10 years on: Global debt at all-time high. Developing countries hit hard by fallout

Eurodad

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Ten years after the collapse of US investment bank Lehman Brothers (15 Sept 2008), the world is in deeper debt than it was in 2009 – the height of the financial crisis.

Global debt reached a record peak of US$164 trillion in 2016, equivalent to 225 percent of global GDP. For advanced economies, debt-to-GDP ratios have plateaued since 2012 to levels not seen since World War II (above 105 per cent of GDP).

The fallout from the financial crisis is now also hitting developing countries hard.

Bodo Ellmers, Head of Policy of the European Network on Debt and Development (Eurodad) said: "Ten years after the Lehman collapse, we are in a bigger global sovereign debt crisis than ever. To make matters worse, the massive debt crisis has hit the Global South. This is a crisis that poor countries did not cause but they are now collateral damage following the failure of Europe and the USA to regulate their financial sector properly".

Figures from the International Monetary Fund* show that:

- In emerging market and middle-income economies, debt-to-GDP ratios in 2017 reached almost 50 per cent—a level seen only during the 1980s debt crisis—and are expected to continue on an upward trend.
- For low-income developing countries, average debt-to-GDP ratios exceeded 40 per cent in 2017, climbing more than 10 percentage points since 2012, and are not expected to decline much over the medium term.

Nations in the Global South could initially shield themselves from the crisis but the measures taken by European and US governments and Central Banks are now wreaking havoc, compounding the global financial crisis that already hit populations across richer countries.

Argentina and Turkey are the latest countries affected by the volatility of speculative capital flows that has been caused by the US Federal Reserve and the European Central Bank's (ECB) quantitative easing (QE) policies.

According to the IMF, only 1 in 5 low income countries has a low risk of falling into debt crises. Yet debt levels in poor countries have surged massively because rich countries' investors have gone in search of high-yield and high-risk investment opportunities in the Global South – and are now pulling out.

QE was supposed to relaunch European banks' lending to European firms and consumers, but in the absence of capital controls a large share of the money ended up in poorer countries where higher profits could be made.

Ellmers said: "Today, as QE is gradually phased out by the Federal Reserve and the ECB and interest rates rise, speculators are taking their money out of poorer countries and back to the USA and EU. For developing countries, it has become impossible to refinance all the bonds that have been issued and all the loans that have been taken out over the past decade.

"Several countries such as Argentina and Ghana already had to request bailout loans from the IMF to avoid defaults on debts due to private creditors. And the IMF is once again telling countries like Argentina to cut public spending in exchange for the loans, which will just hurt the poor."

Eurodad is calling for the introduction of capital controls to moderate capital flow volatility and put a stop to the speculation on debts of the Global South, as well as a restructuring of the unsustainable debts.

"Speculators have made high profits on high risk investments in poor countries that yielded 10% or more annually. Now those speculators have to contribute to the solution," said Ellmers. "A large share of developing country debt needs to be written off, this is the only fair and sustainable solution. In the longer run, we need an international debt resolution forum, which can ensure that developing country debt crises get resolved in a fair, timely and sustainable manner, without compromising essential public services and development objectives."

Eurodad is part of the Change Finance coalition that is staging a global action day on September 15 in order to hold the financial sector to account and call on governments to regulate finance.

For more information on Change Finance and the upcoming actions visit changefinance.org.

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