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Global Trends and Prospects

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A. INTRODUCTION

According to most recent data, the world economy grew by 3.1 per cent in 2022. To many, the rebound suggested that a soft landing was possible in 2023, and that the key problems of the year 2022 – rising prices, supply-chain disruptions and recession risks – have been addressed. As a result, the very first months of 2023 were viewed with optimism by decision-makers, as it appeared that the anti-inflationary stance of the central banks had set a path to price stabilization without causing a major disruption to growth.

Trade and Development Report 2022 cautioned against such optimism because it was based on short-term dynamics. Long-term issues which had emerged after the global financial crisis (GFC) of 2007–09 and gained greater visibility during the pandemic – weak investment, slow productivity growth, supply chain vulnerabilities, high levels of indebtedness – remain in place. The ongoing war in Ukraine continues to impact international markets for energy, food and commodities. Moreover, inflation is proving a stubborn adversary due to persistent supply-side factors and excessive markups by large corporations, particularly in food and energy markets.

With global growth decelerating during the fourth quarter of 2022, the world economy has begun 2023 in a more fragile state than the optimistic accounts were suggesting. With the conflict in Ukraine continuing into 2023, major financial, investment and strategic decisions are clouded by geopolitical uncertainty and risks of economic insecurity. The collapse of the crypto exchange FTX in November 2022 and a string of bank failures in Europe and the United States in March 2023, raise the spectre of financial contagion in an already slowing economy.

How deep these financial stresses reach and how long they persist will determine whether advanced economies slip back into recession in 2023. With long-term challenges remaining unaddressed, growth is expected to decelerate to 2.1 per cent in 2023. This could set the world onto a recessionary track. Concerted actions by governments in early 2023 and the initial reaction from markets suggest this is still avoidable. However, the room for manoeuvre may be constrained given the heightened sovereign debt levels not seen since the global financial crisis, the expansion of central bank balance sheets and the growth of the large and unregulated shadow banking system. With the era of cheap credit coming to an end at a time of "polycrisis" and growing geopolitical tensions, the risk of systemic calamities cannot be ruled out.

The damage to developing countries from unforeseen shocks, particularly where indebtedness is already a source of distress, will be heavy and lasting. Without the kind of financial safety net enjoyed by private actors in advanced economies, the year ahead will be a challenging one even for those developing countries not in immediate distress. In this sense, inequalities, both within and across countries, that emerged with the lop-sided recovery from the pandemic, are likely to increase. Financial support and rescue packages to failing lenders and enhanced swap lines in advanced economies reduce the threat of a financial meltdown by offering a safer haven from financial turbulence. But they will tilt the scale of financial flows further in advanced economies' favour, as well as benefiting larger financial institutions within their own markets.

Areas of policy concern for 2023

- It appears that the year 2023 will test the financial resilience of the post-pandemic world. While it is difficult to predict the precise timing and contours of a financial crisis, if any, the first weeks of spring 2023 do make it clear that in an interconnected and fragile world economy, central bank decisions in advanced countries should not be taken without consideration of their wider systemic impact. This should inform policymakers' thinking when they try to find a balance between financial stability and price stability in the coming months of 2023.

- It is also becoming clear that the age of ultra-low interest rates is giving way to one of higher interest rates. Three entrenched legacies from this passing era will need urgent attention and action from the international community if the global economy generally, and the developing world in particular, is to end this decade in a healthier position than it began.
  - First, the weakness of productive investment, including for the climate transition. This will require policymakers to take a closer examination of corporate governance and the way in which profits are generated, managed and distributed.
  - Second, the use of monetary policy as the main tool of macroeconomic management. This will require recovering the active role of fiscal policy and an overhaul of the tax systems in both advanced and developing countries towards higher progressivity, but also reform of the international financial system to protect and expand fiscal space.
  - Third, the growing dependence on debt. This will not only require a return to responsible lending and borrowing, but a new institutional architecture to better manage debt distress and restructuring.

B. WEAKENING GROWTH OUTLOOK AGAINST MOUNTING FINANCIAL STRAINS

1. Bailing out better?

As this *Report* goes to press, financial markets are rattled by fears of contagion, following a series of bank failures and near-collapses in Europe and the United States in the first two weeks of March 2023. Meanwhile, share values across the banking sector on both sides of the Atlantic have continued to fall and a heightened sense of investor anxiety remains.

In the United States, depositors of two regional lenders – Silicon Valley Bank (SVB) and Signature Bank – were rescued by a mixture of government support and liquidity injection from other banks. SVB was later acquired by First Citizen Bank. The bankruptcy of a third lender, First Republic, was averted by a consortium of leading banks. In the United Kingdom, the banking giant HSBC acquired the domestic arm of the failing SVB for just one pound sterling. In Switzerland, a major rescue merger was rushed through by the Government. As a result, UBS acquired its former rival Credit Suisse for €3.5 billion.

Six major central banks of the advanced economies – including the Federal Reserve of the United States (hereafter Fed), the ECB, the Bank of England, the Swiss National Bank, the Bank of Japan and the Bank of Canada – released a joint statement on 19 March 2023 announcing that they would launch a series of joint operations to make funding available to the market via standing swap lines. The Secretary of the Treasury of the United States, Janet Yellen, has pledged continued, though not blanket, support to smaller lenders and depositors (Politi, 2023).

The fact that banks, including major regional lenders as well as a systemically important institution such as Credit Suisse, need rescuing again, does not necessarily mean a repeat of the 2007–09 crisis. But there are rhyming motifs. Beginning in the spring of 2007, having started with crisis of regional mortgage lenders in the United States, an international financial meltdown. This was driven by a cascade of undetected risks, unknown interconnections inside banking structures and the growth of a de-facto unregulated shadow banking system. Bad financial governance, as well as the very idea that financial markets are self-regulating, amplified those risks, the consequences of which linger on even today.

Policymakers nowadays are better prepared than previously to address signs of market distress and troubles at individual institutions, and the financial system, part of which is regulated with a view to macroprudential and systemic concerns, is more robust. Also, as the experience of the pandemic shows, central banks have expanded their arsenal of liquidity support and coordination measures.

But there are still grounds for concern. The actual implementation of post-2009 financial regulations has left the non-banking parts of the financial system outside of the area of systemic oversight. The decade of quantitative easing (QE) and ultra-low interest rates has contributed to asset inflation, new risks and capital market distortions (Harnett, 2023). In the current global environment of heightened uncertainty, higher inflation and market volatility, such risks may cascade through the system in new ways. Importantly, while failures of individual banks may not necessarily herald a wider financial crisis, the inversion of the yield curve poses serious risks to the balance sheets of financial institutions, as was the case in 2007 after three years (and 500 basis points) of interest rate hikes (Rennison, 2022).

As investors move capital into United States assets seeking safety amidst global political-economic uncertainty, there is strong downward pressure on long-term yields in the country. At the same time, rate hikes by the Fed are pushing short-term rates higher, adding further stress to financial institutions' balance sheets. In this respect, while lose regulation of mid-size banks may offer one explanation for the failure of United States lenders in spring 2023, the wider structural problem should not be ignored.

No matter how tightly the banking system is regulated, this cannot cover for a major global structural imbalance in the world financial system. In times of global uncertainty, there is a shortage of safe assets, and investors tend to pile into United States Treasury bonds (hereafter Treasuries), forcing down the yield. As monetary policy tightens, short-term rates go up, yield curves are inverted, and balance sheet distress can cascade through the system, threatening a wider crisis.

Given the impact of monetary policy on asset prices (box 1), central banks across the advanced economies will have to find a balance between their anti-inflation measures, and financial stability concerns. The financial stress caused by recent events is leading to a reassessment of global economic prospects and risks, with markets effectively anticipating substantial interest rate cuts already this year (see figure 9).

The structural imbalance in the financial system is already having contagion effects. Developing countries are in a particularly vulnerable position due to the lack of an adequate global financial safety net (GFSN). Under normal circumstances, expectations of lower interest rates in developed countries are supportive of capital flows to developing countries. However, in the current context, uncertainty is triggering a flight to safety which is visibly hurting developing countries. Capital outflows from developing countries are accelerating, as indicated by the evolution of net investors flows to emerging market funds (section D).

Sovereign bond spreads vis-à-vis Treasuries have already widened considerably in the face of these developments. This is an indicator of heightened risk aversion as investors dump risky assets with countries in Africa particularly affected by this dynamic (figure 10). These challenges highlight the urgent need to strengthen the GFSN. The special drawing rights (SDRs) are a central part of the GFSN as well as the fast liquidity windows in the IMF and the World Bank. That is why UNCTAD, as well as the United Nations Global Crisis Response Group (GCRG), have insisted that as part of an emergency response package, a new SDR issuance should be considered to provide liquidity support to developing countries. And that the quota limits of the emergency windows have to be revised.

Box 1 Inflation targeting and the primacy of financial stability

The recent failure of SVB in the United States, and the liquidity assistance of the Swiss National Bank to Credit Suisse in Europe has raised concerns about primacy of financial stability over central banks' other concerns. Often referred to as "financial dominance" concerns, this stance contrasts with fiscal dominance and exchange rate dominance.

Under *fiscal* dominance, an increase in the interest rate to fight inflation may also push the required primary balance to stabilize public debt beyond what is politically acceptable by the citizens (Ghosh et al., 2017). In such a context of fiscal fatigue something has to give, the stance of the central bank or fiscal policy. When investors anticipate higher budget deficit and that the authorities will resort to money printing or default, the result is a "flight to quality", usually to real assets and foreign exchange. This pushes inflation up instead of down. Knowing that monetary policy will backfire, the central bank does not hike the interest rate and monetary policy becomes subordinate to fiscal policy (Blanchard, 2004).

Under *exchange rate* dominance, the economy may be in a depressed state, where the level of economic activity justifies cutting the domestic interest rate, but the central bank cannot do so because the resulting reduction in the carry trade between domestic money and foreign exchange would weaken domestic currency, which in turn will push the price of tradable products up. Cutting rates would thus lead to higher inflation through the exchange-rate channel. This kind of constraint is very common in developing countries with high capital mobility and a fully floating exchange rate (Barbosa-Filho, 2008 and 2015).

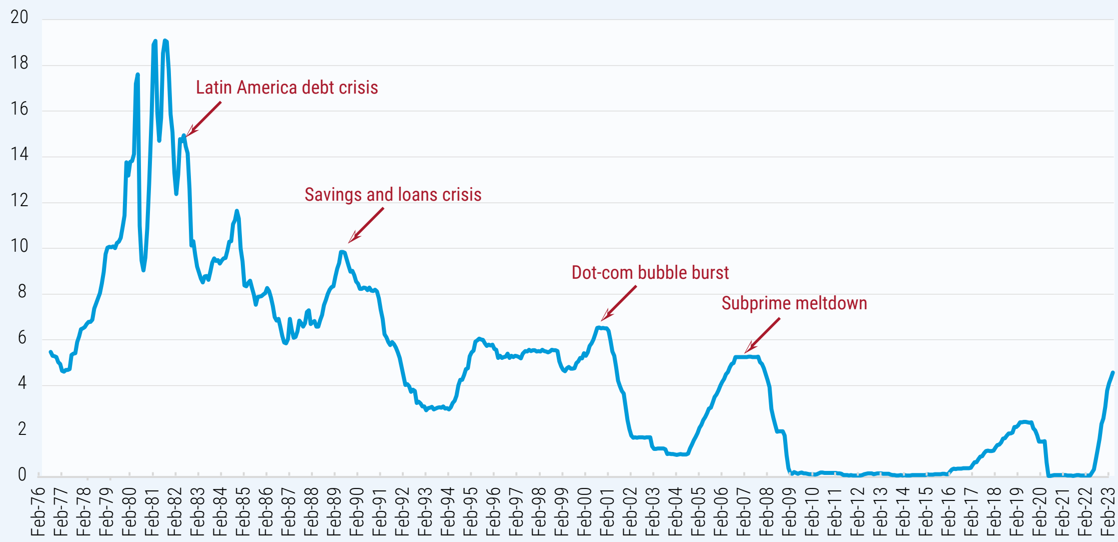
Third, by analogy with the previous cases, financial dominance arises when, say, inflation is up and unemployment is down. This triggers an increase in the interest rate and risks a financial crisis due to liquidity and/or solvency problems in the financial system (Gros and Shamsfakhr, 2021). Similarities with the current situation in the United States are apparent since most monetary tightening cycles by the Fed have ended up in heightened financial stress that inverted the direction of monetary policy itself (Minsky, 1982).

The most recent and dramatic case of financial dominance happened in 2006–2008, when the subprime meltdown first stopped and then reversed Ben Bernanke's first monetary tightening cycle. The same thing happened twice under Alan Greenspan, during the "financial crash of 1989" and the burst of the "dot-com bubble" in the early 2000s.

Going back a little further, it was not by accident that the debt crisis of 1982 coincided with the change in direction of the Fed interest rates during that same year, nor that the next hiking cycle ended precisely when the saving and loans crisis gained force at the end of 1980s.

Rather than an exception, financial dominance seems to be a common pattern in the United States economy. Asset price movements signal the need to lower interest rates to avoid major capital losses in advance of any signals from product and labour markets that it is necessary to ease monetary policy.

Figure B1 Effective federal funds rate, June 1976–February 2023
(Percentage)



Source: Federal Reserve Bank of St. Louis.

Returning to the current situation and assuming the United States is experiencing financial dominance, there are basically two scenarios facing the Fed. First, to proceed with a hawkish monetary policy using the credit crunch to accelerate disinflation and to hope that existing support mechanisms and regulations will prevent widespread bank runs, a financial meltdown and a return to recession. Alternatively, the Fed can first slow down and then quickly stop raising interest rates, accepting a slower disinflation in exchange for avoiding a financial crisis and crashing the economy.

The recent economic history of the Fed, including the most recent move, suggests that the second scenario is the more likely path it will take. The federal funds interest rate will therefore probably stop between 5.0 and 5.5 per cent in the coming months, while inflation may slows more gradually than initially expected, with output growth decelerating to an annual growth rate of about 1 per cent.

2. Global growth and trade

Global growth in 2023 (measured in constant United States dollars at market exchange rates) is expected to drop to 2.1 per cent compared to 3.1 per cent in 2022 (table 1). However, the risks are strongly on the downside with global macroeconomic conditions this year hanging in a precarious balance as monetary and fiscal policies adjust to slowing global growth and the financial fallout from a year of rising interest rates.

Table 1 World output growth, *1991–2023*
(Annual percentage change)

										Reported TDR 2022		Revision	
Country groups	1991-1999[a]	2000-2009[a]	2010-2014[a]	2015-2019[a]	2019	2020	2021	2022[b]	2023[b]	2022	2023	2022	2023
World	2.9	3.4	3.2	3.0	2.5	-3.2	5.9	3.1	2.1	2.5	2.2	+0.6	-0.0
Africa	**2.4**	**5.5**	**2.7**	**3.0**	**2.6**	**-2.3**	**4.4**	**3.0**	**2.5**	**2.7**	**2.4**	**+0.3**	**+0.2**
North Africa (incl. South Sudan)	2.7	5.3	-1.9	4.1	2.3	-3.1	4.6	2.3	2.9	3.0	2.4	-0.6	+0.5
South Africa	2.7	4.0	2.5	1.0	0.3	-6.3	4.9	2.0	-0.3	1.4	1.3	+0.6	-1.6
Sub-Saharan Africa (excl. South Africa and South Sudan)	2.0	6.4	6.3	2.9	3.4	-0.7	4.2	3.6	3.0	2.8	2.6	+0.8	+0.4
America	**3.4**	**2.5**	**2.4**	**1.9**	**1.7**	**-3.8**	**6.0**	**2.5**	**1.1**	**2.1**	**1.0**	**+0.4**	**+0.1**
Latin America and the Caribbean	3.3	3.5	3.4	0.1	-0.3	-7.2	6.7	3.9	1.3	2.6	1.1	+1.3	+0.2
Central America (excl. Mexico) and Caribbean	2.8	4.4	3.5	3.1	2.2	-8.6	8.0	4.3	2.5	3.7	2.5	+0.6	-0.1
Mexico	3.0	1.9	3.2	2.1	-0.2	-8.3	5.0	3.1	1.8	1.8	1.4	+1.2	+0.4
South America	3.4	3.9	3.4	-0.9	-0.8	-6.6	7.1	4.1	0.9	2.7	0.7	+1.4	+0.2
Argentina	4.6	3.8	2.7	-0.3	-2.0	-9.9	10.3	5.4	-0.5	4.1	-0.8	+1.3	+0.3
Brazil	2.9	3.6	3.2	-0.4	1.2	-3.3	5.0	2.9	0.9	1.8	0.6	+1.1	+0.3
North America	3.4	2.3	2.1	2.3	2.3	-3.0	5.8	2.2	1.0	2.0	1.0	+0.2	+0.0
Canada	2.8	2.3	2.6	2.0	1.9	-5.1	5.0	3.4	2.1	3.2	2.2	+0.2	-0.0
United States	3.5	2.3	2.1	2.3	2.3	-2.8	5.9	2.1	0.9	1.9	0.9	+0.2	+0.0
Asia (excl. Cyprus)	**4.3**	**5.6**	**5.7**	**4.8**	**3.8**	**-1.0**	**6.3**	**3.6**	**4.0**	**3.5**	**4.1**	**+0.0**	**-0.1**
Central Asia	-4.4	8.3	6.8	3.4	3.8	-1.2	5.5	4.4	4.4	3.6	3.5	+0.8	+0.9
East Asia	4.4	5.6	5.8	4.8	4.1	0.3	6.4	2.6	3.9	3.2	4.3	-0.6	-0.4
China	11.0	10.6	8.6	6.8	6.0	2.2	8.1	3.0	4.8	3.9	5.3	-0.9	-0.5
Japan	1.2	0.9	1.4	0.9	-0.2	-4.5	1.6	1.6	1.6	1.0	1.8	+0.6	-0.2
Republic of Korea	6.8	4.9	3.6	2.9	2.2	-0.7	4.1	2.6	1.9	2.2	2.0	+0.4	-0.1
South Asia	4.7	6.3	5.4	6.0	3.6	-4.2	7.2	5.7	5.1	4.9	4.1	+0.9	+1.0
India	5.9	7.2	6.6	7.0	4.5	-6.6	8.3	6.6	6.0	5.7	4.7	+0.8	+1.3
South-East Asia	5.3	5.4	5.6	5.0	4.4	-3.7	3.7	5.4	4.1	4.1	3.8	+1.3	+0.3
Indonesia	4.8	5.2	5.8	5.1	5.0	-2.1	3.7	5.2	4.6	4.3	4.4	+0.9	+0.3
Western Asia (excl. Cyprus)	4.1	5.0	5.5	2.9	1.4	-3.2	6.4	6.1	3.1	4.1	2.9	+2.0	+0.2
Saudi Arabia	1.7	4.0	5.8	1.9	0.8	-4.3	3.9	8.6	3.6	6.6	3.9	+2.0	-0.3
Türkiye	3.9	5.0	7.6	4.3	0.9	1.8	11.6	4.6	2.6	2.4	2.4	+2.1	+0.2
Europe (incl. Cyprus)	**1.3**	**2.2**	**1.2**	**2.1**	**1.8**	**-6.1**	**5.6**	**2.9**	**0.5**	**1.2**	**0.5**	**+1.7**	**-0.0**
European Union (EU 27)	1.9	1.8	0.8	2.2	1.8	-5.7	5.4	3.5	0.8	2.0	0.6	+1.4	+0.1
Euro area	1.9	1.6	0.6	2.0	1.6	-6.2	5.3	3.4	0.7	2.0	0.6	+1.4	+0.1
France	1.8	1.6	1.1	1.7	1.8	-7.8	6.8	2.6	1.0	2.0	1.0	+0.6	-0.0
Germany	1.6	1.0	2.0	1.8	1.1	-3.7	2.6	1.9	0.0	1.1	0.0	+0.8	+0.0
Italy	1.5	0.7	-0.8	1.1	0.5	-9.0	6.6	3.7	0.7	2.5	0.5	+1.2	+0.2
Russian Federation	-5.9	6.2	3.1	1.2	2.2	-2.7	5.6	-2.1	-1.3	-7.4	1.3	+5.3	-2.7
United Kingdom	2.3	2.0	1.8	2.1	1.6	-11.0	7.5	4.1	0.0	2.6	-0.9	+1.5	+0.9
Oceania	**3.6**	**3.2**	**2.8**	**2.6**	**2.1**	**-2.1**	**4.8**	**3.8**	**1.9**	**3.6**	**2.1**	**+0.1**	**-0.3**
Australia	3.7	3.3	2.8	2.5	2.0	-2.1	4.8	3.9	1.8	3.9	2.3	+0.0	-0.4
Memo items:													
Developed (M49, incl. Republic of Korea)	2.3	2.2	1.7	2.1	1.8	-4.3	5.3	2.5	0.9	1.7	1.0	+0.9	-0.0
Developing (M49)	4.9	6.4	5.8	4.4	3.6	-1.6	6.9	3.8	3.9	3.7	3.9	+0.1	-0.0

Source: UNCTAD secretariat 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 2023*; and national sources.
Note: Calculations for country aggregates are based on GDP at constant 2015 dollars.
[a] Average.
[b] Forecasts.

Financial distress in developing countries and private financial institutions in developed countries, heightened by rising borrowing costs, can trigger a crisis that may spread to the real economy through highly leveraged sectors, such as non-financial corporations and real estate. If central banks in developed countries continue to increase policy rates, losses for holders of existing bonds will mount as will the financial burden for developing countries facing the threat of capital flight and currency declines as they look to rollover their debts.

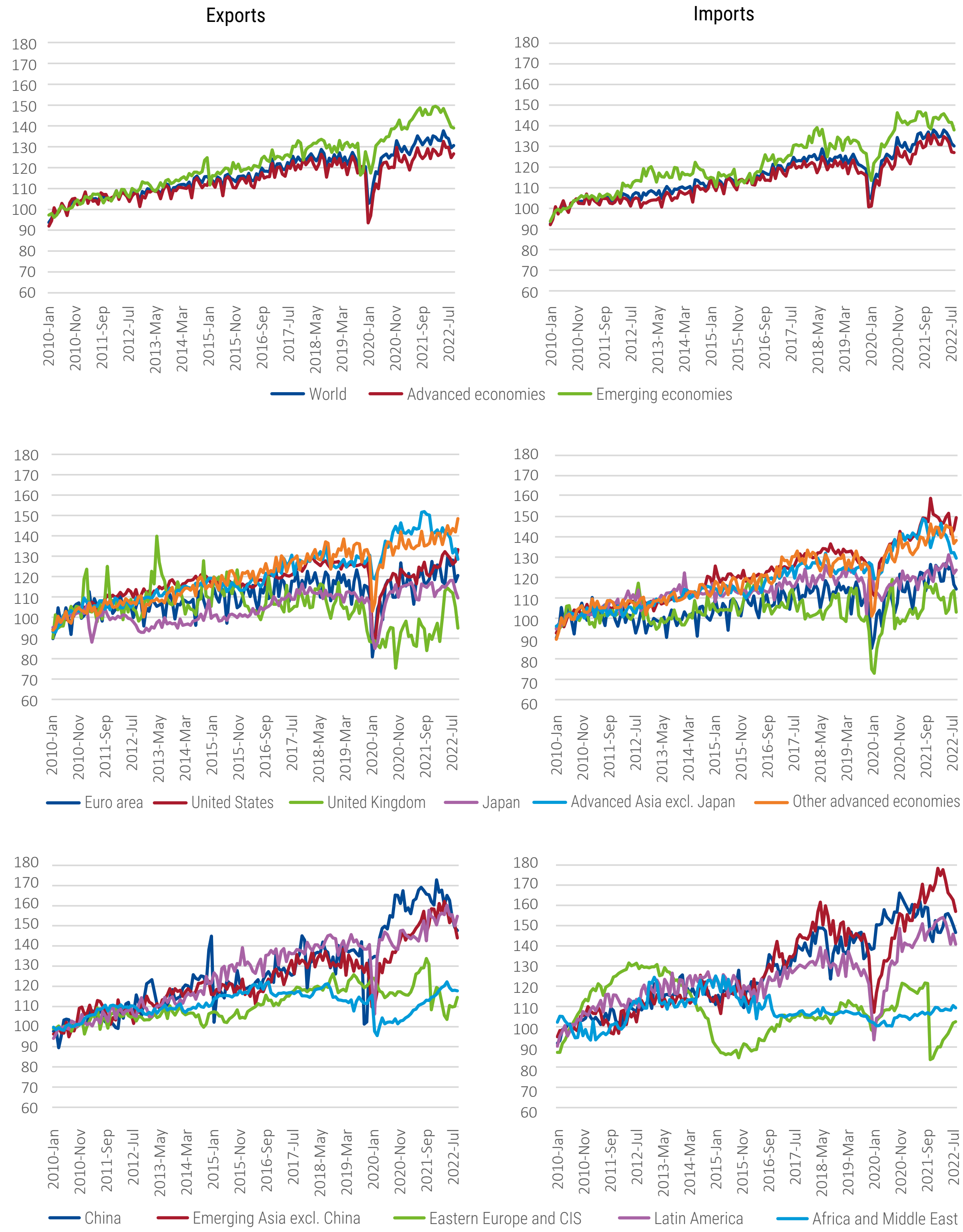
The global average results from a slight downward revisions for developed and developing countries. In developed countries, fiscal policy in 2022 retrenched more gradually than anticipated, likely in response to concerns that monetary tightening would choke off demand quickly and in order to cushion the energy crisis in the fall. In fact, household consumption contracted in most large economies, as real wages stagnated or decreased, but business investment held up. In 2023, the combined impact of higher interest rates and high energy prices (even though not as high as in early 2022) with receding fiscal support is expected to further weaken household spending for consumption and residential investment. Business investment is also expected to slow down further or contract in response, as already witnessed in real estate, to weakening aggregate demand. This will leave annual growth well below the performance registered before the pandemic hit.

Uneven growth across the developing world will remain a significant feature in 2023. China's expected return to stronger growth, close to its target of 5 per cent, will have positive knock-on effects on neighbouring developing countries and beyond. However, this will be partly offset by persistent weakness elsewhere, particularly in Latin America. In many developing countries, fiscal space and the overall fiscal stance remain unstable, as external financial conditions make debt servicing costs more difficult to anticipate, while softening commodity prices bring extra revenues to an end for exporters. Overall, pressure on developing countries to reduce fiscal deficits is expected to increase, while their role in global value chains is affected by strategic reshoring and "friendshoring" in the changing geopolitical situation.

Growth of global merchandise trade reached 2.7 per cent in 2022. This expansion of trade was almost at par with global output as expected in the *Trade and Development Report 2022*. This confirms that the 9.4-per cent boom registered by trade in 2021 was short-lived and partly due to a low base effect (UNCTAD, 2023). This figure also shows that the elasticity of trade to economic output has returned close to unity – a pattern observed in the post-GFC era, which contrasts with the two pre-GFC decades when such metric used to exceed two.

Although the annual growth of world trade was positive last year, on a monthly basis, international trade saw declining patterns across the board during the second half of 2022 and especially during the last quarter (figure 1). In volume terms, global trade was down 2 per cent (quarter on quarter) during the fourth quarter of 2022, while in dollar terms, the decline was almost twice this rate, because key commodity prices continued receding from their peak of the second quarter. This downward trend partly resulted from difficult supply conditions owing to the delicate COVID-19 situation in China – which also spilled over into its neighbouring trade partners – before the country started to relax its pandemic restrictions. Also, manufacturers and distributors worldwide tried to reduce excess inventories after over-ordering due to the supply chain disruptions in 2020 and 2021. Under these circumstances, Kemp (2023) notes that the slowdown in global trade in late 2022 had been more severe than the ones observed at the onset of the latest recessions (2001, 2008 and 2020) or at mid-cycle slowdowns (2013 and 2015).

Figure 1 World merchandise trade, January 2010–January 2023
(Index numbers, average 2010=100)

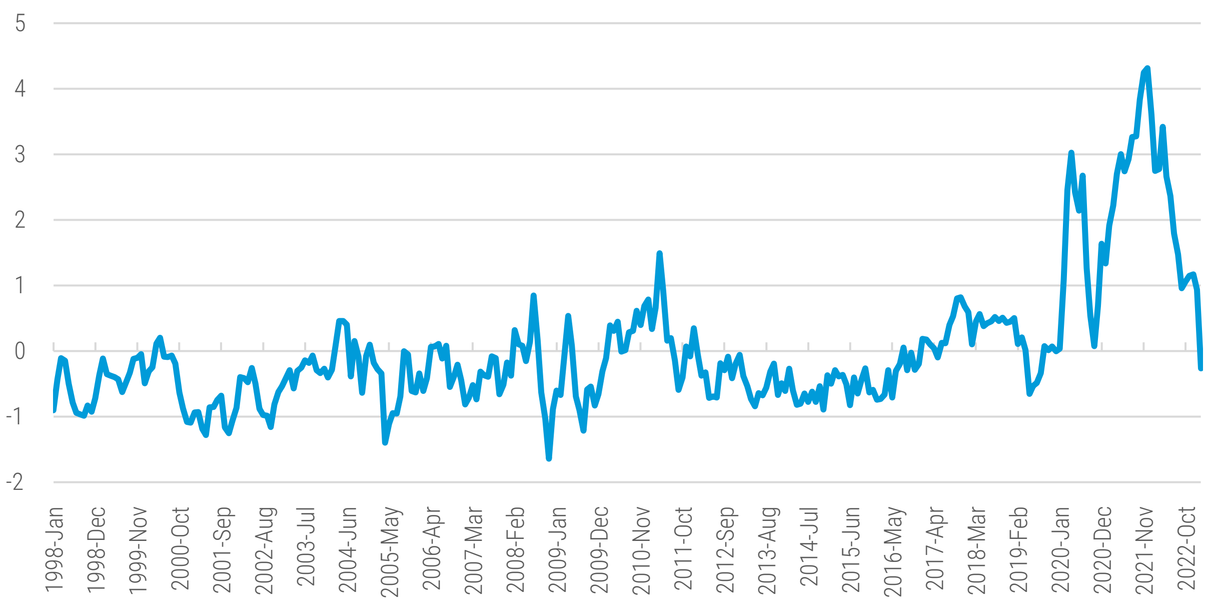


Source: CPB Netherlands Bureau for Economic Policy Analysis, *World Trade Monitor* database.
Note: The figures refer to data at constant prices. Country group classification relies on Ebregt (2020).

Over the course of 2023, trade is expected to initially pick up owing to a normalization of the inventory cycle and the rebound of China's economy. Also, recent movements of the Global Supply Chain Pressure Index (GSCPI) show that global supply chain conditions in many key markets have returned to normal after experiencing temporary setbacks, albeit relatively mild, around the turn of the year. As a result of its strong decline in February 2023, GSCPI decreased even below its historical average, the first time this index landed again in negative territories since August 2019 (figure 2). Altogether these diverse normalizing patterns are expected to support trade, though these effects are likely to be moderate and also relatively short-lived.

Yet, world trade is facing several headwinds. First, weaker economic activities worldwide will inevitably result in feebler external demand, and thus subdued international trade. Second, tighter financial conditions will affect primarily investment, which is more trade-intensive than other components of aggregate demand. Also, continuing trade conflicts between China and the United States or Europe will be other drags on trade. As a result, the annual growth of international trade is expected to remain close to the growth of the world economy in 2023, though this forecast remains subject to high uncertainties.

Figure 2 Global supply chain pressure index (GSCPI), January 1998–February 2023
(Standard deviations from average value)



Source: Benigno et al. (2023).
Note: The index is normalized such that a zero indicates the index is at its average value, with positive values representing how many standard deviations the index is above this average value (and negative values representing the opposite).

3. Regional prospects

Americas

Gross domestic product in the United States expanded 2.1 per cent in 2022, close to the previous estimate of 1.9 per cent (*TDR, 2022*). For 2023, growth is expected to more than halve. This is below the figure foreseen last September, on the assumption that the credit crunch arising from increased financial risks will not be fully offset by an earlier than expected halt in monetary tightening. A possible upside could still arise from stronger improvements in the construction sector in the second half of the year.

In 2022, Latin America's largest economies expanded faster than initially expected. Mexico grew 3.1 per cent, compared to the initial projection of 1.8 per cent (*TDR, 2022*). In 2023, the Mexican economy is expected to expand by the same rate, which will still be a substantial deceleration in comparison to 2022, pulled mostly by the continuing disinflationary policy of the Central Bank of Mexico.

Brazil grew 2.9 per cent instead of 1.8 because of fiscal expansion and the rebound in world commodity prices. Since these two forces are no longer in action, UNCTAD expects Brazil's GDP to decelerate to 0.9 per cent in 2023. The slower growth will come from a restrictive fiscal policy together with the delayed recessive effects of the sharp monetary tightening by its Central Bank in 2022.

Argentina benefitted from favourable international conditions in 2022 growing 5.4 per cent instead of 4.1. However, for 2023, we continue to expect a substantial deceleration with a contraction of 0.5 per cent due to falling agricultural production (for climatic reasons) and an increase in monetary and exchange-rate uncertainty (due to rising inflation and the October presidential election).

Disinflation policies, coupled with current-account constraints, are expected to put the brakes on growth in Chile, Colombia, and Ecuador. Central America and the Caribbean are projected to decelerate more mildly in 2023, owing to a rebound of tourism.

Europe

In 2022, the three largest economies of the European Union – Germany, France and Italy – regained their pre-pandemic levels of real income. For Germany and Italy, however, the year was not entirely one of catching up: in the last quarter of 2022, economic activity contracted compared to the previous quarter. Aggregate data for the European Union reflect this oscillation, with a recovery in the first half of the year and a slight contraction toward year's end.

Since the publication of *TDR 2022*, economic growth in Germany has been dragged down by falling private consumption expenditure, which was hit by falling real wages, and falling investment, both private and government. The economy has been buoyed by an improvement of the trade balance, which turned around after a year of deterioration, and by an increase in the Government's current expenditure, which includes compensation of military personnel. These positive forces were not enough to push the whole economy into growth territory. Recent data for the first quarter of 2023 indicate that, although input prices have eased, Germany's economy is facing stagnating or contracting demand for its manufacturing product. Advance indicators thus point to contracting industrial production. In this context, Germany is forecast to experience no growth in 2023.

The French economy suffered a contraction of real private consumption expenditure in the last quarter of 2022, as households were affected by falling real wages, the impact of which was softened by government subsidies and price controls through State-owned energy companies. The drag on growth exercised by private consumption was outweighed by moderate expansions in private investment and government spending on goods and services (in the form of both investment and government employment) as well as by a slight improvement in the external balance. In 2023, the French economy is expected to grow 1.0 per cent.

Italy experienced contracting consumption demand, with household spending hit by falling real wages, especially for energy, but the economy was sustained by moderately expanding private investment and government spending. The country's economy was also buoyed by an improved trade balance in the last quarter of 2022. With energy prices easing, early data point to a recovery of real household spending in 2023. The country is projected to grow 0.7 per cent in 2023.

By the end of 2022, the United Kingdom had not yet regained its pre-pandemic level of real income. It experienced a recovery in the first half of the year but stagnated in the last quarter, mostly due to two factors: falling real household consumption, due to falling real wages, and a deteriorating external balance. Moderate expansion of private investment and government spending on goods and services were able to keep the economy from contracting but were short of the investment push necessary to build up the economy's manufacturing sector in response to Brexit. The United Kingdom is forecast to continue to deal with this transition in 2023 and to stagnate throughout the year.

Russian Federation

Provisional data indicate that in 2022 the Russian GDP contracted by 2.1 per cent. The impact of sanctions has been smaller than many predicted. There are two main reasons behind the relative resilience of the Russian economy. First, capital controls and stimulus measures introduced by the government in spring 2022 have helped avoid a crisis of the financial system and support the rouble. Second, the adaptability of trade and business links, with redirected exports in the face of external sanctions supporting domestic retail trade and production. Also, during the course of 2022, the decline in household final consumption expenditure, which is in part related to the winding down of demand stimulus measures such as preferential mortgages, has had a negative impact on economic growth. Partly this loss has been compensated through government support to individual sectors. Looking ahead, the Russian economy is expected to contract by 1.3 per cent in 2023, with inflation fluctuating around 6 per cent and pressures on the federal budget increasing.

Japan and East Asia

Japan had not yet regained its pre-pandemic level of real income by the end of 2022. However, the year was one of catching up for its economy, with expanding demand across the board. Household consumption increased, thanks to stable real wages, as did private investment and government spending. The economy also benefited from a recovery of its trade balance in the last quarter of 2022, despite a depreciated currency vis-à-vis the dollar and the euro. Altogether, the Japanese economy is forecast to grow 1.6 per cent in 2023.

East Asia's GDP growth declined sharply to 2.6 per cent in 2022, following a rebound of 6.4 per cent in 2021. The 2022 regional figure is 0.6 percentage point below its previous estimate (*TDR, 2022*), owing to a slowdown in China, which adversely impacted several economies across East Asia and beyond. Following changes in the Chinese zero-Covid strategy, regional economic activity is expected to expand moderately at a rate of 3.9 per cent in 2023.

China grew 3.0 per cent in 2022, following a contraction that lasted through the third quarter. In the fourth quarter, the relaxation of the zero-Covid measures led to an uptick. All components of GDP decelerated strongly in 2022, especially private consumption and external demand. In a context of slowing trade expansion, China's current account remained positive.

Inflationary pressures remained mild in China. With non-performing loans in real estate still burdening the financial sector, China's monetary policy remained accommodative and interest rates were lowered last August, against the global trend. Also, fiscal policy is expected to become more supportive. China's GDP growth is expected to pick up to 4.8 per cent in 2023.

The Republic of Korea slowed down to 2.6 per cent in 2022 and is expected to decelerate to 1.9 per cent in 2023. The ongoing slowdown has been driven by falling exports in the second and third quarter, particularly in the electronics sector, related to supply bottlenecks in China. It was further enabled by a more neutral fiscal stance and aggressive monetary tightening, which already started in August 2021. Inflation, however, rose above 5 per cent in 2022 pushed by the country's strong dependence on imported fossil energy.

South Asia

South Asia registered growth of 5.7 per cent in 2022, 0.9 percentage points higher than projected in *TDR 2022*. However, the stark rise in already high poverty rates has not abated yet. UNCTAD expects the region to expand at a still fast pace of 5.1 per cent in 2023, driven by the growth of its largest economy, India. Strong dependence on extra-regional fossil imports will keep the region vulnerable to inflationary pressures, which may trigger further monetary tightening while public spending may be curtailed by budgetary pressures.

India grew 6.6 per cent in 2022, ceding the pole position among G20 countries in 2022 to oil-rich Saudi Arabia. The positive effect of high public and private investment and consumption as well as rising exports was partly offset by higher energy import bills, which deepened the current account deficit and ate up reserves. The Reserve Bank of India started tightening its policy stance during the spring of 2022 to limit damage caused by foreign capital outflows, a weakening currency and inflation risks. Higher financing cost slightly dented buoyant economic activity, and over-leveraging in the corporate sector may become a factor of financial instability. In view of financing its growth ambitions, the Indian Government has committed to massive infrastructure investment. In 2020 and 2021 and in the energy sector alone, funds amounting to $160 billion had been committed to fossil and non-fossil projects alike. Meanwhile, as current government spending has been weakening, but export orders remain on the rise, GDP growth is projected to decelerate to 6.0 per cent in 2023.

Highly indebted South Asian countries, such as Sri Lanka or Bangladesh, will keep facing pressures from external creditors to cut public spending and cancel social, productive and climate adaptation investments. Meanwhile, Pakistan may register a rebound as the country progressively recovers from the floods of 2022, which generated loss and damage amounting to an estimated 8 per cent of GDP (section E).

South-East Asia

South-East Asia expanded by 5.4 per cent in 2022. In 2023, growth in the region is expected to decelerate to 4.1 per cent in the context of sluggish growth of global trade and continued monetary tightening in advanced economies exerting negative ripple effects on developing economies.

The Indonesian economy grew by 5.2 per cent in 2022, a strong performance largely resulting from the lifting of COVID-19 restrictions, favourable conditions for energy and commodity exports as well as the accommodative stance of the central bank during the first half of the year. As authorities initiated monetary tightening in August 2022, household consumption started weakening, but supply-side induced inflationary pressures remain. Indonesia, like other developing economies, is caught in the double bind of economic development and climate targets and has limited policy space to invest in clean energy and reconcile these objectives. As the 2023 budget aims at bringing the Government deficit down to 3 per cent of GDP, including by rolling back fuel subsidies by 30 per cent, economic expansion is projected to decelerate to 4.6 per cent in 2023.

West Asia

In 2023, West Asia is expected to grow by 3.1 per cent; almost half the 6.1 per cent registered in 2022 following the strong recovery from the COVID-19 pandemic. Commodity-importing countries are particularly exposed to energy and food prices. These pressures may be aggravated by rising interest rates and tightening of international financing conditions. Meanwhile, in the region's commodity-exporting countries, higher fiscal revenues from energy exports have opened large fiscal space to provide relief to households from increased consumer prices.

Several countries in the region face additional risks emanating from conflict and political unrest.

The State of Palestine is exposed to serious risk and uncertainty. Escalating confrontations with Israel and security deterioration compound longstanding, pre-existing vulnerabilities. In the Syrian Arab Republic, a devastating earthquake in February 2023 and the ongoing armed conflict suggest that economic performance this year will be one of the weakest in the region.

In Saudi Arabia, growth in 2023 is expected to be 3.6 per cent; down from 8.6 per cent registered in 2022. Saudi Arabia's robust performance was driven by the oil sector in line with the output increases contained in the OPEC+ agreement. In fact, Saudi Arabian Oil Company (Aramco) announced a record $161 billion net income in 2022. Increased fiscal revenues from oil exports will continue to help finance the government's ambitious public investment plans, particularly for large-scale infrastructure projects. Improved revenues from oil exports also secure resources for the fiscal packages aimed at mitigating inflationary pressures on households.

In February 2023, Türkiye suffered a devastating earthquake that caused an estimated $34.2 billion in direct physical damages, or 4 per cent of GDP. Reconstruction and recovery costs will be much larger, potentially twice as large (World Bank, 2023). Though earthquakes usually take a gigantic toll on existing assets and affect negatively economic activity in the short term, subsequently, large-scale rebuilding activities add to GDP. In this context, Türkiye's GDP is expected to grow by 2.6 per cent in 2023, though this forecast is subject to significant uncertainties. In 2022 Türkiye's inflation rate topped 70 per cent, owing partly to the continued depreciation of the Turkish Lira. The cost of servicing the country's considerable foreign-denominated debt increased, while tightening global financing conditions heaped additional challenges. The upshot is sharply reduced fiscal space.

Africa

In 2023, Africa is projected to expand 2.5 per cent, a drop from last year and at a pace insufficient to make a dent in poverty levels. Like in other developing regions, weaker external demand and tighter financial conditions have made growth prospects gloomier for the region. In the case of commodity exporters, the fading of the initial effects of the 2022 price boom will add to the equation. Rising global interest rates have triggered significant capital outflows and have further constrained fiscal space, at a time when public finances were already severely affected by costly subsidy schemes aiming at contending the adverse effects of high food and energy prices.

Under these circumstances, the risk of stagflation is a key concern for many African economies. In approximately half of the countries, inflation remained double digits in early 2023. In many instances, these recent inflation spikes relate to the continuing depreciation of several African currencies in early 2023 – often following a loss in 2022 of 10–30 per cent of their value vis-à-vis the dollar.

Public debt, in many cases standing at levels not seen since the early 2000s, is another worry across the continent. Out of the 38 African countries that are part of the Debt Sustainability Framework (DSF) of IMF and World Bank, 8 entities are already "in debt distress", while 13 are considered "at high risk" of distress.[1] Furthermore, many African economies are approaching a maturity wall as maturities on international bonds issued in the previous decade are expected to peak in 2024 and to remain elevated for the next decade, with most governments unable to tap international capital markets to roll over maturing debts.

Country-specific challenges and idiosyncratic shocks in large African economies also contributed to the grimmer aggregate outlook of the region. In South Africa, persisting disruptions in electricity supply, including more intensive load-shedding will keep raising input costs for producers looking for costlier energy alternatives, and overall, greatly affect economic activity. In Nigeria, a shortage of cash, triggered by the replacement of the highest denominations of the country's currency, hobbled the economy, especially the informal sector. Meanwhile, the continuing decline of oil production, accompanied by large-scale oil theft, poses a main threat to strained finances in Africa's most populous nation. In Egypt, a foreign currency shortage has hit badly the import-dependent economy, forcing the Government to accept an agreement with the IMF for the fourth time in six years and to plan a vast privatization programme.

On the positive side, Africa's tourism-dependent economies recovered altogether about two thirds of their pre-pandemic visitors in 2022 (UNWTO, 2023), while this upward trend is expected to continue over the year. Also, the reopening of the Chinese economy is expected to boost demand for key commodities such as iron ore, platinum, copper and steel in early 2023, though such initial boost might not continue throughout the entire year since China's commodity-intensive construction sector is unlikely to grow at a fast pace in the years ahead.

Overall, risks remain tilted to the downside. The rising domestic cost of living and a deteriorating security situation remain of a key concern in many parts of the continent. More than 116 million African people are currently in acute food insecurity according to the latest projections of WFP and FAO (2022).

C. INFLATION WOES: THE LIMITS OF MONETARY TIGHTENING

Achieving price stability without sacrificing growth has remained a challenge for policymakers in most advanced economies. In the final quarter of 2022, with inflationary pressures still entrenched, central banks continued to hold to strict inflation targets and to tighten monetary policy in an effort to squeeze any "excess demand" out of the economy; both the Fed and the ECB (from a lower starting point) raised rates over the final three months of the year, by 175 and 225 basis points respectively, with similar moves by other leading central banks.

[1] https://www.imf.org/external/pubs/ft/dsa/dsalist.pdf

This happened despite mounting evidence that pointed away from excess demand and to supply-related problems. Calls were voiced for a new monetary normal around a higher inflation target, which would ease the restrictive pressures on the Fed and the ECB, without sacrificing too much in terms of efficiency and price volatility. Some observers suggested central banks should adopt a 3-per cent target (Blanchard, 2022) while others proposed a more flexible target varying, for example, between 2 and 4 per cent (Stiglitz, 2023).

With the heightened financial instability discussed earlier now taking centre stage in central bank decisions the willingness of governments to use a broader set of policy instruments to deal directly with the multiple sources of current inflationary pressures, including rising profit margins in some key sectors, would seem the right move. Doing so would, moreover, help alleviate the undue financial pressure facing many developing countries as interest rates have risen.

As discussed in the *Trade and Development Report 2022*, the first signs of accelerating inflation began to appear in the United States and in some emerging markets in the early months of 2021. Various temporary factors contributed to the initial acceleration, as well as some factors that eventually proved more persistent. Disruptions to global trade impacted availability and cost of imports; looser health restrictions and the wealth effect of extra-loose monetary policy drove consumption demand in key markets, while small increases in the real wages of lower income groups created some cost pressure. The well documented pro-cyclical pricing behaviour of producers and retailers also began to kick in. By the third quarter of 2021 prices were rising at a pace last seen just before the GFC but not noticeably dissimilar from earlier recovery episodes (figure 3).

At that point key policy decisions were taken, which defined the subsequent path of inflation and growth.

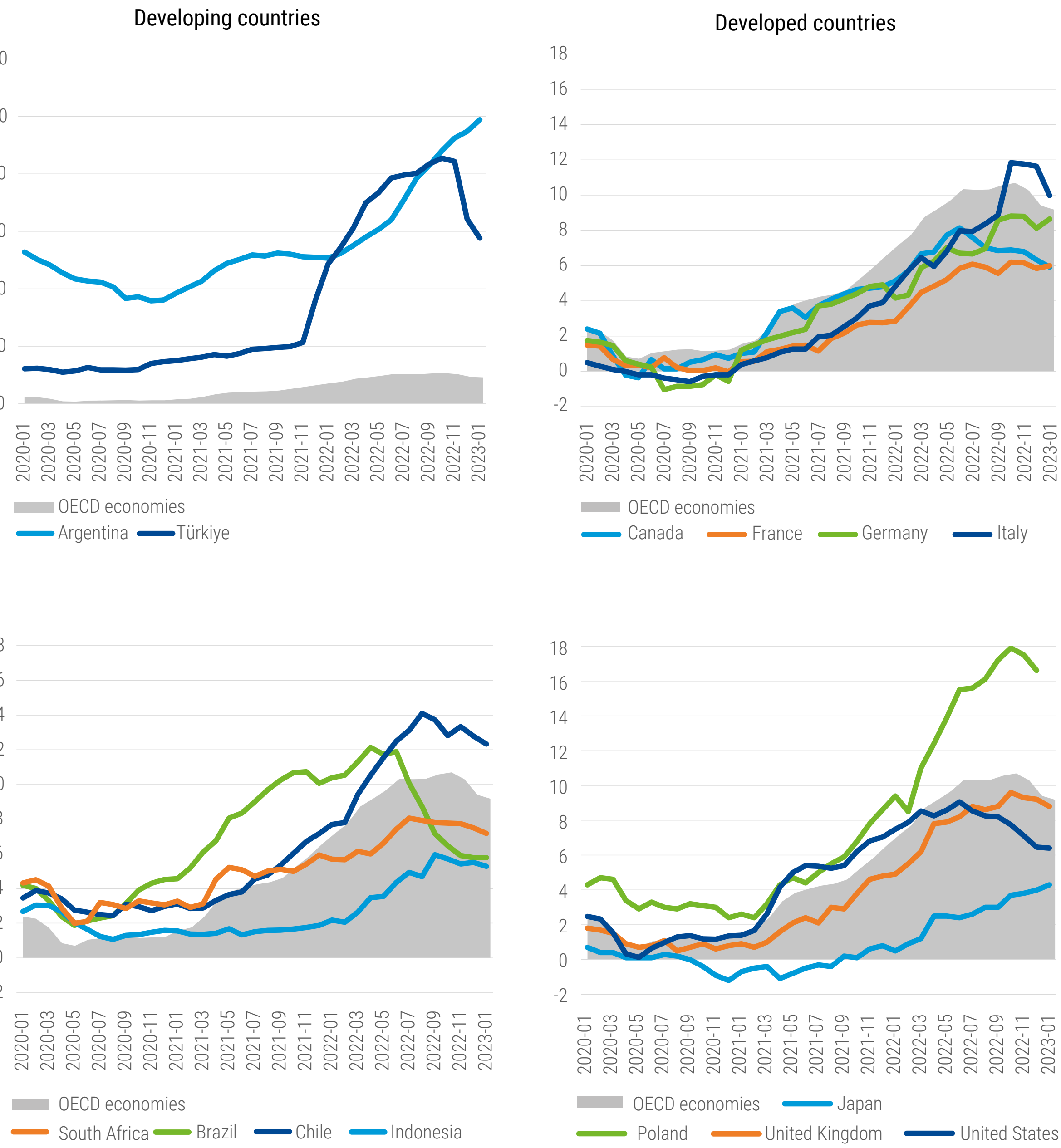
First, failure to distribute effective vaccines worldwide prolonged the pandemic, allowing some of the more temporary factors to linger on, eventually interacting with an increase in commodity prices, triggered largely in futures markets. As the war in Ukraine began, some commodity prices spiked up, raising inflation rates further, especially in the European Union (see *TDR, 2022*: 61-62 and 88-89 for a discussion of energy commodity prices).

Second, as the focus of policymakers turned to the threat of a wage-price spiral and accompanying expectational consequences (a worry, which would turn out to be mostly unfounded), the danger from speculative pressures on commodity prices as well as retail and producers' price-setting practices was ignored or missed altogether. As a result of this policy myopia, prices in some key sectors with a direct bearing on the cost of living, such as natural gas, food and the rental housing sector, continued to rise alongside a sharp increase in profit margins (see subsection C.1).

Where data is available, as in the European Union, the United Kingdom and the United States, there is clear evidence of a significant contribution of higher profit margins to inflation coming out of the pandemic (Bivens, 2022; Ferguson and Storm, 2022; Hayes and Jung, 2023; Onaran, 2023; Schnabel, 2022; Weber and Wasner, 2023) and indirect indicators suggest that similar dynamics have been at play elsewhere, including in developing countries (*TDR, 2022*: 27).

Inflation appears to have peaked in the final quarter of 2022 in most regions. Since then, the energy component has weakened thanks also, in some cases, to the introduction of price caps. However, starting with developed countries, table 2 shows that, in some members of the European Union, the cost of food items has risen significantly. A similar trend is visible in the United Kingdom and, to a smaller extent, in the United States.

Figure 3 Consumer price index, selected economies, January 2020–January 2023
(Year-on-year percentage change)



Source: OECD.Stat.

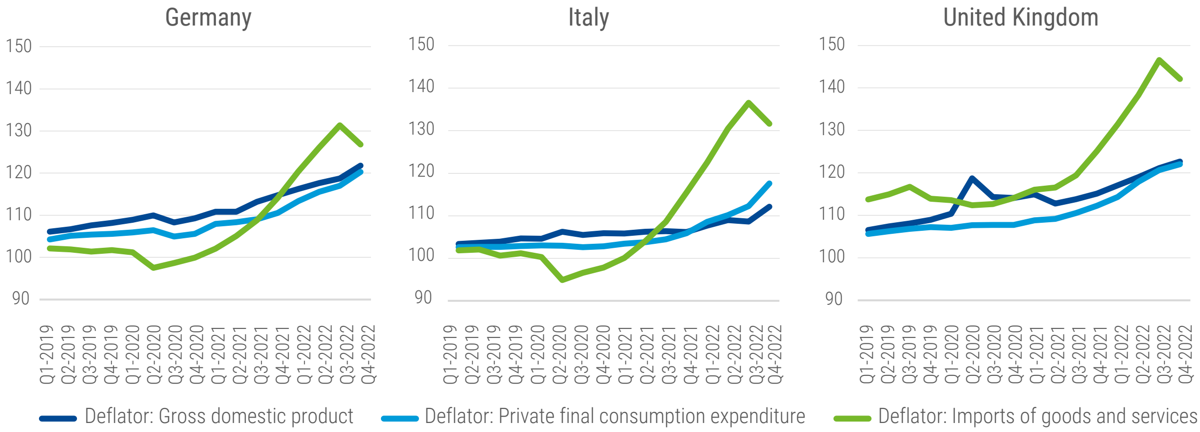
Table 2 CPI inflation rates and contributions, selected developed countries, 2018–2023

		Annual CPI inflation (Year-on-year percentage change)											Weight (%)	Contribution to total inflation (%)			
		2018	2019	2020	2021	2022	Q1-2022	Q2-2022	Q3-2022	Q4-2022	Jan.23	Feb.23	2021/22	2021	2022	Jan.23	Feb.23
France	All items	1.9	1.1	0.5	1.6	5.2	3.7	5.3	5.8	6.1	6.0	*6.3					
	Food	2.0	2.4	2.0	0.6	7.3	2.4	5.0	8.7	12.9	14.2	*14.8	14.6	5.0	19.8	34.1	33.9
	Energy	9.4	1.8	-6.0	10.6	23.7	23.9	29.6	23.4	18.0	16.3	*14.1	9.1	54.6	40.0	24.3	20.0
	Non-food non-energy	1.1	0.8	0.9	1.0	2.8	1.8	2.7	3.3	3.3	3.2	*3.8	76.4	40.4	40.1	41.1	46.0
Germany	All items	1.7	1.4	0.1	3.1	6.9	4.8	6.7	7.4	8.6	8.7	8.7					
	Food	2.3	1.2	2.1	3.1	12.5	5.3	10.1	15.5	19.2	19.2	20.7	11.9	12.1	21.8	26.5	28.5
	Energy	4.6	1.4	-4.2	10.9	30.1	25.3	33.8	31.4	30.1	24.0	20.0	7.4	26.4	32.6	20.6	17.1
	Non-food non-energy	1.3	1.5	0.3	2.3	3.9	2.9	3.7	4.0	5.0	5.7	5.9	80.7	61.4	46.1	52.9	54.7
Poland	All items	1.7	2.3	3.4	5.1	14.3	9.6	13.9	16.3	17.3	*16.6	*18.4					
	Food	2.6	4.9	4.8	3.2	15.4	8.7	13.5	17.4	21.9	*20.6	*24.0	26.6	16.3	28.6	33.0	34.6
	Energy	3.6	-0.4	-0.6	12.1	29.8	21.6	33.1	35.3	29.2	..	..	17.2	40.1	35.8	..	..
	Non-food non-energy	0.7	2.0	3.9	4.1	9.1	6.6	8.4	10.0	11.3	..	..	56.2	44.3	35.6	..	..
United Kingdom	All items	2.3	1.7	1.0	2.5	7.9	5.5	7.9	8.7	9.4	8.8	*9.2					
	Food	2.1	1.4	0.7	0.3	10.9	5.1	8.4	13.5	16.6	16.8	*18.2	9.4	1.1	12.2	17.2	18.8
	Energy	6.9	2.1	-6.6	9.4	46.7	24.5	53.9	52.9	55.2	50.7	*41.2	6	20.3	35.7	35.4	29.2
	Non-food non-energy	1.9	1.7	1.5	2.3	5.3	4.5	5.3	5.6	5.8	5.3	*5.7	84.7	78.5	52.4	47.9	52.0
United States	All items	2.4	1.8	1.2	4.7	8.0	8.0	8.6	8.3	7.1	6.4	6.0					
	Food	0.5	0.9	3.5	3.5	11.4	8.7	11.7	13.2	12.1	11.4	10.1	8	5.5	11.5	14.9	14.3
	Energy	7.5	-2.1	-8.5	21.3	25.5	28.3	35.6	25.5	12.7	8.7	5.2	7.7	31.8	25.5	11.3	7.2
	Non-food non-energy	2.1	2.2	1.7	3.6	6.2	6.3	6.0	6.3	6.0	5.6	5.5	84.4	63.3	62.6	74.0	78.4

Source: OECD.Stat and national sources.
Note: Figures with asterisk (*) are filled from national sources. Weights are measured as percentage of the National CPI Total. 2021 weights are used for 2021 contributions, 2022 weights are used for 2022 and 2023 contributions. The table column shows the average of 2021/22 weights.

At the same time, the import component of the price deflator has begun a descent, which suggests that domestic pricing dynamics in the food and electricity retail sectors might persist. In Italy, for example, production costs are clearly rising less than consumer prices (figure 4).

Figure 4 Deflators for Germany, Italy and the United Kingdom, first quarter of 2019–fourth quarter of 2022
(Index numbers, 2015=100)



Source: OECD.Stat.

The impact on the consumer price index of trends in input costs differs across countries depending on market structure and regulation. Most developing countries were broadly affected by the Fed's announcement, in June 2021, of future interest rate increases, which triggered a depreciation of many currencies against the dollar, and, in turn, raised the cost of their imports (table 3).

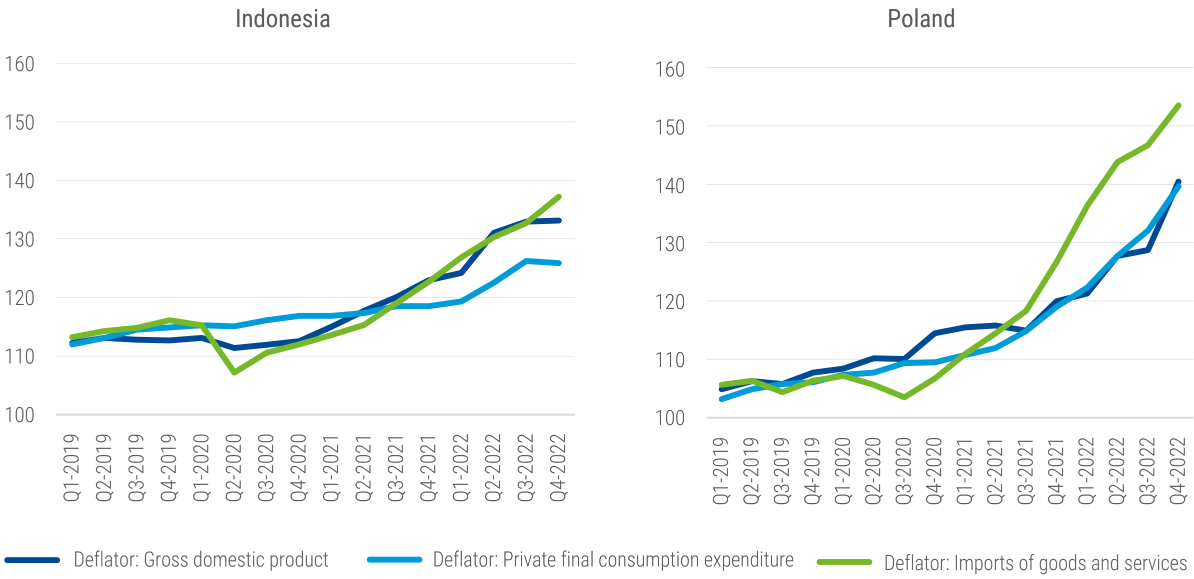
The impact of different regulations is also evident, particularly in important commodity exporting countries. Indonesia and Poland, for example, are both coal producers and exporters. Only the former, however, was able to limit the increase in the cost of living by controlling consumer prices, especially of electricity (figure 5). Poland only began implementing a price cap on electricity for households and grants for energy intensive firms in 2023.

Table 3 CPI inflation rates and contributions, selected developing countries, 2018–2023

		Annual CPI inflation (Year-on-year percentage change)											Weight (%)	Contribution to total inflation (%)			
		2018	2019	2020	2021	2022	Q1-2022	Q2-2022	Q3-2022	Q4-2022	Jan.23	Feb.23	2021/22	2021	2022	Jan.23	Feb.23
Chile	All items	2.4	2.6	3.0	4.5	11.6	8.3	11.5	13.6	13.0	12.3	11.9					
	Food	3.1	2.6	6.7	5.4	17.7	9.2	16.8	21.0	23.6	23.9	21.4	19.3	23.2	29.7	38.5	34.5
	Energy	5.9	2.2	1.0	9.0	20.9	18.3	20.5	23.5	21.1	16.7	13.2	7.5	15.1	13.7	10.5	8.3
	Non-food non-energy	1.9	2.6	2.3	3.8	9.0	7.1	9.1	10.5	9.1	8.6	9.1	73.2	62.1	56.9	52.5	55.4
Mexico	All items	4.9	3.6	3.4	5.7	7.9	7.3	7.8	8.5	8.0	7.9	7.6					
	Food	4.8	4.4	6.6	7.2	13.3	12.5	13.0	14.3	13.2	12.8	12.3	25.8	32.7	42.7	42.2	41.7
	Energy	13.0	2.4	-3.6	13.7	5.3	5.7	6.1	6.4	2.9	2.6	1.6	10	24.1	9.6	3.4	2.1
	Non-food non-energy	3.7	3.5	3.2	3.9	6.0	5.3	5.8	6.3	6.5	6.6	6.5	64.2	43.4	48.1	54.2	55.0
South Africa	All items	4.5	4.1	3.2	4.6	7.0	5.8	6.7	7.9	7.7	7.2	..					
	Food	3.1	3.5	4.4	6.1	9.3	6.1	7.5	11.1	12.3	13.6	..	17.1	22.7	22.7	32.3	..
	Energy	10.3	5.2	-0.1	14.3	23.6	23.3	26.0	27.5	18.0	10.9	..	8.5	26.5	28.7	12.9	..
	Non-food non-energy	4.2	4.1	3.4	3.1	4.6	3.7	4.3	4.9	5.4	5.3	..	74.3	50.4	48.4	54.5	..
Türkiye	All items	16.3	15.2	12.3	19.6	72.3	54.8	74.1	81.1	77.4	57.7	55.2					
	Food	18.0	19.5	13.8	24.3	85.6	63.6	91.6	92.6	92.3	71.0	69.3	25.4	31.4	29.4	31.1	32.1
	Energy	19.3	13.6	7.8	21.7	126.6	102.4	148.6	140.6	116.0	47.2	42.2	11.4	11.9	20.7	9.9	9.3
	Non-food non-energy	15.3	13.9	12.4	17.4	58.6	44.2	56.4	67.1	65.0	54.2	51.9	63.2	56.9	49.5	58.4	58.9

Source and note: See table 2.

Figure 5 Deflators for Indonesia and Poland, first quarter of 2019–fourth quarter of 2022
(Index numbers, 2015=100)



Source: OECD.Stat.

In conclusion, inflation continues to be driven by international prices of energy and food commodities, with countries able to exert some degree of control over these pressures depending on their market structure and concentration and on their ability to administer consumer prices and the effects of the financial pressures on the currencies. Countries that have undergone rapid liberalization in these critical sectors and those with previous financial vulnerabilities, remain the most exposed.

Under these circumstances, the choice by leading central banks to quickly raise interest rates has failed to tackle the main causes of inflation. In the case of many developing countries, it has reduced fiscal space further. Hence, a reconsideration of the policy-tools for price stability is in order, even if commodity prices begin to fall. In fact, extremely low prices can be just as damaging and should be avoided (*TDR, 2022*).

1. Hungry for profits: food prices and the cost-of-living crisis

Rising food prices have been a major factor behind the recent episode of accelerating inflation (Barrett, 2022). As the Global Crisis Response Group of the United Nations noted, even before the eruption of the war in Ukraine in February 2022, food import bills across developing countries had risen due to higher prices in global markets, with nearly two thirds of the increase of costs concentrated in developing countries (United Nations, 2022a).

The global food market is dominated by the big four “agripolies”, known by the abbreviation ABCD,[2] which trade key food commodities, from soybeans to orange juice. Partly due to the recent breakdown in commodity supply chains, their control over the production chain and price volatility, these companies registered up to a threefold increase in profits in 2021 (Public Eye, 2023). In the context of rising prices and heightened food insecurity around the world, the food trading sector warrants closer attention.

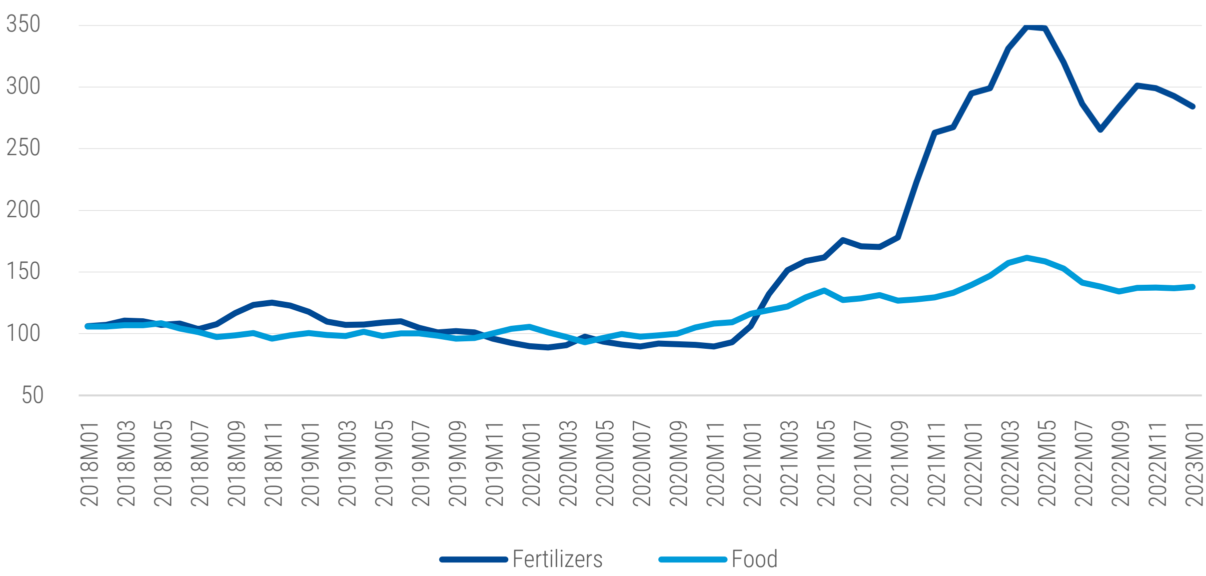
[2] Archer Daniels Midland Company (ADM), Bunge, Cargill, and Louis Dreyfus Company (LDC).

Food trading is part of the wider commodity trading sector, which is a notoriously complex, opaque and poorly regulated. These features are also pronounced in agricultural trade, with implications industry for the availability of data: only 8 out of 15 food trading companies being examined in this section are publicly traded and therefore required to publish consolidated accounts.[3]

The lack of transparency of the sector means that generalizations about profit trends for individual companies, as well as for the sector as whole, are difficult to make. To get a clearer picture of what has been contributing to the sector's profitability during the period 2020–2022, it is necessary to distinguish between several profit indicators of which profit before tax – overall profit after deducting operational costs and financial profits or losses – is most useful for gauging the impact of financial activities on the bottom line of companies.

Several trends that have come to characterize the industry in recent years can be detected. First, the agriculture price index shows growth since mid-2020, reflecting the overall growth in commodity prices during this period. The largest spike in prices in the commodity sector has been in fertilizers, showing more than a threefold increase at its peak since the second half of 2020 (figure 6).

Figure 6 International price indices of fertilizer and food, January 2018–January 2023
(Index numbers, 2016 = 100)

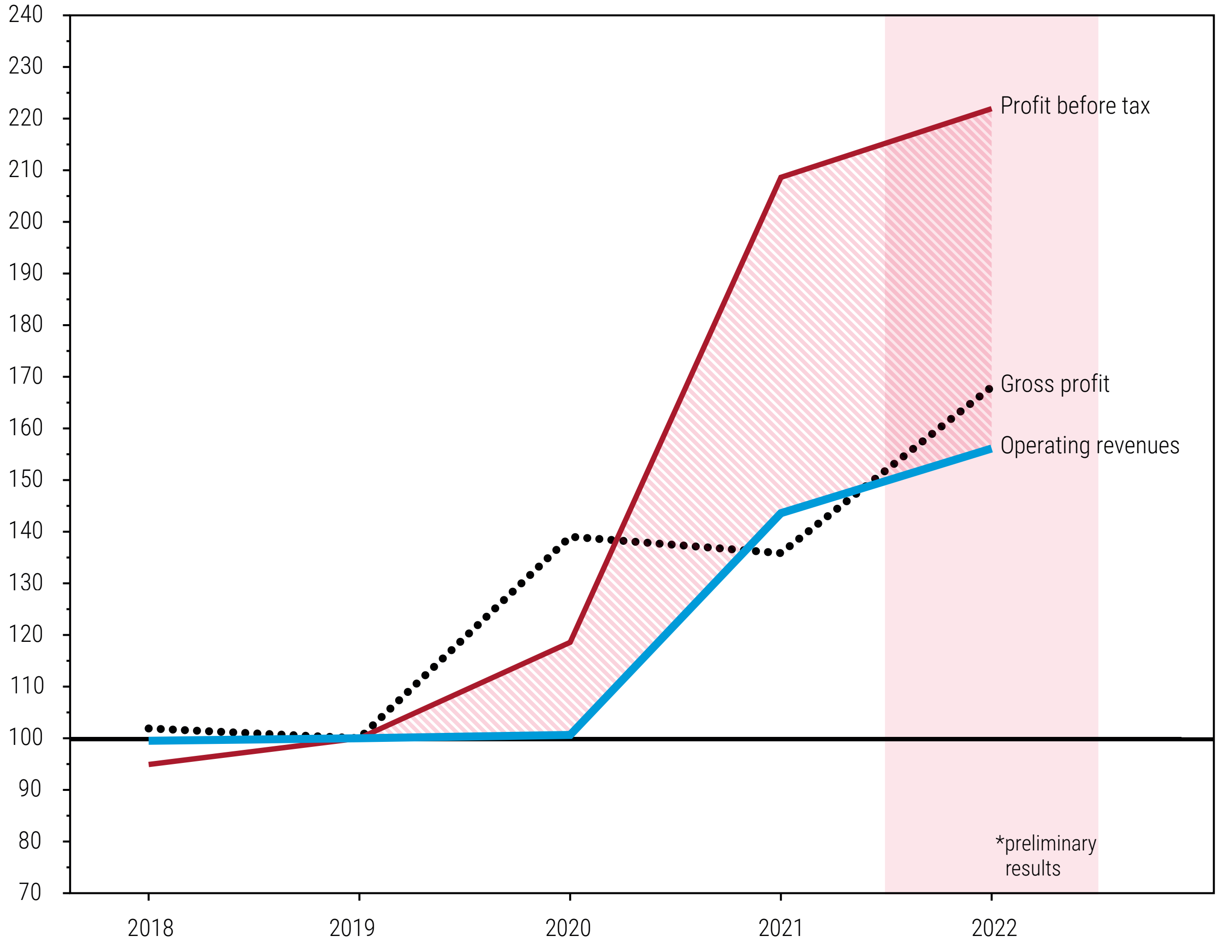


Source: IMF Primary Commodity Prices database.

[3] Given the diversified nature of the trades engaged in by the largest agriculture corporations, coupled with a high level of opacity inherent in current reporting, we have pursued a pragmatic approach to sample selection based initially upon current membership by "agricultural" firms in a leading trade body for the commodities sectors, the Commodities Market Council. As of March 2023, agricultural firms participating in the CMC are attributable to 9 distinct corporate groups. This membership is overwhelming heavy with United States-centric firms. To help balance this bias out, we have identified 6 other major players from groups organized around several other major agriculture economies. For all 15, we mapped out the current structure of the corporate groups to identify which entities, from which jurisdictions, were producing consolidated and audited accounts on behalf of the corporate group as a whole. We then assessed available financial reporting by those entities. Our information came from the Orbis dataset provided by the commercial data publisher, Bureau Van Dijk. This is both because Orbis is the only consolidated source of information on the activities of public as well as private companies at a global level, but also because Orbis helps to standardize financial reporting to facilitate better comparisons for a global set of corporations. This also mean some firms, most notably Cargill Inc and Noble Group Limited, do not provide information at the standard required for our analysis. Groups like these provide some figures publicly on their website, but these represent unaudited and selectively presented information unsuited to our investigation.

Second, FAO food price index increased by 14 per cent between 2021 and 2022. In contrast, both revenues and profits in the food trading sector had grown by a multiple of that figure (figure 7). And it is profits before tax that has increased the most, especially when contrasted with operating profits – a measure that excludes financial revenue – highlighting the critical role that financial operations are playing in this sector and noticeably so since the second half of 2020.

Figure 7 Median food traders' profits and revenues, 2018–2022
(Index numbers, 2019=100)



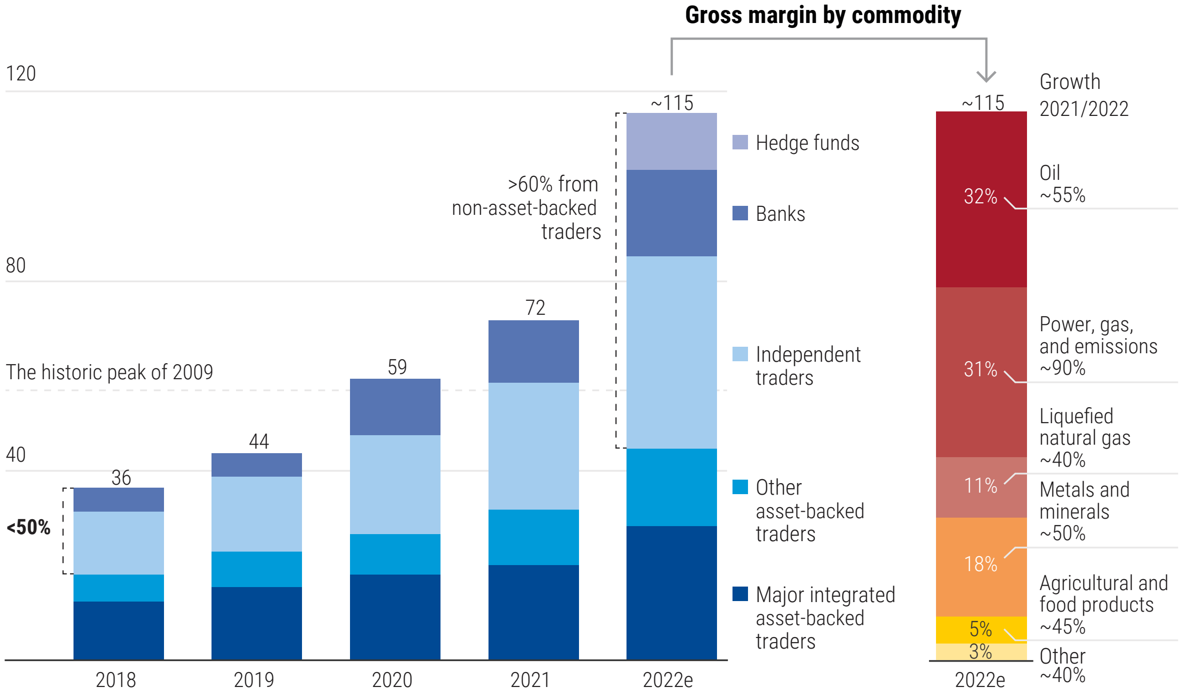
Source: UNCTAD secretariat calculations based on Orbis database.
Note: Based on available corporate data from Akira Holding Foundation, Andersons Inc., Archer Daniels Midland Company, Bunge Ltd., Cargill Inc., CGB Enterprises., CHS Inc., Glencore Plc., Scoular Company, CMOC Group Ltd., COFCO Corporation, GrainCorp Ltd., OFI Group Ltd., Noble Group Ltd., Wilmar International Ltd.

These findings raise two concerns. Why has this sector's income (and especially profit before tax) grown significantly faster than prices in recent years? The answer lies, to a significant extent, in the finance-enabled capacity of traders to ride the wave of market volatility.

The financialization of commodity trading has been a strong trend in the world economy since the early 2000s, boosted by the spread of securitization and the introduction of financial market indices for particular commodities. Entry into these markets of hedge funds, banks and asset-backed traders, as well as the growing need for companies in the industry to manage risks associated with international market volatility, have made financial markets the dominant influence on commodity trading.

As the profit trends presented in figures 7 and 8 indicate, during the past four years of global economic uncertainty, the ability of commodity traders generally, and of food trading companies in particular, to ride the wave of market volatility by relying on financial mechanisms such as derivatives trade, has been a key determinant of their profitability.

Figure 8 Total global commodity trading gross margin, 2018–2022
(Billions of dollars)



Source: Oliver Wyman (2023).
Note: 2022 figures are estimates.

According to the FSB (2023), commodities are the most concentrated segment of the derivatives markets. At the same time, commodity derivatives are the smallest component of the global derivatives trading. This contrast suggests that the bulk of financialized trades in commodities and food take place over the counter (OTC), or in the shadow banking system.

These two dimensions of opacity – industrial and corporate complexity of commodity traders, as well as their historical reliance on unregulated financial platforms – raise serious political economy and regulatory issues.

D. CHRONICLE OF A DISASTER FORETOLD: DEBT AND DEVELOPMENT DISTRESS IN 2023 AND BEYOND

Debt has become a major obstacle to development efforts in many developing countries. The growing burden of debt, in a context of reduced fiscal space and unreliable liquidity access, is limiting the ability of these countries to respond to shocks and develop their economies. Altogether, these setbacks create a negative feedback loop, resulting in even higher debt burdens. Despite the severity of the situation, the multilateral response to the debt and development crisis has been, and remains, too little-too late.

The ongoing financial turbulence in developed countries is just one more external shock that developing countries have had to deal with in recent years, without adequate multilateral support. Additional uncertainty arises from flaws in the global financial safety net (GFSN) and international debt architecture. Financial safety mechanisms, such as swap lines between central banks, apply asymmetrically across the globe, neglecting economies in the Global South deemed to have low systemic impact. They also leave out many middle-income countries that are highly integrated into global financial markets, who end up depending on the goodwill of advanced countries' central banks.

1. Developing country debt dynamics under unfavourable monetary conditions

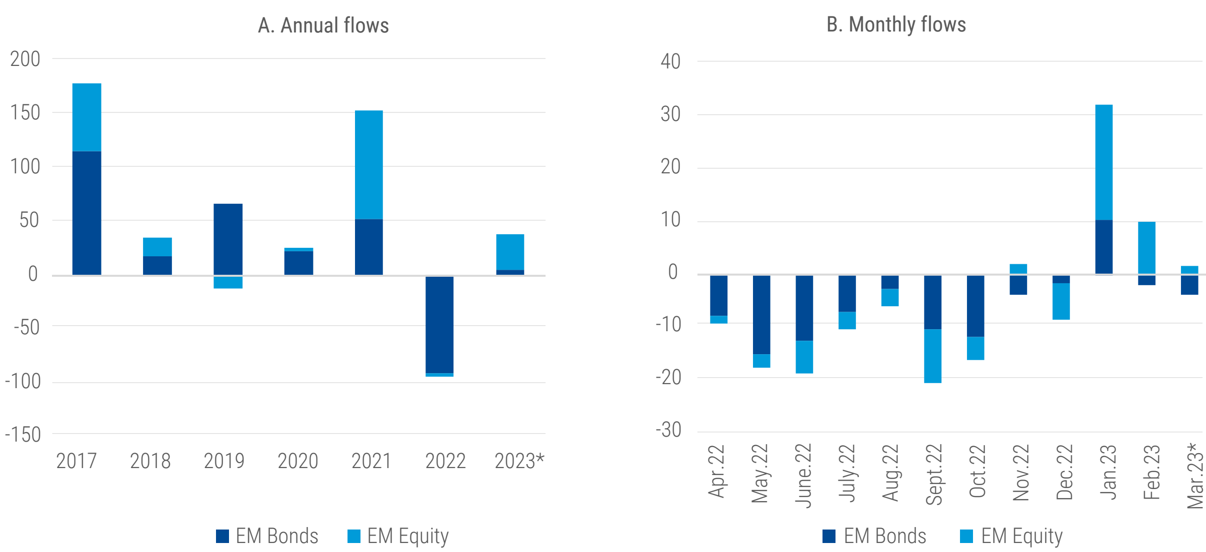
In recent years, developing countries have seen public debt surge.[4] This can be attributed to the consequences of a series of global crises such as the COVID-19 pandemic, the war in Ukraine, and climate change as well as governance failures at the domestic and multilateral levels. Specifically, the combined stock of total public debt of low- and middle-income developing countries, excluding China, increased $1.9 trillion within two years to reach $11.5 trillion in 2021 (or 58.9 per cent of their combined GDP, worth $19.5 trillion).[5] Rising interest rates and, unstable exchange rates and volatile capital flows are making it increasingly difficult for these countries to mobilize resources for development and meet their debt obligations. These difficulties are further compounded by the fact that, in many cases, foreign investors have been pulling out their capital, foreign reserves have declined and ultimately, external borrowing costs have increased.

Developing countries are particularly vulnerable to the volatility of private capital flows, which has increased in recent years as highlighted for instance in the net flow to emerging market (EM) funds (figure 9.A). In 2021, these rose sharply owing to a rebound of equity funds. The year after resulted in large net outflows of $94 billion, mostly from bond funds. In early 2023, EM fund flows have been very sensitive to changes in the outlook of monetary policy in the United States. In January, for instance, the expectation of a lower terminal Fed interest rate, following an easing of inflationary pressures in the United States, led to large inflows. However, since February 2023, there has been a resumption of *bond* outflows due to recent uncertainty regarding the path of Fed interest rates and growing signs of stress in financial institutions in Europe and the United States (figure 9.B).

[4] Developing countries in this section refer to countries classified as low- and middle-income countries according to the World Bank classification of 2022.

[5] UNCTAD secretariat calculations, based on IMF (2022). Data refer to gross government debt.

Figure 9 Bond and equity emerging market fund flows, 2017–2023
(Billions of dollars)



Source: JP Morgan (2023a). EM Flows Weekly. 25 March.
Note: Fund flows depict net flows into EM-dedicated investment funds. Data for 2023 (panel A) and March 2023 (panel B) are incomplete (see the source for further details about the countries, the time period and the types of financial flows that these data cover).

Net outflows of capital translate to decumulation of official reserves if central banks defend the currency. Data on 81 developing countries show that international reserves decreased by $362 billion (5.3 per cent) in 2022, or $241 billion (7 per cent) if China is excluded. Nearly two thirds of these countries experienced a decline in reserves, with 22 countries losing 10 per cent or more of their reserves over the course of the year.[6] Also, private capital outflows influence sovereign bond dynamics of developing countries (figure 10).

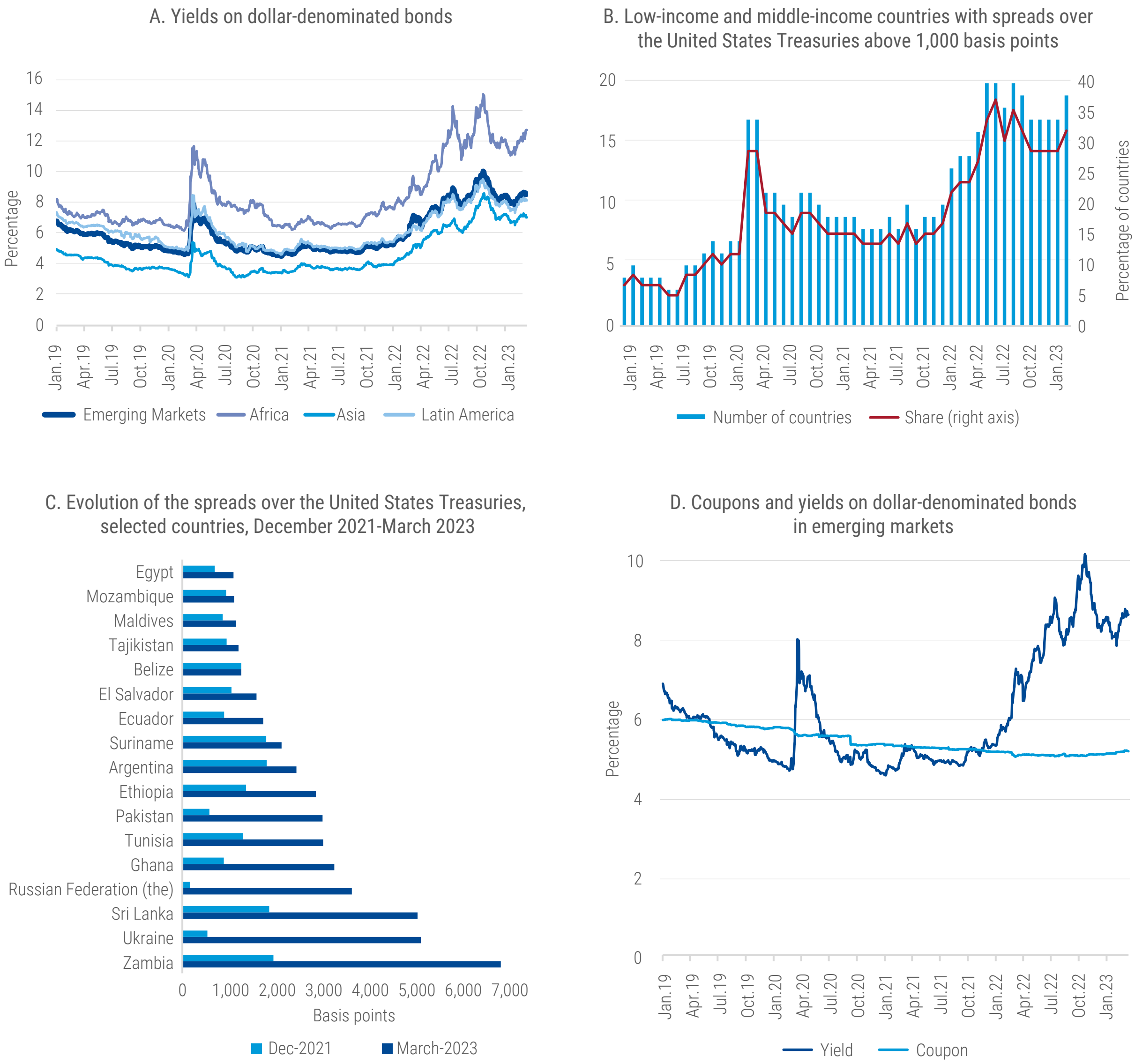
Sovereign bond issuance over the past few years has dropped from $232 billion in 2020 to $183 billion in 2021, and further to $97 billion in 2022 (JP Morgan, 2023b), while borrowing costs have increased, as signalled by two developments.

First, sovereign bond yields have been rising since late 2021, particularly for African countries. (figure 10.A). Secondly, the group facing bond spreads over Treasuries above one thousand basis points (or 10 percentage points), has grown from 4 to 19 countries in the past four years. With a total population of 836 million, these countries have little to no access to international financial markets (figure 10.C). Among them, sixteen are classified as middle-income countries, which excludes them from concessional financing and, of these, 12 are not eligible to participate in the G20 Common Framework for Debt Treatments (CF). This group faces a heavy debt burden, but it has no access to market or multilateral finance to roll them over.

Access to international finance does not mean lower borrowing costs. Most countries now face the prospect of substantially higher borrowing costs compared to their existing interest rates, as shown by the widening gap between bond yields and coupon rates (figure 10.D). This is bound to exacerbate the burden of public debt in most developing countries.

[6] UNCTAD secretariat calculations based on Refinitiv. Data for 81 low- and middle-income countries for the year ending in December of 2022. Data available as of March 2022.

Figure 10 Sovereign bond market indicators, 1 January 2019–17 March 2023



Source: UNCTAD secretariat calculations based on Refinitiv and JP Morgan EMBI.
Note: The right axis in panel B refers to the percentage of low- and middle-income countries with spreads over the United States Treasuries above 1,000 basis points with respect to the 59 low- and middle-income countries that are included in the JPM EMBI Diversified index. Panel C on country level spreads does not depict Lebanon and Belarus due to spreads above 10,000 basis points.

2. From debt distress to development crisis

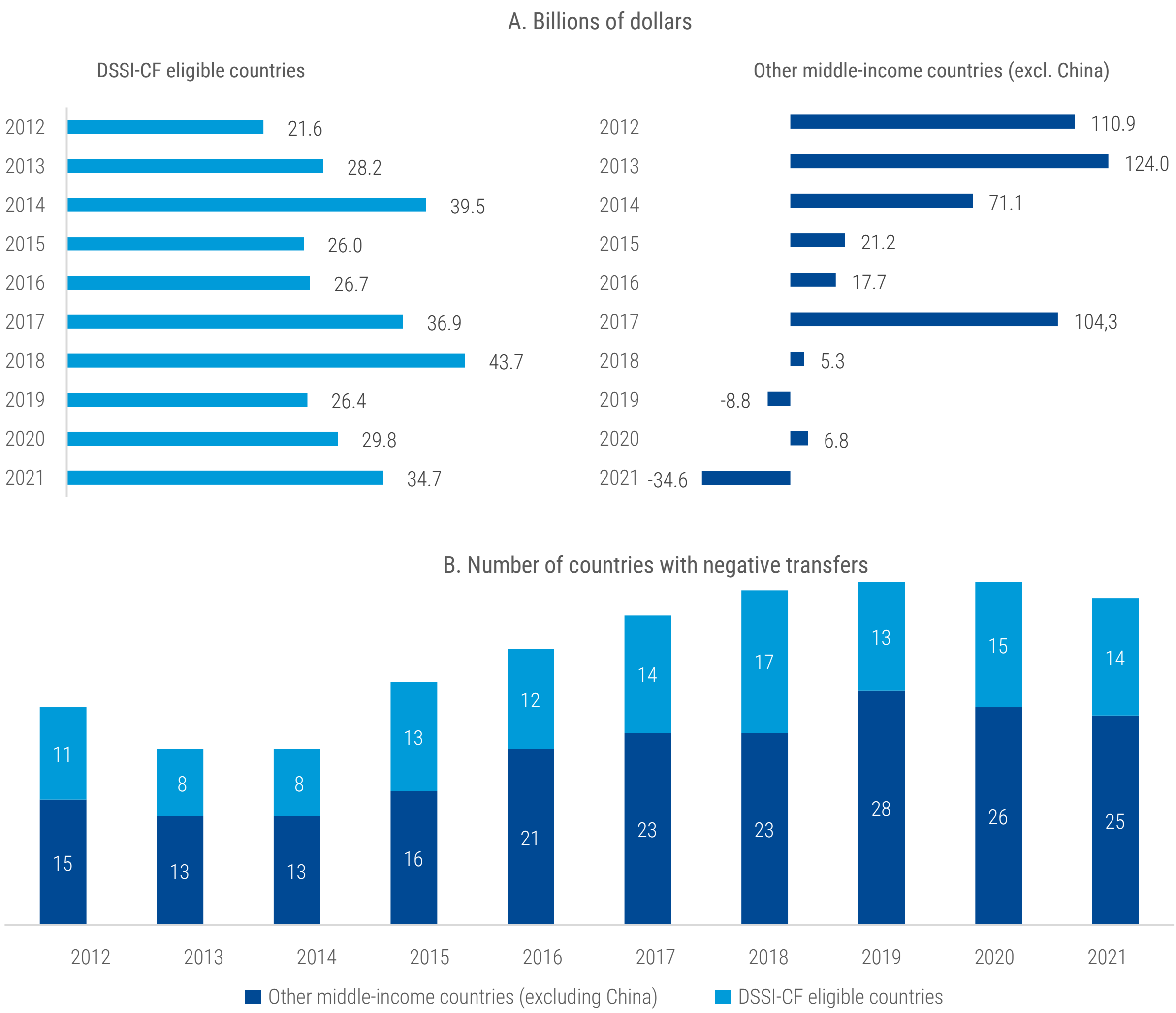
Net transfers on external public debt are a useful indicator for measuring how debt flows affect government finances. This metric compares the amount of new external borrowing to the payments on principal and interest to external creditors. A positive figure indicates a net inflow of financial resources, while a negative figure means a net outflow.

A well-functioning international financial architecture should facilitate the transfer of resources to developing countries in a way that supports economic development. Apart from being insufficient, the provision of external financing under the current system is procyclical. This can force countries to increase the transfer of resources to their creditors at times when they can least afford it, ultimately leading to debt distress (Kregel, 2004).

Recent trends in net transfers on external public debt reveal the strengths and weaknesses of the multilateral response to the crisis, as well as the potential dangers that lie ahead. Countries that are eligible for the G20 Debt Service Suspension Initiative (DSSI) and the Common Framework for Debt Treatments (CF) have continued to receive fresh resources following the COVID-19 pandemic (figure 11.A). Multilateral creditors, led by the World Bank, have helped offset a decline in bilateral and private flows and increasing debt servicing requirements (World Bank, 2022a). On the other hand, the rest of middle-income countries face a different reality. These countries are not eligible for existing debt initiatives, have limited or no access to official concessional financing, and are subject to rising IMF borrowing costs and procyclical surcharges (Munevar, 2021). Without multilateral support to offset the pullback of external private creditors, net resource transfers had steadily deteriorated until 2021 for this group of countries. By all indications, this pattern is likely to have worsened.

Furthermore, in 2021, 39 countries experienced net negative transfers on external public debt, including 25 middle-income countries (figure 11.B). This highlights the need to advance the multilateral development banks' (MDBs) reform agenda, as proposed by the UN SDG stimulus plan, to ensure that MDBs appropriately respond to the needs and challenges faced by middle-income countries (United Nations, 2023a).

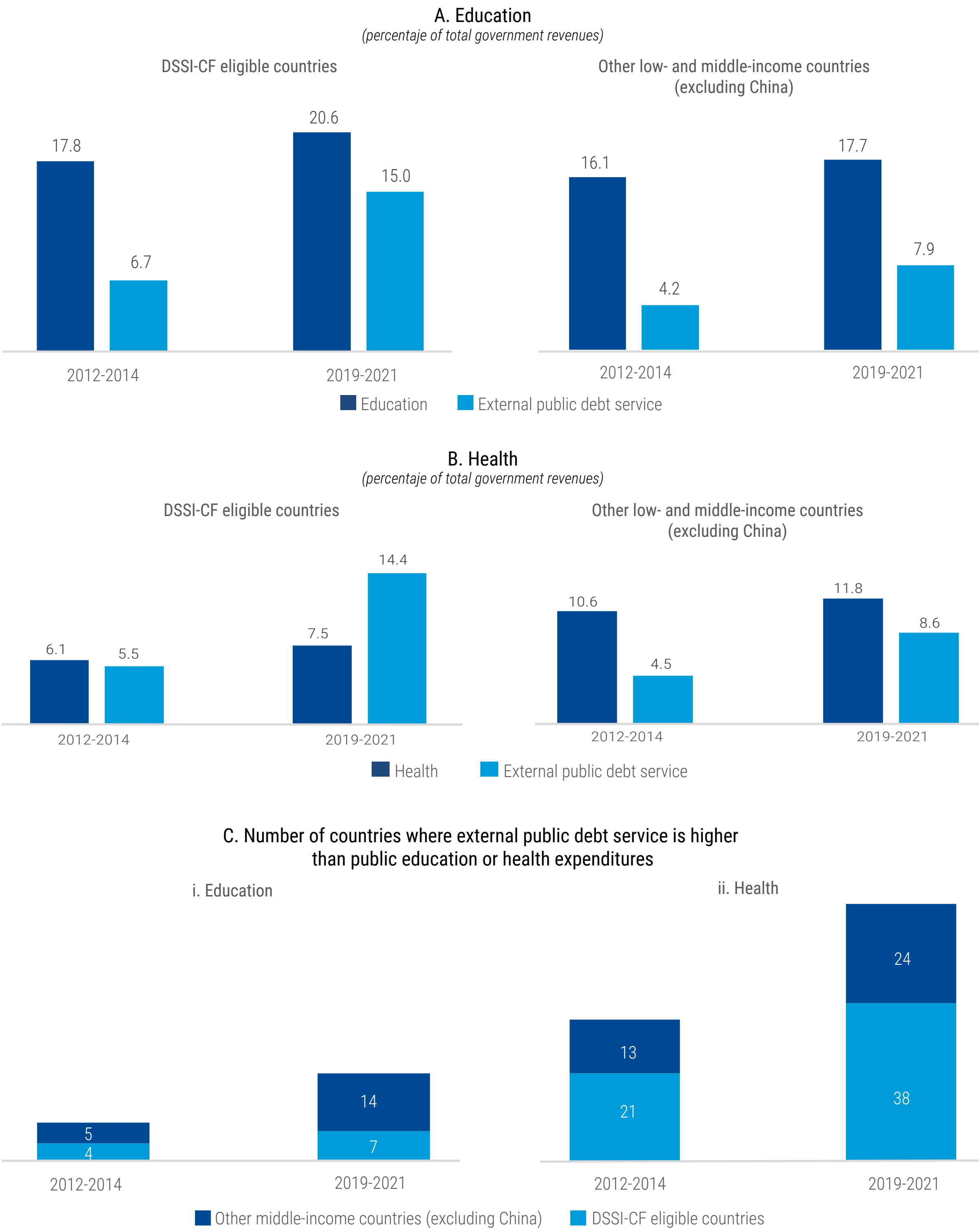
Figure 11 Net resource transfers on external public debt in low- and middle-income countries, 2012–2021



Source: UNCTAD secretariat calculations based on World Bank *International Debt Report 2022*.

Lack of adequate access to finance and high debt service obligations, especially on foreign debt, can force countries to make difficult decisions. Debtors can either prioritize paying off their debts on time or fulfilling their obligations to their citizens. Most countries prioritize debt payments to avoid a default, even if it means sacrificing development. This trend can be seen in the evolution of government spending on education, health, and debt service relative to their revenues over the past decade (figure 12). External debt service has consistently increased relative to education and health spending for both DSSI-CF eligible countries and other middle-income countries. This key link between debt and development distress highlights the systemic nature of the problem. As countries cut expenditures to free up resources to meet debt payments, pressure on specific public expenditure categories will continue to increase, unless a radically different policy attitude takes over (*TDR, 2022*: chap. 3).

Figure 12 Change in public external debt service and other key public spending, 2012–2014 and 2019–2021



Source: UNCTAD secretariat calculations based on IMF (2022a), World Bank (2022) and World Bank *World Development Indicators* database.
Note: Panels A and C.i consider 94 countries and panels B and C.ii 112 countries because the country selection depend on the availability of balanced panel data per expenditure category.

3. Towards a new debt architecture

In multilateral and international fora, there still is not a coherent response to the growing debt problem of developing countries. Worse yet, no timeline exists for finding such a response. In the meantime, external creditors continue to be paid while the balance due to meet the SDGs keeps rising. This is jeopardizing delivery of existing international commitments, including the 2030 Agenda and the Paris Climate Agreement.

To achieve the SDGs and build a more prosperous and sustainable future, it is crucial to find better ways to address the debt crisis in developing countries. This will require a commitment to transform the global financial system by prioritizing the needs of developing countries (United Nations, 2023b).

The rapid response of developed countries to rising stress in their local financial institutions stands in stark contrast to the lack of urgency to address mounting debt distress in developing countries over the past three years. Liquidity support offered to banks in the United States in the aftermath of the collapse of Silicon Valley Bank exceeds the total of special drawing rights (SDRs) received by developing countries from the recent allocation and those received by the 37 countries classified as high risk or in debt distress by the IMF by a factor of 32.[7] While a handful of banks in developed countries have been able to secure virtually unlimited access to liquidity within a matter of days, the 500 million people living in these 37 countries are likely to continue suffering for years to come from the consequences of a global financial system unable to respond at the scale and at the speed needed to face the systemic shocks affecting the developing world. That is why UNCTAD and the GCRG call for a new SDR allocation to provide liquidity support to developing countries.

As part of the urgently required process of reform of global economic governance, UNCTAD has highlighted the need for an international debt architecture to provide timely and orderly debt crisis resolution, improve debt transparency and fully align with the 2030 Agenda (*TDR, 2011*; *2015* and *2019*). This new architecture aims to accomplish three interrelated objectives.

First, providing a framework for addressing debt crises that is fair to both debtor countries and creditors, and that considers the broader development needs of the former. This can be accomplished through the establishment of a sovereign debt workout mechanism which would (UNCTAD, 2020). engage with all relevant creditors and debtor interests, would provide an effective, efficient and equitable mechanism for debt restructuring as well as support for sound sovereign debt markets.

Second, ensuring that debtor countries and creditors have the necessary tools and resources to manage debt effectively, including the use of open data standards and public exchange of information. This can be accomplished through the establishment of a public debt registry for developing countries (United Nations, 2022b). The registry would allow the digitalization and reconciliation of debtor and creditor debt data, ensuring debt transparency, strengthening debt management and facilitating debt restructurings.

Third, designing debt sustainability assessments (DSAs) that incorporate development and climate financing needs (*TDR, 2019*). These assessments should be the basis for a multilateral debt relief initiative aligned with delivering on the SDGs and tackling climate change (United Nations, 2023a).

[7] In the aftermath of the collapse of Silicon Valley Bank, the Fed extended $297 billion in liquidity support to banks in the United States in the week ending on 17 March 2023 (Wall Street Journal, 2023). By contrast, developing countries, including China, received $232 billion in SDRs in 2021 (ECLAC, 2022). Meanwhile, based on UNCTAD secretariat calculations, 37 countries classified at high risk or in debt distress by the IMF as of November of 2022, received $9.1 billion in 2021.

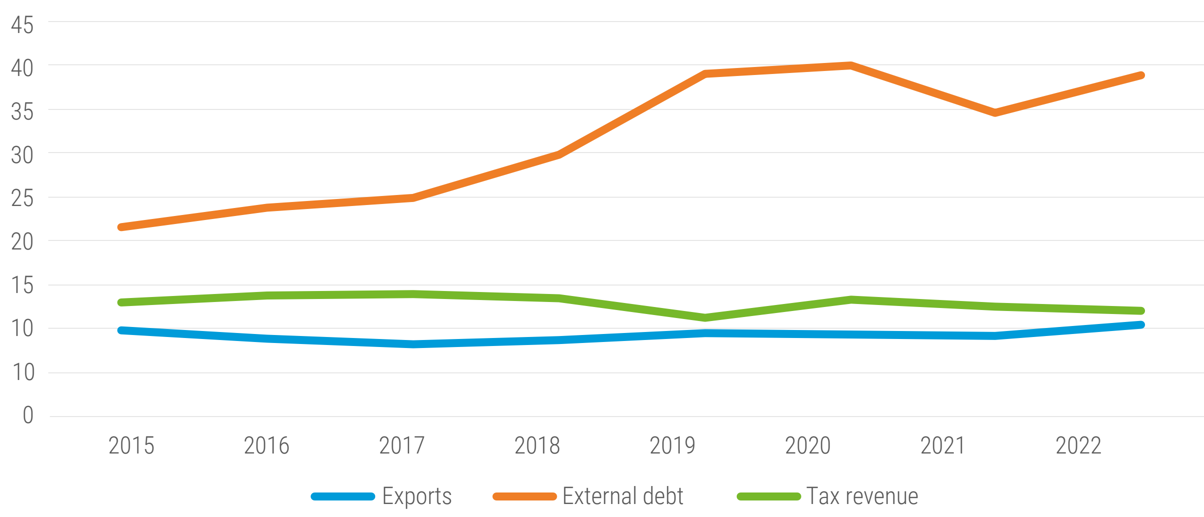
E. LOSS AND DAMAGE IN A TIME OF POLYCRISIS

Cascading and cumulative shocks are putting many countries particularly, but not only, in the developing world, under increasing economic stress. Since the GFC, the interaction of such shocks arising from global markets for food, fuel and finance have intensified. The war in Ukraine has, as documented by the GCRG, compounded the difficulties facing policymakers across the South. A more persistent threat comes from climatic shocks caused by warming global temperatures with evidence pointing to their intensification and to the growing economic damage they are causing. The recent floods in Pakistan have highlighted the development challenge posed by this "polycrisis" (Tooze, 2022), and has exposed gaps in the international financial architecture to respond in a timely and appropriate manner.

1. Pakistan: in the eye of the polycrisis

Pakistan's external debt almost doubled between 2015 and 2020 and became the main driver of a more widespread economic crisis in 2022. Over the same period, its export earnings were falling or stagnant (figure 13). As a net wheat and energy importer, exposure to rising prices in these markets was a concern even before the war in Ukraine. The sharp spike resulting from the conflict led to significant import costs, which persisted through much of 2022. The currency has also seen a sharp fall in value (over 40 per cent against the dollar since the beginning of 2020) adding to inflationary pressures and depleting exchange reserves.

Figure 13 Economy of Pakistan, selected indicators, 2015–2022
(Percentage of GDP)



Source: IMF, Federal Reserve Bank of St. Louis and State Bank of Pakistan.

Pakistan's failure to raise tax revenues has been extensively researched. Efforts to address that problem are urgent and essential. However, the damage from the floods that hit the country in July and August 2022 is of an order of magnitude that even with a more robust fiscal base Pakistan would be facing severe financial stress. In the wake of COVID-19, Pakistan was amongst the first to sign-up for the G20-backed Debt Service Suspension Initiative (DSSI), which allowed it to suspend payments to bilateral creditors between May 2020 and December 2021 and it is in ongoing negotiations with the IMF to secure new loans to avoid defaulting on its external debt in the short-run. Nearly $31 billion concessionary capital, which would help create the fiscal space needed to respond to any exogenous shock, is currently tied up in ongoing negotiations over the programme (Nabi, 2023). Over the next five years, the IMF estimates the annual external financing need of Pakistan at $35 billion (IMF, 2022b).

Against a worsening economic backdrop, last year's monsoon rains were an estimated 50 per cent stronger than normal, flooding one third of the country and leaving 8 million people displaced (Nabi, 2023). The loss and damage (LD) from the floods have been estimated by the World Bank (2022b) to amount to more than $30 billion, or 8 per cent of Pakistan's GDP. This relative cost is about two times larger than extreme flooding events that hit Bangladesh and the Plurinational State of Bolivia over a decade ago, hinting at the rising cost from LD (World Bank, 2010a; 2010b).

Bilateral and multilateral partners have pledged to extend $9 billion of funds to cover slightly more than half of the $16.3 billion reconstruction needs estimated by the World Bank (2022b). Though extended on favourable terms, these loans will increase Pakistan's debt burden and weigh negatively on adaptation and other required social and productive investment. Unless more Loss and Damage finance is made available in the form of grants, the risk of a debt spiral will only intensify.

2. The role of loss and damage financing

Entangled in the development-climate double bind, least developed and climate-vulnerable countries do not have the financial means to cover existing loss and damage (LD) from climate shocks on their own, never mind meeting adaptation or mitigation costs. There is an urgent need for a multilateral mechanism for rapid access to grants-based (and under some circumstances concessional) finance to cover LD for rapid and slow onset climate events in developing countries.

Recognized as the breakthrough outcome at the 27th Conference of the Parties (COP27) in Sharm El-Sheikh in 2022, Parties mandated a timeline in 2023 towards establishing a new LD Finance Facility (LDFF) at COP28. The outcome acknowledged not only the necessity of a new funding mechanism, but also of a systemic alignment of economic institutions with the realities facing developing countries as they deal with oncoming climate impacts. Squeezed by compounding crises, a step forward on this outcome in 2023 could have a dramatic effect on the stability of climate-vulnerable countries, filling a critical gap at the nexus of climate, development and humanitarian finance.

While there is no common agreed definition within climate negotiations, LD is understood to be the economic and non-economic[8] impacts from climate change, inclusive of rapid and slow onset events (the latter including, for example, desertification and rising sea levels). It is separate but connected to the other two pillars of the climate regime: mitigation and adaptation. While the adoption of optimal mitigation and adaptation strategies in line with the latest IPCC (2022) assessments implies that some LD is still avoidable, even if these strategies materialize, existing projections anticipate significant unavoidable LD from the locked in impacts from global warming (Markandya and Gonzalez-Eguino, 2018).

LD costs are projected to be as much as $580 billion per year by 2030 (Markandya and Gonzalez-Eguino, 2018), by which time 32–132 million people could be pushed into poverty by the impacts of climate change (Jafino et al., 2020). Currently, the mechanisms available under the UNFCCC are geared towards averting and minimizing LD through mitigation and adaptation. Unfortunately, the current schemes do not provide means for addressing LD to help people to recover from climate impacts. The current approach ensures that developing countries pay disproportionately for warming they did little to contribute to, at odds with the principle of common but differentiated responsibilities (CBDR). As

[8] Including, for example, traditional and location-based livelihoods and cultural losses

such, providing new and additional Loss and Damage grant financing for developing countries is critical to address the missing third pillar of climate finance, and should be complemented with accelerated mitigation and adaptation to decrease potential LD. At the same time, concessional loans and ability to access capital markets on favourable terms remain crucial for economic growth and transformation.

3. Existing financing for loss and damage

No specific percentage of international climate finance is assigned to LD within the UNFCCC framework and no mandate for financing LD had existed until COP27. The mandates, instruments and modalities of existing UNFCCC funds have also proven unsuitable for funding all LD activities, whether fast or slow onset (Schäfer et al., 2021). With loan instruments, lengthy application timelines, and a focus on project-based finance, they cannot respond adequately to LD needs.

Outside the UNFCCC, finance labelled as LD has been committed by several governments and philanthropies, but the amounts fall far short of the scale of needs, amounting to around $300 million. While humanitarian assistance currently plays a crucial role in the immediate response to extreme climate events, those financial flows are also just a fraction of what is needed (ICVA, 2022). A recent report by Oxfam found that “funding requirements for UN humanitarian appeals linked to extreme weather are eight times higher than they were 20 years ago, and over the past five years nearly half of appeal requirements have gone unmet” (Carty and Walsh, 2022). Furthermore, humanitarian aid is aimed to meet the immediate needs of communities affected by a disaster, but not on longer-term support for rebuilding homes and infrastructure following a rapid-onset emergency, or indeed responding at all to slow-onset impacts.

Development finance has a broader scope than humanitarian response, however a large share of this finance is provided as loans which could compound vulnerabilities for developing countries facing LD. In the aftermath of a climate disaster, borrowing increases to rebuild (IMF, 2019a), but borrowing costs are hiked as creditors raise rates to reflect a higher risk premium (Buhr and Volz, 2018). Comparative examples demonstrate the limited levers available to developing countries facing crisis. After Germany experienced extensive flooding in 2021 the Government quickly mobilized €30 billion to help pay for reconstruction (Reuters, 2021). In contrast, Mozambique had to rely on an IMF loan in the aftermath of Cyclone Idai in 2019 (IMF, 2019b).

A recent report estimated that sub-Saharan African countries will need to take on an additional $1 trillion in debt in the next 10 years without support for LD and adaptation (Woolfenden and Sharma-Khushal, 2022). As debt distress squeezes public budgets across regions, a new LDFF could prevent further rollbacks in development and climate goals but must be supplemented by a broader range of mechanisms, instruments and institutional reforms that can address the systemic challenges facing countries in climate and economic distress.

Some stakeholders have proposed insurance mechanisms to support vulnerable countries, however the rising frequency and intensity of climate-induced impacts in the coming years renders insurance mechanisms increasingly risky and thus unviable. In Dominica, LD from Hurricane Maria in 2017 amounted to $1.37 billion (226 per cent of its GDP), though sovereign insurance under the Caribbean Catastrophe Risk Insurance Facility covered just 1.5 per cent of these costs (Sharma-Khushal et al., 2022). When Malawi suffered a drought in 2015 and 2016 with costs estimated at $395 million, the African Risk Capacity (ARC) insurance payout was only $8.1 million, or 2.2 per cent. Worst, this limited amount was only delivered following significant pressure after ARC first refused the claim (Reeves, 2017). These examples highlight the insufficiencies of an insurance-based approach for either rapid- or slow-onset, which will force developing countries to pay ever rising premiums for insufficient support.

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