The growing global South debt crisis and cuts in public spending

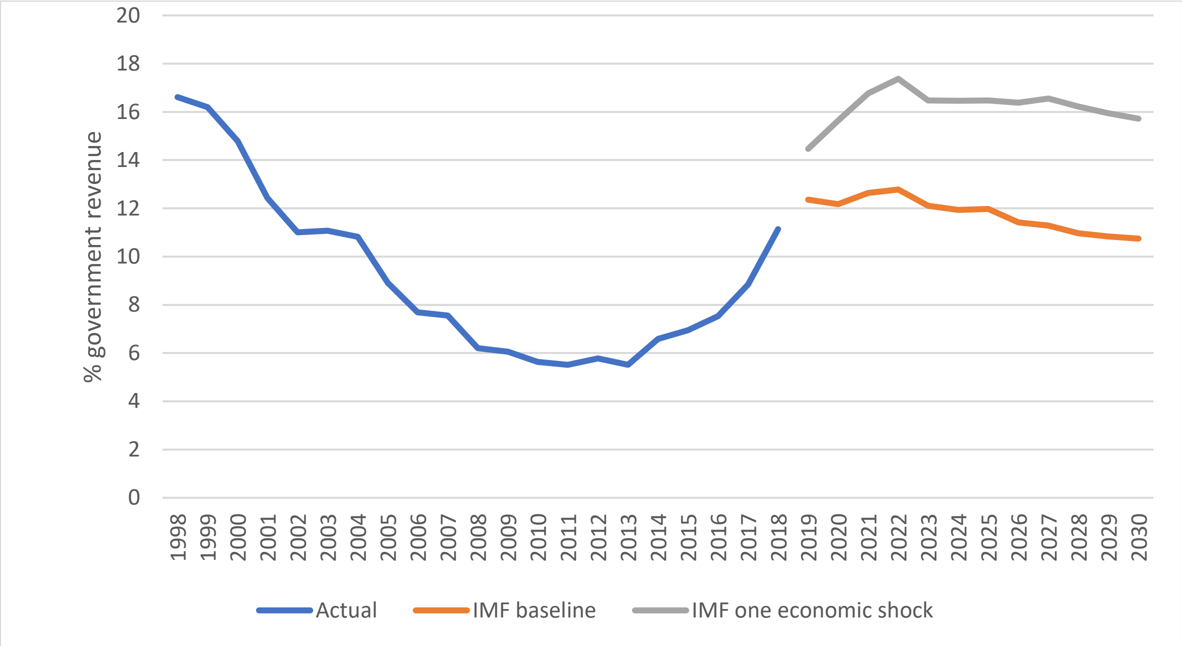
January 2020

1. Summary

This research consolidates figures on past and future debt payments for 63 impoverished countries for which there is data, and changes in government spending for 60 of those same countries for which there is data. It is based on IMF and World Bank data sources. Our research shows that:

1.1 Debt payments have grown rapidly and could continue to do so until at least 2022. Average public external debt payments in 2022 could be three times as high as in 2011, and higher than at the turn of the millennium.
Average government external debt payments for the 63 countries reached a low of 5.5% of revenue in 2011. By 2019 they have grown to 12.4% of government revenue (an increase of 125%) and are expected to reach between 12.8% and 17.4% by 2022 (increases of 133% to 216%).

Graph 1. Mean average public external debt service, 1998-2030 (1998-2018 actual, 2019-2030 IMF baseline estimate and IMF one economic shock estimate)

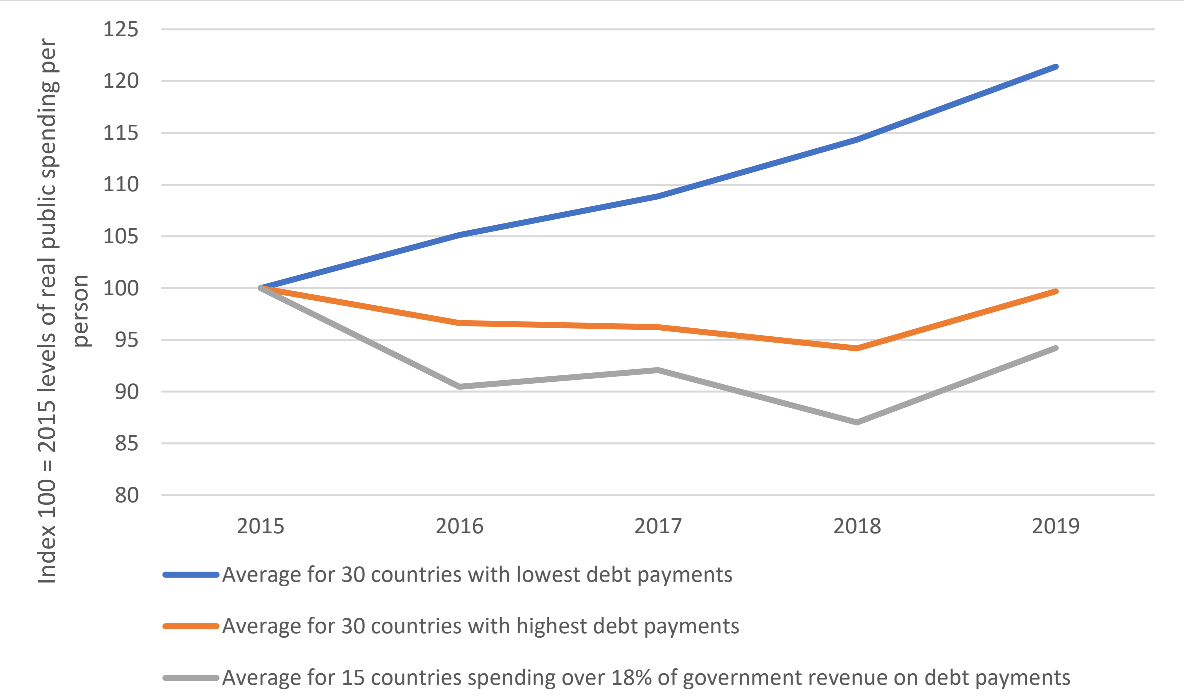


1.2 Real public spending per person in the countries with the highest debt payments is falling. In contrast, it has been rising in the countries with the lowest debt payments., For the 30 countries with the highest debt payments for which data is available average real public spending per person fell between 2015 and 2018 by 6%. In the 30 countries with the lowest debt payments, it grew by 14%.

Of the 30 countries with the highest debt payments, 18 had lower real public spending per person on average between 2016 and 2019 than they did in 2015. For the 30 countries with the lowest debt payments, just eight had lower real public spending per person on average between 2016 and 2019 than they did in 2015.

Falls in government spending are most consistently seen for those governments spending over 18% of revenue on debt payments. For these 15 countries, 14 saw public spending cuts between 2015 and 2018. On average these 15 countries had cuts in public spending of 13% between 2015 and 2018.

Graph 2. Index of real public spending per person, grouped by the 30 countries with lowest debt payments and 30 countries with the highest debt payments, and the 15 with debt payments over 18% of government revenue



2. Debt payment projections

2.1 Methodology

These figures cover debt payment projections for 63 countries with recent[1] Debt Sustainability Analyses from the IMF. They look primarily at two figures:

- Government external debt service as a proportion of government revenue
- Government external debt service and domestic debt interest as a proportion of government revenue

Debt service includes both principal and interest payments. IMF and World Bank standard practise is to look at government external debt service as a proportion of government revenue to assess debt payment burdens. Both external debt principal as well as interest payments are a potential burden on government revenue because much of it (eg, to the World Bank and bilateral lenders) is for projects and so has to be repaid, it cannot be refinanced. And while in theory other lenders, such as the private sector, are able to refinance loans (give new loans for old loans to be able to be repaid) there is a reasonable likelihood that they will suddenly stop refinancing loans or significantly increase the interest rate, especially if debt burdens are high, in which case principal payments have to come from government revenue.

[1] Since 2017. Most are from 2018 or 2019.

For external debt service, data exists over several decades, and so this also gives the best historical view of how payments today compare to payments in the past.

For the second set of figures we have added domestic debt interest, but not domestic principal payments, because domestic principal can usually be refinanced – it is usually not paid for out of government revenue but through the government concerned borrowing again domestically. Adding in domestic debt interest does however capture the burden of domestic debt on public finances.

The figures in the sections below are all from the IMF and World Bank. The historical figures for public external debt service (1998-2017)[2] come from the World Bank's International Debt Statistics via the World Development Indicators database. The current and future figures (2018-2030) come from the most recent IMF and World Bank Debt Sustainability Analysis for the countries concerned, as do the figures for domestic debt interest payments.

All the averages below are unweighted – ie, they treat all countries the same regardless of economic size. This ensures a few large countries do not dominate the figures and gives a suggestion of what is happening across a range of countries.

2.2 Government external debt service

Average public external debt service for the 63 countries fell from 16.6% of government revenue in 1998[3] to a low of 5.5% in 2011, due to debt relief under the Heavily Indebted Poor Countries and Multilateral Debt Relief Initiative and increasing commodity prices. Since 2011, average debt payments have been increasing, to an average of 11.1% of government revenue by 2018, a rise of just over 100%.

Under the IMF baseline scenarios, average external government debt service is due to reach 12.8% of revenue by 2022, an increase of 133% on 2011 levels. However, the IMF baseline scenarios assume strong economic growth alongside falling budget deficits. The IMF also has a scenario where an economic shock occurs in the current year, and projects what the impact of debt payments will then be. The economic shock includes events such as a devaluation of the local currency, fall in export revenues or lower GDP growth. Under its one economic shock scenarios in all 63 countries covered, average external debt service rises to 17.4% of government revenue by 2022, an increase from 2011 of 216%. Average external debt service then stays at a similar level and is still 15.7% in 2030 (see Graph 3. below).

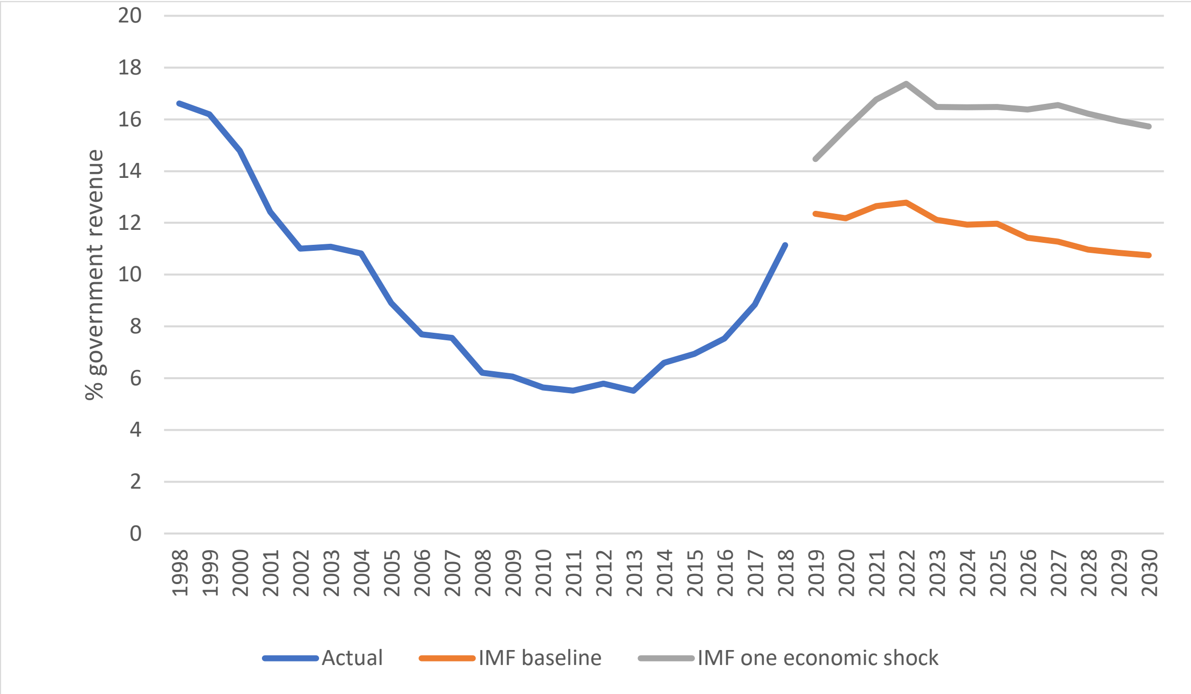
Under the baseline scenarios, external debt service by 2022 will be the highest it has been since 2000. Under the one economic shock scenarios it will be higher in 2022 even than 1998.

The median averages have a similar pattern (see Graph 4. below), which shows that the increase in debt payments is not due just to a few outliers. The median baseline peeks in 2019 rather than 2022, but then falls at a slower rate than in the baseline.

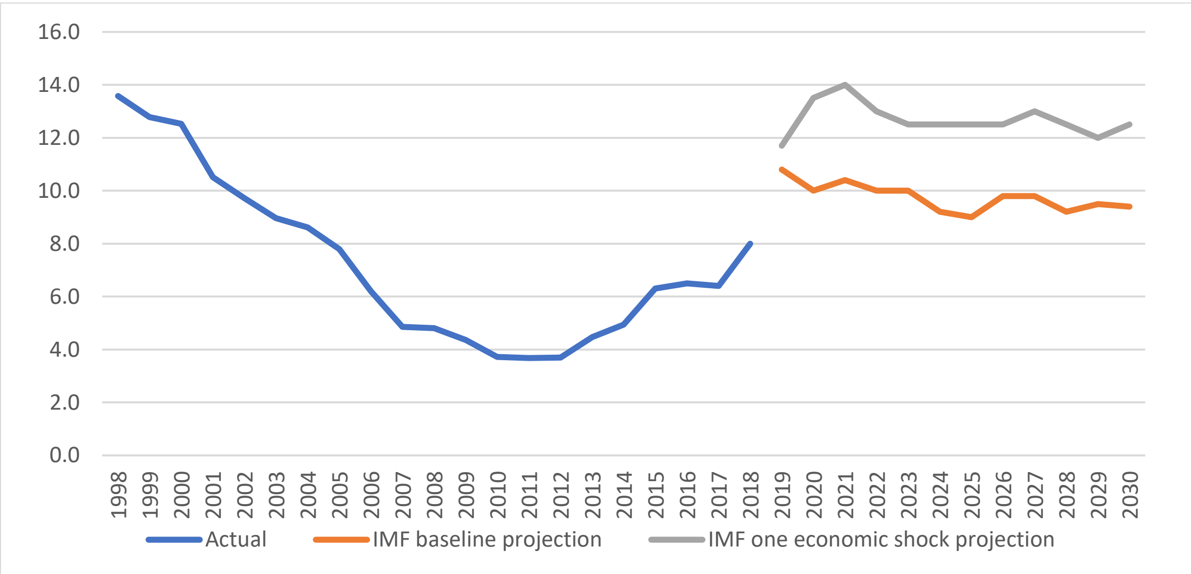
[2] Except for 1) Domestic debt interest payments which are not available in the World Bank database, so these come from IMF and World Bank Debt Sustainability Analyses, and 2) The data for Kiribati, Marshall Islands and Micronesia, which are not covered by the World Bank database, so these come from IMF and World Bank Debt Sustainability Analyses for the country concerned, and are therefore limited in how far back in time they go.

[3] 1998 is the date just prior to when the HIPC initiative began to reduce debt payments for some countries.

Graph 3. Mean average public external debt service, 1998-2030 (1998-2018 actual, 2019-2030 IMF baseline estimate and IMF one economic shock estimate)



Graph 4. Median average public external debt service, 1998-2030 (1998-2018 actual, 2019-2030 IMF baseline estimate and IMF one economic shock estimate)



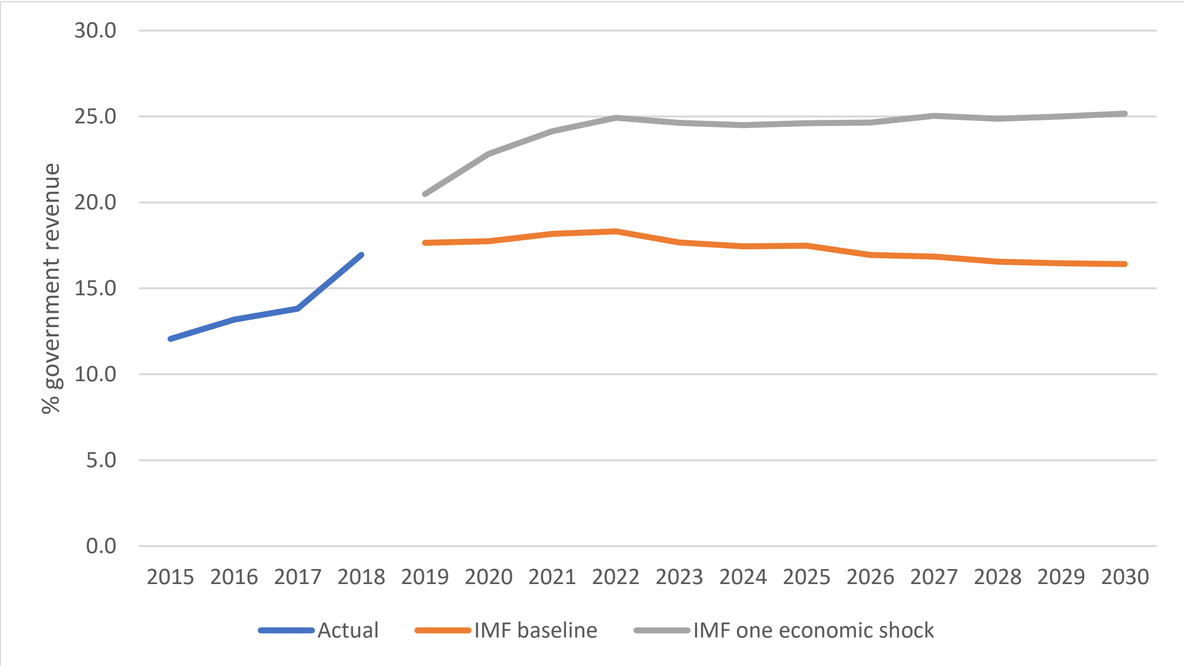
2.3 Public external debt service and domestic debt interest payments

Under the IMF's baseline scenarios, average government external debt service and domestic debt interest payments will peak at 18.3% of government revenue in 2022, up from 12.1% in 2015, an increase of almost 50%. While then gradually declining, payments are still over 16% of government revenue in 2030 (see Graph 4 below).

Under its one economic shock scenarios in all 63 countries covered, average debt payments rise to 24.9% of government revenue by 2022, an increase from 2015 of just over 100%. Average debt payments then stay at a similar level and are still 25.2% in 2030.

It is virtually inconceivable that there will be no economic shocks across the 63 countries. Therefore, the most likely outcome is somewhere between the baseline and one shock scenarios below, so between a 50% and 100% increase in debt payments on 2015 levels. Moreover, there could be more than one economic shock in several or many of the countries, meaning average payments could be even higher than the one shock scenario below.

Graph 5. Mean average public external debt service and domestic debt interest payments, 2015-2030 (2015-2018 actual, 2019-2030 IMF baseline estimate and IMF one economic shock estimate)



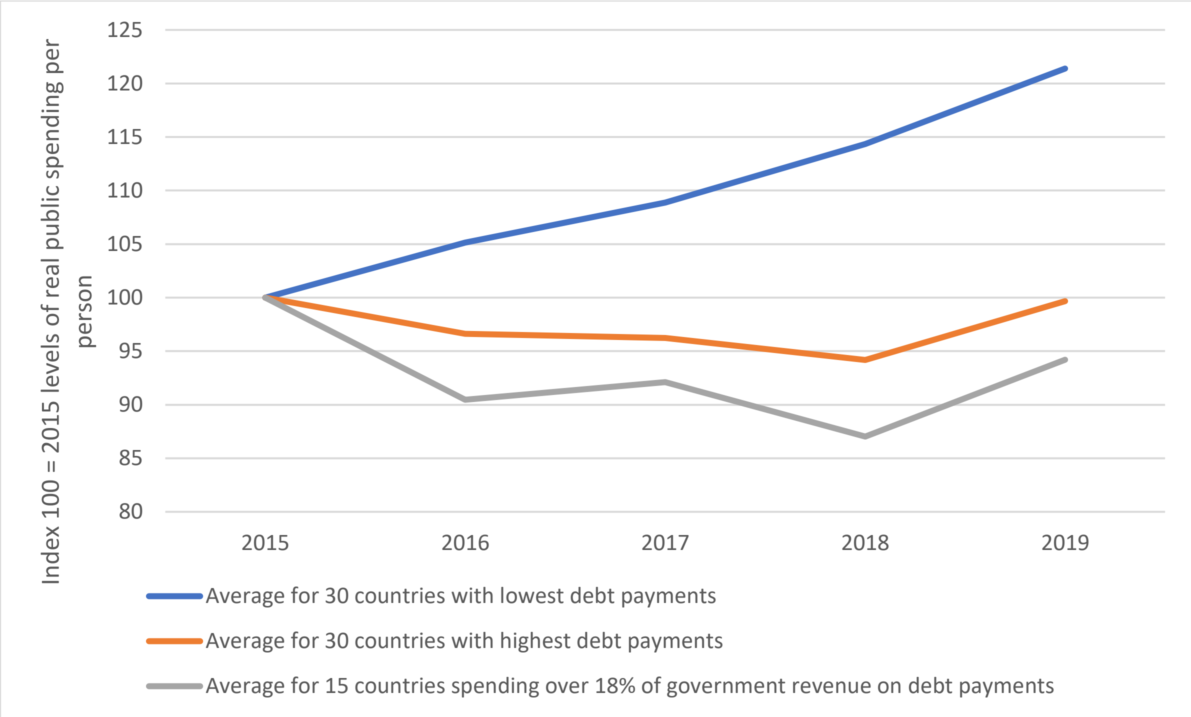
3. Government spending

In the analysis below we look at how government spending has changed between 2015 and 2019 for 60 of the above countries where information is available from the IMF (the three which do not have information are Bangladesh, Tuvalu and South Sudan). From IMF figures we have calculated real public spending per person (ie, taking account of inflation). This does not include any public spending on debt interest or principal payments. The IMF figures come from Article IV consultation documents, supplemented by IMF World Economic Outlook data on inflation, GDP and population growth.

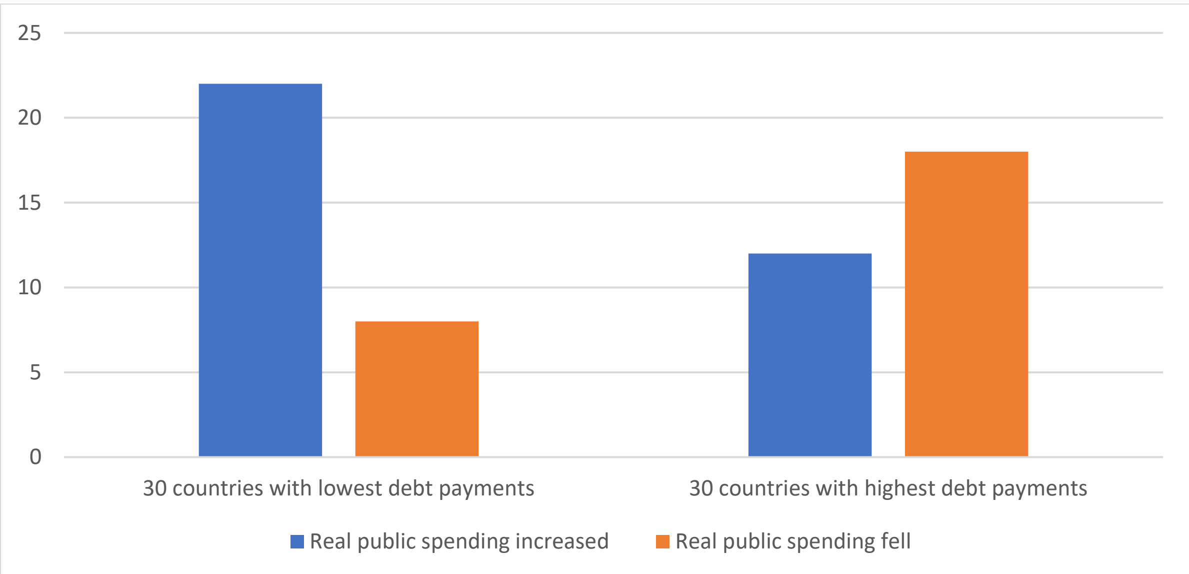
Of these 60 countries, we have identified the 30 with the lowest external debt service and domestic debt interest between 2016 and 2019. These debt payments range from averaging 0% of government revenue in the case of Timor-Leste to 13% for Uganda. The average across the 30 countries is that real public spending per person has increased every year since 2015, and on average will increase by 21% by 2019 on 2015 levels. Of the 30 countries with the lowest debt payments, eight had lower real public spending per person on average between 2016 and 2019 than they did in 2015: Guinea, Kyrgyz Republic, Lesotho, Liberia, Niger, Sao Tome and Principe, Timor-Leste and Vanuatu. The other 22 all saw public spending increase.

In contrast, for the 30 countries with the highest debt payments (those over 13% of government revenue), real public spending per person fell between 2015 and 2018 by 6%, and while the IMF projects it will grow in 2019, average real public spending per person in these countries will still be 0.3% lower in 2019 than 2015. Furthermore, IMF figures for 2019 are only projections so this increase from 2018 to 2019 might be overoptimistic. Of the 30 countries with the highest debt payments, 18 had lower real public spending per person on average between 2016 and 2019 than they did in 2015: Benin, Bhutan, Cameroon, Chad, Republic of Congo, Djibouti, Ghana, Grenada, Lao PDR, Malawi, Mauritania, Mozambique, Myanmar, Sierra Leone, Sudan, Togo and Zambia.

Graph 6. Index of real public spending per person, grouped by the 30 countries with lowest debt payments and 30 countries with the highest debt payments, and those spending over 18% of government revenue on external debt service and domestic debt interest



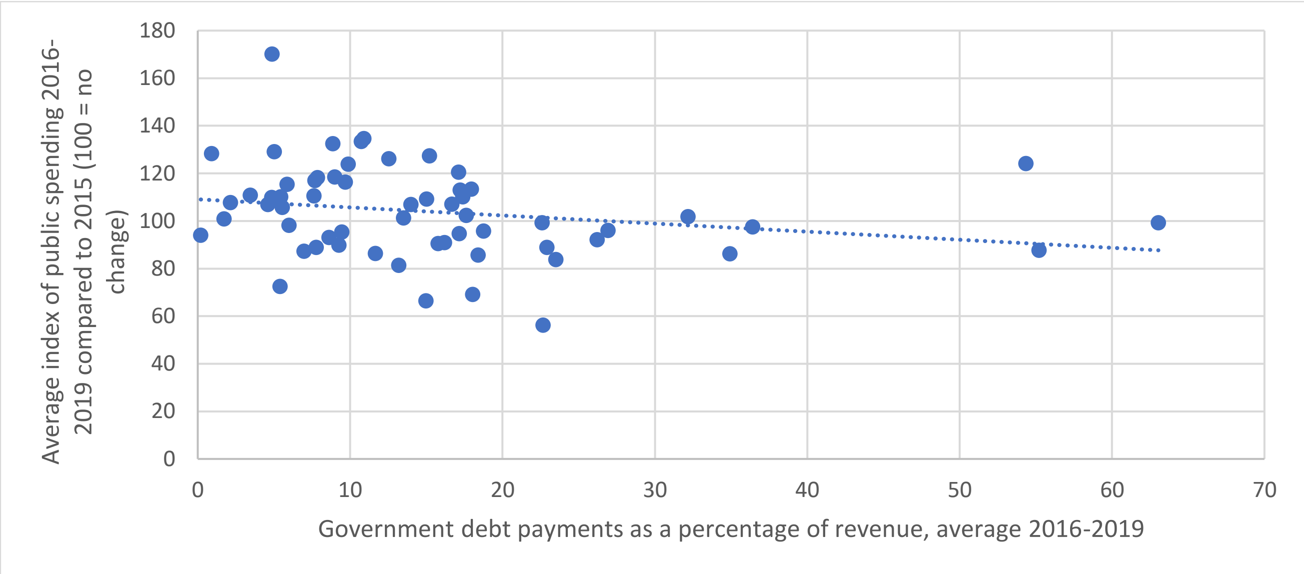
Graph 7. Rising or falling public spending, split between 30 countries with lowest debt payments and 30 with highest debt payments



Each country has very specific circumstances: there are some countries with high debt payments which have not had falls in public spending, and some with low debt payments which have still had public spending falls. However, high debt payments mean a country is more likely to have public spending cuts. This suggests that debt crises are already contributing to falling public spending in a considerable number of countries. The Sustainable Development Goals can only be met through large increases in public spending on essential services and infrastructure, yet debt burdens are preventing this happening in several cases (see examples below), and the continued rise in debt payments threatens to make the situation worse.

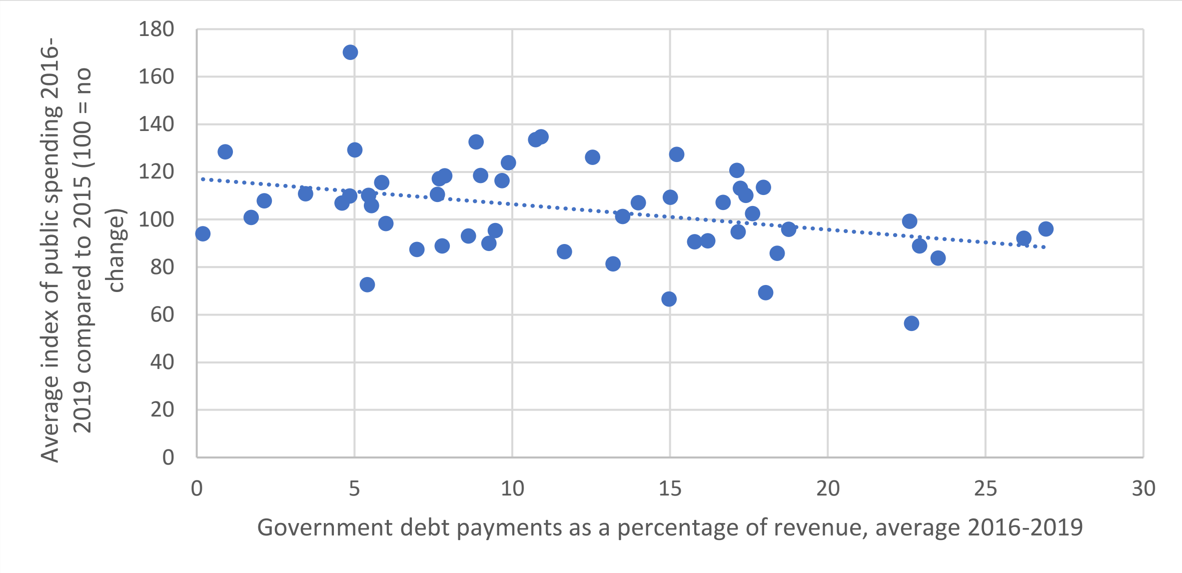
A scatter plot shows a general trend of declining public spending in countries with higher government debt payments (see Graph 8 below). However, beyond a certain level of debt payments, real public spending falls do not get worse. For the six countries with average debt payments over 30% of government revenue, five have a poor record on public spending since 2015, with spending either falling or being stagnant. But these falls are no worse than countries spending between 20% and 30% of revenue on debt payments. Of the 15 countries spending over 18% of government revenue on external debt payments and domestic debt interest, in only one (Gambia) was there clear public spending increases between 2015 and 2019.

Graph 8. Scatter plot of average government debt payments from 2016 to 2019 and index of change in real public spending from 2015 to 2019, with line of best fit



If the six countries spending more than 30% of government revenue on debt payments are taken out of the scatter plot, there is a clearer relationship between higher debt payments and falling public spending (see Graph 9 below). In this scatter, when debt payments go over 15% of revenue, public spending tends to be falling.

Graph 9. Scatter plot of average government debt payments from 2016 to 2019 and index of change in real public spending from 2015 to 2019, with line of best fit, excluding six countries with debt payments over 30% of revenue



4. Country cases

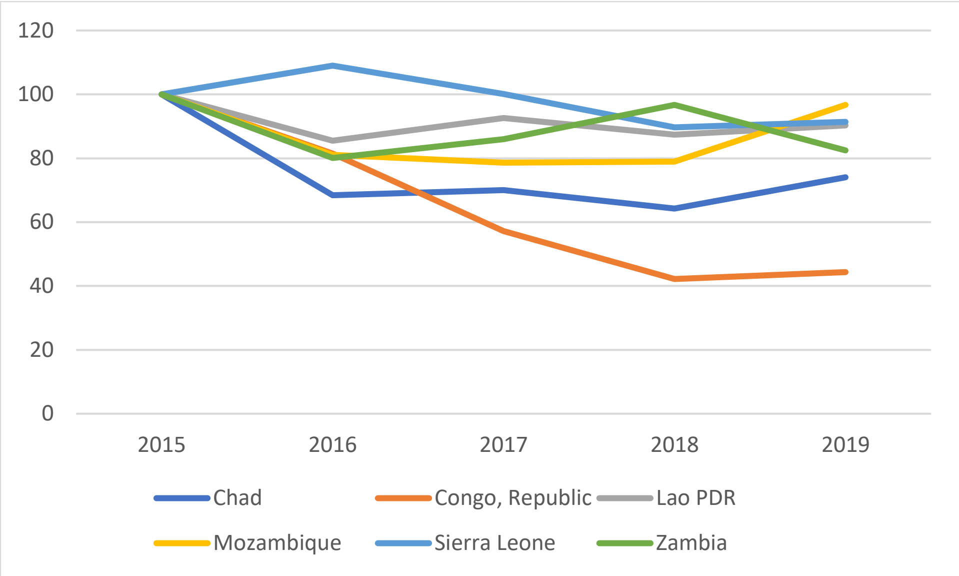
Below are examples of six countries with high debt payments and falling public spending: Chad, Republic of Congo, Laos, Mozambique, Sierra Leone and Zambia. These countries' average debt payments (external debt service and domestic debt interest) from 2016 to 2019 range from 18% of government revenue in Chad, to 23% in Congo, Laos and Mozambique, 35% in Zambia and 36% in Sierra Leone.

Congo has seen huge cuts in public spending of well over 50% by 2018. **Chad** has the next highest cuts of 35% by 2018. Both these central African countries have loans from oil traders which have or are being restructured, and have been hit by the falls in oil prices. **Mozambique** has a debt crisis triggered by hidden loans from London-based banks, following which public spending fell 21% between 2015 and 2018.

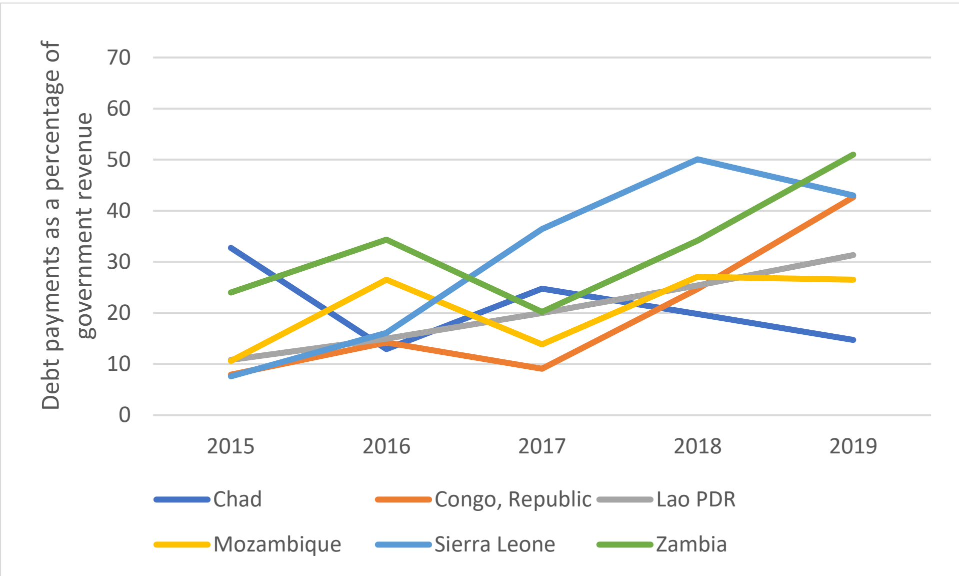
Zambia has high debt payments primarily due to high interest rate bonds and other loans from commercial banks, while its revenue has been hit by falls in the price of copper. In 2019, Zambia's public spending is due to be 18% lower than in 2015, with further cuts anticipated by the IMF for several years to come. **Sierra Leone**'s debt payments have shot up following the Ebola crisis. Almost half of the government's external debt is owed to the IMF. Public spending in 2018 in Sierra Leone was 10% less per person than in 2015, though the cuts on 2016 levels are even greater – 17%.

Laos has had increasing debt payments since 2015, and these are expected to stay high through the 2020s. Public spending was 13% lower in 2018 than in 2015.

Graph 10. Index of real public spending per person for six select countries with high debt payments (2015-2019)



Graph 11. External debt service and domestic debt interest as a percentage of government revenue for six select countries with high debt payments (2015-2019)



Appendix

The 63 countries with IMF data on projected debt payments are below:

1. Afghanistan
2. Bangladesh
3. Benin
4. Bhutan
5. Burkina Faso
6. Cambodia

7. Cameroon
8. Cabo Verde
9. Central African Republic
10. Chad
11. Comoros
12. Congo, Republic
13. Cote d'Ivoire
14. Djibouti
15. Dominica
16. Ethiopia
17. Gambia
18. Ghana
19. Grenada
20. Guinea
21. Guinea-Bissau
22. Guyana
23. Haiti
24. Honduras
25. Kenya
26. Kiribati [data only available from 2007 on]
27. Kyrgyz Republic
28. Lao PDR
29. Lesotho
30. Liberia
31. Madagascar
32. Malawi
33. Maldives
34. Mali
35. Marshall Islands [data only available from 2010 on]
36. Mauritania
37. Micronesia [data only available from 2011 on]
38. Moldova
39. Mozambique
40. Myanmar
41. Nepal
42. Nicaragua
43. Niger
44. Papua New Guinea
45. Rwanda
46. Samoa
47. Sao Tome and Principe
48. Senegal
49. Sierra Leone
50. Solomon Islands
51. South Sudan
52. St Vincent and the Grenadines
53. Sudan
54. Tanzania

55. Timor-Leste
56. Togo
57. Tonga
58. Tuvalu
59. Uganda
60. Uzbekistan
61. Vanuatu
62. Zambia
63. Zimbabwe