

Bringing Climate Resilience Into Sovereign Debt

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Abstract

Five years following the onset of the COVID-19 crisis, the world remains on the brink of a debt crisis. The pandemic has left a lasting impact on the fiscal and debt profiles of low- and middle-income countries (LMICs). Emergency policy responses during the pandemic and economic recovery plans in the following years have significantly expanded government spending, pushing sovereigns to increasingly rely on external debt to meet their financing needs, precisely as global interest rates skyrocketed in 2022 and 2023. As a result, LMICs now face substantially higher debt levels than in the previous decade and struggle with an increasingly challenging debt servicing burden, hindering the achievement of their development roadmaps

Keywords: Sovereign debt, Debt sustainability, Natural disasters, Climate resilience, Fiscal relief, Default Risk, Debt Pause Clause, Catastrophe Bonds, Hurricane risk, International lenders

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1 Introduction

1.1 Section 1.1