



UN Report on Global Debt Crisis

For Prelims: Global [Debt](#) Trends and Implications, Debt, [Recession](#), [Gross Domestic Product \(GDP\)](#), [International Monetary Fund \(IMF\)](#).

For Mains: Global Debt Trends and Implications.

[Source: DTE](#)

Why in News?

Recently, a report released by the [UN Trade and Development \(UNCTAD\)](#) titled "**A World of Debt 2024: A Growing Burden to Global Prosperity**," has revealed an **unprecedented global debt crisis** in the world.

- Approximately 3.3 billion people currently live in countries where the **payment of interest on debts surpasses the expenditure on either education or health**.

What is Global Debt?

- **About:** Debt is an amount of money one borrows and has to pay back later.
 - Global Debt refers to the **total outstanding amount** owed by governments, businesses, and individuals across the world.
 - It encompasses both public and private debt.
- **Composition of Global Debt:**
 - **Public Debt:** This is the **money owed by governments** to domestic and foreign creditors.
 - It is typically financed through issuing bonds, treasury bills, or loans from international organisations.
 - **Private Debt:** This is the **money owed by businesses and individuals** to banks, lenders, and other financial institutions.
 - It includes mortgages, corporate bonds, student loans, and credit card debt.

What are the Key Highlights of the Report?

- **Rapid Increase in Public Debt:**
 - **Institute of International Finance** (a global association of financial institutions) has estimated that global debt (**including borrowings of households, businesses and governments**) has reached **USD 315 trillion in 2024**, which is 3 times the global [Gross Domestic Product \(GDP\)](#).
 - Global public debt is rising rapidly, due to a combination of recent crises (such as **Covid-19**, rising food and energy prices, **climate change**, etc.) and a sluggish

global economy (slowing growth of economy, rising bank interest rates etc).

- **Net interest payments on public debt** reached **USD 847 billion in 2023** in developing countries, a **26% increase** compared to 2021.

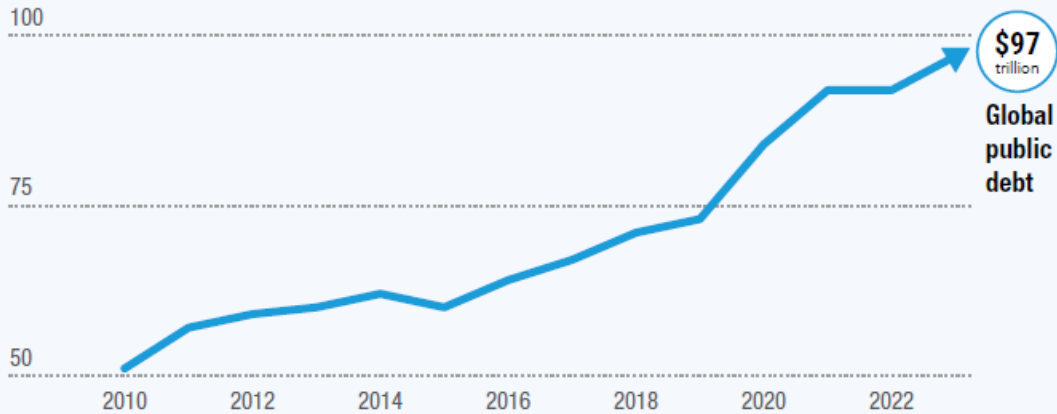
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Figure 1

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).

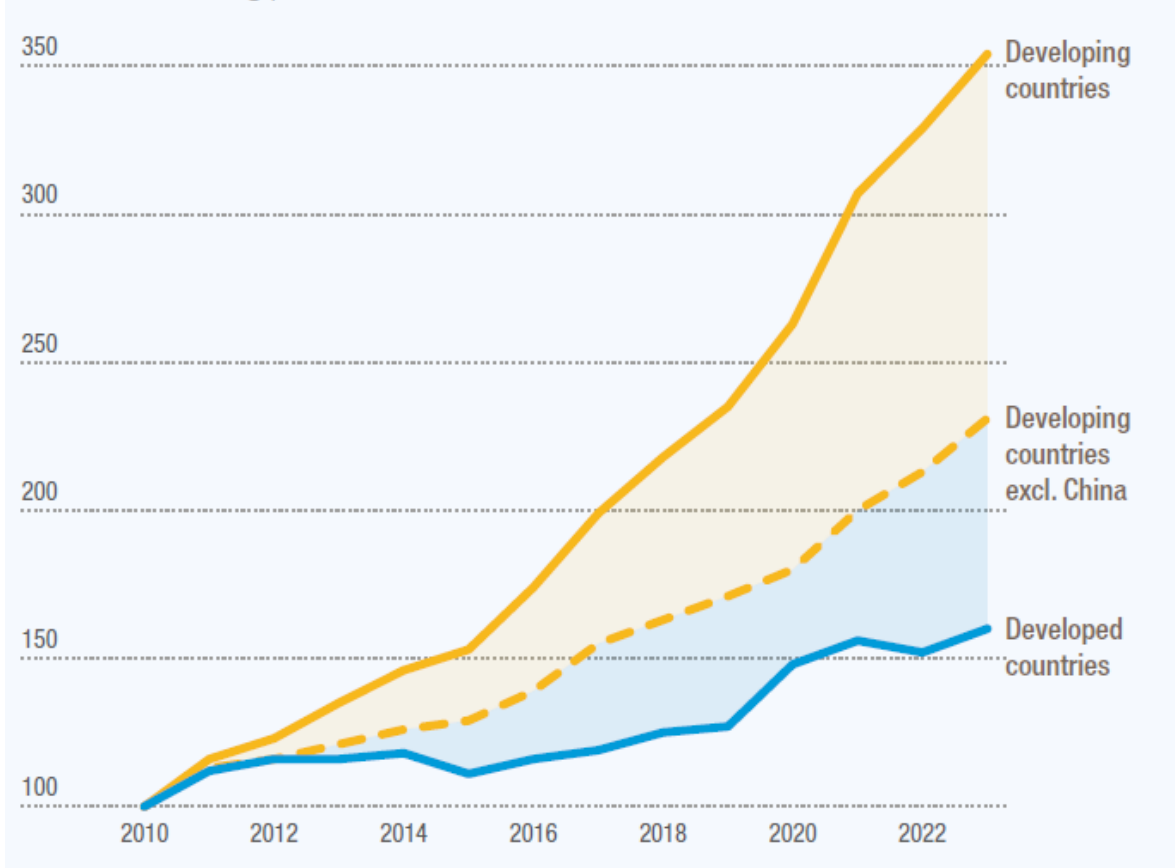
▪ **Regional Disparity in Debt Growth:**

- Public debt in **developing countries is rising at twice the rate** of that in developed countries.
 - It reached **USD 29 trillion (30% of the global total) in 2023**, increasing from **16% in 2010**.
- **Africa's debt burden** is growing **faster** than its economy leading to a **rise in the debt-to-GDP ratio**.
 - The number of **African** countries with **debt-to-GDP ratios above 60%** has increased from **6 to 27** between 2013 and 2023.
 - This is **due to unforeseen global issues** impacting their expansion and reduced domestic income as a result of a slow economy.

Figure 2

Public debt grows twice as fast in developing countries

Index: Outstanding public debt in 2010 = 100



▪ Higher Debt Servicing Share of Income & Impact on Climate Initiatives:

- Roughly 50% of developing countries are now **dedicating a minimum of 8% of their government revenues** to servicing their debts, a number that has increased twofold in the last ten years.
- Currently, **developing nations are spending a greater portion of their GDP on paying off interest** (2.4%) than on climate efforts (2.1%).
 - Their **ability to address climate change is being constrained by debt**. In order to meet the **targets of the Paris Agreement**, there is a requirement to raise climate investments to **6.9% by 2030**.

▪ 3 Shifts in Official Development Assistance (ODA):

- ODA is **government aid** aimed at promoting economic development and welfare in developing countries.
- Repaying loans has become **more difficult** for developing countries, due to recent changes made in nature of foreign aid such as:
 - **Decreasing Overall Aid:** ODA has been decreasing for two years in a row, dropping to **USD 164 billion** in 2022.
 - **More Loans and Less Grants:** The **proportion of aid given as loans** is increasing, rising from **28% in 2012 to 34% in 2022**. This **creates debt burdens** for developing countries.
 - **Less Help with Existing Debt:** Funds for dealing with debt, like **debt relief and restructuring**, have dropped significantly from **USD 4.1 billion in 2012** to just **USD 300 million** in 2022. This makes it harder for them to deal with their current borrowing and could limit their ability to access future loans.

What are the Initiatives Related to Solving Debt Crisis?

▪ Heavily Indebted Poor Countries (HIPC) Initiative:

- The [IMF](#) and [World Bank's](#) initiative tackles debt crises in the world's poorest countries. It

recognises their struggle to repay debts without sacrificing crucial investments. By offering debt relief, the program frees up resources.

- This **allows these nations to invest in** healthcare, education, and poverty reduction, promoting long-term economic growth and social progress.
- **Debt Management and Financial Analysis System (DMFAS) Programme:**
 - UNCTAD's DMFAS program helps developing countries manage debt responsibly. It provides **training and technical support** to improve their borrowing practices, including tools for recording debt, assessing risks, and negotiating effectively.
 - This program promotes **sustainable debt management** so these countries can borrow for development without creating future crises.
- **Global Sovereign Debt Roundtable (GSDR):**
 - The roundtable is co-chaired by the IMF, World Bank and [G20](#) presidency, which aims to address debt challenges comprehensively. It brings together debtor countries and creditors with the **objective of fostering a greater common understanding among key stakeholders on issues related to debt sustainability**, debt restructuring challenges, and potential solutions.

What Measures should be taken to Address the Global Debt Crisis?

- **Inclusive Governance, Transparency and Accountability:**
 - The **World Bank's 2022 International Debt Statistics report** highlights a concerning rise in public debt, particularly for low-income countries, thus increased participation for these nations in decision-making processes is essential.
 - The **UN Office for Sustainable Development** emphasises that **financial transparency and accountability** are crucial for preventing debt crises.
- **Contingency Financing:**
 - The **IMF** performs a vital role in providing emergency financial support.
 - A 2019 IMF Report titled "**Three Steps to Avert a Debt Crisis**" proposed measures like increased access to [Special Drawing Rights \(SDRs\)](#) to bolster developing countries' reserves during emergencies.
- **Managing Unsustainable Debt (Managing Debt Challenges):**
 - Existing frameworks for debt restructuring, such as the [G20 Common Framework for Debt Treatment](#) should be improved.
 - In addition, including automatic provisions for suspending debt payments for countries facing crises **would offer essential flexibility to help them stabilize their economies.**
- **Scaling up Sustainable Financing:**
 - [Multilateral Development Banks \(MDBs\)](#) need to be transformed to play a more prominent role in long-term financing for [Sustainable Development Goals \(SDGs\)](#).
 - Attracting **private investment towards sustainable projects** like clean energy is also crucial. Fulfilling existing commitments for aid and climate finance, particularly for developing countries, is essential for facilitating this transition.

G20 Common Framework for Debt Treatment

- It is an initiative established in 2020, endorsed by the [G20](#), in collaboration with the **Paris Club** to provide structural support to [Low-Income Countries \(LICs\)](#) facing unsustainable debt burdens.
- This framework aims to offer a coordinated and comprehensive approach to tackling the severe debt challenges faced by LICs, **which have been worsened by the [Covid-19](#) pandemic.**

Drishti Mains Question:

Q. Discuss the key factors contributing to the escalating global debt crisis and evaluate the possible measures that can be undertaken by both developed and developing economies to manage this crisis effectively.

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