III. Economics

U.S. Policy Crushing Developing Nations with a Burden of Unpayable Debt

by Paul Gallagher

Aug. 16—While leading in supplying the weapons for two horrific wars, each threatening to spread and go nuclear, the United States and its central bank have set off an equally deadly weapon: an explosion of unpayable global debt in the past five years, which will crush scores of developing countries, unless reorganized with development credit from the leading nations of the "Global South". The life-or-death issue confronts the coming 2024 summit of the BRICS group of nations in October; U.S. financial and currency warfare is not only being hurled at Russia, China, Iran, and other BRICS leaders, but at the developing nations as a whole.

The debt burden on the developing countries overall, is now the greatest it has ever been. According to a report published July 31 by Debt Relief International and the Norwegian Church Aid, the burden of debt service on developing nations' budget spending is at an all-time high, at 42.2% of their total government spending. This is an average for all developing countries, whether "heavily indebted poor countries," low-income countries, low-middle income countries, or upper-middle income countries (UMIC).

The report appeared at a point when the nations recently joining the BRICS group, or having planned to join it, are under concerted economic warfare attack by London, Wall Street, and the IMF—which is imposing "conditionalities" on loan packages to them, compelling them to cut their spending on anything other than debt service, so as to squeeze out a "primary budget surplus" that goes to debt service. These targeted nations have included Egypt and Ethiopia—which have been forced into deep devaluations of their currencies—South Africa, Iran (with most-sanctioned nation status), Venezuela, Bangladesh (not a BRICS but a New Development Bank member nation), and Argentina; in the last two, the austerity came with regime change.

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The U.S. Federal Reserve, whose rising interest rates on sovereign lending have caused a severe debt burden for the developing countries.

IIF and *Foreign Affairs* Add to Devastating Global Picture

That worldwide total debt—government, business, financial, and household debt—had reached $315 trillion as of the end of 2023, was already known from an Institute of International Finance (IIF) "Global Debt Monitor" report issued in May. But more indicative of the threat this poses to the international financial system and national economies, is the *rate of growth* of this total debt: 21% in just the three years from end-2020 ($260 trillion) to end-2023 ($315 trillion). The United States itself constitutes both the huge

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"front end" of this exploding economic burden—with its economy representing more than a quarter of that increase—and the *cause* of the burden, especially on the developing countries and particularly through the Federal Reserve's interest rate spike of 2022-23.

These are the years the United States issued trillions in new sovereign debt for itself, and the Federal Reserve Bank printed trillions in new currency to "pay" it (late 2019-mid-2022). Then the Federal Reserve spiked its key interest rate from 0.5% to 5.25% in a little over a year. A *Foreign Affairs* piece of July 11, "Debt Is Dragging Down the Developing World," emphasizes:

> When the Federal Reserve raised interest rates on U.S. Treasury Securities [beginning] in March 2022, low-income countries' currencies declined in value and their governments lost access to capital markets.

That was the very severe proximate cause of the exploding burden of unpayable debt pushing down on developing nations. But according to the Debt Relief International report cited above, that burden has been worsening for a decade and a half. It began with the drying up of sovereign (nation-to-nation) credit (including that from multinational development banks) starting in the aftermath of the 2007-08 Global Financial Crash, which originated on Wall Street and in London. That pullback in development lending shifted so-called "high-income country lending" over to "public-private partnerships" and private bondholders. The interest rates were, not high, but very high, above 10% and as high as 15%.

This was followed by the rapid inflation of world prices of commodities, dated in this Debt Relief International report from 2018; it has been reported in *EIR* as having exploded in 2018-19, with 25% *average* annual price increases across a broad range of vital commodities, after a decade of "quantitative easing" or money-printing by the Federal Reserve and the other trans-Atlantic and Japanese central banks. Then came the Federal Reserve-led, sudden increase in interest rates on sovereign lending, including rates on non-concessionary lending by the World Bank *et al.*; this not only made debt more difficult to service, but hit developing country currencies with repeated devaluations, making the debt burden bigger in the borrower's currency.

Thus it is the *lack of development credit*, ironically, which has led to an all-time high debt service burden on developing countries. Annual debt service is now 8.4% of GDP on average of all developing nations; as noted it consumes more than 42% of all their government spending; it is 2.5 times the spending on education, and 4.2 times the spending on healthcare.

Government debt represented $97 trillion of the $315 trillion total world debt as of end-2023, and during 2023 alone, it grew by more than 6% from $91 trillion to $97 trillion.

Even the 75 poorest countries, which have been offered "debt relief" protocols by creditors pushed by the IMF, are spending almost 8% of their entire GDP on debt service in 2024 (a total of $185 billion, or $2.5 billion for each of these poorest countries paid out this year). Kenya, the *Foreign Affairs* July 11 article reported, is spending 75% of its tax revenue on debt service and is wracked with both peaceful and violent demonstrations; the entire developing sector or "Global South" spends close to half of government budgets to service (hardly sovereign) "sovereign" debt. In Ethiopia, another exemplar described there, debt service has surged in the past two years to overshadow all other categories of spending, while the country's economic growth has slowed dramatically.

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Kenya's President William Ruto, who has been confronting nationwide protests of youth, both peaceful and violent, while Kenya has had to devote an incredible 75% of its tax revenue to service unpayable debt. Among all developing countries, the average spent on debt service is "close to half of government budgets."

Financial War on Egypt

When the BRICS' New Development Bank (NDB) expanded its country membership in 2021, three countries joined—Egypt, Bangladesh, and the United

Arab Emirates—and a fourth was anticipated, Saudi Arabia. Two of those nations have been driven, by the IMF exploiting American currency and interest-rate warfare, into financial crises and/or regime change; the anticipated new member, Saudi Arabia, threatened by Israel's Gaza war and by the United States, has joined neither BRICS nor NDB. The UAE has helped Egypt by opening its bond market and its sovereign wealth fund to Egypt's sovereign debt issuance, but has not contributed to the NDB beyond its initial $550 million stock purchase in the Bank.

Egypt exemplifies the debt burden heaped on developing countries since 2018-19, by U.S. and NATO war, and financial/currency warfare.

Egypt's foreign debt has tripled since 2019 in dollar terms, from $92 billion to $276 billion now. Incredibly, it has doubled in just two years, from $142 billion in 2022 to $276 billion now. It has had to pay far more for imports due to sharp commodity inflation from 2019 set off by major central banks' money-printing; has lost much of its Suez Canal and tourism revenue due to Israel's Gaza War; it incurred large expenses importing vaccines and providing health services during the pandemic. Egypt is now paying usurious annual interest rates of 23-25% on its sovereign bonds, depending on their maturity. It has repeatedly devalued the Egyptian pound, multiplying its expenses.

These blows fall on Egypt's policy of investing in new power, water, and transport infrastructure—much of it in cooperation with Russia, with the United Arab Emirates, and with China.

Under IMF agreements begun in 2022, broken off by the IMF in 2023, and reinstated following domestic austerity in March 2023, Egypt has devalued its currency by one-third, after the Egyptian pound had restabilized following the COVID pandemic. The country's central bank has raised its key interest rate by 6%, to over 27%. And according to a gloating new study of all of this, published by the Peterson Institute for International Economics, Egypt has also committed to reduce investments in infrastructure projects.

Egypt raised fuel prices on July 26 for the second time in four months, fulfilling an economic reform condition set by the IMF. The government's official gazette reported price hikes for gasoline and diesel fuel of up to 15% Aug. 1, while the IMF reviewed the next, $820 million tranche of Egypt's $8 billion loan program. Under that bailout deal, the government has agreed to further reduce its fuel subsidies, through 2025.

Re-Dollarization? U.S. Looting the World in 2023-24

The most recent U.S. Treasury International Capital report shows that during the years from March 2022-March 2023 and March 2023-March 2024, approximately $2.9 trillion in capital flowed from the rest of the world into America's finance-dominated economy, primarily through the net purchase of U.S. securities (and other forms of foreign investment in U.S. firms). This occurred as the United States ordered "Global NATO" countries into war and deindustrialization, U.S. interest rates rose higher than in any major economy, and the dollar rose relative to other currencies. Other economies were looted of investment by, in effect, a reverse dollar carry trade.

Moreover, this large inflow occurred while the U.S. economy itself registered low levels of growth—not over 2% annually and now apparently declining further; U.S. manufacturing activity and employment fell, and industrial production was stagnant; and the U.S. Treasury issued huge volumes of new debt, estimated at a net annual rate of more than $2 trillion.

As Di Dongsheng, Professor of International Relations at Renmin University's International Monetary Institute in Beijing, commented at an Aug. 8 seminar:

> Basically, the global economic cycle depends on the U.S. debt cycle, and the global interest rate cycle depends on the U.S. Federal Reserve's interest rate cycle. I believe that setting aside financial jargon … can drive home the illogical and dangerous nature of the current arrangement.

This is a challenge for the major nations of the BRICS; they must develop an institution for low-interest-rate credit for new infrastructure and capital goods investment, including currency-stabilization lending—an "International Development Bank" in the sense of Lyndon LaRouche's 1975 design—which can serve all the developing nations now cut off from credit except with usurious rates and currency devaluation attached.