

DEBT - THE FACTS

At any given time countries both owe debts and have them owing to them. Foreign-owned debt is a bigger crisis trigger than domestic debt, though figures relating to the latter are more commonly quoted in the media.

Net debtors and creditors

The true picture of indebtedness only emerges when net debt is worked out. That is, the total debt owed by the state and public sector, minus the debts owed to them.

Of 163 countries, 127 are net debtors, while only 36 have a surplus.

There are several debts and surpluses expressed as a percentage of a country's economy. However, in absolute terms, between 2009-11 the five largest borrowers were the US, Spain, Britain and Italy. The four largest lenders were China, Japan, Germany and Russia.

What the government owes

There are 106 countries with the largest government foreign-owned debts.

- The Japanese government is over 200% of its GDP in debt to its domestic lenders, internationally.
- However, both the government and private sector are net lenders.

Ranking countries with the lowest gross government foreign debt as % of GDP 2011

What the private sector owes

Private sector debt can be an indicator of robust trade, as some net surplus countries have sizeable private sector debts. But it is also indicative of banks and other lenders. Private sector debts across borders have contributed to the rich world debt crisis.

At the start of the European debt crisis (2007)

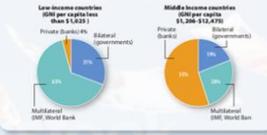
- US government foreign debt: \$5.5 trillion
- US private sector debt: \$1.8 trillion

Debt service

Debt repayment terms can determine the fortunes of a country and its ability to progress.

Lithuania pays over twice as much on debt service as on health and education combined.

The European financial crisis has driven European countries into high debt service. Meanwhile, other significant debt cancellations following the global Jubilee campaign. These countries remain among the lowest debt service payments. Central African Republic (0.1%), Afghanistan (0.2%), Mali (0.2%), Nigeria (0.5%), Burundi (0.7%), and Kenya (0.7%).



Crisis fallout - debt returns to the poorest

Lower income countries have been impacted by the financial crisis due to falling export incomes and volatile commodity prices. Borrowers from overseas workers have also been hit. Based on IMF and World Bank predictions, foreign debt repayments for impoverished countries will rise by one third.

Ethiopia, Mozambique and Niger, could be back to debt service levels equal with what they were before debt relief.

Since 2000, 45% of new lending to low income countries has come from the IMF and World Bank.

When private becomes public

In Ireland private sector borrowing created foreign debt thereby creating banks equal to 1,000% of GDP in 2007. In court, all the government's debt was 25% and falling. With the government's promise to guarantee the debts of its banks, government debt shot to 113% of GDP by 2012. Bank bailouts in Britain and the US have similarly magnified private debt into a public burden. China regulates all financial activity tightly - not only its government debt just.

The lure of credit

Before the financial crisis, banks in rich countries pursued customers with easy lend-often credit. Personal debt has risen dramatically as a result.

- In the US credit card debt rose to \$800 billion (averaging on average 16.24% interest on the money banks borrow at 3.25%). Card debts for households with cards average \$16,000.
- British borrowers have half the credit card debt of the rest of Europe.

Sources

- 1. International Monetary Fund (IMF) - World Debt: Growth and Development (2008) and World Development Report 2011. They were also used from the World Bank World Development Indicators (2012) database, the IMF World Economic Outlook (2012) and the World Bank and Programme for International Development (2012) database.
- 2. Jubilee Debt Campaign, 20 September 2012.
- 3. World Bank - Global Debt Indicators.
- 4. IMF - Global Debt Indicators.

New Internationalist

The people, the ideas, the action in the fight for global justice

Debt

NEW INTERNATIONALIST EASIER ENGLISH
IELTS / ADVANCED READY LESSON

The menu for today's lesson:

Starter: Vocabulary focus 1

Main course : Read / gap-fill (compare Easier English and original New Internationalist articles)

Accompanying vegetables: Vocabulary focus 2

Salad: Discuss: infographics

Dessert: Writing about infographics

Vocabulary

1

Match

1) bonds

2) debt

leveraging

3) shorting or
short-selling

a) when investors borrow an asset whose price they think will fall, in order to sell on. The aim is to buy back when the price drop occurs and keep the difference, returning the asset to the owner.

b) an IOU with a specific repayment date and fixed interest. They can be issued by companies, banks or governments to raise money and are traded by banks and investors.

c) refers to using debt (borrowed funds) to supplement investment which can amplify profits – and losses.

Check: <http://newint.org/features/2013/07/01/debt-keynote/>

Discuss:

What other words / phrases do you know related to debt and money?

eg. a loan a debt

What's the difference between a **loan** and a **mortgage**?



Read this story and fill the 3 gaps:

One story that has remained in my mind tells of an impoverished paterfamilias who is forced by poverty into the clutches of a wealthy moneylender who extends credit at a scouring rate of interest (consider the pay-day loans offered by sharks to struggling families today). The poor man does everything to try to 1)_____ the loan while his family sinks ever deeper into the most abject want. >>

Eventually he is reduced to suppressing notions of his honour and starts avoiding the creditor. The closing scene has the moneylender at the threshold of the family's hovel. Getting no response from those cowering inside he yanks down a curtain to take as part payment of the 2)_____ – only to find the household's women huddled together to conceal the flesh left bare by the rags they are dressed in. This finally shames the moneylender, who turns around and 3)_____ empty handed.

Check your answers: in paragraph 5 of this article:

<http://newint.org/features/2013/07/01/debt-keynote/>

Now read the “Easier English” version, on the next slide, and fill the 6 gaps

I remember one story about a poor father who has to borrow money ..(1).. a rich moneylender. The poor man has to pay a very ..(2).. rate of interest, so his family gets poorer and poorer. At the end, he tries to avoid the moneylender. So the moneylender goes to the family's poor house. He calls to get his ..(3).., but the family try to hide inside. So he pulls down a curtain to take as part of the ..(4).., but finds the very poor women behind it who are almost naked. The ..(5).. feels ashamed he has taken everything from them, and goes away with ..(6)...

The Easier English article is SO
MUCH easier, isn't it?

Now read the whole Easier English
article, checking the 5 gaps and noting
down some problems and solutions
related to “debt”:

[http://eewiki.newint.org/index.php/Debt -
a global scam](http://eewiki.newint.org/index.php/Debt_-_a_global_scam)

Then click on the original at the bottom and
read that again.

Discuss

1) Compare your notes on the problems and solutions associated with debt.



2) Then read the second article to find more problems and solutions – first the Easier English : [http://eewiki.newint.org/index.php/Debt and austerity are now in Europe](http://eewiki.newint.org/index.php/Debt_and_austerity_are_now_in_Europe)

and then the original:

<http://newint.org/features/2013/07/01/debt-europe-austerity/>

(so much easier to read after reading the Easier English version – isn't this a good way to improve your reading?)

Vocabulary focus 2:

Chose one of the 2 articles and focus on new vocabulary and phrases in the original article – check the meanings with the Easier English article.

eg. “impoverished paterfamilias” = “poor father”

Compare new vocabulary and phrases with other learners.



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At any given time countries both owe debts and have them owing to them. Foreign-owned debt is a bigger crisis trigger than domestic debt, though figures relating to the latter are more commonly quoted in the media.



Net debtors and creditors

The true picture of indebtedness only emerges when net debt is worked out – that is, the total debt owed by the private and public sectors, minus the debts owed to them.



Largest net debtors 2011

OF 163 countries, 127 are net debtors, while only 36 have a surplus.

These are external debts and surpluses expressed as a percentage of a country's economy. However, in absolute terms, between 2001-11, the four largest borrowers were the US, Spain, Britain and Italy. The four largest lenders were China, Japan, Germany and Russia.¹



And also...



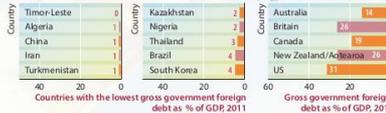
What the government owes

These are the countries with the largest government foreign-owned debts.

* The Japanese government is over 200% of its GDP in debt - to its own domestic savers. Internationally, however, both the Japanese government and private sector are net lenders.



And also...



What the private sector owes

Private sector debt can be an indicator of robust trade (some net surplus countries show sizeable private sector debts). But it is also indicative of banking catastrophes. Private sector debts across borders have contributed to the rich world debt crisis.

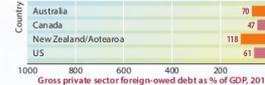
At the start of the European debt crisis (2008):

- EU government foreign debts: \$5.5 trillion
- EU banks' foreign debts: \$15.8 trillion

Figures for private sector debt aren't available for many poorer countries.



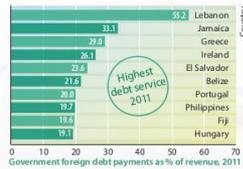
And also...



Debt service

Debt repayment terms can determine the fortunes of a country and hobble its progress.

Lebanon pays over twice as much on debt service as on health and education combined.



Highest debt service 2011

The European financial crisis has drawn European countries into high debt service. Meanwhile, after significant debt cancellations following the global Jubilee campaign, these countries now have among the lowest debt service payments: Central African Republic (0.1%), Afghanistan (0.2%), Haiti (0.2), Nigeria (0.5%), Burundi (0.7%), and Liberia (0.7%).

The lenders²

Most impoverished countries source loans either from other governments or international institutions like the IMF or the World Bank, while private lenders play a more important role for the middle rankers.

Low-income countries (GNI per capita less than \$1,425)

Private (banks) 4%

Bilateral (governments) 31%

Multilateral (IMF, World Bank) 65%

Australia 6%

Britain 13%

Canada 12%

US 27%

China 34%

Middle income countries (GNI per capita \$1,200-\$12,475)

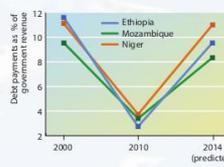
Private (banks) 55%

Bilateral (governments) 19%

Multilateral (IMF, World Bank) 26%

Crisis fallout – debt returns to the poorest

Lower income countries have been impacted by the financial crisis due to falling export incomes and volatile commodity prices. Remittances from overseas workers have also been hit. Based on IMF and World Bank predictions, foreign debt repayments for impoverished countries will rise by one third. Ethiopia, Mozambique and Niger, could be back to debt service levels on par with what they were before debt relief.



Since 2007, 45% of new lending to low income countries has come from the IMF and World Bank.³

When private becomes public

In Ireland private sector borrowing created foreign debt (mainly owed by banks) equal to 1,000% of GDP in 2007.

In contrast, the government's debt was 25% and falling.

With the government's promise to guarantee the debts of Irish banks, government debt shot to 113% of GDP by 2012.⁴

Bank bailouts in Britain and the US have similarly magicked private debt into a public burden.¹

China regulates all financial activity tightly: not only is its government debt just 1% of GDP, so too is its external private debt.

The lure of credit

Before the financial crash, banks in rich countries pursued customers with easy (and dodgy) credit. Personal debt has risen dramatically as a result.

• In the US credit card debt runs at \$800 billion generating an average 16.24% interest on the money banks borrow at 3.25%. Cost debts for households with cards average \$16,000.⁵

• British borrowers have half the credit card debt of the whole of Europe.⁶

Sources

Unless otherwise stated all facts are from Jubilee Debt Campaign's new database (jubileedebtcampaign.org.uk), released June 2013. They were calculated from the World Bank's World Development Indicators and External Debt databases, the IMF World Economic Outlook database and Article IV Consultation and Programme documents (individual countries), the OECD Central Government Debt database, International Investment Position figures (individual countries).

1 Jubilee Debt Campaign, The Jubilee Debt Campaign, 2012.
2 World Bank External Debt database.
3 Stokes Debt/Debt Copy Wall Street, The Debt Register's Quarterly Monitor, September 2012.
4 John Lanchester, Why we're now over-indebted to one case, Penguin, 2010.

Infographic :
what sort of
information
do you expect
to find here? –
discuss:

<http://newint.org/features/2013/07/01/debt-the-facts-infographic/>

What do these charts show? – discuss and give examples

DEBT – THE FACTS

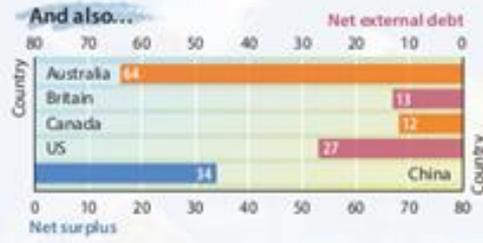
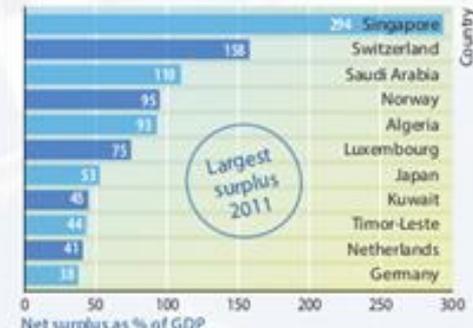
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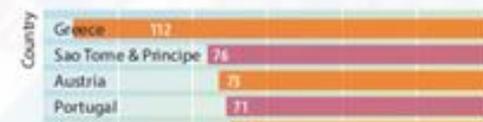
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What the government owes

These are the countries with...



Debt service

Debt repayment terms can determine the fortunes of a country and hobble its progress.

Lebanon pays **over twice** as much on debt service for **health and education** combined.

The European financial crisis. Meanwhile, after significant aid, countries now have among the lowest rates of growth in the world (Afghanistan (0.2%), Haiti (0.2%),...

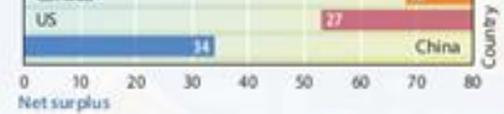
The lenders

Most impoverished countries are net debtors. Institutions like the IMF and World Bank are the middle rankers.



Crisis fallout debt returns the poorest

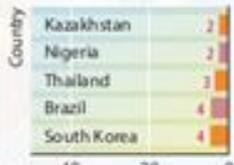
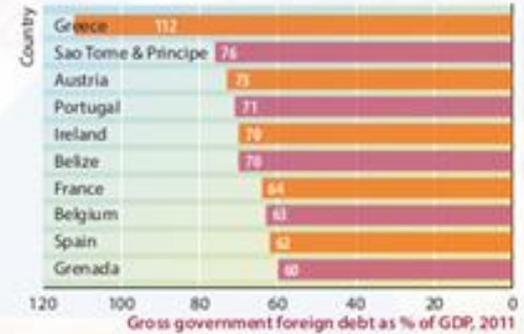
And what do these 2 charts show? – discuss and give examples



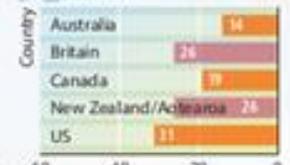
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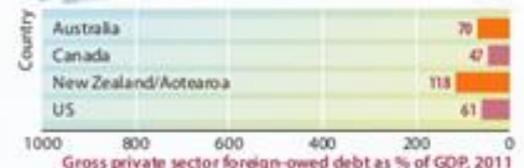
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Figures for private sector debt aren't available for many poorer countries.



And also...



Source: UN World Investment Report 2011, IMF Working Paper, OECD, 1 Jubilee 2000, 2 World Bank, 3 Strik, 4 John...

Writing:

Now, in pairs, choose one of the graphs / diagrams, and write a paragraph explaining what it shows, with clear examples.

Compare with paragraphs that others have written.



Homework: reading and vocabulary

Go back to the Easier English New Internationalist wiki:

http://eewiki.newint.org/index.php/Main_Page

and select a few more articles that interest you – either from the magazine covers or from the “categories” on the left.

Read each article, then click on the original at the end and read that, then compare the language and learn some of the new vocabulary.