

OIC ECONOMIC OUTLOOK

Achieving Sustainable and Resilient
Recovery Post COVID-19 Pandemic

2022



ORGANISATION OF ISLAMIC COOPERATION
STATISTICAL, ECONOMIC AND SOCIAL RESEARCH
AND TRAINING CENTRE FOR ISLAMIC COUNTRIES
(SESRIC)





Organization of Islamic Cooperation
Statistical, Economic and Social Research
and Training Centre for Islamic Countries
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*Achieving Sustainable and Resilient Recovery
Post COVID-19 Pandemic*



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Acronyms

AI	Artificial Intelligence
COVID-19	Coronavirus Disease of 2019
CPI	Consumer Price Index
DOTS	Direction of Trade Statistics
EPR	Employment-to-Population Ratio
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investment
FTE	Full-time Equivalent
GCF	Gross Capital Formation
GDP	Gross Domestic Product
GHG	Greenhouse Gas
GNI	Gross National Income
HCI	Human Capital Index
ICT	Information and Communication Technology
IEA	International Energy Agency
ILO	International Labour Organisation
IMF	International Monetary Fund
ISIC	International Standard Industrial Classification of All Economic Activities
GVCs	Global Value Chains
LAC	Latin America and the Caribbean
MNC	Multinational Corporation
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
OIC	Organisation of Islamic Cooperation
PPE	Personal Protective Equipment
PPP	Purchasing Power Parity
P-PP	Public-Private Partnership
SDGs	Sustainable Development Goals
SESRIC	Statistical, Economic and Social Research and Training Centre for Islamic Countries



SMEs	Small-and-Medium-sized Enterprises
SSA	Sub-Saharan Africa
STI	Science, Technology, and Innovation
UAE	United Arab Emirates
UK	United Kingdom
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNSD	United Nations Statistics Division
US	United States of America
US\$	United States Dollar
WEO	World Economic Outlook
WTO	World Trade Organization

Foreword

The global economic outlook is highly fragile and uncertain amid the Russia-Ukraine war, which is compounding the damage from the COVID-19 pandemic by exacerbating supply-side shocks, disrupting international commodity markets and driving inflation to unprecedented heights across the world. In this context, SESRIC's flagship report "*OIC Economic Outlook 2022*" provides a comprehensive analysis of the recent economic developments in the global economy and their implications for the economies of OIC member countries by using a wide range of useful comparative statistics and information.

The report highlights that most economic indicators improved in 2021 across the world, including the OIC countries because of the ongoing recovery from the pandemic. The global economic growth is estimated at 6.1% in 2021 after a contraction of 3.1% in 2020. Similarly, the OIC countries, on average, grew by 5.8%—the highest rate achieved since 2010—following a moderate contraction of 1.7% in 2020. It is also noteworthy for the OIC countries that, in 2021, government deficits narrowed to 3.8% of GDP, merchandise exports rebounded by 41.7%, services exports grew by 26.4%, and current accounts yielded a surplus after recording deficit for the last two years. However, the OIC countries recorded deteriorations particularly in terms of high unemployment of 7.2% and inflation rate of 12.9%, further diverging from the world average of 6.2% and 4.7%, respectively.

Despite recording noticeable recovery in 2021, the global economy remained mired in concerns about the resurgence of pandemic and disruptions caused by the Russia-Ukraine war. Accordingly, global economic growth for 2022 has been marked down to 3.2% in the July 2022 IMF projections, 1.2 percentage points lower than previously projected in January. Likewise, the projection for 2023 has been revised down 0.9 percentage points to 2.9%. In line with the global trends, the economic growth in OIC countries is expected to moderate in the next two years, to 4.9% in 2022 and 4.2% in 2023. The prolongation of the war in Ukraine will undoubtedly lead to greater negative spillovers throughout the world economy, affecting the OIC countries as well.

During the pandemic, most countries opted for a fiscal expansion through accommodative policies to mitigate pandemic's overall economic cost. However, the pandemic-related support has run out or loosened up over time. Today, many countries, the developed ones in particular, are reducing policy accommodation in response to inflationary pressures, and many developing countries are left with limited fiscal space. Thus, maintaining fiscal sustainability has become even more difficult due to the rising interest rates and the need to protect vulnerable populations against high food and energy prices. Interest rate hikes are exposing debt vulnerabilities, particularly in countries with higher debt levels and larger financing needs.

Energy and food deficit countries are particularly vulnerable, as they will face higher import bills. Besides, people in low-income economies and the poorest segments of populations in general, where food constitutes a larger share of household consumption, are expected to suffer the most due to the increase in the cost of living. Accordingly, food shortages due to the reduced supplies from the countries in conflict, the consequent increase in food prices, and the likely disruptions

to agricultural production due to the rising input costs could further deepen food insecurity and poverty in the poor regions, with the potential risk of civil unrest in extreme cases. While many OIC countries are already struggling to “return to normal” after two years into the pandemic, these new challenges will make it even harder to get back on track, if not further worsen.

In light of the above, and considering the additional challenges associated with climate change and a growing number of droughts, floods, and other extreme weather events, it is imperative to strengthen resilience to future shocks, whatever the cause might be. In this connection, the report includes a special chapter on ‘Achieving Sustainable and Resilient Recovery Post COVID-19 Pandemic’, which highlights a number of policy measures in strengthening economic resilience to future shocks under eight broad categories.

The *OIC Economic Outlook 2022* is a result of substantial investment in time, effort and dedication by the SESRIC Research Team. I would like to acknowledge their contributions in hope that you will find the report engaging, but above all, useful and informative.

Nebil DABUR
Director General
SESRIC

Executive Summary

RECENT DEVELOPMENTS IN THE WORLD ECONOMY

ECONOMIC GROWTH

After a contraction of 3.1% in 2020, the global economic growth is estimated at 6.1% in 2021, supported by a strong recovery in both developed countries (5.2%) and developing countries (6.8%). As of mid-2022, the world is slowly bringing the pandemic under control and the global economy continues to recover from COVID-19. However, the Russia-Ukraine conflict is anticipated to have a substantial impact on the post-pandemic global economic recovery and pose significant uncertainties to the outlook. Accordingly, global economic growth for 2022 has been marked down to 3.2% in the July 2022 IMF projections, 1.2 percentage points lower than previously projected in January. Likewise, the projection for 2023 has been revised down by 0.9 percentage points to 2.9%. The outlook for these years is highly uncertain, though, depending on various risks: a possible worsening of the war in Ukraine, escalation of sanctions on Russia, a sharper-than-anticipated deceleration in China, a renewed outbreak of the pandemic with the emergence of a new, more contagious virus strain, and a rise of social tensions because of higher food and energy prices.

UNEMPLOYMENT

Recent estimates of the International Labour Organization (ILO) point out that, relative to the fourth quarter of 2019, 8.6% of total working hours were lost in 2020 – the equivalent of the hours worked in one year by 250 million full-time workers. As countries resumed economic activity in the second year of the pandemic, the shortfall in working hours relative to the pre-pandemic situation narrowed to 3.9% in 2021, corresponding to a deficit of 114 million full-time equivalent (FTE) jobs. ILO estimates also show that global unemployment stood at 214.2 million in 2021, down 9.5 million from the previous year but still 28.3 million above the pre-pandemic 2019 level. The global unemployment rate fell by 0.4 percentage points to 6.2% in 2021, after peaking at 6.6% in 2020. It is expected to improve further, first falling to 5.9% in 2022 and then to 5.7% in 2023. Overall, the improvement in unemployment by 2023 will not be sufficient to close the gaps caused by the pandemic, with the unemployment rate remaining above the 2019 level and the number of unemployed surpassing its 2019 level by some 17 million.

PRICES & INFLATION

As restrictions relaxed throughout 2021, demand accelerated, but supply was slower to respond amid ongoing disruptions. Average commodity prices (as measured by the IMF's Commodity Price Index) increased by half (53.2%) from their low levels in the previous year, and they are expected to rise further (46.9%) in 2022 amid escalating geopolitical tensions and the war in Ukraine that started in late February. Global inflation rose to 4.7% in 2021 after slowing down to 3.2% in 2020. The increase in inflation was more notable in developed countries, from 0.7% to 3.1%, while inflation in developing countries increased from 5.2% to 5.9%. War-related supply shortages are expected to greatly intensify



rising inflationary pressures, especially through increases in the prices of energy, metals, and food. Thus, for 2022, inflation is projected at as high as 6.6% in developed countries and 9.5% in developing countries, averaging globally at 8.3%.

INTERNATIONAL TRADE

The unprecedented adverse effects of the pandemic led to a remarkable collapse (-7.9%) in global trade volume in 2020. However, the recovery was quick, particularly in merchandise trade, while trade in services remains sluggish mainly due to the slow recovery in travel activities. Trade in goods, after falling by 4.9% in 2020, expanded by 10.9% in 2021, resulting in a 5.4% higher volume of world merchandise trade than before the pandemic. Trade in goods and services, which grew by 10.1% in 2021, was, however, only 1.5% above its pre-pandemic level. Reflecting the significant slowdown in overall activity, the war in Ukraine, and the lingering effects of the pandemic, global trade growth is expected to decelerate remarkably in 2022. Current projections indicate that the growth in world trade volume in goods and services is expected to slow to 5.0% in 2022 and further to 4.4% in 2023. Trade volume in goods is forecasted to decelerate to 4.4% in 2022 and to 3.8% next year.

CURRENT ACCOUNT BALANCE

Aggregated current account surplus of developed countries increased by 83% to US\$ 379.3 billion in 2021 compared to the previous year, despite the massive deficit of the United States that rose from US\$ 616.1 billion to US\$ 806.6 billion. As a percent of GDP, current account surpluses also improved, from 0.4% in 2020 to 0.7% in 2021. The aggregate balance of developing countries more than doubled (128%) and reached US\$ 365.3 billion. The widening surpluses of China and the large surpluses recorded in Middle East and Central Asia played a significant role in this improvement. Surpluses to GDP ratio increased even more for developing countries than for developed countries, from 0.5% in 2020 to 0.9% in 2021. Current projections show that surpluses of developed countries are expected to vanish over 2022-23, while those of developing countries reach 1.5% of GDP in 2022 before returning to 0.9% in 2023.

FOREIGN DIRECT INVESTMENT

Global foreign direct investment (FDI) inflows showed a significant rebound in 2021 and amounted to US\$ 1.58 trillion, up 64.3% from the exceptionally low level of US\$ 963 billion in 2020. Most of this increase originated from the upswing in developed countries. FDI inflows to developed countries almost doubled with an increase of 85.6% to US\$ 895 billion while inflows to developing countries increased by 42.9% to US\$ 687 billion. As the global environment for international business and cross-border investment changed dramatically in 2022, the 2021 growth momentum is unlikely to be sustained, and the global FDI flows in 2022 will likely move on a downward trajectory or remain stable at best.

FINANCIAL CONDITIONS

In 2021, financial conditions eased further in developed economies and the containment of financial stability risks continued, reflecting ongoing monetary and fiscal policy support and the rebound of the global economy. By contrast, financial conditions changed little in developing countries, remaining supportive in general. Early in 2022, global financial conditions have tightened notably and downside risks to the economic outlook have increased because of the war in Ukraine. Less accommodative monetary policy in the United States and other major developed economies is expected to prompt tighter global financial conditions, putting pressure on emerging market and developing economy

currencies. Higher interest rates will also make borrowing more expensive worldwide, straining public finances.

FISCAL BALANCE

While the pandemic-related exceptional supports posed a significant burden on the fiscal balances in 2020, government fiscal deficits declined in 2021 as economies recovered and countries started to withdraw those exceptional supports. In developed countries, deficits narrowed from 10.5% of GDP in 2020 to 7.3% in 2021, mainly due to a decline of 2.6 percentage points in expenditures as a percent of GDP. Deficits are expected to decline further over 2022-23 with contribution from reduced expenditures as a percent of GDP. In developing countries, falling revenues played a remarkable role in the deficits that doubled in 2020 to 9.5% of GDP compared to the previous year. In 2021, the deficits narrowed to 5.3% of GDP, given that expenditures decreased by 2.7 percentage points as pandemic-related supports run out or loosened up and revenues recovered by 1.1 percentage points. The deficits in developing countries are not expected to decline further in 2022, but instead increase to 5.7% of GDP due to reduced revenues.

RECENT ECONOMIC DEVELOPMENTS IN OIC COUNTRIES

PRODUCTION AND ECONOMIC GROWTH

Gross Domestic Product (GDP)

At current prices, the total GDP of the OIC countries, which contracted by 2.5% in 2020 due to the COVID-19 pandemic, increased by 18.6% to US\$ 8.5 trillion in 2021 and exceeded the pre-pandemic 2019 level. Given the ongoing gradual recovery, it is estimated to further increase to US\$ 9.7 trillion in 2022. With this economic size, the OIC countries, as a group, accounted for 8.9% of global GDP in 2021, up 0.4 percentage points from the previous year. The share of the OIC countries in the total GDP of developing countries also increased, from 21.0% in 2020 to 21.2% in 2021, indicating that the recovery in current output was faster in OIC countries relative to the rest of the world.

GDP per capita

Given the recovery in output, per capita GDP values at current prices increased worldwide in 2021 compared to the previous year. In US dollar terms, the global average rose by 12.7% to US\$ 12,543. The increase in the OIC countries was even larger, with the average GDP per capita rising by 18.3% to US\$ 4,582. Although non-OIC developing countries registered a slower rate of growth (15.7%), GDP per capita continued to be lower in the OIC countries, with the gap even getting wider.

Economic Growth

Under the pandemic conditions in 2020, the OIC countries, on average, contracted by 1.7%, but in parallel with the global economic recovery, they grew by 5.8% in 2021, the highest rate achieved since 2010. Thus, the real GDP in 2021 surpassed its pre-pandemic 2019 level by 4.0%. The economic growth is expected to moderate in the next two years, to 4.9% in 2022 and 4.2% in 2023. At the individual country level, 4 out of 54 OIC countries with available data recorded a negative growth rate in 2021: Suriname (-3.5%), Yemen (-2.0%), Chad (-1.1%), and Brunei Darussalam (-0.7%). On the other hand, Libya (177.3%), Maldives (33.4%), and Guyana (19.9%) were the fastest growing economies in the OIC and in the world in 2021.

Structure of GDP: Value Added by Sector

The latest available data for 2020 show that, constituting only 1.2% of total value added in developed countries, *agricultural activities* have a high share of 11.6% in total value added in the OIC countries, which is even higher than that in non-OIC developing countries (8.8%). The share of the *non-manufacturing industry*, which is much higher in the OIC countries as compared to the rest of the world, has been falling slowly over the past decade around the globe. For the OIC countries, it fell from 27.5% in 2010 to a record low of 19.4% in 2020. The *manufacturing sector*, which has greater potential to promote productivity and competitiveness, has a share of 15.2% in total value added of the OIC countries, which is comparable to that of developed countries (13.8%) but significantly below that of non-OIC developing countries (21.5%). The services sector continues to play a key role in the majority of OIC economies, accounting for an average of 53.8% of the total value added in the OIC. This share is still low though, considering that the sector has a share of three quarters (76.5%) in total value added in developed countries and 57.1% in non-OIC developing countries, averaging at 68.3% worldwide.

Structure of GDP: Expenditures

In 2020, final consumption expenditures (by both households and government) continued to have the highest share in GDP over the years in the OIC countries as well as in the rest of the world. *Household consumption* accounted for 57.4% of GDP in OIC countries, higher than that in non-OIC developing countries (49.0%) but slightly lower than that in developed countries (58.7%). The share of *general government final consumption expenditures* in GDP was low in OIC countries (15.0%) relative to both developed and developing countries. The share of *gross capital formation* averaged at 28.2% for OIC countries, lower than the average for non-OIC developing countries but higher than the average for developed countries. International trade –in goods and services– accounted for a higher share of GDP in OIC countries than in both developed and developing countries. For the OIC countries, the share of *exports* and *imports* in GDP averaged at 28.3% and 29.5%, respectively.

LABOUR MARKET

Given the working-hour losses, it is estimated that the pandemic caused a loss of 32.5 million full-time equivalent (FTE) jobs across the OIC countries in 2021, down 37% from 51.5 million in 2020. Nevertheless, the faster reduction of job losses in both developed and developing countries (49% and 61%, respectively) resulted in an increasing share of the OIC countries in the worldwide losses, from 20.6% in 2020 to 28.6% in 2021, implying that the recovery in labour markets was somewhat slower in the group of OIC countries. After falling to a historically low level of 54.8% worldwide in 2020 due to the employment losses, the employment-to-population ratio (EPR) increased by 0.6 percentage points to 55.4% in 2021 but remained below the 2019 level. The number of unemployed in the OIC countries, which increased by over 5.5 million to reach 49.6 million in 2020, increased further by 1.8 million in 2021, while decreasing worldwide by about 9.5 million. Accordingly, while unemployment rates declined across the world in 2021, the OIC countries witnessed an unemployment rate rising to 7.2%.



INFLATION

Unlike the global inflation rate, which declined 0.3 percentage points to 3.2%, inflation in the OIC countries rose sharply to 9.4% in 2020, compared with 7.7% in 2019. In 2021, it further increased to 12.9%. Considering that the inflation rate increased to 3.1% in developed countries and to 4.5% in non-OIC developing countries, the OIC countries, on average, continued to have a much higher inflation rate in 2021. This trend is expected to continue in 2022 as well, given that inflation is projected to further rise to a record high of 17.7% in the OIC countries but only to 8.3% in the world.

INTERNATIONAL TRADE

Merchandise Trade

The annual value of global merchandise trade, after falling by 7.6% in 2020 amidst the pandemic, rebounded by 26.7% in 2021. Both exports and imports of the OIC countries followed a parallel course, though a sharper rebound was recorded in exports. Falling by 17.3% in 2020, merchandise exports of the OIC countries increased by 41.7% in 2021. Merchandise imports increased by 25.8% in 2021 following a drop of 9.9% in the previous year. Consequently, the exports, which reached as high as US\$ 2.14 trillion in 2021, accounted for a higher share of the global exports; 9.7% in 2021 compared with 8.7% in 2020. The imports, which increased to US\$ 2.0 trillion, had a somewhat lower share in global imports, declining from 9.1% in 2020 to 9.0% in 2021.

Services Trade

The value of global trade in services, which shrank by one-fifth (18.2%) in 2020 from the previous year, rebounded by 15.9% in 2021. After experiencing even a greater fall in services trade in 2020, the OIC countries also registered a recovery in 2021. Their services exports, plummeted by a third (34.0%) in 2020, increased by 26.4% to US\$ 373 billion, such that their share in global services exports increased from 5.7% in 2020 to 6.1% in 2021. Similarly, their services imports, which fell by 26.7% in 2020, increased by 15.2% and amounted to US\$ 509 billion, with their share in global services imports remaining at 9.0% as in 2020.

Trade Balance

The OIC countries, on aggregate terms, became a net exporter in merchandise trade in 2021, with a trade surplus amounting to US\$ 135 billion as compared to a deficit of US\$ 83 billion in the previous year. In services trade, they remained a net importer over the last 5-year period of 2017-2021. The aggregate deficits of OIC countries in services trade amounted to US\$ 135 billion in 2021, the lowest in the last four years.

Intra-OIC Merchandise Trade

Decreased by 10.7% to US\$ 287 billion in 2020, merchandise exports among the OIC countries (intra-OIC exports) rebounded by 33.0% to US\$ 382 billion in 2021. Nevertheless, the OIC countries' exports to the rest of the world increased by a higher rate of 43.7%, resulting in a decline in intra-OIC exports share from 19.0% in 2020 to 17.9% in 2021. Among the OIC countries, Saudi Arabia was the largest exporter to the OIC countries in 2021. The total exports of Saudi Arabia to other member countries amounted to US\$ 66.1 billion in 2021, accounting for 17.3% of the total intra-OIC exports. In terms of intra-OIC exports share, however, Niger took the lead by directing 86.6% of its total exports to the OIC countries.

CURRENT ACCOUNT BALANCE

The OIC countries, on aggregate terms, recorded a current account surplus of US\$ 121 billion in 2021, after posting a deficit of US\$ 170 billion in the previous year. Thus, the 2021 surplus was 1.4% of GDP, while the 2020 deficit was 2.4% of GDP. Given that the deficits in services trade continued in 2021, the improvement in the balance of merchandise trade (from a deficit of US\$ 83 billion in 2020 to a surplus of US\$ 135 billion in 2021) contributed significantly to the resulting current account surplus. Looking ahead, the IMF projections signal for widening surplus to over US\$ 500 billion or 5.2% of GDP in 2022.

FISCAL BALANCE

The fiscal measures implemented to contain the effects of the pandemic, combined with reduced government revenues due to the economic downturn, led to historically high government deficits all around the globe in 2020. Deficits also expanded in the OIC countries, averaging at 6.7% of GDP in 2020, compared with 3.2% in the previous year. In 2021, government expenditures increased by 6.8% but fell to 23.8% of GDP, while revenues grew even faster, by 20.7%, with their ratio to GDP slightly increasing to 20.0%. This resulted in a reduction in deficits to 3.8% of GDP in 2021, still above the pre-pandemic level of 3.2%. Current projections for the year 2022 signal a further decline in expenditures to 22.9% of GDP and an increase in revenues to 21.7% of GDP, with deficits further narrowing to 1.2% of GDP.

INTERNATIONAL FINANCE

FDI Flows and Stocks

Following a fall of 16.2% to US\$ 97 billion in 2020, flows to the OIC countries rebounded by 36.7% and reached as high as US\$ 132 billion in 2021. However, the lower growth in flows to the OIC countries resulted in a decrease in their share in flows to developing countries as well as in global flows. The share of OIC countries in flows to developing countries was measured at 20.1% in 2020, but it declined to 19.2% in 2021. Similarly, their share in global FDI inflows fell to 8.3% in 2021 after peaking at a decade high of 10.0% in 2020. In the 5-year period from 2017 to 2021, FDI stocks increased only by 11.6% to US\$ 2.2 trillion in the OIC countries while they increased by 22.4% in non-OIC developing countries and by 42.8% in developed countries. Thus, the OIC countries hosted a smaller share of the global inward FDI stocks in 2021 (4.9%) than in 2016 (6.0%). The bulk of global stocks continued to be hosted by developed countries, which had a share of 79.3% in 2021.

External Debt

Total external debt stock of the OIC countries increased by US\$ 105 billion or 5.8% to US\$ 1,900 billion in 2020 from US\$ 1,795 billion in 2019. *Public and publicly guaranteed debt*, which expanded by US\$ 81.6 billion or 9.1% to US\$ 980.6 billion, contributed the most to this increase and continued to be the largest component of the total external debt stock of the OIC countries. *Private nonguaranteed debt*, having fallen by US\$ 3.4 billion or 0.6% in 2019, further fell by US\$ 23.6 billion or 4.1% to US\$ 547.1 billion in 2020. Thus, as the second largest component of total external debt stock, it had a share of 28.8% in 2020, down from 36.3% in 2016. Overall, *long-term debt stock*, comprising public, publicly guaranteed, and private nonguaranteed debt, amounted to US\$ 1,528 billion in 2020, up US\$ 58.0 billion or 3.9% from the previous year, and accounted for 80.4% of the total external debt stock. *Short-term debt* reached US\$ 299.5 billion in 2020, with an increase of US\$ 22.7 billion or 8.2% from the previous year, and maintained its share at around 15%. The smallest



component of the total external debt stock, *IMF credits* were the component that increased proportionally the most in 2020. Compared to 2019, they increased by half (49.1% or US\$ 23.8 billion) to US\$ 72.3 billion in 2020, constituting 3.8% of the total external debt stock.

International Reserves

World total international reserves amounted to US\$ 15.8 trillion in 2021, with an increase of US\$ 769 billion or 5.1% from the previous year. Three-fifths (60%) of this increase originated from developed countries, which increased their reserves by US\$ 465 billion, or 6.7%, to US\$ 7.4 trillion. In developing countries, reserves increased by US\$ 304 billion, or 3.8%, to US\$ 8.4 trillion. In the OIC countries, the 2021 data available for 33 member countries indicate an increase in reserves by 5.0% as compared to 2020 – from US\$ 1.51 trillion to US\$ 1.58 trillion. Nevertheless, while most OIC countries improved their reserves, reserve adequacy deteriorated in many of them, usually due to a higher increase in imports than in reserves.

Official Development Assistance (ODA)

In 2020, net ODA flows received by the developing world peaked at US\$ 195.4 billion, with an increase of US\$ 32.8 billion, or 20.2%, from the previous year. The flows that were reported at the individual country level (about one-third of the total ODA flows are not reported at the country level) increased by US\$ 28.5 billion, or 26.3%, and amounted to US\$ 136.7 billion, accounting for 70% of the total ODA flows. Over two-fifths (43.4%) of this increase resulted from a 20% growth in flows to the OIC countries, which reached US\$ 74.0 billion in 2020 as compared to US\$ 61.7 billion in 2019.

Personal Remittances

Despite the COVID-19 pandemic, remittance flows remained resilient in 2020 across the world. At the global level, officially recorded remittance flows reached US\$ 653 billion in 2020, just 0.5% below the 2019 total of US\$ 657 billion. Inflows to the OIC countries decreased by 0.7% or US\$ 1.2 billion to US\$ 161 billion, and their share in world total remittance flows remained unchanged at 24.7% in 2020.

ACHIEVING SUSTAINABLE AND RESILIENT RECOVERY POST COVID-19 PANDEMIC

The global economy has suffered huge economic losses because of the measures taken to control the spread of the COVID-19 pandemic. The pandemic has reversed much of the global progress in reducing poverty and adversely affected the health and education prospects. The combination of persisting vulnerabilities and lack of response capacities heightened the risk of greater divergence and inequality between and within countries. Ten critical facts on the impacts of the pandemic were as follows:

- **Fact 1.** Supply chains interrupted
- **Fact 2.** Unemployment rate increased
- **Fact 3.** Poverty increased with rising unemployment and food prices
- **Fact 4.** Public finance deteriorated following fall in tax revenues and growth in public expenditures
- **Fact 5.** Human capital development stalled due to disruption in education and health services
- **Fact 6.** Reliance on few suppliers created vulnerabilities and deteriorated response capacities

- **Fact 7.** Mobility declined and tourism and transport activities disrupted
- **Fact 8.** Demand for digital tools and infrastructure increased
- **Fact 9.** Small firms suffered from reduced demand, limited access to markets and finance
- **Fact 10.** Investments are heavily disrupted due to increased uncertainties

At a time when the policy makers were seeking how best to recover from the devastating impacts of the COVID-19 pandemic, the world economy was hit by another shock arising from the Russia-Ukraine conflict. Food security is becoming a serious concern for food importing countries due to supply shortages of agricultural products from Ukraine and Russia. This single conflict shows the extent of vulnerability of the world economy to external shocks. While existing conflicts are creating serious economic and social problems, there is unfortunately a growing trend in geopolitical risks and the threat of conflicts. Further noting the challenges associated with climate change and the growing number of droughts, floods and other extreme weather events, it is imperative to strengthen resilience to future shocks, whatever the cause might be.

In this connection, the report highlights a number of policy measures for strengthening economic resilience to future shocks under eight broad categories. They are not exhaustive and all-encompassing but would provide possible directions in addressing the economy-level vulnerabilities.

Economy and Finance: Many of the vulnerabilities arising from the general management of economic and financial activities are related to ineffective use of productive sources, unequal distribution of wealth and lack of diversification of economic activities and partners. In order to strengthen economic resilience to future shocks, it is recommended to expand domestic production capacities in critical goods; refocus on inclusive development in the face of rising poverty and inequality; improve agricultural productivity to ensure food security; establish contingency public funds for emergencies; and upgrade skills for new jobs and reduce informality.

Trade and Integration: Global supply chains are at risk of greater disruption due to the growing protectionism and the pandemic related restrictions. With falling trade-related uncertainty during the post-pandemic period, a number of measures could increase the resilience of countries to future shocks in terms of trade linkages and economic integration. This would include minimizing policy uncertainty; expediting trade facilitation measures; investing in supply chain resiliency and reducing dependency on a single supplier; focusing on intra-regional value chains; and establishing regional industrial clusters and logistics clusters.

Investment and Capital Flows: Investments and international capital flows sharply slowed down due to a number of uncertainties brought by the COVID-19 pandemic. A number of policy options could be considered by policymakers in the OIC countries for addressing investment gaps and ensuring a sustainable recovery from the COVID-19 pandemic, ranging from developing sound debt-management practices and reducing external financial vulnerabilities to improving the regulatory framework for enhancing public-private investments and attracting more FDI to SDG related-sectors. In this way, the OIC countries could not only speed up the recovery from the pandemic but also improve their financial resilience for future shocks.

Transport and Tourism: The tourism and transportation sectors were among the most severely affected ones since the beginning of the COVID-19 pandemic due to the restrictive measures taken to contain the spread of the virus, such as curfews and travel bans. In this respect, the OIC countries should invest in alternative transport modes to broaden their options for travel and transportation

and improve resilience for future shocks. Moreover, the OIC countries should scale up their investments in crisis-preparedness mechanisms and take a number of actions to rebuild trust in international tourism swiftly, such as by speeding up vaccination and having a pandemic-related communication strategy for tourism.

Human Capital Development: Strengthening education has become very important since the COVID-19 pandemic could cause a "generational catastrophe". To prevent a slowdown in human development, policymakers should put means in place to make up for lost schooling and learning. Other important government initiatives, such as improving and optimising the health care system and expanding the social safety net, will also be needed for sustainable and resilient human capital development.

SMEs and Private Sector Development: Governments in many parts of the world were quick in responding to the unprecedented challenges that SMEs are facing due to the COVID-19 pandemic, through a wide range of stimulus and support measures. In the longer term, it is recommended to develop a strategic approach for the development of the private sector; improve the domestic entrepreneurial ecosystem (including business accelerators, incubators, clusters and technology parks); expand the opportunities for the private sector and innovative SMEs, and support the internationalization of SMEs and the integration of firms in global value chains.

Information and Communication Technologies: There is an accelerated digital transformation and wider use of digital technology applications as well as big data analytics and artificial intelligence tools. In order to benefit from this transformation, the OIC countries should facilitate the widespread and lasting adoption of these technologies and tools by research centres, firms and relevant public entities. They are also recommended to improve their digital infrastructure in automation, robotics and artificial intelligence; reduce inequalities in access to digital infrastructure; increase digital security and invest in digital skills; improve the innovation ecosystem; and ensure inclusiveness in participation in STI ecosystems.

Green Economy: Returning to traditional and environmentally damaging development pathways must be avoided if the recovery from the crisis is to be long-lasting and resilient. A green growth recovery strategy needs to be implemented as an alternative. The transition to a green economy will have favourable effects not only on the environment but also on the economy and social welfare. At least four key areas must be given top priority for green growth recovery in the OIC countries: adopting "Climate-Smart" agricultural technologies; designing policies to support the transition to a circular economy; investing in the transition of the energy system; and encouraging smart city initiatives.

CHAPTER 1: RECENT DEVELOPMENTS IN THE WORLD ECONOMY: TRENDS AND PROSPECTS

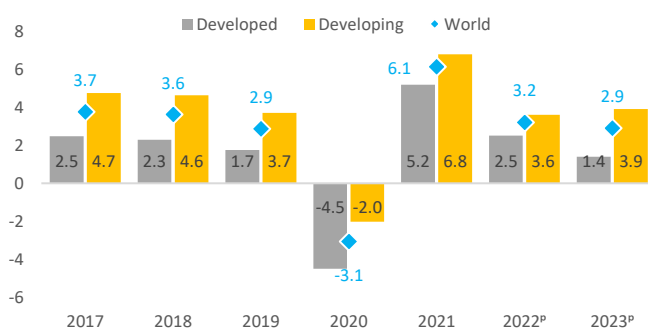


ECONOMIC GROWTH

Strong rebound in 2021, but the war slows the recovery

The COVID-19 pandemic and the associated containment measures resulted in an unprecedented slowdown of economic activities all over the world in 2020. According to the International Monetary Fund (IMF, 2022a), the world real GDP contracted by 3.1%, with developed economies contracting more than developing countries did, -4.5% and -2.0%, respectively.

Figure 1.1: Real GDP Growth (%)



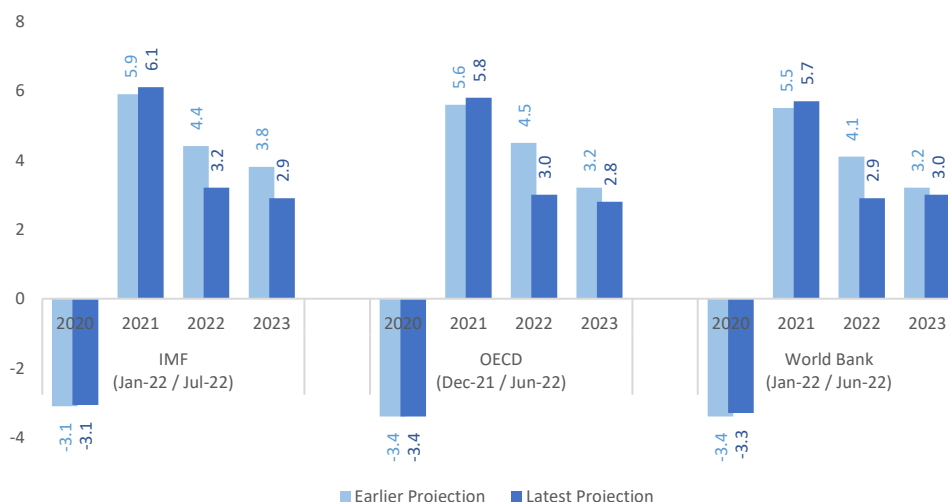
Source: IMF, World Economic Outlook (WEO) Database, April 2022 and WEO Update July 2022.

Note: P= Projection

After the contraction in 2020, the global economic growth is estimated at 6.1% in 2021, supported by a strong recovery in both developed countries (5.2%) and developing countries (6.8%) (Figure 1.1). It should be noted, however, that these high growth rates are, largely, the result of the

base effect and do not necessarily signal a sustained upturn in economic activity. The severe output contractions recorded by countries around the world in 2020 resulted in a low comparison base and significant statistical carry-over, inflating the year-over-year growth rates in 2021 (UN, 2021). For the very same reason, the moderate growth rates projected for 2022 could be partly attributed to the dissipation of the base effect.

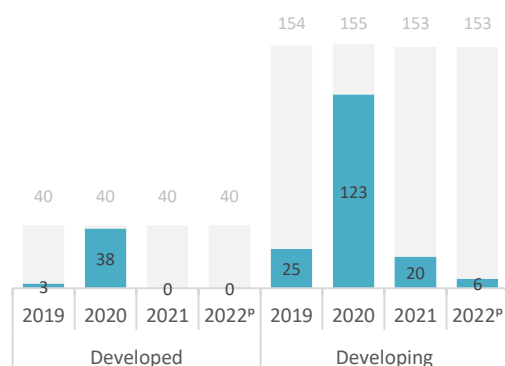
Figure 1.2: Revisions to World Real GDP Growth Projections (%)



Source: IMF, World Economic Outlook, January 2022 update and July 2022 update; World Bank, *Global Economic Prospects*, December 2021 and June 2022; OECD, *OECD Economic Outlook*, January 2022 and June 2022.

As of mid-2022, the world is slowly bringing the pandemic under control and the global economy continues to recover from COVID-19. However, the Russia-Ukraine conflict is anticipated to have a substantial impact on the post-pandemic global economic recovery and pose significant uncertainties to the outlook. Accordingly, global economic growth for 2022 has been marked down to 3.2% in the July 2022 IMF projections, 1.2 percentage points lower than previously projected in January. Likewise, the projection for 2023 has been revised down 0.9 percentage points to 2.9%. The World Bank and the Organisation for Economic Co-operation and Development (OECD) provided similar revisions to their forecasts for global economic growth in 2022 and 2023 (*Figure 1.2*). The outlook for these years is highly uncertain, though, depending on various risks: a possible worsening of the war in Ukraine, escalation of sanctions on Russia, a sharper-than-anticipated deceleration in China, a renewed outbreak of the pandemic with the emergence of a new, more contagious virus strain, and a rise of social tensions because of higher food and energy prices (IMF, 2022a). Indeed, the ongoing war in Ukraine and the sanctions on Russia are anticipated to weaken global economic growth through direct impacts on the two countries and global spillovers, particularly hitting countries with close economic ties with them.

Figure 1.3: Number of Countries with a Negative GDP Growth Rate



Source: IMF, World Economic Outlook Database, April 2022.

Note: P= Projection

According to the IMF data, in 2019, before the outbreak of the pandemic, only 28 economies around the world recorded a negative GDP growth rate. With the pandemic-induced collapse of the global economy in 2020, 38 out of 40 developed countries and 123 out of 155 developing countries witnessed a negative economic growth rate that year. Given the ongoing economic recovery process that started in late 2020, data for 2021 indicate that all developed countries achieved a positive growth rate and only 20 developing

countries experienced a contraction in their GDP. Projections for 2022 show that only six developing countries will record a negative growth rate (*Figure 1.3*).

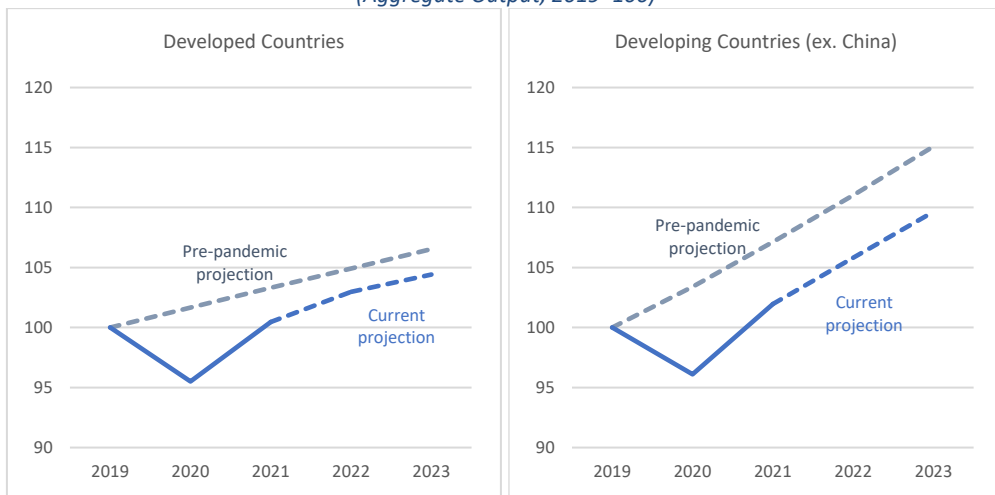
Divergence in economic prospects across countries remains a major concern

Although all the three international organizations mentioned above –IMF, World Bank, and OECD– expect a strong recovery after 2020, the recovery process will continue to be uneven, with some countries growing much faster than others do. It may take several years for some economies to reach their pre-pandemic GDP values. Divergences in the speed of recovery across countries are mostly linked to wide differences in the pace of vaccination and the extent of economic policy support. In addition to the ongoing pandemic-induced disruptions, the war in Ukraine is threatening the outlook for recovery across the world.



According to the IMF (2021a), the divergent recovery paths are likely to create significantly wider gaps in living standards between developing countries and others, compared to pre-pandemic expectations. Indeed, *Figure 1.4* shows that the aggregate output for the developed countries is expected to get closer to its pre-pandemic trend path. By contrast, aggregate output for the developing countries group (excluding China) is expected to remain about 5 percent below the pre-pandemic forecast, resulting in a larger obstacle to improvements in their living standards.

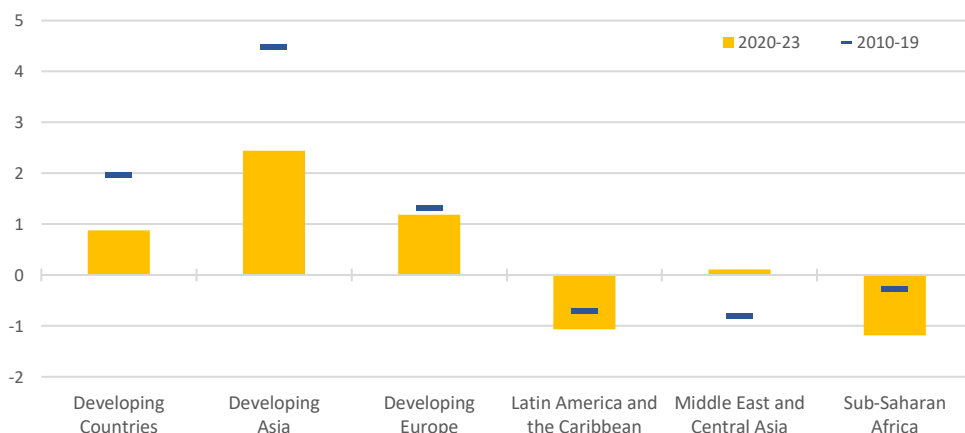
Figure 1.4: Global Economy Remains Below Its Pre-pandemic Growth Path (Aggregate Output, 2019=100)



Source: Authors' calculation based on data from IMF, WEO databases, October 2019, April 2022, and July 2022 Update.

Correspondingly, in many developing countries, the COVID-19 pandemic coupled with repercussions from the war in Ukraine, has deteriorated progress at per capita income catch-up with developed countries. The difference in per capita income growth between developing and developed countries is estimated to decrease by half during 2020-23 compared to the previous decade (*Figure 1.5*), indicating that per capita income catch-up with developed economies would

*Figure 1.5: Per Capita Income Growth Relative to Developed Countries (percentage points)**



Source: Authors' calculation based on data from IMF, World Economic Outlook Database, April 2022.

Note: * Annual average difference in GDP per capita growth rate at constant prices between developing country groups and developed countries.

slow down given the projected growth rates. Regional differences are also enormous. Developing countries in Europe and particularly in Asia are expected to face a slowdown in the catch-up process while those in Latin America and the Caribbean and in Sub-Saharan Africa, which have already been diverging from developed countries, are expected to widen the gap. On the other hand, developing countries in Middle East and Central Asia, which also diverged from developed countries in the 2010-2019 period, are expected to record comparable growth rates in real per capita income in the 2020-2023 period.

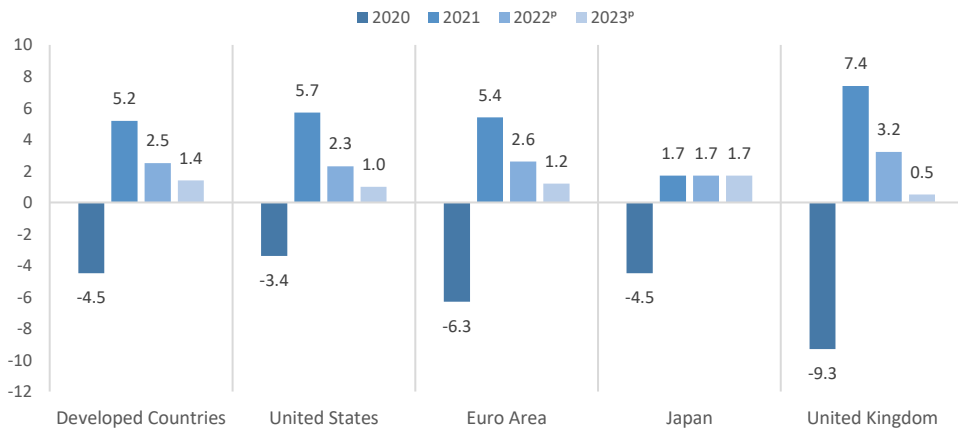
All but two developed economies to reach pre-pandemic output levels as of 2023

Contracted by 4.5% in 2020 mainly due to the pandemic and the associated disruptions in the global economy, the real GDP of developed countries grew by 5.2% in 2021. The ongoing recovery of the global economy, additional US fiscal support, the release of sizable pent-up demand, and the gradual increase in economic activities in parallel with the vaccination of the population contributed to this rebound. Nevertheless, 18 out of 40 developed countries, such as Spain, Italy, Japan, and the United Kingdom, could not reach the pre-pandemic (2019) output level in 2021. The IMF projections indicate that the economic growth in developed countries will moderate to 2.5% in 2022 and further to 1.4% in 2023 (*Figure 1.6*). While no developed country is expected to register a negative growth rate during 2022-2023, eight will continue to have a pre-COVID output level in 2022 and all except Macao and Spain are expected to return to their pre-COVID level in 2023.

Recovering more quickly than its peers from the pandemic shock and powered by substantial fiscal support, the economy of the United States (US) grew by 5.7% in 2021 after contracting by 3.4% the previous year (*Figure 1.6*). Thus, it is among the 22 developed countries that managed to return to the pre-pandemic output level in 2021. Economic growth in the US is expected to moderate to 2.3% in 2022 and to 1.0% in 2023. As economic ties between the US and Russia are limited, the slowdown is largely attributed to the continued supply chain disruptions, withdrawal of monetary support to control the rising inflation, and lower growth in trading partners due to disruptions resulting from the war.

Although a slow and inconsistent vaccination and stringent mobility restrictions constrained the pace of recovery in the first half of 2021, the euro area experienced a stronger recovery in the second half of the year, alongside the acceleration of vaccinations and relaxation of pandemic restrictions. The euro area economy grew by 5.4% in 2021 following a collapse of 6.3% the previous year, indicating that activity remained below end-of-2019 levels. The IMF projections show that economic growth in the euro area will moderate to 2.6% in 2022 and to 1.2% in 2023 (*Figure 1.6*), mainly due to rising global energy prices and energy security issues resulting from the war and the associated sanctions. Besides, some manufacturing industries are suffering from supply chain disruptions as the war and sanctions have hindered the production of some key inputs and caused shortages.

Figure 1.6: Real GDP Growth in Developed Countries (%)



Source: IMF, World Economic Outlook Update, July 2022. Note: P= Projection

Economic growth in Japan in 2021 was among the lowest in developed countries. Contracted by 4.5% in 2020, the Japanese economy grew only by 1.7% in 2021, as recovery was subdued amid recurrent COVID-19 containment measures. On one hand, the measures reduced private consumption, and the supply chain disruptions negatively affected investments and exports. On the other hand, improving global demand, sustained fiscal support, and recovering economic activity amid high vaccination rates alleviated the negative effects on the growth of the export-oriented economy of Japan. The Japanese economy is projected to maintain a growth rate of 1.7% in 2022 and 2023 (Figure 1.6). Thus, the output is only likely to reach the pre-pandemic level at the end of 2023. The limited export growth—due to ongoing supply side disruptions and weakening global demand—and the recovery of private consumption are the major factors expected to shape this outlook.

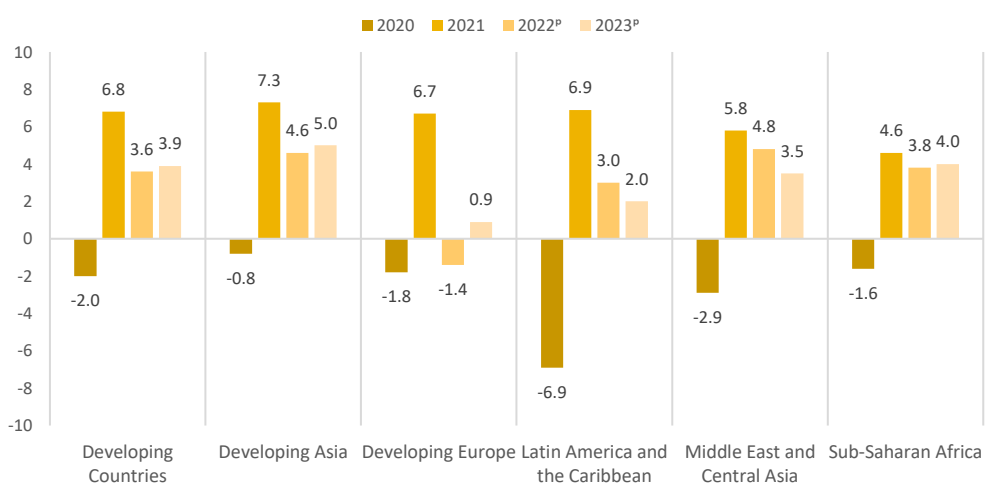
The United Kingdom (UK) was one of the most affected developed countries by the pandemic, with GDP falling by 9.3% in 2020 (Figure 1.6). While economic growth in early 2021 was negative due to the ongoing lockdown under renewed pressures from more transmissible new COVID variants, the UK economy registered a growth rate of 7.4% in 2021. This strong recovery was driven largely by a rebound in both private and government consumption. Looking ahead, growth is expected to be sluggish as high energy prices and tighter fiscal and monetary policy weigh on disposable incomes and private consumption (European Commission, 2022a). According to the IMF projections, the growth of the UK economy will moderate to 3.2% in 2022 and 0.5% in 2023. With these projected growth rates, economic activity is expected to reach its pre-pandemic level in 2022.

Economic activity rebounded significantly in all developing regions

The real GDP of developing economies contracted by 2.0% in 2020 due to a slowdown in economic activities driven by lockdowns and other containment measures implemented against the pandemic. As the impacts of the pandemic gradually diminished and as countries benefited from rising commodity prices and improving external demand, economic growth reached 6.8% in 2021—the highest rate since 2010 (Figure 1.7). While this means that the pre-pandemic real

GDP was markedly exceeded in 2021, nevertheless a large share of this rebound originated from a few major economies, as recoveries in many other countries were limited due to increasing COVID-19 caseloads, obstacles to vaccine procurement and rollout, and lack of fiscal support. Indeed, China and India contributed more than half of the growth of developing countries in 2021. Together with Türkiye, Russia, and Libya, these five countries accounted for two-thirds of the growth in 2021. While growth in developing countries is projected to decelerate to 3.6% in 2022, China and India are expected to continue to be the main drivers, accounting for over half of the growth (*Figure 1.8*).

Figure 1.7: Real GDP Growth in Developing Countries (%)



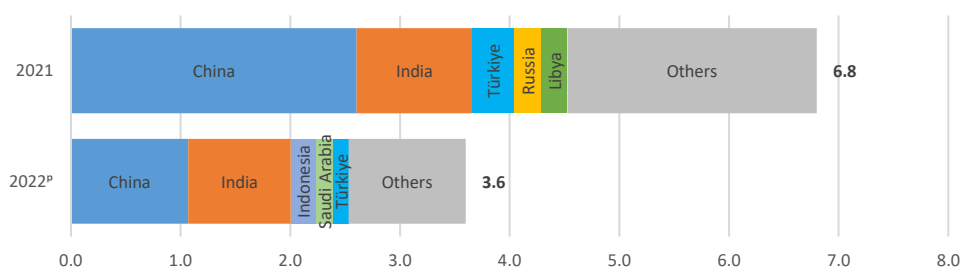
Source: IMF, World Economic Outlook Update, July 2022 Update.

Note: P= Projection

Economic activity rebounded significantly in all developing regions in 2021, while they registered substantially different contraction rates the previous year (*Figure 1.7*). The least contracted region in 2020, Developing Asia was the fastest growing region in 2021 with a growth rate of 7.3%. Economic growth in the region, driven mainly by China and India, is projected at 4.6% in 2022 and 5.0% in 2023. The region's growth engine, China recorded a growth rate of 8.1% in 2021, after a historical low of 2.2% in the previous year due to the pandemic situation. The biggest contributor to this outcome was the improved domestic demand facilitated by effective containment measures, public investments, and liquidity support. However, before strengthening somewhat to 4.6% in 2023, China's economic growth is expected to weaken to 3.3% in 2022 amid frequent and wider-ranging lockdowns with reference to the Zero COVID Strategy despite the announced strong fiscal and monetary measures to offset the effects of the COVID-related measures and weaker external demand. In India, the economy rebounded by 8.7% in 2021 despite an enormous COVID outbreak after a contraction of 6.6% the previous year. Growth is expected to remain robust at 7.4% in 2022 before moderating to 6.1% in 2023, according to the IMF projections.



Figure 1.8: Major Contributors to Economic Growth of Developing Countries (percentage points)



Source: IMF, World Economic Outlook Database, April 2022 and July 2022 Update.

Note: P= Projection

After contracting by 1.8% in 2020, output in Developing Europe expanded by 6.7% in 2021. However, the region's economy is forecasted to shrink by 1.4% in 2022 as a consequence of the war in Ukraine (Figure 1.7). A severe double-digit drop in GDP is expected in Ukraine (-35%) due to the on-going war. A deep contraction is also projected for Russia (-6.0%) due to sanctions and European countries' decisions to scale back energy imports. The economic costs of the war are expected to spread to other countries, particularly to those in close proximity. Moreover, some countries in the region have significant economic and commercial links with Russia and Ukraine. Therefore, the war is expected to negatively affect the economic activities in those countries. The displacement of millions of Ukrainian people to neighbouring countries is also expected to intensify economic pressures in the region.

Latin America and the Caribbean (LAC), the most contracted developing region in 2020 (-6.9%), registered a growth rate of 6.9% in 2021 (Figure 1.7). After this rebound from pandemic-recession, growth is projected to slow down sharply to 3.0% in 2022 and to 2.0% in 2023. These projections indicate that regional output will exceed its pre-pandemic 2019 level in 2022 by about 2.5%. Having relatively fewer economic connections to Europe, the region is expected to be more affected by tighter financial conditions, in part because of faster-than anticipated US monetary tightening, weakening external demand growth, increased inflation, and high policy uncertainty in some countries (World Bank, 2022).

Contracted by 2.9% in 2020, the regional economy of the Middle East and Central Asia rebounded by 5.8% in 2021 and it is projected to register a growth rate of 4.8% in 2022 and 3.5% in 2023. (Figure 1.7). Regional growth is expected to be mainly driven by robust growth in oil-exporting countries, strengthened by rising oil prices, and a general waning of the pandemic's adverse impacts. The projected recovery would be stronger in the absence of the detrimental effects of the war in Ukraine on oil importers. Adding to the spillovers from tighter global financial conditions, the war has undermined external demand, increased uncertainty, and lifted food and energy prices. The Saudi economy, the largest in the region, is expected to register a decade-high growth rate of 7.6% in 2022, before moderating to 3.7% in 2023. While the projected growth rates will enable Saudi Arabia to exceed its pre-pandemic output level in 2022, a third of the countries in the region, some of which experienced a double-digit contraction in 2020, are not expected to reach 2019 economic activity levels by the end of 2022.

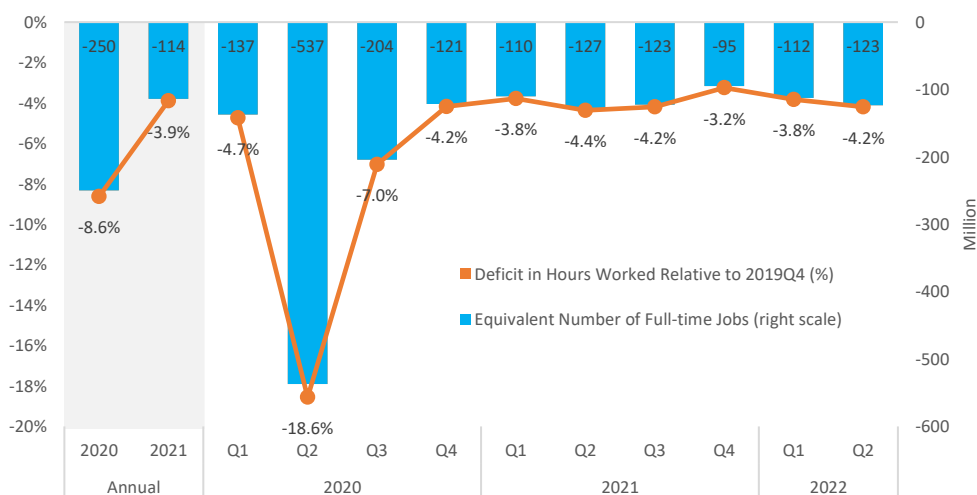
Output in Sub-Saharan Africa (SSA), collapsed by 1.6% in 2020 because of the pandemic, grew by 4.6% in 2021, supported by spillovers from strengthening global economic activity, including stronger external demand and higher commodity prices. The regional economic growth is expected to decelerate to 3.8% in 2022 and slightly improve to 4.0% next year (*Figure 1.7*). Predominantly, the deceleration of global growth and war-induced increases in food and fuel prices are shaping the outlook for the region. Although some large exporters of metals and energy are benefiting from elevated commodity prices, price pressures and high inflation are threatening food affordability and real incomes across the region. Hosting many least-developed countries, the region has been suffering poverty and inequality, already worsened by the pandemic and its lingering adverse effects. Over the forecast horizon, even more people are expected to fall into extreme poverty, especially in countries reliant on imports of food and fuel.

UNEMPLOYMENT

Unemployment rate to remain above pre-pandemic levels

The pandemic, along with workplace closures and other measures implemented to curb the spread of the virus, has resulted in a remarkable slowdown in economic activity worldwide and has wreaked havoc on labour markets. Recent estimates of the International Labour Organization point out that, relative to the fourth quarter of 2019, 8.6% of total working hours were lost in 2020 – the equivalent of the hours worked in one year by 250 million full-time workers. As countries resumed economic activity in the second year of the pandemic, the shortfall in working hours relative to the pre-pandemic situation narrowed to 3.9% in 2021, corresponding to a deficit of 114 million full-time equivalent (FTE) jobs (assuming a 48-hour working week) (*Figure 1.9*).

Figure 1.9: Global Estimates of Deficit in Hours Worked Relative to 2019Q4 and the Corresponding Loss in FTE Jobs



Source: ILOSTAT, ILO Modelled Estimates.

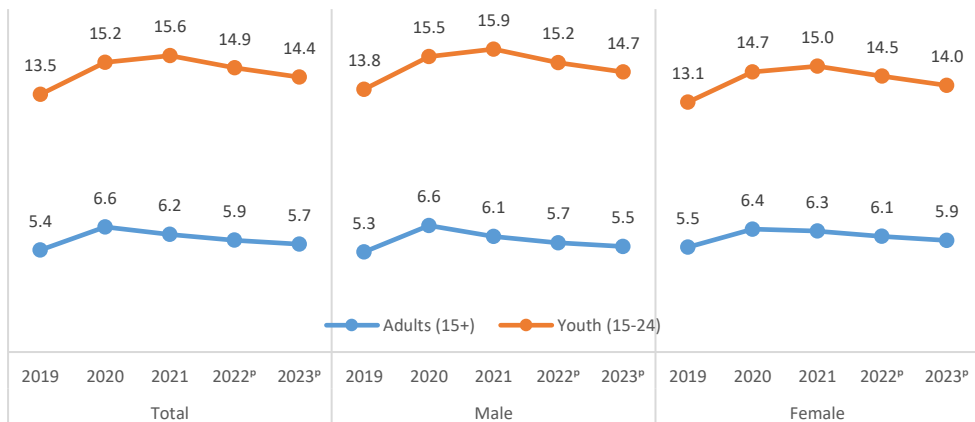
Note: Hours worked are adjusted for population aged 15–64. FTE (full-time equivalent) is based on a 48-hour working week. The deficit represents the additional hours worked that would exist if the ratio of total weekly hours worked to population aged 15–64 was at the level of the fourth quarter of 2019.



On a quarterly basis, the working-hour loss – peaked at 18.6% in the second quarter of 2020 – was lowest in the fourth quarter of 2021 (3.2%). However, the estimates signal a deterioration through 2022. During the first quarter of 2022, global hours worked are estimated at 3.8% below the level of the pre-pandemic benchmark, equivalent to a deficit of 112 million full-time jobs. According to ILO (2022), the recent containment measures implemented in China account for the bulk (86%) of the global decline in hours worked in 2022 Q1. Globally, the level of hours worked is expected to decline further in the second quarter of 2022, mainly driven by China's continued containment measures and the repercussions of the conflict in Ukraine. The ILO's latest projection for the second quarter of 2022 shows that the level of hours worked is expected to be 4.2% below the pre-pandemic level, which is equivalent to 123 million full-time jobs.

According to ILO estimates, global unemployment stood at 214.2 million in 2021, down 9.5 million from the previous year but still 28.3 million above the pre-pandemic 2019 level. The global unemployment rate fell by 0.4 percentage points to 6.2% in 2021, after peaking at 6.6% in 2020, the highest level since 1991, when available data begins. It is expected to improve further, first falling to 5.9% in 2022 and then to 5.7% in 2023 (*Figure 1.10*). Overall, the improvement in unemployment by 2023 will not be sufficient to close the gaps opened by the pandemic, with the unemployment rate remaining above the 2019 level and the number of unemployed surpassing its 2019 level by some 17 million.

Figure 1.10: World Unemployment Rate (%)



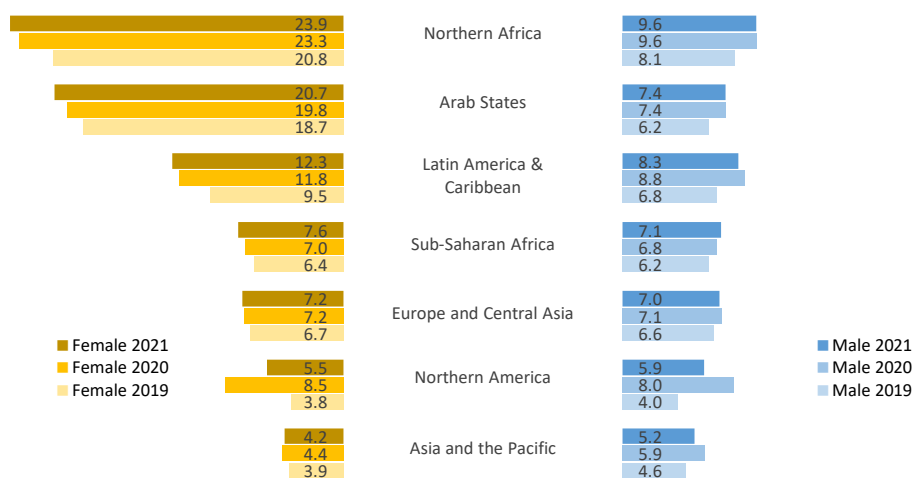
Source: ILOSTAT, ILO Modelled Estimates, November 2021.

The severe contraction in the world economy in 2020 has had disproportionate adverse impacts on employment and earnings of certain groups such as youth, women, workers with relatively lower educational attainment, seasonal migrant workers, and the informally employed. Constituting large segments of population particularly in developing countries, these groups have been more vulnerable to negative economic aspects of the pandemic and containment measures and, therefore, have generally been the hardest hit. Young people aged 15 to 24 were a particularly vulnerable segment of the global population, with an unemployment rate around 2.5 times as high as that of adults. Weak employment opportunities for the youth, which has already been a global challenge, have further deteriorated because of the pandemic-induced economic

collapse. Consequently, the youth unemployment rate rose by 1.7 percentage points to 15.2% in 2020. Moreover, it is estimated to have increased further (unlike the overall adult unemployment rate) to a record level of 15.6% in 2021 (*Figure 1.10*). Accordingly, youth unemployment is estimated to have reached 75.1 million in 2021, from 67.2 million in 2019, accounting for 35% of total unemployment. Although unemployment among youth is estimated to decline over the 2022-23 period to 14.4%, it will remain above its 2019 level, with over 71 million unemployed youth around the world.

The male unemployment rate is estimated to have decreased by 0.5 percentage points to 6.1% in 2021. Further decreases are expected over the next two years, yet remaining above its pre-pandemic level (*Figure 1.10*). The female unemployment rate is estimated to decline at a slower pace, by 0.1 percentage points to 6.3% in 2021. Despite this decline, however, around 350 thousand more women were added to the unemployed population that year. Estimates show that the unemployment rate for females will decline to 6.1% in 2022 and 5.9% in 2023, remaining above the rate for males as well as the pre-pandemic level, indicating that the female population will suffer in the labour market from prolonged adverse impacts of the pandemic. In addition, the labour force participation rate, having sharply declined in 2020, increased by 0.4 percentage points for both males and females and continued to be significantly lower for females (46.4%) than males (71.7%) in 2021.

Figure 1.11: Unemployment Rate by Region and Gender (%)



Source: ILOSTAT, ILO Modelled Estimates.

Note: Regional classification is based on ILO country groupings. Regions are ordered by the difference between female and male unemployment rate in 2021.

While unemployment rates increased for both males and females in all regions across the world in 2020, the developments in 2021 varied by gender and region (*Figure 1.11*). The male unemployment rate decreased or remained stable in all regions except Sub-Saharan Africa. The female unemployment rate increased in the Arab States, Northern Africa, Sub-Saharan Africa, and Latin America & Caribbean; decreased in Northern America and Asia and the Pacific; and remained relatively stable in Europe & Central Asia. Overall, in no region, neither male nor female unemployment rate declined to the pre-pandemic period. Moreover, the gap between female



and male unemployment rates widened in 2021 in all regions except Northern America and Asia and the Pacific, which already have relatively low unemployment rates. In Northern Africa and the Arab States, the unemployment rate for females continues to be more than twice the rate for males, mainly due to some social norms and country specific factors (SESRIC, 2021). It is obvious from *Figure 1.11* that, for women, it is harder to get a job in many developing regions of the world.

PRICES & INFLATION

War adding to commodity prices and inflation worldwide

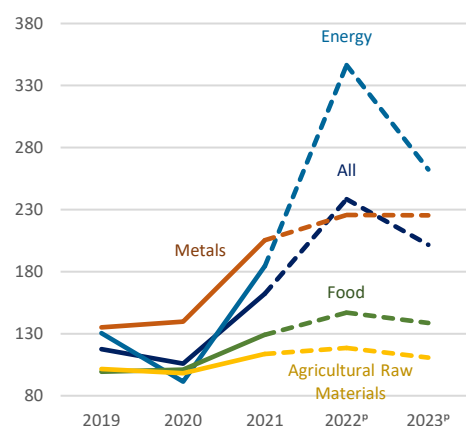
In 2020, commodity markets faced significant disruptions from the pandemic and associated mitigation measures that plummeted global demand for most commodities due to severely curbed consumption, production, and investment. Commodity prices declined sharply as a result of tumbling global demand, with oil prices particularly affected, falling by a third (32.7%) from 2019. Behind this fall in oil prices was a large contraction in travel and transport activities, which accounted for two-thirds of oil consumption, stemming from controls to slow the spread of the pandemic (World Bank, 2020).

As restrictions relaxed throughout 2021, demand accelerated, but supply was slower to respond amid ongoing disruptions. Commodity prices rose significantly from their low levels in the previous year. To be precise, they increased by half (53.2%), as measured by the IMF's Commodity Price Index (*Figure 1.12*). Driven by a strong recovery in demand along with the improving global economic prospects, oil prices increased by two-thirds (67.3%) and overall energy (fuel) prices doubled (101.8%). Metal prices, buoyed by the recovery in global manufacturing, improved prospects for infrastructure investment in advanced economies, and supply disruptions due to COVID-19, increased almost by half (46.8%). Food prices were up by 27.8% and agricultural raw materials by 15.8% compared to their level in 2020.

Commodity prices are expected to rise further in 2022 amid escalating geopolitical tensions and the war in Ukraine that started in late February. The Commodity Price Index is projected to increase by half (46.9%), driven mainly by a sharp rise in prices of energy commodities (87.9%). Brent crude oil temporarily reached \$140 in early March as markets started to shun Russia's Urals oil and several countries banned imports of Russian oil (IMF, 2022a). Given the risk of a major decline in Russian oil exports, oil prices are expected to rise by about 55% in 2022 from last year and to only slightly fall (13%) in 2023. Metal prices are expected to further rise by 9.9% in 2022 and remain unchanged in the next year. Global food prices are also expected to increase further by 13.9%, reaching unprecedented levels, resulting mainly from reduced supplies from Ukraine (a major producer of wheat and corn), falling Russian exports, and elevated fertilizer prices.

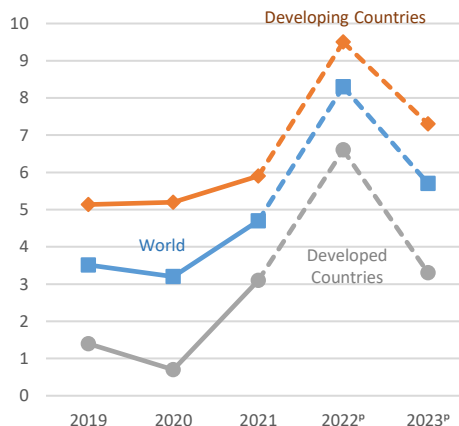
Even before the war, supply shortages, alongside the release of pent-up demand, and the rebound in commodity prices caused consumer price inflation to increase rapidly all around the world. Global inflation rose to 4.7% in 2021 after slowing down to 3.2% in 2020. The increase in inflation was more notable in developed countries, from 0.7% to 3.1%, while inflation in

Figure 1.12: World Commodity Prices (2016=100)



Source: IMF, World Economic Outlook Database, April 2022.
Note: P= Projection

Figure 1.13: Inflation (%)



Source: IMF, World Economic Outlook Database, April 2022 and July 2022 Update.

Note: Annual average change in consumer prices (CPI); P= Projection

developing countries increased from 5.2% to 5.9% (Figure 1.13). Some central banks in developed and developing countries, particularly the US Federal Reserve, have already brought forward the timing of their monetary policy tightening due to rising inflationary pressures. War-related supply shortages are expected to greatly intensify those pressures, especially through increases in the prices of energy, metals, and food. Accordingly, for 2022, inflation is projected at as high as 6.6% in developed countries and 9.5% in developing countries, averaging globally at 8.3%. Although projections signal a decline in 2023, there is great uncertainty regarding the supply-demand imbalances, including those stemming from the war.

Rising inflation has become a central concern in many countries. In some advanced economies, including the United States and some European countries, such as Germany, Belgium, and the Netherlands, the 2022 inflation is expected to be the highest in 40 years. According to the IMF (2022a), there is a rising risk that inflation expectations drift from central bank targets, prompting a more aggressive tightening response from central banks. As advanced economy central banks tighten policy and interest rates rise in those countries, developing countries could face a further withdrawal of capital and currency depreciations that could increase inflation pressures. The rising cost of living due to elevated inflation, particularly the increases in food and fuel prices, could escalate the risk of social unrest especially in developing countries.

INTERNATIONAL TRADE

Trade volume above pre-pandemic level in 2021, but growth decelerates

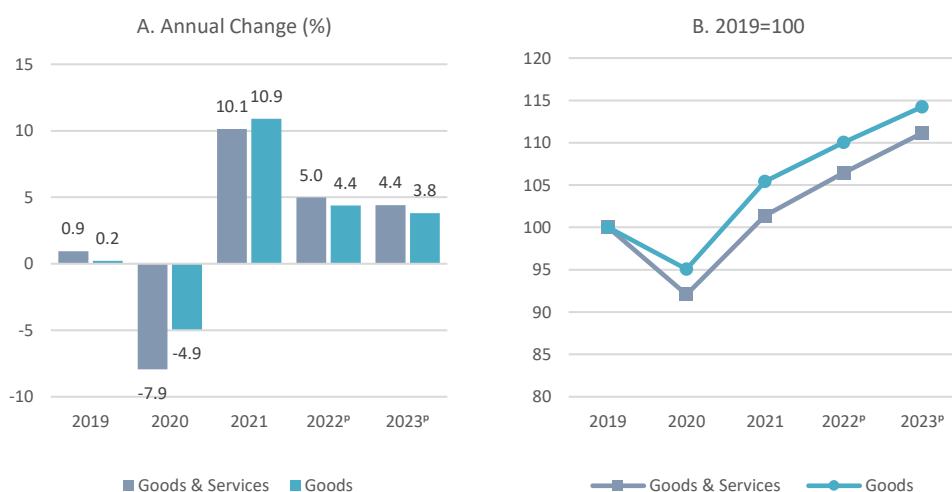
The containment measures and lockdowns aimed to curb the pandemic have affected both demand and supply in a negative way. International transportation and global value chains (GVCs) were also disrupted remarkably during the closures. The unprecedented adverse effects of the pandemic led to a remarkable collapse (-7.9%) in global trade volume in 2020. However, the



recovery was quick, particularly in merchandise trade, while trade in services remains sluggish mainly due to the slow recovery in travel activities. Trade in goods, after falling by 4.9% in 2020, expanded by 10.9% in 2021, resulting in a 5.4% higher volume of world merchandise trade than before the pandemic. Trade in goods and services, which grew by 10.1% in 2021, was, however, only 1.5% above its pre-pandemic level (*Figure 1.14*).

Reflecting the significant slowdown in overall activity, the war in Ukraine, and the lingering effects of the pandemic, global trade growth is expected to decelerate remarkably in 2022. The sanctions imposed with the aim of pressing Russia to end the war are limiting financial and trade linkages between Russia and other countries, with far-reaching repercussions. Accordingly, current projections of the IMF indicate that the growth in world trade volume in goods and services is expected to slow to 5.0% in 2022 and further to 4.4% in 2023. Trade volume in goods is forecast to decelerate to 4.4% in 2022 and to 3.8% next year (*Figure 1.14.A*). Nevertheless, it will maintain a faster recovery trend compared to the overall trade (*Figure 1.14.B*)

Figure 1.14: World Trade Volume



Source: IMF, World Economic Outlook Database, April 2022.
Note: P= Projection

In nominal US dollars, merchandise trade registered a two-digit growth rate in all regions in 2021, while all regions recorded a decline in both exports and imports in the previous year, albeit at different scales (*Table 1.1*). Global merchandise export value, which contracted further by 7.2% in 2020 with the impact of the pandemic after a contraction of 2.8% in the previous year, grew by 26.3% in 2021. At the regional level, the largest growth in 2021 was recorded in the Middle East (40.5%), mainly due to an increase in oil prices resulting from the recovering economic activity in the global economy. Exports from Asia, which declined by a modest 1.4% in 2020, increased by 27.2% in 2021. Along with the large expansion of exports, imports also increased significantly across regions, ranging from 21.8% in the Middle East to 41.7% in South and Central America and the Caribbean.

Table 1.1: Annual Change in Global Trade Values by Selected Region (%)

Exports			Region	Imports		
2019	2020	2021		2019	2020	2021
MERCHANDISE						
-2.8	-7.2	26.3	World	-2.6	-7.5	26.0
-5.6	-17.5	38.7	Africa	-0.1	-13.7	24.4
-1.9	-1.4	27.2	Asia	-3.8	-6.4	30.1
-2.8	-6.3	22.0	Europe	-2.9	-6.3	23.0
-8.8	-24.7	40.5	Middle East	2.1	-12.6	21.8
-0.6	-12.4	23.3	North America	-1.8	-8.1	23.1
-5.8	-9.1	33.8	South and Central America and the Caribbean	-5.0	-16.0	41.7
COMMERCIAL SERVICES						
3.1	-17.8	17.4	World	3.8	-18.8	15.0
3.6	-34.9	20.9	Africa	4.2	-24.1	8.5
3.4	-19.9	17.6	Asia	0.0	-19.9	14.4
2.2	-13.7	18.3	Europe	6.4	-14.0	13.7
12.9	-22.6	27.8	Middle East	5.2	-29.5	25.6
3.6	-19.6	10.7	North America	4.4	-22.8	17.7
0.0	-36.2	19.9	South and Central America and the Caribbean	-2.9	-29.5	19.4

Source: Authors' calculation based on data from WTO STATS.

Contracted more severely than merchandise trade in 2020, trade in commercial services also recorded a smaller rebound in 2021 compared to that of merchandise exports. At the global level, commercial services exports grew by 17.4% in 2021 after collapsing by 17.8% in the previous year. At the regional level, on the export side, the Middle East registered the largest increase (27.8%) in commercial services exports in 2021. Then came Africa (20.9%) and South and Central America and the Caribbean (19.9%), the hardest hit regions with commercial service exports falling by a third in 2020. On the import side, the Middle East, which experienced a 30% contraction in commercial services imports in 2020, registered the largest increase (25.6%) in 2021. While all regions experienced an increase in their services imports, none of them returned to the pre-pandemic level, as cross-border services trade – particularly tourism – remained subdued. Aimed to control the spread of COVID-19, containment measures, especially international travel restrictions, played a central role in the contraction of commercial services trade all over the world. Transport and travel services have been the most affected areas in this regard.

CURRENT ACCOUNT BALANCE

Surpluses widen across the world in 2021

Global current account balances – the sum of absolute deficits and surpluses – widened for the second successive year in 2021 following an increase in 2020. The moderate widening in 2020 reflected the impact of the pandemic: elevated exports of some goods (medical equipment, work-from-home electronics, and consumer durables), subdued travel, and lower oil prices. The greater widening in 2021 reflects a larger deficit in the US from the increased fiscal support and corresponding increases in surpluses. Global current account surpluses are expected to decline



over 2022-23, essentially due to the anticipated significant narrowing of balances of developed countries driven mainly by the US deficit (*Table 1.2*).

Aggregated current account surplus of developed countries increased by 83% to US\$ 379.3 billion in 2021 compared to the previous year, despite the massive deficit of the US that rose from US\$ 616.1 billion to US\$ 806.6 billion. As a percent of GDP, current account surpluses also improved, from 0.4% in 2020 to 0.7% in 2021. The aggregate balance of developing countries more than doubled (128%) and reached US\$ 365.3 billion. The widening surpluses of China and the large surpluses recorded in Middle East and Central Asia played a significant role in this improvement. Surpluses to GDP ratio increased even more for developing countries than for developed countries, from 0.5% in 2020 to 0.9% in 2021. Current IMF projections show that surpluses of developed countries are expected to vanish over 2022-23, while those of developing countries reach 1.5% of GDP in 2022 before returning to 0.9% in 2023.

Table 1.2: Current Account Balance

	Billion US\$					Percent of GDP				
	2019	2020	2021	2022 ^p	2023 ^p	2019	2020	2021	2022 ^p	2023 ^p
World (Global Disparity)	338.6	367.9	744.6	617.3	444.1	0.4	0.4	0.8	0.6	0.4
Developed Countries	337.9	207.8	379.3	-65.0	23.4	0.7	0.4	0.7	-0.1	0.0
United States	-472.1	-616.1	-806.6	-877.8	-855.4	-2.2	-2.9	-3.5	-3.5	-3.2
Germany	294.3	272.5	314.0	249.8	313.4	7.6	7.1	7.4	5.9	6.9
Japan	176.0	148.8	141.7	117.2	142.2	3.4	3.0	2.9	2.4	2.7
Developing Countries	0.7	160.1	365.3	682.3	420.7	0.0	0.5	0.9	1.5	0.9
Asia	92.9	319.5	247.9	156.0	132.7	0.5	1.5	1.0	0.6	0.4
China	102.9	248.8	317.3	213.4	214.6	0.7	1.7	1.8	1.1	1.0
Europe	50.0	0.3	71.1	130.9	70.3	1.3	0.0	1.7	3.2	1.7
Latin America & Caribbean	-107.7	-8.9	-82.0	-65.9	-70.6	-2.1	-0.2	-1.6	-1.2	-1.2
Middle East & Central Asia	22.5	-101.7	149.1	496.4	343.4	0.5	-2.5	3.0	8.3	5.6
Sub-Saharan Africa	-57.0	-49.1	-20.8	-35.1	-55.1	-3.2	-3.0	-1.1	-1.7	-2.5

Source: IMF, World Economic Outlook Database, April 2022.

Note: P= Projection

Among developed countries, the United States continues to have a substantial trade deficit that resulted in a current account deficit of 3.5% in 2021, worsening from 2.9% in 2020. This deficit (as a percent of GDP) is expected to remain unchanged in 2022 before moderating slightly to 3.2% in 2023. Germany and Japan generated significant trade surpluses in 2021, which helped them achieve a current account surplus of 7.4% and 2.9%, respectively. These countries are projected to maintain strong surpluses in the next two years.

Current account performance of developing countries differed across regions in 2021. In Developing Asia, surpluses moderated to 1.0% of GDP from 1.5% in the previous year, though China, having a long-standing external surplus, continued to run increasing surpluses that reached 1.8% of GDP in 2021, compared to 1.7% in 2020. Nevertheless, surpluses of the region in general and of China in particular are expected to narrow over the 2022-23 period. Developing Europe's surpluses that vanished in 2020 improved again in 2021, reaching as high as 1.7% of GDP, and projections indicate that they will almost double in 2022 (3.2%) before returning to the 2021 level. After running a significant deficit of 2.5% in 2020, Middle East and Central Asia recorded a large surplus of 3.0% in 2021 thanks to the strong oil price rebound along with the

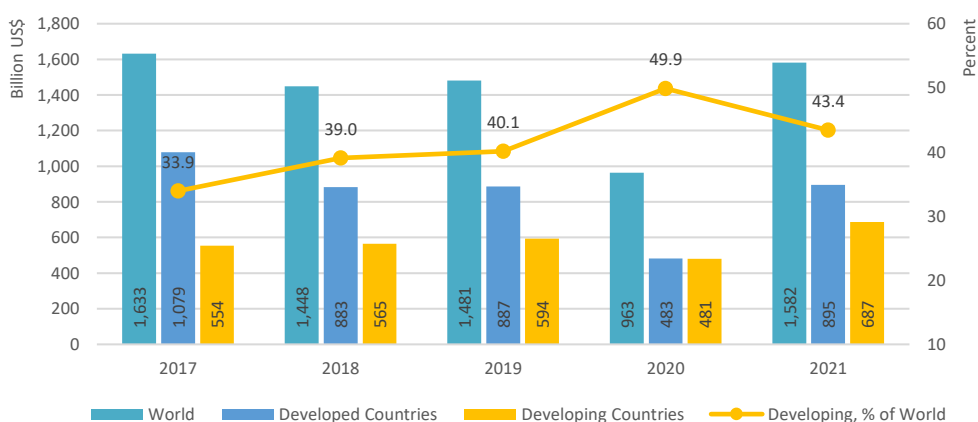
global economic recovery. With the soaring energy prices in 2022, the region is expected to run much larger surpluses that will reach 8.3% of GDP. By contrast, Latin America and the Caribbean and Sub-Saharan Africa continued to run current account deficits in 2021 and expectations are that this will continue over the next two years.

FOREIGN DIRECT INVESTMENT

Sharp rebound in developed countries

According to the World Investment Report of the United Nations Conference on Trade and Development (UNCTAD, 2022), global foreign direct investment (FDI) inflows showed a significant rebound in 2021 and amounted to US\$ 1.58 trillion, up 64.3% from the exceptionally low level of US\$ 963 billion in 2020. Most of this increase originated from the upswing in developed countries. FDI inflows to developed countries almost doubled with an increase of 85.6% to US\$ 895 billion while inflows to developing countries increased by 42.9% to US\$ 687 billion. Thus, the share of developing countries in global FDI inflows declined from 49.9% in 2020 to 43.4% in 2021 (Figure 1.15). It is worth noting that, as of 2021, inflows to developed countries slightly exceeded (+1.0%) the pre-pandemic 2019 level, while inflows to developing countries significantly exceeded (15.7%) the pre-pandemic level.

Figure 1.15: World FDI Inflows



Source: UNCTAD, *World Investment Report 2022, Annex Tables*.

Note: Totals exclude the financial centres in the Caribbean.

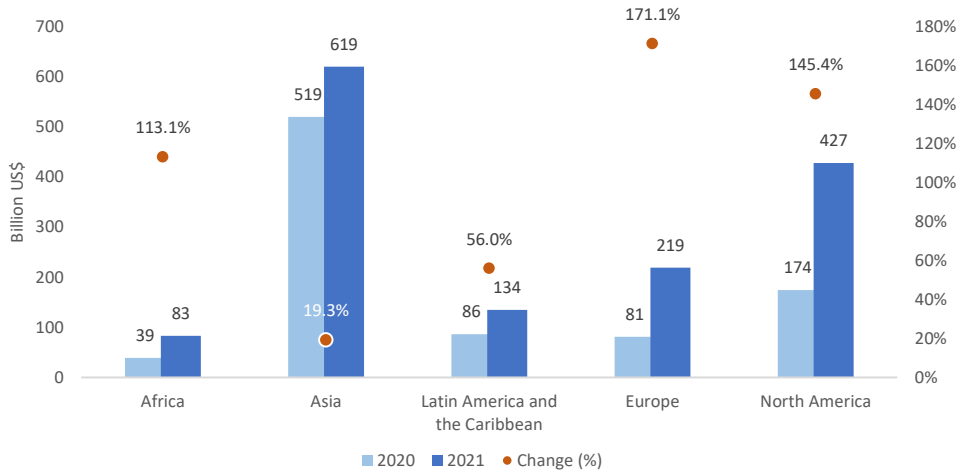
Recovery in FDI inflows differed significantly by region in 2021 (Figure 1.16). On the developing countries side, the strong growth performance in Asia, a partial recovery in Latin America and the Caribbean, and an upswing in Africa largely contributed to the overall increase in FDI inflows. Flows to Asia, the largest FDI recipient, increased by US\$ 100 billion or 19.3% despite successive waves of COVID-19 to US\$ 619 billion in 2021, an all-time high for the third consecutive year. Flows to Latin America and the Caribbean¹ increased by half (56%) to US\$ 134 billion. FDI flows to Africa amounted to only US\$ 83 billion, despite having doubled (113%) from the previous year.

¹ Excluding the financial centres in the Caribbean.



In fact, about 38 out of the 44 billion US\$ increase in the region originated from a single country, South Africa, while most countries in the region saw a moderate rise in FDI. On the developed countries side, FDI flows to Europe increased 171% or US\$ 138 billion to US\$ 219 billion. Flows to North America increased 145% or US\$ 253 billion to US\$ 427 billion, mostly accounted for by the United States, where FDI inflows rose 144% or US\$ 217 billion to US\$ 367 billion.

Figure 1.16: World FDI Inflows by Region, 2020 vs. 2021



Source: UNCTAD, *World Investment Report 2022, Annex Tables*.

According to UNCTAD (2022), the 2021 growth momentum is unlikely to be sustained, and the global FDI flows in 2022 will likely move on a downward trajectory or remain stable at best. The global environment for international business and cross-border investment changed dramatically in 2022. Having effects well beyond its immediate vicinity, the war in Ukraine – on top of the lingering effects of the pandemic – is causing a triple food, fuel and finance crisis in many countries around the world, with far-reaching consequences for international investment. Investor uncertainty and risk aversion could put significant downward pressure on global FDI in 2022. In addition, the flare-up of COVID-19 in China is another important factor that cools the prospects for 2022, as it is resulting in renewed lockdowns in some areas that play a major role in global value chains (GVCs), and it could further depress new greenfield investment in GVC-intensive industries.

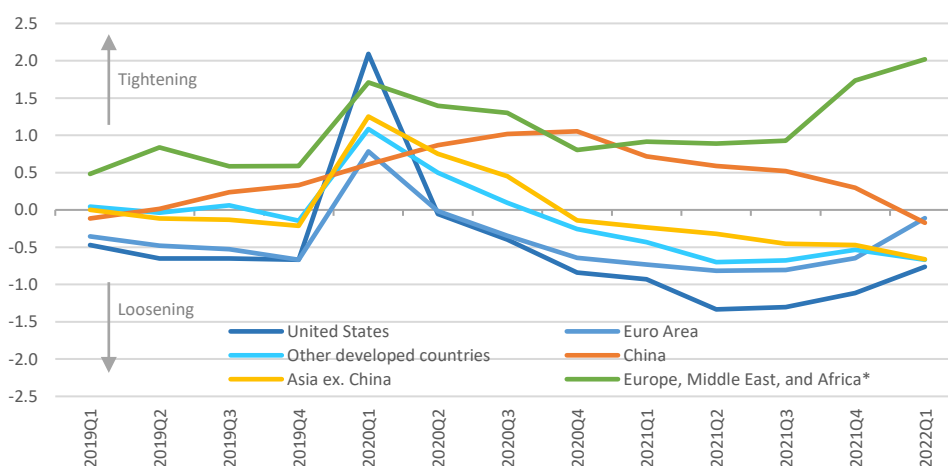
FINANCIAL CONDITIONS

Supportive throughout 2021 but tighten amid heightened inflation risks worldwide

Global financial conditions were relatively stable for global economic activities before the pandemic. Nevertheless, with the outbreak of the pandemic as an unexpected game changer at the beginning of 2020, global financial conditions tightened significantly in the first half of the year (Figure 1.17). The containment measures and sudden stop in economic activities not only affected the economic outlook but also deteriorated the expectations and fuelled uncertainty. As COVID-19 spread globally, the prices of risky assets and commodities started to fall at

unprecedented speed while the prices of safe-haven assets, such as gold and US Treasuries, gained as investors look for stability rather than profitability during the crises (IMF, 2020).

Figure 1.17: Financial Conditions Indices (Standard deviations from mean)



Source: IMF, *Global Financial Stability Report*, April 2022.

* Excluding Russia and Ukraine.

Tightened sharply in March 2020 in both developed and developing countries, financial conditions eased significantly in the afterwards –except in China– as extraordinary policy measures have supported the economy, helping to contain financial stability risks. In 2021, financial conditions eased further in developed economies and the containment of financial stability risks continued, reflecting ongoing monetary and fiscal policy support and the rebound of the global economy. By contrast, financial conditions changed little in developing countries, remaining supportive in general. Nevertheless, the market sentiment deteriorated towards the end of the year with concerns over the global economic outlook amid greater uncertainty about the strength of the recovery and concerns over more persistent inflationary pressures than initially anticipated (IMF, 2021b). Early in 2022, global financial conditions have tightened notably and downside risks to the economic outlook have increased as a result of the war in Ukraine. The tightening has been particularly pronounced in Eastern Europe and Middle East countries with close ties to Russia (*Figure 1.17*).

In the US, inflation is on the rise and pent-up demand in the system is still large in part due to the pandemic recovery program. To bring inflation back down to the 2 percent medium-term goal, the US monetary policy is tightening by putting an end to asset purchases and increasing the policy rate in both 2022 and 2023. Interest rate rises are also expected in Europe and other major economies that are seeing significant rises in inflation. Less accommodative monetary policy in the US and other major developed economies is expected to prompt tighter global financial conditions, putting pressure on emerging market and developing economy currencies. Higher interest rates will also make borrowing more expensive worldwide, straining public finances. For countries with high foreign currency debt, the combination of tighter financial conditions, exchange rate depreciations, and higher imported inflation will lead to challenging monetary and fiscal policy trade-offs (IMF, 2022b).

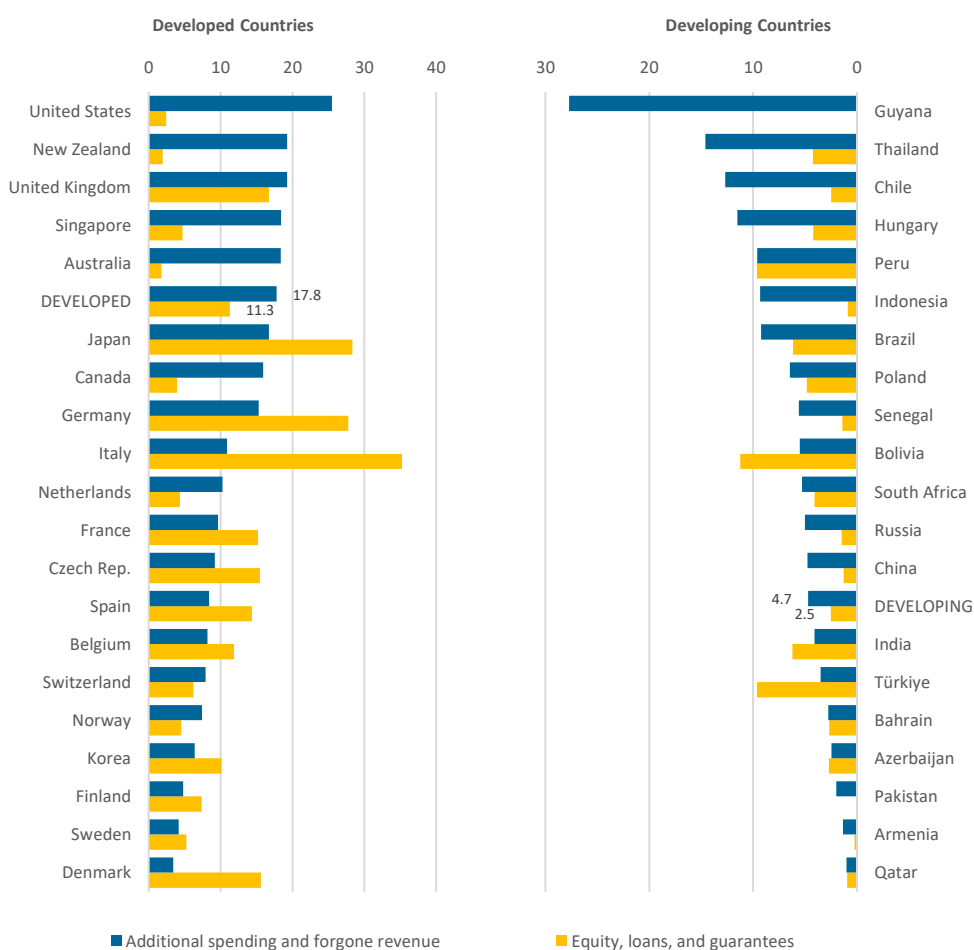


FISCAL BALANCE

Government deficits narrow in 2021 as expenditures ease

Governments around the world have responded to the pandemic with their fiscal policies at unprecedented levels. They have used the budget to reinforce health systems and provide emergency support for households and firms, which helped alleviate the contraction in economic activity as well. In an environment of historically low interest rates, countries with stronger buffers and better access to finance have been able to apply greater fiscal support (IMF, 2021c). However, these measures, along with reduced revenues due to the economic downturn, led to historically high fiscal deficits in 2020.

Figure 1.18: Government Fiscal Support in Response to COVID-19 in Selected Countries (Percent of 2020 GDP)



Source: IMF, Fiscal Monitor: Database of Country Fiscal Measures in Response to the COVID-19 Pandemic, October 2021.

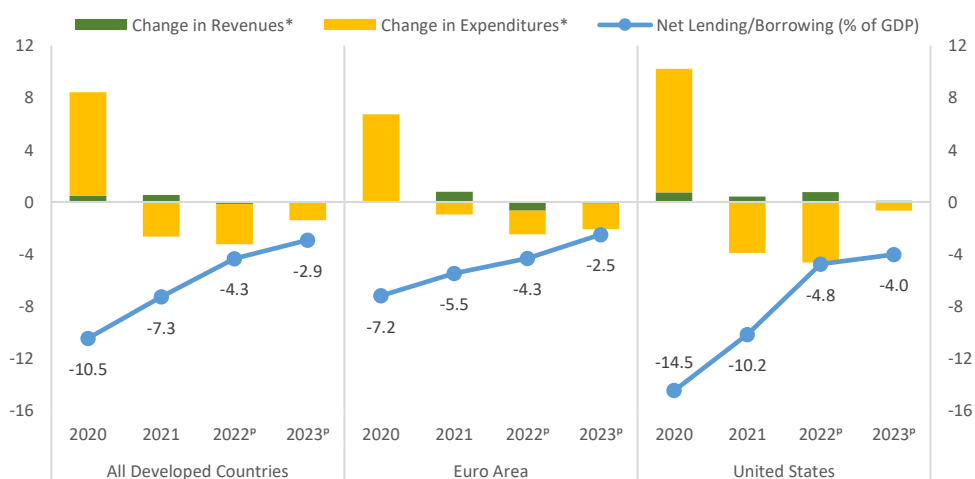
Note: Data refers to the period from January 2020 to September 27, 2021.

Indeed, many countries continued providing fiscal support throughout 2021 to mitigate the impact of the coronavirus pandemic and help their recoveries, although the size and composition

of the support varied across countries. Countries also started to withdraw such exceptional support in light of the ongoing recovery and reduced fiscal space. According to the IMF, of the US\$ 16.9 trillion in global pandemic-related fiscal actions taken from January 2020 to September 2021, US\$ 10.8 trillion consisted of additional spending and forgone revenue, and US\$ 6.1 trillion of government loans, guarantees, and capital injections (IMF, 2021d). As summarized in *Figure 1.18*, both forms of fiscal support, as a percentage of GDP, were around four times as large in developed countries as in developing countries. Additional spending and foregone revenue was 17.8% of GDP in developed countries and 4.7% of GDP in developing countries. Similarly, the support provided in the form of loans, equity, and guarantees to mitigate the impacts of COVID-19 amounted to 11.3% of GDP in developed countries whereas in developing countries this share was 2.5%. At the individual country level, some countries preferred to provide more support in the form of additional spending and foregone revenue, such as the United States, New Zealand, Chile, and China. Some other countries chose to provide more support through government loans, guarantees, and capital injections, such as Italy, Germany, Bolivia, and Türkiye.

While the pandemic-related exceptional supports posed a significant burden on the fiscal balances in 2020, government fiscal deficits declined in 2021 as economies recovered and countries started to withdraw those exceptional supports. *Figure 1.19* shows that, in developed countries, deficits narrowed from 10.5% of GDP in 2020 to 7.3% in 2021, mainly due to a decline of 2.6 percentage points in expenditures as a percent of GDP. Deficits are expected to decline further over 2022-23 with contribution from reduced expenditures as a percent of GDP. Reached as high as 14.5% of GDP in 2020, the deficit in the United States declined to 10.2% in 2021 – with about 4 percentage points decline in expenditures as a percentage of GDP – and it is expected to narrow further to 4.8% in 2022 as expenditures reduce and revenues recover. Deficits in the Euro Area declined to 5.5% of GDP in 2021 thanks to both a decrease in expenditures and an increase in revenues. While further declines are anticipated over 2022-23, these are expected to result from reduced expenditures, as revenues are expected to weaken over that period.

Figure 1.19: General Government Fiscal Balance in Developed Countries



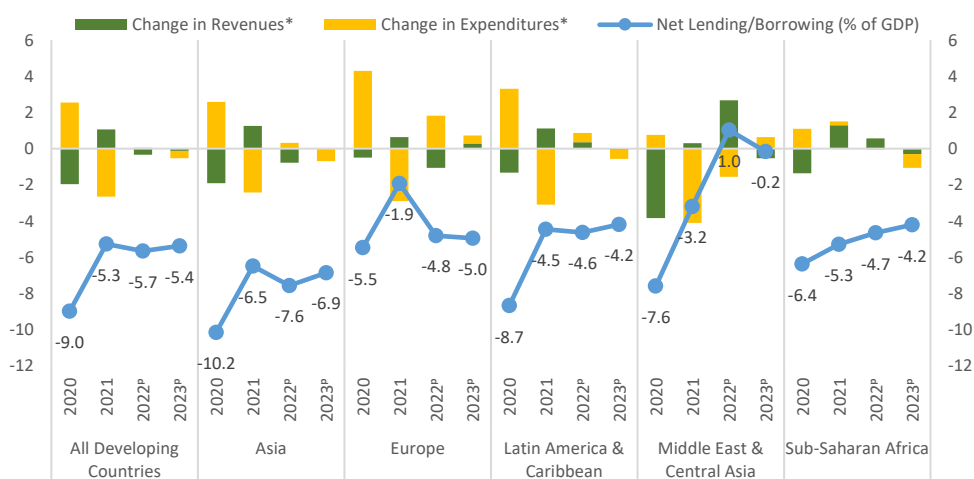
Source: IMF, World Economic Outlook Database, April 2022.

Note: P= Projection; * Percentage point difference from the previous year in their ratio to GDP.



In developing countries, falling revenues played a remarkable role in the deficits that doubled in 2020 to 9.5% of GDP compared to the previous year (*Figure 1.20*). Behind this deterioration in balances lies the 2.6 percentage points increase in expenditures as a percent of GDP and a 2 percentage points decrease in revenues as a percent of GDP. In 2021, the deficits narrowed to 5.3% of GDP, given that expenditures decreased by 2.7 percentage points as pandemic-related supports run out or loosened up and revenues recovered by 1.1 percentage points. As of 2022, governments' ability to support the economic recovery through increased spending or reduced revenues (fiscal space) is more limited. The war in Ukraine and the increase in global interest rates to keep inflation in check are further constraining fiscal space in many countries, especially oil- and food-importing developing countries. Overall, the deficits in developing countries are not expected to decline further in 2022, but instead increase to 5.7% of GDP due to reduced revenues.

Figure 1.20: General Government Fiscal Balance in Developing Countries

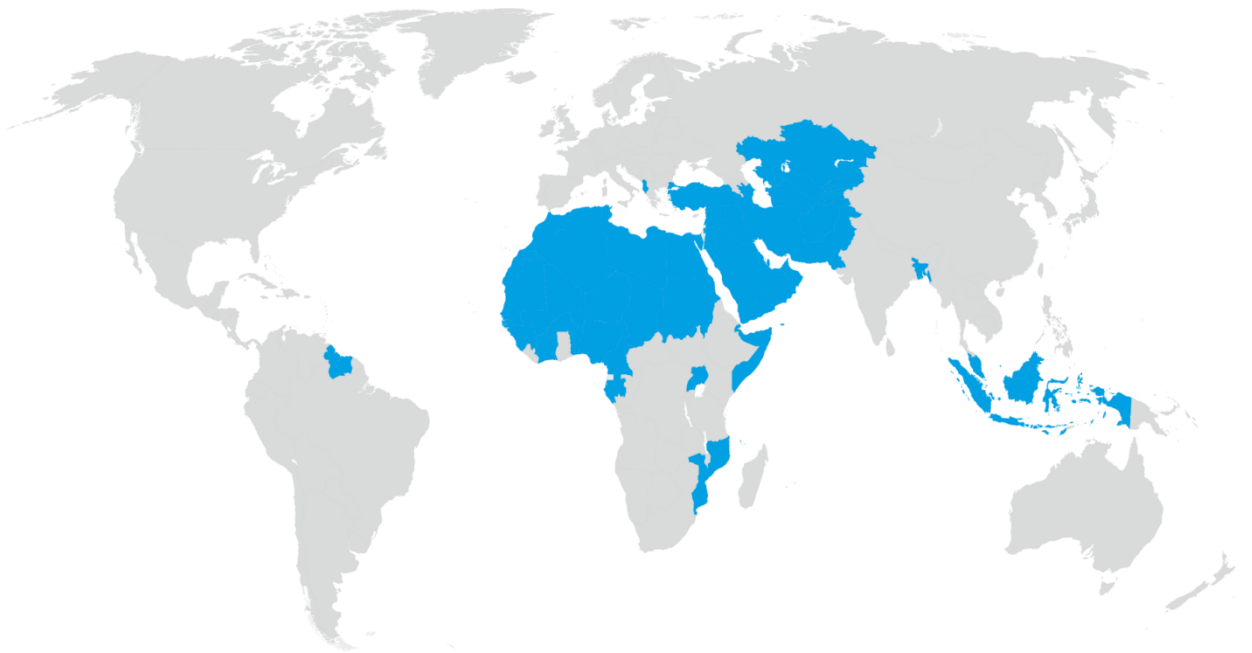


Source: IMF, World Economic Outlook Database, April 2022.

Note: P= Projection; * Percentage point difference from the previous year in their ratio to GDP.

Prospects for fiscal balance (as percent of GDP) differ across developing regions, although all of them registered a decline in deficits in 2021 (*Figure 1.20*). Deficits are expected to increase in Asia, Europe, and Latin America and the Caribbean in 2022, and to increase further in Europe, unlike the other two regions, in 2023. The Middle East and Central Asia are expected to run a surplus in 2022 for the first time in a decade because of a further decrease in expenditures but even a larger increase in revenues. This surplus, however, is expected to fade out in 2023. Government fiscal deficit in Sub-Saharan Africa is expected to continue to decline in both 2022 and 2023, nevertheless, it will remain above the pre-pandemic level, as in Asia, Europe, and Latin America and the Caribbean.

CHAPTER 2: RECENT ECONOMIC DEVELOPMENTS IN OIC COUNTRIES

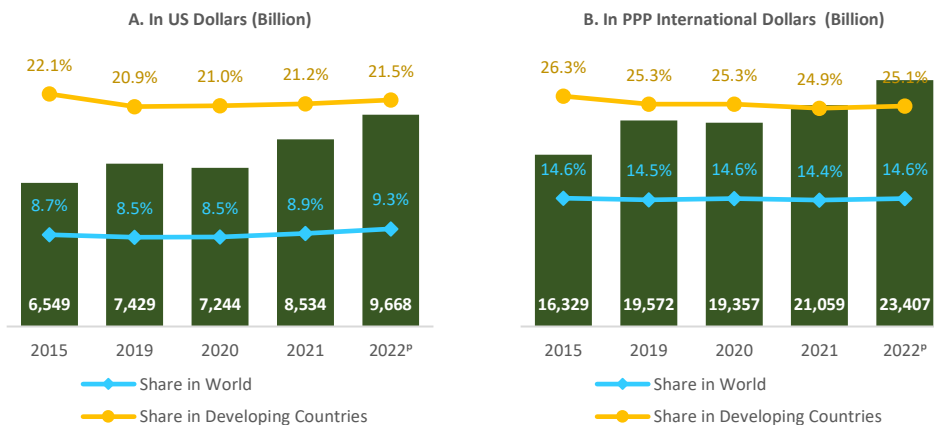


PRODUCTION AND ECONOMIC GROWTH

Output up 18.6% to US\$ 8.5 trillion in 2021

At current prices, the total GDP of the OIC countries, which contracted by 2.5% in 2020 due to the COVID-19 pandemic, increased by 18.6% to US\$ 8.5 trillion in 2021 and exceeded the pre-pandemic 2019 level. Given the ongoing gradual recovery, it is estimated to further increase to US\$ 9.7 trillion in 2022. With this economic size, the OIC countries, as a group, accounted for 8.9% of global GDP in 2021, up 0.4 percentage points from the previous year. The share of the OIC countries in the total GDP of developing countries also increased from 21.0% in 2020 to 21.2% in 2021, indicating that the recovery in current output was faster in the OIC countries relative to the rest of the world (*Figure 2.1.A*).

Figure 2.1: Total GDP and World Shares of OIC Countries (at current prices)



Source: Authors' calculation based on IMF, World Economic Outlook Database, April 2022.

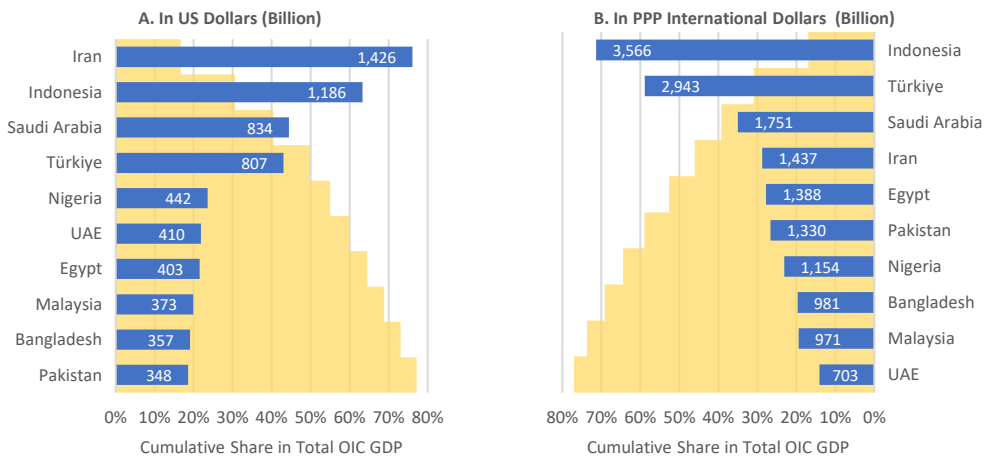
Note: P= Projection; Data exclude Syria for the entire period under consideration and Afghanistan and Lebanon for 2021 and 2022.

In terms of Purchasing Power Parity (PPP) expressed in international dollars, the total GDP of the OIC countries at current prices reached 21.1 trillion dollars in 2021, up 9.7% from the previous year. In 2022, it is expected to reach 23.4 trillion dollars. With these amounts, the OIC countries as a group accounted for 14.4% of global GDP in 2021, down 0.2 percentage points from 2020, though projections show that this share will return to its 2020 level in 2022. Their share in the total GDP of developing countries also fell in 2021, to a record low of 24.9%, but this is also expected to rebound to 25.1% in 2022 (*Figure 2.1.B*). Considering the estimated share of the OIC countries in the world population (24.2%) and in the population of developing countries (28.2%) in 2021, their share in GDP, whether in US dollar or in PPP international dollars, remains below the desired levels.

Furthermore, it is observed that a significant part of the total GDP of the OIC countries is still produced by a few member countries, reflecting wide differences in economic size. In 2021, the largest five OIC countries accounted for over half (55.0%) of the total GDP measured in current US dollars, while this share reached up to 77.2% for the largest ten countries (*Figure 2.2.A*). Iran,

with a GDP exceeding US\$ 1.4 trillion, had the highest share in OIC GDP (16.7%), followed by Indonesia (13.9%), Saudi Arabia (9.8%), Türkiye (9.5%), and Nigeria (5.2%).

Figure 2.2: Top 10 OIC Countries by GDP, 2021



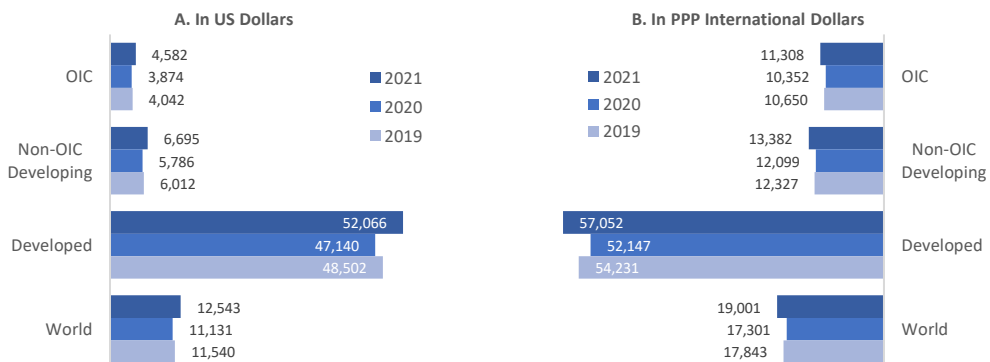
Source: IMF, World Economic Outlook Database, April 2022.

Figure 2.2 shows that the largest ten countries remain unchanged when GDP is expressed in PPP international dollars, though the ranking of countries changes due to the difference in purchasing power stemming from relative price differentials between countries. Indonesia was the largest economy, with a PPP equivalent of 3.6 trillion dollars that constituted 16.9% of OIC GDP in 2021. Together with Türkiye (14.0%), Saudi Arabia (8.3%), Iran (6.8%), and Egypt (6.6%), these five countries accounted for 52.6% of the total OIC GDP while, for the largest ten countries, this share reached as high as 77.0% (Figure 2.2.B).

Strong rebound in GDP per capita in 2021 but gaps widen

Given the recovery in output, per capita GDP values at current prices increased worldwide in 2021 compared to the previous year (Figure 2.3). In US dollar terms, the global average rose by 12.7% to US\$ 12,543. The increase in the OIC countries was even larger, with the average GDP

Figure 2.3: Average GDP per Capita (at current prices)



Source: Authors' calculation based on IMF, World Economic Outlook Database, April 2022.

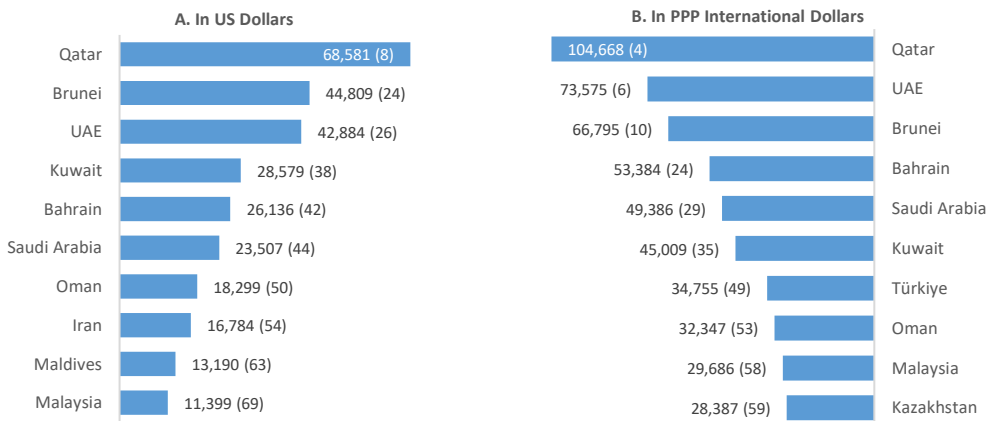
Note: Data exclude Syria for the entire period under consideration and Afghanistan and Lebanon for 2021.



per capita rising by 18.3% to US\$ 4,582. Although non-OIC developing countries registered a smaller rate of growth (15.7%), GDP per capita continued to be lower in the OIC countries, with the gap even getting wider (*Figure 2.3.A*).

In PPP terms, GDP per capita averaged globally at 19,001 dollars in 2021, up 9.8% from a year earlier. In the OIC countries, it increased by 9.2% to 11,308 dollars, remaining below that in non-OIC developing countries, which rose 10.6% to 13,382 dollars (*Figure 2.3.B*).

Figure 2.4: Top 10 OIC Countries by GDP per Capita, 2021 (at current prices)



Source: IMF, World Economic Outlook Database, April 2022.

Note: The numbers in brackets indicate the global rank of the relevant country among 193 countries.

Among the OIC countries, Qatar had the highest GDP per capita in 2021, ranked globally as the eighth with a value exceeding US\$ 68 thousand. This value was 15 times the OIC average and 141 times the lowest GDP per capita recorded by an OIC member, indicating the wide disparity among the member countries. Qatar was followed—in descending order—by Brunei Darussalam, United Arab Emirates, Kuwait, Bahrain, Saudi Arabia, Oman, Iran, Maldives, and Malaysia (*Figure 2.4.A*). It is noteworthy that seven out of these ten countries are from the fossil-fuel-rich Middle East region. In terms of PPP, this list of countries remained the same except that Türkiye and Kazakhstan replaced Iran and the Maldives. The ranking of countries somewhat changed, though Qatar continued to top the list with a GDP per capita value of over 104 thousand dollars, ranked fourth on the global scale (*Figure 2.4.B*).

Real GDP up 5.8% in 2021, the highest in a decade

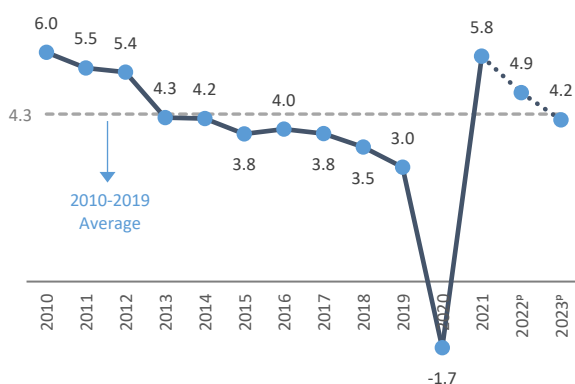
Prior to the outbreak of the COVID-19 pandemic, economic growth in the OIC countries followed a decelerating trend, from 6.0% in 2010 to 3.0% in 2019, averaging annually at 4.3%. Under the pandemic conditions in 2020, the OIC countries, on average, contracted by 1.7%, but in parallel with the global economic recovery, they grew by 5.8% in 2021, the highest rate achieved since 2010. Thus, the real GDP in 2021 surpassed its pre-pandemic 2019 level by 4.0%. However, in line with the global trends, the economic growth in OIC countries is expected to moderate in the next two years, to 4.9% in 2022 and 4.2% in 2023 (*Figure 2.5*). It is noteworthy that the average growth rate registered by the OIC countries in 2021 was lower than the global average. As mentioned in

the previous chapter, developing economies grew by 6.8% and the developed ones by 5.2%, with the global economic growth averaging at 6.1% (see *Figure 1.1*).

The growth performance of the OIC countries differed across income groups, though they all contracted in 2020 and grew in 2021 (*Figure 2.6*). Economies of resource-rich high-income countries, which contracted the most (-4.7%) in 2020, registered a growth rate of 2.6% in 2021, below

the 2010-19 average of 3.5%. A stronger growth rate of 6.4% is expected in 2022, underpinned by high oil prices and followed by a moderate rate of 3.5% in 2023. Having recorded a higher average economic growth (5.5%) during the past ten years prior to the pandemic as compared to the other groups, the upper-middle income economies contracted by 2.3% in 2020. They rebounded strongly in 2021 with an 11.4% growth, mostly due to the strong growth rates recorded in Türkiye (11.0%) and Libya (177.3%). After a rather limited contraction (-0.6%) in 2020, growth in the lower-middle income economies resumed with a rate of 4.3% in 2021 and is expected to remain above the 2010-19 average of 4.2% in the next two years. Low-income countries, which registered a slower average growth rate (2.5%) as compared to the other income groups during 2010-19, rebounded with a 2.3% growth in 2021 after contracting by 1.7% in the previous year. Growth in these countries is expected to go beyond the pre-pandemic average in the next two years, to 2.9% in 2022 and 4.9% in the subsequent year.

Figure 2.5: Real GDP Growth in OIC Countries



Source: Authors' calculation based on IMF, World Economic Outlook Database, April 2022.

Note: P= Projection

Figure 2.6: Economic Growth in the OIC by Income Group (%)



Source: Authors' calculation based on IMF, World Economic Outlook Database, April 2022.

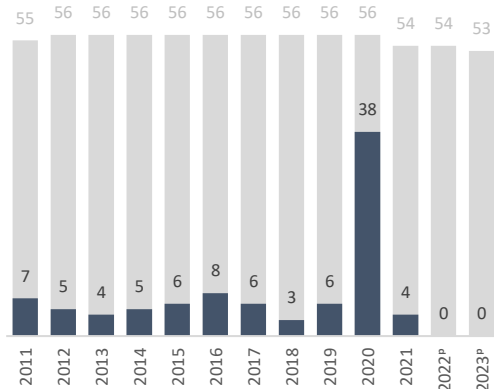
Note: P= Projection; Dashed lines represent the annual average growth rate during 2010-2019 for the related income group. See Annex B for the income classification of OIC countries.



An important observation here is that all groups except the high-income reached and actually surpassed the pre-pandemic real output levels in 2021. High-income countries are expected to achieve this in 2022, with an output 4% above its 2019 level. The relatively slower growth rates of high-income countries signal an opportunity for the middle-income countries to catch up with higher income countries, but income disparity with low-income OIC countries is still set to widen.

At the individual country level, 4 out of 54 OIC countries with available data recorded a negative growth rate in 2021: Suriname (-3.5%), Yemen (-2.0%), Chad (-1.1%), and Brunei Darussalam (-0.7%). This number reached as high as 38 in the pandemic-hit year of 2020, compared to only 11 during the global financial and economic crisis in 2009. In the years in between, the number of OIC countries with a negative economic growth rate fluctuated between two and eight. Current projections indicate that all OIC countries with available data are expected to record a positive growth rate in 2022 and 2023 (*Figure 2.7*).

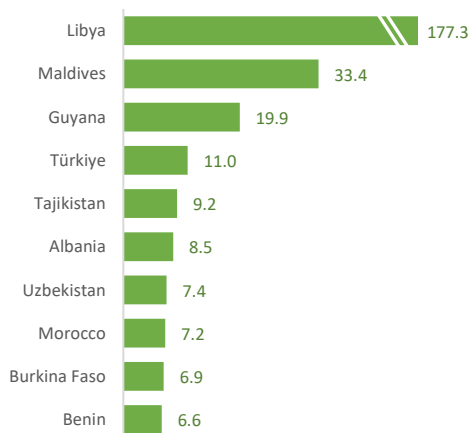
*Figure 2.7: The Number of OIC Countries with a Negative Growth Rate**



Source: Authors' calculation based on IMF, World Economic Outlook Database, April 2022.

Note: P= Projection. * Out of countries with available data.

Figure 2.8: The Fastest Growing OIC Economies in 2021 (%)



Source: IMF, World Economic Outlook Database, April 2022.

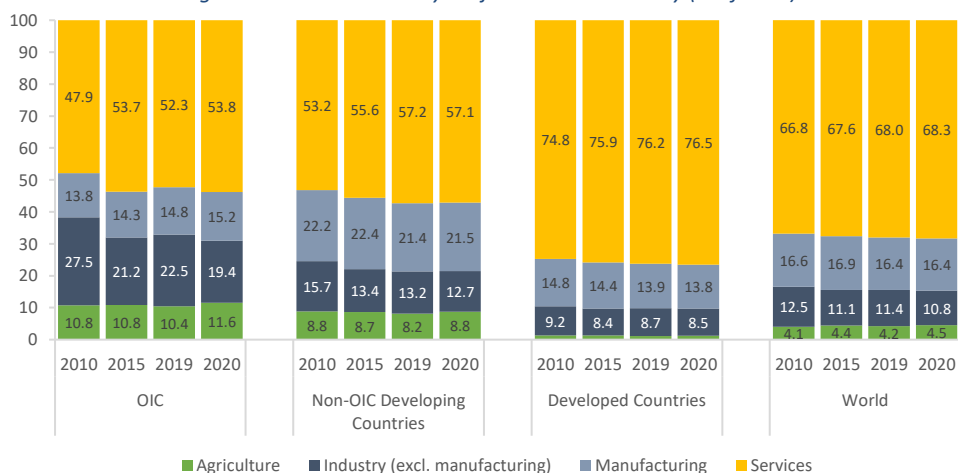
Libya, Maldives, and Guyana were the fastest growing economies in the OIC and in the world in 2021. IMF estimates show that growth in Libya rebounded by 177.3%, driven by a significant acceleration of oil production, enabling the real output to outdo its 2019 level. Note that, in 2020, the Libyan economy recorded the largest economic contraction (-59.7%) in the world due to a combination of factors such as COVID-19, internal conflicts, and the significant drop in oil prices. In the Maldives, the strong recovery in the tourism industry paved the way for a sharp rebound in economic growth (33.4%) in 2021. In the previous year, the economy of Maldives shrank by a third (-33.5%), mainly due to a sharp fall in travel and tourism activities because of the strict international travel restrictions amidst the pandemic. The rebound in 2021, however, was not enough to return to the pre-pandemic output level, and the current growth projections indicate that it is unlikely to be achieved until 2023. Guyana continued to register a strong growth rate (19.9%) in 2021 after a record high (43.5%) in 2020, attributed to the commencement of oil production after the discovery of large offshore oil reserves. In addition to these three countries,

Türkiye, Tajikistan, Albania, Uzbekistan, Morocco, Burkina Faso, and Benin made it to the top ten list of the fastest growing OIC economies in 2021 (Figure 2.8).

Non-manufacturing industry's contribution to total value added at record low in 2020

The composition of GDP reveals important insights into the structure of economies. The latest available data for 2020 show that, constituting only 1.2% of total value added in developed countries, agricultural activities have a high share of 11.6% in total value added in the OIC countries, which is even higher than that in non-OIC developing countries (8.8%) (Figure 2.9). The agriculture sector is particularly important for the OIC countries in Sub-Saharan Africa, where its share in value added reaches as high as 63% in Sierra Leone, 60% in Somalia, 41% in Niger, and 38% in both Mali and Comoros. The share of the non-manufacturing industry, which is much higher in the OIC countries as compared to the rest of the world, has been falling slowly over the past decade all over the world. For the OIC countries, it fell from 27.5% in 2010 to a record low of 19.4% in 2020. The sector accounts for over one-third of the total value added in eight member countries that are heavily engaged in oil & gas extraction: Brunei Darussalam (43%), Qatar (42%), Oman (41%), Azerbaijan (39%), Iraq (38%), Guyana (37%), Libya (36%), and Kuwait (34%).

Figure 2.9: Value Added by Major Economic Activity (% of total)



Source: Authors' calculation based on data—at current prices in US dollars—from UNSD, National Accounts - Analysis of Main Aggregates (AMA).

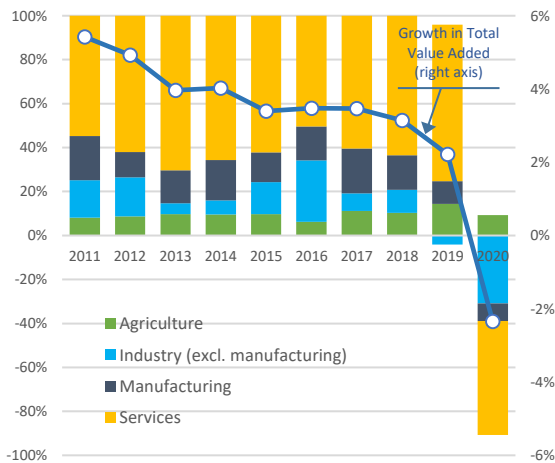
Note: "Agriculture" comprises agriculture, hunting, forestry, fishing (ISIC A-B), "Industry" comprises mining, manufacturing, utilities, and construction (ISIC C-F), and "Services" comprises services activities (ISIC G-P). Data coverage: 57 OIC countries, 115 non-OIC developing countries, and 39 developed countries.

The manufacturing sector, which has greater potential to promote productivity and competitiveness, has a share of 15.2% in total value added of the OIC countries, which is comparable to that of developed countries (13.8%) but significantly below that of non-OIC developing countries (21.5%). The sector accounts for 36% of the total value added in Turkmenistan and 20-23% in six other member countries, namely Suriname, Malaysia, Türkiye, Uzbekistan, Indonesia, and Bangladesh.

The services sector continues to play a key role in the majority of OIC economies, accounting for an average of 53.8% of the total value added in the OIC group. This share is still low though,



Figure 2.10: Sectoral Contribution to Growth in Value Added in OIC Countries



Source: Authors' calculation based on data—at constant 2015 prices in US dollars— from UNSD, National Accounts - Analysis of Main Aggregates (AMA).

Note: "Agriculture" comprises agriculture, hunting, forestry, fishing (ISIC A-B), "Industry" comprises mining, manufacturing, utilities, and construction (ISIC C-F), and "Services" comprises services activities (ISIC G-P). Data coverage: 57 OIC countries.

considering that the sector has a share of three quarters (76.5%) in total value added in developed countries and 57.1% in non-OIC developing countries, averaging at 68.3% worldwide. In the OIC countries, this share reaches as high as 90% in Lebanon, 87% in Djibouti, 78% in Maldives, 70% in Palestine, and 68% in Jordan, while it is at least 50% in 33 other member countries.

The services sector, growing at an annual average of 4.5% during the 2010-19 period, has also been the dominant contributor to economic growth in the OIC countries, usually accounting for over 60% of the growth in total value added at constant prices

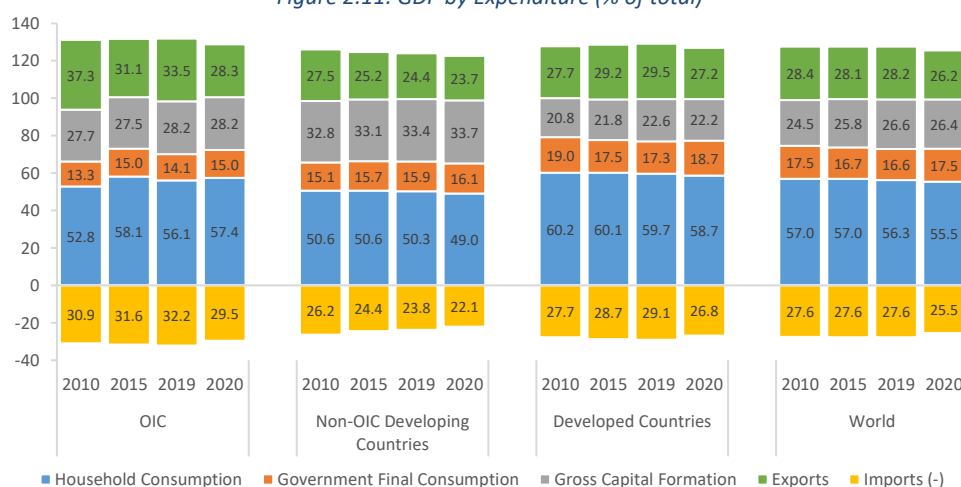
(Figure 2.10). Likewise, contracting by 2.7% in 2020, this sector was largely responsible for the downturn in total value added in that year: almost two thirds of the contraction in total value added (-1.4 percentage points of the -2.3% growth) stemmed from the services sector. The contraction in non-manufacturing industry (-4.3%) and in manufacturing (-1.5%) exacerbated the contraction in total value added by -0.9 and -0.2 percentage points, respectively. The agriculture sector, which continued to grow (2.4%) in 2020, offset only a small part (0.3 percentage points) of the contraction.

The analysis of the composition of GDP from the expenditures side reveals that final consumption expenditures (by both households and government) continued to have the highest share in GDP over the years in the OIC countries as well as in the rest of the world (Figure 2.11). In 2020, household consumption accounted for 57.4% of GDP in OIC countries, higher than that in non-OIC developing countries (49.0%) but slightly lower than that in developed countries (58.7%). This ratio reached as high as 104% in Sierra Leone and Yemen and 100% in Comoros, a clear indication that a significant proportion of the private domestic demand was allocated to imported goods and services. In two other OIC countries, namely Lebanon and Guinea-Bissau, this ratio was over 90% as well, but as low as 11% in Turkmenistan and 24% in Brunei Darussalam.

The share of general government final consumption expenditures in GDP has been low in OIC countries relative to both developed and developing countries. In 2020, this share averaged at 15.0% for the OIC countries, 16.1% for non-OIC developing countries, and 18.7% for developed countries. The highest ratio among the OIC countries was recorded in Libya at 41%, followed by Saudi Arabia (26%), Oman (28%), Brunei Darussalam (25%), and Kuwait (24%), while it was less than 10% in ten countries: Bangladesh, Egypt, Sierra Leone, Nigeria, Somalia, Gambia, Turkmenistan, Indonesia, Chad, and Yemen.

Gross capital formation (GCF), also called “investment”, is an important indicator for an economy in that it shows the total value of additions to productive assets, which are intended for use in the production of other goods and services. Thus, a high share of GCF in GDP is desirable for long-term economic growth as current investment leads to greater future production. *Figure 2.11* shows that this share has been relatively stable over the past decade and averaged at 28.2% in 2020 for the OIC countries, lower than the average for non-OIC developing countries (33.7%) but higher than the average for developed countries (22.2%). GCF accounted for as high as 58% of GDP in Mozambique, the highest ratio in the OIC and in the world, and half (50%) of GDP in Turkmenistan. This ratio ranged between 41% and 44% in six countries (Djibouti, Algeria, Qatar, Mauritania, Maldives, and Brunei Darussalam) and was less than 10% in three countries (Guinea Bissau, Sudan, and Yemen).

Figure 2.11: GDP by Expenditure (% of total)



Source: Authors' calculation based on data –at current prices in US dollars– from UNSD, National Accounts - Analysis of Main Aggregates (AMA).

Data coverage: 57 OIC countries, 115 non-OIC developing countries, and 39 developed countries.

International trade –in goods and services– accounted for a higher share of GDP in the OIC countries than in both developed and developing countries in 2020. Nevertheless, both exports and imports had a smaller share of GDP in 2020 compared to the previous year in all these groups of countries, mainly due to the pandemic-induced severe disruptions to global supply chains and travel services. The share of exports declined by 5.2 percentage points from the previous year and averaged at 28.3% for the OIC countries, while it fell to 23.7% for non-OIC developing countries and to 27.2% for developed countries. The share of imports declined by 2.7 percentage points to 29.5% for the OIC countries but it was still higher than the average of both country groups in comparison (*Figure 2.11*). Among the OIC countries, Djibouti was the country with the highest exports share in GDP (151%), ranked fifth on the global scale. This share reached 93% in the United Arab Emirates, 74% in Turkmenistan, 73% in Guyana, and 71% in Bahrain, while it was less than 10% in six member countries (Nigeria, Gambia, Comoros, Yemen, Sudan, and Somalia). As for the imports share in GDP, Djibouti (177%) also had the top rank, yet not only in the OIC but also in the world. This share was as high as 73% in Guinea and Mozambique, 70% in Maldives,



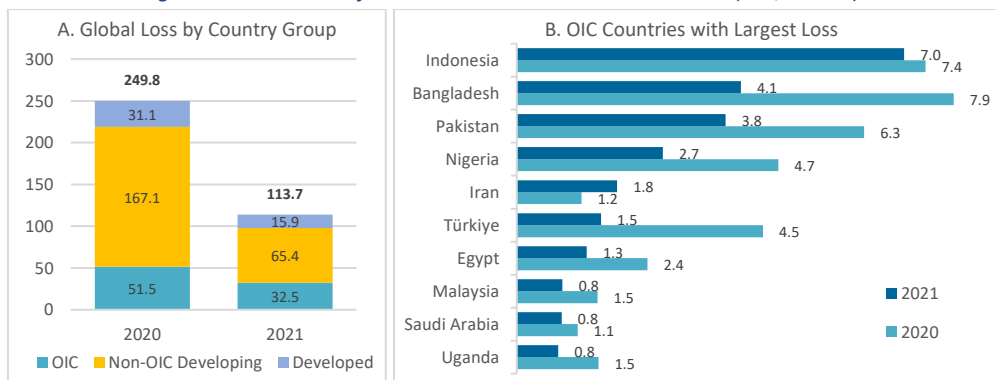
69% in the United Arab Emirates, and over 50% in eleven other member countries. On the other side of the spectrum, imports to GDP ratio was as low as 2% in Somalia and 5% in Sudan.

LABOUR MARKET

Unemployment rate further rises in the OIC countries, but declines worldwide

The pandemic has brought unprecedented disruption to labour markets in the OIC countries just as in other parts of the world. The challenges induced by the pandemic crisis have exacerbated the lack of employment opportunities that would have existed even without the pandemic. Given the working-hour losses, it is estimated that the pandemic caused a loss of 32.5 million FTE jobs across the OIC countries in 2021, down 37% from 51.5 million in 2020 (*Figure 2.12.A*). Nevertheless, the faster reduction of job losses in both developed and developing countries (49% and 61%, respectively) resulted in an increasing share of the OIC countries in the worldwide losses, from 20.6% in 2020 to 28.6% in 2021, implying that the recovery in labour markets was somewhat slower in the group of OIC countries.

Figure 2.12: Number of Jobs Lost Due to COVID-19 Pandemic (FTE, million)



Source: ILOSTAT, ILO Modelled Estimates.

Note: Working hours lost due to the COVID-19 crisis expressed as full-time equivalent (FTE) jobs, based on 48 hours per week.

Three-quarters of the job losses in the OIC countries occurred in ten populous countries, namely Indonesia, Bangladesh, Pakistan, Nigeria, Iran, Türkiye, Egypt, Malaysia, Saudi Arabia, and Uganda (*Figure 2.12.B*). Of these countries, only Iran witnessed an increase in job losses in 2021, reaching 1.8 million from 1.2 million a year earlier. Having the largest loss, Indonesia witnessed a limited improvement as compared to the other countries, with the number of FTE jobs lost remaining at about 7 million.

After falling to a historically low level of 54.8% worldwide in 2020 due to the employment losses, the employment-to-population ratio (EPR)² increased by 0.6 percentage points to 55.4% in 2021 but remained below the 2019 level. Developed countries and non-OIC developing countries followed a similar recovery path, with both groups registering a rebound of 0.7 percentage

² A high employment-to-population ratio means that a large proportion of a country's working age population is employed, while a low ratio means that a large share of the population is not involved directly in market-related activities, because they are either unemployed or out of the labour force altogether.

points. They also maintained a higher EPR than the global average. In the OIC countries, where EPR dropped by 1.8 percentage points to 50.7% in 2020, the recovery in 2021 was rather limited – only 0.2 percentage points to 50.9%. As a result, EPR continued to be lower in the OIC countries than in the rest of the world (*Figure 2.13*).

Figure 2.13: Employment-to-Population Ratio

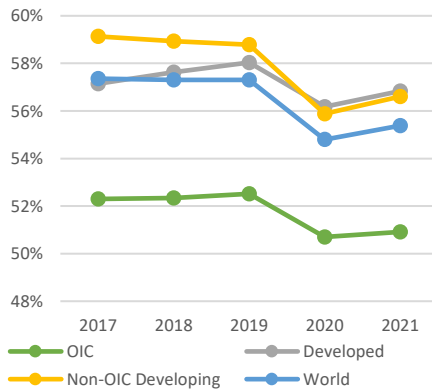
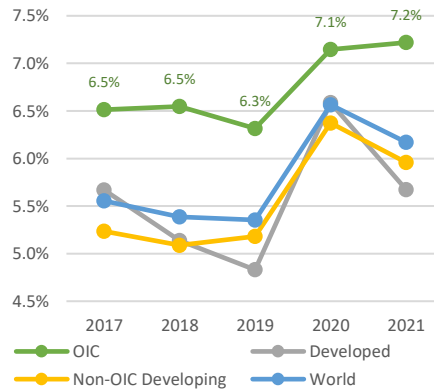


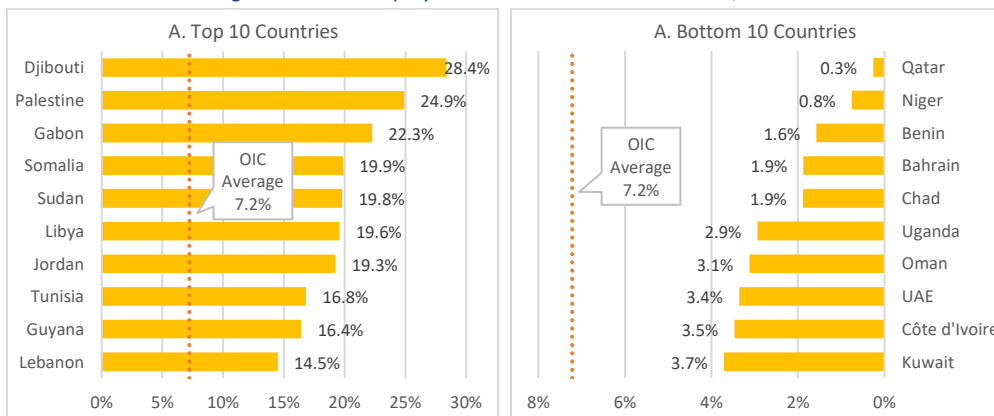
Figure 2.14: Unemployment Rate



Source: Authors' calculation based on ILOSTAT, ILO Modelled Estimates, November 2021.

As the pandemic transformed from a public health crisis into an employment crisis, millions of people across the OIC were pushed into unemployment in 2020. According to data from ILO, the number of unemployed in the OIC countries increased by over 5.5 million to reach 49.6 million in 2020. Consequently, the unemployment rate bounced to 7.1% in that year, up 0.8 percentage points from 6.3% in 2019. Although the unemployment rate increased largely in both developed (+1.8 percentage points) and non-OIC developing countries (+1.2 percentage points), it remained higher in the OIC countries. Estimates show that, in 2021, unemployment increased further by 1.8 million in the OIC countries, while decreasing worldwide by about 9.5 million. Accordingly, while unemployment rates declined across the world in 2021, the OIC countries witnessed an unemployment rate rising to 7.2% (*Figure 2.14*). It is notable that the OIC countries, with 51.4 million unemployed people, accounted for 24% of the global unemployment in 2021, compared to 22.2% in 2020.

Figure 2.15: Unemployment Rate in the OIC Countries, 2021



Source: ILOSTAT, ILO Modelled Estimates, November 2021.



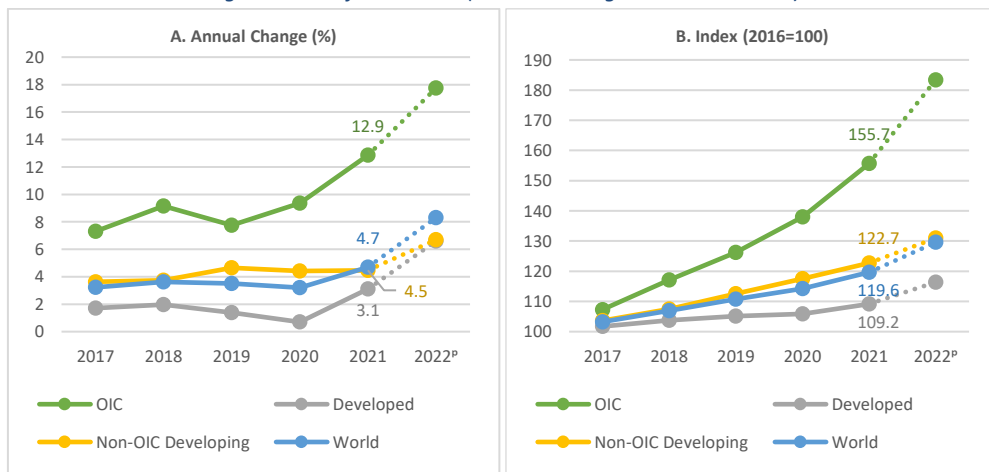
The latest available data show that, in 2021, the unemployment rate fell in 9 OIC countries, remained unchanged in 7, and increased in 41. Varied greatly among the OIC countries, the unemployment rate was as high as 28.4% in Djibouti (the second highest in the world after South Africa), followed by Palestine (24.9%), Gabon (22.3%), Somalia (19.9%), and Sudan (19.8%) (Figure 2.15.A). At the other side of the spectrum, it was as low as 0.3% in Qatar (the lowest in the world), 0.8% in Niger, 1.6% in Benin, and 1.9% in Bahrain and Chad (Figure 2.15.B).

INFLATION

Consumer prices rise much higher in the OIC

With the collapse in economic growth rates due to the pandemic crisis, consumer price inflation – measured by the consumer price index (CPI) – fell in most countries across the world in 2020. Nevertheless, unlike the global inflation rate, which declined 0.3 percentage points to 3.2%, inflation in the OIC countries rose sharply to 9.4% in 2020, compared with 7.7% in 2019. In 2021, it further increased to 12.9%. Considering that the inflation rate increased to 3.1% in developed countries and to 4.5% in non-OIC developing countries, the OIC countries, on average, continued to have a much higher inflation rate in 2021. This trend is expected to continue in 2022 as well, given that inflation is projected to further rise to a record high of 17.7% in the OIC countries but only to 8.3% in the world (Figure 2.16.A).

Figure 2.16: Inflation Rate (Annual Average Consumer Prices)



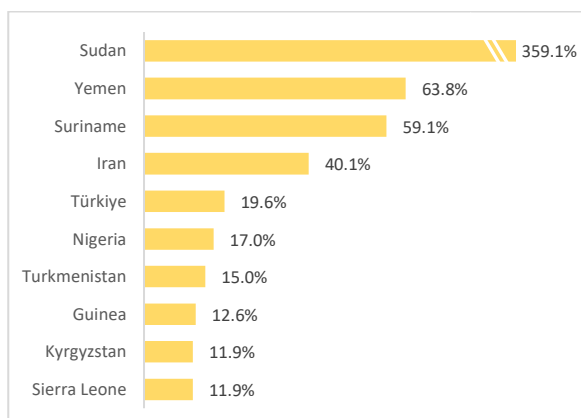
Source: Authors' calculation based on IMF, World Economic Outlook, April 2022 and July 2022 update.

Note: P= Projection. Group averages are calculated as a weighted average of national price indices, with the weights being each respective country's GDP in current international dollars based on PPP. The group averages exclude Venezuela.

With the inflation rates observed in the 5-year period from 2017 to 2021, the average consumer prices in the OIC countries were 55.7% higher in 2021 compared to 2016, which was considerably above the world average increase of 19.6%. In the same period, average prices increased by 22.7% in non-OIC developing countries and only by 9.2% in developed countries (Figure 2.16.B).

Among the OIC countries, Sudan recorded the highest inflation rate of 359.1% in 2021, which was also the second highest in the world after Venezuela (1589%). Then came Yemen (63.8%),

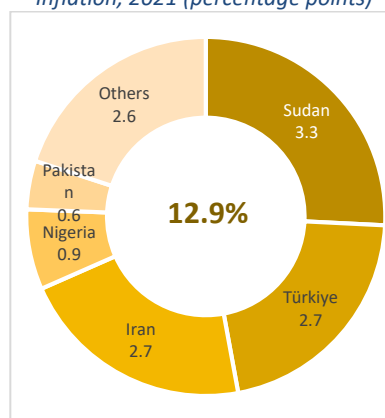
Figure 2.17: Top 10 OIC Countries by Inflation Rate, 2021



Source: IMF, World Economic Outlook, April 2022.

Note: Annual average change in CPI. Excluding Afghanistan, Lebanon, and Syria.

Figure 2.18: Largest Contributors to Inflation, 2021 (percentage points)



Suriname (59.1%), and Iran (40.1%), all among the top 10 countries with the highest inflation in the world. Türkiye, Nigeria, Turkmenistan, Guinea, Kyrgyz Republic, and Sierra Leone completed the top ten list in the OIC (Figure 2.17). In 2021, there were also two OIC countries with a negative inflation rate, reporting a decline in annual average consumer prices over the previous year: Chad (-0.8%) and Bahrain (-0.6%). Overall, Sudan, Türkiye, Iran, Nigeria, and Pakistan –given their weight in the OIC economy– were the largest contributors to the average inflation rate in the OIC in 2021 (12.9%), accounting for four-fifths of the rate (Figure 2.18).

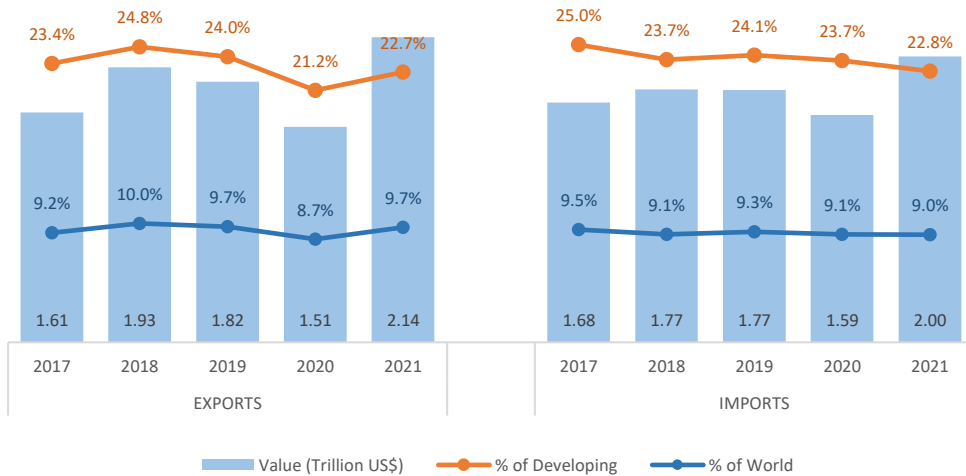
INTERNATIONAL TRADE

Merchandise exports and imports rebound by 41.7% and 25.8%, respectively

According to the IMF data (Direction of Trade Statistics – DOTS), the annual value of global merchandise trade, after falling by 7.6% in 2020 amidst the pandemic, rebounded by 26.7% in 2021. Both exports and imports of the OIC countries followed a parallel course, though a sharper rebound was recorded in exports. Falling by 17.3% in 2020, merchandise exports of the OIC countries increased by 41.7% in 2021. Merchandise imports increased by 25.8% in 2021 following a drop of 9.9% in the previous year. Consequently, the exports, which reached as high as US\$ 2.14 trillion in 2021, accounted for a higher share of the global exports; 9.7% in 2021 compared with 8.7% in 2020. The imports, which increased to US\$ 2.0 trillion, had a somewhat lower share in global imports, declining from 9.1% in 2020 to 9.0% in 2021. A similar trend is observed for the OIC countries' share in merchandise trade of developing countries. Their share in exports increased from 21.2% in 2020 to 22.7% in 2021, while their share in imports declined from 23.7% to 22.8% over the same period (Figure 2.19).



Figure 2.19: International Merchandise Trade of OIC Countries



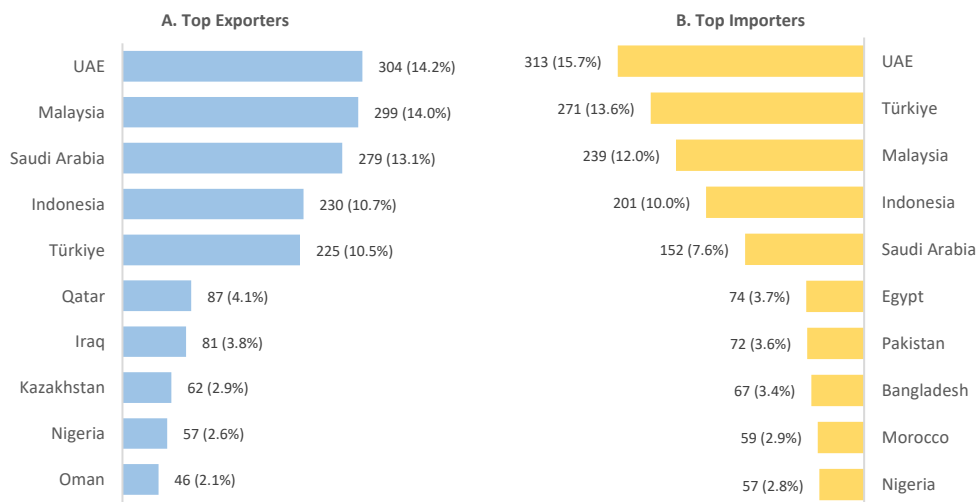
Source: IMF, Direction of Trade Statistics (DOTS).

Note: Exports are valued on a free-on-board (FOB) basis while imports are valued on a cost, insurance, and freight (CIF) basis.

Data coverage: 57 OIC countries.

In terms of the share of individual member countries in total merchandise exports from the OIC group, it is observed that the bulk of total exports continued to be concentrated in a few countries (*Figure 2.20.A*). In 2021, the largest five exporters accounted for 62.6% of total merchandise exports of all member countries while the largest ten accounted for 78.1%. The United Arab Emirates, with US\$ 304 billion worth of merchandise exports and a 14.2% share in total OIC exports, became the largest OIC exporter in 2021. It was followed by Malaysia (US\$ 299 billion, 14.0%), Saudi Arabia (US\$ 279 billion, 13.1%), Indonesia (US\$ 230 billion, 10.7%), and Türkiye (US\$ 225 billion, 10.5%). Additionally, Qatar, Iraq, Kazakhstan, Nigeria, and Oman took place in the list of the top 10 exporters in the OIC in 2021.

Figure 2.20: Major OIC Countries in International Merchandise Trade, 2021 (US\$, billion)



Source: IMF, Direction of Trade Statistics (DOTS).

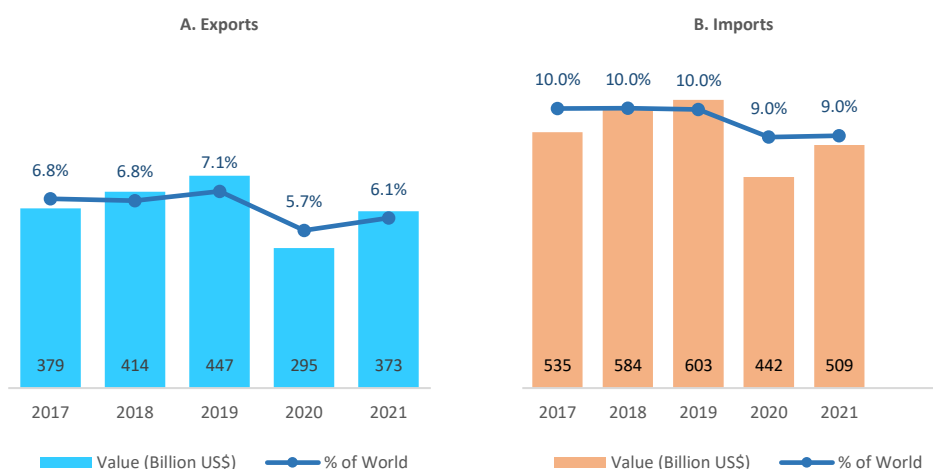
Note: The numbers in brackets indicate the share of the respective country in OIC total. Data coverage: 57 OIC countries.

As in the case of exports, merchandise imports of the OIC countries were also heavily concentrated in a few countries in 2021. As depicted in *Figure 2.20.B*, with US\$ 313 billion of imports, the United Arab Emirates took the lead as the top importer, accounting for 15.7% of the total OIC imports. It was followed by Türkiye (US\$ 271 billion, 13.6%), Malaysia (US\$ 239 billion, 12.0%), Indonesia (US\$ 201 billion, 10.0%), and Saudi Arabia (US\$ 152 billion, 7.6%). Accordingly, these largest five importers accounted for 58.8% of the total OIC merchandise imports, while for the largest ten countries, which additionally included Egypt, Pakistan, Bangladesh, Morocco, and Nigeria, this ratio reached 75.2%.

Trade in services rebounds in 2021, yet fall short of pre-pandemic levels

The value of global trade in services, which shrank by one-fifth (18.2%) in 2020 from the previous year, rebounded by 15.9% in 2021, according to statistics from the World Trade Organization (WTO). Experienced even a greater fall in services trade, the OIC countries also registered a recovery in 2021. Their services exports, plummeted by a third (34.0%) in 2020, increased by 26.4% to US\$ 373 billion, such that their share in global services exports increased from 5.7% in 2020 to 6.1% in 2021 (*Figure 2.21.A*). Similarly, their services imports, which fell by 26.7% in 2020, increased by 15.2% and amounted to US\$ 509 billion, with their share in global services imports remaining at 9.0% as in 2020 (*Figure 2.21.B*). It is worth noting that, despite the recovery, the services trade values in 2021 fell short of their pre-pandemic levels both in the OIC countries and in the world. This implies that the trade in services, which has been hit harder than the trade in goods, will take longer to fully recover from the pandemic crisis.

Figure 2.21: International Services Trade of OIC Countries

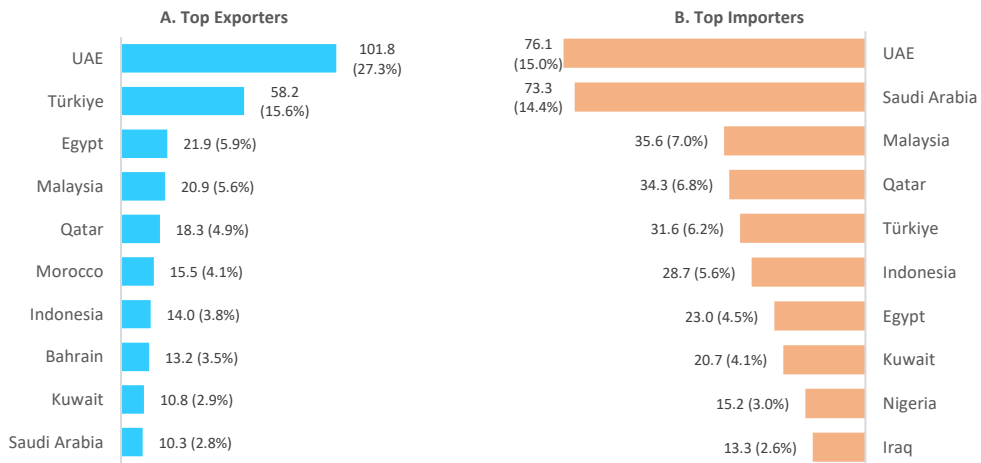


Source: WTO, Data Portal.

As in the case of merchandise trade, services trade of the OIC countries was also concentrated in a few countries in 2021. The United Arab Emirates, with US\$ 101.8 billion worth of services exports and a 27.3% share in total services exports of the OIC countries, was the top exporter in services. It was followed by Türkiye (US\$ 58.2 billion, 15.6%), Egypt (US\$ 21.9 billion, 5.9%), Malaysia (US\$ 20.9 billion, 5.6%), and Qatar (US\$ 18.3 billion, 4.9%) and (*Figure 2.22.A*).



Figure 2.22: Major OIC Countries in International Trade in Services, 2021 (US\$, billion)



Source: WTO, Data Portal.

Note: The numbers in brackets indicate the share of the respective country in OIC total.

Together, these five countries accounted for 59.3% of the total. For the largest ten exporters that also included Morocco, Indonesia, Bahrain, Kuwait, and Saudi Arabia, this ratio increased up to 76.4%. Regarding services imports, the United Arab Emirates was the leading importer as well, registering a value of US\$ 76.1 billion that made up 15.0% of the total services imports of the OIC countries. It was followed by Saudi Arabia (US\$ 73.3 billion, 14.4%), Malaysia (US\$ 35.6 billion, 7.0%), Qatar (US\$ 34.3 billion, 6.8%), and Türkiye (US\$ 31.6 billion, 6.2%) (Figure 2.22.B). While these largest five importers accounted for 49.3% of the total, this ratio reached 69.1% for the largest ten countries that additionally included Indonesia, Egypt, Kuwait, Nigeria, and Iraq.

OIC countries are net exporters in merchandise trade in 2021

The OIC countries, on aggregate terms, became a net exporter in merchandise trade in 2021, with a trade surplus amounting to US\$ 135 billion as compared to a deficit of US\$ 83 billion in the previous year (Figure 2.23). The largest contribution came from Saudi Arabia, which registered a surplus of US\$ 127.4 billion. Malaysia (US\$ 59.8 billion), Qatar (US\$ 59.3 billion), Iraq (US\$ 39.6 billion), and Indonesia (US\$ 28.8 billion) were among the countries with a large surplus. On the other hand, 35 member countries reported a deficit in 2021, the largest being by Türkiye (US\$ 46.2 billion),

Figure 2.23: Aggregate Trade Balance of OIC Countries (US\$, billion)



Source: IMF, Direction of Trade Statistics (DOTS); WTO, Data Portal.

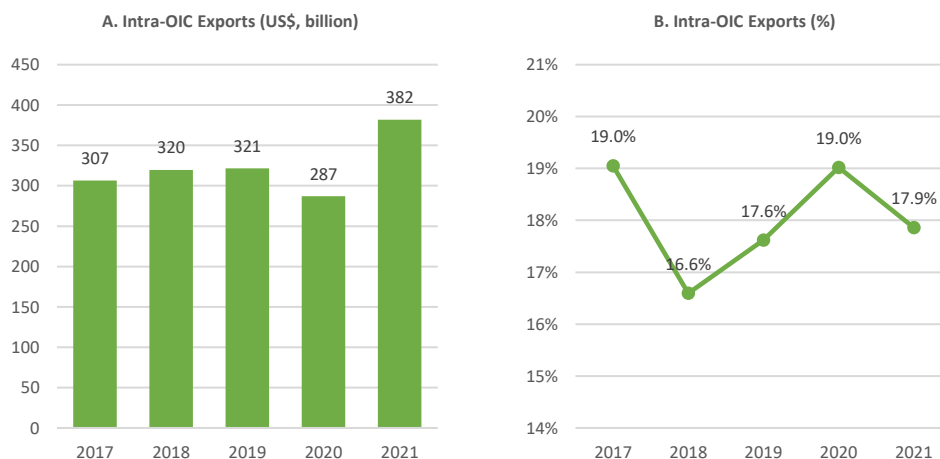
followed by Pakistan (US\$ 43.8 billion), Egypt (US\$ 33.1 billion), Bangladesh (US\$ 28.0 billion), and Morocco (US\$ 20.6 billion).

In services trade, the OIC countries, on aggregate terms, remained a net importer of services over the last 5-year period of 2017-2021. The aggregate deficits of OIC countries in services trade amounted to US\$ 135 billion in 2021, the lowest in the last four years (*Figure 2.23*). Of the 44 countries with available data, only ten countries did report a positive balance in 2021: Türkiye, United Arab Emirates, Morocco, Bahrain, Maldives, Albania, Sudan, Jordan, Togo, and Tunisia. The surpluses reached as high as US\$ 26.6 billion in Türkiye, followed by the United Arab Emirates with US\$ 25.7 billion and Morocco with US\$ 6.9 billion. On the other side of the spectrum, deficits reached as high as US\$ 63.0 billion in Saudi Arabia, followed by Qatar with US\$ 16.0 billion and Malaysia with US\$ 14.7 billion.

Intra-OIC exports down to 17.9% in 2021, as exports to the rest of the world increase more

Decreased by 10.7% to US\$ 287 billion in 2020, merchandise exports among the OIC countries (intra-OIC exports) rebounded by 33.0% to US\$ 382 billion in 2021 (*Figure 2.24.A*). Nevertheless, the OIC countries' exports to the rest of the world increased by a higher rate of 43.7%, resulting in a decline in intra-OIC exports share from 19.0% in 2020 to 17.9% in 2021 (*Figure 2.24.B*). The sluggish growth in intra-OIC trade flows reduces the prospects for achieving the 25% target set in the OIC Ten-Year Programme of Action (OIC-2025).

Figure 2.24: Intra-OIC Merchandise Trade



Source: Authors' calculation based on IMF, Direction of Trade Statistics (DOTS).

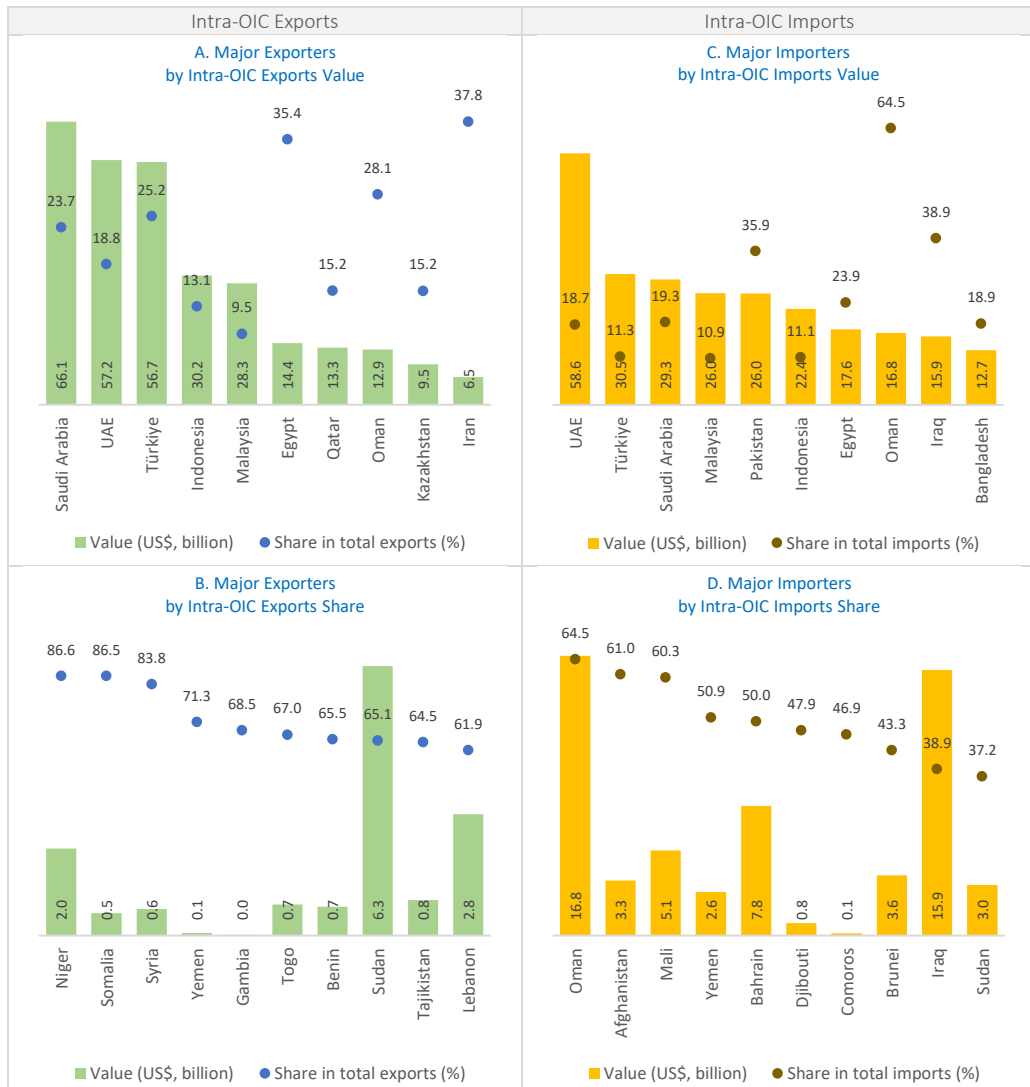
Among the OIC countries, Saudi Arabia was the largest exporter to the OIC countries in 2021. The total exports of Saudi Arabia to other member countries amounted to US\$ 66.1 billion, accounting for 17.3% of the total intra-OIC exports. It was followed by the United Arab Emirates (US\$ 57.2 billion, 15.0%), Türkiye (US\$ 56.7 billion, 14.8%), Indonesia (US\$ 30.2 billion, 7.9%), and Malaysia (US\$ 28.3 billion, 7.4%). Only the top four countries together accounted for over half (55.0%) of the total intra-OIC exports, while this ratio reached up to 77.3% for the top 10 countries, which also included Egypt, Qatar, Oman, Kazakhstan, and Iran. Of these ten countries,



Iran's exports to the OIC countries accounted for as high as 37.8% of its total exports, while intra-OIC exports share was as low as 9.5% in Malaysia (*Figure 2.25.A*).

By comparison, some countries having a relatively lower value of intra-OIC exports directed a much higher share of their exports to the OIC countries. Indeed, as of 2021, intra-OIC exports share was as high as 86.6% in Niger, equivalent to US\$ 2 billion. In six other countries with less than US\$ 1 billion of intra-OIC exports (Somalia, Syria, Yemen, Gambia, Togo, and Benin), this share was more than 65% (*Figure 2.25.B*).

Figure 2.25: Major OIC Countries in Intra-OIC Merchandise Trade, 2021

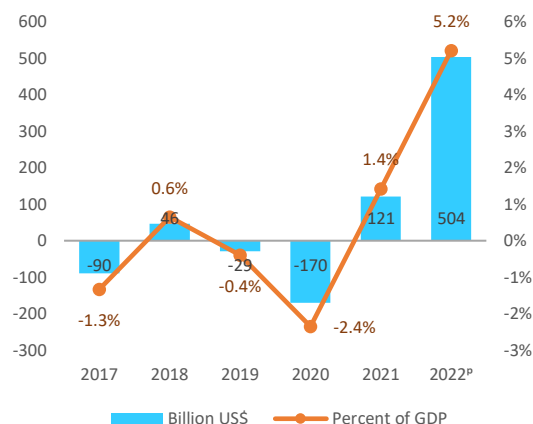


Source: Authors' calculation based on IMF, Direction of Trade Statistics (DOTS)

As for intra-OIC imports, the United Arab Emirates was by far the largest importer from the OIC countries in 2021. Its total imports from other member countries amounted to US\$ 58.6 billion, accounting for 15.8% of the total intra-OIC imports. It was followed by Türkiye (US\$ 30.5 billion,

8.3%), Saudi Arabia (US\$ 29.3 billion, 7.9%), Malaysia (US\$ 26.0 billion, 7.0%), and Pakistan (US\$ 26.0 billion, 7.0%). These largest five importers together accounted for 46.1% of the total intra-OIC imports in 2021 while this ratio reached up to 69.1% for the largest 10 importers that also included Indonesia, Egypt, Oman, Iraq, and Bangladesh. From those ten countries, Oman's imports from the OIC countries accounted for as high as 64.5% of its total imports, while intra-OIC imports share was as low as 11% in Malaysia, Indonesia, and Türkiye (Figure 2.25.C). Oman's intra-OIC imports share was actually the highest among all OIC countries, and it was followed by Afghanistan (61.0%), Mali (60.3%), Yemen (50.9%), and Bahrain (50.0%), all receiving at least half of their merchandise imports from the OIC countries (Figure 2.25.D).

Figure 2.26: Aggregate Current Account Balance of OIC Countries



Source: IMF, World Economic Outlook, April 2022.

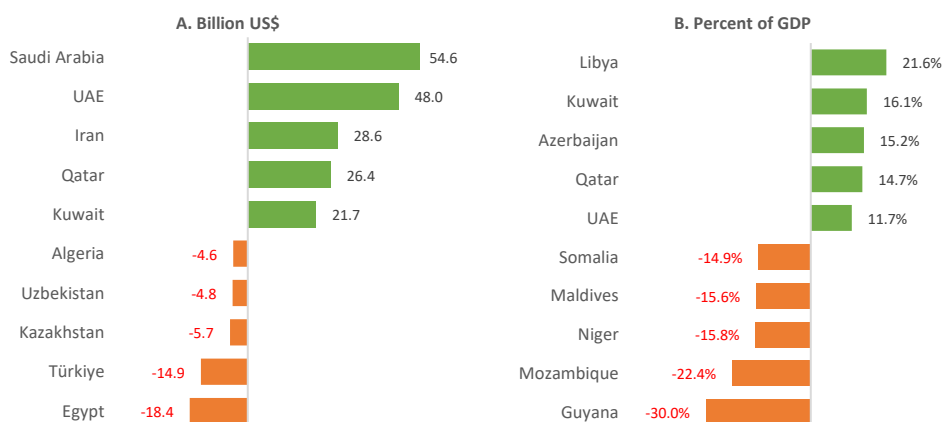
Note: Data exclude Syria for the entire period under consideration and Afghanistan and Lebanon for 2021 and 2022.

CURRENT ACCOUNT BALANCE

A US\$ 121 billion surplus in 2021 after two years of deficit

The OIC countries, on aggregate terms, recorded a current account surplus of US\$ 121 billion in 2021, after a deficit of US\$ 170 billion in the previous year. Thus, the 2021 surplus was 1.4% of GDP, while the 2020 deficit was 2.4% of GDP (Figure 2.26). Given that the deficits in services trade continued in 2021, as illustrated by Figure 2.23 above, the improvement in the balance of merchandise trade (from a deficit of US\$ 83 billion in 2020 to a surplus of US\$ 135 billion in 2021)

Figure 2.27: OIC Countries with the Largest Current Account Surpluses/Deficits, 2021



Source: IMF, World Economic Outlook, April 2022. Note: Excluding Afghanistan, Syria, and Lebanon.



contributed significantly to the resulting current account surplus. Looking ahead, the IMF projections signal a widening surplus to over US\$ 500 billion or 5.2% of GDP in 2022.

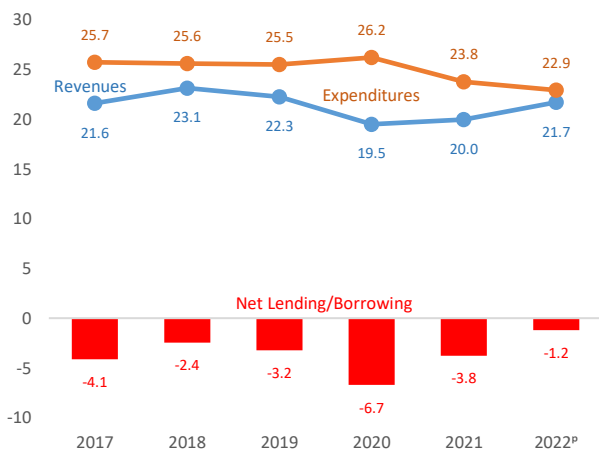
Among the OIC countries, Saudi Arabia registered the largest current account surplus in nominal terms in 2021, which amounted to US\$ 54.6 billion, followed by the United Arab Emirates (US\$ 48.0), Iran (US\$ 28.6), Qatar (US\$ 26.4), and Kuwait (US\$ 21.7). Egypt, on the other hand, recorded the largest current account deficit, amounting to US\$ 18.4 billion. It was followed by Türkiye (14.9), Kazakhstan (5.7), Uzbekistan (4.8), and Algeria (4.6) (*Figure 2.27.A*). As a percent of GDP, the surplus reached as high as 21.6% in Libya, followed by Kuwait (16.1%), Azerbaijan (15.2%), Qatar (14.7%), and the United Arab Emirates (11.7%). On the other side of the Spectrum, the current account deficit was as high as 30.0% in Guyana, 22.4% in Mozambique, 15.8% in Niger, 15.6% in Maldives, and 14.9% in Somalia (*Figure 2.27.B*), while it was also above 10% in four other OIC countries: Sierra Leone, Palestine, Senegal, and Jordan.

FISCAL BALANCE

Only six countries with a fiscal surplus in 2021

As mentioned earlier in the previous chapter, the fiscal measures implemented to contain the effects of the pandemic, combined with reduced government revenues due to the economic downturn, led to historically high government deficits all around the globe in 2020 (see *Figure 1.19 and 1.20* above). Deficits also expanded in the OIC countries, averaging at 6.7% of GDP in 2020, compared with 3.2% in the previous year. This expansion in deficits resulted predominantly from the decrease in revenues, from 22.3% to 19.5% of GDP, as the increase in expenditures was limited, from 25.5% to 26.2% of GDP. Indeed, revenues, in nominal terms, decreased by about 15% while expenditures increased only by 0.2% in 2020. The sharp fall in oil exports revenue played a significant role in this picture, which was reversed in 2021 with the economic recovery and rising energy prices.

Figure 2.28: Government Fiscal Balance in the OIC (% of GDP)



Source: IMF, World Economic Outlook, April 2022.

Note: Data exclude Syria for the entire period under consideration and Afghanistan and Lebanon for 2021 and 2022.

In 2021, expenditures increased by 6.8% but fell to 23.8% of GDP, while revenues grew even faster, by 20.7%, with their ratio to GDP slightly increasing to 20.0%. This resulted in a reduction in deficits to 3.8% of GDP, still above the pre-pandemic level of 3.2%. Current projections for the year 2022 signal a further decline in expenditures to 22.9% of GDP and an increase in revenues to 21.7% of GDP, with deficits narrowing to 1.2% of GDP (*Figure 2.28*).

Figure 2.29: Government Fiscal Balance in OIC Countries: 2020 vs. 2021 (% of GDP)



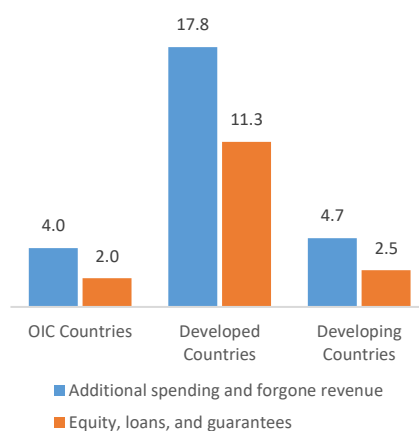
Source: IMF, World Economic Outlook, April 2021.

Note: Libya could not be shown on the chart due to its large values: -54.5% for 2020 and 13.8% for 2021. See Annex A for the country codes.

Figure 2.29 shows that 38 of the 54 OIC countries with available data witnessed an improvement in their fiscal balance as percent of GDP in 2021 as compared to the previous year, particularly Libya (from -54.5% to +13.8%), Iraq (from -12.8% to +1.9%), Brunei Darussalam (from -15.7% to -1.1%), Oman (from -16.5% to -2.5%), and Kuwait (from -12.8% to -0.5%). Nevertheless, only six countries recorded a surplus in 2021 (Libya, Azerbaijan, Qatar, Iraq, Mauritania, and the United Arab Emirates) compared with four in 2020 (Mauritania, Chad, Qatar, and Somalia). In 2021, Maldives had the largest fiscal deficit as a percent of GDP, reaching as high as 15.1%, followed by Bahrain (11.1%), Jordan (7.9%), Uganda (7.8%), and Tunisia (7.7%).

Concerning the fiscal support channelled for mitigating the impact of the pandemic, available data show that the OIC countries, on average, provided relatively limited support in proportion to their GDP as compared to both developed and developing countries. Support in the form of additional spending and foregone revenue averaged at 4.0% of GDP in the OIC, as compared to 17.8% in developed countries and 4.7% in developing countries. Similarly, the support provided in the form of loans, equity, and guarantees to mitigate the impacts of COVID-19 amounted to 2.0% of GDP in the OIC

Figure 2.30: Government Fiscal Support in Response to COVID-19 (Percent of 2020 GDP)



Source: IMF, Fiscal Monitor: Database of Country Fiscal Measures in Response to the COVID-19 Pandemic, Oct. 2021.
Note: Data refers to the period from January 2020 to September 27, 2021. Data coverage: 53 OIC countries, 94 non-OIC developing countries, and 37 developed countries. Country group averages are weighted by the 2020 GDP in PPP.

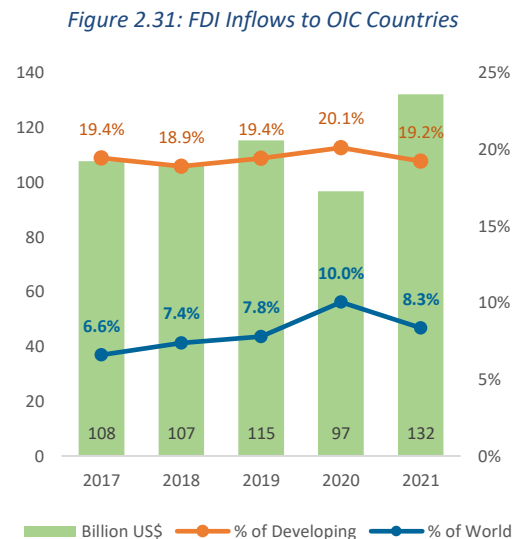


countries while this ratio reached as high as 11.3% in developed countries and 2.5% in developing countries (*Figure 2.30*). At the individual country level, additional spending and foregone revenue was as high as 27.7% of GDP in Guyana, followed by Indonesia (9.3%), Maldives (8.0%), Guinea Bissau (6.7%), and Sierra Leone (6.4%). The top countries that provided loans, equity, and guarantees included Türkiye (9.6%), Morocco (3.9%), Malaysia (3.5%), Kazakhstan (2.9%), and Azerbaijan (2.7%).

INTERNATIONAL FINANCE

Share of OIC countries in global FDI inflows down to 8.3% despite rising inflows

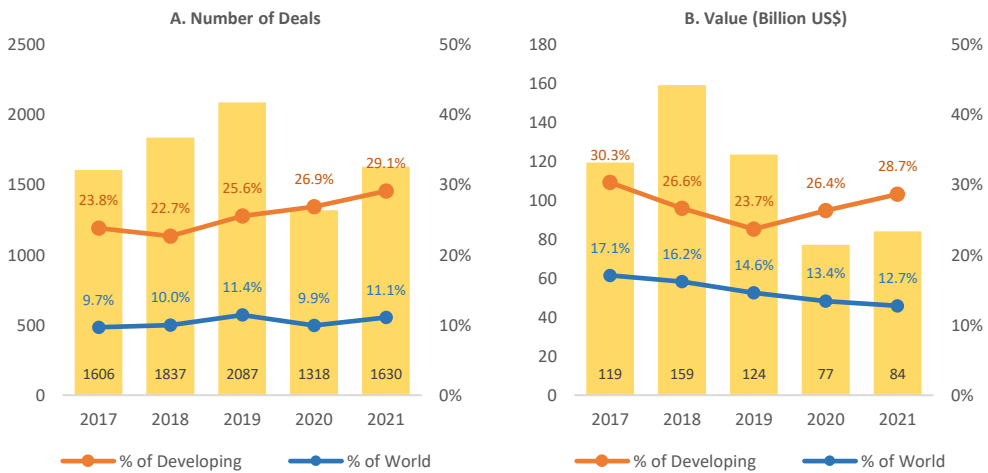
After a dramatic one-third fall (35%) in 2020 due to the pandemic crisis, global FDI inflows increased by two-thirds (64.3%) to US\$ 1.6 trillion in 2021, resulting largely from an 85.6% increase in flows to developed countries, compared to a 42.9% increase in developing countries. Following a fall of 16.2% to US\$ 97 billion in 2020, flows to the OIC countries rebounded by 36.7% and reached as high as US\$ 132 billion in 2021. However, the lower growth in flows to the OIC countries resulted in a decrease in their share in flows to developing countries as well as in global flows. The share of OIC countries in flows to developing countries was measured at 20.1% in 2020, but it declined to 19.2% in 2021. Similarly, their share in global FDI inflows fell to 8.3% in 2021 after peaking at a decade high of 10.0% in 2020 (*Figure 2.31*).



Greenfield investments³, which are of particular importance to developing countries due to greater growth and employment opportunities they have to offer, rebounded globally by 14.7% to US\$ 659 billion in 2021, after dropping by 32.0% to a record low level of US\$ 575 billion in 2020. This rebound, however, originated completely from the increase in investments going to developed countries, as the value of announced projects towards developing countries remained unchanged at US\$ 293 billion over 2020 and 2021, though they increased in number by 14%. The OIC countries witnessed a slight improvement both in value and in the number of announced greenfield FDI projects (*Figure 2.32*). The number of projects increased by 23.7% to

³ A form of FDI where a parent company starts a new venture in a foreign country by constructing new operational facilities from the ground up instead of buying an existing facility in that country. These investment types are crucial for the development of productive capacity and infrastructure and for the prospects for a sustainable recovery (UNCTAD, 2021a).

Figure 2.32: Announced Greenfield Investment Projects Destined to OIC Countries

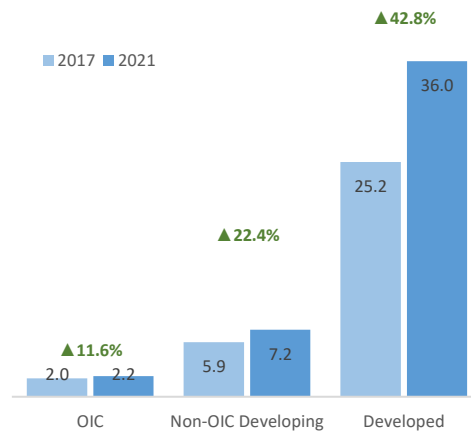


Source: Authors' calculation based on data from UNCTAD, *World Investment Report 2022, Annex Tables*.

1630 while the value of the projects rose by 8.8% to US\$ 84 billion, yet both figures remained below the pre-pandemic levels. Accordingly, in terms of the number of projects, the OIC countries accounted for 11.1% of the world total in 2021, compared with 9.9% in 2020, while their share in the total for developing countries increased from 26.9% to 29.1%. In terms of the value of projects, their share in the world total continued its downward trend to 12.7% in 2021 whereas their share in the total for developing countries increased from 26.4% in 2020 to 28.7% in 2021.

With the developments above, global inward FDI stock reached US\$ 45.4 trillion in 2021, up 37.3% from the level in 2017. In the same 5-year period, FDI stocks increased only by 11.6% to US\$ 2.2 trillion in the OIC countries while they increased by 22.4% in non-OIC developing countries and by 42.8% in developed countries (Figure 2.33). Thus, OIC countries hosted a smaller share of the global inward FDI stocks in 2021 (4.9%) than in 2016 (6.0%). The bulk of global stocks continued to be hosted by developed countries, which had a share of 79.3% in 2021.

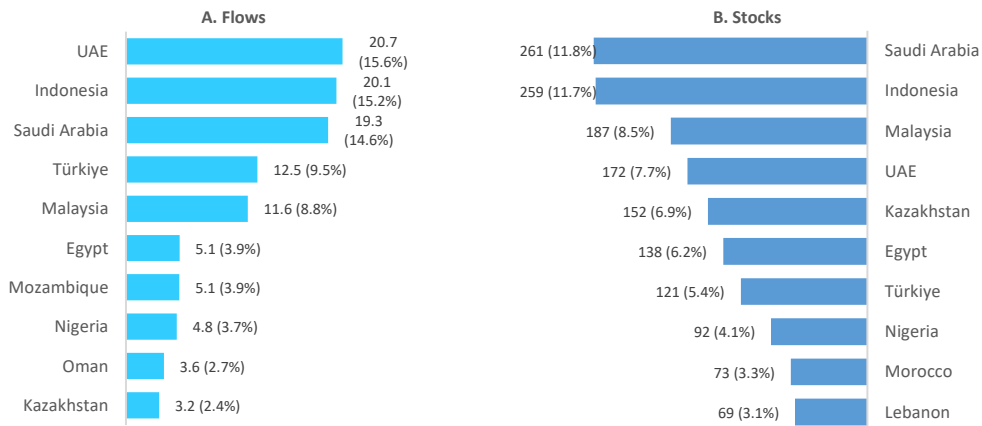
Figure 2.33: Inward FDI Stock (US\$, trillion)



Source: Authors' calculation based on data from UNCTAD, *World Investment Report 2022, Annex Tables*.

As is the case with other major macroeconomic aggregates, inward FDI flows and stocks, too, exhibited a high level of concentration among the OIC countries, with the bulk of the flows persistently directed to only a few of them. Inflows to only the United Arab Emirates (US\$ 20.7 billion), Indonesia (US\$ 20.1 billion), and Türkiye (US\$ 19.3 billion) accounted for 45.5% of total inflows to all OIC countries in 2021. This ratio reached 63.7% for the top five countries and as

Figure 2.34: OIC Countries with the Largest Inward FDI, 2021 (US\$, billion)



Source: UNCTAD, *World Investment Report 2022, Annex Tables*.

Note: The numbers in brackets indicate the share of the respective country in OIC total.

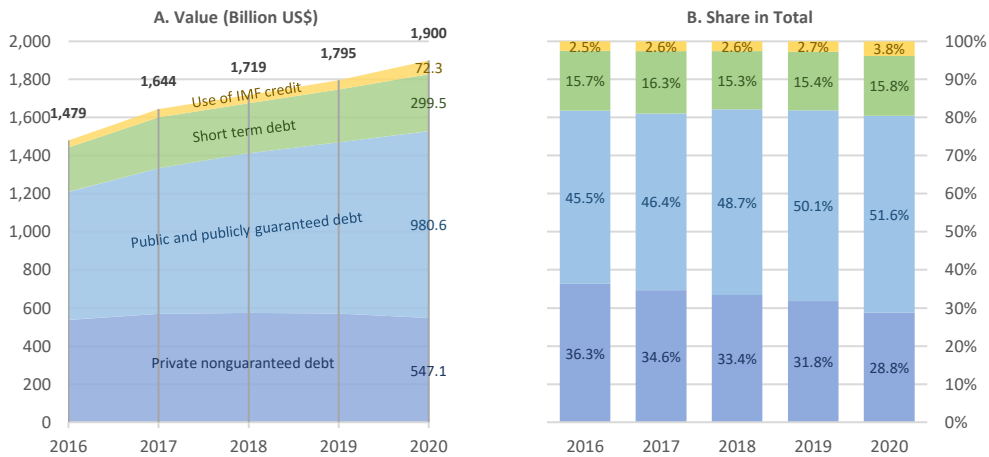
high as 80.3% for the top ten countries (Figure 2.34.A). In the case of inward FDI stocks, the top five countries, as of 2021, hosted 46.5% of the OIC total while the top ten countries accounted for a share of 68.7% (Figure 2.34.B). With US\$ 261 billion of inward FDI stocks (11.8% of the OIC total), Saudi Arabia ranked first among the OIC countries. It was followed by Indonesia (US\$ 259 billion, 11.7%), Malaysia (US\$ 187 billion, 8.5%), United Arab Emirates (US\$ 172 billion, 7.7%), and Kazakhstan (US\$ 152 billion, 6.9%).

Total external debt stock up 5.8% to US\$ 1.9 trillion in 2020

The total external debt stock of the OIC countries increased by US\$ 105 billion or 5.8% to US\$ 1,900 billion in 2020 from US\$ 1,795 billion in 2019. Public and publicly guaranteed debt, which expanded by US\$ 81.6 billion or 9.1% to US\$ 980.6 billion, contributed the most to this increase and continued to be the largest component of the total external debt stock of the OIC countries (Figure 2.35). While this type of debt made up 45.5% of the total external debt stock in 2016, this ratio steadily increased in the following years and reached as high as 51.6% in 2020.

Private nonguaranteed debt continued to decrease for the second consecutive year after peaking at US\$ 574 billion in 2018. Falling by US\$ 3.4 billion or 0.6% in 2019, it further fell by US\$ 23.6 billion or 4.1% to US\$ 547.1 billion in 2020. Thus, as the second largest component of total external debt stock, it had a share of 28.8% in 2020, down from 36.3% in 2016. Overall, long-term debt stock, comprising public, publicly guaranteed, and private nonguaranteed debt, amounted to US\$ 1,528 billion in 2020, up US\$ 58.0 billion or 3.9% from the previous year, and accounted for 80.4% of the total external debt stock. Short-term debt reached US\$ 299.5 billion in 2020, with an increase of US\$ 22.7 billion or 8.2% from the previous year, and maintained its share at around 15%. The smallest component of the total external debt stock, IMF credits were the component that increased proportionally the most in 2020. Compared to 2019, they increased by half (49.1% or US\$ 23.8 billion) to US\$ 72.3 billion in 2020, constituting 3.8% of the total external debt stock.

Figure 2.35: Total External Debt Stock of OIC Countries by Component

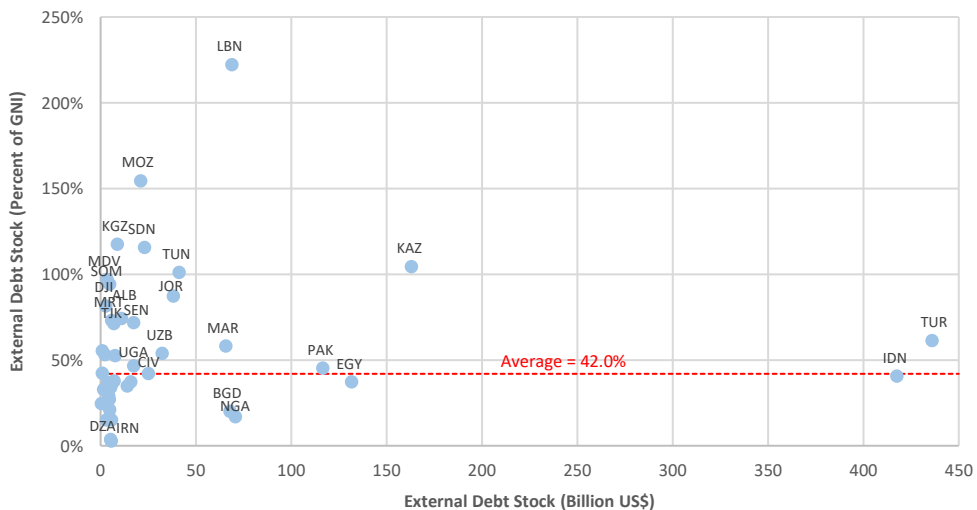


Source: World Bank, World Development Indicators.

Data Coverage: 45 OIC countries (excluding Bahrain, Brunei Darussalam, Iraq, Kuwait, Libya, Malaysia, Oman, Palestine, Qatar, Saudi Arabia, Suriname, and the United Arab Emirates).

From the OIC countries, Egypt's total external debt stock increased the most in nominal terms (by US\$ 16.5 billion) over 2019/2020. Indonesia and Bangladesh followed with an increase of US\$ 15.4 billion and US\$ 10.7 billion, respectively. On the other hand, 7 out of the 45 countries with debt data recorded a decrease in their debt stock over the same period, namely Lebanon, Türkiye, Somalia, Uganda, Algeria, Azerbaijan, and Guyana. As of 2020, Türkiye remained the most indebted OIC country in nominal terms with a total external debt value of US\$ 436 billion, accounting for 22.9% of the total external debt stock of the OIC countries for which data were available. Türkiye was followed by Indonesia (US\$ 418 billion), Kazakhstan (US\$ 163 billion), Egypt (US\$ 132 billion), and Pakistan (US\$ 117 billion) (Figure 2.36). Türkiye and Indonesia together accounted for almost half (44.9%) of the total external debts of OIC countries in 2020.

Figure 2.36: Indebtedness of OIC Countries, 2020



Source: World Bank, World Development Indicators.

Note: See Annex A for the country codes. Data coverage: 45 OIC countries.



In terms of the debt burden in relation to a country's economic size, however, Lebanon was the most indebted OIC country in 2020, with its external debt stock more than twice its gross national income (GNI). To be more precise, it had a debt-to-GNI ratio of 222.1%. It was followed by Mozambique (154.4%), Kyrgyz Republic (117.4%), Sudan (115.6%), and Kazakhstan (104.4%) (*Figure 2.36*). Debt-to-GNI ratio averaged at 42.0% for the OIC countries in 2020, up 3.7 percentage points from the previous year's average of 38.2%. Lebanon recorded the largest increase in the ratio, by 78.2 percentage points, followed by Maldives (43.8), Sudan (24.9), Mozambique (21.1), and Uzbekistan (16.9). Only Somalia and Egypt did register a decline in debt-to-GNI ratio, by 20.5 percentage points and 2.2 percentage points, respectively.

The COVID-19 pandemic played a pivotal role in the rapid debt build-up around the world, as many countries opted for a fiscal expansion through accommodative policies to mitigate the pandemic's overall economic cost. While the pandemic remains stubbornly persistent, maintaining fiscal sustainability has become even more difficult due to the rising interest rates in response to inflation pressures and the need to protect vulnerable populations against high food and energy prices. Interest rate hikes are exposing debt vulnerabilities, particularly in countries with higher debt levels and larger financing needs. The rise in borrowing costs can significantly increase interest expenditures, putting pressure on national budgets and making debt servicing more difficult.

Reserves up 5%, but reserve adequacy deteriorated

At the outbreak of the COVID-19 crisis, developing countries faced unprecedented capital outflows, driven by sales of portfolio assets by foreign investors (OECD, 2020a), a usual pattern whereby international investors transfer capital back home or invest in safer assets during periods of uncertainty. Policy makers have relied on a variety of policy tools, including making use of international reserves, to cope with the pandemic crisis and the associated financial instabilities. In the face of global dollar liquidity shortages, some central banks in developing countries intervened in the foreign exchange market to support depreciating currencies, and several central banks have established or expanded swap lines to improve their foreign exchange reserves.

The capacity to use international reserves in times of crisis depends on the buffers built up over time, as well as the funding needs. Therefore, the COVID-19 crisis and the associated financial shocks have once again highlighted the need for having sufficient international reserve buffers to help preserving macroeconomic and financial stability in the face of such shocks. In this respect, given the differences in availability of reserves between countries, the shock has not been uniform across countries and they have not entered the crisis in the same way.

World total international reserves⁴ amounted to US\$ 15.8 trillion in 2021, with an increase of US\$ 769 billion or 5.1% from the previous year (*Figure 2.37*). Three-fifths (60%) of this increase originated from developed countries, which increased their reserves by US\$ 465 billion, or 6.7%,

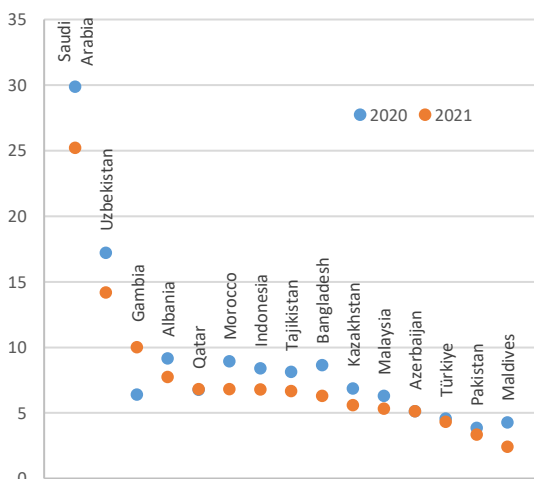
⁴ Total reserves comprise holdings of monetary gold, special drawing rights (SDRs), reserves of IMF members held by the IMF (reserve position in the IMF), and holdings of foreign exchange under the control of monetary authorities.

to US\$ 7.4 trillion. In developing countries, reserves increased by US\$ 304 billion, or 3.8%, to US\$ 8.4 trillion. Accordingly, developed countries increased their share in global reserves from 46.2% in 2020 to 46.9% in 2021, while developing countries continued to hold the greater part.

In the OIC countries, the 2021 data available for 33 member countries indicate an increase in reserves by 5.0% as compared to 2020 – from US\$ 1.51 trillion to US\$ 1.58 trillion. Among the 24 countries that recorded an increase in their reserves in 2021, the United Arab Emirates took the lead with an

increase of US\$ 24.4 billion. It was followed by Türkiye (US\$ 16.0 billion), Iraq (US\$ 9.8 billion), Malaysia (US\$ 9.3 billion), and Indonesia (US\$ 9.0 billion). The proportional increase was remarkable in the reserves of Bahrain (98%), Suriname (70%), Gambia (69%), Sierra Leone (34%), and Oman (31%). Among the other 9 countries with decreasing reserves in 2021, Lebanon recorded the largest decrease, US\$ 7.2 billion, followed by Kuwait (US\$ 3.4 billion), Algeria (US\$ 3.2 billion), Kazakhstan (US\$ 1.3 billion), and Tunisia (US\$ 965 million). Overall, as of 2021, Saudi Arabia had the largest international reserves that amounted to US\$ 473.4 billion, followed by Indonesia (US\$ 144.9 billion), the United Arab Emirates (US\$ 131.1 billion), Malaysia (US\$ 116.9 billion), and Türkiye (US\$ 109.5 billion).

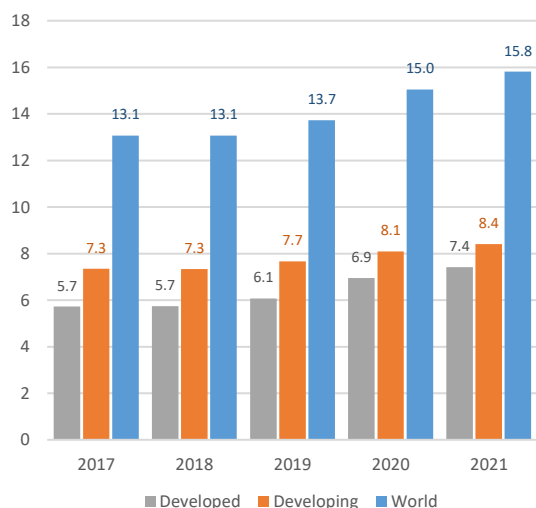
Figure 2.38: Total Reserves in Months of Imports



Source: World Bank, World Development Indicators.

⁵ A traditional indicator of reserve adequacy that shows the number of months a country can continue to support its current level of imports if all other inflows and outflows cease.

Figure 2.37: Total Reserves Including Gold (US\$, trillion)



Source: IMF, International Financial Statistics.

While most OIC countries improved their reserves in 2021, the reserves in months of imports⁵ deteriorated in many of them, as shown by Figure 2.38. Behind this picture was a higher increase in imports than in reserves in most cases or a decline in reserves in a few cases such as in Maldives, Kazakhstan, and Morocco. The Gambia stood out by improving its reserve adequacy in relation to imports by 3.6 months (from 6.4 months in 2020 to 10 months in 2021) thanks to a much larger increase

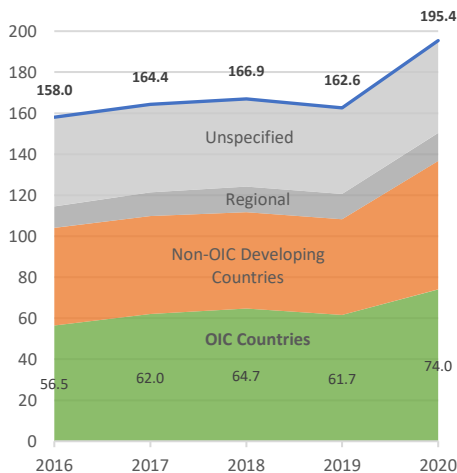


in reserves (69%) than in imports (7.8%). Saudi Arabia, with reserves equivalent to 25.2 months of imports, had the highest reserve adequacy in 2021. Uzbekistan followed it with enough reserves to cover 14.2 months of imports. Except for Saudi Arabia, Uzbekistan, and Gambia, the other OIC countries with available data had reserves that were adequate to cover less than 8 months of imports, which was also below the global average of 10.6 months.

Net ODA received up 20% to US\$ 74 billion

Provided to promote economic development and welfare in recipient countries and territories, Official Development Assistance (ODA) continues to be an important source of financing for many developing countries, including the OIC countries. In 2020, net ODA flows received by the developing world peaked at US\$ 195.4 billion, with an increase of US\$ 32.8 billion, or 20.2%, from the previous year (*Figure 2.39*). The flows that were reported at the individual country level increased by US\$ 28.5 billion, or 26.3%, and amounted to US\$ 136.7 billion, accounting for 70% of the total ODA flows. Over two-fifths (43.4%) of this increase came from a 20% growth in flows to the OIC countries, which reached US\$ 74.0 billion in 2020 as compared to US\$ 61.7 billion in 2019. Flows to non-OIC developing countries, on the other hand, grew at a larger rate (34.7%) and reached US\$ 62.7 billion in 2020. Accordingly, the OIC countries continued to receive over half of the total ODA flows to individual developing countries in 2020, although this share declined slightly to 54.1% that year compared with 57.0% a year earlier.⁶

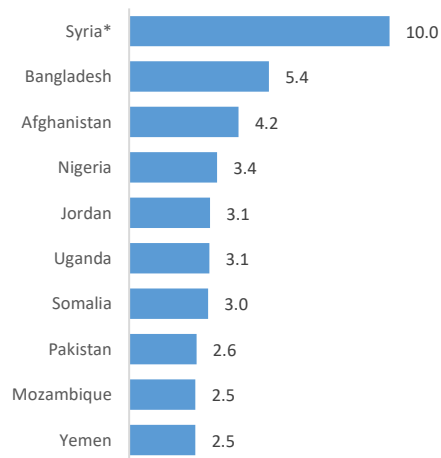
Figure 2.39: Net ODA Received (US\$, billion)



Source: OECD.Stat

Note: Net total ODA received from official donors at current prices. Data coverage: 50 OIC countries (excluding Bahrain, Brunei Darussalam, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates) and 97 non-OIC developing countries. For the period under consideration, about 33% of the annual total ODA value is reported as "unspecified" or "regional", not at the country level. (*) Membership to the OIC is currently suspended.

Figure 2.40: Top ODA Recipient OIC Countries, 2020 (US\$, billion)



Regarding the distribution of the ODA flows among the OIC countries in 2020, the largest five recipients accounted for 35.2% of total ODA flows to the OIC countries, while this ratio reached as high as 53.9% for the largest ten recipients. Syria, with total inflows of US\$ 10.0 billion that

⁶ The share of OIC countries in world total ODA flows remained at 37.9% in 2020, same as the previous year.

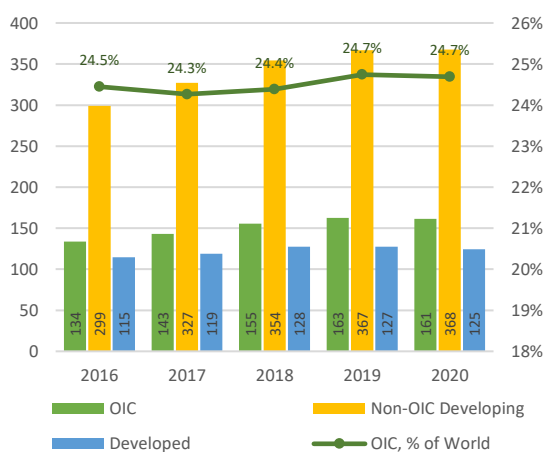
made up 13.5% of the OIC total, ranked first not only among the OIC countries but also among all developing countries. It was followed by Bangladesh (US\$ 5.4 billion, 7.3%), Afghanistan (US\$ 4.2 billion, 5.7%), Nigeria (US\$ 3.4 billion, 4.6%), and Jordan (US\$ 3.1 billion, 4.2%) (*Figure 2.40*). On the other hand, Malaysia was the only OIC country to experience negative flows in 2020, alongside China, as their repayments of past ODA loans were higher than their new receipts.

Personal remittance inflows down 0.7% to US\$ 161 billion

Despite the COVID-19 pandemic, remittance flows remained resilient in 2020 across the world, registering a smaller decline than previously projected. At the global level, officially recorded remittance flows reached US\$ 653 billion in 2020, just 0.5% below the 2019 total of US\$ 657 billion. According to the World Bank (2021a), the main drivers for the steady flow included fiscal stimulus that resulted in better-than-expected economic conditions in host countries, a shift in flows from cash to digital and from informal to formal channels, and cyclical movements in oil prices and currency exchange rates.

Most of the decline in global remittance flows in 2020 was due to the fall in flows to developed countries (by 2.3% or US\$ 2.9 billion to US\$ 125 billion). Inflows to the OIC countries decreased by 0.7% or US\$ 1.2 billion to US\$ 161 billion, while inflows to non-OIC developing countries amounted to around US\$ 368 billion with a slight increase of 0.2% (*Figure 2.41*). Accordingly, the share of the OIC countries in world total remittance flows remained unchanged at 24.7% in 2020.

Figure 2.41: Personal Remittances Received (US\$, billion)



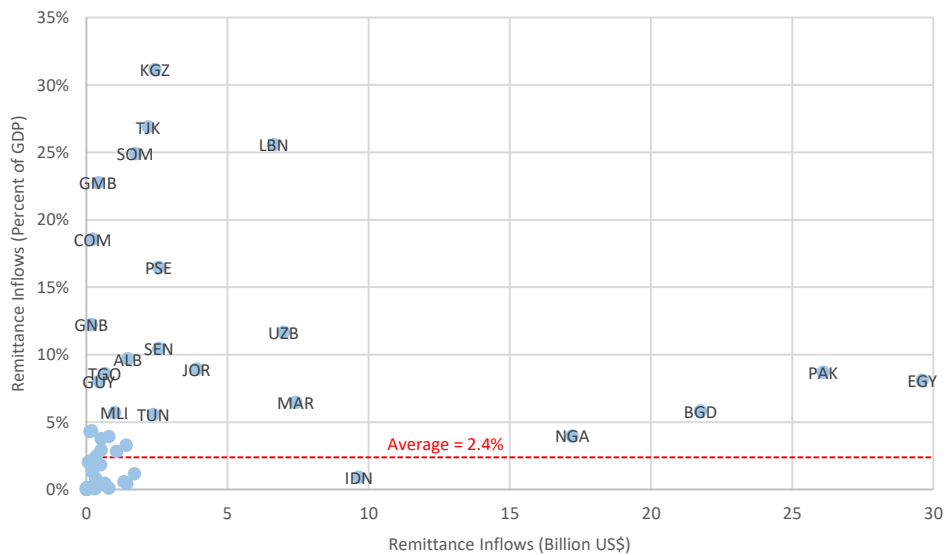
Source: World Bank, World Development Indicators.

In 2020, of the 51 OIC countries for which data are available, 23 experienced a decrease in remittance inflows, five recorded no change, and 23 reported an increase from the previous year. Pakistan (US\$ 3.8 billion), Bangladesh (US\$ 3.4 billion), Egypt (US\$ 2.8 billion), Morocco (US\$ 452 million), and Tunisia (US\$ 318 million) experienced the largest increases while Nigeria (US\$ 6.6 billion), Indonesia (US\$ 2.0 billion), Uzbekistan (US\$ 1.6 billion), Lebanon (US\$ 777 million), and Palestine (US\$ 593 million) reported the largest decreases.

As of 2020, a significant portion of remittance flows to the OIC countries is still concentrated in a few members. Flows to Egypt increased by 10.5% to a record level of US\$ 29.6 billion, making it the largest recipient among the OIC countries. It was followed by Pakistan (US\$ 26.1 billion), Bangladesh (US\$ 21.8 billion), Nigeria (US\$ 17.2 billion), and Indonesia (US\$ 9.7 billion). These five countries together accounted for two-thirds (64.7%) of total remittance inflows to the OIC



Figure 2.42: Personal Remittance Inflows to OIC Countries, 2020



Source: World Bank, World Development Indicators.

Note: See Annex A for the country codes.

countries in 2020, while this ratio reached up to 81.7% for the largest ten recipients. Nevertheless, in the top five countries, the share of remittance inflows in GDP was less than 10% and much lower than in many other member countries with a smaller amount of inflows. The top recipients in terms of the share of remittances in GDP in 2020 included Kyrgyz Republic (31.1%), Tajikistan (26.9%), Lebanon (25.6%), Somalia (24.9%), and Gambia (22.7%). On average, remittance inflows accounted for 2.4% of GDP in the recipient OIC countries in 2020 (Figure 2.42).

CHAPTER 3: **ACHIEVING SUSTAINABLE AND RESILIENT RECOVERY POST COVID-19 PANDEMIC**



The measures taken to control the spread of COVID-19, such as lockdowns and mobility restrictions, have inevitably resulted in an unprecedented slowdown of economic activities all over the world. The pandemic did not affect countries in the same way and at the same scale due to variances in pre-existing conditions and the level of preparedness as well as the adequacy of policy responses and the effectiveness of the measures taken to contain the effects of the pandemic. Particularly important were the structure of the economy in the context of dependency on certain sectors (like international tourism or commodity exports), the strength of national health systems, the availability of technological and digital infrastructure to facilitate adaptation to new ways of working, and the capacity to take fiscal, monetary and financial measures to maintain economic life. Just as the entry into the pandemic, the recovery is also uneven, with some countries growing much faster than others do, leading to a divergence between countries and exacerbating disparities.

Divergences in the speed of recovery are likely to create significantly wider gaps in living standards among countries compared to the pre-pandemic situation. Given the recent projections for per capita income levels (in terms of PPP at constant 2017 prices), about half (25) of the OIC member countries are not expected to see the pre-pandemic living standards by the end of 2022, and for another 15 members, the improvement between 2019 and 2022 is projected to be less than a mere 5%. Correspondingly, in many OIC countries, the pandemic has deteriorated the progress at per capita income catch-up with developed countries. Although the OIC countries, on average, were converging with developed countries in the decade before the outbreak of the pandemic by recording a relatively higher rate of per capita income growth, they are estimated to undergo a diverging process by 2022 due to a weaker performance (SESRI, 2022a).

Considering the differences in the economic impacts of the pandemic across countries as well as expected variances in the speed of recovery, this chapter provides a number of policy directions to reduce the vulnerabilities of the OIC countries and strengthen their resilience to future shocks. It starts with some stylized facts on the impacts of the pandemic, followed by a short assessment of the ongoing crises affecting the global economy. The chapter then presents alternative policy options under eight thematic issues to spearhead the preparedness for future shocks.

STYLIZED FACTS ON THE IMPACTS OF THE PANDEMIC

Emerged as a health crisis, the COVID-19 pandemic turned rapidly into a complex global crisis that not only costed more than 5 million lives, but also disrupted production, damaged economic and social connectivity, and threw millions into poverty. The unprecedented toll of the pandemic on people's health and prosperity simply reflected the scale of unpreparedness of the world to such systemic shocks. It has further highlighted the vulnerabilities and gaps in basic systems. The pandemic has reversed much of the global progress in reducing poverty and adversely affected the health and education prospects. The combination of persisting vulnerabilities and lack of response capacities heightened the risk of greater divergence and inequality between and within countries. Before presenting alternative policy directions for long-term structural reforms to

build back better, the most noteworthy impacts of the pandemic are reviewed briefly to provide a compact assessment of the economic consequences of the COVID-19 pandemic.

Fact 1. Supply chains interrupted

Global value chains (GVCs) were a defining feature of rising globalization with the fragmentation of production, increasing specialization and growing productivity. Reduced trade barriers and lower transport costs were among the driving forces of the expansion of GVCs. Yet, the measures taken by governments to protect their citizens from the pandemic have disrupted supply chains, as reflected in the surging global supply chain pressure index (*Figure 3.1*), and generated serious demand and supply shocks. Disruptions to GVCs due to the COVID-19 pandemic have reinforced the calls for greater self-sufficiency and reshoring of production. The pandemic has put significant downward pressure on trade flows, which were already facing mounting challenges prior to the pandemic because of trade tensions among major economies.

The economic consequences of the pandemic have already triggered discussions on the need for reengineering the global supply chains. Strengthening regional operations by concentrating supply chains in closer locations is one of the possible strategies. Yet, the resilience to such shocks does not require GVCs to rely on self-sufficiency only. Moreover, shifting global trade policy dynamics raise trade barriers, create uncertainty over future trade policy, which leads firms to postpone or cancel their investment decisions abroad, and shift them back to their country of origin. Before the pandemic, trade policy shifts were already creating incentives for firms to reconfigure supply chains towards countries with lower tariffs. In the face of the pandemic, it became essential to review the existing supply chain networks to become more resilient to similar shocks.

Figure 3.1: Global Supply Chain Pressure Index, 2010-2022



Source: Federal Reserve Bank of New York, Global Supply Chain Pressure Index, <https://www.newyorkfed.org/research/gscpi.html>.

Fact 2. Unemployment rate increased

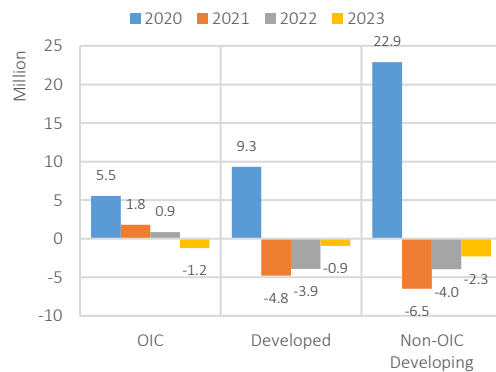
The pandemic has left devastating impacts on the world of work, and led to increased unemployment, underemployment and income losses. Women have suffered disproportionate job and income losses, including because of their over-representation in the hardest-hit sectors. The crisis has also disrupted the education, training, and employment of young people, making it even harder for them to find a job. The International Labour Organization (ILO) estimates that the global unemployment rate increased from 5.4% in 2019 to 6.6% in 2020. It is also estimated that global labour income was US\$ 3.7 trillion (8.3%) lower in 2020 than it would have been in



the absence of the pandemic, corresponding to 4.4% of the 2019 global GDP (ILO, 2021). Global unemployment increased by more than 37 million in 2020, mainly in non-OIC developing countries. Although some recovery is expected in non-OIC countries, achieving pre-pandemic levels would take longer (*Figure 3.2*).

The pandemic has brought unprecedented disruption to labour markets in the OIC countries just as in other parts of the world. Although unemployment rates are expected to decline in other comparison groups in 2021, it is expected to rise further in OIC countries (see *Figure 2.14*). According to the ILO, OIC countries will see a fall in the total number of unemployed people only in 2023 (*Figure 3.2*). This demonstrates how the challenges induced by the global health crisis have further exacerbated the prevailing lack of employment opportunities.

Figure 3.2: Annual Change in Unemployment

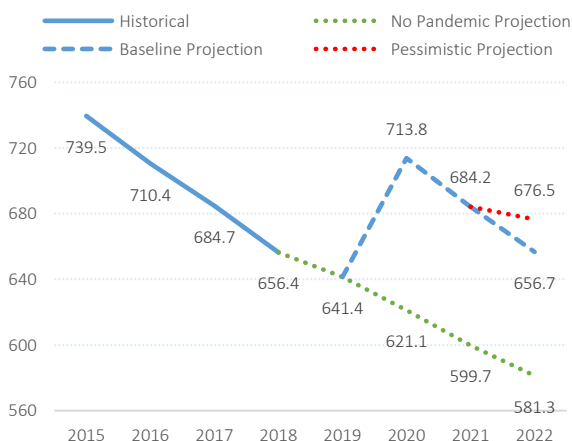


Source: Authors' calculation based on ILOSTAT, ILO Modelled Estimates, November 2021.

Fact 3. Poverty increased with rising unemployment and food prices

Agriculture and food sectors experienced substantial supply chain disruptions due to the COVID-19 pandemic, which put millions of people relying heavily on agriculture at risk. The Food Price Index of the Food and Agriculture Organization (FAO) indicates that food prices in international markets increased by 3.2% in 2020 and 28.2% in 2021 (see *Figure 3.6*). People have lost their jobs or had their incomes significantly reduced because of the economic recession amid the pandemic. This pushed many households into poverty and jeopardized the overall food security in many countries. Estimates show that the total number of undernourished people has continued to increase globally during the pandemic (FAO et al., 2021). Between 720 and 811

Figure 3.3: Nowcast of Extreme Poverty, 2015-2022



Source: Mahler et al. (2022).

million people worldwide-battled hunger in 2020, which corresponds to between 70 and 161 million more people risking hunger in 2020 than in 2019. The global prevalence of undernourishment increased from 8.4% in 2019 to between 9.2 and 10.4% in 2020.

The COVID-19 pandemic is particularly threatening years of progress in poverty alleviation as well as income inequality. It keeps adding significant pressure to the

health systems of both developed and developing countries, and its impacts pose an additional burden to wider communities, affecting again the most vulnerable social groups. These are further exacerbated by rising inflation and the effects of the war in Ukraine. Mahler et al. (2022) from the World Bank estimate that these combined crises will lead to an additional 75 million to 95 million people living in extreme poverty in 2022, compared to pre-pandemic projections (*Figure 3.3*). Governments can mitigate such impacts through social protection policies. The fragile economic systems of many OIC countries are, unfortunately, not able to fully cope with these challenges. The lack of financial resources to provide support to help overcome long periods of reduced economic activity and the interruptions in informal economic activities, which millions of people rely on, further add to the poverty and inequality problem in these countries.

Fact 4. Public finance deteriorated following fall in revenues and growth in public expenditures

The pandemic has given rise to public expenditures as countries seek to mitigate the health and economic effects of the crisis. Governments around the world have spent their budget to reinforce health systems and provide emergency support for households and firms. In parallel, revenues have fallen due to the economic downturn, particularly in countries with high dependency on commodity and oil exports, tourism and remittances. In this state of affairs, fiscal balances have deteriorated and pushed debt levels to new heights. As mentioned above, the pandemic-related fiscal actions amounted to US\$ 16.9 trillion at the global level as of September 2021, and the fiscal support, as a percentage of GDP, was around four times as large in developed countries as in developing countries. The OIC countries, on average, provided relatively limited support in proportion to their GDP as compared to both developed and developing countries (see *Figure 1.16* and *Figure 2.21*).

While giving rise to exceptional needs for government spending, the COVID-19 pandemic, at the same time, has reduced revenues through the economic downturn, leading to historically high fiscal deficits across the globe. General government fiscal deficits as a percent of GDP expanded significantly in many countries. Deficits have also expanded in OIC countries, averaging at 6.7% of GDP in 2020, compared with 3.2% in the previous year (see *Figure 2.19*). This generated fragilities in the financial systems in many OIC countries, with public external debt already at elevated levels.

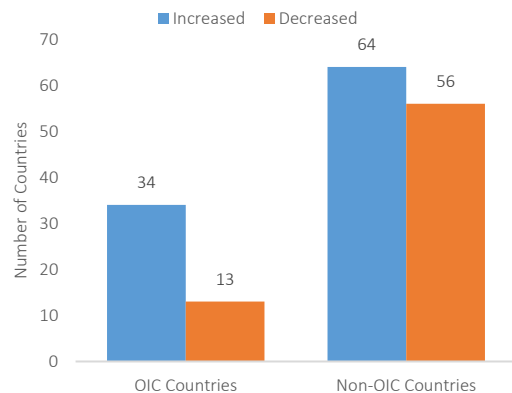
Fact 5. Human capital development stalled due to disruption in education and health services

Efforts to contain the spread of the COVID-19 pandemic have affected millions of students and significantly deteriorated educational outcomes all around the world. It posed great challenges for governments in preserving the achievements made in education and literacy over the past decades. Accordingly, the long-term development of the young generation is put in unprecedented jeopardy. The outbreak of the pandemic highlighted the vulnerability and shortcomings of education systems in implementing proper policy measures to ensure their uninterrupted functioning during crisis times. A comparison of the Human Capital Index (HCI) of

the World Bank between 2018 and 2020 reveals that HCI declined in 69 out of 167 countries in the world, for which data are available. HCI scores fell relatively in a lower share (28%) of OIC countries as compared to non-OIC countries (47%). The scores declined in 13 out of 47 OIC countries for which data are available (Figure 3.4).

The pandemic has also pushed all health systems to their limits, showing how vulnerable they actually are to health shocks. The redirection of health system resources to address COVID-19 care, coupled with inadequate infection prevention supplies and testing capacity, has led to considerable disruptions to essential health services. Furthermore, new barriers to the healthcare demand, such as restricted movements, reduced ability to pay and fear of infection, have posed additional and unprecedented challenges. Disruptions to health service delivery deteriorated the health and wellbeing of people in need of healthcare, particularly in low-income countries. In addition, the pandemic has significantly undermined health insurance coverage across the world. Increase in unemployment has caused many people to lose employer-sponsored insurance. High rates of underinsurance discouraged people from using essential healthcare services, leading to untreated chronic diseases.

Figure 3.4: Human Capital Index, 2018 vs. 2020



Source: The Human Capital Index 2020, World Bank.
<http://databank.worldbank.org/data/source/human-capital-index>.

Fact 6. Reliance on few suppliers created vulnerabilities and deteriorated response capacities

Since early in the pandemic, many countries encountered critical shortages of personal protective equipment (PPE) and other essential medical devices, particularly ventilators to support patients with severe respiratory conditions. Panic buying, hoarding, and misuse made the early situation worse, aggravated by export bans on medical supplies and PPE to curb local shortages (ADB & UNESCAP, 2021). Hence, the pandemic demonstrated the vulnerabilities of global supply chains for critical medical supplies. The geographic concentration of major manufacturers for vaccines and PPE makes the supply vulnerable to any localized shocks and changes in national policies. For example, the high dependence on a few major manufacturing centres has led to supply disruptions when major manufacturing facilities in these regional hubs have faced shutdowns, causing disruptions along the entire supply chain for the PPE.

It was not only the medical products that exacerbated the vulnerabilities during the COVID-19 pandemic, food supply chains have also come under pressure from domestic and international disruptions. Border closures and export restrictions hampered the supply of agriculture production, disrupting cross-border food supply chains, endangering food security and nutrition for countries that rely on imports. Dependence on few suppliers in food products became a particular concern following the war in Ukraine. It is evident that the economic performance of

countries is highly associated with the structural components of their economies. Diversification of economic activities reduces vulnerabilities to economic shocks and facilitates greater competitiveness in global markets. During the post-pandemic period, economic policies are expected to focus on achieving a well-diversified economy with a strong and sophisticated manufacturing industry with a view to reducing vulnerabilities and enhancing competitiveness in the global economy.

Fact 7. Mobility declined and tourism and transport activities disrupted

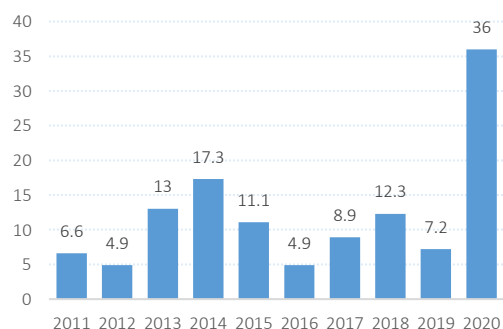
The containment measures taken to curb the COVID-19 pandemic have brought severe disruptions to nearly every aspect of domestic and international transportation. Passenger transportation within and across borders was hit hardest due to strict quarantine measures. Cargo transportation and logistics remained more robust during this period, despite experiencing occasional interruptions and obstacles over time. The resilience of marine transportation has been particularly critical in avoiding supply chain interruptions across regions.

With the demand for travel plunging to a modern all-time low, the COVID-19 crisis in the transport sector required governments to develop a strong policy response. Physical spacing requirements and quarantine requirements have drastically reduced available transport capacity both for domestic and international travel. The tourism sector in the OIC countries was also severely hit by the pandemic. The devastating impacts of the pandemic, which have eroded confidence in international travel, and the strict containment measures put in place resulted in significant losses in terms of both tourist arrivals and tourism receipts. The biggest crisis in the history of the tourism sector since World War II, the pandemic has got back the gains made over the past decade in the OIC group in terms of international tourist arrivals and tourism receipts, intra-OIC tourism activities, job creation, and contribution to the GDP.

Fact 8. Demand for digital tools and infrastructure increased

The threat posed by the COVID-19 pandemic necessitated the quick mobilization of science, technology and innovation (STI) related activities to provide solutions. The solutions provided for the crisis led to an expansion of digital technologies, including cloud services, videoconferencing and digital collaboration tools, online shopping and online learning. An exceptional growth was observed in digital tools and artificial intelligence (AI) to respond to the COVID-19 health emergency and to keep the economy operating during the crisis. Accordingly, total financing for digital infrastructure in emerging markets increased to US\$ 36 billion in 2020 from US\$ 7.2 billion in 2019 (Figure 3.5). The pandemic has also caused concerns in terms of

Figure 3.5: Total Financing to Digital Infrastructure in Emerging Markets (Billion US\$)



Source: IFC (2021)



cybersecurity, where cybercriminals are said to exploit the situation and spread malicious content with misleading information about the coronavirus. Some of the factors that have contributed to the increase in cyberattacks are higher security risks due to remote working or learning, working from public spaces and using free internet, and delays in cyberattack detection and response.

Most countries have implemented measures to stimulate quick innovative responses to the wide range of challenges posed by COVID-19 – from preventing virus transmission to producing essential supplies, combatting misinformation, and handling the effects of the lockdown. Governments, firms, and foundations have committed large amounts of funding for R&D activities aimed at developing vaccines, therapeutics, and diagnostics for COVID-19. Accordingly, an accelerated digital transformation and use of digital technology were observed for contact tracing, vaccine passports, and vaccine distribution during the pandemic. Wider use of digital technology applications as well as big data analytics and AI tools is likely to result in an increase in digital innovations to respond to the growing demand for digital applications, ranging from e-health services to machine learning for research.

Fact 9. Small firms suffered from reduced demand, limited access to markets and finance

Small and medium-sized enterprises (SMEs) account for the majority of businesses worldwide and are important contributors to job creation and global economic development. According to ITC (2021), while 60% of micro and 57% of small businesses are strongly affected by the pandemic, this share was 43% in the case of large firms. This is partly because smaller firms have lower levels of resilience, on average, than larger companies do. There are a number of factors that contributed to the overproportional impact of the crisis on the performance of SMEs, ranging from financial and managerial capacities to sectoral concentration.⁷

There have been numerous surveys held among SMEs at the individual country level to assess the impact of the pandemic on SMEs. An OECD study (OECD, 2021a) provides a summary of over 180 surveys conducted in 32 countries. According to the study, around 70-80% of SMEs experienced a serious fall in revenues. A significant share of them had the fear of bankruptcy when the pandemic began and a majority of them started to make more use of digital technologies, although substantial differences exist between countries. As a result, the COVID-19 crisis has shown the excessive vulnerability of SMEs to the pandemic and containment measures. The pre-COVID-19 resilience score of micro and small firms was found to be 16% lower than that of medium and large firms (ITC, 2021). In order to further support the resilience of SMEs, some countries took actions to help SMEs adopt new work processes, accelerate digitalization, and find new markets. Such policies include support for finding new alternative markets, speeding up digitalisation, stimulating innovation, and reskilling the workforce.

Fact 10. Investments are heavily disrupted due to increased uncertainties

In a world of GVCs and mobile capital, international investment flows are vital for sustainable development in developing countries, including the OIC countries. In particular, under

⁷ See SESRIC (2022a) for a detailed discussion.

appropriate conditions, foreign direct investment (FDI) can improve economic growth and standards of living, create job opportunities, transfer technology and know-how, facilitate access to foreign inputs, goods and services, and enhance supply chains. Yet, the pandemic had a significant impact on FDI flows. Lockdowns around the world slowed down investment projects, and the elevated expectations for a global recession discouraged international investors and led them to reconsider the feasibility of new projects.

As a result, global FDI flows dramatically fell in 2020, back to the 2005 levels, due to the pandemic (UNCTAD, 2022). They dropped by 35% to US\$ 963 billion from about US\$ 1.5 trillion in 2019 mainly due to the decline in flows into developed countries. FDI inflows to developed countries decreased by 46% to US\$ 483 billion, while inflows to developing countries fell by 19% to US\$ 481 billion (see [Figure 1.13](#)). FDI flows to the OIC countries followed a similar course as developing countries and fell by 16.2% to US\$ 97 billion in 2020 compared to US\$ 115 billion in 2019 (see [Figure 2.31](#)).

HEIGHTENING RISKS ASSOCIATED WITH CONFLICTS AND DISASTERS

At a time when the policy makers are seeking how best to recover from the devastating impacts of the COVID-19 pandemic, the world economy is hit by another shock arising from the conflict between Russia and Ukraine. While it is essentially a humanitarian crisis, the conflict is exacerbating the existing global economic challenges and further shattering the already-weakened global supply chains. The two countries are key players in certain major global industries, like cereals, vegetable oils, metals, petroleum, and wood. Together, they account for a quarter of global wheat exports. Ukraine is the largest exporter of vegetable oils in the world, particularly of sunflower oil. Russia is responsible for 12% of the world's crude petroleum exports and 10% of the petroleum products exports, which means that the conflict is prone to affect anything that requires transportation.

Since the abilities of Ukraine and Russia to export are restricted for one reason or another, the conflict's economic consequences have been particularly painful, especially for countries that are heavily dependent on supplies from Russia and Ukraine. Supply shortages and the interruptions in GVCs are contributing to the already increasing global prices due to the pandemic. The surge in prices of energy, food, and other commodities is strengthening the inflationary pressures, with reflections on income distribution and poverty.

The crisis is still evolving, and the peace talks have not yielded concrete positive results yet. The ultimate impact of the shocks on socio-economic outlook at both national and global level are subject to great uncertainty. Nevertheless, this fluid situation is alarming for developing countries, including the OIC countries, some of which are particularly exposed to the conflict and its ramifications.

The concerns regarding a fall in exports of Russia and Ukraine is not only about supply shortages, but also about the consequent reflection on prices and inflation. In the area of fuels, for example, global energy prices are already skyrocketing with the prospect of sanctions-induced reductions in purchases of oil, gas, and coal from Russia. In the same vein, food prices, which have already

been on the rise due to the COVID-19 pandemic conditions, have gained momentum with concerns over reductions in food exports from the conflict region, exposing mostly the countries particularly dependent on imports from Russia and Ukraine to a risk of facing food price hikes in case of unmet import demand.

Measuring international prices of a basket of five commodities (cereals, vegetable oils, dairy, meat and sugar), the FAO Food Price Index is expected to rise further because of the conflict (*Figure 3.6*), according to OECD simulations (OECD, 2022). This will affect the households in lower income countries that spend a larger share of their income on food. Already limited fiscal space available for governments in developing

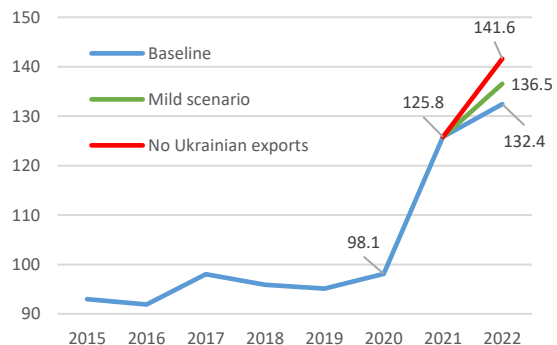
countries due to the pandemic will make it difficult for them to subsidize food prices. In an attempt to eliminate any possible unrest against the rise of food prices, governments may require to get more debts for food subsidies, creating further economic instabilities over the longer term. This would be particularly challenging for the heavily indebted OIC countries (see *Figure 2.36*).

A drop in maize shipments from Ukraine, a major corn producer, could also hurt farmers in many African countries that use it for animal feed, where higher maize prices will lead to more expensive meat and pricier maize porridge. Ukraine is also the biggest exporter of sunflower oil. Soaring prices are spilling over into substitutes such as palm oil, which is popular in West Africa.

As a result, food security is expected to be a growing concern for food importing countries due to supply shortages from Ukraine and Russia. Many OIC countries may have to find alternative suppliers to meet the domestic demand, more likely at higher price levels. FAO's simulations gauging the potential impacts of a sudden and steep reduction in grain and sunflower seed exports by the two countries indicate that these shortfalls could only be partially compensated by alternative origins during the 2022/23 marketing season. The resulting global supply gap could push up international food and feed prices by 8% to 22% above their already elevated levels (FAO, 2022). This will in turn deteriorate the government budgets. Therefore, instead of allocating a large amount of resources to subsidize bread and other staples, it would be wiser to invest in enhancing agricultural production capacities to increase self-sufficiency in major agricultural commodities.

Disruptions to the supply of major grain products from Russia and Ukraine mean that poorer countries depending on imports could face major supply shocks. Inflation affects different households in different ways. Poorer households allocate a greater proportion of their income to

Figure 3.6: FAO Food Price Index



Source: OECD (2022).

Note: The "mild scenario" assumes for 2022: a recession in Russia and Ukraine, 20% less harvested area in Ukraine and export problems in both countries. The "no Ukrainian exports" scenario assumes additionally that cereal exports from Ukraine are zero in 2022. The FAO Food Price Index (FFPI) is a measure of international prices of a basket of five commodities: cereals, vegetable oils, dairy, meat and sugar.

food and energy expenditures. A rise in the prices of these products further affects their budget allocation at the expense of non-food items, reducing their overall standards of living. In low-income countries, this may push poorer households into hunger and malnutrition, as they may be forced to reduce their consumption or they may not have access to food at all. Considering the recent famine in some African countries, including Somalia, as well as ongoing instability in some countries, including Yemen, food shortages could have dramatic implications on the poor.

Overall, the Russia-Ukraine crisis has already resulted in sizeable economic effects worldwide, particularly in commodity markets. The prolongation of the crisis will undoubtedly lead to greater economic spillovers throughout the world, affecting the OIC countries as well – directly or indirectly. While many OIC countries are already struggling to “return to normal” after two years into the pandemic, the new challenges will make it even harder to get back on track, if not further worsen.

This single conflict shows the extent of vulnerability of the world economy to external shocks. While existing conflicts are creating serious economic and social problems, there is unfortunately a growing trend in geopolitical risks and threat of conflicts. Further noting the challenges associated with climate change and a growing number of droughts, floods and other extreme weather events, it is imperative to strengthen resilience to future shocks, whatever the cause might be. Otherwise, a perfect storm would vanish all development gains achieved over the past decades.

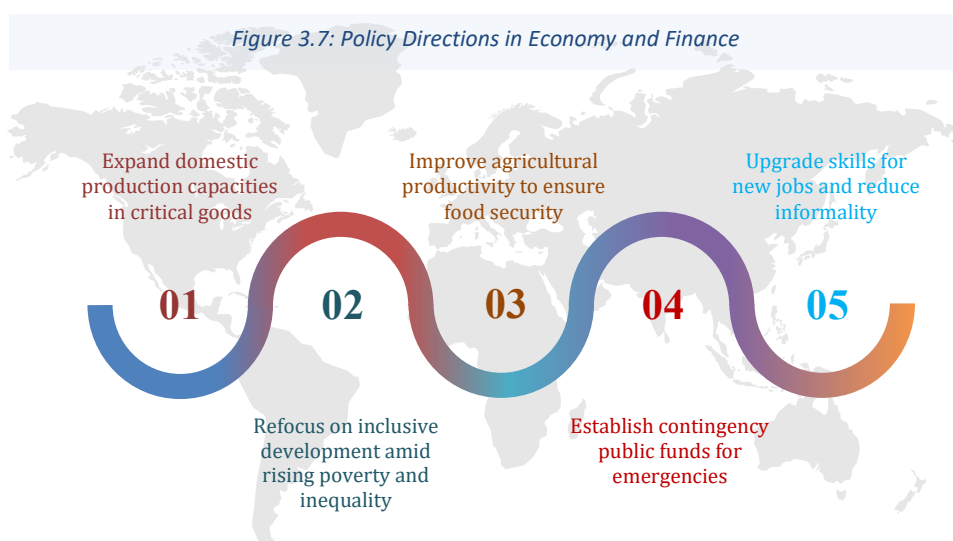
POLICY DIRECTIONS FOR SUSTAINABLE AND RESILIENT RECOVERY

The prospects for achieving the Sustainable Development Goals (SDGs) set in 2015 fade away as the global community is overburdened by a multitude of crises. Some of these crises could be avoided with timely interventions. Whenever it is not possible to escape, preparedness is the key to mitigating the possible impacts. This subsection highlights a number of policy measures in strengthening economic resilience to future shocks under eight broad categories. These recommended measures are not exhaustive and all-encompassing, but would provide possible directions in addressing the economy-level vulnerabilities in OIC countries.

Economy and Finance

Many of the vulnerabilities arising from the general management of economic and financial activities are related to ineffective use of productive sources, unequal distribution of wealth and lack of diversification of economic activities and partners. In this connection, the areas summarised in *Figure 3.7* require special attention from the policy makers to strengthen economic resilience to future shocks.

Expand domestic production capacities in critical goods: Dependence on a limited number of actors for the supply of goods, services, data, infrastructures, skills and technologies combined with a limited capacity for internal production can be an important source of vulnerability during extraordinary times. The assessment of strategic dependencies involves not only the identification of dependencies, but also an assessment of whether they are of a strategic nature



that leads to a vulnerability. Addressing strategic dependencies requires targeted measures depending on the nature of dependency and its potential risks at the individual country level. This may then require specific actions to be taken, but the followings include some of the most critical considerations for the expansion of capacities in strategic areas:

- Ensure a modern, well-managed and efficient procurement system by public authorities in enabling the achievement of key priorities towards reducing vulnerabilities and strengthening local capacities;
- Provide targeted funding for research and innovation geared towards strategic priorities;
- Provide specific support to SMEs for them to diversify supply chains and increase their resilience;
- Develop the skills of the workforce in identified areas of strategic importance.

Refocus on inclusive development in the face of rising poverty and inequality: The COVID-19 pandemic reversed the gains made in reducing poverty and inequality over the past decades. Given the asymmetric nature of the pandemic, the employment and earnings impact of the pandemic has been highly unequal across groups of workers, disproportionately affecting women, the informally employed, and those with relatively lower educational attainment. To ensure that the recovery is equitable and benefits all groups within the OIC countries, spending and policies targeting women, low-skilled workers, and urban informal sector workers are necessary. This includes providing equal access to financial services and investing in safety nets and social insurance. In addition to direct support, increasing female education levels, improving educational attainment and quality, and increasing opportunities for non-agricultural employment can accelerate the movement from extreme to moderate poverty.

Improve agricultural productivity to ensure food security: Increasing the resilience of all systems, especially agricultural and food systems, is crucial for ensuring food security, and protecting the health of present and future generations. Special attention should be paid to vulnerable

populations and smallholder farmers that are disproportionately affected by the pandemic. Infrastructure development is critical for agriculture's growth and resilience, as well as rural development. There are still infrastructure gaps in many OIC countries that prevent them from developing a strong agricultural and food sector, including rural roads and accessibility, water resource development, and electricity. Increased use of digital technologies in supply chain management can also help increase resilience and decrease the likelihood of disruptions by providing data for identifying and evaluating a variety of resource efficiency risks and opportunities. Finally, recovery measures should aim to reshape policies in the sector to promote environmental sustainability and resilience, as well as innovation for improved productivity, in addition to securing jobs and preventing short-term supply disruptions. Investments and training aimed at encouraging farmers to adopt more sustainable agricultural practices would benefit both the environment and the climate, as well as the farmers' livelihoods.

Establish contingency public funds for emergencies: In the wake of a crisis, governments are required to be well-prepared to withstand the unprecedented pressures on the economy and people and provide broad-based fiscal support in response to an unfolding economic crisis. Building up room for manoeuvre (fiscal space) or establishing a contingency fund during 'normal' times for use in difficult times facilitates effective response to crises and accelerates the recovery, while the absence of a fiscal space could even aggravate the impacts on the economy and people. Evidence shows that, when these funds are appropriately structured and sufficiently large, they contribute to mitigating the impact of shocks and improving fiscal discipline (Brunet et al., 2021). Yet, it is critical to put in place a mechanism to prioritize payments to the priority sectors and purposes.

Upgrade skills for new jobs and reduce informality: Many people may face prolonged unemployment, eroding their skills and future productivity, and new entrants may face long-term lower earnings due to the pandemic (IMF, 2021e). Economic resilience can be achieved by implementing a right mix of macroeconomic and labour market policies. Skills development strategies should be aligned with economic development priorities in order to avoid skills mismatch, labour underutilization, and low productivity. Policies should be developed to support quality education, training, and decent work for young people, to maximize their potential as a source of dynamism, talent, creativity and innovation in the world of work and as a driving force for shaping a better future of work. Equitable access to training, career guidance and other labour market activities can facilitate successful labour market transitions and reduce skills mismatches. Informality adds to the challenges of dealing with the pandemic and achieving a robust recovery. Innovative measures are needed to better reach and support informal workers and informal firms with longer-term development policies, such as online platforms and databases, progress in digitalisation and financial inclusion.

Trade and Integration

Over the last several decades, tariffs and other trade barriers declined substantially as liberal economic thinking increasingly dominated economic policymaking. However, recent years witnessed a growing appetite for more protectionism driven by unilateral motivations. The

adoption of protectionist measures has sparked the fears of a trade war and has weighed on trade flows and investment decisions due to deteriorating market sentiment and global risk appetite. Global supply chains are at risk due to the growing protectionism and the pandemic-related restrictions. With falling trade-related uncertainty during the post-pandemic period, a number of measures could increase the resilience of countries to future shocks in terms of trade linkages and economic integration, as summarised in *Figure 3.8*.

Figure 3.8: Policy Directions in Trade and Integration



Minimize policy uncertainty: Policy uncertainty arising from escalating trade tensions significantly hurt the investment behaviour of firms. Rising uncertainty leads to a deferral of investment decisions by firms, while consumers also cut back their spending and banks increase their cost of finance. These reduce aggregate demand and lower economic growth. The OIC countries should minimize policy uncertainty by the timely and clear communication of future changes in trade policy to support investment and consumption behaviours.

Expedite trade facilitation measures: Trade facilitation entails expediting the clearance of goods to reduce the time and cost of import, export, and transit procedures to ensure the free flow of goods across borders. Digital measures, such as single windows, have significantly helped countries through the crisis and beyond, as they automate trade procedures and replace the need for physical and manual processes. The high number of required procedures to complete customs formalities, high-cost of transportation, long-waiting times in customs, and the lack of OIC-wide harmonized or uniform quality standards for goods and services are some of the obstacles limiting efficiency in merchandise trade in many OIC countries. If the level of trade cooperation among the OIC countries is to reach desired levels, there is a need for quick operationalization of trade facilitation schemes such as the OIC Trade Preferential System, export credit and investment insurance as well as recognition of standards, technical regulation and conformity assessment procedures. Establishing national inter-agency coordination mechanisms and strengthening cross-border agency cooperation are also instrumental in swiftly responding to trade-related emergencies.

Invest in supply chain resiliency and reduce dependency on a single supplier: Efficiency has long been the main driver of the GVCs. With the emergence of trade-policy shock and the COVID-19 crisis, the priority started to shift from efficiency to resilience. It became evident that the high

dependency on imported goods and the high concentration of foreign input supplier networks renders these sectors more vulnerable to supply chain disruptions. In order to rebalance supply chain efficiency and resilience, governments can design strategies to reduce single-source dependencies. Moreover, through appropriate policies, the OIC countries can benefit from growing interest in shortening the supply time by sourcing more products from nearby locations and producing the final product closer to the end users. On the other hand, many countries, regardless of their level of development, experienced a shortage of critical health products in response to the rapid outbreak of the COVID-19 pandemic. This reminded the excessive vulnerability to a single supplier and the critical importance of attaining self-sufficiency in strategic products. In order to be more resilient to similar shocks in future, it is necessary for the OIC countries to reduce dependency on a few suppliers and attain their self-reliance in products that are considered critical or strategic.

Focus on intra-regional value chains: A substantive nationalization or regionalization of supply chains has the risk of further reducing the diversification of suppliers in the world economy and limiting opportunities for developing economies to benefit from GVC-associated capital flows and technology transfer. This would threaten the potential of developing countries, including the OIC countries, to industrialize through linking into GVCs. A remedy would be to focus on intra-regional value chains, which are expected to be more resilient than inter-regional ones. They can be a continuous catalyst for capital and technology transfer for the OIC countries. This would also contribute to achieving greater economic integration among the OIC countries, as postulated in the OIC-2025 TYPOA.

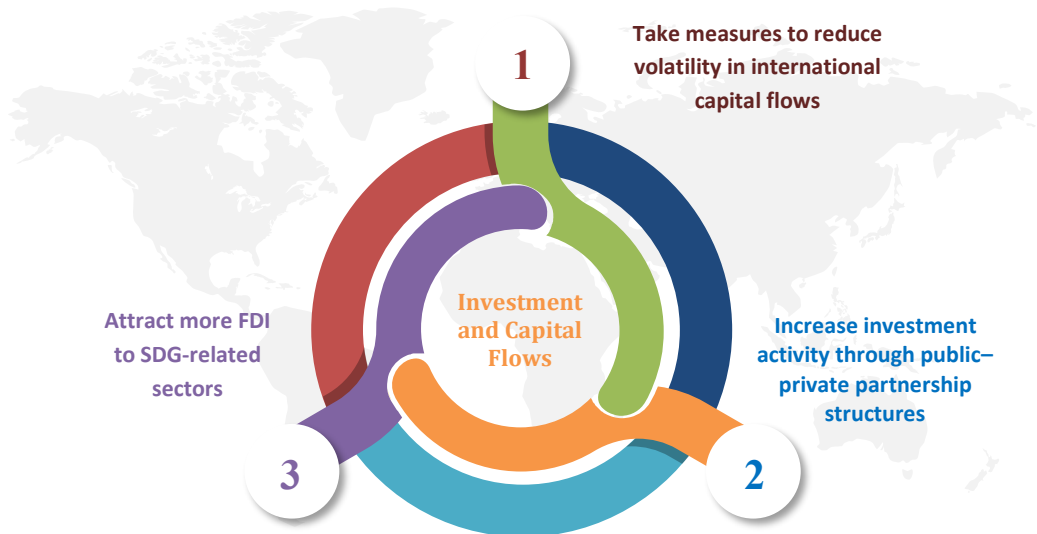
Establish regional industrial clusters: In a regional context, establishing regional clusters for different sectors would attract firms operating in certain sectors. Clusters establish a geographic concentration of interconnected businesses, suppliers, and associated institutions. They provide important cost advantages by creating direct and indirect synergies among the firms in clusters, and contribute to the productivity and competitiveness of countries. This would be particularly functional when the countries engaging in regional clusters are economically small and economic activities are not diversified enough. Establishing regional clusters in the OIC countries would require strong political will and greater economic integration at the regional level.

Establish logistic clusters: In order to support their regional competitiveness, the OIC countries can also establish regional logistic clusters to ensure timely and effective delivery of intermediate products. Through processing large volumes of freight, it is possible to attain economies of scale and scope in clusters. Additionally, logistics clusters offer advantages based on the interchangeability of transportation and logistics assets. This would increase the competitiveness of countries utilizing the cluster and facilitate expedited delivery of goods. The establishment of export processing and free trade zones also could contribute to the development of intra-OIC trade.

Investment and Capital Flows

International capital flows slowed down due to a number of uncertainties brought by the COVID-19 pandemic. Investments alike have been affected adversely by the pandemic. Many developing and developed countries faced unprecedented outflows of portfolio investments, driven by sales of portfolio assets by foreign investors, a usual pattern whereby international investors transfer capital back home or invest in safer assets during periods of uncertainty (OECD, 2020a). In 2020, the available data for 27 OIC countries indicate that net portfolio investments decreased by 58% to about US\$ 43 billion in 2020, compared to US\$ 102 billion in 2019 (SESRIC, 2022a). Growing public expenditures and falling revenues led to an increase in the total external debt stock of the OIC countries by 5.8% to US\$ 1.9 trillion in 2020. Therefore, measures should be taken to reduce volatility in international capital and investment flows to eliminate any disruptive effects because of sudden stops.

Figure 3.9: Policy Directions in Investment and Capital Flows



FDI flows to the OIC countries slowed down as in other countries around the world due to the pandemic. Despite showing some signs of recovery in 2021 and 2022, the OIC countries, as a group, are far away from their potential in terms of attracting new FDI projects and retaining the existing ones. In addition, many OIC countries are not able to fully benefit from the positive spillover effects brought by foreign investors, which could potentially improve the private sector's competitiveness and technological advancement, mainly due to shortages of human capital and inadequate physical infrastructure (ICIEC et al., 2017). This further limits the contribution of FDI to sustainable development in the OIC countries. In light of the above, *Figure 3.9* provides some major policy directions in the field of investment and capital flows for a more resilient recovery.

Take measures to reduce volatility in international capital flows: The decline in international portfolio capital flows could be offset by such as increased external borrowing or remittance

inflows. Yet, the ongoing economic turmoil in the global economy, fuelled by uncertainties on the new variants of the COVID-19 virus, increased energy prices and the ongoing Russia-Ukraine crisis does not create a favourable environment for long-term external borrowing or increased remittance inflows in 2022 and 2023. Increased FDI and restructuring of external debts emerge as viable options for many developing countries including several OIC countries (SESRIC, 2022a). In this connection, the following policy options could be considered by policymakers in the OIC countries on the nexus of capital flows, external debts, and post-pandemic recovery to address uncertainties caused by the COVID-19 pandemic and support a sustainable recovery in the post-pandemic period.

- Focus on policies to reduce external financial vulnerabilities by improving the management of public finance, such as by postponing relatively less important public investments unless a better global economic outlook becomes foreseeable;
- Develop sound debt-management practices to ensure that both the level and rate of growth in public debt is fundamentally sustainable in the post-pandemic era;
- Develop capacities to improve external finance resilience, such as by investing in human resources and national financial reserves;
- Start negotiations with multilateral development banks, donor agencies, and developed countries to restructure external debt levels, especially to extend or postpone their maturity periods; and
- Develop policies to better benefit from the potential role of portfolio investments for financing sustainable development in the post-pandemic era by incentivizing long-term portfolio investments over short-term investment types, reducing macroeconomic uncertainties, and improving the regulatory framework for the protection of foreign investors.

Increase investment activity through public–private partnership structures: Given the limited amount of savings in many developing countries, public-private partnership (P-PP) mechanism could be suggested as a viable model to finance sustainable development projects. In this mechanism, projects are financed and operated through a partnership of government units and private sector agents. P-PPs often enable the public sector to benefit from entrepreneurial dynamism, extended financing opportunities in an environment of budgetary constraints, and innovative and efficient management styles of the private sector that contribute their own capital, skills and experience. In this respect, given the socio-economic challenges led by the pandemic, the successful implementation of P-PPs could help many OIC countries to address the prevailing investment gaps and boost economic growth and development. In fact, the experience of several OIC countries like Türkiye and Malaysia before the outbreak of the pandemic with the P-PP mechanism resulted in positive outcomes in many sectors from transport to health (SESRIC, 2015). The successful experiences of such OIC countries in the P-PPs could be influential for many other OIC countries in the post-pandemic era. In particular, the lessons learned and some broad policy principles could help the OIC countries to develop more effective P-PPs and broaden their developmental impacts while minimising the costs for the public sector. In this regard,

policymakers in the OIC countries could consider the following points with a view to increasing investment activity through P-PP structures.

- Undertake comprehensive national diagnostic studies to identify the sectors with the highest prevailing investment gaps;
- Identify the sectors that are more appropriate for the P-PP structures by considering various types of P-PP agreements including, but not limited to, build-own-operate (BOO), build-develop-operate (BDO), design-build-finance-operate (DBFO), build-own-operate-transfer (BOOT) in the light of international experiences;
- Carefully study the long-term developmental impacts of the P-PP projects, such as by considering the impacts on local communities, natural reserves, public finances and economic growth;
- Consider prioritizing P-PP projects in the healthcare and pharmaceutical sectors that could foster sustainable recovery from the pandemic and build resilience for future shocks; and
- Benefit from the expertise and experience of multilateral development banks like the World Bank and Islamic Development Bank in developing and executing such P-PP projects.

Attract more FDI to SDG-related sectors: The pandemic has started to reshape the FDI landscape all around the world. There is an increased tendency toward localization in sectors such as pharmaceuticals, healthcare and food, whose importance has increased due to the pandemic. This new trend has the potential to affect international trade flows, global supply chains and, consequently, capital flows. Moreover, multinational corporations (MNCs) are likely to undertake geographical repositioning in their foreign operations in the long term to be able to deal better with future shocks that increased the importance of regional value chains. In this respect, MNCs limit their reliance on GVCs to protect themselves from supply-chain disruptions, or alternatively, seek geographic diversification to reduce exposure to location-specific shocks (OECD, 2020a; OECD, 2020b). These relocation arrangements will undoubtedly drive the FDI flows directed to the OIC countries. In this regard, the OIC countries should follow a set of policies to have a better global position in the post-pandemic period to attract more FDI to SDG-related sectors. Such FDI projects will not only bring certain economic benefits to OIC countries but also help them to attain a set of SDG-related goals by improving the lives of people. To this end, the OIC countries should consider the following:

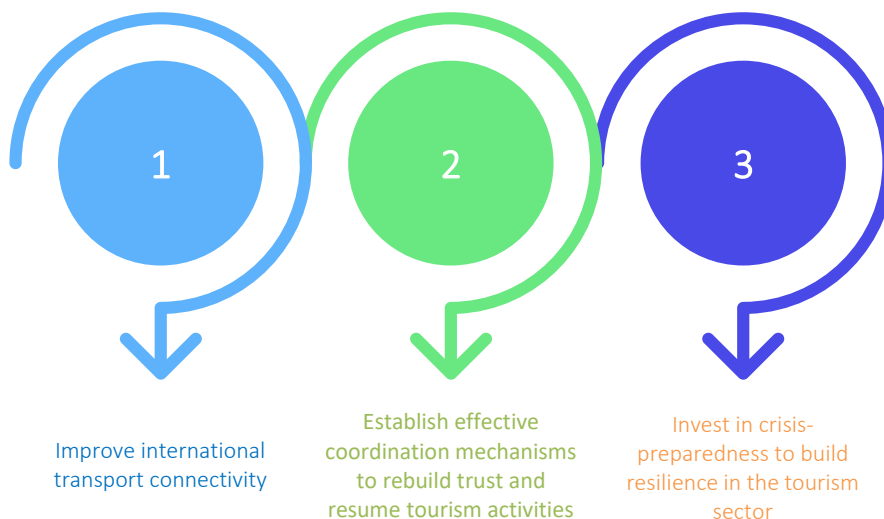
- Identify and address trade and investment-related barriers like restrictive measures, high taxes for international trade and investment, and informal economy in order to have a more investor-friendly environment;
- Study and list SDG-related priority sectors for investors in order to better promote these sectors internationally and facilitate new foreign investments, such as by providing certain incentives to them;
- Invest in improving the capacities of national investment promotion agencies (IPAs) with a view to attracting new investors and having effective communication with international investors; and

- Improve intra-OIC cooperation in the domain of investment, such as by promoting investment opportunities and facilitating the exchange of experiences.

Transport and Tourism

The transportation sector was one of the most severely affected sectors due to the restrictive measures taken to contain the spread of the pandemic. In this respect, the pandemic has highlighted the importance of having resilient supply chains and connections to alternative logistics networks (OECD, 2020c). It has also revealed the risks of reliance solely on certain types of transport. Maritime transport sharply slowed down during the COVID-19 pandemic resulting in regression in the global output. For example, thanks to the available air corridors, many countries could fetch medical equipment and medicines during the COVID-19 pandemic. Moreover, the transport sector plays a particularly critical role not only in facilitating trade across borders but also in enabling tourism. As the COVID-19 pandemic hit international tourism activities severely, which heavily relies on air connectivity, several OIC countries have started to invest in domestic tourism to recover from the pandemic. However, boosting domestic tourism activities is also closely linked with the availability of effective road and rail network connectivity in many OIC countries. Building resilience in the longer term, therefore, requires better transport infrastructure and improved connectivity, mechanisms to ensure trust, and investing in crisis preparedness (Figure 3.10).

Figure 3.10: Policy Directions in Transport and Tourism



Improve international transport connectivity: Having well-functioning international transport networks is essential not only to maintain international trade and tourism activities but also to combat crisis situations as in the case of health-related shock (i.e. the COVID-19 pandemic). Investing in international transport connectivity could help the OIC countries to build up resilience for future crises and has the potential to further international trade, such as by reducing transportation costs and improving competitiveness. In order to enhance international

transport connectivity in the post-pandemic era and increase the resilience of the transport sector, the OIC countries should take the following actions:

- Invest more in digitalization and automation in transport services for achieving greater efficiency and sustainability;
- Prepare emergency plans to ensure that certain transport networks and border crossings are kept operational during future shocks and disasters;
- Establish national coordination mechanisms with a view to increasing the predictability and efficient deployment of border measures as well as ensuring effective monitoring of transport networks;
- Diversify investments to alternative transport networks including road, rail, maritime, and air to enrich available modes of transport with a view to sustaining the mobility of goods and people within and across borders during all times; and
- Consider the potential of the P-PP modality in boosting investments in transport networks.

Establish effective coordination mechanisms to rebuild trust and resume tourism activities: The speed and extent of recovery in international tourism will depend on the removal of travel restrictions and the rebuilding of trust. Critical to this will be the uptake of vaccination in source and destination countries. As new variants of the COVID-19 virus emerge and the number of cases increases, inoculation efforts have become very important to sustain international tourism activities in the OIC region and elsewhere. If the OIC countries can rapidly increase the share of the vaccinated population, international tourism activities are likely to continue to recover and could exceed pre-pandemic figures as early as possible. To achieve this, it is essential to ensure effective coordination through established mechanisms among various authorities such as the ministries of health and tourism. Having and effectively utilizing such coordination mechanisms would help to reduce problems caused by interdepartmental coordination and communication matters. In parallel, these policies should be supported by targeted and trusted communication strategies (SESRIC, 2022b). In this way, it is possible to achieve a safe and resilient recovery of international tourism by rebuilding trust.

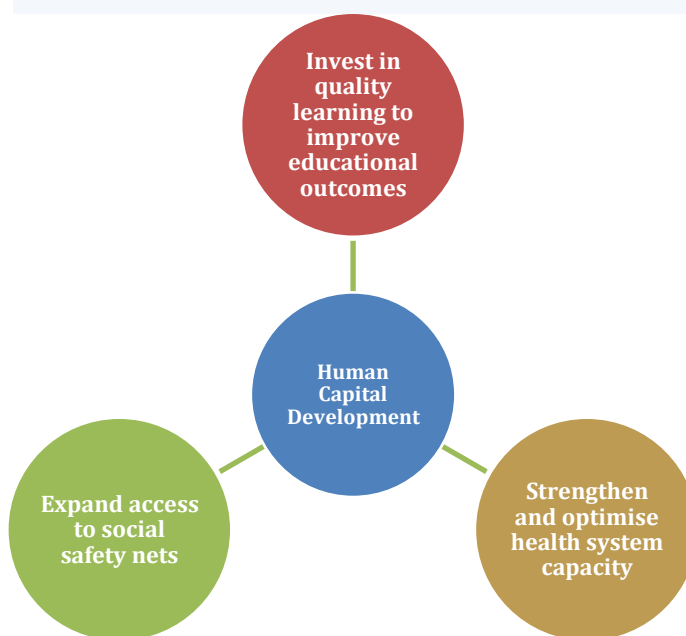
Invest in crisis-preparedness to build resilience in the tourism sector: Crisis management covers preparing for and responding to shocks, while resilience goes beyond this and includes adaptation in the aftermath of disruption. The resilience building in tourism aims to minimize the future impacts of the shocks. As the biggest crisis in the history of international tourism since World War II, it is vital for the OIC countries to invest in crisis-preparedness in the tourism sector in order to avoid strong future shocks that could hit various tourism stakeholders including tour operators, hoteliers, tourist guides, airlines, SMEs, etc. The COVID-19 pandemic could provide a number of lessons in managing crises and building resilience in the OIC countries. For instance, the OIC countries that have invested in niche tourism markets like eco-tourism and Islamic tourism or have developed alternative tourism campaigns like ‘reviving domestic tourism’ could gain some of their losses in the sector during the pandemic. Moreover, several OIC countries like Algeria, Saudi Arabia, and Bangladesh have established an internal crisis mechanism/team at the level of the Ministry of Tourism with the objective to manage the negative impacts of COVID-19

on the sector (SESRIC, 2022b). Beyond the pandemic, it is also recommended that all the OIC countries consider establishing such dedicated and trained teams at their respective ministries to build up resilience for future shocks (e.g. disasters, attacks, accidents, etc.) and deal with crises in a timely and effective manner. Equipping those teams with knowledge and working on various scenarios that could hit the tourism sector would help increase the resilience and preparedness of tourism stakeholders of the OIC countries and reduce the potential negative impacts of future shocks.

Human Capital Development

Human development is facing unprecedented challenges because of the current shocks to the global economy. In addition, these shocks have reversed the progress made toward the SDGs. Strengthening education has become critical, as the COVID-19 pandemic might cause a "generational catastrophe" due to lost schooling, lost learning, and loss of future earnings of today's schoolchildren. To avoid a slowing of human development, policymakers must put in place ways to make up for lost schooling and learning. In addition, a resilient recovery from the crisis will require major governmental initiatives, such as improving and optimising the healthcare systems and expansion of social safety nets (Figure 3.11).

Figure 3.11: Policy Directions in Human Capital Development



Invest in quality learning to improve educational outcomes: During the COVID-19 pandemic, schools were gradually closed throughout the world, affecting over 1.6 billion students worldwide. Although school closures are temporary, the repercussions may be long-term. It is estimated that schoolchildren during the pandemic lost between 0.3 and 1.1 years of their schooling. This might result in a potential loss of US\$ 10 trillion in their lifetime earnings, if corrective action is not urgently taken (Azevedo et al., 2021). Restoring lost learning is essential for preventing a generational catastrophe. It is crucial to monitor the missed learning opportunities of students in order to assess the amount of damage caused by school closure. Schools must adjust their curricula and create remedial programmes based on the learning levels of their students. In addition, teachers must have sufficient support to assist students in learning.

All of these interventions have been proven cost-effective in assisting students in making up for lost learning (Global Education Evidence Advisory Panel, 2022).

The pandemic has also brought to light a shortfall in the global education system, notably in terms of readiness for distance learning. During the pandemic, remote learning in many OIC countries, particularly those with inadequate ICT infrastructures, is proving difficult, impeding the teaching and learning of millions of schoolchildren. If systems are enhanced and technology is utilised more effectively, remote and hybrid education may change the way people learn in the future (World Bank, 2018). Therefore, investments in digitalization and connectivity in the OIC countries will provide a chance to provide resilient education systems with better data collecting and sharing, promote student access to high-quality learning resources, and expand parental participation and support possibilities. Efforts should also be made to improve learning equality, including the allocation of resources to disadvantaged students.

Strengthen and optimise health system capacity: Ensuring the health and well-being of society is important for eradicating poverty and achieving sustainable development, which leads to economic growth and happy communities. The recent COVID-19 pandemic demonstrated how important public health is for regional stability, since it had far-reaching effects on people's lives and economies. Therefore, strengthening and optimising the capacity of the healthcare system has become crucial for assuring human development progress and building resilience against future crises. When the COVID-19 pandemic struck, the healthcare systems in many OIC countries were unprepared for the rapid influx of patients. Therefore, improvement of health emergency preparedness and response mechanisms should be the primary concern. It is vital to ensure the existence of nationally consistent, coordinated, and effective emergency preparedness and response programmes with the required institutional arrangements and sufficient resources (SESRIC, 2022a).

In many countries, the insufficiency of the health staff is one of the main factors behind the limited capacity of the healthcare system. The shortage of health workers is a chronic problem that demands cohesive policy responses including developing and enhancing the training, recruitment and the administration of health workforce, and building cooperation with all stakeholders to boost investment in health education and training institutions. In addition, the use of information technology offers many opportunities to improve and transform the healthcare system. According to WHO (2021), the adoption of digital technologies in health care can make health systems more efficient and sustainable, allowing them to provide high-quality, cost-effective, and equitable care. During the crisis, the increased usage of digital technology applications, as well as big data analytics and artificial intelligence tools, is likely to lead to an increase in digital innovations to meet the rising demand for digital applications. Facilitating the widespread and long-term adoption of these technologies and techniques is necessary to get the full benefits of this transition. This requires investments and policy changes to make it easier for various stakeholders to utilise infrastructures with improved digital security and privacy.

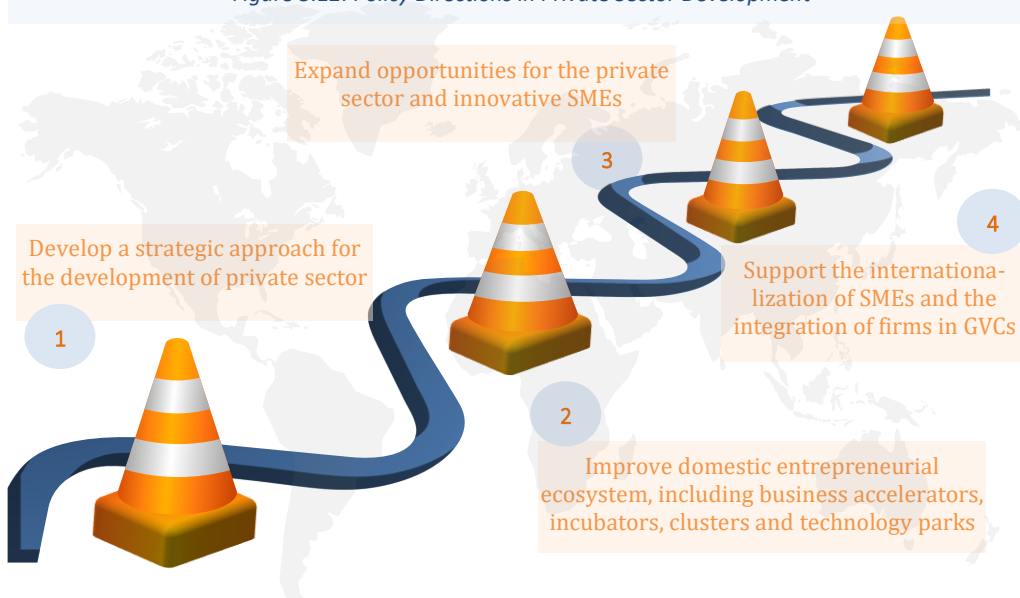
Expand access to social safety nets: Social protection has become increasingly important as a part of the responses to the COVID-19 pandemic. It has allowed the OIC countries to provide social, economic, and medical assistance to millions of people. Yet, in 2020, the number of people in the

OIC countries who were protected by at least one measure was lower than the world average (SESRIC, 2022a). In addition, safety nets frequently exclude a substantial percentage of the poorest households and fail to reach the most vulnerable groups. There is a need to expand coverage in impoverished areas and target migrant families, orphans, and the urban unemployed, who face significant threats to their livelihoods and have minimal social assistance. Without any social safety measures, these groups will sink deeper into poverty and mental distress. The key to long-term and robust recovery for the OIC countries lies in understanding that gaps in their social protection systems must be addressed promptly so that protection systems are reinforced in the long-run and are better positioned to respond to future crises. In the end, this effort can simultaneously have a direct impact on the OIC countries' efforts toward the promotion of inclusive and sustainable development.

SME and Private Sector Development

Governments in many parts of the world were quick in responding to the unprecedented challenges that SMEs are facing due to the COVID-19 pandemic, through a wide range of stimulus and support measures. These measures involved mostly emergency liquidity support in various forms but were gradually accompanied by structural support and broader recovery packages. The objective of these measures was to help SMEs adapt to the changing business environment and build their resilience. These policies included support for digitalisation, innovation and technology development, upskilling and reskilling, encouraging start-ups, and finding alternative markets.

Figure 3.12: Policy Directions in Private Sector Development



Develop a strategic approach for the development of the private sector: A strategic approach to the promotion of private investment includes a number of policy dimensions. Policy makers should identify the strategic sectors following a careful assessment of economic sectors for

investment promotion based on their size, level of international competitiveness, expected productivity gains for the economy, time and resources required to invest, and potential for further investment. Once the priority sectors are identified, the sector-specific barriers should be detected at a sufficiently detailed level to determine critical interventions and foster private sector development. Special needs of firms of different sizes or locations should be well assessed in close cooperation with relevant parties, and necessary actions should accordingly be taken. A separate strategy should be developed to support key enablers of a productive investment including financial capital, human capital, infrastructure, and technology. Finally, policy makers should make regular assessments of policy interventions and cost-benefit analyses to make sure that these interventions provide expected outcomes. A clear coordination mechanism across the relevant levels of government agencies should be established for effective implementation and follow-up of the policy interventions.

Improve domestic entrepreneurial ecosystem, including business accelerators, incubators, clusters, and technology parks: Innovative entrepreneurs are able to combine productive factors to generate new products, production processes, markets or value chains. This requires an entrepreneurial ecosystem approach, where framework conditions (e.g. access to assets, infrastructure, talents, and markets) and systemic conditions (networks, leadership, finance, knowledge, intermediary organizations) are key elements in determining the success of new businesses in achieving sustainability and prosperity (Isenberg, 2010). The existence of favourable framework conditions can accelerate the creation of new enterprises and boost SME competitiveness. Policies towards expanding business incubators and start-up accelerators can be expanded, which offer early-stage companies support and mentoring throughout the entrepreneurship process. Moreover, the availability of support services to enterprises through cluster organisations forms part of the enabling conditions of business support infrastructure. Clusters are ecosystems of companies and associated institutions in an industry connected through commonalities and externalities. They contribute to improving the overall quality conditions of regional business ecosystems by fostering the creation of dynamic cross-sectoral collaboration spaces for innovation and entrepreneurship. Technology parks can be regarded as high-tech clusters.

Expand the opportunities for the private sector and innovative SMEs: Private sector should be given an opportunity to invest and grow in any growth-inducing and employment-generating economic activity. This requires an investment-friendly environment with facilitating regulations, deep financial market, labour force with required skills and capabilities, solid infrastructure, access to technology and knowledge, and effective coordination channels between public authorities and private sector representatives. Special incentives should be provided for SMEs, particularly innovative ones, to support their entry into the market and access credit. Moreover, measures should be taken to strengthen key enablers of investment, such as developing new mechanisms for the development of necessary skills, access to finance and adequate infrastructure. On another front, private sector participation in public investments should be supported as it generates important efficiency gains. It enables the public sector to benefit from

entrepreneurial dynamism, extended financing opportunities in an environment of budgetary constraints, innovative and efficient management styles of the private sector.

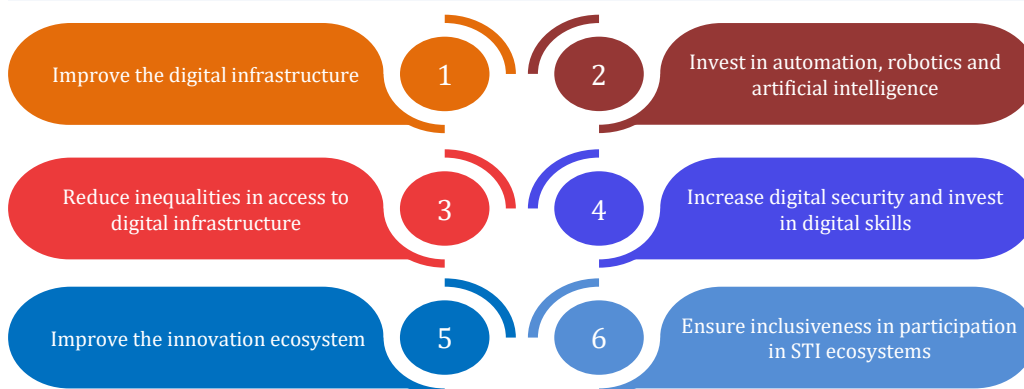
Support the internationalization of SMEs and the integration of firms in global value chains:

Participation in international trade and global production networks provide opportunities for firms to improve their productivity, expand their market share, and learn from partners about new technologies and business practices. This will further improve their competitiveness and growth potential in their line of business. Notwithstanding the potential gains, SMEs are underrepresented in export markets and global production networks due to a number of constraints. SMEs face considerable challenges in accessing finance for new investments, information, skills, and technology, all of which reduce their international competitiveness and their ability to face trade costs. This requires developing effective policies to eliminate the specific challenges faced by innovative SMEs, such as taking trade facilitation measures, lifting product market regulations, and supporting investment in skills. Providing information on rules and regulations, disseminating market information, international trade fairs, or supporting the identification of foreign business partners can also help SMEs engage in international activity.

Information and Communication Technologies

During the pandemic, there is an accelerated digital transformation and use of digital technology for contact tracing, vaccine passports, and vaccine distribution. Wider use of digital technology applications as well as big data analytics and artificial intelligence (AI) tools during the COVID-19 crisis is likely to result in an increase in digital innovations to respond to the growing demand for digital applications, ranging from e-health services to machine learning for research. In order to benefit from this transformation, the OIC countries should facilitate the widespread and lasting adoption of these technologies and tools by research centres, firms, and relevant public entities. This requires investments and policy actions to improve the quality and accessibility of digital infrastructure by the wider community.

Figure 3.13: Policy Directions in Information and Communication Technologies



Building resilience to crises has become a new policy priority for many governments to prevent or mitigate the effects of similar crises in the future. According to OECD (2021b), STI can

contribute to two dimensions of resilience. The first is anticipation, which involves developing solutions to prevent and improve preparedness for future crises. The second is agility and responsiveness to shocks, which involves the capacity to adjust quickly in the event of a shock in order to mitigate its negative impacts and seize emerging opportunities. Moreover, the COVID-19 crisis provides an impetus for STI to play more important roles in building more environmentally-sustainable, inclusive, and resilient futures.

Improve the digital infrastructure: Digital infrastructure is instrumental in connecting people and places, improving productivity, increasing economic growth, improving sustainability, and adopting new technologies. New technologies are constantly being introduced to improve the efficiency, sustainability, and services of infrastructure networks. Without an adequate capacity to develop, adopt or utilize such technologies, responding to a crisis will be a challenge. While building an enabling physical infrastructure requires significant investment, a lack of attention to digital infrastructure would seriously harm the competitiveness and limit response capacities to crises.

Invest in automation, robotics, and artificial intelligence: Automation and AI are among the emerging features of products and services that are expected to shape economic activities in the medium term. Companies are in the stage of transformation towards digital supply networks through digital technologies including the blockchain and the internet of things. Recent shocks have stimulated the firms on the urgency of this transformation. These would not only diminish the importance of low-cost labour, but also minimize the disruptions in the supply chain. The rising demand for reduced human interaction is also expected to accelerate investments in robotics and automation that were already underway. In this connection, the OIC countries should invest in advanced technologies and exert efforts to adapt their manufacturing industries to these new technologies to remain competitive.

Reduce inequalities in access to digital infrastructure: Disparities in access to and proficiency in ICT have long been a focus of public policy. Indeed, given the many opportunities that technology makes available for civic participation, networking or improving productivity, the ‘digital divide’ may perpetuate and even exacerbate existing inequalities. According to the International Telecommunication Union (ITU), some 2.9 billion people did not even have access to the internet at the end of 2021. Therefore, many students and workers found it difficult to work from home and follow classes online during the COVID-19 pandemic. The digital divide can cause poverty and social exclusion, depriving some citizens of essential resources for development and wealth generation. As a remedy, people should have equal access to digital infrastructure, but people should be also taught how to make good use of and get the most out of these resources.

Increase digital security and invest in digital skills: Digital innovation policies may become a more critical component of the prospective STI policies, but future adoption of digitalisation will depend on the safety of those systems. Strengthening the cyber capacity and resilience of governments, civil society, private sector and citizens is crucial for supporting social and economic recovery over the coming years. Protecting data privacy is also crucial. Rules and regulations should be designed in a way that protects the right of an individual or group to maintain control over and confidentiality of information about themselves against unintentional

sharing and illegal gathering and use of data. Moreover, digital literacy skills, particularly among population groups at greatest risk of structural inequalities and digital inequalities, should be developed so that they can access, manage, understand, integrate, communicate, evaluate, and create information safely and appropriately through digital devices and networked technologies for participation in economic and social life.

Improve the innovation ecosystem: From a longer-term perspective, investment should be made in the five building blocks of innovation systems in order to improve the capacity for STI (UNCTAD, 2019). These include:

- Policy and regulatory framework should provide incentives to established and emerging firms to invest in learning, knowledge and innovation, and take related risks.
- Institutional setting and governance are vital in supporting and managing learning, knowledge creation and the accumulation of technological capabilities by firms and research centres.
- Entrepreneurial eco-systems and access to finance are key for encouraging business incubation and growth of innovative companies.
- Human capital enables technology adoption and the innovation process, and can harness the wider benefits of STI, including in the poorest and most remote communities.
- Technical and R&D infrastructure comprises basic technical infrastructure, specialized infrastructure supporting R&D and innovation processes, and existing technologies. The basic technical infrastructure is one of the key factors promoting innovation as it improves the physical mobility of people and enables exchanges of information and knowledge locally and internationally.

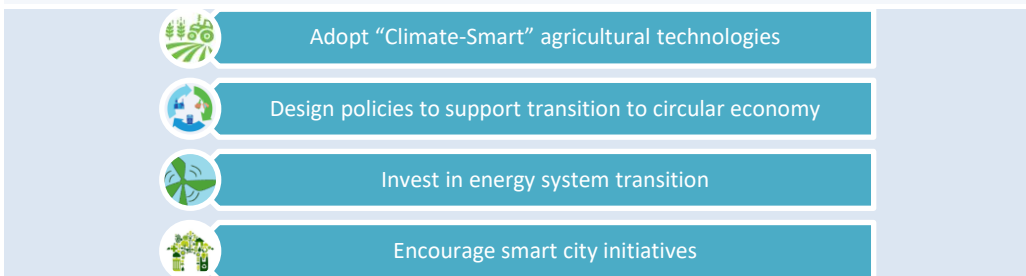
Ensure inclusiveness in participation in STI ecosystems: The pandemic also posed major challenges for STI systems, threatening key productive and innovation capabilities. A large share of SMEs, early-stage start-ups, young researchers, and women have been severely affected in terms of STI capabilities, driven mainly by resource constraints and economic uncertainties. In this context, the COVID-19 crisis created a number of threats to future inclusiveness in STI systems. If difficulties stemming from the crisis disproportionately affect families of students from disadvantaged backgrounds, then the pandemic may exacerbate unequal participation in STI ecosystems. In such circumstances, targeted support should be provided to SMEs and firms in traditional sectors in order to expand their capacities in STI and digital applications, and support their productivity.

Green Economy

Various shocks that happened recently are affecting human lives in every aspect. However, this presents a unique opportunity to "build back better", putting development on a path toward more sustainable, inclusive, and resilient growth. A return to conventional and environmentally destructive development pathways must be avoided if the recovery is to be long lasting and resilient. In contrast, a green growth recovery strategy must be put in place. The transition to a green economy will not only have positive implications for the environment but also provide

important co-benefits to the economy and social well-being. According to ILO (2018), a shift to a green economy is predicted to add around 24 million jobs by 2030.

Figure 3.14: Policy Directions in Green Economy



Governments around the world are increasingly adopting the green growth strategy to emphasize and advance their greening of economies. South Korea was among the pioneer countries to embrace green growth as a national development strategy (World Bank, 2012). The European Union is transforming into a more resource-efficient and competitive economy through its "European Green Deal". This green growth strategy aims to achieve net zero emissions of greenhouse gases by 2050, decouple economic growth from resource use and ensure inclusiveness (European Commission, 2022b). Green recovery has also helped countries recover faster from past economic crises (Hepburn et al., 2020). To achieve green growth recovery in the OIC countries, at least four key areas must be prioritized: sustainable “climate-smart” agriculture, circular economy, smart cities, and energy system transition (*Figure 3.14*).

Adopt “Climate-Smart” agricultural technologies: Agriculture is both a major contributor to greenhouse gas (GHG) emissions and a sector that is significantly impacted by climate change. The global agri-food systems account for 31% of global GHG emissions (FAO, 2021). Increasing temperatures, water supply variability, and extreme weather events could reduce crop yields or even cause crop failures. Climate change is projected to reduce agricultural productivity by 2 to 15% by 2050 (Delincé et al., 2015), posing an additional threat to the future of global food security. Given the significant relationship between food security and societal well-being, the recovery from the crisis should aim to reshape policies to promote environmental sustainability and resilience. FAO (2017) suggests that the solution is the adoption of "climate-smart" agricultural practices and technologies. There are three primary objectives of climate-smart agriculture: increasing agricultural productivity, reducing greenhouse gas emissions and enhancing capacity and resilience to climate shocks.

Investments and training aimed at encouraging farmers to adopt more sustainable climate-smart agricultural practices would benefit both the environment and the farmers' livelihoods (World Bank, 2021b). In China, a climate-smart agriculture project has helped better water-use efficiency on 44,000 hectares of farmland, improved soil conditions, and boosted production of rice by 12% and maize by 9%. In Niger, climate-smart agriculture benefits farmers and pastoralists through the distribution of improved, drought-tolerant seeds, more efficient irrigation, and expanded use of forestry for farming and conservation agriculture techniques.

Design policies to support transition to circular economy: Material consumption is an integral part of the economy and a contributor to climate change. Globally, the production of goods is responsible for approximately 23% of all greenhouse gas emissions (Hertwich, 2021). According to OECD (2019), the global material consumption is projected to increase twofold from 79 Gt in 2011 to 167 Gt in 2060. Opportunities for green growth in this sector involve the transition to a “circular economy”, which indicates an economic system where raw materials, components and products retain their value as much as possible. Currently, only 8.6% of the 92 billion tons of materials that enter the global economy annually are re-used (Circle Economy, 2022). Thus, there is a significant opportunity to apply circular principles to reduce resource input, waste, emissions and energy loss through a set of interventions that include durable design, maintenance, repair, reuse, remanufacturing, refurbishing and recycling. A circular economy can also deliver significant economic benefits. The transition to a circular system is projected to have a US\$ 4.5 trillion economic growth potential by 2030 and result in consumer material savings of US\$ 700 billion (OECD, 2020d).

Invest in energy system transition: The energy sector is the leading emitter of greenhouse gas emissions that contribute to climate change. To limit global warming to 1.5°C (as required by the Paris Agreement), greenhouse gas emissions must be reduced by 45% by 2030 and reach zero by 2050. Governments around the globe are becoming increasingly conscious of the need to incorporate net-zero goals into their climate policies. The decarbonisation of the energy sector is crucial to the achievement of this goal. The number of countries that have pledged to achieve net zero emissions by mid-century or shortly thereafter continues to rise, and achieving this goal requires a complete transformation of the energy systems, including how energy is produced, transported and used. Since fossil fuels are the primary source of carbon emissions, the energy transition process entails halting new investments in fossil fuels, phasing out their use in favour of more economically, and environmentally viable alternatives. According to the IEA's NetZero Emissions by 2050 scenario (International Energy Agency, 2021), the percentage of fossil fuels in the world energy supply should decline to roughly 20% by 2050 in favour of renewable sources, mainly solar and wind.

Encourage smart city initiatives: According to the UN (2018), 55% of the world's population resides in urban areas, and this proportion is projected to rise to 68% by 2050. Population in the OIC countries, in particular, is urbanizing faster than the global average (SESRI, 2019). The vast majority of global economic activity, energy consumption and greenhouse gas emissions occur in cities. Cities will need to reduce their energy consumption and switch to renewable energy sources if they are to reduce their carbon footprint significantly. Therefore, “smart cities” can play a crucial role in achieving these goals. A smart sustainable city employs ICTs and other means to improve quality of life, urban operation and services, and competitiveness while addressing current and future generations' economic, social, environmental and cultural needs. These initiatives have also proven to make cities innovative and resilient during times of crisis. For instance, SUTD & IMD (2021) reported that, during the COVID-19 pandemic, “smarter” cities with strong technological culture and established digital infrastructure have facilitated the containment of the spread of the disease through innovative measures of contact tracing, coordinating the distribution of protective equipment, the use of available medical facilities, as well as vaccination campaigns.

Annex: Country Classifications

A. Major Country Groups used in the Report

OIC Countries (56+1)

Code	Name	Code	Name	Code	Name
AFG	Afghanistan	GUY	Guyana	PAK	Pakistan
ALB	Albania	IDN	Indonesia	PSE	Palestine
DZA	Algeria	IRN	Iran	QAT	Qatar
AZE	Azerbaijan	IRQ	Iraq	SAU	Saudi Arabia
BHR	Bahrain	JOR	Jordan	SEN	Senegal
BGD	Bangladesh	KAZ	Kazakhstan	SLE	Sierra Leone
BEN	Benin	KWT	Kuwait	SOM	Somalia
BRN	Brunei Darussalam	KGZ	Kyrgyz Republic	SDN	Sudan
BFA	Burkina Faso	LBN	Lebanon	SUR	Suriname
CMR	Cameroon	LBY	Libya	SYR	Syria*
TCD	Chad	MYS	Malaysia	TJK	Tajikistan
COM	Comoros	MDV	Maldives	TGO	Togo
CIV	Cote d'Ivoire	MLI	Mali	TUN	Tunisia
DJI	Djibouti	MRT	Mauritania	TUR	Türkiye
EGY	Egypt	MAR	Morocco	TKM	Turkmenistan
GAB	Gabon	MOZ	Mozambique	UGA	Uganda
GMB	Gambia	NER	Niger	ARE	United Arab Emirates
GIN	Guinea	NGA	Nigeria	UZB	Uzbekistan
GNB	Guinea-Bissau	OMN	Oman	YEM	Yemen

* Membership to the OIC is currently suspended.

Developed Countries* (40)

Andorra	France	Latvia	San Marino
Australia	Germany	Lithuania	Singapore
Austria	Greece	Luxembourg	Slovak Republic
Belgium	Hong Kong SAR	Macao SAR	Slovenia
Canada	Iceland	Malta	Spain
Cyprus	Ireland	Netherlands	Sweden
Czech Republic	Israel	New Zealand	Switzerland
Denmark	Italy	Norway	Taiwan Province of China
Estonia	Japan	Portugal	United Kingdom
Finland	Korea	Puerto Rico	United States

* Refers to "advanced economies" as classified by the IMF. Last update April 2022.

Developing Countries

Includes all countries other than those classified as developed countries.

B. OIC Countries by Income Group

High Income* (7)

Bahrain	Kuwait	Qatar	United Arab Emirates
Brunei Darussalam	Oman	Saudi Arabia	

Upper Middle Income* (13)

Albania	Iraq	Malaysia	Turkmenistan
Azerbaijan	Jordan	Maldives	
Gabon	Kazakhstan	Suriname	
Guyana	Libya	Türkiye	

Lower Middle Income* (21)

Algeria	Djibouti	Mauritania	Tajikistan
Bangladesh	Egypt	Morocco	Tunisia
Benin	Indonesia	Nigeria	Uzbekistan
Cameroon	Iran	Pakistan	
Comoros	Kyrgyz Republic	Palestine	
Côte d'Ivoire	Lebanon	Senegal	

Low Income* (15+1)

Afghanistan	Guinea	Niger	Syria**
Burkina Faso	Guinea-Bissau	Sierra Leone	Togo
Chad	Mali	Somalia	Uganda
Gambia	Mozambique	Sudan	Yemen

* Country grouping by income level is based on World Bank classification by GNI per capita in 2021. Accordingly;

- Low-income countries: with a GNI per capita of \$1,085 or less,
- Lower middle-income countries: with a GNI per capita between \$1,086 and \$4,255,
- Upper middle-income countries: with a GNI per capita between \$4,256 and \$13,205, and
- High-income countries: with a GNI per capita of \$13,205 or more.

** Membership to the OIC is currently suspended.



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WTO, Data Portal



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