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Trade and development report update

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Abbreviations

ECB	European Central Bank
Fed	United States Federal Reserve
GDP	gross domestic product
IMF	International Monetary Fund
LIC	low-income country
OECD	Organisation for Economic Co-operation and Development
OPEC+	Organization of the Petroleum Exporting Countries Plus
TDR	Trade and Development Report
WESP	World Economic Situation and Prospects

Section A

Global macroeconomic outlook: Squandering good luck

While the slowdown in global growth in 2023 was less severe than originally projected, **further growth deceleration is expected in 2024.**

The risks that threatened to substantially slow down global economic growth in 2023 did not fully materialize. Some economies – including large ones, such as China, India, Indonesia, the Russian Federation, the United States, among others – escaped the financial trouble that loomed earlier in the year. As a result, the world economy grew 2.7 per cent, just 0.2 percentage point more than the threshold of 2.5 per cent that is often associated with a global recessionary phase (table 1).

This positive dynamic is now being squandered. Policy discussions continue to centre on inflation, conveying confidence that anticipated monetary easing will heal the world's economic woes. Meanwhile, the pressing challenges of trade disruptions, climate change, low growth, underinvestment and inequalities are growing more serious.

UNCTAD latest projections point to global growth of 2.6 per cent in 2024, slightly slower than in 2023. This makes 2024 the third consecutive year in which the global economy will grow at a slower pace than before the pandemic, when the average rate for 2015–2019 was 3.2 per cent.

Even more concerning than its projected pace, is the fact that global growth appears to be strongly driven by private consumption (figure 1). In 2024, private consumption is projected to grow about 4 per cent while total income is only projected to expand 2.6 per cent. In practice, patterns observed since the early 2000s indicate that periods of fast consumption growth tend to be financed by borrowing. Given that the savings accumulated during the pandemic (mainly by more affluent households) have now mostly returned to pre-2020 levels, debt is the likely source of funding for a large share of consumption.

In terms of policies, the reliance on debt accumulation – in private and public sectors alike – introduces a two-fold tension between seeking financial market stability and attaining other macroeconomic goals. First, the pressure to prioritize the stability of the financial markets tends to have a negative impact on funding for the public sector, as government deficits are frequently chastised by bond markets and international financial institutions. Second, in addition to the pressure to contain public budgets, fast value creation by the financial markets benefits the holders of financial asset while crowding out fixed investment. Data point to a dismal performance of private investment globally in 2023 and an even worse one projected for 2024 (figure 2).

Table 1
World output growth, 1991–2024
(Annual percentage change)

Country groups	1991–1999[a]	2000–2009[a]	2010–2014[a]	2015–2019[a]	2019	2020	2021	2022	2023	2024[b]	Revision from TDR 2023: 2023	Revision from TDR 2023: 2024
World	**2.9**	**3.1**	**3.4**	**3.2**	**2.6**	**-3.0**	**6.2**	**3.0**	**2.7**	**2.6**	**+0.2**	**+0.1**
Africa	**2.4**	**2.8**	**5.5**	**2.7**	**2.6**	**-2.4**	**4.5**	**3.4**	**2.9**	**3.0**	**+0.2**	**+0.0**
North Africa (incl. South Sudan)	2.7	3.0	5.3	-1.9	2.3	-3.4	4.6	2.5	3.4	2.8	+0.5	-0.1
South Africa	2.7	2.8	4.0	2.5	0.3	-6.0	4.7	1.9	0.6	0.9	+0.6	-0.1
Sub-Saharan Africa (excl. South Africa and South Sudan)	2.0	2.7	6.4	6.3	3.4	-1.0	4.4	4.2	3.2	3.5	-0.0	+0.1
America	**3.4**	**3.3**	**2.5**	**2.4**	**1.9**	**-3.4**	**5.9**	**2.4**	**2.4**	**1.8**	**+0.3**	**-0.0**
Latin America and the Caribbean	3.2	2.8	3.4	3.4	-0.3	-7.1	6.7	4.0	2.2	1.5	-0.1	-0.3
Central America (excl. Mexico) and Caribbean	2.8	3.2	4.4	3.6	2.2	-8.6	8.2	4.8	3.4	2.9	+0.5	-0.0
Mexico	3.0	3.0	1.9	3.2	-0.2	-8.0	4.7	3.9	3.4	2.0	+0.2	-0.1
South America	3.4	2.6	3.9	3.4	-0.7	-6.6	7.2	4.0	1.6	1.2	-0.3	-0.4
Argentina	4.6	2.5	3.8	2.7	-2.0	-9.9	10.4	5.0	-1.7	-3.7	+0.7	-3.1
Brazil	2.9	2.6	3.6	3.2	1.2	-3.3	5.0	2.9	3.1	2.1	-0.2	-0.2
North America	3.4	3.5	2.3	2.1	2.4	-2.4	5.7	2.0	2.4	1.9	+0.5	+0.1
Canada	2.8	3.2	2.3	2.6	1.9	-5.1	5.0	3.4	1.2	0.8	-0.1	-0.2
United States	3.5	3.5	2.3	2.1	2.5	-2.2	5.8	1.9	2.5	2.0	+0.5	+0.1
Asia (excl. Cyprus)	**4.3**	**4.2**	**5.6**	**5.7**	**3.7**	**-0.9**	**6.6**	**3.6**	**4.1**	**4.0**	**+0.2**	**+0.1**
Central Asia	-4.4	-1.2	8.1	6.7	4.2	-1.2	5.4	4.5	5.0	4.6	+0.5	+0.8
East Asia	4.4	4.2	5.6	5.8	4.0	0.4	6.9	2.4	4.2	3.9	+0.4	+0.1
China	11.0	10.1	10.6	8.6	6.0	2.2	8.4	3.0	5.2	4.9	+0.6	+0.1
Japan	1.2	1.1	0.9	1.4	-0.4	-4.1	2.6	1.0	1.9	1.0	-0.4	+0.1
Republic of Korea	6.8	6.7	4.9	3.6	2.2	-0.7	4.3	2.6	1.4	2.1	+0.5	+0.0
South Asia	4.7	4.7	6.4	5.4	3.6	-3.8	7.8	5.8	5.5	5.5	+0.3	+0.3
India	5.9	5.8	7.2	6.6	4.6	-6.0	8.9	6.7	6.7	6.5	+0.1	+0.3
South-East Asia	5.3	4.5	5.5	5.7	4.4	-3.8	3.5	5.6	4.0	4.1	+0.0	-0.1
Indonesia	4.8	3.6	5.2	5.8	5.0	-2.1	3.7	5.3	5.0	4.9	+0.8	+0.8
Western Asia (excl. Cyprus)	4.1	3.8	5.0	5.4	1.4	-3.1	6.5	6.6	1.9	2.8	-1.4	+0.2
Saudi Arabia	1.7	1.3	4.0	5.8	0.8	-4.3	3.9	8.7	-0.9	2.7	-3.4	-0.2
Türkiye	3.9	3.3	5.0	7.6	0.8	1.9	11.4	5.5	4.5	3.5	+0.8	+1.6
Europe (incl. Cyprus)	**1.4**	**1.9**	**2.2**	**1.2**	**1.8**	**-5.9**	**6.3**	**2.9**	**0.9**	**1.5**	**+0.3**	**+0.3**
European Union (EU 27)	1.9	2.2	1.8	0.8	1.8	-5.7	6.0	3.4	0.7	1.6	+0.3	+0.3
Euro area	1.9	2.2	1.6	0.6	1.6	-6.1	5.9	3.4	0.7	1.5	+0.3	+0.3
France	1.8	2.2	1.6	1.1	1.8	-7.5	6.4	2.5	0.9	1.3	+0.0	+0.1
Germany	1.6	1.6	1.0	2.0	1.1	-3.8	3.2	1.8	-0.3	0.9	+0.3	-0.2
Italy	1.5	1.7	0.7	-0.8	0.5	-9.0	8.3	3.7	0.6	0.8	+0.0	+0.0
Russian Federation	-5.9	-2.7	6.2	3.1	2.2	-2.7	5.6	-2.1	3.6	2.6	+1.4	+0.7
United Kingdom	2.6	2.9	2.0	1.8	1.6	-10.4	8.7	4.3	0.1	0.5	-0.3	+0.1
Oceania	**3.7**	**3.7**	**3.2**	**2.8**	**2.1**	**-1.8**	**5.1**	**3.5**	**1.4**	**1.4**	**-0.3**	**-0.0**
Australia	3.7	3.7	3.3	2.8	1.9	-1.8	5.2	3.7	1.5	1.4	-0.4	-0.1
Memo items:												
Developed countries	**2.3**	**2.6**	**2.2**	**1.7**	**1.9**	**-3.9**	**5.6**	**2.4**	**1.7**	**1.6**	**+0.3**	**+0.1**
Developing countries	**4.9**	**4.6**	**6.4**	**5.8**	**3.6**	**-1.6**	**7.1**	**4.0**	**4.1**	**4.1**	**+0.2**	**+0.1**

Sources: UNCTAD calculations, based on United Nations Global Policy Model; United Nations, Department of Economic and Social Affairs, National Accounts Main Aggregates database, and *World Economic Situation and Prospects* (WESP) *2024*; ECLAC, 2024; Organisation for Economic Co-operation and Development (OECD), 2024; International Monetary Fund (IMF), *World Economic Outlook*; Economist Intelligence Unit, EIU CountryData database; JP Morgan, *Global Data Watch*; and national sources.

Note: The composition of the five geographical regions follows the M49 standard of the United Nations Statistics Division (unless otherwise specified). The distinction between developed and developing countries is based on the updated M49 classification of May 2022. Calculations for country aggregates are based on gross domestic product (GDP) at constant 2015 dollars. Data for real earnings for France in the first quarter of 2020 is not available.

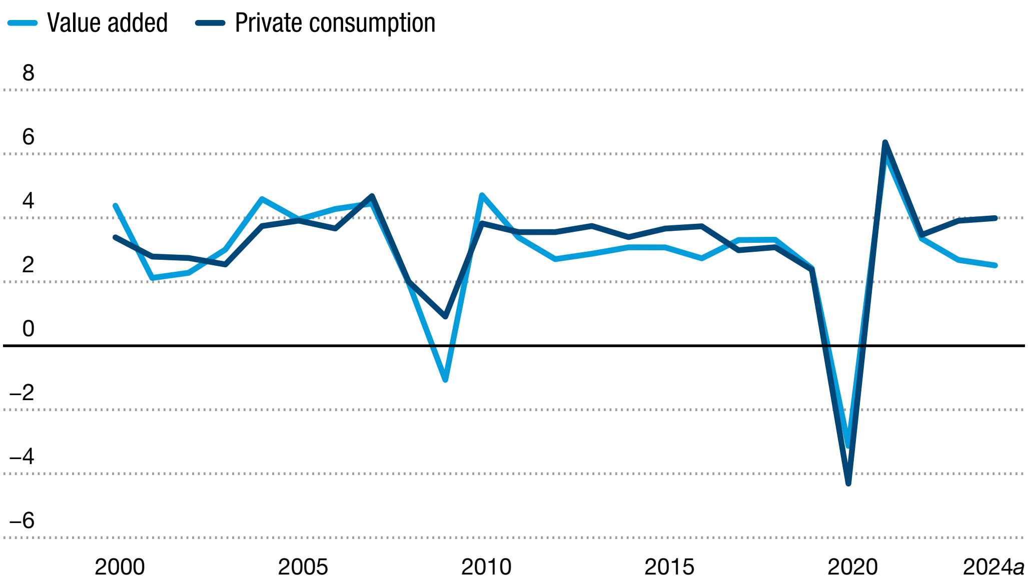
a Average.

b Forecast.

Figure 1
Consumption set to outpace income again: less investment and more debt on the horizon

Growth of global private consumption and global value added

(Percentage)



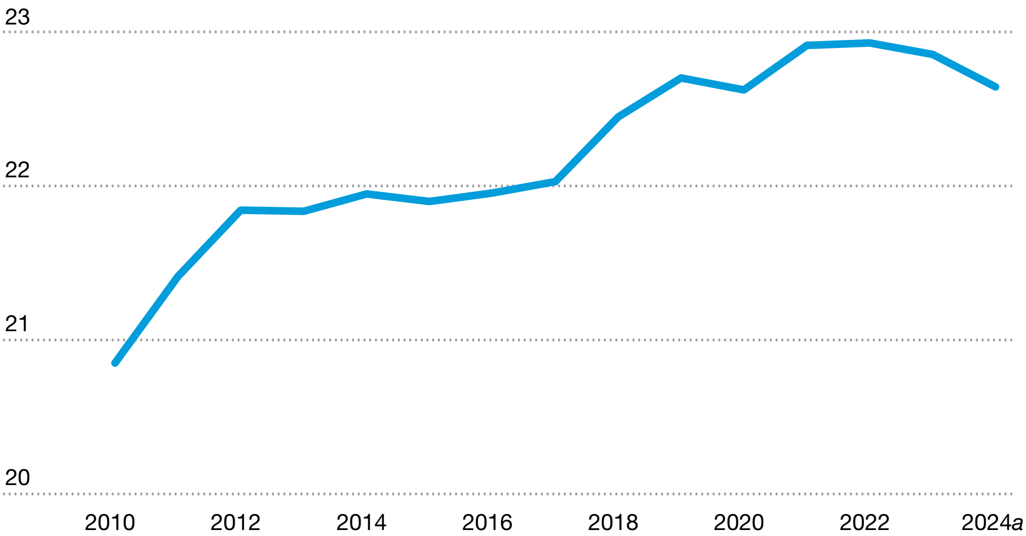
Source: UNCTAD calculations based on United Nations Global Policy Model.

a Forecast.

Figure 2
World economy to invest shrinking proportion of its income for second consecutive year

Private investment as a share of value added, world economy

(Percentage)



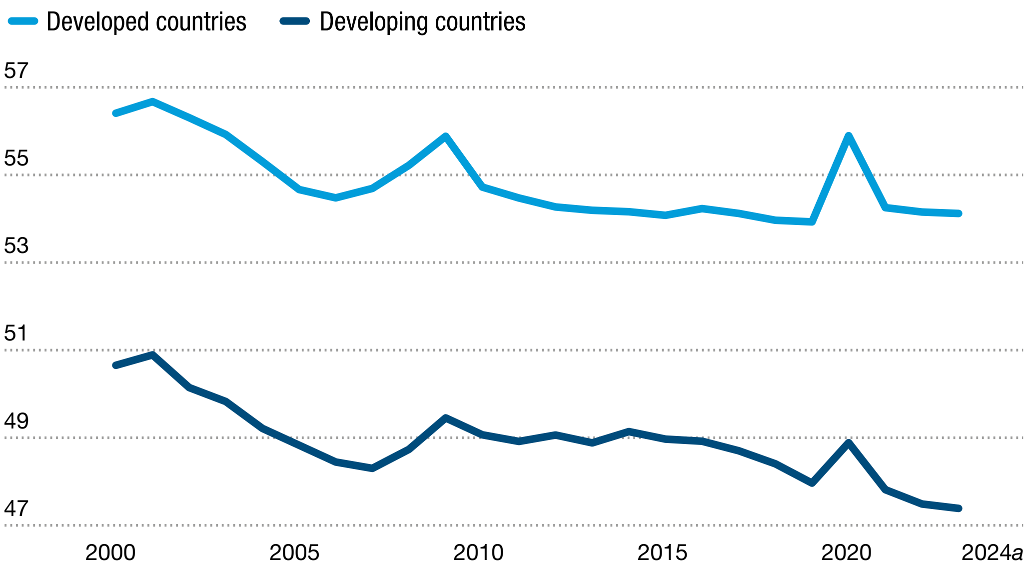
Source: UNCTAD calculations based on United Nations Global Policy Model.

a Forecast.

In the meantime, challenges such as climate change and development require a greater coordinated effort and more financial resources. Carbon emissions continue to increase, absent a coordinated plan for the transition of energy systems towards renewables. Inequality continues to increase after the pandemic, with workers receiving a lower share of income in both developed and developing countries (figure 3). Equally concerning, years of underinvestment are depriving the world of the resources required to enable sustainable development. For the developing countries, constrained fiscal space in the context of growing debt challenges means a further restricting of public budgets and investment.

The shortage of investment at the global level is concerning. Challenges, such as **climate change and development,** require a greater coordinated **effort and more financial resources.**

Figure 3
Workers' share of total income continues to shrink
Compensation of employees as a share of total value added, groups of countries
(Percentage)



Source: UNCTAD calculations based on United Nations Global Policy Model.
a Forecast.

In this context, a keenly anticipated reduction in interest rates in 2024 can certainly help by easing the pressure on private and public budgets across the world. But any expectations that monetary policy *alone* can provide solutions for the key global challenges are unrealistic.

Climate change, inequality and a real resolution of ongoing sovereign debt crises require a two-pronged approach. It should be based on the strategic involvement of the public sector to enact supply-side policies that revive investment (not speculative flows), and the demand-side policies that ensure full employment and a healthy growth of incomes.

As the global economy continues its post-pandemic recovery, it is critical to safeguard the space for public sector investment policies, ranging from the bolstering of food systems to the expansion of renewables, as well as social and physical infrastructure needed to accelerate sustainable development, stabilize the climate and reduce inequalities.

Any **expectations** that monetary policy alone can provide solutions for key global challenges are **unrealistic.**

Section B

Monetary policy decisions in the developed world reverberate across the globe

Developing economies have faced higher debt servicing costs, along with **greater difficulty** in securing new financing options, as a direct result of the prevailing tight international financial conditions.

Faced with a significant uptick in inflation, most central banks across the advanced economies implemented an aggressive and synchronized cycle of monetary tightening starting in early 2022. The United States Federal Reserve (Fed), the Bank of England and the European Central Bank (ECB), for instance, increased their key policy rates by a cumulative 500, 400 and 500 basis points, respectively, from 2022 to mid-2023. The rationale behind this policy stance originates in the interpretation of the recent inflationary bout as a byproduct of economic "overheating", based, in turn, on the premise of excess demand that has resulted in too many dollars, pounds sterling or euros chasing too few goods and services. The restrictive monetary policy response has been designed to dampen demand while largely ignoring the important role played by transitory supply-side bottlenecks in the aftermath of the pandemic and the growing problem of market concentration – translating into rising markups and profit margins – along with surging international commodity prices in light of the war in Ukraine (TDR 2023: chapter I.F). The rapid and simultaneous tightening of monetary policy by the major developed economies has had negative spillovers across the globe. For the developing countries, three sets of factors have amplified the impact.

First, developing economies have faced higher debt servicing costs, along with greater difficulty in securing new financing options, as a direct result of the prevailing tight international financial conditions. (section C.2). This is a particularly salient issue given the increase in debt levels of many developing countries in the aftermath of the pandemic (TDR 2023). Even by the International Monetary Fund (IMF) narrow definition of solvency, 9 low-income countries (LICs) are currently in debt distress, and a further 25 LICs are at high risk of debt distress (IMF, 2024). Similarly, the overall debt servicing costs of the 24 poorest LICs are expected to soar by 39 per cent from 2023 to 2024 (World Bank, 2023).

Second, the increase in interest rates in the developed world has put further pressure on developing countries' currencies, provoking depreciations that only increase the servicing costs of foreign currency denominated external debt. Depreciations, where they have occurred, have added to the upward pressure on already high domestic food inflation – another pressing issue currently affecting developing countries – due to the increase in local-currency prices of imported grains and other basic foods (UNCTAD, 2023a).

Third, central banks in many developing countries have had to turn to double-digit interest rates in an effort to retain international capital and avoid a run on the currency. Tighter monetary regimes have had an adverse impact on domestic demand, employment, and household incomes. Perhaps most significantly in development terms, the tightening of monetary policy has acted as a substantial drag on much needed and already inadequately low investment spending in these economies.

While the restrictive monetary stances adopted in developed economies have likely played a role in bringing inflation rates down, the significance of fading supply-side pressures in easing the upward trajectory of prices should not be underestimated. The observed decline in inflation in 2023 without a tangible increase in unemployment indicates the prevalence of supply-side factors, rather than excess demand, in driving the upsurge in inflation rates in 2021 and 2022 (Stiglitz, 2023). The recent indication that the Fed will cut rates, despite an uptick in inflation in February 2024 and stronger than expected growth, points to a potential shift in its thinking in this direction too.

Notwithstanding recent steps towards a looser monetary policy in major developed and developing economies, central banks in most advanced economies continue to maintain the view that wages are increasing too rapidly, with the imminent danger of an ensuing wage-price spiral.[1]

[1] The concept of a wage-price spiral is based on a process in which wage increases feed into price increases which then feed back into further wage increases in an escalating loop.

In recent monetary policy reports, the Fed cautioned that "the labo[u]r market remains relatively tight" (Federal Reserve, 2024:1), while the Bank of England warned that "wage growth remains elevated" (Bank of England, 2024:47), and the ECB affirmed that "domestic price pressures remain high, in part owing to strong growth in wages" (ECB, 2024:1).

However, there is scant evidence of such a danger materializing. In fact, real wages have yet to recover to their pre-pandemic trend (figure 4.A). By the end of 2023, real average hourly earnings in France, Germany, the United Kingdom and the United States remained 2.4, 9.4, 1.6 and 2.9 per cent below their pre-pandemic trend, respectively. Moreover, comparing the trajectory of real wages to that of labour productivity in these countries, there is no sign that the growth of real wages is significantly outpacing that of labour productivity (figure 4.B).[2,3]

Risks of a wage-price spiral have not materialized. In fact, the **growth of labour productivity** has generally **outpaced** the growth of real wages.

[2] Given cost restrictions from macroeconomic accounts, prices result from a markup over total costs. An increase in productivity can be passed through to consumers (in form of lower prices), to workers (in the form of higher wages) or to the owners of capital (if prices and wages remain unchanged).

[3] The exception to this wider trend has been the recent evolution of labour productivity in France, which is due to specificities unique to the French economy regarding key shifts in employment rates and in the structure of employment since the pandemic (Garnier and Zuber, 2023).

Figure 4

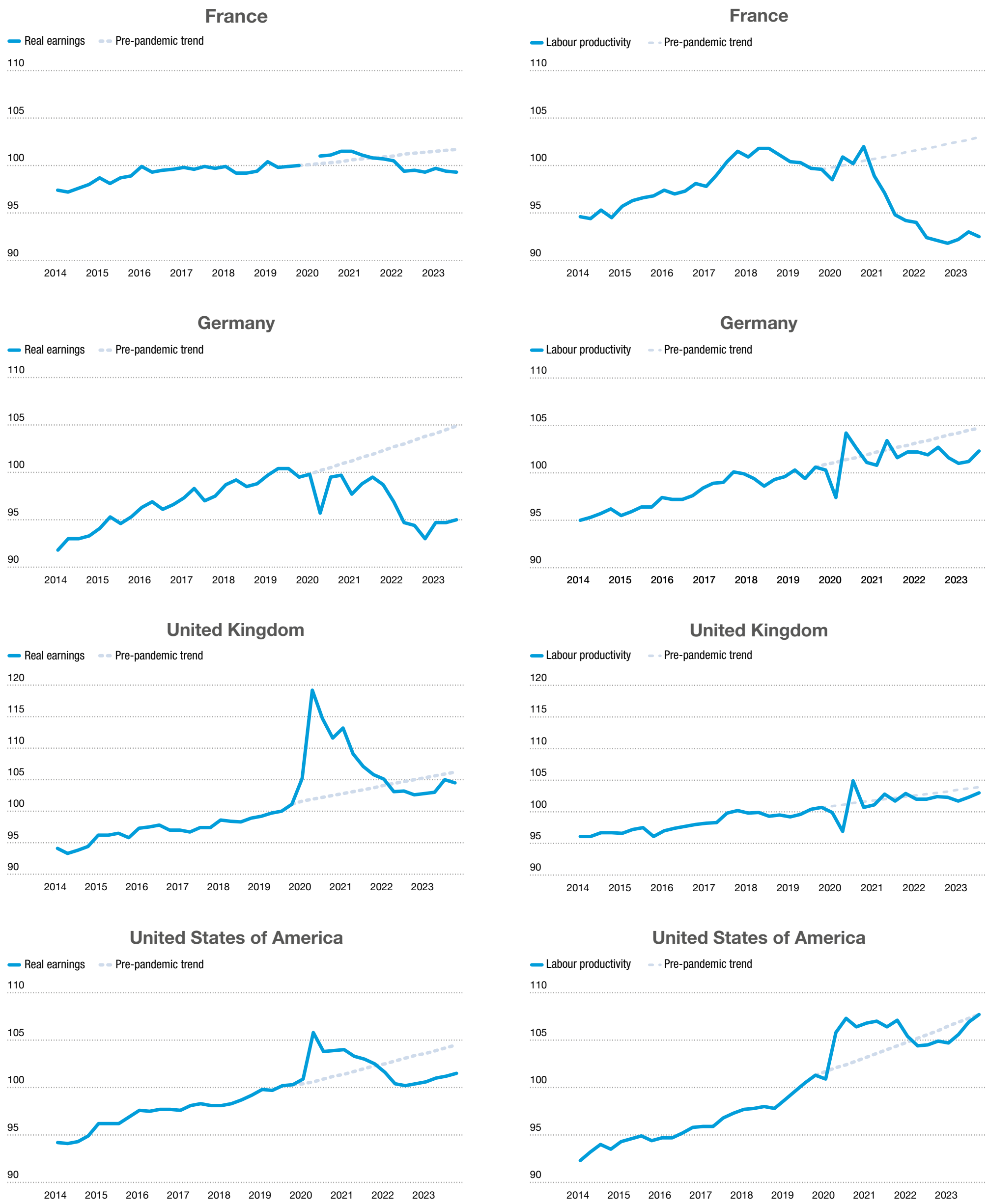
Real wages are struggling to return to their pre-pandemic trend and to keep pace with labour productivity

Real average hourly earnings and labour productivity (output per hour worked), selected developed countries

(Index numbers, average 2019 = 100)

A. Real average hourly earnings

B. Labour productivity (output per hour worked)



Source: UNCTAD calculations based on data from French Ministry of Work, Health and Solidarity, French Institute of Statistics and Economic Studies, Federal Statistical Office of Germany, United Kingdom Office for National Statistics and United States Bureau of Labor Statistics.

Note: The pre-pandemic trend refers to the 2015–2019 period. Data for real earnings for France in the first quarter of 2020 is not available..

Section C

International markets

1. International trade: Challenges ahead for merchandise trade after contracting in 2023

The **contraction** of international **merchandise** trade in a context of global economic expansion in 2023 is **unprecedented** in recent times.

As the global economy expanded by 2.7 per cent in 2023, recent data releases point to a contraction, in real terms, of global merchandise trade of about 1 per cent during 2023. Should final numbers confirm this scenario within the next few months, 2023 will be the first annual episode in at least four decades[4] during which the direction of world merchandise trade diverges from that of global economic activity.

Annual contractions in real terms of global merchandise trade are unusual. In the forty years leading to 2023, global merchandise trade had shrunk only twice: in 2009, at the height of the global financial crisis, and in 2020, after the COVID-19 shock. These were the two most severe economic downturns since the Second World War. Against this background, the contraction of international merchandise trade in a context of global economic expansion in 2023 is unprecedented in recent times.

Back in October last year, UNCTAD *Trade and Development Report 2023* did anticipate this dynamic, in light of the trade tensions among some large economies and the subdued global demand. Such headwinds were compounded by a statistical artifact known as a high base effect. It originated in the unprecedented temporary shift in consumption structure in 2020–2022. During the pandemic, consumption shifted away from services and towards (trade-intensive) durable goods at a time when households, mostly in high-income countries, turned to buying up furniture equipment of all kinds (home, office, fitness, etc.), while many services, such as eating-out and travel, to name a few, were no longer accessible.

As consumption patterns reverted to normal, or even undershot in some sectors, global merchandise trade shrank.

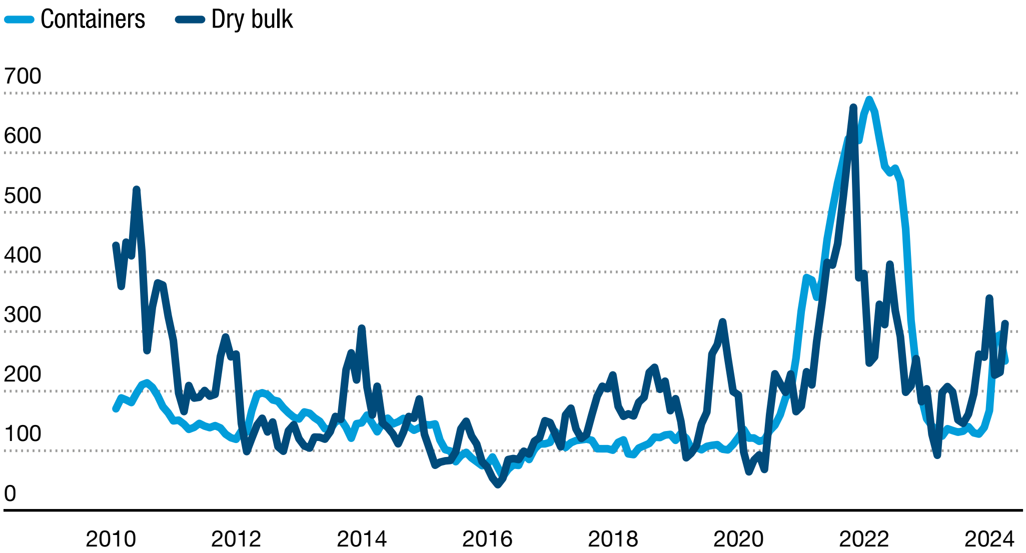
Since *Trade and Development Report 2023* was first released, two further negative shocks have hit maritime routes, the backbone of international merchandise trade. Both relate to shipping disruptions in key arteries of maritime transport: the Panama Canal and the Red Sea. In the Panama Canal, a prolonged drought forced its operator to reduce the number of crossings, resulting in longer wait times. In financial terms, this increased by up to eight times the tolls that vessels pay to go through the canal's various locks by mid-March 2024.[5]

This is partly because the canal's authority had hiked toll rates prior to the onset of the water crisis, but it is also due to the fact that shipping firms have been eager to pay substantial amounts in specialized auctions to guarantee themselves one of the reduced numbers of crossing opportunities.[6] In addition, ship attacks that started in the Red Sea in the wake of the war in Gaza compelled major ocean carriers to suspend Suez transits and to reroute through the Cape of Good Hope, adding between 12 and 20 days of transport.

As seaborne trade accounts in volume for more than 80 per cent of trade in goods and about 70 per cent of its value in dollar, the disruptions in the Panama Canal and the Red Sea – which handled in previous recent years, respectively, 2–3 per cent and 12–15 per cent of international seaborne trade volume – have pushed up freight costs again in recent months (figure 5).[7]

4 The period for which reliable data exists.
5 *Wall Street Journal*. Two Canals, Two Big Problems—One Global Shipping Mess. 11 March 2024.
6 *New York Times*. Panama Canal Profited, Despite Reduced Traffic. 22 March 2024.
7 UNCTAD. Red Sea, Black Sea and Panama Canal: UNCTAD raises alarm on global trade disruptions. 26 January 2024. Available at https://unctad.org/news/red-sea-black-sea-and-panama-canal-unctad-raises-alarm-global-trade-disruptions.

Figure 5
Panama Canal and Red Sea disruptions increased maritime freight rates
Monthly rates, dry bulk and containers
(Index numbers, average 2015=100)



Source: UNCTAD calculations based on Clarksons Research Shipping Intelligence Network database.

Note: "Dry bulk" relates to the Baltic Exchange Dry Index and "containers" to the Shanghai Containerized Freight Index (SCFI) Comprehensive index.

All segments of seaborne trade – whether in terms of geography or type of shipments (bulk, container, tanker, etc.) – have been affected. Trade between Asia and Europe, together with maritime routes going between the Pacific and the Atlantic coasts of the Americas, have experienced severe disruption. Even more striking are the ripple effects, which have pushed up the freight rates of routes that do not cross these hotspots, due to the unsettling impact on global shipping and logistics. In terms of freight rates, for instance, the cost of moving containers from Shanghai to Genoa or Rotterdam more than tripled between October 2023 and mid-March 2024. Meanwhile, the cost of transporting containers from Shanghai, the world's largest port, to Los Angeles doubled.[8]

Despite such sharp increases, freight rates remain far below the record highs of late 2021 or early 2022. Yet the monthly levels of March 2024 of the Shanghai Containerized Freight Index or the Dry Bulk Index stood above the 85th percentile of their distribution (starting from late 2009). Going forward, the situation in the Panama Canal is expected to improve after the rainy season begins in late April–early May.

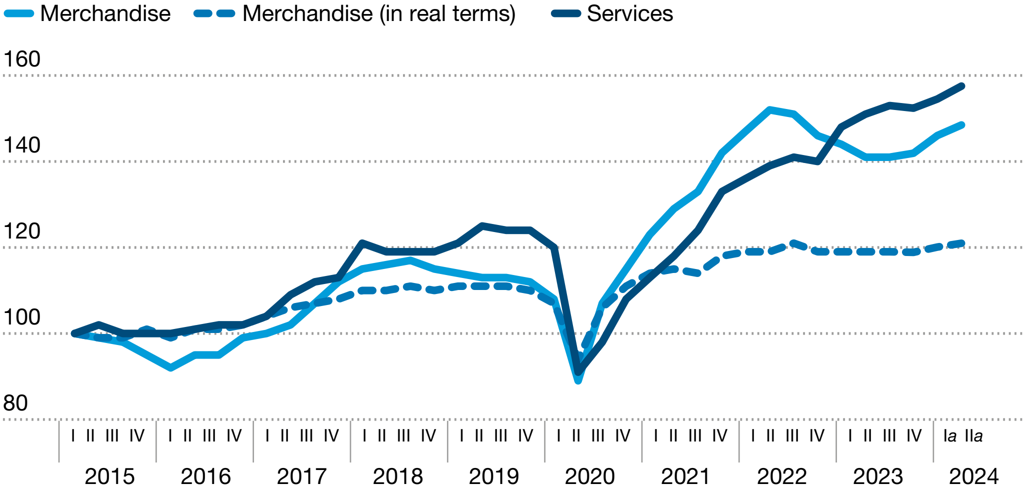
By contrast, the situation in the Red Sea is likely to remain highly uncertain as long as the war in Gaza endures. Since December 2023, a United States-led naval coalition has had some success in thwarting attacks. Yet the missile strike in early March 2024 against a merchant vessel – resulting in the first fatal casualties among seafarers in this crisis – demonstrates that the threat is far from neutralized.

Beyond these negative developments in the shipping industry, the growth of merchandise trade, overall, is expected to remain subdued in 2024, though it should move back into positive territory. Recent reports from some large exporting economies provide a rather mixed picture. On the positive front, exports from China and Europe have shown some improvements in the first months of 2024. Declining oil and

[8] Drewry. World Container Index. 14 March 2024. Available at: https://www.drewry.co.uk/supply-chain-advisors/supply-chain-expertise/world-container-index-assessed-by-drewry.

gas prices helped to lower eurozone energy imports by a third in the year to January 2024, improving Europe's trade balance markedly.[9] By contrast, exports and imports of goods of the United States were 2–3 per cent lower in January 2024 compared to the same period a year earlier. In addition, in light of weak import demand from Europe and some advanced Asian economies – which have experienced a gradual decline in real terms over the course of 2023 – the dynamic of global merchandise trade in 2024 is expected to be moderate (figure 6).

Figure 6
Global trade: Merchandise remains subdued while trade in services shows more dynamism
Quarterly world trade, merchandise (in dollar values and in real terms) and services (in dollar values)
(Index numbers, first quarter of 2015=100)



Source: UNCTAD calculations based on UNCTADstat and WTOstat data.
Note: All series are seasonally adjusted.
a Estimates from UNCTAD nowcasts for the first two quarters of 2024.

By contrast, prospects for trade in services in 2024 look brighter even if a slowdown in some of its components cannot be ruled out.

The trade in services, on the other hand, has shown more dynamism. Among its main components, travel has continued to trend upwards while transport has also strengthened recently. Although comprehensive data is lagging, other components of trade in services appear to have been resilient in recent months. For its part, the robust performance of the telecommunications, computer, and information category seems to have continued. As a result, trade in services on aggregate is expected to continue growing faster than trade in goods in 2024, though a slowdown in some of its different components (for instance, in construction services) cannot be ruled out as the negative effect of higher global interest rates kicks in.

Altogether, recent developments point to meagre improvement in 2024 for trade in goods and services. At the same time, the trade outlook is still surrounded by significant risks and uncertainties, which are primarily tilted to the downside given the calls for protectionism, the continuing trade tensions and the rising political uncertainty.

A recent manifestation of such downside risks, for example, is the announcement from the European Union to increase taxes on electric cars from China on the back of allegations of illegal export subsidies.[10]

[9] *Financial Times*. Eurozone monthly trade surplus rises to record high. 18 March 2024.
[10] *New York Times*. As China's exports surge, a global backlash is afoot. 12 March 2024.

Overall, such developments continue to weigh negatively on the trade outlook. They also hamper the emergence of concerted multilateral solutions at a time when international collaboration in the area of trade remains paramount to foster environmental protection and sustainable development around the world.

2. Sovereign debt: Developing countries faced significant net outflows and costly market access

The debt and development crises faced by many developing countries continues to worsen. The increase in public resources and export revenues that must be channelled towards public and publicly guaranteed debt service (to cover both the principal and interest payments) is a key dimension of the current crisis.

Recently released data shows that in 2022 (the last year for which comprehensive data exists), developing countries' Governments paid almost $50 billion more to their external creditors (bilateral, multilateral and private) than they received in fresh disbursements (figure 7).

Further data disaggregation shows that private creditors account for most of the change in the direction of net transfers. While between 2021 and 2022, debt service to these creditors had remained stable (at about $260 billion), disbursements declined by 45 per cent, from over $300 billion to less than $170 billion. This waning of private creditors' appetite for developing countries' public debt resulted in the lowest disbursement levels since 2011. As a result, during this period, net transfers on public and publicly guaranteed debt from private creditors switched from an inflow of more than $40 billion to an outflow of almost $90 billion.

The year 2022 also marks the first occurrence of a net negative resource transfer for all developing countries as a group since 2008. It also reflects a record-high number of 52 individual countries in this situation, with the median net transfer amounting to about 4 per cent of government revenues for this subset of countries. The increase in *both* the magnitude and prevalence of net negative resource transfers at a time of compound crises reveals the limitations of the current framework of international debt architecture for supporting development (UNCTAD, 2023b, TDR 2023).

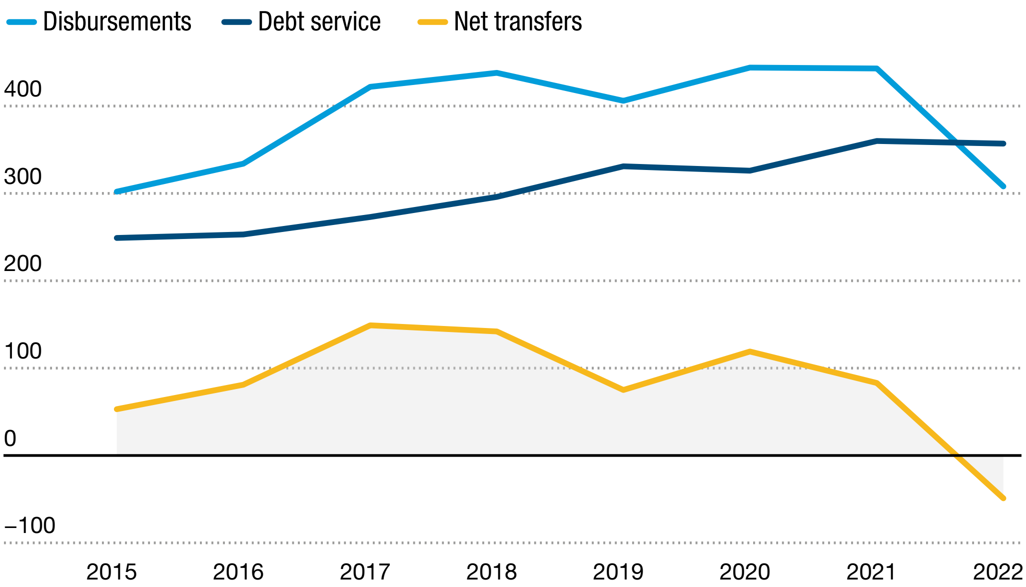
The surge in net negative transfers is tied to a significant decrease in access to fresh financing for numerous countries (TDR 2023). This decline stems from various factors, including higher interest rates in developed countries, deteriorating global financial conditions and mounting concerns about debt distress in developing countries. This dynamic is reflected in the lowest levels of external sovereign bond issuance during 2022 and 2023 in the last 10 years, plummeting to one third of the peak reached in 2020 (figure 8).

As private creditors' **appetite for developing countries' public debt waned,** corresponding net transfers shifted from a $40 billion inflow in 2021 to a $90 billion outflow in 2022.

Figure 7
Debt crisis is draining valuable public resources from developing countries

Disbursements, debt service and net transfers on external public and publicly guaranteed debt of developing countries

(Billions of dollars)



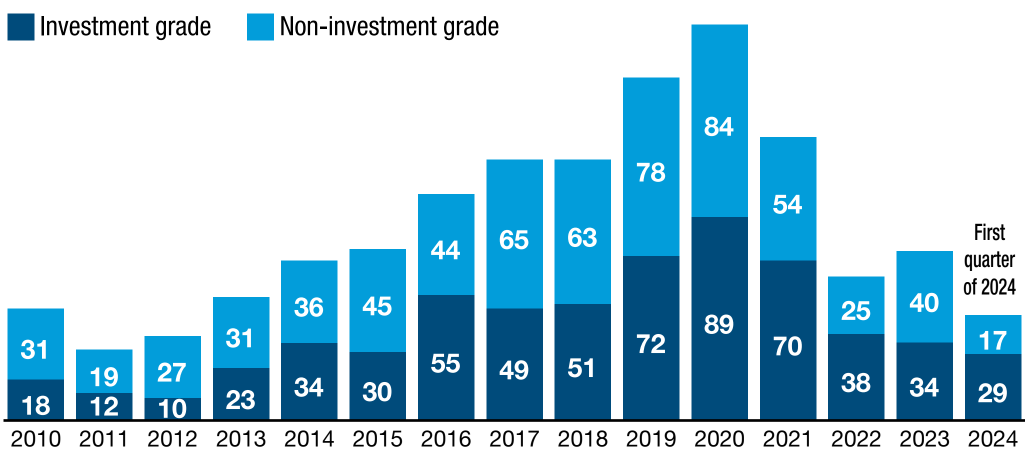
Source: UNCTAD calculations based on World Bank (2023).

Note: This figure is based on a sample of 108 developing countries for which data are available. Net transfers correspond to disbursements minus debt service (principal and interest).

Figure 8
Strong bond issuance in the first quarter of 2024, though uncertainties persist for the remaining part of the year and market access remains uneven

Sovereign bond issuance of developing countries by credit rating grades

(Billions of dollars)



Source: UNCTAD calculations based on Refinitiv.

Note: Data include sovereign bonds issued of any nominal amount in dollars, euros and yens. Data exclude bond issuance by Argentina. Credit rating grade is based on the average annual credit ratings. Non-investment grade refers to a BB+ or lower rating.

Since early 2024, sovereign bond sales for some developing countries have resumed, buoyed by a thaw in financial markets and on the expectation of interest rate cuts in major developed economies. In aggregate, bond issuance by developing countries in the first quarter of 2024 soared to $45.5 billion, a record high for this period of the year. Among these, five countries rated investment grade issued for $28.5 billion. Issuances by eight non-investment grade countries amounted to $17 billion. Notably, this latter group includes three sub-Saharan countries – Benin, Côte d'Ivoire and Kenya – a region that had been shut off from bond markets for most of 2022 and 2023.

Renewed access to market financing is a welcome development, particularly for non-investment grade countries, many of whom are at high risk of or in debt distress. However, concerns remain regarding the sustainability and breadth of market access in the outlook period. In addition to the seasonality of bond issuance,[11] two further aspects warrant attention: distribution of issuance and costs.

First, recent bond issuance, including during 2024, has been highly skewed towards a limited number of developing countries. Hence, the encouraging aggregate figure should not mask uneven market access for many other developing countries.[12] This concentration highlights the need for a more granular approach in the analyses of the debt dynamics and when addressing the challenges faced by smaller developing economies.

Second, even this skewed market access comes at a steep financial cost. While bond yields have fallen since October 2023, they remain elevated (figure 9). Implicit borrowing costs, gauged by yields, are substantially above existing borrowing costs, as measured by the average weight of existing bond coupons. The difference is especially large for non-investment grade countries. Consequently, countries capable of issuing bonds do so at higher coupon rates compared to bonds being currently repaid. This has detrimental effects on debt dynamics, especially in a context of low economic growth, and more broadly on the allocation of public spending.

Overall, the deterioration of key determinants of debt dynamics underlines the structural nature of debt challenges faced by developing countries. Lack of progress on multilateral solutions in addressing the different components of this complex problem – including low economic growth, profit shifting and base erosion, commodity dependence, high climate vulnerability, significant financing costs, the absence of global financial safety net and effective multilateral sovereign debt resolution mechanisms – further exacerbates the burdens faced by populations in developing countries in the form of larger fiscal adjustments and puts at risk the achievement of the Sustainable Development Goals. This underlines the need for reform of the international debt architecture, in line with the policy recommendations outlined in *Trade and Development Report 2023*.

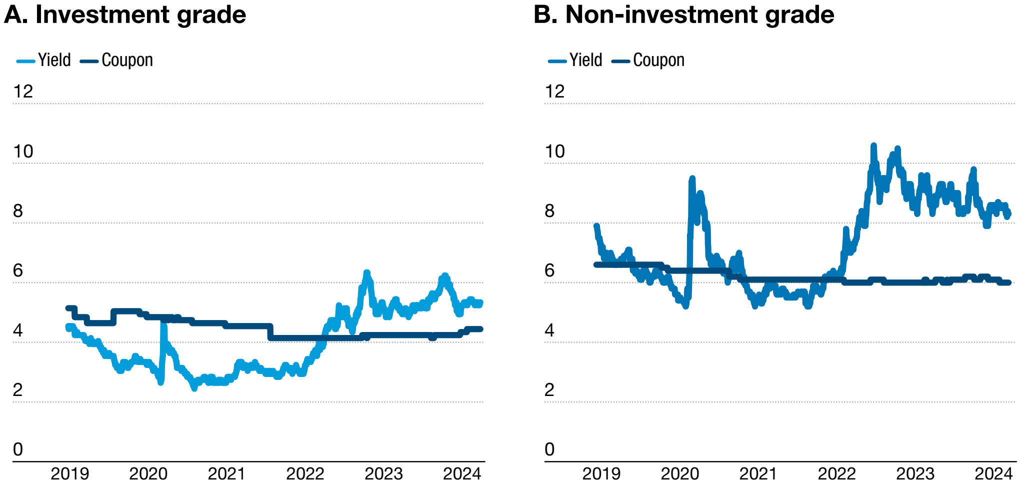
Uneven and costly market access persists even as some developing countries record strong bond issuance in the first months of 2024.

The nature of debt challenges faced by developing countries is **structural.**

[11] Developing countries' bond issuance exhibits significant seasonality. More precisely, over the last three years, the first quarter accounted, on average, for more than 40 per cent of the annual bond issuance. Thus, one cannot assume a linear trend until December to gauge what the total for the year could be. In addition, renewed – or continued – market access during the remaining part of 2024 remains subject to the vagaries of monetary policy decisions taken by major central banks of developed countries. Hence, there is no warranty that the observed trend during the first months of the year will continue.

[12] Looking, for instance, at bond issuances of non-investment grade developing countries between January 2023 and March 2024, data show that three non-investment grade developing countries alone, Brazil, Colombia and Turkey, contributed $33 billion out of $57 billion in issuance of this group of countries.

Figure 9
Bond yields have recently receded, but rollover costs remain detrimental to debt dynamics
Median yield and coupon of dollar-denominated sovereign and quasi-sovereign bonds of developing countries by credit rating grades
(Percentage)



Source: UNCTAD calculations based on country-specific JP Morgan Emerging Market Bond Index–Global Diversified indices.

Note: Credit rating grade is based on the average annual credit ratings. Non-investment grade refers to a BB+ or lower rating.

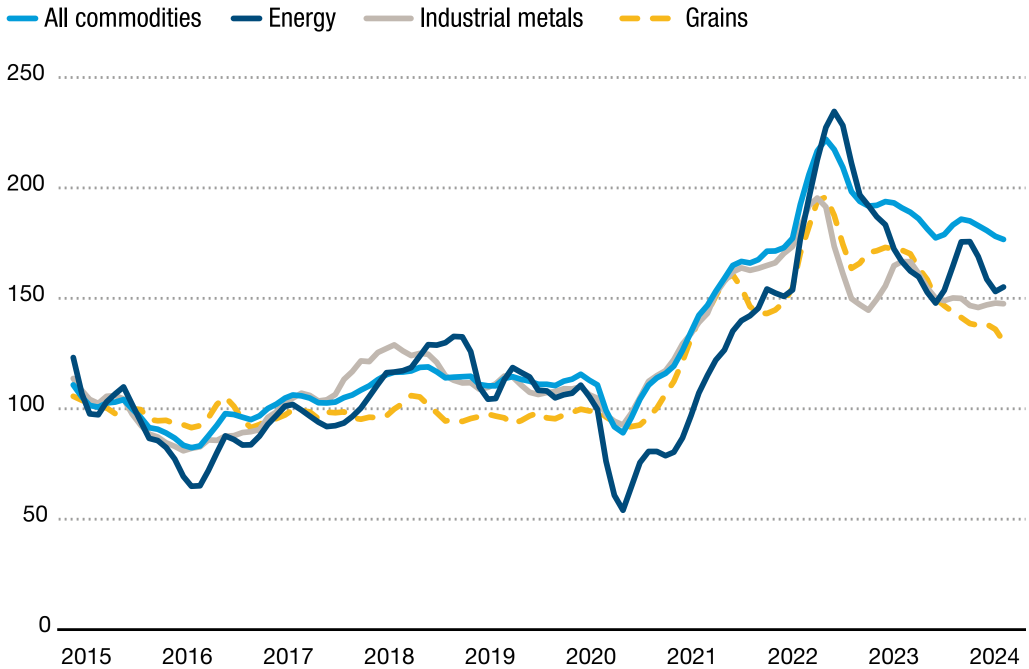
3. Commodity markets: Despite recent declines, most prices remain significantly above pre-pandemic levels

Following the precipitous rise in commodity prices in the aftermath of the outbreak of the war in Ukraine, commodity markets saw a broad-based and sustained price decline in 2023. The aggregate commodity price index dropped by 6.8 per cent, with energy commodities[13] experiencing the largest decline (16.1 per cent) followed by grains (10.1 per cent) and industrial metals (8.3 per cent) (figure 10).

Various factors triggered this generalized retreat in commodity prices. The prevailing tight global monetary conditions played a crucial role as they dampened the global demand for fossil fuels and metals and also prompted financial investors to move away from commodities towards other financial asset classes. The slower than expected rebound in China following the reopening of its economy, combined with persistent weaknesses in the construction sector and high sectorial indebtedness, also contributed to the slackening in broad commodity price indices. Additionally, international prices of food commodities fell, partly owing to rising production of maize and soybeans and continued food exports from the Black Sea region.

[13] Energy commodities include crude oil, refined oil products and natural gas.

Figure 10
International commodity prices have fallen significantly since 2022, but they remain at elevated levels
Commodity price indices, selected commodity groups
(Index numbers, average 2015 = 100)



Source: UNCTAD calculations based on Refinitiv data.
Note: Price indices correspond to Dow Jones Commodity Index (3-month moving averages).

Despite the declines registered in 2023, prices of most commodities remain significantly above their pre-pandemic levels. Notably, both energy and metals prices hover around 40 per cent above the average levels observed from 2015 to 2019. Similarly, food commodities prices remain 35 per cent above their pre-pandemic averages, while those of fertilizers – which are a key factor in determining both present and future prices and supplies of grains and other basic foods – lie almost 45 per cent above pre-pandemic levels. While these elevated international prices can benefit developing countries exporting these raw materials, they can also be extremely detrimental to developing countries who are net importers of these products – in particular, low-income countries including least developed countries – due to high import costs in a context of constrained financing options.

In 2024, prices of key commodities are expected to continue their downward trajectory, albeit to a much more moderate degree compared to 2023. With regard to energy, crude oil prices are expected to edge downwards despite no significant increase in global supply — since production increases in the Americas are expected to be offset by cuts from Organization of the Petroleum Exporting Countries Plus (OPEC+) producers — as demand is likely to slacken in the context of subdued global activity. For its part, natural gas prices are also expected to decline further in 2024 as production increases and exports of liquefied natural gas expand. However, a potential escalation of the ongoing conflict in the Middle East or more severe disruptions to shipping routes through the Red Sea would revert this trend and inevitably produce an upswing in international energy prices.

A continuing moderation of industrial metals prices in 2024 is also foreseen as tight monetary stances will continue to weigh on construction and investment

In 2024, prices of **key commodities are expected to continue trending downward,** albeit with a few exceptions.

spending. The ongoing weakness in the real estate sector in China hinders a significant recovery in demand, particularly as Chinese demand continues to represent an outsized component of global demand for metals. Also, it is expected that prices for critical minerals (including cobalt, copper, lithium, nickel and rare earths) which are key inputs in the manufacturing of renewable and clean energy products and infrastructure will stabilize from recent price decreases (e.g. for lithium and nickel), on the basis of clean energy supply growing faster than still rising fossil fuel energy supply.

International food prices will likely remain stable or decline marginally in 2024. However, risk factors to this broader projected trend remain in the form of potential conflict-related trade disruptions including in the Black Sea (especially important for wheat, oilseeds and maize), the occurrence of extreme weather events related to climate change, and the imposition of restrictive export measures by large exporting countries. Moreover, the continuing elevated levels of fertilizer prices globally will keep food production costs high and will be a limiting factor for crop yields for producers that are financially constrained or face low profitability.

Food insecurity persists as an acute concern across developing countries. If current market trends persist, close to **600 million people will be chronically undernourished** in 2030.

The broad downward trajectory of international food prices since 2023 has, in fact, done little to alleviate pressure on the persistently high food prices faced by many consumers – particularly among the most vulnerable populations in developing countries – as weakening local currencies have continued to inflate the domestic prices of these basic goods. Consequently, food insecurity persists as an acute concern across developing countries – especially among vulnerable ones such as least developed countries – affecting low-income groups in particular (GCRG, 2022). Similarly, if the recently observed upward trajectory in global rice prices were to persist, it would exacerbate food insecurity, as rice is a staple food for more than half of the world's population (Fukagawa and Ziska, 2019), notably vulnerable population groups in Africa and Asia. Under the current scenario, it is estimated that close to 600 million people will be chronically undernourished in 2030 (FAO, 2023).

In this context, and as discussed in UNCTAD *Trade and Development Report 2023* (chapter III), high concentration along food global value chains, increasing requirements in terms of standards applied to food products by importing countries and the financialization of commodity markets, including food, all contribute to elevated global food prices for consumers around the world without necessarily benefitting producers in developing countries. This is particularly the case for smallholder producers who face the combined challenges of increasing weather variability with limited adaptation tools, high cost of inputs and limited access to capital.

By contrast, 2023 marked the second most profitable year in history for the commodity trading industry. Recent estimates from the consultancy firm Oliver Wyman put the total annual profits of the industry at over $100 billion. The financial gains for 2023 are only second to the results registered in 2022, when the industry reaped profits of $148 billion.

The startling asymmetry between the profitability of specific stages of these global value chains, the challenges faced by smallholder producers in developing countries and the mounting food insecurity concerns all point to the need for greater policy action, including improved regulation of the commodity trading industry and the consideration of a permanent windfall profit tax. Additionally, support policies for smallholder producers should be combined with other complementary measures to ensure that those vulnerable segments of the population who rely on stable and accessible commodity prices to meet their basic needs are not adversely affected.

Section D

Regional developments

1. Africa: Adverse country-specific situations add to challenging external conditions

With Africa's growth projected at 3.0 per cent in 2024, after 2.9 per cent in 2023, economic activity will remain subdued and insufficient to make meaningful progress towards the Sustainable Development Goals that relate most directly to economic development (Goals 1, 2, 7–13).

Lacklustre economic performances in the three largest economies – Nigeria, Egypt and South Africa (in this order), together accounting for almost half of Africa's aggregate economic output – contribute to the grim outlook. Elsewhere in the region, multiple impediments to development remain, including pockets of armed conflicts and political instability (sometimes fuelled by global geopolitical tensions) and the negative impacts of climate change and extreme weather shocks. Several additional obstacles towards achieving Africa's full economic growth potential include hunger, high levels of youth unemployment and underemployment, limited export diversification and insufficient infrastructure.

Unfavourable external factors further add to these challenges. Weak export demand from major trading partners such as China and Europe are one. The restrictive monetary policy in major developed economies is another, as it leads to higher borrowing costs and associated debt vulnerabilities (section C.2) as well as negative pressures on African currencies and often foreign exchange shortage. In the outlook, these vulnerabilities will be reinforced because many African economies are getting closer to the debt wall as maturities on international bonds issued in the previous decade will significantly increase in 2024 and the following years. Against this backdrop, Africa's total external position is expected to deteriorate further in 2024 amid declining commodity prices (section C.3).

The erosion of fiscal space and limited public spending for development – at a time of looming debt maturity walls, fiscal consolidation and insufficient development finance across the region – are additional constraints to meet Africa's development needs. As of February 2024, 48 African countries have outstanding credits with IMF totalling almost $56 billion, compared to 40 countries and a total of outstanding credits worth $24 billion at the end of 2019.

Over the last year, living costs have risen fast, affecting particularly the most vulnerable households, with inflation recently exceeding 20 per cent in several African economies, including the four most populous ones – i.e. Nigeria, Ethiopia, Egypt and the Democratic Republic of Congo (in this order) – which together are home to more than half a billion people.

A few bright spots nonetheless exist. Some African economies (e.g. Benin, Côte d'Ivoire and Rwanda) are expected to continue registering growth above 5 per cent in the outlook period after already growing at least at that rate in recent years. And while there is no single silver bullet behind these successes, sustaining robust public investment has been a key common denominator of economic policy in these countries.

2. America: Lower growth ahead across the region

Economic growth on the continent is projected at 1.8 per cent in 2024, on the back of a 0.5 percentage point decline in North America and 0.7 percentage point reduction in Latin America and the Caribbean compared to 2023.

Argentina is still battling against inflation, with prices increasing 25 per cent in the month of December 2023 alone. This was partly due to currency devaluation, which helped achieve moderate import growth. Yet, the current account remained negative as did the Government's net lending. The Government's budget remains under pressure as the country renegotiates with international creditors the terms of a debt deal that has severely constrained fiscal policy. In this context, softening commodity prices (section C.3), especially for agricultural products, have meant a tightening external constraint at a critical time. With these factors in mind, Argentina is projected to contract 3.7 per cent in 2024.

The economy of **Brazil** lost momentum in the second half of 2023 under pressure from external conditions and domestic policies. As the commodity boom receded, agricultural and oil production slowed down, driving a decline in the country's external surplus. This points to the risks of commodity driven growth vis-à-vis broad-based economic diversification. Given the prevalence of low wage jobs in commodity-oriented sectors and the upward pressure on the currency, the risks can be heightened by buoyant international markets.

In the second half of 2023, fiscal retrenchment contributed to slowing down growth, which remained flat in the third and fourth quarters. Reacting to the slowdown, the central bank started a cutting cycle in August 2023, but that proved insufficient to preserve the growth momentum of the first half of 2023. In 2024, growth is projected at 2.1 per cent.

Mexico benefited from the resilience of the United States economy in 2023, though declining oil prices contributed to a current account deficit, and impacted negatively government revenues. The Government prioritized containing the deficit, while the central bank raised interest rates early in the inflation cycle, before beginning to cut back in early 2024. In this context, the economy is projected to grow at a moderate 2 per cent in 2024.

The **United States** experienced a soft landing in 2023, with inflation coming down by more than 3 percentage points while overall growth and job creation remained stronger than during the pre-COVID-19 decade. Consumption rose, but fixed investment was particularly low as a share of GDP, largely due to the ratcheting up of policy interest rates. Financial risks – including in the areas of household debt, bank shares and corporate bonds – did not materialize. These concerns remain serious, however. Household debt is at an all-time high as consumption growth outstripped income growth for the second consecutive year and households ran down the savings accumulated during the pandemic. Recent data point to a slowdown of real consumption spending in early 2024 and increasing delinquency on credit card debt and auto loans.

Meanwhile, inflation has taken a large toll on workers' purchasing power outweighing years of wage growth (figure 4). The most sensible option to restore the lost real income is to engineer a sustained period of wage growth, but this is exactly what the Federal Reserve has signalled it wants to avoid. And as it is preparing to lower the policy rate in the second half of

2024, even as inflation increased again in February, it may generate financial market rallies. As the latest debt ceiling agreement cuts into the Government's spending on goods and services, economic growth is projected at 2.0 per cent in 2024.

3. Asia: Robust growth across most developing Asian countries

Economic growth in Asia as a whole is projected to reach 4.0 per cent in 2024, compared to 4.1 per cent in 2023.

Within this entire continent, the economy of **China**, its largest economy, expanded by 5.2 per cent in 2023. For 2024, the Government set an official growth rate target of "around 5 per cent", indicating its economic confidence and ambition. The economic data for January–February also showed positive signals, with the total value added of the manufacturing sector expanding 7.7 per cent year on year and the value of merchandise trade growing 8.7 per cent. Yet, the economy has been facing some headwinds, such as external uncertainties, troublesome housing market, underperforming labour market and subdued consumption. However, with the total government debt-to-GDP ratio standing at 55 per cent and inflation at 0.2 per cent at the end of 2023, fiscal and policy spaces allow for proactive fiscal policies and prudent monetary policy.

In January 2024, the People's Bank of China announced a cut in its reserve requirement ratio for financial institutions by 50 basis points to about 7 per cent on average, after having initiated monetary loosening last year already. Subsequently, in early March 2024, the Government announced several expansionary fiscal policy plans, including maintaining a 3-per cent budget deficit, an issuance of ¥1-trillion ultra-long bonds (about $140 billion) plus ¥3.9-trillion bonds (about $550 billion) to be dedicated to local government purposes (China, 2024).

In addition to countercyclical measures, the Government recently proposed to aim for total factor productivity increases through structural measures and strategies, such as encouraging innovation, fostering new industries, harnessing the opportunities of digital transformation and "green transition". Meanwhile, a set of policy interventions including targeted financial support and administrative measures will support the stabilization of the housing market in 2024. The Government also planned to create 12 million new urban jobs during 2024 after succeeding in creating a similar number of new jobs in 2023 (China, 2024).

India grew 6.7 per cent in 2023 and it is expected to expand by 6.5 per cent in 2024. The expansion in 2023 was driven by strong public investment outlays as well as the vitality of the services sector which benefitted from robust local demand for consumer services and firm external demand for the country's business services exports. These factors are expected to continue to support growth in 2024. In the outlook, an increasing trend of multinationals extending their manufacturing processes into India in an effort to diversify their supply chains will also have a positive impact on Indian exports, while moderating commodity prices will be beneficial to the country's import bill. The Reserve Bank of India is expected to keep interest rates constant in the near term, while restrained public consumption spending will be offset by strong public investment expenditures. In other Southern Asian countries, however, economic growth remains more subdued. Three countries in the region – Bangladesh, Pakistan and Sri Lanka – are currently under IMF programmes, the conditionalities of which necessitate the application of tight monetary policies and fiscal austerity measures whose impacts are most severely felt by low-income households.

Indonesia showed economic resilience in 2023, expanding by 5.0 per cent, as private consumption and public expenditures on diverse infrastructure projects sustained growth through the year. The strength on the domestic side offset the relatively weak performance of the export sector, as waning external demand and declining international prices for the country's main commodity exports dampened the external sector's contribution to growth. Economic growth is projected at 4.9 per cent in 2024 as strong private consumption, public outlays on large infrastructure projects and the recovery of tourism are expected to persist and compensate for a further decline in the international prices of its main commodity exports.

Japan is still struggling to gain momentum as the increase in demand for its exports that emerged during the post-COVID-19 phase has now waned. GDP expanded by 1.9 per cent in 2023, on the back of an expansionary fiscal and monetary policy stance. Late last year the Government announced a $113 billion fiscal package, comprising tax cuts and subsidies for fuel and utility bills. It also announced major commitments to net-zero carbon, as Japan only has 11 per cent of its total energy supply coming from renewable sources. Overall, domestic demand remains low, however, as wages remain subdued. On 19 March, the central bank lifted its key interest rate from -0.1 per cent to a range of 0–0.1 per cent. Considering these elements, economic growth is projected at 1.0 per cent in 2024.

Economic growth in **the Republic of Korea** slowed down to 1.4 per cent in 2023 on the back of reduced exports, slowing consumption growth and a sharp fall in construction investment, as well as tight fiscal and monetary policies. The central bank has so far maintained the base rate at 3.5 per cent, but it could loosen monetary policy later this year. In this context, economic growth is projected at 2.1 per cent in 2024.

Saudi Arabia, the largest oil exporter, was strongly affected by the $20 decline in average oil prices last year. This was further compounded by a significant decline in crude oil production, leading to a contraction in the oil sector of about 8 per cent. This offset the robust growth in the non-oil sector (about 6 per cent). Overall, the growth rate dropped by more than 9 percentage points compared to the stellar growth performance of 2022, leading to a GDP contraction of 0.9 per cent in 2023. As no significant change in oil output is expected – partly because the Energy Ministry has asked Saudi Aramco to abandon its plan to increase its capacity from 12 to 13 million barrels per day by 2027 – the non-oil sectors are forecast to drive Saudi growth to 2.7 per cent in 2024.

In **Türkiye,** economic expansion slowed down to 4.5 per cent in 2023. Domestic demand and employment were initially boosted by accommodative fiscal and monetary policies, but the central bank brutally changed course and rapidly raised its policy rate from 8.5 per cent in June 2023 to 45 per cent in January 2024. This aimed at stabilizing the Turkish lira, which lost 36 per cent of its value in 2023. It further contributed to stemming skyrocketing inflation, as the consumer price index increased by more than 50 per cent for the second year in a row. Continued tight monetary policy in the outlook will keep negatively affecting domestic investment and consumption. The stabilization of the lira at a lower level is unlikely to be sufficient to balance the current account, as greater goods exports and tourism inflows are not projected to compensate for the growing costs of essential imports, such as oil. The Turkish economy is forecast to grow at 3.5 per cent in 2024.

4. Europe: The weak outlook is indicative of developments in the region's major economies

The economy expanded by 0.9 per cent in **France** in 2023, on the back of an improving trade balance, as private consumption and public expenditures remained a drag. Weakening inflation might explain the decision of firms to reduce inventories potentially followed by a pickup in private investment. The economy is projected to grow at 1.3 per cent in 2024.

In **Germany,** GDP shrank by 0.3 per cent in 2023. The external sector provided the largest positive contribution to growth, thanks to a stronger reduction in imports than in exports. General government net spending declined. As industrial production and capital formation kept falling at the beginning of this year and the Constitutional Court ruling blocked €60 billion extra-budgetary spending earmarked for a climate fund, GDP growth is projected at 0.9 per cent in 2024.

In **Italy**, GDP grew 0.6 per cent in 2023. Consumer prices have been falling more rapidly than in the rest of the European Union. Yet, real wages remain below the group's average. Meanwhile, a reduction in net public spending is expected to limit economic expansion to 0.8 per cent in 2024.

The economy of the **Russian Federation** grew by 3.6 per cent in 2023, defying some of the more pessimistic expectations of a dramatic downturn. This economic resilience is an outcome of three mains factors: capital controls introduced in 2022 to safeguard financial stability; elasticity and adaptability of business and financial linkages; and a set of stimulus measures launched over the past two years to shore up domestic demand. In 2024, economic growth is projected to slow down to 2.6 per cent, with a third of planned federal fiscal expenditure (or around 6 per cent of GDP) assigned for the military and law enforcement.

In the **United Kingdom,** economic activity expanded by only 0.1 per cent in 2023, held back by declining household and government consumption, manufacturing and construction. In 2024, continued fiscal restraint is projected to limit economic expansion, with GDP growing at 0.5 per cent.

5. Oceania: Low growth period extending in Australia

The expansion of the **Australian** economy slowed down to 1.5 per cent in 2023 and is forecast to reach only 1.4 per cent in 2024. Robust public expenditures limited the decline in domestic demand. In March 2024, the Reserve Bank maintained the interest rate unchanged at 4.5 per cent, a 12-year high, though it hinted at a possible monetary loosening in the outlook.

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