The growing debt crisis in lower income countries and cuts in public spending

May 2022

1. Summary

The research consolidates data on past and future debt payments and changes in government spending for 41 lower income countries for which there is data.[1] It is based on IMF and World Bank data sources. Our research shows that:

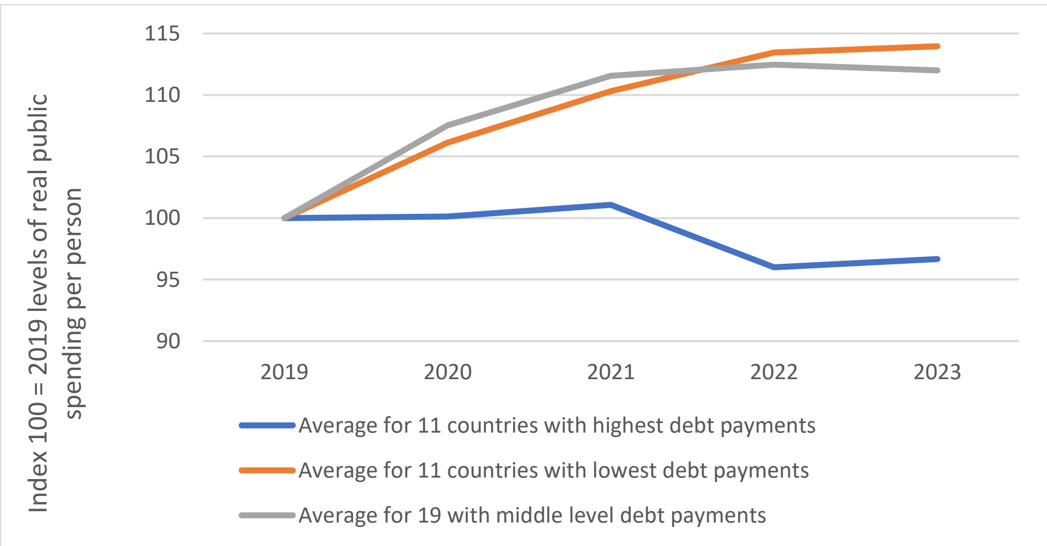
Real public spending per person in the countries with the highest debt payments is falling or stagnating. In contrast, it has been rising in countries with lower debt payments.

For the quarter of countries (11 countries) with the highest debt payments for which data is available, average real public spending per person is expected to fall between 2019 and 2023 by 3%. In the quarter of countries (11 countries) with the lowest debt payments, it is expected to grow by 14%, and in the middle half of countries (19 countries) it is expected to grow by 12%.

Of the 11 countries with the highest debt payments, 6 are expected by the IMF to have lower real public spending per person in 2023 than they did in 2019, and in 3 public spending is expected to stagnate. For the 11 countries with the lowest debt payments, just 2 are expected to have lower real public spending per person in 2023 than in 2019, with the rest increasing.

Falls in government spending are most consistently seen for those governments spending over 20% of revenue on debt payments. For these 6 countries, 5 are expected to see public spending cuts between 2019 and 2023. On average these 6 countries are expected to have cuts in public spending of 6% between 2019 and 2023.

Graph 1. Index of change in real public spending per person between 2019 and 2023, grouped by the 11 countries with lowest debt payments, 11 countries with the highest debt payments, and 19 countries with middle levels of debt payments



[1] The 41 countries are those for which the IMF has conducted a Debt Sustainability Assessment, and for which the IMF has projected public spending figures in detailed country reports, since June 2020. This is therefore all counties for which there are figures which take into account the impact of the pandemic.

As the graph above shows, the countries with lower debt payments were able to increase public spending during the pandemic and are now expected to maintain that increase in spending. While the countries with the highest debt payments saw hardly any increase during the pandemic and are now making cuts in 2022 and 2023.

2. Government spending

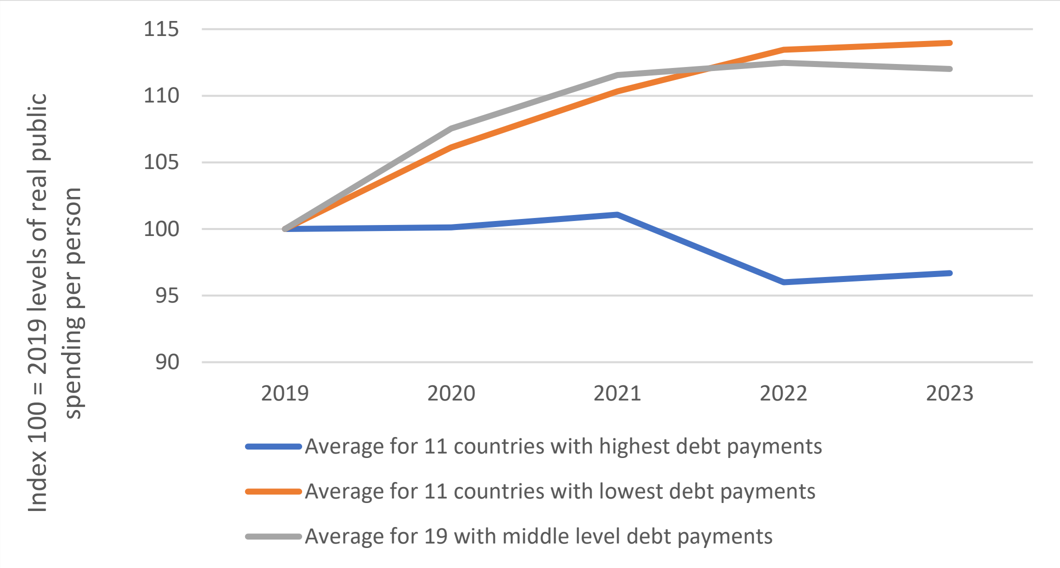
In the analysis below we look at how government spending has changed between 2019 and 2023 for 41 countries where information is available from the IMF. From IMF figures we have calculated real public spending per person (ie, taking account of inflation). This does not include any public spending on debt interest or principal payments. The IMF figures come from Article IV consultation documents, supplemented by IMF World Economic Outlook data on inflation, GDP and population growth.

Of the 41 lower income countries for which there is data, we have identified the 11 (lowest quarter) with the lowest external debt service and domestic debt interest between 2019 and 2023. These debt payments range from averaging 2% of government revenue in the case of Timor-Leste to 8% for Guinea. The average across the 11 countries shows that real public spending per person has increased every year since 2019 and is expected to continue to do so until 2023. On average real public spending for these 11 countries will be 14% higher in 2023 than they were in 2019. Of the 11 countries with the lowest debt payments, two are expected to have lower real public spending per person in 2023 than they did in 2019: Nicaragua and the Solomon Islands. The other 9 are all expected to experience increased public spending from 2019 to 2023.

In contrast, for the 11 countries with the highest debt payments (those over 15% of government revenue), real public spending per person is predicted to fall between 2019 and 2023 by 3%. As Graph 2 shows, for the 11 countries with the highest debt payments, real public spending stagnated between 2019 to 2021, and is expected to fall between 2021 to 2023. Of these 11 countries, 6 are expected to have lower real public spending per person in 2023 than they did in 2019: Cameroon, Malawi, Republic of Congo, Sierra Leone, Sudan, Uganda. For an additional 3 countries, real public spending is expected to stagnate between 2019 and 2023: Cabo Verde, Ghana and Rwanda – all of which will have real public spending per person less than 3% higher in 2023 than in 2019.

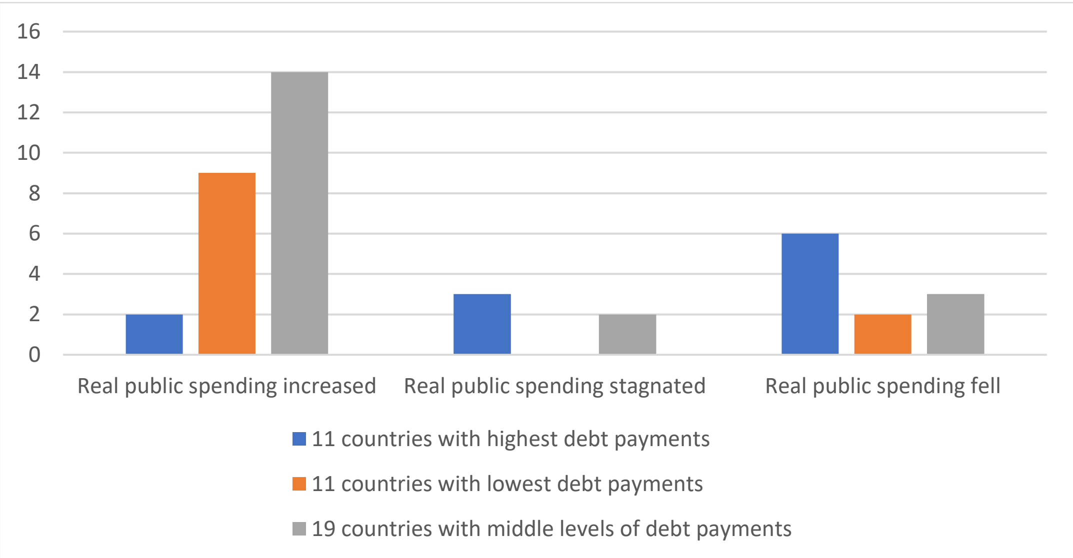
For the 19 countries with middle level debt payments, real public spending per person is predicted to increase between 2019 and 2023 by 12%. Of these 19 countries, three are expected to have lower real public spending per person in 2023 than they did in 2019: Kyrgyz Republic, Liberia and Vanuatu. An additional 2 countries are expected to experience stagnated levels of public spending between 2019 and 2023: Gambia and Honduras.

Graph 2. Index of change in real public spending per person between 2019 and 2023, grouped by the 11 countries with lowest debt payments, 11 countries with the highest debt payments, and 19 countries with middle levels of debt repayments



As the graph above shows, the countries with lower debt payments were able to increase public spending during the pandemic, and are now expected to maintain that increase in spending. While the countries with the highest debt payments saw hardly any increase during the pandemic, and are now making cuts in 2022 and 2023.

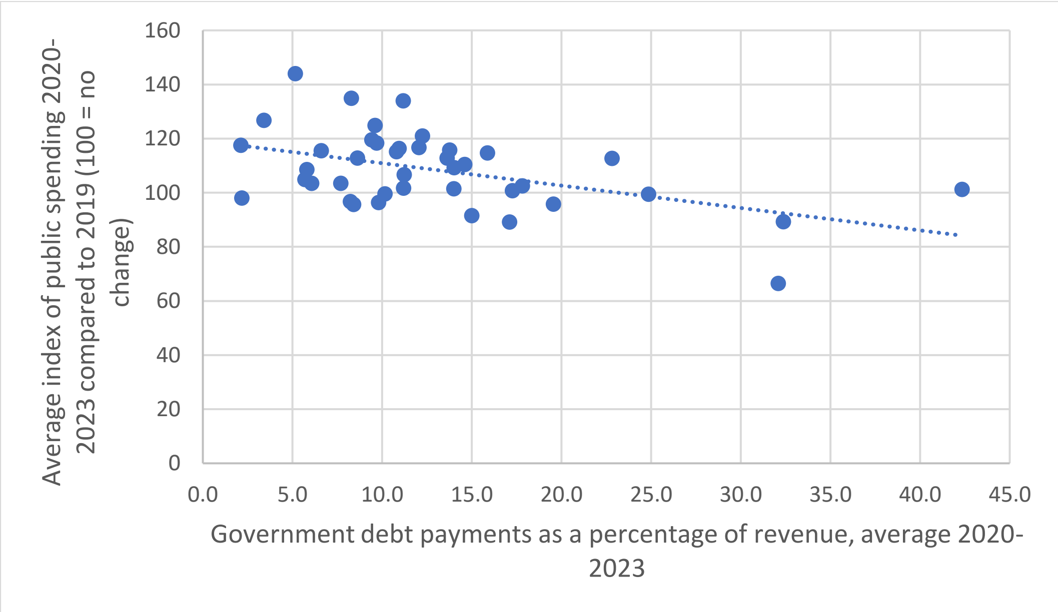
Graph 3. Rising, falling or stagnating public spending between 2019 and 2023, split between 11 countries with lowest debt payments, 11 with highest debt payments and 19 countries with middle levels of debt repayment



Each country has very specific circumstances: there are some countries with high debt payments which have not had falls in public spending, and some with low debt payments which have still had public spending falls. However, high debt payments mean a country is more likely to have public spending cuts. This suggests that debt crises are contributing to falling public spending in a considerable number of countries. Falls in public spending for some lower-income countries are especially concerning given the Covid-19 pandemic. Recovering from the pandemic, climate crisis and other national level needs can only be met through large increases in public spending on essential services and infrastructure, yet debt burdens are preventing this happening in several cases (see examples below), and the continued rise in debt payments threatens to make the situation worse.

A scatter plot shows a general trend of declining public spending in countries with higher government debt payments (see Graph 4 below). Beyond a certain level of debt payments, real public spending falls get worse. For the six countries with average debt payments 20% of government revenue or higher, five are expected to have lower public spending in 2023 than they did in 2019, with spending either falling or being stagnant. On average, real public spending per person is predicted to fall between 2019 and 2023 by 6%. In only one country with average debt payments over 20% of government revenue (Mauritania) was there clear public spending increases between 2019 and 2023. However, Mauritania has been in a debt crisis for several years – with external debt payments over 15% of revenue since 2014. Mauritania cut real public spending per person by 18% between 2015 and 2019, and it will still be 7% lower than 2015 levels in 2023.

Graph 4. Scatter plot of average government debt payments from 2020 to 2023 and index of change in real public spending from 2019 to 2023, with line of best fit



3. Country cases

Ghana

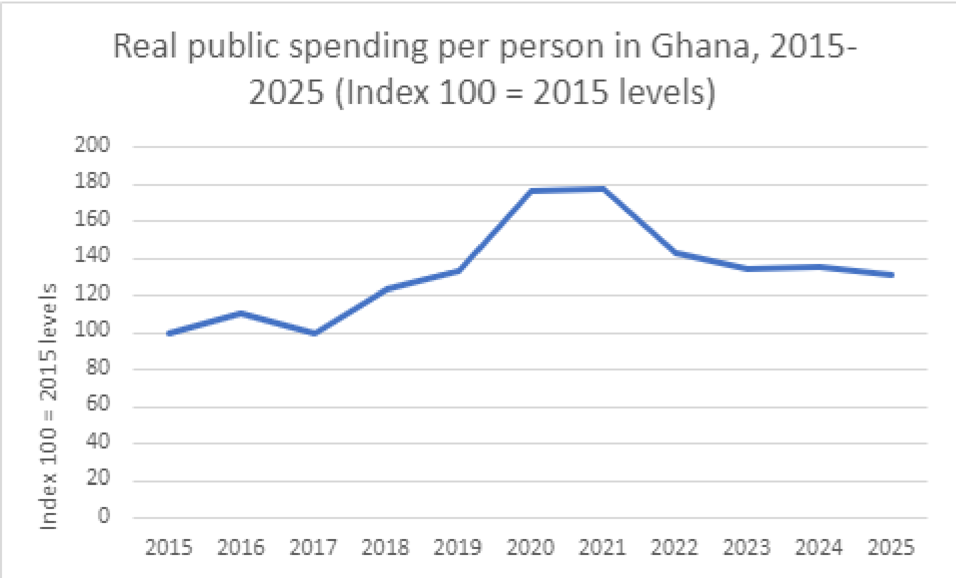
Of the 41 countries with data, Ghana has the highest external debt payments, averaging 42% of government revenue between 2020 and 2023. Ghana's debt payments have been over 20% of government revenue since 2016. It has managed to keep paying the debt through a combination of bailout loans from the IMF and continued high interest loans from private lenders. Of Ghana's external debt payments between 2022 and 2025, 57% are to private lenders, 21% to multilateral institutions, 12% to China and 9% to governments other than China.[2] The average interest rate on

[2] Calculated from World Bank International Debt Statistics database and IMF website.

external loans to Ghana is 6% on loans from private lenders, 3% from China, 2% from other governments and 1% from multilateral institutions.[3]

During the pandemic Ghana was able to increase public spending, but cuts are now being introduced. By 2023 real public spending per person is predicted by the IMF to be just 1% higher than in 2019, and by 2025 it is projected to be 2% *less*. Ghana's bond prices have dropped dramatically in the last six months indicating that external private lenders are at present no longer willing to lend more. This could lead to the Ghanaian government accepting the need to default on and / or restructure the external debt.

Between 2019 and 2023 the IMF predicts that Ghana's GDP per person will grow by 6% in total, less than 2% a year. Before the pandemic, in 2019, the IMF predicted it would grow by 11% in those four years. The pandemic has therefore led to Ghana's GDP growth almost falling by half.



Malawi

According to the IMF's Debt Sustainability Analysis, Malawi's external debt payments shot up dramatically in 2021 from around 5% of government revenue in previous years to 31%. They are predicted to stay over 30% of government revenue until at least the early 2030s. The huge increase in debt service comes primarily from expensive loans from Afreximbank[4] and Trade and Development Bank to cover the costs of vital imports. Of Malawi's debt payments in 2022, 72% are to commercial lenders (53% alone to Afreximbank), 15% to the African Development Bank, World Bank and IMF, 5% to China and 8% to other multilateral institutions and governments.[5] The average interest cost on the commercial loans could be as high as 15%.[6]

[3] Calculated from World Bank International Debt Statistics database and IMF website.

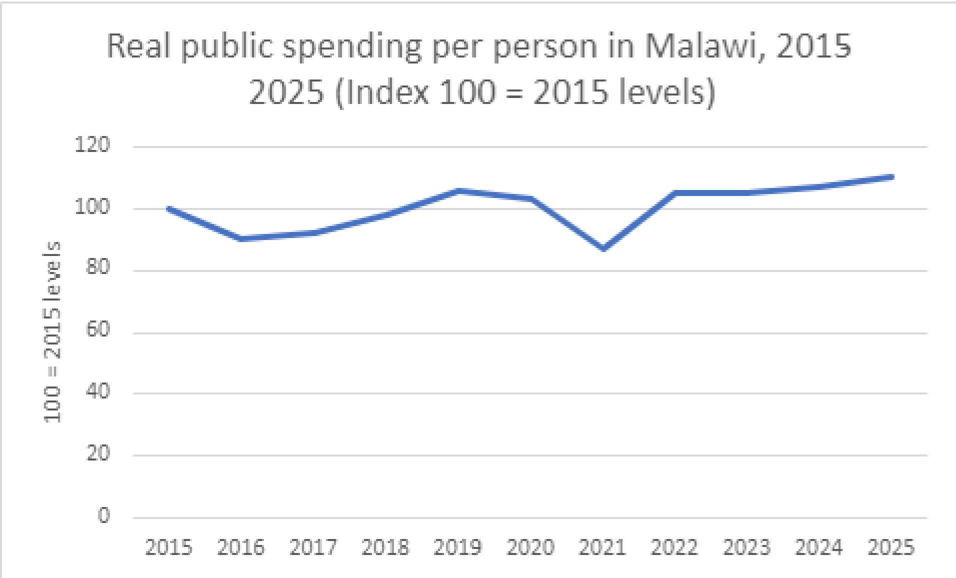
[4] Afreximbank is a commercially run bank setup by the African Development Bank to finance trade on the African continent.

[5] IMF. (2021). Malawi: 2021 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Malawi. https://www.imf.org/en/Publications/CR/Issues/2021/12/17/Malawi-2021-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-511105

[6] The IMF Debt Sustainability Analysis says the average interest rate on external debt in 2022 will be 5.1%. From the World Bank Debt International Debt Statistics database we have calculated that the average interest

Malawi's real public spending per person grew by just 6% - less than 2% a year – between 2015 and 2019. Spending did not increase during the pandemic, and in 2023 the IMF predict it will be 0.5% *less* than in 2019. Even by 2025 public spending will only be 4% higher than in 2019, and 10% higher than 2015 – growth of less than 1% a year. This represents yet another lost decade for the Southern African country.

Between 2019 and 2023 the IMF predicts that Malawi's GDP per person will *fall* by 1% in total. Before the pandemic, in 2019, the IMF predicted it would grow by 12% in those four years. The pandemic has therefore led to Malawi's total GDP being 13% less than expected.



Sierra Leone
Sierra Leone's debt payments have increased substantially in recent years due to loans taken out during the Ebola crisis in 2015 and are now predicted to stay high following even bigger loans during the Covid pandemic (see graph below). In 2022 external debt payments are expected to be 22% of government revenue, and remain above 20% until the late 2020s, and still be above the IMF threshold of 14% of government revenue in 2030.[7]

Between 2022 and 2025, 46% of Sierra Leone's external debt payments are to the IMF, 35% to other multilateral institutions and 19% to other governments (none to private lenders).[8]

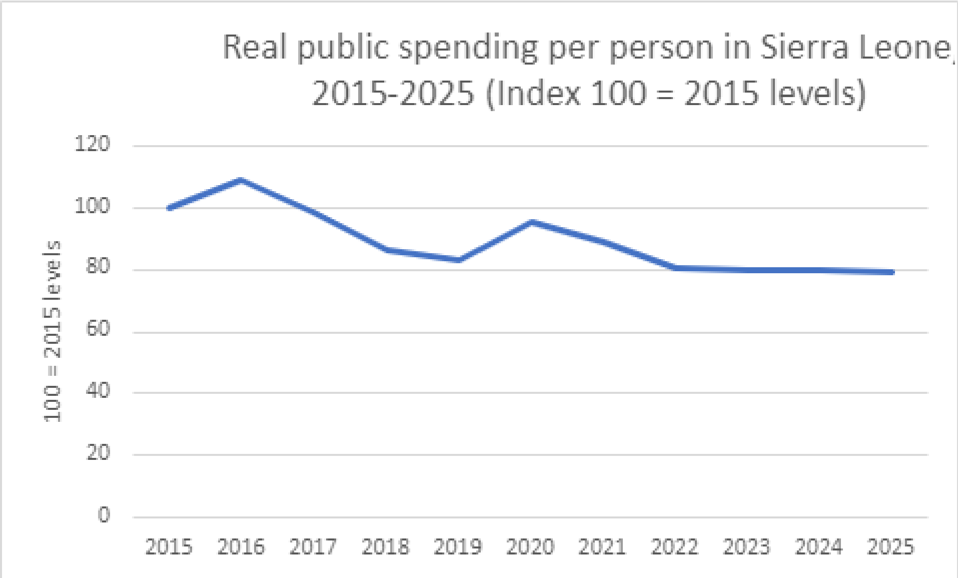
Public spending in Sierra Leone has been falling since the Ebola crisis. In 2019 real public spending per person was 17% less than it had been in 2015. There were increases in 2020 and 2021, but not back to the same levels as 2015, but now further cuts are planned. In 2023 the IMF expects real

rates on Malawi's multilateral debt is 0.7%, and bilateral debt 1.6%. Based on the overall debt owed by creditor grouping in the Debt Sustainability Analysis, this leads to a calculation that the average interest rate on the external commercial loans is 15%.

[7] IMF. (2021). Sierra Leone: Third and Fourth Reviews Under the Extended Credit Facility Arrangement, Requests for Extension and Rephasing of the Arrangement, Waivers of Nonobservance of Performance Criteria, and Financing Assurances Review-Press Release; Staff Report; and Statement by the Executive Director for Sierra Leone https://www.imf.org/en/Publications/CR/Issues/2021/08/12/Sierra-Leone-Third-and-Fourth-Reviews-Under-the-Extended-Credit-Facility-Arrangement-463809

[8] Calculated from World Bank International Debt Statistics database and IMF website.

public spending per person to be 20% less than in 2015, and 4% less than in 2019. This low level of spending is then expected to be maintained until at least 2025.



Appendix

The 41 countries with IMF data on projected debt payments are below:

1. Bangladesh
2. Benin
3. Burkina Faso
4. Cabo Verde
5. Cambodia
6. Cameroon
7. Central African Republic
8. Chad
9. Congo, DR
10. Congo, Republic
11. Cote d'Ivoire
12. Gambia
13. Ghana
14. Guinea
15. Guinea-Bissau
16. Honduras
17. Kyrgyz Rep.
18. Liberia
19. Madagascar
20. Malawi
21. Mali
22. Marshall Islands
23. Mauritania
24. Moldova

25. Nepal
26. Nicaragua
27. Niger
28. Rwanda
29. Samoa
30. Sao Tome and Principe
31. Senegal
32. Sierra Leone
33. Solomon Islands
34. St Vincent and the Grenadines
35. Sudan
36. Tajikistan
37. Tanzania
38. Timor-Leste
39. Uganda
40. Uzbekistan
41. Vanuatu