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A debt pandemic is engulfing the Global South

Covid-19 is not the only pandemic ravaging across the Global South. A debt pandemic threatens to prevent developing countries' recovery

Without a doubt, the Covid-19 pandemic represents the most severe developmental setback in recent history. But while the virus is still ravaging across the Global South, it's not the only pandemic currently engulfing developing countries. In fact, a debt pandemic threatens to prevent them from achieving a meaningful — let alone sustainable — recovery.

Between 2010 and 2020, public debt of developing countries has increased from an average of 40.2 to 62.3 per cent of GDP. More than one third of the increase, equal to 8.3 percentage points, took place in 2020 alone. This figure is equivalent to a staggering $1.9 trillion – the size of US President Joe Biden's recovery plan.

To be sure, the debt pandemic had an indiscriminate effect across the globe. But, just like Covid-19, it was especially harsh on the most vulnerable countries. In 2020, public debt increased in 108 developing countries. And those that entered the crisis with high levels of public debt tended to experience the largest increases. For a group of 40 developing countries with debt levels above 60 per cent of GDP in 2019, the increase in public indebtedness reached 11.4 per cent of GDP in 2020.

As public debt increased, so did the resources allocated to meet creditor claims. The share of government revenues in developing countries used to meet external debt service increased threefold from 6.6 to 17.4 per cent between 2011 and 2020. In at least 32 countries, governments are now allocating more than 20 per cent of government revenues to debt service.

Paying creditors vs. funding health care

These developments are particularly disturbing when compared to what developing countries spend on health care. While healthcare systems buckled under the strain caused by years of under-investment, and developing countries struggled to procure the resources to access Covid-19 vaccines, they continued to pay their external creditors more than US$ 372bn in debt service in 2020. This figure represents 1.6 times the amount of resources allocated by these same countries to public health expenditure in the same year.

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These mind boggling figures highlight the shortcomings of the ongoing multilateral response to the debt crisis. The G20 Debt Service Suspension Initiative (DSSI) and Common Framework for Debt Treatments beyond the DSSI only provide support to International Development Aid (IDA) countries and least developed countries. Meanwhile, the G20 DSSI provided a minimum degree of support to participant countries through a temporary suspension of US$ 5.3bn in debt repayments owed to bilateral creditors. To put it in perspective: that's less than the US$ 6.3 bn in debt service owed to the IMF by eligible countries between 2020 and 2021.

Furthermore, the selection criteria left out most low-middle and middle-income countries. It is precisely these groups of countries which have experienced the highest increase in debt levels. According to the World Bank, more than four-fifths of the total new poor from the pandemic will emerge in these countries.

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No defaults, but also no recovery

Such an inadequate response is bound to aggravate the crisis. Heavier debt burdens will limit the capacity of governments to support a sustainable recovery going forward. Without multilateral support to address debt vulnerabilities, developing countries will be forced to rely on self-defeating fiscal adjustments.

While the IMF advertises an alleged shift away from austerity policies, the truth is that its country policy recommendations continue to prioritise fiscal adjustment over everything else. That becomes clear from looking at the countries that have received IMF loans in the context of the pandemic – the IMF's focus on the need for adjustment is just ubiquitous. As a result, without actions to address the debt burdens of developing nations, at least 60 countries will reduce their expenditures below pre-crisis levels to meet creditor claims over the next five years.

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Thus, while a feared wave of defaults has failed to materialise, it doesn't mean the multilateral response was a success. Ignoring the long-term costs linked to financial distress will inevitably lead to systemic underinvestment. Investment in sustainable development goals (SDGs) where the public sector is expected to play a leading role, such as poverty reduction, food security, health, education and gender equality, are likely to be disproportionately affected by this dynamic.

Containing the debt pandemic

It is becoming increasingly clear that the distinct nature of the present crisis calls for a different approach. The prioritisation of creditor rights over the rights and livelihood of the populations of developing countries is a well-known dead-end. Instead, the international community must recognise that the health and lives of people in the developing world is a basic precondition of a successful economic recovery. It will be impossible to achieve one without the other.

This will require at least three elements which are completely absent from the public debate.

First, the democratisation of global economic governance. This process ought to recognise the right of every country to be at the decision-making table. Thus, the right place to discuss and agree on solutions to the crisis is not the G20. It is, by definition, the UN.

Second, making progress towards the establishment of a permanent multilateral framework under UN auspices to support systematic, timely and fair debt crisis resolution, in a process convening all creditors.

Third, the need to overcome the notion of debt relief as an act of charity. Instead, it must be understood as a prerequisite to preserve domestic

resources and prioritise their mobilisation towards the accomplishment of the most important goals of the multilateral agenda. Only then will it be possible to establish an ambitious debt relief programme to facilitate the immediate response to the pandemic and actively seek the achievement of the commitments under the 2030 Agenda, the Paris Climate Agreement and the Beijing Declaration.



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