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# A tonne of public debt is never made public

New research suggests governments routinely hide their borrowing



**Shadow finance** PHOTOGRAPH: GETTY IMAGES

Oct 3rd 2024

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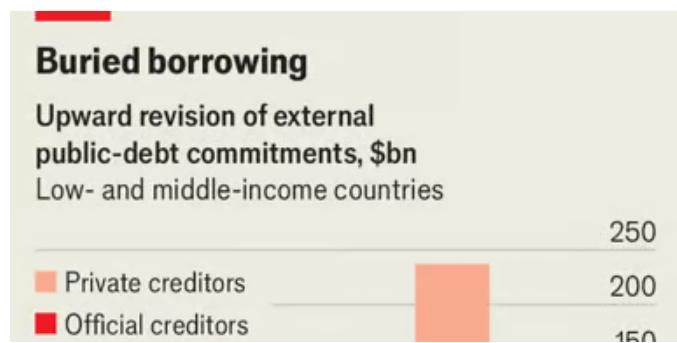
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**H**OW MUCH money has Senegal borrowed? More than previously thought, according to Ousmane Sonko, who became its prime minister in April. At a press conference on September 26th he said the previous government had “lied to the people” by hiding loans worth 10% of GDP, enough to push the country’s public debt to 83% of national income. Since a full audit has not yet been published, it is hard to know what numbers to believe. The IMF, which has a \$1.9bn bail-out programme with Senegal, is not pleased.

This sort of confusion is surprisingly common. Some governments struggle to keep track of everything they owe, such as the debts of state-owned firms, which often borrow with abandon. Others tap creditors in secret to avoid scrutiny. Since 1970 governments in the global south have accrued at least \$1trn in external debt that was not reported to the World Bank when it was contracted, according to a new study by researchers at the World Bank, the University of Duisburg-Essen and the University of Notre Dame. That amounts to more than 12% of their foreign borrowing, in all currencies, over that period.

The researchers reach this figure by tracking revisions to the World Bank’s external-debt statistics, which are based on reporting from debtor governments. About 70% of all debt-stock estimates are amended after initial publication. Most changes are small and presumably innocent. But upward revisions are larger than downward ones, suggesting systematic underreporting. By definition, hidden debts can be counted only when they are revealed, so their true value may be higher still.



There is little misreporting of World Bank loans, which are routinely disclosed, or of bonds, which are publicly traded. The largest revisions relate to other kinds of borrowing from private lenders, such as bank credit, or

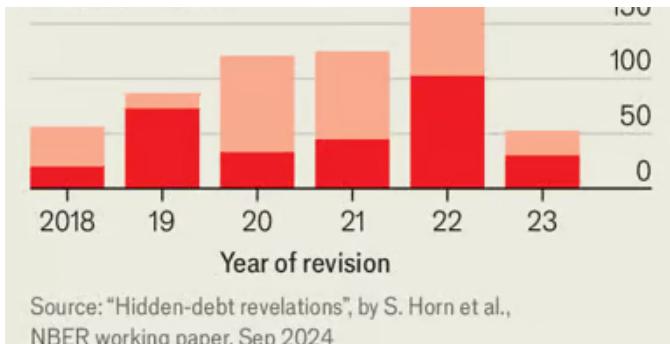


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bilateral loans from governments. Hidden debts accumulate when economies are booming, and are more likely to be exposed when growth slows, as countries default or seek help from the IMF. In the last few years debt revelations have surged as countries grapple with the financial fallout from covid-19 (better reporting may also explain some of the rise). The 2022 edition of the World Bank's debt statistics made upward revisions of more than \$200bn to past data, the largest increase in history (see chart).

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The worst cases of hidden debt are corruption rackets. In Mozambique, for example, state-backed firms secretly borrowed \$1.2bn in a scheme engineered by Credit Suisse bankers, government officials and a Lebanese shipbuilding firm. When the debt was revealed in 2016 the economy crashed. Many of the perpetrators, who had taken kickbacks, are now behind bars. In August the finance minister who signed off the deals was convicted of fraud and money-laundering by a court in New York.

Opaque borrowing also hinders debt restructuring. Sometimes it can take months for conflicting spreadsheets to be reconciled by hand. Confusion about the true

level of Zambia's debt exacerbated distrust between its Western and Chinese creditors when it first sought restructuring in 2020, a process which dragged on until this year. The figure reported for its debt in 2021 has since been revised upwards by more than \$3bn, or 14% of GDP. In general, the researchers find that countries spend a longer period in default when hidden debts are involved.

A straightforward way to increase transparency would be to require it by law. A recent IMF survey of 60 countries, from Albania to Zimbabwe, found that barely half have legislation obliging governments to submit debt-management reports to parliament, and hardly any require the publication of terms of sovereign loans. Another problem is the overuse of confidentiality clauses in many debt contracts, which go beyond what might be justified by commercial sensitivity.

Lenders also bear responsibility. In 2019 the Institute of International Finance, a club of financiers, developed a set of principles for private creditors to voluntarily disclose their lending to governments. But only two banks ever listed information about their loans on the public registry established for the purpose (one of them was Credit Suisse after the Mozambique affair, as it sought to clean up its reputation). The registry records no loans agreed this year. An investigation last year by Debt Justice, a British campaign group, estimated that at least \$37bn of loans should have been published, compared with just \$2.9bn that had been recorded at the time.

Campaigners suggest that sovereign-loan contracts should be unenforceable in court if they are not publicly disclosed within 30 days of signature. That could be achieved with legal tweaks in England and New York, where international debt cases are usually heard. It would not eliminate the problem, but it would be a start. ■

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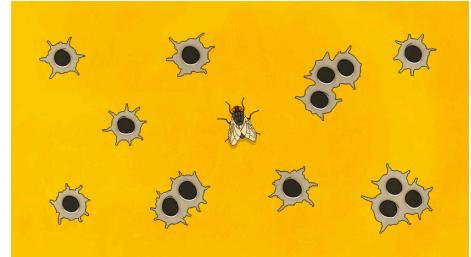
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