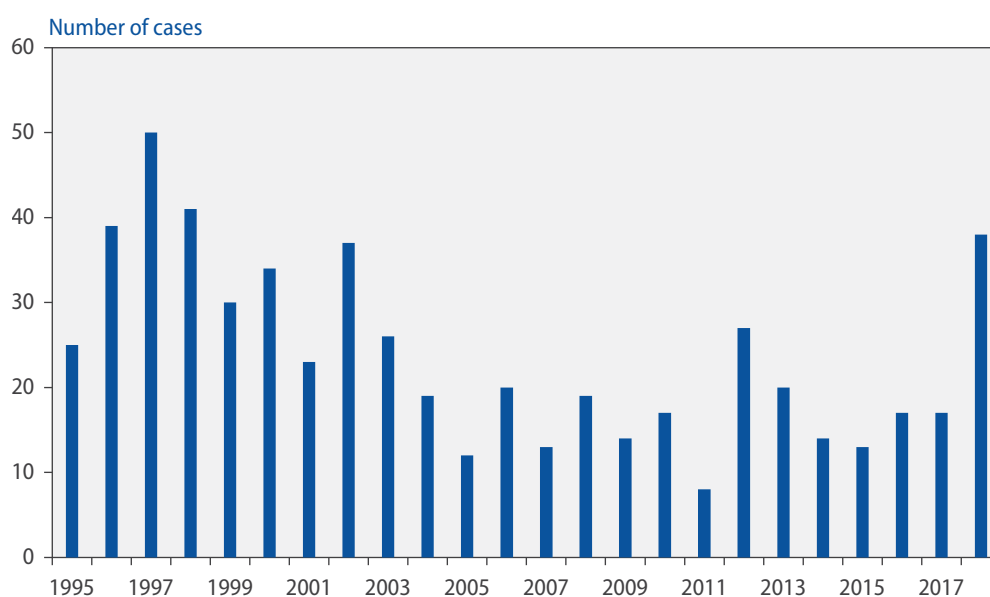
purchasing power and consumer welfare, particularly if domestic and imported goods were not easily substitutable.

The prolonged trade dispute between the United States and China reflects the increasing pressure on multilateral cooperation under a rules-based trading system. Unilateral trade barriers and retaliations, running counter to the spirit and integrity of the rules-based multilateral trading system (MTS), pose a significant risk to global economic governance. A further erosion of the MTS would hurt global economic growth by weakening international trade activity and deterring investment. Worryingly, this is coming at a time when international trade, with the MTS at its heart, is expected to play a crucial role in the achievement of the Sustainable Development Goals.

The dispute settlement mechanism (DSM) of the WTO, widely regarded as the cornerstone of the rules-based multilateral trading system, has come under pressure amid increasing unilateralism in global trade policy. Since its establishment in 1995, the DSM has received 590 requests for consultations, and it has facilitated the resolution of most of these disputes. Figure I.29 shows that the number of dispute cases initiated in 2018 rose to the highest level since 1998. However, the WTO DSM is at a critical juncture: its Appellate Body faced the risk of paralysis in December 2019 owing to disagreement among WTO members over the selection of new Appellate Body judges and concerns regarding the timeline for completing the Appellate Body review. In addition, the principle of special and differential treatment (SDT) for developing countries has increasingly been challenged, as their importance in global trade has grown rapidly. Volatility in international trade and the frequency and severity of trade disputes are expected to increase unless these issues with the MTS are resolved satisfactorily for all parties.

Global trade is threatened by rising pressures on the multilateral trading system

Figure I.29
Number of WTO dispute cases initiated



Source: WTO, Dispute settlement activity.

Financial risks

High debt levels could create a vicious cycle in an economic slowdown

The world economy is facing substantial financial stability risks stemming from protracted loose monetary conditions, rapid credit growth in many emerging economies, and high levels of debt. High global debt is not only a financial risk in itself but also a source of fragility in case of a further deterioration in economic growth. A worsening outlook or a negative shock can increase investor risk aversion and push up debt-servicing costs, with knock-on effects on economic activity, investment and job creation. Meanwhile, elevated sovereign debt constrains the fiscal policy space in many countries, limiting their ability to respond to the ongoing slowdown and to mobilize necessary investments to achieve the Sustainable Development Goals.

Corporate debt in the United States and China is a financial risk

Amid continuing trade tensions, corporate debt in the United States and China is a particular source of financial risk (see the section on global debt and financial vulnerabilities). In the United States, the leveraged loan market could come under pressure in the event of a severe slowdown. A substantial increase in credit defaults would hit investor confidence, inducing fire sales and a downward spiral in asset prices. In September 2019, liquidity concerns in the United States bond markets surfaced when a sharp rise in borrowing costs in the overnight money markets forced the United States Federal Reserve to inject \$140 billion of liquidity. In China, high levels of corporate debt pose a major risk to financial stability, particularly in the current environment of high trade tensions and slowing growth. Over the past year, corporate bond defaults have increased, raising concerns over the potential for a sharp and disruptive deleveraging process in the future.

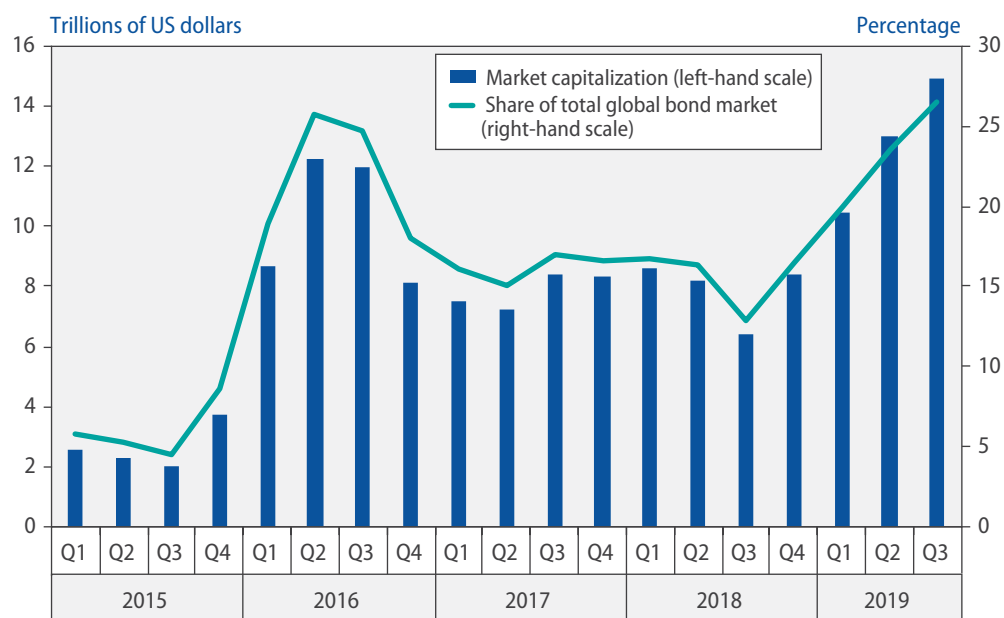
Brexit and potential negative feedback loops pose risks in Europe

The euro area is subject to a range of interrelated risks, raising doubts over its resilience to shocks. First, the uncertainty around the anticipated departure of the United Kingdom from the European Union continues to be a major source of concern, given the significant cross-border financial and economic interlinkages, with wider economic implications for businesses and households in both continental Europe and the United Kingdom. Little has been decided thus far, and changing expectations about the nature, terms and timing of Brexit continue to generate volatility in asset and currency markets. Second, amid significant institutional deficiencies—notably the absence of a banking union and a fiscal union—the euro area struggles to address financial fragilities, including low profitability in the banking sector and elevated public and corporate debt. High levels of sovereign debt continue to plague many economies; in Belgium, Cyprus, France, Greece, Italy, Portugal and Spain, public debt is close to or above 100 per cent of GDP. The financial system and the real economy could be affected through myriad negative feedback loops, with potentially serious consequences for the world economy.

Global monetary policy may further exacerbate financial risks

The conventional and unconventional expansionary monetary policies from major central banks have exacerbated financial risks in the world economy. A more extended period of negative interest rates could erode bank profitability, resulting in weaker balance sheets and reduced lending capability. Negative yields have resulted in lower investment returns for insurance companies and pension funds in several countries, making it harder for them to meet their obligations. Furthermore, abundant liquidity conditions, coupled with deteriorating prospects for the world economy and higher demand for safe assets, have depressed bond yields and led to a rising share of negative-yielding debt—a distinctive and uncharted feature of the global financial landscape. The amount of fixed-income securities with negative yields reached a record high in the third quarter of 2019; in September, the amount of bonds with negative yields rose to \$15 trillion (see figure I.30), with about 50 per cent denominated in euros and 40 per cent in yen (BIS, 2019b). While sovereign bonds

Figure I.30
Global value of negative-yielding bonds



Source: IMF (2019a).

constitute the bulk of this debt, the amount of corporate debt bearing negative yields has also increased visibly. Should this trend become more pervasive, it could threaten financial stability, as it distorts market perceptions of risk while creating potential sources of volatility.

Geopolitical risks

The outlook for the global economy is also marred by a number of geopolitical risks. Amid a weakening commitment to multilateralism—whether in the economic or political arena—the capacity of the international community to contain and resolve conflicts has decreased. More polarized political landscapes in several countries are contributing to an overall environment of uncertainty. The internal political landscape in the United States will likely remain confrontational in the near term, creating ambiguities with respect to the future direction of economic and trade policies, including those related to taxes and tariffs. In such a precarious environment, even a minor conflict may have major repercussions.

Geopolitical concerns have grown or intensified in several regions, including Kashmir, the Korean Peninsula, the Middle East, the Persian Gulf, the South China Sea and Eastern Ukraine. Escalations in local conflicts may have larger-scale political and economic repercussions, including the disruption of trade flows. In 2019, tensions in the Persian Gulf increased following the withdrawal of the United States from the international nuclear agreement with the Islamic Republic of Iran, further tightening of the restrictions on Iranian oil exports, and several local incidents, including drone attacks on a Saudi oilfield and oil processing facility. Any escalation of hostilities could further disrupt oil production and transport, causing a spike in oil prices and leading to a further deterioration in global economic conditions. Ongoing instability in Libya, the Bolivarian Republic of Venezuela and other oil-exporting countries is exacerbating risks to the global oil supply.

Geopolitical risks pose a major threat to the world economy

Regional tensions may have global implications

Despite ongoing international mediation, hostilities in Eastern Ukraine continue. The restrictive economic measures imposed on the Russian Federation by most OECD countries as a result of the Crimea conflict (as well as the reciprocal measures imposed by the Russian Federation) remain in place. This impedes trade and finance flows and undermines growth prospects, with tangible regional spillovers. Political tensions are also weighing on trade between Japan and the Republic of Korea, potentially disrupting global semiconductor supply chains.

Climate risks

Climate risks are becoming increasingly perilous for economic growth

The changing climate poses an increasingly critical risk to forecasts. Extreme events that once were considered remote tail risks, such as hurricanes, flooding and droughts, have become much more probable, with potentially catastrophic outcomes. This has important implications for the baseline forecasts presented in this report, as the bands of uncertainty around the forecasts have become wider, especially for countries in higher-risk areas.

In early 2020, sea surface temperatures in the tropical Pacific are expected to remain neutral (El Niño-Southern Oscillation [ENSO] neutral) (World Meteorological Organization, 2019). Global temperatures are therefore less likely to surpass previous peaks in the short term. However, the last five years have ranked especially high in the overall record, and the upward trend in global air and water temperatures is unlikely to change. As global temperatures rise, weather-related shocks will continue to increase in frequency and severity. Intense heatwaves and dry spells are likely to cause widespread wildfires and agricultural losses. Rising temperatures also load the atmosphere with more vapour, leading to more variable rain patterns.

All regions are vulnerable to the consequences of climate change

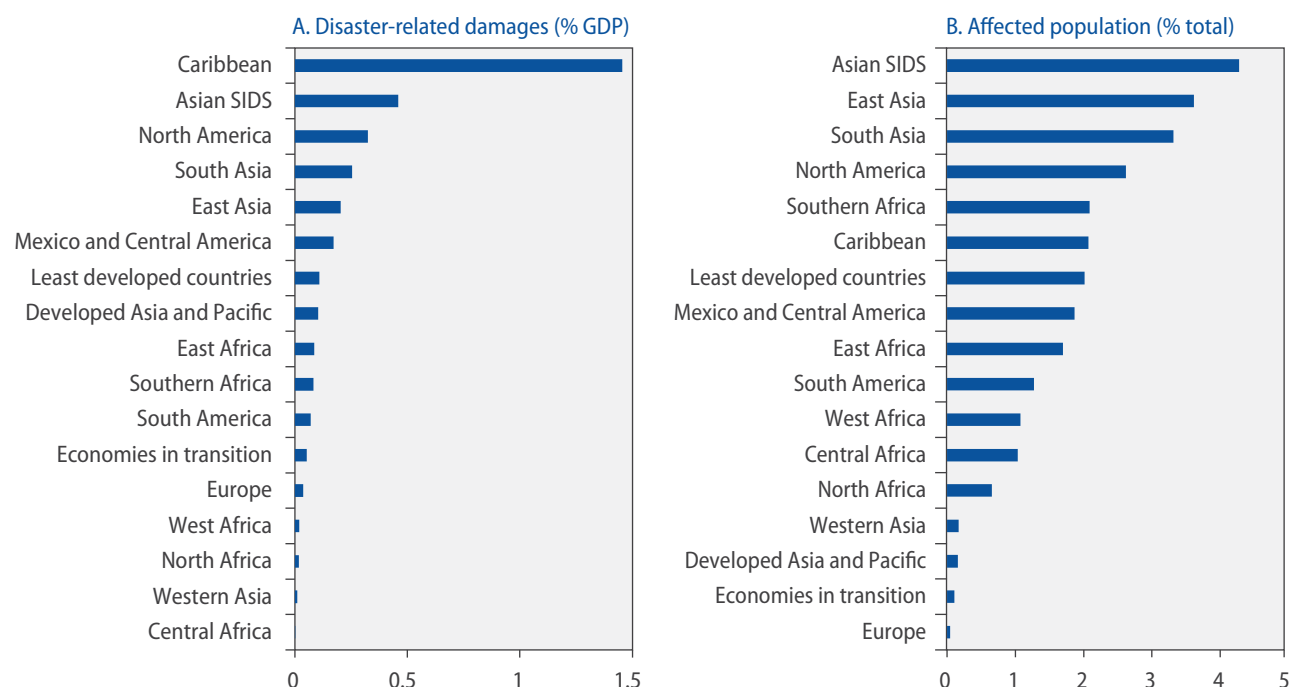
The effects of climate change can be observed across regions. In Europe, for example, heat waves have become more frequent and intense. This has caused extensive damage in agriculture and forests to the point that some forest areas are on the brink of collapse. Atlantic hurricanes, Pacific typhoons, and North Indian Ocean cyclones have also become more frequent and damaging. In 2019, the strongest hurricane on record (Hurricane Dorian) hit the Bahamas, leaving 60 per cent of Grand Bahama Island submerged. Meanwhile, one of the worst tropical cyclones on record (Cyclone Idai) affected Africa and the Southern Hemisphere. Figure I.31 illustrates the impact of weather-related shocks across regions over the past decade.¹⁷ Damages and economic losses directly or indirectly related to disasters have been exceptionally high in the Caribbean region during this period, averaging close to 1.5 per cent of GDP per annum. The number of people affected by disasters, which includes those injured, made homeless or requiring immediate assistance during an emergency situation, has been particularly high for Asian small island developing States (SIDS) and across East and South Asia.

Immediate action is needed to address the uncertainties around climate risks

The heightened climate risks are further aggravated by the enormous uncertainties surrounding the global climate over the coming decades and its interaction with human activity. International benchmarks specify that the increase in global temperatures is to be limited to no more than 2°C above pre-industrial levels. This creates the impression that climate is a controllable variable and that setting limits on variables such as carbon dioxide (CO₂) emissions can ensure that the temperature remains within a certain range. However, there are multiple uncertainties and unknowns when it comes to understanding global tem-

¹⁷ This includes meteorological, hydrological and climatological disasters, as defined in the International Disaster Database of the Centre for Research on the Epidemiology of Disasters (emdat.be)

Figure I.31

Regional exposure to weather and climate related disasters, 2010–2019

Source: UN DESA, based on data from EM-DAT: The Emergency Events Database – Université catholique de Louvain (UCL)– CRED, D. Guha-Sapir.

Notes: Includes meteorological, hydrological and climatological disasters. Data for 2019 is up to 29 July.

peratures and climate. In May 2019, the concentration of CO₂ in the atmosphere hit 415.39 parts per million, the highest level in about 3 million years—since before humans existed. There remains great uncertainty about how this concentration will impact the climate, even if all emissions were stopped today. This uncertainty and the potential for catastrophic outcomes warrant policy actions that err on the side of caution. Putting policy instruments and market adjustments in place to bring about a dramatic reduction in CO₂ emissions is an urgent priority (see chapter II).

Natural disasters have significant and long-term economic effects, including loss of income, destruction of physical and human capital, and widening inequalities. Infrastructure disruptions may impact the provision of electricity, water and fuel, creating health and safety emergencies. While rebuilding may give a temporary boost to economic growth, it also diverts scarce resources away from other development needs. Debt levels inevitably rise as Governments borrow to finance recovery efforts (see box III.5), as is evident from the very high levels of debt across many Caribbean countries (Ötger and Srinivasan, 2018). Furthermore, rising climate risks reduce the creditworthiness of countries, driving up borrowing costs and burdening fiscal budgets so that financing resilience against shocks becomes increasingly expensive. This highlights the crucial role of financing bodies such as the Green Climate Fund (GCF) in supporting adaptation and mitigation efforts in developing countries (see box II.6).

Financial markets continue to underestimate climate risks, including the potential damage of weather-related shocks, costs of adaptation and mitigation efforts, and risks associated with new regulations and shifting demand patterns for carbon-intensive prod-

The costs of climate change need to be accurately priced in

ucts (Griffin and Jaffe, 2019). This leaves economies exposed to climate-related shocks with the potential to destabilize financial markets. Major central banks, including the Bank of Canada, Bank of England and ECB, as well as the U.S. Commodity Futures Trading Commission, have all warned of potential climate-related systemic financial risks.

As climate change becomes more a present (rather than a future) concern, insurance companies are rethinking climate risks. After years of focusing mainly on loss events such as earthquakes and tropical cyclones (so-called primary perils), which are well-monitored by catastrophe models, insurers are increasingly focused on what they term “secondary perils” such as wildfires, storms, flash floods and hail, which are often triggered by primary perils. In the past decade, average insured losses caused by secondary perils were almost double those from primary perils—a dramatic change in comparison with earlier decades. Globally, insured losses tend to account for less than half of total losses, as insurance penetration is low in many developing regions that are heavily exposed to risks, exacerbating global inequalities.

Policymakers should lead the way on climate action

Looking ahead, both public and private efforts will be required to stem the release of greenhouse gases into the atmosphere. An increasing number of private initiatives and citizen-led movements are taking place, including school strikes by children in several countries and coalitions of corporations against climate change; however, ambitious government policy, including at the multilateral level, remains the most significant lever to trigger wide-reaching change.

Downside scenario—materializing risks

The global economic outlook is subject to a plethora of risks

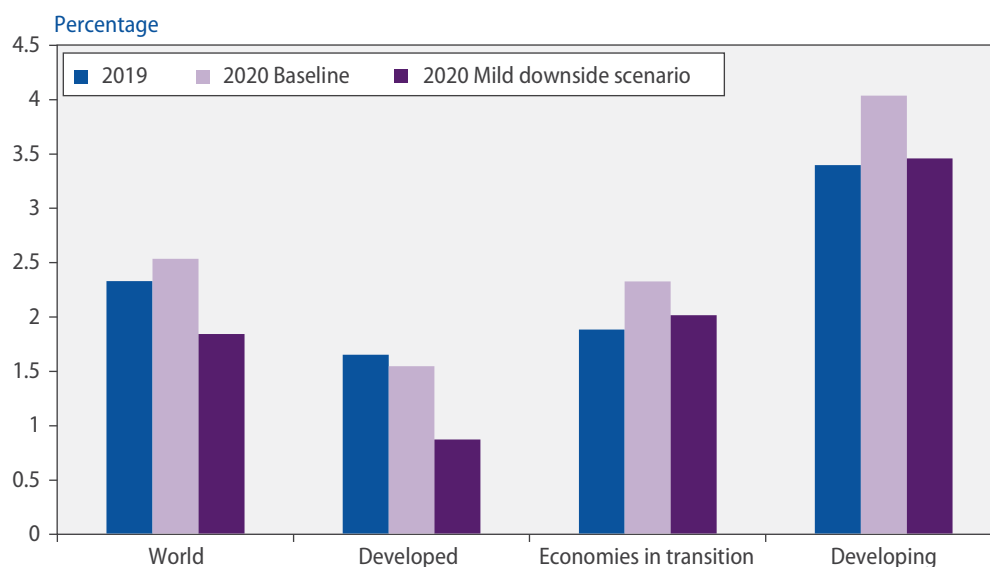
The modest rebound in global growth foreseen for 2020 is contingent on the assumption that current risks will not materialize. It is assumed, for example, that trade tensions and tariffs will not further intensify, that Brexit will be concluded with a transparent framework for the future relationship between the United Kingdom and the European Union, that geopolitical frictions will not escalate, and that financial conditions will remain largely favourable. Even a small deviation from any of these risk factors could deliver a further slowdown in global growth in the outlook period.

Downside risks are highly interconnected

The downside risks—and the consequences of their realization—are often interconnected. For example, a further escalation of trade tensions between the United States and China or the European Union could prompt an increasing number of firms to postpone or cancel near-term investment plans. Not only would this dampen future productivity growth, but the prolongation of uncertainty would eventually spill over to consumer behaviour. Figure I.32 illustrates how even a mild downturn could derail prospects for stronger growth in 2020 if rising tensions caused just 1 per cent of investment in developed economies and in East Asia to be postponed, accompanied by a modest slowdown in consumer spending. Such a scenario would bring world gross product growth down to 1.8 per cent in 2020, compared with the 2.5 per cent growth projected in the baseline scenario. World trade growth would slow to 0.6 per cent.

Any single downside risk or a combination thereof could aggravate other risks, potentially derailing the global economy. If the scenario described above were to trigger a “flight to safety” by investors, driving an appreciation of the United States dollar and implicit tightening of monetary conditions in developing countries, trade tensions would become intertwined with the current elevated levels of debt. Many developing countries could face increasing difficulties in meeting debt-servicing obligations, a rise in bankruptcies, and tighter credit conditions.

Figure I.32
GDP growth under baseline and mild downside scenario



Source: UN DESA, based on projections and scenarios produced with the WEFM.

Note: The mild downside scenario postpones 1 per cent of baseline investment in 2020 for two years in developed economies and East Asia and applies a shock to household consumption in the same subset of countries so that consumption growth slows by 0.8 percentage points in comparison with 2019 estimates. Trade spillovers spread the shock to other regions.

Macroeconomic policies

With the global economy slowing sharply and uncertainties looming large, risks of setbacks to sustainable development have increased. Weakening investment and insufficient productivity growth in many parts of the world impede efforts to achieve the ambitious targets of the 2030 Agenda. Massive investments from both private and public sources are needed in all regions to further reduce global poverty, address inequalities and advance the energy transition.¹⁸ The current difficult economic environment calls for proactive and decisive policies. Since development priorities and macroeconomic policy space differ markedly across countries, policy measures must necessarily be tailored to national contexts. Nonetheless, some general principles should guide the policies that are required to support sustainable and inclusive economic growth.

First, Governments need to shift their focus from short-term targets towards longer-term planning for inclusive economic development. Rather than focusing narrowly on promoting GDP growth, policymakers should aim to enhance well-being in all parts of society. This requires a long-term horizon for investment in sustainable development projects to promote education, expand access to electricity, develop renewable energy, and establish resilient infrastructure. Emerging short-term issues will need to be addressed with due consideration given to the long-term impact and potential trade-offs of corrective policies.

Second, the macroeconomic policy response needs to be balanced and integrated, relying on a broad set of measures. Since the global financial crisis, too much of the burden of stimulating economic activity has fallen on monetary policy, especially in developed countries. Fiscal policies need to be stepped up to support demand in the short run while also raising the potential for inclusive growth in the medium run. Structural policies (including employment, income and industrial policies) can also play a much more active role in the policy mix.

The current difficult economic environment calls for proactive and decisive policies

¹⁸ UNESCAP (2019b) provides a comprehensive assessment of the region's investment needs to achieve the Sustainable Development Goals.

Third, improved efficiency in policymaking and policy execution is critical. This includes more effective use of the available resources in the various policy areas as well as better coordination between these areas. In many countries, a reallocation of spending priorities can help improve development outcomes. Strong governance and accountability mechanisms, supported by the right statistics, will help to ensure quality and efficiency in policy implementation.

Fourth, much greater attention needs to be paid to the distributional and environmental implications of policy measures. Inequalities in income, health, education and opportunity remain high in all regions. Amid growing frustration over a lack of inclusive growth, political polarization has deepened in many countries and social discontent has become more widespread. At the same time, there is a need to speed up the energy transition. Mainstreaming these key cross-cutting issues—the environment and equality—into policy actions can have a significant positive impact.

Fifth, global coordination is critical to resolving cross-border issues. The biggest challenges of this age cannot be addressed by national policies alone. Strong global leadership and a commitment to change will be required to achieve sustainable economic growth and improve well-being for all.

The sections below take a closer look at the current major challenges in the areas of monetary, fiscal and structural policy. The chapter concludes with a call for more effective global cooperation.

Monetary policy

The global pivot in central bank stances towards monetary easing has to some extent alleviated fears of an imminent sharp tightening of global financial conditions. As external headwinds persist, however, additional monetary stimulus is likely to provide only temporary relief to financial markets. In many developed and developing countries, there are growing concerns that monetary policy has reached its limits. In the current highly challenging environment, overburdened monetary policies are less effective in reviving economic growth and also entail significant costs, exacerbating financial stability risks and ultimately depressing productivity growth. As downside risks to the global outlook continue to rise, the risk of policy mistakes is high. In the developed world, central banks are operating in uncharted territory, with no historical precedent to guide them.

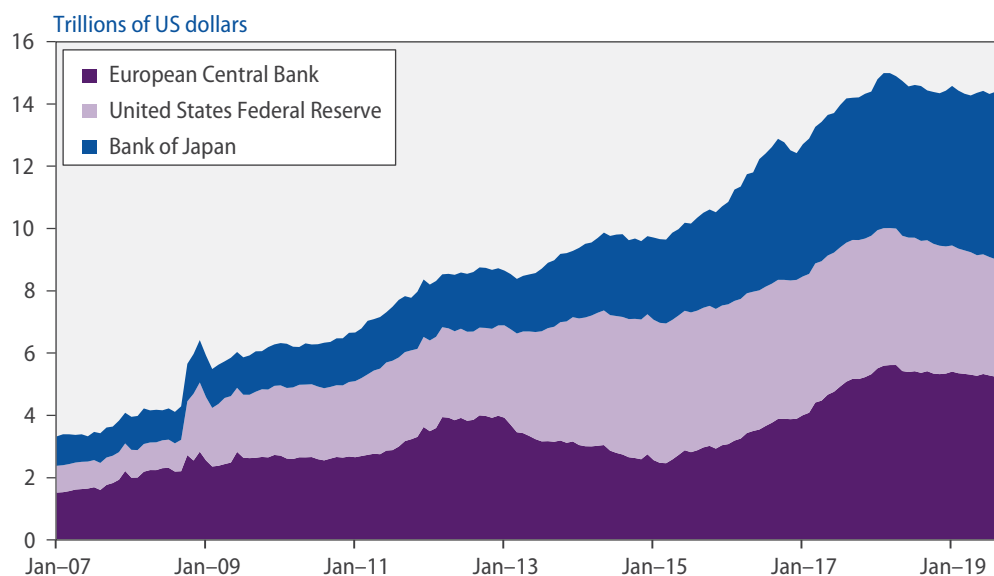
In the aftermath of the global financial crisis, unprecedented monetary policy interventions by central banks worldwide played a crucial role in averting a deeper and more protracted recession. Today, with policy rates close to historical lows in many countries, central banks have very limited room to undertake similar large-scale monetary easing to boost economic growth. Among the major developed economies, interest rates have fallen to near zero or negative, while central bank balance sheets remain bloated (see figure I.33). Currently, five central banks, including the ECB and the Bank of Japan, have resorted to a negative-rate policy. While several other central banks have also signalled their willingness to adopt this new policy tool, there are doubts as to its effectiveness in stimulating bank lending to the real economy.

Against the current backdrop of elevated policy uncertainty and darkening growth prospects, lower interest rates alone would not materially stimulate real investment. As the future direction of trade policies and global demand conditions remains highly uncertain, investors are more likely to postpone or cancel new capital spending plans, regardless of

Interest rates are near zero or negative in many developed economies

Reducing borrowing costs alone will not be enough to stimulate investment

Figure I.33
Total assets of major central banks



the financing costs. The strong demand for negative-yielding sovereign bonds implies that some investors are more willing to endure small losses on safe financial assets than to undertake productive investment. This indicates a weak global risk appetite and a very pessimistic view about medium-term economic growth.

Importantly, a more protracted period of easy monetary policy could fuel a further build-up of financial imbalances, increasing medium-term risks to financial stability. Low global interest rates and ample liquidity conditions since the crisis have contributed to the underpricing of risks, which has in turn encouraged the significant rise in global debt. In part, this debt has helped finance infrastructure, energy projects and other productive investments. However, a significant part has also been channelled into financial assets, raising sustainability concerns. Many firms in developed economies have been using the financial space to fund share buy-backs, higher dividends and acquisitions. As global economic activity slows, elevated debt levels represent a key source of risk, as households and businesses find it more difficult to roll over debt. Such a scenario could trigger a disorderly deleveraging process, large asset price corrections, and spikes in risk aversion. Thus, many central banks are facing an increasingly difficult policy trade-off in their efforts to boost growth without exacerbating domestic financial vulnerabilities. To preserve financial stability, policymakers could utilize a wider range of tools, including macroprudential policies and capital flow management measures.

As investor sentiment remains highly fragile, effective communication of monetary policy strategies is crucial. Any unexpected policy decisions could trigger a major shock to confidence, causing disruptions to financial intermediation. These challenges for policymakers in preserving financial stability are further aggravated by the rapid growth of fintech innovations, especially crypto-assets (see box I.4). Financial sector legislation will have to be adapted to meet these challenges and to strengthen the resilience of the financial sector against potential systemic shocks.

Further monetary stimulus increases risks to financial stability

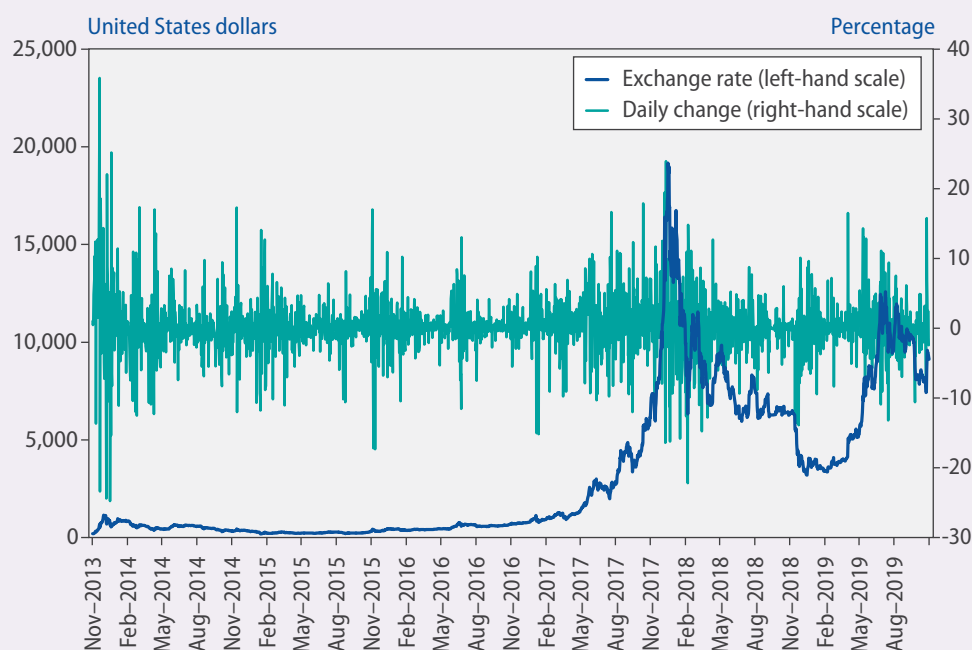
Box I.4

Crypto-assets and implications for the international monetary and financial system

In June 2019, major payments processors Visa and Mastercard, digital businesses Uber and Lyft, and the world's largest social media network, Facebook, announced a joint initiative to create a new global crypto-asset called libra that they hoped would become a new form of currency. While some of the backers of libra have since withdrawn, the potential scale of this crypto-asset set off a wave of policy and regulatory discussions. Crypto-assets^a are an emerging fintech innovation that has grown rapidly since the bitcoin network was first launched in January 2009. These assets could bring some benefits to financial systems, but they also carry significant consumer and macroeconomic risks that need to be understood and managed by regulators.

Currency is typically defined as having three functions in an economy, serving as a store of value, a unit of account and a medium of exchange. Proponents of crypto-assets argue that these assets can be substitutes for currencies issued by central banks. So far, however, no crypto-asset serves these three functions reliably.^b Box figure I.4.1 shows the high volatility of one measure of the bitcoin-dollar exchange rate—volatility that prevents bitcoin, the most liquid crypto-asset, from serving as a true currency.

Figure I.4.1

Bitcoin valuations and daily change, November 2013–November 2019

Source: Coindesk.

^a Crypto-assets are private assets that depend primarily on cryptography and distributed ledger or similar technology. Examples include bitcoin, litecoin and ethereum.

^b See BIS (2018).

Most crypto-assets rely on distributed ledger technology, which means that there is no one central authority that keeps track of balances in the market. Instead, this information is distributed among all users in the system. Some crypto-asset promoters suggest that the decentralized payment processing could bring greater efficiency and speed to international transactions, which currently rely on correspondent banking relationships.

Digital payments also have the potential to promote greater financial inclusion and access to formal financial services. Mobile money solutions have become popular in many countries with low pen-

(continued)

etration of formal financial services. International versions of mobile money, created through a crypto-asset trading network, could serve to further expand financial inclusion. Indeed, the association aiming to launch libra explicitly states that it aims to promote financial inclusion and have its tokens used by individuals without access to traditional financial services for payments in ordinary transactions (Libra Association, 2019).

However, the rapid growth of fintech has added complexity to the financial regulatory landscape. Crypto-assets, because of their anonymity and cross-border reach, raise concerns around illicit finance. It is also unclear how international crypto-asset exchanges will comply with capital account restrictions or currency exchange rules in those countries where they are in place. Currently, bitcoin and other crypto-asset transactions cannot be authoritatively traced to real identities because of the use of service providers that allow user anonymity. There is evidence that crypto-assets have proven fertile ground for financial crimes (Kaminska, 2018). In October 2018, the Financial Action Task Force (FATF) updated its standards and recommendations regarding crypto-assets. It defined a new group—virtual asset service providers—and called on jurisdictions to include these entities in anti-money laundering and combating the financing of terrorism (AML/CFT) regulations (FATF, 2018). If crypto-assets become more readily available, such as through a widely used libra token, the potential for their use in illicit financial transactions grows.

Crypto-assets also have broad implications for macroeconomic policies. The libra proposal, because of the major backers and their already large user bases, presents concerns of a different order of magnitude than those surrounding other crypto-asset and fintech innovations. The widespread adoption of such a crypto-asset would have potentially serious repercussions for developing countries. The Libra Association intends to create a stablecoin,^c stabilizing the value of the libra to a basket of currencies and keeping a reserve of liquid assets for every libra token created. This reserve could retain large volumes of the money supply. In developing countries, residents could decide that it is easier to store financial assets in libra tokens rather than in the local banking system, leading to capital flight and sudden depreciations and seriously impeding the process of transmitting central banks' monetary policy to the economy. Such a scenario could also significantly impact the solvency of the domestic banking sector and reduce the availability of capital to finance productive investment. Worldwide, the stability and value of this reserve would vary according to global monetary conditions. Its operation might not be sustainable in an environment of negative real interest rates or high volatility among the reserve currencies.

Crypto-assets have historically been used as speculative assets—a practice that can exacerbate the volatility of valuations. There have also been many reports of market manipulation on crypto-asset exchanges, which are generally not covered by the regulations that protect traders in other financial markets. The activity surrounding initial coin offerings (ICOs) represents a good example. ICOs are transactions in which companies raise capital by creating digital assets related to a specific product or business model. Such offerings have gained in popularity, with about \$7 billion raised in the first half of 2018. However, an often-cited study reveals that over 80 per cent of ICOs have ultimately been identified as scams (Satis Group, 2018).

A number of Governments and international institutions are monitoring the situation so that appropriate steps can be taken to address the challenges crypto-assets present. Regulators in several countries have already taken action. For example, in September 2019, France and Germany issued a joint statement declaring that the libra project “fails to convince that risks will be properly addressed” and concluded “that no private entity can claim monetary power, which is inherent to the sovereignty of nations” (France and Germany, 2019). Others, such as the United Kingdom, have started to apply investor protections to some ICOs because such offerings are considered to fall within the scope of existing regulatory frameworks (United Kingdom, Financial Conduct Authority, 2019). China has taken the strongest stand of the large economies, banning the trading of crypto-assets and refusing to recognize the use of such assets or any virtual currencies for payments since 2017 (People's Bank of China, 2017). China is one of many countries with central banks that are now speeding up their exploration of how they might issue their own central bank digital currencies based on distributed ledger technologies.

Box I.4 (*continued*)

^c A “stablecoin” can be defined as a crypto-asset designed to maintain a stable value relative to another asset (typically a unit of currency or commodity) or a basket of assets; see Financial Stability Board (2019).

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**Further interest rate cuts
may dampen productivity
growth**

**Inflationary pressures
have remained subdued
despite easy global
monetary conditions**

Alongside elevated financial risks, there have been concerns that lowering interest rates further could harm rather than stimulate growth in some countries, as it promotes a less efficient allocation of resources. Liu, Mian and Sufi (2019) found that persistently low long-term interest rates encourage market concentration, reducing business dynamism and productivity growth. Prolonged low rates may also delay the shifting of resources from less productive sectors to more productive ones, which could result in an increase in zombie firms or overinvestment in private construction (BIS, 2019a).

Despite prolonged loose monetary conditions, inflation rates worldwide have generally remained subdued. Over the past year, rising disinflationary pressures and threats of deflation have also re-emerged. In several developed economies, the persistent undershooting of inflation targets and an increased likelihood of hitting the lower bound on policy rates could lead to the de-anchoring of inflation expectations (Carstens, 2019). Ongoing structural shifts in the macroeconomic environment also present new challenges for central banks. In particular, the weakening or apparent breakdown of fundamental macroeconomic relationships, notably the link between inflation and unemployment, has further complicated the conduct of monetary policy (see box I.5).

Box I.5

Cyclical uncertainties and the weakening inflation-unemployment relationship

To ensure the coherent design and conduct of macroeconomic policies (including fiscal and monetary policies, among others), it is essential to be able to foresee accelerations or decelerations in economic activity and to understand the position of an economy in its business cycle. Several theoretical concepts are used to assess the state of the economy with respect to its resource utilization. One of these is potential output—the level of output at which an economy operates at a sustainable rate, with full utilization of resources and without generating inflationary pressures. The deviation of actual output from its estimated potential, referred to as the output gap, plays an important role in economic policymaking—for example, in discussing tax or spending policies by the United States Congress or interest-rate setting by the Federal Reserve. The European Commission, IMF and OECD use their own assessments of potential output for individual countries, primarily for the purpose of calculating cyclically adjusted fiscal balances and projecting long-run fiscal trends.

There are multiple challenges in assessing the output gap, however, primarily because potential output is by nature unobservable and there are no universally agreed methodologies to estimate it. A wide variety of statistical, econometric and modelling methods are used for estimation, including univariate or multivariate time-series filters, production functions or advanced structural models of an economy, often generating conflicting results. Many of these techniques are also subject to the so-called end-point problem.^a The estimates are conducted in real time and—especially in the case of forward-looking projections—are often revised later when more accurate or extensive economic data become available; these revisions are heavily influenced by the actual output, consumption and investment dynamics. The uncertainties increase further when the potential output path is projected in the aftermath of economic shocks. Distinguishing between cyclical and more permanent shocks to GDP is a serious challenge. Some shocks, such as changes in the tax code, may affect an economy on both the demand and the supply side and may have unanticipated long-run effects.^b Despite constant improvements in the estimation methodologies leading to less frequent revisions, there are still numerous technical sources of error embedded in all estimates of potential output (Chaloux and Guillemette, 2019).

One of the key parameters regularly used in estimating potential output is the so-called natural rate of unemployment. The natural rate itself has to be estimated, however, with most of the estimates relying the concept of the Phillips curve (the supposition of an inverse relationship between changes in inflation and unemployment rates). Stronger wage bargaining power during periods of lower unem-

^a The increasing probability of an error at the end of the sample time period.

^b See, for example, Coibion, Gorodnichenko and Ulate (2018).

(continued)

ployment is expected to cause a pass-through of labour costs to short-run inflation. Different theoretical frameworks of the Phillips curve have been developed; some include the output gap itself along with other unobservable variables such as inflationary pressures, further complicating the estimation. Phillips curve analysis has often been used to gauge the current phase of a business cycle and to guide economic policy, presenting a trade-off between higher inflation and rising unemployment.

Over the past decade, however, most of the developed economies have seen a persistent weakening in the traditional short-run inverse relationship between unemployment and inflation (see box figure I.5.1). The emerging ambiguity surrounding the relationship between the cyclical position of an economy, inflation and unemployment (and how they inform inflationary expectations) has led to a perception that the concept of the Phillips curve has become outdated.

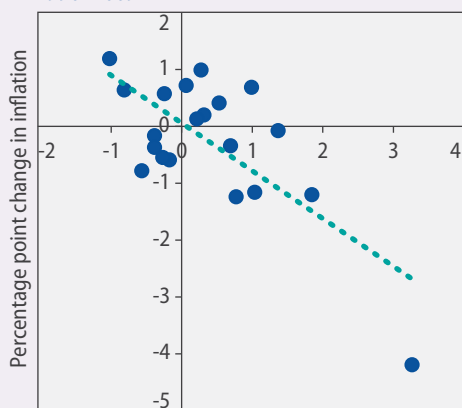
A number of possible explanations for the weakening inflation-unemployment relationship have been offered. One hypothesis is that the less responsive inflation is explained by more strongly anchored inflation expectations, thanks to the improved credibility of central banks, or by nominal wage rigidities since 2009 for some segments of the population, even during downturns (Blanchard, 2016). A weakened

Box I.5 (continued)

Figure I.5.1

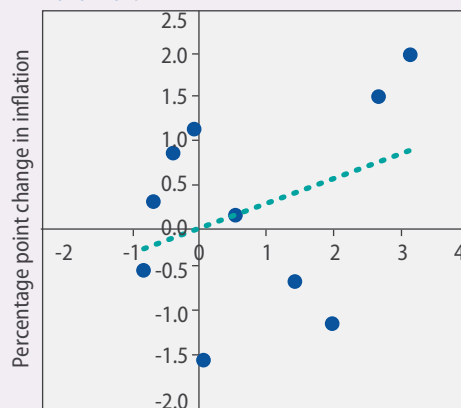
The relationship between inflation and unemployment (Phillips curve)

United States
1990–2009



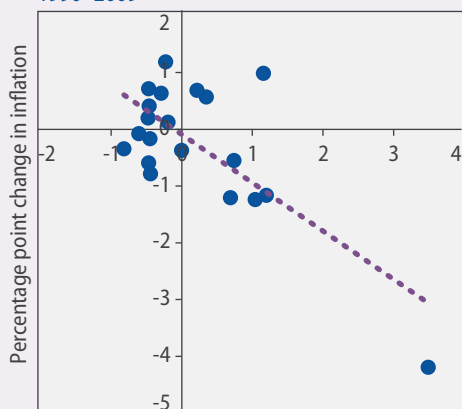
Percentage point change in unemployment rate

2010–2019



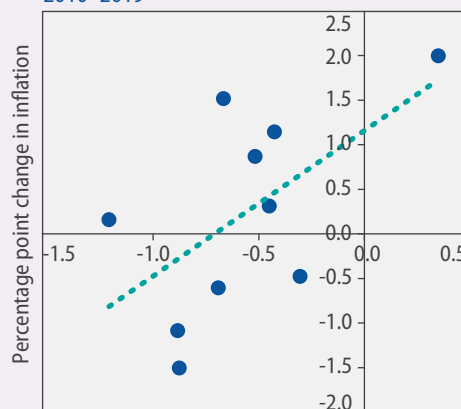
Percentage point change in unemployment rate

United Kingdom
1990–2009



Percentage point change in unemployment rate

2010–2019



Percentage point change in unemployment rate

Source: National authorities.

Notes: Each dot represents the change in inflation and change in unemployment rate in one year. Includes estimates for 2019.

(continued)

Box I.5 (*continued*)

c Another explanation might relate to the increase in irregular working hours, especially against the background of the growing share of the digital economy.

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ability or willingness to bargain for higher wages in the aftermath of the global financial crisis may explain why the recent improvements in the United States labour market have failed to generate inflationary pressures.^c Although in the euro area the responsiveness of inflation to labour market conditions has been stronger than in the United States, it has also weakened since 2009, especially in countries with rigid labour markets and more advanced social protection systems. One of the possible outcomes of the weakened inflation-unemployment relationship may be a decline in the natural rate of unemployment, implying some degree of labour underutilization and further room for expansionary policies.

The cost of mistakes in estimating and forecasting potential output may be very high. In the 1970s, the slowdown in potential output growth was mistaken for a cyclical downturn in the United States economy, causing an inappropriate fiscal expansion and leading to a decade-long period of high inflation and episodes of stagflation. By contrast, in wrongly assuming that the output gap is closing and being wary of inflationary pressure, economic policymakers may miss the opportunity to implement much-needed countercyclical demand-side policies. The current business cycle in the developed economies is assumed to have passed its peak. However, the uncertainties mentioned above mask different possible trajectories, complicating policy design.

Fiscal policy

In the face of overstretched monetary policy, calls for fiscal policy to play a more proactive role in tackling the economic slowdown have become more frequent and forceful (UNCTAD, 2019d; ECB, 2019; OECD, 2019d; IMF, 2019c). Fiscal policy has generally been underutilized as a countercyclical tool to manage aggregate demand.¹⁹

From a fiscal perspective, financial market conditions continue to be very favourable, especially in developed economies. Interest rates on sovereign bonds are at historically low levels. In all of the six largest developed economies, real yields on 10-year government bonds have fallen below zero (see figure I.34).²⁰ Moreover, interest rate expectations for the coming decades have shifted downward, reflecting market perception that the low interest environment is here to stay.²¹ Governments in developed countries benefit strongly from the historically low interest rates. Not only are they able to borrow very cheaply, but they also have greater fiscal space available since public debt sustainability has improved. In such an environment, the welfare costs of debt may be small or even negative.²² This makes a strong argument for a more active role for fiscal policy.

Calls for more expansionary fiscal policy are still often met with scepticism, however. In part, this reflects ongoing uncertainty over the persistence and intensity of the worsening economic outlook. More importantly, though interest rates are at historic lows across developed countries, high debt levels and sizeable fiscal deficits may limit the room for fiscal stimulus.²³ Even for countries in which government debt has declined to moderate levels, such as Germany and the Netherlands, long-term projections point to substantial pressure on public finances over the coming decades (Guillemette and Turner, 2018).

¹⁹ This has been pointed out by Blinder (2016) and Blanchard (2019a), among others.

²⁰ Long-term real interest rates recently became negative in countries such as Greece, Italy and Portugal.

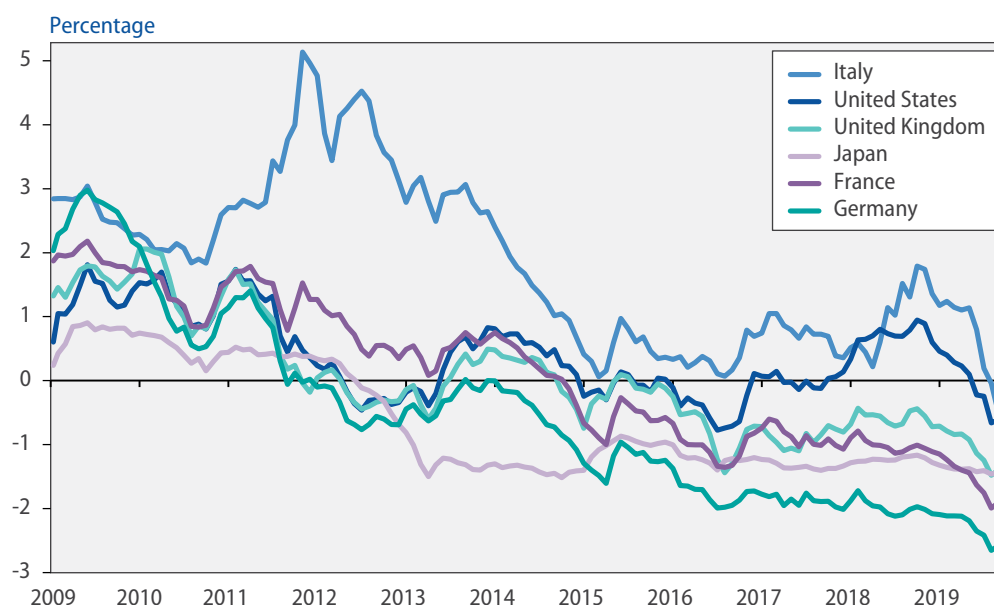
²¹ Declines in long-term interest rates have also been driven by rising demand for government debt amid increased global uncertainty and monetary stimulus by central banks.

²² See also Blanchard (2019b).

²³ General government gross debt as a share of GDP in 2019 stood, for example, at an estimated 237 per cent in Japan, 133 per cent in Italy, 107 per cent in the United States, 99 per cent in France and 86 per cent in the United Kingdom. In all of these countries, the general government balance has been negative every year since 2010.

Historically low interest rates benefit developed country Governments

Figure I.34
Real 10-year government bond yield for selected countries



Source: Darvas (2019).

Note: Nominal yields adjusted by 10-year-ahead inflation expectations as projected in the IMF World Economic Outlook.

Rising public costs for health care, long-term care and pensions, along with declining employment-to-population ratios, will weigh on fiscal budgets. In the event of a significant increase in real interest rates relative to growth, large debt stocks could eventually become more difficult to sustain.

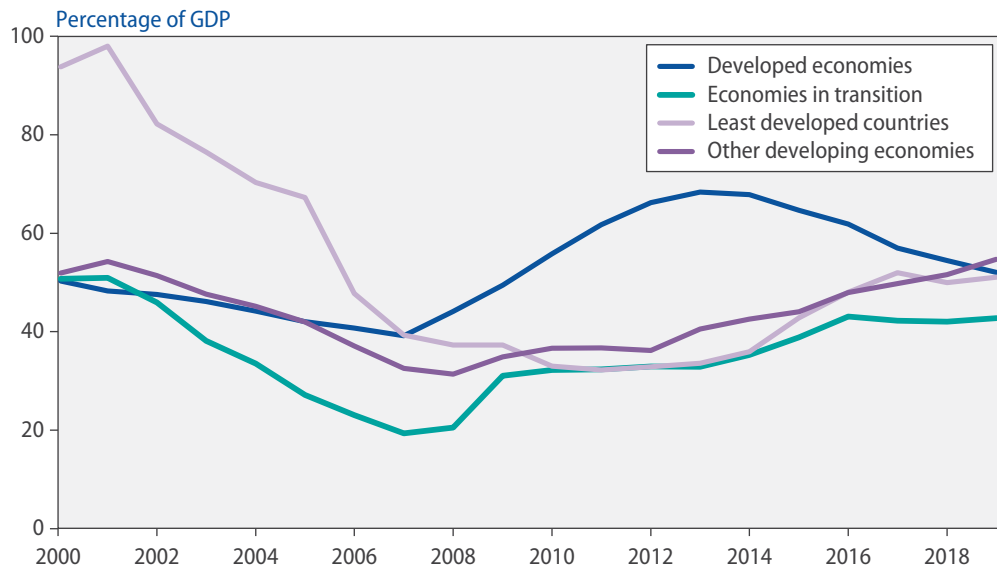
Against this backdrop, developed economies should tailor their fiscal policy to their changing needs and fiscal space. Given pressing public investment needs, Governments that have fiscal space should make use of the current favourable conditions. Fiscal spending should aim to lift the long-run growth potential while supporting sustainable development more broadly through investment in physical and digital infrastructure, education and health, research and development, and the transition to a low-carbon economy. Given the weakness in aggregate demand globally, fiscal stimulus measures will have positive spillover effects on the rest of the world. In countries with limited fiscal space, further fiscal easing should be reserved to address unexpected downturns in case downside risks materialize. As much as possible, Governments should try to lock in the current low rates, for example, by refinancing maturing short-term debt with low-cost long-term debt.

While average debt levels and interest burdens in developed economies have declined over the past decade, fiscal trends across developing countries vary greatly. East Asian countries, in particular, have considerable fiscal space given their relatively low and stable debt-to-GDP ratios. In these countries, greater investment in sustainable development projects can support economic activity in both the short and long run.²⁴ By contrast, fiscal positions have weakened over the past few years in other developing regions, most notably Africa and Latin America and the Caribbean. The median general government debt-to-GDP ratio in developing countries rose from 31 per cent in 2008 to 55 per cent in 2019 (see figure I.35).

Developing countries are increasingly burdened by interest payments

²⁴ See UNESCAP (2019b).

Figure I.35
Median general government gross debt



Source: UN DESA, based on data from IMF, World Economic Outlook database, October 2019.

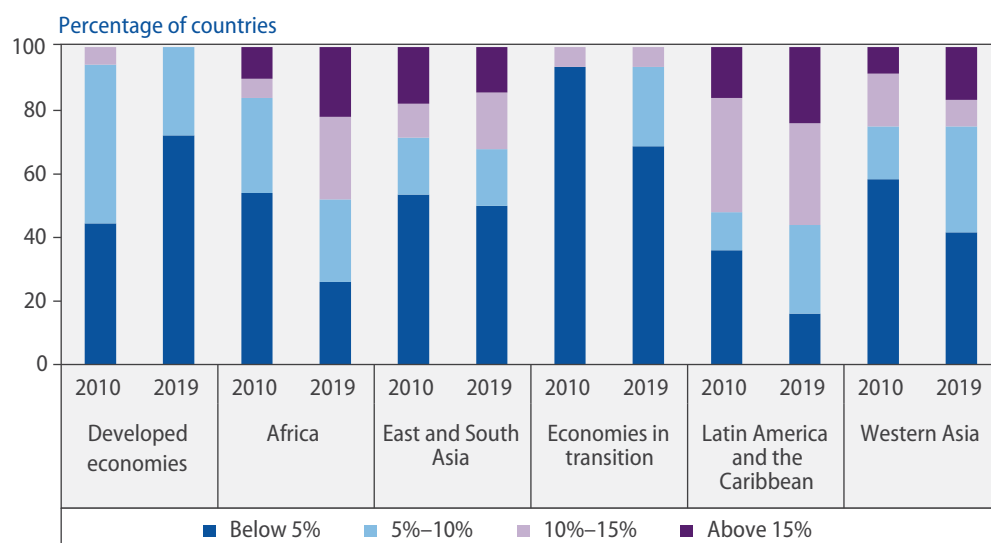
The number of low-income countries that are in debt distress or at high risk of debt distress has shot up in the past three years, rising from 19 in April 2016 to 34 in August 2019.²⁵ Seven of the eight countries currently in debt distress are in Africa. Interest payments are absorbing a growing portion of resources in many developing countries. Between 2010 and 2019, the interest burden, measured as the share of government revenue earmarked for interest payments, increased in more than 70 per cent of developing countries. In Africa and Latin America and the Caribbean, about half of the countries are spending more than 10 per cent of government revenues on interest payments (see figure I.36). In many cases, interest expenditures are approaching levels that have not been seen since the large-scale debt write-offs of the early 2000s. These rising debt-service costs severely constrain the resources available to Governments to invest in sustainable development, including education, health and infrastructure.

In part, this worrisome trend is attributable to shifts in the composition of government borrowing in developing countries. The share of long-term external public debt held by private creditors surpassed 60 per cent in 2017, an increase of more than 12 percentage points since 2007 (UNCTAD, 2019d). Public borrowing is also becoming less dominated by traditional Paris Club lenders. This has resulted in a move away from long-maturity concessional loans towards market-based short-term borrowing, which is often associated with higher interest rates (World Bank, 2019a) (see figure I.37).

Alongside these trends, limited progress has been made in strengthening domestic revenue mobilization, which would reduce dependence on external financing. Many LDCs have seen some improvement over the past decade, but government revenues as a share of GDP remain generally low (see figure I.38). Meanwhile, in most of the non-LDC developing countries, the government-revenue-to-GDP ratio has declined, primarily as a result of lower earnings from natural resources.

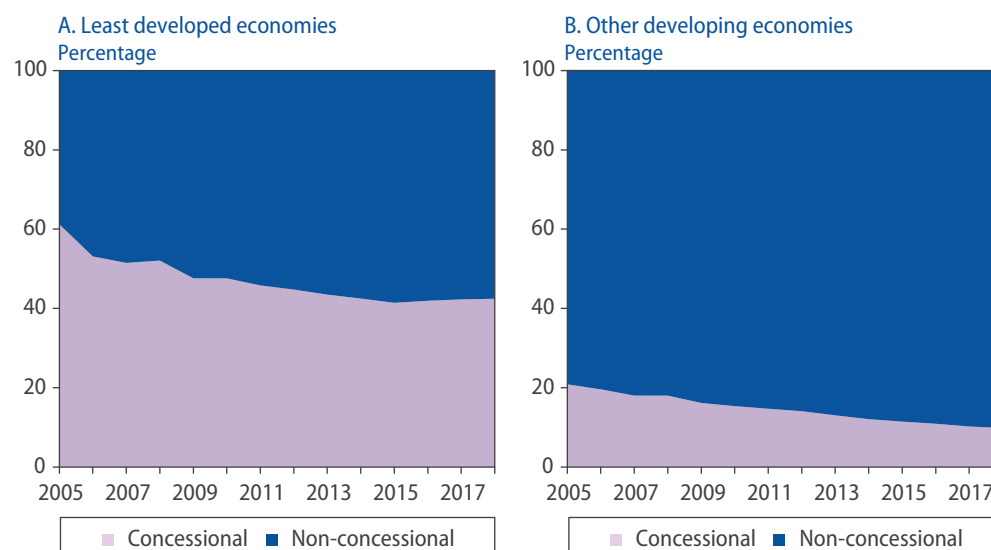
²⁵ The classification is based on data released by the joint World Bank-IMF Debt Sustainability Framework for Low-Income Countries (<https://www.imf.org/external/Pubs/ft/dsa/DSAlist.pdf>).

Figure I.36
Share of general government revenue spent on interest payments, 2010 vs. 2019



Source: UN DESA, based on data from IMF, World Economic Outlook database, October 2019.
Note: Based on 167 countries with available data.

Figure I.37
Share of total external debt

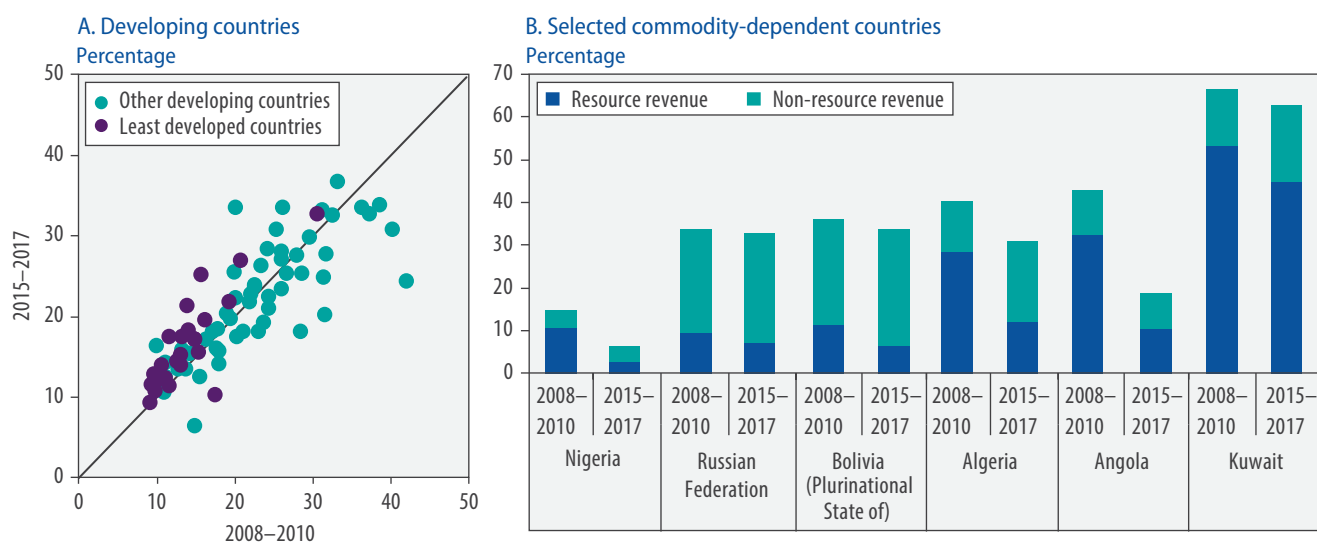


Source: World Bank, International Debt Statistics (IDS).

Ongoing fiscal pressures limit the room for countercyclical policy measures in many developing countries outside East Asia. However, fiscal policy can still play a greater role in structural transformation and in efforts to achieve the Sustainable Development Goals. Fiscal measures have the potential to mitigate growing within-country inequalities and support more inclusive economic growth. In many cases, redistributive policies can be strengthened by making tax and benefit systems more progressive and reducing tax avoidance and evasion. Latin America, for example, needs tax instruments with more redistributive power (personal income tax collection remains weak) and more efficient and

Fiscal policy can play a greater role in supporting development

Figure I.38

Government revenue as a share of GDP

Source: Government Revenue Dataset (International Centre for Tax and Development/United Nations University World Institute for Development Economics Research [ICTD/UNU-WIDER]).

Notes: Data are averages for the indicated periods. Government revenue excludes social contributions and grants. Figure excludes Kiribati, Kuwait and Lesotho.

Source: Government Revenue Dataset (International Centre for Tax and Development/United Nations University World Institute for Development Economics Research [ICTD/UNU-WIDER]).

Note: Non-resource revenue excludes social contributions.

effective public expenditure (UNECLAC, 2018). Similarly, enormous potential exists to increase domestic revenue mobilization in Africa. According to estimates from the United Nations Economic Commission for Africa (UNECA), widening the tax base, limiting tax incentives and reforming tax administration (for example, by introducing e-taxation) could boost government revenue by 12 to 20 per cent of GDP (see box III.2).

Structural policies

Structural policies need to be accelerated to realize the 2030 Agenda

As set out in the 2030 Agenda, policymakers need to implement cross-cutting strategies that address the entire spectrum of development objectives. This includes raising productive capacity in the economy while delivering an adequate standard of living for all people and preserving the environment. In particular, countries need to scale up investment and align policy to decarbonize energy, agriculture and transport (see chapter II). At the same time, they will need to undertake targeted infrastructure investment to broaden access to electricity, clean water and transport links. With limited scope for fiscal and monetary policy to offset the global economic slowdown in many countries, efficiency in policymaking takes on an increasingly important role. Policy trade-offs and synergies will need to be assessed carefully to simultaneously stimulate economic growth and advance social inclusion, gender equality, health and well-being, and environmentally sustainable production and consumption. Given the urgency of action in these areas, international cooperation in technology in areas such as clean energy will facilitate a more rapid diffusion of best-practice solutions.

Governments can stimulate long-term productivity growth while also promoting environmental sustainability. Behavioural shifts by firms and consumers can be encouraged via pricing mechanisms (such as a tax on pollutants or a subsidy to support investment in renewables and clean public transport) and via more stringent regulation and policies that restrict options (for example, banning the use of cars inside city limits or imposing energy-efficient building requirements). Many countries have scope to modify inefficient subsidy regimes that encourage environmentally damaging behaviour, such as energy subsidies that encourage fossil fuel use or agricultural subsidies that support intensive farming where soil nutrient levels are already high (OECD, 2019c). Since such reforms may adversely impact certain groups, they may need to be combined with compensatory measures during a transition period.

Pricing mechanisms and regulation help promote environmental sustainability

With nearly 1 billion people lacking access to electricity or decent roads and 663 million without sources of safe drinking water (Rozenberg and Fay, 2019), global infrastructure gaps are a critical bottleneck for productivity growth. Closing these gaps not only poses a monumental financing challenge but could also raise tensions around environmental targets and the transition towards a low-carbon global economy. Expertise in procurement and contract negotiation is crucial to designing an efficient and effective infrastructure investment programme. Expanding access to electricity and developing public transport networks must be done with a long-term perspective, exploiting synergies and taking into account the potential trade-offs. Similarly, agricultural support such as direct subsidies or investment in irrigation networks must jointly consider the impacts on health, food security, equity and the environment.

Closing infrastructure gaps is critical for development progress

Ensuring equal access to high-quality education and training is among the most effective measures to tackle high levels of inequality and boost productivity over the medium term. Equal access to education will also encourage a more level playing field in access to quality jobs and wages. This can be further supported by broadening labour market engagement through, for example, the provision of childcare, the setting of limits on overtime work, the expansion of access to social protection, and improvements in wage bargaining mechanisms. The social returns from an educated workforce are substantial and generally include increased productivity and civic engagement and a reduction in crime. This may be supported by upgrading school infrastructure, targeting resources to disadvantaged students and schools, providing early childhood education, and establishing teacher training programmes.

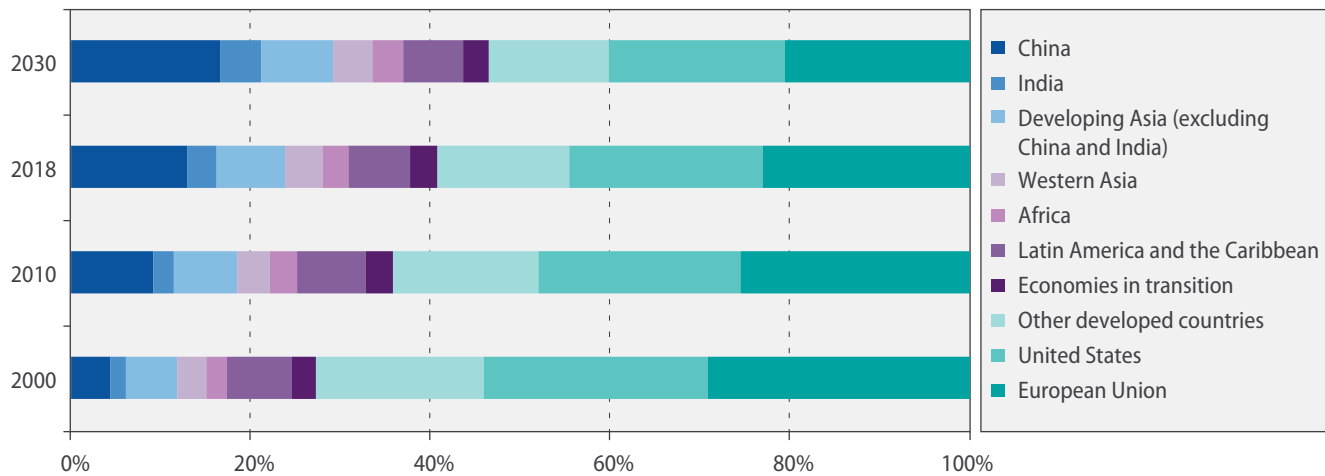
Investment in education generates significant long-term payoffs

Global cooperation

Domestic structural policies alone cannot address all development challenges. For shared goals and challenges, particularly in the areas of international trade, finance and climate change, national policies need to be complemented by more effective international cooperation. As the global economic balance is shifting from the European Union, the United States and other developed countries towards China, India and other developing countries (see figure I.39), global economic decision-making power is shifting as well. China and India alone will account for nearly a quarter of world GDP in 2030; this share derives from the use of market exchange rates to aggregate national data, but their growing importance is even more pronounced when purchasing power parity (PPP) exchange rates are used instead. Global cooperation mechanisms will need to recognize this shifting balance while continuing to allow the underrepresented to be heard.

National policies need to be complemented by effective international cooperation

Figure I.39

Geographical distribution of global GDP from 2000 to 2030

Source: UN DESA, based on projections and scenarios produced with the WEFM.

Note: GDP data are aggregated using market exchange rates.

As the nature of international trade changes, continuous technical and substantive reforms to the multilateral trading system will be needed to allow all stakeholders in trade to benefit equally. This means that the criteria for developing countries to qualify for SDT will need to be re-evaluated with due consideration given to countries' development needs and their capabilities for global trade. The central and most urgent elements of current WTO reform efforts are undoubtedly those relating to the DSM, with a view to resolving the current impasse in the Appellate Body. Recognizing some flaws in the design of the Appellate Body, several countries have sought to introduce practical improvements. Relevant discussions have not yet produced a consensus on workable solutions that ensure the engagement of all countries.

Stronger multilateral action is also required to achieve the ambitious objectives of the Addis Ababa Action Agenda, which provides a global framework for financing sustainable development. As noted in the most recent *Financing for Sustainable Development Report* (United Nations Inter-agency Task Force on Financing for Development, 2019), progress is needed on several fronts, with particular attention given to creating a new architecture for sovereign debt restructuring, strengthening the global financial safety net, overhauling the international tax system, and addressing increased market concentration. Improved international cooperation will allow systemic issues to be addressed more effectively, with stronger incentives provided for long-term investment to achieve the Sustainable Development Goals.

The problems posed by climate change respect no borders. For each country, delivering a cleaner energy mix amid rising demand for affordable and reliable energy while simultaneously maintaining economic stability will require a carefully balanced strategy. Although there is scope for climate policies at the national and regional levels, the most powerful results can be achieved through close global cooperation. Economic activity will benefit from a strong global commitment to the effective implementation of the Paris Agreement Rulebook. Rules such as those for international carbon markets or for loss and damage funding are key for developed countries and climate-vulnerable coun-

tries alike. It is also crucial that nations individually and collectively review their progress towards achieving climate resilience on a regular basis and upgrade climate action plans as needed, as current temperature scenarios show that the world is far off track in meeting the target specified in the Paris Agreement. The stronger international cooperation becomes, the better the results will be for people, the planet and the global economy.