



# Debt of Emerging Markets & Developing Economies Rose

**For Prelims:** Sovereign Debt, External commercial borrowings.

**For Mains:** factors contributing to debt crisis, impact of sovereign debt on countries

## Why in News?

The report from Debt Relief for a Green and Inclusive Recovery (DRGR) Project states that **the sovereign debt of emerging markets and developing economies (EDME) increased by 178%** from USD 1.4 trillion to USD 3.9 trillion between 2008-2021, **indicating a looming debt crisis in the [Global South](#).**

- The [G20's "Common Framework"](#) created to provide debt relief has shortcomings, as it failed to bring all creditors, including private and commercial creditors, on board and link debt relief with development and climate goals.

**Note:** An emerging market economy is the economy of a developing nation that is becoming more engaged with global markets as it grows. Countries classified as **emerging market economies are those with some, but not all, of the characteristics of a developed market** such as India, Mexico, Russia, Pakistan, Saudi Arabia, China, and Brazil.

## What are the Factors and Impacts of the Debt Crisis?

- **EDMEs are Experiencing Weakened Economic Growth due to:**
  - Slow recovery from the [COVID-19 pandemic](#),
  - High food and energy prices, and
  - [Russia's war in Ukraine](#),
  - Escalating climate impacts
  - Strong US dollar and depreciating currencies for many EMDEs.
- **Impacts on Vulnerable Countries:**
  - Countries vulnerable to climate change tend to face the most significant **debt distress**.
  - **Higher climate vulnerability** is linked to **lower sovereign borrowing** space.
  - **High debt service payments, forcing** countries to **set aside** a significant **portion** of their **foreign reserves to pay off debt**.
  - Providing immediate debt relief to EDMEs could free up their fiscal and borrowing, allowing them to pursue a low-carbon, socially inclusive, and resilient future.

## What are the Proposed Solutions?

- The report calls for a reform of the Common Framework and proposes three pillars to address the issue.
  - **The first pillar** involves **public creditors granting significant cuts** in debts to bring a

distressed country back to debt sustainability and also helping it achieve development and climate goals.

- **The second pillar** involves **private and commercial creditors** granting **debt reductions** comparable to public creditors.
  - For the remaining debt, the government should issue new bonds for private creditors, backed by a guaranteed fund.
- **The last pillar** is for countries not at risk of debt distress, for which international financial institutions can **provide credit enhancement**.
- **Debt Restructuring:** The report also **calls for the restructuring** of USD **812 billion of debt** owed by 61 countries that are in or at high risk of debt distress.
  - At least **USD30 billion in debt should be suspended** over the next five years for 55 of the most debt-distressed countries, the authors calculated.

## What is G20 Common Framework?

- The Common Framework for debt treatment beyond the Debt Service Suspension Initiative (DSSI) is **an initiative endorsed by the G20 in 2020, together with the Paris Club**, to support, in a structural manner, Low Income Countries with unsustainable debt.
- The framework is aimed at providing a coordinated and comprehensive approach to addressing the debt vulnerabilities of low-income countries (LICs) that are facing the most severe debt challenges, exacerbated by the **COVID-19 pandemic**.

**Note:** DRGR Project is a collaboration between the Boston University Global Development Policy Center, Heinrich-Böll-Stiftung and the Centre for Sustainable Finance at SOAS University of London.

**Source:** [DTE](#)

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