

Rising interest rates and falling currencies in lower income countries



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This briefing has looked at bond yields for low- and lower-middle income countries for which there is data, as of late-September 2022. It also looks at exchange rates against the dollar for the same group of 27 countries.

Summary of findings:

- Two-thirds of countries in the study no longer be able to borrow new foreign currency loans from external private lenders
- Market trading suggests that where new loans are given, interest rates will be 5.7 percentage points higher than the start of the year, which is almost three times the increase in US government interest rates
- The dollar has also increased against local currencies, pushing up debt payments by a further 14%

Many countries are already in a debt crisis due to high debt payments. This situation has worsened dramatically in recent months. Many more countries are likely to join Sri Lanka and Zambia in defaulting. An effective system for debt cancellation is urgently needed, mandating the good faith participation of all external creditors, including private lenders.

Research

We have looked at how bond prices and yields have changed this year for low- and lower-middle income countries with publicly available data on their bonds. We have also looked at how these same countries' currencies have changed in value against the dollar.

Our research finds that:

Since January 2022, the median yield on these countries bonds has increased by 5.7 percentage points. In contrast, the yield on US government 10-year bonds has increased by 2 percentage points. Yields are a measure of the interest rate private markets would charge now for new lending. This means lower income countries borrowing new loans from the private sector will be paying significantly higher interest rates (the change in yield does not affect the debts which have already been contracted).

Yields have therefore increased almost three times more for lower income countries than for the US, meaning that interest rates on new borrowing are increasing more for lower income countries than the US.

The median average is a better guide to the general situation than mean, because the mean average is affected by a few very large increases in yield.

Two-thirds of the countries have yields over 10%. Such high yields mean these countries are unlikely to be able to borrow more medium-term foreign currency loans from private lenders.¹ Of the 27 countries covered in our research:

- Nine have yields of over 20% (El Salvador, Ethiopia, Ghana, Maldives, Pakistan, Sri Lanka, Tunisia, Ukraine and Zambia)
- Ten have yields of 10%-20% (Angola, Cameroon, Egypt, Honduras, Kenya, Mongolia, Nigeria, Papua New Guinea, Rwanda, Tajikistan)
- Five have yields of 7%-10% (Benin, Bolivia, Cote d'Ivoire, Senegal, Uzbekistan)
- Just three have yields of less than 7% (Indonesia, Morocco and the Philippines)

The fact many countries are not able to borrow new loans could lead to more defaults and debt restructurings. When loans to private lenders, especially bonds, come due to be repaid, the expectation is this will be done by taking out new loans - a process known as refinancing. If this cannot be done, governments may need or choose to default or restructure their debt.

The US dollar has increased in value by a median of 14% against the 27 countries currencies since January 2022. This will increase the relative size of external debt payments by 14% for lower income countries. Because external debts tend to be owed in dollars, the cost of debt payments in local currency increases as its value falls against the dollar.

Since January 2022, of the 27 countries covered in our research:

- Eight have seen the dollar increase in value by more than 20% against their currencies (Egypt, Ghana, Morocco, Pakistan, Philippines, Sri Lanka, Tunisia and Ukraine)
- Eight have seen the dollar increase in value by 10%-20% (Benin, Cameroon, Cote d'Ivoire, Kenya, Mongolia, Morocco, Nigeria and Senegal)
- Five have seen the dollar increase in value by 1%-10% (Ethiopia,² Honduras, Indonesia, Rwanda, Uzbekistan)
- Seven have seen the dollar stay at the same value or fall in value against the local currency. (Of these seven, El Salvador uses the US dollar as its currency, Bolivia, the Maldives and Papua New Guinea have managed to maintain a fixed exchange rate with the dollar, Angola, Tajikistan and Zambia have seen their

¹ 99% of lower income country foreign currency bonds reviewed by Debt Justice have interest rates under 10%. The one exception is a Ghanaian bond with an interest rate of 10.75%. This suggests that once yields go over 10%, lenders and borrowers choose not to lend at all, rather than lend at such high interest rates.

² The Ethiopian Birr fell heavily in value against the dollar in 2020 and 2021. The dollar is currently worth 65% more in Birr than in January 2020.

currencies recover in value against the dollar in 2022 having previously fallen significantly. For example, the dollar is still worth 14% more against the Zambian Kwacha than it was in January 2020).

Table. Data by country

Country	Maturity of bond	Yield Jan 2022	Yield now	Percentage point change in yield	Currency	Amount of local currency needed to buy \$1 Jan 2022	Amount of local currency needed to buy \$1 now	Change in value of dollar
Angola	Nov-29, 7 years	8.5%	12.7%	4.2	Kwanza	558	427	-23%
Benin	Jan-32, 10 years	5.3%	9.8%	4.5	CFA franc	577	677	17%
Bolivia	Mar-28, 6 years	6.6%	9.9%	3.3	Boliviano	6.9	6.9	0%
Cameroon	Jul-32, 10 years	7.1%	11.4%	4.3	CFA franc	577	677	17%
Cote d'Ivoire	Jun-33, 11 years	5.7%	8.9%	3.2	CFA franc	577	677	17%
Egypt	Apr-30, 7 years	7.9%	14.6%	6.7	Egyptian pound	15.7	19.5	24%
El Salvador	Jun-35, 13 years	16.7%	28.1%	11.4	US dollar	1	1	0%
Ethiopia	Nov-24, 2 years	21.7%	47%	25.2	Birr	49.2	53	8%
Ghana	Mar-32, 9 years	12.7%	25.6%	12.9	Cedi	5.9	10.1	71%
Honduras	Jun-30, 8 years	5.5%	10.9%	5.4	Lempira	24.1	24.8	3%
Indonesia	Feb-29, 6 years	2.7%	5%	2.3	Rupiah	14,090	15,068	7%
Kenya	May-32, 9 years	7.1%	12.9%	5.8	Shilling	109	121	11%
Maldives	Apr-26, 3 years	9.88%	22%	12.1	Rufiyaa	15.4	15.4	0%
Mongolia	Apr-26, 3 years	4.8%	11.5%	6.7	Tughrík	2847	3295	16%
Morocco	Nov-31, 9 years	2.7%	6.2%	3.5	Dirham	8.91	10.9	22%
Nigeria	Feb-32, 9 years	8.2%	13.5%	5.3	Naira	381	436	14%
Pakistan	Apr-31, 8 years	8.2%	22%	13.8	Pakistan Rupee	161	237	47%
Papua New Guinea	Oct-28, 6 years	8.6%	14.3%	5.7	Kina	3.51	3.52	0%
Philippines	Jan-31, 8 years	2.6%	5.2%	2.6	Peso	48	58.9	23%

Rwanda	Aug-31, 9 years	5.6%	10%	4.4	Rwandan franc	982	1,061	8%
Senegal	Aug-37, 15 years	6.2%	9.9%	3.7	CFA franc	577	677	17%
Sri Lanka	Mar-30, 7 years	21.9%	38.7%	16.8	Sri Lanka Rupee	185	365	97%
Tajikistan	Sep-27, 5 years	10.1%	19.1%	9	Somoni	11.3	10.1	-11%
Tunisia	Sep-27, 5 years	10.8%	22%	11.2	Dinar	2.68	3.3	23%
Ukraine	May-29, 6 years	10.2%	46%	35.8	Hyrvnia	28.4	36.8	30%
Uzbekistan	Oct-31, 9 years	4.7%	7.8%	3.1	So'm	10,477	11,025	5%
Zambia	Apr-24, 1 year	25.2%	50%	24.8	Kwacha	21.18	16	-24%
Median average				5.7				14.4%
US	10 year bond yield	1.8%	3.8%	2				