Developed economies

COVID-19 cases & deaths
as of 20 December 2021
Per 100,000 people

Vaccination
as of 20 December 2021
Percentage of population

Note: The boundaries and names shown and the designations used on this map do not imply official endorsement or acceptance by the United Nations. The map represents countries and/or territories or parts thereof for which data is available and/or analysed in World Economic Situation and Prospects 2022. The shaded areas therefore do not necessarily overlap entirely with the delimitation of their frontiers or boundaries. Aggregate data for Africa, excluding Libya.


Source for COVID-19 data: UN DESA calculations, based on data from Johns Hopkins University.
Regional developments and outlooks

Developed economies

- Economic sentiment has improved as vaccination progresses in major developed economies.
- Employment challenges continue with certain sectors experiencing acute labour shortages.
- Inflationary pressures persist amid prolonged supply-chain disruptions; this may further intensify inflationary expectations in some developed countries.

United States: a robust recovery facing supply-side constraints

The economy in the United States grew by an estimated 5.5 per cent in 2021 after a contraction of 3.4 per cent in 2020. A rapid vaccine roll-out and the relaxation of pandemic control measures substantially improved overall economic sentiment and resulted in a quick recovery of output. The current recovery is imbalanced, however, with consumption of goods driving GDP growth (figure III.1).

Figure III.1
The contribution of demand components to GDP growth in the United States
Percentage points

Sources: United States, Bureau of Economic Analysis, Department of Commerce, and UN DESA estimates and forecasts.
Note: e = estimates, f = forecasts.
A recovery in services consumption accelerated towards the end of 2021 while recovery in investment expenditure was robust. Expenditure on equipment and intellectual property products such as software and research and development registered a rapid climb. In contrast, expenditure on non-residential structures remained extremely weak. The contribution of external demand to economic recovery was anaemic. Growth in gross exports of goods and services is projected to be only slightly positive in 2021; a jump in demand for imports resulted in a significant drag on net exports.

The economy in the United States has faced increasing supply-side constraints that initially emerged from global supply-chain disruptions triggered by the pandemic. Rapid domestic demand recovery exacerbated logistics backlogs in incoming freight and domestic transport networks. A shortage of industrial parts, mostly notably semiconductors, has worsened due to continuing supply-chain bottlenecks, production disruptions in East Asian countries and the quick drawdown of inventories. Parts shortages have hit the automotive industry particularly hard.

![Figure III.2](image)

**Labour market indicators in the United States**

Percentage

Unemployment rate (left-hand scale)  
Job openings rate (total, non-farm, left-hand scale)  
Labour market participation rate (right-hand scale)


Another element of supply-side constraints has been a growing labour shortage. The pace of growth in job openings has consistently been higher than the rate of decline in the unemployment rate; the
labour market participation rate has remained lower than the pre-pandemic level (figure III.2). The total non-farm job openings rate hit a historic high of 7 per cent in July and is forecast to remain high. The unemployment rate came down to 4.6 per cent in October, still above the pre-pandemic rate of 3.5 per cent in February 2020. While firms have accelerated hiring, the number of workers who quit their jobs reached a historic high in September 2021. The labour market situation suggests a substantial mismatch between job seekers and firms looking to hire in terms of skills, wages, locations and other working conditions (Lubik, 2021).

Along with rising energy prices, domestic supply-side constraints have pushed up prices. The producer price index for final demand increased 8.6 per cent in October 2021 from a year earlier, reflecting higher energy prices and the costs of transportation and warehousing. Nominal wages, in terms of average hourly earnings, registered a 4.8 per cent annual increase in October 2021, well above the pre-pandemic average of 2.4 per cent over the last decade. Although the nominal wage increase is still barely over the core inflation rate of 4.6 per cent in the same month, the wage adjustment to inflation has been noticeably quick. Consumer price inflation is estimated to be 4.3 per cent in 2021.

Highly accommodative fiscal and monetary policies supported quick recovery as stimulus measures wound down during the second half of 2021. With the expiration of enhanced unemployment benefits in September, the focus of fiscal measures shifted to investment promotion under the Build Back Better Framework. The $1 trillion Infrastructure Investment and Jobs Act was passed by the legislature in November 2021, while the Build Back Better Act, intended to pump $1.7 trillion into the social safety net and climate action, is under legislative review. On the monetary side, the Federal Reserve began to taper its asset purchase programme in November.

Policy debate continues regarding the timing of the first policy interest rates hike given inflation prospects.

The United States economy is forecast to grow by 3.5 per cent in 2022 amid a rebalancing of demand (figure III.1). Consumption growth is expected to slow; exports are predicted to recover. The consumer inflation rate is forecast at 3.2 per cent with substantial supply-side constraints in the first half of the year. The main downside risks stem from uncertainties regarding the pandemic, inflation prospects and associated monetary policy decisions.

**Japan: slow recovery in domestic demand while supply-chain disruptions hit exports**

The Japanese economy grew an estimated 2.2 per cent in 2021 after a contraction of 4.6 per cent in 2020. COVID-19 outbreaks and measures to control the pandemic weakened household and economic sentiment, which slowed the recovery of domestic demand during the first three quarters of 2021. Unlike other developed economies, which have witnessed a rapid recovery in residential investment

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2. See Chapter 2 for details on the asset purchase programmes of central banks during the pandemic.
since mid-2020, residential investment in Japan continued its downward trend since peaking in the third quarter of 2019. In the fourth quarter in 2021, however, a decline in COVID-19 cases and progress on vaccination substantially improved economic sentiment.

Supply-chain disruptions hit the automotive sector

Export growth, the main factor contributing to recovery since the second half of 2020, has lost its momentum. Supply-chain disruptions, particularly semiconductor shortages, compelled the automotive sector to operate under full capacity. Exports of automotive products sharply declined in the second half of 2021. Supply-chain disruptions added inflationary pressure on the prices of goods but this barely offset a persistent deflationary trend, particularly in service prices (figure III.3). Consumer price inflation was an estimated 0 per cent for 2021.

Figure III.3
Inflation trends in Japan

Source: Japan, Ministry of Internal Affairs and Communications.

Expansionary policies contained rising unemployment and bankruptcies

The Government of Japan implemented sizeable fiscal stimulus measures to minimize the impact of the pandemic. The additional stimulus package for the 2021-2022 fiscal year was 40 trillion yen, about 7.5 per cent of GDP. Another package for the 2022-2023 fiscal year amounts to 55.7 trillion yen. Monetary policy continues to be highly expansionary. The Bank of Japan has accelerated its asset...
purchases along with its existing policy framework for quantitative and qualitative monetary easing with yield curve control. These measures have succeeded in containing rising unemployment and bankruptcies. The unemployment rate peaked at 3 per cent in May 2021 and started declining towards the pre-pandemic rate of 2.4 per cent. Bankruptcy cases have fallen since a peak in July 2020. Policy measures did not induce robust private spending growth in 2021, however.

GDP growth is forecast at 3.3 per cent in 2022. Robust domestic demand growth is expected due to increased private consumption reflecting pent-up demand for goods and services. Private investment is also projected to recover along with improving economic sentiment. Both monetary and fiscal policies will likely remain expansionary to support domestic demand recovery. Downside risks stem from uncertainties surrounding the pandemic and supply-chain disruptions. Although the latter have extensively impacted the automotive sector, it is uncertain if they will escalate to broader supply-side constraints.

**Australia: strong recovery continues despite a temporary contraction due to Delta variant outbreaks**

The Australian economy grew an estimated 3.1 per cent in 2021 after a 2.5 per cent contraction in 2020. A strong recovery in domestic demand promptly led to rapid job recovery in the first half of 2021. The unemployment rate declined to 4.9 per cent in June, below the pre-pandemic level of 5 per cent. During the third quarter, the recovery faced a setback due to outbreaks of the Delta variant of COVID-19, however. The economy shrank on a quarterly basis following stringent lockdown measures in major cities. By the fourth quarter, relaxation of these measures and rapid progress in vaccination restarted economic activities and recovery. Export recovery has gained steam with rising commodity prices.

For 2022, the economy is forecast to grow by 4.2 per cent, with robust domestic demand growth. Export growth is projected to accelerate further with a recovery in services trade. Both monetary and fiscal policies are expected to remain expansionary. The Reserve Bank of Australia will probably scale down its bond-buying programme but is not likely to hike its policy rates in 2022 unless rapid wage growth appears. Downside risks stem from uncertainties over the COVID-19 pandemic and global supply-chain disruptions. Compared to other developed countries, however, the impact of the latter is likely to be milder given Australia’s service-based domestic demand and commodity-based exports.

**Europe: a return to growth but the crisis is not over yet**

The economies of Europe returned to growth in 2021, with the gradual easing of COVID-19 containment measures, continued accommodative macroeconomic policies and a sharp rebound in leading export destinations. Most European economies registered a double-digit year-on-year increase in output in the second quarter, the overall performance of the region in the first half of the year exceeded earlier expectations. Following more than a year of suppression, consumer sentiment improved and private
consumption surged as households started to spend savings accumulated due to pandemic-related precautions or limited scope to spend. Amid the reopening of the services sector and lifting of intra-European Union mobility restrictions, economies in countries relatively dependent on tourism, such as Greece, Italy and Spain, saw a sharp increase in tourist arrivals.

In the second half of 2021, however, the region faced serious headwinds. The manufacturing sector, which had recovered to its pre-pandemic level of activity, was severely impacted by supply-chain disruptions in part caused by shortages of shipping containers and lower capacity in Asian ports. Certain industries, in particular the automotive industry – which is of crucial importance for many economies in Europe, including the largest, Germany – have been forced to scale back production because of the global semiconductor shortage. Further, many industries and services have confronted a large-scale lack of workers, especially truck drivers. Supply disruptions and rising costs of input materials brought the construction sector in Europe to a standstill in late 2021. Soaring energy prices, especially for natural gas and LNG, caused a spike in electricity costs and became another hurdle to economic recovery, disrupting output in energy-intensive firms. The Economic Sentiment Indicator for both the euro area and the European Union stabilized at a high level in July after rapidly improving since January 2021 (figure III.4).

The German economy has not regained its pre-crisis size and is expected to expand by only 2.5 per cent in 2021. Growth sharply slowed in the third quarter due to sluggish industrial activity and interruptions in automotive sector output. Disruptions in the supply of intermediate goods were accompanied by rising electricity prices, and in September, producer prices increased by over 14 per cent year on year. Growth should accelerate to 4 per cent in 2022 given an improved outlook for exports and domestic investment, the insourcing of the production of semiconductors and other key inputs, and the gradual shift towards European production chains. An expected increase in the minimum wage should support private consumption. The economy, however, faces medium-term risks associated with slow progress in shifting towards the production of electric vehicles as well as demographic pressures.

Most European countries have accomplished relatively high vaccination rates against COVID-19. Yet, another surge in cases began in the fall of 2021, making the region an epicentre of the pandemic once again. This led to the reintroduction of containment measures in Austria, Denmark, Latvia, the Netherlands and Slovakia. These measures may again disrupt service sectors such as leisure, hospitality and travel. A return to the prolonged full-scale lockdown adopted in 2020 remains unlikely, however.

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3 The natural gas price increase in Europe in the second half of 2021 was caused by insufficient domestic storage, declining imports from the Russian Federation, a sharp increase in LNG demand from Asia and the shift from long-term gas purchase contracts to spot markets.
The consequences of Brexit weighed on production activities in the United Kingdom, despite the Trade and Cooperation Agreement reached with the European Union in 2020. Numerous non-tariff barriers emerged in trade between the two, while significant uncertainty remains around trade in services. After a double-digit year-on-year expansion in the second quarter of 2021, economic growth in the United Kingdom noticeably slowed amid supply-side and fuel shortages. Difficulties in bringing in migrant workers to meet labour demand, a problem that to a certain extent resulted from Brexit, contributed to persistent supply-side bottlenecks.

The outlook for European economies for 2022 is mixed, as the weaknesses of late 2021 will carry on to at least the first quarter. Headline growth may taper somewhat due to the weaker base effect and the start of the gradual unwinding of anti-crisis stimulus measures. On the positive side, the European Union will begin benefiting from the largest stimulus package implemented in decades – the combination of the European Community’s long-term multi-annual budget running from 2021 to 2027 and the massive Recovery and Resilience Facility, the NextGenerationEU. The latter, worth over 800 billion euros, is expected to boost the Union’s economic recovery and improve long-term growth prospects.

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4 Although over 6 million foreign workers applied for residency in the United Kingdom after Brexit, many have left the country. In 2020, the net migration of European Union nationals to the United Kingdom was negative. See ONS, 2021.
billion euros, is financed by joint debt issuance. Implementation of the recovery plan, with spending focused on sectors with high growth multipliers, should facilitate the modernization and digitization of infrastructure, bolster research and innovation, expedite the shift towards a sustainable economy, address social problems such as youth unemployment and improve the efficiency of governance. Actual impacts will of course depend on the ability of national governments to use allocated funds.

The aggregate GDP of the EU-27, after shrinking by 6 per cent in 2020, bounced back by an expected 4.7 per cent in 2021. It may be followed by a further 3.9 per cent expansion in 2022, assuming that prolonged lockdowns are not resumed. European Union member States from Eastern Europe are projected to maintain a positive growth differential with their West European peers. Among European countries not in the European Union, the economy of the United Kingdom expanded by an estimated 6.2 per cent in 2021 and is expected to see further growth of 4.5 per cent in 2022. Despite difficulties in late 2021, the outlook for the economy in the United Kingdom is positive. Most of the corporate sector is in a strong financial position, and a two-year tax deduction incentive should encourage investment.

Consumer price inflation turned negative in many European countries in 2020. It remained subdued in early 2021 but accelerated markedly in the second half of the year (see Figure III.5). Even in countries with a long record of price stability, annual inflation exceeded 4 per cent in the final quarter of the year, much above the European Central Bank’s (ECB) 2 per cent target. Apart from the base year effect, including from a temporary reduction in the value added tax in Germany, the surge in inflation is explained by various factors. These include higher producer prices caused by skyrocketing costs of raw materials and energy, a sharp rise in food prices and persistent supply-chain disruptions. In Eastern European countries with flexible currencies, depreciation added to inflationary pressure. To mitigate the impact of higher gas and electricity prices on households and businesses, several European countries, including France, Italy and Spain, adopted various measures to curb them. In July 2021, the ECB announced that it will tolerate overshooting the inflation target. Most inflationary factors are believed to be transitory; however, a longer-than-anticipated period of above-target inflation may lead to a second-round effect on labour markets and a wage-price spiral.

Labour market conditions notably improved in 2021, with a robust increase in working hours in most countries. In the Czech Republic and Germany, unemployment fell to low single-digit levels, while it remains elevated in Greece and Spain. Phasing out furlough schemes implemented in several countries since the beginning of the pandemic may lead to a modest rise in unemployment, but in general, the European economy should add jobs over the next couple of years. Labour demand is expected to strengthen. Several European countries confront labour shortages causing significant logistical bottlenecks and reflecting persistent mismatches between labour supply and demand and different speeds of recovery across sectors (see Chapter 1). Although immigration remains a politically contentious issue, a long-term, comprehensive immigration strategy for bringing in skilled workers may mitigate labour supply pressures. Removing obstacles to internal mobility that emerged from the pandemic may also address labour shortfalls in some countries. Given that virtually all European Union countries are facing demographic shifts, however, alleviating labour shortages in one country via intra-European Union migration would most likely exacerbate shortages in others.
Macroeconomic policies in Europe largely maintained their accommodative stance in 2021, with continuing liquidity and wage support schemes. As an outcome of massive stimulus spending, public debt levels soared in some countries, far exceeding limits set by the Stability and Growth Pact (see figure III.6). Ceilings on the size of budget deficits and public debt were earlier put on hold by the European Commission when it activated the pact’s escape clause. Most European countries will nevertheless start putting their public finances in order beginning in 2022. The pace of fiscal consolidation will likely be gradual and decided at a national level. Stronger growth rates will have a modestly positive effect on debt ratios while financing costs should remain low. For the United Kingdom, exiting the European Union allowed greater fiscal flexibility, and the proposed budgetary framework up to 2025 remains accommodative. The ability to borrow in British pounds and the accommodative stance of the Bank of England are expected to provide sufficient fiscal space to support growth.
Following the enactment of massive anti-crisis liquidity support schemes, central banks in Europe are expected to start gradual monetary policy normalization. The key policy rates of the ECB, the interest rate on the main refinancing operations and the deposit rate, are likely to be maintained at 0 per cent and minus 0.5 per cent, respectively, at least until early 2023. By contrast, the main policy tool of the ECB since 2020, asset purchases, is expected to be scaled down starting in 2022.\(^5\) The reduction in monthly asset purchases will take place gradually to avoid raising long-term interest rates and prevent disruptions in financial markets. The ECB’s balance sheet will likely retain its size in the medium term, with reinvestment of payments from maturing securities.

Outside the euro area, in Sweden, the Riksbank completed its asset purchases by December 2021. In Denmark, where the Government entered the crisis with a large liquidity buffer, the Central Bank, after a series of currency interventions, has reduced the already negative key interest rate further to curb appreciation pressures, defending the peg to the euro. In Eastern Europe, inflation rates not seen for over a decade and concerns about rising inflationary expectations prompted sharp interest rate hikes in the Czech Republic, Hungary, Poland and Romania. In European countries outside the

\(^5\) The ECB is running two asset purchase programmes: the Pandemic Emergency Purchase Programme to be phased out in March 2022 and the smaller Asset Purchase Programme.

\(^6\) The volume of newly issued sovereign bonds is also expected to shrink along with planned reductions in budget deficits.
European Union, the Bank of England has announced that it plans to begin slowing its asset purchases once interest rates reach 0.5 per cent. Continued favourable monetary conditions in Europe will give a respite to the corporate sector, given elevated business indebtedness. On the other hand, monetary authorities should acknowledge the risks from credit misallocation and elevated asset prices, which could produce unanticipated and sharp price corrections.