

Record high for debt repayments by low-income nations

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The genocide in Gaza, where bombs rain down every day killing thousands, destroying schools, hospitals and refugee centres and pulverising the facilities and resources necessary for life, leading to starvation and disease, is only the most egregious form of capitalist-imperialist violence against the world's people, against life itself.

Another is the destructive oppression and violence being imposed by the global financial system as it sucks the life blood out of billions of people in so-called low- and middle-income countries via debt and interest repayments.

This siphoning of wealth takes place seamlessly, automatically, to the tune of hundreds of millions of dollars a day through the relentless operations of the global capitalist financial system. The extent was revealed in the annual *International Debt Report* issued by the World Bank last week.

It found that developing countries spent \$443.5 billion last year to service their public debt—almost half a trillion dollars—financed by draining resources from critical health, education and other social needs, such as combating the effects of climate change.

These payments, which rose by 5 percent from a year earlier and could increase by 10 percent in 2023?2024, are the highest on record.

However, the situation is even more severe for the 75 poorest countries. Their external debt service payments reached a record \$88.9 billion in 2022 and are predicted by the World Bank to rise by 40 percent over 2023?2024. Their interest payments alone have quadrupled since 2012 to reach \$23.6 billion.

“Record debt levels and high interest rates have set many countries on a path to crisis,” said Indermit Gill, the chief economist and vice-president of the World Bank.

The figures indicate this is something of understatement. Many countries and their populations are not on a path to crisis, they are in one which is worsening every day.

“Every quarter that interest rates stay high results in more developing countries becoming distressed—and facing the choice of servicing their public debts or investing in public health, education and infrastructure,” Gill said.

He said the situation warranted quick action. But as Gill and other officials throughout the institutions of global capitalism such as the World Bank know very well, this is not going to take place. The crisis has been building up for years and has been the subject of countless reports by the International Monetary Fund and the World Bank as well as aid agencies such as Oxfam, but nothing has been done to counter it.

The debt situation has worsened markedly over the past two years because of the entirely predictable effects of the interest rate increases by the world's major central banks. In the past three years there have been 18 sovereign defaults in 10 developing countries. This was greater than the number recorded over the previous two decades.

At the same time, the flow of private finance has dried up. As Gill noted, when interest rates started to rise in 2022 private creditors followed the money with the result that they pulled out \$185 billion more in principal repayments than they disbursed in new loans.

“Today, one of every four developing countries is effectively priced out of international capital markets,” Gill said. For the poorest countries “debt has become a nearly paralysing burden.”

The crisis for developing countries is not only a result of higher interest rates but has been exacerbated by the “let it rip” policy of the major imperialist powers in

response to COVID. In a report issued in October 2022, Oxfam found that “despite the worst health crisis in a century, half of low and lower middle-income countries cut the share of health spending of their budgets.”

Almost half of all countries cut the share going to “social protection” while 70 percent cut the share going to education.

“Our index shows that most governments completely failed to take the steps to counter the inequality explosion created by COVID-19. They ripped away public services when people needed them most and instead left billionaires and big corporations off the hook to reap record profits.”

An examination of the crisis reveals how it is impossible to find any way out through the framework of the capitalist system. In fact, attempts to do so only create worsening conditions.

For example, as the *Guardian* economics correspondent Larry Elliott noted, many of the lowest income countries are faced with an extra burden. They confront the “accumulated principal, interest and fees they incurred for the privilege of debt-service suspension under the G20’s Debt Service Suspension Initiative, which was announced at the height of the COVID-19 pandemic in 2020.”

Another instance is the fate of the plan set forth some years ago by bourgeois economists. They claimed to have a solution to the dependence on foreign loans which had had such devastating effect in the 1980s and into the 1990s. The idea was that countries should borrow in their own currencies.

A recent article in the *Wall Street Journal* detailed some of the results. It noted that “local currency debt is now the biggest drain on many developing countries’ balance sheets.”

At the time of the downfall of the Rajapakse government last year, Sri Lanka was spending nearly 40 percent of its revenue paying interest on local currency debt.

In 2022, Ghana spent one-third of its revenue in local debt as interest rates on three-month government-issued treasury bills soared to 36 percent. Interest payments on domestic debt were more than what was spent on healthcare and education combined.

In Pakistan, payments on local currency debt are expected to account for more than half the government’s revenue this year.

World Socialist Web Site has explained that the genocidal barbarism directed upon the people of Gaza is the product of a capitalist order “rotting on its feet.” The same can be said of the social and economic devastation being inflicted on billions of people through the relentless, remorseless grind of the financial system.

The stench arising from the death agony of this social order is so powerful that it is starting to waft up into the nostrils of some of the highly placed individuals in the institutions set up after World War II to create the illusion that it was possible to contain the horrors that had erupted in the first half of the 20th century.

Last summer, in a speech in Paris, the secretary of the United Nations Antonio Guterres commented that “the global financial architecture is outdated, dysfunctional and unjust” and that “even the most fundamental goals on hunger and poverty have gone into reverse after decades of progress.”

But capitalism does not have a solution waiting in the wings to be implemented. The relative progress made in the previous period was the product of an era that has passed.

Capitalist imperialism is now revealing its essential characteristics in real time. It cannot be reformed but must be overthrown by the unified struggle of the working class in the advanced capitalist countries and the multi-million masses in the impoverished nations.



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