International Debt Report 2024

For Prelims: International Debt Report 2024, Global **Debt** Trends and Implications, Debt, **Gross Domestic Product (GDP)**, **International Monetary Fund (IMF)**, **World Bank**, **International Development Association (IDA).**

For Mains: Global Debt Trends and Implications.

Source: DTE

Why in News?

Recently released, **World Bank**'s **"International Debt Report 2024"** highlights a worsening debt crisis for **developing nations,** with 2023 marking the highest debt servicing levels in two decades, driven by rising interest rates and economic challenges.

- Also, earlier in June 2024, a **UNCTAD** report, "***A World of Debt 2024: A Growing Burden to Global Prosperity***", highlighted a severe global debt crisis impacting the world.

What are the Key Findings of the International Debt Report, 2024?

- **Rising Debt Levels:**
    - The total external debt of **Low- and Middle-Income countries (Developing or LMICs)** reached a record **USD 8.8 trillion** by the end of 2023, marking an **8% increase** since 2020.
    - **External debt** for the **International Development Association (IDA)-**eligible countries rose by nearly **18%**, reaching **USD 1.1 trillion.**
        - IDA, established in 1960,is a **World Bank Group** institution providing **concessional loans and grants** to the **world's poorest nation**s with low income and poor creditworthiness.
- **Rising Debt Servicing Costs:**
    - **LMICs** incurred a record **USD 1.4 trillion in debt servicing costs** (principal plus interest payments) in **2023**, with **interest payments increasing by 33% to USD 406 billion**, placing immense pressure on national budgets.
    - The sharp rise in interest payments has **curtailed investments in vital sectors** like health, education, and environmental sustainability, **exacerbating developmental challenges.**
- **Rising Borrowing Costs:**
    - In 2023, **interest rates on loans** from **official creditors doubled to over 4%**, while rates from **private creditors rose to 6%**, the highest level in 15 years.
        - This surge in interest rates significantly **increased the financial burden on developing countries**, exacerbating their **debt servicing challenges.**
- **Role of Private and Official Creditors:**
    - As global credit conditions worsened, private creditors cut lending to IDA nations, leading to **USD 13 billion more in debt servicing** than new loans.

- In contrast, multilateral lenders, like the **World Bank**, supported these economies by providing USD 51 billion more than they collected in debt payments.
- **Impact on IDA-Eligible Countries:**
    - IDA-eligible countries faced severe financial strain in 2023, paying **USD 96.2 billion in debt servicing,** including **USD 34.6 billion in record-high interest costs**- 4 times higher than in 2014.
    - On average, nearly **6% of their export earnings go to interest payments**, with some allocating **up to 38%**.

Global Debt

- It refers to the **total amount of money owed by governments, businesses, and individuals worldwide**, including both **public** and **private debt.**
    - **Public Debt**: This is the **money owed by governments** to domestic and foreign creditors. It is usually financed through the issuance of bonds, treasury bills, or loans from international organizations.
    - **Private Debt:** This pertains to the **money owed by businesses and individuals to banks, lenders, and financial institutions**. It includes mortgages, corporate bonds, student loans, and credit card debts.

What is the State of the Global Debt Crisis as per UNCTAD World of Debt Report, 2024?

- **Rapid Increase in Global Public Debt: Global debt**, encompassing borrowings by households, businesses, and governments, is projected to reach **USD 315 trillion in 2024**, **3 times the global GDP**.
    - **Public debt** is rising rapidly due to factors like the **Covid-19 pandemic, rising food and energy prices, climate change**, and a sluggish global economy marked by slowing growth and rising bank interest rates.
- **Regional Disparities in Debt Growth: Developing nations' public debt,** now USD 29 trillion (30% of global debt, up from 16% in 2010), is **growing twice as fast as in developed countrie**s.
- **Impact on Debt Servicing and Climate Initiatives:** Around **50% of developing countries now allocate at least 8% of their government revenues to debt servicing**, a figure that has doubled in the past decade.
    - Currently, developing nations spend a higher percentage of GDP on **servicing debts (2.4%)** than on **climate initiatives (2.1%),** restricting their ability to address climate change.
    - To meet the **Paris Agreement goals,** climate investments need to rise to 6.9% of GDP by 2030.
- **Shifts in Official Development Assistance (ODA): ODA**, which supports economic development and welfare in developing countries, is facing a **significant decline** and **loans now form 34% of aid**, **up from 28% in 2012**, **increasing debt burdens**.
    - Debt relief funding has dropped drastically from USD 4.1 billion in 2012 to USD 300 million in 2022, worsening debt management for developing nations.

Note:

- **Official Development Assistance (ODA)** refers to the financial aid provided by donor countries to support the development of poorer nations.
    - The **International Development Association (IDA),** a part of the **World Bank**, is a **key multilateral institution within the ODA framework**. It offers **concessional loans and grants with favorable terms to the world's poorest countries**, thus playing a crucial role in supporting development efforts in these nations.
- The **G20 Common Framework for Debt Treatment**, launched in 2020 and endorsed by the G20

in collaboration with the **Paris Club**, aims to provide structural support to **Low-Income Countries (LICs)** grappling with unsustainable debt levels.
   - The framework offers a **coordinated and comprehensive approach** to address the severe debt challenges faced by LICs, which have been exacerbated by the **Covid-19 pandemic**.

What Measures Have Been Taken to Reduce the Global Debt Crisis?

- **Debt Management and Financial Analysis System (DMFAS) Programme**: The DMFAS programme has been implemented by **UNCTAD** which **assists developing countries in improving their debt management** practices.
   - It provides **training and technical support** to enhance debt recording, risk assessment, and negotiations, thereby **promoting sustainable borrowing** practices and preventing future debt crises.
- **Heavily Indebted Poor Countries (HIPC) Initiative**:
   - HIPC was launched by the **IMF** and **World Bank** in 1996. It provides **debt relief and low-interest loans** to **world's poorest nations** which are facing **unsustainable debt**, with eligibility based on strict criteria such as a track record of reforms and development of a **Poverty Reduction Strategy Paper (PRSP)**.
   - Countries that complete the program receive debt-service relief and additional financial resources.
   - The **Multilateral Debt Relief Initiative (MDRI)**, introduced in 2005, supplements the HIPC Initiative, helping countries achieve the **Sustainable Development Goals**.
      - For example, Somalia saved USD 4.5 billion in debt service after completing the program in December 2023.
- **Global Sovereign Debt Roundtable (GSDR)**:
   - The GSDR brings together **debtor countries and official and private creditors** with the objective to **build common understanding** among key stakeholders on **debt sustainability and debt restructuring challenges**, and ways to **address them.**
   - It is co-chaired by the **IMF**, **World Bank**, and the **G20**.

Way Forward

- **Inclusive Governance**:
   - **Increased participation of low-income countries** in decision-making processes is crucial to ensure their voices are heard. **Financial transparency** and accountability are essential for preventing debt crises, as emphasized by the **UN Office for Sustainable Development**.
- **Contingency Financing**:
   - The **IMF** plays a key role in providing emergency financial support. Measures such as **increased access** to **Special Drawing Rights (SDRs)**, as proposed in a **2019 IMF report**, can help **bolster the reserves of developing countries** during crises.
- **Managing Unsustainable Debt**:
   - Existing **debt restructuring frameworks**, like the **G20 Common Framework for Debt Treatment**, need to be **strengthened.** Incorporating **automatic provisions for debt payment suspensions during crises** can provide flexibility to stabilize economies.
- **Scaling up Sustainable Financing**:
   - **Multilateral Development Banks (MDBs)** should be transformed to focus more on long-term financing for **Sustainable Development Goals (SDGs)**. It is also essential to **attract private investment for sustainable projects**, such as **clean energy**, and fulfill commitments related to aid and **climate finance,** particularly for **developing nations**.

Conclusion

The World Bank International Debt Report 2024 paints a stark picture of the challenges faced by developing nations in managing their debt. The findings underscore the urgent need for multilateral support and improved transparency in debt data to ensure sustainable economic development. As these nations navigate their financial challenges, the role of multilateral institutions becomes increasingly critical in providing the necessary support to balance debt repayments with essential development priorities.

Drishti Mains Question:

What are the factors driving the global debt crisis? Assess the potential measures that both developed and developing countries can adopt to effectively address and manage this

UPSC Civil Services Examination, Previous Year Questions (PYQs)

Prelims:

Q. Consider the following statements: (2018)

1. The Fiscal Responsibility and Budget Management (FRBM) Review Committee Report has recommended a debt to GDP ratio of 60% for the general (combined) government by 2023, comprising 40% for the Central Government and 20% for the State Governments.
2. The Central Government has domestic liabilities of 21% of GDP as compared to that of 49% of GDP of the State Governments.
3. As per the Constitution of India, it is mandatory for a State to take the Central Government's consent for raising any loan if the former owes any outstanding liabilities to the latter.

Which of the statements given above is/are correct?

(a) 1 only
(b) 2 and 3 only
(c) 1 and 3 only
(d) 1, 2 and 3

Ans: C

Mains:

Q. Public expenditure management is a challenge to the Government of India in the context of budget-making during the post-liberalization period. Clarify it. **(2019)**