

# Rising Debt Burdens, The Impact on Public Spending, and the Coronavirus Crisis

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## 1. Summary

Even before the coronavirus crisis began, since 2011 debt payments have grown rapidly for lower income countries. In this paper we analyse debt payments for 63 countries with figures available from the IMF and World Bank. We find that average public external debt service has increased from a low of 5.5% of government revenue in 2011 to 12.4% in 2019, an increase of 125%. Based on IMF and World Bank projections, we estimate that payments would have increased to between 12.8% and 17.4% of government revenue by 2022 before the impact of the COVID crisis. The coronavirus crisis has dramatically worsened the debt situation for many countries.

For the 60 countries with data, we then analyse how public spending per person has changed in real terms between 2015 and 2019 and compare this to public external debt service and domestic debt interest payments. We find that:

- Of the 15 countries spending over 18% of government revenue on debt payments, public spending fell in 14 of them.
- For the 30 countries with the highest debt payments, average real public spending per person fell between 2015 and 2018 by 6%, and while the IMF projected it would grow in 2019, average real public spending per person in these countries will still be 0.3% lower in 2019 than 2015.
- In contrast, for the 30 countries with the lowest debt payments, real public spending per person on average increased by 21% by 2019 on 2015 levels.

There is therefore a significant link between higher debt payments and falling public spending. This suggests there is little room for more borrowing for countries with high debt payments, and the net impact of borrowing for such countries has been to cut public spending. Meeting the Sustainable Development Goals will be very difficult unless public spending can increase significantly. If the borrowing strategy for these countries had worked successfully, we would expect government revenue to have increased significantly, preventing a large spike in debt payments as a proportion of revenue, and for sustained increases in public spending to be possible.

There are also significant numbers of countries with lower debt payments. Twenty-six out of 60 countries spent less than 10% of government revenue a year on government external debt service and domestic debt interest between 2016-2019. From an analysis of some of the low debt and high debt countries, one striking feature is that countries with low debt and increased public spending tend not to have borrowed significantly from private financial markets, but have relied on multilateral and bilateral lending. In contrast, countries with high debt payments and no increase in public spending tend to have large debt payments to international private lenders.

The full impacts of the coronavirus crisis are as yet unknown. However, in this paper we have collated the predictions from the 40 countries the IMF and World Bank have updated Debt Sustainability Analyses for since the crisis began. This shows the Fund and Bank expect external government debt payments to be 2 percentage points higher in 2020 than they previously predicted. This worsening debt situation is then maintained over time. By 2024 external debt payments are still 2.1 percentage points higher on average than the IMF and World Bank predictions prior to the crisis.

Furthermore, these initial IMF and World Bank predictions are already overoptimistic. Since they were conducted, in 17 countries the IMF has published a more recent forecast for economic growth in 2020. In all 17 growth is now projected to be lower than forecast in the Debt Sustainability Analysis.

Jubilee Debt Campaign, along with over 250 global civil society organisations, is calling for the comprehensive and immediate cancellation of debt payments to enable poor country governments to increase funding for healthcare and social protection, and enable recover following the crisis. This should be followed by a debt resolution mechanism to reduce debt down to a sustainable level. In addition to debt cancellation, to prevent future crises a framework for more responsible lending and borrowing should be created to help prevent future crises.

The international community could support better borrowing and lending by agreeing clear rules to make lending and borrowing transparent. Ideally, key information on all loans would be made publicly available in one place shortly after contracts have been signed. And lenders would be incentivised to disclose the existence of loans by the introduction of a legal requirement that all loans have to be disclosed to be enforceable in key legal centres such as London and New York.

There is a danger that the response to government debt crises will be for the IMF and other institutions to lend more money, which effectively bails out previous lenders. This incentivises lenders to act recklessly, while preventing necessary debt restructurings from taking place. The IMF should clearly define when debt restructurings are needed as part of its lending programmes. This would drive a number of important changes to the global sovereign debt regime: increasing the pressure on lenders to accept necessary debt restructurings; freeing up money to finance development; incentivising lenders to act more responsibly in future sharing the costs of crises more equitably between creditors and the population of the country in crisis; and avoiding the need to use public funds for debt relief.

## **2. Debt payments have grown rapidly and could continue to do so**

This paper is in two parts. The first (sections 2-3), based on research conducted in late-2019, presents data on how lower income country debt payments have changed over recent years, and how the IMF projected they would change, prior to the COVID pandemic. The second (section 4) looks at the information available so far on how debt situations are changing following the pandemic. Sections 5 and 6 look at some learnings and recommendations.

### *2.1 Methodology*

In this section we look at debt payment projections for 63 countries with Debt Sustainability Analyses from the IMF and World Bank in 2018 and 2019. Debt Sustainability Analyses are conducted for all low-income countries, some lower-middle income countries that have recently graduated from low income and a few lower- and upper-middle income countries which are vulnerable small states. Of the 63 countries:

- 23 are low-income
- 31 are lower-middle income
- 9 are upper-middle income

Our research on debt payments looked 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 analyse 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.

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)<sup>1</sup> 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 of December 2019, as do the figures for domestic debt interest payments.

All the averages 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.

We regard debt payment figures as a better guide to debt burdens than government debt as a percentage of GDP. This is because debt-to-GDP takes no account of:

- The interest rates being paid on the debt
- How much government revenue is being collected with which to pay the debt
- Who the debt is owed to (whether it creates a balance of payment risk) and what currency the debt is owed in (whether it creates an exchange rate risk)

Governments with nominally high debt-to-GDP levels can potentially have room to borrow if the interest rates they pay on the debt are low, and if they collect a sizeable percentage of GDP in revenue. In contrast, governments with nominally low debt-to-GDP levels can still have little room to borrow if the interest rates they pay are high and they collect little government revenue as a percentage of GDP.

## *2.2 Government external debt service*

Average unweighted public external debt service for the 63 countries fell from 16.6% of government revenue in 19982 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 external debt payments have been increasing, to an average of 12.4% of government revenue by 2019, a rise of 125%.

Projecting into the future, the IMF has a baseline scenario for each individual country which is its central case for what will happen, and a one-economic shock scenario of what it predicts if there is a particular economic shock.

Under the IMF baseline scenarios prior to the pandemic, average external government debt service was due to reach 12.8% of revenue by 2022, an increase of 133% on 2011 levels. These baseline scenarios tend to assume strong economic growth alongside falling budget deficits.

The economic shock scenarios include events such as a devaluation of the local currency, fall in export revenues or lower GDP growth – many of which have now happened with the coronavirus crisis. Under its one economic shock scenarios in all 63 countries covered, average external debt service rose 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 1. 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.

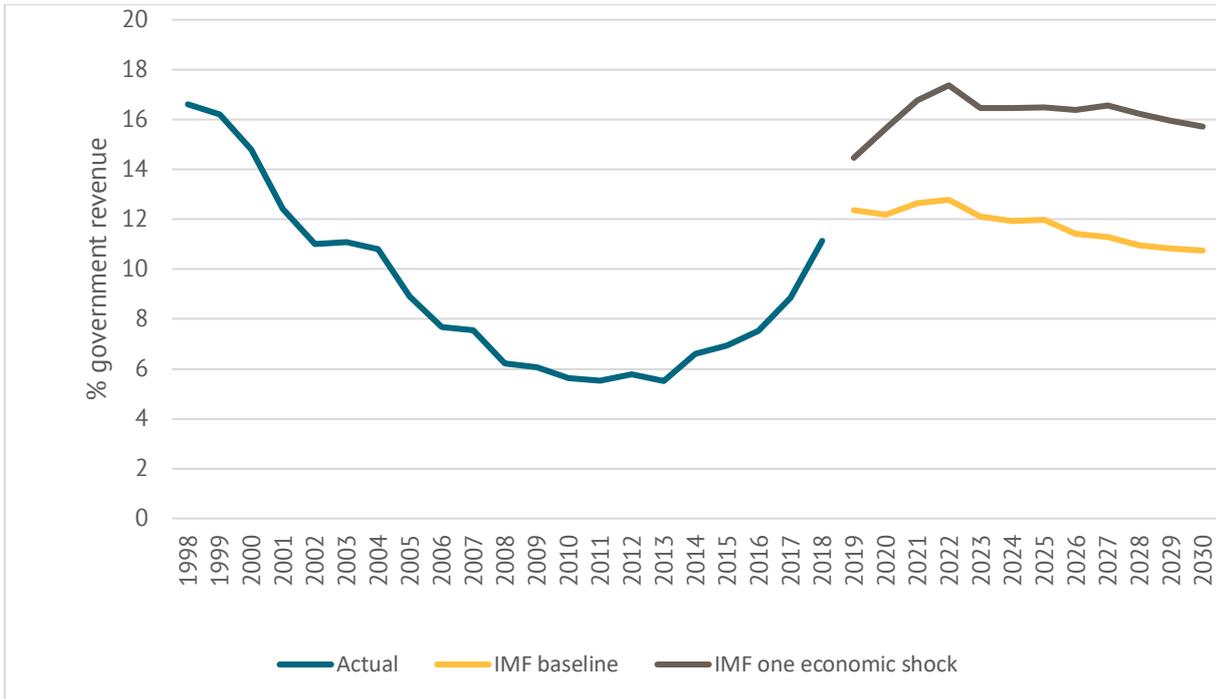
The median averages have a similar pattern (see Graph 2. below), which shows that the increase in debt payments is not due just to a few outliers. The median baseline peaks in 2019 rather than 2022, but then falls at a slower rate than in the baseline.

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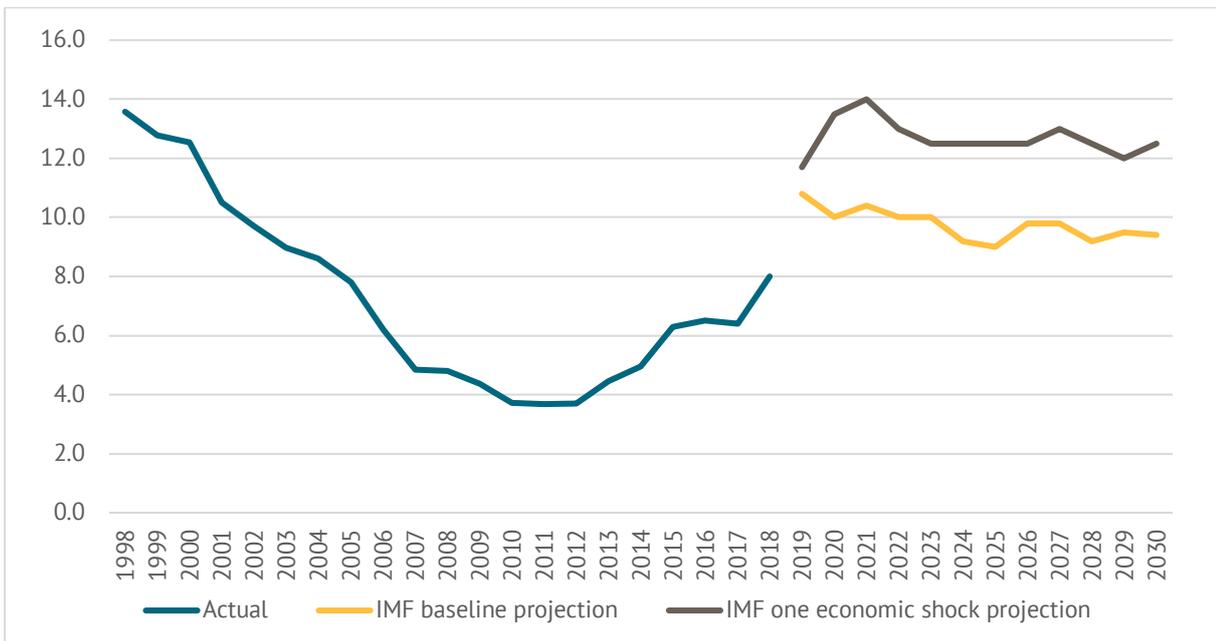
<sup>1</sup> Except for 1) Domestic debt interest payments which are not available in the World Bank database, so these come from IMF and World Bank Debt Sustainability Analyses, and 2) The data for Kiribati, Marshall Islands and Micronesia, which are not covered by the World Bank database, so these 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.

<sup>2</sup> 1998 is the date just prior to when the HIPC initiative began to reduce debt payments for some countries.

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



**Graph 2. Median average public external debt service, 1998-2030 (1998-2018 actual, 2019-2030 IMF baseline estimate and IMF one economic shock estimate, prior to the pandemic)**

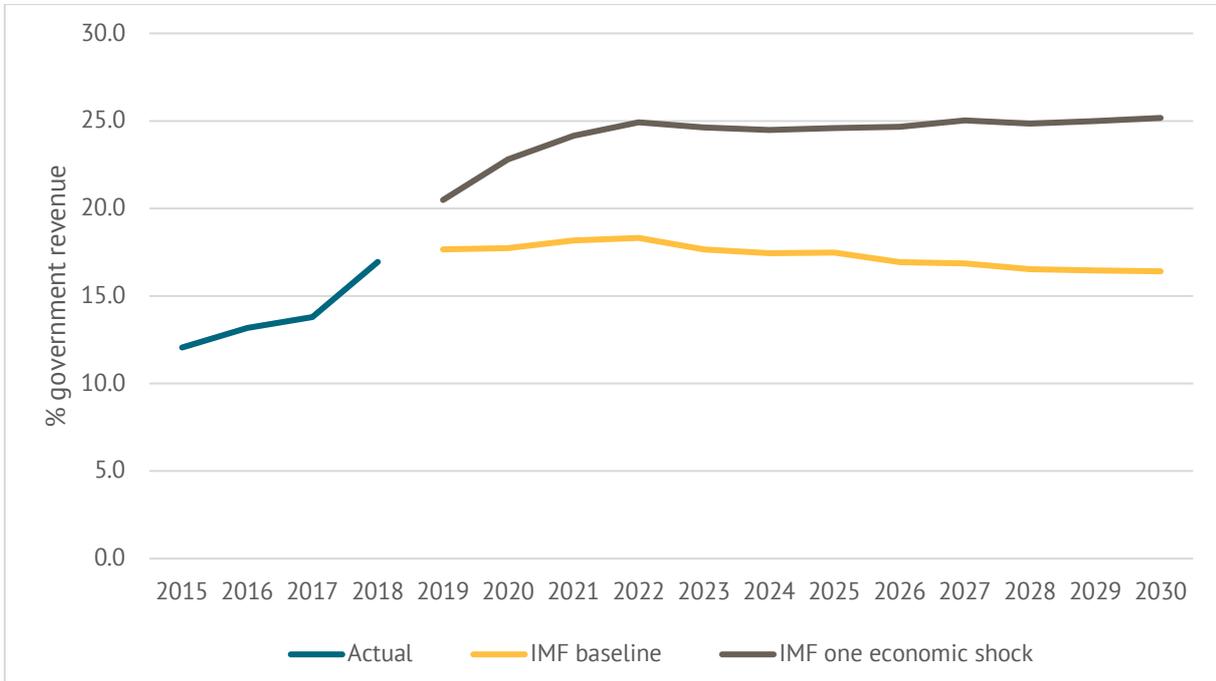


### 2.3 Public external debt service and domestic debt interest payments

Under the IMF’s baseline scenarios before the COVID crisis, average government external debt service and domestic debt interest payments were predicted to 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 3 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.

**Graph 3. 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)**



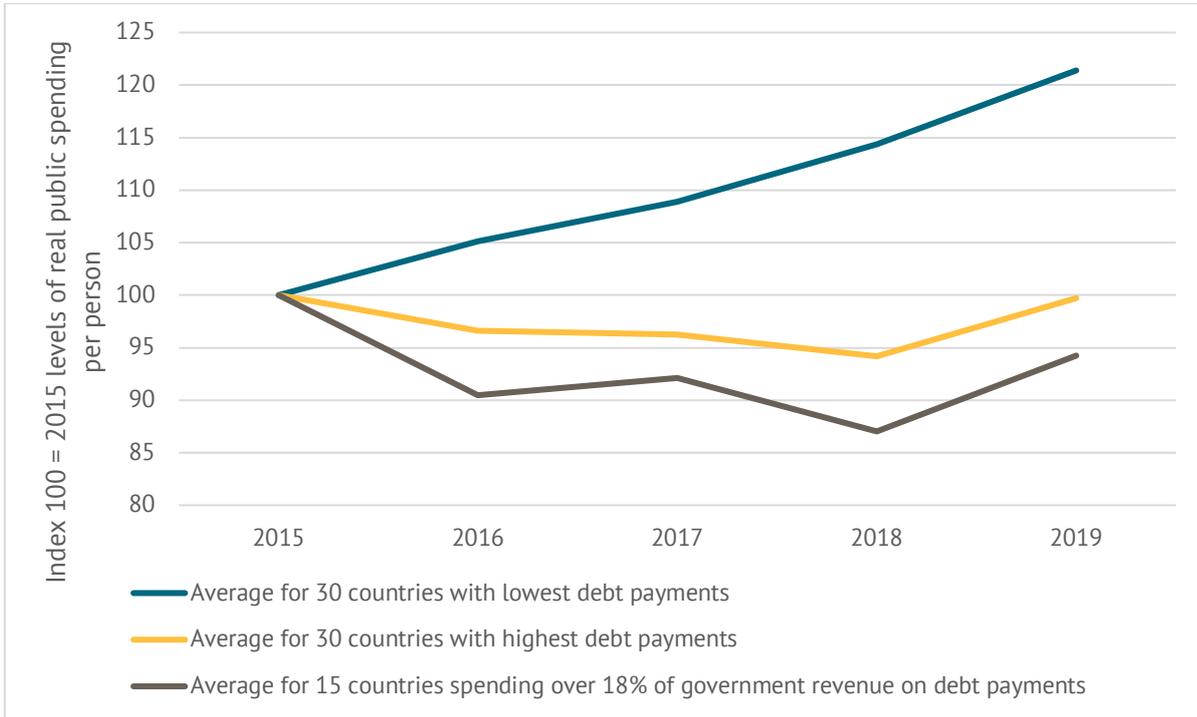
### 3. Government spending is already falling in response to high debt payments in some countries

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.

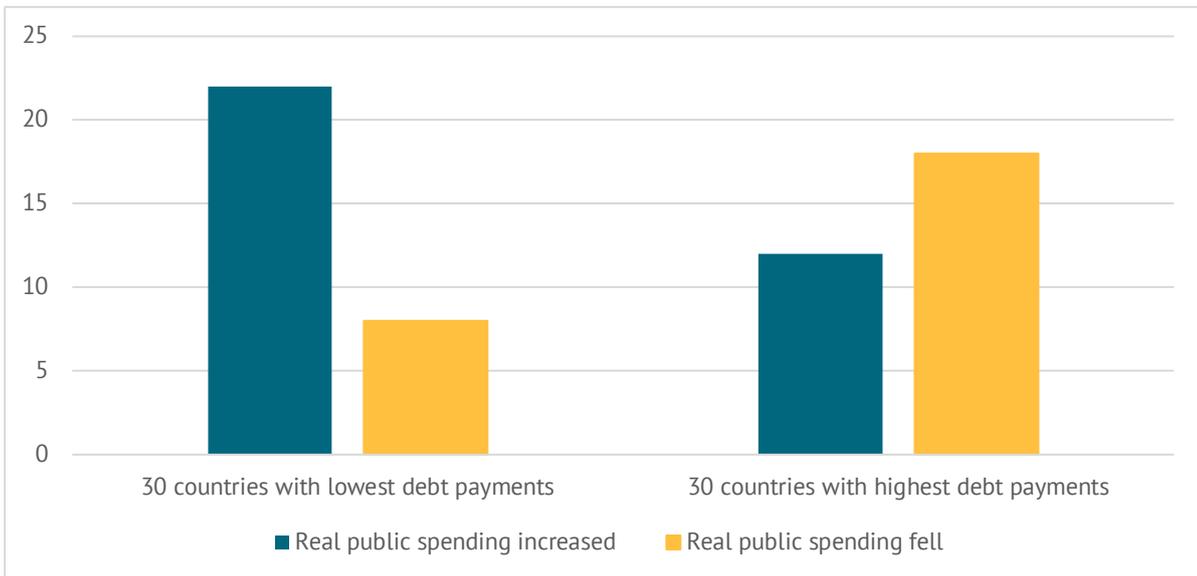
Of these 60 countries, we have identified the 30 with the lowest external debt service and domestic debt interest between 2016 and 2019. These debt payments range from averaging 0% of government revenue in the case of Timor-Leste to 13% for Uganda. The average across the 30 countries is that real public 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 were 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 4. 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 countries spending over 18% of government revenue on external debt service and domestic debt interest**



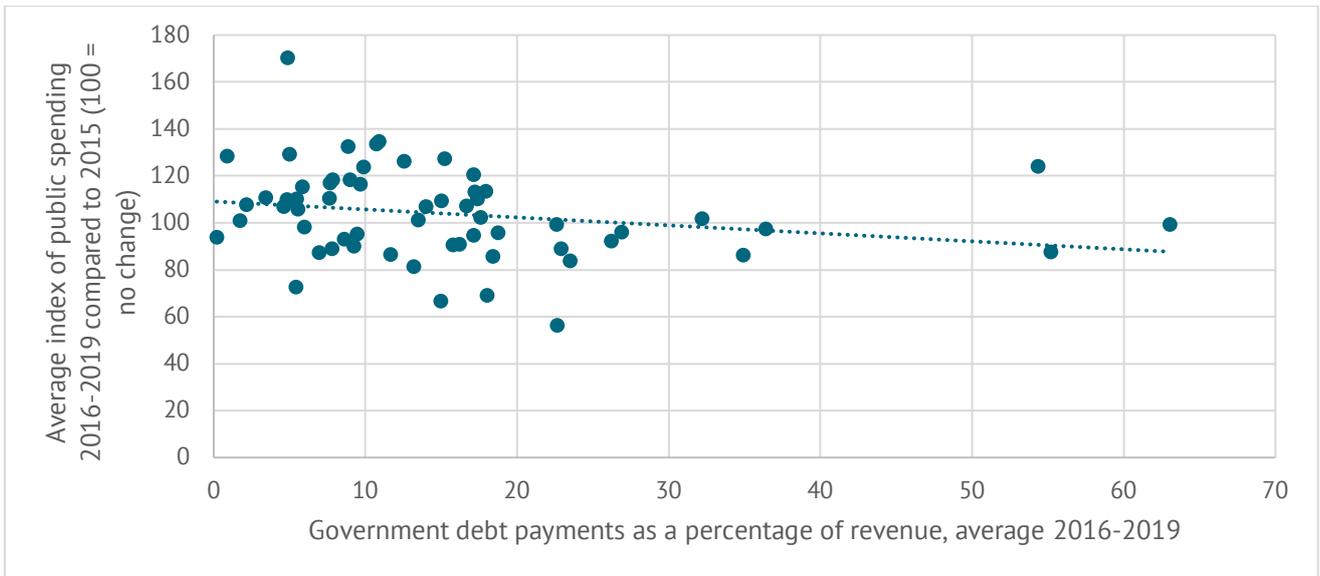
**Graph 5. Rising or falling public spending, split between 30 countries with lowest debt payments and 30 with highest debt payments**



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.

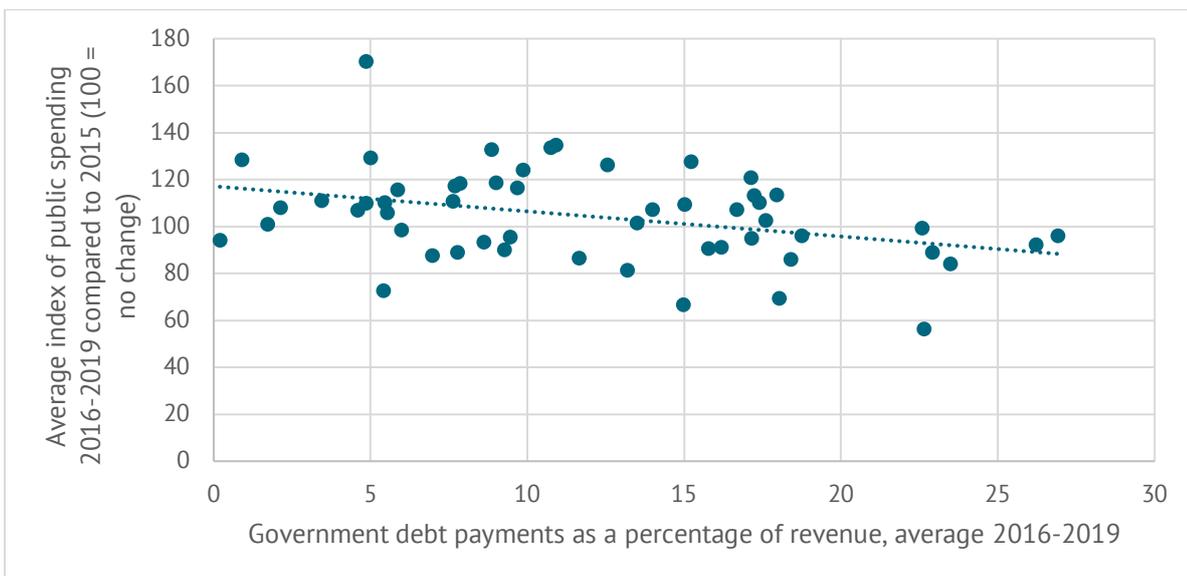
A scatter plot shows a general trend of declining public spending in countries with higher government debt payments (see Graph 8 below). However, beyond a certain level of debt payments, real public spending falls do not get worse. For the six countries with average debt payments over 30% of government 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 6. 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 7 below). In this scatter, when debt payments go over 15% of revenue, public spending tends to be falling.

**Graph 7. 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**



### 3. Individual cases

Below we present more detail from five countries with relatively low debt payments and consistently rising public spending per person (Burkina Faso, Cambodia, Madagascar, Nicaragua and Nepal) and five with high debt payments and no sustained increases in government spending (Chad, Republic of Congo, Ghana, Laos, Sierra Leone and Zambia).

Of the five low debt cases, four have had sustained GDP growth. Nicaragua is the exception, with a recession beginning in 2018. Nicaragua's low debt payments prior to its recession crisis may have allowed public spending to continue to increase, though it may not be possible for this to continue. All five have also increased government revenue collection as a percentage of GDP.

Even with strong growth and government revenue collection, debt payments have still been increasing in four of the five (the exception being Nepal). This suggests these countries have still been using borrowing as a significant source of development finance, but not in a way that has constrained the expansion in public spending.

The most striking part of the five low debt payment country's debt profile is how little they have used private external lending. External debt payments to private lenders have been 0 between 2015 and 2019 in Nepal and Cambodia, 1% or less of total external debt payments in Burkina Faso and Nicaragua, and 9% of external debt payments in Madagascar. Whether or not high-interest private loans can be well used, these examples show that they are not needed for consistent growth and increased public spending.

In Burkina Faso, Nepal and Nicaragua, external debt payments are primarily to multilateral lenders (79%-86%). In Madagascar multilateral lenders also dominate, but there are also significant payments to bilateral lenders (37% of total external debt payments). In Cambodia, two-thirds of debt payments are to bilateral lenders,<sup>3</sup> and one-third to multilateral institutions.

Of the 'high debt payment/no sustained increase in government spending' countries, Ghana, Sierra Leone and Zambia have all also increased government revenue collection as a percentage of GDP. It could potentially be socially problematic in these countries that this has been achieved without the population seeing sustained increases in public spending.

Chad and Congo have both been hit by dramatic recessions and falls in government revenue after the oil price falls in 2014. Borrowing before this, such as oil-backed loans from commodity trading companies such as Glencore, may have exacerbated the crisis because high debt payments came due at the same time as the crisis, and the governments had no space to borrow in response to the oil-price crisis.

Ghana and Zambia also had lower growth rates during and after the commodity price falls of 2014, though Ghana's has since recovered, at least until the COVID crisis. Laos' growth has remained high for the last decade but increasing government debt payments and falling government revenue as a percentage of GDP both look like they have contributed to the failure to increase public spending.

In contrast to the 'low debt payment/sustained increases in government spending' countries, four of the five high debt payments countries have significant debts to private lenders. 63% of Ghana's external debt payments between 2015 and 2019 were to private lenders, followed by Zambia and Chad with 58%, Laos 28% and Congo 17% according to the World Bank (though the World Bank figures for Congo do not appear to include the debt payments on oil-backed loans to commodity traders, so the true figure is likely to be much higher).

These figures point to the risk of borrowing high interest loans from external private lenders. Recent IMF research found that of 20 lower income countries borrowing from international bond markets, economic

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<sup>3</sup> In 2019, of Cambodia's bilateral debt payments, two-thirds are to China  
<https://datatopics.worldbank.org/debt/ids/DSSITables/DSSI-KHM.htm>

growth failed to increase in the five years after the borrowing. Combined with increased debt payments because of the borrowing, the net impact was to reduce government revenues available for spending.<sup>4</sup>

Sierra Leone is the one exception to the significant role of private lenders in ‘high debt payment/no sustained increase in government spending’ countries, but its experience is a warning to the post-coronavirus world. Sierra Leone suffered a huge recession during the Ebola crisis in 2014 and 2015. The government borrowed heavily from domestic and multilateral lenders in order to cope. Domestic debt interest payments have grown dramatically. External debt payments have also increased steadily, to 11.6% of government revenue in 2019, and the IMF predicts they will reach 24% of government revenue by 2022.<sup>5</sup> These external debt payments are primarily on multilateral debt. Sierra Leone’s experience shows that even low interest multilateral debt can contribute to and create debt crises, especially if it is loans issued in response to external shocks, rather than lending for investment.

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<sup>4</sup> IMF. (2020). The evolution of public debt vulnerabilities in lower income economies. IMF. Washington DC. February 2020.

<sup>5</sup> <https://www.imf.org/en/Publications/CR/Issues/2020/06/10/Sierra-Leone-Request-for-Disbursement-under-the-Rapid-Credit-Facility-Press-Release-Staff-49499>

**Table 1. Detailed figures on 10 individual cases**

| <b>Burkina Faso</b>  | <b>2010</b> | <b>2011</b> | <b>2012</b> | <b>2013</b> | <b>2014</b> | <b>2015</b> | <b>2016</b> | <b>2017</b> | <b>2018</b> | <b>2019</b> | Average<br>2010-<br>2014 | Average<br>2015-<br>2019                     |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------------------|--|
| Change in real public spending per person (Index 100 = 2015) <sup>6</sup>                          |             |             |             |             |             | 100.0       | 112.0       | 142.8       | 134.9       | 140.6       |                          |  |
| GDP growth rate (per cent) <sup>7</sup>  | 8.4         | 6.6         | 6.5         | 5.8         | 4.3         | 3.9         | 5.9         | 6.3         | 6.8         | 6.0         | 6.3                      | 5.8  |
| Government revenue as percentage of GDP <sup>8</sup>   | 19.8        | 20.7        | 22.4        | 24.4        | 21.6        | 20.7        | 21.9        | 22.1        | 22.2        | 24.4        | 21.8                     | 22.5   |
| External debt service as percentage of government revenue <sup>9</sup>                             | 2.8         | 3.0         | 2.8         | 2.7         | 3.5         | 5.2         | 5.1         | 4.9         | 6.4         | 6.9         |                          |  |
| External debt service and domestic debt interest as percentage of government revenue <sup>10</sup> |             |             |             |             |             | 9.6         | 7.9         | 5.8         | 10.2        | 11.6        |                          |  |
| External debt service by creditor (\$ million) <sup>11</sup>                                       |             |             |             |             |             |             |             |             |             |             | Total<br>2015-<br>2019   | % of<br>total<br>external<br>debt<br>service |
| Multilateral   |             |             |             |             |             | 81          | 93          | 104         | 115         | 147         | 540                      | 78.5%  |
| Bilateral  |             |             |             |             |             | 28          | 26          | 30          | 27          | 30          | 141                      | 20.5%  |
| Private  |             |             |             |             |             | 4           | 2           | 1           | 0           | 0           | 7                        | 1%   |

| <b>Cambodia</b>  | <b>2010</b> | <b>2011</b> | <b>2012</b> | <b>2013</b> | <b>2014</b> | <b>2015</b> | <b>2016</b> | <b>2017</b> | <b>2018</b> | <b>2019</b> | Average<br>2010-<br>2014 | Average<br>2015-<br>2019 |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------------------|--------------------------|
| Change in real public spending per person (Index 100 = 2015) |             |             |             |             |             | 100.0       | 111.6       | 124         | 136.9       | 144.2       |                          |                          |
| GDP growth rate (per cent)                                   | 6.0         | 7.1         | 7.3         | 7.4         | 7.1         | 7.0         | 6.9         | 7.0         | 7.5         | 7.0         | 7.0                      | 7.1                      |
| Government revenue as percentage of GDP                      | 17.1        | 15.9        | 17.2        | 18.8        | 20.1        | 19.6        | 20.8        | 21.6        | 23.8        | 23.6        | 17.8                     | 21.5                     |

<sup>6</sup> Calculated by Jubilee Debt Campaign from IMF Article IV consultations and programme documents

<sup>7</sup> IMF World Economic Outlook database

<sup>8</sup> IMF World Economic Outlook database

<sup>9</sup> World Bank International Debt Statistics and IMF and World Bank Debt Sustainability Analyses

<sup>10</sup> IMF and World Bank Debt Sustainability Analyses

<sup>11</sup> World Bank International Debt Statistics and World Bank DSSI database

|  |     |     |     |     |     |     |     |     |     |     |                 |                                  |
|--|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----------------|----------------------------------|
| External debt service as percentage of government revenue                            | 3.1 | 3.5 | 3.7 | 4.2 | 4.0 | 3.9 | 4.4 | 4.4 | 5.0 | 5.7 |                 |                                  |
| External debt service and domestic debt interest as percentage of government revenue |     |     |     |     |     | 3.9 | 4.4 | 4.8 | 5.3 | 5.7 |                 |                                  |
| External debt service by creditor (\$ million)                                       |     |     |     |     |     |     |     |     |     |     | Total 2015-2019 | % of total external debt service |
| Multilateral   |     |     |     |     |     | 68  | 76  | 78  | 86  | 97  | 405             | 33.8%                            |
| Bilateral  |     |     |     |     |     | 69  | 110 | 133 | 180 | 302 | 794             | 66.2%                            |
| Private  |     |     |     |     |     | 0   | 0   | 0   | 0   | 0   | 0               | 0%                               |

| <b>Madagascar</b>  | <b>2010</b> | <b>2011</b> | <b>2012</b> | <b>2013</b> | <b>2014</b> | <b>2015</b> | <b>2016</b> | <b>2017</b> | <b>2018</b> | <b>2019</b> | Average 2010-2014 | Average 2015-2019                |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------------|----------------------------------|
| Change in real public spending per person (Index 100 = 2015)                         |             |             |             |             |             | 100.0       | 106.9       | 117.3       | 114.4       | 135.3       |                   |                                  |
| GDP growth rate (per cent)   | 0.3         | 1.4         | 3.0         | 2.2         | 3.3         | 3.1         | 4.2         | 4.3         | 5.2         | 5.2         | 2.1               | 4.4                              |
| Government revenue as percentage of GDP  | 13.2        | 11.7        | 10.8        | 10.9        | 12.4        | 11.9        | 14.6        | 14.8        | 14.8        | 16.4        | 11.8              | 14.5                             |
| External debt service as percentage of government revenue                            | 4.9         | 3.9         | 6.2         | 6.0         | 7.1         | 11.8        | 7.5         | 7.4         | 7.9         | 7.6         |                   |                                  |
| External debt service and domestic debt interest as percentage of government revenue |             |             |             |             |             | 18.2        | 7.7         | 10.2        | 8.4         | 9.8         |                   |                                  |
| External debt service by creditor (\$ million)                                       |             |             |             |             |             |             |             |             |             |             | Total 2015-2019   | % of total external debt service |
| Multilateral   |             |             |             |             |             | 60          | 62          | 64          | 67          | 83          | 336               | 53.4%                            |
| Bilateral  |             |             |             |             |             | 67          | 41          | 47          | 36          | 43          | 234               | 37.2%                            |
| Private  |             |             |             |             |             | 10          | 8           | 15          | 6           | 20          | 59                | 9.4%                             |

| <b>Nepal</b>   | <b>2010</b> | <b>2011</b> | <b>2012</b> | <b>2013</b> | <b>2014</b> | <b>2015</b> | <b>2016</b> | <b>2017</b> | <b>2018</b> | <b>2019</b> | Average<br>2010-<br>2014 | Average<br>2015-<br>2019                     |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------------------|--|
| Change in real public spending per person (Index 100 = 2015)                         |             |             |             |             |             | 100.0       | 107.3       | 113.5       | 117.6       | 123.4       |                          |  |
| GDP growth rate (per cent)   | 4.8         | 3.4         | 4.8         | 4.1         | 6.0         | 3.3         | 0.6         | 8.2         | 6.7         | 7.1         | 4.6                      | 5.2  |
| Government revenue as percentage of GDP  | 18.0        | 17.8        | 18.0        | 19.6        | 20.4        | 20.8        | 23.3        | 24.1        | 25.3        | 26.2        | 18.8                     | 23.5   |
| External debt service as percentage of government revenue                            | 6.4         | 5.7         | 6.4         | 5.7         | 5.4         | 4.8         | 4.5         | 3.6         | 3.2         | 2.8         |                          |  |
| External debt service and domestic debt interest as percentage of government revenue |             |             |             |             |             | 7.1         | 7.0         | 3.9         | 4.1         | 4.5         |                          |  |
| External debt service by creditor (\$ million)                                       |             |             |             |             |             |             |             |             |             |             | Total<br>2015-<br>2019   | % of<br>total<br>external<br>debt<br>service |
| Multilateral   |             |             |             |             |             | 180.0       | 189.0       | 183.0       | 200.0       | 213.0       | 965.0                    | 85.85%                                       |
| Bilateral  |             |             |             |             |             | 32.0        | 34.0        | 38.0        | 22.0        | 33.0        | 159.0                    | 14.15%                                       |
| Private  |             |             |             |             |             | 0.0         | 0.0         | 0.0         | 0.0         | 0.0         | 0.0                      | 0.00%  |

| <b>Nicaragua</b>   | <b>2010</b> | <b>2011</b> | <b>2012</b> | <b>2013</b> | <b>2014</b> | <b>2015</b> | <b>2016</b> | <b>2017</b> | <b>2018</b> | <b>2019</b> | Average<br>2010-<br>2014 | Average<br>2015-<br>2019                     |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------------------|--|
| Change in real public spending per person (Index 100 = 2015)                         |             |             |             |             |             | 100.0       | 107.3       | 113.5       | 117.6       | 123.4       |                          |  |
| GDP growth rate (per cent)   | 4.4         | 6.3         | 6.5         | 4.9         | 4.8         | 4.8         | 4.6         | 4.7         | -3.8        | -5.0        | 5.4                      | 1.0  |
| Government revenue as percentage of GDP  | 22.5        | 23.5        | 23.9        | 23.5        | 23.3        | 23.9        | 25.1        | 25.4        | 24.2        | 24.3        | 23.3                     | 24.5   |
| External debt service as percentage of government revenue                            | 4.6         | 4.6         | 4.2         | 4.4         | 5.1         | 5.2         | 5.8         | 6.5         | 2.5         | 6.7         |                          |  |
| External debt service and domestic debt interest as percentage of government revenue |             |             |             |             |             | 5.4         | 5.8         | 6.7         | 5.6         | 7.0         |                          |  |
| External debt service by creditor (\$ million)                                       |             |             |             |             |             |             |             |             |             |             | Total<br>2015-<br>2019   | % of<br>total<br>external<br>debt<br>service |

|              |     |     |     |     |     |      |       |
|--------------|-----|-----|-----|-----|-----|------|-------|
| Multilateral | 134 | 166 | 194 | 207 | 315 | 1016 | 85.5% |
| Bilateral    | 26  | 26  | 32  | 41  | 45  | 170  | 14.3% |
| Private      | 0   | 0   | 0   | 0   | 3   | 3    | 0.2%  |

| <b>Chad</b>  | <b>2010</b> | <b>2011</b> | <b>2012</b> | <b>2013</b> | <b>2014</b> | <b>2015</b> | <b>2016</b> | <b>2017</b> | <b>2018</b> | <b>2019</b> | Average<br>2010-<br>2014 | Average<br>2015-<br>2019                     |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------------------|--|
| Change in real public spending per person (Index 100 = 2015)                         |             |             |             |             |             | 100.0       | 68.5        | 70          | 64.2        | 74.1        |                          |  |
| GDP growth rate (per cent)   | 13.6        | 0.1         | 8.8         | 5.8         | 6.9         | 1.8         | -5.6        | -2.4        | 2.4         | 2.3         | 7.0                      | -0.3   |
| Government revenue as percentage of GDP  | 20.2        | 24.8        | 24.4        | 20.7        | 17.8        | 14          | 12.4        | 14.6        | 15.3        | 15.6        | 21.6                     | 15.9   |
| External debt service as percentage of government revenue                            | 3.4         | 2.7         | 2.8         | 4.5         | 23.7        | 6.5         | 11          | 10.7        | 16.9        | 10.9        |                          |  |
| External debt service and domestic debt interest as percentage of government revenue |             |             |             |             |             | 32.7        | 12.9        | 24.7        | 19.8        | 14.7        |                          |  |
| External debt service by creditor (\$ million)                                       |             |             |             |             |             |             |             |             |             |             | Total<br>2015-<br>2019   | % of<br>total<br>external<br>debt<br>service |
| Multilateral   |             |             |             |             |             | 49          | 34          | 36          | 35          | 80          | 234                      | 27.2%  |
| Bilateral  |             |             |             |             |             | 4           | 7           | 19          | 19          | 81          | 130                      | 15.1%  |
| Private  |             |             |             |             |             | 47          | 99          | 103         | 120         | 128         | 497                      | 57.7%  |

| <b>Republic of Congo</b>                                     | <b>2010</b> | <b>2011</b> | <b>2012</b> | <b>2013</b> | <b>2014</b> | <b>2015</b> | <b>2016</b> | <b>2017</b> | <b>2018</b> | <b>2019</b> | Average<br>2010-<br>2014 | Average<br>2015-<br>2019 |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------------------|--------------------------|
| Change in real public spending per person (Index 100 = 2015) |             |             |             |             |             | 100.0       | 81.5        | 57.2        | 42.2        | 44.4        |                          |                          |
| GDP growth rate (per cent)                                   | 8.7         | 3.4         | 3.8         | 3.3         | 6.8         | 2.6         | -2.8        | -1.8        | 1.6         | 4.0         | 5.2                      | 0.7                      |
| Government revenue as percentage of GDP                      | 41.2        | 46.4        | 49.1        | 50.6        | 48.1        | 32.6        | 34.1        | 27.9        | 29.2        | 31.5        | 47.1                     | 33.9                     |

|  |     |     |     |     |     |     |      |     |      |      |                 |                                  |
|--|-----|-----|-----|-----|-----|-----|------|-----|------|------|-----------------|----------------------------------|
| External debt service as percentage of government revenue                            | 2.8 | 2.0 | 2.5 | 4.2 | 4.5 | 7.9 | 5.5  | 8.9 | 24.6 | 37.3 |                 |                                  |
| External debt service and domestic debt interest as percentage of government revenue |     |     |     |     |     | 7.9 | 14.2 | 9.1 | 24.7 | 42.7 |                 |                                  |
| External debt service by creditor (\$ million)                                       |     |     |     |     |     |     |      |     |      |      | Total 2015-2019 | % of total external debt service |
| Multilateral   |     |     |     |     |     | 12  | 8    | 30  | 111  | 155  | 316             | 24.2%                            |
| Bilateral  |     |     |     |     |     | 163 | 99   | 163 | 129  | 218  | 772             | 59.0%                            |
| Private  |     |     |     |     |     | 47  | 39   | 28  | 48   | 58   | 220             | 16.8% <sup>12</sup>              |

| <b>Ghana</b>   | <b>2010</b> | <b>2011</b> | <b>2012</b> | <b>2013</b> | <b>2014</b> | <b>2015</b> | <b>2016</b> | <b>2017</b> | <b>2018</b> | <b>2019</b> | Average 2010-2014 | Average 2015-2019                |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------------|----------------------------------|
| Change in real public spending per person (Index 100 = 2015)                         |             |             |             |             |             | 100.0       | 98.0        | 92.8        | 92.9        | 113.6       |                   |                                  |
| GDP growth rate (per cent)   | 7.9         | 17.4        | 9.0         | 7.9         | 2.9         | 2.2         | 3.4         | 8.1         | 6.3         | 7.5         | 9.0               | 5.5                              |
| Government revenue as percentage of GDP  | 12.5        | 14.1        | 13.7        | 12.6        | 13.4        | 14.9        | 13.4        | 13.9        | 14.5        | 15.8        | 13.3              | 14.2                             |
| External debt service as percentage of government revenue                            | 5.0         | 4.3         | 5.8         | 8.0         | 10.3        | 13.1        | 19.8        | 22.8        | 41.3        | 35.0        |                   |                                  |
| External debt service and domestic debt interest as percentage of government revenue |             |             |             |             |             | 40.4        | 57.9        | 75.1        | 60.2        | 59.0        |                   |                                  |
| External debt service by creditor (\$ million)                                       |             |             |             |             |             |             |             |             |             |             | Total 2015-2019   | % of total external debt service |
| Multilateral   |             |             |             |             |             | 140         | 154         | 174         | 226         | 281         | 975               | 11.1%                            |
| Bilateral  |             |             |             |             |             | 249         | 408         | 697         | 496         | 464         | 2314              | 26.3%                            |
| Private  |             |             |             |             |             | 559         | 898         | 1007        | 1832        | 1205        | 5501              | 62.6%                            |

<sup>12</sup> The World Bank figures do not appear to include debt payments by Congo to private commodity traders.

| <b>Laos</b>  | <b>2010</b> | <b>2011</b> | <b>2012</b> | <b>2013</b> | <b>2014</b> | <b>2015</b> | <b>2016</b> | <b>2017</b> | <b>2018</b> | <b>2019</b> | Average<br>2010-<br>2014 | Average<br>2015-<br>2019                     |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------------------|--|
| Change in real public spending per person (Index 100 = 2015)                         |             |             |             |             |             | 100.0       | 85.5        | 92.6        | 87.3        | 90.3        |                          |  |
| GDP growth rate (per cent)   | 8.0         | 8.0         | 7.8         | 8.0         | 7.6         | 7.3         | 7.0         | 6.8         | 6.3         | 6.4         | 7.9                      | 6.8  |
| Government revenue as percentage of GDP  | 20.9        | 18.8        | 22.4        | 20.2        | 21.9        | 20.2        | 16.0        | 16.1        | 15.5        | 15.8        | 20.8                     | 16.8   |
| External debt service as percentage of government revenue                            | 5.9         | 9.8         | 7.1         | 7.6         | 7.7         | 8.6         | 14.7        | 19.0        | 22.8        | 27.9        |                          |  |
| External debt service and domestic debt interest as percentage of government revenue |             |             |             |             |             | 10.8        | 14.9        | 20.0        | 25.4        | 31.3        |                          |  |
| External debt service by creditor (\$ million)                                       |             |             |             |             |             |             |             |             |             |             | Total<br>2015-<br>2019   | % of<br>total<br>external<br>debt<br>service |
| Multilateral   |             |             |             |             |             | 86          | 89          | 91          | 98          | 106         | 470                      | 17.1%  |
| Bilateral  |             |             |             |             |             | 153         | 184         | 312         | 382         | 475         | 1506                     | 55.0%  |
| Private  |             |             |             |             |             | 10          | 101         | 118         | 205         | 330         | 764                      | 27.9%  |

| <b>Sierra Leone</b>  | <b>2010</b> | <b>2011</b> | <b>2012</b> | <b>2013</b> | <b>2014</b> | <b>2015</b> | <b>2016</b> | <b>2017</b> | <b>2018</b> | <b>2019</b> | Average<br>2010-<br>2014 | Average<br>2015-<br>2019 |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------------------|--------------------------|
| Change in real public spending per person (Index 100 = 2015) |             |             |             |             |             | 100.0       | 109.0       | 100.1       | 89.7        | 91.4        |                          |                          |
| GDP growth rate (per cent)                                   | 5.3         | 6.3         | 15.2        | 20.7        | 4.6         | -20.5       | 6.4         | 3.8         | 3.5         | 5.0         | 10.4                     | -0.4                     |
| Government revenue as percentage of GDP                      | 15.2        | 17.0        | 15.2        | 13.3        | 14.0        | 16.2        | 14.9        | 14.6        | 15.7        | 17.7        | 14.9                     | 15.6                     |
| External debt service as percentage of government revenue    | 2.9         | 3.7         | 3.6         | 3.7         | 4.9         | 7.5         | 6.1         | 9.8         | 13.1        | 11.6        |                          |                          |

|  |     |      |      |      |      |                        |  |
|--|-----|------|------|------|------|------------------------|--|
| External debt service and domestic debt interest as percentage of government revenue | 7.6 | 16.1 | 36.4 | 50.1 | 43.0 |                        |  |
| External debt service by creditor (\$ million)                                       |     |      |      |      |      | Total<br>2015-<br>2019 | % of<br>total<br>external<br>debt<br>service |
| Multilateral   | 45  | 26   | 43   | 43   | 46   | 203                    | 81.5%  |
| Bilateral  | 6   | 9    | 11   | 9    | 11   | 46                     | 18.5%  |
| Private  | 0   | 0    | 0    | 0    | 0    | 0                      | 0%   |

| <b>Zambia</b>  | <b>2010</b> | <b>2011</b> | <b>2012</b> | <b>2013</b> | <b>2014</b> | <b>2015</b> | <b>2016</b> | <b>2017</b> | <b>2018</b> | <b>2019</b> | Average<br>2010-<br>2014 | Average<br>2015-<br>2019                     |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------------------|--|
| Change in real public spending per person (Index 100 = 2015)                         |             |             |             |             |             | 100.0       | 80.1        | 86.0        | 96.7        | 82.5        |                          |  |
| GDP growth rate (per cent)   | 10.3        | 5.6         | 7.6         | 5.1         | 4.7         | 2.9         | 3.8         | 3.5         | 3.7         | 2.0         | 6.6                      | 3.2  |
| Government revenue as percentage of GDP  | 15.6        | 17.7        | 18.7        | 17.6        | 18.9        | 18.8        | 18.2        | 17.5        | 19.1        | 19.4        | 17.7                     | 18.4   |
| External debt service as percentage of government revenue                            | 1.9         | 1.8         | 3.2         | 5.0         | 4.1         | 8.7         | 14.2        | 12.4        | 22.1        | 32.6        |                          |  |
| External debt service and domestic debt interest as percentage of government revenue |             |             |             |             |             | 24.0        | 34.3        | 20.2        | 34.2        | 51.0        |                          |  |
| External debt service by creditor (\$ million)                                       |             |             |             |             |             |             |             |             |             |             | Total<br>2015-<br>2019   | % of<br>total<br>external<br>debt<br>service |
| Multilateral   |             |             |             |             |             | 89          | 100         | 105         | 110         | 110         | 514                      | 15.1%  |
| Bilateral  |             |             |             |             |             | 92          | 150         | 171         | 225         | 272         | 910                      | 26.8%  |
| Private  |             |             |             |             |             | 166         | 292         | 287         | 468         | 755         | 1968                     | 58.0%  |

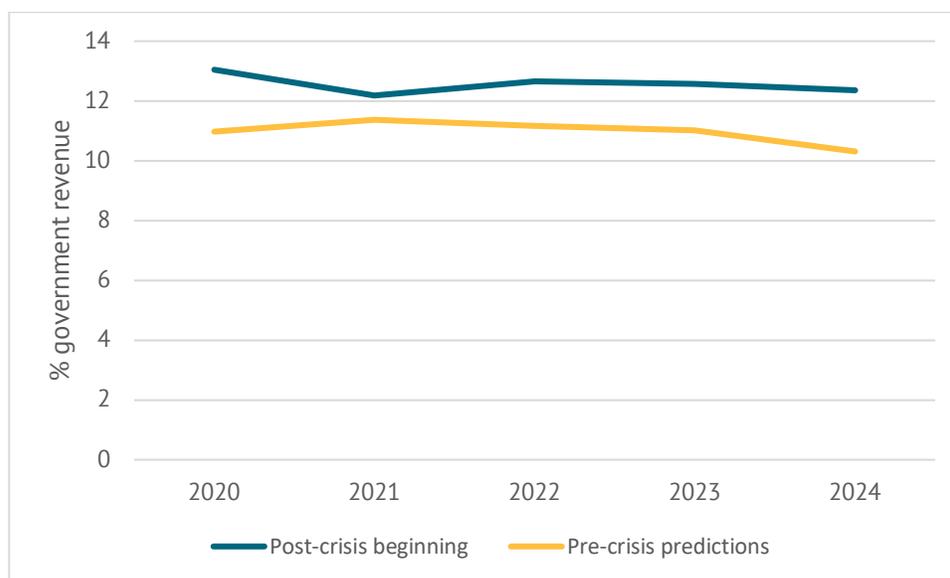
## 4. The impact of the COVID crisis

The coronavirus crisis has caused large-scale economic impacts on many countries. Prices of various commodities, from oil to cocoa, have fallen. Income from remittances is expected to fall. At the start of the crisis there was the largest capital outflow from emerging markets on record, with the yield on lower income government debts consequently rising. Economic growth is expected to have been hit across the board.

No-one yet knows the full impact of the crisis on government revenues and debt payments. Since the crisis began, the IMF and World Bank have completed new Debt Sustainability Assessments for 40 countries.<sup>13</sup> 30 of these were published in April or May, so can only include information available at the start of the crisis.

Of the 40 new assessments, on average they show external government debt payments to be 2 percentage points higher in 2020 than previously predicted. This worsening debt situation is then maintained over time. By 2024 external debt payments are still 2.1 percentage points higher on average.

**Graph 8. IMF predictions for government external debt service as a percentage of government revenue (mean average across 40 countries) pre-COVID crisis and initial estimates after crisis had begun**



Since the DSAs were conducted (April to July 2020), the IMF has published a more recent forecast for economic growth in 2020 for 17 countries.<sup>14</sup> In all 17, growth is now projected to be lower than forecast in the DSA. On average, growth projections are now 2 percentage points lower (see Table 2 below) – the IMF DSA forecasts above are therefore very likely to be overoptimistic compared to if they conducted those forecasts now.

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<sup>13</sup> Afghanistan, Bangladesh, Benin, Burkina Faso, Cabo Verde, Cameroon, Central African Republic, Chad, Comoros, DR Congo, Cote d'Ivoire, Djibouti, Ethiopia, Ghana, Grenada, Guinea, Honduras, Lesotho, Liberia, Madagascar, Malawi, Maldives, Mali, Mauritania, Moldova, Mozambique, Myanmar, Nepal, Niger, Papua New Guinea, Rwanda, Samoa, Sao Tome and Principe, Senegal, Sierra Leone, Solomon Islands, St Vincent and the Grenadines, Togo, Uganda, Uzbekistan.

<sup>14</sup> At the time of writing, August 2020

Table 2. Changes in IMF growth forecasts since DSAs were produced at the start of the COVID crisis

| Country                  | Date DSA published | Growth projection for 2020 by IMF in DSA | More recent growth projection for 2020 by IMF <sup>15</sup> |
|--------------------------|--------------------|--|---|
| Benin                    | May 2020           | 3.2                                      | 2.2   |
| Burkina Faso             | April 2020         | 2.0                                      | 0.9   |
| Cameroon                 | June 2020          | -1.2                                     | -3.5  |
| Central African Republic | April 2020         | 1.0                                      | -1.0  |
| Chad                     | April 2020         | -0.1                                     | -0.8  |
| Comoros                  | May 2020           | -1.2                                     | -6.0  |
| DR Congo                 | May 2020           | 3.2                                      | -2.2  |
| Cote d'Ivoire            | April 2020         | 2.7                                      | 1.8   |
| Ethiopia                 | May 2020           | 3.2                                      | 1.9   |
| Madagascar               | April 2020         | 5.2                                      | -1.0  |
| Mali                     | May 2020           | 0.9                                      | 0.0   |
| Mozambique               | April 2020         | 2.2                                      | 1.4   |
| Niger                    | April 2020         | 1.0                                      | 0.5   |
| Sao Tome and Principe    | April 2020         | -6.0                                     | -6.5  |
| Senegal                  | April 2020         | 3.0                                      | 1.1   |
| Togo                     | April 2020         | 3.0                                      | 1.0   |
| Uganda                   | May 2020           | 3.7                                      | 1.8   |
| <b>Average</b>           |                    | 1.5                                      | -0.5  |

## 5. Space for additional borrowing

Borrowing is a potential source of finance, but principal and interest payments take public finance away that could otherwise be spent on meeting the Sustainable Development Goals. However much space a government

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<sup>15</sup> These are from the IMF's June 2020 Regional Economic Outlook for Sub-Saharan Africa <https://www.imf.org/~media/Files/Publications/REO/AFR/2020/Update/June/English/SREOENG202006.ashx?la=en> Except for Senegal, which had growth of 1.3% in the Regional Economic Outlook, but a July 2020 IMF review now projects growth as 1.1% <https://www.imf.org/en/Publications/CR/Issues/2020/07/24/Senegal-First-Review-Under-the-Policy-Coordination-Instrument-and-Request-for-Modification-49608>

has to borrow, it is crucial that loans are invested well, and that the overall impact of the borrowing is to increase government revenue in the future so as to offset the future principal and interest payments.

Our research presented in Section 2 finds that there is a link between higher debt payments and falling public spending, and that countries spending over 18% of government revenue on external debt service and domestic debt interest tend to have falling public spending. This suggests there is little space for more borrowing for these countries, and the net impact of debt has been to cut finance available for meeting the Sustainable Development Goals. If the borrowing strategy for these countries had worked we would expect government revenue to have increased significantly, preventing a large spike in debt payments as a proportion of revenue, and for sustained increases in public spending to be possible, rather than cuts.

Countries with lower external debt payments as a proportion of government revenue have more space to borrow so long as new debt is invested well. Before the COVID crisis began, there were significant numbers of countries with lower debt payments. Twenty-six out of 60 countries spent less than 10% of government revenue on government external debt service and domestic debt interest. These types of countries potentially had more space to borrow, at least before the coronavirus crisis began, but even so loans must be well invested. If loans are not well invested their impact will be to reduce spending available for the Sustainable Development Goals because of debt and interest payments. Many of the countries spending less on debt payments have sustained increases in public spending per person, so any investment must be worth the risk of ending this relative success, which could happen if debt payments in the future lead to public spending cuts. Individual country cases suggest there is a particular danger in borrowing from external private lenders, which charge significantly higher interest rates than multilateral and bilateral lenders.

One response to the coronavirus crisis has been for lenders such as the IMF and World Bank to lend more money. In cases where debt payments are already high, and debts to private and bilateral lenders are not suspended, these new loans will just be used to make debt payments, contributing to a continued debt crisis. Where debt payments are lower, the new multilateral lending may be able to be spent in the domestic economy. This will rightly help countries cope with the crisis. But as the loans are unlikely to be spent on investment, it still carries a significant risk of creating a more constrained debt situation in the future, similar to the situation Sierra Leone has faced since the Ebola crisis. Debt cancellation will be needed across different levels of indebtedness to create the fiscal space for countries to recover from the crisis and meet the Sustainable Development Goals.

## **6. International measures to help debt be a sustainable source of finance**

### *6.1 Debt cancellation and debt restructuring*

The COVID crisis has caused an unprecedented economic shock for all countries, along with creating even greater need for health spending and social protection. Jubilee Debt Campaign has joined with over 250 global civil society organisations to call for a comprehensive cancellation of debt payments for the poorest countries across multilateral, bilateral and private creditors.<sup>16</sup> This should be followed by a process to cancel debt down to a sustainable level. Unless unsustainable debts are cancelled, the knock-on impact of the crisis could be to depress public spending and undermine the meeting of the Sustainable Development Goals for many years to come.

However, unlike debt cancellation under the Heavily Indebted Poor Countries initiative and Multilateral Debt Relief Initiative in the 2000s, this time debt cancellation must be accompanied by measures to make lending and borrowing more accountable and responsible. This is essential if we are to stem the cycle of debt crises and prevent the need for additional debt cancellation in future. Below we outline two ways of doing so.

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<sup>16</sup> <https://jubileedebt.org.uk/a-debt-jubilee-to-tackle-the-COVID-19-health-and-economic-crisis-2>

## 6.2 Transparency

Transparency of debt information is good for everyone. It gives lenders more certainty about the basis upon which they are lending, it gives borrowers lower interest rates if lenders are more confident that all facts about a country's debt are known, and it allows citizens to subject lending and borrowing by their governments to more scrutiny. Such scrutiny is vital to ensure loans to governments are used well. Transparency is the responsibility of both borrowing governments and lenders. Lenders should only be willing to give loans to governments that are willing to disclose that the loans exist and important details about the loans.

Private companies, governments and multilateral institutions are all significant lenders to governments, and so all need to take action to make lending more transparent. Information on loans to governments, or with any form of government guarantee, should be disclosed by all lenders, via a global publicly-accessible registry within 30 days of contract signature, and should include: the value of the loan, fees, charges and interest, the law the debt is owed under, any available information on the use of proceeds and the payment schedule.

The Institute of International Finance have formulated a set of voluntary principals to apply to bank lending to the same group of countries covered by the research in this paper.<sup>17</sup> This is a welcome step forward, though it is concerning the scheme has not yet launched because of a failure to agree an institution to host the loan disclosures. A public sector institution would make most sense to host the information, as this could then be built on with disclosures from public sector lenders, and empowered to collate data from other sources, such as on bonds. For transparency to be useful for civil society, journalists and parliamentarians in borrower countries, information on loans needs to be available in one place.

The danger with the IIF scheme is that only more responsible lenders will abide by the voluntary principles. To incentivise a level playing field, a simple requirement could be introduced that for loans to be enforceable, they would have to be publicly disclosed when they are given. Such a requirement would create a powerful incentive for loans to be disclosed. If a loan had not been publicly disclosed on the registry, a potential buyer of the debt would see it had not been disclosed, and was not enforceable, and so would be less likely to buy it.

Currently, 48% of international government bonds are issued under English law and 52% under New York law, with less than 1% under any other jurisdiction.<sup>18</sup> Ideally, the requirement for loans to be disclosed to be enforceable would be passed in both the UK and New York.

This requirement would only necessitate a one-off legislative change, rather than requiring ongoing regulation. It would also apply to all lenders who use English or New York law for enforcement of loans, which currently includes governments such as China, as well as private companies.

## 6.3 Making lending more responsible: Addressing moral hazard<sup>19</sup>

In the debt crises of the 1980s and 1990s the standard response was for international institutions, usually led by the IMF, to lend more money which paid off previous lenders. This both continued the debt crisis for the country concerned and created a moral hazard where the risks for lenders were removed or substantially reduced,

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<sup>17</sup> Those eligible to borrow from the IMF's Poverty Reduction and Growth Trust

<sup>18</sup> IMF. (2017). Third progress report on inclusion of enhanced contractual provisions in international sovereign bond contracts <https://www.imf.org/~media/Files/Publications/PP/2017/pp113017third-progress-report-on-cacs.ashx>

<sup>19</sup> For more detail on proposals to address moral hazard see the civil society position paper: 'Sovereign debt crises: Stop bailing out reckless lenders' <https://jubileedebt.org.uk/report/preventing-and-resolving-sovereign-debt-crises-stop-bailing-out-reckless-lenders>

incentivising them to act recklessly. In the end, public money through debt relief was used to end the crises, rather than the original lenders having to pay.

The IMF has a policy of not lending to a government with an unsustainable debt situation unless a debt restructuring takes place during the IMF programme, or grants or low interest loans are provided in such a way as to make the debt sustainable. However, it does not adequately define what an unsustainable debt situation is, which means that its policy is not consistently applied. This means the IMF regularly lends into debt crises, bailing out reckless lenders, and meaning lenders operate on the assumption that they will be bailed out by the IMF. The IMF tends to only define a debt as unsustainable once a default has occurred – but IMF loans can prevent the default by providing the finance to pay-off previous lenders.

Even where debt restructurings are required as part of an IMF programme, they do the bare minimum to reduce debt to the level the IMF says is “sustainable”. This contributes to the problem identified by the IMF that debt restructurings happen too late, and when they do they are too little.<sup>20</sup> And this means people in countries suffering from debt crises have to suffer years of needless extra public spending cuts and economic stagnation.

Recent IMF research<sup>21</sup> has found that its programmes in high debt countries are much more successful in IMF terms<sup>22</sup> if there is a debt restructuring at the start. In high debt countries where there was a restructuring as part of the IMF programme, 45% were successful, 40% partially successful and 15% unsuccessful. In contrast, in programmes in high debt countries without a restructuring, just 5% were successful, 45% partially successful and 50% unsuccessful.

When unsustainable sovereign external debts arise, lenders should be made to restructure debts, rather than be bailed out. One way to encourage this to happen is for the IMF<sup>23</sup> to only lend to debt crisis countries if:

- A restructuring is planned during a lending programme, which will reduce the debt down to a sustainable level, or;
- A government defaults on debts or there is a standstill in debt repayments, so that IMF money is not used to pay off previous lenders

Introducing these policies would drive a number of important changes in the global debt regime: increasing the pressure on lenders to accept necessary debt restructurings; freeing up money to finance development; incentivising lenders to act more responsibly in future sharing the costs of crises more equitably between creditors and the population of the country in crisis; and avoiding the need to use public funds for debt relief.

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<sup>20</sup> IMF. (2013). SOVEREIGN DEBT RESTRUCTURING—RECENT DEVELOPMENTS AND IMPLICATIONS FOR THE FUND’S LEGAL AND POLICY FRAMEWORK. <https://www.imf.org/external/np/pp/eng/2013/042613.pdf>

<sup>21</sup> This is made up of 17 General Resources Account programmes where debt was viewed as “unsustainable” or “sustainable but not with high probability”, and 16 Poverty Reduction and Growth Trust countries with a debt risk rating of “high risk” or in “debt distress”.

<sup>22</sup> For General Resources Account countries the IMF defines success as ending the need for balance-of-payments support and reducing medium-term macroeconomic vulnerabilities. For Poverty Reduction and Growth Trust the IMF defines success as reducing external debt vulnerabilities and making progress on increasing social expenditure, increasing tax revenue and achieving stable inflation and real GDP growth. More detail is at <https://www.imf.org/~media/Files/Publications/PP/2019/PPEA2019012.ashx> Supplement Section III: Assessing Program Success.

<sup>23</sup> And World Bank general budget support loans

## Appendix

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

1. Afghanistan (Low income)
2. Bangladesh (Lower-middle income)
3. Benin (Low income)
4. Bhutan (Lower-middle income)
5. Burkina Faso (Low income)
6. Cambodia (Lower-middle income)
7. Cameroon (Lower-middle income)
8. Cabo Verde (Lower-middle income)
9. Central African Republic (Low income)
10. Chad (Low income)
11. Comoros (Lower-middle income)
12. Congo, Republic (Lower-middle income)
13. Cote d'Ivoire (Lower-middle income)
14. Djibouti (Lower-middle income)
15. Dominica (Upper-middle income)
16. Ethiopia (Low income)
17. Gambia (Low income)
18. Ghana (Lower-middle income)
19. Grenada (Upper-middle income)
20. Guinea (Low income)
21. Guinea-Bissau (Low income)
22. Guyana (Upper-middle income)
23. Haiti (Low income)
24. Honduras (Lower-middle income)
25. Kenya (Lower-middle income)
26. Kiribati [data only available from 2007 on] (Lower-middle income)
27. Kyrgyz Republic (Lower-middle income)

28. Lao PDR (Lower-middle income)
29. Lesotho (Lower-middle income)
30. Liberia (Low income)
31. Madagascar (Low income)
32. Malawi (Low income)
33. Maldives (Upper-middle income)
34. Mali (Low income)
35. Marshall Islands [data only available from 2010 on] (Upper-middle income)
36. Mauritania (Lower-middle income)
37. Micronesia [data only available from 2011 on] (Lower-middle income)
38. Moldova (Lower-middle income)
39. Mozambique (Low income)
40. Myanmar (Lower-middle income)
41. Nepal (Low income)
42. Nicaragua (Lower-middle income)
43. Niger (Low income)
44. Papua New Guinea (Lower-middle income)
45. Rwanda (Low income)
46. Samoa (Upper-middle income)
47. Sao Tome and Principe (Lower-middle income)
48. Senegal (Lower-middle income)
49. Sierra Leone (Low income)
50. Solomon Islands (Lower-middle income)
51. South Sudan (Low income)
52. St Vincent and the Grenadines (Upper-middle income)
53. Sudan (Lower-middle income)
54. Tanzania (Low income)
55. Timor-Leste (Lower-middle income)
56. Togo (Low income)

57. Tonga (Upper-middle income)
58. Tuvalu (Upper-middle income)
59. Uganda (Low income)
60. Uzbekistan (Lower-middle income)
61. Vanuatu (Lower-middle income)
62. Zambia (Lower-middle income)
63. Zimbabwe (Lower-middle income)