

IMF meets amid sovereign debt build-up

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The rapid escalation of public debt in all the major economies is dominating the deliberations of the International Monetary Fund at its annual October meeting being held in Bangkok, Thailand, this week.

Over the course of decades, the IMF has had to deal with the sovereign debt crises of many countries, generally referred to as “emerging market economies,” imposing brutal “restructuring” programs which slash money for social facilities to pay debt and interest to global banks and financial institutions.

But today the global debt crisis is lodged firmly within the economies of the major capitalist and imperialist economies, starting with the United States with a debt of more than \$40 trillion and an interest bill running at more than \$1 trillion a year.

The US administration, along with governments in France, throughout the eurozone and Japan as well as countries such as Australia, are faced with a situation in which the interest rates on their bonds, having been close to zero for much of the period since the global financial crisis of 2008, have returned to levels of 5 percent and more, not seen in a quarter of a century.

Faced with soaring borrowing costs, governments must set aside more money just to pay for the interest bill on their debt. In the US, for example, this amounts to one dollar in every five which the government takes in the form of revenue, setting up a “vicious loop” in which more money must be borrowed just to pay the interest bill on past debts.

In a number of speeches and comments leading up to this week’s meeting, IMF chief Kristalina Georgieva pointed to the changed situation and its implications both for the policies which now had to be carried out by governments and their possible consequences.

In a television interview last month, she pointed to the combination of rising energy prices and inflation. “In normal times that would not be a giant problem. But these are not normal times, because we have debt

levels in advanced economies at historic highs,” she said.

This meant governments that had to pay higher interest bills could not deal with the cost of living. “We should prepare for people being more unhappy. Maybe on the street.”

That is already taking place with massive demonstrations, strikes and protests taking place in France and Spain. Even before the latest surge in yields (interest rates) on long-term sovereign debt, going across the board to one extent or another, the Institute of International Finance reported that the governments of major economies were paying more than \$3.3 trillion in annual interest. It drew a parallel with the debt distress of “emerging markets.”

Drawing attention to this situation, a Bloomberg report pointed to what is called the “upside-down” backdrop to the IMF’s Bangkok meeting. Almost 30 years ago, Thailand and its currency, the baht, were at the center of the so-called “Asian financial crisis.” Today the focus is on problems in the major economies which are the “worst offenders” on the debt front, according to Georgieva.

In a keynote speech delivered in Singapore on her way to the Bangkok meeting, Georgieva focused on the issue of government debt. She said governments faced “very tough political choices” as they needed to rein in spending in the face of the surge in bond yields which have pushed borrowing costs to their highest levels in more than two decades.

And they could rise even further. The giant bond trading firm Pimco has said that the yield on the 10-year US Treasury bond, the benchmark for the global financial system, which recently pushed through the 5 percent mark, could well go to 6 percent.

Pimco chief investment officer Dan Ivascyn said a further sharp rise was “feasible” and if the 10-year went to 5.5 percent or above “you’re going to see some

decent weakness in risk markets, both credit and equity.”

Such rates are not high by historical standards, but the difference is that they are now being incurred on an unprecedented level of debt.

In her speech Georgieva noted that global debt to GDP levels were set to top 100 percent and consolidation plans (code words for major spending cuts) were the “need of the hour” and the situation demanded “an urgent and comprehensive set of policy responses.”

Responding to Georgieva’s speech Singapore president Tharman Shanmugaratnam observed that it was now the “systemically important economies of the world facing the largest fiscal challenges” and that “the IMF won’t be able to rescue them.”

The need for government spending cuts was the central theme of the presentation of the IMF’s World Economic Outlook (WEO) report entitled “Resilience under Strain, Urgent Choices,” which was issued yesterday.

Presenting the report in a blog post, the newly appointed IMF economic counselor Silvan Tenreyro (she only got the job after front runner Ricardo Reis was dropped because of his criticisms of Trump’s tariffs) warned that while the global economy had proved “resilient” in the face of the oil price shock following the launching of the war on Iran that resilience was now “under strain.”

The WEO forecast global growth for this year would be 3.1 percent this year with inflation rising to 4.7 percent.

The report said the “resilience” was uneven and had produced a “split global economy.” Some countries had a cushion because of enhanced technology exports associated with AI while others faced “higher import bills and weaker demand.”

The oil shock, it said, had been countered by the use of inventories and the financial markets had been “buoyed by the exuberance in the technology sector.” But there is no certainty that such conditions will last.

“Inventories have been drawn down, commodity markets remain vulnerable, fragmentation could become a greater drag on efficiency, prolonged uncertainty could eventually weigh more heavily on confidence, constraints on energy could impair the AI-led impetus, and financing conditions could change

abruptly for any number of reasons, including fiscal stability concerns.”

In her remarks at a press conference on the WEO, Tenreyro cited a figure showing the impact of the AI boom. World trade growth was set to rise by 8.3 percent, largely as a result of the 29 percent rise in AI trade.

As she noted in her blog post, unless action were taken to replenish policy buffers (another phrase for spending cuts) the global economy could “soon test the limits of resilience” and while technology-related investment was “an important boon against energy shock” it was “concentrating risks – making the global expansion heavily reliant on a small number of firms, sectors and economies.”



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