Financing for Development 2025 Fact Sheet on Debt and Debt Sustainability

Confidential - Draft for Consultations

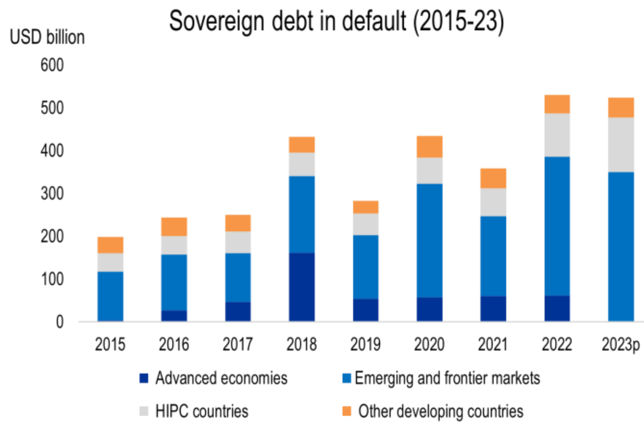
This document is currently in draft form and is being shared for consultation purposes. Your input is valuable in refining the content. Please submit any comments, feedback, or suggested changes by **18 November** to **Olivier.cattaneo@oecd.org and Rachel.morris@oecd.org**.

OECD

Data dashboard

Key trends

The risk of external public debt distress has increased.

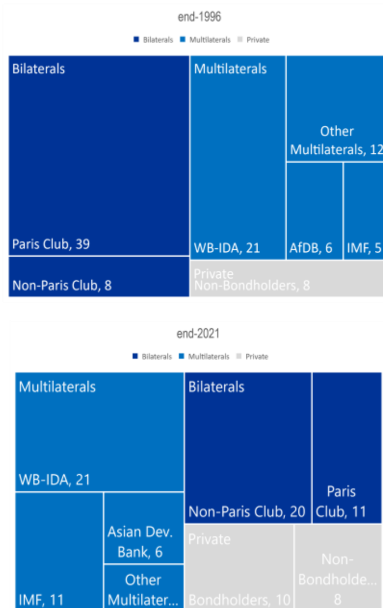


Note: A sovereign is in default or debt distress when it interrupts debt payments or seeks to renegotiate terms, including to reduce principal, lower interest rates or extend maturities. Once restructured, the debt is considered performing and not in default.
Source: Beers et al.,(2024[1]), BoC–BoE Sovereign Default Database: What's new in 2024?, https://www.bankofcanada.ca/wp-content/uploads/2024/07/SAN2024-19.pdf

Deteriorating global financial conditions have significantly increased the risk of external public debt distress in developing countries.[1] In 2022, the total amount of defaulted sovereign debt, including non-marketable debt, reached USD 470 billion, up from an average of about USD 200 billion in 2015. Highly indebted poor countries (HIPC) reached a record high of sovereign debt in default of USD 127 billion in 2023 due in part to the slow pace at which some non-Paris Club official creditors are implementing debt relief.[2]

Sovereign debt restructuring has become more complex.

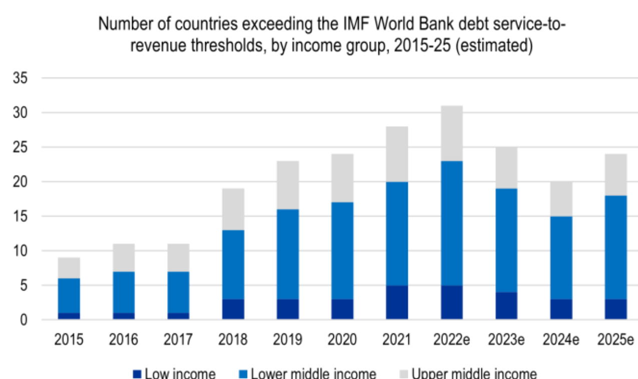
Creditor composition in LICs, % of public and publicly guaranteed external debt stock (1996-2021)



Note: The numbers indicate the share of total external debt the respective creditor holds in a given year, WB-IDA: World Bank International Development Association; IMF: International Monetary Fund; AfDB: African Development Bank
Source: IMF 2023

Sovereign debt restructuring has become more complex due to a rise in defaulted debt and a more diverse creditor base, with the private sector and China playing increasingly significant roles. As demonstrated by the shift in creditor composition in low-income countries, in 1996, Paris Club creditors held 39% of low-income countries' external debt, while non-Paris Club and private creditors each held 8%. By the end of 2021, this composition shifted significantly, with Paris Club creditors' share dropping to 11%, non-Paris Club creditors increasing to 20%, and private creditors' share more than doubling to 19% of total external debt to low-income countries.

Increasing debt service limits the fiscal space and borrowing capacity of developing countries



Note: e = estimated. The debt service-to-revenue threshold used in the International Monetary Fund (IMF)-World Bank debt sustainability analysis varies depending on a country's debt carrying capacity. The indicator is calculated as the ratio of a country's total debt service payments (interest and principal) to its government revenues. This metric provides insight into the fiscal burden imposed by debt service and the government's ability to generate sufficient revenue to cover these obligations without compromising other essential spending. After 2021, data are based on estimates.
Source: Adapted from [A bridge to climate action (findevlab.org)]

Debt service consumes over a fifth of tax revenue in 25 developing countries.[3] 92 countries are projected to spend more on external public debt service than on Sustainable Development Goal (SDG) investments in 2024.[4] In many sub-Saharan African countries, fiscal consolidation is necessary to achieve prudent debt targets, requiring adjustments of 2-3% of gross domestic product (GDP) over 2022-27.[5] Approximately 20 LICs and lower middle-income countries (LMICs) are solvent but face illiquidity issues (i.e. a high debt service-to-revenue ratio) as creditors are reluctant to roll over loans out of concern that others will exit and leave them with riskier claims.[6]

Key performance indicators

(full list in statistical annex)

It should be noted that the chapter of the Addis Ababa Action Agenda on debt issues does not include quantifiable or timebound commitments.

- ⇓ Between 2015 and 2023, debt service on long-term external publicly guaranteed (PPG) debt as a percentage of exports of goods and services in least developed countries (LDCs) nearly doubled from 7.6% to 13.2% while in high-income developing countries the percentage remained stable at around 3.5%[7]
- ⇓ The proportion of LICs in debt distress or at high risk of debt distress has more than doubled between 2015 and 2023 from 27% in 2015 to 56% in 2023.[8]
- ⇓ In 2023, a record 54 developing countries, nearly half of them in Africa, have net interest payments exceeding 10% of their revenues.[9]
- ⇓ In 2020-22, a total 3.3 billion people resided in the 48 countries where interest payments exceed expenditures on either education or health.[10]

Resource mobilisation potential

- Implementing an HIPC-like programme today would likely cost between USD 100 billion and USD 200 billion, considering inflation, current debt levels and the broader scope of economic challenges.[11]
- Debt-for-nature swaps could help redirect USD 100 billion of debt in developing countries to nature restoration and climate adaptation.
- Up to USD 80 billion could be unlocked by rechanneling special drawing rights (SDRs) via multilateral development banks through the purchase of hybrid capital instruments.

Key areas of progress

Debt relief provided under HIPC and Multilateral Debt Relief Initiative programmes provided crucial support.

By the end of 2020, the HIPC and related Multilateral Debt Relief Initiative (MDRI) programmes had relieved 37 participating countries, 31 of them in Africa, of more than USD 100 billion in debt. Implementing HIPC-like initiatives today would be more challenging due to hidden debt and a more diverse creditor landscape. Since the mid-1990s, private sector debt in LICs has more than doubled from 8% to 19%. Additionally, creditor co-ordination and geopolitical fragmentation might undermine the efficiency of these programmes.[12]

The sovereign bond market in emerging markets and developing economies has grown significantly.

The sovereign bond markets of emerging markets and developing economies (EMDEs) have expanded significantly since 2007, with particularly strong growth since the onset of the COVID-19 pandemic. The annual gross issuance of bonds by EMDEs has nearly quadrupled from approximately USD 1 trillion in 2007 to almost USD 4 trillion by 2023. China's share of this borrowing also rose significantly from 15% in 2021 to 37% in 2023.[13] LICs experienced the most significant growth in sovereign bond issuances, with their markets expanding more than tenfold, followed by LMICs with a nearly a ninefold increase.

The substantial growth in sovereign gross issuances for LICs and LMICs is primarily driven by efforts to finance net borrowing needs through marketable debt instruments rather than an increase in overall borrowing requirements. Between 2009 and 2019, net borrowing for LICs and LMICs remained between 4% and 6% of GDP, without a consistent upward trend. Thus, the rise in gross issuances reflects the growing reliance on bond issuances to meet borrowing needs, indicating the development of LICs' and LMICS' sovereign bond markets.[14]

The proportion of EMDEs' local currency fixed rate sovereign bonds increased from 57% in 2000 to 66% in 2023, and the increase was accompanied by longer average maturities. However, both the volume of this debt and its maturity period are still lower for EMDEs than for OECD countries, and the gap is particularly pronounced in smaller economies.[15]

By the end of 2023, the global outstanding value of official sector and corporate and sustainable bonds reached USD 4.3 trillion, a significant increase from USD 641 billion in 2018.[16] Nonetheless and despite recent rapid growth, sovereign sustainable debt instruments still make up a small share of total sovereign bond issuances, averaging 2.2% for advanced economies and 8.1% for EMDEs in 2022. Green bonds dominate this market, representing over 75% of sovereign sustainable instruments, and are primarily issued by advanced economies.[17]

Debt management support and capacity building continues to expand.

The IMF and World Bank, together with implementing partners, have been implementing a multi-pronged approach to address debt vulnerabilities, including through the Debt Management Facility that had facilitated more than 463 technical assistance initiatives across 78 countries and 20 subnational entities by December 2022.[18] The IMF spends about one-third of its resources on capacity-development activities, which include technical assistance and training programmes to strengthen debt management practices in developing countries.[19]

New incentives have been set by official development assistance rules to strengthen debt sustainability of concessional finance.

The 2014 official development assistance (ODA) rules implemented a stricter measure of concessionality than previous guidelines, with discount rates set at 9%, 7% and 6% and thresholds at 45%, 15% and 10%, in contrast to the previous 10% discount rate and 25% threshold. Consequently, lenders are required to offer more concessional loans for these to qualify as ODA, which particularly affects LDCs. Additionally, the rules introduced new provisions in

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the ODA criteria concerning debt sustainability. Under these provisions, loans that do not adhere to the IMF Debt Limits Policy and/or the World Bank's Non-Concessional Borrowing Policy and Sustainable Development Finance Policy cannot be reported as ODA.

Persistent challenging areas

Rising interest rates and high refinancing needs threaten debt sustainability in developing countries.

Developing countries' average interest cost on external borrowing is three times higher than that of developed countries.[20] Every 1% increase in the interest rate represents an additional USD 35 billion in interest payments that LICs and middle-income countries must make to creditors.[21] LICs face significant debt repayments and need to refinance about USD 60 billion of external debt in 2024-26, which is triple the average of the decade from 2010-20.[22] Since 2016, Eurobonds and syndicated loans from private banks have surged while grace periods have shortened and spreads have become more volatile.[23]

High refinancing requirements in an environment of elevated interest rates, could strain national budgets and jeopardise foreign market access for certain countries. Between 2024 and 2026, over USD 4.5 trillion in bond debt from EMDEs will mature. For LICs, the proportion of debt maturing in 2024 is particularly high at approximately 20%, and is nearly 25% for countries with credit ratings indicating high credit risk or default (i.e. rated single B or below) compared with an average of 15% in other groups.[24]

Countries with low credit ratings are also more exposed to refinancing needs in foreign currency. For countries with credit ratings above single B, the average share of foreign currency debt maturing between 2024-26 is below 8%. In contrast, the average share exceeds 30% for countries with lower credit ratings. Among the 16 countries where more than 30% of foreign currency-denominated debt is due by end 2026, 10 have credit ratings of BB- (reflecting high risk) or lower. While defaults on local currency debt are rare, substantial refinancing needs in local currency during periods of high yields can significantly impact government budgets and reduce fiscal space for other priorities.[25]

Debt and debt service levels have risen, increasing the risk of debt default.

Recent crises have increased risks of debt defaults as well as the cost of debt service. Currently, 13 countries – 7 of them LMICs or LICs – are in or nearly in default, according to credit rating agencies, the highest number in 24 years. As of 2023, these 13 countries collectively have about USD 1.4 trillion in GDP, slightly over 1% of global GDP, and a combined population of nearly 400 million, or 5% of the world's population. Another 13 countries are at significant risk of default, representing total GDP of USD 1.7 trillion and with a combined population of more than 700 million. Taken together, this group of countries at either substantial risk of default or in default account for about 3% of global GDP but 15% of the world's population.[26]

The largest relative increases in sovereign debt default following the COVID-19 crisis were seen in eligible countries of the HIPC and MDRI, at 62.70% and 52.56%, respectively.[27] In 2022, developing countries paid USD 49 billion more to their external creditors than they received in fresh disbursements, resulting in a negative net resource transfer. Developing countries pay the highest price: debt service on external public debt reached USD 365 billion in 2022, equivalent to 6.3% of export revenues. Over USD 4.5 trillion of EMDE bond debt matures between 2024 and 2026.[28] The number of low-graded EMDEs accessing international markets fell from 20 on average in 2015-21 to approximately 10 in 2022-23.[29] ODA debt outstanding, defined as the amount of principal of ODA loans yet to be repaid by developing countries, amounted to USD 220 billion to USD 250 billion in 2019-21.[30]

The Group of Twenty's (G20) Debt Service Suspension Initiative (DSSI) provided temporary relief by pausing USD 12.9 billion in debt service payments for LICs from May 2020 to December 2021. In 2020, the G20 introduced the Common Framework for Debt Treatment, aimed at providing more structured debt relief for these countries. So far,

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only four countries –Chad, Ethiopia, Ghana and Zambia – have requested assistance under this framework. While Chad and Zambia have reached agreements with their creditors, the negotiations were prolonged and took well over a year to finalise.[31] The Global Sovereign Debt Roundtable, established in 2023, aims to improve debt restructuring processes, but private creditor participation remains a challenge.

Credit quality in developing countries has deteriorated since the pandemic.

From 2020 to the first quarter of 2024, there were 224 downgrades but only 105 upgrades for EMDEs. There were more upgrades than downgrades in high-income and upper middle-income countries in 2023 and the first quarter of 2024, while LICs and LMICs experienced more than twice as many downgrades as upgrades. By the first quarter of 2024, nearly 60% of the approximately 100 rated EMDEs were classified as low grade, and more than ten countries were either near default or in default. The number of countries rated C or in default has peaked, including especially LICs and LMICs, while the share of investment-grade countries fell to its lowest point in the first quarter of 2024.[32] (See the factsheet on systemic issues for information on credit rating agencies and the financial architecture.)

The transparency of sovereign debt remains low.

In 2020-21, 40% of low-income developing countries did not publish any sovereign debt data, and public debt data show discrepancies of up to 30% of GDP across different sources.[33] Recent international efforts, including initiatives by the G20, IMF and Institute of International Finance (IIF), aim to enhance debt data reporting and disclosure practices. G20 countries endorsed principles of information sharing and transparency among creditors in their Operational Guidelines for Sustainable Financing, agreed in 2017.[34] The World Bank's Debtor Reporting System and the IIF's voluntary principles for debt transparency are crucial for standardising and monitoring debt data, promoting accountability, and supporting sustainable economic development.[35] Other initiatives such as the Joint Debt Hub (by the OECD, IMF, World Bank Group and Bank for International Settlements) also aim to improve statistics on the overall external debt of countries.[36]

Domestic laws in creditor and debtor countries can strengthen the legal framework to prevent future debt burden.

Several countries are working to strengthen the legal framework to support the litigation efforts of developing countries and have initiated work to increase debt transparency of private creditors.[37] Relatedly, there is an increased focus on regulating collateralised lending practices to ensure fairer terms and prevent excessive debt burdens on developing nations. However, a recent IMF study found that only half of the 60 developing countries surveyed have laws that require debt management and fiscal reports and fewer than a quarter of the 60 require disclosure of loan-level information that is crucial for transparency. Key vulnerabilities in domestic laws – including a limited definition of public debt, insufficient disclosure requirements, confidentiality clauses in public debt contracts and weak oversight – allow debt concealment.[38]

New and emerging areas

The international debt architecture can be strengthened to support sustainable development, climate goals and address financial inequalities.

Governments, multilateral organisations, and civil society have recently advocated for reform of the international debt architecture that focus on increasing low-cost public finance through reforms of multilateral development banks (MDBs) and the IMF, improving governance and representation within these institutions, and enhancing the agility and flexibility of lending mechanisms, particularly for countries vulnerable to climate change. Proposals also emphasise improving risk assessments to attract investment, reforming debt governance to better manage crises, and fostering coalitions to drive advocacy and policy implementation. Key initiatives such as the Bridgetown Initiative; the United

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Nations SDG Stimulus; the High-level Working Group of African ministers of finance, planning and economic development: the Vulnerable Twenty Group (V20); and the Paris Pact for People and Planet, among others, collectively aim to address global financial inequalities and support sustainable development. (The systemic issues factsheet provides more information on reform of the global financial architecture more broadly.)

Innovative climate-related financial instruments can help respond to finance needs and debt challenges.

Climate change has increased the debt cost for the V20 countries by USD 62 billion over 2007-16, and the climate premium is expected to more than double from 2019-28.[39] 70% of public climate finance is provided by developing countries took the form of loans (69% or USD 63.6 billion).[40]

While no single instrument can solve a country's debt situation, several climate-related financial instruments can help address both the climate finance needs and debt challenges of developing countries. These include debt-for-climate and debt-for-nature swaps, climate resilient debt clauses (CRDCs), and SDRs, all of which have been used increasingly in recent years though with trade-offs and careful considerations are required in their application. In addition, sustainability-linked bonds (SLBs) are forward-looking performance-based debt instruments that can be linked to existing sustainability targets - including Nationally Determined Contributions (NDCs) – and can help incentivise action towards these.

Debt swaps for climate and nature, applicable to both sovereign and commercial debt, convert debt obligations into grants, allowing countries to redirect funds from debt repayment to climate projects. These swaps could help redirect USD 100 billion of debt in developing countries to nature restoration and climate adaptation, including USD 33.7 billion for LDCs.[41] Reducing transaction-related costs, which currently consume 40% or more of financial benefits, could make debt swaps a more viable option for nearly 15% of developing countries. However, several concerns should be taken into account regarding their small scale in relation to a country's debt burden, the conditionality of arrangements and adequate governance and enforcement of conversation.

CRDCs enable the temporary suspension, deferment or restructuring of debt payments when climate-related events, such as hurricanes or floods, occur. Several bilateral and multilateral lenders offer these clauses in contracts, and the International Capital Markets Association also announced that LICs would be able to include CRDCs in bonds. However, as a debt suspension clause, interest continues to accrue while debt is suspended, and a country must be able to fulfill repayment. The parameters for trigger events and thresholds could also be better harmonized.

SDR allocations have provided approximately USD 275 billion to developing countries, which have been allocated about one-third of SDRs since August 2021with 80 countries utilising them. By March 2024, the IMF had gathered about USD 8.4 billion in commitments for its Resilience and Sustainability Trust to support climate activities in developing countries.[42] By end-February 2024, commitments totalling USD 7.0 billion were approved, yet only USD 1.4 billion had been disbursed to 9 countries, with a further USD 3.4 billion to the 17 countries scheduled to date for 2024.[43] SDR rechanneling through MDBs has been part of the MDB Capital Adequacy Framework agenda, and the G20 Independent Experts Group called for MDBs to take steps to boost their lending capacity, including by exploring hybrid capital structures.

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Endnotes:

[1] Sovereign debt refers to the debt issued or guaranteed by the national government of a country. It represents the amount of money a country's central government owes to external or internal creditors. Public or government debt refers to the total debt owed by all levels of the government (central and regional) and public sector entities.
[2] Bank of Canada (2024), BoC–BoE Sovereign Default
[3] Ibid.
[4] Center for Economic and Policy Research (2024), The Rising Cost of Debt: An Obstacle to Achieving Climate and Development Goals
[5] IMF (2023), Navigating Fiscal Challenges in Sub-Saharan Africa - Resilient Strategies and Credible Anchors in Turbulent Waters
[6] Insolvent countries are those that cannot meet their debt obligations without either significant adjustments to their revenues and expenditures or external assistance. There is no definition of an insolvency threshold under the International Monetary Fund (IMF) World Bank Debt Sustainability Analysis. Illiquid countries are identified as those that do not breach insolvency thresholds yet are exceeding or will exceed the debt service-to-revenue thresholds within the next five years. For more information see Finance Development Lab (2024), A bridge to climate action.
[7] SDG Pulse Escalating deb challenges are inhibiting achievement of the SDGs (UNCTAD, 2024)
[8] World Bank International Debt Report 2023
[9] UNCTAD (2024), A world of debt 2024
[10] UNCTAD (2024), A world of debt 2024
[11] Estimates based on https://www.elibrary.imf.org/IMF (2023), Are We Heading for Another Debt Crisis in Low-Income Countries? Debt Vulnerabilities: Today vs the pre-HIPC Era/journals/001/2023/079/article-A001-en.xml
[12] IMF (2023), Are We Heading for Another Debt Crisis in Low-Income Countries? Debt Vulnerabilities: Today vs the pre-HIPC Era
[13]OECD (2024), Global Debt Report 2024: Bond Markets in a High-Debt Environment, OECD Publishing, Paris, .
[14] OECD (forthcoming), Global Debt Report 2025, OECD Publishing, Paris
[15] OECD (forthcoming), Global Debt Report 2025, OECD Publishing, Paris
[16]OECD (2024), Global Debt Report 2024: Bond Markets in a High-Debt Environment, OECD Publishing, Paris.
[17] https://www.oecd.org/finance/oecd-sovereign-borrowing-outlook.htm
[18] World Bank (2023), Debt Management Facility
[19] IMF (2024), IMF Executive Board Concludes the Review of the Fund's Capacity Development Strategy
[20] Bridging the 'great finance divide' in developing countries
[21] Commitment to Reducing Inequality Index 2022 (OXFAM and DFI)
[22] IMF (2024) How to Ease Rising External Debt-Service Pressures in Low-Income Countries
23 IMF (2023), Are We Heading for Another Debt Crisis in Low-Income Countries? Debt Vulnerabilities: Today vs the pre-HIPC Era
[24] OECD (forthcoming), Global Debt Report 2025, OECD Publishing, Paris
[25] OECD (forthcoming), Global Debt Report 2025, OECD Publishing, Paris
[26] OECD (forthcoming), Global Debt Report 2025, OECD Publishing, Paris
[27] Authors based on BoC (accessed July 2024)
[28] IMF (2022), Debt Dynamics
[29] This decline is partly explained by high USD bond yields, exceeding the 10% mark in 15 countries in 2023, up from 2 in 2019.
[30] OECD Data Explorer
[31] World Resources Institute (2023), Developing Countries Won't Beat the Climate Crisis Without Tackling Rising Debt
[32]OECD (forthcoming), Global Debt Report 2025, OECD Publishing, Paris
[33]World Bank (2021), Debt Transparency in Developing Economies
[34] World Bank (2023), Preliminary Findings from the G-7 and Paris Club Countries Debt Data Sharing Exercise
[35] World Bank (2023), International Debt Report 2023
[36] World Bank - DataBank (n.d.), Joint External Debt Hub

[37] UK Parliament (2023), Debt relief in low-income countries

38 IMF (2024), Hidden Debt Hurts Economies. Better Disclosure Laws Can Help Ease the Pain

[39] World Resources Institute (2023), Developing Countries Won't Beat the Climate Crisis Without Tackling Rising Debt

[40] OECD Climate Finance Provided and Mobilised by Developed Countries in 2013-2022

[41] IIED (2024), Debt swaps could release $100 billion for climate action : The value of debt-for-nature swaps has increased since 2020, particularly in countries like Belize, Barbados, Ecuador, and Gabon, although the number of swaps has not significantly risen.

[42] OECD The New Collective Quantified Goal on Climate Finance (DRAFT))

43 Center for Global Development (2024), The IMF's Resilience and Sustainability Trust: How Conditionality Can Help Countries Build Resilience