UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

A world of debt

REPORT 2024

A growing burden to global prosperity

UN trade & development UNCTAD

years 60

Contents

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UNCTAD supports developing countries to access the benefits of a globalized economy more fairly and effectively by providing economic and trade analysis, facilitating consensus-building and offering technical assistance to help developing countries use trade, investment, finance and technology for inclusive and sustainable development.

A World of Debt

A World of Debt was prepared by the United Nations Global Crisis Response Group (UN GCRG)-Technical Team at UNCTAD led by Rebeca Grynspan and coordinated by Carlos Razo. The team members include Julia Grübler, Daniel Hopp, Daniel Munevar, Swati Sharma and Giovanni Valensisi.

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Introduction

Public debt can be a powerful tool for development, enabling governments to finance critical expenditures and invest in a better future for their people. However, when public debt grows excessively or rapidly, it becomes a heavy burden, particularly for developing countries.

This report highlights the alarming surge in global public debt, driven by cascading crises in recent years. The growing debt burden disproportionately impacts developing countries, as servicing it diverts essential resources away from their development aspirations.

Recent events have worsened this challenge. The rise in global interest rates since 2022 further strained public budgets in developing countries. High interest payments are outpacing the growth in essential public expenditures such as health, education, and climate action. In the developing world, home to 3.3 billion people, one out of every three countries spends more on interest payments than on these critical areas for human development.

The global financial architecture is no longer capable of meeting the needs of the world in the twenty-first century. This is a substantial challenge to sustainable development.

The United Nations has outlined a roadmap to fast-track sustainable development in the SDG Stimulus package, focusing on three key areas:

1. **tackling the high cost of debt and rising risks of debt distress,**
2. **massively scaling up affordable long-term financing for development, and**
3. **expanding contingency financing for countries in need.**

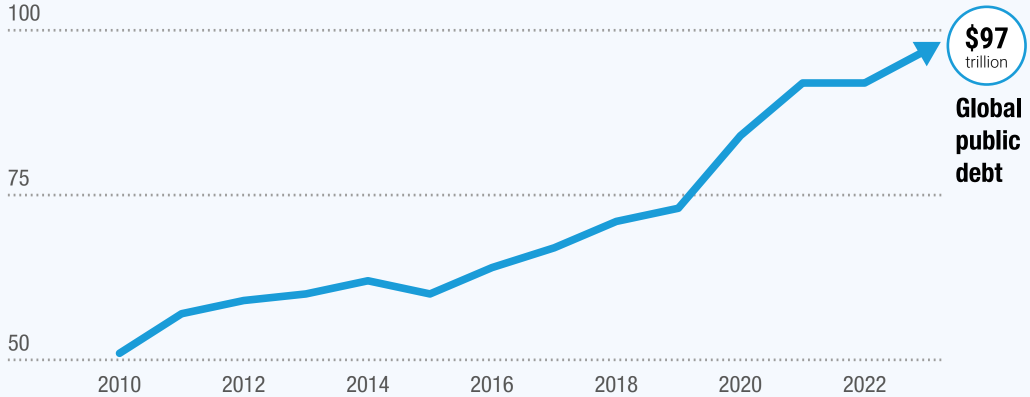
Developing countries must not be forced to choose between servicing their debt or serving their people. The international financial architecture must change to ensure a prosperous future for both people and the planet.

A reform is not only necessary, it is urgent.

1.
Global public debt keeps rising

Global public debt continues to increase rapidly, driven by cascading crises as well as the sluggish and uneven performance of the global economy. In 2023, public debt, comprising domestic and external general government debt, reached US$ 97 trillion, a US$ 5.6 trillion increase from 2022 (figure 1).

Figure 1
Public debt reaches record levels in 2023
Global public debt in US$ trillion

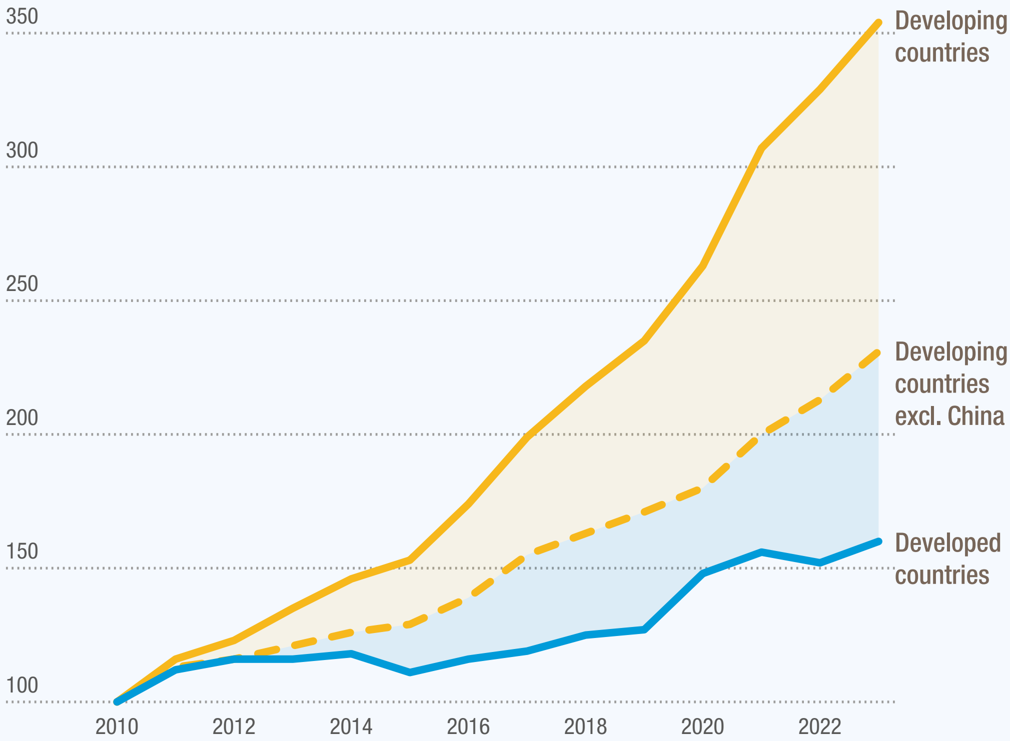


Figures represent nominal values in current US$. Public debt refers to general government domestic and external debt throughout the document. General government consists of central, state and local governments and the social security funds controlled by these units.

Source: UN GCRG - technical team calculations, based on IMF World Economic Outlook (April 2024).

This growth is marked by significant regional disparities. Public debt in developing countries is rising at twice the rate of that in developed countries (figure 2).

Figure 2
Public debt grows twice as fast in developing countries
Index: Outstanding public debt in 2010 = 100

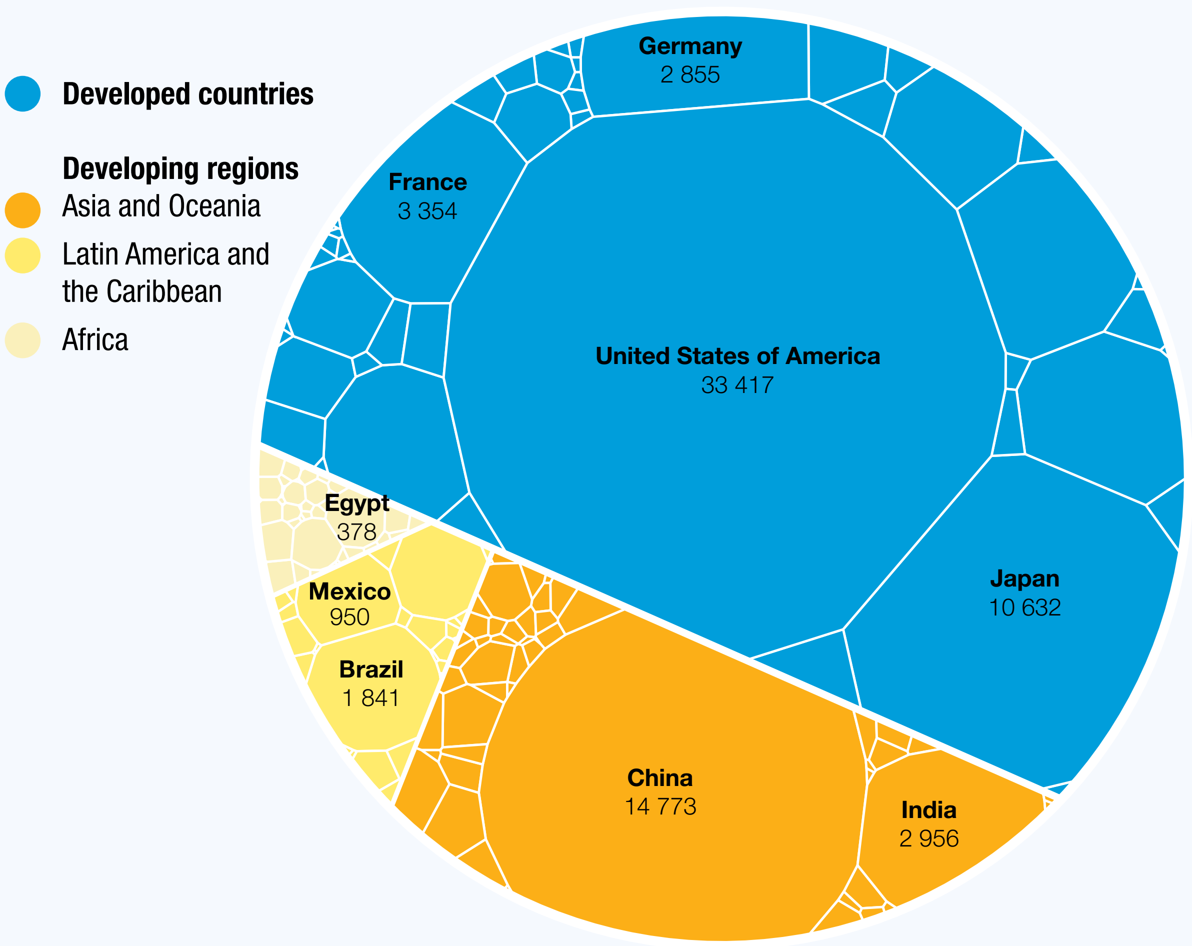


Source: UN GCRG - technical team calculations, based on IMF World Economic Outlook (April 2024).

In 2023, public debt in developing countries reached US$ 29 trillion, accounting for 30% of the global total (figure 3). This is a substantial increase from a 16% share in 2010 and reflects the rapid growth of public debt in developing countries.

The contrast among developing regions is stark. Over three-quarters of this debt is owed by countries in Asia and Oceania, while Latin America and the Caribbean accounts for 17% and Africa for just 7%. The burden of this debt varies significantly with countries' ability to repay it and is exacerbated by the inequality embedded in the international financial architecture: Those least able to afford it end up paying the most.

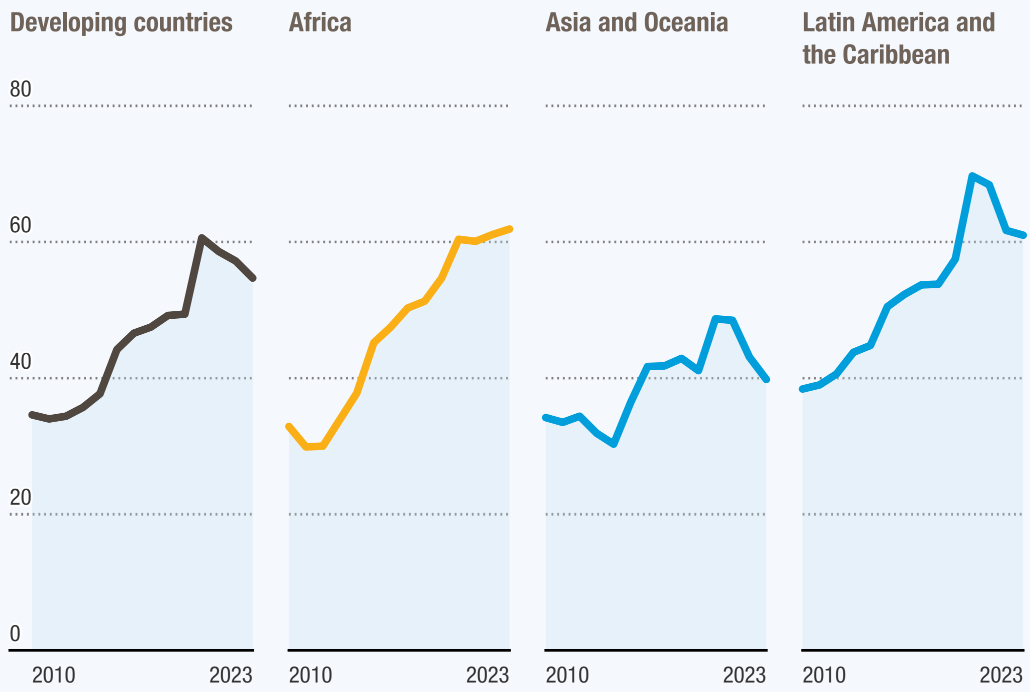
Figure 3
Almost a third of global public debt is owed by developing countries
Public debt in US$ billion (2023)



Source: UN GCRG - technical team calculations, based on IMF World Economic Outlook (April 2024).

This dynamic becomes evident when examining the evolution of public debt relative to the size of developing economies. In over half of these countries, public debt has declined relative to GDP. The median value of the public debt-to-GDP ratio fell from a peak of 60.4% in 2020 to 54.7% in 2023 (figure 4). This decline is due to high global inflation, which increases nominal GDP, and stronger-than-expected real GDP growth in middle-income countries in Asia and Oceania, and to a lesser extent in Latin America and the Caribbean. Consequently, even though the stock of public debt increased also in these regions, the median debt-to-GDP ratios have decreased.

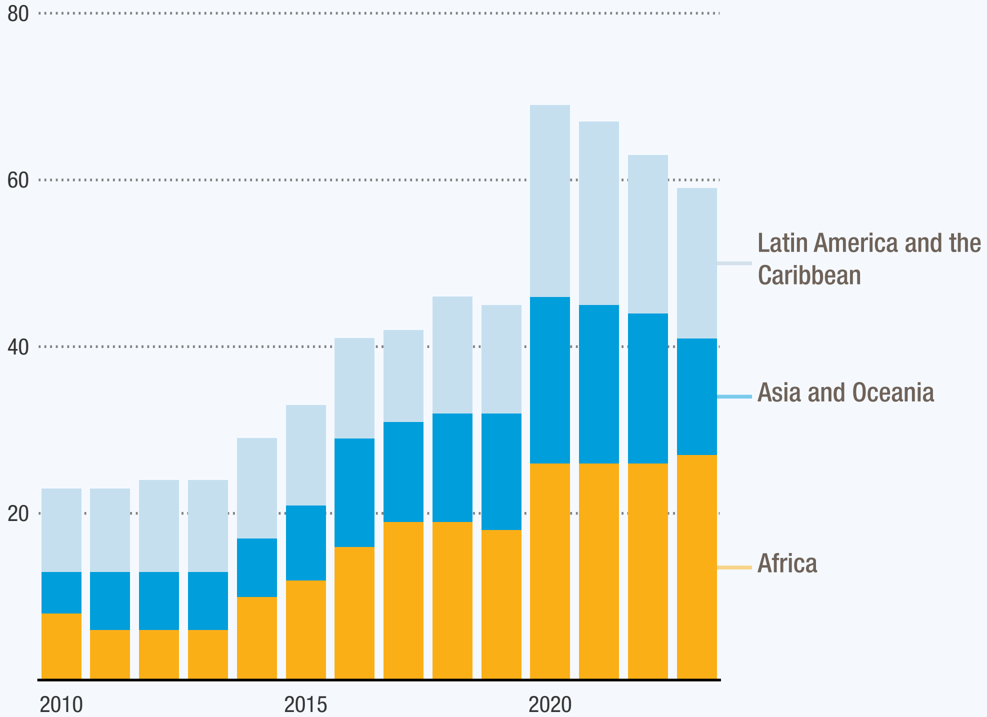
Figure 4
Although public debt is growing in all regions, only in Africa it is growing faster than GDP
Public debt as a share of GDP - Median per country group
(percentage)



Source: UN GCRG - technical team calculations, based on IMF World Economic Outlook (April 2024).
Note: The median represents the value that lies at the midpoint of the data distribution.

In contrast, economic performance in Africa has faltered due to global shocks, resulting in a heavier debt burden. The median public debt-to-GDP ratio has continued to increase, reaching 61.9% in 2023. As a result, an increasing number of developing countries with high debt-to-GDP levels are concentrated in Africa (figure 5). The region's share of countries with debt-to-GDP ratios above 60% has increased from 25% to 46% between 2013 and 2023.

Figure 5
More countries face high debt burdens, especially in Africa
Number of developing countries with public debt above 60% of GDP



Source: UN GCRG - technical team calculations, based on IMF World Economic Outlook (April 2024).

2.
The cost of external public debt remains high.

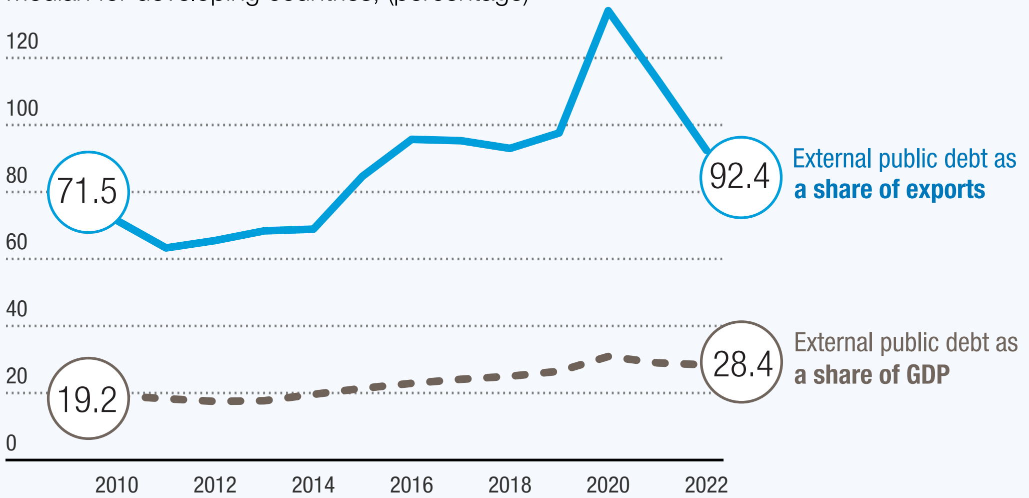
Developing countries are grappling with an international financial architecture, whose entrenched asymmetries exacerbate the impact of cascading crises on sustainable development. This system intensifies their debt burden by limiting access to affordable development finance and pushing them to borrow from more volatile and expensive external sources. The limited size of domestic financial markets and higher levels of external public debt make them more vulnerable to external shocks and financial instability.

For example, when global financial conditions change or international investors become more risk-averse, borrowing costs can suddenly spike. Additionally, if a country's currency devalues, debt payments in foreign currency can soar, leaving less money for development spending. Consequently, developing countries are forced to increase the transfer of resources to their external creditors, while resolving debt crises becomes more difficult.

Developing countries' external public debt reached US$ 3.2 trillion in 2022. For half of these countries, external public debt was at least as high as 28.4% of GDP and 92.4% of their exports (figure 6). Both indicators show improvements since 2020, marginally in the case of GDP and substantially in the case of exports. The main driver of the decline in the external public debt-to-export ratio is the evolution of exports, which experienced a sharp slump during the pandemic followed by a strong recovery amid high commodity prices in 2022.

Figure 6
Developing countries' external public debt indicators returned to pre-COVID levels

Median for developing countries, (percentage)



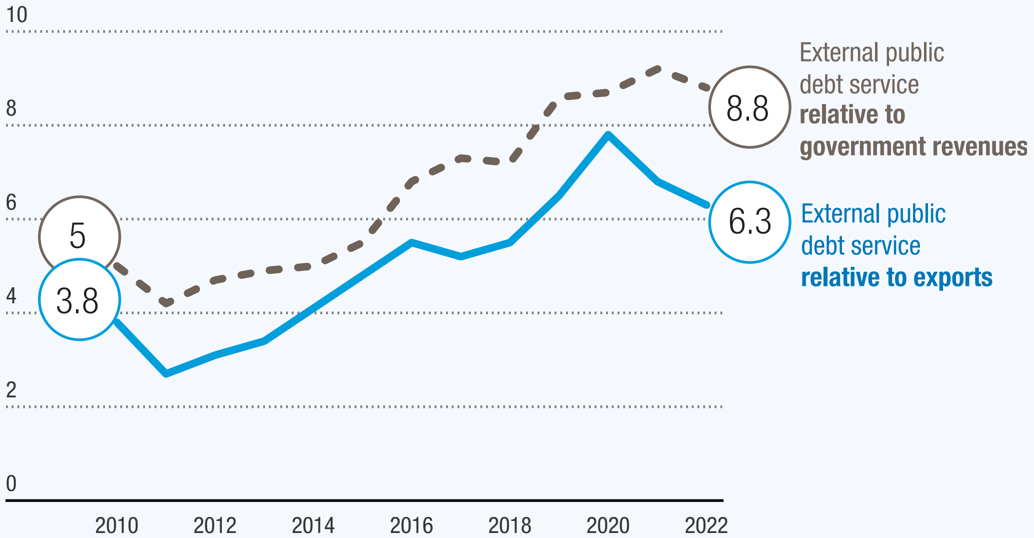
Source: UN GCRG - technical team calculations, based on IMF World Economic Outlook (April 2024) and World Bank International Debt Report 2023).

Note: External public debt refers to external Public and Publicly Guaranteed (PPG) debt. The median represents the value that lies at the midpoint of the data distribution.

Despite the improvement of these indicators, external public debt service requirements remain high, reaching US$ 365 billion in 2022. Of particular concern is the evolution of the external debt service-to-government revenue ratio. Governments are now allocating twice as much resources towards servicing this debt relative to revenues compared to 2011, leaving a declining share of resources for investments in sustainable development (figure 7).

Figure 7
Yet, external debt service burdens remain high

Median for developing countries, (percentage)



Source: UN GCRG - technical team calculations, based on IMF World Economic Outlook (April 2024) and World Bank International Debt Report 2023).

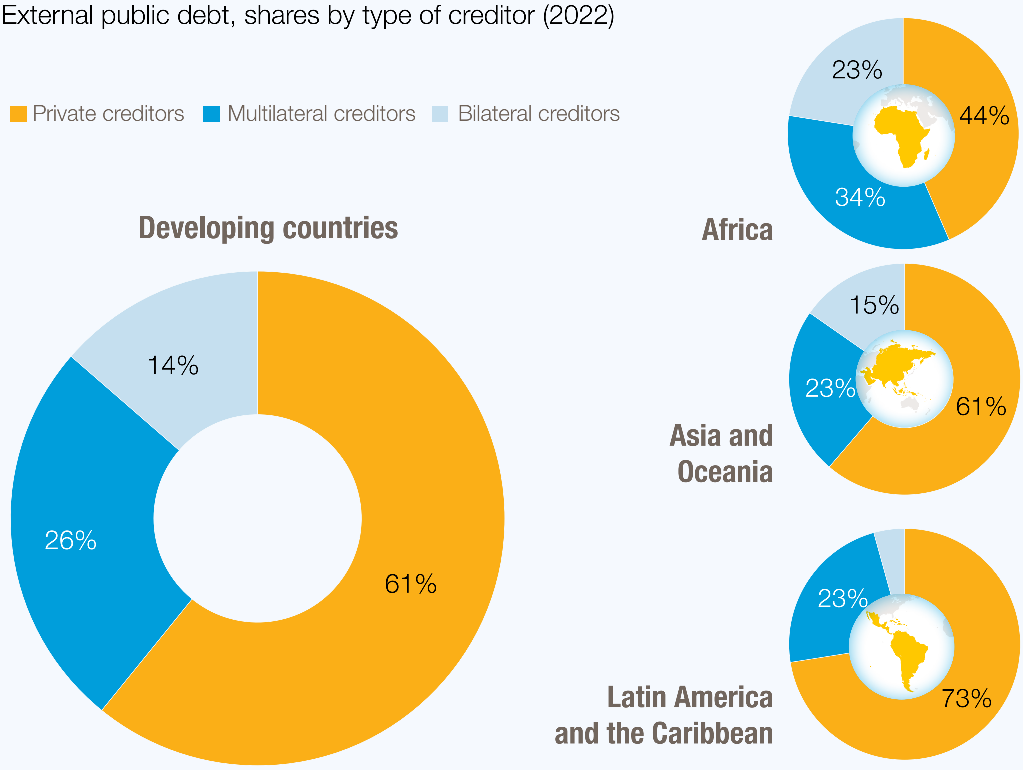
Note: External public debt refers to external Public and Publicly Guaranteed (PPG) debt. The median represents the value that lies at the midpoint of the data distribution.

Furthermore, half of developing countries are allocating at least 6.3% of their export revenues to external public debt service. 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.

The growing burden of debt on development is a consequence of the evolution of debt financing over the last decade. Governments in developing countries borrow from various sources, including bilateral (other governments), multilateral (such as multilateral development banks) and private creditors (including bondholders, banks, and other lenders).

Since 2010, the portion of external public debt owed to private creditors has risen across all regions, accounting for 61% of developing countries' total external public debt in 2022 (figure 8).

Figure 8
The creditor base makes debt expensive and difficult to restructure
External public debt, shares by type of creditor (2022)



Source: UN GCRG - technical team calculations, based on IMF World Economic Outlook (April 2024) and World Bank International Debt Report 2023.

Note: External public debt refers to external Public and Publicly Guaranteed (PPG) debt.

This rising reliance on private creditors presents three main challenges.

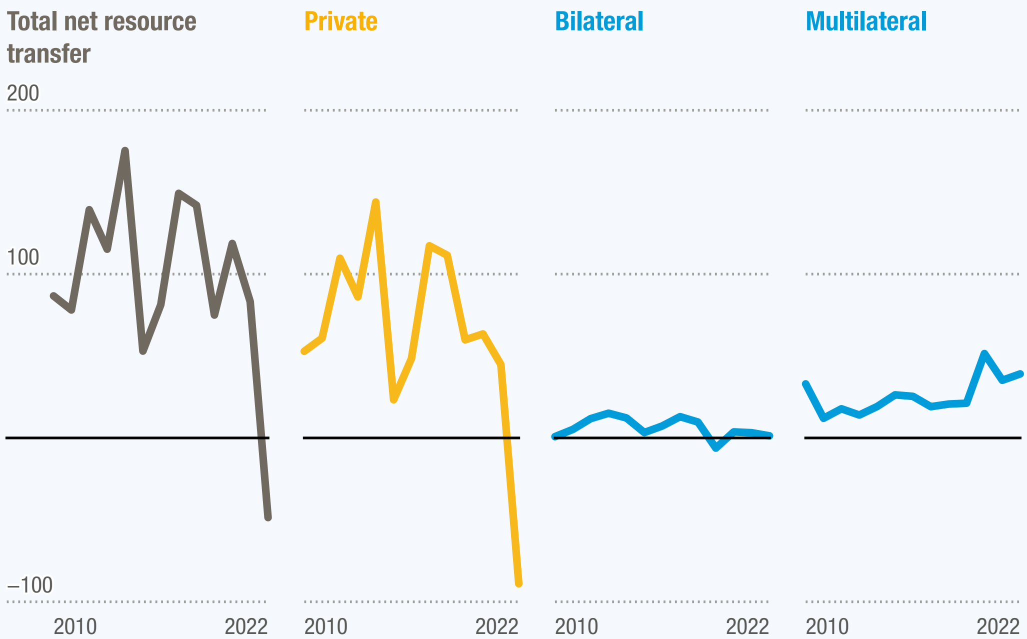
Firstly, the increasing complexity of the creditor base makes debt restructuring more difficult as it requires negotiating with a broader range of creditors with diverging interests and legal frameworks. Delays and uncertainties increase the cost of resolving debt crises. The relationship between restructuring costs and time required for completion is highly relevant in the current context. Debt restructurings since 2020 are taking longer to finalise compared to episodes in previous decades, underscoring the need for improved debt crisis resolution mechanisms.

Secondly, lending by private creditors is volatile and prone to rapid shifts, especially during crises, as investors pull back in a «flight to safety». This can lead to a resource outflow when countries can least afford it. In 2022, developing countries paid US$ 49 billion more to their external creditors than they received in fresh disbursements, resulting in a negative net resource transfer.

Figure 9

Private creditor withdrawal causes nearly US$ 50 billion in outflows

Developing countries' net transfers on external public debt by type of creditor in US$ billion



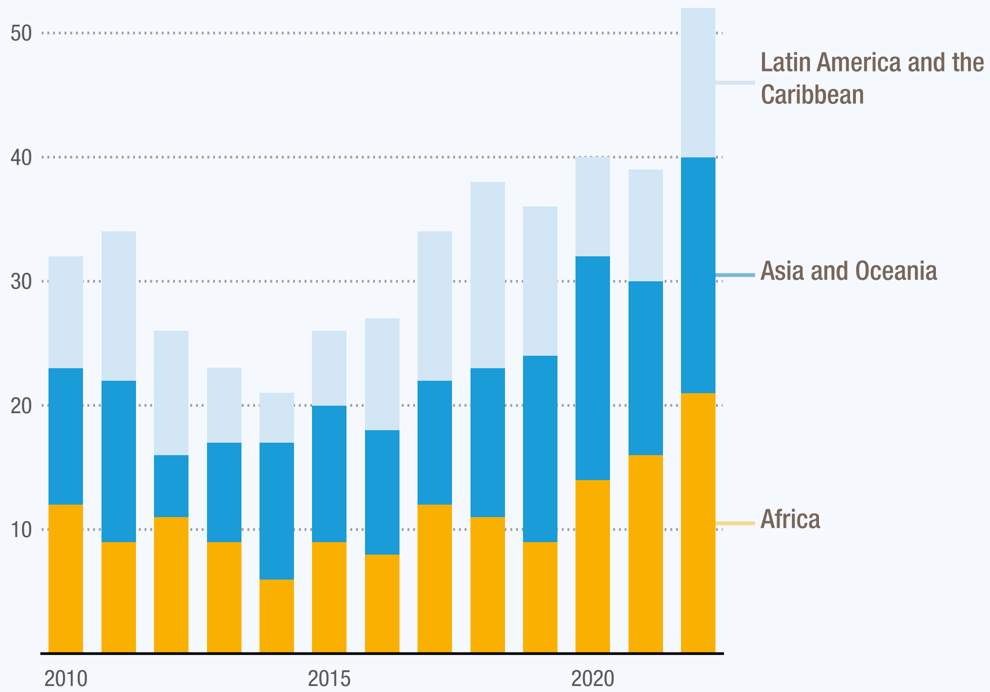
Source: UN GCRG - technical team calculations, based on World Bank International Debt Report 2023.

Note: Net transfers are defined as disbursements minus debt service on external public and publicly guaranteed debt.

The net resource transfer varied significantly by creditor type, illustrating the complexity of the current creditor base. In 2022, bilateral and multilateral creditors provided a total of US$ 40 billion in positive transfers, while private creditors withdrew a record US$ 89 billion from developing countries (figure 9).

A total of 52 countries experienced net outflows of resources in 2022, up from 32 in 2010, with most of the affected countries being in Africa and Asia and Oceania (figure 10). The growth in the number of countries experiencing resource transfer highlights the widespread nature of the problem, exacerbated by rising borrowing costs.

Figure 10
Developing countries with net debt outflows more than doubled since 2014
Number of developing countries with net negative transfers on external public debt

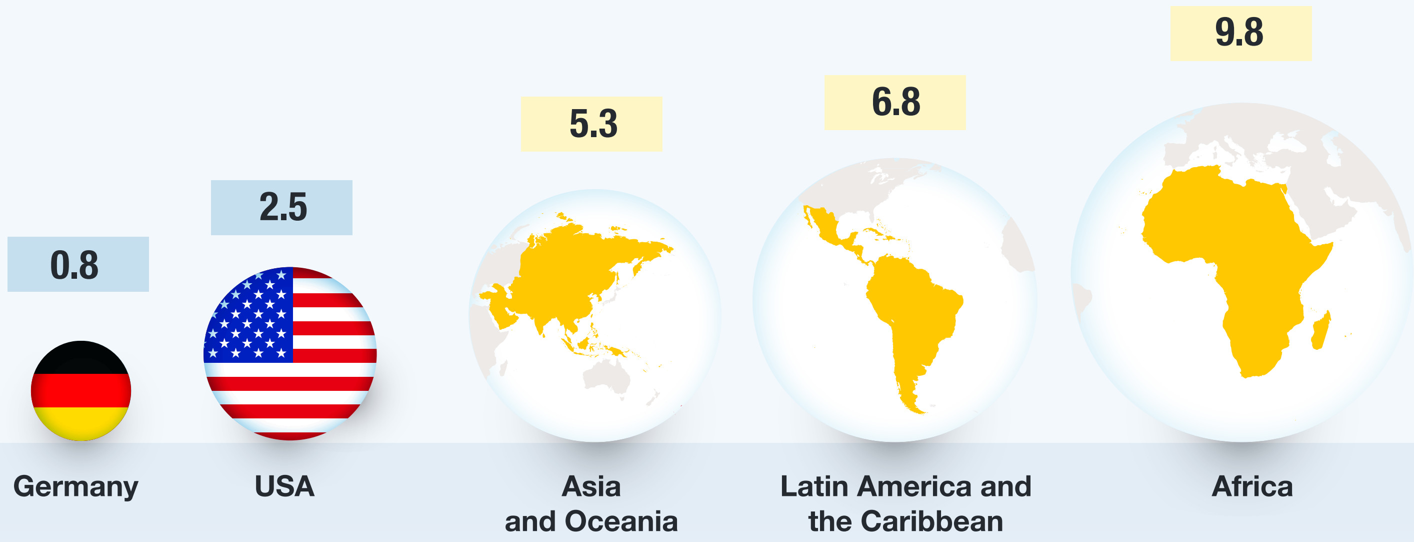


Source: UN GCRG - technical team calculations, based on World Bank International Debt Report 2023.
Note: Net transfers are defined as disbursements minus debt service on external public and publicly Guaranteed debt.

Thirdly, borrowing from private sources on commercial terms is more expensive than concessional financing from multilateral and bilateral sources. The inequalities embedded in the international financial architecture exacerbate these differences in the cost of financing.

The borrowing costs of developing countries far exceed those of developed countries. Developing regions borrow at rates that are 2 to 4 times higher than those of the United States and 6 to 12 times higher than those of Germany (figure 11). High borrowing costs increase the resources needed to pay creditors, which makes it difficult for developing countries to finance investments.

Figure 11
Borrowing costs of developing countries are way higher than those of developed ones
Bond yield ratio of developing to developed countries



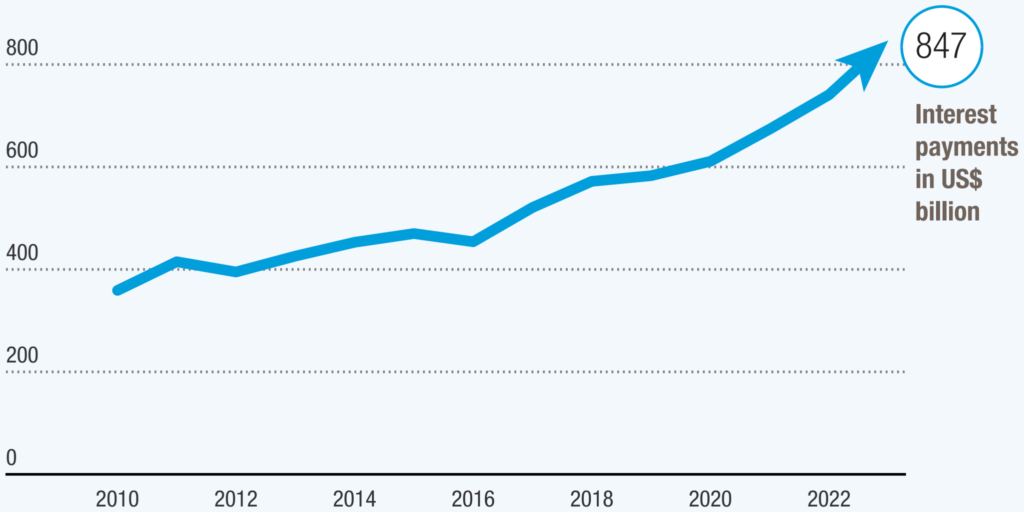
Source: UN GCRG - technical team calculations, based on Refinitiv.

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 2020 to May 2024.

3.
People pay the price

The increase in interest rates by central banks worldwide since 2022 is having a direct impact on public budgets in developing countries. Net interest payments on public debt reached US$ 847 billion in 2023, a 26% increase compared to 2021 (figure 12).

Figure 12
Developing countries' interest payments reach US$ 847 billion
Net interest payments of developing countries in US$ billion

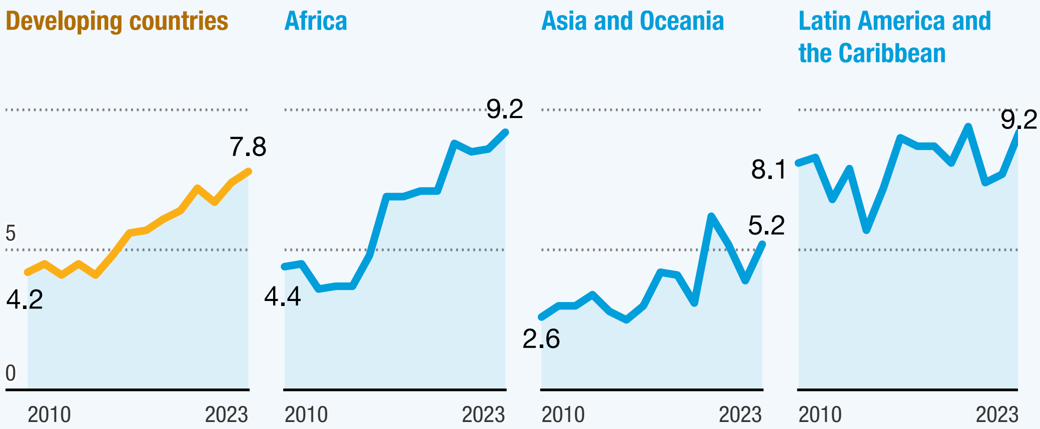


Source: UN GCRG - technical team calculations, based on IMF World Economic Outlook (April 2024).

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.

Currently, more than half of developing countries allocate at least 8% of government revenues to interest payments, a figure that has doubled over the past decade (figure 13). The rising pressure of interest payments is substantial across regions, particularly in Africa and Latin America and the Caribbean.

Figure 13
Developing countries' interest payments double relative to revenues
Net interest payments of developing countries relative to government revenues, (percentage)

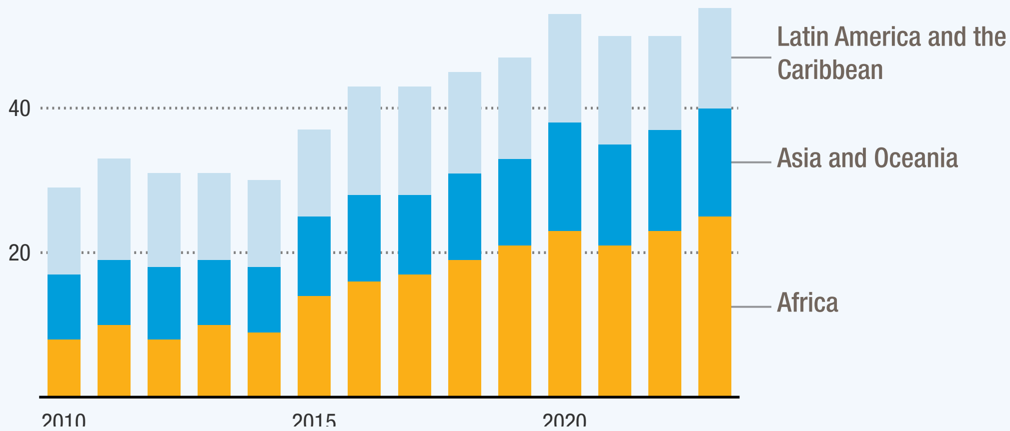


Source: UN GCRG - technical team calculations, based on IMF World Economic Outlook (April 2024).

Note: Median per country group. The median represents the value that lies at the midpoint of the data distribution. 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.

In 2023, a record 54 developing countries, equivalent to 38% of the total, allocated 10% or more of government revenues to interest payments, with nearly half of them in Africa (figure 14).

Figure 14
54 developing countries spend heavily on interest, nearly half of them in Africa
Number of developing countries with net interest payments exceeding 10% of revenues

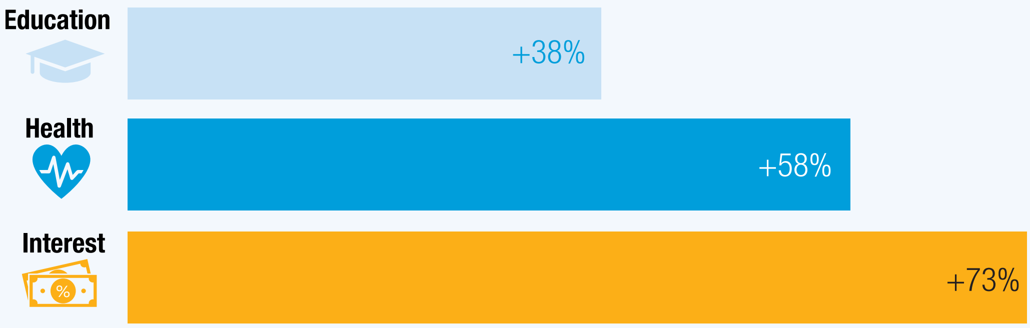


Source: UN GCRG - technical team calculations, based on IMF World Economic Outlook (April 2024).

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.

Developing countries' interest payments are not only growing fast, but they are outpacing growth in critical public expenditures such as health and education (figure 15).

Figure 15
Interest payments are growing faster than other public expenditures
Nominal change (%) of public expenditure categories in developing countries between 2010-2012 and 2020-2022

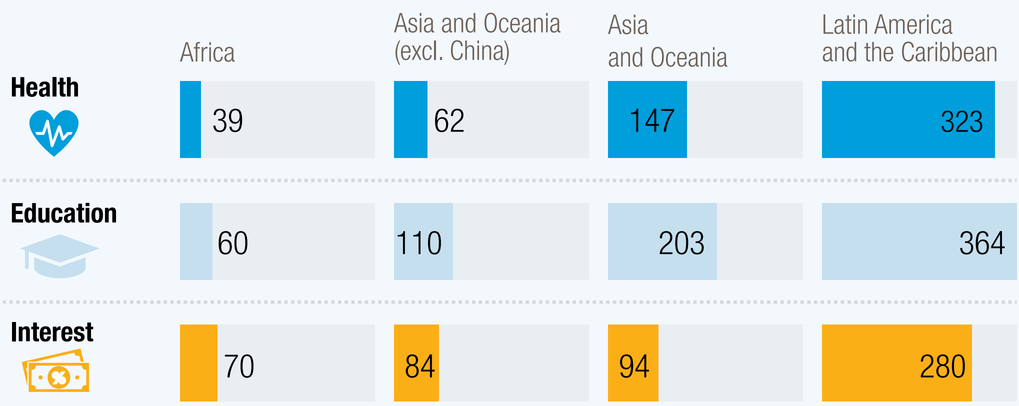


Source: UN GCRG - technical team calculations, based on IMF World Economic Outlook (April 2024) and World Bank World Development Indicators.

Note: Aggregate expenditures for developing countries, average for 3-year period. Interest refers to net interest payments.

The rapid increase in interest payments is constraining spending across developing countries. For example, during the initial years of the COVID-19 pandemic, Africa and Asia and Oceania (excluding China) spent more on interest payments than on health. For the 2020-2022 period, public per capita health expenditures in these regions were only US$ 39 and US$ 62, respectively. Meanwhile, per capita expenditure to repay public debt interests reached US$ 70 and US$ 84, respectively (figure 16).

Figure 16
Some regions spend more on servicing debt than serving their people
Public expenditure per capita on net interest, education and health in US$ (2020-2022)



Source: UN GCRG - technical team calculations, based on IMF World Economic Outlook (April 2024) and World Bank World Development Indicators.

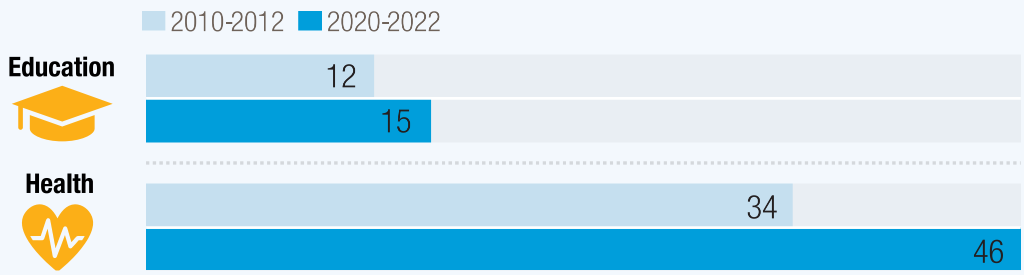
Note: Aggregate expenditures for developing countries. Interest refers to net interest payments.

The number of countries where interest payments surpass spending in these essential categories is rising (figure 17). During the years 2020 – 2022, there were 15 countries whose interest payments exceeded education expenditures, and 46 countries where they were higher than health expenditures.

Figure 17

A growing number of countries spend more on interest than development

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



Source: UN Global Crisis Response Group calculations based on IMF World Economic Outlook (April 2024) and World Bank World Development Indicator

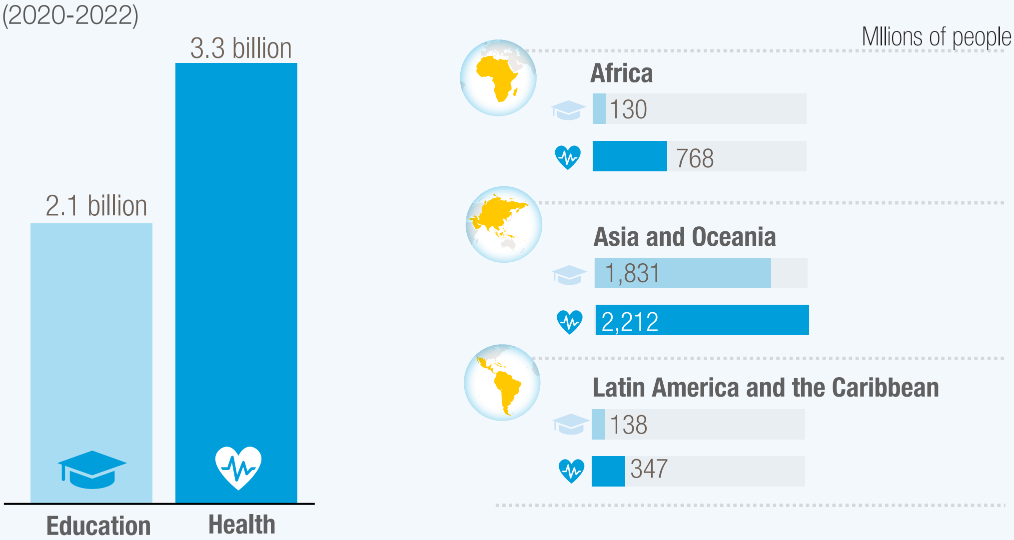
Note: Interest refers to net interest payments.

A total of 3.3 billion people live in countries that spend more on interest payments than on either education or health (figure 18). This situation is untenable and must change.

Figure 18

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

Population in developing countries where spending on interest exceeds education or health (2020-2022)



Source: UN GCRG - technical team calculations, based on IMF World Economic Outlook (April 2024) and World Bank World Development Indicators.

Note: Interest refers to net interest payments.

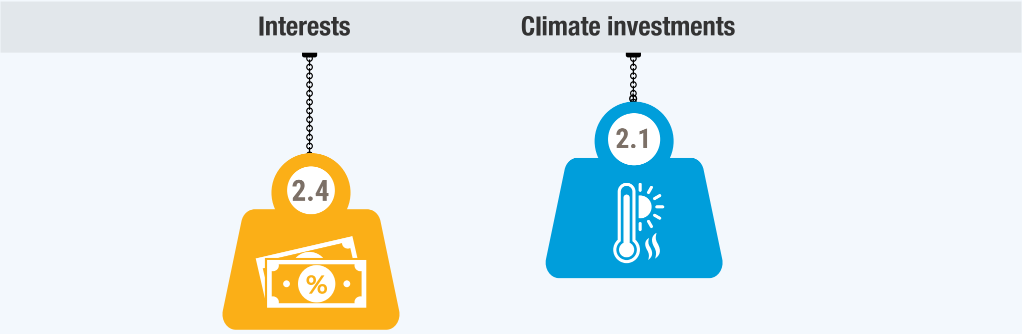
In focus

The impact of debt on climate action

Averting the worst impacts of climate change requires urgent actions to limit global warming to 1.5°C. Every fraction of a degree matters, and each penny invested makes a difference. Developing countries need to increase climate investments from their current level of 2.1% of GDP to 6.9% by 2030 to meet the Paris Agreement targets. However, they are currently spending more on interest payments than on climate investments (figure 19). Additionally, climate finance commitments agreed at COP15 have lagged. The target of US$ 100 billion per year in climate finance from developed countries was only reached in 2022, two years behind schedule. Achieving climate goals will be difficult for developing countries as long as debt constraints persist and climate finance commitments fall short.

Figure 19
Interest outweighs climate investments in emerging and developing countries

Public expenditure in emerging markets and developing countries excl. China on interest and climate investments as % of GDP (2019)



Source: UN GCRG - technical team calculations, based on IMF World Economic Outlook (April 2024) and Songwe. V, et. al. (2022) “Finance for climate action: scaling up investment for climate and development”.

Note: Figures for Emerging Markets and Developing Countries (EMDC), excluding China, for 2019 (latest available comparable data). The EMDC group is an IMF classification and it differs from the UN developing country classification used throughout this report.

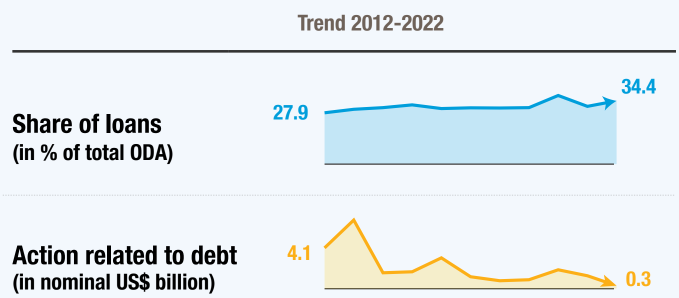
In focus
Debt and aid

The negative impact on developing countries from resource transfers to creditors has been exacerbated by three shifts in Official Development Assistance (ODA):

1. Aid to developing countries has declined for two consecutive years, dropping to US$ 164 billion in 2022.
2. A growing share of aid is now provided through concessional loans rather than grants. The share of loans in aid for developing countries increased from 28% in 2012 to 34% in 2022.
3. Resources allocated to actions related to debt, including debt relief, swaps, restructuring and others, have hit a historical low, falling from US$ 4.1 billion in 2012 to only US$ 300 million in 2022.

The decline in overall aid, the increasing use of loans, and the sharp reduction in debt relief resources add further pressure on developing countries burdened by debt.

Figure 20
Aid through loans rises while action related to debt hits record low
Official Development Assistance (ODA), share of loans in % and action related to debt in US$ billions



Source: UN GCRG - technical team calculations (2024), “Aid under pressure: 3 accelerating shifts in Official Development Assistance”.

4.
A call for action to finance sustainable development

The challenges posed by debt to sustainable development are at the forefront of ongoing multilateral discussions. At the most recent United Nations General Assembly, 149 countries addressed issues related to financing for development or debt. Specifically, 73 countries highlighted the various ways in which debt is intertwined with sustainable development. The call for reforming the international financial architecture is loud, with nearly 50 world leaders calling for efforts towards this common goal.

Figure 21
Nearly 50 countries call for international financial architecture reform
Finance and debt related topics in United Nations General Assembly speeches by number of countries and share by country group in percentage (2023)

	Number of speeches	% of developing countries	% of developed countries
Finance and debt	149	82	67
Reform of the international financial architecture	47	30	9

Source: UN GCRG - technical team calculations, based on 192 speeches of the General Debate at the 78th Session of the General Assembly, 19-23 and 26 September 2023.

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 of the Future's policy brief on the Reforms to the International Financial Architecture, outline 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.

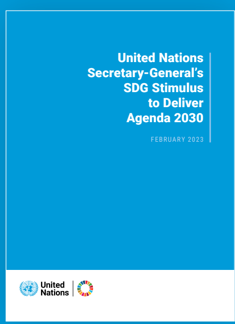
Provide greater liquidity in times of crisis, expanding contingency finance so that countries are not forced into debt as a last resort, including through the strengthened use of Special Drawing Rights, a temporary suspension of IMF surcharges, and increased quota-access windows to IMF emergency financing.

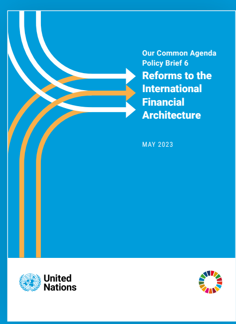
Tackling the high cost of debt and rising risk of debt distress and create an effective debt workout mechanism to address the slow progress of the G20 Common Framework for Debt Treatment due to limited country eligibility, creditor coordination challenges and the lack of automatic debt service suspension 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.





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