Deepening debt and currency crises hit poorer countries

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A wave of economic devastation is sweeping across a growing number of poorer countries and so-called emerging markets as the result of spiralling inflation, interest rate hikes by the US Federal Reserve and other major central banks, and the surge in the value of the US dollar over the past year.

The most widely known case is Sri Lanka where a mass uprising last year drove out the Rajapakse government and where a new upsurge is now developing against the Wickremesinghe government. It is seeking to impose an International Monetary Fund austerity program to pay off the country's debts to international finance capital by impoverishing the working class and toiling masses.

But the situation in Sri Lanka, where basic social services are increasingly no longer being provided, is being replicated in many other countries.

Such is the shortage of dollars, Bloomberg recently reported that international flights have been suspended in Nigeria, and car factories are being closed in Pakistan.

In Bangladesh power companies may have to halt production unless they receive dollars to buy fuel. Unless there is power, the irrigation of paddy field rice, the country's staple food, cannot continue during the dry season.

As the Bloomberg report commented: "In some of the world's most vulnerable developing nations, the situations on the ground are dire. Shortages of dollars and crimping access from everything from raw materials to medicine. Meanwhile governments are struggling with their debts as they chase rescue packages from the International Monetary Fund [IMF]."

As in Sri Lanka, that "struggle" consists in devising mechanisms to meet the rapacious demands of finance capital by imposing ever greater hardships on the working class, including those holding what have been considered to be middle class jobs, along with the urban and rural poor.

Financial analysts are predicting that the situation is only going to worsen.

John Marret, senior economist as the Economist Intelligence Unit in Hong Kong commented to Bloomberg: "These countries are mired in economic collapse, and some like Pakistan are teetering on the edge of another default. Major parts of their economies are struggling. The currencies are worth far less too."

That situation is only going to worsen with the clear indication by the US Fed and other major central banks that rate increases will continue.

In Pakistan some factories have stopped production because they have run out of hard currency, principally US dollars, to pay for imports of raw materials.

Pakistan must meet around $7 billion in debt repayments in June and the prospect of a default is looming ever larger. Foreign reserves are plunging and the country, like so many others around the world, is being hit by the highest inflation in decades.

When it cut the country's credit rating last week, Moody's said that "in the current extremely fragile balance of payments situation, disbursements may not be secured in time to avoid a default."

As a result of dollar shortages, the health situation, which was hit because of the refusal of major capitalist governments to pursue a policy of global elimination of COVID-19, is worsening everywhere with shortages of medical supplies.

More than 20 countries are seeking aid from the IMF and countries such as Pakistan have seen the value of their currencies plunge.

One of the biggest falls has been in the value of

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Ghana's currency, the cedi, which dropped by 55 percent between January and October last year. This dramatically increased the price of all imported goods in terms of the domestic currency on top of the price hikes carried out because of the profit gouging by the giant global food and energy corporations.

The vice-like grip in which so many poorer countries are held is revealed in the overall debt levels, which escalated as a result of the pandemic.

In 2019, before the pandemic struck, the Institute for International Finance (IIF) calculated that the total debt burden for some 30 large low- and middle-income countries was $75 trillion. It leapt to $98 trillion by December last year with most of the increase coming in 2020 and 2021.

At the same time, there has been a major increase in government debt leading to restrictions in vital areas of social spending. According to the IIF, total government debt for the 30 selected countries reached almost 65 percent of gross domestic product at the end of 2022. That is an increase of 10 percentage points from pre-pandemic levels and the highest ever total.

Interest rates were very low in 2020–2021 as central banks pumped in trillions of dollars into the financial system, following the onset of COVID. But last year, in response to the rapid rise in inflation and the fear of the movement it would spark in the working class, they began interest rate hikes at the fastest rate in four decades.

One of the consequences was to increase the value of the US dollar, leading to a surge of inflation because so many international commodities are priced in dollars. The movements in currency markets means that even when the dollar price of some commodities began to fall in dollar terms, the inflationary surge continued in many countries because of the fall in the value of their currencies against the dollar.

A recent study by the Bank for International Settlements (BIS), published as part of its Quarterly Review this month, revealed an important shift in the operation of the global financial system, which is having a major international impact, particularly on poorer countries.

It found that in the past there tended to be offsetting movements in the price of commodities. That is, when prices went up, the value of the dollar tended to fall, and so importers were to some extent shielded from the effects of commodity price increases.

But this relationship has changed. Up until 2021 commodity prices and the value of the dollar tended to move inversely. Now they are moving together.

"Thus, the whole effects of commodity price and dollar gyrations on stagflation risks used to offset each other, they compounded each other in 2012–2022," the BIS study said.

In the first weeks of this year there was speculation that interest rates may start to ease and the pressure on poorer countries and so-called emerging markets could lessen. But in the recent period, with the continuation of what the central banks refer to as "tight labour markets" in the major economies, there is not going to be a turnaround.

The pace of the interest rates hikes may lessen in some cases, but they are going to continue, intensifying the already intolerable conditions for the working class and oppressed masses in poorer countries who comprise major portions of the world's population.

The necessity for a unified struggle of the working class against the entire profit system, embracing those in so-called advanced and less developed economies alike, is being hammered home in developing daily reality.

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