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The PBO provides a quarterly analysis of economic developments for Members of Parliament following the release of quarterly economic data by Stats SA, the South African Reserve Bank and the National Treasury.

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Introduction

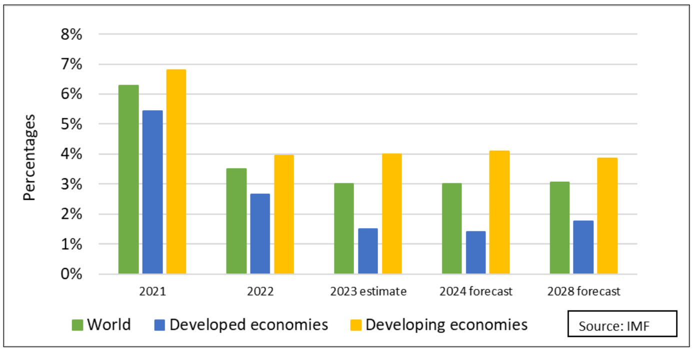
This Quarterly Economic Brief (QEB), compiled by the Parliamentary Budget Office (PBO), provides an update on the performance of the South African economy for the second quarter of 2023. The QEB provides economic updates, particularly on macroeconomic performance, based on the most recent quarterly and monthly data releases from organisations such as Statistics South Africa (Stats SA), the South African Reserve Bank (SARB), the United Nations and the International Monetary Fund (IMF).

Global economic outlook

The outlook for the global economy is gloomy for the rest of 2023 and possibly well into 2024. The impact of several increases in interest rates to tame inflation has not been particularly effective at reducing inflation levels. Instead, much of the reduction in inflation globally over the recent quarter has been due to the easing of oil prices and improvement in supply chains. However, the impact of several interest rates has already caused bank failures in the United States of America (USA) and Switzerland. This has increased distress and the potential for defaults in commercial real estate markets across Europe and the USA. We can expect the impact of the rise in interest rates to start showing in several other sectors and regions, including in the industrial and services sectors, where debt levels increased much during the period of low interest rate policies and quantitative easing in developed countries.

The economic slowdown in China and the likelihood of defaults from China's largest real estate developers, such as Evergrande and Country Garden, will not only have negative impacts on China's Asian neighbours but also on African countries that supply raw materials to China.

Figure 1: IMF projections for global economic growth



Overall, the widespread adoption of tighter monetary policy and fiscal austerity across the globe has caused distress for businesses that required more borrowing during the pandemic and has put downward pressure on global aggregate demand.

The risk of more financial fragility in developed economies and China poses a serious concern for global economic activity and has already affected investment and trade in developed countries. In their 2023 World Economic Outlook (WEO) update, the IMF recently reported that gross fixed capital formation (GFCF) and industrial production in developed countries slowed sharply or contracted. This slowdown has negatively affected international trade and manufacturing in emerging markets. Trade, investment and growth are all expected to weaken in the short term.

Overall, developing countries in Africa and Latin America remain too dependent on primary sectors and inadequately industrialised. Internal conflict, including the high number of coup de tats in Africa over the past few years, has high social and economic costs and often reverses economic progress. Conflict constrains economic development. The conflicts could spill over and cause harm to neighboring countries.

After the Covid-19 pandemic, more developing countries are likely to miss their Sustainable Development Goal (SDG) targets. It is also expected that climate change will further increase development challenges and achievement of SDGs. There is also an increasing risk of debt default on private and public debt because so many developing countries have increased their debt levels. Some of this increase was due to increased lending by developed country lenders during the low interest rate quantitative easing period. Many governments increased their debt levels in response to the pandemic (see box on risk of debt default by developing countries). These problems occur at a time when global risks related to the 'polycrisis' have escalated.

The current advice offered by the IMF and United Nations (UN) in the face of all the risks faced, and the possibility of default on their loans to developing countries is very different. The IMF (2023 WEO update), which sees inflation as the major concern, calls for government austerity to support tighter monetary policy. They assert that "although the primary responsibility for restoring price stability lies with central banks, legislated government spending cuts or tax increases aimed at ensuring public debt sustainability can, by reducing aggregate demand and reinforcing the overall credibility of disinflation strategies, further ease inflation", With regard to rising fiscal deficits and debt levels, the IMF's advice to developing countries is that "… credible medium-term fiscal consolidation is in many cases needed to restore budgetary room for manoeuvre and ensure debt sustainability".

On the other hand, the UN recognising the need to build resilience in developing countries in the face of escalating and integrated risks, advises fiscal expansion. In 2023, the UN Secretary-General advocated for developing country governments to embark on "bold, targeted and timely" fiscal expansion and called for support from developed countries to support their recovery and stimulus. The UN's 2023 SDG Report warned that "progress on more than 50 per cent of targets of the SDGs is weak and insufficient; on 30 per cent, it has stalled or gone into reverse." They indicate that key SDG targets for reducing poverty, hunger and climate levels have reversed since the pandemic.

The UN warned that many developing countries will be unable to finance improvements to meet the SDG targets. They say many developing countries will fail to meet the 2030 targets because they are "… buried under a mountain of debt". They indicate a high risk that one-third of countries will be unable to service their debt. The SG of the UN, Guterres referring to the 2023 SDG report, said: "This report sounds the alarm, calling for a Rescue Plan for People and Planet." The UN proposes an SDG stimulus supported by developed countries, which would require significant changes to the multilateral development finance debt system.

South African economic situation: Gross domestic product[1]

South Africa's quarter-on-quarter seasonally adjusted (qqsa) GDP grew by 0.6 per cent in the second quarter of 2023. Measured on a year-on-year basis GDP grew by 1.6 per cent in the same period.

The muted GDP reading reflects a fragile economic environment which continues to be plagued by several challenges, predominantly inadequate electricity supply. Electricity generation declined by -7.0 per cent year-on-year in the second quarter and in the context of severely constrained domestic aggregate demand remains a significant impediment to the country's growth potential.

In the second quarter of 2023, the agricultural sector grew by 4.2 per cent driven by a rise in field crops output and horticulture products. This comes after a stark -11.9 per cent decline in the previous quarter, which dampened the first quarter results, offsetting gains from other sectors. Despite this recovery, the sector confronts several challenges that hinder its optimal performance, such as deteriorating roads, inadequate water infrastructure, electricity supply issues, and climate-related concerns.

The mining and quarrying sector experienced a 1.3 per cent rise in the second quarter driven by heightened activity of Platinum Group Metals (PGMs), gold, coal and other metallic minerals. A weaker dollar, alongside geo-political tensions, increased the appeal of gold as a safe-haven asset. Meanwhile, PGMs saw benefits from strong global auto sales in the first half of 2023. As a result, the primary sector of the economy increased by 2.4 per cent in the second quarter of 2023.

[1] All expenditure/growth data is seasonally adjusted and annualised unless otherwise stated

Table 1: Quarterly economic performance by sector

% change q/q	Agriculture	Mining	Manufacturing	Utilities*	Construction	Trade	Logistics**	Business services***	Government	Personal services	GDP
2020Q3	1,5	45,5	35,5	12,6	14,8	26,0	13,1	6,2	0,3	4,6	**13,7**
2020Q4	8,1	-1,3	5,5	0,5	2,0	1,3	4,6	2,9	0,2	1,4	**2,7**
2021Q1	5,0	4,1	0,1	-0,8	0,3	0,8	-2,5	0,6	0,1	1,0	**0,6**
2021Q2	10,1	2,0	-1,3	0,6	-1,3	3,3	6,6	-0,9	-0,5	2,5	**1,3**
2021Q3	-25,8	-1,2	-3,7	0,3	-1,1	-4,6	-1,5	0,8	0,3	0,2	**-1,9**
2021Q4	15,3	-3,2	1,9	-3,1	-2,7	4,0	2,6	-0,5	-0,2	2,6	**1,4**
2022Q1	-0,9	-2,6	4,3	2,5	-0,6	2,9	1,3	1,9	1,3	0,2	**1,5**
2022Q2	-11,8	-3,1	-5,6	-1,4	-2,6	-1,1	2,7	2,1	-1,5	0,3	**-0,8**
2022Q3	31,4	1,9	1,6	-2,6	4,1	1,2	3,4	1,1	0,4	-1,0	**1,8**
2022Q4	-2,4	-3,0	-1,2	-2,0	0,4	-2,2	0,9	-1,6	-0,7	-0,1	**-1,1**
2023Q1	-11,9	1,4	1,5	-1,0	1,1	0,7	1,1	0,6	0,3	0,8	**0,4**
2023Q2	4,2	1,3	2,2	-0,8	-0,4	-0,4	-1,9	0,7	0,6	0,7	**0,6**

Source:StatsSA
*Utilities includes electricity, gas and water
**Logistics includes transport ,storage and communication
***Business services includes finance, real estate and business services

The secondary sector grew by 1.5 per cent in the second quarter, driven by the manufacturing industry. Manufacturing activity increased by 2.2 per cent, largely underpinned by the performance of the petroleum, chemical products, rubber and plastic product segments. However, despite this favourable outcome, the manufacturing sector remains subdued, with domestic demand depressed and export activity undermined by the fragile state of the global manufacturing sector.

On the other hand, activity in the construction sector fell by -0.4 per cent in the second quarter, following growth of 1.1 per cent in the first quarter. The decline was influenced by a drop in economic activity in both residential buildings and non-residential buildings, according to Stats SA. This is supported by the Bureau for Economic Research's (BER) second quarter building survey results which indicated a decrease in confidence among builders in both the residential and non-residential sectors of the market.

The tertiary segment of the economy experienced a modest 0.2 per cent growth. This growth was constrained by the transport and trade sectors, which together subtracted -0.3 percentage points from the headline figure. Conversely, the finance sector grew by 0.7 per cent.

Expenditure on GDP

Using the expenditure approach to measure GDP, the second quarter reflected a growth of 0.6 per cent. Household consumption expenditure, which constitutes approximately two-thirds of the GDP declined by -0.3 per cent after marginal growth in the two preceding quarters. Consumer demand remains highly constrained and is exacerbated by the rising cost of living, while unemployment remains at critically high levels.

Table 2: Quarterly sector performance of expenditure components of GDP

% change q/q	Household consumption	Government Consumption	Invesment*	Exports	Imports	Exp on GDP
2020Q3	17,9	0,2	13,6	28,3	-0,7	**13,7**
2020Q4	3,5	0,4	4,8	5,6	11,2	**2,7**
2021Q1	0,5	-0,6	-2,7	1,2	6,6	**0,7**
2021Q2	1,7	0,5	-0,2	3,1	0,3	**1,4**
2021Q3	-2,9	0,6	-0,1	-6,8	-3,4	**-1,8**
2021Q4	2,9	0,2	1,5	8,3	8,5	**1,5**
2022Q1	1,2	0,9	2,9	3,7	6,2	**1,5**
2022Q2	0,1	-0,9	0,4	0,2	4,9	**-0,9**
2022Q3	-0,1	0,5	0,4	2,0	0,2	**1,7**
2022Q4	0,7	-0,7	1,5	-3,2	-0,8	**-1,1**
2023Q1	0,4	1,3	1,8	4,3	4,8	**0,3**
2023Q2	-0,3	1,7	3,9	0,9	3,3	**0,6**

Source: Stats SA
*Investment refers to gross fixed capital formation

While exports grew by a modest 0.9 per cent, they were outpaced by imports which increased by 3.3 per cent during the quarter. Domestic logistical constraints and weak global manufacturing demand have hindered export prospects.

Government consumption however grew by 1.7 per cent, following a revised 1.3 per cent increase in the first quarter. GFCF increased by a notable 3.9 per cent. The increase was supported largely by the pick-up in the machinery and other equipment grouping which grew by 11.0 per cent over the quarter.

Employment

The official unemployment rate decreased to 32.6 per cent in the second quarter of 2023 from 32.9 per cent in the first quarter of 2023. Statistics South Africa indicated that a large number of people moved from the "not economically active" category to "employed" and "unemployed" between the two quarters, which resulted in a decrease of 0.3 per cent in the unemployment rate.

The number of unemployed decreased by 11 000 while the number of those who are employed increased by 154 000 in the same quarter. The number of employed increased to 16.3 million in the second quarter and has almost reached pre-COVID levels.

The expanded unemployment rate (which includes individuals who desire employment regardless of whether they actively seek work) increased by 0.2 per cent to 40.1 per cent in the second quarter of 2023 compared to the first quarter of 2023.

Table 3: Key labour statistics – Quarterly Labour Force Survey (QLFS)

	2Q 2022	1Q 2023	2Q 2023
Labour force ('000s)	**23 566**	**24 125**	**24 268**
Employed	**15 562**	**16 192**	**16 346**
Unemployed - official	**7 944**	**7 933**	**7 921**
Unemployed - broad*	**12 282**	**11 937**	**11 872**
Not economically active ('000s)	**16 621**	**16 479**	**16 478**
Discouraged job-seekers	3 568	3 276	3 182
Other (not economically active)	13 053	13 202	13 296
Unemployment rates			
Official unemployment rate (narrow)	33.9%	32,9%	32.6%
Broad unemployment rate*	38.7%	39,9%	40.1%
Labour Force Participation Rate	58.6%	59,4%	59.6%

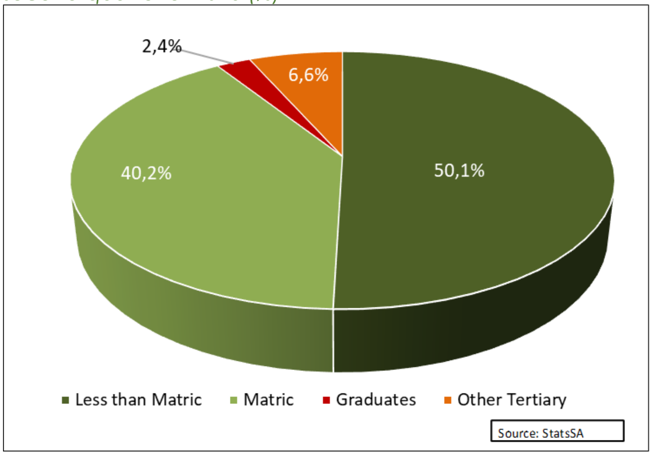
* The broad unemployment rate includes discouraged job seekers
**Data Source: Quarterly Labour Force Survey, Stats SA

At a provincial level, the largest employment increases were recorded in Limpopo (80 000), Western Cape (54 000) and KwaZulu-Natal (48 000) in the second quarter of 2023, while Free State (59 000) and Northern Cape (17 000) recorded the largest job losses during the same period.

Gender disparities persist in South Africa's labour market, with the proportion of men in employment higher than that of women and the unemployment rate among men lower than amongst women. According to the official definition of unemployment, the unemployment rate for women in the second quarter of 2023 was 35.7 per cent, compared to 30.0 per cent for men.

Youth in South Africa continue to suffer in the labour market with an unemployment rate higher than the national average. According to the Quarterly Labour Force Survey (QLFS), South African Youth aged 15-24 years and 25-34 years recorded the highest unemployment rates of 60.7 per cent and 39.8 per cent respectively, while the current official national rate stands at 34.5 per cent. In the second quarter of 2023, up to 50.1 per cent of the 7.9 million unemployed had education levels below matric, followed by those with matric at 40.2 per cent.

Figure 2: Proportion of the unemployed by education level – second quarter of 2023 (%)



According to Stats SA, five of eight industries surveyed in the formal sector (non-agriculture) reported job gains. The formal sector job gains were mainly driven by Trade (71 000), Construction (62 000), Transport (38 000), Community and social services (34 000) and Mining (30 000). Formal sector job losses were driven by manufacturing at 53 000 followed by Finance at 29 000 respectively.

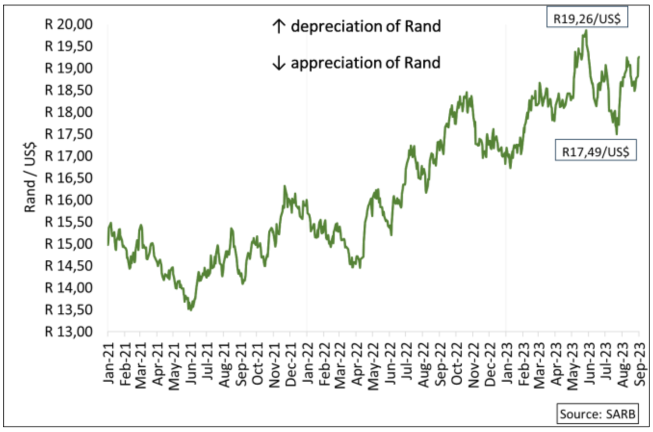
Exchange rate

The South African rand saw fluctuations against the US dollar in the second quarter of 2023. In July, the rand strengthened to R17.49 against the dollar, however by September, it weakened to R19.26.

Several international and domestic events influenced this trend, including the economic slowdown in China, spurred by challenges in its real estate market and deflation. These events and a stronger US dollar played a role in affecting prices of some key South African exports such as iron-ore.

Since January 2023, the rand has depreciated by 12.8 per cent against the dollar. The reintroduction of extensive power cuts, resulting in 8 to 12 hours of outages daily for many households and businesses, may be one of the many domestic factors ally weighing on the rand.

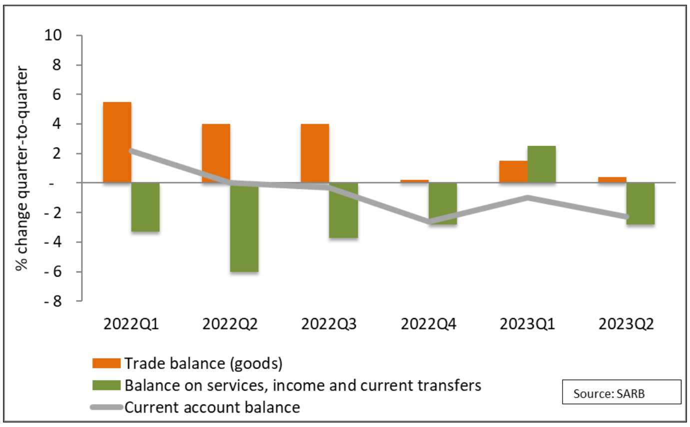
Figure 3: The rand-dollar exchange rate



Current account

South Africa's current account remained at a deficit in the second quarter of 2023. The deficit on the current account widened to R160.7 billion (2.3 % of GDP) in the second quarter of 2023 from a revised 63.7 billion in the first quarter of 2023. While the deficits on the primary income account narrowed, the second quarter deficit widened due to noticeably wider deficits on the services account and secondary income account. The shortfall in the services and current account transfers grew from R174.3 billion in the first quarter of 2023 to R191. 8 billion in the second quarter. Meanwhile, the trade surplus narrowed further to R31.1 billion in the second quarter of 2023 compared to R110.6 billion in the previous quarter. The value of merchandise imports grew while that of goods exported declined. In summary, while the trade surplus has declined, the main reason for the negative current account balance remains the balance on services income and current transfers.

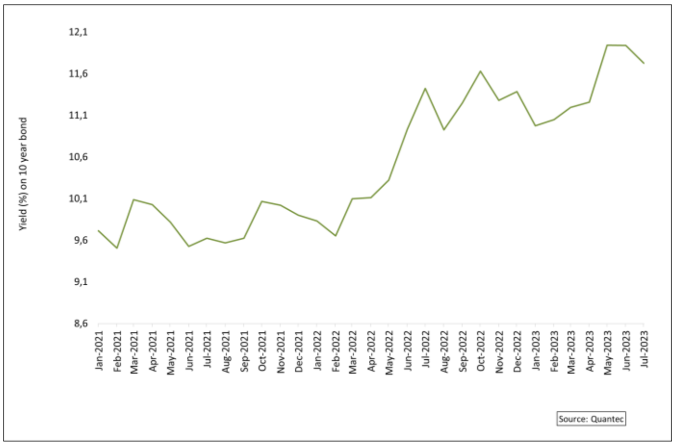
Figure 4: Change in the balance of the current account (as a percentage of GDP)



Sovereign risk

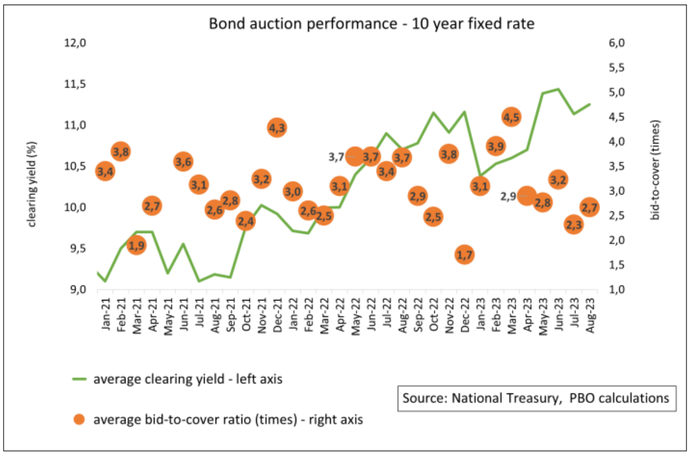
The yield on South Africa's 10-year bond reached 11.7 per cent in July 2023 compared to 11.9 per cent in June 2023. These movements reflect speculative behaviour in global markets, which may be affected by a range of domestic challenges including loadshedding, the financing needs of state-owned enterprises, volatility of the rand, and high policy rates. Global trends, including high inflation and elevated global interest rates in advanced economies that often trigger capital outflows from emerging market economies such as South Africa, may also have influenced these yields.

Figure 5: Yield on SA 10-year bond



In August 2023, the average clearing yields, which represent the interest government has to pay to finance the budget deficit and refinance maturing debt increased. Simultaneously, there was a marginal increase in demand for domestic bonds.

Figure 6: Increasing cost of issuing government debt



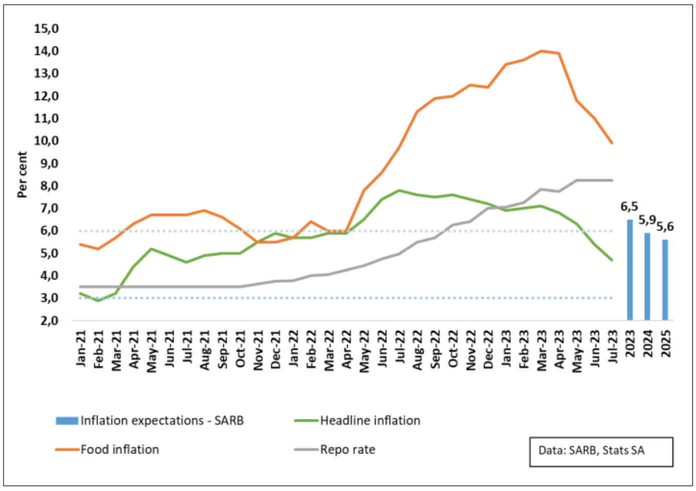
Inflation and monetary policy

Headline consumer price inflation (CPI) for all urban areas declined to 4.7 per cent in July 2023 from 5.4 per cent in June 2023. This is the lowest reading since July 2021. The most notable contribution to the deceleration of inflation in July were food prices. Food prices decreased from 11.0 per cent in June 2023 to 9.9 per cent in July 2023.

For the first time since April 2022, headline inflation has re-entered the SARB's inflation target range of 3 to 6 per cent. As a result, the SARB's Monetary Policy Committee (MPC) maintained the repurchase rate at its current level of 8.25 per cent in their July 2023 committee meeting. There have been 10 consecutive hikes since the SARB began raising rates in November 2021.

The SARB acknowledged that the current repurchase rate level is restrictive to the performance of the economy. However, that is the very reason for keeping interest rates high. The aim is to increase the cost of borrowing and so decrease investment and employment to reduce demand and thereby decrease price levels. The current trajectory of South Africa's headline inflation rate is influenced primarily by fuel, electricity, and food prices. The expected drier weather conditions, continued tight oil markets and inconsistent energy supply, will continue to put upward pressure on inflation. Therefore, we expect the SARB to maintain its restrictive, growth and employment eroding monetary stance, even though increased demand is not the cause of higher prices. However, this approach, while benefiting the banks and the wealthy with higher interest incomes, will further hurt economic activity and will not ease the ongoing cost of living pressures on households.

Figure 7: Inflation is within the SARB's target range



Domestic economic outlook

The SARB and the IMF's domestic GDP projections for 2023 are slightly higher than the previous estimates. This demonstrates some resilience from households and firms amidst volatile economic growth and intensified load-shedding. However, the SARB's outlook for South Africa in 2024 and 2025 remains unchanged, reflecting the uncertainty of the external environment and an economy experiencing subdued growth.

Economic activity is expected to continue to be constrained by frequent power shortages which escalate operational costs for businesses, the El Niño cycle, fiscal consolidation measures, high interest rates, prolonged slowdown in key export markets, and lower commodity prices.

Table 4: Revised SA growth outlook

GDP growth outlook - calender year*	2023	2024	2025
National Treasury - Budget 2023	0.9%	1.5%	1.8%
South African Reserve Bank - March 2023	0.2%	1.0%	1.1%
South African Reserve Bank - July 2023	0.4%	1.0%	1.1%
IMF - World Economic Outlook - April 2023	0.1%	1.8%	
IMF - World Economic Outlook - July 2023	0.3%	1.7%	
Bureau for Economic Research - April 2023	0.2%	1.4%	1.8%
Bureau for Economic Research - July 2023	0.4%	1.2%	2.0%
UNCTAD - April 2023	-0,3%		
*Growth projections correspond to publication date and not forecast date			
Data: National Treasury, South African Reserve Bank, International Monetary Fund, BER, UNCTAD			

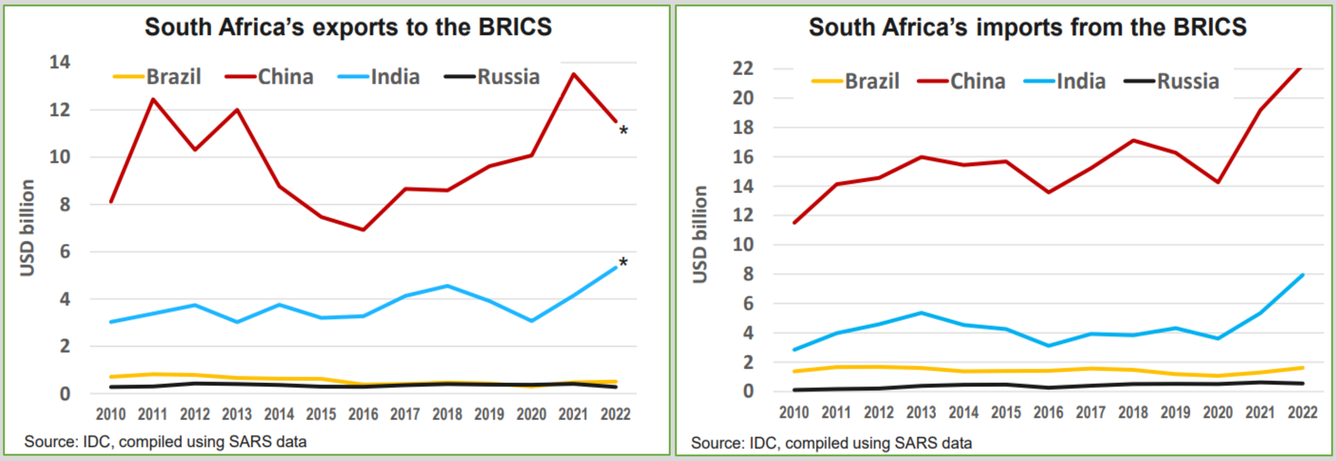
Box 1: The Evolving Role of BRICS

The Federative Republic of Brazil, the Russian Federation, the Republic of India, the People's Republic of China and the Republic of South Africa (BRICS) bloc met in South Africa, in August 2023 for the XV BRICS Summit held under the theme: "BRICS and Africa: Partnership for Mutually Accelerated Growth, Sustainable Development and Inclusive Multilateralism". Since the inaugural BRIC summit in 2009, the UNCTAD (2023), noted that "the BRICS have seen their economic influence increase over the past decades, as drivers of global growth, trade and investment". With 42 per cent of the world's population and more than a quarter of the global GDP, BRICS is now one of the most significant economic blocs in the world (UNCTAD, 2023).

South Africa-BRICS trade

South Africa has benefited from growing trade within the BRICS bloc. The country's exports to BRIC member states expanded by 41 per cent between 2017 and 2021. South Africa's imports from BRIC countries increased by 38 per cent in the same period (International Trade Centre, 2023). The BRICS economies accounted for about 21.2 per cent of South Africa's total trade with the world in 2022, of which China accounted for 67.4 per cent, India 26.8 per cent, Brazil 4.1 per cent and Russia 1.6 per cent (IDC, 2023).

Figure 8: South Africa's trade with the Federative Republic of Brazil, the Russian Federation, the Republic of India and the People's Republic of China



With new members (Saudi Arabia, Iran, Ethiopia, Egypt, Argentina and the United Arab Emirates), South Africa may expand their trade further. South Africa's export basket mainly comprises of primary products in the mining sector. There is scope for the country to expand its exports to existing (particularly Russia and Brazil) and new members. Greater focus should be placed on diversifying the export basket which requires a broader strategy for structural economic transformation in South Africa.

The New Development Bank and the Contingency Reserve Arrangement

BRICS has played a significant role in challenging existing international structures. From the first summit, the nations have called for global economic reforms to "create conditions for a more just world order". They have advocated for less reliance on the dollar and a new global reserve currency that would be diversified, stable and predictable. In 2013 and 2014, BRICS committed to developing the New Development Bank (NDB) as well as the Contingent Reserve Arrangement (CRA). The NDB became fully operational in 2016 as a multilateral development bank (MDB) with an initial subscribed capital of US$ 50 billion (BRICS Policy Center, 2018). The CRA began in 2015 as a framework of support (estimated at US$100 billion) meant to provide additional liquidity protection to member countries to reduce the risks assocaited with balance-of-payment problems (National Treasury, 2014).

These institutions gained salience as alternatives to the International Monetary Fund and the World Bank after continuous resistance from the IMF to give a greater voice to emerging powers in the decision-making processes (Merling & Kring, 2023). BRICS now hold a common reserve of about US$ 4 trillion (Devonshire-Ellis & Bonesh, 2023).

As of 2022, the NDB has funded over 90 projects valued at US$ 32 billion. These facilities have the potential to play a significant role in helping the BRICS bloc in the context of global financial instability and global imbalances such as debt crises, high interest rates, and lacklustre investment, amongst others. The NDB has the potential to play an important, and increased, role in providing an alternative funding source for much-needed socioeconomic development projects, particularly in infrastructure.

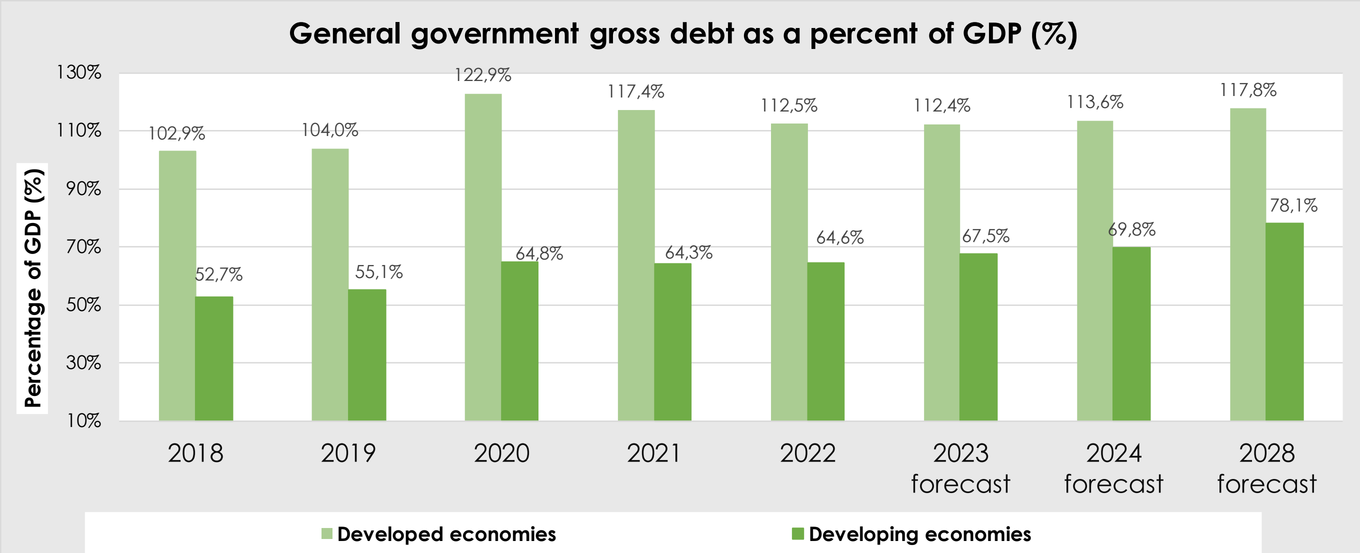
Cooperation, Leadership, and Information-sharing

The BRICS forum was founded on the principles of "cooperation, leadership, and information-sharing". The forum presents an opportunity for member countries to glean insights from one another – such as navigating debt crises. As the polycrisis rages globally, the BRICS forum has the potential to be a significant forum for socioeconomic strategies. In the Johannesburg II Declaration, the bloc affirms the significance of having a forum of this nature. They state that they "believe that multilateral cooperation is essential to limit the risks stemming from geopolitical and geoeconomic fragmentation and intensify efforts on areas of mutual interest, including but not limited to, trade, poverty and hunger reduction, sustainable development, including access to energy, water and food, fuel, fertilizers, as well as mitigating and adapting to the impact of climate change, education, health as well as pandemic prevention, preparedness and response" (BRICS 2023). COVID-19 demonstrated that global cooperation and solidarity are crucial to our collective well-being, and as countries continue to deal with crises, forums such as the BRICS can serve as important structures for learning and support.

Box 2: The potential debt problems facing developing countries for Sep 2023 QEB

Many developing countries face the increasing risk of debt problems and even crises. World Bank data reveals that Low- and Middle Income Countries' (LMIC) stock of external debt, including from their access of special drawing rights (SDRs) from the International Monetary Fund, in 2021 of US$9.3 trillion was 7.8 per cent higher than it was in 2020 at US$8.6 trillion. A large share of this increase in external debt of LMIC's would have been to deal with the impact of the Covid-19 pandemic, including imports of protective equipment and vaccines. The World Bank estimates that the average ratio of external LMIC debt to the gross national income (GNI) ratio, excluding China, increased by 2 per cent from 27 per cent in 2019 to 29 per cent in 2020.

Figure 9: General government gross debt as a per cent (%) of GDP



Source: international Monetary Fund, 2023 WEO

Of the total LMIC debt stock, long-term external debt in 2021 was US$6.4 trillion, and short external term debt was US$2.4 trillion. The public and publicly guaranteed (PPG) share of LMIC external debt was 37 per cent of their total external debt stock, which amounted to US$3.5 trillion. Private non-guaranteed debt was 32 per cent of LMIC external debt stock, amounting to US$3 trillion. The LMIC total external debt stock, including SDRS, in 2010 was US$4.3 trillion while their external long-term debt was US$3 trillion and external short-term debt was US$1.1 trillion. In 2010, LMIC PPG was US$1.6 trillion and PNG was US$1.4 trillion.

The economic pressures on LMICs since the global financial crisis, the poor global recovery after the global financial crisis and the Covid-19 pandemic has caused both private and public LMIC debt levels to increase. During this period, a larger share of LMIC external debt was from private lenders and in global bond markets. During the period when developed countries were implementing quantitative easing, developed country private lenders, who benefited from very low interest rates, offered more debt to LMICs to earn higher returns.

According to UNCTAD, the percentage of PPG debt owed to private creditors has grown about 1.5 times from 43 per cent in 2000 to 62 per cent in 2020. Both private and public borrowers of LMICs increased their shares of foreign denominated debt. They also received higher rates and shorter-term loans as they shifted from official to private lenders. This change was encouraged by the IMF, which has increasingly positioned itself as a facilitator to leverage more private debt and an advocate for blended finance.

As a result, the impact of pressure from credit rating agencies and speculative activities in secondary debt markets have increased the risks and rates faced by LMIC. Increased borrowing from private sources, increased foreign currency loans and more short-term debt has increased both borrowing and debt service costs.

With the end of quantitative easing and the increased interest rates over the past two years, many developing countries are now facing a situation that could lead them to debt crises. The situation is exacerbated because there are inadequate global support measures in an outdated global financial architecture to provide most countries of the world with access to financial services that will aid their development in an age of increased risks linked to the 'polycrisis'.

The current global financial architecture is harsh on developing countries that run into debt problems. International financial institutions and developed country governments are not doing enough to avert the looming developing country debt crisis and risks related to climate change. The choices to increase interest rates to rein in inflation by raising the cost of borrowing (including existing loans) and so to constrain and even shrink economic growth, investment and employment further harms developing countries. Therefore, it is unsurprising that the United Nations has proposed a "Rescue Plan for People and the Planet". The UN Secretary General, referring to the conference at the end of World War 2 that reshaped the global financial architecture to support post-war reconstruction, has stated that "we need a new Bretton-Woods moment".

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