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The Grapes of Wrath: does austerity always sow seeds of discontent in emerging economies?

EXECUTIVE SUMMARY

Since 2010, anti-government protests have multiplied across the globe, a trend mirrored by a steady rise in the Coface political risk index. In advanced economies, this wave of discontent has been fueled by post-Great financial crisis austerity, growing political polarization, and the social strains exacerbated by the COVID-19 pandemic and the inflationary pressures stemming from the Russian-Ukrainian war. The disruptive effects of the health and inflation crises were also strongly felt in emerging and developing economies, as evidenced by the sharp rise in unrest that occurred between 2018 and 2022, particularly in Latin America. Have austerity measures, whether triggered by the pandemic or by broader fiscal consolidation efforts, also contributed to growing public dissatisfaction? Amid tightening global financial conditions, driven by a strong dollar, higher U.S. interest rates and rising sovereign yields, many heavily indebted emerging and developing economies are now facing renewed pressure to consolidate their public finances. This raises concerns about the potential social repercussions of upcoming fiscal adjustments.

Budget cuts in Argentina in 2024-25, tax increases in Kenya in 2024 and subsidy withdrawal in Ecuador in 2019 have all sparked uprisings. Because large-scale social movements can disrupt economic development by inflicting lasting damage on trade[1] and overall activity, we explore how fiscal consolidation influences the emergence of unrest in emerging and developing economies, where fragile institutions heighten the risk of political collapse. To move beyond anecdotal insights, our comprehensive approach spans over 83 countries from 2000 onward.

Our results point to a surprising pattern: fiscal austerity, in general, does not fuel unrest. On the contrary, it coincides with a reduction in tensions. This outcome reflects the broad scope of our approach, but once we account for structural factors (geography, income, inequality, corruption), the picture becomes much sharper and shows differentiated effects. The risk of unrest is eased in Africa, the Middle East, and among lower-income countries amid budget cuts. However, austerity increases the likelihood of protests in a context of high inequality and weak governance. In this light, Latin America emerges as the most vulnerable region, alongside higher-income economies. In this region, as in highly unequal countries, social unrest is often fueled by government programs aimed at increasing public revenues.

1 - Coface Focus: "New wave of post-pandemic social movements: international trade as a collateral victim" (September 2021)

coface FOR TRADE

SOME OF THE THINGS YOU'LL LEARN...

Developing economies are accumulating debt at twice the pace of advanced countries.
p.2

In 2022, mass protests in Ecuador forced the government to drop its austerity plan.
p.6

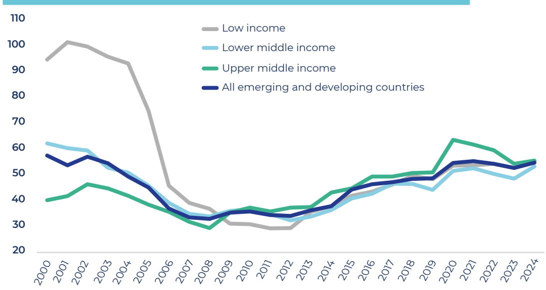
Among emerging economies, austerity policies face stronger public backlash in the wealthier nations.
p.7

At the global level, spending cuts tend to ease unrest. Yet, in Latin America and in the most unequal countries, tax hikes fuel discontent.
p.8

Fiscal consolidation looms amid rising debt servicing costs

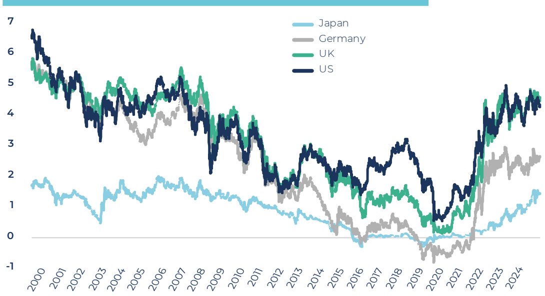
Since the 2010s, global public debt has nearly doubled, reaching a record $102 trillion in 2024.[2] This surge has been particularly pronounced in developing economies, where nominal debt has grown at twice the pace of that in advanced economies. Relative to GDP, the median debt-to-GDP ratio in non-advanced countries has increased by 60 percentage points, a trend significantly accelerated by the COVID-19 pandemic, especially among upper-middle-income countries **(Chart 1)**. Over the past decade, external debt servicing costs have also doubled,[3] further straining fiscal space. Sovereign interest rates have been climbing, driven by inflationary pressures and a tighter monetary policy. Additionally, the current high level of global economic uncertainty, caused by President Trump's trade and fiscal policies, is fueling this surge. The ten-year US Treasury yield rose to 4.5% in May 2025 (up from 0.55% in August 2020) **(Chart 2)**, signaling tighter financial conditions and rising interest payments for all economies. This is adding pressure on low-income countries especially, as they are already burdened by the increasing cost of their USD-denominated debt due to the sustained appreciation of the dollar **(Chart 3)**.

Chart 1 - Median debt-to-GDP ratio *(% of GDP)*



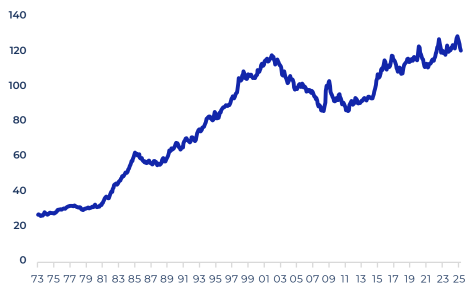
Note: 129 countries classified as Non-Advanced by the World Bank - Source: IMF.

Chart 2 – Sovereign interest rates *(10yr, %)*



Source: Macrobond financial AB; U.S. Department of Treasury.

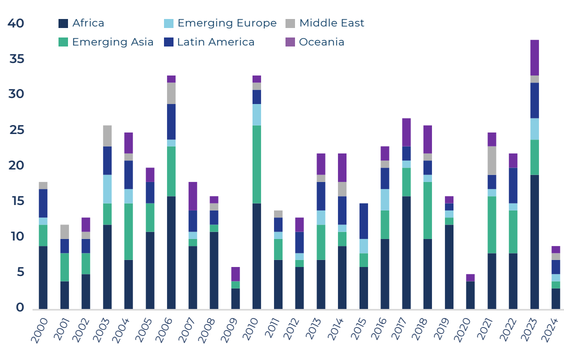
Chart 3 - Nominal Broad U.S. Dollar Index



Sources: Federal Reserve, Macrobond, Coface

According to UNCTAD,[4] austerity, whether in the form of public spending cuts, tax increases, or a combination of both,[5] has now become the default response for many countries facing fiscal imbalances and high debt levels. Since the late 1990s, fiscal consolidation has also become the norm for countries seeking to restore investor confidence in the wake of major crises. The example of the Great Recession is striking. Most countries adopted Keynesian-style stimulus measures during the first phase (2008-2009), only to reverse course in 2010 with widespread spending cuts and the withdrawal of stimulus programs, reinstating fiscal orthodoxy as conditions improved **(Chart 4)**.[6]

Chart 4 - Number of emerging and developing countries implementing fiscal consolidation



Sources: IMF, Coface.
Note: See below for fiscal consolidation computation. Sample of 128 emerging and developing economies.

2 - UNCTAD (2025). A World of Debt – 2025 Report. United Nations Conference on Trade and Development. https://unctad.org/publication/world-of-debt
3 - International Monetary Fund (2025) Debt Vulnerabilities and Financing Challenges in Emerging Markets and Developing Economies—An Overview of Key Data. Policy Paper 2025/002. https://www.imf.org/en/Publications/Policy-Papers/Issues/2025/02/19/Debt-Vulnerabilities-And-Financing-Challenges-In-Emerging-Markets-And-Developing-Economies-562218
4 - UNCTAD (2017) Trade and Development Report 2017: Beyond Austerity – Towards a Global New Deal. United Nations. https://unctad.org/publication/trade-and-development-report-2017
5 - See model specification to see how we identify austerity programs.
6 - Ortiz, Isabel; Cummins, Matthew; Capaldo, Jeronim; Karunanethy, Kalaivani (2015) The decade of adjustment: a review of austerity trends 2010-2020 in 187 countries, ILO Working Papers 994890453402676, International Labour Organization. https://ideas.repec.org/p/ilo/ilowps/994890453402676.html

In emerging and developing economies, the International Monetary Fund (IMF) regularly intervenes to support austerity programs, in line with the Washington Consensus. Coined in 1989 by economist John Williamson, the term describes a set of ten liberal economic principles that went on to shape the development strategies of many countries throughout the 1990s. Although its formal framework belongs to the past, several of its principles such as fiscal discipline, market liberalization, and privatization, continue to influence international financial institutions, particularly the IMF, which conditions some of its loans on their implementation. Since the 1990s, the structural adjustment programs promoted by the IMF have been the subject of strong criticism, both within the scientific community and among the populations. In 2007, for example, economists Abouharb and Cingranelli[7] showed that these programs tend to worsen poverty, intensify civil conflicts, and restrict human rights, ultimately hindering economic development and increasing the frequency of protests.

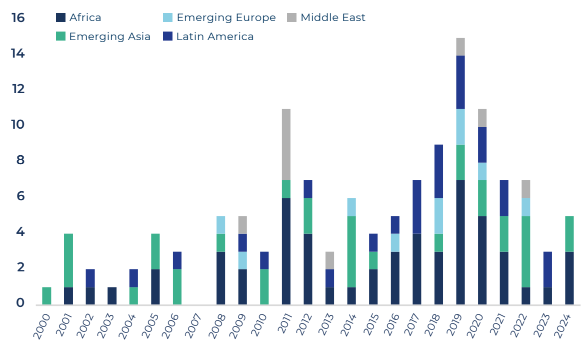
In response to growing opposition, the IMF has gradually adjusted its doctrine. Since the 2000s, it has incorporated more social and institutional concerns into its programs, recognizing the importance of combating inequality, strengthening institutions, and ensuring social protection. However, IMF-led consolidations continue to spark tensions, as evidenced by protests in Jamaica in 2010, Ecuador in 2019, and Kenya in 2024 **(see boxes 2 and 4 - Next pages)**. Protesters continue to denounce one-size-fits-all neoliberal policies that overlook local contexts, exacerbating poverty and inequality. Emerging countries regularly criticize what they consider to be interference and unfair governance based on an outdated quota system. This system assigns each country voting power proportional to its economic weight, giving Western countries dominant influence over the institution's strategic decisions. The United States and Europe collectively hold more than 45% of the voting rights, compared to less than 5% for all sub-Saharan Africa.[8] Thus, feelings of alienation and loss of sovereignty seem to be as important, if not more so, than economic grievances in explaining why these structural adjustments lead to civic resistance.[9]

Social Unrest has been gaining momentum for the past 15 years

Austerity measures rarely garner public support and often give rise to discontent. What we seek to understand is how such resentment is expressed in the social sphere, and whether it translates into collective action and ultimately crystallizes into nationwide movements. To capture this pattern, we define social unrest as the occurrence of events such as street protests, riots, major demonstrations, and other forms of domestic disorder, as characterized by Barrett et al. (2020). Latin America and Africa are flagged as regions of high tension. In contrast, the Middle East has recorded the fewest years of unrest relative to the number of countries in the region **(Charts 5)**.[10]

The Great Financial Crisis marked a turning point in social unrest dynamics. From 2000 to 2010, social unrest remained relatively low in all regions and globally. After the crisis, protests levels rose sharply, staying above average and peaking in 2011 and 2019 (Chart 6). Our analysis focuses on emerging and developing countries but confirms a global trend. As explained in the Global Peace Index (GPI 2020), the number of riots, general strikes and anti-government protests worldwide increased by 244% during the decade 2011-2019. The number of both protests and riots roughly doubled, while general strikes quadrupled.

Chart 5 - Number of emerging and developing countries experiencing social unrest

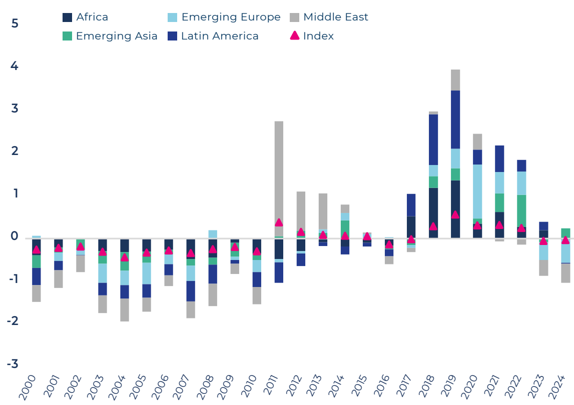


Source: Social unrest dummy computed from "Measuring Social Unrest Using Media Reports", Barrett et Al (2020).

Note: Social unrest is identified when the risk index for year t and country i is in the top 2% of observation of the country or is exceeding the mean for the country by at least 1.5 times the standard deviation for country i.

Sample includes 83 emerging and developing countries. It should be noted that sample sizes vary by region: 31 countries in Africa, 23 in Emerging Asia, 15 in Latin America, 7 in Emerging Europe and in the Middle East. Only temporal comparisons are therefore relevant, not interregional ones.

Chart 6 - Annual relative index of social unrest by Region *(standardized deviation from the region's mean, Emerging and developing countries)*



Sources : Barrett et Al (2020), Coface. Sample of 83 emerging and developing countries.

The Arab Spring marked a boiling point in the Middle East. What began as a protest in Tunisia in December 2010 rapidly ignited a wave of uprisings across the Maghreb and the Gulf. In our sample, nearly all Middle Eastern countries (i.e. Iran, Iraq, Jordan, Lebanon, Syria and Yemen), were swept up in these movements of exceptional magnitude, except for Turkey. In North Africa, seven countries were also affected by the Arab Spring,[11] but their smaller representation within the broader African dataset makes the regional spike in unrest less visible compared to the Middle East. From 2015 onwards, the center of gravity shifted south. Sub-Saharan Africa began to experience a steady rise in unrest, driven by mounting social and political discontent. Countries like Nigeria, South Africa, Ethiopia, and Guinea became hotspots of protest, as citizens mobilized against entrenched authoritarianism, corruption, and persistent inequality.

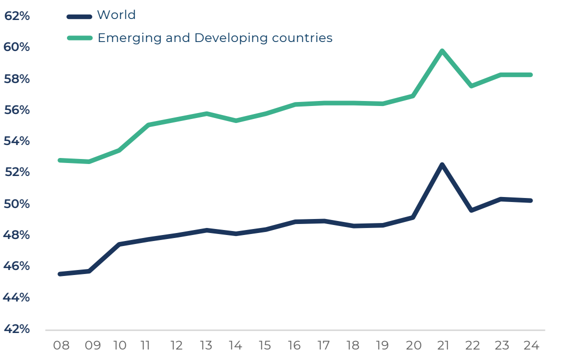
7 - Abouharb, M. Rodwan & Cingranelli, David (2007). Human Rights and Structural Adjustment. Cambridge University Press. number 9780521676717, Enero-Abr. https://ideas.repec.org/b/cup/cbooks/9780521676717.html
8 - Sy, Chérif Salif (2025) L'héritage contesté des ajustements structurels du FMI en Afrique. Alternatives Économiques (mai). https://www.alternatives-economiques.fr/cherif-salif-sy/fmi-lheritage-conteste-ajustements-structurels-afrique/00114700
9 - Reinsberg, Bernhard; Stubbs, Thomas & Bujnoch, Louis (2023). Structural adjustment, alienation, and mass protest. Social Science Research, 109, 102731. https://www.researchgate.net/publication/275555784_Participation_in_IMF-sponsored_economic_programs_and_contentious_collective_action_in_Latin_America_1980-2007
Ortiz, David & Béjar, Sergio (2013). Participation in IMF-sponsored economic programs and contentious collective action in Latin America, 1980–2007. Conflict Management and Peace Science, 30(5), 492-515. https://journals.sagepub.com/doi/10.1177/0738894213499677
10 - Region of tensions are identified by counting the number of countries with unrest relative to the number of countries in the zone.
11 - Six in our sample, as we have no data for Libya. Our sample for total Africa is 31 countries.

South America entered a turbulent period between 2017 and 2023, as political crises ignited waves of unrest across the region. In Bolivia, protests erupted in 2019 following contested presidential elections, after opposition groups accused Evo Morales of electoral fraud. In Nicaragua, a controversial pension reform introduced by Daniel Ortega's government in April 2018 sparked mass demonstrations. Meanwhile, in 2019, protests against Nicolás Maduro intensified in Venezuela, with Juan Guaidó proclaiming himself interim president.

In Emerging Asia, two distinct patterns emerge. The southern part of the region has experienced high levels of unrest, particularly in India and Pakistan. In contrast, the Eastern part of the continent has remained relatively calm, with one major exception: China. Accounting for nearly 38% of all events in the region, China's unrest has been concentrated in Hong Kong, with two major protest waves in 2014 (Umbrella Revolution) and between 2019 and 2020 (pro-democracy demonstrations).

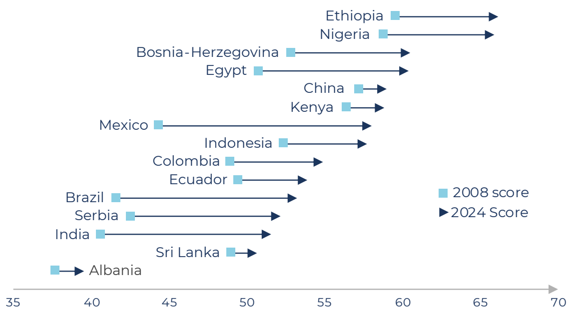
Coface's indicator of social and political fragility has followed an upward trajectory globally since the Great Financial Crisis **(Chart 7)**. In emerging and developing countries, this upward shift became particularly salient around 2010, signaling a new phase of heightened vulnerability that fully materialized in 2011. The COVID-19 pandemic marked a second structural break, with the index peaking at 59.9%. While inflationary pressures in 2023 contributed to a renewed increase, the index remained high in 2024 despite the easing of inflation, indicating a lasting elevation in political risk that continues to hover above pre-pandemic levels. This long-term upward trend is reflected at the national level, with 87% of emerging and developing countries experiencing an increase in social and political risk since 2008. Mexico, Brazil and India recorded some of the sharpest increases, ranging from 11 to 14 percentage points **(Chart 8)**.

Chart 7 - Coface average political and social fragility risk index scale from 0 *(lowest risk)* **to 100** *(highest risk)*



Source: Coface. For the index methodology, please refer to the October 2024 barometer from Coface: https://www.coface.com/news-economy-and-insights/from-monetary-pivot-to-fiscal-turnaround-coface-barometer

Chart 8 - Coface political and social fragility index score, 2008 vs 2024 Risk scale from 0 *(lowest risk)* **to 100** *(highest risk)*



BOX 1 / MODEL METHODOLOGY

We use panel data from 2000 to 2019 on a sample of 83 countries classified as non-advanced economies by the World Bank. We excluded countries with missing values and the years affected by the pandemic, as these may introduce aberrant variations.

$$RSUI_{i,t} = \alpha_t + \theta_i + \beta * Austerity_{i,t} + \delta X_{i,t} + \varepsilon_{i,t}$$

$RSUI_{i,t}$: Our dependent variable is the Barrett et Al (2020) Social Unrest Indicator,[12] which we standardize to account for differences in risk levels between countries.

$Austerity_{i,t}$: Our explanatory variable of interest is a binary variable that indicates whether a fiscal adjustment policy is in place. We identify a period of fiscal consolidation as a year in which the ratio of the primary balance to GDP – which reflects the government's fiscal position excluding the net interest burden on public debt – improves by at least 1.5 percentage points.[13] To isolate intentional action of political decision-makers on public finances, and to rule out extreme cases, we control by the variation to the five-year smoothed average growth.[14] Since the impact of fiscal austerity policies can fluctuate over time, we employ lagged effects to discern the announcement impact (i.e., one year prior to implementation, $t-1$), the impact during the implementation year (year of deficit reduction, t), and the impact one-year post-implementation ($t+1$). Second, we attempt to distinguish between the effects of austerity policies based on spending cuts and those linked to tax increases.

$X_{i,t}$: We add a set of structural and cyclical control variables to our model. These include the electoral calendar, a democracy index, food inflation, debt servicing, and GDP per capita.[15] To account for potential omitted variables, we add fixed country and year effects. We assume that the adjustment program is exogenous to social unrest conditional on the control variables.

12 - Barrett, Philip; Appendino, Maximiliano; Nguyen, Kate & de Leon Miranda, Jorge (2020) Measuring Social Unrest Using Media Reports. IMF Working Paper WP/2020/129. https://www.imf.org/en/Publications/WP/Issues/2020/07/17/Measuring-Social-Unrest-Using-Media-Reports-49573
13 - A method inspired by the work of Alesina, Perotti, et al (1995, 1998), which has the advantage of simplicity and data availability. We use IMF WEO data.
14 - In order to correct the indicator for cyclical variations, which would not reflect the intentional action of political decision-makers on public finances, and to rule out extreme cases, among the country-year pairs identified we have retained only those for which the difference in growth between the year X and the sliding average over five years around the year in question (from X-2 to X+2) is less than 3 percentage points in absolute value. The aim is to minimise the risk of our indicator expressing only changes in the economic cycle, which would have an impact on budget balances but which would not be due to the authorities.
15 - Sources of control variables: electoral calendar (NELDA), a democracy index (v2x_libdem Vdem), food inflation (World Bank), debt servicing (IDS WB), and GDP per capita (IMF WEO).

Austerity... yet reduced social unrest!

The literature exploring the link between austerity and social unrest remains relatively limited compared to the research on electoral responses to fiscal tightening.[16] Studies on voting behavior show that governments are not systematically punished at the polls for implementing austerity, highlighting the importance of transparency and accountability. However, when it comes to the risk of protests, economic research points to a stronger correlation. Voth and Ponticelli[17] find that austerity through a reduction in social transfers hikes the likelihood of social unrest, more so than tax increases. Budget cuts lead to violent protests and attempts to challenge political authority. This finding is particularly noteworthy given that other studies, notably by Alesina,[18] suggest that austerity in the form of reduced social transfers is more effective in consolidating public finances. Yet, it should be noted that unrest may not stem solely from dissatisfaction with the effects of fiscal adjustment. It can also be a form of negotiation between social groups over the costs of these measures. Therefore, Paldam (1995) argues that protests tend to decline once austerity programs are formally adopted and implemented.[19] This dynamic likely depends on the strength of institutions and the capacity of social actors to engage in negotiation. Finally, the impact of austerity appears to be context-dependent. Voth, Ponticelli, and Auvinen identify a higher risk of unrest in wealthy, democratic countries,[20] probably because they offer more means to channel demand and discontent. Conversely, in autocratic regimes, public demonstrations against the government are illegal, violently repressed, or not covered by mainstream media. Their findings suggest that the link between fiscal consolidation and social unrest may reflect broader economic deterioration and structural tensions.

We aim to determine if a universal relationship exists between austerity and social movements. Does austerity act as a trigger? If so, what are the conditions and timing for social unrest to occur? We attempt to estimate the effect of a fiscal adjustment policy on the risk of social unrest by performing an ordinary least squares (OLS) regression **(See Box 1)**.

Our results[21] do not confirm the hypothesis that fiscal consolidation systematically increases the risk of social unrest. On the contrary, we find a a statistically significant negative correlation between the implementation of austerity measures and the occurrence of unrest. This is consistent with Paldam research stating that risk decreases once the program is formally adopted.[22] However, in our model, the negative association with unrest may not only reflect the effect of the program on the deficit (losses and gains perceived by citizens), but also the effect of the announcement (social acceptance). Indeed, in our dataset it is not possible to reference each announcement date because of data insufficiency. This means that notification may take place in the same year as implementation, if it is effectively immediate, as in the case of energy or food subsidies, or in the previous year in the case of a bill vote.

This counterintuitive result indicates that a systematic comparative approach allows us to move beyond anecdotal evidence on this issue. There are certainly cases where an IMF plan has sparked riots, sometimes violent ones, but at the aggregate level, the implementation of an adjustment plan not only results in the absence of unrest but also, all other things being equal, in an easing of social tensions. The explanation for this unexpected result is beyond the scope of this publication. However, two factors can be put forward on a speculative basis.

On the one hand, adjustment policies are implemented in a deteriorated economic context that typically dates back several years. Past macroeconomic difficulties may have given rise to strong discontent among the public and the electorate. In this context, the announcement and/or implementation of an adjustment plan may respond to accumulated exasperation and generate, if not a form of hope, at least some relief. In this sense, widespread social unrest may precede rather than follow the adjustment. This point is reminiscent of the situation in Argentina, where Javier Milei's austerity policies come after decades of economic hardship and have not triggered as much unrest as anticipated.

On the other hand, a large-scale adjustment plan can resemble a form of 'shock strategy' whereby massive cuts in public spending, particularly on social protection, or even tax increases, generate a form of apathy among the public due to the scale of measures taken against a backdrop of concerns about daily life and survival. Following Tocqueville's paradox, the scale of these difficulties would lead to a form of conformity rather than protest, especially since social movements require a minimum level of organization that may be lacking in times of economic crisis and in countries with weaker institutional frameworks.

Given the broad scope of our model, the limited availability of data, and the complex nature of social unrest, our result likely captures a mix of very different situations and effects, which we succeed in identifying later. Indeed, our model faces structural constraints. First, there is no global census of fiscal adjustment programs, and data availability is especially limited in countries with weak or opaque statistical systems. As a result, some austerity measures go undetected if too small in scale or cancelled by the spark of unrest **(See Box 2 next page)**. Empirical studies show that in many cases, it is the announcement itself that triggers protests, rather than the implementation. Second, it is important to note that our social unrest risk indicator captures a wide range of grievances, not all of which are directly linked to austerity. Discontent is often driven by multiple factors, some of which are external or structural.[23] Protests can be triggered by seemingly anecdotal policies, as the program is often not the cause, but the catalyst, if implemented in a turbulent context.[24] Therefore, assessing the effect of an austerity policy requires monitoring the country's socio-economic context, which we provide in the following section.

16 - Brender, Adi & Drazen, Allan (2008). How Do Budget Deficits and Economic Growth Affect Reelection Prospects? Evidence from a Large Panel of Countries. American Economic Review, 98(5), 2203–2220. https://www.aeaweb.org/articles?id=10.1257/aer.98.5.2203 ; Alesina, Alberto; Perotti, Roberto (1998) The Political Economy of Fiscal Adjustments. Brookings Papers on Economic Activity, 1998(1), 197–266. https://doi.org/10.2307/2534672 ; Alesina, Alberto; Ciminelli, Gabriele; Furceri, Davide; Saponaro, Giorgio (2024). Austerity and elections. Economica, 91(363), 1075-1099. https://doi.org/10.1111/ecca.12534 ; Ziogas, Thanasis & Panagiotidis, Theodore (2021). Revisiting the political economy of fiscal adjustments," Journal of International Money and Finance, Elsevier, vol. 111(C). https://ideas.repec.org/a/eee/jimfin/v111y2021ics0261560620302680.html
17 - Voth, Hans-Joachim (2013). Tightening tensions: fiscal policy and civil unrest in South America 1937–95. Banco Central de Chile. https://repositoriodigital.bcentral.cl/xmlui/handle/20.500.12580/3889 ; Ponticelli, Jacobo & Voth, Hans-Joachim (2020). Austerity and Anarchy: Budget Cuts and Social Unrest in Europe, 1919–2008. Journal of Comparative Economics, 48(1), 1-19. https://www.sciencedirect.com/science/article/abs/pii/S0147596718306061
18 - Ziogas, Thanasis & Panagiotidis, Theodore (2021). Revisiting the political economy of fiscal adjustments," Journal of International Money and Finance, Elsevier, vol. 111(C). https://ideas.repec.org/a/eee/jimfin/v111y2021ics0261560620302680.html ; Alesina, Alberto; Perotti, Roberto (1998) The Political Economy of Fiscal Adjustments. Brookings Papers on Economic Activity, 1998(1), 197–266. https://doi.org/10.2307/2534672
19 - Paldam, Marin & Skott, Peter (1995). A Rational-Voter Explanation of the Cost of Ruling. Public Choice, 83(1–2), 159–172.
20 - Auvinen, Juha (1996). IMF Intervention and Political Protest in the Third World: A Conventional Wisdom Refined. Third World Quarterly, 17(3), 377–400. https://www.jstor.org/stable/3993197?seq=1 ; Ponticelli, Jacobo & Voth, Hans-Joachim (2020). Austerity and Anarchy: Budget Cuts and Social Unrest in Europe, 1919–2008. Journal of Comparative Economics, 48(1), 1-19. https://www.sciencedirect.com/science/article/abs/pii/S0147596718306061
21 - The estimated coefficients from our model suggest that both the implementation of a fiscal adjustment program and the democracy index (ranging from low at 0 to high at 1) are significantly associated with a reduction in standardized index, risk, all else being equal. In contrast, the anticipation of an upcoming election year is correlated with an increase in relative level of unrest. Per capita GDP, food inflation, and debt service do not show statistically significant effects.
22 - Paldam, Marin & Skott, Peter (1995). A Rational-Voter Explanation of the Cost of Ruling. Public Choice, 83(1–2), 159–172. https://ideas.repec.org/a/kap/pubcho/v83y1995i1-2p159-72.html
23 - "The probability that a country will experience such an event in a given month is only 1 percent, on average. But this risk quadruples if a country has experienced a social unrest event within the previous six months and doubles if a neighboring country has." Source: Barrett, Philip; Chen, Sophia (2021) The Economics of Social Unrest. Finance & Development (August). https://www.imf.org/external/pubs/ft/fandd/2021/08/economics-of-social-unrest-imf-barrett-chen.html
24 - International Monetary Fund (2025) Fiscal Monitor, April 2025: Public Sentiment Matters. IMF. https://www.imf.org/en/Publications/FM/Issues/2025/04/23/fiscal-monitor-April-2025

BOX 2 / ECUADOR

In Ecuador, widespread protests following the announcement of austerity measures ultimately forced the government to reverse course.

In October 2019, Ecuador is shaken by a wave of massive protests triggered by the announcement of fuel subsidy cuts through Decree 883. The measure is part of a broader agreement with the International Monetary Fund (IMF), which includes a 4.2-billion-dollar loan signed in February 2019 to stabilize public finances. The public response is swift. What begins with strikes by taxis and bus drivers quickly escalates as students, labor unions, and native communities, who represent 7 percent of the population, join the movement. The country comes to a standstill. Major roads and the main oil pipeline are blocked, while demonstrators occupy strategic sites such as broadcasting stations and oil fields. As tensions intensify, the government is forced to leave the capital, Quito, and take refuge in Guayaquil. After ten days of nationwide unrest, the government reaches an agreement with CONAIE, the organization representing native peoples. The deal reinstates fuel subsidies and introduces a gradual monthly price increase, leading to the lifting of roadblocks.

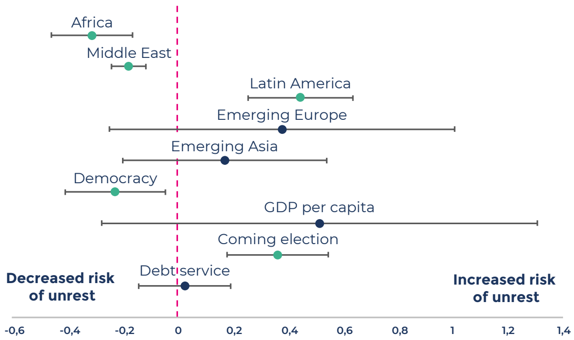
The original IMF agreement is canceled in May 2020 due to the pandemic. In October, a new program is signed, this time worth 6.5 billion dollars, with disbursements scheduled through December 2022. But discontent resurfaces in June 2022, as fresh protests erupt against the policies of conservative President Guillermo Lasso. This time, the anger extends beyond fuel prices to broader concerns over the rising cost of living, particularly food and fertilizer prices, in a context shaped by the war in Ukraine. Protesters also denounce mining activities in Native territories and growing insecurity linked to drug trafficking and organized crime. As corruption scandals and political instability deepen public frustration, President Guillermo Lasso, elected in 2021, faces impeachment proceedings and dissolves the National Assembly. He steps down, triggering early elections that bring right-wing candidate Daniel Noboa to power.

Subgroup analysis helps identify high-risk countries and aggravating factors

The estimated effect in our general model reflects different dynamics that emerge when including the country's context. Geography, income level, institutional quality, and degree of inequality all shape how austerity affects social unrest. Because we are working with many countries and years, some important differences can get averaged out, making the overall results harder to interpret. However, when we adjust for key structural factors, clearer patterns emerge. The risk of protest following fiscal consolidation decreases in the Middle East, Africa, and lower-income countries, while it increases in Latin America and higher-income economies. High inequality and higher levels of perceived corruption significantly amplifies public discontent with consolidation measures.

Austerity tends to ignite a particularly strong reaction in Latin America, where public discontent quickly spills into the streets through protests and general strikes (Chart 9). Conversely, for Africa and the Middle East, austerity programs are associated with a decrease in social unrest risk, the year of implementation. These geographic specificities may stem from several factors. Social movements often follow complex patterns of diffusion while reflecting distinct civic cultures. Their scale and intensity are rooted in long-term historical contexts that influence how societies mobilize. One possible explanation lies in the stronger repressive apparatus of states in the Middle East and Africa, which may limit the expression of dissent, while in Latin America, protest remains a more accessible form of political engagement.

Chart 9 - Effect of austerity on the risk of unrest according to the Region
(Emerging and developing countries)



Note: This chart shows the estimated coefficients from our linear regression model. Dots represent the estimated effect of each explanatory variable on the relative level of social unrest (RSUI, dependent variable). Bars indicate the 90% confidence intervals around each estimate (the wider the less precise), the vertical pink axis at 0 represents no effect, green dots indicate statistically significant coefficients(p<0.1), a positive coefficient suggests a positive association.

Region variables are interaction terms with the implementation of an austerity program, they must be interpreted relatively to the African region, which is the reference. For instance: In Africa, an austerity program is associated with a decrease in the level of social unrest ceteris paribus. The decrease is even stronger in the Middle East (sum of two negative coefficients).

Democracy (level of Democracy), Debt service, GDP per capita are in logarithm. Coming elections identifies the effects of a coming election the following year (t+1) on today's risk (t).

Austerity may bring stability in low-income countries, but in wealthier ones[25] it more often stirs persistent unrest. While further research is needed to elucidate this, it suggests that the least developed countries lack the minimum organizational structures needed to initiate large-scale social protests. Economic development and urbanization are conducive to the mobilization of resources for collective action.[26] Furthermore, wealthier emerging countries, including those in Latin America, may have put in place slightly more ambitious social protection and redistribution policies, the reduction of which is likely to spark street anger. In other words, a certain level of social welfare must already be in place for its decline to provoke protests.

In the most unequal countries, the risk of social unrest increases following the implementation of fiscal consolidation. Weak social safety nets may alter households' capacity to cope with the effects of reforms. As a result, the burden of austerity falls more heavily on the population in unequal economies, deepening discontent and reinforcing a sense of injustice **(See Box 3).**

The reduction in the risk of unrest following fiscal adjustment is only observed in countries perceived as having effective anti-corruption systems and transparent institutions. Opposition seems weaker when citizens trust the government's ability to use budget savings effectively for the benefit of the entire population.[27]

BOX 3 / SRI LANKA

Austerity measures spark waves of protest in Sri Lanka amid deepening economic crisis and rising inequality

Sri Lanka plunges into a severe economic crisis in 2022, in a backdrop of rising inequality. Output collapses, inflation soars, unemployment increases, and the country faces critical shortages of fuel, food, and medicine. Foreign reserves are nearly depleted, the rupee plummets, and poverty spikes from 11 percent in 2019 to 27 percent in 2022. Years of fiscal mismanagement, heavy external borrowing, political instability, and stalled reforms set the stage. A sudden shift to organic farming in 2021 slashes agricultural yields, while external shocks, from the 2019 Easter attacks to COVID-19 and the war in Ukraine, cripple tourism, exports, and remittances.

In March 2022, mass protests erupt under the banner of Aragalaya, demanding the resignation of President Gotabaya Rajapaksa. Despite repression, the movement gains momentum and succeeds in forcing his resignation by July. But unrest resurfaces in March 2023, when the government signs a 48-month, 3-billion-dollar IMF program. The deal introduces sweeping austerity measures: tax hikes, higher utility prices, public sector restructuring, and tighter monetary policy. While aimed at restoring macroeconomic stability, these reforms deepen the burden on already struggling households, especially under an unelected interim government.

In September 2024, a political shift occurs. Anura Kumara Dissanayake wins the presidential election on a program centered around anti-corruption and easing the cost-of-living crisis. His party, the National People's Power, secures a parliamentary majority two months later. While the new administration keeps the IMF program in place, it adopts a more flexible approach to implementation. This helps ease tensions and rebuild public trust.

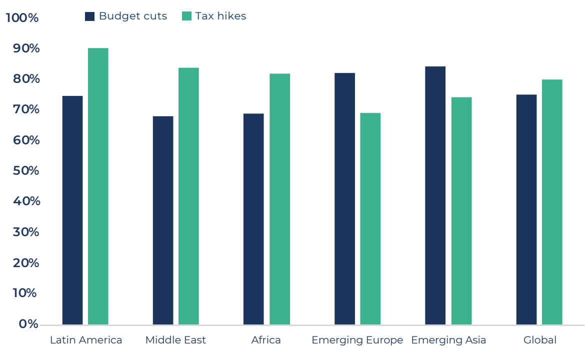
Signs of recovery begin to emerge: inflation drops, foreign reserves improve, the country posts a primary budget surplus, and exports and credit rebound. Still, structural challenges persist. By 2024, poverty remains high at 24.5 percent, malnutrition is widespread, wages lag pre-crisis levels, labor force participation continues to fall, and emigration remains elevated.

Tax hike or budget cut, what is shaping social opinion?

Economic literature highlights differentiated effects depending on whether fiscal adjustment programs rely on spending cuts or tax increases. On the electoral front, Ziogas and Panagiotidis (2020) find that governments implementing spending cuts are more likely to be rewarded at the polls, particularly in high-income countries. Indeed, voters may perceive these measures as more credible or effective, given that expenditure-based adjustments have a higher likelihood of success than those based on tax hikes. However, analyses of social unrest tell a different story. Voth and Ponticelli (2013, 2020) show that spending cuts are more likely to trigger violent protests and even attempts to overthrow governments, compared to rises in tax. This heightened unrest is partly rooted in cognitive biases: people tend to react more strongly to losses than to reduced gains (Pierson, 1996).

Strategies aimed at increasing fiscal revenues are the norm in Latin America, where they feature 90% of austerity programs. A similar pattern is observed in the Middle East and Africa, with 80% of adjustment plans involving revenue-raising measures. In contrast, austerity in Emerging Europe and Asia tends to rely more heavily on spending cuts **(Chart 10)**. In all regions, however, fiscal consolidation typically combines both revenue increases and expenditure reductions.

Chart 10 - Austerity type in emerging and developing economies *(% in total austerity programs)*



Note: Budget cuts refer to a decrease in general government total expenditure as a share of GDP. Tax hikes correspond to an increase in general government revenue as a share of GDP.

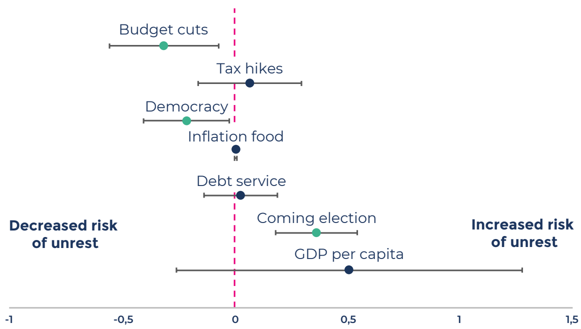
Source: IMF.

25 - i.e. upper middle-income economies
26 - Auvinen, Juha (1996). IMF Intervention and Political Protest in the Third World: A Conventional Wisdom Refined. Third World Quarterly, 17(3), 377–400. https://www.jstor.org/stable/3993197?seq=1
27 - Pritchett, Lant & de Weijer, Frauke (2010). Fragile States: Stuck in a Capability Trap?. World Development Report 2011 Background Paper. https://files.givewell.org/files/shallow/fragile-states/Pritchett%20and%20de%20Weijer%202010.pdf ; Institute for Economics & Peace (2020). Global Peace Index 2020: Measuring Peace in a Complex World. https://reliefweb.int/report/world/global-peace-index-2020

Spending cuts appear to reduce social unrest in our model, confirming patterns observed in the literature on the electoral impact of fiscal decisions (Chart 11). This trend holds overall, but with important regional nuances: in low-income countries and across Africa, both types of fiscal measures tend to ease tensions. By contrast, it is revenue-raising measures that most often fuel social tensions in Latin America and in the most unequal countries, where tax hikes tend to crystallize and amplify public discontent (See Box 4).
One possible explanation for this differentiated response lies in the timing of perceived impact. While tax increases tend to have an immediate and visible effect on household finances, spending cuts often produce more gradual consequences, which may delay or diffuse public reaction. The recent case of Argentina under President Javier Milei offers an interesting counterpoint: despite the implementation of drastic spending cuts, through massive layoffs in the civil service, the elimination of subsidies and reductions in pensions and public investment, popular protests have remained relatively contained. Although there have been strikes and demonstrations, they have not turned into widespread or prolonged unrest.

Additional research would be relevant to explore the factors that facilitate the spread of a social movement within a country. Communication tools, such as the accessibility of internet, mobile phone and social media, play a central role in connecting individuals and coordinating actions. Structural characteristics of the population can also matter. Demographic factors, like a large proportion of youth, organizational aspects such as urbanization, and identity-related dynamics, including ethno-linguistic polarization, probably intensify social frictions while creating conditions conducive to collective mobilization. All these factors are taken into account in the Coface political risk index and may shape public reaction to austerity measures.

Chart 11 - Effect of Austerity on Risk of social unrest by type of program in emerging and developing economies



Note: We estimated the effects of each type of austerity separately and jointly, which led to the same results.

This chart shows the estimated coefficients from our linear regression model. Dots represent the estimated effect of each explanatory variable on the relative level of social unrest (RSUI, dependent variable). Bars indicate the 90% confidence intervals around each estimate (the wider the less precise), the vertical pink axis at 0 represents no effect, green dots indicate statistically significant coefficients(p<0.1), a positive coefficient suggests a positive association.

Democracy (level of Democracy), Debt service, GDP per capita are in logarithm. Coming elections identifies the effects of a coming election the following year (t+1) on today's risk (t).

BOX 4 / KENYA

Tax hikes ignite unrest in Kenya amid entrenched inequality

In June 2024, the introduction of tax increases in the 2024 Finance Act sparked widespread protests led by young people in Nairobi. The unrest unfolds against a backdrop of deepening economic hardship: inflation is on the rise, youth unemployment remains high, and 40 percent of the population lives in poverty. Public debt is mounting, and suspicions of misused public funds fuel public anger.

This is not the first wave of discontent. In 2023, opposition leader Raila Odinga had already mobilized against tax hikes, prompting President Ruto to open dialogue and bring opposition figures into the government. But tensions flared again in May 2024, when the government unveils the new Finance Bill ahead of the July fiscal year. The bill proposed further tax increases as part of the 48-month fiscal consolidation program agreed with the IMF in April 2021, worth 4.1 billion US dollars. Among the most controversial measures: new taxes on essential goods and services. The situation reaches a boiling point on June 25, when demonstrators storm the parliament building. In response, President Ruto withdraws the Finance Act, reshuffles his cabinet to include more opposition voices, pledges tighter oversight of public spending, and launches a reform of the electoral commission. These moves help ease tensions, though protests continue, increasingly focused on political grievances, including allegations of police violence, disappearances, and abductions of protesters.

By March 2025, Kenya and the IMF agree to end the program slightly ahead of schedule, with negotiations reflecting recent developments. The IMF now recommends focusing on improving tax collection and spending efficiency before introducing new taxes. The draft budget for 2025–2026 reflects this shift: it avoids major new taxes but removes VAT exemptions on hospital medical equipment, renewable energy technologies, and automotive sector inputs.

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