

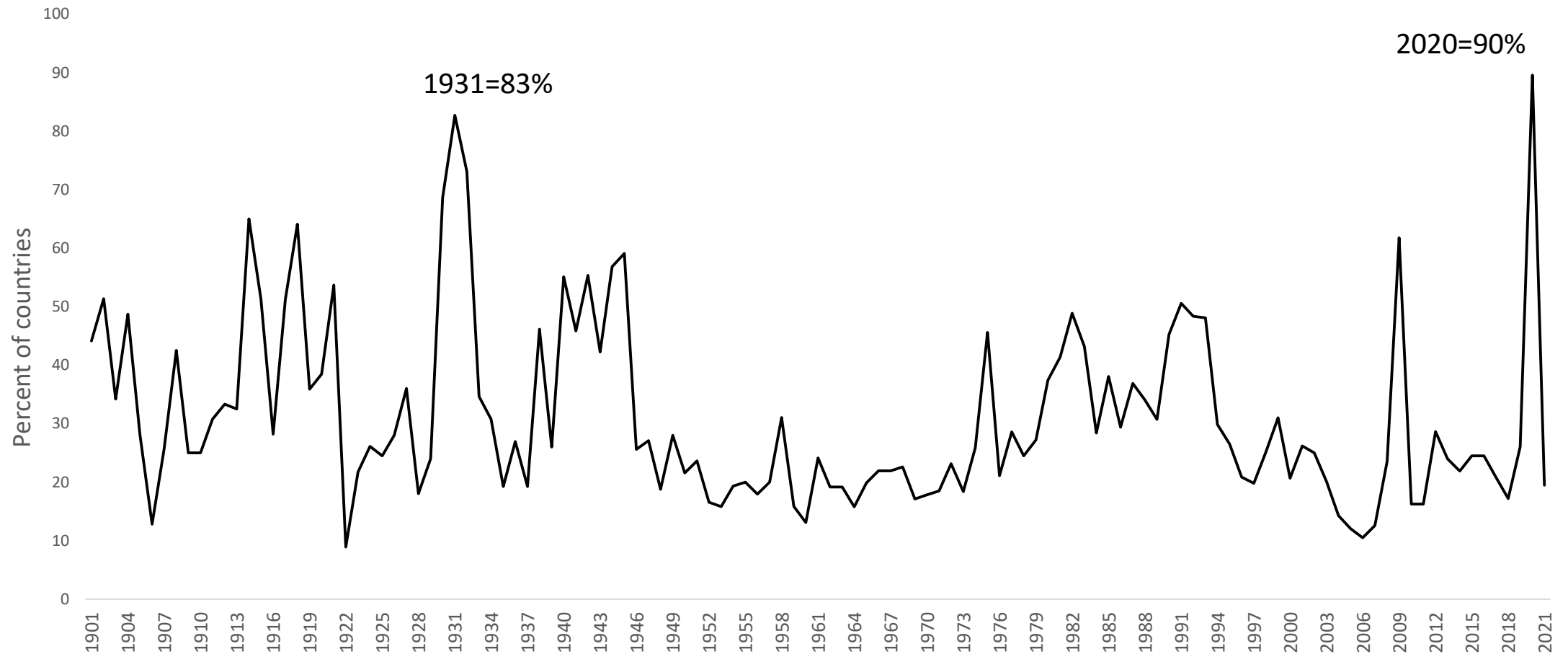
# **The Reversal Problem and Macroeconomic Challenges post-Covid**

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# Share of countries with declines in per capita GDP, 1901-2021



Source: Holston, Kaminsky and Reinhart (2021).

Notes: The number of countries ranges from 34 in 1901 to 192 in 2020; *World Economic Outlook*, October 2021 estimates for 2021.

# The Reversal Problem (RP)

A development challenge for the next decade

- During the first two decades of the 21<sup>st</sup> century, several **benign trends** emerged, including: progress on poverty reduction, narrowing of the gap between rich and poor nations (convergence), greater gender equality, higher growth rates and a much lower incidence in EMDEs of economic crises (debt and financial crises, inflation and protracted growth collapses etc.)
- An **encompassing global trend** (which began selectively around 2015 with declining commodity prices and accelerated with COVID-19) reversed these benign trends. The **reversal problem** is encompassing in terms of geography (more acute in Africa and low-income countries more generally). It is also encompassing in that the RP not only affects broad economic and social performance and indicators but is potentially politically destabilizing internally and across national borders.

# Rebound or Recovery?

## Real per capita GDP: 1980-2021, 194 countries

Rebound or recovery form COVID-19 shock?

	Advanced		Middle-income		Low-income	
	Number	Share (%)	Number	Share (%)	Number	Share (%)
2021>2019	15	40.5	36	27.5	6	23.1
2021 <2019	22	59.5	95	72.5	20	76.9
Total	37	100.0	131	100.0	26	100.0

but for many countries the income slowdown preceeded COVID-19...

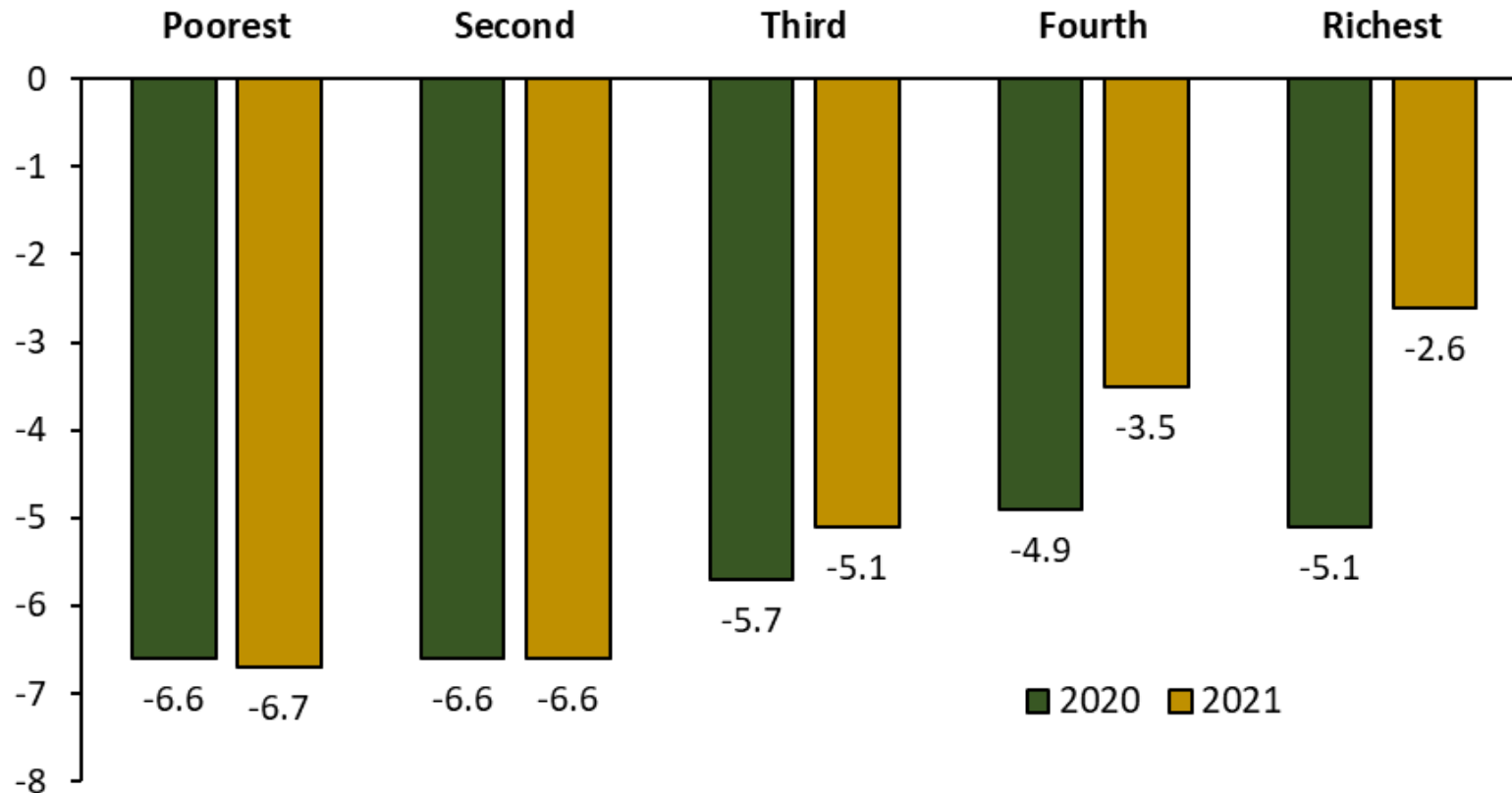
	Advanced		Middle-income		Low-income	
	Number	Share (%)	Number	Share (%)	Number	Share (%)
2021=peak	13	35.1	27	20.6	3	11.5
2021 <peak	24	64.9	104	79.4	23	88.5
Total	37	100.0	131	100.0	26	100.0

The COVID-19 crisis is markedly regressive

# Widening inequality **across** countries

Percent of income loss by global income quintile due to COVID-19

Compared to pre-pandemic projections

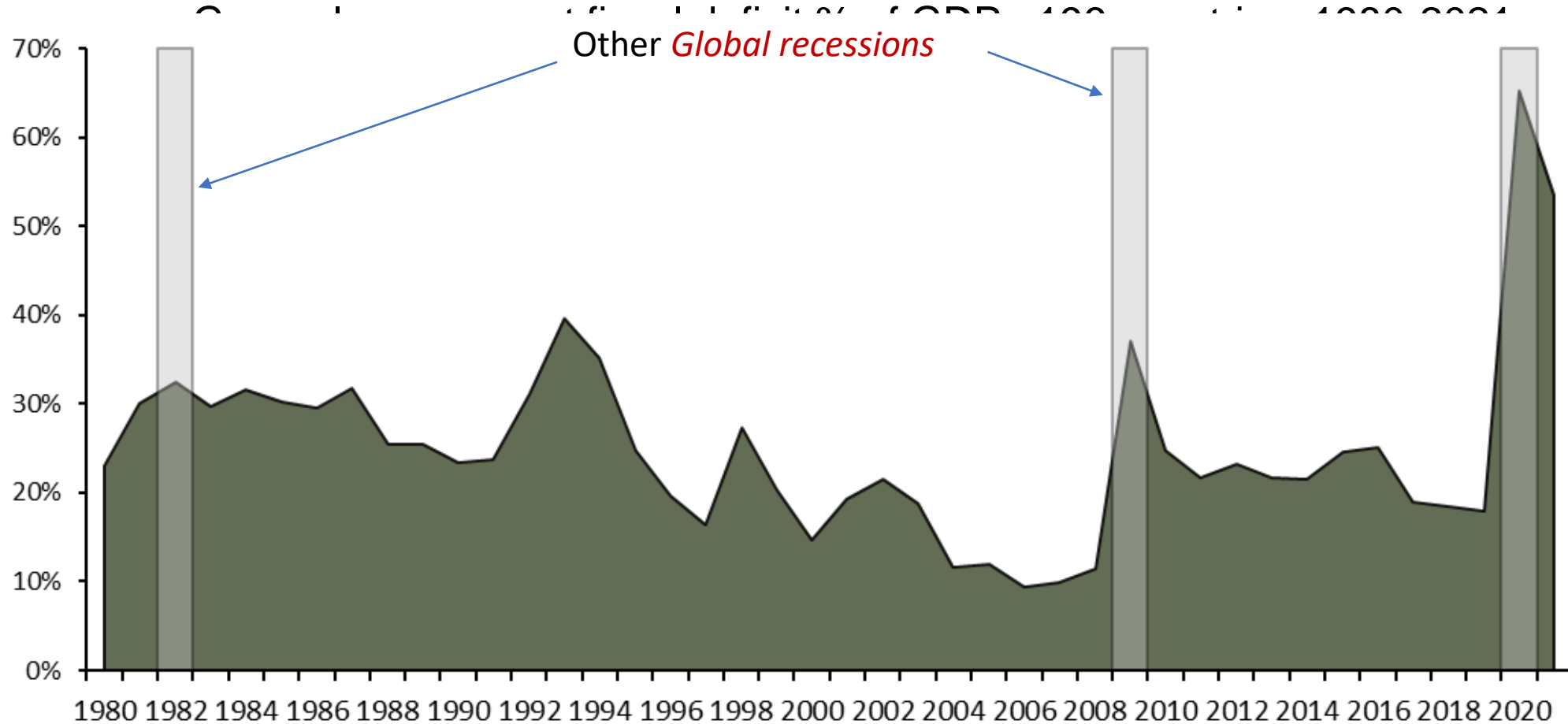


- Poorer countries are contending with a deeper, longer-lasting Covid-19 crisis that is reversing recent trends of shrinking inequality.
- The poorest 40 percent have not started to recover their income losses, while the top 40 percent has recovered more than 45 percent of their initial income losses.

Source: Yonzan, Laknerdaniel, and Mahler (2021).

# Widespread and historically large fiscal deficits point to large financing needs

## Share of countries with fiscal deficits above 5 percent of GDP

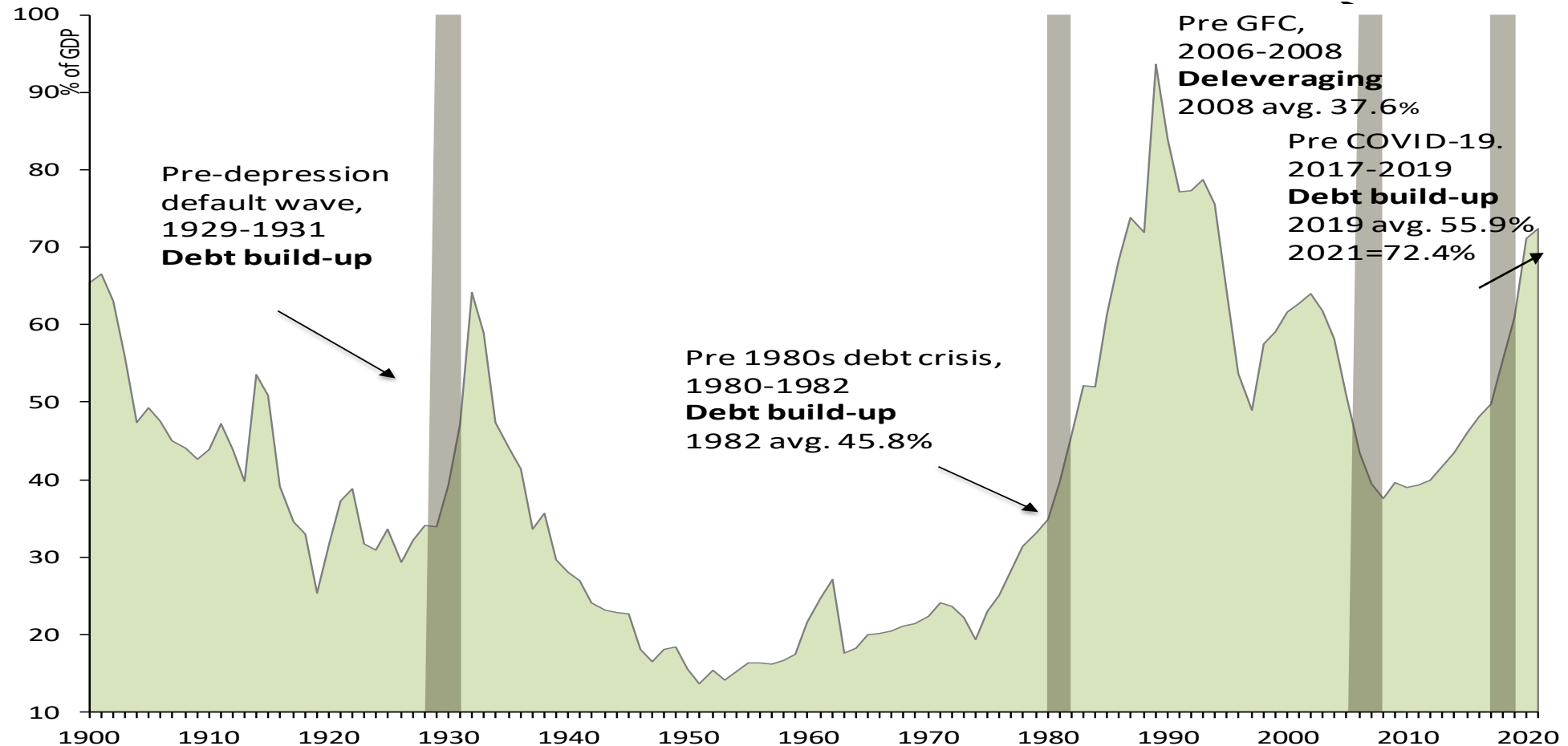


Sources: Authors' estimates based on data from World Economic Outlook (2021).

## Rising debt levels:

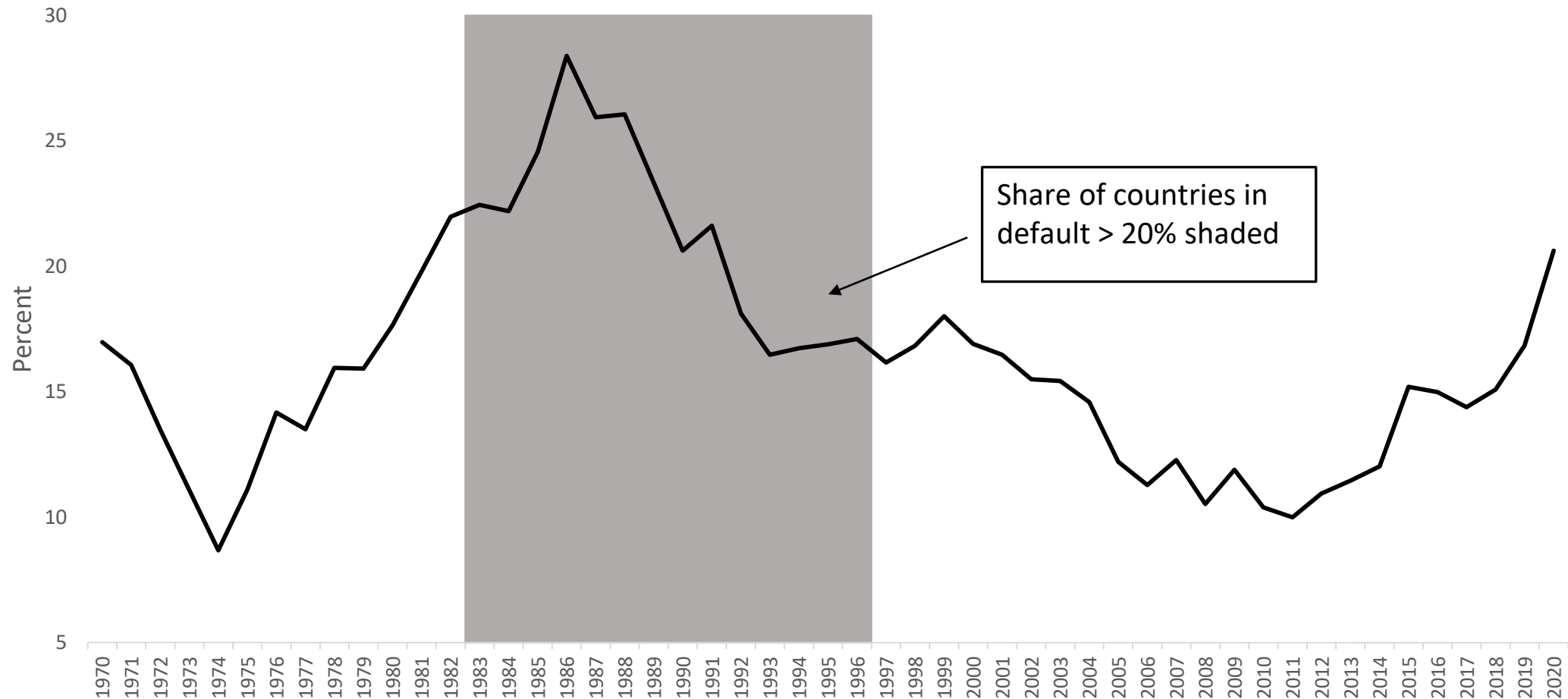
While EMDE debt levels are well below AEs, many of these countries are *Debt Intolerant* and have encountered debt crises at lower levels than those in prevailing in 2021.

Unweighted average, 46 EMDEs 1900-2021



Sources: IMF, World Economic Outlook and Reinhart and Rogoff (2009, 2011) and sources cited therein.

# Average total external debt service, EMDEs:1970-2020 (% of exports of goods, services and primary income)



Sources: International Debt Statistics and Farah, Graf Von Luckner, and Reinhart (2021).

Notes: Default shares based on all countries (193 as of 2020).

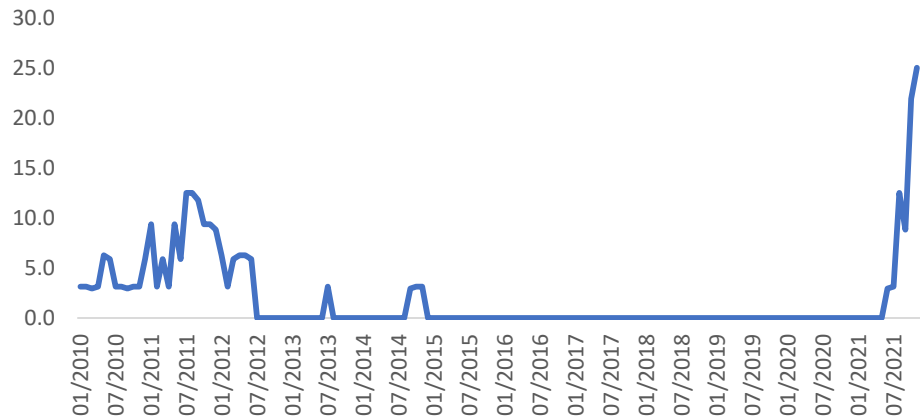
Debt servicing is an average for 123 EMDEs.



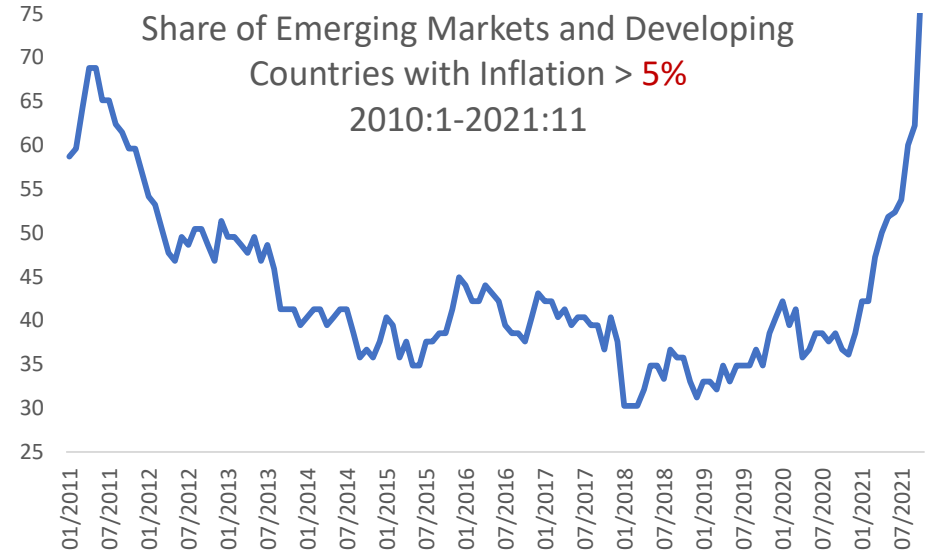
# Inflationary pressures are reminiscent of the 1970s

## A complex landscape Temporary????

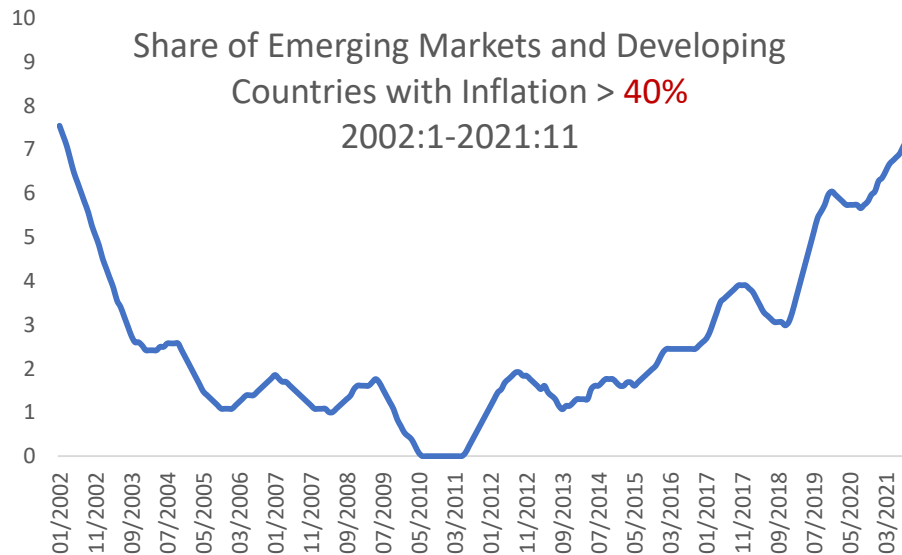
Share of Advanced Economies with Inflation > 5%  
2010:1-2021:11



Share of Emerging Markets and Developing Countries with Inflation > 5%  
2010:1-2021:11



Share of Emerging Markets and Developing Countries with Inflation > 40%  
2002:1-2021:11



Extreme inflation cases have also been on the rise prior to the COVID-19 crisis

Sources: International Monetary Fund and Trading Economics.

# Poverty rates are above pre-Covid-19 in most EMDEs

## Global poverty rate (\$1.90 per day in 2011 PPP): 2019-21, 88 EMDEs

Extreme poverty in 2021 vs. versus 2019												
Number of countries and shares: World and by region												
	World		Latin America-Caribbean		Middle East-North Africa		Sub-Saharan Africa		East Asia Pacific		Eastern Europe-Central Asia	
	Number	Share	Number	Share	Number	Share	Number	Share	Number	Share	Number	Share
2021>2019	62	70%	13	68%	3	75%	35	78%	3	43%	5	56%
2021<2019	26	30%	6	32%	1	25%	10	22%	4	57%	4	44%
Total	88	100%	19	100%	4	100%	45	100%	7	100%	9	100%

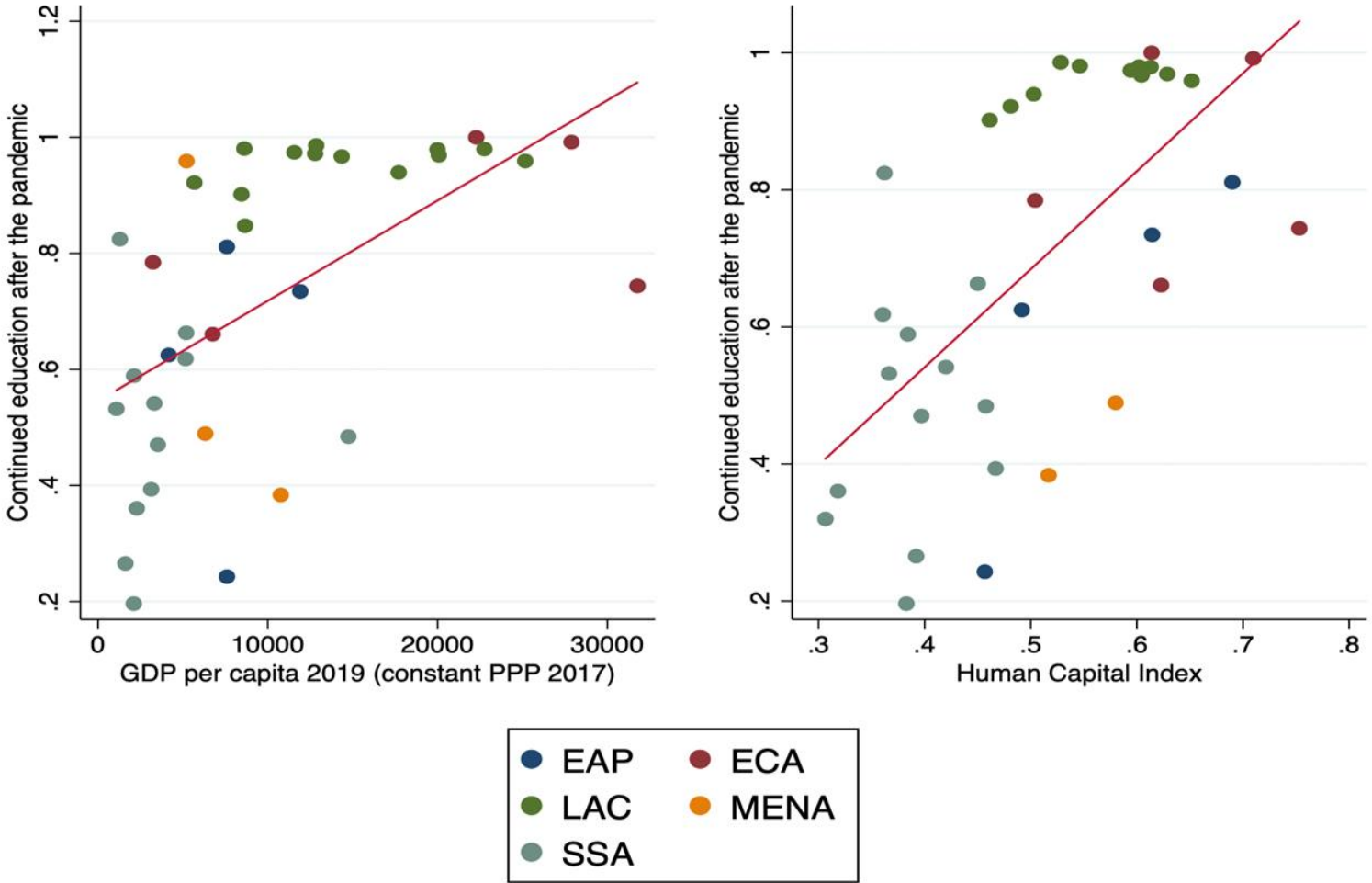
- The number of poor has increased across all regions, particularly in Sub-Saharan Africa.
- Extreme poverty in low-income countries has rapidly increased, setting back progress by eight to nine years, while progress in upper-middle-income countries has been set back by five to six years.

Source: World Bank (2021).

Note: Extreme poverty is measured as the number of people living on less than \$1.90 per day. 2017 is the last year with official global poverty estimates.

# Learning was more severely interrupted in lower-income countries

School closures were longer in countries already suffering from human capital deficits



Sources: World Bank (2021).