UN report details developing countries’ rising debt burden

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The global financial system is operating as a kind of giant vacuum cleaner sucking up the wealth of poorer and less developed countries to fatten the bottom line of the banks and financial institutions, as billions of people are driven deeper into poverty.

This fact of economic and political life leaps out of virtually every page of a report on global trade prepared by the United Nations Conference on Trade and Development (UNCTAD) earlier this month.

The report began by noting that global public debt was continuing to escalate rapidly, “driven by cascading crises as well as the sluggish and uneven performance of the global economy.”

In 2023, total public debt, comprising domestic and external debt, reached $97 trillion, an increase of $5.6 trillion in a year.

The sharpest increase is occurring in so-called developing countries, where in 2023 it reached $29 trillion, accounting for 30 percent of the global total, compared to 16 percent in 2010.

The report noted that while the burden of debt varies, it is “exacerbated by the inequality embedded in the international financial architecture” where “those least able to afford it end up paying the most.”

This is a significant finding. It makes clear that for all the statements by political leaders and international organisations, such as the International Monetary Fund and the World Bank, about the need to ease the debt burden and organise relief, there is no solution to be found within the framework of the international financial system. The increasing daily impoverishment of billions of people, outlined in the report, is rooted in the very structures of the system.

As the report explained:

“Developing countries are grappling with an international financial architecture, whose entrenched asymmetries exacerbate the impact of cascading crises on sustainable development. This system intensifies their debt burden by limiting access to affordable development finance and pushing them to borrow from more volatile and expensive sources.”

Overall external debt of developing countries was $3.2 trillion in 2022 and for half of these it was as high as 28.4 percent of their GDP and 92.4 percent of their exports.

The situation is worsening because governments are now allocating twice as many resources relative to revenue to service their debt as compared to 2011, “leaving a declining share of resources for investment in sustainable development.”

The picture that is so often presented is one in which loans and aid are being allocated to developing countries to finance economic development.

Actually, the flow of funds is in the other direction. This is the result of the increasing role of private credit funds within the international financial system, upon which developing countries are being forced to increasingly rely.

In 2022, developing countries paid $49 billion more to their creditors than they received in new funds. There was an inflow of $40 billion from bilateral and multilateral organisations, while private creditors, such as hedge funds and private equity groups, withdrew a record $89 billion. In effect, the money provided through official channels was used to finance private capital.

A total of 52 countries experienced an outflow of money in 2022, up from 32 in 2010. The increase reflects the impact of rising interest rates which began in 2022 as the US Federal Reserve, followed by other central banks, began lifting rates to their highest levels in several decades.

The perverse logic of the borrowing regime is illustrated by the fact that borrowing costs for developing countries were two to four times higher than in the US and six to twelve times higher than in Germany. Those who can least afford it are forced to pay more.

The effect of higher rates was reflected in the interest bill for developing countries. It rose to $847 billion in 2023, a 26 percent increase from 2021.

More than half of all developing countries allocate at least 8 percent of government revenue to interest rates. The figure has doubled over the past decade and in 2023 a record 54 developing countries, some 38 percent, most of them in Africa, allocated at least 10 percent of revenue on interest payments.

The outlay on the interest bill rose faster than spending on health and education in many developing countries in Africa, Asia and the Pacific region in the 2020?2022 period.

During those years there were 15 countries where interest payments exceeded outlays on education and 46 where they were higher than health spending.

The report said that the number of countries where this was taking place was rising. A total of 3.3 billion people now lived in countries where spending on the interest bill was higher than on either education or health.

The UN report concluded with appeals for reforms to the “international financial architecture,” saying such calls were “loud” with more than 149 countries raising the issue at the most recent meeting of the UN General Assembly. But such calls have been made many times before and the situation has only worsened.

This is because, as the report itself acknowledged, inequality is “embedded” in the system itself.

Moreover, the same “international financial architecture” which is driving billions of people in poorer countries into ever-deeper poverty likewise dominates the lives of workers in the major economies, as parasitic finance capital demands ever-greater levels of exploitation of workers and cuts on social spending to meet its insatiable demands.

The way forward does not lie in so-called “reform”—that is impossible—but in the unified struggle of the working class in the major economies and less developed countries alike for an international socialist program in which one of the central foundations is the establishment of public ownership of the entire financial system under democratic control.