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Debt crisis warning for poorest countries

In Angola debt payments made up 57% of government revenue in 2018, with public spending cut by 19% between 2016 and 2018. Photograph: Sean Smith/The Guardian

Debt repayments by the world's poorest countries have doubled since 2010 to reach their highest level since just before the internationally organised write-off in 2005, campaigners have warned. The Jubilee Debt Campaign (JDC) said a borrowing spree when global interest rates were low had left many developing nations facing repayments bills that were forcing them into public spending cuts.

Plunging commodity prices, a stronger dollar and rising US interest rates had combined to increase debt repayments by 85% between 2010 and 2018, the JDC said. The bid to reduce the unaffordable debts of the world's poorest countries was prompted by grassroots activism in the late 1990s and early 2000s, first with the Jubilee 2000 campaign and then with Make Poverty History. But the financial position of many developing nations has again deteriorated in recent years.

Repayments account for more than 12% of government revenue on average, the highest level since 2004, the year before the G8 summit held at Gleneagles agreed a comprehensive package of financial assistance involving aid and debt relief. The International Monetary Fund has become increasingly concerned at the financial vulnerability of poor countries and will discuss the issue at its spring meeting in Washington DC next week. Two-fifths of low-income countries are assessed by the IMF to be at “elevated risk of debt distress”, a doubling since 2013.

External loans to developing country governments more than doubled from $191bn (£14.5bn) in 2008 to $424bn in 2017, the latest year for which figures are available. Calculations by the JDC found that in the 15 countries with the highest debt payments, public spending per person fell in 10 of them between 2016 and 2018.

Most people want higher taxes on rich to support poor – OECD

A majority of people living in developed countries want their government to increase taxes on the rich in order to help the poorest in society, according to a major global study.

In all 21 countries included in the OECD study, more than half of those polled said they were in favour when asked: “Should the government tax the rich more than they currently do in order to support the poor?”

The OECD said the survey of 22,000 people was “deeply troubling” and revealed that nearly 60% of respondents do not think they are getting their “fair share” back for the taxes they pay.

Only one in five people thought that they would easily be able to access state benefits in the event of a crisis, with many raising concerns about healthcare. Almost six in 10 said their government ignored their views and concerns.

“This is a wake-up call for policy makers,” Ángel Gurría, the Organisation for Economic Co-operation and Development secretary-general, said. “Too many people feel they cannot count fully on their government when they need help. “A better understanding of the factors driving this perception and why people feel they are struggling is essential to making social protection more effective and efficient. We must restore trust and confidence in government and promote equality of opportunity.”

The survey comes as politicians and campaigners across the world call for higher taxes on the super-rich to fund essential services for the poor.

Several of the Democratic candidates for US president in the 2020 election, including Elizabeth Warren and Bernie Sanders , have proposed new taxes on the super-rich to address inequality. The gilets jaunes (yellow vests) protesters in France have also demanded the wealthy shoulder a larger share of the tax burden. Almost 80% of people in Portugal and Greece said they wanted their governments to impose higher taxes on the wealthy. In the US more than half of those surveyed supported extra taxes on the wealthy. The OECD did not set an income level for what constituents wealthy.

The OECD said the survey reveals widespread dissatisfaction with social policies across the world.

“Only a minority are satisfied with access to services like healthcare, housing, and long-term care,” the Risk Matters report said. “Many believe the government would not be able to provide a proper safety net if they lost their income due to job loss, illness or old age.”Almost half of Americans in the survey said they would pay an additional 2% income tax to receive better healthcare, and one-third would be prepared to pay a 2% levy in return for better state education.

Global economic prospects worsening rapidly as WTO slashes trade forecast

'With trade tensions running high, no one should be surprised by this outlook,' WTO Director-General Roberto Azevedo said. he World Trade Organisation (WTO) has slashed its forecast for global trade due to an economic slowdown and a tariff war between the US and China.

Trade will grow just 2.6 per cent this year, down from 3.7 per cent predicted by the WTO just six months ago, showing how rapidly the world economy's prospects are declining.“With trade tensions running high, no one should be surprised by this outlook,” WTO Director-General Roberto Azevedo commented.

China and America, the world's two economic superpowers, have yet to resolve a long-running dispute that has seen Donald Trump's administration slap tariffs on hundreds of billions of dollars in Chinese imports, with Beijing responding in kind.US data indicates the effect of Mr Trump's $1.5 trillion tax cut is wearing off fast. Retail sales unexpectedly fell in February, while orders of capital goods also fell. Trade grew by just 3 per cent last year — well below the WTO's forecast of 3.9 per cent, which was already a downgrade from previous estimates.

The WTO oversees international trade rules and settles disputes between countries. The Trump administration has also been highly critical of the WTO, accusing it of being “unfair” with the United States. The US has slowly squeezed the WTO by blocking appointments to its dispute settlement group, the Appellate Body, which could in December fall below the minimum number of members required. Mr Azevedo pointed to the “fundamental importance of the rules-based trading system,” saying that its weakening would “be an historic mistake with repercussions for jobs, growth and stability around the world.”

Global Growth prospect: IMF report

The upswing in global investment and trade continued in the second half of 2017. At 3.8 percent, global growth in 2017 was the fastest since 2011. With financial conditions still supportive, global growth is expected to tick up to a 3.9 percent rate in both 2018 and 2019. Advanced economies will grow faster than potential this year and next; euro area economies are set to narrow excess capacity with support from accommodative monetary policy, and expansionary fiscal policy will drive the US economy above full employment. Aggregate growth in emerging market and developing economies is projected to firm further, with continued strong growth in emerging Asia and Europe and a modest upswing in commodity exporters after three years of weak performance. Global growth is projected to soften beyond the next couple of years. Once their output gaps close, most advanced economies are poised to return to potential growth rates well below pre crisis averages, held back by aging populations and lackluster productivity. US growth will slow below potential as the expansionary impact of recent fiscal policy changes goes into reverse. Growth is projected to remain subpar in several emerging market and developing economies, including in some commodity exporters that continue to face substantial fiscal consolidation needs.

While upside and downside risks to the short-term outlook are broadly balanced risks beyond the next several quarters clearly lean to the downside. Downside concerns include a possibly sharp tightening of financial conditions, waning popular support for global economic integration, growing trade tensions and risks of a shift toward protectionist policies, and geopolitical strains. The current recovery offers a window of opportunity to advance policies and reforms that secure the current upswing and raise medium-term growth to the benefit of all. Such policies should focus on strengthening the potential for higher and more inclusive growth, building buffers to deal more effectively with the next downturn, improving financial resilience to contain market risks and stability concerns, and fostering international cooperation. Economic activity in 2017 ended on a high note—growth in the second half of the year was above 4 percent, the strongest since the second half of 2010, supported by a recovery in investment. Outcomes exceeded the October 2017 World Economic Outlook forecasts in the euro area, Japan, the United States, and China, and continued to improve gradually in commodity exporters. Financial conditions remain supportive, despite the recent volatility in equity markets and increases in bond yields following signs of firming inflation in advanced economies. With broad-based momentum and expectations of a sizable fiscal expansion in the United States over this year and the next, global growth is now projected at 3.9 percent for 2018–19, a 0.2 percentage point upgrade for both years relative to the October 2017 forecast.

This positive momentum will eventually slow, however, leaving many countries with a challenging medium-term outlook. Some cyclical forces will wane: financial conditions are expected to tighten naturally with the closing of output gaps and monetary policy normalization; US tax reform will subtract momentum starting in 2020, and then more strongly as full investment expensing is phased out starting in 2023; and China's transition to lower growth is expected to resume as credit growth and fiscal stimulus diminish. At the same time, while the expected recovery in investment will help raise potential output, weak productivity trends and reduced labor force growth due to population aging constrain medium-term prospects in advanced economies.

The outlook is mixed across emerging market and developing economies. Prospects remain favorable in emerging Asia and Europe, but are challenging in Latin America, the Middle East and sub-Saharan Africa, where—despite some recovery—the medium term outlook for commodity exporters remains generally subdued, with a need for further economic diversification and adjustment to lower commodity prices. More than one-quarter of emerging market and developing economies are projected to grow by less than advanced economies in per capita terms over the next five years, and hence fall further behind in terms of living standards.

Japan seeks to fill a skills gap

In Japan, only a few thousand university graduates each year are proficient in the science of artificial intelligence (AI). The government wants to change that, saying that it will mandate that all university students take a beginner course in AI. It hopes that, eventually, about 250,000 graduates each year will be proficient in AI. In Japan, about 600,000 students graduate from university each year, but Japan faces a shortage of data scientists currently. The government wants to solve the problem by shifting the mix of education. The global war for scientific and engineering talent has resulted in a surge in salaries, both in Japan and in other countries with substantial technology sectors.

For Japanese companies, one solution is to employ scientists in other countries. It is reported, for example, that a large Japanese automotive company set up an AI subsidiary in the United States, headed by a former technology company executive. From a public policy perspective in Japan, this is seen as a loss of competitiveness for the country. Hence, the need to train more scientists domestically. Moreover, the salaries offered by US companies far exceed those by Japanese companies. As a result, US companies can effectively recruit in Japan. This difference reflects the stickiness of tradition-bound pay scales in Japan, although it is reported as starting to change.

Global finance chiefs prepared to 'act promptly' to spur growth

Global finance ministers and central bankers are prepared to "act promptly" to shore up growth in a world economy that faces downside risks including trade tensions, according to a statement issued on Saturday.

While growth is projected to firm up in 2020, "risks remain tilted to the downside", are according to a communique by the International Monetary and Financial Committee, the main advisory panel of the IMF's 189 member countries.

Risks included "trade tensions, policy uncertainty, geopolitical risks, and a sudden sharp tightening of financial conditions against a backdrop of limited policy space, historically high debt levels, and heightened financial vulnerabilities", the committee said."To protect the expansion, we will continue to mitigate risks, enhance resilience, and, if necessary, act promptly to shore up growth for the benefit of all," officials said.

The policy panel urged central banks to communicate their policy decisions well and act in a "data dependent" way, according to the text, which also reiterated the commitment of nations to refrain from "competitive devaluations" of their currencies. Fiscal policy should be "flexible and growth friendly", officials said.