This report is a joint product of the members of the Inter-agency Task Force on Financing for Development (members are shown on page xi). The Financing for Development Office of the United Nations Department of Economic and Social Affairs serves as the coordinator and substantive editor of the Task Force report.

The online annex of the Task Force (http://developmentfinance.un.org) comprehensively monitors progress in implementation of the Financing for Development outcomes, including the Addis Ababa Action Agenda and relevant means of implementation targets of the SDGs. It provides the complete evidence base for the Task Force's annual report on progress in the seven action areas of the Addis Agenda (chapters III.A–III.G). The report is by necessity more concise and selective, and should thus be read in conjunction with the online annex.

The online annex of the Task Force also covers several key cross-cutting initiatives that build on the synergies of the Sustainable Development Goals in-depth:

- Delivering social protection and essential public services
- Ending hunger and malnutrition
- Closing the infrastructure gap
- Promoting inclusive and sustainable industrialization
- Generating full and productive employment for all
- Protecting ecosystems
- Promoting peaceful and inclusive societies
- Gender equality
- Investing in children and youth
- Addressing the diverse needs and challenges faced by countries in special situations
- Global partnership

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Chapter I
The global economic context and its implications for the Sustainable Development Goals

After a prolonged period of slow growth, the world economy is experiencing a broad-based upturn. With headwinds from the global financial crisis and other recent shocks gradually dissipating, economic activity around the world has strengthened considerably. For the first time since 2010, all major economies are expanding in unison, albeit at varying rates. While some downside risks remain, overall, the positive momentum is expected to continue in 2018-2019, with near-term risks to the outlook broadly balanced.

The global recovery is underpinned by increased investment, which accounted for about 60 per cent of the acceleration in global growth. However, this cyclical expansion masks significant underlying weaknesses. The increase in investment follows an extended period of weak investment and low productivity growth, which continues to limit the longer-term potential of the world economy. A disorderly tightening of financial conditions and changes to interest rates in systemically important economies could have spillover effects on exchange rate stability, capital flows and growth, particularly in developing countries. The adoption of inward-looking policies and an escalation of geopolitical tensions could also derail the global recovery.

The improvement in global growth has also not been evenly distributed across countries and regions. Per capita growth remains negative or insignificant in many countries where poverty rates are high. Persistent weakness in wages not only contributes to within-country inequality, but also restrains the rebound in aggregate demand. Importantly, the recovery in global growth appears to have been associated with a renewed increase in global carbon emissions, highlighting the importance of ensuring the quality of investment and its alignment with sustainable development.

For policymakers worldwide, the synchronized upturn in growth provides an opportunity to address these and other structural problems that restrain progress towards the Sustainable Development Goals (SDGs). Reorienting policies to tackling these problems can support the cyclical upturn and generate a virtuous circle of inclusive and sustainable growth.

1. Outlook and risks for the global economy

1.1 Global growth: a broad-based cyclical upturn

The world economy is currently experiencing a broad-based cyclical upturn. According to the United Nations World Economic Situation and Prospects 2018, global gross domestic product (GDP) growth reached 3.0 per cent in 2017—the highest rate in

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six years and well above the 2.4 per cent recorded in 2016. For the first time since 2010, global growth exceeded rather than falling short of expectations, as the lingering effects of the global financial crisis and other recent shocks, such as the European debt crisis of 2010-2012 and the commodity price collapse of 2014-2016, subsided (see figure 1).

The recovery is underpinned by a rebound in investment, manufacturing activity and international trade. These gains have come against a backdrop of accommodative global financial conditions, rising confidence levels and firming commodity prices. Headline labour market indicators have also shown some improvement, while global inflation has remained subdued. The robust growth momentum is expected to continue in the next two years. In its baseline forecast, the United Nations projects steady global growth of 3.0 per cent for both 2018 and 2019. The International Monetary Fund recently revised its global growth forecasts upwards, expecting slightly stronger growth in 2018-2019 than in 2017. This upward revision partly reflects an expected positive impact of tax policy reforms on output in the United States of America and its trading partners in the short term.

Roughly two thirds of countries worldwide recorded stronger growth in 2017 than in 2016. The major developed economies are experiencing a synchronized upswing (see figure 2) and several large developing and transition economies have emerged from recession, benefiting from a recovery in commodity prices and investment. East and South Asia continue to strongly expand, accounting for nearly half of global growth in 2017.

Despite the broad-based nature of the upturn, recent economic gains have been unevenly distributed. Per capita GDP declined in four regions (West, Central and Southern Africa and Latin America and the Caribbean) in 2016. Further setbacks or negligible per capita growth are anticipated in these regions and Western Asia, with many countries still suffering from the effects of the commodity price collapse of 2014-2016. These regions are home to more than one third of people living in extreme poverty (earn-
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While the recent strengthening of commodity prices, along with a supportive macroeconomic environment, should support growth over the next two years, the recovery will likely be slow and fragile.

For almost all least developed countries (LDCs), the SDG target of at least 7 per cent GDP growth per annum remains elusive. As a group, LDCs are estimated to have grown by 4.8 per cent in 2017, a moderate improvement over the previous years. Average growth is projected to strengthen further to 5.4 per cent in 2018 and 5.5 per cent in 2019, with an increasing number of countries expanding by at least 5 per cent. Despite the improved prospects, LDCs continue to face large investment gaps, including for poverty alleviation, sustainable energy, public service delivery, information and communication technologies (ICT), and climate change adaptation.

1.2. Significant downside risks in the medium term

Risks to the outlook appear to be broadly balanced in the short term, but remain skewed to the downside in the medium term. Positive financial market conditions mask lingering risks and vulnerabilities.

The prolonged period of abundant global liquidity and exceptionally low borrowing costs has led to an increase in global debt levels, with financial vulnerabilities emerging in both developed and emerging economies (see chapter III.E). Financial markets appear highly susceptible to shifting expectations about monetary tightening of major central banks. Changes in investors’ perception of market risk could trigger a sharp correction in asset prices and a disorderly tightening of global financial conditions, with a sharp reversal of portfolio flows to developing countries.

Downside risks to the global economic outlook also stem from the growing discontent with globalization and a further rise in inward-looking policies. Given the linkages between trade, investment and productivity growth, an increase in trade barriers and a move towards a more fragmented international trade landscape could hinder a stronger and more sustained revival of global growth. A failure to make growth more inclusive could increase the pressures for inward-looking policies. The medium-term global prospects are further clouded by non-economic factors, such as geopolitical tensions, and political uncertainty. The number, scale and geographic span of weather extremes continues

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4 The global stock market rout seen in early February 2018 illustrates this vulnerability, although the ripple effects on other countries and asset markets have so far been limited.
to rise as global temperatures increase at an unprecedented pace. While losses and damage resulting from climate change impact all nations and all people, the greatest damage is expected to be in developing countries, in particular small island developing States (SIDS) and LDCs.

2. **Sources of the global upturn**

The cyclical upturn in global growth is reflected in a strengthening of world manufacturing output, a rebound in international trade, a moderate recovery in global commodity prices, and, until recently, buoyant global financial markets, underpinned by accommodative monetary policies and favourable investor sentiments. In the major developed economies, private consumption remains robust, supported by falling unemployment, low inflation and easy financing conditions. In developing regions, growth has been supported by an improvement in both domestic and external demand conditions. The increase in commodity prices, particularly of energy and metal, has lifted export revenues and alleviated fiscal pressures for commodity exporters.

2.1 **Rebound in investment**

The revival in global investment activity has been a main driver of the upturn in the world economy. In 2017, gross fixed-capital formation accounted for about 60 per cent of the acceleration in global growth. Nevertheless, capital spending remains moderate compared to historical standards; this is also reflected in record share buy-backs and dividend distribution (see chapter III.B).

For most countries, investment is not (yet) sufficient to provide a major impetus to productivity growth and towards the achievement of the SDGs. In the largest developed economies, private investment strengthened in the first half of 2017 (see figure 3). Investment in machinery and equipment contributed significantly to investment growth, which, if sustained, could underpin stronger productivity growth over the medium term. Among

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**Figure 3**

*Average annualized change in private investment, by asset type, in constant prices, 2010–2017*  
*(Percentage)*

![Figure 3](image)


*Note:* Data for the EU and Japan include public sector investment.
developing countries and economies in transition, investment dynamics have differed considerably (see figure 4). Following the sharp realignment in commodity prices in 2014, global investment in natural resources collapsed, weighing on investment growth in commodity-exporting countries. By contrast, investment in East Asia has remained relatively strong, as Governments continue to embark on large infrastructure projects. Private investment activity has picked up in the region, particularly in the export-oriented sectors. In South Asia, public investment in infrastructure has also remained strong.

Looking ahead, a sustained improvement in the global macroeconomic conditions should support a continued recovery in investment activity. Nevertheless, several headwinds may restrain the strength of the rebound. These include elevated uncertainty surrounding the direction of international trade policy and the pace of monetary tightening by the major central banks. In addition, high levels of debt and longer-term financial fragilities weigh on investment prospects in several large developing economies. Finally, there are questions about the quality of investment. Sustainable development calls for high quality and long-term productive investment that bolsters decent work, sustainable industry and infrastructure.

2.2 Productivity growth

The tentative revival in global investment marks an important step towards a more entrenched recovery in global productivity growth. Stronger investment in productive assets would help improve efficiency, alleviate structural bottlenecks, and strengthen resilience to shocks, thus contributing to a rise in countries' longer-term growth potential.

Global productivity growth has picked up at a moderate pace. Following growth of only 1.3 per cent in both 2015 and 2016, global labour productivity is estimated to have increased by 1.9 per cent in 2017. The recent upturn in productivity growth has been broad based across developed, developing and transition economies (see figure 5). For the first time since 2011, all regions experienced positive labour productivity growth in 2017.

It is, however, unclear whether the recent improvement in productivity growth can be sustained. For developed economies, the period since the global financial crisis has been characterized by exceptionally slow labour productivity growth.
Much of this weakness has been attributed to sluggish private and public investment, due to subdued demand, fiscal austerity, fragile bank balance sheets, and elevated policy uncertainty over the period. However, productivity growth in developed economies has been on a downward trend since the 1970s and 1980s, suggesting that structural factors are also at play. They include an ageing population, waning gains from the ICT revolution, and a growing financialization of the economy. A return to sustained labour productivity growth in developed economies of about 2 per cent—as seen in the 1990s and early 2000s—will therefore likely remain elusive if far-reaching policy reforms are not enacted.

In the developing economies, average productivity growth has improved, but with significant variation across regions. Despite a modest recovery, productivity growth in Africa and Latin America and the Caribbean remains subdued and far below the Asian economies. The sharp deceleration in total factor productivity growth in the post-crisis period suggests that developing countries have been experiencing slower efficiency gains and technological absorption. This is due to both cyclical factors, such as the decline in commodity prices and weak developed-market demand, and structural influences, such as slower trade integration and less dynamic economic transformation processes.

3. Challenges to medium-term growth and sustainable development

The more optimistic global outlook is dampened by long-standing and deep-rooted challenges in the global economy, which remains unbalanced in multiple ways. There is increasing recognition that the failure to address rising inequality and environmental degradation, if left unaddressed, will have destabilizing effects on political, social and environmental systems and undermine long-term growth and sustainable development.

From a socioeconomic perspective, high or rising levels of economic inequality that prevail in many parts of the world economy pose a fundamental challenge to robust growth, poverty reduction and sustainable development. Inequality in income and wealth often goes hand-in-hand with other forms of inequality, such as political inequality, health inequality and inequality in opportunities, threatening prospects for social cohesion. There is widespread evidence that the economic gains of the

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Figure 5
Labour productivity growth in developed versus emerging and developing economies, 1990–2017 (Percentage)

Source: UN/DESA based on data from The Conference Board’s Total Economy Database (TED), November 2017 update.
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The past few decades have disproportionately gone to a small minority. Within-country income inequality increased sharply in many economies, as average wage growth has often not kept up with productivity growth and most of the wage gains have gone to the highest-earning workers. Although technological advances have played a role in these developments, it is ultimately socioeconomic institutions and policies (e.g., decline in the unionization rates, rising market concentration and the increased influence of the financial sector) that drive these outcomes. Labour markets across the world also remain divided along gender lines. High inequality in turn weakens aggregate demand, and can also lead to lower investment in education and health, impairing long-term growth.

The return to stronger economic growth in 2017 has been accompanied by a renewed rise in global emission levels. According to preliminary data, the level of global carbon dioxide emissions from fossil fuel combustion and cement production increased by about 2 per cent last year, after having remained flat between 2013 and 2016. Hopes that global emissions had peaked and would enter a period of steady decline appear to have been premature.

Coping with climate change is one of the fundamental challenges of the twenty-first century. While global in nature, its adverse consequences are concentrated in developing countries, and particularly in the LDCs and SIDS. In areas with hot climates, higher temperatures reduce agricultural output, lower productivity of workers, slow the rate of capital accumulation, and damage health. These countries are also most exposed to natural disasters, which are increasing in frequency. Poor households appear to be particularly vulnerable to the effects of climate change. Developing countries will require large-scale investment to build resilient infrastructure, expand safety nets and adopt new technologies—all of which entails significant spending needs. So far, however, the international financial system is not allocating sufficient financial resources towards long-term, low-carbon and sustainable development.

4. Reorienting policy towards long-term sustainable development

As global economic output gains momentum, the need to focus policy on crisis mitigation and short-term macroeconomic stabilization has eased. This creates greater scope to reorient policies towards addressing fundamental weaknesses in the world economy. The Addis Ababa Action Agenda, which provides a comprehensive framework for ensuring that investments are long-term oriented and that growth is inclusive and sustainable, speaks to these structural challenges. The rest of this report will highlight progress and implementation gaps in each of the Addis Agenda’s action areas, and puts forward recommendations to put the global economy on a more sustained, sustainable and inclusive growth path, and to achieve the SDGs.

Chapter II focuses on infrastructure financing challenges in several SDG investment areas, including water, energy and ecosystems. In delineating the different roles and contributions of policy and public and private financing, the chapter emphasizes that SDG investment must be inclusive and leave no one behind, support a transition towards environmentally sustainable growth paths, and contribute to a rise in long-term sustainable growth potential.

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8 IMF. World Economic Outlook, October 2017.