2021

GLOBAL SOVEREIGN DEBT MONITOR

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GLOBAL SOVEREIGN DEBT MONITOR 2021

At a glance

The coronavirus pandemic has further exacerbated the debt crisis in the Global South. Countries with low to middle incomes, whose economies were already unstable, are the most affected of all by the effects of recession, and their debt servicing ability has been substantially weakened.

Indebtedness worldwide: 132 out of 148 countries surveyed in the Global South are critically indebted. This represents the addition of eight countries to the list reported in our Global Sovereign Debt Monitor 2020.

→ **New on the list** are small island states such as Fiji, and Trinidad & Tobago. However, the inclusion of Chile, Thailand and the Philippines means that three larger emerging economies also feature.

→ **21 countries** are currently in partial default. However, as a result of the recession triggered by the coronavirus pandemic, further countries also face imminent sovereign default.

→ At the beginning of the pandemic, the **G20's Debt Service Suspension Initiative (DSSI)** and the debt relief enabled by the IMF's Catastrophe Containment and Relief Trust (CCRT) created much-needed fiscal scope in the poorest countries. This allowed time to set up comprehensive debt relief measures.

→ **A debt moratorium** is however not an appropriate tool for dealing with debt distress, since it merely postpones payment obligations into the future.

→ Moreover, **limiting the moratorium to the poorest countries** has meant that, on the one hand, relief has been offered to some countries that did not want it, while on the other hand, a number of highly indebted countries have had support withheld, even though they urgently need it.

Recommendations to the German federal government

The G20's 'Common Framework for Debt Treatments beyond the DSSI' is intended to set out the framework for genuine debt relief over and above the moratorium. However, it merely contains declarations of intent and non-committal appeals to participate, addressed to multilateral and private creditors, and no effective leverage enabling such participation to be enforced if necessary. In order to enable granting of the real debt relief that is needed in 2021, the German federal government should take the following measures:

→ As an influential member of the EU, in tandem with the Italian G20 Presidency, the German federal government should advocate that the G20 nations **must also place private creditors under an obligation to participate in debt relief**. In addition, the G20 should urge participation by the World Bank and other multilateral creditors.

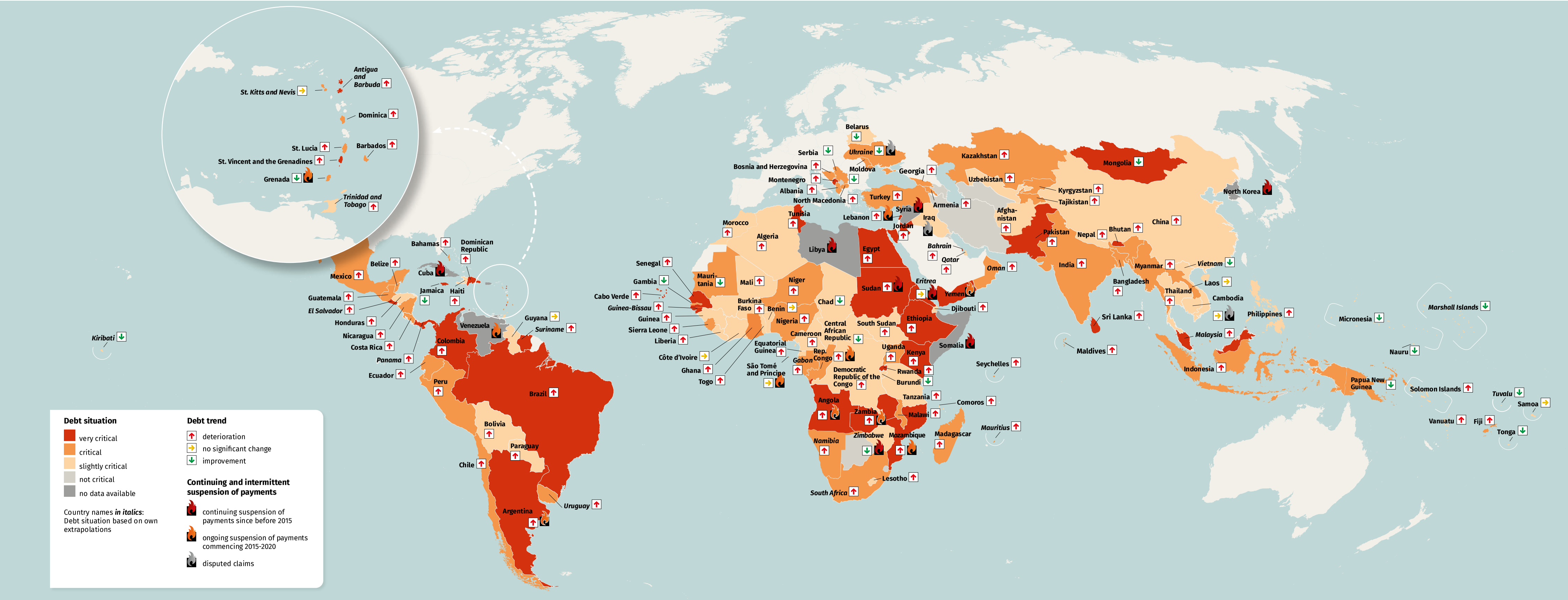
→ Within the G20, the German federal government should argue that **no further resolutions on debt relief should be adopted without consulting the affected governments**, so as to ensure that all highly indebted countries are given an opportunity to receive relief. The federal government should intensify dialogue on this issue with regional organizations such as the African Union or the Caribbean Community (CARICOM), and ensure that such dialogue is transparent.

→ The call from the G7 to offer relief under the DSSI and the Common Framework **to all low and middle income countries** should be maintained, since such countries must be able to make sovereign and independent decisions on whether to accept either the debt moratorium offered to them, or more far-reaching measures.

→ In view of the increasing severity of the debt crisis facing many countries, the German federal government should advocate **a fair and transparent debt workout mechanism** for highly indebted countries.

Global debt situation

Map showing the debt situation of critically indebted countries in the Global South, the debt trend and the suspension of payments



Global Sovereign Debt Monitor 2021

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FOREWORD

And then came the virus:

How the pandemic is deepening the global debt crisis

Pirmin Spiegel has been Director General and Chairman of MISEREOR since 2012. He studied theology and philosophy, and was ordained as a priest in 1986.

Linda Rebmann holds a master's degree in international development, has worked on development policy at the University of Buenos Aires, and now coordinates a project on Education for Sustainable Development. After spending many years following the work of erlassjahr.de with interest from afar, for the past two years she has been a member of the erlassjahr.de Council.

It is a crisis like no other, with a dire outlook for the global economy, warned Kristalina Georgieva back in April 2020. Georgieva, Managing Director of the IMF, was to be proved right. The health crisis, as well as other crises triggered by the coronavirus pandemic, have led to a global recession on an unprecedented scale, comparable only with the global economic crisis at the end of the 1920s. Just as was feared, the pandemic has had a particularly negative impact on developing countries and emerging economies. For, even though the coronavirus pandemic is affecting the whole world, poorer countries have less fiscal scope with which to mitigate the consequences for both health and the economy. As a result of the drastic restrictions imposed on public life and the necessary lockdowns, in many parts of the Global South the economy has seen a dramatic downturn, with falling commodity prices leading to revenue losses, in particular for commodity-exporting countries such as Zambia, Mozambique, Angola and Mongolia. Tourism as a major source of revenue, as well as key export trade supply chains, have come to a virtual standstill. In addition, the volume of remittances sent home by those working abroad has dropped substantially. In many places, revenue losses have been compensated by borrowing.

For years, erlassjahr.de and MISEREOR have been drawing attention to the growing debt crisis in the Global South through their annual Global Sovereign Debt Monitor. According to calculations set out in our 2018 Debt Monitor, that year, 119 out of the 141 countries surveyed had fallen into a debt trap. In 2019, the figure was 122 out of 154 countries surveyed, while in 2020, the proportion of critically indebted countries rose to 124 out of 154. Consequently, for an equally long time, civil society debt relief networks have been advocating efficient and formal debt workout mechanisms for these countries, so far eliciting a staggeringly muted response. The coronavirus pandemic has served to further intensify this debt crisis. Countries with low to middle incomes, whose economies were already unstable, are the most affected of all by the effects of recession. In his contribution, economist Andrés Musacchio sets out, using examples such as Argentina, Ecuador, Zambia and Lebanon, how urgently new options are now needed *(see 'Individual debt restructuring in 2020', p. 34)*.

In this publication, the Global Sovereign Debt Monitor 2021, we have succeeded in incorporating the impact of the coronavirus pandemic into our calculations. The basis of the data used is extremely up to date, and reveals that, out of 148 countries surveyed in the Global South, 132 are critically indebted to a lesser or greater degree, eight more than in the previous year. New on the list are small island states such as Fiji, for example, but 'heavyweights' such as Chile, Thailand and the Philippines also feature.

If more action is not taken now, we will be facing yet another lost development decade.

The situation in Lebanon is particularly acute. There, the level of sovereign debt is far higher than in other countries and, moreover, the country is in a deep political and social crisis. The explosion in the port of Beirut in August 2020 and its devastating consequences have further worsened the situation. Thus, the debt crisis is hitting a country already on the edge. Michel Constantin, Regional Director of MISEREOR's partner organization, Pontifical Mission of the Catholic Near East Welfare Association (CNEWA/PM) in Beirut, explains in an interview why attempts to improve the economic situation are making such slow headway *(see 'Shattered hopes', p. 42)*.

The international community of nations indeed reacted swiftly following the onset of the coronavirus pandemic. The fact that the G20, with its Debt Service Suspension Initiative (DSSI), and the International Monetary Fund (IMF), with its debt relief measures as part of the Catastrophe Containment and Relief Trust (CCRT), took action at an early stage must be viewed in a positive light. In this way, urgently needed fiscal leeway was created to combat the consequences of the pandemic in the poorest countries. As part of the G20 debt moratorium, between May and December 2020, Germany alone deferred debt of around EUR 135 million *(see 'Germany as a creditor of the Global South', p. 18)*. Debt relief measures are also the topic of a discussion between Patricia Miranda, debt expert from the Latin American network LATINDADD, and Wolfgang Schmidt, State Secretary at the German Federal Ministry of Finance *(see 'Fighting debt with yet more debt?', p. 28)*.

However, the moratorium adopted by the G20 only serves to postpone payment liabilities until a future date. Genuine debt relief has so far failed due to the lack of consensus between the main creditors. In particular, it has not yet been possible to include private creditors in debt relief measures, yet precisely this is an important key to resolving the debt crisis. It is not acceptable for public budgets to forego debt payments, while private creditors continue cashing in. In 2021, under the Italian Presidency, the G20 has the capacity to compel participation by the private sector in debt relief for countries in acute humanitarian distress, and enforce comprehensive debt relief measures. So far, however, we have heard only worthy statements of intent.

If the world's poorest countries were relieved of all or part of their debts, they would be left solvent and, even amid the current crisis, they would have the long-term capacity to act in the fight against the pandemic. Moreover, immediate debt relief is the quickest way to help, since the money is already in the place where it is urgently needed, namely in the budgets of the heavily indebted countries that are hardest hit. Every dollar of debt relief could be invested directly and without delay in strengthening healthcare and education systems, expanding social security and infrastructure, and achieving the global Sustainable Development Goals (SDGs).

If more action is not taken now, we face yet another lost development decade. While Germany and other rich countries are mobilizing coronavirus assistance running into billions, when it comes to resolving the debt crisis in the Global South, we are driving along with the handbrake on. In view of the resulting plight of so many people, this is an untenable situation.

We hope you will find this report a thought-provoking read
Linda Rebmann and Pirmin Spiegel

Indebted countries worldwide

Currently, 132 developing countries and emerging economies in Asia, Africa, Latin America and Eastern Europe are critically indebted.

by Jürgen Kaiser and Kristina Rehbein

The debt of low and middle income countries in the Global South has been increasing steadily for years. However, amid this ongoing process, 2020 has been a singular year since, as a result of the recession triggered by the coronavirus crisis, circumstances have deteriorated for almost all countries in the world. As a result, the number of critically indebted countries in the Global South has yet again risen significantly, to 132 out of 148 countries included in our survey. Compared with the figures in last year's Global Sovereign Debt Monitor, the number of critically indebted countries has increased by eight, and the situation of those countries which were already critically indebted has worsened further. Twenty-one countries are in partial default, while others are on the verge of defaulting.

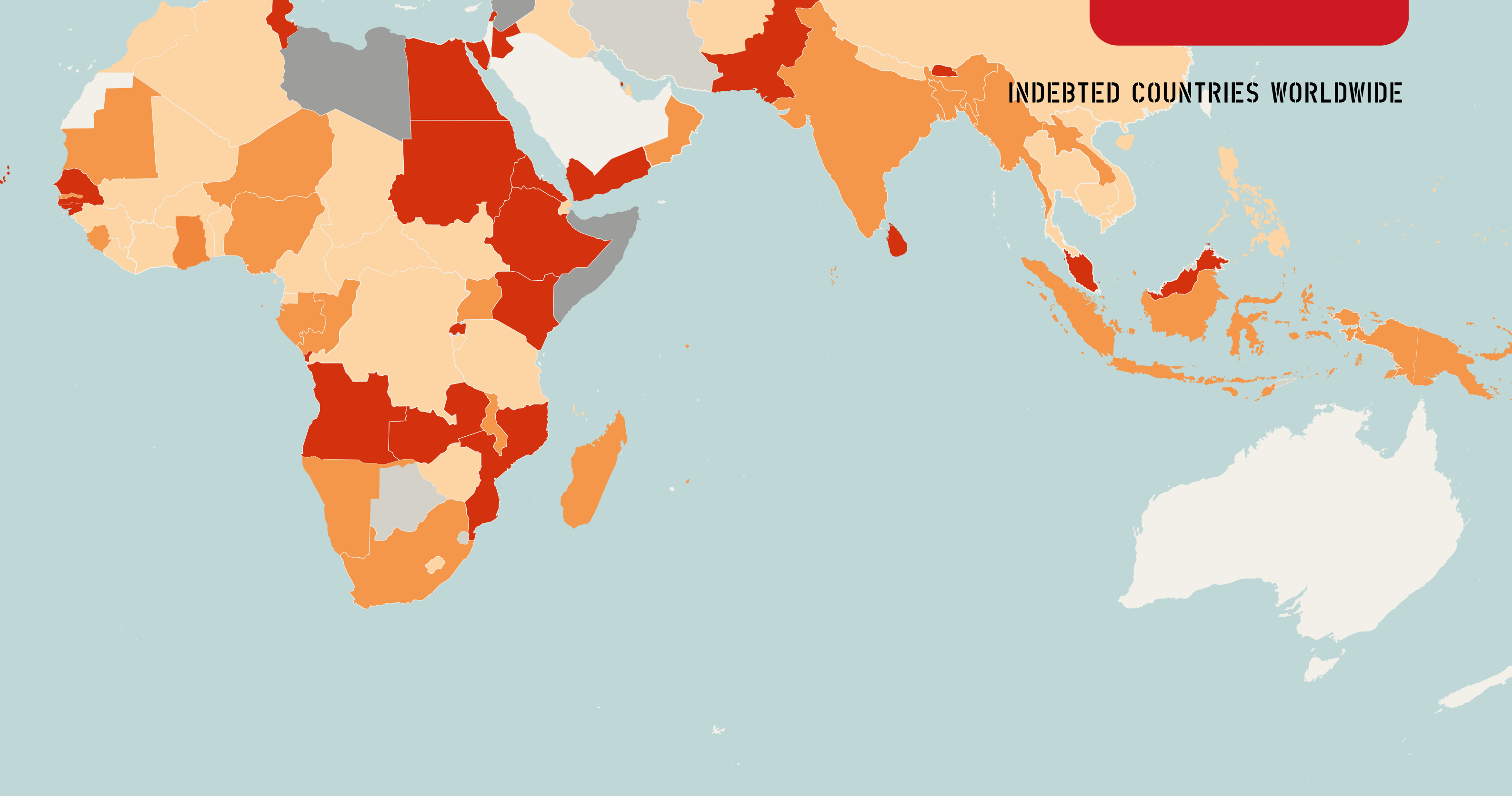
Due to the unique circumstances surrounding recent data, this year we are setting out the situation in different countries using projections, in addition to our own calculations *(see box: 'A crisis analysis like no other')*; as a result, this is the most up-to-date Debt Monitor ever produced. Even though the forecasts by the Washington institutions must be viewed with healthy scepticism,[1] their assumptions provide the most reliable indications currently available as to how debt indicators in individual countries have evolved and will continue to evolve under the pressure of the pandemic.

We describe a country's debt situation using five indicators which respectively set debt/debt service payments against an indicator of economic output, whereby three indicators relate to a country's total public and private external debt, and two indicators relate to total public debt at home and abroad *(see Fig. 1, 'Debt composition')*.

The overview provided at Table 1 sets out the available data for all developing countries and emerging economies in respect of which one or more out of five indicators falls within a risk category *(see box: Methodology - 'Indebted countries worldwide', p. 16 – 17)*. In addition, countries have also been included which have a "medium" or "high" risk of debt distress in the IMF's Debt Sustainability Analysis. This is the case with five small Pacific island states, as well as the Democratic Republic of the Congo.

The UN database comprises 200 countries and territories, of which the following are not included in Table 1:

- 52 countries which are OECD or EU Members or dependent territories or which have a comparable status[2]
- 9 countries of the Global South without debt problems[3]
- 6 countries in debt distress and in default, with regard to which, due to their specific political circumstances, no usable data at all is available on their current debt position.[4] These countries will be considered in the subsequent section covering countries in default, but are not included in Table 1.



A crisis analysis like no other

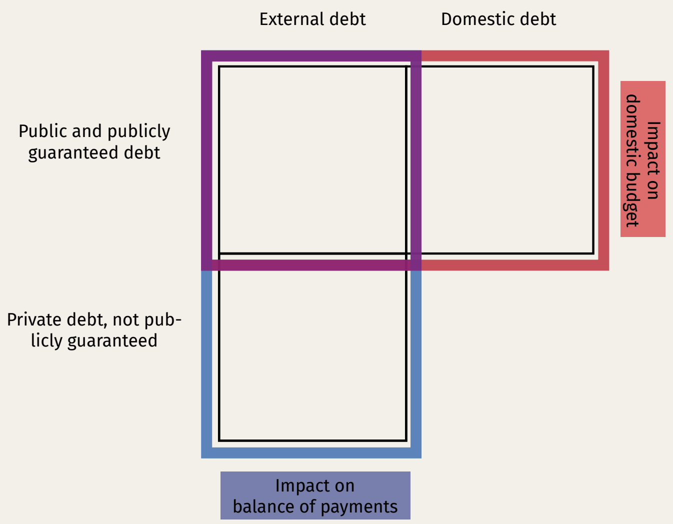
Each year, based on data compiled by the IMF and the World Bank on external and public debt, erlassjahr.de and MISEREOR undertake an analysis aimed at identifying where there is a risk of debt crises. Since even these well-equipped financial institutions take a while to compile relatively coherent and reliable data from all member governments, the Global Sovereign Debt Monitor published at the beginning of the year would normally present data up to the closing date of the penultimate year. In the case of 2021, this should therefore be the data for the period ending 31 December 2019.

Indeed, these data are available, and we could present them in this report as in any other year. However, the informative value of such data in regard to possible debt crises would be very limited. 31 December 2019 was a date at which the increasing trend towards debt distress evoked repeatedly in recent Global Sovereign Debt Monitors had continued as usual. The tendency on the part of western and (far)-eastern donors described in previous years, to agree lucrative interest rates with governments in Asia, Africa and Latin America instead of investing at home at low rates of interest, continued unabated into 2020. Indeed, the risk of debt distress in many countries would have intensified were it not for the fact that, in the spring of 2020, as a result of the coronavirus pandemic and the measures it prompted, the biggest economic slump took place since the global economic crisis of 1929.

With this slump having occurred, the figures issued by the World Bank by way of routine data release at its Annual Meeting in October 2020 are not able to provide a very helpful depiction of the situation in January 2021, the time of publishing this year's Global Sovereign Debt Monitor.

In order nevertheless to derive informative statistics on the debt and debt service payments of countries in the Global South, we were therefore obliged to refer to the estimates and projections presented on a regular basis by the IMF and the World Bank and a small number of other national organizations. For this reason, this time, the data contained in the table towards the end of this publication, which are also reflected in the map at the front, consist not of actual figures from a fixed, not-so-recent, reference date, but rather estimates of debt indicators as at 31 December 2020. Here, most are based on the Debt Sustainability Analyses conducted at some point between April and mid November 2020 by the IMF, prepared by the World Bank and the IMF for all its members throughout the year, and mostly published on a timely basis. Where they have not yet prepared a Debt Sustainability Analysis or have not published such an analysis due to an objection on the part of the government in question, we have employed our own estimates for the same reference date by drawing on publicly-accessible sources.

Fig. 1: Debt composition



When reference is made to a country's debt, this may mean the country's entire external debt, in which case the debtors may consist of either the government or private banks and businesses *(blue area)*. Or it may mean total public borrowings, which the government may have raised either at home or abroad *(red area)*. The two areas overlap in terms of public external debt *(purple area)*.

The inclusion of Chile, Thailand and the Philippines means that three 'heavyweights' also feature which, in the past, have already been through severe debt crises.

As a result, the overview comprises data on 132 countries, eight more than in the Global Sovereign Debt Monitor 2020. Thirteen countries either feature for the first time or reappear in the analysis after an absence.[5] In the case of several countries, it was primarily the fall in oil and other commodity prices well into 2020 which exacerbated their debt position, since governments replaced lost revenues with external borrowing. Others are small island states particularly hard hit by the collapse in international tourism. However, the inclusion of **Chile**, **Thailand** and **the Philippines** means that three 'heavyweights' also feature which, in the past, have already been through severe debt crises, but which were no longer afflicted by debt problems in the years leading up to the pandemic.

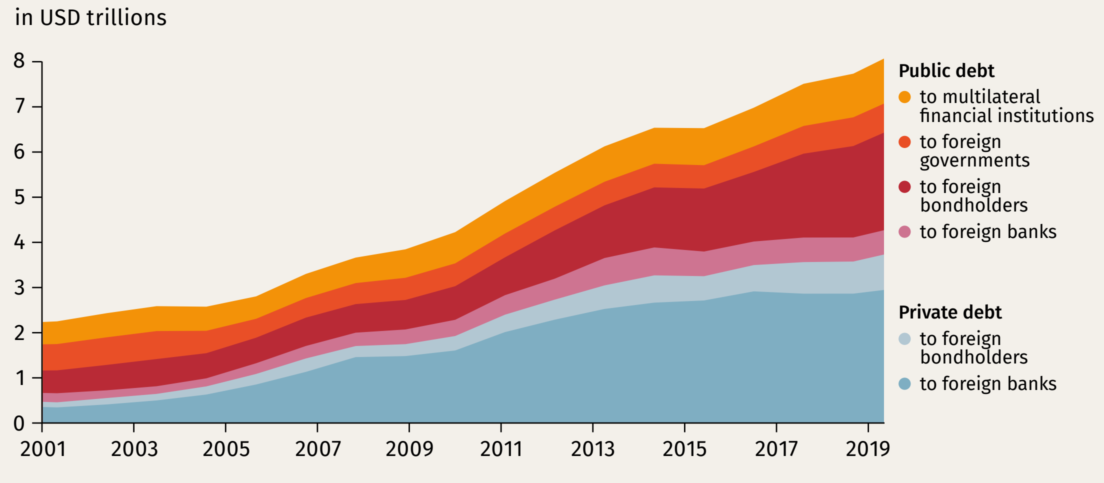
On the other hand, five countries included in the 2020 Debt Monitor no longer feature. Singapore and Taiwan have been classified in the group of OECD-comparable states. For Venezuela, no reliable data exist, and as a result of this the country has been allocated to the group of defaulting countries with no detailed indications being available. For Iran and Turkmenistan, critical debt data are no longer being reported; this may be attributable either to an actual improvement in their debt situation, or to a lack of data.

Changes in external debt 2018 – 2019

As at 31 December 2019, i.e. on the eve of the pandemic, the World Bank[6] reported total external debt for all low and middle income countries[7] at a level of USD 8.139 trillion. This represents a nominal rise of USD 420 billion on the previous year. The region of sub-Saharan Africa recorded the highest percentage increase.

The average level of external debt for all countries worldwide was 26% of economic output or 107% of annual export revenues. Both these figures represent a slight increase on 2018. On average, countries had to pay over 15% of their hard currency revenues, obtained through exporting goods and

Fig. 2: Breakdown of public and private external debt according to creditor category (2001–2019)



services, in interest and loan repayments to their foreign creditors; this too was a slight increase on the previous year.

Up to the end of 2019, the distribution of external debt in those countries for which the World Bank provides more detailed indications on credit structure continued the trend of recent years *(see Figure 2)*:

- External debt was distributed in approximately equal proportions between the state and private debtors (banks and businesses).
- In the former group, debt in the form of bonds is the segment with the most dynamic increase.
- Private debt with foreign creditors exists for the most part in the form of traditional bank loans. Although bonds placed on the international capital markets are gradually growing in importance, they still play a comparatively minor role.

Since, in the countries of the Global South, the recession in 2020 was essentially overcome through credit expansion in the industrialized nations and subsequent lending to the poorer countries, we assume that all three indicators of external debt will continue rising during the course of 2021 *(with regard to indicators, see box: Methodology, p. 16 – 17)*. Our analyses at country level underline this through the clear preponderance of negative over positive trends *(see also world map and Table 1)*.

No region in the world falls outside the global trend of a steady rise in indicators. However, naturally there exist considerable differences between individual countries in each region, as the country data in Table 1 make clear.

Countries in default – an overview

In November 2020, twenty-one countries were in partial default in relation to a greater or lesser number of their foreign creditors. Among them are three cases where the respective creditors consider their debtors to be in default while the debtors themselves do not consider this to be the case, since they consider the payment demands made to be unjustified *(see Table 2, p. 12)*.

The list of countries that have suspended payments over a sustained period comprises states suffering from civil war or isolated by the international community for political reasons. It is therefore clear that they are not making any ongoing payments at least to the majority of their creditors, although an exact figure cannot be placed on the amount by which they are in default. The only exception within this group is Zimbabwe which, although it has been in payment arrears in relation to both bilateral and multilateral creditors for over ten years, nevertheless supplies debt data to the World Bank's Debtor Reporting System.

The group of countries which began suspending payments between 2015 and 2020 naturally reflects just a snapshot in time – in this case as of November 2020 – since the countries in question have in the intervening period come to arrangements with their (mostly private) creditors. On the other hand, we can expect to see more countries previously categorized as critical having fallen into this category between October 2020 and publication of this report in early 2021.

Grenada, the **Republic of the Congo**, **São Tomé & Príncipe**, **Somalia** and **Sudan** are on the current list of ongoing payment suspensions, since they are recorded as in default by the IMF. **Angola** is still in arrears with suppliers from the time of former President dos Santos. The country's debts should actually have been reduced, but the decline in oil prices has made this impossible. In the summer of 2020, **Argentina** succeeded in coming to the biggest restructuring arrangement in its history with private bondholders. However, the country remains in payment arrears with the public creditors of the Paris Club. The upcoming negotiations in this regard, to take place in April at the latest, are awaited with great anticipation.[8] **Mozambique** is still refusing to settle part of its "hidden debt"[9] uncovered in 2016. Moreover, the government is engaged in a dispute with the Brazilian development bank BNDES in relation to debts linked to construction of Nacala Airport

In the summer of 2020, Argentina succeeded in coming to the biggest restructuring arrangement in its history with private bondholders.

Tab. 2: Suspension of payments

continuing suspension of payments	ongoing suspension of payments	disputed claims
since before 2015	commencing 2015 - 2020	
• Cuba • Eritrea • Libya • North Korea • Somalia • Sudan • Syria • Zimbabwe	• Angola • Argentina • Grenada • Lebanon • Mozambique • Republic of the Congo • São Tomé & Príncipe • Venezuela • Yemen • Zambia	• Cambodia • Iraq • Ukraine

Lebanon partially suspends payments

The two most noteworthy countries on the list are Lebanon and Zambia. While **Lebanon** has had the highest debt indicators of all countries for many years, until 2020 the country was always able to keep its head above water through inflows of foreign capital into the financial hub of the Middle East. With the collapse of the complex political system, huge protests against the corruption of the ruling classes, and finally the symbolism of the explosion in the port of Beirut, traditional structures ceased functioning and the state was forced to suspend payments to some of its foreign creditors. Due to its very complicated internal politics, Lebanon is struggling even more than other debtor nations to develop a reasonable negotiating strategy.

Zambia is the first country to slide into default specifically as a consequence of the recession triggered by the coronavirus crisis. In this context, the deciding factor was the slump in demand and thus in global market prices for copper, upon which Zambia, the second-largest exporter of the metal worldwide, is heavily dependent.

Zambia is the first country to slide into default as a result of the coronavirus pandemic.

Three countries have debts, some very longstanding, with other nations and do not recognize these debts for political reasons; these are **Cambodia** (debts to the USA), **Ukraine** (debts to Russia) and **Iraq** (debts to Kuwait). These particular debts do not constitute an immediate threat to the debtor countries. However, they may become politically problematic, or the creditors could sell the debts to aggressive so-called 'vulture funds' that could then sue before third-country courts for full settlement of longstanding claims in the manner of domestic debt collection agencies.

Two countries are not listed here despite their very critical position. Shortly before going to print, Ecuador agreed on a far-reaching debt restructuring arrangement with the majority of its private creditors.[10] At the same time, for its part, Suriname had already had a debt holiday approved on part of its bond payments and, moreover, had already hired consultants to assist in a comprehensive debt restructuring process.[11] However, since the country was not yet officially in default, it does not appear in the table.

Critically indebted countries

Our analysis describes the debt distress risk in two dimensions: on the one hand, the level of the respective indicators and the resulting extent by which the three threshold values for each indicator are exceeded, and on the other hand an indication of trend over the past five years, 2016 – 2020. Here, we compare the number of improvements by at least 10% with the number of deteriorations by at least 10% in order to calculate a generally positive, negative or stable trend.

Figure 3 shows how levels of debt are distributed across the regions of the world. Generally, a huge increase in the level of debt is observable – a development repeatedly evoked also by the World Bank and the IMF since the beginning of the coronavirus pandemic. While the Global Sovereign Debt Monitor 2020 classified 56% of all countries at risk worldwide as 'slightly critical' and only 12% as 'very critical', the corresponding figures are now 31% (slightly critical) and 22% (very critical). The above chart also shows that the crisis is not limited to a particular region, but is a global problem. Neither is the crisis limited to a particular income group, since in addition to low income countries largely situated in sub-Saharan Africa, it is also affecting middle income countries in Latin America and the Caribbean.

Generally, a huge increase in the level of debt is observable.

Furthermore, in all regions of the world, the number of countries whose indicators have significantly deteriorated since 2016 exceeds by a substantial margin the combined total of those countries with indicators that have remained the same or even improved *(see Figure 4)*. Only in Asia, where 12 countries have stable or improved indicators as against 17 countries where the majority of indicators have deteriorated, is the trend slightly more positive.

It may be assumed that a large number of countries will cover their medium-term financial requirements through loan financing from abroad, both in order to maintain their healthcare systems and to revive the economy. The overview table contained in this report shows which countries thereby run the most risk of becoming insolvent, either because their debt indicators were already critically high, or because their debt dynamic was already heading in a sharp upward direction before the start of the pandemic.

Fig. 3: Critically indebted countries (by region and worldwide, in %)

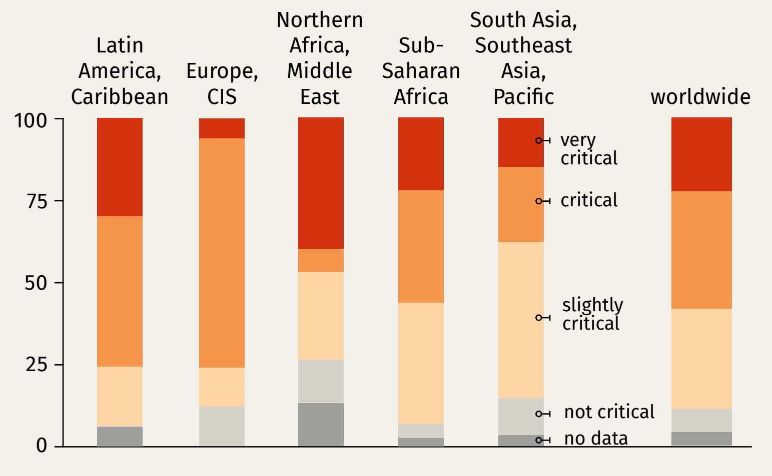
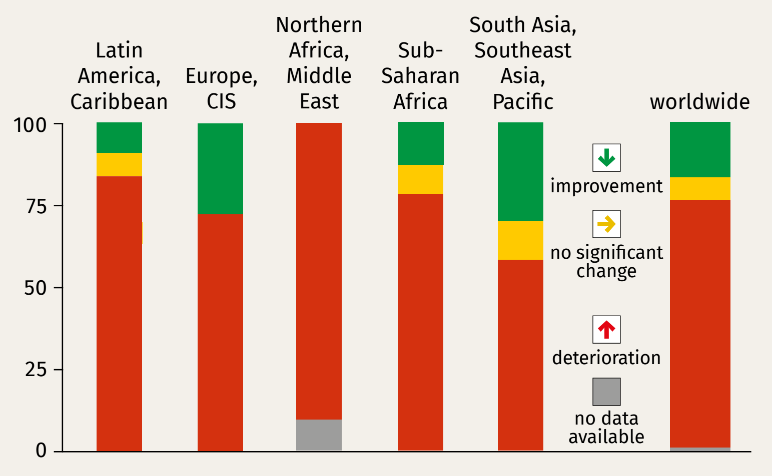


Fig. 4: Debt trend (by region and worldwide, in %)



In this context, it is particularly worrying from a political perspective that the principal reason still exists for 'loan tourism' continuing to show a strong southward trend, namely the difference between interest rates on the lending markets of major cities which, since the ultra-loose monetary policy introduced after 2008, have been hovering at around 0%, and the substantial rates of interest offered by poorer countries on government bonds and which, in extreme cases, can run into double digits even on hard-currency loans. It is not surprising that funds and banks, which are under considerable investment pressure[12] in Germany, for example, give preference to their commitment in the Global South as the only possible contribution to achieving internationally-agreed development goals. At the same time, every purchase of an African bond is linked to the expectation that, if a crisis occurs, public institutions like the World Bank and the IMF plus the governments of wealthy nations will protect the solvency of such debtors in their relations with private investors.

If, against this background, current investment flows continue into a Global South burdened by the pandemic and by recession, our data analysis shows in particular three groups of country which will end up in serious difficulty during the course of the next debt wave:

- **Large and regionally-significant countries with indicators that were already high at the beginning of the recession.** In South Asia, this includes Pakistan and Sri Lanka, and in the Middle East it includes Lebanon, which is already insolvent, as well as Egypt, which continues to be the target of extensive lending, including multilateral loans. In Latin America, Columbia, which has not been particularly critically indebted for some time, has now manoeuvred itself into a difficult situation.

- **'Forgotten small states'**, the precarious position of which is scarcely registered from an international perspective. They primarily include islands that do not preoccupy the world's interest, such as Antigua & Barbuda, Cabo Verde and Bhutan, as well as Suriname and Belize, both of which have small populations.

- **Extractivist economies**, which depend on one or a small number of commodities saleable on the global markets and which tend to offset recession-driven export commodity price falls through recourse to external borrowing. Current prime examples of such economies are the metal-exporting countries of Zambia and Mongolia, plus oil-exporting Angola.

Every purchase of an African bond is linked to the expectation that, if a crisis occurs, public institutions like the World Bank and the IMF plus the governments of wealthy nations will protect the solvency of such debtors in their relations with private investors.

Back in May 2020, rating agency Fitch reported having downgraded the credit ratings of 29 countries, the largest number ever downgraded in such a short period (January – April 2020). At the time of going to print, no reversal in this trend was apparent, although ratings have stabilized at a low level.[13]

Unlike in previous debt crises, the massive downturn experienced by many countries has not come at the end of a phase of prosperity. In 2020, the public sectors of those national economies threatened with debt distress were invariably smaller and weaker than during the last crisis to have affected virtually the entire globe, in 2008. Countries are accordingly less able to strengthen their healthcare systems through their own efforts, as would be needed in the battle against the pandemic. Moreover, the stimuli needed in order to overcome recession, which are financed by the central banks in wealthy countries, are mostly only capable of being financed in one way by countries in the Global South, namely through incurring yet more debt in the Global North.

The stimuli needed in order to overcome recession can mostly only be financed in one way by countries in the Global South, namely through incurring yet more debt in the Global North.

1 See Rehbein, K. (2020): 'From growth optimism to a lost development decade – the dangerous role of the IMF in the crisis of the Global South', erlassjahr.de Focus Paper No. 4.

2 For example Russia, Saudi Arabia or the United Arab Emirates.

3 Azerbaijan, Brunei, Botswana, Kuwait, Turkmenistan, East Timor, Eswatini, Iran and Kosovo.

4 Cuba, North Korea, Libya, Somalia, Syria, Venezuela.

5 Chile, Algeria, Fiji, Equatorial Guinea, Iraq, Lesotho, Nepal, the Philippines, Solomon Islands, Qatar, Thailand, Trinidad & Tobago, Uzbekistan.

6 World Bank (2020): 'International Debt Statistics 2021'.

7 This means all countries with a per capita income of USD 12,535 or less.

8 On the background to Argentina's debts with the Paris Club and the latter's critical role as a holdout creditor as well as its questionable levying of penalty interest, see Kaiser, J. and A. Musacchio (2020): 'Argentinien in der neuen Schuldenkrise. Fatale Hoffnungen und Lektionen aus der Geschichte' ['Argentina in a new debt crisis. Doomed hopes and lessons from history'] erlassjahr.de Focus Paper No. 63; as well as the contribution 'Individual debt restructuring in 2020', p. 34 ff. of this report.

9 Kaiser, J and M. Wittman (2019): 'Versteckte Schulden in Mosambik. Eine Bestandsaufnahme' [' Taking stock of hidden debt in Mozambique'], erlassjahr.de Focus Paper No. 61.

10 For further detail, see contribution *'Individual debt restructuring in 2020', p. 34 ff.* of this report.

11 Fitch Ratings (2020): 'Fitch downgrades Suriname's Foreign Currency IDR to 'C'', 26.10.2020.

12 The World Bank describes the phenomenon in its publication International Debt Statistics as "search for yield"; World Bank (2020): 'International Debt Statistics 2021', p. 11, Box O2.

13 Fitch Ratings (2020): 'Sovereign Defaults Set to Hit Record in 2020', Special Report 12 May 2020.

Box 1: Methodology – 'Indebted countries worldwide'

The Global Sovereign Debt Monitor analyses **three dimensions** of debt:

→ the **debt situation**, i.e. the level of debt indicators according to IMF projections and calculations by erlassjahr.de as at 31.12.2020,

→ the **trend**, i.e. the change in this debt situation over a period of four years (2016 – 2020); and

→ the intermittent and continuing suspension of **debt service payments** on a country-by-country basis.

The debt indicators for the analysis are:

$$\frac{\text{public debt}}{\text{gross domestic product}}$$

Is the government more indebted at home and abroad than the productivity of the entire economy allows?
Public debt includes the explicit and implicit liabilities of the public sector - from central government to public enterprises. Public debt also includes the debts of private companies for which the state has issued a guarantee.

$$\frac{\text{public debt}}{\text{annual government revenues}}$$

Is the government so heavily indebted at home and abroad that its income can no longer guarantee ongoing debt servicing?

$$\frac{\text{external debt}}{\text{gross domestic product}}$$

Does the entire economy have more payment obligations vis-à-vis foreign countries than its economic performance allows?
External debt includes the liabilities of both the public and private sectors of a country vis-à-vis foreign creditors. The indicator points to the overall economic burden i.e. whether an economy produces enough goods and services to service its debt.

$$\frac{\text{external debt}}{\text{annual export earnings}}$$

Are the external debts of the state, citizens and companies so high that exports cannot generate enough foreign exchange to pay the debts?
In most cases, external debt cannot be repaid in local currency. Debt servicing requires the generation of foreign exchange through exports, migrant remittances, or new indebtedness.

$$\frac{\text{debt service}}{\text{annual export earnings}}$$

Is the current external debt servicing of the state, citizens, and companies so high that exports do not at present generate enough foreign exchange to pay interest and repayments due in the current year?
This indicator shows the ratio of annual repayment and interest payments to export earnings. It shows whether the annual debt service - irrespective of the overall debt level - overstretches the current performance of an economy in a given year.

There are three risk levels for each of the five indicators. The allocation of different shades of orange to the values shows the level to which a value is to be allocated *(see Table 1 at the end of this report)*. A value shaded dark orange means that all three thresholds are exceeded and the value must therefore be allocated to the third risk level. Values below the lowest threshold are shaded grey.

Levels of risk of debt distress (in %)

	No risk of debt distress	First level	Second level	Highest level
public debt / GNI or GDP	< 50	50-75	> 75-100	> 100
public debt / annual government revenues	< 200	200-300	> 300-400	> 400
external debt / GNI or GDP	< 40	40-60	> 60-80	> 80
external debt / annual export earnings	< 150	150-225	> 225-300	> 300
debt service / annual export earnings	< 15	15-22,5	> 22,5-30	> 30

Based on the debt indicators the **debt situation** of each country is divided into three categories: slightly critical, critical and very critical *(see map "Global Debt Situation", p. 3)*. Table 1 *(p. 32-34)* lists all countries for which the value of at least one debt indicator exceeds at least the lowest of the three thresholds *(see 'Levels of risk of debt distress', above)* or for which the International Monetary Fund certifies at least a medium risk of debt distress. According to the three risk levels for each of the five debt indicators, a value between 0 and 15 is yielded for each country. For example, if all five debt indicators of a country are in the highest level of risk of over-indebtedness, i.e. exceeding all three thresholds for all five debt indicators, it has a value of 15. The categories are defined as follows:

0-4 → slightly critical
5-9 → critical
10-15 → very critical

The **trend** indicates for each debt indicator whether it has changed by at least 10 per cent in the four years from 2015 to 2018 *(see Table 1, pp. 32-34)*. In addition, an aggregated debt trend was calculated for each country *(see map "Global Debt Situation", p. 3)*. If more debt indicators have improved than deteriorated over a period of four years, the general trend is presented as a decline. If more indicators have deteriorated than improved, the general debt situation is said to have risen.

Continuing and intermittent **suspensions of payment** on the basis of Table 2 *(p. 12)* are also shown on the world map.

Germany as a creditor of the Global South

Debt owed to Germany has continued to decline

by Elise Kopper

Germany's claims against countries in the Global South have continued to decrease over the past year. As at 31 December 2019, Germany still had EUR 10.1 billion in claims arising from 'Financial Cooperation' (FC) activities (i.e. within the framework of the German development cooperation instrument), plus just under EUR 4 million in trade receivables, owed by a total of 70 debtor countries. This corresponds to a decline of 4.1% for Financial Corporation and 12.3% for trade receivables as compared with the reporting date for the previous year (31.12.2018).

Argentina has succeeded in cutting its debts owed to Germany by almost half within the framework of the Paris Club's debt restructuring arrangements. On the other hand, Germany's claims against **Côte d'Ivoire** grew from EUR 22 million to EUR 68 million, a rise of 200%; the principal reason for this is likely to have been the construction of a solar power plant, partly financed by a loan from the KfW Development Bank in the sum of EUR 27 million.[1]

Within the framework of the Debt Service Suspension Initiative (DSSI), the G20's debt moratorium, Germany deferred debt payments in a total sum of approximately EUR 135 million during the period from 1 May to 31 December 2020.[2] Bilateral implementation of the debt moratorium is intended to be NPV-neutral, and Germany has decided to apply 0% interest. In 2020, Germany also participated in the Catastrophe Containment and Relief Trust (CCRT) set up by the International Monetary Fund (IMF), contributing EUR 80 million.

As reporting on the DSSI has unfolded, so the statistics published by the World Bank have become ever more transparent, particularly in terms of the payment obligations of states in relation to their public creditors. As a result, in the case of twelve countries in total, we have been able to establish that the amounts reported by the German Ministry of Finance as constituting receivables do not accord with the figures stated by the World Bank on the basis of data from the debtor countries. The reasons for this disparity could not be fully established for all countries due to a lack of data. However, the suspicion arises that, at least in a few cases, private loans from KfW IPEX Bank, a wholly-owned subsidiary of the state-owned KfW, have been declared by the debtors as public loans and thus as public debt in relation to Germany. We can assume this to be the case with **Ethiopia**, for instance, which reported to the World Bank approximately USD 32 million in debt owed to Germany as at the end of 2018; this sum does not appear in the German statistics and is declared in the reports by the Ethiopian Ministry of Finance as being debt owed to the KfW.[3]

1 Embassy of Germany in Abidjan (30.10.2018): 'Deutschland und EU finanzieren netzgebundenes Solarkraftwerk in der Côte d'Ivoire' ['Germany and EU finance grid-connected solar power station in Côte d'Ivoire'].

2 Beneficiary countries were Côte d'Ivoire, Yemen, Cameroon, Kyrgyzstan, Myanmar, Pakistan, Papua New Guinea and Tajikistan; see Bundestag parliamentary paper 19/23486 dated 19.10.2020, reply by the German federal government to a parliamentary question by lawmaker Uwe Kekeritz and others and the parliamentary group BÜNDNIS 90/DIE GRÜNEN - 'Staatsverschuldung in Entwicklungs- und Schwellenländern und die SARS-CoV2-Pandemie' ['Government debt in developing countries and emerging economies and the SARS-CoV2 pandemic'].

3 Debt Management Directorate, Ministry of Finance, Federal Democratic Republic of Ethiopia (2019): 'Public Sector Debt', Statistical Bulletin No. 28.

Tab. 1: German claims (arising from financial cooperation and trade receivables) and their share in total debt 2019

Country	Financial Cooperation (in millions of Euros)	Trade receivables (in millions of Euros)	German claims as part of total debt
Egypt	1,897	5	2.4%
Albania	117	-	1.8%
Algeria	2	-	0.1%
Argentina	16	576	0.4%
Armenia	98	-	1.1%
Azerbaijan	63	-	0.5%
Bolivia	58	-	0.5%
Bosnia and Herzegovina	8	15	0.2%
Brazil	51	-	0.0%
Bulgaria	9	-	0.0%
China	1,136	-	0.1%
Costa Rica	11	-	0.0%
Côte d'Ivoire	68	-	0.5%
Dominican Republic	18	-	0.1%
Ecuador	18	0	0.0%
El Salvador	85	-	0.6%
Eswatini	3	-	0.6%
Georgia	139	-	1.1%
Ghana	213	-	1.2%
Guatemala	51	-	0.2%
Honduras	48	-	0.6%
India	1,554	-	0.4%
Indonesia	456	-	0.1%
Iraq	-	632	NDA
Jamaica	8	-	0.1%
Yemen	-	1	0.0%
Jordan	217	-	1.2%
Cameroon	22	4	0.2%
Cambodia	-	1	0.0%
Kazakhstan	9	-	0.0%
Kenya	212	0	0.8%
Kyrgyzstan	69	5	1.1%
Colombia	19	-	0.0%
Kosovo	11	-	0.9%
Croatia	3	-	NDA
Cuba	–	45	NDA
Lebanon	14	–	0.0%
Morocco	262	–	0.6%
Mauritius	0	-	NDA
Moldova	5	7	0.3%
Mongolia	93	–	0.4%
Montenegro	1	14	0.2%
Myanmar	83	542	6.5%
Namibia	50	–	NDA
Nicaragua	31	–	0.3%
Nigeria	11	–	0.0%
North Korea	-	557	NDA
North Macedonia	28	-	0.4%
Pakistan	885	131	1.4%
Palestine	8	–	NDA
Papua New Guinea	5	–	0.0%
Paraguay	10	–	0.1%
Peru	184	–	0.4%
Philippines	105	–	0.2%
Romania	6	–	NDA
Serbia	156	119	0.9%
Seychelles	3	–	NDA
Zimbabwe	465	318	10.6%
Sri Lanka	204	-	0.5%
South Africa	60	–	0.0%
Sudan	-	355	2.4%
Syria	138	259	12.2%
Tajikistan	17	–	0.4%
Thailand	11	–	0.0%
Tunisia	150	-	0.6%
Ukraine	27	46	0.1%
Uruguay	1	–	NDA
Uzbekistan	123	–	0.7%
Venezuela	-	339	0.3%
Vietnam	258	–	0.3%
Total	**10,086**	**3,972**	

NDA = no data on total debt available

Source: German Federal Ministry of Finance (2020): 'Forderungen des Bundes gegenüber Entwicklungsländern per 31.12.2019', https://www.bundesfinanzministerium.de/Content/DE/Standardartikel/Themen/Internationales_Finanzmarkt/Internationale_Finanzpolitik/Internationale_Schuldenstrategie_und_Umschuldungen/Forderungen_des_Bundes_gegenueber_dem_Ausland.pdf?__blob=publicationFile&v=4. Share of German claims in total debt based on data provided by World Bank (2020): 'International Debt Statistics 2021', databank.worldbank.org/source/international-debt-statistics.

Debt restructuring in times of corona

Group-based, coordinated – but ultimately purely symbolic?

by Malina Stutz

The global recession has led to many low and middle income countries not having sufficient funds to cover the additional expenditure needed to mitigate the health, social and economic consequences of the coronavirus crisis. The IMF's debt relief initiative (CCRT) and the G20 Debt Service Suspension Initiative (DSSI) are intended to free up urgently-needed funds so as to enable the poorest countries in the world to respond to the crisis. The following gives an account of both initiatives, as well as a critical analysis of their effectiveness.

Debt relief granted by the IMF

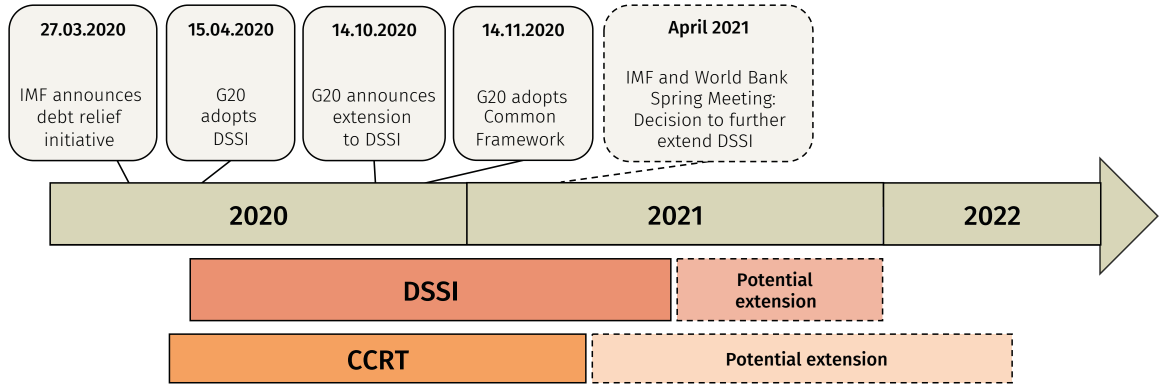
In response to the coronavirus crisis, on 27 March 2020 the IMF announced its intention to cancel the debt service payments of the poorest countries in the world. In an initial step, 25 countries were given the opportunity to suspend their debt service payments during the period from 13 April until 13 October 2020. In contrast to the G20's Debt Service Suspension Initiative (DSSI), which only defers debt, payments are being cancelled in full and repaid to the IMF from the Catastrophe Containment and Relief Trust (CCRT). This Trust was set up as a special IMF fund in 2010 as a response to the earthquake in Haiti. By 20 July, four more countries had been included in the initiative and, within the framework of a second tranche, countries were given the possibility of suspending debt service payments until 13 April 2021. In total, under the initiative, around USD 488.7 million has been cancelled to date. Third and fourth tranches, each with the terms of a further six months, are being envisaged by the IMF, subject to the CCRT being endowed with sufficient additional funds by the IMF member countries.

IMF members financing debt cancellation

In principle, the cancellation of debt service payments is to be welcomed. However, two aspects of the initiative appear questionable. Firstly, the selection of eligible countries is even more restrictive than in the case of the DSSI. As a result, the payments cancelled to date correspond to only around 17% of the debt service payments which the IMF would have received from all potential DSSI-eligible countries during the same period. Secondly, it is not the IMF itself that is guaranteeing the missed payments, but rather, the IMF is asking its own members to finance the shortfalls. This is problematic, since it may be anticipated that the member countries will make the additional payments to the IMF from their development budgets and, as a result, such funds will no longer be available for other urgently-needed financing. It would be more helpful if the IMF were to make use of the option of financing the missed payments by selling part of its gold reserves, as it did back in 2005 within the framework of the Multilateral Debt Relief Initiative (MDRI). According to calculations by European debt network EURODAD, the

According to EURODAD, just under 7% of the IMF's gold reserves would be enough to finance cancellation of debt service payments.

Fig. 1: Key dates and timescale: DSSI and CCRT (IMF debt relief initiative)



Source: own representation

sale of just 6.7% of the IMF's gold reserves would be sufficient to finance cancellation of the entire debt service payments owed by the 73 DSSI-eligible countries to the IMF and the World Bank during the period 15 April 2020 to 31 December 2021.[1]

Group-based debt relief – a step in the right direction

The DSSI was adopted on 15 April 2020 at the G20 Meeting of Finance Ministers. Initially, the 73 poorest countries in the world were offered temporary suspension of debt service payments that would have been owed to official bilateral creditors during the period 1 May to 31 December 2020.[2] The initiative was extended in October 2020 by six months, until 30 June 2021. The G20 Finance Ministers and Central Bank Governors intend to make a decision on an extension by a further period of six months in parallel to the 2021 Spring Meeting of the IMF and World Bank.

Two aspects of the initiative may be highlighted as positive. First of all, the fact that creditor governments were able to agree on a group-based approach within the framework of the DSSI and, in these exceptional circumstances, depart from the principle of individual case treatment as applied by the Paris Club, is to be warmly welcomed. In comparison with a country-by-country approach, with a group-oriented approach all eligible countries are offered deferral or cancellation of their debts under the same terms. The particular advantage of this is that negotiation times are substantially reduced, and the financial relief benefits the participating countries more immediately, so this in turn enables greater planning certainty for the debtor governments; these are all aspects that were an absolute priority in the spring of 2020.

Secondly, at least at the beginning of the initiative, the high degree of willingness to cooperate on the part of the creditor governments was surprising. And so it has appeared as a very positive signal that the DSSI is being supported not only by the Paris Club members, but by all G20 states. The necessity of such a coordinated approach, to which notably **China** was also a party, is immediately evident on the basis that approximately 72.6% of payments potentially to be suspended during the moratorium period were owed to public creditors outside the Paris Club *(see Table 1).*

At least at the beginning of the crisis, the willingness of the creditor governments to cooperate was surprising.

Tab. 1: Potential payment deferrals under the DSSI, according to creditor country (in USD millions)

	May 2020 - June 2021
Pariser Club members	4,297.31
of which: Germany	*575.60*
Official bilateral creditors outside the Paris Club	14,705.44
of which: China	*12,882.54*
Unknown	1,229.46
Total	20,232.20

Source: own representation based on World Bank Debtor Reporting System

Modus operandi and aim of the DSSI

As the name already suggests, the DSSI is not concerned with debt relief. Suspended payments must be repaid on an NPV-neutral basis within six years following the end of the moratorium.[3] In this context, countries will be granted a payment-free grace period of one year.[4] Over the medium term, creditors are thus not waiving a single cent of their claims, and deferral of repayments is increasing the debt service which will be incumbent upon the eligible countries after the crisis, thereby reducing the likelihood of a successful economic recovery process.

The DSSI is therefore not an appropriate instrument for countering the dramatically-intensifying global debt crisis. Indeed, neither was this at any point in time the declared ambition of the initiative, something which is evident not least from the fact that debt situation per se did not constitute a criterion for selection of potentially eligible countries. The hope was, rather, that the deferral of payments would directly serve to facilitate the ability of countries to combat the multiple crises following on from the coronavirus pandemic. Furthermore, the initiative in April 2020 was to be considered an initial promising step allowing time for an agreement to be reached on wider-ranging collective measures to assist critically indebted countries. For this purpose, the G20 announced that it intended to approve a multilateral framework for the further treatment of sovereign debt during the term of the DSSI.

The following paragraphs constitute an analysis of the extent to which these self-defined aims have been achieved within the framework of the initiative.

Private and multilateral creditors dodge the issue using specious arguments

When the G20 states agreed on the DSSI in April, they explicitly urged private and multilateral creditors to sign up to the initiative. As Table 2 shows, participation by this group of creditors would significantly enhance the effectiveness of the initiative. However, so far, neither private nor multilateral creditors have heeded this call.[5]

Tab. 2: Debt service payments by DSSI-eligible countries to external creditors (in USD billions)

	May 2020 - June 2021	July 2021 - December 2021
To private creditors	15.99	6.78
To public bilateral creditors	20.23	7.96
To public multilateral creditors	16.65	6.76
Total	52.87	21.50

Source: own representation based on World Bank Debtor Reporting System

The G20 instructed the multilateral financial institutions to examine further options allowing them to participate in the moratorium without thereby jeopardizing their high ratings and favourable borrowing terms. In this regard, an enquiry of Fitch Ratings was apparently all that was needed; the agency confirmed that participation by multilateral development banks in the moratorium could be expected to impact negatively on the banks' ratings if potential losses by the banks were not fully compensated by the member countries.[6] Referring to this assessment, the World Bank argued that its own participation in the DSSI would not be useful.

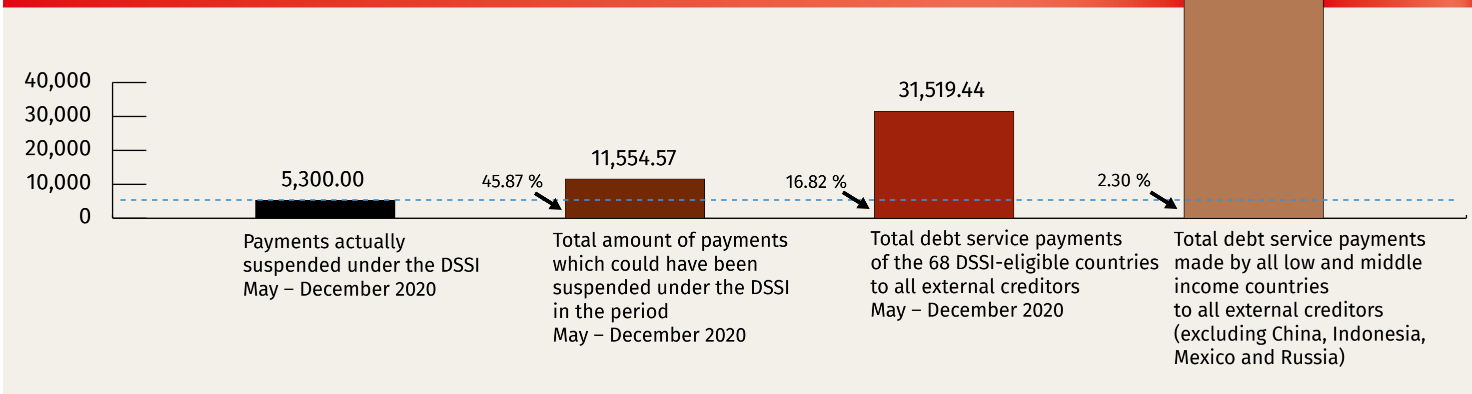
The scenario of a downgrading by the rating agencies does not appear credible.

However, this argumentation is not particularly plausible. First of all, the scenario of a downgrading by the rating agencies does not in itself appear credible. Indeed, it should be remembered that, since 1959, the rating agencies have always given the World Bank the highest possible credit rating, and participation by the World Bank in previous debt restructuring programs and actual debt relief has not dented this assessment. Secondly, there would have been other options for offsetting the Bank's potential losses. For instance, the debt relief granted by the World Bank in 2005 under the Multilateral Debt Relief Initiative (MDRI) was on the one hand financed by the Bank's wealthy members, while on the other hand, the World Bank's own profits were also used plus, on the part of the IMF, revenues from the sale of the IMF's gold reserves. Thirdly, in view of the negative interest currently paid on government bonds, the scenario of a slight downgrading loses some of its drama. There is therefore much to suggest that participation by the international financial institutions (IFIs) in the DSSI would not have significantly reduced their lending capacity. The financial resources which could thereby have been freed up in the world's poorest countries would have been urgently needed in addition to their new loans.

High debt service payments continue notwithstanding the DSSI

Non-participation by private and multilateral creditors is undermining the effectiveness of the DSSI. In total, during the period from May 2020 to December 2020, all DSSI-eligible countries were due to make approximately USD 31.5 billion in interest and capital repayments to external creditors. Under the DSSI, so far only around USD 5.3 billion has been suspended; this means that even while the initiative is operative, around USD 26.2 billion (equivalent to approximately USD 107 million daily) in debt service payments has flowed from the 68 poorest countries in the world to external creditors, in particular in the Global North *(see Figure 2)*. The DSSI thus ultimately risks reverting to being an instrument for financing the bailout of private creditors, i.e. the indirect assumption of debt and repayment by third parties, rather than effectively expanding the fiscal scope of the beneficiary countries.

Fig. 2: Payments actually suspended through the DSSI compared with potential relief and total debt service payments by low and middle income countries in 2020 (in USD millions and %)



Source: own representation based on World Bank Debtor Reporting System

DSSI only for the 'cheapest' countries

The fact that the DSSI does not constitute an appropriate response to the global challenges of our time is evident merely from the selection of states to which the initiative was offered. Entirely in the tradition of the Paris Club, the DSSI is only directed at the smallest, poorest and thus also the 'cheapest' countries. Four low income countries, 17 small developing island states, 14 low middle income countries and 38 high middle income countries are excluded from the initiative and obliged to make their repayments irrespective of their individual debt situation and the extent to which they are impacted by the coronavirus crisis. Moreover, disregarding the payment liabilities of the four biggest debtor countries, the payments suspended to date under the DSSI correspond to just 2.3% of total debt service payments to external creditors owed by low and middle income countries in 2020 *(see Figure 2)*.[7]

Not all potentially eligible countries are taking up the moratorium

Up to 6 November 2020, 45 of the 73 eligible countries announced that they intended to take up the moratorium.[8] According to indications from the IMF, 23 of the 28 other countries however explicitly made known that they would not be turning to the DSSI. Essentially, three reasons for this can be identified:

- For a number of countries, participation is not worthwhile based on the particular composition of their payment liabilities.
- A number of countries anticipate sanctions from private creditors and rating agencies and less favourable refinancing terms on the international financial markets.
- The stigma of assistance loans from the IMF appears to be deterring a number of states from taking advantage of the DSSI.

For three countries, the payments potentially eligible for suspension under the DSSI total less than USD 2 million.[9] In the case of five other states, this is equivalent to a maximum of 0.1% of GDP.[10] For these eight countries, it is therefore easily possible that the amount of bureaucracy involved is quite simply not worthwhile and that, for this reason, they are not making use of the DSSI.[11]

A total of ten countries have declined the initiative, since they fear the DSSI could make it harder for them to raise loans on the international financial markets or that suspension of payments could enable private creditors to terminate loan agreements based on cross-default clauses and consequently demand immediate repayment of their loans.[12] The latter would be absurd, since for this to occur, acceptance of the moratorium offered by creditors would need to be deemed a breach of contract. However, the fact that debtor governments are not taking up the facility offered by the DSSI based on just such a fear makes clear that only a change in legislation – particularly in the UK and the USA – could prevent potential court action by creditors for full repayment of their claims where the DSSI is taken up, and this would give debtor governments the security they need.

Only a change in legislation could give debtor governments the security they need.

Emergency assistance loans from the IMF – a precondition of the DSSI

Furthermore, the G20 states tied utilization of the DSSI to the condition that the participating countries were required to have concluded or applied for participation in a loan program with the IMF and comply with the limits relating to non-concessionary borrowing which would apply to them based on the IMF and World Bank Guidelines.[13] In order to fulfil this condition of the G20, it is merely sufficient to be in receipt of financial assistance under the IMF's emergency financing programs. Such emergency assistance facilities (Rapid Financing Instrument (RFI) and Rapid Credit Facility (RCF)) are not tied to the usual broader IMF program conditions and, unlike other assistance loans, are dispersed as soon as they are approved, without the recipient countries being required to provide evidence of having fulfilled further conditions ex poste. With regard to non-concessionary borrowing, the G20 and the IMF have moreover stressed repeatedly that neither participation in the DSSI nor the receipt of emergency assistance loans from the IMF places the participating countries under a duty to comply with new upper limits over and above the terms which already applied to them in connection with other IMF or World Bank lending programs. However, a number of countries have specifically declined to take up the offer of the moratorium on the grounds that they are not interested in requesting assistance loans from the IMF. The deciding factor here is likely to have been firstly the confusing formulation of the upper limits imposed in terms of non-concessionary borrowing, and secondly the general stigma of receiving assistance loans from the IMF.

In this regard, the indications already emerging to the effect that future debt negotiations with the G20 over and above the DSSI framework are to be tied to the condition of an active and hence 'full' IMF program must be deemed particularly problematic. This, in turn, could be strongly directed towards the more traditional line taken by the IMF, of bottom-up redistribution in the interests of reliable debt servicing and austerity in general.[14]

The Common Framework – a disappointment

It first emerged at the G7 Meeting of Finance Ministers on 25 September 2020 that, following on from the DSSI, the G20 states wished to agree on a multilateral framework for the further treatment of sovereign debt. Since, as already demonstrated, the DSSI is not an appropriate instrument for effectively countering the deepening global debt crisis, this announcement was initially very welcome. The framework approved by the Finance Ministers and Central Bank Governors of the G20 at their Extraordinary Meeting on 30 November 2020[15] is however disappointing in every single respect and does not appear to be a fitting means for preventing the 2020s from becoming yet another lost decade of development for numerous countries. In particular, the following aspects are inadequate:

- The framework offers the prospect of further debt restructuring only for potential DSSI-eligible countries. Any expansion measure appears to have faltered in the face of resistance from **China**. The restructuring of debt is still denied to numerous countries with low and middle incomes whose debt situation is adjudged to be critical or very critical in the present Debt Monitor.

- In contrast to the group-based approach taken under the DSSI, further debt relief is to be decided in country-by-country negotiations. It can therefore be presumed that the relevance of the economic performance of a debtor country to the geopolitical and economic interests of the creditor states will be a determining factor in the scope of concessions granted.

- Actual debt cancellation is in principle precluded. In the case of many critically indebted countries, further deferrals, extension of maturities and interest-rate reductions will not however be enough to guarantee a successful economic recovery process. For this reason, in 'exceptional cases', debt cancellation will indeed be enabled, but only on the basis of the terms applying in each individual country. This means that each creditor country can decide for itself whether or not it can be reasonably expected to grant real debt relief, which reduces the concept of equal treatment to the point of absurdity.

- Negotiations on further debt restructuring are tied to the condition that the debtor countries are required to have entered into a loan program with the IMF. Very much in the spirit of the austerity policies demanded by the IMF during past crises, and despite their devastating effects, the IMF is already once more invoking the need for radical fiscal consolidation.[16]

- Despite calls from debtor governments, civil society organizations and also from China, a G20 member, multilateral development banks and the IMF will still not be under any binding obligation to participate in debt relief.

One aspect to be welcomed is the fact that at least the obligatory involvement of the private sector is being advocated. In practice, however, this too is likely to be difficult to achieve. Under the traditional model of the Paris Club, inclusion of the private sector is achieved through an equal treatment clause. Accordingly, a debtor country agrees on restructuring of its debt with the public creditors of the G20, which then call upon the country in question to negotiate at least equivalent concessions with its other bilateral creditors (i.e. in particular its private creditors). Theoretically, the

G20 is only supposed to grant debt relief once the private creditors have given a corresponding undertaking. However, it is entirely conceivable that an agreement with private creditors is quite simply not achieved. In principle, in such an event, two options may be envisaged: firstly, the public creditors could deliberately overlook non-satisfaction of their own claims, in which case potential reliefs granted by them would ultimately yet again only finance a bailout of the private sector. Secondly, refusal by the private sector or even by just a small proportion of private creditors could end up blocking any form of debt relief. Since a large proportion of public debt is held by China, and it cannot be assumed that China has an interest in financing a bailout of Western private-sector creditors, the latter scenario is entirely probable.

Photo: picture alliance

Virtual G20 Summit in November 2020 under the leadership of Saudi Arabia.

Even in a best-case scenario, ultimately the principal aim of the G20 Common Framework is to ensure a fair distribution of burdens between the various creditors. As for whether this also leads to a fair distribution of costs between creditors on the one hand and debtor countries on the other, is far from assured; indeed quite the opposite appears to be the case. For a high degree of coordination between creditors does not just facilitate potential debt relief; it also enhances the collective negotiating position of creditors in relation to a debtor country. Since there is a fundamental absence of any ambitious targets or significant undertakings by the G20 states in the Common Framework, there is a real risk that the effect of the Framework will be precisely the latter.

Conclusion and recommendations

Both the DSSI and the IMF's debt relief initiative are generally to be welcomed. However, their principal success so far is purely discursive in nature. The resources actually made available within the framework of the initiatives have so far been only marginal from a global perspective. It is also a shameful that representatives of the affected countries in the Global South continue to be excluded from the negotiations and that thus, the fate of many millions of people is dependent on the goodwill of 20 finance ministers and central bank governors.

While, back in April 2020, the DSSI could be considered a first step in the right direction, the Common Framework adopted in November is devoid of any potential capacity whatsoever to effectively counter the deepening global debt crisis. The time gained through the DSSI has been squandered, and it is acknowledged that this is not just due to the reluctance of individual members of the respective G20 delegations. However, the unsatisfactory outcome once again underlines the structural defects of the international financial system and the G20's limited capacity to act since, within its framework, necessary compromises are blocked in the interests of global financial stability and, instead, agreements are made with a focus only on the smallest common denominator.[17] The necessity of a fair and transparent sovereign insolvency process is clearly evident from the current situation. To prevent the DSSI from retrospectively appearing merely as a noble symbolic gesture, the following measures are needed:

The time gained through the DSSI has been squandered.

1. **Private and multilateral creditors** must finally be placed under a duty to participate in the initiative.

2. **Legislators** – in particular those of the United States and the United Kingdom – must put a stop to the situation where, in reaction to availment of the DSSI, private loan agreements can be terminated based on cross-default clauses, with the possibility of court action for immediate repayment of all debts owed.

3. In view of the global dimension of the coronavirus crisis and the global nature of the current debt crisis, **the initiative should be extended to all low and middle income countries**. In order - also in the interests of global financial stability - to enhance planning certainty for eligible countries and to support the economic recovery process following the worst recession worldwide in one hundred years, the initiative should be extended until December 2024.

4. Critically indebted countries should be offered the possibility of **rapid and comprehensive debt relief** with the participation of all creditors. Experience to date has shown that such a process should not take place under the aegis of the IMF and creditor countries alone. In order to achieve a fair and sustainable outcome, it is indeed vital that the debtor countries themselves are included in the negotiation process.

Critically indebted countries should be offered the possibility of rapid and comprehensive debt relief with the participation of all creditors.

[1] Fresnillo, I. (2020): 'Shadow report on the limitations of the G20 Debt Service Suspension Initiative: Draining out the Titanic with a bucket?'.

[2] In principle, the beneficiaries consist of all countries categorized by the UN as least developed countries (LDCs) and/or which have access to the assistance loans of the World Bank's International Development Association (so-called 'IDA countries'). Four countries (Eritrea, Sudan, Syria and Zimbabwe) were however refused assistance again, since they are in payment arrears with the IMF/World Bank. Both interest and capital repayments can be suspended.

[3] The principle of NPV-neutrality governs interest on deferred payments. In order for deferred repayments to comply with the principle of NPV-neutrality, they may not be subject to interest at a rate which promises the creditor a real anticipated gain over the original repayment agreement. However, interest may be charged in order to offset the anticipated loss arising from payment at a later date as compared with a payment in the same nominal amount at an earlier date. The anticipated loss arising from postponement of payment and thus the amount of interest thereby depends on the anticipated inflation rate and current interest rates. The German federal government decided to claim 0% interest on its deferred payments.

[4] Originally, repayment was scheduled to take place within three years following a grace period of one year; this was extended to five years after the one-year grace period at the G20 Meeting of Finance Ministers on 14 October 2020.

[5] The manner in which private creditors have succeeded in consistently evading the moratorium is set out in the present Debt Monitor in the contribution *'Participation by the private sector in the DSSI debt moratorium: A farce', page 44*.

[6] Fitch Ratings: 'Suspension of Debt Payments to MDBs a Risk to Ratings', 22.04.2020. The other two leading rating agencies, Moody's and Standard & Poor's, issued similar statements.

[7] If, however, the debt service payments of China, Indonesia, Russia and Mexico are included in the analysis, the USD 5.3 billion suspended under the DSSI to date indeed corresponds to just 0.01% of total debt service payments of all low and middle income countries to external creditors in 2020.

[8] Several sources report 46 states, since they include Vanuatu. As far as the author is aware, Vanuatu has however again dismissed the possibility of utilizing the moratorium.

[9] This includes the Solomon Islands, Saint Vincent & the Grenadines and East Timor.

[10] For Bangladesh, Benin, Guinea-Bissau, Kosovo and Rwanda, the payments eligible for suspension make up approximately 0.1% of their GDP. Under the initiative, Nigeria could suspend around USD 123.5 million in repayments; however, this totals just 0.03% of the country's GDP.

[11] While over 80% of the debt service payments owed by Haiti during the moratorium period are due to bilateral public creditors, Haiti's principal creditor is however Venezuela, which is a member neither of the G20 nor of the Paris Club.

[12] The cross-default clauses included in many credit agreements enable individual creditors to terminate borrowing or credit agreements and to demand immediate repayment of the sums loaned if a debtor defaults in its relations with other creditors..

[13] Here, the IMF's Debt Limits Policy (DLP) and the World Bank's Non-Concessional Borrowing Policy (NCBP) and new Sustainable Development Finance Policy (SDFP) apply.

[14] EURODAD (2020): 'Arrested Development'.

[15] G20/Paris Club (2020): 'Common Framework for Debt Treatments beyond the DSSI'.

[16] EURODAD (2020): 'Arrested Development'.

[17] See Kaiser, J. (2021): 'Entschuldung von Staaten als globale Machtfrage' ['Debt relief: a question of global power].

Interview

Fighting debt with yet more debt?

A discussion with Wolfgang Schmidt (German Federal Ministry of Finance) and Patricia Miranda (LATINDADD)

The Debt Service Suspension Initiative (DSSI) has helped Latin America least of all. We spoke with State Secretary Wolfgang Schmidt, from the German Ministry of Finance, and Patricia Miranda, debt expert at the Latin-America network LATINDADD, about the background to the G20 decision and what needs to happen in order to avoid yet another lost development decade in Latin America and the Caribbean.

Mr Schmidt, the G20 has limited the DSSI to a maximum of 73 least developed countries. Does this mean that, basically, poorer countries have merited debt relief more than less poor countries?

Wolfgang Schmidt: When the DSSI was deliberated and adopted, we were still at the start of the pandemic and so also still at the beginning of the economic crisis. When it became clear that a serious economic crisis was unfolding as a result of the restrictions which were needed here in Germany, here at the Ministry we resolved that we must now act fast. And the situation was similar at international level and with the DSSI. The task was to provide help as quickly as possible to the poorest countries in the world, as they would without doubt be especially hard hit by the economic consequences of the pandemic. And so we ended up with the IDA countries[1] plus one. Yet even that was a hard-won political compromise.

At the beginning of the discussion on debt relief, many states wanted to involve an even smaller number of countries, only 20 or 22. Let me be clear: this past spring, getting the DSSI through was extremely hard work. The fact that it succeeded, despite all the differences of opinion and position indeed provides a glimmer of hope in this crisis.

"Getting the DSSI through was extremely hard work."

Ms Miranda, when you consider the G20's handling of the debt crisis, what would civil society in Latin America most urgently wish to say to G20 members?

Patricia Miranda: Debt relief and aid financing are currently allocated on the basis of a country's pro-capita income. However, this indicator hides a whole number of risks, from actual poverty to social inequality. We need to acknowledge that the pandemic is not just a health crisis, but affects all areas of life and is having a global impact. For this reason, measures to overcome the pandemic also need to be more comprehensive. What is more, we can already see that the crisis will not take a 'V'-shaped course with a rapid recovery, but is more likely to take the form of a 'U' or indeed an 'L'.

What other criteria could be taken into account?

Miranda: Other criteria which should be taken into account are the state of healthcare systems and the level of unemployment. In Latin America, over 60% of those able to work actually do so in the informal sector, without any prospect whatsoever of formal employment. These are people without the type of income that would offer them even the prospect of self isolating. And this is precisely the reason for the sharp rise in infection rates on the continent.

Photo: own image

Patricia Miranda is Bolivian, and at the turn of the millenium helped build the Bolivian Jubileo2000 movement as well as the foundation of the same name in her home country. She is currently in charge of leading analysis and advocacy on debt for the continent's NGO network LATINDADD, headquartered in Lima, Peru.

Which countries in Latin America should additionally benefit from debt relief?

Miranda: First of all, all those countries which have received financing through the IMF's Emergency Liquidity Assistance (ELA). Since these loans can be obtained quickly, but are inadequate in terms of financing, the risk is great that precisely these countries will need further IMF loans very soon thereafter – but then they will be regular loans, linked to traditional IMF programs.

Here, I am thinking specifically of the economically fragile ex-HIPC[2] countries, Honduras, Nicaragua and Bolivia. But El Salvador, Guatemala and Costa Rica have also received crisis financing. On average, this was around USD 300 million, but in view of the pandemic and the economic slump, this is not enough. One has to bear in mind that many countries are dependent to the extreme on commodity exports, and that global market prices are volatile to the same extreme. The global recession will have a dramatic impact on these countries.

"The global recession will have a dramatic impact on the countries in question."

Mr Schmidt, are we moving away from the moratorium, which was after all just the first step, aimed at giving the affected countries a bit of breathing space, towards genuine debt relief?

Schmidt: The moratorium was an initial but very important step aimed at providing the poorest countries with scope to combat the crisis. As far as debt relief is concerned, today we are in a different situation from the situation that prevailed over twenty years ago at the time of the HIPC initiative. Unlike back then, we now have a heterogeneous creditor landscape, with new creditors providing loans to other countries. I don't wish to single out anyone in particular, but we all know that this has made things more complicated. It is no longer just a question of the traditional countries of the Paris Club. For this reason, we have been advocating greater transparency over sovereign debt – the prerequisite of informed decision-making. This alone has been and remains a difficult issue, because there exist significant differences of opinion inside some countries. That is to say that a straightforward agreement by the G20 on a new initiative for systematic debt relief will not be achievable.

However, what I do consider to be possible is a case-by-case approach, where we take a look at individual countries and then insist on compliance with certain principles, which include transparency, creditor coordination and, via the approach of so-called 'comparability of treatment', most of all compulsory participation by the private sector too. You see, from the perspective of the taxpayer, it is not acceptable for the public sector to sustain losses while the private sector simply carries on cashing in.

"From the perspective of the taxpayer, it is not acceptable for the public sector to sustain losses while the private sector simply carries on cashing in."

Photo: Federal Ministry of Finance/Photothek

Wolfgang Schmidt is a lawyer and since March 2018 has been State Secretary at the German Federal Ministry of Finance, where his policy remit includes economic and fiscal policy strategy, plus international finance and monetary policy.

My question was about whether a consensus on genuine debt relief is already emerging. Everybody understands that was not yet possible back in April. But the decision taken in April was accompanied by a pledge to discuss measures to combat the threat of insolvency, for instance at the IMF and World Bank's Annual Meeting in October 2020. Have we now reached that point?

Schmidt: Yes, hopefully – in any event, this is what we will be seeking. Since, with the moratorium, the aim was to provide liquidity fast, the task should now be to address in a structured way the clearly more demanding issues around insolvency. Within the G7, but also beyond, there exists a consensus that the private sector must be included, that relief can be granted on an individual case basis, and that debt treatment must be tied to a comprehensive IMF program with so-called upper credit tranche (UCT) quality. However, it is also well known that there are creditors among the G20 states that feel the resolutions adopted in the spring have already gone too far.

The G7 statement speaks of a "common framework for debt relief". That sounds very promising...

Schmidt: ... and very diplomatic, I'd say.

So what kind of "framework" are we supposed to imagine? What would it mean as regards the inclusion of the private sector, the inclusion of all creditor governments, the inclusion of debtor countries with complex creditor profiles? Or is it just an empty diplomatic phrase?

Schmidt: No, behind it are hard negotiations among the G7 and G20 as well as also with the IMF and World Bank. Most - that actually means all of the G7 - are in favour of the DSSI being expanded. What is unclear is for how long the extension will be granted and whether the private sector will continue to be only a voluntary participant. Germany has a very clear stance on the question of voluntary participation.

"Germany has a very clear stance on the question of voluntary participation."

Voluntary participation will get us nowhere.

Schmidt: The fact that private sector participation in the debt moratorium is ultimately voluntary, even though we are pressing hard for participation by the private sector, is indeed a problem. This absent force of private creditors participating in a coordinated fashion in the DSSI is described even by a number of representatives of this very sector as a weakness and a wasted opportunity. Indeed, when it comes to debt restructuring, participation by the private sector is clearly not optional. The intention is to reaffirm this under the Common Framework through the principle of equal treatment.

What is the German stance on this?

Schmidt: First of all, we want the private sector to be included. Secondly, we consider it essential for all G20 members to participate. This is a precondition of orderly debt restructuring processes. Once these important steps have been taken, we do however also want it to be borne in mind that the crisis has evolved further and that, indeed, more - and also different - countries are affected by the crisis now. This takes us right back to your initial question.

"We would be open to an enlargement of the moratorium to include other countries and will argue in favour of this together with our partners."

We would be open to an enlargement to include other countries and will argue in favour of this together with our partners. So far, however, we are still lacking vital data enabling a reasonable and collective decision to be taken on this. For this reason, the World Bank and the IMF have been tasked with compiling additional data, and a number of G20 countries indeed want to do more here.

Ms Miranda, should the International Financial Institutions also be included in the debt relief measures?

Miranda: The DSSI was necessary, but of course it is not sufficient. After all, it provides only a temporary suspension of debt service payments and simply postpones the problem. It is very hard to imagine how, in three or four years' time, under the pressure of the recession, countries are supposed to end up in a position where they can meet the debt service payments they have deferred in addition to the payments owed at the time.

So the DSSI was offered to two countries on the continent, but Honduras and Nicaragua turned it down. How do the members of LATINDADD in these countries view this decision?

Miranda: In the case of the decisions by Honduras and Nicaragua, naturally the rating agencies play a role. Indeed, a whole number of countries declined participation in the DSSI because they feared it would make it more difficult for them to access the capital markets in future.

"History has surely taught us that debt distress cannot be combatted using yet more debt."

Debt relief needs to be a comprehensive process. For example, the private sector needs to be engaged more than just through voluntary participation, and this also applies to the multilaterals. Their first response aimed at combating the pandemic was to provide additional loans. However, history has surely taught us that debt distress cannot be combatted using yet more debt. On the contrary, for debt restructuring, we need a comprehensive process that involves everyone – irrespective of whether we are talking about a moratorium or real debt relief.

With case-by-case solutions, it can happen that individual creditors say, "no one has reached out to me about debt restructuring, that's why I'll just keep taking the money." All creditors need to be on board. After all, we are dealing here with the biggest global crisis in 100 years.

The inclusion of all creditors is reminiscent of the Argentinian initiative aimed at creating an orderly sovereign insolvency process under the auspices of the United Nations. Is it conceivable that there could be a new attempt at this through the Financing for Development process or the latest initiative by Canada and Jamaica? At the time, Germany and other industrialized nations blocked the process.

Miranda: Yes, we need to speak about debt relief processes. Civil society has already been calling for this for many years. Very recently, alongside many others, even the IMF has spoken of it. We are very keen to see a new attempt in this direction. In the United Nations, we did not get very far at the time, although the UN would have been the most logical venue for advancing such a process.

"Yes, we need to speak about debt relief processes."

Are there others who could be the driving forces today?

Miranda: In our region, Argentina is an important leading power. On top of that, we also consider UNCTAD[3] to be an institution that could drive forward a reform process.

Germany did not play a very positive role previously. If Argentina or the entire G77 once again initiated such a process at the United Nations, would Germany adopt a different stance today?

Schmidt: Such an attempt can only be successful if all partners involved are on board. And it is also clear that we must act quickly. In the case of such sovereign insolvency proceedings, many unresolved institutional questions need to be answered. At the moment, I see little prospect of success in that regard, not so much from my own perspective or from the perspective of the German Finance Minister, but just as we in Germany have a coalition government – which means that, in our relations with other parties, a consensus position always has to be reached – in the global context too, we would need to find a consensus. Among the G7 members alone, I consider this to be impossible.

"When it comes to multilateral agreements, the world is simply not a straightforward place."

What is more, it is scarcely possible to imagine the home countries of major investors agreeing to such an initiative. And if we think of the United Nations, when it comes to multilateral agreements, the world is simply not a straightforward place. Although reform is undeniably urgently needed, the time is not right. Against this background, let me state clearly that the DSSI is indeed a remarkable success, even though I understand the criticism from civil society.

All the same, one of the more 'difficult' G20 members, namely China, helped to carry the UN initiative in 2014. Would a 'relaunch', so to speak, with China offer the opportunity for a constructive initiative?

Schmidt: I'm sceptical about that. I recall having addressed the issue before the crisis at a meeting with my colleagues at so-called 'deputy' level in relation to the issue of transparency – simply so as to take a fresh approach to addressing the matter, for a change. There was absolutely no willingness at all. But that is perhaps exactly where NGOs can play their role and exert pressure.

Our aim now is to agree on the Common Framework, in particular with China on board. This would finally provide a framework in which all major creditors would participate, as would also need to be the case with a global debt workout mechanism. If the Framework is adopted, the task will also be to implement it as quickly as possible. Time is short!

One last question: where will we be in six months' time, i.e. before the next IMF and World Bank Spring Meeting in April 2021, as regards private sector involvement? Will something have changed – and if so, how?

Schmidt: Yes, if we have approved the Common Framework, by April 2021 implementation will presumably already be under way for the first countries. This also means that beneficiary countries need to have a complete UCT-quality IMF program. You see, this is how the IMF assesses debt sustainability and relief requirements, and the private sector then needs to be compelled to participate based on the equal treatment clause. The private sector will then have to reflect on whether it wishes to risk losing everything or accept a haircut, and at least stay in the game. In Argentina, Finance Minister Martín Guzmán has done quite a good job, with the support of the IMF and support from us and others in the Paris Club.

However, you also have to understand that the finance ministers, when they meet together these days, all face their own challenges in these times of corona and are therefore understandably often focused on their domestic agendas. As the person responsible for international financial policy in the German Finance Ministry, I was indeed pleased that we not only sealed the DSSI initiative and will hopefully make significant progress over the Common Framework, but also that the federal government has pledged additional bilateral support of EUR 3 billion this year and next. Added to this is a further EUR 3 billion for the PRGT[4]. These are of course not subsidies, but loans, but these too, need to be part of a budget. It is not the same situation as with the HIPC 2000, when all participating heads of government were fully focused on the problems of the highly indebted countries. At the moment, governments will have their hands full protecting the health of their own populations too, and preventing economic collapse. In this regard, I am indeed very pleased that, thanks to the G20, the rest of the world was not simply forgotten.

"However, you also have to understand that the finance ministers, when they meet together these days, all face their own challenges in these times of corona and are therefore understandably often focused on their domestic agendas."

Ms Miranda, where do you think we will be in six months' time?

Miranda: Most of all, I fear that the economic recovery will end up very uneven. In Latin America and in other regions too, economic opportunities are very limited, so the recovery will tend to be something of a long and painful process. In many respects, we will regress. Not only will we miss fulfilling the 2030 Agenda, but we will also miss all the social development targets. If we compare the 9 trillion which the G20 countries are spending on their own national economies with the 1 trillion for the rest of the world, it gives you an impression of the inequality that

"Not only will we miss fulfilling the 2030 Agenda, but we will also miss all the social development targets."

is being created here. What we have seen so far in terms of crisis strategies has been lacking in ambition and has simply shifted the problem into the future. Like an impending avalanche, the burden on the budgets of the future is getting ever greater.

We need to think long term when deciding whether we want to pay debts today, or invest in education, healthcare and economic development. The goal must not just be fiscal in nature, but must also be one of social sustainability. This is the huge responsibility of all those in a position to make decisions today that affect not only them, but the whole world.

Many thanks for your valuable time.

This interview was conducted by Jürgen Kaiser at the beginning of October 2020. For developments since mid October 2020 in terms of the DSSI and Common Framework, see in particular 'Debt restructuring in times of corona', p. 20 *of this Global Sovereign Debt Monitor.*

"We need to think long term when deciding whether we want to pay debts today, or invest in education, healthcare and economic development."

[1] International Development Agency; concessionary credit facility offered by the World Bank to low income countries.

[2] Countries that received extensive debt relief through the Initiative for Heavily Indebted Poor Countries (HIPC Initiative) from the IMF and the World Bank in c. 2000.

[3] United Nations Conference on Trade and Development.

[4] Poverty Reduction and Growth Trust; credit facility provided by the IMF, with loans at particularly favourable terms to poorer countries.

Individual debt restructuring in 2020

The need for more than just a moratorium

by Andrés Musacchio

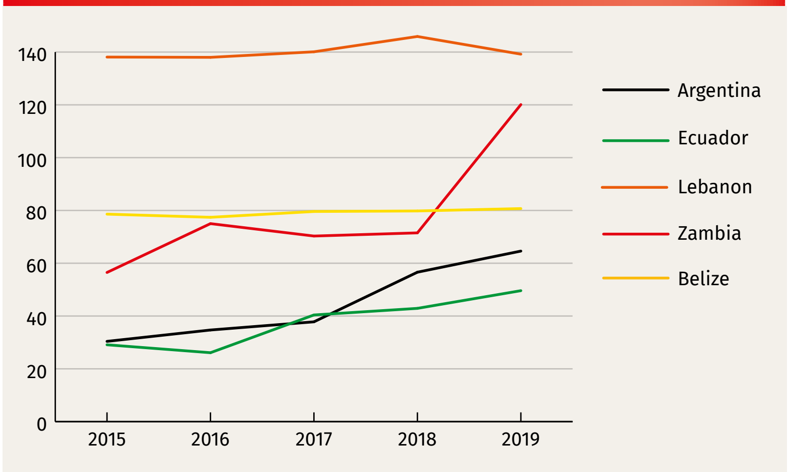
Global debt distress has reached unprecedentedly high levels. Most of all, countries which were already unstable before the Covid-19 pandemic now find themselves with serious payment difficulties. The example of four countries shows how differently these difficulties are being handled in each case, and what the potential routes out of the debt trap might be.

The fact that there has not yet been a global series of sovereign defaults is due to the rapid - albeit limited - response by the international financial institutions, which initially introduced emergency financial assistance and then a structured program. The debt moratorium for poorer countries adopted in April assisted in preventing a chain reaction caused by insolvency. However, it soon became clear that the bailout was too little to completely defuse the debt problem. For instance, numerous middle income countries were included neither in the moratorium nor in any other program *(see also 'Debt restructuring in times of corona', p. 20)*.

For many of the countries not included, this led to the crisis accelerating. Over the course of the year, a number of them were forced to declare partial suspension of their debt service payments or swiftly enter into negotiations with their creditors in order to avoid default. Particularly prominent were the renewed debt crises of **Argentina** (which, at the end of 2019, had already unilaterally postponed its first maturing debt payments), **Ecuador**, **Lebanon** and **Zambia**. In addition, a number of small states, such as **Belize**, **Cuba** and **Suriname**, had significant difficulties in servicing their debt on time.

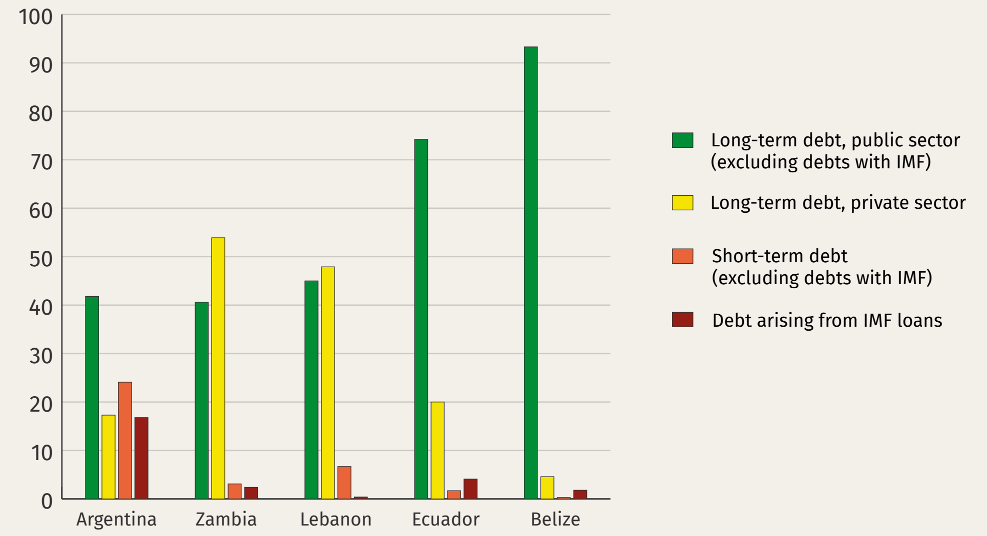
Overall, the countries affected are those which were already in an unstable situation before the pandemic. Either they were struggling through a lengthy period of debt distress, or in previous years they had taken out huge loans *(see Figure 1)*. The weakening of the international economy as a result of the pandemic therefore only represents a further driver of the crisis, but not – other than in a few exceptional instances – the deciding factor. Furthermore, what many countries have in common is that their increased debt has been accompanied by a political crisis.

Fig. 1: Debt level (as a percentage of GDP)



Source: own representation based on World Bank data (2020) - http://datatopics.worldbank.org/debt/ids; click on 'COUNTRY' then 'Analytical'

Fig. 2: Breakdown of external debt (as a percentage of aggregate external debt)



Source: own representation based on World Bank data (2020) - http://datatopics.worldbank.org/debt/ids; click on 'COUNTRY' then 'Analytical'"

However, individual developments in the countries suffering from debt distress vary widely. If, for instance, changes in external debt are compared according to creditor type *(Figure 2)*, then debts held with private creditors are a great deal more significant in the case of **Lebanon** and **Zambia** than with other countries. The relatively high proportion of short-term loans is a particular feature of Argentina's debt profile. With the other countries in the group, such loans are of minor significance. These differences are also reflected in the balance of stakeholders participating in the debt negotiations.

We can take a look at this in further detail using the following four country examples.

Argentina[1] – default and capital flight

Without a doubt, Argentina's renewed default was the most significant debt event of 2019. From the end of 2015, a financial-market-friendly policy and low levels of debt had helped Argentina to secure a return to the capital markets. In subsequent years, sovereign debt grew sharply *(see Table 1)* and new loans were not invested productively; foreign currency was used for financial speculation and for financing budget and trade balance deficits, and this led to the flight of capital from the country. A report by the Central Bank of the Argentine Republic notes that the accumulation of financial assets (largely abroad) by local investors between 2016 and 2019 totalled around USD 86 billion. 80% of the foreign exchange supply was created via public external debt.[2]

Tab. 1: Argentina's debt (in %)

	2015	2019
External debt / Export earnings	244.8	326.2
External debt / GDP	30.4	64.6
Debt service / Export earnings	24.7	46.5
Foreign currency reserves / External debt	13.2	15.1

Source: own representation based on World Bank data (2020), International Debt Statistics 2021

As early as at the beginning of 2018, the first private financial institutions withdrew. Astonishingly, the IMF supported the Argentinian government to the tune of over USD 50 billion, the biggest loan in its history. This may be interpreted as a politically-driven measure, and is certainly now viewed as a technical error.[3] The price to Argentina was high; as usual, the IMF insisted on an austerity program that principally consisted of wage reductions, dismantling the welfare state and "price adjustments" on public goods, i.e. increases in the price of electricity, gas, water and transport by up to 3000%. Inflation and austerity measures drove the economy into a depression.

Despite several devaluations and real dollar interest rates at times reaching over 30% per annum, the government of President Mauricio Macri did not succeed in curbing the flight of capital and reducing imbalances in the economy. As a result, an economic crisis became unavoidable. Shortly after elections which ended the Macri era in October 2019, the first loan payments due were unilaterally deferred.

In December 2019, the new government under Peronist President Alberto Fernández declared debt restructuring to be Argentina's top priority, and immediately reached out to creditors. In terms of strategy, Argentina's Minister of Economy, Martín Guzmán, attempted to negotiate separately with the various creditor groups (private investors, Paris Club and the IMF). However, the Paris Club showed no willingness to come to any arrangement, although the debts were not significant and, from a political perspective, the imposition of a penalty interest rate of 9% set a bad precedent for further negotiations. At this point, Argentina reached out to private investors. It was not vulture funds, but rather shadow banks[4] that played the leading part in negotiations over almost USD 65 billion. On the precondition of creating a new sustainable debt structure, Argentina proposed as a starting point a three-year payment freeze, relief on capital of 5.4% and a sharp cut in interest rates to 2.5%. In total, the proposal meant a nominal reduction in liabilities of around 60%. The offer was rejected and, following a lengthy battle, relief of approximately 45% was agreed. Even though this is considered the biggest debt restructuring operation in Argentina's history,[5] the country did commit to paying all capital owed plus an interest rate of over 3.5%, which is significantly above the refinancing costs of the creditors which, although earning less from the operation, will still do well from their Argentinian securities. As a result of the agree-

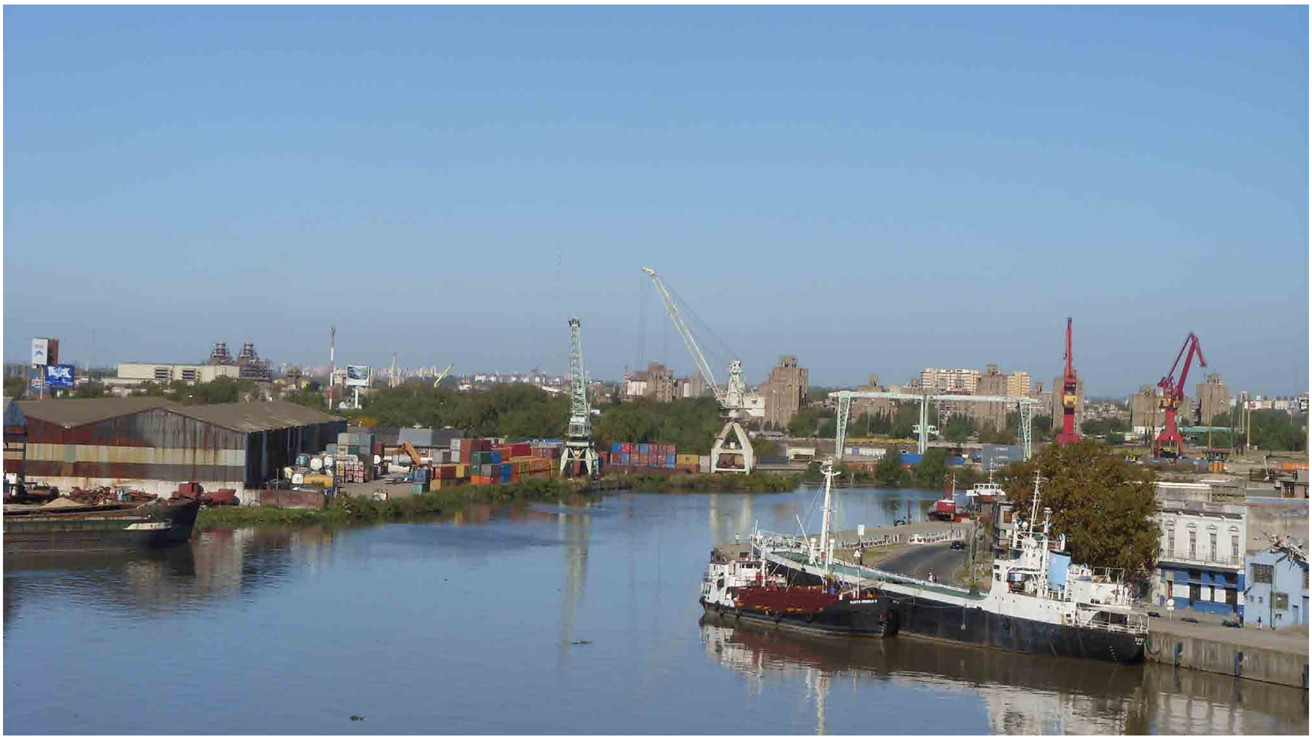


Photo: own image

Argentina: The economic crisis could not be avoided. (Photo: La Boca, a district of Buenos Aires)

The government must come to an arrangement with its principal creditor, the IMF

ment, the government gained time until 2025, when the first significant repayments will be due. The introduction of so-called 'collective action clauses' was also problematic; the creditors wanted to waive this type of clause, but the government, supported by the international financial institutions, was able to find satisfactory wording so as not to take too much of a step backwards in this respect.

The time has now come for the government to come to an arrangement with its principal creditor, the IMF. In the negotiations with the private banks, Argentina had clear political support from the IMF and from some of its leading members, including the German federal government. IMF Managing Director Kristalina Georgieva was one of those who stressed on several occasions the necessity of debt restructuring in order to guarantee sustainability.[6] What was new in the IMF's discourse was the recognition that, over the long term, austerity policies have a recessionary impact and thereby compromise future solvency. The aim of the debt restructuring arrangement now sought by Argentina, which would also cover the country's debts with the IMF, is to help usher in a long-term growth process and thereby enhance debt sustainability.

It is not yet clear whether this support is based on a real change of heart within the IMF or is instead intended to secure the country's ability to pay, in view of the IMF's own vast claims on Argentina. Apart from this, the country's economic situation, already precarious, has been severely affected by the coronavirus pandemic and a hard lockdown. Under the circumstances, the room for manoeuvre on both sides is very limited. Since, however, over the next few months, no significant payments fall due, pressure to reach a swift agreement is not great.

Ecuador[7] – no hard lockdown, severe recession

AIn Ecuador too, levels of debt have risen significantly since the move to a neoliberal agenda in 2017. Following a break with his predecessor and mentor, Rafael Correa, the country's new President, Lenin Moreno, experimented with an austerity program as part of income redistribution in favour of business entrepreneurs. However, in doing so, he triggered an economic and political crisis. On the one hand, recession, starting from 2018, reduced tax revenues and thwarted attempts to balance the budget, while on the other hand, the measures taken provoked resistance among the population. Covid-19 worsened the situation; the government refrained from introducing a hard lockdown in favour of the keeping the economy open, with catastrophic health consequences. Along with Panama und Peru, Ecuador is one of the three countries in Latin America hit the hardest by the coronavirus-driven recession.[8]

Even before the pandemic, debt presented a complex challenge *(see Table 2)*. Under the new economic circumstances, difficulties increased, and payments were first postponed from as early as March 2020. Internal debt must also be added to the country's external debt, and this increases the level of sovereign debt to just under 62% of GDP.[9]

Tab. 2: Ecuador's debt (in %)

	2016	2019
External debt / Export earnings	174.7	196.8
External debt / GDP	36.1	49.6
Debt service / Export earnings	26.6	35.7
Foreign currency reserves / External debt	10.7	3.6

Source: own representation based on World Bank data (2020), International Debt Statistics 2021

Moreno attempted to negotiate a debt restructuring arrangement step-by-step; in this respect, his strategy was similar to that of Argentina. Initially, contact was made with private creditors, the largest of which was BlackRock. As a result of a friendly offer, he succeeded in reaching a swift agreement, in contrast to the arduous negotiations undertaken by Argentina. The country's debt, totalling USD 17.4 billion, was cut by USD 1.5 billion, interest rates were reduced from 9.2% to 5.3%, and a payment moratorium of two years on interest and five years for capital was agreed.[10] Experts estimate the actual relief to be less, since the unpaid interest has been capitalized and will in turn incur interest.[11]

China too extended Ecuador's maturing loans by 12 months.[12] More important, however, was the agreement with the IMF reached at the beginning of October 2020. Under the Extended Fund Facility (EFF), over the next 27 months the IMF is to provide Ecuador with USD 6.5 billion, with USD 2 billion made available upon signature.[13] Contradicting the IMF's new discourse, the loan terms imply a reform agenda and fiscal reform as well as measures to improve work productivity. With the IMF, this often means lower wages, a more flexible labour market, and cuts in government spending. The agreement with Ecuador suggests that, while the IMF has indeed recently been in favour of short-term social aid and a more progressive tax structure, its armoury still includes the old structural adjustment programs even though, in Latin America and southern Europe, such programs have very often revealed their shortcomings. In view of this, the agreement with the IMF intensified political tensions still further shortly before the planned fresh elections in February 2021.

Zambia – a complicated debt restructuring process

Zambia faces different challenges to those faced by Argentina or Ecuador.[14] The proportion of private debt in Zambia is significantly higher, and the country's debt indicators are also higher than those of the Latin American countries. Besides the differences in level of debt and creditor profile, other structural aspects distinguish Zambia's case from that of other countries.

Zambia's economy is heavily dependent on the export of copper, a metal whose global market price has been subject to vast fluctuations over the past five years. At the onset of the pandemic, copper prices fell to a low that put even more pressure on Zambia's ability to pay, with the country having already been on the brink of insolvency *(see Table 3)*. Unlike South America, here, the link between the pandemic, commodity prices and the debt crisis plays a more important role, even though the debt problem had already been present. The IMF stresses that the country's debt is also linked to financing the expansion of public infrastructure, slower growth and exchange-rate problems.[15]

Tab. 3: Zambia's debt (in %)

	2015	2019
External debt / Export earnings	143.1	330.1
External debt / GDP	56.5	120.1
Debt service / Export earnings	6.6	31.3
Foreign currency reserves / External debt	25.2	5.3

Source: own representation based on World Bank data (2020), International Debt Statistics 2021

In August, Zambia qualified for a debt service moratorium under the G20's Debt Service Suspension Initiative (DSSI). However, according to an IMF report, the savings thereby achieved do not appear very significant, estimated at 0.7% of GDP in 2019, or USD 165.4 million.[16] Added to this is the fact that implementation of the Initiative was not automatic in the case of Zambia's two biggest lenders (India and China);[17] with China, Zambia has only recently succeeded in reaching a partial agreement.

Zambia's default could trigger a chain reaction in Africa, a 'debt tsunami'.

Restructuring Zambia's debt appears to be strategically complicated, since very differing creditors, such as the IMF, private banks and Chinese financial institutions are involved. The fear among each group of creditors that the respective other groups could profit from any agreement reached has so far led to the parties involved behaving in an uncooperative fashion. The banks have called on the IMF to devise a program as a basis for negotiating a debt restructuring arrangement.[18] However, the IMF, like Western governments, is holding back, afraid that such an assistance program would contribute either directly or indirectly to interest payments going to China. Moreover, the spread of Chinese influence through increased lending on infrastructure programs in the region represents a growing strategic challenge for the West.[19]

At the end of October, tensions eased briefly when the government succeeded in agreeing a six-month postponement of debt service payments with the China Development Bank,[20] but the Western banks demanded detailed information on Zambia's debt status in relation to China before they would be willing, in their turn, to defer debt service on another loan, also by six months. Since, however, they did not guarantee a non-disclosure agreement, their demand was not met and so no agreement was reached. As a result, since 30 November 2020 Zambia has been in a situation of partial payment default. The process has met with very differing assessments by observers. Some actually stress that this one default could trigger a chain reaction in Africa, referred to by English newspaper The Guardian on 25 November 2020 as a 'debt tsunami'.[21] Yet the fact that at first no immediate financial collapse ensued is interpreted by others as evidence that this is an entirely normal debt restructuring process. As a next step, an IMF mission is anticipated with the aim of bringing the parties together. Principally, however, future developments depend on revival of the economy, as this offers the only possibility for debt restructuring to be negotiated over the long term in a sustainable manner.

Lebanon – in a vicious circle of debt

For various reasons, Lebanon's debt crisis is extremely complex and riven by conflict. Debt and debt service payments, measured in terms of GDP and exports, are significantly higher than those for the country cases analysed above *(see Table 4 below)*. The indicators make clear that, under present circumstances, debt sustainability is now a very long way off.

Tab. 4: Lebanon's debt (in %)

	2015	2019
External debt / Export earnings	312.4	352.0
External debt / GDP	138.0	139.2
External debt / GDP	71.0	88.2
Foreign currency reserves / External debt	62.3	51.6

Source: own representation based on World Bank data (2020), International Debt Statistics 2021

Lebanon's economic and political development has been in an ongoing state of decline for many years. Recession, inflation, capital flight and growing poverty finally led to the country declaring insolvency at the beginning of March 2020, i.e. before the pandemic had taken hold. The problem relates not just to public finances. The entire banking system is strained by a liquidity and solvency crisis. Since last year, a political and social crisis has been making it difficult to establish a basis for negotiating with creditors.

The Covid-19 pandemic and the catastrophic explosion in the Port of Beirut in August 2020 make the situation in Lebanon even more desperate.

At least equally as challenging is the situation concerning Lebanon's balance of payments. Over several years, the country suffered from a structural current account deficit. However it was only when, with effect from 2011, more than 1.5 million Syrian refugees entered the country, transferring annually USD 3–4 billion to family members in Syria, that the deficit went out of control. An attempt to resolve the problem through high interest rates (in order to attract capital into the country), failed in just the same way it had failed in Argentina. In the long run, higher interest rates mean even higher expenditure, leading to exchange controls and controls on capital movement. The Covid-19 pandemic and the catastrophic explosion in the Port of Beirut on 4 August 2020 made the situation even more desperate.

The attempts to stimulate the economy and mitigate the effects of the crisis on society have so far only progressed in a slow and uncoordinated fashion. Areas such as education or health care, where private stakeholders (often institutions linked to the church) play a leading role, are suffering from the substantial loss of purchasing power affecting the whole population, from massive unemployment, and from the inadequacy of state assistance. As a result, the social crisis is turning into a humanitarian crisis.

Lebanon is now caught up in a vicious circle of debt; debt restructuring is impossible without even a minimum of macroeconomic stabilization, yet such stabilization is very unlikely in the absence of debt restructuring. Since back in March 2020, creditors (principally private financial institutions)[22] have been insisting that the basis of any solution should be an IMF program comprising far-reaching structural measures.[23] However, so far, neither side has succeeded in initiating productive negotiations. The first step has not been taken on a path which should be shaped more by political strategy than economics, and which is urgently needed from a human rights perspective. Traditional programs proposing austerity as a basis for stability are difficult to implement when the social situation is so acute, as is the case with Lebanon. Such programs are also rarely able to trigger the requisite recovery in production output. An expansionary policy, focusing on combating unemployment and building up infrastructure, would make more sense from an economic perspective. For this, however, at present both the internal and external political foundations and financial resources are as absent as they are necessary.

The first step has not been taken on a path which should be shaped more by political strategy than economics, and which is urgently needed from a human rights perspective

Conclusion and outlook

Over the past few months, the coronavirus pandemic has significantly worsened the debt situation of non-OECD countries. New insolvencies have been declared and negotiations have mostly been problematical, leading to only partial or temporary solutions.

Argentina and **Ecuador** have succeeded in reaching agreement with their private creditors and thereby regaining solvency. While the credit institutions demanded an IMF-approved program as a basis for negotiations, ultimately they were faced with an announcement from the IMF to the effect that such a program would only be possible once debt service payments for the next few years had been established. This marked the first step. Neither Argentina nor Ecuador put forward a hard proposal in the negotiations. Ecuador sought to oblige its creditors with a "generous" proposal, and reached an agreement more quickly. The somewhat harder line taken by the Argentinian government enabled the country to achieve a significantly better debt restructuring arrangement. With the IMF too, Ecuador was able to find a solution, though this calls the IMF's new expansive rhetoric into question, since the agreed program forces Ecuador to implement a relatively large number of measures from the list of traditional structural adjustment programs. Here too, Argentina is attempting to take a somewhat harder line which, though it is taking more time, is likely to lead to a better outcome.

For **Lebanon** and **Zambia**, the outlook is more complex. Zambia has been attempting since the start of the year to get out of its debt trap, but is finding itself having to confront the reciprocal mistrust between creditor groups. China plays a geostrategic role here that makes the negotiations more difficult, whereas the country has no such role in the case of the South-American countries. Nor has it been possible to settle the order of negotiations with private and institutional creditors. And nor does the DSSI appear to be a real solution in Zambia's case. On the one hand, the planned relief is too little, while on the other, the desired inclusion of private creditors has not yet been achieved. In the search for a solution, the G20 Meeting of Finance Ministers and Central Bank Governors on 30 November 2020 delivered somewhat disappointing results.

In the case of Lebanon, currently the outlook is bleak. The problem lies not primarily in the debt crisis or insolvency, but rather a combination of macroeconomic, political and humanitarian problems is making it difficult to pave the way for a solution. In the circumstances, it is therefore not even been possible to organize effective negotiations and, for this reason, neither can any improvement be expected over the medium term. An internal and international change of political direction would be a necessary precondition of a fresh start. In the economic arena, debt relief would contribute towards laying the foundations for a thoroughgoing reconstruction process. However, here too, the only permanent solution is a consistent program that respects human rights.

When comparing the four countries, it appears that the success of any debt restructuring arrangement continues to be defined by arbitrariness, the skills of those negotiating, and the use of political leverage. At the same time, economic processes, environmental aspects and human rights are disregarded. Once more, this shows the importance of introducing an international insolvency law to resolve default on a fair basis.

The success of any debt restructuring arrangement continues to be defined by arbitrariness, the skills of those negotiating, and the use of political leverage.

1 For a profile of Argentina, see erlassjahr.de country information - Argentina. For an analysis of the new Argentinian debt crisis, see Kaiser, J. and Musacchio, A. (2020): 'Argentinien in der neuen Schuldenkrise. Fatale Hoffnungen und Lektionen aus der Geschichte' ['Argentina in a new debt crisis. Doomed hopes and lessons from history'], erlassjahr.de Focus Paper No. 63.

2 See Banco Central de la República Argentina (2020): 'Mercado de cambios, deuda y formación de activos externos 2015-2019'.

3 See Página12 (28.10.2020): 'Dura autocrítica del FMI por el préstamo a Macri'.

4 According to the Deutsche Bundesbank, shadow banks are actors on the financial markets performing functions similar to those of banks (in particular in the lending process), but which are not subject to the regulation applying to credit institutions. Regular credit institutions may outsource transactions to specialized shadow banks and thereby – entirely legally - circumvent regulatory measures. In the case of Argentina, banks such as BlackRock, Fidelity or Greylock played a significant role.

5 See erlassjahr.de-News (29.09.2020): 'Argentinien: Die größte Anleihenumschuldung der Geschichte und doch nur einer von mehreren Schritten' ['Argentina: The biggest bond restructuring operation in history and yet just one of several steps'].

6 See Musacchio, A. (2020): 'Argentina presa de su eterna crisis de la deuda' and sources referenced therein.

7 For a profile of Ecuador, see erlassjahr.de country information - Ecuador.

8 International Monetary Fund (2020): 'Perspectivas económicas en las Américas. La persistencia de la pandemia nubla la recuperación' - IMF, Washington, particularly figure 62, p. 7.

9 Ministry of Economy and Finance, Ecuador (31.07.2020): 'Boletín de deuda pública interna y externa'.

10 Ministry of Economy and Finance, Ecuador (31.08.2020): '98,5% de los tenedores anjeó hoy los bonos ecuatorianos'.

11 Página12 (05.08.2020): 'El acuerdo por la deuda en Ecuador dejó contentos a los acreedores'.

12 Ministry of Economy and Finance, Ecuador (16.09.2020): 'Ecuador totaliza alivio financiero por USD 891 millones con China'.

13 IMF (30.09.2020): 'IMF Executive Board Approves 27-month US$6.5 billion Extended Fund Facility for Ecuador'.

14 For a profile of Zambia, see erlassjahr.de country information - Zambia.

15 World Bank (August 2019): 'Zambia. Joint World Bank-IMF Debt Sustainability Analysis'.

16 World Bank (19.06.2020): 'COVID 19: Debt Service Suspension Initiative'.

17 Credendo (07.10.2020): 'Zambia: The debt-strapped government is headed towards default'.

18 Bloomberg (13.10.2020): 'Zambia Moves Closer to Default as Spotlight Cast on Debt Relief'.

19 Stutz, M. and Kaiser, J. (2019): 'China as a Creditor of Countries in the Global South: Anti-Imperialist Solidarity or a Modern Debt Trap?', erlassjahr-de Focus Paper 2.

20 Nasdaq (28.10.2020): 'Zambia agrees with China Development Bank to defer debt repayments'.

21 The Guardian (25.11.2020): 'Zambia's default fuels fears of African 'debt tsunami' as Covid impact bites'.

22 World Bank (2020): 'International Debt Statistics 2021'.

23 The Guardian (07.03.2020): 'Lebanon to default on debt for first time amid financial crisis'.

Interview

Shattered hopes

Lebanon's never-ending crisis

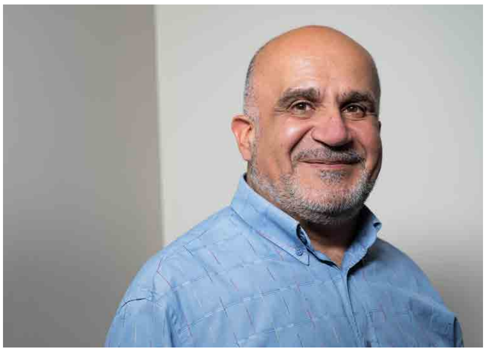
It is not just since the devastating explosion in a warehouse at the Port of Beirut that Lebanon has been in a situation of acute economic and social emergency. As a result of an unprecedented financial and economic crisis, the country's GDP more than halved between 2018 and 2020, from USD 55 billion to around USD 21 billion. The consequence of this has been a rapid rise in unemployment and increasing poverty, which has also particularly affected the many Syrian refugees. Following the collapse of the financial system, banks were closed. People could scarcely any longer access their own funds, and they were short of money to pay for their children's schooling, finance further education and university attendance, as well as cover their everyday requirements. We spoke to Michel Constantin, Regional Director of MISEREOR's partner organization Pontifical Mission of the Catholic Near East Welfare Association (CNEWA/PM) in Beirut, about the local situation and prospects for Lebanon's future.

Mr Constantin, what impact is the acute debt crisis having on the people in Lebanon?

Michel Constantin: The explosion in Beirut exacerbated the already catastrophic situation resulting from the Covid-19 pandemic and the country's debt distress, and has destroyed hopes of any improvement. Until a few months ago there was no hunger in Lebanon. Now, the reliable supply of food is in jeopardy for many people, as is maintenance of the healthcare system. More than half the population currently depend on aid deliveries. We urgently need food, medicines and medical equipment, but also support for small and micro-enterprises. The government subsidized basic foodstuffs, fuel and medicines at a level of around USD 700 million a month, but over 90% of the financial reserves have been used up, and as a result, more and more people are ending up in poverty.

What can the Pontifical Mission do in this situation?

Together with our partners, we are providing urgently-needed humanitarian assistance. We have distributed food packages to more than 7,500 families in need. And there are also many private initiatives attempting to help. Solidarity among the people is remarkable. We are supporting reconstruction of the 'Rosary Sisters' and 'Geitawi' Hospitals, which were destroyed in the explosion. These ensure medical care for over 100,000 people in Beirut and provide 1,150 people with work. In addition, we provide psychological and social support for children, young people and their families traumatised by the crisis. On top of that, we



Michel Constantin has worked for over 30 years with non-profit organizations. He has been project coordinator, manager and leader at the Pontifical Mission/CNEWA, the papal agency for emergency aid and development work in the Middle East, since 1989.

Photo: Mellenthin / MISEREOR

Lebanon: The supply of food and the healthcare system are at risk.

"For centuries, the people in Lebanon have invested in education. Now we need to invest in our knowledge society."

Lebanon: Massive destruction following the explosion in the Port of Beirut in August 2020.

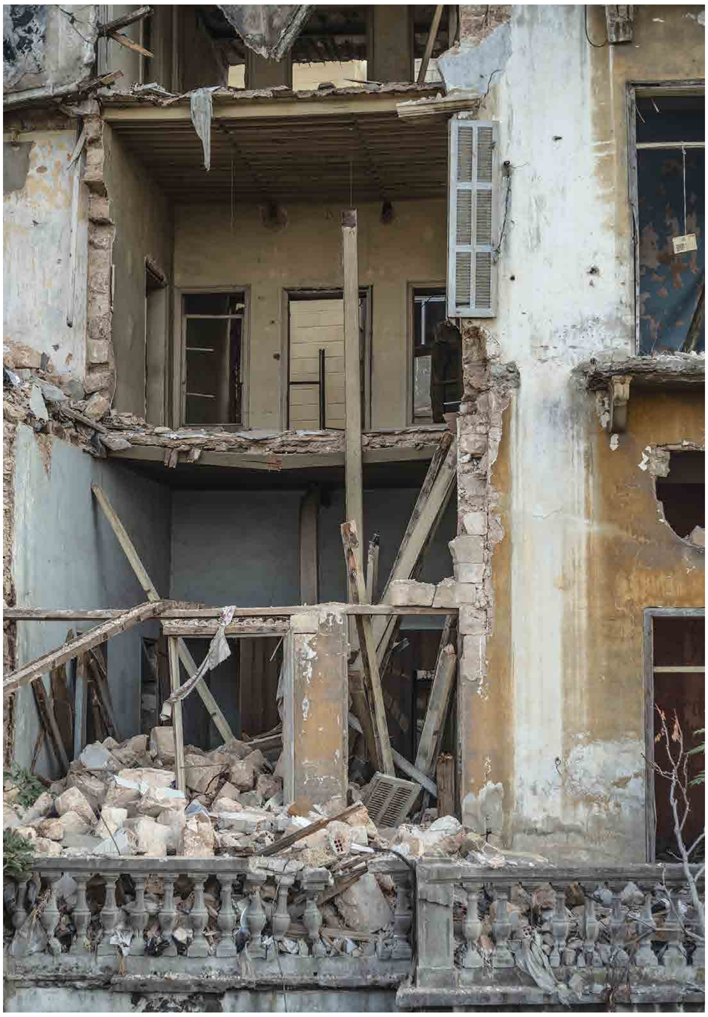


Photo: Mellenthin / MISEREOR

are supporting the reconstruction of destroyed houses and apartments; this way, we have already been able to help 1,100 people.

How do you see Lebanon's future?

For centuries, the people in Lebanon have invested in education. Our education system has an excellent reputation in the region, and young Lebanese find jobs in the Gulf states. The remittances they send help their families back home. Now we need to invest in our knowledge society so as to create new jobs and grow our exports once again. In this way, we will be able to generate the necessary foreign currency and reduce the country's budget deficit.

Interview conducted by Klaus Schilder of MISEREOR in November 2020.

Participation by the private sector in the DSSI debt moratorium: A farce

by Jürgen Kaiser

With the Debt Service Suspension Initiative (DSSI), from the outset the G20 sought only voluntary participation by private creditors. No advantage was taken of opportunities to compel the private sector to contribute. The consequence of this is that, while private creditors signalled good intentions, in reality they are making no contribution towards restoring the solvency of their debtors.

One difficulty with any type of debt restructuring arrangement consists in inducing not just a few creditors to waive their debts, but all, or at least a very large majority, since where this does not succeed, the danger exists that the generosity of the generous creditors will not lead to the debtor country getting back on its feet, but that other creditors whose debts were previously on the verge of defaulting are now all the more assured of their debts being serviced. Neither can the hope of creditors willing to make concessions, that their current waiver might render future claims all the more secure, be fulfilled if the debt service payments thereby spared disappear into the pockets of other creditors, instead of contributing to the debtor country's economic recovery.

The debt service payments spared must not disappear into the pockets of private creditors.

In a national context, this problem of 'coherence' is resolved on the basis that, where insolvency comes before the courts, no one any longer has an expectant right to ongoing payments from the debtor until the court presents a plan and adopts this plan on a definitive basis. However, any 'official receiver' or other due process is non-existent at international level. For this reason, coordination among creditors must respectively be achieved on an ad-hoc basis, something which very often does not succeed.

The DSSI is intended to create fiscal scope

As for how the inclusion of all creditors can fail spectacularly, this is evident from the Debt Service Suspension Initiative (DSSI) adopted by the G20 April 2020. The intention of the G20 and Paris Club members was that the DSSI would give the poorest countries fiscal scope so they could immediately begin containing the coronavirus pandemic.[1] A moratorium on all public bilateral debt was therefore offered initially to 77 and subsequently to just 73 IDA-qualified and least developed countries.

As for how the inclusion of all creditors can fail spectacularly, this is evident from the DSSI.

However, not all 73 potential beneficiary countries were interested in deferring their ongoing payments. On 25 June 2020, at the close of a G20 Working Group meeting,[2] Guilllaume Chabert, Vice-Chair of the Paris Club, announced that 41 countries had now taken up the moratorium. This increase above the number of 35 countries previously documented by the World Bank[3] had in part come to pass on the basis that the creditors had expressly made it known that inclusion of the private sector was not to be a condition of the moratorium. By the beginning of September, the number of countries included ultimately grew to 43.

The World Bank, whose boss was the most vociferous advocate of a moratorium, did not recover its own debts at all.

Looking back at the situation in April 2020, although the World Bank and the IMF were leading voices in the decision on the DSSI, they did not however themselves become involved in deferring their own claims. Nevertheless, the IMF did implement its own debt relief program for a small group of countries.[4] The World Bank, whose boss was the most vociferous advocate of a moratorium, did not recover its own debts at all.

In April, the G20 called on private creditors – mainly banks and funds – also to defer their payments until the end of 2020. The Institute of International Finance (IIF), the mouthpiece of big private investors worldwide, announced in response that it was devising a moratorium concept, and on 15 July, presented a 'Progress Update'.[5] It contains guidelines for participation by the private sector, a few technical proposals suggesting how this might be achieved, and an assurance that any participation would be exclusively voluntary.

Following this publication, absolutely nothing at all happened. Until the time of this Debt Monitor going to print in November 2020, not a single instance had come to light of private creditors announcing payment deferrals. On the contrary, the discourse around the DSSI in public reporting is increasingly legitimizing their non-participation; bankers and fund managers are repeatedly being quoted as saying that a moratorium could make future borrowing more expensive and ultimately harm the interests of indebted countries. Rating agencies also got drawn into broadcasting the same message in the early phase of the initiative,[6] and even the finance ministers of potential moratorium candidates are repeating the same message in order to justify declining the G20's offer. Indeed ultimately, even the spokesperson for the public sector creditors in the Paris Club, who had just pleaded with the private sector to participate, also ended up engaging in the same argument, as can be seen above. Yet immediately after the Spring Meeting, in talks with non-governmental organizations, he had been getting hot under the collar over just such a stance.[7]

Private creditors can keep on cashing in

As a result, public budgets are foregoing their claims in order to support poorer countries in containing the pandemic, while private creditors keep on cashing in. What is more, in many countries which were already on the brink of a debt crisis before the pandemic, all of a sudden the repayment prospects for private investors have improved. In order to prevent such a scenario, the Paris Club otherwise routinely incorporates equal treatment clauses into all of its debt restructuring agreements, and these clauses place debtors under an obligation to obtain at least the same concessions from private creditors as those which the Club has granted.

If the circumstances were not so tough, it would be possible to congratulate the IIF on its successful PR.

If the circumstances were not so tough, it would be possible to congratulate the IIF on its successful PR. For the purported connection between taking up the moratorium offered and an increase in the cost of future borrowing is by no means logical; if the moratorium, as adopted by the G20, is implemented on an NPV-neutral basis, there are neither winners nor losers, since in that case, the defaulted sums plus original interest will be paid retrospectively. However, in terms of real debt relief, the effect on possible future lenders is precisely the opposite of what the IIF is claiming, for if existing creditors grant relief to a debtor, naturally the repayment chances of future investors will not deteriorate; on the contrary, they will improve, even if only marginally. This positive correlation has been impressively demonstrated by the HIPC/MDRI initiative from 1996 onwards. Until the time of expansion through the MDRI in 2005, low and low middle income African countries had practically no access to the international bond markets. Yet following the cancellation of up to 90% of their legacy debts through the double initiative of the HIPC/MDRI, between 2007 and 2018 eleven countries managed to successfully sell bonds with a total value of over USD 42 billion on the international bond markets, many even oversubscribed.[8] With regard to the DSSI itself too, it has been shown[9] that the interest premiums which the eligible countries had to pay on their bonds did not increase to any significant extent as a result of participation in the initiative, but indeed decreased overall.

Voluntary on principle

From the outset, the G20 sought only voluntary participation on the part of private creditors. Various means and measures such as offering debt buybacks[10] were discussed, which would make it easier for the private sector to participate in the initiative. However, actual participation by private creditors was not thereby achieved.

The possibility of compelling participation by the private sector has never been considered. However, there would be a whole number of options for achieving this,[11] three of which would be particularly efficient:

- In the UK, there exists in law an **anti-vulture act** that prevents private creditors from enforcing the full amount of their original claim before the UK courts if the country sued has received debt relief from the UK government under the HIPC initiative. Since more than half of all international sovereign lending agreements are concluded under British law, this legislation is extremely effective. The other half is largely concluded under the law of New York. A statutory provision in both these places prohibiting lawsuits by private creditors against sovereign debtors for the duration of the G20 moratorium and subsequent restructuring would be an elegant means of compelling private participation. In consultation with the G20 and the Paris Club, countries could then simply refuse to make payments to the uncooperative private creditors – at least for as long as the G20 moratorium is in force.[12]

- A **resolution of the United Nations Security Council** could have the same effect. The Council gave 'immunity' to Iraq's oil revenues after the fall of Saddam Hussein in Resolution 1483 of 22 May 2003, i.e. none of the creditors of Iraq's external debt, at the time totalling over USD 130 billion, could block these revenues in a UN member country. As a result, not only was the basis established for a new economic beginning for the country following dictatorship and war, but also, the far-reaching debt arrangement that followed in 2004 in the Paris Club was only made possible on this basis. No one party could arrange to be paid quickly at the cost of all other creditors. Since the pandemic will either be beaten worldwide or not at all, as the UN Secretary-General has declared, the global community has an overriding interest in poorer countries being able to use their scarce resources to combat Covid-19. Moreover, all the countries on the UN Security Council with a power of veto which could prevent such a resolution even against the will of the majority are at the same time also members of the G20. This means that they themselves have already made a contribution to the detriment of their own taxpayers and should – unless they merely see themselves as agents of their respective private sectors – have an interest in ensuring such immunity.

There would be a whole number of options for compelling participation by the private sector.

- A third proposal comes from international legal and debt experts.[13] They urge creation of a **Central Credit Facility (CCF)** to which each debtor country participating in the initiative makes its own contractual debt service payment instead of servicing the actual creditors. The G20 would ensure such a diversion of funds by declaring the coronavirus pandemic to be a global emergency (which in substance it undoubtedly is). This in turn would mean that no legal remedies can be asserted against countries which are specifically enabled to act based on non-settlement of debt service payments. The CCF invests the funds in fighting the pandemic in the contributing countries, and the original creditors in return receive a legal claim against the CCF. Since the CCF would have the same status under international law as the World Bank and the IMF, it would also be immune from legal challenges and could make proposals at its own discretion for timely payment in a reasonable amount to private creditors.

- A fourth, admittedly less coercive, option, has been adopted by the international community in connection with the threat made by vulture funds to a number of HIPC countries in receipt of debt relief. Under the umbrella of the African Development Bank, in 2008 the **African Legal Support Facility was created with the aim of supporting countries in warding off contestations by vulture funds** through legal expertise and also concrete legal representation.[14] This model could be particularly attractive to the G20 because, as far as the DSSI is concerned, countries want to prevent private creditors receiving preferential treatment at the cost of public-sector creditors, but they are shying away from creating statutory rules. The threat to provide support before the respective domestic courts to those debtor states unwilling to pay – ranging from the financing of legal advisers, through amicus curiae involvement, to the modification of relevant statutes – could in itself establish a sufficiently credible threat scenario in order, from the outset, to deter creditors unwilling to cooperate from taking legal action.

The above options, and possibly other possibilities for compelling the private sector to make a contribution to fighting the pandemic, have been missed by the G20 and the Paris Club. Instead, they have submitted to the narrative of the creditors that says participation should only be allowed on a voluntary basis, since otherwise future costs of credit for the countries involved would more than outweigh any debt relief granted, even though there is no reliable evidence of such an assertion.

Whose responsibility?

Through its apparent cooperation with the G20, the IIF has subliminally suggested that there will certainly be private investors who, out of a sense of responsibility for the greater good, would agree to a payment deferral. However, not a single one has done so, and neither is this surprising. A fund which waives claims (which fund managers are prohibited from doing under most investor protection laws), while the rest of the competition does not do so, will not be acting philanthropically, but contrary to its core interests. Waiving loan claims does reduce the burden on sovereign budgets to a limited extent, but whether this in turn benefits the fight against the pandemic or the fight against poverty is something over which generous private creditors – other than the IMF and its members – do not have the slightest influence. For this reason, such voluntary waivers have to date been virtually non-existent.[15]

The G20 has submitted to the narrative of the creditors.

At this point, therefore, it has to be said that it is not the private investors that have failed, having found a sophisticated means by which simultaneously to signal goodwill and make absolutely no contribution whatsoever in real terms aimed at restoring their debtors' solvency. Rather, it is the case that the governments of the G20 and the Paris Club are the ones that have failed; they should have foreseen this scenario and compelled participation in one or other of the ways described above.

It is not the sophisticated private investors that have failed, but the governments of the G20 and the Paris Club.

1 For a detailed description and discussion of the DSSI, see *'Debt restructuring in times of corona', p. 20 ff.* of this report.

2 G20 (2020): 'Working Group Report', http://www.publicnow.com/view/B3B830A5D0E1BE795FDE16A4C6EB635D3CE266C3.

3 The respective current list of potential DSSI-eligible countries and their status in terms of acceptance and actual debt relief can be sourced from the website of the World Bank at https://www.worldbank.org/en/topic/ debt/brief/covid-19-debt-service-suspension-initiative.

4 Debt relief from funds of the Catastrophe Containment and Relief Trust (CCRT) is also described in *'Debt restructuring in times of corona', p. 20 ff.* of this report.

5 IIF (2020): 'Progress Update on Private Sector Engagement in the G20 Debt Service Suspension Initiative (DSSI)'.

6 However, in this context it appears to have been convenient to overlook the fact that, in 2020, only a single country was actually downgraded – for instance by Fitch – while up to August, 38 countries were given an outlook downgraded only from positive to stable or from stable to negative. See: FitchWire (25.08.2020): 'Coronavirus Sovereign Rating Shock Subsides, Prolonged Stress Ahead'.

7 Transcript of an informal virtual meeting with Guillaume Chabert on 24.05.2020.

8 Raffinot,M, Ferry, M. and G.Donnat (2020): 'The rise in international bond issuance by low-income African countries: a shift of pattern or trend that already fades away?' table 1.

9 Lang, V., Mihalyi, D. and A. Presbitero (2020): 'Borrowing costs after debt relief'.

10 This means the use of multilateral funds in order to buy back at a discount private-sector debts that are difficult to recover. To round off the HIPC Initiative, through the Debt Reduction Facility, the World Bank successfully applied this model. However, this was only in a very few cases, and only on the basis of debt reduction having already been granted. With the DSSI, this is naturally not the case. For this reason, such a model would be less suitable for debt relief comparable with the DSSI moratorium.

11 This article does not discuss the opportunities and limits of collective action clauses (CACs) which, since 2003, have been the instrument of choice for the G8, G20, Paris Club, IMF and World Bank. CACs must be anchored in advance in loan agreements, which means that, as ex-post crisis responses, for instance to the debt crisis triggered by coronavirus, they do not enter into consideration on an individual-case basis. For a brief analysis of the opportunities and weaknesses of collective action clauses, see Kaiser, J. (2016): 'Contractual vs. Rules-Based Approaches to Sovereign Debt Restructuring', in: Development (2016) 59, pp. 94-99.

12 Driven by the Jubilee USA network, in the penultimate legislative period there were also attempts to modify laws of the State of New York in a similar fashion. Regrettably, despite support from both parties, the attempt to pass a corresponding law within the period did not succeed.

13 Bolton, P., Buchheit, L. et al. (2020): 'Necessity is the mother of invention: How to implement a comprehensive debt standstill for Covid-19 in low and middle income countries'.

14 Further information at https://www.aflsf.org/who-we-are.

15 So-called debt-for-development swaps, where private creditors actually waive their claims, are a different scenario, since there, they actually have an influence on the use of the funds freed up and thereby at least receive an intangible benefit in return.

LIST OF ABBREVIATIONS

CAC	–	Collective action clause
CCF	–	Central Credit Facility
CCRT	–	Catastrophe Containment and Relief Trust
CIS	–	Commonwealth of Independent States
DSA	–	Debt Sustainability Analysis
DSSI	–	Debt Service Suspension Initiative
EURODAD	–	European Network on Debt and Development
G20	–	Group of Twenty
G7	–	Group of Seven
G77	–	Group of Seventy-Seven, coalition of developing countries at the United Nations
G8	–	Group of Eight
GDP	–	Gross domestic product
HIPC	–	Heavily Indebted Poor Countries
IDA	–	International Development Association
IFI	–	International Financial Institutions
IIF	–	Institute of International Finance
IMF	–	International Monetary Fund
LATINDADD	–	Red Latinoamericana por Justicia Económica y Social (Latin American Network for Economic and Social Justice)
MDRI	–	Multilateral Debt Relief Initiative
NDA	-	No data available
PRGT	–	Poverty Reduction and Growth Trust
SDG	–	Sustainable Development Goals
SIDS	–	Small Island Developing States
UCT	–	Upper Credit Tranche
UNCTAD	–	United Nations Conference on Trade and Development
UN	–	United Nations

Tab. 1: Countries at risk of over-indebtedness worldwide (as of 2020)

countries by region \ indicator	public debt / gross domestic product	trend[1]	public debt / annual government revenues	trend[1]	external debt / gross domestic product	trend[1]	external debt / annual export earnings	trend[1]	debt service / annual export earnings	trend[1]	risk of debt distress according to IMF[2]
South Asia, Southeast Asia, Pacific											
Afghanistan	7.7	—	25.4	▼	7.7	▲	163.8	▲	5.0	▲	
Bangladesh	39.6	▲	484.8	▲	18.7	—	148.4	▲	31.3	▲	
Bhutan	121.3	▲	439.1	▲	135.0	▲	***328.0***	—	***7.4***	▼	
Cambodia	31.5	▼	145.6	▼	***64.5***	▲	***72.8***	—	***7.3***	▲	
China	61.7	▲	253.1	▲	16.6	▲	***85.6***	▲	11.1	▲	
Fiji	83.8	▲	566.1	▲	***24.3***	▲	***45.6***	▲	***8.1***	▲	
India	89.3	▲	494.1	▲	***22.6***	▲	***108.1***	—	***9.9***	▼	
Indonesia	38.5	▲	325.9	▲	39.0	▲	197.0	—	***39.6***	▲	
Kiribati	17.7	▼	18.2	▼	NDA		NDA		NDA		
Laos	70,9	▲	599,5	▲	***92,8***	—	***233,0***	▼	***7,4***	▼	
Malaysia	67,6	▲	333,7	▲	332,2	▲	546,2	▲	NDA		
Maldives	118,3	▲	704,9	▲	69,0	▲	143,8	▲	10,4	▲	
Marshall Islands	27,4	▼	36,0	▼	NDA		NDA		NDA		
Micronesia	16,5	▼	23,7	▼	NDA		NDA		NDA		
Mongolia	77,3	▼	291,6	▼	***261,1***	▲	***364,2***	▼	***135,7***	▲	
Myanmar	42,4	▲	281,6	▲	27,9	▲	157,6	▲	35,7	▲	
Nauru	59,8	▼	52,1	▼	34,3	—	172,4	▲	0,1	▼	
Nepal	39,2	▲	193,0	▲	20,8	▲	270,1	▲	11,3	—	
Pakistan	87,2	▲	577,0	▲	42,2	▲	396,1	▲	59,5	▲	
Papua New Guinea	46,7	▲	343,3	▲	54,9	▼	131,9	▼	23,8	▼	
Philippines	48,9	▲	283,8	▲	23,0	—	***84,5***	—	***11,9***	—	
Samoa	55,6	▼	195,6	—	53,1	—	181,8	—	10,7	▲	
Solomon Islands	15,3	▲	48,9	▲	13,6	▼	51,7	▲	1,9	▼	
Sri Lanka	98,3	▲	1.061,6	▲	74,0	▲	***298,1***	▲	***33,5***	▲	
Thailand	50,4	▲	240,0	▲	***36,3***	—	***56,6***	▲	***8,6***	▲	
Tonga	41,9		91,8		30,6	▼	***114,8***	▼	***2,2***	▼	
Tuvalu	16,0	▼	13,8	▼	NDA		NDA		NDA		
Vanuatu	47,7	▲	100,6	—	***48,6***	▲	***92,4***	▲	***5,2***	▲	
Vietnam	46,6	▼	274,6	—	44,0	—	NDA		NDA		
Sub-Saharan Africa											
Angola	120,3	▲	671,1	▲	94,0	▲	266,3	▲	23,4	▼	
Benin	41,8	▼	305,5	—	25,1	—	115,1	—	5,7	▲	
Burkina Faso	46,6	▲	211,2	▲	23,0	▼	61,2	—	4,3	▲	
Burundi	65,1	▲	298,6	—	21,7	—	228,4	▼	12,8	▼	
Cabo Verde	137,5	—	470,9	—	108,4	—	383,0	▲	18,0	▲	
Cameroon	43,5	▲	302,1	▲	32,7	▲	225,1	▲	20,5	▲	
Central African Republic	46,6	▼	236,2	▼	39,7	▲	275,7	—	7,2	▼	
Chad	46,4	—	248,3	▼	31,5	▲	120,2	—	6,0	▼	
Comoros	30,4	▲	158,9	▲	29,7	▲	265,2	▲	6,9	▲	
Congo, Democratic Republic	16,1	—	152,7	▲	13,8	▼	40,6	▲	5,7	▲	
Congo, Republic	104,5	—	473,1	▲	***55,3***	—	***71,7***	▼	12,5	▲	
Côte d'Ivoire	41,7	—	290,6	▲	41,0	▲	17,1	▼	10,1	▼	
Djibouti	40,6	▼	191,2	▼	75,0	▲	176,9	▲	8,8	▲	
Equatorial Guinea	51,2	▲	318,3	▲	***13,8***	▲	***38,8***	▲	***6,7***	▲	
Eritrea	185,8	▲	592,7	▼	NDA		NDA		NDA		*
Ethiopia	56,1	—	489,5	▲	32,2	—	585,5	▲	32,0	▲	
Gabon	73,9	▲	478,2	▲	50,6	▲	NDA		NDA		

Tab. 1 continued: Countries at risk of over-indebtedness worldwide (as of 2020)

countries by region / indicator	public debt / gross domestic product	trend[1]	public debt / annual government revenues	trend[1]	external debt / gross domestic product	trend[1]	external debt / annual export earnings	trend[1]	debt service / annual export earnings	trend[1]	risk of debt distress according to IMF[2]
Gambia	83,1	▼	352,0	▼	46,6	▼	269,4	—	16,9	▲	
Ghana	76,7	—	647,5	▲	56,0	—	164,2	▲	22,9	▲	
Guinea	44,9	—	330,2	▲	30,7	▲	110,4	▲	2,0	▼	
Guinea-Bissau	79,8	▲	473,0	▲	***44,9***	▲	NDA		NDA		
Kenya	66,4	▲	396,6	▲	47,2	—	507,5	▲	121,3	▲	
Lesotho	47,2	—	94,4	▼	53,0	▲	125,9	▲	8,2	▲	
Liberia	61,8	▲	216,1	▲	39,2	▼	180,6	▼	5,6	▲	
Madagascar	44,2	▲	353,6	▲	53,2	▲	260,8	▲	18,4	▲	
Malawi	78,2	▲	354,3	▲	34,9	▲	262,4	▲	7,4	▲	
Mali	44,8	▲	221,0	▲	30,1	▲	123,4	▲	6,6	▲	
Mauritania	65,5	▼	366,7	—	64,7	▼	215,6	▼	26,3	▲	
Mauritius	85,7	▲	417,1	▲	NDA		NDA		NDA		
Mozambique	121,3	—	493,4	—	197,5	▲	676,4	▲	25,5	—	
Namibia	67,6	▲	209,3	▲	66,3	—	***186,4***	—	NDA		
Niger	41,7	—	236,9	—	49,7	▼	534,4	▲	14,6	▲	
Nigeria	35,0	▲	591,3	▲	7,0	▼	***80,2***	—	48,0	▲	
Rwanda	61,6	▲	306,6	▲	63,1	▲	481,6	▲	35,1	▲	
São Tomé and Príncipe	73,6	▼	300,6	—	53,8	▼	471,9	▲	7,8	▲	
Senegal	65,4	—	304,5	▲	81,3	▲	388,9	▲	30,0	▲	
Seychelles	88,6	▲	251,8	▲	150,3	▲	186,4	▲	5,4	▼	
Sierra Leone	77,4	▲	391,1	—	55,0	▲	269,6	▲	12,1	▲	
South Africa	78,8	▲	291,4	▲	55,3	—	180,7	▲	NDA		
South Sudan	71,7	▲	222,6	▲	37,1	—	57,6	▼	9,4		
Sudan	259,4	▲	3.814,7	▲	253,1	▲	1.375,5	▲	7,1	▲	
Tanzania	38,5	—	254,3	—	***31,4***	▼	***195,2***	▲	***14,7***	▲	
Togo	73,5	—	320,4	▼	25,2	▲	79,2	▲	4,8	—	
Uganda	46,0	▲	356,8	▲	24,5	▼	285,4	▲	39,6	▲	
Zambia	120,0	▲	666,7	▲	***125,8***	▲	***345,9***	▲	***32,5***	▲	*
Zimbabwe	2,4	▼	16,6	▼	***68,5***	▲	NDA		NDA		
Latin America, Caribbean											
Antigua and Barbuda	113,6	▲	636,3	▲	NDA		NDA		NDA		
Argentina	96,7	▲	292,8	▲	73,0	▲	***363,5***	▲	***52,5***	▲	
Bahamas	68,7	—	408,9	▲	29,2	▲	188,0	▲	22,9	▲	
Barbados	134,1	▲	459,6	▲	41,0	▼	132,0	▼	16,8	▲	
Belize	134,6	▲	430,3	▲	96,0	▲	***140,4***	—	***10,5***	—	
Bolivia	69,4	▲	251,9	▲	35,0	—	***148,9***	▲	17,6	▲	
Brazil	101,4	▲	361,6	▲	48,3	▲	210,6	▼	57,2	▲	
Colombia	68,2	▲	262,7	▲	64,1	▲	508,7	▲	99,0	▲	
Costa Rica	70,1	▲	534,3	▲	48,0	—	168,4	▲	***17,2***	▲	
Chile	32,8	▲	158,9	▲	76,0	▲	254,6	—	81,9		
Dominica	90,8	▲	275,2	▲	***50,9***	▼	***216,3***	▲	25,5	▲	
Dominican Republic	68,8	▲	550,2	▲	44,7	—	***275,9***	▲	***40,3***	▲	
Ecuador	68,9	▲	228,9	▲	60,2	▲	271,9	▲	35,8	▲	
El Salvador	89,0	▲	439,3	▲	68,4	▲	NDA		15,2	▼	
Grenada	71,5	▼	288,5	—	101,9	▼	351,4	▼	14,6	▼	
Guatemala	32,2	▲	312,2	▲	***35,7***	▲	***185,6***	▲	***26,5***	—	
Guyana	37,0	▼	208,6	▲	***28,1***	▼	***64,9***	—	***5,6***	▲	
Haiti	54,4	▲	393,4	▲	28,0	—	189,2	▲	9,2	▲	

Tab. 1 continued: Countries at risk of over-indebtedness worldwide (as of 2020)

countries by region \ indicator	public debt / gross domestic product	trend[1]	public debt / annual government revenues	trend[1]	external debt / gross domestic product	trend[1]	external debt / annual export earnings	trend[1]	debt service / annual export earnings	trend[1]	risk of debt distress according to IMF[2]
Honduras	46,0	▲	180,0	▲	42,7	▲	125,2	▲	33,5	▲	
Jamaica	101,3	—	360,0	—	*105,3*	—	*265,4*	▼	*39,0*	—	
Mexico	65,5	▲	268,2	—	45,5	▲	111,2	—	24,4	▲	
Nicaragua	48,3	▲	185,7	▲	*101,3*	▲	*213,2*	—	*21,1*	▲	
Panama	55,0	▲	367,9	▲	172,9	—	580,2	▲	NDA		
Paraguay	35,5	▲	196,5	▲	44,7	▼	153,3	▲	17,4	▲	
Peru	39,5	▲	215,5	▲	39,8	—	173,8	▲	37,8	▲	
St. Kitts and Nevis	69,1	—	200,5	—	NDA		NDA		NDA		
St. Lucia	85,1	▲	424,5	▲	39,9	▲	120,1	▲	*32,2*	▲	
St. Vincent and the Grenadines	87,9	—	306,2	—	63,0	▲	235,9	▲	25,6	▲	
Suriname	145,3	▲	636,2	▲	*102,6*	▲	*158,1*	▲	NDA		
Trinidad and Tobago	57,5	▲	284,8	▲	19,0		NDA		NDA		
Uruguay	69,5	▲	226,5	—	NDA		NDA		NDA		
Northern Africa, Middle East											
Algeria	57,2	▲	203,2	▲	NDA		NDA		NDA		
Bahrain	128,3	▲	665,8	▲	NDA		NDA		NDA		
Egypt	86,6	▼	452,0	—	33,2	▲	243,5	▲	40,1	▲	
Iraq	68,3		222,1		NDA		NDA		NDA		
Jordan	88,4	—	372,0	—	76,7	—	258,2	▲	33,2	▲	
Lebanon	171,7	▲	1.429,8	▲	*173,8*	▲	*440,0*	▲	*110,0*	▲	
Morocco	76,9	▲	279,4	▲	54,0	▲	*131,7*	—	*9,7*	▼	
Oman	81,5	▲	265,9	▲	70,0		NDA		NDA		
Qatar	68,1	▲	192,5	▲	NDA		NDA		NDA		
Tunisia	84,8	▲	339,0	▲	109,9	▲	275,0	▲	23,9	▲	
Yemen	81,7	—	1.424,7	▲	NDA		NDA		NDA		*
Europe, CIS											
Albania	83,3	▲	340,4	▲	62,4	—	297,5	▲	19,0	▲	
Armenia	60,7	▲	261,3	—	93,3	—	295,8	▲	27,6	▼	
Belarus	50,9	—	141,2	▲	*69,1*	▼	*97,5*	▼	*10,3*	▼	
Bosnia and Herzegovina	38,9	▼	97,9	—	72,4	▲	*225,3*	▲	20,3	—	
Georgia	58,7	▲	240,1	▲	111,4	—	287,3	▲	25,5	▼	
Kazakhstan	23,4	▲	131,4	▲	100,0	▼	*265,4*	▼	*50,6*	▲	
Kyrgyzstan	68,1	▲	214,3	▲	87,5	—	294,6	▲	24,8	▼	
Moldova	37,8	▼	126,7	—	69,6	▼	237,5	—	79,7	▲	
Montenegro	90,8	▲	229,4	▲	190,9	▲	584,3	▲	*39,9*	▲	
North Macedonia	50,3	▲	183,1	▲	74,8	—	174,0	▲	52,2	▲	
Serbia	59,5	▼	156,7	▼	68,6	▼	148,5	—	39,8	▲	
Tajikistan	47,8	▲	196,6	▲	77,0	▲	439,6	▲	149,7	▲	
Turkey	41,7	▲	143,7	▲	72,0	▲	*183,8*	▼	*35,7*	—	
Ukraine	65,7	▼	168,0	▼	93,0	▼	245,3	—	NDA		
Uzbekistan	36,1	▲	146,2	▲	46,3	▲	185,2	▲	29,0	▲	

[1] ▲ increase by more than 10 per cent; ▼ decrease by more than 10 per cent; — stagnation (change of less than 10 per cent)

[2] ☐ low risk of debt distress; ☐ medium risk of debt distress; ☐ high risk of debt distress; ☐ debt distress;
☐ no risk assessment by IMF and World Bank

* The latest IMF risk assessment does not reflect the actual situation. Country is currently in debt distress.

Regularly set Numbers: IMF forecasts; numbers ***in italics***: own extrapolations based on information provided by World Bank and IMF

Sources: World Bank (2020): 'International Debt Statistics 2021'; IMF (2020): 'World Economic Outlook October 2020: A Long and Difficult Ascent'; IMF Debt Sustainability Analyses 2020 for specific countries; own calculations.

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MISEREOR, the Catholic organization for development cooperation in Germany, campaigns for justice and education and against hunger, sickness, marginalization and breaches of human rights and their causes. Together with local partners, MISEREOR supports people irrespective of their belief and culture. Since MISEREOR was established in 1958, over 110,500 projects have been sponsored in Africa and the Middle East, Asia and Oceania, Latin America and the Caribbean.

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MISEREOR relies on partnerships

In its project activities, MISEREOR relies entirely on its local partners. These organizations, communities and self-help groups know the local situation best and enjoy local people's trust. Together with the local people, our partners develop activities at local level, receiving advice and financial support from MISEREOR.

MISEREOR challenges the conscience of those in power

MISEREOR does not just fight poverty, hunger and injustice, but also their causes. As a political lobbying organization for the disadvantaged, MISEREOR is critical of the prevailing global economic model, insists on more determined action against climate change, and denounces unjust social structures in the countries of the Global South.

MISEREOR depends on the commitment of many people

MISEREOR stands for active solidarity with those living in poverty. Committed individuals and groups, as well as parishes and institutions, organize solidarity marches, Lenten fasts and pilgrimages, support small-scale farmers by buying fairly-traded products, and promote development projects by making donations or gifts or leaving legacies.

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Entwicklung braucht Entschuldung

The German debt relief alliance 'erlassjahr.de– Entwicklung braucht Entschuldung e. V.' campaigns for a world where more importance is attached to the living conditions of people in indebted countries than to the servicing of sovereign debt. erlassjahr.de is currently supported by over 600 organizations from the church, politics and civil society across Germany, and forms part of a worldwide network of national and regional debt relief initiatives.

erlassjahr.de seeks to create a world in which:

→ in future debt crises, poor countries can receive debt relief in a fair and transparent process – instead of continuing repeatedly to be at the mercy of their creditors and dependent on their goodwill;

→ Foreign debt, which has arisen in breach of international legal standards and which prevents the achievement of internationally agreed development goals, is cancelled;

→ Standards of responsible lending and borrowing are developed and applied in order to codify the shared responsibility of creditors and debtors.

Common action

Campaigning for fair debt relief would not be possible without the support of our co-sponsoring organizations and many committed individuals.

Together, we are helping to achieve a fair solution to sovereign debt crises.

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