THE WORST EVER GLOBAL DEBT CRISIS

NEW DATA FROM *DEBT SERVICE WATCH*

This policy briefing, based on the new ***Debt Service Watch*** database, shows that the citizens of the Global South now face the worst debt crisis since global records began. Debt service[1] is absorbing an average 38% of budget revenue and 30% of spending across the South, rising to 54% of revenue and 40% of spending in Africa. Spread across all continents, 35 countries are paying more than half of revenue, and 54 over one third.

These figures are more than twice the levels faced by low-income countries before HIPC and MDRI debt relief; and slightly higher than those paid by LAC countries before the Brady Plan in the 1980s.

More crucially, debt is pushing aside key spending to confront social and environmental crises. Debt service equals combined total spending on education, health, social protection and climate, and exceeds it by 50% in Africa. It is 2.5 times education spending, 4 times health spending, and 11 times social protection spending.

Developing countries need another major round of debt cancellation. Yet current debt relief deals are failing to reduce service sharply to free spending room for the SDGs: on average, the most recent debt restructuring deals are leaving debt service at an average 48% of revenue over the next 3-5 years. The international community must take urgent steps to reduce debt service much more sharply, through enhanced debt relief and reduced borrowing costs. Only with these can it provide its fair share of funding for the Secretary-General's proposed SDG Stimulus, and rescue the Sustainable Development Goals.

Development Finance International is a non-profit research and capacity-building organisation. It has worked for 32 years with more than 60 Global South governments, helping them to mobilise the best development finance and debt relief to reduce poverty and inequality, and confront the climate crisis. It has also provided advice and analysis to intergovernmental organisations, development partners, civil society organisations (including Jubilee 2000), trade unions and parliamentarians. For more details, see www.development-finance.org. This briefing has been written by Matthew Martin, based on data provided by David Waddock and Maria Holloway, with inputs and support from AFRODAD, Debt Justice UK, Erlassjahr, EURODAD, LATINDADD, Norwegian Church Aid and UNAIDS. These partnerships aim to make ***Debt Service Watch*** a Southern-driven product, and to ensure that it will be updated annually, and used globally, regionally and nationally to advocate debt service reduction.

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[1] In this briefing and the DSW database, debt service includes principal and interest on external and domestic debt.

WHY DEBT SERVICE WATCH ?

Since the COVID-19 pandemic, international policymakers have agreed that there is a new debt crisis for countries of the Global South. However, many in the global financial community continue to say that this is not yet a "systemic" crisis and is less serious than past global debt crises. They have advanced two reasons for this assessment, that: i) relatively few countries (especially among the largest debtors) have defaulted on their external debts in recent years; and ii) debt/GDP burdens are lower than they were before and during the Latin American debt crisis of the 1980s, or the low-income country debt crisis of the 1990s.

On the other hand, the UN Secretary-General has been stating that the debt crisis is extremely severe and widespread. This is because the UN is assessing the crisis based on the effects debt is having on prospects of reaching the Sustainable Development Goals (SDGs). UN agencies have found that debt service is massively crowding out spending on public services to reduce poverty and inequality (education, health, social protection); and to confront climate and other environmental crises.[2]

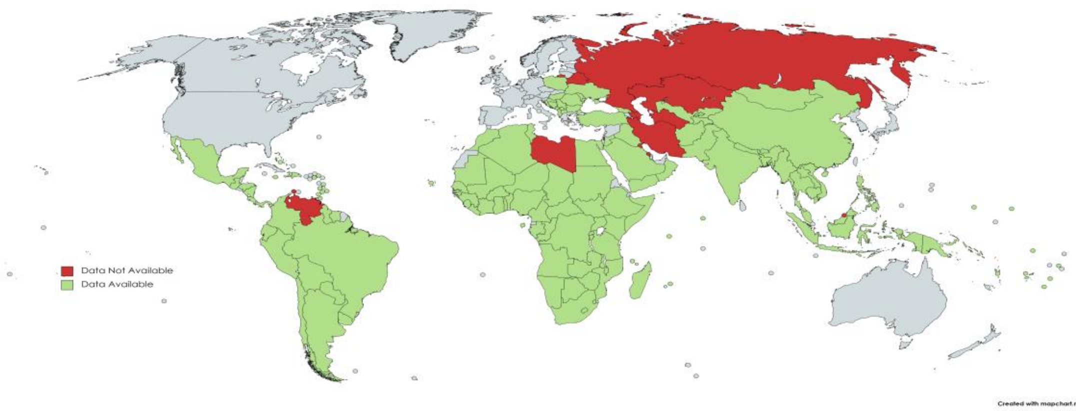
Evidence to support this development-based assessment has until now been limited. Data on both debt service and SDG spending have not been timely enough (stopping in 2021 or earlier); debt service data have covered only external debt, and social protection and climate spending data have been old or non-existent.

This briefing presents a new database, ***Debt Service Watch,*** compiled by Development Finance International with financing from Norwegian Church Aid, LATINDADD and UNAIDS. It covers 139 of 155 countries which borrow from the World Bank (see Box 1), and solves the data problems raised above. It includes the latest (2017-2023) debt service numbers, and covers both external and domestic debt. It compares them with total government revenue, spending and GDP, and spending on education, health and social protection. It has been compiled from national budget or debt management documents, IMF programme documents, and various global spending databases. The data are available online at www.development-finance.org.

BOX 1: THE MIDDLE EAST AND CENTRAL ASIA MUST BE MORE TRANSPARENT

The DFI team was unable to find debt service data for the following 16 countries: 9 from the Middle East and Central Asia (Azerbaijan, Bahrain, Iran, Kazakhstan, Kuwait, Libya, the Occupied Palestinian Territories, Syria and Turkmenistan); 2 in Europe (Belarus and the Russian Federation); 2 in Latin America (Aruba and Venezuela); 2 in Africa (Eritrea and Equatorial Guinea); and 1 in Asia (Brunei). There is an urgent need for these governments to improve transparency to their citizens, especially in the Middle East and Central Asia. On the other hand, Sub-Saharan Africa is the most transparent global region in terms of publishing debt service data. We welcome any approaches from experts who can help us find and publicise more data.

FIGURE 1: COUNTRIES INCLUDED IN THE DEBT SERVICE WATCH DATABASE



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[2] See the UN Secretary-General 2023, UNCTAD 2023 and UNDP 2023.

DEBT SERVICE WATCH: THE FINDINGS

1) GLOBAL DEBT BURDENS ARE THE HIGHEST SINCE RECORDS BEGAN

The key findings of the 2023 database are that this is the worst debt crisis the Global South has faced since global records have begun. The key ratio which the IMF and World Bank use to measure the debt service or "liquidity" burden of public debt is the debt service/budget revenue ratio, which shows each country's fiscal capacity to pay it debts. Debt service/revenue is currently averaging 38% of budget revenue (excluding grants) across the 139 countries, and 57.5% for low-income countries. This compares with the BWI assessment that ratios of between 14% and 23% (depending on the debt carrying capacity of the country) make external debt levels unsustainable for lower-income developing countries covered by the LIC-Debt Sustainability Methodology. However, the problem is not just confined to the poorest countries. As shown in Figure 2 below, the average service/revenue ratio is 45% for LMICs and 27% for UMICs. Nor is it a problem concentrated in one region: Figure 3 shows that Sub-Saharan Africa is spending 53% of its revenue, Asia 31%, Latin America and the Caribbean 31.4%, and the Middle East and Central Asia is spending 30%.

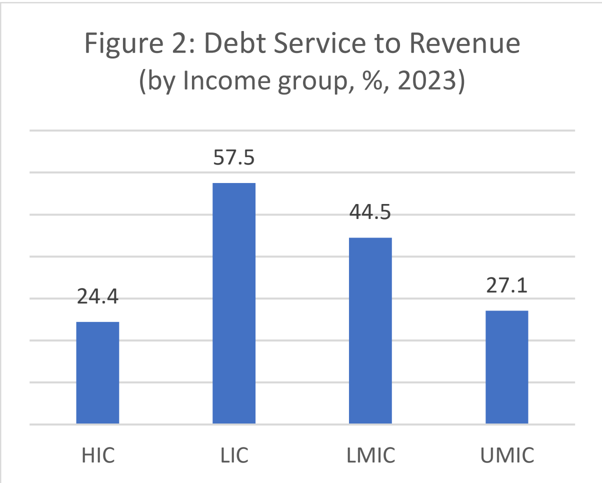


Figure 2: Debt Service to Revenue
(by Income group, %, 2023)

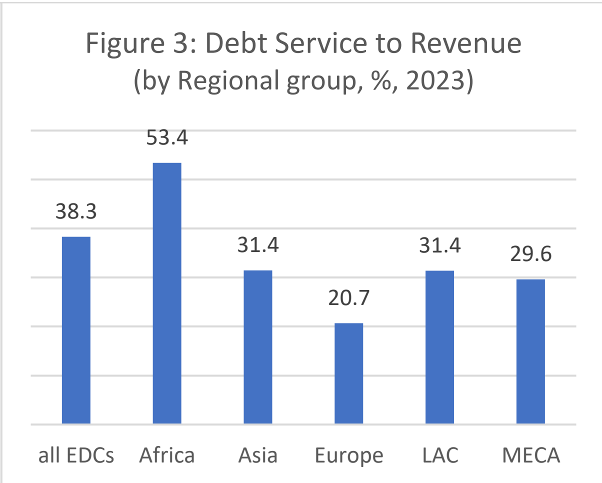


Figure 3: Debt Service to Revenue
(by Regional group, %, 2023)

Figure 4 shows the countries with the heaviest debt service burdens compared to revenue, and that these come from a mixed range of regions, income levels and countries with/without special development situations. In terms of the worst affected countries (debt service over 50% of revenue), 18 are in Sub-Saharan Africa, 6 in LAC, 5 in MECA and 5 in Asia. More broadly, two-thirds of African countries have service above 33% of revenue; while one third of countries in Asia, Middle East and LAC have similar levels.

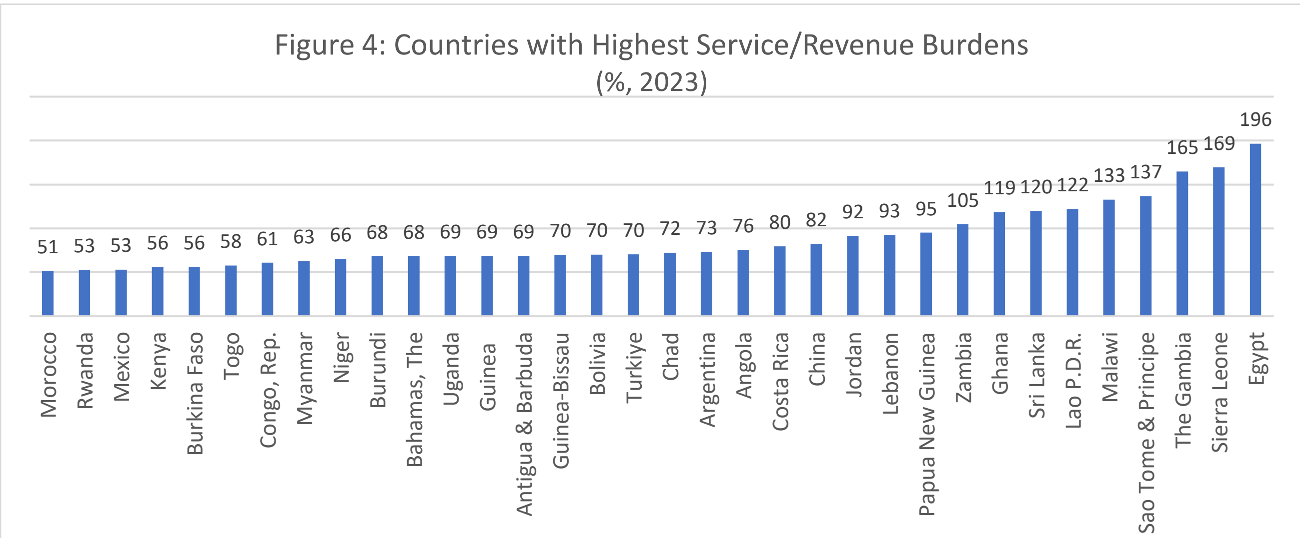
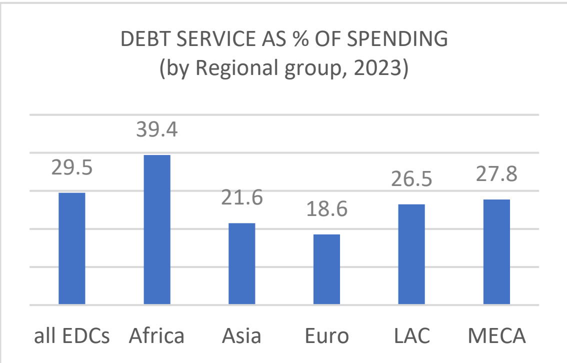


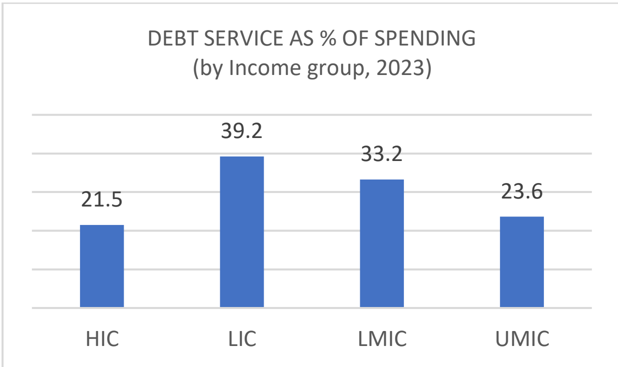
Figure 4: Countries with Highest Service/Revenue Burdens
(%, 2023)

Debt service also represents an average of 7.6% of GDP for all countries, 8.3% of GDP for low-income countries, and 8.9% of GDP for Sub-Saharan African countries. For former-HIPCs, this is well over twice the 3.7% of GDP they paid in debt service in 1996, before the HIPC Initiative was designed and reduced their debt burdens massively; and higher even than their scheduled 1996 debt service of 7% of GDP.[3] The amounts in Debt Service Watch of course also include debt service denominated in domestic currency[4], but in the early 1990s virtually no low-income countries had developed domestic debt markets or were paying service. Even the external service being paid in 2023 averages 3.7% of GDP in LICs (equal to the pre-HIPC level). These levels of service show that lower-income and African countries in particular are facing their worst debt crisis ever. But even the most indebted wealthier Latin American countries were paying only 10% of GDP in the 1980s before the Brady Plan reduced their debt, and current service averages 11% of GDP.

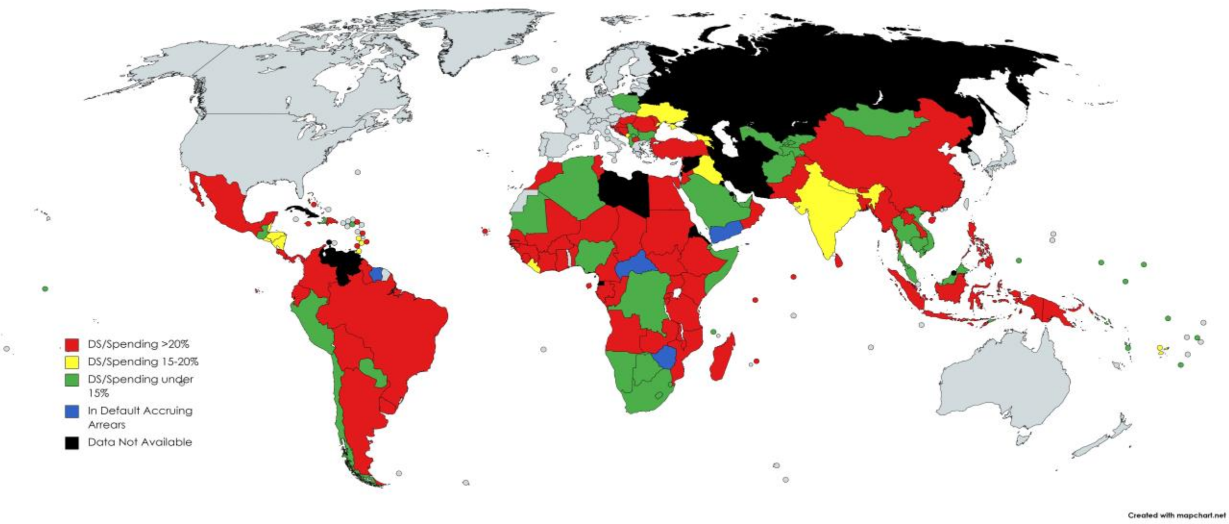
2) DEBT SERVICE IS MASSIVELY CROWDING OUT SPENDING ON THE SUSTAINABLE DEVELOPMENT GOALS

As a proportion of total budget spending, debt service is also a huge problem in many countries. It averages 29.5% of spending across all countries, 39% in Africa, 28% in MECA, 26.5% in LAC and 22% in Asia. It is particularly onerous for lower income countries – 39% of spending in LICs and 33% in LMICs – as well as for least developed countries (33%) and landlocked countries (32%).





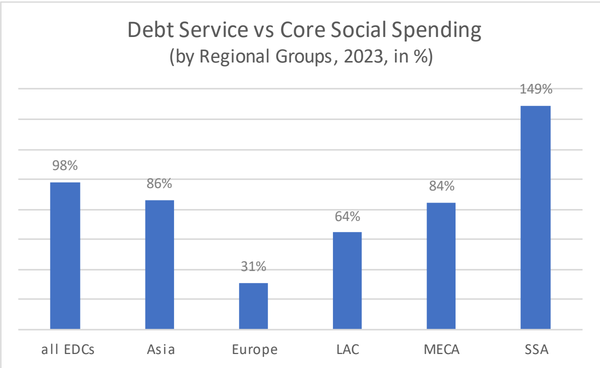
Map 2 shows how high service/expenditure burdens are widespread across all continents: 92 countries exceed a threshold of 15%, and 74 countries a threshold of 20%. A further 5 countries would have high ratios but are in default on most of their debt. The exact ratios for each country are shown in Annex Table 1.

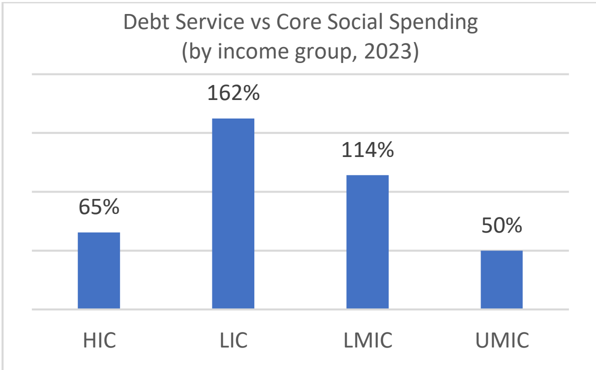


[3] On HIPCs, see IMF and World Bank 1998; on LAC, author's own calculation from World Bank ***World Debt Tables***.

[4] Though according to internationally-agreed data definitions, external and domestic debt should be classified according to the residency of the creditor, most countries report debt split by its currency as we do here.

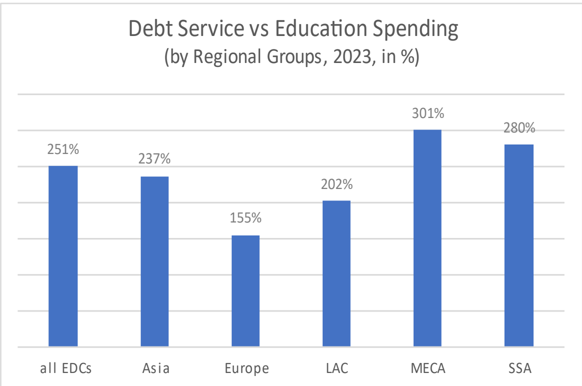
Compared with **social spending**, debt service matches total social spending (education + health + social protection) on average across all countries. It exceeds it by half in Africa, is around 85% in Asia and MECA, and 64% in LAC. In terms of income levels, debt service exceeds social spending by 62% in LICs, and by 14% in LMICs. In 33 countries (16 in Africa, 7 Asia, 6 LAC, 4 MECA), service exceeds total social spending.

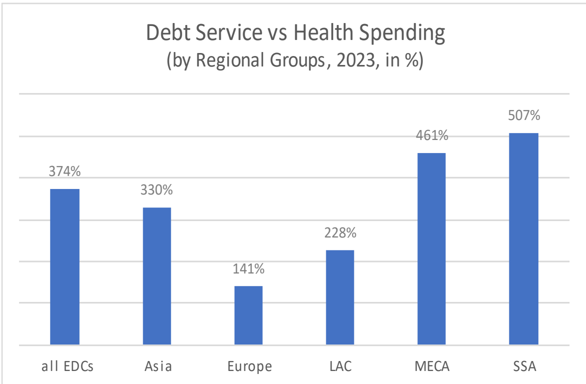




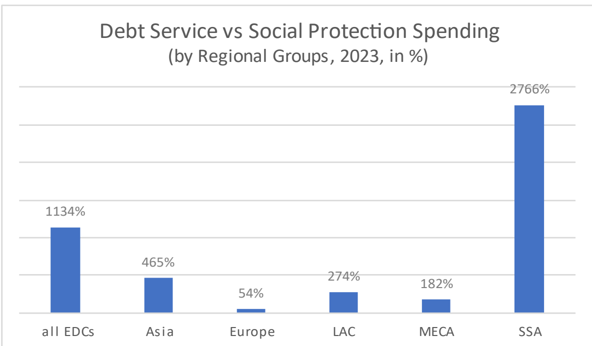
Debt service spending is 2.5 times **education spending across all countries, rising to** 3 times as high in MECA and SSA, but only 2.4 times as much in Asia and twice as much in LAC. In 104 countries, debt service exceeds education spending.

Debt service is 3.7 times **health spending** across all countries – 5 times as high in SSA and MECA; over 3 times as much in Asia, and twice as much in LAC. In 116 countries debt service exceeds health spending.





Debt service is over 11 times **social protection spending** across all countries – but this rises to over 27 times in SSA where social protection spending is generally low, compared with only 4 times as high in Asia, 2.7 times in LAC and 1.8 times in MECA. In 107 countries, debt service exceeds social protection spend.



3) CURRENT DEBT RELIEF IS WOEFULLY INADEQUATE TO SAVE THE SUSTAINABLE DEVELOPMENT GOALS

Faced with these historically high burdens, is the current debt resolution architecture providing adequate debt relief to free up spending room for the Sustainable Development Goals ?

Judging by the recent agreements reached or under negotiation with Chad, Ghana, Sri Lanka, Suriname and Zambia, the answer is clearly no. After their debt deals, according to IMF forecasts[5], the countries will still be paying an overall average of 48% of their budget revenue on debt service in the next 3 years, with only Sri Lanka bringing its debt service levels below 30% of revenue.

TABLE 1. DEBT SERVICE TO BUDGET REVENUE AFTER DEBT RESTRUCTURING				
	2023	2024	2025	AVERAGE
Chad	65	53	48	55
Ghana	42	59	72	58
Sri Lanka	26	19	18	21
Suriname	36	44	37	39
Zambia	75	62	59	65

The countries will also be having to cut their government spending by a cumulative 4% of GDP over the next 5 years. While efforts may be made to protect some social spending by setting “floors” within this reduced total, it is not obvious that this will succeed based on recent experience[6]. Even if it does, it is obvious that the deals will provide no scope for a major increase in spending to accelerate progress on the SDGs.

This failure is because no clear target for debt service/revenue is being set to judge whether debt relief deals leave countries with sustainable debt levels, especially in the short-to-medium-term, and therefore debt service/revenue is being reduced to 15-20% over only about 10 years. In turn, this reflects the reluctance by creditors to provide the same scale of relief as was provided in earlier debt crises.

In contrast, under the HIPC Initiative, even before the extra MDRI relief was introduced in 2005, creditors worked towards a broad target of bringing debt service below 15-20% of budget revenue, and the ultimate outcomes of the HIPC and MDRI deals reduced debt service to an average of only 11% of revenue[7]. The same scale of effort by creditors is needed now to save the Sustainable Development Goals, and debt relief agreements should set and meet explicit debt service/revenue targets beginning in the year of relief.

In addition, for those countries which do not wish to seek debt relief because their budget financing depends on bond markets, it is essential that measures are taken now to reduce their borrowing costs sharply.

Only with enhanced debt relief and reduced borrowing costs, will it be possible to fund the UN Secretary-General’s suggested SDG Stimulus package of US$500 billion a year and put the SDGs back on track.

#CancelTheDebt #DebtCrisis #LifeBeforeDebt

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[5] The sources for these numbers, and for the projected spending adjustment in the following paragraph, are the latest post-restructuring debt sustainability analyses in IMF Board documents.
[6] See Oxfam 2023.
[7] Calculations based on IMF 2019.

Country	Total Debt Service			Debt Service as a proportion of			
	as a % of Revenue	as a % of Expenditure	as a % of GDP	Education	Health	Social Protection	Total Anti-Inequality Spending
Afghanistan	1.65	0.88	0.00	0.08	0.26	0.23	0.05
Albania	14.92	12.23	3.76	1.67	1.30	0.43	0.27
Algeria	17.24	14.23	5.61	0.88	1.33	0.62	0.28
Angola	75.54	70.25	14.58	5.83	6.76	14.19	2.57
Antigua & Barbuda	68.84	41.75	14.94	4.22	3.66	2.87	1.16
Argentina	73.39	70.33	30.13	5.61	4.53	1.51	0.94
Armenia	17.29	15.25	4.15	1.94	2.61	0.67	0.42
Bahamas, The	68.25	56.77	13.55	5.61	3.98	9.78	1.88
Bangladesh	48.75	28.16	4.28	1.89	4.52	4.86	1.05
Barbados	29.78	25.56	7.81	1.54	1.83	1.66	0.56
Belize	17.05	15.33	3.31	0.81	1.52	2.29	0.43
Benin	42.22	29.99	5.98	1.58	5.60	5.04	0.99
Bhutan	47.23	27.12	9.31	1.52	1.92	2.79	0.65
Bolivia	70.28	46.07	8.86	2.08	3.37	3.80	0.96
Bosnia and Herzegovina	25.16	25.31	8.76				
Botswana	15.37	13.89	4.09	0.69	0.92	2.55	0.34
Brazil	42.79	37.08	17.80	5.94	4.82	0.90	0.67
Bulgaria	7.57	6.40	2.37	0.67	0.45	0.20	0.12
Burkina Faso	56.43	41.79	10.39	1.99	4.47	33.16	1.32
Burundi	68.19	43.62	10.03	2.95	4.56	51.93	1.73
Cabo Verde	36.63	28.39	8.72	2.53	3.16	1.95	0.82
Cambodia	6.85	5.38	1.45	0.41	0.13	1.31	0.09
Cameroon	43.23	40.12	6.54	2.43	8.54	6.28	1.45
Central African Republic	22.33	14.05	2.38	1.48	1.72	14.05	0.75
Chad	72.46	78.39	15.86	5.93	12.04	16.87	3.21
Chile	7.44	6.71	4.10	0.41	0.29	0.23	0.10
China	82.41	61.15	20.60	4.13	5.82	2.37	1.20
Colombia	25.17	31.07	7.90	2.53	1.97	1.01	0.53
Comoros	17.73	8.49	1.72	0.65	0.54		0.30
Congo, Dem. Rep.	19.12	13.65	2.90	0.80	1.45	7.07	0.48
Congo, Rep.	60.96	64.21	16.96	4.67	6.28	13.93	2.25
Costa Rica	79.51	62.88	12.28	2.84	3.12	2.69	0.96
Cote d'Ivoire	44.71	41.22	7.05	2.01	5.29	26.09	1.38
Croatia	27.30	26.82	12.51	2.68	1.99	0.93	0.51
Djibouti	18.39	14.72	3.46	1.05	3.11	2.00	0.56
Dominica	23.27	20.02	10.19				
Dominican Republic	30.64	24.24	4.45	1.04	2.20	2.16	0.53
Ecuador	19.62	20.70	7.04	1.44	1.81	0.96	0.44
Egypt	196.43	133.74	31.80	15.94	27.77	7.77	4.40
El Salvador	25.51	18.76	6.33	1.33	1.83	1.31	0.49
Eswatini	15.72	13.13	3.63	0.83	1.09	3.91	0.42
Ethiopia	29.65	22.98	2.63	1.29	2.97	15.52	0.85
Fiji	28.23	19.96	6.45	1.30	1.89	3.58	0.63
Gabon	47.85	57.89	9.33				
Georgia	17.53	15.63	4.62	1.29	1.54	0.59	0.32
Ghana	118.71	89.92	19.63	7.50	11.24	20.07	3.67
Grenada	30.39	30.55	8.71				
Guatemala	16.35	14.37	2.02	0.73	1.35	6.75	0.44
Guinea	68.66	57.52	9.37	5.53	11.98	56.95	3.55
Guinea-Bissau	69.77	43.41	8.83	4.37	6.30	7.98	1.95
Guyana	33.90	32.86	5.02	2.63	2.93	3.90	1.02
Haiti	9.51	9.24	0.79	0.77	2.36	0.71	0.32
Honduras	25.48	15.54	5.75	1.28	1.63	4.55	0.62
Hungary	33.33	28.44	13.77	3.10	2.28	1.08	0.59
India	29.35	17.27	5.24	2.00	4.19	1.61	0.74
Indonesia	36.16	29.97	4.60	1.87	2.85	2.86	0.81
Iraq	13.24	15.28	6.67				
Jamaica	39.88	33.71	11.55	2.54	2.66	5.24	1.04
Jordan	91.54	70.21	21.74	5.89	7.89	2.44	1.42
Kenya	56.03	40.88	8.96	2.17	5.27	7.53	1.27
Kiribati	1.37	1.28	1.13	0.07	0.09	0.58	0.04
Kosovo	3.46	2.87	0.93	0.26	0.31	0.15	0.07
Kyrgyz Republic	14.79	11.01	4.35	0.71	5.29	0.55	0.29
Lao P.D.R.	122.24	89.82	16.60	7.64	11.65	25.38	3.90
Lebanon	92.85	105.81	9.10	10.04	8.15	3.87	2.08
Lesotho	11.38	7.34	3.99	0.65	0.56	0.71	0.21
Liberia	19.01	16.56	2.96	1.38	1.74	13.80	0.73
Madagascar	49.08	31.02	5.85	1.88	3.47	20.14	1.15
Malawi	132.83	79.18	15.27	5.43	10.04	76.13	3.37
Malaysia	15.65	11.96	2.40	0.59	1.27	0.70	0.26

Debt Service more than 20% of Expenditure

Debt Service between 15-20% of Expenditure

Debt Service less than 15% of Expenditure

Country	Total Debt Service as a % of Revenue	Total Debt Service as a % of Expenditure	Total Debt Service as a % of GDP	Debt Service as a proportion of Education	Health	Social Protection	Total Anti-Inequality Spending
Maldives	37.82	32.18	10.05	2.70	1.95	2.39	0.77
Mali	49.80	46.01	9.96	2.40	8.31	15.55	1.66
Marshall Islands	8.14	3.55	2.26				
Mauritania	15.38	12.16	3.06	0.65	1.39	1.04	0.31
Mauritius	40.93	35.85	8.13	2.22	3.67	1.26	0.66
Mexico	53.11	45.39	12.88	2.90	3.39	1.83	0.84
Micronesia	5.61	2.80	1.69				
Moldova	36.27	42.69	11.70	2.10	3.73	1.52	0.71
Mongolia	13.98	12.60	4.12	3.01	7.37	0.43	0.36
Montenegro	20.97	17.90	6.84				
Morocco	51.43	51.04	13.80	8.53	5.60	3.52	1.72
Mozambique	29.01	20.44	7.45	1.25	2.69	3.50	0.69
Myanmar	62.81	46.25	11.58	3.30	8.62	10.16	1.93
Namibia	15.43	13.01	4.20	0.53	0.79	1.44	0.26
Nauru	7.49	7.51	8.51				
Nepal	23.75	18.89	6.21	1.72	2.75	1.67	0.65
Nicaragua	15.71	17.72	2.95	0.81	0.85	5.06	0.38
Niger	65.51	26.14	7.55	1.83	5.85	3.72	1.01
Nigeria	28.97	11.85	1.77	2.09	2.10	2.11	0.70
North Macedonia	24.04	22.54	7.34	2.05	1.66	0.67	0.39
Oman	24.93	22.71	8.21	1.86	2.85	4.59	0.90
Pakistan	49.03	34.03	8.32	2.94	7.68	3.15	1.27
Palau	18.90	10.50	4.86				
Panama	28.55	30.71	5.63	1.58	3.06	5.11	0.87
Papua New Guinea	95.11	70.31	14.54	4.68	7.00	29.67	2.56
Paraguay	12.73	9.91	3.33	0.57	0.86	0.41	0.19
Peru	9.26	9.14	2.32	0.47	0.79	0.92	0.22
Philippines	32.33	27.82	6.52	1.79	2.98	1.84	0.70
Poland	2.67	2.44	1.07	0.23	0.22	0.07	0.04
Qatar	5.70	7.40	2.18	0.79	1.14		0.47
Romania	29.98	24.46	8.06	2.78	1.87	0.75	0.45
Rwanda	52.65	30.99	9.54	2.54	4.06	6.57	1.26
Samoa	15.79	11.56	4.53	0.86	0.80	2.90	0.36
Sao Tome and Principe	136.76	78.76	19.32	3.99	6.03	145.84	2.36
Saudi Arabia	12.17	14.38	3.34	0.75	1.10	0.95	0.30
Senegal	32.52	24.37	6.33	1.16	4.99	1.70	0.61
Serbia	14.67	13.38	5.94	1.56	1.06	0.35	0.22
Seychelles	32.66	28.89	10.55	2.76	2.84	1.71	0.77
Sierra Leone	169.41	118.54	23.87	7.32	14.49	36.59	4.29
Solomon Islands	3.34	2.47	0.77	0.08	0.18	3.74	0.06
Somalia	13.41	3.89	0.43	0.85	0.45	0.25	0.14
South Africa	18.03	14.30	4.40	0.70	1.21	0.83	0.29
South Sudan	19.50	38.87	6.16	2.80	9.21	215.94	2.13
Sri Lanka	119.86	53.49	14.12	16.71	12.56	7.39	3.64
St. Kitts and Nevis	5.08	5.09	1.78				
St. Lucia	24.72	15.44	4.66	1.22	1.53	5.66	0.61
St. Vincent and the Grenadines	20.61	15.14	5.61	0.80	1.45	1.07	0.35
Sudan	33.47	27.35	2.59				
Suriname	25.30	19.58	6.51				
Tajikistan	10.53	8.29	2.55	0.44	0.97	0.64	0.21
Tanzania	33.02	21.65	4.52	1.58	4.18	2.17	0.75
Thailand	10.63	9.94	1.71	0.82	0.64	0.45	0.20
The Gambia	164.83	80.32	20.23	6.70	8.44	60.85	3.52
Timor-Leste	2.91	1.17	1.47	0.16	0.24	0.17	0.06
Togo	57.77	38.28	9.91	2.58	4.69	182.28	1.65
Tonga	16.11	8.73	3.92	0.74	0.84	6.77	0.37
Trinidad & Tobago	17.97	18.19	5.11	1.63	2.01	0.97	0.47
Tunisia	45.45	39.13	12.97	2.22	7.76	1.43	0.78
Turkiye	70.41	61.73	4.90	6.58	5.98	2.09	1.25
Tuvalu	1.53	0.95	1.03	0.06	0.05	0.14	0.02
Uganda	68.60	45.85	8.77	4.29	4.66	45.39	2.13
Ukraine	28.11	16.39	11.10	1.04	1.77	0.47	0.27
United Arab Emirates	5.18	5.18	1.41				
Uruguay	22.47	21.94	6.03	1.31	1.76	0.79	0.39
Uzbekistan	9.00	8.14	2.43	0.36	0.75	0.21	0.11
Vanuatu	11.36	6.32	2.92	0.24	0.66	1.64	0.16
Vietnam	18.30	14.24	2.76	0.96	1.39	0.80	0.33
Zambia	104.78	76.30	23.15	5.50	7.34	15.70	2.62
Zimbabwe	18.00	16.21	0.54	0.91	1.52	2.55	0.47