UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

UNCTAD

DEBT VULNERABILITIES IN DEVELOPING COUNTRIES: A NEW DEBT TRAP?

Volume I: Regional and Thematic Analyses

UNITED NATIONS

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

UNCTAD

DEBT VULNERABILITIES IN DEVELOPING COUNTRIES: A NEW DEBT TRAP?

Volume I: Regional and Thematic Analyses

UNITED NATIONS
New York and Geneva, 2018

This publication has not been formally edited.

United Nations publication issued by the United Nations Conference on Trade and Development.

UNCTAD/GDS/MDP/2017/4 (Vol I)

ABOUT THE AUTHORS

Bruno Bonizzi is Lecturer in Political Economy. He holds a PhD and a master's degree from the School of Oriental and African Studies (SOAS), University of London. He has taught at City University and the University of East London. His doctoral research focussed on pension funds and their investments in emerging market economies. Financialisation, pension funds and developing countries feature prominently in his current research projects.

Jan Toporowski is Professor of Economics and Finance at SOAS, University of London. He studied economics at Birkbeck College, University of London and the University of Birmingham, UK. He has written widely on financial macroeconomics. His major works include *Michael Kalecki: An Intellectual Biography, volume I, Rendezvous in Cambridge 1899-1939* (2013).*Why the World Economy needs a Financial Crash' and other critical essays on Finance and Financial Economics.*(2010), *Theories of Financial Disturbance. An Examination of Critical Theories of Finance from Adam Smith to the Present Day.* (2005) and *The End of Finance: The Theory of Capital Market Inflation, Financial Derivatives, and Pension Fund Capitalism* (2000).

Annina Kaltenbrunner is Lecturer in the Economics of Globalisation and the International Economy at Leeds University Business School. She holds a PhD and MSc in Development Economies from the School of Oriental and African Studies (SOAS), a Postgraduate Certification in Econometrics from Birkbeck, and an undergraduate degree in Economics from the Vienna University of Economics and Business Administration. Her areas of research are development economics, international finance, monetary economics, international political economy, heterodox economics and methodology. She has published on exchange rate theory, currency internationalisation, financial integration, financialisation, and the Eurozone Crisis.

Yuefen Li is Special Advisor on Economics and Development Finance at the South Centre, Geneva. Previously, she was Head of Debt and Development Finance Branch, Division of Globalization and Development Strategies at UNCTAD. She has published widely in books and journals on debt, finance and other economic issues and contributed extensively to UNCTAD publications and documents.

CONTENTS

INTRODUCTION

Yet again, unsustainable international debt burdens haunt the developing world and are fast becoming a core obstacle to the international community delivering on its repeated promises to enable sustainable development finance.

For the best part of two decades, the driving motor of the global economy has been debt, issued on a whim and traded for speculative purposes, rather than backing productive and long-term investment, including into the structural transformation of developing economies. With the world's total gross debt-to-GDP ratio nearing 250 per cent (BIS 2017: 283) and global debt stocks surpassing their record level at the onset of the global financial crisis (US$ 142 trillions) by over US$ 80 trillion in 2017, it is little wonder that international financial markets continue to show periodic nerves, and policy-makers in lead economies struggle to stabilize an increasingly volatile, fragmented and unbalanced global economy.

Advanced economies still hold the largest share of these debt stocks. This is as it should be in a context of sluggish recovery from a global economic crisis and impending stagnation. Yet, such continued dependence of world economic growth on debt, for the most part fuelling short-term speculative rather than long-term productive investments, is a constant source of instability as well as escalating income inequities. Governments in the core economies have been unwilling to tackle the systematic removal of toxic debt burdens, accumulated in the run-up to the global financial crisis of 2007/08, from non-bank private sector balance sheets in a comprehensive and orderly manner. In addition, with an irrational addiction to fiscal austerity, in particular in Europe, this has resulted in a surge of highly volatile international flows of cheap credit emanating from an excessive reliance on expansive monetary policies in these economies.

While external debt-to-GDP ratios remain relatively low by recent historical standards, on average rising from 21 percent in 2009 to 26 per cent by 2017, this masks much higher ratios in a growing number of individual countries, in particular in the Caribbean and African regions. Debt service and payment burdens have also risen markedly over the past few years. For all developing countries, the ratio of debt service-to-exports rose from 8.7 per cent in 2011 to 15.4 per cent in 2016, and, in poorer developing countries, debt service-to-government revenue ratio also climbed up steadily, from 5.7 per cent in 2008 to over 14 per cent by 2016. This increase in debt service burdens has hit the most vulnerable developing countries the hardest, including commodity exporters, countries dealing with large refugee inflows, and small island developing states.

Further signs of trouble on the horizon include a growing share of short- relative to long-term debt in total external debt stocks, as well as a significant slowdown in the growth of international reserves. These grew by only 4 per cent between 2009 and 2017, compared to 24 per cent between 2000 and 2008. The ratio of short-term debt to international reserves stood at just below 400 percent in 2016. While this is still substantially higher than the 230 per cent ratio at the start of the millennium, the relatively sharp decline since 2009, when this ratio stood at 580 per cent, is cause for additional concern (Report on external debt sustainability and development 2017, UN Secretary General).

The commodity price downturn that started in 2011 is, of course, a major factor in explaining the heightened dangers of sovereign debt crises across the developing world. Commodity price slumps have been accompanied by currency, banking and sovereign