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Frontier market debt at 15-year high

Заборгованість на прикордонному ринку на 15-річному рівні

Рівні державного боргу на прикордонних ринках піднялися до найвищої оцінки з 2004 року. За даними дослідження Oxford Economics, консалтингового агентства, в результаті цунамі кредитування від інвесторів облігацій та Китаю. Загальний рівень зовнішнього, державного боргу в іноземній валюті на прикордонних ринках різко впав між 2003 та 2006 роками, оскільки такі країни, як Аргентина та Еквадор, не виконували свої борги, а інші, такі як Гана та Нігерія, мали значну частину запозичень у складі Світового банку та ініціатива МВФ щодо бідних країн з високим рівнем заборгованості. Разом з тим, рівень боргу з тих пір піднявся до піку свого початку 2000-х років, причому Коста-Ріка, Гана та Еквадор бачать найбільший приріст запозичень, а Ліван, Україна та Шрі-Ланка мають найвищий абсолютний рівень боргу.

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Public debt levels in frontier markets have risen to their highest mark since 2004 as governments have gorged on a tsunami of lending from bond investors and China, according to research by Oxford Economics, a consultancy.

More worrying still, the credit boom largely appears to have been wasted, with the countries that have borrowed the most having the lowest levels of investment, suggesting much of the money has not been put to productive use.

"There is this idea that these countries need to borrow to invest and reach their growth potential. This is not what has happened. We have not seen investment growth," said Evghenia Sleptsova, senior emerging market economist at Oxford Economics. She warned in particular of a sharp rise in debt to China as Beijing has rolled out its controversial Belt and Road Initiative. Project finance to the 17 frontier countries examined by Oxford Economics has risen 26-fold since 2009 to $280bn, almost half of which has flowed to just three: Pakistan, Nigeria and Argentina, according to the China Global Investment Tracker, shown in the first chart. Some $32bn of these deals are already characterised as "troubled transactions" by the CGIT.

This week, the EU warned of potential instability stemming from China's investment in the Balkans with, for instance, Montenegro's debt rising to 80 per cent of its gross domestic product as a result of a Chinese-financed highway project.

"For countries whose debt burden is already high, large additional borrowing from China can push them over the limits of sustainability," Ms Sleptsova said.

Many frontier market countries are likely to have bilateral loans from China on top of BRI-related debt, but data on this borrowing is notoriously opaque and patchy. Overall levels of external, foreign currency public debt in frontier markets fell sharply between 2003 and 2006 as countries such as Argentina and Ecuador defaulted on their debts, while others such as Ghana and Nigeria had much of their borrowing written off as part of the World Bank and IMF's Heavily Indebted Poor Countries Initiative. However, debt levels have since risen back towards their early 2000s peak, as illustrated in the second chart, with Costa Rica, Ghana and Ecuador seeing the biggest rises in borrowing and Lebanon, Ukraine and Sri Lanka having the highest absolute levels of debt.

Worse still, less of this is in the form of concessional lending from western governments and multinational bodies than was the case earlier this century. As a result, non-concessional debt —

whether from China or via the bond markets — has risen to 17 per cent of median GDP, above the early 2000s peak.

Ms Sleptsova feared the greater dominance of private investors meant that restructuring the debt of any country that ran into difficulties would be a lot harder than in the past, when debt was "relatively easily rescheduled through Paris Club and HIPC-type initiatives".

And even where such restructuring might still be relatively straightforward, she suggested the will to do so may have waned. "Ghana's write-off [which slashed concessional debt from 58.7 per cent of GDP in 2000 to 7.5 per cent in 2006] should have allowed them to spend more on productive purposes like investment, but by reaccumulating the debt again they wasted that goodwill from the west and it's not clear that the west will be as accommodating again," Ms Sleptsova said.

She believed the looming presence of China made matters worse, given that Beijing's often opaque lending "complicates assessments of financial sustainability", while the fact that this lending is often collateralised — backed by a charge over assets and revenues — means it is senior to bondholders. Pakistan's attempts to secure an IMF bailout have already been complicated by the murky nature of Chinese lending, which has rendered it hard to judge whether the country's debt is sustainable.

In Sri Lanka, China has taken control of Hambantota port and 15,000 acres of adjacent land after the island nation was unable to service a $1.2bn loan used to build the facility. "Both of these factors will make debt restructuring efforts increasingly complicated going forward, something investors should be paying particular attention to in this renewed yield-seeking environment," Ms Sleptsova said.

Frontier markets' need for foreign cash appears to have been driven primarily by a rise in fiscal deficits, as depicted in the third chart. However Ms Sleptsova argued that only three of the 17 countries, Oman, Saudi Arabia and Ecuador, could blame the broad slide in commodity prices for their fiscal deterioration.

This need to fund larger deficits could be why little of the fresh borrowing appears to be funding productive investment, despite this being the clear objective of China's BRI-related project financing.

Ms Sleptsova's data show a clear negative correlation between the two, with those countries whose debt burden has widened the most since 2011 having seen investment as a share of GDP fall the most over the same period, rather than rise.

Ukraine, Ghana and Ecuador are the worst offenders, depicted in the final chart. (One exception to this rule is Oman, which has seen a 13.2 per cent rise in its fixed investment/GDP ratio while government debt/GDP has risen by 46 per cent, but which does not easily fit in the chart).

Ms Sleptsova attributed this to higher government borrowing driving a "self-perpetuating process of consumption-fuelled growth, which widens current account deficits and, as a consequence, external debt service costs [via a weaker currency]."

She believed bond investors were failing to pay adequate attention to the risks in many frontier markets, particularly Pakistan, Ukraine and Lebanon, where Oxford Economics' elevated proprietary measure of sovereign risk suggests yields are far too low to fully compensate investors for the danger. "[Investors should] pay more attention to the composition of credit metrics, and not think that because these countries are under-developed it's OK for them to run current account deficits," she said. - Financial Times