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In the South, is there really a debt crisis? Given that, what does the CADTM recommend?

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***Maxime Perriot** : In an article published in December 2023 you stated, in relation to a World Bank report, that "developing countries" were already trapped in a new debt crisis, however, the Financial Times and other sources point out that during the first two weeks of 2024, several so-called developing countries managed to successfully refinance their debts. What happened to that?*

Éric Toussaint: The three developing countries that according to the *Financial Times* were successful in selling their sovereign securities are Saudi Arabia, Mexico and Indonesia. These three countries, which are oil and gas producers, benefited from high fossil fuel prices and are not part of the category of those directly affected by the debt crisis . As a reminder, Saudi Arabia is the world's leading oil exporter. [1]

And if they manage to easily sell their securities, it is because they offer a higher yield than the debt securities of Northern countries. Mexico has just managed to sell its securities for 7.5 billion dollars, promising an interest rate 2% higher than that of the United States, and 4% higher than that of Germany. As investment funds and private banks in the North have large amounts of financial liquidity, they easily buy securities from Southern countries that offer guarantees (for example large reserves of raw materials) and that are capable of offering higher interest rates. to those of the Northern economies. It is necessary to add that at the end of 2023, the yield on US securities fell a little, which made it more attractive for investors to purchase securities that offer superior yield.

Maxime Perriot: So, those three countries are not representative of the situation of most countries in the South?

Éric Toussaint: Indeed, these three countries are not representative of the category of those countries that are going through an acute crisis.
On the other hand; The *Financial Times* recognized that Saudi Arabia and Mexico constitute exceptional cases. Here is what was written in the newspaper: «`In any case, this year's bond sales seem to show that the markets are only open to governments that have, at least, a level of first-quality credit, such as Saudi Arabia and Mexico. . Countries with shoddy ratings, such as a mere B, could continue to find themselves almost unable to borrow this year, preventing them from refinancing their impending maturities except at risky double-digit interest rates, investors say. "They would quickly aggravate the burden of their payments." [2] (Extract from a paid article in the *Financial Times* of January 10, 2024)

While Mexico was able to finance itself at the beginning of 2024 at 5% in 5 years, and at 6% in 12 years since it has a very good rating and extracts oil, buyers of Egypt's debt want a yield of 27.4% in 10-year titles; those on Türkiye's debt want 26.6%; those from Zambia 25.5%; those from Kenya 18.2%; those of Uganda of 16%; those from Pakistan 15.4%; Sri Lanka's 14%. [3] As I already demonstrated in the article that you mentioned at the beginning of the interview, the majority of sub-Saharan African countries, which for ten years until the beginning of the 2020s, were able to sell their securities in the financial securities markets sovereigns, they cannot do it now. And this has happened since the central banks of the Northern countries decided to sharply raise interest rates. Let us remember that without any consultation with the countries of the South, the Central Bank of the United States (the Fed), the European Central Bank and the Bank of England sharply increased interest rates from 2022, which had a disastrous contagion effect for the southern countries.

Faced with such high interest rates, a large number of countries lose access to international financial markets and must turn to public lenders, especially the IMF , the World Bank or regional banks. They combine this with other complementary options. In this way, they get money in the domestic market by paying very high but bearable interest rates since they are in local currency. Another solution is to renegotiate credits with China, which has become a major lender. In some cases, countries such as Saudi Arabia also grant credits to allow their allied countries and trading partners to stay afloat. Saudi Arabia lends to Pakistan. India lends to Sri Lanka.

Maxime Perriot : So, is there really a debt crisis happening?

Éric Toussaint: Yes, a hundred countries are experiencing increasing difficulties in refinancing their debts and are being pushed by lenders such as the IMF and the World Bank to reduce their social spending.

According to economist Michael Roberts, referring to the report that Oxfam published on January 10 on the occasion of the Davos summit: "Entire countries are threatened with bankruptcy. The poorest countries currently spend four times more to repay their debts to the rich than they spend on healthcare. Three-quarters of the world's governments foresee reductions in public spending linked to austerity – including in the areas of health and education – reaching $7.8 trillion over the next five years. [4] (Source: Michael Roberts, " Davos and the melting of the economy " 22228 which refers to the report published by Oxfam on January 15, 2024/ See the full report here).

If the crisis situation has not, until now, produced a multiplication of payment suspensions, it is because the IMF (and to a lesser extent the World Bank) on the one hand and China on the other do everything to prevent the crisis from becoming general. . Northern governments also intervene through bilateral credits.

These actors are not acting out of kindness: they are protecting their own interests. A generalization of payment suspensions will do them nothing. They prefer to keep countries afloat by granting new credits or allowing indebted countries to delay payments, even suspending them provisionally

Éric Toussaint: Private creditors lend under two modalities: either by purchasing sovereign securities issued by the countries of the South (this is what we call the mandatory market), or, when dealing with bank creditors, by granting a loan and signing a contract with the corresponding country (or with private companies in the South that receive a bank loan).

We realized that starting in 2022, private creditors sought above all to have their old loans repaid, at the same time that they sharply reduced new purchases of securities; when it came to banks, new credits were reduced.

As I already explained in the article you mentioned, the World Bank, in a report published in December 2023 , recognized that private lenders had begun in 2022 to close the tap on loans to developing countries, at the same time that they were squeezing them to obtain the maximum refunds. Indeed, according to the WB, new credits granted by private lenders to the public authorities of developing countries decreased by 23%, with a sum of 371 billion dollars, that is, the lowest level in ten years. On the contrary, those same private creditors collected $556 billion in repayments. That means that in 2022, they received an extra $185 billion in repayments than they disbursed in loans. Always according to the World Bank, it is the first time since 2015 that private creditors received more funds than those injected into developing countries.

Maxime Perriot: Can the situation worsen during 2024?

Éric Toussaint: Yes, the situation could worsen since a number of countries must pay significant sums this year on loans acquired when interest rates were low.

Take Kenya as an example, according to the *Financial Times* “Kenya's $2 billion in debt due in June will be seen as a litmus test this year. Nairobi indicated that it would preferably have resorted to loans from development banks to buy back a portion of its debt, rather than seeking refinancing in the market. East Africa's largest economy issued bonds with interest rates of 6-7% in 2014, at a time when US interest rates were close to zero. That sent investors on a global hunt for high-yielding assets. Kenya will probably find a solution, but at what interest rate? Ethiopia, Kenya's neighbor, suspended its debt payments in 2023. Zambia still does not have the capacity to resume its debt payments.

Egypt will have a very complicated situation since it must, according to the *Financial Times* , repay $30 billion of foreign debt in 2024. In order to make that payment, Egypt will surely have to make a new call to the IMF to obtain other credits, but even that runs the risk of not being enough.

Among the difficulties that a growing number of countries must face is the renegotiation of refunds owed to China. Indeed, over the last ten years China has greatly increased its loans to Southern countries, agreeing to these grace periods lasting 5 to 7 years, depending on the case. During that grace period, the country must not begin repayment of the credit. Many of these credits now reach the end of that grace period and, therefore, the situation of a certain number of countries indebted to China will worsen. It is also necessary to take into account that an important part of China's loans were granted at variable interest rates, indexed with international interest rates (mainly referring to one interest rate: Libor). Consequently, with the increase in interest rates decided by the central banks of the industrial powers and Western creditors, the interest rates on Chinese loans are about to increase sharply. China is prepared to renegotiate payment schedules but does not appear to agree not to increase interest rates. Consequently, the situation risks worsening.

Maxime Perriot : What does CADTM recommend?

Éric Toussaint: CADTM recommends that the governments of indebted countries protect themselves by declaring a suspension of debt payments. Under international law, they are perfectly within their rights to do so. Indeed, these countries can cite fundamental changes in circumstances brought about by external shocks from the North, in particular the unilateral decision by the central banks of North America (American and Canadian) and Western Europe to radically increase interest rates. . Among the factors causing a fundamental change in circumstances, one can also cite the effects of the invasion of Ukraine on fuel and food prices. Although the countries of the South bear no responsibility, they nevertheless pay the consequences. In the event of a fundamental change in circumstances and external shocks, there is no obligation to continue the performance of a loan agreement and to continue repaying that debt.

The suspension of payments must be combined with the organization of a debt audit with the active participation of citizens. This audit must aim to identify the illegitimate, odious, illegal and/or unsustainable part of the debt in order to cancel it.

Maxime Perriot : A devil's advocate could declare: «The countries of the South took out loans at fixed interest rates, with the obvious obligation to refinance them when they came due. No one guaranteed them that 10 years later, interest rates would still be low. On the other hand, everyone knew that one day or another those guys were going to rise.

Éric Toussaint: The creditors' argument should be answered with something like this: even though everyone knew that interest rates would not remain at a historically low level, why did they lend massively to countries that could be predicted? its great fragility in the event of external shocks, and especially due to a decided increase in interest rates in the North? You must assume the risks involved. Lenders have a duty to verify the repayment capacity of the country they lend to but they failed to do so. So you have yourselves to blame if those countries have to suspend payments to meet their responsibility towards their people.

The fact that creditors lend at higher interest rates to Southern countries is explained precisely by the "risk" of non-repayment since they are very fragile countries. Logically, when the situation reaches where a country can no longer pay, the creditors should assume the risks of that loan.

On the other hand, let us remember that the interest rates on loans granted by China are often variable.

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He is the author of several books, including: World Bank. A critical history , El Viejo Topo, 2022 Capitulation among adults. Greece 2015: An alternative was possible , El Viejo Topo, Barcelona, 2020; Debt System. History of sovereign debts and their repudiation , Icaria Editorial, Barcelona 2018; Bancocracy Icaria Editorial, Barcelona 2015; A look in the rearview: neoliberalism from its origins to the present , Icaria, 2010; Debt or Life (written together with Damien Millet) Icaria, Barcelona, 2011; The global crisis , El Viejo Topo, Barcelona, 2010; The stock market or life: finances against the people , Gakoa, 2002. He has been a member of the Comprehensive Credit Audit Commission (CAIC) of Ecuador in 2007-2011.
He coordinated the work of the Debt Truth Commission , created by the president of the Greek Parliament. This commission operated, under the

[1] Contrary to what the Financial Times claims, Saudi Arabia is not a developing or emerging economy. In fact, according to the World Bank, Saudi Arabia is a high-income economy, like the countries of Western Europe and North America (for the different categories according to the World Bank, see https://datahelpdesk.worldbank.org/knowledgebase /articles/906519-world-bank-country-and-lending-groups).

[2] "However, this year's bond sales appear to show that markets are open only to governments with at least investment-grade credit ratings such as Saudi Arabia and Mexico. Countries with junk ratings, such as single B, may continue to find it almost impossible to access borrowing this year, say investors, leaving them unable to refinance looming maturities except at risky double-digit rates that would rapidly worsen their payment burdens." Extract from a paid article from the Financial Times from January 10, 2024: https://www.ft.com/content/8b8b4733-83b9-40f0-88d6-28235e458f34

[3] The yield of sovereign bonds of a large number of countries is available on this website: http://www.worldgovernmentbonds.com/spread-historical-data/

[4] "Entire countries are facing bankruptcy, with the poorest countries now spending four times more repaying debts to rich creditors than on healthcare. Three-quarters of the world's governments are planning austerity-driven public sector spending cuts—including on healthcare and education—by $7.8 trillion over the next five years." Michael Roberts Davos and the melting of the economy 22228

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