

UN GLOBAL CRISIS RESPONSE GROUP

A world of debt

A growing burden to global prosperity

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**United
Nations**

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Introduction

Public debt can be vital for development. Governments use it to finance their expenditures, to protect and invest in their people, and to pave their way to a better future.

However, it can also be a heavy burden, when public debt grows too much or too fast. This is what is happening today across the developing world. Public debt has reached colossal levels, largely due to two factors.

- ▶ Financing needs soared with countries' efforts to fend off the impact of cascading crises on development. These include the COVID-19 pandemic, the cost-of-living crisis, and climate change.
- ▶ An unequal international financial architecture makes developing countries' access to financing inadequate and expensive.

The weight of debt drags down development. Debt has been translating into a substantial burden for developing countries due to limited access to financing, rising borrowing costs, currency devaluations and sluggish growth. These factors compromise their ability to react to emergencies, tackle climate change and invest in their people and their future.

Countries are facing the impossible choice of servicing their debt or serving their people. Today, 3.3 billion people live in countries that spend more on interest payments than on education or health. A world of debt disrupts prosperity for people and the planet.

This must change.

The United Nations has a road map of multilateral actions to address the global debt burden and achieve sustainable development. The roadmap is laid out in *Our Common Agenda Policy Brief on Reforms to the International Financial Architecture* and the *SDG Stimulus*, which focuses on three areas of action:

- i) tackling the high cost of debt and rising risks of debt distress,
- ii) massively scaling up affordable long-term financing for development, and
- iii) expanding contingency financing to countries in need.

The implementation of these actions is crucial to unleash the resources needed to build a more prosperous, inclusive, and sustainable world.



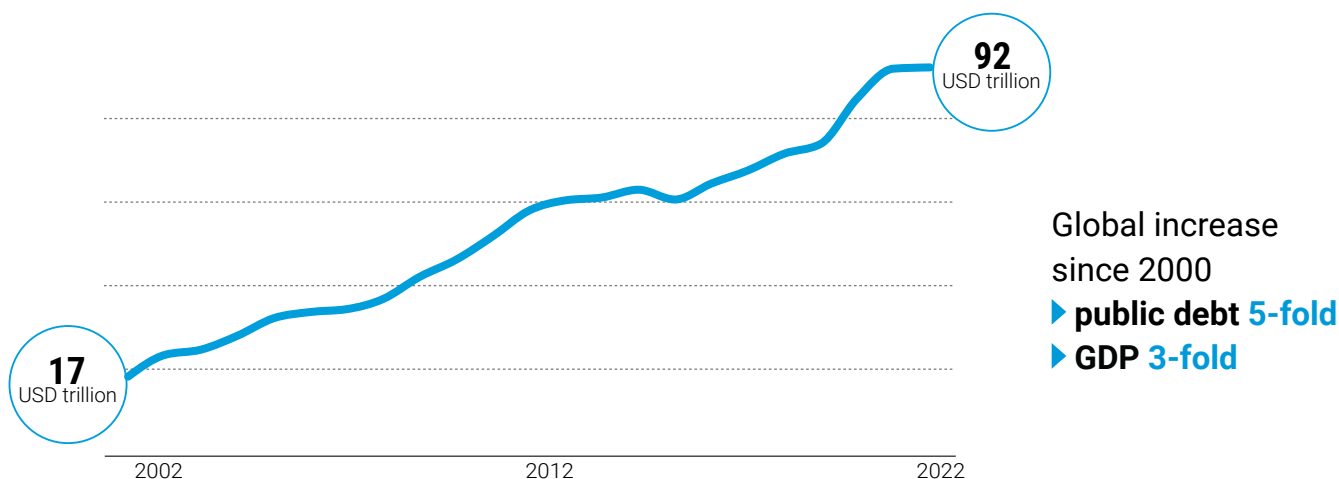
Global public debt at unprecedented levels

Public debt around the world has been on the rise over the last decades. Cascading crises in recent years triggered a sharp acceleration of this trend. As a result, global public debt has increased more than fivefold since the year 2000, clearly outpacing global GDP, which tripled over the same time.

In 2022, global public debt – comprising general government domestic and external debt – reached a record USD 92 trillion. Developing countries owe almost 30% of the total, of which roughly 70% is attributable to China, India and Brazil.¹

Figure 1: Public debt has increased more than fivefold since 2000

Global public debt (USD trillion)



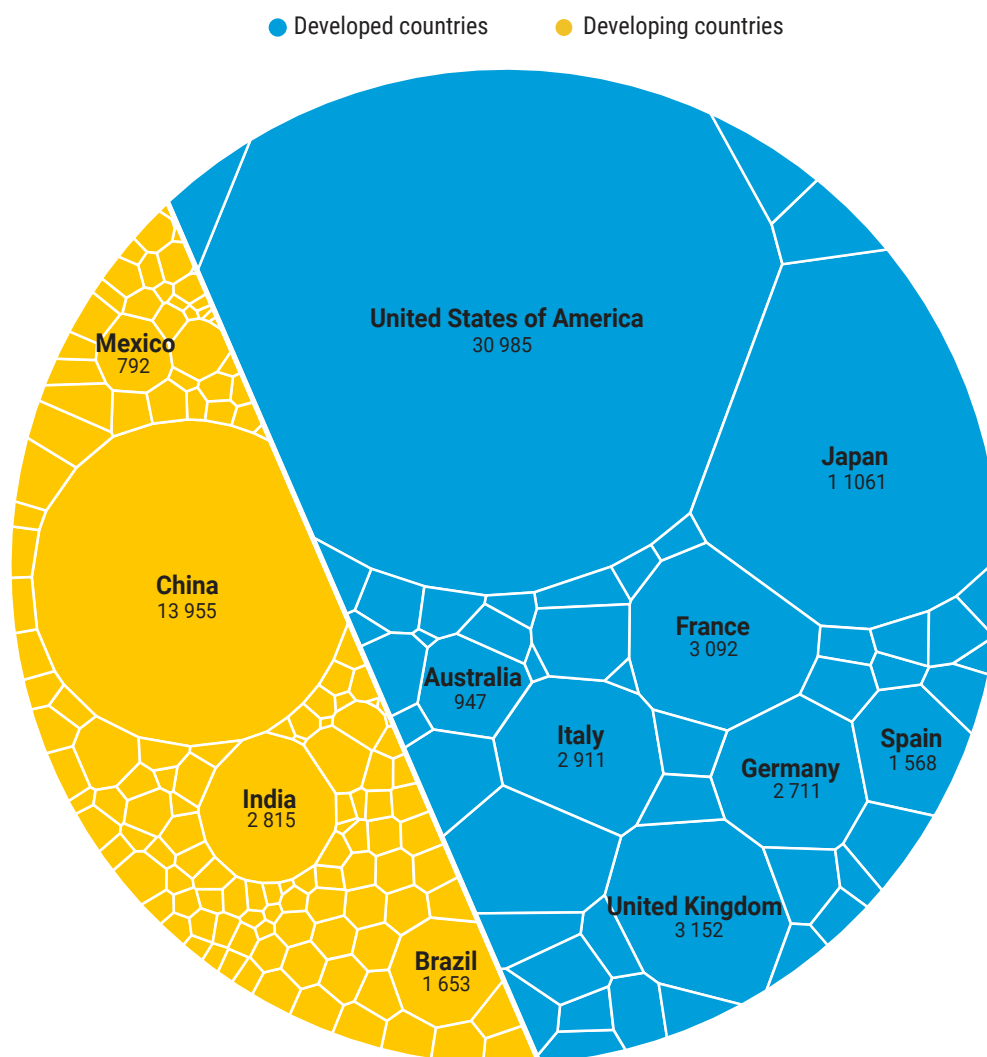
Source: UN Global Crisis Response Group calculations based on IMF World Economic Outlook (April 2023).

Note: Figures represent nominal values in current USD. Public debt refers to general government domestic and external debt throughout the document. General government consists of central, state and local governments and the social security funds controlled by these units.

¹ This document follows the developing countries classification of the United Nations M49 system, subject to data availability.

Figure 2: Almost 30% of global public debt is owed by developing countries

Public debt by country in 2022 (USD billion)



Source: UN Global Crisis Response Group calculations based on IMF World Economic Outlook (April 2023).

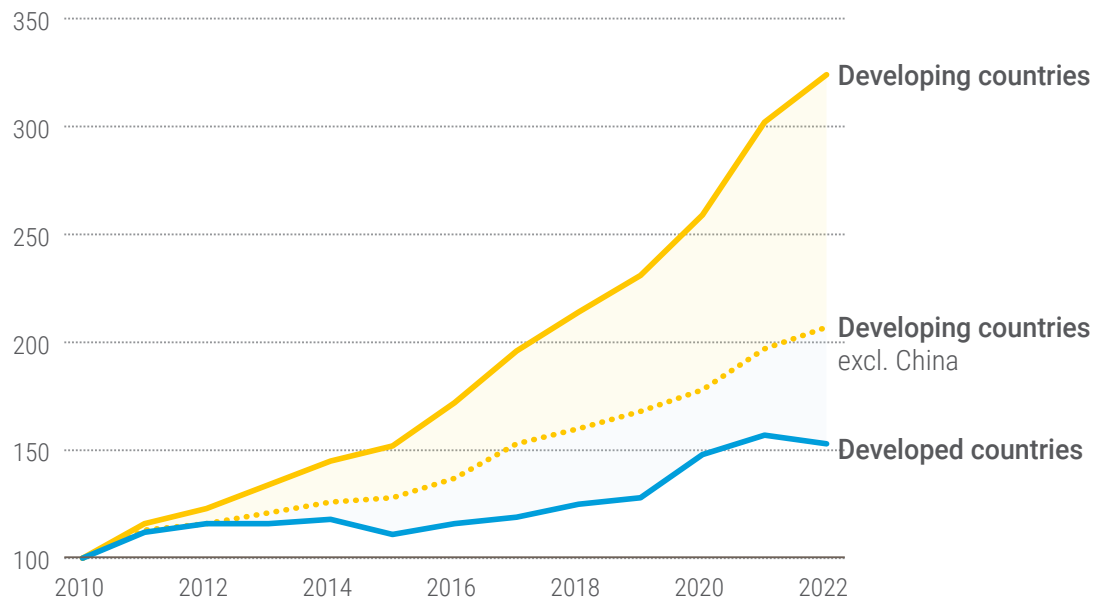
However, public debt has increased faster in developing countries compared to developed countries over the last decade. The rise of debt in the developing world has mainly been due to growing development financing needs – exacerbated by the COVID-19 pandemic, the cost-of-living crisis, and climate change – and by limited alternative sources of financing.

Consequently, the number of countries facing high levels of debt has increased sharply from only 22 countries in 2011 to 59 countries in 2022.²

² A representative threshold of a public debt to GDP ratio of 60% is used to indicate high debt levels. This benchmark is used by the IMF as one of its indicators to assess debt burdens in emerging markets. However, the actual burden posed by debt differs across countries due to factors such as their level of development, growth and revenue potential, as well as institutional considerations.

Figure 3: Public debt is growing faster in the developing world

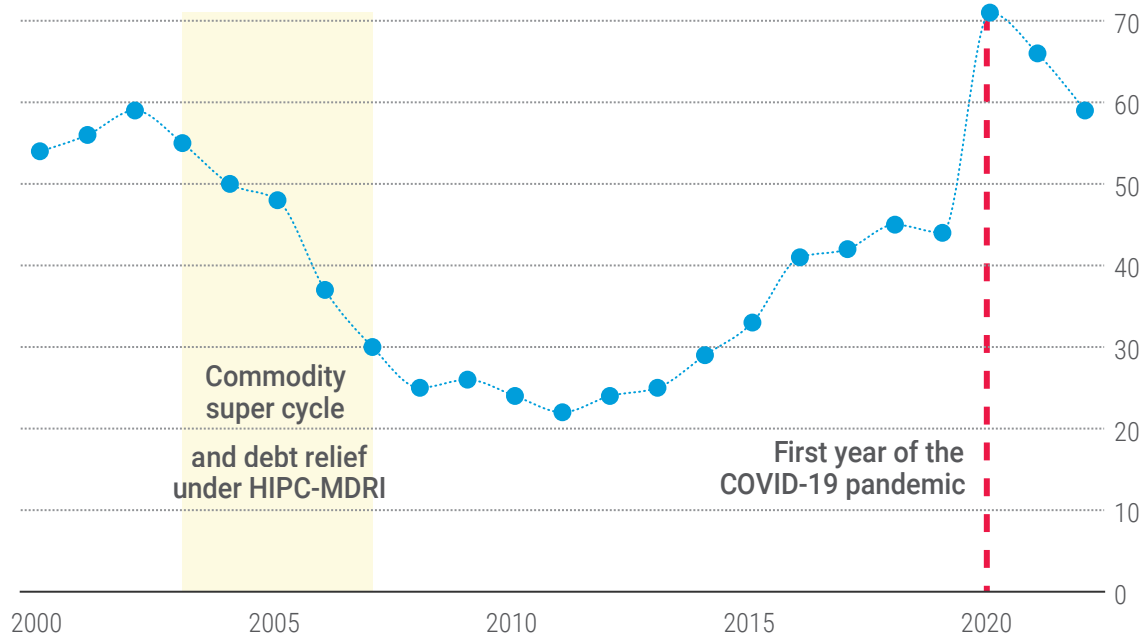
Index: outstanding public debt in 2010 = 100



Source: UN Global Crisis Response Group calculations based on IMF World Economic Outlook (April 2023).

Figure 4: Number of developing countries with public debt exceeding 60% of GDP

Number of developing countries with public debt exceeding 60% of GDP



Source: UN Global Crisis Response Group calculations based on IMF World Economic Outlook (April 2023).

Note: Highly Indebted Poor Countries – Multilateral Debt Relief Initiatives (HIPC-MDRI).



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Inequalities in the international financial architecture

Developing countries are dealing with an international financial architecture that exacerbates the negative impact of cascading crises on sustainable development. The burden of debt on development is intensified by a system that constrains developing countries access to development finance and pushes them to borrow from more expensive sources, increasing their vulnerabilities and making it even harder to resolve debt crises.

Borrowing from foreign creditors increases exposure to external shocks

Developing countries' total public debt increased from 35% of GDP in 2010 to 60% in 2021. Similarly, external public debt, the part of a government's debt owed to foreign creditors, increased from 19% of GDP to 29% of GDP in 2021.

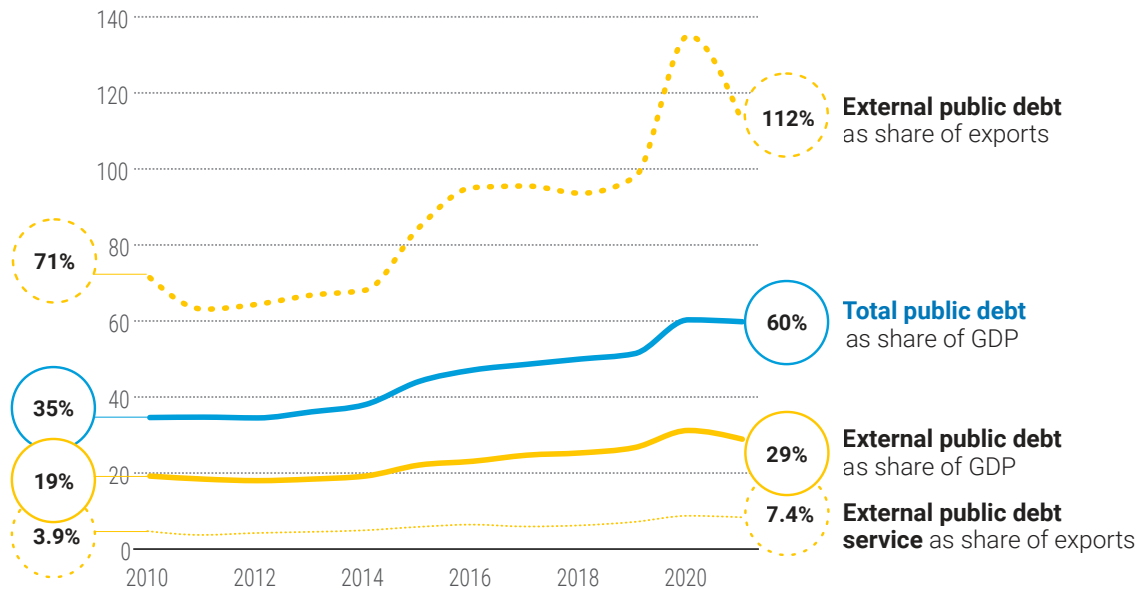
Comparing debt levels to developing countries' ability to generate foreign exchange through exports shows that their ability to generate sufficient revenue to service their external debt obligations has also been deteriorating. The share of external public debt to exports increased from 71% in 2010 to 112% in 2021. During the same period, external public debt service as a share of exports increased from 3.9% to 7.4%.³

Developing countries face additional major challenges due to high levels of external public debt, which make them more vulnerable to external shocks. When global financial conditions change or international investors become more risk-averse, borrowing costs can shoot up suddenly. Similarly, when a country's currency devalues, debt payments in foreign currency can skyrocket, leaving less money for development spending.

³ For comparison, the 1953 London Agreement on Germany's war debt limited the amount of export revenues that could be spent on external debt servicing (public and private) to 5% to avoid undermining the recovery.

Figure 5: Developing countries' increasing external public debt

Median values for developing countries



Source: UN Global Crisis Response Group calculations, based on World Bank International Debt Report 2022.

Notes: Total public debt refers to General Government debt. External public debt refers to External Public and Publicly Guaranteed (PPG) debt.

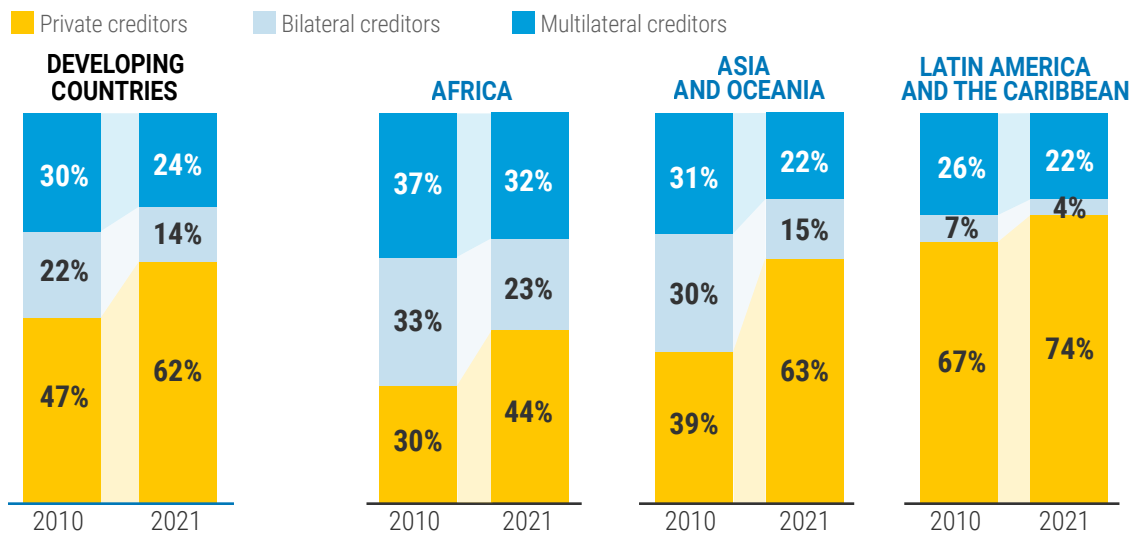
Relying on private creditors makes credit expensive and debt restructuring complex

Private creditors, such as bondholders, banks, and other lenders, offer financing on commercial terms. In the past ten years, the portion of external public debt owed to private creditors has risen across all regions, accounting for 62% of developing countries' total external public debt in 2021.

The increasing share of public debt owed to private creditors presents two challenges. First, borrowing from private sources is more expensive than concessional financing from multilateral and bilateral sources. Second, the growing complexity of the creditor base makes it more difficult to successfully complete a debt restructuring when needed. Delays and uncertainties increase the costs of resolving debt crises.

Figure 6: Developing countries rely more on private creditors now, making credit more expensive and debt restructuring more complex

Debt by type of creditor as share of external public debt



Source: UN Global Crisis Response Group calculations, based on World Bank International Debt Report 2022.

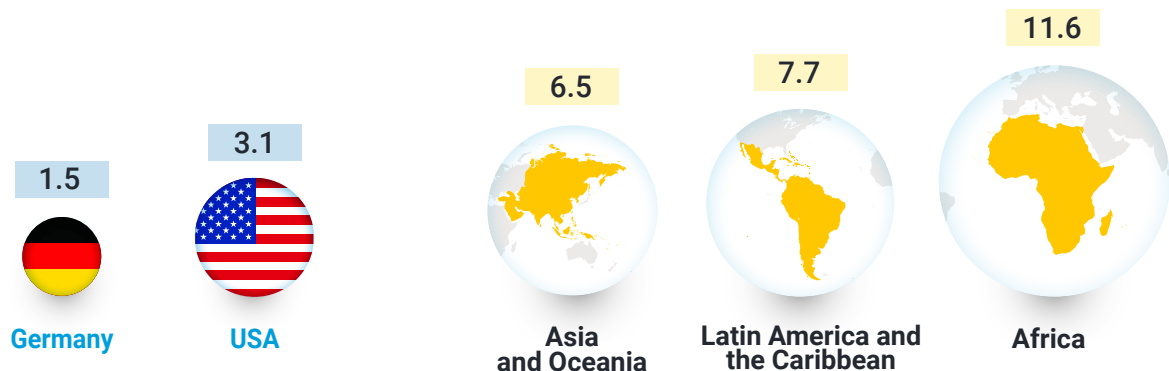
Note: External Public and Publicly Guaranteed (PPG) debt.

Developing countries pay much more for their debt than developed ones

When developing countries borrow money, they have to pay much higher interest rates compared to developed countries, even without considering the costs of exchange rate fluctuations. Countries in Africa borrow on average at rates that are four times higher than those of the United States and even eight times higher than those of Germany. High borrowing costs make it difficult for developing countries to fund important investments, which in turn further undermines debt sustainability and progress towards sustainable development.

Figure 7: Developing countries pay much more for their borrowing

Bond yields (2022-2023)



Source: UN Global Crisis Response Group calculations based on IMF World Economic Outlook (April 2023).

Note: Illustrative comparison of the average JPM EMBI Global Diversified USD bond yields per region with the 10-year bond yields of Germany, and the United States from January 2022 to May 2023.

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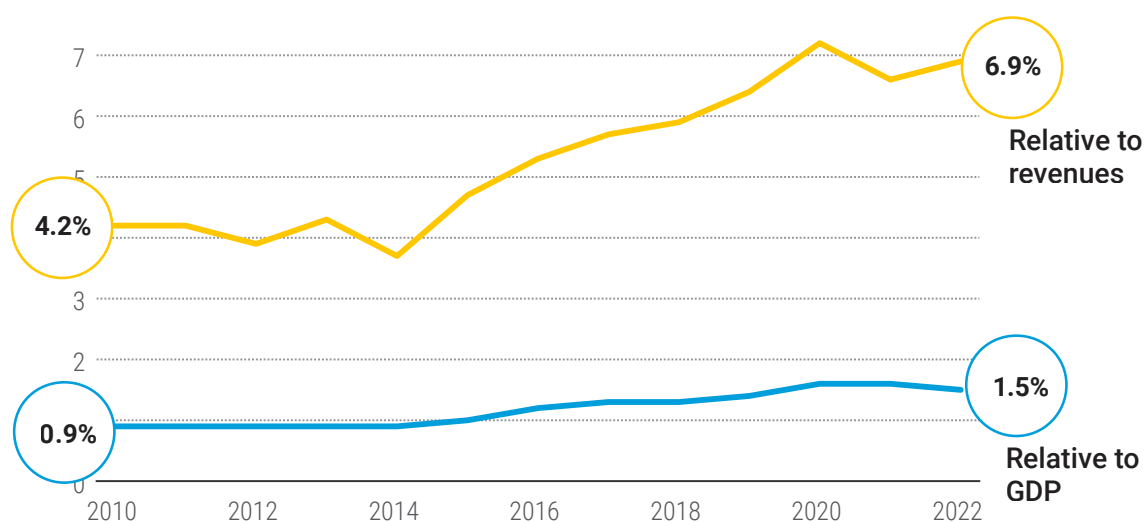
Facing impossible choices: servicing debt or serving their people

Developing countries' debt trends have caused a rapid increase in total public interest payments relative to the size of their economies and government revenues.⁴ Currently, half of developing countries devote more than 1.5% of its GDP and 6.9% of its government revenues for interest payments, a sharp increase over the last decade.

The rise of interest payments is a widespread problem. The number of countries where interest spending represents 10% or more of public revenues increased from 29 in 2010 to 55 in 2020.

Figure 8: Developing countries use more resources to pay interest on their public debt

Net interest payments of developing countries as a share of GDP and government revenues



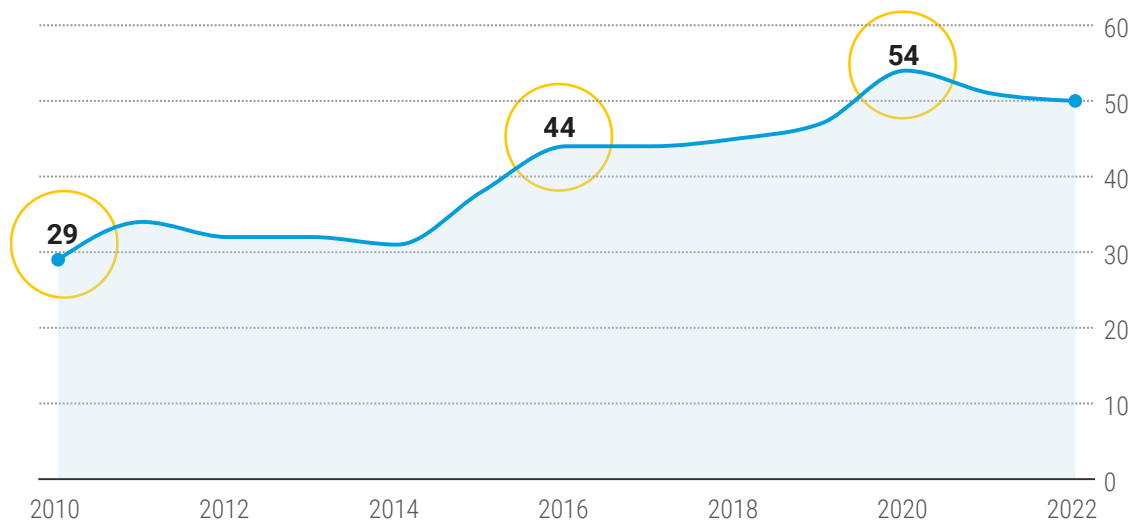
Sources: UN Global Crisis Response Group calculations, on IMF World Economic Outlook (April 2023).

Note: Median shares across developing countries.

⁴ Unless noted, interest payments in this section refer to net interest payments of the general government. This is the total amount of domestic and external interest expenses incurred from borrowing, minus any interest income received.

Figure 9: A rising number of countries use more public revenues for interest payments

Number of developing countries with net interest payments exceeding 10% of revenues



Source: UN Global Crisis Response Group calculations, based on IMF World Economic Outlook (April 2023).

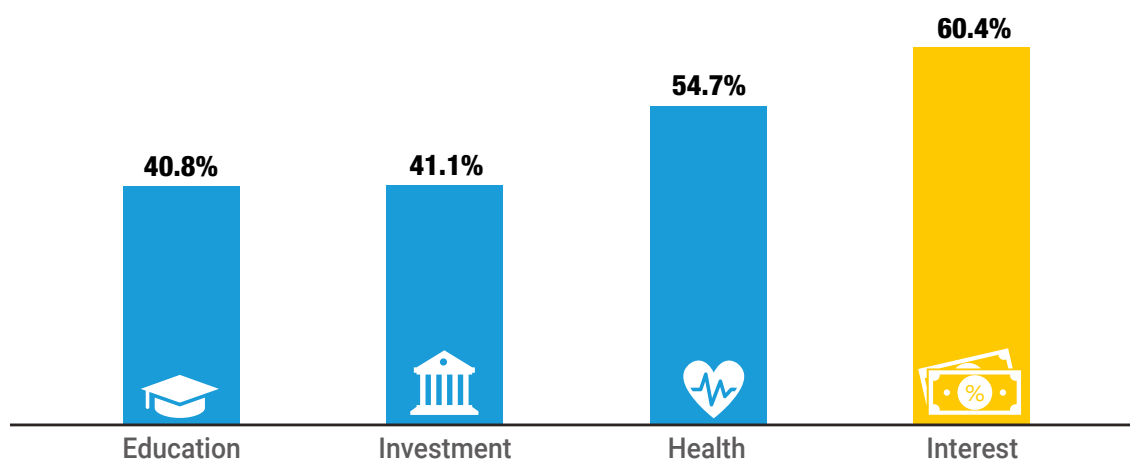
Note: Net interest payments of the general government refer to the total amount of domestic and external interest expenses incurred from loans and other forms of borrowing, minus any interest income received.

Interest payments are growing faster than development spending

Interest payments in developing countries have grown faster than public spending on health, education and investment over the last decade. The rapid increase of interest payments is squeezing out spending in these key areas.

Figure 10: Interest payments are growing faster than other public expenditures

Nominal (%) change of public expenditure categories in developing countries between 2010-2012 and 2019-2021



Source: UN Global Crisis Response Group calculations based on IMF World Economic Outlook (April 2023), IMF Investment and capital stock database and World Bank World Development Indicators database.

Note: Aggregate expenditures for developing countries.

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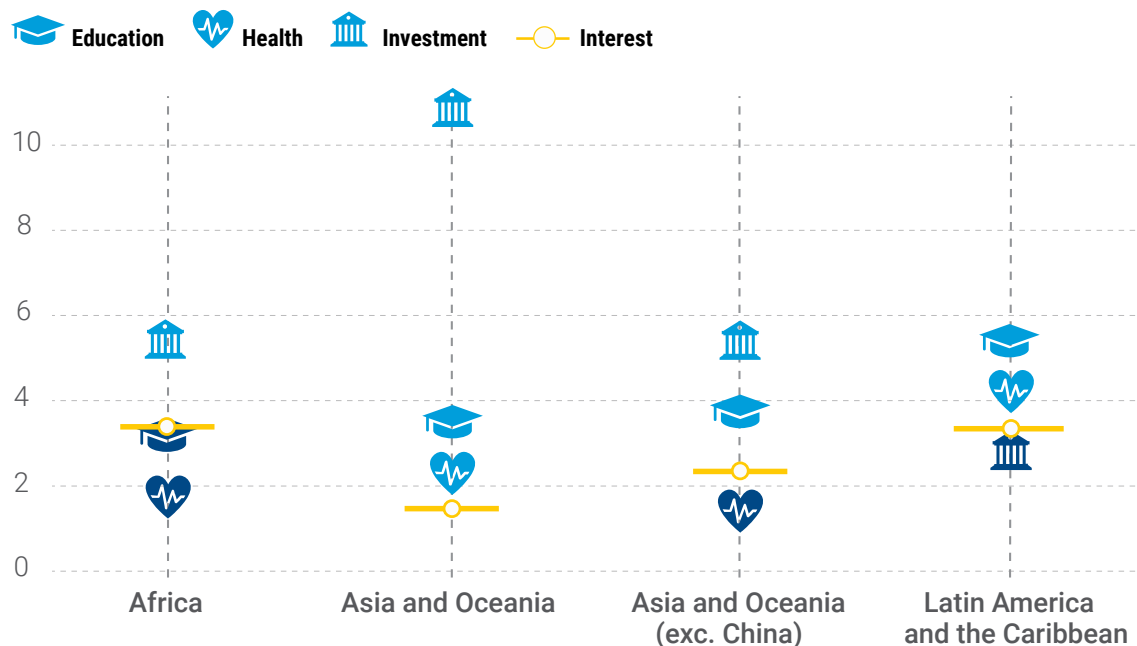
People pay the price

Some regions spend more on servicing debt than serving their people

In Africa, the amount spent on interest payments is higher than spending on either education or health. Developing countries in Asia and Oceania (excluding China) are allocating more funds to interest payments than to health. Similarly, in Latin America and the Caribbean, developing countries are devoting more money to interest payments rather than to investment. Across the world, rising debt burdens are keeping countries from investing in sustainable development.

Figure 11: Some regions spend more on servicing debt than serving their people

Public expenditure on net interest, education, health and investment as a share of GDP (%) (2019-2021)

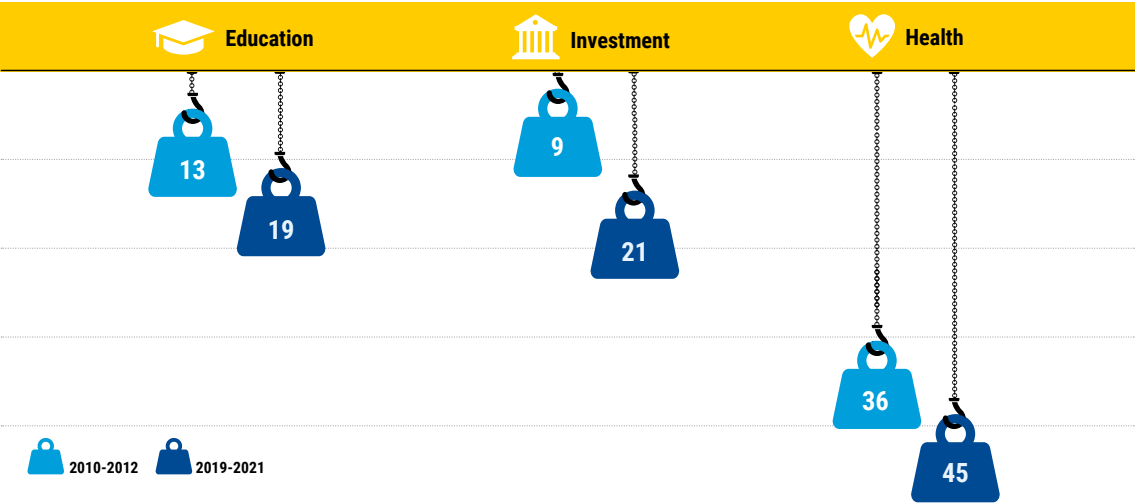


Source: UN Global Crisis Response Group calculations based on IMF World Economic Outlook (April 2023), IMF Investment and capital stock database and World Bank World Development Indicators database.

An increasing number of countries find themselves trapped in a situation where both their development and their ability to manage debt is compromised. Currently at least 19 developing countries are spending more on interest than on education and 45 are spending more on interest than on health. In total, 48 countries are home to 3.3 billion people, whose lives are directly affected by underinvestment in education or health due to large interest payment burdens.

Figure 12: Interest payments outweigh development spending in more countries

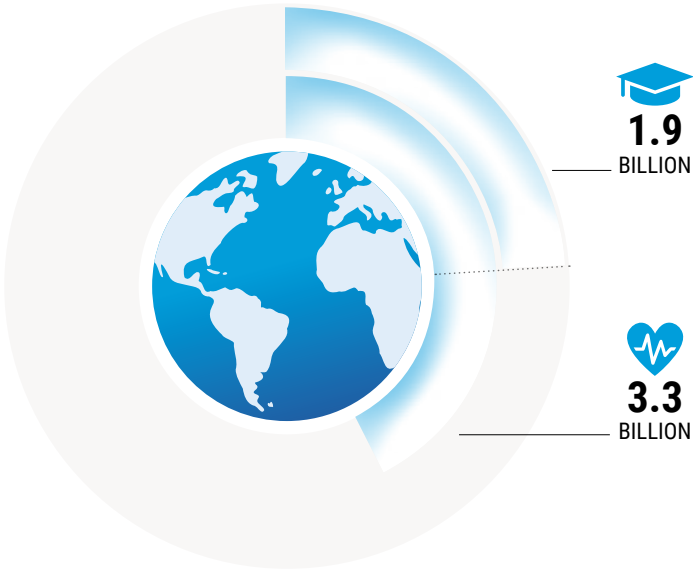
Number of developing countries spending more public resources on net interest than on education, investment or health



Source: UN Global Crisis Response Group calculations based on IMF World Economic Outlook (April 2023), IMF Investment and capital stock database and World Bank World Development Indicators database.

Figure 13: 3.3 billion people live in countries that spend more on interest than health or education

Population of developing countries spending more on interest than health or education



Source: UN Global Crisis Response Group calculations based on IMF World Economic Outlook (April 2023), IMF Investment and capital stock database and World Bank World Development Indicators database. Latest figures available.

A roadmap to finance sustainable development

To address the global debt challenges and achieve sustainable development, the United Nations in the SDG Stimulus package and the Summit for the Future's International Financial Architecture policy brief outlines a clear way forward

Make the system more inclusive, improving the real and effective participation of developing countries in the governance of the international financial architecture.

Provide greater liquidity in times of crisis expanding contingency finance, so that countries are not forced into debt as a last resort, including through the strengthened use of Special Drawing Rights, a temporary suspension of IMF surcharges, and increased quota-access windows to IMF emergency financing.

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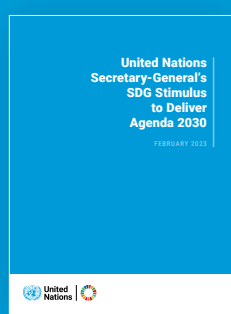


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Tackling the high cost of debt and rising risk of debt distress and create a debt workout mechanism to address the slow progress of the G20 Common Framework for Debt Treatment due to creditor coordination challenges and the lack of automatic debt service suspension clauses to participating countries.

More and better finance massively scaling up affordable long-term financing. The transformation and expansion of Multilateral Development Banks to support long term sustainable development and scaling up private resources. More concessional finance; fulfilling aid and climate finance commitments.



Inequality
is embedded
in the international
financial architecture.

This must change.

