Interest rate hikes and inflation deepen crisis for advanced and less developed economies alike

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The increasingly worsening economic and financial situation confronting so-called emerging market and developing economies has been highlighted by the decision last week by Ghana's central bank to carry out the biggest interest rate hike in 20 years.

In an emergency meeting, the central bank lifted its base interest rate by 300 basis points (3 percentage points) to 22 percent, citing "strong underlying inflationary pressures." The central bank's base rate has risen by 850 basis points from November of last year when it was 13.5 percent, a level which had been maintained since 2015.

Inflation in Ghana rose in July for the 11th consecutive month and is now running at an annual rate of 31.7 percent, its highest level in almost 20 years. Food inflation is at 32.3 percent, with the largest drivers of price hikes being transport, housing and fuel costs.

Ghana's currency, the cedi, has lost 25 percent of its value over the past year, and is the world's second worst performing currency after the Sri Lankan rupee. Like Sri Lanka, the government of President Nana-Akafu Addo and his ruling New Patriotic party is holding discussions with the International Monetary Fund on a $3 billion loan after earlier resisting such a move.

As in Sri Lanka, any bailout will be accompanied by major attacks on the social conditions, wages and jobs of the working class. As the negotiations begin, the central bank's decision, which will do nothing to bring down inflation, is seen as a "reassurance" by the government and financial authorities that they will carry out the IMF's dictates.

The world's three major credit rating agencies have already downgraded Ghana's government bonds to junk status.

The worsening situation in Ghana is being replicated across the continent and around the world. The Nigerian inflation rate has hit a high of almost 20 percent—the highest in 17 years—as food, transport and energy costs rise rapidly.

In South Africa, the continent's largest economy, the value of the currency, the rand, fell by 5 percent last week and the yield on 30-year government bonds has climbed to more than 10 percent, as financial and economic conditions worsen. The South African central bank raised its interest rate by 75 basis points last month, a move that was followed in neighbouring Namibia in the biggest hike for 20 years.

The US Federal Reserve has made clear that, if necessary, it will induce recession, following in the footsteps of Fed chief Paul Volcker in the 1980s who lifted rates to record highs.

The "Volcker shock" produced economic devastation in the US and internationally, particularly in Latin America which experienced a "lost decade" in the 1980s.

The US hikes have lifted the value of the dollar, pushing up inflation for basic commodities priced in the US currency and increasing the payments which must be made on dollar-denominated foreign debt.

The interest rate surge is leading to a withdrawal of money from emerging markets, further exacerbating financial problems.

The Institute of International Finance has estimated that last month the outflows from emerging markets stocks and bonds hit a record of $10.5 billion. The combined outflow for the five months to July was $38 billion in the longest period of outflows since records began in 2005.

The damage being inflicted by spiralling inflation—one of the outcomes of the US-led NATO proxy war against Russia in Ukraine—and the rapid rise in interest rates comes on top of the devastation produced by the "let it rip" response to the COVID-19 pandemic.

Between 2019 and 2021, the pandemic led to a sharp rise in public debt in developing economies from an average of 54 percent of gross domestic product to 65 percent.

The outcome is that 38 emerging economies are reported to be on the verge of a debt crisis or already experiencing one. Some 25 of these countries are now spending more than 20 percent of government income just to service foreign public debt. This means a drive against the conditions of the working people as governments cut already inadequate spending on social facilities to meet the demands of the vultures of international finance capital.

The crisis in Asia is not confined to Sri Lanka. The Philippine peso has fallen by 5 percent this year, the Pakistan rupee is down by 20 percent and the Thai baht has dropped by more than 6 percent. Pakistan and Bangladesh are both seeking money from the IMF.

Despite the speculation on Wall Street that the Fed will start to ease up on its interest rate hikes, there is little evidence of this. The Fed is expected to lift its base rate by at least 50 basis points at its next meeting in September with some members of its interest-setting body favouring a third consecutive rise of 75 basis points.

Other central banks in major economies are continuing to lift rates. Last week the Norwegian bank lifted its rate by 50 basis points for the second time this year and indicated that a further rise of the same size can be expected next month.

The bank's governor, echoing the mantra of major central banks internationally, said a "markedly higher policy rate is needed to ease the pressures in the Norwegian economy and to bring inflation down towards the target."

Confronted with a growing strike movement of the working class as a result of an official inflation of more than 10 percent and its prediction that it will be 13 percent by the end of the year—higher in basic necessities—the Bank of England (BoE) has made it clear it will continue its rate rises. The central bank's inflation forecast is at the lower end of estimates with a report from Citigroup predicting that inflation will reach 18.6 percent next January.

The rises will be carried out even as the BoE has forecast that the UK economy will move into a recession lasting at least five consecutive quarters. In fact, the aim of the interest hikes is to produce such an outcome in order to try to batter the working class into submission.

The European Central Bank (ECB), while a later-comer to the rate hikes, is moving on the same path. After lifting rates by 50 basis points last month, it is set to repeat the increase at its next meeting.

There has been speculation in some quarters that the bank may ease back because of the developing recession in Germany and across the continent. However, ECB executive member Isabel Schnabel pointed to a further rise in an interview with Reuters last week.

"Even if we entered a recession, it's quite unlikely that inflationary pressures will abate by themselves," she said, noting that the inflation outlook that led to the July decision had not changed "fundamentally."

Her outlook was underscored by comments to the *Rheinische Post* by the head of Germany's central bank—Bundesbank president Joachim Nagel, who sits on the ECB governing council. He said the surge in energy prices was likely to drive inflation to over 10 percent and it would remain high next year.

"The issue of inflation will not go away in 2023," he said. "Supply bottlenecks and geopolitical tensions are likely to continue. Meanwhile, Russia has drastically reduced its gas supplies, and natural gas and electricity prices have risen more than expected."

German electricity prices are seven times higher than a year ago as a result of gas price hikes which have increased ten-fold.

Nagel said with higher inflation, further interest rate hikes had to follow.

He went on to reveal what is a linchpin in the strategy of all capitalist governments and financial authorities—the role of the trade unions in imposing the costs of the ongoing breakdown of the global capitalist economy onto the backs of the working class in developed and less developed countries alike.

Nagel said that to this point there were few signs of a wages push, as had taken place in the 1970s, because the trade unions had "acted very responsibly over the past 25 years—and will do the same this time—I'm confident of that."